

Bombardier Research

Report



Diversified Sector

Date: 10/12/2011

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Mac Investment Club

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Stock Rating:

Buy

Sector Weighting:

Overweight

10/06/2011: \$4.00

Price Target: \$6.00

Target Price Date: 03/01/2012

COMPANY MARKET STATISTICS

Ticker: BBD

Exchange: TSX

Fiscal Year End January 31

52-week range (High/Low) \$7.29/\$3.42

Shares Outstanding 1438.46m

Avg. Daily Trading Vol. 16.31m

Market Capitalization \$6772.4m

Annual Dividend \$0.102

Dividend Yield 2.70%

Price/Earnings 7.67

Enterprise Value 7672.82m

EV/EBITDA 5.014

Price to Book 1.647

BETA 1.571

Short Interest % 1.69%

HIGHLIGHTS

- GE Aviation and Bombardier Aerospace announced two new engine service agreements that will increase services support for Bombardier business aircraft customers.
- GE Aviation and Bombardier Aerospace announced two new engine services. (October 10)
- Dubai International Airshow on November 13 – 17
- Bahrain International Airshow on January 19 – 21
- Singapore International Airshow February 14 - 19

OVERVIEW

Bombardier is a global transportation company that manufactures of state-of-the-art planes and trains, with 69 production and engineering sites in 23 countries. Its shares are traded on the Toronto Stock Exchange, and their headquarters are located in Montreal. Operations include aerospace, and rail transportation businesses. Bombardier Aerospace designs and manufactures innovative aviation products for the business, commercial, specialized and amphibious aircraft markets. Bombardier Transportation is the global leader in the rail industry and focus on rail solutions, ranging from complete trains to sub-systems, maintenance services, system integration and signalling.

REVENUE BREAKDOWN

Aerospace: 55.75%

Transportation: 44.25%

ANNUAL EARNINGS PER SHARE (EPS)

Current Year \$0.48E

2010 \$0.44

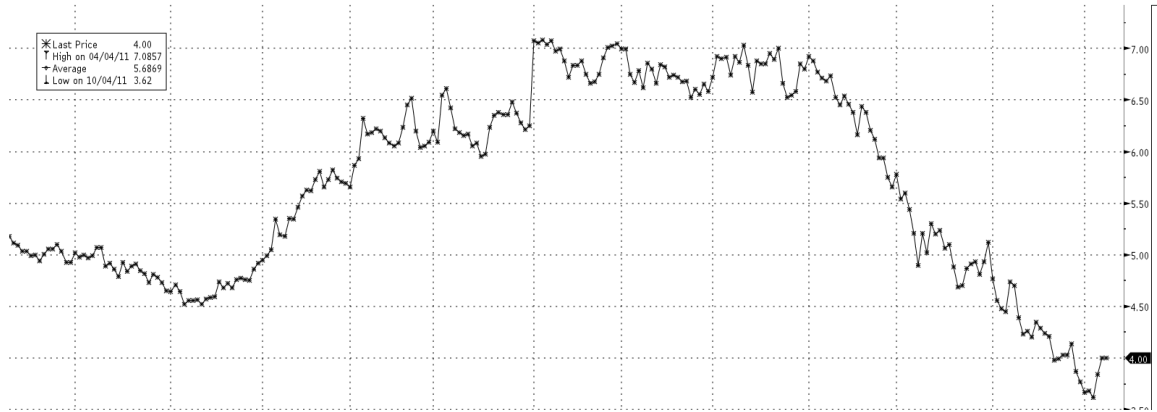
2009 \$0.44

2008 \$0.60

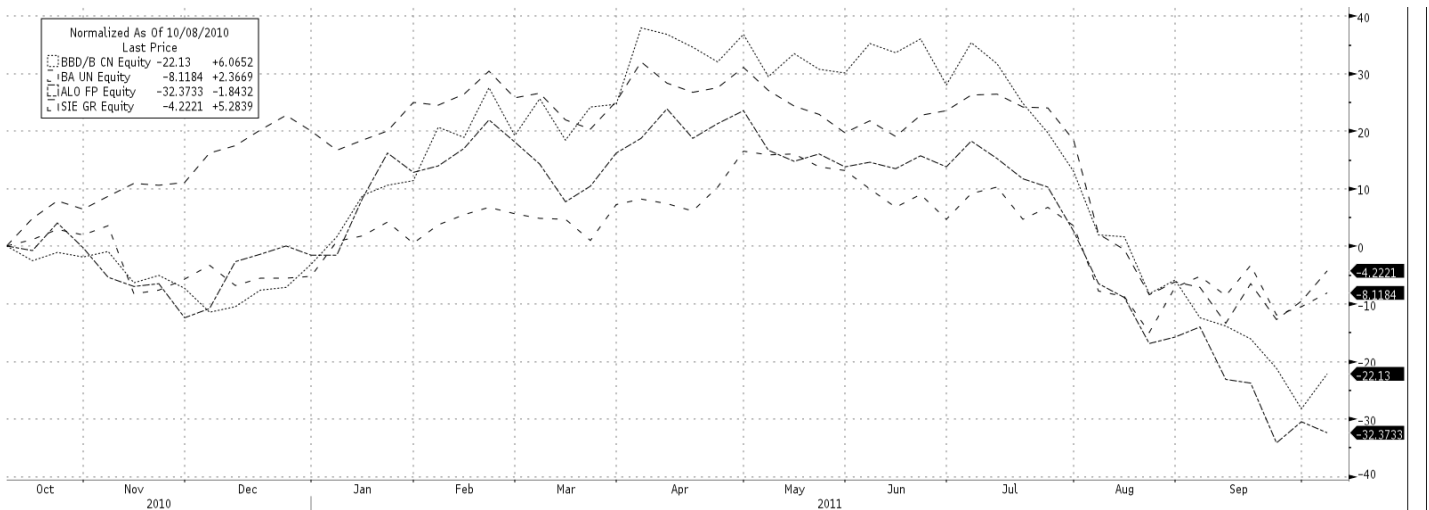
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PRICE CHARTS



Bombardier is near their 52 week low and is just now rebounding.



Industry moves together, they are now rebounding.

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Bombardier is following the index quite closely.

NEWS AND EVENTS

2011 was not a particularly good year for the business jet industry. Sales have decreased, and it has encouraged many businesses in the industry such as Bombardier to cut down on production and eliminate some jobs. However, 2012 is expected to be a year of growth for the business jet industry, analysts are predicting it to be the first year of growth in deliveries since the financial downturn in 2008.

The week of October 3, Bombardier Aerospace had secured a firm order of two Challenger 605 aircrafts from the Hong Kong Government Flying Service (GFS) for use primarily in search and rescue, as well as other special mission applications. Bombardier's C-Series aircrafts will play a big role in its expected growth in 2012. There are 26 potential customers for the C-Series, but they will be competing against the giants Boeing and Airbus. Customers are promising contracts with Bombardier, but nothing is formally secured.

Other industry related news, Mitsubishi has heavy plans on forming a jet leasing company. Mitsubishi is looking mostly at small- and mid-size domestic airlines, including low-cost carriers as clients and aims to launch the company in 2014. Mitsubishi Aircraft has received 130 orders so far. This announcement should not have any real impact on the well-established Bombardier, but it is worth taking note.

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On September 14, 2011, Delta Air Lines (DAL.N) released another statement that it had no plans for further plane purchases from Bombardier. This move influenced a 6% drop in Bombardiers shares in just one day. Delta ordered 100 Boeing Co. (BA.N) 737 planes in October, and added that it was not planning any more aircraft orders in the next couple of years. This announcement by Delta may affect Bombardier’s projected target sales of their C-Series aircrafts in the long-run.

On October 6th, Bombardier Transportation celebrated the start of passenger services on the new BOMBARDIER INNOVIA APM 100 automated people mover (APM) system at the Sacramento International Airport (SMF) in the USA. The new dual-lane INNOVIA APM 100 system is the primary passenger connector for the airport's brand new Central Terminal B complex, linking the new main building called Central Terminal B and the new boarding gate building called Concourse B. The success of this new passenger service may encourage other large airports to place orders with Bombardier in the future.

COMPANY RISK

From a macro perspective, the general risk associated with the current European debt crisis could affect the company, as 30% of their revenues stem from this geographic segment. Asian companies such as Mitsubishi starting to enter the Aerospace market, as well as other financial uncertainties in this area could pose a threat to Bombardiers third largest geographical revenue stream at 17%. When comparing the BETA between the sector and the company, Bombardiers BETA of 1.19 outweighs the sectors 0.85 BETA. Related to this fact is Bombardier’s 43.88% volatility rate, which is greater than the roughly 30% volatility rate of the sector. With these greater risks though, there is of course more potential rewards.

BETA	Moody's Rating	5 YR CDS
1.19	Ba2	545
Volatility	WACC	
43.88%	9.61%	

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PEER COMPARISON

Ticker	Market Cap	Price	Div. Yield	Trailing P/E	Forward P/E	Annual Revenue	1-Mo Return	3-Mo Return	1-Yr Return
BBDdb	C\$6.98B	C\$3.96	2.65%	13.23	8.718	C\$18.67B	-15.67%	-40.75%	-23.54%
ALO	C\$9.92B	C\$33.70	NA	26.58	8.59	C\$28.12B	-16.33%	-42.08%	-34.17%
EAD	C\$23.95B	C\$29.20	NA	25.65	26.294	C\$64.76B	-3.87%	-9.23%	16.82%
BA	C\$47.60B	C\$64.23	2.73%	15.54	15.091	C\$65.11B	0.21%	-11.22%	-5.51%
SIE	C\$90.90B	C\$99.43	NA	17.07	9.51	C\$104.09B	4.18%	-24.40%	-5.79%

The key ratio to look at here is price to earnings. The price to earnings ratio of Bombardier is the lowest of its competitors without additional risk to explain this discrepancy. Although Bombardier is relatively small for this industry they have no realistic risk of default any time in the near future. Significant negative returns have been realized by Bombardier and its competitors through the past year due to macro-economic turmoil which make it a bargain purchase now as the economy begins to rebound.

REVENUE AND EARNINGS

Revenue and earnings have remained relatively stable for Bombardier through the past crises and recessions. Bombardier's end of year performance in 2010 surprised analysts as well as Bombardier who had a record backlog. Throughout the past economic crises Bombardier used layoffs and other measures to lean out the company and ensure that it would stay solvent and stable as it did.

Currently, as economic turmoil has continued longer than expected, many orders are being postponed. Bombardier's net investments are locked in and continuing as planned while orders are not being completed as expected, resulting in negative free cash flows and lower earnings than scheduled. Orders for both the transportation and aerospace sectors of the company have been increasing substantially throughout the past year as business and government expenditures are returning to pre-recession levels. An issue throughout the recession has been the cancelled orders which have consistently been decreasing. The deals made at the next major air shows that Bombardier is attending in Dubai, Bahrain and Singapore, will act as important indicators of their next potential revenue sources.

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Revenue (in millions)

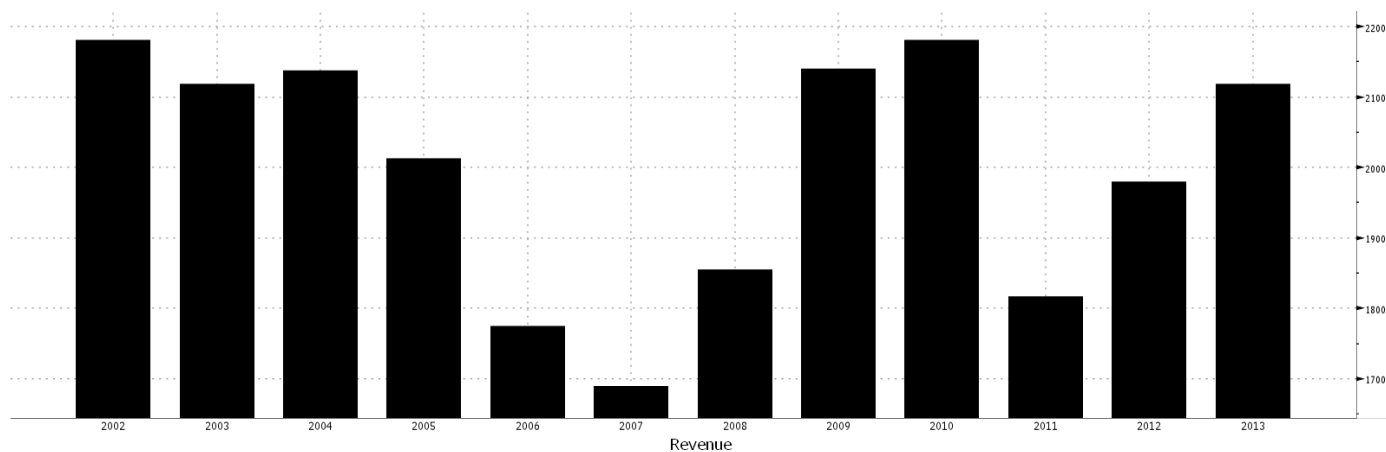
	Q1	Q2	Q3	Q4	Total
Current	\$ 4,539.80	\$ 4,592.16	\$ 4,763.56	\$ 5,110.48	\$ 19,006.00
2010	\$ 4,380.75	\$ 4,210.82	\$ 4,139.96	\$ 5,398.51	\$ 18,130.04
2009	\$ 5,565.84	\$ 5,606.68	\$ 4,938.78	\$ 5,633.33	\$ 21,744.63
2008	\$ 4,815.72	\$ 4,980.66	\$ 5,028.72	\$ 6,657.39	\$ 21,482.49

Net Income (in millions)

	Q1	Q2	Q3	Q4	Annual Total
Current	\$ 214.28	\$ 203.15	\$ 180.36	\$ 238.45	\$ 836.24
2010	\$ 200.34	\$ 139.49	\$ 145.39	\$ 319.57	\$ 804.79
2009	\$ 194.20	\$ 224.45	\$ 179.42	\$ 186.30	\$ 784.37
2008	\$ 227.26	\$ 253.48	\$ 244.23	\$ 356.84	\$ 1,081.81

EPS

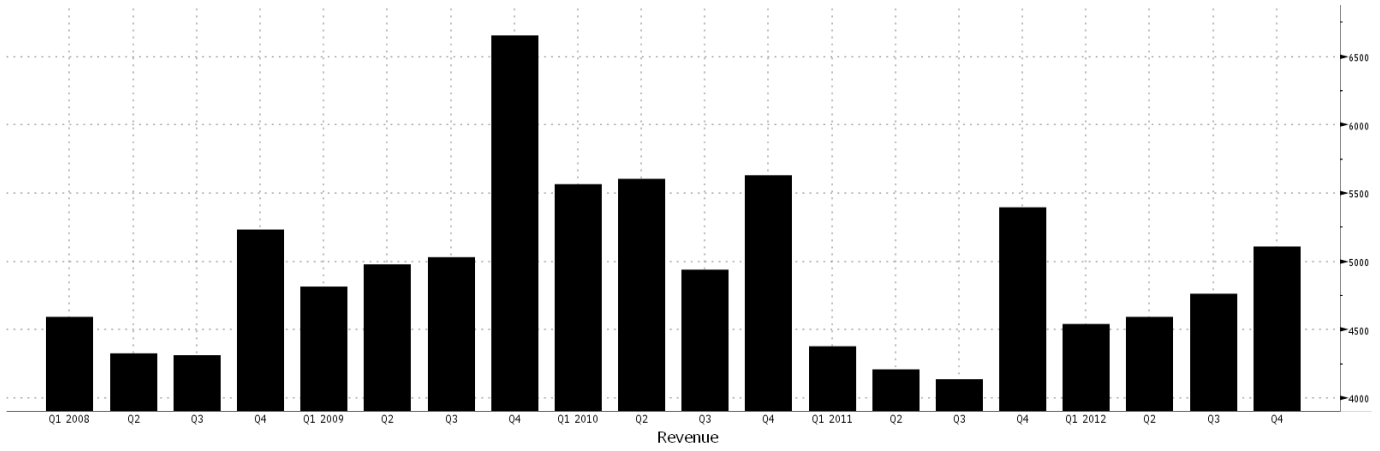
	Q1	Q2	Q3	Q4	Total
Current	\$ 0.12	\$ 0.12	\$ 0.10	\$ 0.14	\$ 0.48
2010	\$ 0.11	\$ 0.07	\$ 0.08	\$ 0.18	\$ 0.44
2009	\$ 0.11	\$ 0.12	\$ 0.10	\$ 0.11	\$ 0.44
2008	\$ 0.13	\$ 0.14	\$ 0.13	\$ 0.20	\$ 0.60

Annual Revenue


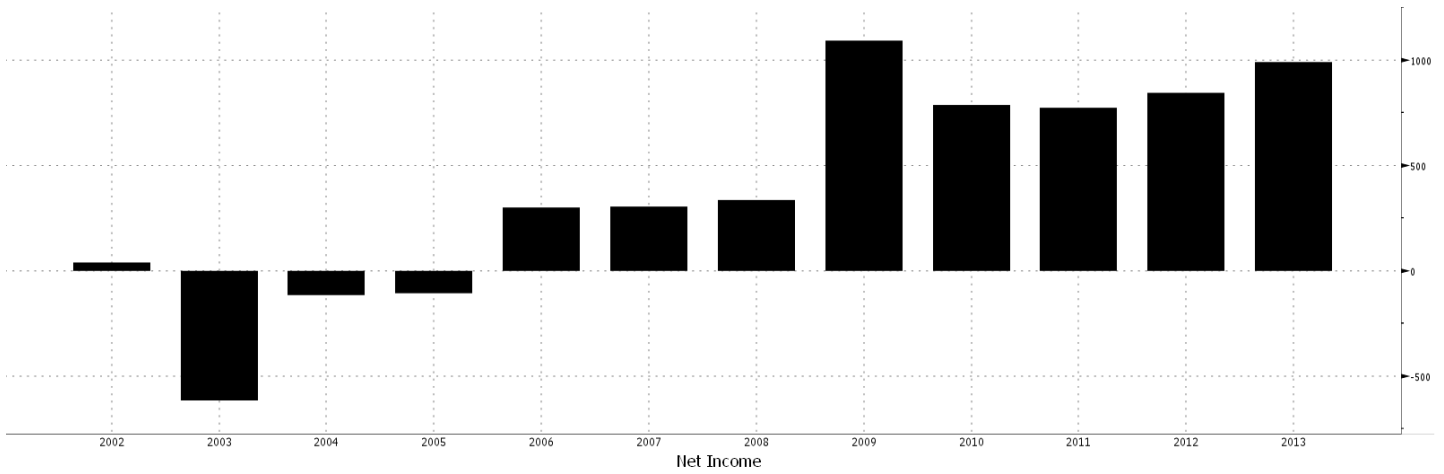
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Quarterly Revenue



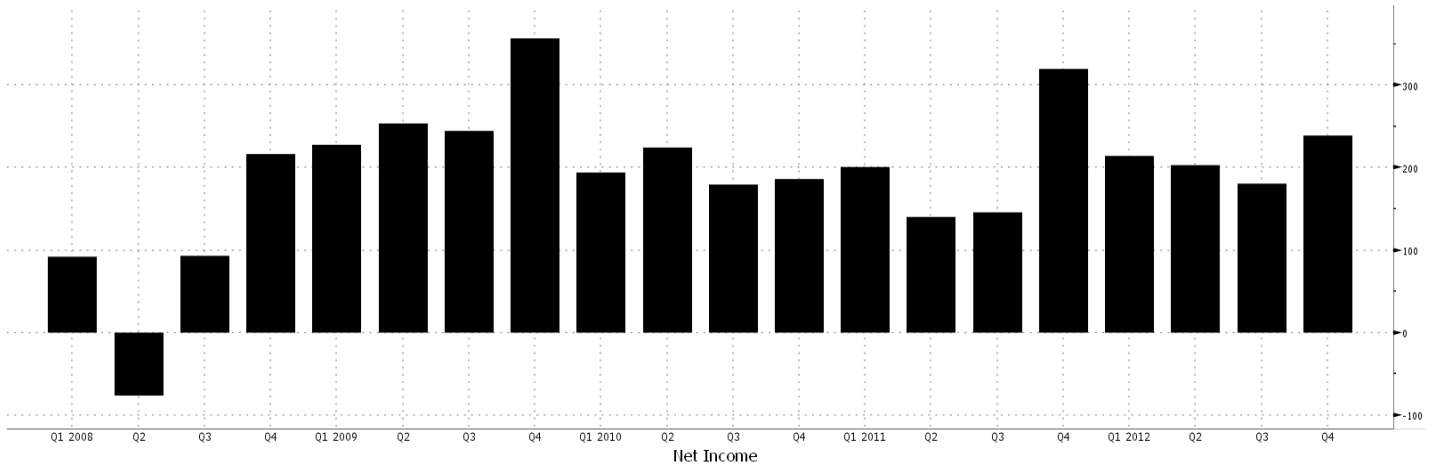
Annual Income



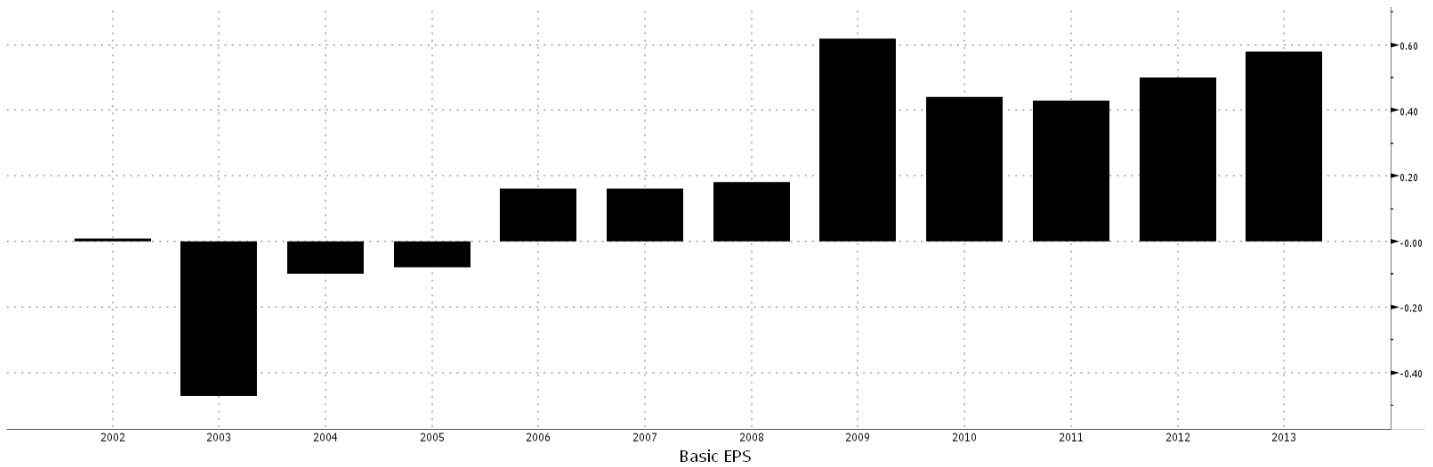
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Quarterly Income



Annual EPS



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Quarterly EPS

FUNDAMENTAL RATIO ANALYSIS

The price/earnings ratio is the key ratio when analyzing Bombardier as a potential buying opportunity. Currently trading at slightly over seven times earnings, the company is undervalued by industry standards. Bombardier's other fundamental ratios are stable and mostly in line with the industry. Based off of the gross and profit margins, the company is in a position to cover its' expenses while remaining profitable. While there is a moderate amount of long-term debt, the current ratio of 1.14 will allow the firm to meet its' short-term obligations. However, the quick ratio reveals that a large chunk of current assets is comprised of inventory and will need to be sold to meet these obligations. All in all, the fundamental ratios indicate that Bombardier is financially sound for the foreseeable future and currently undervalued in the struggling economy.

Revenue Growth

17.40% (quarterly)

ROE

39.14%

Current Ratio

1.14

Price to Book

5.88

Gross Margin

14.87%

ROA

3.77%

Quick Ratio

0.38

Profit Margin

4.42%

P/E

7.33

Debt/Capital

78.42%

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CASH FLOW ANALYSIS

Bombardier is sitting in a strong position with a large amount of cash that could act as a buffer for any future crisis that threatens the industry. Free cash flow per share is negative as Bombardier is currently using as much cash as possible for research and development to remain technologically ahead of their competitors. Bombardier is in a competitive industry and needs cash to grow so increases in their already large dividends are unlikely.

Net Cash Position	Dividend	Div. Growth Rate	Price/Cash Flow
\$3.08B	\$ 0.10	0	5.97
FCF Per Share	Dividend Yield	Cash from Operation	
-\$ 0.06	2.65%	\$1.14B	
FCF Yield	Dividend Payout		
-2.42%	26.2376		

TECHNICAL ANALYSIS

Moving Average Convergence - Divergence



The moving average convergence-divergence is a trend-following momentum indicator that shows the relationship between two moving averages of prices. The MACD here is crossing upward over the signal line which suggests that the price is likely to experience upward momentum. This appears to be approaching the 0 line while also not being too dramatic of a rise indicating a sustained increase in price is occurring.

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Relative Strength Index



Relative strength index is a technical momentum indicator that compares the magnitude of recent gains to recent losses. It is used to determine when an asset is overbought or oversold, an asset is deemed to be overbought when it approaches 70 and oversold when it approaches 30. Bombardier is just now coming out from under the 30 level but has not yet surpassed 50. The economy moving out of the recent barrage of crises will likely provide the catalyst needed for upward movement.

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On Balance Volume



On balance volume measures cumulative volume and shows whether this volume is flowing in or out of a security. As the price of Bombardier continues to decline rapidly through September OBV remains relatively stable suggesting that investors believe the decreasing price is not justified.

SELECTION METHODOLOGY

When looking at the multitude of securities in our industry, our initial focus was to search for securities that were close to their 52-week low. From there, we would further analyze and perform technical analysis on a selected few securities. We analyzed Bombardier, as at the time of our research, its price was at a 52-week low, despite having surpassed projected earnings for the last three quarters. With similar industry conditions, the stock is comparable to the trend in the 2009/2010 season. During the same timeframe, the Mac Investment Club purchased 800 Bombardier stocks at \$4.51, gaining 20.62%. After further analysis of the company and its industry, we strongly believe that we can gain at least a 20% return on this stock. We believe that Bombardier's earnings in December will be a positive start to the new year, where they should continue to grow. Analysts on Bloomberg seem to agree, 16 out of 21 analysts are recommending a strong buy (4 holds and 1 sell).

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