Bombardier, Inc. Has More Than the Next Delivery Window to Lose

Description

The roller-coaster year that **Bombardier, Inc.** (TSX: BBD.B) has been having continues.

After years of delays, this week Metrolinx issued a formal notice of intent to Bombardier to end the $770 million contract for the construction and delivery of up to 182 light-rail vehicles.

The vehicles were intended to be used on a variety of new transit projects that are underway in and around Toronto. The deal was signed back in 2010, and part of that deal called for Bombardier to deliver a pilot vehicle to Toronto in 2014.

Bombardier has yet to deliver that vehicle and just missed its own revised delivery schedule, which prompted Metrolinx to take appropriate action.

The light-rail vehicles are intended to be used on the new Eglinton crosstown line, which is currently under construction. The line has a hefty price tag of $5.3 billion and is slated to open in 2021.

Same old Bombardier

This recent delay is only the latest in several delays that have plagued the company over the past few years. Bombardier's CSeries jet program was multiple years late and $2 billion over budget by the time it finally got certification, and delivery of existing CSeries orders is going slower than expected.

For Toronto, this is another case of the same old Bombardier. Apart from the Metrolinx contract, Toronto has a contract with Bombardier to refresh the city's fleet of streetcars. That contract is also running considerably behind schedule, leaving the city stuck repairing an aging fleet at a considerable expense. To add to the frustration, Bombardier also just signed yet another $428 million agreement with Metrolinx this past August for commuter rail trains.

For Bombardier, it's business as usual, at least until something changes. The company reiterated its commitment to completing the contract, noting that notices such as the one Metrolinx served are normal for contractual agreements. That being said, concerns are starting to mount over Bombardier's ability to meet delivery dates for these contracts, as the end dates have not shifted despite the continued delays.

That business-as-usual sentiment may be changing, however, as the constant delays are now costing real money for Ontario taxpayers, and the recent string of delays may finally be the catalyst needed to push Bombardier out the door and open up the opportunity for another vendor to complete the myriad of light-rail projects underway around the province.

Where does Bombardier go from here?

Bombardier clearly offers a product that agencies around the world are willing to purchase, but mismanagement within the company on delivery schedules and production does little to alleviate the negative sentiment around the company.

Any attempt by Metrolinx to tear up the existing contract will no doubt come at a considerable taxpayer cost through the courts, which could take years before any compensation could be seen. Toronto may just need to live with yet another bad deal and, hopefully, be more open to selecting other vendors for mass transit vehicles in the future, as Ottawa recently did.

From an investment standpoint, Bombardier remains a risky investment. While Bombardier has improved considerably over the past year, there is still room for improvement before the company can be considered even a fair investment option. At this time, there are far better investments available on the market.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/30
Date Created
2016/11/08
Author
dafxentiou