



Alert: Bombardier Stock Investigated for Bribery and Corruption

Description

Bombardier stock had a rough 2020. Since the year began, shares have lost 90% of their value. To make matters worse, the company is now being investigated for bribery and corruption. Here's what you need to know.

The new bombshell

Bombardier has dealt with its fair share of challenges over the decades. Last week, another weight was added to the scale.

"Canadian aircraft maker Bombardier is under investigation by the UK's Serious Fraud Office for suspected bribery and corruption over a deal to sell aircraft to Indonesia's national airline nearly a decade ago," [reports](#) the *Financial Times*.

"The probe concerns Bombardier's sale of CRJ1000 aircraft to Garuda, which was one of the deals that led to the conviction of the company's former chief executive Emirsyah Satar for corruption," the publication added.

How bad will this revelation be for Bombardier? No matter the ultimate outcome, the investigation may end up mattering very little.

Bombardier is failing

It's a bad time to be an airline. It's just as bad to be an airline supplier.

The COVID-19 crisis has sent global passenger traffic lower by 95%. Most airline CEOs believe the downturn will last several years. One in particular thinks demand will *never* reach 2019 levels again. That means we have enough planes for 2019-level traffic, but not enough people to fill the seats.

This is bad news for Bombardier, as it makes most of its money by selling aircraft. If airlines don't need

new planes, there isn't a clear path to profitability.

Let's look at what the latest numbers say. Last quarter, the company burnt through \$706 million in free cash flow. Executives expected to break even for 2020, but that prediction is looking more fraught by the day.

"While Bombardier will be able to deleverage its balance sheet by selling its rail transportation unit to Alstom next year, we believe that its future still looks bleak," [noted](#) one analyst.

Even worse, shareholders have little power to change course.

"As the founding family continues to have the majority of the voting power in the company, there's no guarantee that it will not fail to create value this time," the analyst concluded.

How to win

Bombardier stock was doomed from the start. The latest investigation and financial collapse are merely symptoms of a poor business model.

"Because its business is capital-intensive, revenue often comes in waves," I [explained](#) this summer, when the stock price was much higher.

"The company could experience very little sales traction for months, only to receive several multi-billion orders in a single week. This lumpiness is a big reason why Bombardier stock has been so volatile over the years."

Compare Bombardier's capital-intensive business model to a tech stock like **Shopify**. Shopify is worth \$110 billion, yet its product is completely virtual. For Bombardier to make more money, it needs to sell another plane. For Shopify to profit, it just needs to send another download link.

In the end, the big lesson is to avoid capital-intensive businesses for asset-light companies like Shopify.

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