



## Bombardier, Inc. Is Losing Momentum

### Description

Since 2016 began, **Bombardier, Inc.** ([TSX:BBD.B](#)) shares have gained 50%. The rise has been fueled by a string of positive news in recent months. The company has finalized its bailout package, received certifications for new plane models, signed firm purchase orders with over a dozen companies for CSeries jets, and won a US\$1.3 billion contract for its rail business.

Its luck, however, may be running out.

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### The bad news is piling up

Earlier this week, we tallied up many of the [positives and negatives](#) that Bombardier is experiencing right now.

The biggest bad news came on September 1 when the company disclosed that it will halt completion work on its Global 5000 and 6000 business jets during certain periods in 2017 amid ongoing softness in the market for corporate planes. Management cited weak demand from China, Latin America, and Russia.

It turns out that other business segments are also seeing some surprising weakness.

On September 6 Bombardier disclosed that it would more than halve its forecasted CSeries jet deliveries. The company cut its CSeries delivery forecast to seven from 15 aircraft, citing engine delivery delays by its supplier Pratt & Whitney. Due to the news, management now expects its 2016 sales figure to be at the lower end of its previously announced range of US\$16.5-17.5 billion.

“We are working very closely with Pratt & Whitney to quickly address this supplier ramp-up issue and to ensure we have a strong supplier base to support our long-term growth objectives,” said Bombardier’s CEO of the situation.

Even the company’s iconic Learjet division is facing struggles. Demand for nearly every class

of business jet has slowed due to global economic weakness.

In the first half of 2016, Bombardier sold just six Learjets—down from 14 a year earlier. The company also ditched plans to develop a new Learjet 85 given the weak sales environment. Bombardier's CEO has lamented that the light business jet market is persistently oversupplied. "We're still working very aggressively to sell this aircraft in a price-sensitive marketplace ... and we're being very careful and prudent about how we do that," he said.

### **Here's the problem**

Nearly every company faces a down-cycle at some point in their operating history. Some companies don't survive, however.

Today, Bombardier has \$9 billion in debt and just \$3.8 billion in cash. That wouldn't be so daunting if the company hadn't burned through \$614 million in operating cash flow and \$649 million in capital expenditures last quarter. The quarter before that, it burned through \$426 million in operating cash flow and \$308 million in capital expenditures.

Many of the company's current ills stem from its weak financial situation. Why enter into long-term, billion-dollar agreements with a supplier that may not exist in a few years, or even months? Investors may be tempted to view some of the latest bad news as one-off situations, but they may simply add to the fears that buyers feel when looking at Bombardier's products.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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