



Bombardier, Inc.: Not Worth the Delay

Description

More problems are emerging for **Bombardier, Inc.** ([TSX:BBD.B](#)).

The beleaguered manufacturer of planes and trains is well known for letting due dates lapse for deliveries, but now there are multiple reports of questionable quality issues on some delayed, but delivered, trains.

Montreal's transit authority and Toronto's Transit Commission have both complained about issues on their new fleets which were built by Bombardier.

In the case of Montreal, the new trains built by Bombardier and **Alstom SA** have been pulled out of service after an equipment problem resulted in a complete shutdown of a subway line. So far, Bombardier has delivered just 12 of the proposed 52 trains as part of a \$1.2 billion contract to Montreal's transit authority.

Toronto has attributed some mechanical issues witnessed on the city's new fleet of streetcars to growing pains and is hoping that those issues will subside in time.

Multiple contracts are behind schedule

Bombardier is severely behind schedule on two separate multi-billion dollar contracts to Toronto. The first contract is with the Toronto Transit Commission to replace the city's aging fleet of 204 streetcars with a new model by the end of 2019.

As per the recently revised delivery schedule, Bombardier was set to deliver 30 of the new streetcars to the city by the end of last year and another 40 this year.

Production of the new streetcar started out slowly; despite signing a contract back in 2009 with preset delivery dates, by the end of 2015, only 14 of the scheduled 73 streetcars had been delivered, which prompted Bombardier to boost production at its manufacturing facility.

Late last year, Toronto contemplated suing Bombardier over that delay to recoup costs the city was

forced to absorb, because a number of older vehicles were forced back into service at a significant cost due to a lack of replacement vehicles.

Another Bombardier project in Toronto is faring even worse. The new Eglinton Crosstown LRT line, which is currently under construction and slated to open within the next few years, was to use vehicles built by Bombardier. An initial test vehicle was set to be delivered to Metrolinx in Toronto in 2014 and was only delivered late last year, and concerns are mounting that Bombardier won't be able to build the entire fleet of vehicles on time before the new line opens.

What's going on at Bombardier?

Bombardier's rail unit has a whopping US\$31 billion backlog of orders and has operations in over 60 countries around the world. Despite this world-renowned presence, Bombardier has developed a reputation for late deliveries and cost overruns.

While plans are underway in the rail business to reduce costs and meet delivery deadlines, real progress on the core problems plaguing the company are unlikely to be resolved until the current backlog is cleared and new contracts are signed.

The focus of the turnaround is centred on reducing customizations in new contracts. This will allow Bombardier to realize better economies of scale in manufacturing new vehicles, which could, in theory, lead to a quicker turnaround.

Is Bombardier a good investment?

Love it or loathe it, Bombardier's trains and planes are used in a wide variety of applications. The fact that the company has a backlog of US\$31 billion in orders is a compelling reason to see the potential over the long term; however, the constant delays and cost overruns, not to mention the company continuing to flirt with the Federal government over a capital injection, are also compelling reasons to stay far away.

In my opinion, there are far better options in the market to invest in.

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Date

2025/07/22

Date Created

2017/01/17

Author

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