



Why Bombardier Inc.'s Metrolinx Contract is so Important

Description

The Ontario Superior Court last week saved **Bombardier Inc.** ([TSX:BBD.B](#)) from a massive embarrassment, and more importantly, prevented Metrolinx from moving forward to terminate a \$770 million contract with the beleaguered manufacturer of trains and planes.

Metrolinx is just one of several transit authorities that have contracted Bombardier to build a fleet of transit vehicles as part of a massive upgrade to transit across the Toronto area. Metrolinx's contract called for Bombardier to provide over 180 light-rail vehicles to Metrolinx in time for the opening of several new transit lines in Toronto.

Delays in delivering to Metrolinx and others

As per the contract, Bombardier was set to deliver a test vehicle for the new line in 2014. That deadline was updated and missed several times in the past few years. While Bombardier finally claimed earlier this year the vehicle was ready, Metrolinx refused the delivery citing that the vehicle was stationary, had no brakes, and could not operate on battery power longer than an hour – hardly test ready.

That prompted Metrolinx to start looking at other vendors who could meet the needs of the contract and deliver the vehicles on time, and thereby avoiding the potential of spending billions on ripping up roads right across Toronto and placing track, building stations, and installing signals, only to have no trains to run the new line.

Metrolinx isn't alone in this regard; the Toronto Transit Commission (TTC) has a contract with Bombardier that pre-dates the Metrolinx contract to replace the city's aging fleet of streetcars. That contract is much larger – over 200 streetcars were required, with a total cost in the billions. As per that contract, Bombardier was to have delivered 100 of the new streetcars by last month, but only 30 vehicles were delivered by the close of last year.

Bombardier adjusted that schedule, citing delays and committed to delivering 40 streetcars this year, and 130 cars over the following two years.

What's next for Bombardier?

The ruling by the court for an interlocutory injunction on Metrolinx will prevent the company from canceling the contract with Bombardier, at least until a dispute resolution process can be set in place that will reveal whether there was, in fact, a "material default" of the contract on Bombardier's behalf.

This decision buys Bombardier time, but not much. If the contract were to be terminated, the loss would be a massive one for Bombardier, and not just from the perspective of the lost revenue from this contract. It could cast doubt on other projects such as the TTC streetcar contract, or other projects in the province that are in the pipeline across all of Bombardier's Light-Rail Vehicle segment.

Is it time to consider investing in Bombardier?

Bombardier has no shortage of lucrative contracts across both the rail and air segments. In fact, were it not for the company's history of missing deliveries and current weakened financial state, Bombardier would be considered a great buy.

While Bombardier has improved considerably over the past year, there are still some concerns that in my opinion make the company a little too risky of an investment. Perhaps if the company can make good on both rail contracts with the TTC and Metrolinx then investor confidence will be somewhat restored. Until then, there are far better investments on the market to consider.

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