

Business jets keep Bombardier aloft

By: Nicolas Van Praet
May 11, 2012



Business jet use has languished, but interest is picking up again. Good thing, too; without them, the Montreal-based plane and train maker would be in serious trouble.

MONTREAL • When executives with Detroit's big three automakers flew into Washington in the fall of 2008 to ask for a federal bailout, they were scolded by lawmakers for travelling there in corporate jets.

Times change. Today, North America's car companies can't make enough vehicles to meet demand. Politicians have turned their attention to bailing out entire countries, like Greece and Spain. And those business jets? They're not so evil anymore.

Good thing. Without them, Canadian plane and train maker Bombardier Inc. would be in serious trouble.

JPMorgan Chase & Co. calculates that Bombardier's line of Global business jets in particular represents the biggest contribution to the company's aerospace profits. At a list price starting at about US\$48.6-million, Bombardier delivered barely four of them in its most recent quarter — a low number explained by a switch to a new cockpit equipment system.

Bombardier booked orders for 40 more business planes during the period, part of six straight quarters of robust bookings. Its backlog for the Global jet family sits at 40 months of work.

The company is close to announcing an increase in the manufacturing rate on the Global series production line, National Bank Financial analyst Cameron Doerksen said in a May 10 note. He upgraded his recommendation on the shares to outperform, saying negativity is more than priced into the current stock price.

Business jet use in the United States as measured by departures and arrivals has been essentially flat since the third quarter of 2011 and traffic in Europe is holding steady as the sovereign debt crisis rages.

"It's changing back to a more positive image" for such aircraft, said Raymond Jaworowski of industry intelligence firm Forecast International, adding the perception of business jets is cyclical and tied to how well the economy is performing. "It's taken a little longer this time because of the severity of the recession and the egging on by the politicians."

There has been a slow but progressive increase in business jet usage of late, Bombardier aerospace president Guy Hachey told reporters after the company's annual meeting in Montreal Thursday.

"In general worldwide, we're seeing a catchup and a gradual trajectory of improvement," Mr. Hachey said.

That's more than can be said of Bombardier's shares. It's been a decade since the stock has topped \$10 and now trades at less than half that price.

Investors are waiting for a major catalyst that unlocks some value. Many are incensed that the company's top five executives received incentive pay in 2011 while the stock languished. Bombardier chief executive Pierre Beaudoin's total compensation increased 19% year over year, the same percentage the shares declined.

“It’s high time that shareholders wake up,” Louis Gagnon of investor rights group Médac told the annual meeting. “No bonuses are justified.”

Bombardier executives have spent some effort weighing whether listing the company’s shares in the U.S. would generate more interest in the company and boost the share price. They have concluded that now is not the time.

“I think we’re doing what we need to do to increase the value to shareholders, that is to invest in growth products for the future,” Mr. Beaudoin said Thursday.

The company estimates its upcoming CSeries regional jet, expected to enter service by the end of 2013, will generate US\$5-billion to US\$8-billion of revenue. The new Learjet 85 business aircraft, planned for a launch the same year, is another key sales driver, as are the upcoming Global 7000 and 8000 jets and Zefiro high-speed trains.

“I have good confidence that as the revenues will come out from these new products, and of course profitability will follow, that our share price should follow that,” Mr. Beaudoin said.

Bombardier tallied a first-quarter profit Thursday of US10¢ per share on revenue of US\$3.5-billion. When a gain from litigation and a favourable tax rate are stripped out, both figures were less than analysts expected.

Source: <http://business.financialpost.com/2012/05/11/busines-jets-keep-bombardier-aloft/>