



Bombardier, Inc.: Would More Aid Money Spur New CSeries Orders?

Description

According to a recent article in *The Globe and Mail* (available to paying subscribers only), the public scrutiny facing **Bombardier, Inc.** ([TSX:BBD.B](#)) and its CSeries program are undermining the company's sales efforts. The article quotes John Paul Macdonald, a senior VP at Bombardier, who says that larger rivals **Boeing Co.** ([NYSE:BA](#)) and Airbus "used every opportunity they can get to inject a tone of instability into our [sales] campaigns."

No one is doubting Mr. Macdonald's comments. Airlines don't like uncertainty, and when they order a plane, they want to be sure it will be delivered. They also want to be sure there will be a healthy aftermarket for the product. In addition, we know that Boeing and Airbus have been competing very fiercely with the CSeries (and with each other). And finally, Airbus senior executive John Leahy has suggested publicly that the CSeries could become an orphan plane.

This leads to a vicious cycle for Bombardier, one in which a lack of sales leads to public scrutiny, which leads to a lack of sales, and so the cycle continues. It also leads to a very important question: would Canada's aid break the cycle? In other words, would an investment from the Government of Canada spur a slew of new orders? It's the million dollar question (or, shall I say, the billion dollar question) facing the Canadian government. It's also a question being asked by investors.

Why we shouldn't be too optimistic

Bombardier is facing another big problem that gets relatively little attention: the brand is badly damaged. And there is little doubt that this is impeding sales efforts.

To make this point clearer, just look at what has happened to **BlackBerry Ltd.** over the past five years. The company's declining fortunes have badly damaged its brand, something acknowledged last year by CEO John Chen. Just like at Bombardier, this has created a vicious cycle.

Now imagine what would happen if BlackBerry received bailout money. First of all, no one would want to be seen with one of the company's handsets. Secondly, buying BlackBerry enterprise software would be a risky move for one's career.

This is the same type of situation that Bombardier is facing. If and when the company receives more financial assistance, we already know how Boeing and Airbus will react. And Bombardier will continue to struggle selling the CSeries. If you don't believe me, Bombardier hasn't secured any firm orders since it received US\$2.5 billion from public sources in Quebec (**Air Canada** only signed a letter of intent, and even that required more government interference).

A sale is still the best option

When word broke that Bombardier was looking at selling the CSeries program to Airbus, its stock spiked, and for good reason. The CSeries program would be far more effective in another company's hands, meaning that Airbus would likely pay more than what the CSeries is worth to Bombardier. It remains the company's best option.

Alas, that ship has probably already sailed now that the public sector is involved. Shareholders have little to look forward to. And when searching for stocks, your best bet is to look elsewhere.

CATEGORY

1. Investing

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1. NYSE:BA (The Boeing Company)
2. TSX:BBD.B (Bombardier)

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Date

2025/07/22

Date Created

2016/03/02

Author

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