



Bombardier's (TSX:BBD.B) Brexit Woes

Description

As Northern Ireland's biggest manufacturing employer, **Bombardier** ([TSX:BBD.B](#)) is at the epicentre of Europe's biggest political challenge in decades: Brexit. Britain's decision to leave the European Union later this year could have a severe impact on Bombardier's operations in and around the region.

The Canadian transportation giant employs more than 4,000 people at various locations around the Irish capital city of Belfast. These employees manufacture the wings for the company's A220 aircraft formerly known as the CSeries.

The A220 is no ordinary aircraft. Experts consider it the most game-changing plane since **Boeing's** 787. Built to accommodate between 100 and 150 passengers, the A220 uses lighter materials, redesigned engines, and cutting-edge aerodynamics to make the plane both fuel-efficient and comfortable for passengers. Each unit costs between US\$80 million to US\$90 million.

Created to fill the gap between wide-bodied jets and regional aircraft, the A220 was the first plane Bombardier had attempted to create entirely in-house. However, the process went over budget and was delayed numerous times, nearly bankrupting the company last year.

The project and the company were saved by a partnership deal with Airbus. Airbus employs 14,000 people in Britain, and the company's management has been vocal about the negative impacts of a hard Brexit. CEO Tom Enders called the exit process a "disgrace" and said the company will have to move operations out of the region if no deal is struck.

Meanwhile, Bombardier has been pushing for an orderly Brexit since the start of this year.

A recent BBC report suggests the company has already spent £30 million (\$52.3 million) to stockpile parts to mitigate the damage from a no-deal Brexit. According to the company's latest financial report, 46% of its revenue is generated in Europe and 22% is derived from U.K. operations.

A disruption to trade and manufacturing in Ireland isn't the only threat to Bombardier's bottom line. A sudden swing in the euro or the British pound against the U.S. dollar could slash the revenue and profits generated in this region. A spike in inflation could also make it difficult for British and European airlines, Bombardier's most important customers, to buy its products.

These risks are not limited to Bombardier. Most businesses in this sector may have to face negative consequences, volatile currency swings, and job cuts if the exit is disorderly. However, Bombardier's near bankruptcy last year puts it in a particularly vulnerable position.

The A220 program is only just ramping up. A mere 60 units have been delivered so far. Meanwhile, the company has invested over US\$6 billion in the program. Much of the firm's growth expectations hinge on the success of this critical project.

Perhaps the biggest risk factor is the company's debt burden. The firm's long-term debt is now worth \$9.1 billion, *or 37% more than its market capitalization*.

Although the company's cash flow situation has improved in its most recent quarter and the stock is up by nearly 40% since the start of the year, its survival is still far from certain. A recession in North America or a political crisis in Europe could derail the turnaround.

Bottom line

Bombardier is probably the only Canadian firm that is exposed to the fallout from Brexit to this extent. Traders and investors can use the stock as a proxy to bet on the outcome of this monumental shift in British politics.

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