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## Bombardier’s turnaround challenged by threats to rail and jet businesses

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Bombardier Inc.'s turnaround plan is coming under threat from stepped-up challenges to the company's rail business and its cutting-edge jetliner.

The Canadian manufacturer risks being jilted by Germany's Siemens AG, which is now exploring a rail-equipment deal with Alstom SA of France after months of talks with Bombardier. Separately, the U.S. government is set to decide this week whether tariffs should be imposed on Bombardier's C Series aircraft after a complaint by Boeing Co.

The developments imperil Chief Executive Officer Alain Bellemare's two-year-old effort to reshape Bombardier, which has also relied on financial support from Quebec and Prime Minister Justin Trudeau's federal government. Losing out on a Siemens deal would weaken Bombardier's rail unit, its biggest business, against a bulked-up industry leader from China. An adverse trade ruling in the U.S. would hamper demand for its priciest jetliner, the C Series.

"It would be a loss for Bombardier if Alstom and Siemens come together because this would leave them in the cold," said Karl Moore, a professor of management strategy at Montreal's McGill University. "At the same time, you run the risk of the C Series being shut out of the U.S. market until the issue of duties is settled, which will take some months."

Bombardier tumbled 6.3 per cent to $2.22 at the Friday close in Toronto, the biggest decline in more than three months. The widely traded B shares are at the lowest level since May.

**Alstom-Siemens**

Alstom said Friday it's in talks with Siemens about a possible combination of their rail businesses, adding that "no final decision has been made." The confirmation came hours after the French government signaled it supports deeper corporate ties with Germany, suggesting a deal between Levallois-Perret, France-based Alstom and Munich-based Siemens would have political backing.

Bloomberg News reported Thursday that Siemens was negotiating with Alstom as well as Bombardier, giving the German company two options to pursue consolidation. While declining to comment specifically on its competitors, Bombardier said Friday it was weighing "multiple options" for its rail business – repeating a phrase Bellemare has used in the past.

Getting left at the altar "is a new risk" for Montreal-based Bombardier, said David Tyerman, an analyst at Cormark Securities in Toronto. "Bombardier is going to be the guy without a dance partner. If geopolitics come into play, you really don't have anybody in your corner."

For more on deal talks among rail equipment makers, click here The rail companies are looking to join forces to compete with industry leader CRRC Corp. of China, which was formed from a 2015 merger of the country's two main regional train makers. The company controls about half the global market for rail cars and locomotives, Desjardins Capital Markets estimated in a report this year, compared with 12 per cent each for Bombardier and Siemens and about 11 per cent for Alstom.

Aided by its ability to finance entire projects, CRRC has won high-profile rail orders including transit contracts in U.S. cities such as Boston, Philadelphia and Los Angeles. Bombardier missed out on a $3.2-billion (U.S.) contract to provide subway cars in New York and has been plagued by delays on major projects such as streetcar deliveries to Toronto and subway cars for Montreal.

The train business bore the brunt of Bellemare's plan, announced last October, which included 7,500 job cuts worldwide.

**Boeing complaint**

While Bombardier's rail business contends with the uncertain outcome of deal talks, a threat to the jewel of its commercial aircraft business is also coming to a head. The U.S. Commerce Department will issue a preliminary ruling Tuesday on whether to impose countervailing duties on the C Series, which Bombardier spent at least $6-billion to develop.

In a trade complaint, Boeing accused Bombardier of selling the single-aisle jetliner to Delta Air Lines Inc. at less than fair value, while benefiting from unfair government subsidies in Canada. Earlier this year, the Canadian government pledged $372.5-million (Canadian) to Bombardier to finance two jet programs including the C Series. Quebec's provincial government invested $1-billion in the program last year for a 49.5 per cent stake.

"The general expectation among the majority of watchers is that the ruling is very likely to go against them," said Chris Murray, an AltaCorp Capital analyst in Toronto. "Either way, the whole thing could take a while."

In June, the U.S. International Trade Commission ruled that Boeing's commercial jet business may have been harmed by Bombardier. In addition to the countervailing duties, Boeing is seeking anti-dumping duties of about 80 per cent. Bombardier says it complies with international trade regulations.

In the meantime, the trade dispute "will be an overhang for some time to come," said Cam Doerksen, an analyst at National Bank Financial. "Until that's settled it will be very hard for a U.S. airline to make a firm commitment to buy the plane."

**Sales drought**

With the exception of a two-aircraft order from Air Tanzania in December, Bombardier hasn't booked a major sale of C Series jets since Delta committed to buying at least 75 of the planes in April 2016. Delta testified in favor of Bombardier at International Trade Commission hearings in May, saying that it never even considered Boeing models before placing its order with the Canadian planemaker.

The sales drought is likely to pressure Bombardier's efforts to sell more planes outside the U.S. without resorting to aggressive discounting.

"Unfortunately, if there is a negative ruling Tuesday you are not going to sell any more C Series in the U.S. market for a while," said Ernie Arvai, a partner at aviation consultant AirInsight. "People will know internationally that you are desperate for orders. They will be expecting good deals."