



Uh Oh! The Bombardier (TSX:BBD.B) Situation Got Even Worse!

Description

Bombardier's ([TSX:BBD.B](#)) transformation from iconic plane and train company to [empire in decline](#) has been one of the saddest Canadian business stories of the past 20 years. Following numerous setbacks, including order cancellations, and the CSeries jet fiasco, the company's stock went into a free fall that it hasn't recovered from. In recent years, Bombardier has followed a strategy that could be called "defensive," to put it nicely, focused mainly on selling business units and cost cutting.

For many investors, the hope that this once-beloved company would turn it around has never completely evaporated. Despite the warning signs, there has always been a desire to see a formerly innovative Canadian firm return to its past glory. Unfortunately, the chances of that happening got even slimmer following a major order cancellation that could tarnish the company's reputation.

A major German buyer is refusing to buy Bombardier's trains

On Tuesday, *Reuters* reported that German Railway operator **Deutsche Bahn** had refused to buy 25 trains from Bombardier, citing technical defects. The trains' operating systems reportedly took too long to boot up and were prone to crashing, leading to safety concerns. Not only is the company refusing to accept the trains, it is also considering taking legal action against Bombardier.

\$444 million in revenue could be lost

The Deutsche Bahn train order was reportedly worth \$444 million. If the order is cancelled, it will be a major loss to Bombardier, which is already struggling to be profitable. Add potential legal costs on top of that, and Bombardier could have a major problem on its hands. In Q3, Bombardier lost \$91 million — down from a \$149 million profit in the same quarter a year before. For a company with profits and losses in that range, \$444 million in lost revenue can make a huge difference, potentially making or breaking a quarter or even an entire fiscal year.

A reputation hit

Despite all of the above, the really big risk to Bombardier in all of this is the hit to its reputation. Major corporate train buyers depend on their suppliers to provide safe, efficient, properly functioning vehicles. Word that Deutsche Bahn cancelled its Bombardier train order will get around, and when it does, it could lead to cancellations from other buyers. Particularly troubling are the reasons for Deutsche Bahn's reported cancellation. A malfunctioning operating system is a huge safety risk, one that manufacturers can't afford to take in an environment where passenger safety is a major concern.

Foolish takeaway

Since 2002, Bombardier has been one of the worst-performing long-term TSX stocks. This year, the company's woes look set to continue. Faced with order cancellations and [earnings forecast cuts](#), the company is still struggling. Whether the stock will continue the fall isn't even the question. The question is whether this company will still exist in five years.

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