



Bombardier, Inc. and JetBlue Airways Corporation: A New Deal?

Description

Last year, **JetBlue Airways Corporation** ([NASDAQ:JBLU](#)) began talks with **Bombardier, Inc.** ([TSX:BBD.B](#)) about placing an order for planes from the company's beleaguered CSeries jet line. After talks broke off a few months ago, analysts wrote it off as yet another failure for Bombardier's struggling aviation division.

Today, reports are being made that JetBlue has resumed talks with Bombardier about a possible order of the plane maker's CSeries aircraft. If an order is finalized, JetBlue would join **Delta Air Lines Inc.** ([NYSE:DAL](#)) and **Air Canada** ([TSX:AC](#))(TSX:AC.B), airlines that also bought CSeries jets in 2016.

Is Bombardier coming back from the dead?

A slew of good news

This year, **Deutsche Lufthansa AG** will become the first carrier to operate the CSeries jet. Mounting orders are starting to ensure a steady backlog over the next few years.

Earlier this year, Air Canada ordered 45 CSeries jets. Last week, Delta agreed to buy at least 75 CSeries in an order valued at up to \$5.6 billion. Deliveries start in 2018. Delta also has options for an additional 50 planes.

Separately, **Chorus Aviation Inc.** (TSX:CHR.B) announced last week that it has signed a firm purchase agreement to acquire five CRJ900 regional jets from Bombardier with purchase rights for five additional aircraft. The 76-seat CRJ900 regional jets will enter service in 2017. Bombardier also completed a \$184 million deal with Trident Jet Ltd. for four CRJ900 aircraft last month.

Demand is starting to trickle in despite a rough 2015. It's no wonder why orders are ramping up now; the CSeries only won certification from Canadian regulators in December.

The jet line, which features exclusive Pratt & Whitney engines, cost 15% less to operate, cut fuel use by 20%, and produce 50% less noise than similarly sized competition. Bombardier's CS100 can seat 108-133 passengers and the CS300 can carry 130-160 travelers.

The company is also considering developing a +150-seat CSeries jet that would allow it to tap a significantly larger market. By building larger models that fit more naturally into airlines existing fleets, Bombardier could see demand surge. Last year, it actually lost a deal with Delta because it didn't have a larger version of the CSeries available. British Airways has also shown interest in a larger version of the plane.

Pump the brakes

There could be another reason for the slew of good news. Perhaps Bombardier is positioning the unit to bargain for better bailout terms. After receiving a \$1 billion bailout from the Quebec government last year, it looks like the Ottawa and federal governments might step in with another \$1 billion cash infusion.

At the time, *Reuters* reported that "the Canadian government has finished studying a request from struggling plane maker Bombardier, Inc. for \$1 billion in aid and is preparing to make an announcement within weeks." Soon after, however, Bombardier turned down a bailout package, balking at the terms.

A future bailout is inevitable however, given that the firm has \$8.5 billion in debt and only \$2.9 billion in cash. Even with optimistic assumptions, Bombardier management believes that it requires \$2 billion in additional financing over the next five years to complete the CSeries project.

Another bailout will go a long way in plugging the financing hole created by the company's money-losing CSeries jet. If a bailout is agreed upon, sources say shareholders could be relieved of the project entirely. **Bank of Nova Scotia** speculated last week that if a bailout is approved, the CSeries jet program will likely be spun out into a separate entity that's split evenly between the company and the two levels of government.

So, good news could merely help Bombardier unload the CSeries project onto the government at better terms. It doesn't take much calculation to see that Bombardier can't continue developing the program even if orders continue to ramp. The company simply doesn't have enough financing to last another few years. Future Bombardier shareholders will likely have no stake in the CSeries project.

CATEGORY

1. Investing

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1. NASDAQ:JBLU (JetBlue Airways Corporation)
2. NYSE:DAL (Delta Air Lines, Inc.)
3. TSX:AC (Air Canada)
4. TSX:BBD.B (Bombardier)
5. TSX:CHR (Chorus Aviation Inc.)

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