

Bombardier clinches big C Series sale; cuts delivery goal



Bombardier says it has a firm European order for 31 C Series jets and options for another 30.

REGIS DUVIGNAU/REUTERS

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Bombardier Inc. has clinched its first major C Series plane sale in 18 months, sparking new life into the slow-selling aircraft program as the Canadian company sketches out plans for its future under a new partnership with Airbus Group SE.

The Montreal-based plane and train maker struck a letter of intent to sell 31 C Series planes to an unnamed customer in Europe, it said Thursday while reporting third-quarter earnings. The buyer will also take purchase options on another 30 C Series aircraft. The firm portion of the order is valued at \$2.4-billion (U.S.) before the discounts typically given on large-sized orders.

The order provides a much-welcome stimulus for the C Series program, which had languished without a significant sale since Delta Air Lines bought 75 jets in April, 2016. Aerospace consultancy AirInsight said the sale was made to a new customer and not an existing one, which is crucial because it signals fresh interest in the plane.

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"With the Airbus news now in the open, the market for the C Series feels different now," AirInsight said in an analysis. "Airlines and lessors can review and consider the C Series without anywhere near the risk and concern they had even three months ago."

The new C Series sale was being negotiated well before the Airbus partnership was announced last month and didn't come because of the tie-up. Still, Bombardier chief executive Alain Bellemare said bringing Airbus into the fold is giving customers more confidence to buy.

"It is clearly helping us to accelerate the sales momentum," Mr. Bellemare said on a conference call with stakeholders. "We had, and we still have, a number of very active campaigns ongoing." He declined to give further details.

One near-term deal could be struck with EgyptAir. The Cairo-based carrier is set to place an order for a dozen C Series CS300 models in an announcement that could come at the Dubai Air Show later this month, according to local media reports in the African country. IAG, the parent of four carriers including British Airways and Iberia, is another logical buyer. The company has said the C Series could be particularly well suited to British Airways operations at London City Airport, where it flies Embraer and Airbus A318 jets.

Mr. Bellemare is now wrapping up the second year of a five-year effort to turn around Bombardier, which flirted with bankruptcy protection in 2015 as it struggled with a cash crunch and high cost structure. Since he took the helm, he has cut more than 14,500 jobs, restructured Bombardier's train business, and struck an industry-changing agreement to cede control of the C Series program to Airbus in exchange for its sales and logistics power.

Airbus has a call option to buy Bombardier's interest in the C Series in seven years' time but Bombardier has no intention of exiting the commercial aerospace business, Mr. Bellemare said Thursday. He said a key benefit of the Airbus deal is to help Bombardier secure C Series sales and production volumes, which in turn will lead to lower procurement costs.

The company posted a net loss of \$117-million or 5 cents a share for the quarter, compared with a net loss of \$94-million or 4 cents a year ago. Revenue climbed 3 per cent to \$3.8-billion. Stripping out special items such as costs associated with layoffs, earnings before interest and taxes (EBIT) grew to \$165-million, nearly double the tally of last year's third quarter. The company burned through \$495-million of cash in the period.

Profit margins improved in each of Bombardier's four business units. The trains and private jet divisions, which are the two biggest contributors to the company's overall earnings and cash flow, have already achieved the 2020 margin targets management set in its turnaround plan.

"We expect progressive margin and cash flow improvement over the next several years that should bolster investor confidence," National Bank analyst Cameron Doerksen said in a note to clients.

Bombardier said EBIT for the full year will be at least \$630-million, at the upper end of what it previously forecast. It expects to book \$16.3-billion in revenue for fiscal 2017, roughly the same as 2016, and use \$1-billion in cash. The company had \$2.8-billion in short-term capital resources at the end of September.

Bombardier also confirmed suspicions on Thursday that it would not meet its previous target to deliver 30 C Series planes this year. Shipment of roughly 10 planes will get pushed into 2018 as the company deals with a shortage of geared turbofan engines supplied by United Technologies Corp.'s Pratt & Whitney unit. That in turn will bite into Bombardier's revenue for the year.

Pratt has been wrestling with durability issues on the engines and had warned Oct. 24 that it couldn't meet its commitments to Bombardier because it was first fixing engines on planes already in service. Pratt will pay Bombardier a cash advance to help remedy the situation, Bombardier said.

Despite the progress it has made, plenty of skeptics remain about Bombardier's future prospects. That's particularly true in the context of much better-capitalized global rivals like U.S. airframe manufacturer Boeing Co. and Chinese rail manufacturer CRRC Corp., which continue to win market share.

"This is a business that would not exist if the government wasn't giving them large financial handouts," Kash Pashootan, CEO and chief investment officer at First Avenue Investment Counsel, told BNN this week. "There isn't any sort of clear path to how Bombardier is going to grow."

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