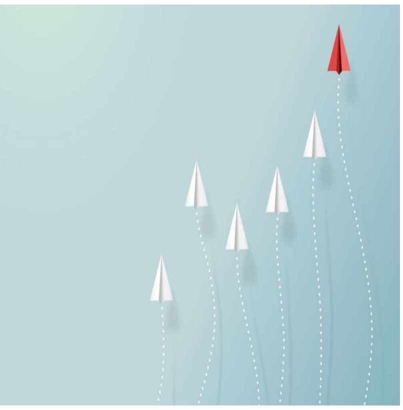

Is Bombardier (TSX:BBD.B) Stock a Buy as a Takeover Play?

Description

Talk is once again swirling around the possibility that a takeover might be in the cards for **Bombardier** (TSX:BBD.B), the embattled Canadian plane and train maker.

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Rough ride

Contrarian investors who have remained loyal to Bombardier received another disappointing blow January 16, when the company warned its fourth-quarter 2019 results would be worse than expected.

The stock plunged from $1.79 to as low as $1.12 after the news, bringing the share price near the $1 mark for the first time since it dipped to $0.80 four years ago. At that time, Bombardier shelved the dividend and brought in new management.

Ongoing problems with rail contracts are a large part of the pain Bombardier has endured in recent years. The company is also dealing with delivery delays of its Global 7500 business jets. Originally, Bombardier hoped to deliver 15–20 of the jets in 2019, but says it ended the year with 11 sent to customers.

The Global 7500 sells at a list price of $73 million and is supposed to be the division of the company that will eventually turn Bombardier around.

Bombardier has effectively exited the commercial aircraft market. It sold a 50.1% stake in the CSeries in 2018 to **Airbus**. That arrangement was supposed to offload most of the remaining development costs while still providing Bombardier with an opportunity to benefit from new sales of the planes, now rebranded as A220.

The orders have not flown in as expected and Bombardier is now reassessing the partnership amid rising costs. Pundits have speculated Bombardier could sell its stake in the A220 program.

Bombardier already announced the sale of its CRJ jets and has sold its turboprop planes.

Train rumours

In recent days, rumours have emerged that Bombardier is in discussions with its European competitor, **Alstom**, to merge their rail units. Alstom tried to partner up with **Siemens** last year but the deal was blocked on competition concerns, so there could be an antitrust hurdle in this situation, as well.

Back in 2017, Bombardier held talks with Siemens, so the entire group is playing a game of musical chairs. There is some urgency, as deals in the global market are becoming tougher to win amid a strong push by Chinese competitors to win key light rail contracts.

Chinese firms beat Bombardier on bids for commuter rail deals in Boston and Chicago in recent years.

Bombardier also lost a bid in its own back yard in early 2018 when Montreal chose Alstom for an infrastructure project worth more than $1 billion. Later in the year Via Rail chose Siemens for its US$742 million train order, plus a US$17.8 million service contract that spans 15 years.

A very public battle between Bombardier and the Toronto Transit Commission on a delayed and troubled streetcar order is considered to be one reason Bombardier has struggled to win new key bids.

Recently, New York removed 300 Bombardier-made subway cars from service, citing problems with the doors.

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Is Bombardier a contrarian buy?

Analysts have pointed out that the sum of the parts could be worth more than the market is willing to pay for the stock these days. One report speculated the company could attract three times its current value in a sale.

That might be the case, but a complete sale of the company to a foreign buyer would likely run into trouble with Quebec. Bombardier is a major provider of high-paying jobs in the province.

Selling the A220 stake and the rail business might be possible, and would leave Bombardier as a maker of business jets.

There is little appetite for another government bailout and the clock is ticking on the company’s US$9 billion in debt. Cash burn continues at a worrisome rate, and while Bombardier has adequate funds to get it through 2020 and into next year, the original turnaround goal is fast approaching with little sign of significantly improved revenue and profits.

The stock could bounce on news of another asset sale, but I would probably search for other opportunities today.

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