



Will a Big Order From Delta Air Lines Inc. Save Bombardier, Inc.?

Description

It's been one thing after another for **Bombardier, Inc.** ([TSX:BBD.B](#)) over the past few years.

Most of the issues stem from the CSeries line of regional jets. Cost overruns, delays, and mechanical issues have plagued the project from the beginning. As the excuses have mounted, customers have responded either by pulling their orders or taking a wait-and-see attitude before giving the company an order.

The issue isn't so much with the planes themselves; they're getting rave reviews. **Delta Air Lines Inc.** ([NYSE:DAL](#)) CEO Richard Anderson is excited about the new CSeries line: "At the right price, it's quite a competitive airplane, particularly given the engine technology." This has fueled speculation that Delta is planning a big order, which sent Bombardier shares higher.

This is a big deal. Bombardier hasn't had a major CSeries order since late 2014. Headlines of customers bowing out are the norm these days. As I've argued before, there's a very strong argument for customers to keep ordering the same **Boeing** and Airbus planes they've used for years now. Those planes might not be as good as the new Bombardier planes, but the delivery schedule is far more predictable. And the major advantage of the CSeries—lower fuel costs—isn't such a big deal today.

Getting a big order from Delta immediately legitimizes Bombardier's new line of planes. If Delta's management team thinks the CSeries is good enough to order despite the issues, there's a good chance other airlines might think the same thing.

Delta is one of the leaders in the sector. In just about every industry, smaller players copy the leaders. Airlines are no exception. Look at things like baggage fees if you don't believe me.

Will it be enough?

At this point, all we're doing is speculating about a Delta order. We don't even know an order is coming, never mind what size it'll be.

Besides, getting orders is only part of Bombardier's problem. Even after a few of the previous

commitments have dropped out, there are still plenty of orders that will keep workers busy for years building planes. Sure, more customers are needed, but there are more pressing matters right now.

The major problem is shoring up the balance sheet. We don't have full-year 2015 results yet, but the picture wasn't pretty as of September 30. Bombardier had US\$2.8 billion in the bank compared to US\$2.5 billion at the same point in 2014. But that was after eliminating the dividend, cutting costs, and raising billions in new debt and equity financing early in the year.

The trend is more alarming if you look at it from the short term. At the end of March, immediately after that capital raise, Bombardier had US\$5.3 billion in cash. This means the cash balance fell US\$2.5 billion in just six months. At that pace, even after the cash infusion from the Quebec government in November, the company is at risk of running out of cash by the end of 2016.

Running out of cash is the big risk, not the number of orders. Bombardier has other avenues it can try to help raise capital—like going to Ottawa for money—so it's not like bankruptcy is assured. The risk is still very real though, which is why the stock is priced at \$1.17.

Delta's interest in the CSeries is good news. But until a huge order comes, investors should worry about Bombardier's balance sheet first.

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1. Editor's Choice

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1. NYSE:DAL (Delta Air Lines, Inc.)
2. TSX:BBD.B (Bombardier)

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Date

2025/09/12

Date Created

2016/01/21

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