



What's Wrong With Bombardier, Inc.'s CSeries Program?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) has had its hands full of late fending off an attack from American rival airplane manufacturer **Boeing Co.** ([NYSE:BA](#)) over unfair pricing relating to an order from **Delta Airlines** ([NYSE:DAL](#)) of 75 CSeries jets earlier this year. Boeing has accused Bombardier of selling these airplanes below cost to the detriment of Boeing and other American airplane manufacturers and, as such, has petitioned the U.S. Department of Commerce for antidumping or countervailing duties on airplanes sold by Bombardier to even the playing field.

With the Trump administration and the U.S. Department of Commerce recently approving both [countervailing and antidumping duties](#) on Canadian softwood lumber, it appears that Boeing's petitions may be heard, and Bombardier is bracing itself for a protracted fight with a rival that is more than 22 times times larger than the small Canadian transportation manufacturer.

Bombardier has vehemently denied the accusations that it has sold its CSeries airplanes at a purported price of less than \$20 million when the cost to manufacture the airplane has been estimated to be north of \$33 million. What is clear, however, following the recent Air Show in Paris, is that Bombardier has had difficulty selling its CSeries planes. The company was unable to secure any orders for CSeries jets at the show, despite booking a decent amount of business on other airplanes this past month.

If Bombardier is losing money on its CSeries planes (which is hard to determine, although the company has taken losses on its Commercial Aircraft segment for some time), it is clear that the company's Commercial Aircraft segment cannot sustainably continue to operate at an EBIT margin of -10.4% forever. While Bombardier management asserts that the company will begin ramping up production during the second half of 2017, it is hard to believe anything management says, as Bombardier has had problems meeting delivery deadlines for years on its CSeries program, and I find any meaningful ramp up of deliveries during the latter half of 2017 unlikely.

Bottom line

For Bombardier's CSeries program to become profitable again, the airplane manufacturer will need to

ramp up its order base as well as its production schedules to begin to build its small- to mid-range aircraft niche. The fact that Bombardier has not built an order base much higher in magnitude is worrisome, as evidenced by the company's poor showing at the Paris Air Show with respect to its CSeries program.

Stay Foolish, my friends.

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