



Bombardier, Inc. Investors: Be Worried About This Little-Known Chinese Competitor

Description

Bombardier, Inc. ([TSX:BBD.B](#)) has dealt with a myriad of problems over the last few years.

Ultimately, Bombardier's woes come down to three main things.

Let's start with the company's balance sheet. Just a year ago, the consensus seemed to be that Bombardier was destined to restructure itself in bankruptcy. But with the help of an investment from the Quebec government and a sweetheart loan from the Government of Canada, management appears to have enough cash to make it through today's tough times.

Bombardier's execution problems have been well documented as well. The CSeries was riddled with delays, cost overruns, and other problems. An engine even failed during a test flight. As a result, the new plane was years late and came in considerably over budget.

And then there's competition. The CSeries line of regional jets is very similar to the **Boeing** 737 and Airbus A320. They're short-to-medium-range jets that cost a similar amount of money, offer similar amenities, and only have subtle differences between them. Both the Boeing and Airbus models have been around for decades now. Airlines usually have a lot of experience with one or the other.

More competition

Boeing, Airbus, and Brazil's **Embraer** are often listed as Bombardier's chief rivals. In fact, the latter of the three has filed an official complaint with the World Trade Organization over the preferential treatment Bombardier gets from its governments, saying such an advantage is unfair.

There's another competitor out there — one that doesn't get as much attention as it deserves. It's a Chinese state-sponsored plane maker called Comac. It was formed in 2008 in an attempt to break China's dependence on both Bombardier and Airbus.

Comac's first plane was a short-range model that had between 70 and 105 seats depending on the model. The company started delivering planes to customers in late 2015, but progress has been slow.

There have only been a handful of deliveries, but Comac has more than 300 orders for its smaller model.

Comac's larger jet should be of more concern to Bombardier shareholders. The Comac C919 is a twin-engine plane with a single aisle and a short to medium range. It has between 150 and 190 seats. In short, it's very similar to Bombardier's C100 Series.

The Chinese manufacturer has had success convincing local Chinese airlines to order the C919 model. Between firm orders and options to buy more, Comac has 566 total orders. Deliveries are slated to begin sometime in 2018.

Including options, Bombardier is slightly ahead with nearly 600 CSeries orders, but those orders also include the CS300 Series, which is larger than the CS100.

If we look at a list of Bombardier's orders, an interesting pattern emerges. Bombardier doesn't have a single CSeries order from China. The closest it has is a firm order for 10 CS300 models from Korean Air with options for an additional 20 planes. Nearly all of Comac's orders come from Chinese airlines.

In 2012, Bombardier and Comac signed a cooperation agreement. Details are somewhat lacking, but essentially the two companies decided to work together to help bust the Boeing and Airbus duopoly. By working together, the two companies hoped to cut both costs and research time.

The bottom line

China will likely be a huge growth market for aircraft over the next 20 years. By 2022, more than 500 million Chinese will be considered middle class, many of which will be able to afford the luxury of travel for the first time. The domestic Chinese airline market is a pretty safe growth area.

But it's unlikely Bombardier will see much of that growth. If Comac proves to be successful in China, it could become a formidable competitor down the line. The last thing Bombardier needs is more competition.

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