



Did Bombardier, Inc. Really Ship Unfinished Streetcars to Toronto?

Description

The story unfolding around **Bombardier, Inc.** ([TSX:BBD.B](#)) attempting to complete a multi-billion-dollar contract with the Toronto Transit Commission (TTC) is turning into the makings of a Hollywood blockbuster.

The story so far

The initial contract, which was priced at over \$1 billion, was signed in 2009; Toronto would receive a total of 204 new streetcars by the end of 2019. Bombardier repeatedly missed delivery deadlines for those streetcars, blaming everything from faulty parts from a Mexican supplier, ongoing labour issues, and even the complexity of the streetcars themselves.

Last year, TTC CEO Andy Byford commented on the perennially late streetcar deliveries: “They’ve delayed, delayed, delayed, but the end date doesn’t shift.” He even went as far as to suggest that subsequent vehicle orders would be opened to other vendors to bid on.

Bombardier has since stated its intent to set up a second production line to meet the now aggressive delivery schedule. For Toronto, the delays hit the point of action last year as the TTC voted in favour of suing Bombardier over those ongoing delays, which were costing the city money. As the delays turned from weeks into months, Toronto was forced to keep older streetcars running. Many of those older vehicles required extensive repairs and upgrades, leaving taxpayers to foot the bill over what was largely Bombardier’s tardiness.

As of the turn of this year, the original schedule called for Bombardier to have delivered 100 of the 204-car fleet to Toronto, yet as of this month, Bombardier has only delivered and put into service 41 of the 204 streetcars, leaving a window of just over two years to deliver over 150 streetcars.

Bombardier’s unfinished business

To meet Bombardier’s end-of-year delivery target for last year, Bombardier was forced to ship four unfinished vehicles to the TTC. Bombardier noted that the vehicles lacked only some “cosmetic items,” and Bombardier staff completed the assembly of the vehicles onsite in Toronto, and that it still

managed to meet the end-of-year deadline. At no point was the safety of the vehicles or testing expedited to meet that date.

From the TTC's perspective, they just want the new vehicles promised in the contract on Toronto's roads. If that means doing assembly in Toronto to save time, it's an option that the commission is willing to explore, as well as any other "creative solutions" that Bombardier can offer.

As for the next delivery target, Bombardier has a target to deliver 70 vehicles by the end of 2017. Bombardier has already stated there could be an "issue" in meeting that delivery, running over by mere days.

What does this mean for Bombardier as an investment?

I really want to like Bombardier. The new streetcars are impressive, and the C Series jet from the company's aerospace division is leaps and bounds ahead of the competition. There is a lot of potential from the company to continue to be a shining example of Canadian manufacturing.

Here's the problem though.

Bombardier, as a manufacturer of both planes and trains, arguably has a fiduciary duty to meet contracted delivery schedules and account for delays, issues, and really anything else that could arise.

Bombardier's clients are counting on it to have those very expensive vehicles in working condition according to the agreed upon schedule lest they are stuck with an expensive repair bill as the TTC was, or, worse, without any equipment at all to serve their customers. By setting a too-aggressive timeline, Bombardier is setting itself up for failure and minimizing the possibility of obtaining further contracts.

In other words, it's better to under-promise and over-deliver, rather than over-promise and under-deliver. Until Bombardier's manufacturing and scheduling process can understand that, the company will, in my opinion, be a risky investment option that is best avoided for now.

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