



Bombardier, Inc.: Is the Train Division Going off the Rails?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) is known for having a world-class rail division, but the business is facing some serious challenges.

Big city blues

England has long been a sweet spot for Bombardier's transport group, but a recent report over a botched 2011 contract to upgrade the London Underground's signalling system has investors concerned that the relationship in the country could be going sour.

According to the *Financial Post*, London's city council has criticized Bombardier for "duping" England's capital.

In a report released by the London Assembly's Budget & Performance Committee, Bombardier was scolded for being unable to meet its obligations on the £354 million project. The agreement had to be cancelled in 2013 because the company could not deliver on time or on budget.

The contract has been re-awarded to a French company, but the project will be five years late and nearly £900 million more expensive. London estimates the delay will result in 11 million fewer Underground trips this year and affect up to 1.3 million passengers per day.

Commuters in Toronto are also feeling the effects of Bombardier's struggles.

Last October the Toronto Transit commission (TTC) threatened to sue Bombardier for delays on a streetcar project.

Back in 2009 Bombardier won a contract to supply the TTC with 204 new streetcars. The \$851 million deal was the largest of its kind at the time.

Delays have forced Bombardier to push back delivery dates on the project. When the story broke last fall, Bombardier had only delivered 10 streetcars out of the 67 that should have been in service by that point.

It gets worse

The *Montreal Gazette* reported on March 10 that Bombardier just lost a US\$1.31 billion bid to build rail cars for Chicago. The winner, CSR Sifang America, is a subsidiary of China Railway Rolling Stock Corporation (CRRC). The base order is for 400 cars plus an option for an additional 446 units. CRRC will spend \$40 million to build a local assembly plant with the first cars expected to go into service in 2020.

Bombardier won the last Chicago contract, which was awarded in 2006.

This is the second time in less than two years that Bombardier has lost a big U.S. deal to the Chinese.

In late 2014 Bombardier lost a US\$566 million contract to another CRRC subsidiary in a bid to supply subway cars for Boston's transit system. The deal was the Chinese company's first major win in the United States.

CRRC is constructing a \$60 million plant in Springfield to assemble the new cars for the Boston contract. The first cars are scheduled for delivery in 2018.

If CRRC completes the Chicago and Boston deals without any major hiccups, Bombardier could face some serious challenges in the U.S. market in the coming years.

The bottom line

Bombardier's well-known C-Series problems are reason enough to avoid the stock. If the rail business is headed for trouble too, the road ahead could be a difficult one for Bombardier and its investors.

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1. Investing

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1. Editor's Choice

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1. TSX:BBD.B (Bombardier)

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