



Will Bombardier Stock Soar on Business Jets Alone?

Description

Business jets appear to be the only remaining long-term business for Canadian transportation manufacturer **Bombardier, Inc.** ([TSX:BBD.B](#)), as the company made a couple key announcements recently.

The future of the CSeries

The first announcement, which has garnered the lion's share of media attention (and for good reason) recently is the company's decision to fully exit its stake in the A220 (formerly Cseries). Bombardier has sold its stake to Airbus and the Quebec government for \$600 million.

Airbus will own 75% of the company, with the Quebec government retaining 25% exposure to this project. While this deal will allow Bombardier to chip away at its massive debt load, some investors are left wondering whether selling out now was the right decision given the momentum this plane has picked up, with Airbus taking control as well as Boeing's follies.

The Quebec government will likely need to write off a significant chunk of the money it gave to Bombardier, which will adversely affect Quebec taxpayers. Politicians have already begun defending their continued investment in Bombardier following this announcement.

Their main argument is that all 3,300 jobs (votes) will stay within Quebec, though a 75% controlling stake is in a foreign company's hands.

The future of the train division

With the A220 (Cseries) off the books, investors are now turning their attention to another struggling division of Bombardier: its train division. The company's train division has struggled with delays, order cancellations, and a negative long-term outlook from investors who view this business as one of the most mismanaged businesses in Bombardier's portfolio (which says a lot).

Bombardier has a relationship with Alstom, a French train maker, who has been touted as the most likely suitor for a takeover of Bombardier's train division.

I expect to see such a deal announced this year or next, as I believe Bombardier will ultimately want to focus on its business jet division moving forward for a few reasons.

The future of the jet division business

Why do I think Bombardier will focus on its jet division? The first reason is simply government support. Most analysts would agree that Bombardier isn't a company that can stand on its own without government support.

Despite massive equity investments and zero or low interest loans (which would not be possible in public debt markets), Bombardier continues to sell its core assets to pay down its large debt load and stay afloat. My belief is that aerospace is more important to the Canadian government than trains.

The Canadian and Quebec governments will want to be able to point to a Canadian aerospace company (mostly for pride and marketing purposes), which means that Bombardier may indeed be looking to Alstom to make a deal soon.

The second reason the business jet division is likely to be all that's left is that Bombardier is more likely to get a higher price for its train division, as this business has a decent market share and order backlog to flaunt in front of suitors.

The train division has also given the company a disproportionate amount of headaches, as this is a software business as much as a manufacturing business, and many of the problems with Bombardier trains were related to software. Alstom has clearly figured that out.

Bottom line

The jury's still out on whether Bombardier's business jet division will be enough to make the company's stock price soar as before. One thing is certain, however: the business will be much more streamlined and efficient without those other distractions.

Stay Foolish, my friends.

CATEGORY

1. Investing

POST TAG

1. canada
2. Stocks
3. yield

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Tags

1. canada
2. Stocks
3. yield

Date

2025/07/05

Date Created

2020/03/07

Author

chrismacdonald

default watermark

default watermark