Bombardier shares fall 15% on news of Q1 shortfall

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MONTREAL - Bombardier Inc. stock fell by more than 15% yesterday after the company released first-quarter results that fell below expectations, as its two main businesses, aerospace and mass transit, had slower profit margin growth than expected.

Net income in the quarter ended April 30 fell 56% from the prior year to US$24-million, or US1 cents per share. Revenue fell 6% to US$3.5-billion because of lower sales of regional aircraft and railcars.

Earnings per share from continuing operations before special items -- the number analysts were watching -- was US2 cents, twice the level of last year.

But it was US1 cents lower than the market expected. In its aerospace division, which makes business jets and regional airliners with fewer than 90 seats, Bombardier earned 2.8% profit before interest and tax on $1.94-billion in revenue. That was up a bit from the 2.7% rate from a year earlier, and well off a pledge by division president Pierre Beaudoin to eventually get the margin up to industry norms of 10%-plus.

Its other main division, which makes subway and other passenger railcars, earned a 3% profit before interest and taxes, compared with 2.4% in the same period last year. Andre Navarri, head of the railcar division, said his business is on track to double the margin within two to four years.

Chief executive Laurent Beaudoin, father of the aerospace president, said first quarters are usually weak, but told the company's annual meeting Bombardier expects to post higher earnings than last year, when it earned US$249-million, or US13 cents per share, after three years of losses.

"We feel confident at this stage that we're going to continue to improve overall profitability," Mr. Beaudoin told shareholders.

But analysts criticized the company for its slow progress. "Strategically we do not believe the company has a realistic plan that addresses their competitive disadvantage in aerospace, and we do not believe that management will take the necessary steps to downsize the business substantially to address the poor financial performance," Credit Suisse analyst Cameron Jeffreys said in a report, in which he maintained his "underperform" rating and $2.65 target price on the stock, 71 cents below its close yesterday.

Anthony Scilipoti, executive vice-president of **Veritas Investment Research**, said the results were not surprising given the ongoing weakness in demand for small airliners amid industry-wide restructuring in the U.S. airline business, and the high value of the Canadian dollar, which has hampered the company's efforts to cut costs given much of its labour expenses are in Canada.

"The market is just waking up to the reality the turnaround is going to take time," **Mr. Scilipoti** said. "I think the stock had run ahead of its fundamentals" in terms of its earnings and cash flow generating capabilities. "At this point, expectations are very cloudy."