



Bombardier, Inc. Gets 2nd CSeries Order: What's Next?

Description

When **Bombardier, Inc.** ([TSX:BBD.B](#)) completed a deal with Airbus SE that put the European behemoth in control of the [CSeries program](#), industry pundits expected that activity around the CSeries to pick up eventually.

Bombardier's ongoing trade spat with **Boeing Co.** resulted in the U.S. Department of Commerce applying a 300% tariff on the CSeries, which is what led both Bombardier and Airbus to ink their current deal.

The deal with Airbus put to rest concerns that many airlines had with Bombardier, particularly with respect to production, financing, and marketing. The deal also allows Bombardier to sidestep the tariff issue, by utilizing Airbus's production facility in Mobile, Alabama, to assemble CSeries aircraft targeted for use by U.S.-based carriers, such as **Delta Air Lines Inc.**

Prior to the Airbus agreement, many airlines had expressed an interest in the CSeries but had preferred to take a wait-and-see approach, especially considering the significant delays Bombardier had in bringing the plane to the market.

While industry experts agreed that the Airbus deal would be good for Bombardier and would result in new deals for the CSeries, few would have expected Bombardier to ink two deals for the CSeries in such a short amount of time, but that's exactly what has happened.

Shortly after signing the agreement with Airbus, Bombardier announced a [CSeries deal](#) with an unnamed major European carrier for 30 CSeries jets reportedly worth as much as \$2.4 billion.

This week a second deal was reached with EgyptAir Airlines Co.

Bombardier's newest deal

Bombardier's latest deal announced at the Dubai Airshow this week comes less than a month after the Airbus deal. EgyptAir provided a letter of intent to purchase 12 of the larger CS300 aircraft from Bombardier, with plans to convert that letter into a firm order before the end of the year.

Beyond the initial 12 CS300 aircraft, EgyptAir has options for an additional 12 aircraft, bringing the total up to 24 and bringing the size of this latest deal, excluding discounts, to US\$1.1 billion.

The larger CS300 is already in operation by two European carriers, who have claimed on more than one occasion that the aircraft is exceeding expectations for passengers and crew and that it is turning out to be even more fuel efficient than expected.

Why the CSeries program really matters to the industry

When Bombardier began development on the CSeries program, fuel costs were significantly higher and efficiency was top of mind — not an afterthought. At that time, Bombardier's main competitors sought to address the issue by adding winglets, reducing overall aircraft weight and looking at other "small wins" on existing aircraft that were already a generation behind the CSeries.

The CSeries is also significantly smaller than anything offered by the competition, which is another key point. Smaller aircraft provide an opportunity for airlines to enter secondary markets that larger aircraft, such as those on offer from Boeing, cannot fly into or are economically not feasible as a route due to their higher costs.

Is Bombardier a good investment?

Bombardier's deal with Airbus has raised investor confidence in the company, which is good. The company has potential to grow into a viable investment option, but that is largely contingent on Bombardier being able to meet delivery schedules for the CSeries and finally closing the dispute with Boeing, so that the Delta deal can finally commence.

Until then, I'll be watching Bombardier from the sidelines and looking at less risky investments that offer better returns.

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