



Time to Get Real on Bombardier, Inc.

Description

If we look strictly at accomplishments, **Bombardier, Inc.** ([TSX:BBD.B](#)) looks like an intriguing investment opportunity. This is a company that went up against the two largest aircraft manufacturers on the planet and managed to carve out a new passenger aircraft segment with the CSeries that neither of the two behemoths catered to or even realized would be viable.

Bombardier is also one of the world's largest manufacturers of transit-focused rail vehicles, making everything from commuter heavy-rail vehicles to streetcars that are used by an overwhelming number of transit authorities across the world.

So, why is Bombardier is constantly viewed in a negative light in terms of investment?

Bombardier has developed a reputation of running over budget and missing delivery windows in the past few years.

Bombardier and Metrolinx

Bombardier has a \$770 million contract with Metrolinx to provide light-rail vehicles for a variety of transit projects that are under construction across the Greater Toronto Area. Chief among those is the new Eglinton Crosstown line that will run along an east-west route through Toronto. Construction has already started on the new route, which is slated to open in 2021.

Under the terms of the agreement, Bombardier was set to provide Metrolinx with a test vehicle back in 2014. After a series of multi-year delays, Bombardier claimed last month that the vehicle was finally ready to be delivered; in fact, the vehicle has been sitting ready and waiting since last October, but Metrolinx has been refusing delivery.

Metrolinx said the vehicle still doesn't run, brake, or operate on a battery for longer than an hour. Recent reports indicate that Metrolinx is now looking for other potential vendors to build the LRT vehicles and a way to exit the contract with Bombardier. A hearing is set for later this month to attempt to resolve a dispute between the two companies.

Bombardier and Toronto

Bombardier has another contract issue with the city of Toronto. In a contract that pre-dates the Metrolinx contract, Bombardier was chosen as the vendor to replace Toronto's aging fleet of streetcars. The billion-dollar contract called for Bombardier to deliver over 200 streetcars to Toronto through 2019.

As per the original agreements, over 100 streetcars were to be delivered to Toronto by this month, but once again, citing multiple delays, Bombardier delivered just 30 vehicles as at the end of last year with a further 40 scheduled by the end of this year, leaving over 130 vehicles to be delivered in the final two years of the contract.

The delays have so far cost Toronto taxpayers millions, as older streetcars were forced back into service at a significant repair cost to fill gaps in service from the yet-to-be-delivered new vehicles.

Where does this leave Bombardier?

As compelling as Bombardier's products are, the company still holds considerable risk for investors and can't really be viewed as a sound investment option, at least yet. Ongoing delivery delays from Bombardier can result in significant ramifications for both rail and aerospace customers that have committed, in some cases, billions of dollars on new equipment, not to mention that these delays could cost Bombardier new contracts as customers begin to look elsewhere.

In my opinion, there are far better options on the market for investors.

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