



Bombardier, Inc.: A Potential Lifeline for its CSeries Jet

Description

The CSeries jet has been nothing but trouble for **Bombardier, Inc.** ([TSX:BBD.B](#)).

At last summer's Paris Air Show, a major source of customer orders for most jet manufacturers, the company left without a single CSeries order.

Horizon Airlines, the regional arm of Alaska Airlines, recently ordered 30 Embraer E175 aircraft, a direct competitor to Bombardier's CSeries jet. Earlier this year, **United Airlines** agreed to buy 40 small planes from **Boeing**, a \$3.2 billion deal that Bombardier had been vying for. Even some existing orders are in peril; Ilyushin Finance Co., a Russian company, is re-evaluating its order because it's now unable to secure financing due to economic sanctions.

Despite its struggles, Bombardier may have one trick left up its sleeve to revitalize the CSeries jet line.

A larger CS500

When developing the CSeries, Bombardier focused on the 100-150 seat plane segment, believing it would meet new demand for fuel-efficiency jets. That new demand never materialized. Weak interest from customers is especially concerning considering Bombardier will lose \$32 million on each of the first 50 CSeries aircraft it builds, guaranteeing the project will remain a cash drain until at least 2018.

The company could fix lacklustre demand by building larger models that fit more naturally into airlines existing fleets. Bombardier actually lost an order with **Delta Air Lines** last year because it wouldn't build a larger version of the CSeries. British Airways has also asked about a larger version of the plane. Building a +150-seat CSeries jet would allow it to tap a significantly larger market where there seems to be an appetite for the company's fuel-efficient engines.

Not so fast

Before you get excited about new market opportunities, remember that Bombardier has nearly no financial resources to develop additional models.

Last year, it was forced to take a \$1.3 billion bailout from the Quebec government in return for a near-50% stake in the CSeries project. Reports are that it's seeking an additional \$1 billion bailout from the Ottawa government. Even with optimistic assumptions, Bombardier management believes that it requires \$2 billion in additional financing over the next five years to complete the project.

Currently, the firm has \$8.5 billion in debt and only \$2.9 billion in cash.

Even if it does somehow get a larger CS500 version off the ground, it's unlikely it could compete against Airbus Group SE and Boeing. Earlier this year, Boeing gave **United Continental Holdings Inc.** a 75% discount on its 737NG jet, a sign that Bombardier will find stiff resistance in entering the +150-seat market. Airbus and Boeing already have deep relationships with the largest global airlines, and customers typically return to the same manufacturer to keep a consistent, streamlined fleet of similar jets.

Quite simply, Bombardier doesn't have the resources or time to invest in a larger CSeries jet. Even if it somehow did pull it off, extreme levels of competition would crush any chance of profitability.

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Author

rvanzo

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