



Why Bombardier, Inc. Just Sold Off a Majority Stake of the CSeries

Description

Another salvo in the war between **Bombardier, Inc.** ([TSX:BBD.B](#)) and **Boeing Co.** ([NYSE:BA](#)) has been fired, and it's something that nobody expected.

Bombardier announced this week that the company has sold off a majority stake of the CSeries business to Airbus, the European aerospace giant which also happens to be the primary competitor to Boeing.

The deal is likely in response to the nearly 300% in duties that the Department of Commerce has levied on Bombardier's CSeries due to a complaint made by Boeing.

Ironically, Boeing doesn't even offer a competing jet within the same passenger segment.

As part of the deal, none of the partners in the CSeries business will assume any debt, and there's also no cash contribution being asked of any of the partners privy to the deal.

As surprising as the deal may sound, this isn't the first time that Airbus and Bombardier have talked about working together on the CSeries. Back in 2015, Bombardier had approached Airbus about working together on the project, but Airbus rejected the idea.

Airbus and Bombardier are both winners

The deal with Airbus could potentially allow Bombardier to continue to sell the CSeries within the U.S. market without the crippling duties that the Commerce Department recently imposed on Bombardier.

Airbus has a facility located in Alabama that will be set up as the second assembly line for the CSeries, and as the CSeries will now be produced within the U.S., the CSeries would no longer be subject to those crippling duties.

The deal allows Bombardier to continue to bring the CSeries to market, and will likely result in additional orders coming through now that the weight of Airbus is behind Bombardier and a second manufacturing line is set to open.

Industry pundits have long expressed the view that airlines have been taking a wait-and-see approach towards committing to the CSeries because of a lack of confidence that the jet would survive over the long haul, particularly in light of the recent dispute with Boeing.

Bombardier CEO Alain Bellemare alluded to this concern, noting that Airbus's value as a partner in the CSeries "increases confidence that the aircraft is here to stay," and that "by securing the U.S. market, you end up securing the program."

For Airbus, the CSeries deal is like winning the lottery. The closest jet the European company can rival the CSeries with is the A320, which holds 180 passengers, and for which the company hasn't received any new orders in three years.

By way of comparison, the CSeries targets the lucrative and underserved 100-150 passenger segment and is significantly quieter and more fuel efficient than anything on offer from either Boeing or Airbus.

What does this mean for Bombardier?

Under the terms of the agreement, Airbus is going to acquire a 50.01% interest in the CSeries Aircraft Limited Partnership, which is charged with both selling and manufacturing the plane. The Quebec government, under the terms of its own investment with Bombardier, already owns 19% of the venture, which leaves Bombardier itself with just 31%.

As an investment opportunity, this latest deal does little to alleviate concerns over the long-term feasibility of investing in Bombardier, which, in my opinion, remains a risky investment. There are far better options on the market to consider.

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