



Is it Time to Hit the Panic Button at Bombardier, Inc.?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) has been in the news quite a bit of late, and not necessarily in a good way.

The company's largest institutional investors recently launched a very [noisy campaign](#) against a compensation plan for the company's senior management team, pressuring the board chair Pierre Beaudoin to cede his executive chairman title in the company's most recent annual general meeting on Thursday, though he will still maintain a leadership position on the board.

While the executive compensation plan was approved on Thursday, the company's management team was also pressured to restructure its compensation plan to make the majority of the bonuses proposed come into effect in 2020 and beyond only if the company's financial performance improves.

Arguments can be made that Canada's largest transportation manufacturer has done a good job of placating concerns among some of the company's largest investors; however, it appears that others in the industry have begun to lose faith in the ability of Bombardier to effectively deliver results.

On Friday, Metrolinx, the provincial authority in charge of transit planning for the Greater Toronto Area, announced that it has secured a deal with French train maker **Alstom** for 61 trains at a price of \$8.7 million per train — more than double the amount agreed to be paid to Bombardier per train — as an effective back-up plan should Bombardier not be able to deliver on its contract upon its completion date of 2021.

While the current \$770 million contract has not been cancelled by Metrolinx, the company noted that its dispute with Bombardier over the fulfillment of its contract, which is now in a dispute-resolution process, may delay the delivery of Bombardier trains further, prompting the back-up contract with Alstom.

Metrolinx had previously sought to cancel the contract for the trains, which was denied by the courts; Bombardier won an injunction in mid-April to block the cancellation of the contract.

Metrolinx has contended in its bid to cancel the contract that Bombardier had not met its fulfillment

obligations in providing the first pilot trains to the Toronto authority by spring of 2015, filing a notice of default against Bombardier in July followed by a notice of intent to terminate the deal.

Bombardier has argued that it will be able to provide the 182 cars ordered on schedule and has publicly called the attempts made by Metrolinx to cancel the contract and seek an outside contract for trains as a negotiating tactic.

Bottom line

Bombardier's track record of execution of late has not been impressive. With the company forced to make massive write-downs on its CSeries planes over the past years due to continued delays in the production of its highly touted line of airplanes, the recent spat with Metrolinx does little to inspire confidence among shareholders and potential investors.

The company is making steps forward; however, a lot more will be expected from Bombardier by its stakeholders to change the perception of the company.

Stay Foolish, my friends.

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