



## The True Cost of Bombardier's Delays

### Description

Less than a month after [announcing delays](#) to its CSeries aircraft line, **Bombardier** ([TSX:BBD.B](#)) has revealed the expected costs of the delay. The program is claimed to be “now well into its extensive flight test program”, but is still expected to launch in late 2015.

The delays are expected to cost Bombardier an additional \$750 million in development costs and another \$300 million in interest charges. This is all above the initial \$3.9 billion budgeted for the new aircrafts.

The news has led to the loss of [1,700 jobs](#) in Canada and the U.S., and has triggered a bumpy ride for Bombardier's stock. Currently 17 customers have made 201 firm orders for the CSeries aircraft, well below the 300 the company had initially estimated. This has added to the company's reasons for lowering its projected 2014 aerospace profit margin to 5% from 6%.

### Analyst downgrades

Investors and analysts have been quite vocal in how they view the company as of late, which is evident with the 20% drop the stock has taken resulting in a 52-week low last week. Even reversing a Q4 2012 loss of \$4 million with a Q4 2013 profit of US \$97 million, was not enough to please investors.

Raymond James has cut its target price for Bombardier to \$4.25 from \$4.50. Moody's Investors Service and Standard & Poor lowered its debt rating to three levels below investment grade.

### Gains in rail

In an attempt to alleviate its aerospace losses, Bombardier has been able to make gains in its rail division with two new deals.

First is a \$1.63 billion deal with the city of London to supply 65 new trains by 2018 for the massive Crossrail Project connecting Heathrow Airport to Essex. While this deal may have been politically motivated to keep 1,000 jobs in Britain, it is still a big contract that Bombardier needs to support its books. This also comes weeks after Bombardier lost a \$140 million contract for signaling work with the

London Transit System.

Bombardier has also won a US \$427 million contract to supply 60 commuter trains for Germany's S-Bahn GmbH, to be used in Hamburg. The deal also carries with it an option for 86 more single and dual-voltage trains until 2018.

### **Foolish bottom line**

In the wake of the CSeries setbacks two sales vice presidents representing Middle East/Africa and Europe have left the company. The cracks that have been seen in the stock appears to be appearing in the boardroom as well.

Despite claims by the company to possibly see breakeven cash flow by 2016, the words appear to be falling on deaf ears. This newest 52-week low has brought the stock to its lowest point since December 2012 and all eyes are on the fate of the CSeries aircraft.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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1. Investing

### **Date**

2025/07/03

### **Date Created**

2014/02/18

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