



Boeing Co Goes to War Against Bombardier, Inc.

Description

This week the *Wall Street Journal* reported that is **Boeing Co** ([NYSE:BA](#)) may develop another version of its new 737 Max single-aisle jetliner to fend off potential competition from **Bombardier, Inc.** ([TSX:BBD.B](#)). The proposed plane would seat around 150 passengers.

Bombardier is already facing a slew of issues ranging from lacklustre demand and crushing debt levels. Last year, it accepted a \$1 billion bailout from the Quebec government, and another \$1 billion bailout now being prepared by the Ottawa government.

With Boeing preparing for war in Bombardier's most lucrative plane segment, can Bombardier hope to survive?

Why now?

When developing its flagship CSeries jet, Bombardier focused on the 100-150 seat plane segment, believing it would meet new demand for fuel-efficient jets. Ample demand never materialized.

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.

To fix the issue, Bombardier management has been mulling the possibility of a new, larger CS500 jet that would compete in the +150-seat segment. This larger model would fit more naturally into airline's 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.

If Bombardier could produce a larger CSeries jet, complete with its exclusive Pratt & Whitney engines (50% quieter and more fuel efficient than most jets), demand would surely materialize.

Demand would materialize, but so would competition

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. If Boeing is serious about developing another version of its new 737 jet to compete directly with a larger Bombardier plane, the market would be flooded with supply, all but ensuring that Bombardier would struggle to turn a profit.

Turning a profit is incredibly important right now. Currently, Bombardier has \$8.5 billion in debt and only \$2.9 billion in cash. Even with optimistic assumptions, company management believes that it requires \$2 billion in additional financing over the next five years to complete the existing CSeries project, not to mention developing future models.

If you were at all excited about a larger CSeries jet saving Bombardier, the latest news out of Boeing should snuff out any optimism left.

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1. Investing

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1. Editor's Choice

TICKERS GLOBAL

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

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