

Bombardier Inc (TSX:BBD.B) Is One Recession Away From Bankruptcy

Description

As much as I like to see any iconic Canadian brand succeed, when it comes to **Bombardier Inc** ([TSX:BBD.B](#)), I'm inclined to believe that the company is one recession away from bankruptcy. There are two factors that support my thesis, the first being that the sale of Bombardier Transportation (BT) runs the risk of falling apart due to European anti-competitive law.

Furthermore, even if the sale were to be approved, the buyer of BT, **Alstom**, might either fail to come up with the necessary funding or present a low ball offer.

Post-sale, I question Bombardier's sustainability as a pure-play business jet manufacturer, especially when faced with a global economic downturn.

Anything can happen in a year

Although Bombardier's shares initially popped up on the news of the BT sale, the stock quickly gave up all gains and are now trading at levels not witnessed in four years.

The reasons behind the market malaise were two-fold. One, the time frame for the completion of the Alstom deal is at least a year away, and two, the proposal must still be approved by the notoriously tough EU antitrust office, which has shut down a similar mega-merger between **Alstom** and **Siemens** in the past.

Furthermore, even if the EU regulators were to approve the deal, there's a chance that Alstom might fail to come up with the necessary funding should capital markets prove to be unfavourable in the coming months.

Moreover, there's also an additional likelihood that Alstom might revise their terms lower, as history has shown that mergers & acquisitions EBITDA multiples tend to shrink during recessions, and the impetus for the deal to compete with China will be less pertinent should the Chinese economy face a hard landing.

Business jets exhibit extreme cyclicity

While I do applaud Bombardier's management for pursuing major deals (and let's face it, they really have no choice at this point), I do wish that Bombardier had sold the business jet unit instead and kept BT, as business jets are extremely cyclical.

For example, during the 2008 recession, the bottom fell out of the business jet market, with global deliveries plummeting 50%. Second, softness in the used jet market might return and rebound from their recent lows, as 9.7% of total jets available were for sale in 2019, up from 9% in 2018 (according to data from JETNET).

Moreover, even as a standalone jet manufacturer, Bombardier's *pro-forma* debt will still be well north of \$2 billion. From a deleveraging standpoint, the sale of the jet unit makes more sense, especially as Bombardier's backlog is the highest it's ever been, which means they would've gotten a premium multiple for this unit, quite possibly before a Corona-induced economic downturn.

The bottom line

The sale of BT was the most aggressive step ever taken by Bombardier to reduce its crippling debt burden. Unfortunately, the timing could not be worse, as we are now quite possibly facing a recession induced by both supply chain and demand shocks stemming from the Coronavirus.

Anything can happen in a year's time, and should the deal with Alstom pass without a hiccup, Bombardier still has to contend with the economic cycle as a standalone business jet manufacturer.

For a more bullish take on Bombardier, visit my colleague's article [here](#).

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