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Will Bombardier Add CS500 as Mainline Aircraft in its Portfolio?

Aerospace & Defense | By Hassan Ali

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A review of the odds of Bombardier offering CS500 with a seating capacity of around 150 passengers in the future

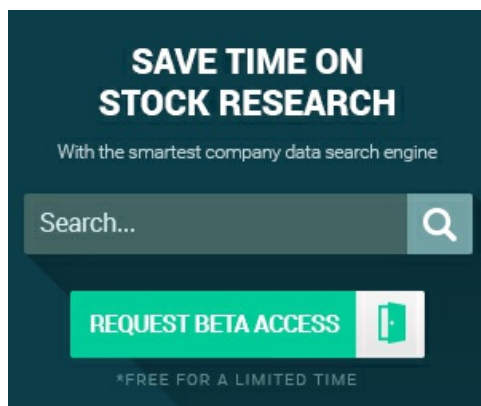
As Bombardier Inc. ([OTCMKTS:BDRBF](#)) moves ahead with its smaller single-aisle commercial aircraft for regional operations, industry analysts are looking out for the company's decision to introduce a larger aircraft, rumored as the CS500, with the ability to serve mainline operations. The existing regional aircraft from Bombardier, the CS100 and CS300, serve only a small portion of the overall aircraft market, and the CS500 could open up a new avenue for the aircraft manufacturer.

The task of bringing a new aircraft model to its customers,


however, would not be an easy one. The largest impediment would be the issues Bombardier is facing with getting its existing models, namely the CS100 and CS300 in commercial use.


These models are expected to be brought into commercial use by this summer. Development issues in the existing models have led to increased manufacturing cost due to which its customers and investors started to lose confidence in both aircraft, which did not receive any orders during 2015.

However, as the company gets closer to the launch of the first two models of its C Series line for commercial operations within the next two months, investors along with customers have pinned high hopes on the aircraft's performance. Some industry experts believe that the company might face further delays and would not be able to meet the deadline, but the company is bullish on the prospect.



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While talking to Reuters, sources familiar with the matter recently said that Bombardier is currently not looking at options to build a bigger version of its C Series aircraft. Possible reasons behind the decision might be that the company is focusing on its current short-term objective to initiate commercial use of its smaller C Series aircraft — the company's top priority for now. However, if the company is successful in launching its C Series on time and within the budget, it might consider building a larger aircraft.

Will CS500 be Market Competitive?

Bombardier's CS100 and CS300 commercial aircraft are slightly smaller as compared to Boeing Co's (NYSE:BA) 737 and Airbus A320 Series, which currently have the highest demand in the market. The two industry giants predict that by the next 20 years, their single-aisle commercial aircraft demand would surpass any other bigger aircraft's demand. The high demand for the single-aisle aircraft from both Airbus and Boeing would be driven by the adoption of a low-cost carrier models by developing interest of the countries and airlines to operate aircraft with low operational cost.

Based on the future guidance, if Bombardier introduces its CS500 aircraft with 150 passenger seating capacity, it would directly compete with Boeing's 737 and Airbus Group SE (OTCMKTS:EADSY) A320, which also offer similar seating capacity. Also when the industry giants launch a re-vamped version of the aircraft, they would deter Bombardier from entering the market. If the CS500 is introduced, it would allow Bombardier to capitalize on the single-aisle aircraft market that is poised to grow exponentially over the next two decades.

Aircraft Seating Capacity	
Model	Seating Capacity
Boeing 737-800	130-220
Airbus A320neo	165
Bombardier CS500	Approx. 150-165

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Not all points are against Bombardier releasing the CS500. AirInsight — a commercial aviation consulting group — believes that if a CS500 is introduced, it would have 24% cost advantage over Boeing’s 737-800, as well as 16% cost advantage over Airbus A320neo. Based on its lower list price, Bombardier just might receive significant demand from the market, enough to make the new aircraft profitable.

Possible Hurdles in Introducing a CS500 Aircraft

One of the biggest hurdles for Bombardier, is its current weak financial position that does not allow it to even look into any new projects that require investment. The company reported a net loss of \$138 million in its recent first quarter fiscal year 2016 earnings and its consolidated revenue for the quarter also declined to \$3.91 billion year-over-year. The company also reported cash and cash equivalent of \$3.35 billion with available short-term capital resources of \$4.67 billion.

In order to get approval from its investors to work on any new project, the company’s CS100 and CS300 aircraft project need to be profitable. It might take Bombardier few years to become profitable after it starts timely deliveries of its CS100 and CS300 aircraft. Once profitable, it will be in a better position to get approval on any potential investment on a new model.

Furthermore, the company is seeking financial aid from the Canadian government to back its existing CSeries models to meet their timelines. The company is close to getting the government funding; however, the government might not support the new CS500 aircraft if introduced.

Bombardier's 1Q 2016 Financial Performance

	1Q 2016	1Q 2015
Revenues	\$3.91 billion	\$4.39 billion
EBIT	\$56 million	\$228 million
Net income/(loss)	\$(138) million	\$100 million

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Apart from the financial troubles, receiving orders for the new jets would also be an issue for the company, considering that since the inception of CS100 and CS300 in fiscal year 2008, the company has scored just 325 orders till date, which are insignificant when compared to industry giants. The total backlog was recently boosted by Delta Air Lines firm order of 75 CS100 jets to replace its aging aircraft fleet with option of 50 more jets. However, according to the Canadian government, the order is not sufficient for them to approve the financial aid. For a new model, Bombardier would require another 4-5 years to have a considerable backlog and launch the aircraft.

Way Forward

The CS500 would make a lot of sense and might also receive considerable demand from the market. The company is currently not in a position to offer the aircraft, given its weak financial performance. However, if the company is able to convince the Canadian Government to finance its operations, a new CS500 line could become a reality.

Despite the hurdles, Bombardier is in need of an additional bigger aircraft with a seating capacity of around 150 passengers to better compete with the industry giants. It might not be possible for now. However, a few years down the road, we might see the company offering CS500 to its customers.

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