



Bombardier, Inc.: Is the Rail Business in Trouble, Too?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) has been a hot topic around the investing water cooler for more than a year.

Most of the chatter revolves around the company's struggle to get its CSeries jet program off the ground, but pundits are now wondering if the prized transport division is also going off the rails.

Bombardier plans to sell part of the rail unit in an IPO before the end of the year, and analysts are having a tough time trying to figure out what the rail unit is worth.

Last month *Reuters* reported that a Chinese state-owned company had approached Bombardier to buy some or all of the rail division for as much as US\$8 billion.

That was quite a bit higher than most analysts had expected, and the news gave the stock a much-needed boost, but the market might be getting ahead of itself.

Rail issues

The transport division isn't exactly knocking balls out of the park.

The Toronto Transit Commission (TTC) recently released a statement saying it could bring legal action against Bombardier for not meeting its promised delivery dates for a large streetcar order.

Six years ago, the TTC placed an \$851 million order for 204 new streetcars. According to the TTC, Bombardier should have already delivered 67 of the streetcars. Unfortunately for Toronto's commuters, the company has only shipped 10.

The TTC's top brass isn't holding back when venting frustrations.

"I am incredibly disappointed to learn that Bombardier, yet again, will not be meeting their commitments to deliver new streetcars to Toronto. We will not let Bombardier's incompetence hold our patient and loyal customers hostage. We will consider all legal and financial actions at our disposal to

address the situation,” TTC chairman Josh Colle said in an October 16 statement.

The TTC is now considering a claim of \$50 million for late delivery plus costs to maintain and overhaul existing streetcars.

Competitive issues

Production issues can be sorted out, but Bombardier and its investors might have larger concerns in the rail segment.

Last year, Bombardier lost a bid to a Chinese company for a substantial contract to supply subway trains to Boston. That’s a big deal because it is the first time the Chinese train makers have won a deal in the U.S. market.

According to a *Bloomberg* report, the Chinese bid was a little more than half of Bombardier’s bid.

If the Chinese deliver the trains according to contract, and they work well, Bombardier could be in big trouble going forward.

The TTC streetcar issue is just one more headache Bombardier doesn’t need right now. The company is quickly running out of money, and the timing of the TTC complaints couldn’t be worse.

The IPO of the rail unit might go according to plan, but investors should expect another nasty haircut if it doesn’t.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

Category

1. Investing

Date

2025/10/02

Date Created

2015/10/19

Author

aswalker

default watermark