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RBC Flight Deck

Positive trends round out seasonally important summer months

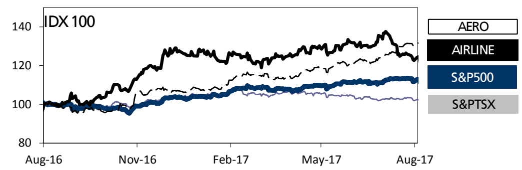
Demand this summer has been extremely strong. Rounding out the seasonally important summer months, traffic trended up significantly in August. We note that both Air Canada and WestJet pointed to strong forward booking curves during their second-quarter conference calls, and have continued to signal strong traffic since then. Notable was that in August, WestJet's capacity was far outstripped by the traffic growth, with RPM growth of 10.6% Y/Y (double our 5% estimate), on top of capacity growth of just 5.6% (vs. our 5.5%). We expect that AC experienced the same trajectory in demand strength, which bodes well for both companies' Q3 results.

Fares stay above last year's levels. After Air Canada and WestJet posted fare growth in the second quarter (excluding the impact from stage length), both carriers continued to post positive fare growth in August as tracked by the RBC Fare Survey. While the RBC Fare Survey tracked a fare price increase of 3.2% y/y and 1.9% y/y for Air Canada and WestJet, respectively, we note fares declined slightly compared to June and July's levels. When considering stage length impacts, we adjust down 250bp for Air Canada and 50bp for WestJet. After these adjustments, yields point to +1.7% for Air Canada (vs our estimate for Q3/17 of -1.2%) and +1.4% for WestJet (vs our estimate of +2.5% for Q3/17).

Bombardier publishes 20-year market forecast. The company's newest estimates are consistent with its previous forecasts and reinforce a rationale for the CSeries family. One notable change since Bombardier's last forecast in 2015 is a drop in demand for aircraft in the 100-150 seat range (from 7,000 to 6,800), which the company attributed to weaker Chinese demand. Despite this, Bombardier notes that its areas of focus are North America and Europe, where it predicts 5,700 aircraft in the 60-150 seat range will be delivered from 2017 to 2036. In dollar terms, Bombardier estimates the market for aircraft in the 60-150 seat range has grown from $650 billion between 2015 and 2034 to $820 billion between 2017 and 2036. The market for the CSeries family (100-150 seats) increased from $460 billion to $580 billion over the same periods.

In This Edition...

INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&PTSX	(0.4)	(1.1)	2.5	▼
S&P 500	0.3	10.1	12.9	Δ
AMEX Airline	(9.1)	(0.9)	24.3	▼
AMEX Aerospace	4.8	24.5	31.9	Δ



COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	1.8	(16.5)	(4.2)	Δ
Jet Fuel	5.2	(3.1)	16.4	Δ
CAD/USD	0.6	(5.3)	(1.5)	Δ
AEROSPACE				
Bombardier	11.0	21.2	33.5	Δ
Boeing	13.7	52.3	78.2	Δ
EADS	(3.8)	14.1	37.8	▼
Embraer	8.5	9.1	11.6	Δ
General Dynamics	(0.4)	16.0	32.2	▼
Textron	(1.4)	0.8	24.8	▼
United Technologies	(5.1)	6.9	7.6	▼
N.A. MAINLINE				
Air Canada	11.2	67.6	155.7	Δ
AMR	(10.0)	4.5	39.8	▼
Delta	(9.2)	1.8	37.7	▼
United	(16.5)	(8.5)	41.6	▼
N.A. REGIONAL				
Alaska	(8.1)	(4.1)	30.1	▼
Allegiant	(12.3)	(25.4)	(1.9)	▼
Chorus Aviation	2.7	9.7	31.9	Δ
JetBlue	(7.5)	(3.3)	28.3	▼
SkyWest	1.0	1.2	29.0	Δ
Southwest	(11.6)	9.8	49.8	▼
WestJet	0.9	13.0	7.4	Δ
INTL. AIRLINES				
Lufthansa	(5.9)	60.2	78.2	▼
Air France/KLM	(7.5)	138.9	135.5	▼
BA/Iberia	(2.2)	39.0	50.4	▼
Cathay Pacific	(9.3)	(32.9)	(38.0)	▼
Air China	(5.3)	43.0	12.0	▼
China Eastern	(9.5)	18.0	(7.1)	▼
China Southern	(5.2)	45.2	6.6	▼
Singapore Airlines	4.5	9.0	(3.7)	Δ
Qantas	5.7	72.7	72.2	Δ

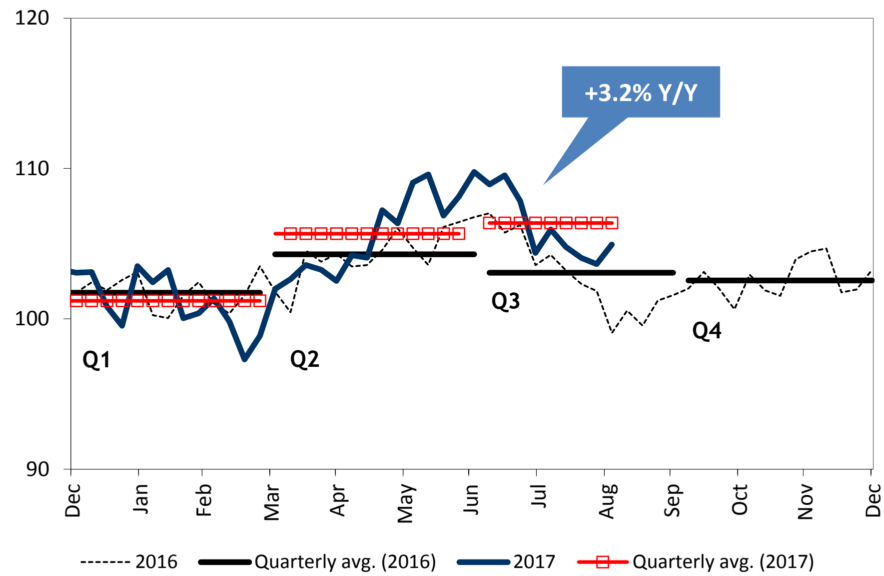
Source: Bloomberg

RBC Fare Survey

We present below the results of our RBC Fare Tracker. This proprietary algorithm provides investors a unique snapshot of Air Canada and WestJet's ticket pricing strategies … and a window into yield growth trends *before* they are announced.

Air Canada

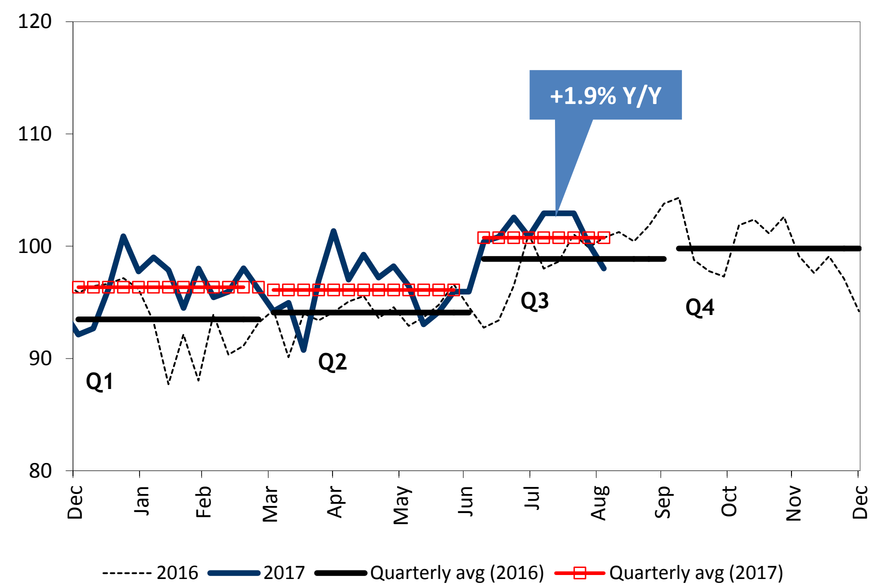
Fares at Air Canada weakened from their peaks in recent months; however, they remain above last year's levels. Domestic and Transborder fares declined slightly, while international and vacation fares saw sustained levels. During August, the RBC Fare Survey tracked fare price increases of +3.2% Y/Y for Air Canada. When adjusting 250bp to account for stage length changes, our tracker points toward a yield increase of +1.7%, above our Q3/17 yield estimate of -1.2%.



Sources: RBC Capital Markets estimates, Company websites

WestJet

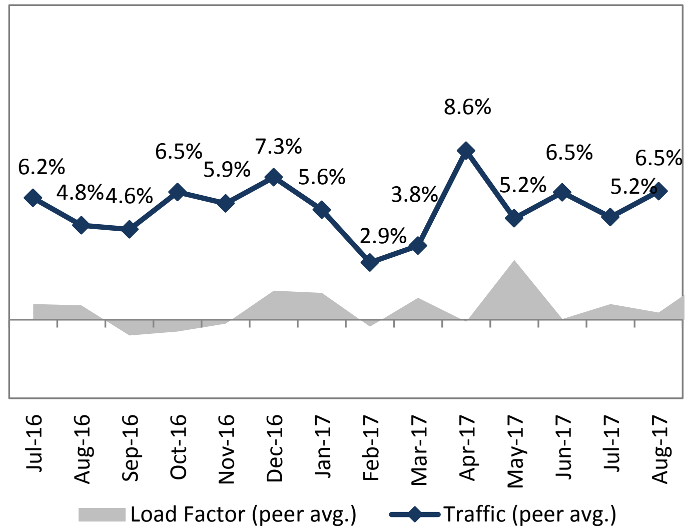
The RBC Fare Survey is still pointing toward fares that are up y/y on a quarterly basis. For August, the RBC Fare Survey Tracker shows prices are up +1.9% Y/Y for WestJet. After adjusting down by 50bp to account for stage length changes, it implies a yield of +1.4%, which is below our Q3/17 yield estimate of +2.5%. While average fares declined below their quarterly average, and even below last year's average, we note that WJA's vacation segment dragged down fares due to the impact of recent hurricanes Harvey and Irma.



Sources: RBC Capital Markets estimates, Company websites

Industry trends

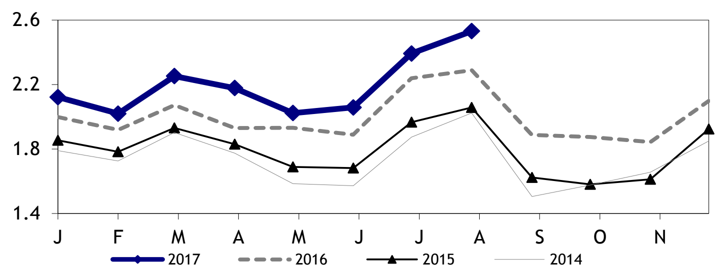
On average, the peer group reported 6.5% traffic growth in August – comfortably above the average capacity growth of 4.5%. After a lull in load factor growth in recent months, the peer group recorded 2.1% growth in August. The YTD monthly average stands at +0.9%.

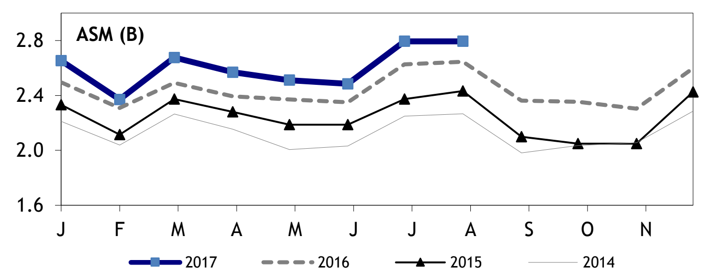


Sources: Company websites, RBC Capital Markets estimates

WestJet

WestJet reported a strong traffic growth rate for the month of August, on comparatively low capacity, resulting in record loads. Traffic was up an impressive 10.6% Y/Y (which was double the 5.0% rate we were assuming), and that came on capacity growth of 5.6% Y/Y (vs. our 5.5%). This led to a system load factor at 90.6% (up 410 points Y/Y). The record-breaking load factor number was achieved while flying an also record 2.3 million guests in August (up 13.8% y/y). We note that WestJet maintained higher load factors Y/Y while growing capacity during the seasonally important summer months.





	August			YTD		
	2017	2016	Δ	2017	2016	Δ
RPMs (B)	2.531	2.289	+10.6%	17.575	16.265	+8.1%
ASMs (B)	2.794	2.646	+5.6%	20.851	19.682	+5.9%
Load Factor	90.6%	86.5%	4.1 pts	84.3%	82.6%	1.7 pts

Metrics

Traffic: Revenue Passenger Miles = RPMs (billions)

Capacity: Available Seat Miles = ASMs (billions)

Utilization: Load Factor = RPMs / ASMs

Source: RBC Capital Markets estimates, Company websites

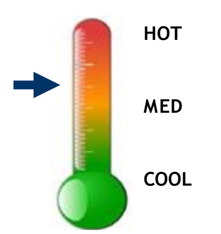
Bombardier New Order Heat Map

We outline order campaigns in which we believe Bombardier Aerospace (BA) is participating. The bigger the heat, the bigger the potential impact on the BBD shares, in our view.

CUSTOMER	TYPE	SIZE / VALUE	TIMING / COMMENTS	HEAT
Qatar Investment Authority	**Commercial:** CSeries	100 potential (~$8B)	QIA and Qatar Air plan to submit a joint application to set up a new Indian carrier according to Bloomberg. Indicated 100 planes needed for the new venture and interest in the CSeries.	
Air Baltic	**Commercial:** CSeries	~12 potential (~$840MM)	Air Baltic's CEO, Martin Gauss, indicated his interest in replacing Air Baltic's expiring Q400 leases with a mix of CS100/CS300 aircraft at the June 2017 Paris Airshow.	
Multiple airlines	**Commercial:** CSeries	Potentially 50+ (~$3.4B)	With eight airlines with Cseries' order commitments (at 200+ aircraft), BBD could announce several conversions to firm orders.	
Chinese Airlines	**Commercial:** CSeries	+20 potential order size (+$1.4B)	BBD flew in the CS300 to Air Show China in July, which generated good interest. With two conditional orders, which includes CDB Leasing (five CS100s and ten CS300s) and Zhejiang Loong Airlines (LOI signed for 20 CS100s) we continue to look for these orders to convert, and potentially new ones in the region.	
Latin American Airlines	**Commercial:** CSeries	Uncertain	Bombardier is set to take the CSeries on a Latin American tour later this year. The plane is set to stop in every country from Mexico to Argentina – according to Bombardier executives.	
JetBlue	**Commercial:** CSeries	Uncertain	Following the Delta win, JetBlue has resumed talks with Bombardier. The CSeries may substitute E-190s for short-haul, high-frequency routes out of Boston.	
AtlasJet	**Commercial:** CSeries	LOI signed for 10 CS300 + 5 options	The LOI was signed November 2011. We expect this order to firm once in-flight data is compiled.	
CityJet	**Commercial:** CSeries	Uncertain	CityJet chose to take 15 Superjets over 12-year leases. A CSeries order is still possible, but timing has likely been pushed out.	

OVERALL HEAT GAUGE

We are maintaining the heat at more elevated levels. With the CSeries now on revenue generating flights, and as performance and dispatch reliability numbers come in, we believe there is a pick-up in interest in the CSeries. We believe demand could further escalate when Delta begins commercial flights with the CSeries next year.



Air Buzz

As part of RBC Flight Deck, we highlight news with implications relevant to the Canadian aerospace industry, in particular as related to Bombardier and CAE.

Bombardier

Narrow-bodies

- **“Dumping” dispute with Boeing becomes increasingly politicized.** Six Republican senators and members of the House of Representatives highlighted that Bombardier has generated $14 billion in economic spin-offs to US suppliers over the past five years in a letter hoping to sway the matter to US Secretary of Commerce Wilbur Ross. On the other side of the Atlantic, Elizabeth May requested Trump intervene in Bombardier’s defense. May’s interests lie in protecting jobs at Bombardier’s plan in Belfast. Ottawa as well is ramping up its defense of Bombardier. Federal officials travelled to Australia to assess the suitability of second hand jets intended to replace the fleet of 18 Super Hornets that Ottawa had previously agreed to buy from Boeing. (Sources: BNN August 28; Bloomberg, September 11; Globe and Mail, September 5).
- **Two US airlines come to Bombardier’s defense.** With the US Commerce Department scheduled to release preliminary findings about Boeing’s “dumping” allegations levied on Bombardier, two more US airlines have come out in Bombardier’s defense. Sun Country and Spirit Airlines wrote letters to the US International Trade Commission and Commerce Department arguing that duties on Bombardier will be detrimental to the US airline industry. Spirit noted that Airbus and Boeing do not manufacture planes in the 100-140 seat class. (Source: Air Insight, September 7).
- **Bombardier released its 20-year market forecast.** The company projects 12,550 aircraft worth $820 billion will be sold in the 60-150 seat range, with 100-150 seat aircraft capturing 70% of the market. The forecast is in-line with estimates done in previous years by the company, and attests to its strategy behind the CSeries. (Source: Bombardier, September 12).

Regional Jets

- **NAFTA will not influence shift of Q400 component work.** Bombardier reiterated the decision to shift component work of the Q400 from Toronto to a lower cost center like Mexico will be unaffected by NAFTA negotiations. Given the tone coming out of Washington, some Canadian companies are worried that a renegotiated trade deal will increase the cost of having manufacturing capacity in Mexico. (Source: Montreal Gazette, September 12).

Business Jets

- **Bombardier breaks new ground in Latin America.** On August 14, the company delivered its first Learjet 75 in Brazil. In Argentina, Bombardier delivered its first Challenger 350 aircraft in August as well. The Latin American market is the third largest for business aviation deliveries. While these deliveries are a first in their respective countries for Bombardier, they add to a fleet of over 500 Learjets and 175 Challengers and Globals in Latin America. (Sources: AIN Online, August 14; Bombardier, August 15).
- **Global 7000 aircraft program still on track**. On August 15, the engine of a Global 7000 plane experienced an in-flight flameout while flying at 41,000 ft. The plane then returned to base and landed safely. Bombardier has concluded the event was an isolated incident, and reaffirmed the certification timeline for the Global 7000 remains intact (Source: Flight Global, August 22).

CAE

Civil

- **017 Civil Full Flight Simulator census data counts 41 additional FFS over last year, now at 1,623 worldwide; CAE leads with 47% market share:** According to the 2017 census, CAE maintains its leadership with no less than 755 FFS currently in service, representing nearly 47% of the world total of 1,623, and 31 more than last year. FlightSafety International (FSI) follows with 345 FFS, and L3 CTS with 259 FFS in service. Of the 1600+ full flight simulators, 550 are for Boeing, followed by 410 for Airbus and 134 for Bombardier. Textron Group aircraft have nearly 170 FFS in service, with potential for TRU S+T to increase its market share in FFS sales. (CAT Magazine, Aug 29, 2017)
- **CAE incorporates Big Data to improve pilot training process:** CAE announced that they have entered into a partnership with Tech3Lab to conduct research around pilot simulator training. The purpose of the research is to use biometrics, neuroscience and big data to analyze the pilot user experience during simulator training. (CAE, Sep 12, 2017)

Military

- **Canada USAF begins initiatives to address the growing pilot shortage:** The USAF (United States Air Force) is currently undergoing three key initiatives to address the pilot shortage issue. Starting in October, aviation incentive pay for officers and enlisted pilots will be increased, marking USAF's first flight pay increase since 1999. In addition, beginning in August, the incentive program will now be expanded to include both non-contracted and contract-expired pilots to increase the retention of trained aviators. USAF also intends to return retired pilots back to service to fill staff positions. USAF notes that the military branch was ~1,500 pilots short of need at the end of 2016, and the deficit is anticipated to increase. (MS&T Magazine, Aug 28, 2017)

The Landing Strip

SAE 2017 Aerotech Congress & Exhibition

When:	September 26 to 28
Where:	Ft. Worth, Texas
What:	The Aerotech Exhibition is dedicated to enhancing the knowledge of aerospace professionals in all specialty fields. Experts in fields such as manufacturing, avionics, and electrical will discuss technological advancements and product innovations.
The Buzz:	With close to 2,000 aerospace and engineering professionals and the support of Lockheed Martin, the Aerotech Congress & Exhibition will be an opportunity to connect and focus on moving the industry forward.

Appendix 1: Airline Comparables

	Symbol		13-Sep-17 Price	EV/EBITDAR 2015	EV/EBITDAR 2016	EV/EBITDAR 2017E	EV/EBITDAR 2018E	EV/Sales 2015	EV/Sales 2016	EV/Sales 2017E	EV/Sales 2018E	EBITDAR Margin 2015	EBITDAR Margin 2016	EBITDAR Margin 2017E	EBITDAR Margin 2018E	2018E FCF yield	Net Debt to EBITDAR	EV (MM)
Discount Airlines																		
WestJet	WJA-CA	C$	$25.85	5.2x	5.5x	5.3x	4.9x	1.3x	1.3x	1.2x	1.1x	25%	24%	22%	23%	2.1%	1.7x	5,282
Southwest	LUV-US	US$	$54.66	6.6x	6.3x	6.5x	5.8x	1.8x	1.7x	1.7x	1.6x	27%	27%	25%	27%	7.6%	0.4x	35,188
JetBlue	JBLU-US	US$	$19.35	4.8x	4.4x	4.8x	4.6x	1.3x	1.3x	1.2x	1.1x	28%	30%	25%	24%	8.1%	1.2x	8,638
Discount Average				**5.5x**	**5.4x**	**5.6x**	**5.1x**	**1.5x**	**1.4x**	**1.4x**	**1.3x**	**27%**	**27%**	**24%**	**25%**	**5.9%**	**0.8x**	
Mainline Airlines																		
Air Canada	AC-CA	C$	$23.59	5.2x	4.8x	4.6x	4.0x	1.0x	0.9x	0.8x	0.8x	18%	19%	18%	20%	10.1%	2.0x	13,297
Delta Air Lines	DAL-US	US$	$48.98	5.0x	5.0x	5.0x	4.7x	1.1x	1.1x	1.1x	1.0x	21%	22%	21%	22%	13.4%	0.8x	43,064
United Continental	UAL-US	US$	$61.66	4.0x	4.3x	4.9x	4.5x	0.9x	0.9x	0.9x	0.8x	21%	21%	18%	18%	14.1%	1.9x	32,348
American Airlines	AAL-US	US$	$47.00	4.9x	4.8x	5.4x	5.2x	1.1x	1.1x	1.1x	1.0x	22%	23%	20%	20%	15.8%	2.5x	44,508
Mainline Average				**4.8x**	**4.7x**	**5.0x**	**4.6x**	**1.0x**	**1.0x**	**1.0x**	**0.9x**	**21%**	**21%**	**19%**	**20%**	**13.4%**	**1.8x**	
Regional Airlines																		
Chorus Aviation	CHR-CA	C$	$8.41	8.0x	7.7x	6.8x	6.2x	1.6x	1.9x	1.8x	1.8x	20%	25%	27%	29%	-6.1%	3.8x	2,486
SkyWest Inc.	SKYW-US	US$	$39.50	5.9x	5.9x	6.0x	6.2x	2.1x	2.1x	2.0x	2.1x	36%	35%	34%	33%	15.9%	4.2x	6,434
Regional Average				**6.9x**	**6.8x**	**6.4x**	**6.2x**	**1.8x**	**2.0x**	**1.9x**	**1.9x**	**28%**	**30%**	**30%**	**31%**	**4.9%**	**4.0x**	
Airline Average				**5.5x**	**5.4x**	**5.5x**	**5.1x**	**1.3x**	**1.4x**	**1.3x**	**1.3x**	**24%**	**25%**	**23%**	**24%**	**9.0%**	**2.1x**	

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada, Chorus Aviation, and WestJet. Priced at the close on September 13, 2017

Appendix 2: Aerospace Comparables

Company	Exch: Ticker		13-Sep Price	CY EPS[1] 2015	2016	2017E	2018E	CY PER 2015	2016	2017E	2018E	CY EV/EBITDA[1] 2015	2016	2017E	2018E	Mkt Cap B
Aerospace																
Boeing*	NYSE:BA	US$	$241.93	$7.72	$7.24	$9.90	$10.64	30.6x	32.6x	23.9x	22.2x	14.9x	18.3x	12.0x	11.4x	$143.0
Embraer	NYSE: ERJ	US$	$23.92	$1.48	$1.58	$1.43	$1.47	15.8x	14.8x	16.5x	15.9x	6.8x	6.2x	6.3x	6.1x	$4.4
General Dynamics*	NYSE: GD	US$	$196.85	$9.08	$8.64	$9.80	$10.53	21.9x	23.0x	20.3x	18.9x	13.2x	14.7x	13.2x	12.4x	$58.9
Textron	NYSE: TXT	US$	$52.35	$2.50	$2.62	$2.52	$2.95	19.6x	18.7x	19.4x	16.6x	10.2x	10.2x	10.4x	9.1x	$13.9
Average								**22.0x**	**22.3x**	**20.0x**	**18.4x**	**11.3x**	**12.3x**	**10.5x**	**9.8x**	
Transportation & Conglomerates																
Siemens	XE: SIE	EUR	116.90	6.17	6.93	7.86	8.08	18.9x	16.9x	14.9x	14.5x	13.8x	12.2x	11.0x	10.4x	$99.4
General Electric	NYSE: GE	US$	$24.11	$1.31	$1.49	$1.57	$1.71	18.4x	16.2x	15.4x	14.1x	15.1x	16.6x	14.8x	13.8x	$208.7
United Technologies	NYSE: UTX	US$	$110.28	$6.30	$6.61	$6.58	$6.89	17.5x	16.7x	16.8x	16.0x	9.5x	9.9x	9.8x	9.5x	$88.1
Average								**18.3x**	**16.6x**	**15.7x**	**14.9x**	**12.8x**	**12.9x**	**11.9x**	**11.3x**	
Aerospace Multiples								22.0x	22.3x	20.0x	18.4x	11.3x	12.3x	10.5x	9.8x	
Transportation Multiples (ex. GE, UTX)								18.9x	16.9x	14.9x	14.5x	13.8x	12.2x	11.0x	10.4x	
Average								**20.5x**	**19.6x**	**17.4x**	**16.4x**	**12.5x**	**12.3x**	**10.7x**	**10.1x**	
Bombardier	**TSX: BBD.B**	**C$**	**$2.40**	**$0.16**	**-$0.15**	**$0.00**	**$0.09**	**12.2x**	**nmf**	**nmf**	**21.8x**	**11.7x**	**14.5x**	**11.8x**	**7.8x**	**$5.3**

** Covered by RBC Capital Markets, LLC Aerospace and Defense analyst Matthew McConnell*

(1) Peer group consensus EPS and EBITDA estimates sourced from FactSet

Sources: Company reports, FactSet, and RBC Capital Markets estimates. Priced at the close on September 13, 2017

Companies mentioned

Air Canada (TSX: AC CN; C$23.59; Top Pick; Speculative Risk)
Bombardier Inc. (TSX: BBDb.TO; C$2.40; Outperform; Speculative Risk)
CAE Inc. (TSX: CAE.TO; C$20.25; Sector Perform)
Chorus Aviation Inc. (TSX: CHR.TO; C$8.41; Outperform)
WestJet Airlines Ltd. (TSX: WJA.TO; C$25.85; Sector Perform)

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A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Air Canada during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Air Canada.

RBC Capital Markets is currently providing Air Canada with non-securities services.

RBC Capital Markets has provided Air Canada with non-securities services in the past 12 months.

The Class A shares of Air Canada are variable voting shares.

Kathleen P. Taylor, the Chair of the Board of Royal Bank of Canada, is a Director of Air Canada.

RBC Dominion Securities Inc. makes a market in the securities of Bombardier Inc..

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RBC Capital Markets is currently providing Bombardier Inc. with non-securities services.

RBC Capital Markets has provided Bombardier Inc. with non-securities services in the past 12 months.

The class B shares of Bombardier Inc. are subordinate voting shares.

Diane Fontaine, an Investment Advisor with RBC Investments, is an Advisory Council Member of Bombardier Inc.

The class A shares of Bombardier Inc. are multiple voting shares.

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RBC Dominion Securities Inc. makes a market in the securities of CAE Inc..

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Michael Fortier, Vice Chairman at RBC is a Board member at CAE Inc.

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RBC Dominion Securities Inc. makes a market in the securities of Chorus Aviation Inc..

RBC Capital Markets has provided Chorus Aviation Inc. with investment banking services in the past 12 months.

The Class A shares of Chorus Aviation Inc. are variable voting shares.

RBC Dominion Securities Inc. makes a market in the securities of WestJet Airlines Ltd..

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RBC Capital Markets is currently providing WestJet Airlines Ltd. with non-securities services.

RBC Capital Markets has provided WestJet Airlines Ltd. with non-securities services in the past 12 months.

The Class A shares of WestJet Airlines Ltd. are variable voting shares.

An analyst involved in the preparation of this report has visited material operations of Bombardier Inc., and more specifically, the facilities of Bombardier Inc., which includes but is not limited to mines, distribution centres, warehouses, production plants and/ or other facilities related to the day-to-day operation of Bombardier Inc. as applicable.

Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

Ratings

Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Rating

As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

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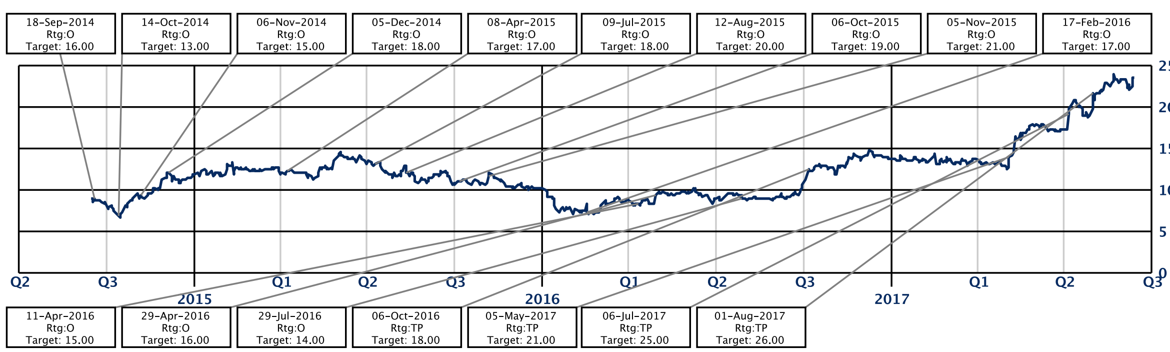
Distribution of ratings
RBC Capital Markets, Equity Research
As of 30-Jun-2017

			Investment Banking Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [Top Pick & Outperform]	**826**	**52.01**	**293**	**35.47**
HOLD [Sector Perform]	**657**	**41.37**	**144**	**21.92**
SELL [Underperform]	**105**	**6.61**	**7**	**6.67**

Rating and price target history for: Air Canada as of 13-Sep-2017 (in CAD)



Legend:
TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list; Rtg: Rating.

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Rating and price target history for: Bombardier Inc. as of 13-Sep-2017 (in CAD)

Legend:
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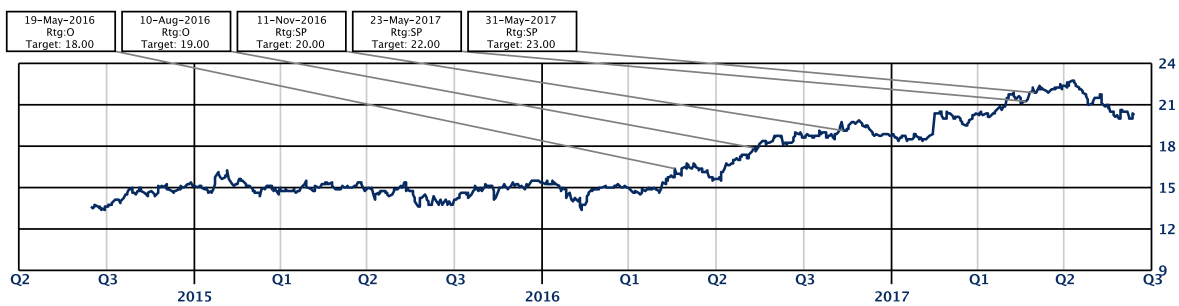
Rating and price target history for: CAE Inc. as of 13-Sep-2017 (in CAD)



Legend:
TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list; Rtg: Rating.

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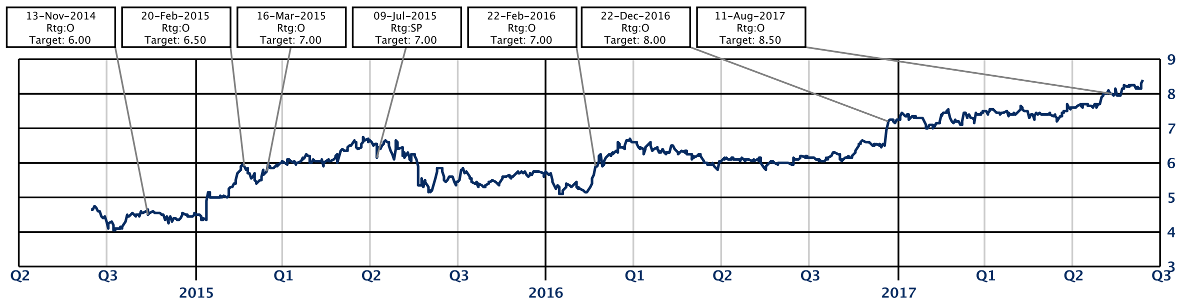
Rating and price target history for: Chorus Aviation Inc. as of 13-Sep-2017 (in CAD)



Legend:
TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list; Rtg: Rating.

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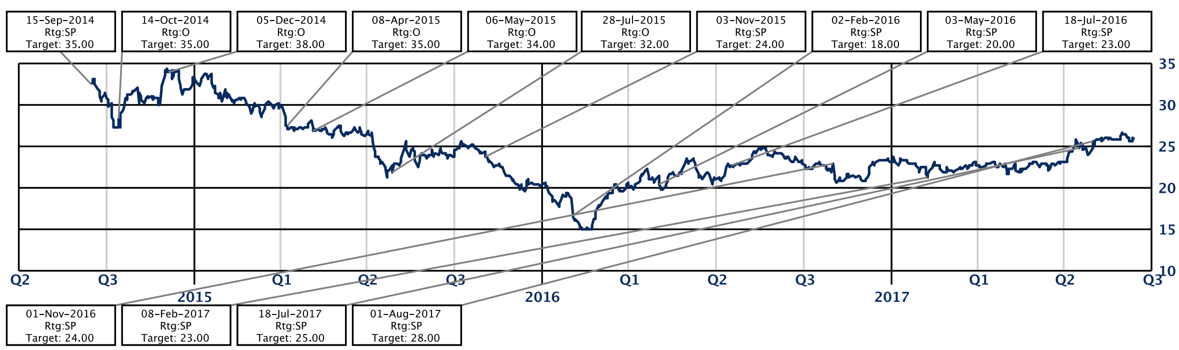
Rating and price target history for: WestJet Airlines Ltd. as of 13-Sep-2017 (in CAD)



Legend:
TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list; Rtg: Rating.

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References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12), and former lists called the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Midcap 111 (RL 9), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

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Air Canada

Valuation

On a 4.2x EV/EBITDAR applied to our 2018 estimates, we derive our price target of $26.00. Our EBITDAR multiple remains in line to the peer legacy group average and lower end of the historical multiple range, taking into account Air Canada's high balance sheet leverage. Our base case reflects the following assumptions: (1) modest yield declines due to changing business mix related to AC's strategic transformation; (2) fleet expansion and strong demand to drive traffic growth; and (3) jet fuel prices to remain relatively range-bound at current levels. Our price target supports our Top Pick, Speculative risk rating. Due to high debt leverage and operating in a cyclical sector, we believe a Speculative Risk qualifier is warranted.

Risks to rating and price target

Risks to our target and rating include but are not limited to very high operating leverage given a fixed-cost structure, above-average sensitivity to the economy, exposure to volatile fuel prices and the risk of terrorism and epidemics. This is a very competitive industry in which WestJet is capturing domestic market share. Air Canada is only partially hedged to changes in jet fuel prices.

Bombardier Inc.

Valuation

Our C$3.00 price target is based on our EPS estimate for 2021 of $0.28, discounted back to 2018, where we apply a peer P/E multiple to Bombardier Transportation and a 20% valuation discount to our Bombardier Aerospace multiple against the aerospace peers. While program risk remains, we believe recent progress on new program development and increased liquidity support a lower risk discount to Bombardier Aerospace. We believe that by taking our 2021 EPS into consideration, we are adequately reflecting both the developmental risk and cost of the CSeries while also capturing the potential and anticipated EPS upside of the program. Our price target and implied return support our Outperform rating. The Speculative Risk qualifier is owing to the company's high debt level during a period of significant investments in new products.

Risks to rating and price target

Risks to our estimates, price target, and rating include but are not limited to the performance of the global airline industry, possible changes to Bombardier's credit rating, demand from railways for Bombardier trains, and demand for commercial and business jets. For these reasons, our earnings estimates are more at risk than for most companies.

CAE Inc.

Valuation

Our 12-month price target is based on a blend of P/E, EV/EBITDA, and DCF metrics, applied to our estimates on a rolling two-year forward basis. We apply target multiples of 10x EV/EBITDA and 18x P/E to our 2-year forward (FQ2/19E–FQ1/20E) estimates to reflect recent trading multiples in line with A&D peers with similar commercial/military exposure. Our price target of $23 supports our Sector Perform rating.

Risks to rating and price target

- Global military expenditures, particularly US expenditures, decline significantly, overly impacting simulator/training demand in the military segment.
- Competitive pressures from new upstarts and integrated aerospace/defense companies could impact revenues and margin, particularly in the event of an economic downturn.
- Decline in financial health of airline operators / manufacturers that may place airplane purchases on hold.
- Intensifying competitive environment as aerospace and defence companies consolidate or develop greater capabilities around the simulation and training space.
- FX fluctuations, particularly with a strengthening C$, could negatively impact financial results.

Chorus Aviation Inc.

Valuation

Our $8.50 price target on CHR shares is derived from a EV/EBITDAR multiple approach, supported by our discounted cash flow valuation analysis. We are applying a 6.5x EBITDAR multiple to our 2018E EBITDAR at $400MM, which is a premium to the regional jet peers owing to the anticipated growth and diversification into regional aircraft leasing. This generates our $8.00 price target, which is the basis of our Outperform rating.

Risks to rating and price target

Chorus Aviation's revenues and operating earnings are highly dependent on the CPA with Air Canada. The CPA agreement provides for a fixed fee per aircraft and other services rendered. Significant changes in the average daily utilization of aircraft by Air Canada covered by the CPA could impact the revenues and earnings generated under the CPA. Increases in Controllable Costs above the level estimated would reduce the margins earned on Scheduled Flights Revenue.

WestJet Airlines Ltd.

Valuation

Our $28 price target is based on an EV/EBITDAR approach whereby we apply a 5.0x multiple to our 2018 estimate and is the basis of our Sector Perform rating. Our target multiple is a slight discount to recent LCC peer multiples, reflective of the execution risk and costs associated with the company's international and regional growth strategy.

Risks to rating and price target

Risks to our price target and rating include but are not limited to the price of jet fuel, which is tied to oil prices, the strength of the domestic economy, the competitive environment, and the ability to maintain a growth company valuation. Airline stocks in general are volatile and can significantly underperform or outperform the broader market on sentiment.

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