



3 Reasons Why Bombardier Inc.'s CSeries Will Continue to Fail

Description

At this point, it's fair to say that **Bombardier Inc.'s** ([TSX:BBD.B](#)) fortunes revolve around the CSeries. In recent years, that's been bad news, as the plane has suffered from delays and cost overruns.

Bombardier hopes these issues are a thing of the past. According to the company's latest timeline, the plane should be certified by the end of this year and enter into service shortly thereafter. It's something that Bombardier's shareholders are desperately waiting for.

But if you think Bombardier's problems with the CSeries end there, you'd be wrong. Below are three reasons why.

1. Just how firm are these orders?

Bombardier claims to have 243 firm orders, but this number isn't as solid as you might think. Two customers in particular are worth highlighting.

Earlier this month, Moscow-based Ilyushin Finance Co. said that it is "re-evaluating" its CSeries order. This announcement should come as no surprise—Canadian sanctions against Russia are severely limiting financing options in that country, and growing delays are testing the patience of all CSeries customers.

This isn't the only uncertain order for the CSeries. Odyssey Airlines plans to start offering flights in 2016, and is still trying to raise money. As of last October, it had raised roughly US\$10 million (mostly through crowdfunding), but says it needs another US\$100 million.

Combined, these two companies have ordered 42 CSeries jets, or 17% of the total. That alone would make me very nervous as a Bombardier investor.

2. What is the competition doing?

When Bombardier launched its CSeries program, competitors knew they had to act. First to respond was **Airbus**, which launched the A320neo in 2010. **Boeing** followed suit with the 737 MAX the

following year.

Not only have these competitors developed new planes, but they are discounting them heavily. Airbus has been particularly aggressive and is determined to crush the CSeries before it takes off (no pun intended).

This brings up a very familiar problem for anyone looking to compete with Airbus and Boeing: economies of scale. The bigger companies are able to produce planes more cheaply than their smaller rivals, so if there's a price war, we all know who will win in the end.

3. Low oil prices

Let's be clear, the CSeries is still a better plane than the A320neo and 737 MAX. The latter two are simply re-engined versions of older planes. For that reason, they are heavier and slightly less fuel efficient.

A year ago, that was a big deal. But now, with oil prices so much lower, jet fuel is cheaper too. So, the CSeries' edge is severely reduced. All of a sudden, airline CEOs may be more tempted to accept a big discount from Airbus, rather than take a risk on a yet-to-be-completed CSeries jet. It's little surprise that no firm CSeries orders have been announced since September.

So, if you're thinking of buying Bombardier shares, I would wait for a while. A lot of issues have yet to be ironed out, and at this point there's just too much uncertainty. It's best to look elsewhere.

CATEGORY

1. Investing

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2. TSX:BBD.B (Bombardier)

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