



4 Reasons to Steer Clear of Bombardier

Description

Throughout the years, **Bombardier** ([TSX: BBD.B](#)) has carved out a niche for its product by appealing to specific clientele with its commercial jets. The Global series is known by corporate executives and regional airlines to be a luxurious aircraft, more expensive than the competition, but with a quality that justifies the premium. Bombardier, with its new CSeries, is set to face off against **Boeing** ([NYSE: BA](#)) and **Airbus**, but so far the results are not too promising.

Delays, delays and more delays

Back in 2004 when the CSeries was announced, it was supposed to be available for delivery in 2013. Since then it has been the victim of countless delays with availability now scheduled for 2015. Add to that the extra expenses that keep on accruing and you begin to understand the complexity connected with creating a brand new aircraft. With more costs for the project, the added profit from this new airplane keeps on looking dimmer as the years pass by. Delays are never acceptable during a project, but it grows even more vital when your product is one that takes years to build.

Less talk, more rock

Bombardier is well known for over-promising and under-delivering. It has often painted a rosy outlook for investors only to end up making excuses when earnings come in lower than expected. It is not like the sector is in a cyclical downturn, far from it — both Boeing and Airbus are reporting all-time record order backlog for their planes — some aircraft models have orders spanning close to 10 years of production.

Bombardier is reporting less-than-projected orders for its own CSeries. Management had legitimate excuses as to why orders were not at the level projected, but if your competitors are reporting record revenues the only valid excuse is: 'We are not executing well.'

Airlines reticence to change

Airlines will be the main clients for the CSeries. The problem is that Bombardier's new plane is a direct competitor to the Boeing 737 and Airbus's A320. Both of these planes have been flying for decades

and have a proven track record. That is in my opinion a problem for Bombardier, because although the CSeries seems great on paper with strong fuel economy, it has no real flying history. When an airline needs to make a capital allocation decision of buying aircrafts worth millions, reliability is very substantial.

In a marketplace where the leaders own close to 100% of the market, trying to come with a brand new product is always hard, but when your product is an airplane, it's even harder, and I do not think the CSeries will be a resounding success, at least not in the short to midterm.

A struggling operator

Bombardier's operations are struggling in part because of the CSeries. A quick net income margin comparison shows us that where Bombardier generates a 2.94% margin, Boeing and **Embraer SA** ([NYSE: ERJ](#)) report 5.04% and 6.22% respectively. The EBITDA margins are not better with Bombardier trailing its peers reporting a 5.06% last quarter compared to 9.31% for Boeing and 14.44% for Embraer. It is clear that the delays of the CSeries and the investments needed to complete the project are dragging on the margins of Bombardier.

Better alternatives exist

In the end, if you want exposure to the aerospace sector, there are many options out there that are much better than Bombardier and with less risk. **CAE** ([TSX: CAE](#)) ([NYSE: CAE](#)) is a great Canadian aerospace manufacturer that makes simulators for planes and contrary to Bombardier, has been executing flawlessly in recent years. Not only that, but with CAE you do not simply have a great operator, but exposure to the entire aerospace sector regardless of which manufacturer gets the airline contracts.

CATEGORY

1. Investing

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