



Bombardier, Inc.: Could Train Troubles Derail the Turnaround?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) is working hard to getting its beleaguered CSeries program on the path to profitability, but difficulties in the rail division now have investors wondering if the company's recovery could be longer than expected.

Let's take a look at the current situation to see if the stock might be facing some additional headwinds.

Trouble in Toronto

Bombardier signed a \$1.2 billion streetcar deal with the City of Toronto in 2009 for 204 units.

Production issues have resulted in numerous delays, and Bombardier continues to struggle to meet its delivery obligations.

The situation got to the point last fall where the Toronto Transit Commission (TTC) voted to sue Bombardier for the streetcars that had not been delivered.

At the time, about 60 of the streetcars were supposed to be in service, but only 10 had been delivered.

Fast forward one year and the situation hasn't improved significantly.

Toronto had 22 of the new streetcars in service at the end of September, and TTC CEO Andy Byford told TTC commissioners at the time that he was skeptical Bombardier would deliver an additional eight units by the end of the year.

The country's largest city also relies on Bombardier for its light rail transit (LRT) commuter trains that run throughout the GTA.

Earlier this month, Ontario's regional transport agency, Metrolinx, threatened to cancel a \$770 million contract signed in 2010 for 182 Bombardier LRVs to be supplied for its operations in the GTA.

Bombardier has yet to deliver a prototype train for the contract, and production of the rail cars isn't scheduled to begin until 2018.

Despite the difficulties, Metrolinx placed a \$448 million order in August for 125 new commuter cars for the Go Transit operations. The agreement is an extension of a 2014 deal for 65 units.

Bombardier is setting up a new production line to get caught up, but frustration continues to mount in Toronto as doubts persist regarding whether or not the company can meet the current delivery schedules on the streetcars and the LRVs.

U.S. losses

Bombardier lost two key rail contracts in the United States in the past couple of years. Both deals went to state-owned Chinese competitors.

The Chinese significantly underbid Bombardier to get a foothold in the coveted U.S. market, but concerns over Bombardier's ability to meet contract commitments might also have played a factor in the deals for the commuter trains in Boston and Chicago.

If the Chinese manage to produce the rail cars on time, Bombardier could have some serious long-term competition south of the border.

Are the train troubles going to hurt the company's recovery?

Most of the market focus remains on Bombardier's CSeries jet program, which is responsible for the largest part of the company's pain.

In the Q3 2016 earnings report Bombardier said its rail division, Bombardier Transportation, is on track to exceed its 2016 profitability guidance, although the group's revenue is going to be about US\$8 billion, instead of US\$8.5 billion forecast at the beginning of the year.

Ongoing restructuring efforts should make the group more profitable in the coming years.

At some point, the company will get the production issues resolved, and, despite their frustrations, it is unlikely Ontario and Toronto will start giving deals to a competitor.

It would be better for Bombardier to have a rail division that was running smoothly amid the challenges on the aerospace side, but the long-term survival of the business still hinges squarely on the success of the CSeries jet program.

Should you buy?

At this point, I would avoid the stock.

The CSeries program still faces some serious hurdles along its path to profitability, and the train troubles are adding distractions for a management team that is already under severe pressure.

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)

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Author

aswalker

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