



## Will Bombardier, Inc's (TSX:BBD.B) Global 7500 Jet Send the Stock Higher?

### Description

**Bombardier** ([TSX:BBD.B](#)) achieved an important milestone earlier this month, when its Global 7500 business jet received regulatory approval from the U.S. Federal Aviation Administration. This is big news for a company that's trying to get back on its feet after a previous jet project, the CSeries, caused significant losses.

The Global 7500 could potentially be a big winner for Bombardier, as tests have shown that it can fly 7,700 nautical miles without refueling — further than any other business jet. But will it be enough to turn Bombardier's fortunes around and make its stock a buy?

First, we need to look at why Bombardier stock has been hit so hard in the past few years.

### What's at stake

Bombardier struggling throughout this decade, but especially since 2015 when the company's CSeries jet first went into service. The CSeries's origins date all the way back to 2004, when a feasibility study was done to assess the potential for a narrow body, twin engine, medium-range jet aircraft. The project was approved, its costs estimated at \$2.1 billion, and Bombardier was given some \$700 million in [government loans](#) toward that price tag.

The problem is, the project wound up costing a lot more than \$2.1 billion. By 2009, the cost was re-estimated at \$3.5 billion, and by 2015, that grew to \$5.4 billion. At the same time, total lifetime sales for the project were slashed from \$250 billion to \$125 billion. As a result, the company started losing money on the project and wound up selling about half of it to Airbus. The Airbus sale helped Bombardier remain solvent, but the company's expenses continue and it keeps losing money.

As of this month, Bombardier has an ambitious plan to turn return to profitability and growth, which includes shedding some [5,000 jobs](#). The Global 7500 is part of this plan. But will it help?

## Potential sales

If Global 7500 sales are strong, they may help Bombardier get past a dark chapter in its history. The jet will sell for \$70 million, and Bombardier claims that it has an order backlog of 200 units for the Global Series, of which the “majority” are 7500s. The company has yet to release exactly how many that “majority” is, but figuring ultra-conservatively at 101 units, we get \$7.07 billion in revenue — not too shabby.

## Earnings

The big question is how much actual profit Bombardier can make from the Global 7500. Here we’re entering really speculative territory, but going with the aerospace industry’s average gross margin of 24%, we’d end up with something like \$16 million in gross profit per airplane, or \$1.6 billion for an order queue of 101 aircraft. This would definitely get Bombardier on track toward hitting its earnings targets.

The million-dollar question, of course, is whether it’s enough to offset the company’s continuing expenses from the CSeries (which it still owns a minority stake in). It’s too early to tell if it will, but for now it looks like the next five years at Bombardier will be rosier than the previous five.

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