



It was a Year of Delays for Bombardier

Description

Starting with a seven-passenger snowmobile first made commercially available in 1937, **Bombardier Inc.** ([TSX: BBD.B](#)) has grown into one of the premier manufacturers of aircraft and providers of rail solutions in the world. The company would continue in the snowmobile business eventually launching the renowned Ski-Doo in 1959 until the recreation products division was sold in 2003. Prior to the sale, the company entered the rail industry in 1971 with the acquisition of Lohnerwerke based in Vienna, Austria. Approximately 15 years later, the company made its first entry into the aerospace industry through the acquisition of Canadair in 1986.

Now that you have had a quick history lesson on the beginning and transformation of Bombardier, let's take a closer look at the more recent history – specifically 2013.

The numbers

2013 was a decent year for the company, but far from spectacular. The first quarter kicked things off with revenues coming in at \$4.3 billion which eclipsed those of the prior year by 23%. However, adjusted earnings per share were flat at \$0.08 per share. The second quarter was similar seeing an 8% increase in revenues and again earnings per share flat year-over-year at \$0.09 per share. The most recently reported quarter turned investors against the company as both revenues and earnings missed on the expectations of the analysts. Earnings were a penny shy at \$0.09 per share and revenues fell short by nearly \$500 million. EBIT as a percentage of revenue was also squeezed, falling to 5.2% from 5.7%.

The company is now closing on its fourth quarter in which analysts expect earnings per share of approximately \$0.11 per share on revenues of \$5.1 billion. During the fourth quarter, the company finally received the necessary certification on its new Learjet 70/75 paving the way for deliveries to begin which may help support expectations. Deliveries were initially expected sometime in early 2013, but the company pushed back certification due to issues with Garmin's G5000 flight deck.

Aerospace

Early in 2013, management professed the year would be a turning point for the company primarily due

to new developments within its aerospace unit. Unfortunately, the year was filled with delays and disappointment. As noted earlier, initial deliveries of the Learjet 70/75 aircraft were expected to begin prior to midyear, but were delayed until the fourth quarter of 2013.

The new Learjet 85 which was scheduled to begin delivery in late 2013 was pushed back until the summer of 2014. The Learjet 85 is an all-composite aircraft which has presented its share of technological challenges. Once delivered, the company boasts the Learjet 85 will be the largest, fastest and most capable Learjet ever with a target high-speed cruise of Mach 0.82 and a transcontinental range of approximately 3,000 nautical miles.

While the delays associated with the new Learjet models were disappointing, it is the new CSeries that many believe could have given investors' confidence that 2013 was in fact going to be a turning point. The CSeries will allow Bombardier to compete directly with Boeing and Airbus in the 100-to-149-seat aircraft market. The new family of aircraft is expected to deliver low operating costs and a higher fuel burn advantage potentially giving it a leg up on the competition. However, the pace of development has also been disappointing. Management announced a six month delay in late 2012 and pushed the first flight off until June. After further delays, a CS100 finally took off for its maiden test flight on September 16, 2013. The delays now have investors concerned initial deliveries will be pushed into 2015.

Transportation

With little fanfare, the transportation segment has been quietly prodding along and has inched up its backlog to \$32.6 billion at the end of the third quarter after starting 2013 with a backlog of \$32.0 billion. Revenues for the unit increased nearly 10% for the first nine months compared to the prior year and EBIT margin increased 30 basis points to 6.5%.

During the third quarter, the company began to see better growth across most geographic regions when compared to the prior year and the first two quarters of 2013. The growth in Western Europe was led by larger orders by train operators in the United Kingdom and Germany. In North America, the company saw increased investment primarily in light rail within the U.S. and Canada. The Asia-Pacific region was boosted by orders from high speed rail operators in China.

Final thoughts

Now that 2013 is in the rearview mirror, the company must set its sights on 2014 and beyond making timely execution a primary goal. Several delays in the aerospace segment have negatively impacted results and the stock. However, 2014 could be shaping up to be a much better year with deliveries of the Learjet 70/75 now underway and the Learjet 85 and potentially the CSeries aircraft expected to start delivery in 2014. The late strength seen by the transportation segment in several geographic areas also bodes well for the upcoming year. Now it's up to management to execute.

CATEGORY

1. Investing

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Author

agray

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