



Why Bombardier Inc. Should Offload its CSeries Program

Description

Seemingly everything has gone wrong for **Bombardier Inc.** ([TSX:BBD.B](#)) in recent years. The company's main problems have revolved around the CSeries, which has suffered from delays, cost overruns, and a lack of orders.

More recently, there have been other issues. The Learjet 85 business jet program has been suspended, and the Global 7000 or Global 8000 may be next. There's been heavy management turnover and concerns about corporate governance. Worst of all, there are some serious questions about Bombardier's balance sheet — according to *The Business News Network*, the company has said it only has enough liquidity to last three more years.

Some have advocated for splitting up the company. After all, there aren't any major synergies between trains and planes. But then Bombardier Aerospace would have even more difficulty funding the CSeries.

There's another option, one that hasn't been seriously considered thus far: selling the CSeries program. Below we look at why this may be Bombardier's best option.

A funding disadvantage

It's no secret that the CSeries has hurt Bombardier's balance sheet. But now the reverse is true as well: the balance sheet is hurting the CSeries!

After all, if you were an airline executive, would you order a plane from a company that only has three more years worth of liquidity? Probably not, because there's a good chance you'll never see that plane.

Bombardier's weak balance sheet is hurting in other ways too. The company without doubt would like to develop a larger version of the CSeries (perhaps a CS500), but can't spare the cash right now. This is too bad, since such investments are usually well worth the cost.

If the CSeries were in the hands of a competitor, the program wouldn't be held back in these ways. Thus either **Boeing** or Airbus should theoretically be willing to pay more for the CSeries program than

it's worth to Bombardier. And at the same time, Bombardier's balance sheet problems would be solved.

Another reason to sell the program

When Bombardier first came out with the CSeries, Airbus reacted very forcefully. One of its senior executives said it didn't see room for a third player. The company put a new engine on its A320 series of planes. Most significantly, it has been heavily discounting these planes. Boeing has been forced to act in a similar way.

This is bad news for the whole industry. But if one of these competitors were to buy the CSeries, it would no longer have to heavily discount its own planes. So once again, Airbus or Boeing should theoretically be willing to pay more for the CSeries than it's worth to Bombardier.

This won't happen soon

Even though such a sale would be good for Bombardier, you shouldn't hold your breath. The company has a very close relationship with the government of Québec, and that relationship could be soured badly if the CSeries program is sold off.

But in the long term, anything is possible, and Bombardier's shares will likely pop if it sells the CSeries. This is worth keeping an eye on.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BA (The Boeing Company)
2. TSX:BBD.B (Bombardier)

Category

1. Investing

Date

2025/07/21

Date Created

2015/07/27

Author

bensinclair

default watermark