



Bombardier, Inc. Just Lost a Key CSeries Customer

Description

On Thursday, **Republic Airways Holdings Inc.** (NASDAQ:RJET) filed for Chapter 11 bankruptcy, citing a pilot shortage and unprofitable contracts as the key factors in the decision. The news comes as a major blow to **Bombardier, Inc.** ([TSX:BBD.B](#)), because Republic placed a firm order for up to 80 CS300 aircraft back in 2010.

It's a cruel twist of fate for Bombardier, because Republic was the only CSeries customer based in North America (**Air Canada** has only filed a letter of intent thus far). Furthermore, it was Republic's order that spurred Airbus to put a new engine on its A320 line of planes. And that in turn led to **Boeing** putting a new engine on its 737 line. Ironically, it looks like Bombardier would have been better off without that order in the first place.

So what exactly does Republic's bankruptcy mean for Bombardier's order?

A closer look

To get some context, Republic's order was originally meant for its former subsidiary Frontier Airlines, but that business was sold in 2013. This left Republic with an order that it didn't want. CEO Bryan Bedford even told *Bloomberg News* in 2014 that "there is no place to operate the CSeries" in Republic's business model.

Republic has looked into selling the order slots, but its chances of success are slim. Remember, Bombardier has long been hesitant to give significant discounts on the CSeries, arguing that a premium plane deserved a premium price. That argument was certainly good enough for Republic in 2010, partly because Airbus and Boeing had not yet put new engines on their single-aisle aircraft.

But now we are in a completely different world. Boeing and Airbus have both responded and are competing fiercely. Oil prices have fallen below US\$40 per barrel, down from US\$78 when Republic originally made its order, which diminishes the CSeries's fuel-efficiency advantage.

Bombardier doesn't have any illusions. CEO Alain Bellemare has hinted that the company is now more willing to discount the CSeries, and sources have suggested that Air Canada got very attractive pricing

in its letter of intent. To make a long story short, those Republic order slots may very well be worthless.

So why didn't Republic simply cancel its CSeries order? Well, these types of orders typically come with large cancellation penalties. And this brings up another problem for Bombardier: while in bankruptcy, Republic can cancel unprofitable contracts while being protected from financial penalties. For example, the airline can escape leases on unused planes.

To sum up, Republic's bankruptcy likely means the end of this order for Bombardier. There's simply no other way to put it.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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