



Why the Airbus Deal Doesn't Make Bombardier, Inc. a Better Investment

Description

Investors can sometimes have short memories, and good news can often cloud investment decisions. It's for this reason that you often will see a company's share price have a big increase on a day with good news followed by a correction in the days after, and vice versa when bad news hits. **Bombardier, Inc.** ([TSX:BBD.B](#)) is the latest example of this with its stock soaring over 20% on the day it was announced that the company would be partnering with the European giant Airbus to produce its CSeries jets.

U.S.-produced jets will avoid tariffs

The announcement is promising, because recently Bombardier was notified that it would see duties near 300% on its aircraft after a complaint by **Boeing Co** alleged that the Canadian manufacturer was unfairly subsidized and able to sell its aircraft below cost. Under the agreement, Airbus will have a controlling interest in Bombardier's CSeries jets in return for nothing. The main advantage for Bombardier is being able to move the production of its jets to the U.S. at Airbus's Alabama location, which will likely avoid the hefty tariffs that otherwise would have been imposed on the aircraft.

Not a convincing deal for Bombardier

The deal for the CSeries jets also gives Airbus call rights in 7.5 years to purchase the remaining stake of the jet business "at fair market value." While this partnership has made Boeing effectively shoot itself in the foot by strengthening its competition, the deal for Bombardier doesn't seem all that great either. Although the company will benefit from greater efficiency, lower costs, and more potential growth, half of that benefit will now flow through to Airbus with Bombardier already footing a large bill for the development of the jets.

Did Bombardier panic?

Bombardier claims the move was done for strategic purposes and not in response to the duties imposed on the company. However, the fact that Bombardier gets no money for the deal and gives away half of the CSeries business makes that hard to believe. Bombardier was in a position of weakness facing heavy duties and may have simply taken what was available. It is hard to see this

deal as being a win for Bombardier, and it's a little questionable from an ethics standpoint, given the help the company has received from the provincial and federal governments, to now move jobs south of the border.

Further proof of the company's incompetence

To have almost \$9 billion in debt, having taken money from the government, and to not get any money for this sale is irresponsible and downright incompetent. However, this is not new territory for Bombardier. After all, this is the company that lost a US\$3.2 billion project with the New York Metropolitan Transportation Authority just because of its horrible delivery and poor reputation. Metrolinx, the provincial transit authority in Ontario, also tried to get out of a contract with Bombardier because of quality concerns.

Sadly, this poor "deal" is just another sign of the company's poor management of assets, and investors should not be tricked into thinking this will make Bombardier a good investment.

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