



Have Airlines Forgotten About Bombardier Inc.'s CSeries?

Description

The news keeps getting worse for **Bombardier Inc.** ([TSX:BBD.B](#)). On Wednesday, Qatar airways Chief Executive Akbar Al Baker said the company has “completely forgotten” about Bombardier’s CSeries “because you cannot wait indefinitely.”

Other airlines are certainly thinking in a similar way, and this does not bode well for Bombardier. The company still only has 243 firm orders for the CSeries, well short of its 300 target, and the pace of sales has slowed.

Is this yet another sign of trouble for the CSeries? More importantly, what does this all mean for the stock price?

These comments are not the problem

First of all, I wouldn’t overreact to Mr. Al Baker’s comments, who likes to make provocative statements. Just last year, he caused a stir by saying that European carriers “cannot keep up” with airlines from the Persian Gulf.

If anything, Bombardier shareholders should view his remarks as positive. Why? Well, Bombardier’s orders may simply be held back because of airline uncertainty over delivery dates. So, if the program really is finished on time, and the plane is delivered, airlines may become interested again, and orders could pick up significantly. If that happens, there’s a lot of upside for the share price.

There are other things to watch out for

You should make no mistake: whatever Bombardier says, the CSeries program has been an absolute disaster. And it could get even worse.

Numerous analysts believe Bombardier is using rosy projections for the CSeries. More specifically, there are doubts about whether the plane will be ready by the end of 2015. **Goldman Sachs** analyst Noah Poponak said that further delays are “inevitable,” and another analyst said Bombardier is “borderline delusional” for thinking the plane will be ready by 2015.

Bombardier may also be overestimating CSeries sales. To illustrate, **Bank of Nova Scotia** analyst Turan Quettawala expects 65 deliveries per year for the jet, well short of Bombardier’s projection of 100 per year.

The environment has become a lot more competitive since the CSeries program started. **Airbus** came out with the A320neo in 2010, and **Boeing** followed less than a year later with the 737 MAX. As another analyst put it, “It’s a tale of two Goliaths and one rather foolish David.”

Still not worth it

At this point, Bombardier shares are really a gamble on the CSeries. If the program is successful, then orders could pick up, cash flow would improve, the balance sheet would recover, and investors might be drawn back to the stock. Under this scenario, Bombardier shares would likely take off (no pun intended).

That said, if history is any guide, then this is a losing bet. Making matters worse, the future doesn’t look any brighter than the past. So, until Bombardier proves the doubters (including me) wrong, I would stay on the sidelines.

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)

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