



Could Bombardier, Inc. Be Worth Your Consideration?

Description

Since reaching a high of \$2.75 per share, **Bombardier, Inc.** ([TSX:BBD.B](#)) has dropped by nearly 25%. Investors now have to consider if this is an appropriate price to start acquiring shares. And, if it is a good price, is the company worth consideration?

For context, Bombardier used to be an amazing investment. Its rail division was second to none, and it was Canada's crown jewel of manufacturing companies. Unfortunately, the CSeries project ran into multi-year delays and was more than \$2 billion over budget, putting the company in seriously dire straits.

But this was Bombardier's first attempt at making a larger class of aircraft. It believed, due to the aircraft design, that customers would buy the plane because it was efficient. In sales material, Bombardier wrote, "the result is two aircraft [CS100 and CS300] that deliver a 15% cash operating cost advantage and a 20% fuel burn advantage." For airlines that want to boost margins, using the CSeries makes sense.

And airlines are realizing this.

Delta Air Lines Inc. ordered 75 CSeries planes, realizing that it could knock out regional airlines in the United States by offering a "widebody feel on a narrowbody," as the CEO of Delta said. Bombardier sold these planes to Delta for US\$5.6 billion, so it's unlikely that there is much profit for Bombardier in the planes, but it was an emotional win.

Air Canada supported its fellow Canadian company and finalized a firm order for 45 CS300 with the option to buy an additional 30. While the price hasn't been disclosed, it's likely that this was also a deal of show rather than true profit.

And finally, Swiss International Air Lines, Bombardier's launch partner, announced that it was upgrading from the CS100 to the CS300.

So, Bombardier received a lot of exciting news, but there remain uncertainties about the company. Primarily, its rail division is following in the plane division's footsteps by being late with orders.

Bombardier has a \$770 million contract with Metrolinx for a variety of projects; the biggest is the Eglinton Crosstown line that will open in 2021. It needed a test vehicle back in 2014, but Bombardier couldn't deliver, and only now is the test vehicle ready. Metrolinx is looking for new vendors because the test vehicle doesn't function correctly.

Another major problem for Bombardier is with the city of Toronto, which chose Bombardier to replace the city's streetcars. All told, it was supposed to deliver 200 streetcars by 2019 with the first 100 by this month. At the end of 2016, it had delivered 30. Bombardier expects to deliver another 40 by the end of 2017. This has forced Toronto to use its older cars, which has cost the city more money.

Bombardier is an exciting company that is looking to make itself great with the CSeries. Unfortunately, it is sitting on contracts in the rail division that it risks losing because it can't deliver on time. Management needs to get these projects moving or the company will experience even more pain. I remain on the side when it comes to Bombardier.

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Date

2025/09/30

Date Created

2017/03/31

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