



Bombardier, Inc. (TSX:BBD.B) Rallies on New A220 Order: Time to Buy?

Description

A new order for 60 of the former CSeries jets is driving additional demand for **Bombardier, Inc.** ([TSX:BBD.B](#)) shares. In fact, the stock price is testing a new multi-year high.

What's going on?

JetBlue just announced it has agreed to purchase 60 A220-300 jets from Airbus SE. The timing was well crafted on the part of the European plane maker and the U.S.-based carrier, as Airbus revealed the re-branded jets a few hours before the JetBlue news.

Airbus took control of Bombardier's CSeries business at the start of July and recently re-named the plane A220 as part of its inclusion in the broader Airbus fleet. JetBlue will use the planes to replace 60 **Embraer** E190 jets it currently operates.

Bittersweet for Bombardier

Bombardier's extended troubles getting the CSeries planes through development and into production are well known to investors, and signing over a 50.1% stake in the program to Airbus was the best option the company had to protect more than 2,000 Quebec-based jobs.

Bombardier now owns about 34% of the company that builds the planes. Quebec owns about 16% after providing a US\$1 billion lifeline to the project in recent years.

Airbus plans to keep the headquarters and bulk of the A220 manufacturing in Quebec, but planes will also be built at a new facility in Alabama beginning in 2020. The U.S. assembly plant will likely produce the planes for JetBlue as well as the previous **Delta Air Lines** order.

Rising [oil](#) prices should help boost demand for the fuel-efficient A220 planes, and under Airbus, the A220 should reach its full potential in the global market. The JetBlue deal shows the company is serious about winning major orders as it plans to ramp up its battle with **Boeing**, which recently took a majority stake in Embraer's commercial aircraft business that builds the smaller jets.

Off the rails

Investors should be careful chasing the stock today. New A220 deals are certainly good news for the company, but Airbus now derives the largest benefit.

Focus should turn to Bombardier's rail division, which continues to struggle with production delays and quality control issues. The company recently announced it will recall most of the streetcars it had shipped to Toronto to fix welding problems.

Deliveries on the TTC order are already behind schedule and the current manufacturing issue could make it difficult to win new business with the city, which needs an additional 60 units on top of the 204 already included in the current deal.

Internationally, Bombardier is facing tough competition from China in the rail segment. Boston and Chicago both chose a Chinese competitor over Bombardier in recent years for major rail transit deals. The U.S. market has historically been very important for Bombardier, and if the Chinese deliver as promised on those contracts, Bombardier could face challenges winning new business in the U.S. market in coming years.

Should you buy?

Bombardier's stock price has soared from below \$1 in early 2016 to \$5.50. More gains could certainly be on the way, especially if additional A220 orders are announced in the coming months. However, investor attention could soon switch to the rail division's troubles, and there is a risk of a pullback from current levels, given the extent of the stock's rebound. As such, I would look for other [opportunities](#) today.

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Author
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