



## Why Now Is a Make-or-Break Time for Bombardier

### Description

**Bombardier** ([TSX: BBD.B](#)), an iconic Canadian company and the only global manufacturer of both planes and trains, has had a terrible year. Its shares have slid approximately 20%, making it one of the worst performers among Canadian industrial stocks.

Bombardier's latest challenges come as the company is trying to distinguish itself from its competition by producing a larger regional jet with improved fuel consumption. The company's construction of such a jet, the CSeries, has come with a host of problems.

In May, the CSeries jet suffered a massive engine failure in testing, further complicating Bombardier's development of the plane, which was already over budget. Last February, Chief Financial Officer Pierre Alary projected that development costs for the CSeries had hit \$4.4 billion, about \$1 billion over the initial cost estimate. The company also has not yet hit its orders target. Bombardier is looking to sell 300 planes by the time the plane is in service, which is currently estimated to be the second half of 2015. According to Bombardier, as of last week the company had commitments for only 203 sales.

Given the financial challenges Bombardier is facing, it has made some major changes. These included cutting 1,800 jobs and splitting its aerospace unit into three divisions to cut costs and improve operations.

### Are these changes enough?

The company has acknowledged that the latest changes were in order to improve the financial performance of the aerospace group, which should be a positive for the stock. However, the main problem here is that Bombardier has not been clear on what cost savings it expects. Hopefully, when the company reports earnings on July 31, more clarity will be given, but until that time there is little reason to ramp up expectations on the company's financial performance without any cost savings projections.

### Bombardier may be running out of runway

A major challenge for Bombardier is that the company has little margin for error for its CSeries jets, and

given the latest glitch, it has to move fast to preserve its financials.

The CSeries is supposed to be Bombardier's pillar of growth going forward, but the company faces tough competition and decreasing demand for its planes as airlines shift toward larger planes. The hope was that Bombardier could distinguish itself from its competition in regional jets by offering improved fuel efficiency compared to earlier models.

The problem is that it's a small company in an industry of heavyweights, and one wrong turn could spell disaster. Bombardier has a market cap of \$6.37 billion, about half of competitor **Embraer SA**, and a drop in the bucket compared to **Boeing's** \$88.66 billion market cap.

The concern is that if Bombardier does not change its financial position quickly, or if the CSeries continues to be plagued by technical and financial overruns, the company is at risk of being marginalized. Another possibility, which could be good or bad for Bombardier's stock, is that a bigger company could launch a takeover bid.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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