



Bombardier, Inc. Looks to Service for Survival

Description

The company just won an eight-year contract to operate and maintain Montreal's commuter rail service worth \$331 million. That's big news for **Bombardier, Inc.** ([TSX:BBD.B](#)), which hasn't had a lot to cheer about in recent months.

Could this move to secure service, maintenance, and operations contracts on rail lines across North America over the past 18 months—which total \$1.4 billion—be the tonic that cures its ills?

Not by a long shot. Here's why.

Bombardier Transportation: Contracts

Contracted Party	Date	Length (Years)	Value
			(Millions)
Agence Métropolitaine de Transport (AMT)	Nov. 22, 2016	8	\$331
Southern California Regional Rail Authority	Oct. 1, 2016	8	\$240
Undisclosed	June 29, 2016	N/A	\$512
Crosslinx Transit Solutions Maintenance General Partnership	July 27, 2015	30	\$403

Source: *Bombardier Transportation website*

First, while I can't confirm the undisclosed contract above is the North County Transit District in San Diego, RFP 24617 went out for bids July 10, 2015, and closed October 9, 2015. It took three separate contracts and brought all together under one seven-year consolidated rail operations and maintenance contract with a three-year possible extension.

I'm going to assume Bombardier won that contract because the June 29, 2016, announcement was the day before the NCTD contracts were to expire.

So, Bombardier has won four contracts varying in length and dollar amounts. It will get \$158 million

annually from the four contracts for seven years, \$85 million for an eighth year, and then \$13.4 million annually over the next 22 years.

Bombardier's transportation segment generated \$8.3 billion in revenue in 2015. The \$158 million in the first of seven years from above represents less than 2% of the segment's overall revenue. That's hardly going to keep the lights on, although \$1.4 billion is better than nothing, I suppose.

Certainly, it makes some sense from a business perspective. Bombardier's rail division understands trains backwards and forwards, and it's the profitable division of the company.

However, if it continues to botch the manufacturing of streetcars for the City of Toronto and light rail vehicles (LRVs) with Metrolinx—Metrolinx has started legal proceedings to cancel its \$770 million contract with Bombardier for purchase of up to 182 LRVs—it seems unlikely that the train division is going to be able to build this into a significant business within Bombardier.

That's especially true when you consider that Bombardier likely only got this contract with the AMT because the Caisse de dépôt et placement du Québec owns 30% of the rail division.

The problems that ail Bombardier have been chronicled ad nauseam by Fool contributors.

Most recently, Andrew Walker [highlighted](#) why Bombardier's train troubles, while optically awkward, aren't what's standing in the way of the company surviving and possibly thriving—that, says Walker, lies in the hands of the CSeries jet program.

And yet, with no good news to release about the CSeries on November 22, it did the next best thing and talked up its latest service and contract, which is the transportation equivalent of bread crumbs.

This latest salvo by Bombardier is nothing but noise. Investors should pay no attention. It's immaterial to Bombardier's survival and not nearly enough to matter.

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Date

2025/08/26

Date Created

2016/11/24

Author
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