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Bombardier eyes rail deal in bid to rebuild finances

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MONTREAL -- Breaking up Bombardier Inc. could be the best opportunity to repair the company's balance sheet and ensure it thrives in the long term.

Canada's leading aerospace manufacturer would gain much needed breathing room and a better shot at making a success of its troubled C Series jetliner by selling part of its train business as well as other underperforming assets, several analysts said.

Speculation that Bombardier will seek to monetize its rail division through a sale or merger mounted Friday after a Reuters news report, based on six anonymous sources, said the company is exploring such options with its bankers.

Montreal-based Bombardier is struggling with the fallout from delays and cost overruns on its marquee C Series program as orders for many of its other planes have thinned out. The company posted an annual loss in 2014 for the first time in nearly a decade. The shares have lost 36 per cent since January.

Critics say that, despite a recent refinancing, the company is still stretched thin managing six aircraft families as well as its rail division. It is the only company in the world that makes both planes and trains.

One option being explored is an initial public offering that would allow Bombardier to maintain a stake in the relatively healthy rail unit - manufacturer of high-speed trains, locomotives, trams, subway cars and more - according to the Reuters report. Another option is a merger with Germany's Siemens AG or France's Alstom SA, the report said.

Jacques Daoust, Quebec's Economy Minister, issued a statement Friday saying he'd spoken to Bombardier executive chairman Pierre Beaudoin, who told him the train business is "not for sale" in its entirety but that the company was examining other options.

Bombardier said in February that it will explore initiatives such as "participation in industry consolidation" to deleverage. It gave few other clues to its intentions but cited the merger between Chinese train makers CSR and CNR Corp. last year. The company's adjusted debt stood at $8.4-billion U.S. at the end of December.

For newly installed chief executive Alain Bellemare, considering asset sales at this stage makes sense, according to some observers. Mr. Bellemare, who joined Bombardier in February from United Technologies Corp., said last month that "all options" are on the table.

"Alain has got a large lease to be able to optimize the value of Bombardier," William Blair & Co. analyst Nick Heymann said. "He also happens to be pretty good at figuring out how to restructure things and unlock value."

Bombardier spokeswoman Isabelle Rondeau said the company has adequate liquidity and is in no rush to sell assets.

"They should spin out the transportation business," ***Veritas Investment Research*** analyst ***Anthony Scilipoti*** said Friday. He pegged the value of the train unit at between $6-billion (U.S.) and $7-billion.

Bombardier is unlikely to sell the entire rail division for several reasons, ***Mr. Scilipoti*** said, including the fact that a sale would generate enough cash to pay most of the company's outstanding debt, thus calling into question why it recently raised $2.4-billion in financing.

"If they did sell [the trains unit], it would give them much more flexibility and strength on the aircraft front," U.S. aerospace consultant Richard Aboulafia said in an e-mail. "They could even make the C Series a success, if they put the resources into commercially aggressive deals.

They could also restore product development in business aircraft and even regional aircraft."

Macquarie Capital Markets analyst Konark Gupta agrees with the idea of a sale but believes it would make more sense for Bombardier to keep a minority stake in the rail unit rather than selling it outright because it is cash-flow positive and provides stability offsetting the volatile aerospace business. Still, others noted the business is not the steady cash-flow machine it once was as government customers tighten up on their contract deposits.

The danger in selling the entire train business or even most of it is that the unit has historically provided a counterweight to its more unpredictable aerospace cousin, AltaCorp. Capital analyst Chris Murray said. Because making and selling planes involves long development cycles, massive investments and big jumps in cash inflows, aerospace manufacturers have tried to balance that out with things such as a military business.

"What you try to do is you try to match up the commercial aerospace business with something with maybe a lower cash-flow stream, a lower profitability stream, but more stable. So it becomes a buffer, a dampener, on the financial results. And historically, the transportation business has been something like that [for Bombardier]."

There are also aerospace assets Bombardier might want to consider selling because they are underperforming, Mr. Gupta said, singling out the Learjet business jet and regional jet businesses.

The combined value of Learjet, regional jets and Q400 turboprops could reach about $1.5-billion, he said.

Bombardier's founding Beaudoin-Bombardier family, which controls the company through super-voting shares, would have to approve any asset sale.

Bombardier Inc. (BBD.B) Close: $2.64, up 4¢