

May 18, 2017

China's Comac eyes investment in Bombardier

NICOLAS VAN PRAET

New questions are being raised about Bombardier Inc.'s plans for the C Series following a report the Canadian company held talks with Chinese state-owned manufacturer Comac about an investment in the fledgling airliner program.

Comac is working with at least one bank on a tie-up that could see it make an investment in Bombardier's commercial aerospace arm or take a stake in the C Series program, the Financial Times said, citing unnamed sources.

"Everything is on the table," the newspaper quoted a source as saying. The companies have been in talks for some time although no decision is imminent, the paper reported.

Bombardier spokesman Mike Nadolski declined to address the matter, citing a company policy of never commenting on market rumours or speculation. Commercial Aircraft Corp. of China Ltd. or Comac could not be immediately reached.

Bombardier chief executive officer Alain Bellemare has said he would begin pursuing strategic options for parts of the business this year as he executes a five-year plan to rebuild earnings and cash flow. The company's recent reported talks with German train maker Siemens AG are part of that effort.

In China, Bombardier has an opportunity to leverage an existing relationship with Comac to further its own interests, said Ernie Arvai of boutique aerospace consultancy AirInsight.

Bombardier would get more capital in what is shaping up to be a fiercer fight with Boeing Co. and Airbus Group SE than what anyone had imagined, Mr. Arvai said. It could also win better market access to Chinese customers in what is expected to be the world's biggest growth market for plane sales over the next 20 years.

In exchange, a deal could help Comac win additional Bombardier backing on technology development, engineering and global customer support, Mr. Arvai said. That could speed up Chinese aerospace manufacturing ambitions.

In a bid to cut China's dependency on Boeing and Airbus, Comac is developing the C919, a single-aisle jet that seats up to 168 passengers. The plane marked its maiden flight this month but faces a long road to commercial service. Its sales potential outside China remains unknown.

Bombardier and Comac signed a strategic co-operation agreement in 2012 that saw the two manufacturers collaborate on common systems for the C919 and C Series planes. The partnership included working together on cockpit and electrical systems as well as the supply chain.

But the report suggesting Bombardier is exploring a deepening of those ties also raises several questions, namely what it implies about Bombardier's own outlook and how the current minority investor in the C Series program, Quebec, will respond, said **Dan Fong**, an analyst at **Veritas Investment Research** in Toronto.

"My first take is basically either something's not going right with Comac's C919 or Bombardier clearly sees some trouble ahead for themselves so they're looking for additional help," **Mr. Fong** said.

Bombardier held talks with European plane maker Airbus in 2015 on an investment in the C Series but the discussions broke off after their existence was leaked to the media. At the time, Montreal-based Bombardier was grappling with a cash crunch as it tried to get the 100- to 150-seat airliner to market following a two-year delay and rising costs.

The government of Quebec jumped in with a \$1-billion (U.S.) investment that saved the C Series and the plane maker from possible collapse. Quebec now owns a 49.5-per-cent stake in a new limited partnership controlling the C Series program, which could complicate any deal with the Chinese. That investment is now the subject of a trade complaint by Boeing.

Mr. Fong said Quebec's investment was partly contingent on Bombardier maintaining jobs and operations at its Mirabel, Que., manufacturing site. How that commitment would mesh with any new Chinese investment is unclear. There are also accounting concerns if Bombardier gives up majority control of the C Series limited partnership, he said.

China is a key supplier on the C Series. The aircraft's fuselage is built by Shenyang Aircraft Corp., a subsidiary of another state-owned aviation company.

"We are in close relationship with China," Mr. Bellemare told shareholders at the company's annual meeting May 11 after a question on the country's plane-making aspirations. "We're working in close collaboration with them and we're following the situation closely."

Report Typo/Error

Follow Nicolas Van Praet on Twitter: [@NickVanPraet](https://twitter.com/NickVanPraet)