



Bombardier Inc. Has 2 Options for the CSeries: Go All-In or Fold

Description

It's no secret that **Bombardier Inc.** ([TSX:BBD.B](#)) has had its fair share of hiccups with the CSeries. But at this point it's far too late for Bombardier to turn back. For this reason, the company is focused on one very simple goal: get the CS100 plane certified by the end of 2015.

But after the plane is developed, Bombardier will have more options. We take a look at the two best ones below.

Option one: Go all-in

As could have been predicted, industry heavyweights **Boeing Co.** and **Airbus Group SE** have reacted forcefully to the CSeries, mainly by offering heavy discounts on its own models. They have even been using their larger planes as loss leaders when selling models that compete with the CSeries.

Bombardier has had a tough time responding. This partly has to do with the delays in developing the CSeries. But Bombardier is also a much smaller company, and thus doesn't have the scale to offer such discounts. Of course, the company doesn't sell large planes either, and cannot use the CSeries as a loss leader.

So, if Bombardier really wants to compete with the big boys, it will need to make some drastic moves. First, it will need to develop a larger version of the CSeries. This may not be too expensive, assuming the larger plane has the same design as the CS100 and CS300. Crucially, the planes may be able to use the same wings. Bombardier will then need to offer bigger discounts on the CSeries.

This would no doubt be a very expensive option, and would likely require the company to sell its entire trains business (Bombardier currently only plans to offload a minority stake). But if the company wants to go head to head with Airbus and Boeing, these moves would be absolutely necessary.

Option two: Fold

According to Bombardier's latest estimates, developing the CSeries will cost the company US\$5.4 billion. If it were to sell the program to Boeing and Airbus, it's very unlikely the company will get all its

money back. But it still may be the best option for a number of reasons.

First of all, buying the CSeries may be an excellent move for Airbus or Boeing, since they wouldn't have to discount their own planes so much. Better yet, these companies have all the resources necessary to develop a larger CSeries plane. So, either of them may be willing to pay top dollar for the CSeries.

Secondly, offloading the CSeries would allow Bombardier to pay down its massive debt balance, which currently stands at about US\$9 billion. After doing so, the company could then focus on what it does best: business jets. Even the Learjet 85 program, which was suspended in January, could be restarted.

Shareholders would also likely be thrilled. Based on Bombardier's current stock price, investors have little faith in the CSeries at all. So, a sale of the program would probably cause the stock to soar.

Which option is better?

First, let's make one thing clear: neither of these options are realistic until Bombardier gets the CS100 certified. Until then, we'll just have to sit tight.

Once we get into next year, option two is likely the best course of action. But make no mistake: option one is still more attractive than the status quo.

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)

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