



Bombardier, Inc.: Another Difficult Day for the CSeries

Description

Bombardier, Inc. ([TSX:BBD.B](#)) recently surged on news that **Air Canada** signed a letter of intent to purchase 45 CSeries Jets, but a missed opportunity on another deal has taken some of the wind out of the stock's sails.

Tough market

United Airlines just announced it has ordered an additional 25 planes from **Boeing** in a deal that shattered the hopes that Bombardier would get its foot in the door at the major carrier.

United had openly said it was evaluating the CSeries as a possible option to replace its older fleet of regional aircraft, even after it made an earlier announcement to buy 40 of Boeing's planes.

The missed order is just one more example of the challenge Bombardier faces in trying to win deals for its new jets.

The quality of the aircraft is not in question, but Bombardier is in such a precarious financial situation that it can't afford to drop its price to the point where major airlines are willing to sign up.

Bombardier's larger competitors have much deeper pockets and are capable of taking a margin hit to keep Bombardier out of the game. We don't know if that is what happened on the United deal, but the possibility has to be considered.

Where's the profit?

The CSeries program is not expected to turn a profit until 2020, and that's assuming the company can fill the order book as expected at reasonable prices.

On the surface, the Air Canada deal looks like a great start, but details of the pricing have not been revealed, and a letter of intent doesn't necessarily guarantee that the planes will actually be purchased.

Struggling customers

Bombardier is also at risk of losing orders it has already booked.

Republic Airways filed for bankruptcy shortly after the Air Canada deal was announced, putting 40 firm CSeries orders in limbo.

The planes were ordered back in 2010, and the deal was already up in the air as Republic's CEO told *Bloomberg* in 2014 that it was looking into the possibility of selling its order slots because "there is no place to operate the CSeries" in the company's current business structure.

A report created by aviation consultancy Leeham Co. says up to 108 of the 194 CSeries planes scheduled for delivery between 2016 and 2018 might be delayed or cancelled.

Bombardier has 243 firm orders for the planes.

Funding concerns

The company continues to burn through cash as it battles to get the existing orders built and delivered to customers who can still pay. The first plane is supposed to go into commercial service by the middle of 2016. Investors are crossing their fingers in the hopes that the company will meet the latest target.

Bombardier has already received US\$2.5 billion from the Quebec government and its pension fund and is leaning hard on Prime Minister Trudeau to provide another \$1 billion to help it get through the next couple of years.

Most analysts believe the funding will be provided, but the situation is a hot potato for the prime minister.

Should you buy Bombardier?

The stock remains volatile and the CSeries program still isn't out of the woods. Until the company can prove the new airplanes will be profitable over the long term, investors should probably avoid the name.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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Date

2025/10/01

Date Created

2016/03/10

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