



Why 30% of Bombardier Inc.'s CSeries Orders Are From Customers Who Regret Their Decision

Description

When large companies make sales presentations, they often devote a slide showing a sampling of other customers. Ideally, these sample customers help establish some legitimacy for the company and help drive sales even further.

Unfortunately for **Bombardier Inc.** ([TSX:BBD.B](#)), its CSeries program is facing a very different situation. Two customers, who have ordered a combined 72 aircraft, are regretting their orders.

Aircraft orders typically come with large cancellation penalties, so it's no surprise these orders haven't been cancelled. Ideally for the customers, the aircraft deliveries could be transferred to another company.

This could be a big headwind as Bombardier tries to sell more CSeries aircraft, and is likely a reason why the company didn't secure any orders at the Paris Air Show. After all, if you're thinking of buying some CSeries aircraft, why not call one of these upset customers first? They may be willing to give you a better deal.

So, who exactly are these customers, and why do they regret their orders?

1. Ilyushin Finance

Russia-based Ilyushin Finance Co. (IFC) is the CSeries' third-largest customer, having ordered 32 CS300 aircraft back in 2013. Fast forward to early April 2015, and IFC said it was "re-evaluating" its order.

There were a couple of reasons cited. One was the delay in the CSeries program, which "costs us a lot of money," as put by IFC Deputy Director General Elena Rubtsova.

The other factor was a lack of financing options, a result of sanctions against Russia by the West. Notably, the sale is not being supported by Export Development Canada, something that IFC could not have foreseen back in 2013.

There's another reason, one that IFC did not cite specifically. The Russian airline industry is getting crushed by the weak rouble. So, IFC may not be able to find enough lessees for 32 CS300 aircraft. In any case, it's highly unlikely IFC would make the same order today.

2. Republic Airways

Republic Airways Holdings Inc. is one of the CSeries' two largest customers, having ordered 40 CS300 planes. That order was very significant because it prompted Airbus to re-engine its competing A320 aircraft family. **Boeing** then had no choice but to follow suit with the 737 MAX.

Now the order is in doubt. Republic originally intended to use the CS300s for its subsidiary, Frontier Airlines Inc. Since then, Frontier has been sold, but the CSeries order has remained with Republic.

In order to fly the CS300s, Republic will need two carrier certificates. But the company is only planning on getting one certificate in an attempt to cut costs. So, Republic's best option is likely to sell its early production slots. Unfortunately for Bombardier, this means any potential CSeries customers will likely call Republic first.

To make a long story short, the worst is not yet over for the CSeries, and with so little momentum for the program, you shouldn't expect too much. If you own any shares, now is a good time to sell them.

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