



Bombardier's CSeries Line Stays Grounded; Is Now the Time to Buy?

Description

Years ago, **Bombardier** (TSX: BBD) touted its upcoming CSeries line of aircraft as the future of aviation, with greater range and better fuel economy. Fast-forward to the summer 2014 and the glitz and glamour of earlier promises has faded. Continued mechanical issues, including an inconvenient engine fire in May, have grounded the test phase again. Also, the entire program is more than \$1 billion over budget.

These delays have hampered the stock in the past six months, with the stock closing at \$3.74 on Wednesday. This is only \$0.30 above its 52-week low, which was reached in February when the realities of the debacle surrounding the CSeries began to emerge. Should investors see this as a warning sign to stay away, or is this the time for bargain prices?

The coming layoffs and restructures

In response to the cost overruns, Bombardier has initiated a steady stream of layoffs, with 1,700 engineering and temporary jobs cut in February. This wave of job cuts was followed up by a series of non-union wage freezes in March.

Now the company has announced another wave of 1,800 job cuts in its finance and human resource departments. Along with these unfortunate cuts comes the "retirement" of Bombardier aerospace president Guy Hachey, the one responsible for the CSeries program.

The most recent wave of cuts is being spurred by a restructuring of Bombardier's aerospace division into three entities. The new divisions are now business aircraft, commercial aircraft, and aerostructures and engineering services. Bombardier's transportation division will remain unchanged, and all four divisions will report to President and CEO Pierre Beaudoin.

The C (minus) Series

It's been six weeks since the pre-test flight engine fire that grounded the testing phase in May. While the underlying issue has been identified, the fix did not come soon enough to get the test plane to England.

Because of the continued delays, Bombardier was unable to display its CSeries at the Farnborough Airshow in Hampshire, England. The event is more of an international trade show than a run-of-the-mill airshow — think of the Detroit Auto Show, except for planes. This was a major PR blow to Bombardier, as this is the premiere place for aerospace companies to display their wares.

At the airshow, Bombardier declared that it remains “on course” to have its first CSeries aircraft hit the market in the second half of 2015, well beyond its original 2014 release date. Before the CSeries can hit the market, though, it still requires an additional 2,000 hours of test flights before it can be certified.

Does the future involve a smooth takeoff, or are oxygen masks required?

One positive note that came out of the airshow was that five new customers have signed letters of intent towards the CSeries. This brings the program up to 513 commitments, with 203 being firm orders from 19 customers. This is two-thirds of the way to the 300 firm orders Bombardier targeted to have by 2015.

Once the CSeries gets back on track it could lead to some impressive revenue in a couple of years. Earlier this spring, Bombardier adjusted its revenue goals for 2016 to \$30 billion, up from last year's \$18.2 billion. This year is still tracking to be a brutal year on the company's books, but investors could take this chance to load up on stock now and wait for the tides to change in 2016.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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