Should Bombardier Inc. Sell the CSeries to Airbus?

Description

Late Tuesday afternoon, news came out that said **Bombardier Inc.** (TSX:BBD.B) approached European airplane manufacturer Airbus about selling a majority stake in the troubled CSeries program.

In exchange for a controlling stake in the program, Airbus would help Bombardier complete development. The payment would help shore up Bombardier's balance sheet, while Airbus would have the opportunity to really profit if the CSeries takes off. Remember, one of Bombardier's biggest competitors in the mid-sized jet market is Airbus.

According to the reports, the talks are still in the very preliminary stages, and neither management team is even close to making a decision. It appears there's serious interest from both sides, but the complexity of a potential deal would be a big hurdle to overcome.

Essentially, it would work something like this: Airbus would give Bombardier some cash up front, while fronting the bill for much of the rest of the costs needed to bring the CSeries to market, which is expected sometime in the first half of 2016. The two companies would then form a separate board and sign an agreement to jointly market the plane to potential customers.

Is this a good deal for Bombardier shareholders?

At this point, Bombardier shareholders have to be worried about the company's ability to avoid bankruptcy. Although there are additional moves the company could make to avoid shares going to zero–including spinning off a portion of the Transportation division or approaching the Quebec provincial government for a lifeline–these probably aren't moves management wants to take. They reek of desperation.

There's also the advantage of spreading the risk around. Plenty of things could happen between now and when the planes actually start getting delivered. The global economy could get weaker, which would make CSeries customers nervous.

Remember, Bombardier has already seen CSeries orders slow as customers take a wait-and-see approach. Many potential customers are tired of the delays. Others want to stick with **Boeing** or Airbus

planes because they already have a fleet full of them.

Basically, a deal like this reduces risk for shareholders.

But with reduced risk comes reduced rewards. If Bombardier does manage to bring CSeries online alone, there's billions in potential profits over the next decade if sales are brisk. There are enough orders in the pipeline right now that workers will be busy for years without a single additional order.

There's also the very strong possibility that Bombardier's management is selling low on the program. Airbus simply isn't going to be interested if they're not getting a deal. At least if Bombardier sees the program through to the end, it has a chance to make back the billions it has already sunk into the project.

It would be very disappointing for long-term shareholders to see it sell off a majority stake in the program for just a billion or two, especially since it has sunk about $6 billion into the program.

It comes down to this: if you think Bombardier is destined for bankruptcy on its current path, you're likely cheering for this potential deal to happen. A cash infusion combined with relief in development costs is exactly what the doctor ordered.

But if you believe Bombardier would have been able to make it through this rough patch without turning to outside help, then this deal might not be great news. Splitting the profits from CSeries isn't good if Bombardier ends up footing the majority of the bill to develop it in the first place.

Ultimately, investors have to wait until terms of a deal come out, assuming one is even consummated. One thing is certain. If such a deal happens, the bankruptcy risk for Bombardier almost goes to zero. This is undoubtedly good news.

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