

CANADA: Bombardier is back in town!

"Bombardier has its mojo back" wrote recently Air Insight expert **Ernest S. Arvai**, as the Toronto-based company finally "*sees fruit from its initial and difficult decisions*". Indeed, it suffered hard times these past years, especially due to issues with the C Series program, widely regarded as a "*dangerous gamble*" by analysts. The program's development suffered a 3 year-delay and a heavy **\$2bn costs overrun up to a total \$5.4bn**; it had to be **saved by a \$1bn bail-out by the Quebec Government**. In 2015, Bombardier shares had lost 80% of their value since the C Series was launched in 2008. That year, a new management team was appointed, headed by **Alain Bellemare**. It has now completed "*an amazing turnaround*", commented Arnie Arvai! Indeed, **new programs in both its commercial and business branches** have just entered service or about to do so and their benefits are just starting to kick in. Bombardier is "*ending a decade long investment cycle and embarking on a de-levering path*", described a valuation by **BBA Market Cap** in the beginning of May. *In the past two weeks, rumors of accelerating orders for the C Series and an outstanding \$7 price target set by Goldman Sachs analyst Noah Poponak sent BBA shares, which hadn't traded above \$5 since 2013 up to \$5.17 on June 16th*. And momentum appears to be building up, comment observers.

First of all, **optimism is back to the commercial branch**. The C Series has overcome issues with its development but also external threats to its very existence. In January it came close to having the American Commerce Department inflicting a **300% tariffs barrier on its exports to the US market** following a complaint by Boeing before the **US International Trade Commission (ITC)** that it had received unfair subsidies by the Quebec government (ergo the mentioned \$1bn bail-out) but against all odds, the ITC ruled **against Boeing's request** (see *The Bulletin #391 – Ed*).

Of course, **Bombardier's partnership with Airbus** that gave the program a much-needed credibility. Their joint venture and Airbus's takeover of the program will come into effect on July 1st; **50.01% of it will be owned by Airbus, 31% by Bombardier and 19% by the Government of Quebec**. Airbus's implication and the C Series' rebranding (the CS100 will become the **A210** and the CS300, the **A230** while the possible C Series 500 would become the **A250**) should allow Bombardier to leverage the European manufacturer's strong position on the market and reassure **both investors and customers**. Since the end of May, indicators suggest that the partnership has begun attracting some demand. First was the announcement on May 18th of a \$2.9bn order by launch customer **Baltic Air** for **30 CS300s** – on top of 20 ordered in 2015 of which it currently operates 8 - plus options and purchase rights for another 30 units, with deliveries to start in 2019Q1 ongoing. This new order officially brings the C Series program's backlog up to **more than 400 firm orders**. More recently, on June 19th, Airline Weekly quoted two unnamed sources and documentation, according to which Flying Blue founder **David**

Neeleman plans on launching a new airline dubbed "*Moxy*" and would order some **60 CS300s** to do so, to be delivered between 2020 and 2024. However, nothing has since confirmed this rumor.

In addition to the C Series finally emerging, **the CRJ program is stretching**: last week Delta ordered **20 CRJ900s** in a deal worth **\$961mn**, following a previous order passed in May by **American** for **15 jets**. Not much is known, however, on Bombardier's strategy to capture more revenues in the aftermarket from its base of **over 2000 in-service aircraft** in the same way Boeing and Airbus are doing. It once had a services business, which was dissolved in 2014 as part of reorganization plans; and is now "*eying for incremental opportunities*", according to Bombardier Commercial Aircraft President **Fred Cromer** without further detail. According to MRO-Network, one growth area on this side will surely be **upgrades**, as Bombardier just introduced its new "*Atmosphere*" cabin for CRJs and has already received orders from American and Delta.

Bombardier's business jets branch is also sending healthy signals, the first of which was the **surprise launch of two new Global family variants, the 5500 and 6500** during the 2018 EBACE in Geneva, hardly 24 hours before the Baltic Air order was announced. "*Catching a competitor off guard these days is difficult*", points out Mr Arvai in his article, but Bombardier was successful in doing so with both models (which are extensively described in *The Bulletin #406 – "Silvering in Geneva"*). Though Gulfstream's G500 and G600 (both to enter service this year) should have an **edge over the 5500 and 6500** (to enter service in 2019) given that, as **Crédit Suisse** puts it, "*their clean-sheet designs likely incorporate innovations not available to BBD on a refresh of what is a fairly old platform in the 5000/6000*". The two upgrades should nevertheless help Bombardier **save market shares over time**. In addition to this, their development costs seem to have been **captured in expenses previously thought to be destined to the 7500 exclusively**. This much-awaited clean-sheet design, at last, is expected to enter service in 2018Q4 and is **sold-out through 2021**. During EBACE, Bombardier said it had signed a Letter of Intent (LoI) for an order from **Hong Kong-based HK Bellawings** Jet for 4 Global 7500s plus four options, as well as 4 Global 6500s plus 6 options; a deal worth **\$1.14bn** if all firm orders and options are exercised.

Relieved by its improving business, Bombardier has been carrying out investment plans in June toward establishing an **aerospace hub in Toronto's Downsview** area and reinforce its partnership with the **Downsview Aerospace Innovation & Research Consortium (DAIR)**. After having sold its local facility in this area in May in a **\$635mn** deal that bolstered its cash position, it is now investing in various projects in the region, including **\$1mn** toward the creation of **two Aerospace Research Centers** with Ryerson University and the University of Toronto, **\$1mn** toward the Downsview Aerospace Innovation & Research Consortium's **(DAIR) Innovation Centre**, **\$1.5mn** toward the **Toronto Aeromaterials Research Centre** and **\$2.5mn** to refurbish a heritage building at Downsview. Things are looking better...