



Why Bombardier Inc. Should Be Very Worried About China

Description

To put it bluntly, **Bombardier Inc.** ([TSX:BBD.B](#)) simply cannot catch up a break in 2015. The latest headwind for the company is the grim news from China. Investors have certainly taken notice. On Monday, a day when worries about China skyrocketed, Bombardier's shares fell by as much as 20%.

So, what makes Bombardier particularly vulnerable to the problems in China?

Business jets

In the past decade, the Chinese business jet market has grown at breakneck speed, about 20% per year. And Bombardier is optimistic about China's future, too. The company expects China's fleet to grow by 13% per year to 2023, and account for nearly 10% of worldwide deliveries over this time. This is based on an annual GDP growth of 6.5% in the country.

But these projections now look unrealistic.

China's business jet market has slowed considerably, partly due to a slowing economy, but also due to a clampdown on corruption in the country. Making matters worse, many of China's state-owned banks entered the aircraft leasing market in prior years, but are now looking to sell underused aircraft.

There are some especially worrying signs. Deer Jet, the largest charter operator in the Greater China region, has reduced its fleet by 20% in the last two years. There were no major jet orders at the most recent Asian Business Aviation Conference and Exhibition in Shanghai. And **B/E Aerospace Inc.** cited weakness in the Chinese market during its most recent earnings call.

So, these problems in China could put a significant dent in Bombardier's business jet prospects. We'll just have to wait and see.

The CSeries

China's economic woes are also hurting the prospects of Bombardier's CSeries jets. Bombardier spokeswoman Marianella de la Barrera even acknowledged that "discussions are moving at a slower

pace.”

Put simply, there's a big worry that China's economic woes will drag down other countries, which will have an impact on air travel.

Consequently, airline executives are understandably concerned about China right now, and are less willing to spend big money on new planes. If that wasn't enough, China's woes are helping to drive down oil prices, which also negatively impacts the CSeries. This is because the CSeries has a big fuel efficiency advantage over rival aircraft, and this advantage is diminished as fuel prices fall. It's no coincidence that the CSeries has secured no new orders since the WTI oil price was last above US\$95 per barrel.

It could get a lot worse

Of course, Bombardier is facing plenty of other headwinds right now, and with a debt load of US\$9 billion, the company can't afford any more major setbacks. If any of these problems worsen, Bombardier could be in real trouble. So, at this point you should hold off on buying the shares, even though they must look very cheap by now.

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Date

2025/09/28

Date Created

2015/08/31

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