Will Bombardier, Inc. Find Life After the CSeries?

Description

Bombardier, Inc. (TSX:BBD.B) has had a roller coaster of a year.

At some points of 2016, investors started to believe that its once ill-fated CSeries project—which came in years overdue and billions overbudget—could have success in an incredibly competitive aviation market. It received certifications for new plane models, while signing firm purchase orders with over a dozen companies for CSeries jets. Bombardier also finalized its bailout package and won a US$1.3 billion contract for its rail business.

Things were looking up. Then the bad news started to hit.

On September 1, the company decided to 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.

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.

On October 21, it opted to axe 7,500 employees, or 10% of its global workforce.

The macro backdrop is looking incredibly weak. **Honeywell International Inc.** recently cut its 10-year outlook for business jet deliveries, saying it expects plane manufacturers to supply 8,600 new jets valued at $255 billion through 2026, which is down from 9,200 jets worth $270 billion it forecasted last year.

“The downside is that there is still an awful lot of uncertainty and political turmoil in every region, and slow- growth economies. And you also have the uncertainty of the U.S. elections,” said Charles Park, director of market analysis for Honeywell, an aerospace components supplier.

Where does Bombardier go from here?

Despite a weakening aerospace market, Bombardier appears interested in ramping other aviation programs. According to *Reuters*, “Chief Executive Alain Bellemare said he did not know yet whether Bombardier would invest in commercial or business aircraft, but the company is looking at where there are gaps in the market and what competitors are doing.”

“We are going to look at all of our options,” said Bellemare. “We have started the work and the advance analysis.”

How Bombardier plans to afford this still needs to be answered.

The company currently has $29 billion in total liabilities, of which $9 billion is long-term debt. That’s versus a market cap of just $3.9 billion and cash of only $3.8 billion. The company burned through $456 million in operating cash flow and $308 million in capital expenditures last quarter.

Many of the company’s current ills stem from its weak financial situation. Why should customers continue to enter into long-term, billion-dollar agreements with a supplier that may not exist in a few years or even months?

Bombardier management is pitching investors on its long-term future, but the next 12 months remain incredibly difficult. Investing in Bombardier is more of a bet on its survival than the overall health of the aviation market.

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