



Bombardier, Inc. Finally Got Federal Funding: Will it Help?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) finally got some cash from the Federal Government this week after more than a year of negotiations.

A loan with conditions

The loan, which the government stipulated will be repaid, is for \$372.5 million — far less than the US\$1 billion that the Montreal-based company had originally requested last year.

Discussions relating to some form of federal aid between Bombardier and the Federal Government have been on and off for over a year. From Bombardier's perspective, the cash infusion was needed to keep the company open and pay for the thousands of high-quality jobs the company provides after considerable budget overruns and delays in the CSeries project.

Commenting on the fact that the government is providing less than the original request, federal transport minister Marc Garneau noted, "The situation has evolved — evolved in the sense that the Quebec government has since invested and so has the Caisse de Depot."

The minister also noted that since the original request, Bombardier received some fairly large orders from both **Air Canada** and **Delta Air Lines Inc.** and has undergone a significant restructuring of costs.

What are the ramifications of this loan?

From the government's perspective, it is a loan to a Canadian company at the forefront of the aviation industry. The loan supports both that industry and thousands of jobs which would arguably be lost over time without the investment.

To Bombardier, the situation is not as dire as it was last year, but the company sees the cash infusion as a welcome boost that can be applied to other projects that need investment, such as the Global 7000 jet and the ongoing CSeries project.

Bombardier competitor, **Embraer**, has been critical of investments into Bombardier by different levels

of government, noting that Canada would be challenged before the WTO regarding its assistance to Bombardier.

To that end, international trade minister Francois-Philippe Champagne provided a response to Brazil and any other would-be challengers: "I am very much prepared to fight for what we are doing," and in referring to the CSeries, which is at the centre of the dispute, he said, "This is the best plane in its class, so people are finding ways to come after us. We'll find ways to compete successfully."

Does this loan make Bombardier a good investment?

As great and innovative that the CSeries is, Bombardier is still several years from breaking even on the mammoth project; this is not uncommon for airliners this size or larger. The CSeries was also Bombardier's first attempt at making an aircraft of this size, which calls for considerably more resources, time, and logistics.

The 360 CSeries orders that Bombardier has amassed so far will go a long way to improved financials, but that is contingent on three factors that Bombardier has yet to plan for.

First, Bombardier has a track record for missing delivery windows. Airliners, particularly larger ones, require near-perfect delivery windows. Missing those windows could be a logistical nightmare that involves shuffling planes, routes, and inconveniencing passengers. Something like that would be reason enough to cancel a deal and move on to a larger competitor that can handle larger orders quicker.

Second, the manufacturing of large planes is an economies-of-scale game that becomes more efficient over time, driving costs lower. This was key to bringing larger projects by both **Airbus** and **The Boeing Co.** to market, particularly the A380 from Airbus and the 747 from Boeing. Bombardier has yet to mention any manufacturing efficiency that could evolve over time, and while it may be too early, this is something the company needs to consider.

Finally, Bombardier needs to secure more orders and plan for the future. As impressive as 360 orders sounds, that only represents two to three years of manufacturing of what is likely a decade or longer run to breaking even and profitability. The announcement last year of both Air Canada and Delta were critical prerequisites on garnering greater interest from other airlines. Bombardier now needs to make additional deals.

In my opinion, Bombardier remains a risky investment. While the company has improved considerably over the past year, it still does not represent a great long-term growth option.

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