



Bombardier, Inc. Gets Another Deal Despite Ongoing Delays

Description

Now that things are looking up for **Bombardier, Inc.** ([TSX:BBD.B](#)) and the CSeries, focus has shifted onto the company's other much-delayed product line: trains.

The company is well known as a manufacturer of subway and light-rail trains used in transit systems around the world. But getting those trains off the assembly line is where Bombardier's current woes come into play.

Bombardier's train delays

Bombardier has a contract with Metrolinx for the delivery of 182 light-rail vehicles. Metrolinx is the transportation agency charged with managing the transportation needs for the Greater Toronto Area and Hamilton.

The city of Toronto is in the midst of a massive multi-billion dollar upgrade to the city's transit infrastructure, and the light-rail transit (LRT) vehicles play a key part in that upgrade.

The \$770 million contract called for new vehicles to be added to the city's fleet in time for the opening of several new LRT lines the city is building, starting with the new Eglinton Crosstown line in 2021. The first of those vehicles was supposed to be delivered in 2014, and Bombardier is now nearly two years late in delivering those first pilot vehicles for testing to the city.

In addition to the contract for the new LRT vehicles, Bombardier had a separate contract with Toronto to replace the aging fleet of streetcars with new high-capacity, low-floor streetcars. That contract, which was signed back in 2009, was a \$1.2 billion deal that called for the replacement of 209 streetcars.

Under the terms of that agreement, Bombardier was set to deliver 73 of the 209 new streetcars by the end of last year. To date, the company has only delivered 22 and—based on the most recent schedule—will deliver 31 by the end of this year.

The continued delay has forced Toronto to keep operating the older fleet well beyond the expected end-of-life date of those vehicles. Even worse, the cost of operating those older vehicles, which require

significantly more maintenance, is set to skyrocket as the city needs to pay \$34 million to retrofit and fix them.

The city is already pursuing a legal claim for \$50 million from Bombardier because of the delays.

Bombardier's new Metrolinx contract

Yes, you read that correctly. Despite all of the delays that Metrolinx and Toronto have with Bombardier, the company announced this week a new \$428 million contract with Metrolinx for the purchase of 125 additional commuter rail cars for GO Transit regional service. The bi-level cars are set to be produced in Thunder Bay starting from 2018 through 2020, and 115 new jobs will be created.

Referencing those delays, Metrolinx stated that both companies are working together to keep the order on schedule and that monthly manufacturing performance updates will be provided from Bombardier for the duration of the project.

This agreement could turn out to be positive for both Metrolinx and Bombardier as each company needs the other to be successful. For Metrolinx, switching to another vendor to manufacture the vehicles will be costly both in terms of price and time, and given the number of transit projects planned, additional orders will more than likely be added over the next few years. For Bombardier, this is an opportunity to improve the scheduling and delivery of vehicles to important customers.

Bombardier's position has definitely improved over the past few months, garnering new deals for the trains and planes that company manufactures. The real test for the company will be whether or not Bombardier can finally deliver the new vehicles on time and secure additional orders. In my opinion, the stock is too risky an investment at the moment, but it's less of a risk than it was a few months ago.

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