

Equities

4 November 2011 | 7 pages

BOMBARDIER (BBDb.TO)

Alert: US-based Maryland Transit Administration Inks US\$154M Order

On Friday morning, Bombardier Transportation reported that the Maryland Transit Administration (MTA) signed a US\$154 million contract, for 54 MultiLevel commuter rail vehicles. According to Bombardier, MTA is the third North America-based transit system to order these passenger rail vehicles. Deliveries are expected to start at or around mid-2013.

We see Bombardier continuing to win orders from a variety of its business segments. However, this order in itself is not large enough as to lead us to adjust our estimates.

We continue to identify Bombardier as our favorite aerospace company (among those CIRA-covered OEMs that currently manufacture sub-120-seat commercial aircraft).

Company Update

Buy	1
Price (03 Nov 11)	C\$4.19
Target price	C\$8.00
Expected share price return	90.9%
Expected dividend yield	2.6%
Expected total return	93.6%
Market Cap	C\$7,370M
	US\$7,317M

Price Performance

(RIC: BBDb.TO, BB: BBD/B CN)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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BOMBARDIER

Valuation

We have a 12-month target price on Bombardier of C\$8.00/b-share. We arrive at this valuation using calendar year 2012 (Canadian dollar) multiples of 6.0x-7.0x EV/EBITDA (75% weight) and 15.0x-18x P/E (25%). EV/EBITDA gets us close to C\$7.30, while P/E gets us closer to C\$10.00. The revised multiple ranges reflect “stress-tested” ranges, versus our normalized long-term fair value ranges of 9x-10x (EV/EBITDA) and 17x-20x (P/E), as we accept that investors are unlikely to be willing to pay the same multiples for global aerospace stocks (in light of a questionable global economic outlook), versus what they might be willing to pay under more normal circumstances.

While we also recognize the merits of other valuation methods (price/book, sum-of-the-parts, etc.) we refrain from employing these tools at the current time – in the case of price/book, we believe that ongoing changes to accounting policy (Canadian companies transitioning over from Canadian GAAP to IFRS accounting), could create too many adjustments. In the case of sum-of-the-parts valuation, trading statistics suggest that Bombardier trades more like an aerospace company, rather than a transportation entity.

Risks

For Bombardier, we see key risks for the company's target price as follows:

1. The long-term cycle for business jets could be much weaker than we currently anticipate, implying that the book-to-bill ratio for this segment could exhibit a trend that is worse than we had expected;
2. In view of the growth of corporate jets vs. commercial aerospace (especially on the lower end of the corporate segment), various governing bodies could act to restrict the use of such jets (higher landing fees, increased requirements on licensing and training, etc.);
3. In the commercial jet segment, we continue to keep a wary eye on the availability of commercial jet financing;
4. On the transportation front, European government budgets for transportation infrastructure could also turn down more quickly than we expect, while China could do the same (in light of recent accidents);
5. The Canadian dollar could strengthen beyond the firm's expectations leading to pressure on Bombardier's operating margins;
6. Bombardier's launch of the C-series aircraft not only risks retaliation from manufacturers of larger jets, but it also remains to be seen exactly how much of this potential investment the company will have to cover; and
7. Investor sentiment towards industrials, deep cyclicals and/or companies with actual (or perceived) significant exposure to the economic cycle could worsen substantially, regardless of how such companies continue to perform from an earnings standpoint. On the upside, corporate jet demand from wealthy private individuals might turn out to be much stronger than we expect (even for aircraft above the “very light” category), leading to a corporate jet cycle that is materially stronger than we expect. If the impact of the above factors is greater than we anticipate, then Bombardier could have difficulty achieving our target valuation (the opposite also holds true).

Appendix A-1

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BOMBARDIER (BBDb.TO)

Ratings and Target Price History Fundamental Research

Analyst: Stephen Trent

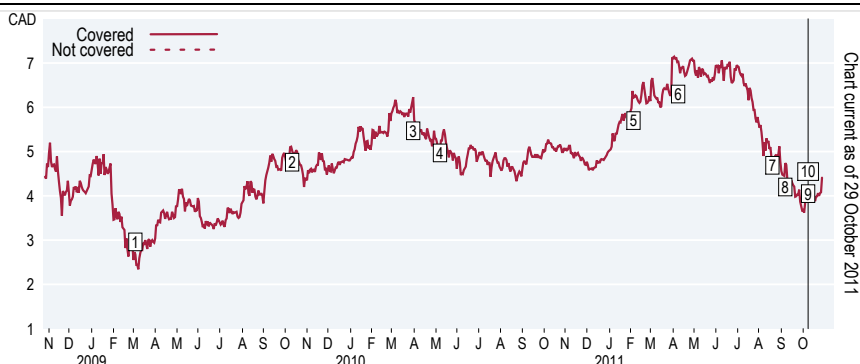


Chart current as of 29 October 2011

	Date	Rating	Target Price	Closing Price
1	4-Mar-09	1S	*6.00	2.68
2	12-Oct-09	*1H	*6.50	5.11
3	31-Mar-10	1H	*8.00	6.23
4	7-May-10	1H	*7.30	5.04

* Indicates change

	Date	Rating	Target Price	Closing Price
5	4-Feb-11	1H	*7.60	6.22
6	8-Apr-11	1H	*9.70	7.05
7	19-Aug-11	1H	*8.60	4.69
8	7-Sep-11	1H	*8.00	4.74

	Date	Rating	Target Price	Closing Price
9	8-Oct-11	Stock rating system changed		
10	8-Oct-11	*1	8.00	3.96

Rating/target price changes above reflect Eastern Standard Time

BOMBARDIER (BBDb.TO)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Stephen Trent

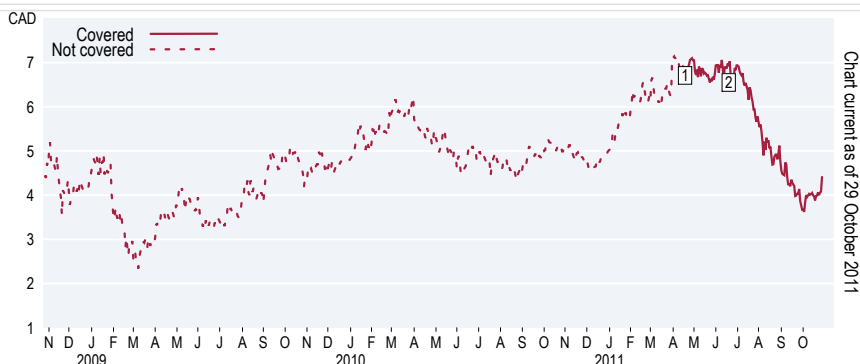


Chart current as of 29 October 2011

	Date	Rating	Target Price	Closing Price
1	19-Apr-11	*ADD MP	-	6.71

* Indicates change

	Date	Rating	Target Price	Closing Price
2	20-Jun-11	*REM MP	-	6.92

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<i>Data current as of 9 Oct 2011</i>	12 Month Rating			Relative Rating		
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