Here's Why Bombardier, Inc. Can Never Beat Boeing Co

Description

Bombardier, Inc. (TSX:BBD.B) can't seem to catch a break compared to competitors like **Boeing Co** (NYSE:BA). Over the past five years, it's been a tale of two companies: Bombardier stock has slowly sunk by over 80%, while Boeing shareholders have nearly doubled their investment. Despite the divergence in share prices, the two companies both have the same core business: developing and manufacturing commercial jet aircraft.

Why can't Bombardier seem to replicate Boeing's success?

???
Image not found or type unknown
Image Source: YCharts

An attractive industry

Since 1970 global demand for jet planes has risen nearly every year from just 830 aircraft to over 16,000 today. Bombardier itself expects this growth to continue over the next decade, driven by growing demand from emerging markets like China, Russia, and Latin America. Over the next 10 years it's estimated that the industry will require 9,000 additional planes at a cost of $267 billion.

If the future is so rosy, why is the market punishing Bombardier's stock? The most obvious reason is that the company can't seem to make any money producing planes. While Boeing has been able to eke out small amounts of operating profit in recent years, Bombardier has increasingly shown an inability to compete against larger rivals. The driving force behind this profitability gap is perhaps the biggest reason why Bombardier likely can't compete long term against the likes of Boeing.

Image Source: YCharts
Image not found or type unknown
Image Source: YCharts

The industry is only attractive if you can participate

Last week, **United Continental Holdings Inc.** began finalizing a deal with Boeing that would block smaller rivals like Bombardier from contributing to the airline’s fleet. Basically, Boeing used its bargaining power to create an exclusivity agreement. In December **Southwest Airlines Co** struck a similar deal with Boeing and ordered 33 aircraft.

For United Continental, Southwest, and other airlines, this type of deal makes sense. Boeing has one of the widest offerings of jets and can offer incredibly attractive prices given its economies of scale.

Bombardier, meanwhile, is having trouble persuading buyers to purchase its limited line jet plane models, specifically its CSeries line. Even its small amount of existing orders aren’t guaranteed. Recently, one of its largest customers, Republic Airways, filed for bankruptcy. “We expect the market to remain skeptical and believe there is a real risk that the CSeries could be canceled if no orders materialize in the next six months,” said Desjardins analyst Benoit Poirier.

What’s next?

For now, the share price moves almost completely on short-term liquidity concerns. Bombardier has over $6 billion in debt, roughly twice its market cap. Last year, the company went through about $1.8 billion in cash flow. Things became so dire that the Quebec government recently provided a $1 billion bailout investment when the company looked like it would otherwise go bankrupt. Short-term volatility will be dominated by insolvency talks.

Long term, it just doesn’t seem like Bombardier can compete in market where the biggest companies typically win. With nearly no excess cash likely for many years, Bombardier has limited options in further developing its fleet options. The company will likely have to settle for peddling its existing offerings to an uninterested customer base.

Judging by the way customers are fleeing to its competitors’ products, Bombardier simply can’t continue to exist in its current form over the long term.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/09/27
Date Created
2016/03/09
Author
rvanzo