



Bombardier, Inc. Gets a Massive Boost From Delta Airlines Inc.

Description

Bombardier, Inc. ([TSX:BBD.B](#)) and investors of the company finally let out a huge sigh of relief this week.

The embattled manufacturer of planes and trains reported first-quarter results this week, and while nobody was really expecting the company to post a profit, the company did announce possibly the best news the company could have ever expected: a massive order for the company's new CSeries jet.

Delta to the rescue

Delta Air Lines Inc. ([NYSE:DAL](#)) announced this week a firm order for 75 of the new CS100 aircraft from Bombardier with options for an additional 50 planes. Altogether, this represents the largest single deal for the company's new CSeries yet. Delta, in announcing the deal, praised the new planes, touting the interior and potential 20% increase in fuel efficiency the planes have over competitors.

Better still is a clause in the order that would allow Delta to convert the order some of the smaller CS100 models into the larger (and more expensive) CS300 variant at a later date.

The estimated price of the deal, given the list prices for the planes, could be worth nearly \$6 billion, or about \$1 billion more than the market cap of Bombardier. Industry pundits will note, however, that a discounted price for Delta was likely placed into the order, so the total amount will likely be less.

Why this is significant to Bombardier

Besides the obvious magnitude of the order, the order itself is a significant milestone for Bombardier. The company had always hoped for a North American carrier to be a flagship launch partner that would not only promote the plane to other airlines, but serve as a vote of confidence in both Bombardier and the CSeries. It looks like Bombardier found both in Delta.

Over the past two years the CSeries has struggled to garner the 300 orders it wanted to obtain by launch time. Because Bombardier has been plagued with delays and cost overruns, many airlines took a wait-and-see approach. This Delta deal may finally be the impetus for other airlines to jump on board.

The other factor to consider is the price of jet fuel. One of the main advantages of the CSeries is the fuel efficiency of the plane, which is estimated to be better than what the competition offers by up to 20%.

While the CSeries was being developed, this was a major concern with airlines, but that eroded somewhat as fuel prices plummeted over the past few years. With prices slowly creeping back up, the CSeries's primary benefit will start to appeal to other airliners again.

The bottom line for Bombardier and investors

Including this order and **Air Canada's** prior letter of intent, Bombardier now has more than the 300 orders the company wanted. While this order does spell a significant improvement for Bombardier, the stock remains a very risky investment as the company is still in the red, having posted a US\$161 million, or \$0.07 per share, loss for the quarter on revenues of US\$3.14 billion.

That being said, current investors who purchased the stock at a much higher price and have an appetite for risk may want to seek an additional investment in the company. Delta's deal alone is a multi-billion dollar deal, but it could be several years before the results of that deal and others finally lead to increased revenues for the company.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:DAL (Delta Air Lines, Inc.)
2. TSX:BBD.B (Bombardier)

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