



Can Bombardier (TSX:BBD.B) Avoid Bankruptcy?

Description

Bombardier ([TSX:BBD.B](#)) stock fell 11.5% after it got removed from the **TSX Composite Index**. The stock is now trading below \$0.5, its lowest since it began trading on the Toronto Stock Exchange. High leverage and negative cash flows have put Bombardier at risk of bankruptcy. In these uncertain times, it needs to conclude the sale of its Transportation business to **Alstom** to survive. But the deal is exposed to the economic uncertainty created by the COVID-19 pandemic, leaving Bombardier in a tight spot.

Bombardier is in a capital-intensive business of manufacturing planes and trains. As the company's products carry a high price, product failure proves to be very expensive. Back in 2014, its CSeries aircraft was delayed by two years, which added \$2 billion to the project cost without increasing its revenue. The company has been losing money since then. Amid losses, it took debt to keep its business running, leaving it with US\$6.5 billion in net debt. But a company that is not making money is not sustainable, especially in a crisis. Hence, the aircraft manufacturer devised a multi-year restructuring plan.

The Alstom deal is vital for Bombardier

Bombardier's original plan was to sell its loss-making commercial aircraft and rail businesses in favour of profit-making business jet operations. It planned to use the sale proceeds to deleverage its balance sheet and make its debt manageable. The Alstom deal would generate up to US\$4.5 billion in net proceeds, thereby reducing Bombardier's net debt to \$2 billion. However, the COVID-19 pandemic disrupted Bombardier's plan and shifted its focus from reducing debt to increasing liquidity.

The COVID-19 pandemic has a multi-fold impact on Bombardier

The COVID-19 pandemic caused travel bans worldwide, disrupted many businesses, and forced factory shutdowns. The lockdown delayed Bombardier's deliveries and increased production costs. The need for health and safety measures will add to the cost. Travel bans and social-distancing rules will reduce its factory's efficiency. Not just Bombardier, but any disruption at its suppliers' factories

could further delay deliveries and lead to penalties or cancellation of orders. It expects a 30-35% reduction in deliveries of business jets.

Bombardier also saw a decline in new orders, as the pandemic shifted the focus of world governments from ongoing projects to health and safety. Even when the pandemic is over, the resulting recession will make it difficult for companies to raise debt or equity. Most of its customers could face bankruptcy and lack of funding, making it difficult for Bombardier to collect payments.

Bombardier is at the risk of bankruptcy

A company files for bankruptcy when it fails to meet its debt obligations. Bombardier's next debt maturity of US\$1.5 billion is due next year. In the pre-pandemic environment, the company could pay down this debt with its \$2 billion in cash reserve. However, the pandemic will divert this cash towards funding its operations. The company has improved its liquidity to \$3.5 billion, which would help it survive for at least two quarters.

Bombardier desperately needs the Alstom deal to complete successfully by the first half of 2021. The net proceeds from the deal will inject the much-needed cash to meet the US\$1.5 billion debt obligation. If the transaction is revised, canceled, or postponed, there is a high possibility that the company may default. Moody's, Fitch, and Standard & Poor's have already downgraded Bombardier to non-investment substantial risk grade. This credit rating will make it difficult for the company to raise capital.

The only way Bombardier can avoid bankruptcy is through a government bailout. The company [received a \\$1.3 billion bailout package](#) from the Quebec government back in 2016, which saved it from bankruptcy. But even after four years, the fundamentals remain unchanged, and the pandemic will only deepen the losses. Canadian economy minister François Legault's statement, "The government has already invested a lot of money in Bombardier," sets the tone that another bailout is not in the cards for the ailing company.

What's next for investors?

Bombardier is already at risk of defaulting its debt. Its equity shareholders stand to lose their investments as bankruptcy is not far for the company. There is a reason why its shares are trading at rock bottom. If you own the shares, sell them while you still can.

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