



Bombardier, Inc.: What Does an Orderless Farnborough Airshow Mean?

Description

The Farnborough International Airshow concluded without **Bombardier, Inc.** ([TSX:BBD.B](#)) announcing a new CSeries deal.

Whether or not investors should be worried depends on how you interpret the situation.

High expectations

Bombardier cruised into Farnborough looking to add new deals to a string of recent orders for its beleaguered CSeries jets.

Here's a list of the latest wins:

Back in February **Air Canada** signed a letter of intent to purchase 45 CSeries jets. A lingering dispute with the government over maintenance arrangements had some analysts concerned the agreement would collapse, but the two sides worked things out and Air Canada firmed up the order at the end of June.

Delta Air Lines purchased 75 CSeries jets at the end of April in a deal that is arguably the most significant to date. The sale gives Bombardier's new planes a strong credibility boost, but there is a catch to the story. Market watchers speculate Bombardier had to provide an aggressive discount to get Delta to sign up, and that could make negotiations with new buyers very difficult. One *Reuters* article suggests the Delta price could be as much as 75% below the list price on the planes.

Last but not least, **Air Baltic** moved its option for seven CSeries jets to a firm order. That announcement came out in early April.

Investors piled into Bombardier's stock leading up to the Farnborough show, hoping a big announcement would send the share price soaring. Now that the event has concluded without a new deal, should investors be disappointed?

Maybe not.

Margins are important

Bombardier admits to being aggressive in recent months and even booked a US\$500 million provision related to the 127 planes sold in the first half of this year.

With the overall order book now above the initial 300-plane target, Bombardier is under less pressure to sign new deals. This means management can afford to hold a tighter line on the pricing of the planes.

Interested airlines would certainly want to get the same deal as Delta and Air Canada, and I suspect negotiations were quite heated on the sidelines of the Farnborough show. The fact that a new sale wasn't announced could suggest Bombardier is now more focused on selling the planes at a better margin. In the long run, that should be positive for investors.

When the Delta deal was announced, Bombardier said it was still on track for the CSeries to deliver positive cash flow by the end of 2020. Either the discount wasn't as severe as some analysts think, or the company plans to make it up on new orders.

What should investors do?

The market is not penalizing Bombardier for leaving Farnborough empty-handed. In fact, the stock has barely moved. That's a good sign, and the stability suggests investors believe more good news is on the way.

Bombardier still has a debt problem, and some issues on the train side of the business are being ignored right now, so new buyers of the stock should be careful about being too optimistic. However, it looks like Bombardier is finding some support at the current level, and contrarian types who are bullish on the CSeries program could use the stability as an opportunity to pick up the shares before the next deal is announced.

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