

# **Bombardier: Jets Will Retain Competitive Advantage**

Ross Marowits, The Canadian Press

MONTREAL - Bombardier says its regional jets and new CSeries commercial aircraft will retain their competitive advantages even after Brazilian rival Embraer puts more fuel-efficient engines on its E-Jet family of aircraft.

Embraer this week said it plans to use a variant of the Pratt & Whitney engine that will power the CSeries on a "second generation" of regional jets beginning in 2018. It will also change the wings and add a fly-by-wire system as it aims for "double-digit" improvements in fuel burn, emissions, noise and maintenance costs.

Left undecided is stretching the largest E-195 plane to go up against Bombardier's 110- to 149-seat CSeries.

Philippe Poutissou, vice-president of marketing at Bombardier commercial aircraft, said its CRJ planes have a 16 per cent fuel burn advantage over the Embraer planes.

"Although a re-engine will certainly get you an improvement, they're playing catch-up," he said in an interview.

Some industry observers believe Embraer's long-awaited move could boost pressure on its Canadian competitor.

David Tyerman of Canaccord Genuity said putting new engines on the current sizes of E-Jets won't have much impact on the CSeries, but will be more competitive against the CRJ.

"It will be interesting to see what Bombardier's response is," he said in an email, noting that the regional jet market is becoming crowded with Russia's Sukhoi Superjet 100, Japan's Mitsubishi regional jet, CRJs and E-Jets.

"Bombardier and Embraer have competitive advantages due to their large installed fleets, but Bombardier will have to take a hard look at the economics to determine any responses in this space."

Poutissou said the Montreal-based aerospace manufacturer is watching Embraer's moves closely and will continue to adjust its offering as it did a few years ago with the introduction of the CRJ1000.

"We'll look at the spectrum of things that we could do but what they're talking about is still several years away and depending on the scope of change that they go after — obviously at the expense of commonality — we think that the CRJ is a very good solution for the near-term."

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He said sales of CRJ700 and 900 planes are double those of the E-170-175s. Delta Airways recently selected CRJ900s over Embraer when it decided to renew its 76-seat fleet.

Adding seats to the E-195 would put Embraer into competition with the CSeries, but Poutissou said its cleansheet design benefits from a new airframe built from light-weight composite materials, new systems, new engine, more capacity and longer range.

He added that Embraer's choice of engines reaffirms Bombardier's selection of Pratt for the CSeries and follows similar decisions by Boeing and Airbus to add new engines on their marque narrowbody aircraft.

"We saw re-engined aircraft offered by our other competitors. This is just another piece of the puzzle from a market that had a fairly comfortable duopoly."

Bombardier booked 481 net aircraft orders last year, up from 249 a year ago. Most of them were for business aircraft.

Walter Spracklin of RBC Capital Markets said Bombardier's order outlook remains promising this year, with a pickup expected in both CSeries and regional jet orders.

"However, we anxiously await the elusive Chinese CSeries order, which would cement the aircraft in the region," he wrote in a report.

Meanwhile, Bombardier said Thursday that improved debt markets have allowed the transportation giant to raise US\$2 billion, nearly two months after it was forced to delay its money-raising effort to help fund a number of development programs led by the CSeries plane.

The value of the new senior notes doubled because they were oversubscribed, which the company said will enhance its financial flexibility.

"For us it's a great success because it shows really the confidence of the market in our business plan," said communications director Isabelle Rondeau.

Bombardier will issue US\$750 million of senior notes due 2016 at 4.25 per cent and US\$1.25 billion of notes due 2023 at a coupon rate of 6.125 per cent annually.

The issuance is expected to close around Monday.

In mid-November, Bombardier (TSX:BBD.B) was forced to delay its plans to issue US\$1 billion of senior notes due in 2020 and 2023 because of a less receptive high-yield market and a ratings downgrade of the notes by Standard & Poor's.

The ratings service said the money will improve Bombardier's liquidity even though it will result in a "somewhat weaker debt leverage."

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S&P said the aerospace and railway manufacturer's US\$2.1 billion cash balance as of Sept. 30 was "adequate" and that the debt issuance "will provide more cushion if capital expenditures were to increase due to delays in the CSeries programs."

Bombardier has announced that the first flight of its 110- to 125-seat CS100 CSeries will be delayed six months until June, with entry into service planned a year later.

On the Toronto Stock Exchange, Bombardier's shares closed at C\$3.99, up nine cents or 2.31 per cent in Thursday trading.

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