



April 16, 2024

## RBC Elements™: Q1/24 Flight Deck

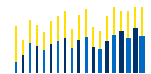
### Q1 Airlines & Aerospace Preview

**Our view:** In this report, we update our estimates for AC, BBD and CHR noting valuations across our coverage remain at the lower end of their historical ranges. Our Cdn Airlines & Aerospace Heatmap powered by RBC Elements™ points to mixed leading indicators and strong coincident indicators (see Exhibit 1), with indications of stronger business travel (consistent with US peers), something we are keeping an eye on. Looking ahead, we believe airlines will remain pressured by lower fares and higher costs namely labour, with lower fuel (vs. last year) providing some reprieve. Additionally, our Bizjet Heatmap shows continued positive trends in utilization, used inventory, and wealth creation, which we view as tailwinds for BBD. BBD remains our top pick in airline/aerospace coverage on the back of a solid near-term demand backdrop, which we expect to support a meaningful FCF inflection in 2025. We also flag EIF as being attractively valued, and do not believe an uptick in growth from upcoming air ambulance contracts is appropriately reflected in the shares at current values.

#### Q1 estimate revisions

- **AC: Q1 estimate lower on higher fuel costs and below consensus; price target unchanged at \$18; reaffirm Sector Perform rating.** We are lowering our Q1/24 estimate to \$468MM (from \$495MM), below consensus of \$513MM, strictly on increased fuel prices. Our 2024 estimate of \$3,417MM remains unchanged below consensus of \$3,858MM and guidance of \$3.75B to \$4B as we see multiple headwinds facing the airline industry, including the sustainability of higher fares, supply-chain challenges, MRO delays, and high operating costs.
- **BBD: Q1 estimate unchanged and slightly above consensus; price target unchanged at \$95; reaffirm Outperform rating.** We are maintaining our Q1/24 EBITDA estimate of \$234MM, slightly above consensus of \$226MM. While our full year aircraft production estimate is unchanged at 150, we adjusted Challenger/Global mix and now forecast Challenger growth of +19% y/y and Global production flat y/y reflecting supply chain challenges highlighted last quarter. Our 2024 EBITDA estimate therefore decreases to \$1,322MM (from \$1,356MM), a touch below consensus \$1,332MM and in line with guidance of \$1.30B - \$1.35B. Our 2025 EBITDA and FCF estimates of \$1,645MM and \$917MM, respectively, remain unchanged and in line with the company's 2025 targets for EBITDA of >\$1,625MM and FCF of >\$900MM. Our target price remains at \$95 on our unchanged 2025 EBITDA estimate and target multiple of 6.5x. BBD remains our top idea.
- **CAE: FQ4 estimate unchanged and in line with consensus; price target remains at \$34; maintain Outperform.** Our FQ4 EBITDA estimate remains at \$318MM in line with consensus \$319MM. Our F24 Civil adj. operating income estimate of +15% aligns with guidance for growth of mid-to-high teen. In terms of F25 guidance, we expect management to guide to Civil operating income growth of “double-digit”, which compares to consensus +10% and our +14% - we expect solid demand trends and a strong FQ4 margin exit rate as driving above consensus Civil growth in F25. Target price remains at \$34 on our unchanged target multiple of 11.2x.
- **CHR: Q1 estimates lower on asset sales; price target unchanged at \$3.50; reaffirm Outperform rating.** We are lowering our Q1/24 EPS estimate to \$0.06 (from \$0.08), slightly above consensus of \$0.05, due to the cadence of realized asset sales announced during the quarter and the flow-through impact on leasing revenue. Target price remains at \$3.50 on our unchanged target multiple of 10x.
- **EIF: Q1 estimate unchanged and below consensus; price target remains at \$65; maintain Outperform.** Our Q1 estimate is unchanged into the quarter at \$107MM, below consensus \$110MM on lower Manufacturing EBITDA, reflecting the uncertainty surrounding Northern Mat and weak industrial indicators. Our 2024 estimate remains at \$624MM, in line with consensus \$623MM, in the mid to high range of 2024 guidance for EBITDA of \$600–635MM. We continue to value the shares using a blended target multiple of 7.5x, and price target remains at \$65.

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Priced as of prior trading day's market close, EST (unless otherwise noted). All values in CAD unless otherwise noted  
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**For Required Non-U.S. Analyst and Conflicts Disclosures, see page 21**



## Summary of ratings and price targets

| Company                     | Ticker   | New Rating     | Previous Rating | Market Cap(MM) | Price | New Price Target | Previous Price Target | % Change | Implied All-in Return % |
|-----------------------------|----------|----------------|-----------------|----------------|-------|------------------|-----------------------|----------|-------------------------|
| <b>James McGarragle</b>     |          |                |                 |                |       |                  |                       |          |                         |
| Air Canada                  | AC CN    | Sector Perform | Sector Perform  | CAD 7,055      | 18.42 | 18.00            | 18.00                 | --       | (2)                     |
| Bombardier Inc.             | BBD/B CN | Outperform     | Outperform      | CAD 5,668      | 56.95 | 95.00            | 95.00                 | --       | 67                      |
| CAE Inc.                    | CAE CN   | Outperform     | Outperform      | CAD 8,415      | 26.37 | 34.00            | 34.00                 | --       | 30                      |
| Chorus Aviation Inc.        | CHR CN   | Outperform     | Outperform      | CAD 417        | 2.14  | 3.50             | 3.50                  | --       | 64                      |
| Exchange Income Corporation | EIF CN   | Outperform     | Outperform      | CAD 2,151      | 45.77 | 65.00            | 65.00                 | --       | 48                      |

Source: Bloomberg and RBC Capital Markets estimates

### Exhibit 1 - Canadian Airlines Heatmap powered by RBC Elements

| Airlines Heat Map                                   |  | High/Low | 1Q20    | 2Q20    | 3Q20    | 4Q20    | 1Q21    | 2Q21    | 3Q21    | 4Q21    | 1Q22    | 2Q22    | 3Q22    | 4Q22    | 1Q23    | 2Q23    | 3Q23    | 4Q23    | 1Q24    |
|---|--|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Macro Indicators Y/Y</b>                         |  |          |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| US GDP*   |  |          | (4.6%)  | (29.9%) | 35.3%   | 3.9%    | 6.3%    | 7.0%    | 2.7%    | 7.0%    | (1.6%)  | (0.6%)  | 3.2%    | 2.6%    | 2.2%    | 2.1%    | 4.9%    | 3.4%    | 2.0%    |
| CAD GDP**   |  |          | (8.3%)  | (37.1%) | 41.3%   | 8.8%    | 5.3%    | (2.3%)  | 5.9%    | 6.9%    | 2.6%    | 3.6%    | 2.3%    | (0.1%)  | 2.6%    | 1.4%    | (0.5%)  | 1.0%    | 1.8%    |
| Jet Fuel  |  |          | (25.1%) | (60.2%) | (42.4%) | (37.1%) | 10.6%   | 129.5%  | 77.4%   | 86.1%   | 85.3%   | 148.9%  | 77.8%   | 55.1%   | 13.4%   | (46.9%) | (15.6%) | (20.0%) | (17.7%) |
| US Disposable Income                                |  |          |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| <b>Returns (vs 2019)</b>                            |  |          |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Cdn Airlines & Aerospace Index Return               |  |          | (63.2%) | (56.5%) | (59.7%) | (39.6%) | (29.1%) | (25.6%) | (16.9%) | (28.2%) | (26.5%) | (40.0%) | (46.2%) | (23.5%) | (11.8%) | (14.4%) | (28.1%) | (27.1%) | (24.3%) |
| North American Airlines Index return                |  |          | (57.6%) | (51.4%) | (50.8%) | (28.5%) | (10.0%) | (16.5%) | (18.7%) | (31.2%) | (33.8%) | (56.3%) | (61.8%) | (59.3%) | (55.1%) | (47.8%) | (62.9%) | (56.4%) | (54.5%) |
| European Airlines Index Return                      |  |          | (54.2%) | (43.1%) | (56.0%) | (31.5%) | (31.0%) | (34.8%) | (35.2%) | (44.2%) | (48.2%) | (55.4%) | (53.6%) | (23.2%) | (18.5%) | (14.8%) | (11.1%) | (23.1%) | (14.8%) |
| Asian Airlines Index Return                         |  |          | (40.0%) | (25.6%) | (23.8%) | 3.6%    | 11.6%   | 16.3%   | 6.0%    | 1.6%    | 0.3%    | (12.3%) | (19.0%) | (7.4%)  | (5.4%)  | (6.7%)  | (11.1%) | (10.7%) | (6.9%)  |
| <b>Leading Indicators (Powered by RBC Elements)</b> |  |          |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| RBC Canadian Airfare Index                          |  |          |         |         |         |         |         |         |         |         | 102.0   | 103.8   | 99.0    | 101.0   | 99.5    | 100.4   | 101.2   | 99.5    | 101.0   |
| CAD Airfare CPI Y/Y                                 |  |          | 8.5%    | 7.8%    | (9.7%)  | (7.7%)  | (3.2%)  | (3.7%)  | 15.4%   | 17.9%   | 7.5%    | 14.9%   | 28.7%   | 18.2%   | 9.0%    | (4.2%)  | (17.8%) | (15.2%) | (9.3%)  |
| US Airfare CPI Y/Y                                  |  |          | (1.8%)  | (26.8%) | (24.0%) | (18.5%) | (20.8%) | 19.2%   | 8.7%    | (2.3%)  | 13.7%   | 35.0%   | 34.3%   | 35.7%   | 23.2%   | (11.5%) | (15.1%) | (11.6%) | (7.0%)  |
| RBC GOAT Index Y/Y                                  |  |          | (8.3%)  | (50.4%) | (41.7%) | (34.6%) | (25.3%) | 79.8%   | 47.3%   | 43.6%   | 39.2%   | 9.6%    | 13.7%   | 4.7%    | 3.8%    | (2.4%)  | (1.1%)  | (1.1%)  | (5.3%)  |
| Corporate Travel Search Interest Y/Y                |  |          | 28.7%   | (25.6%) | (10.9%) | (39.5%) | (48.3%) | (25.1%) | (16.7%) | 1.5%    | (3.6%)  | 13.3%   | 14.1%   | (8.6%)  | 17.4%   | 12.3%   | 0.7%    | 30.3%   | 28.7%   |
| AC Travel Search Interest Y/Y                       |  |          | 37.0%   | (30.7%) | (36.0%) | (20.0%) | (33.5%) | (22.0%) | 46.3%   | 28.3%   | 23.5%   | 162.4%  | 70.2%   | 48.0%   | 71.0%   | 24.8%   | 7.7%    | 3.4%    | 4.1%    |
| US Travel Search Interest Y/Y                       |  |          | 29.4%   | (30.9%) | (28.7%) | (22.5%) | (13.0%) | 37.7%   | 39.4%   | 15.8%   | 0.2%    | 8.1%    | 20.0%   | 35.6%   | 32.0%   | 22.5%   | 0.9%    | (3.5%)  | 4.5%    |
| Cdn Travel Search Interest Y/Y                      |  |          | 31.1%   | (35.2%) | (41.4%) | (30.6%) | (45.1%) | (31.9%) | 45.6%   | 32.2%   | 42.7%   | 195.3%  | 75.3%   | 60.9%   | 73.2%   | 23.8%   | 11.6%   | 1.8%    | 7.7%    |
| Cdn Non-Mainline Search Interest Y/Y                |  |          | 6.0%    | (46.5%) | (45.8%) | (54.2%) | (70.8%) | (18.0%) | 93.2%   | 191.2%  | 277.7%  | 358.4%  | 130.5%  | 75.5%   | 124.9%  | 25.5%   | 21.1%   | 6.9%    | 15.7%   |
| % of Cdn Non-Mainline Fleet                         |  |          | 14.2%   | 13.2%   | 12.7%   | 13.1%   | 13.9%   | 14.6%   | 15.0%   | 15.9%   | 16.7%   | 15.8%   | 16.8%   | 21.3%   | 22.3%   | 23.0%   | 18.1%   | 19.1%   | 18.6%   |
| % of Cdn Non-Mainline Flights                       |  |          | 0.9%    | 0.9%    | 1.4%    | 2.1%    | 0.8%    | 2.9%    | 5.5%    | 9.4%    | 6.9%    | 11.5%   | 13.2%   | 12.7%   | 12.9%   | 15.6%   | 16.0%   | 15.7%   | 14.3%   |
| <b>Coincident Indicators (vs 2019)</b>              |  |          |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Global RPKs***                                      |  |          | (21.5%) | (90.7%) | (76.0%) | (70.2%) | (71.3%) | (62.7%) | (54.2%) | (47.2%) | (45.5%) | (32.6%) | (26.0%) | (24.5%) | (14.3%) | (6.4%)  | (3.8%)  | (1.7%)  | 2.7%    |
| Global ASKs**                                       |  |          | (14.4%) | (84.4%) | (65.6%) | (58.4%) | (59.5%) | (53.3%) | (45.0%) | (39.5%) | (29.8%) | (24.1%) | (24.1%) | (12.0%) | (5.6%)  | (3.5%)  | (2.4%)  | 2.7%    |         |
| Canadian RPKs**                                     |  |          | (15.7%) | (96.8%) | (91.0%) | (89.2%) | (93.0%) | (93.6%) | (72.6%) | (53.9%) | (57.0%) | (27.7%) | (17.7%) | (10.8%) | (10.6%) | (5.0%)  | (4.3%)  | (0.2%)  | 1.9%    |
| Canadian ASKs**                                     |  |          | (9.1%)  | (92.5%) | (82.7%) | (79.3%) | (86.7%) | (87.6%) | (67.0%) | (44.6%) | (46.0%) | (23.9%) | (16.9%) | (11.2%) | (12.4%) | (6.4%)  | (6.9%)  | (1.7%)  | (0.1%)  |
| Canadian Load Factors***                            |  |          | 76.4%   | 35.3%   | 44.8%   | 42.5%   | 43.5%   | 43.1%   | 71.7%   | 68.1%   | 65.9%   | 80.5%   | 85.6%   | 82.2%   | 85.2%   | 86.3%   | 88.9%   | 83.0%   | 83.1%   |
| North American RPKs***                              |  |          | (12.9%) | (91.8%) | (77.7%) | (68.9%) | (63.6%) | (43.6%) | (29.8%) | (22.7%) | (19.4%) | (10.4%) | (8.2%)  | (4.9%)  | (1.5%)  | 1.6%    | 2.9%    | 5.3%    | 6.7%    |
| North American ASKs***                              |  |          | (4.8%)  | (80.2%) | (61.1%) | (50.8%) | (45.3%) | (33.6%) | (22.7%) | (17.3%) | (14.7%) | (10.8%) | (8.6%)  | (6.0%)  | 1.2%    | 1.3%    | 2.5%    | 6.1%    | 6.0%    |
| North American Load Factors***                      |  |          | 72.7%   | 35.2%   | 49.3%   | 53.1%   | 54.5%   | 73.4%   | 78.5%   | 79.2%   | 87.0%   | 86.4%   | 84.6%   | 79.7%   | 86.9%   | 86.8%   | 83.1%   | 79.8%   |         |
| TSA Passenger Throughput                            |  |          | (10.2%) | (85.5%) | (74.2%) | (65.2%) | (49.8%) | (32.5%) | (22.6%) | (17.6%) | (14.9%) | (9.9%)  | (8.2%)  | (5.1%)  | 0.2%    | (0.5%)  | 3.0%    | 6.4%    | 7.3%    |
| CATSA Passenger Throughput                          |  |          | (19.0%) | (87.3%) | (98.7%) | (89.9%) | (83.2%) | (82.2%) | (71.1%) | (52.3%) | (50.0%) | (24.2%) | (17.2%) | (12.1%) | (7.7%)  | (5.3%)  | 2.1%    | 0.4%    | (0.8%)  |

Source: Company Reports, FactSet, Bloomberg, RBC Elements, Company Websites, SEMRush, Google Trends, Planespotter's Net

### Exhibit 2 - Canadian Aerospace Heatmap

| BizJet Indicators (vs 2019) |  | High/Low | 1Q20   | 2Q20    | 3Q20    | 4Q20    | 1Q21    | 2Q21    | 3Q21   | 4Q21   | 1Q22  | 2Q22  | 3Q22  | 4Q22  | 1Q23  | 2Q23  | 3Q23  | 4Q23  | 1Q24  |
|-----------------------------|--|----------|--------|---------|---------|---------|---------|---------|--------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total FAA Traffic*          |  |          | (9.7%) | (50.5%) | (16.5%) | (13.9%) | (5.2%)  | 9.7%    | 20.0%  | 25.0%  | 18.6% | 21.5% | 17.3% | 16.2% | 13.3% | 13.6% | 11.9% | 14.7% | 11.6% |
| Domestic FAA Traffic*       |  |          | (9.8%) | (47.1%) | (14.2%) | (12.5%) | (2.4%)  | 13.6%   | 22.6%  | 26.3%  | 20.2% | 23.0% | 17.9% | 16.3% | 13.5% | 14.4% | 12.2% | 14.6% | 11.2% |
| International FAA Traffic*  |  |          | (9.6%) | (68.4%) | (30.5%) | (21.7%) | (19.7%) | (10.9%) | 4.3%   | 17.4%  | 10.8% | 14.0% | 12.9% | 16.1% | 12.4% | 8.7%  | 9.5%  | 14.8% | 14.1% |
| Global Bizjet Activity      |  |          | 2.1%   | (34.0%) | 1.5%    | (3.0%)  | 21.9%   | 38.1%   | 36.9%  | 37.6%  | 50.9% | 54.5% | 40.2% | 35.4% | 53.0% | 50.5% | 40.4% | 48.9% | 49.6% |
| Bombardier Activity         |  |          | 1.2%   | (51.2%) | (10.5%) | (15.7%) | 3.6%    | 17.5%   | 20.5%  | 17.9%  | 23.9% | 27.6% | 23.4% | 17.6% | 31.2% | 28.5% | 27.5% | 32.6% | 32.9% |
| Gulfstream Activity         |  |          | (2.1%) | (54.3%) | (19.6%) | (21.7%) | (1.5%)  | 7.1%    | 12.5%  | 15.7%  | 21.2% | 26.5% | 19.1% | 16.7% | 27.6% | 21.0% | 18.0% | 22.5% | 22.3% |
| Number of Billionaires      |  |          | (2.5%) | (2.5%)  | (2.5%)  | (2.5%)  | (5.1%)  | (5.1%)  | (5.1%) | (5.1%) | 24.8% | 24.8% | 24.8% | 24.8% | 19.6% | 19.6% | 19.6% | 19.6% | 26.0% |
| Total Billionaire Wealth    |  |          | (8.0%) | (8.0%)  | (8.0%)  | (8.0%)  | 50.6%   | 50.6%   | 50.6%  | 50.6%  | 46.0% | 46.0% | 46.0% | 46.0% | 40.2% | 40.2% | 40.2% | 40.2% | 63.2% |
| Used Inventory (% of Total) |  |          | 9.5%   | 10.0%   | 9.7%    | 8.2%    | 7.2%    | 6.2%    | 5.0%   | 3.6%   | 3.0%  | 3.4%  | 3.8%  | 4.8%  | 5.0%  | 5.7%  | 6.3%  | 6.5%  |       |

Source: Company Reports, FactSet, Bloomberg, RBC Elements, Company Websites, AirNav RadarBox, FAA

Click [here](#) to access the individual company pages.



## Canadian Airlines & Aerospace Q1/24 preview

In this report, we overview recent share price performance, discuss relevant industry trends/themes, and update our Q1 estimates. Items of focus include:

1. The set-up: share price performance in Q1 and valuation
2. An overview of air traffic trends, pricing, and leading indicators via RBC Elements™
3. A discussion of our Q1 estimates for each company in our coverage

### The set-up: Aerospace share price performance during Q1

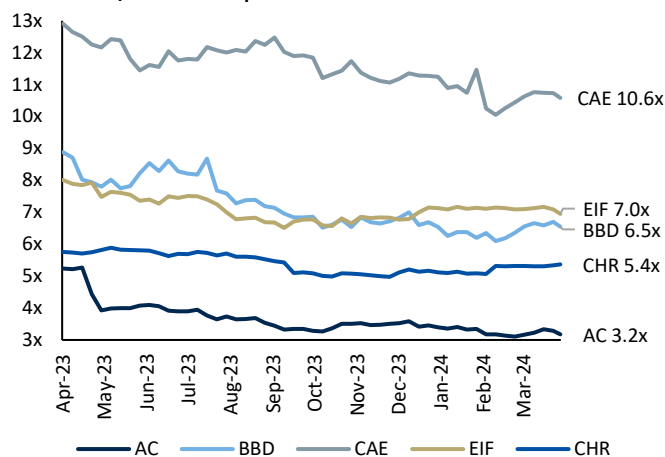
| Company | Q1/24 Share Price Performance |
|---------|-------------------------------|
| EIF     | 9.8%                          |
| BBD     | 9.3%                          |
| S&P TSX | 5.8%                          |
| AC      | 4.9%                          |
| CAE     | -2.2%                         |
| CHR     | -19.9%                        |

**Share prices mixed in Q1.** Canadian Airlines & Aerospace share prices were mixed during the quarter, with EIF and BBD outperforming the index, up +9.8% and +9.3%, respectively. EIF's performance was driven by solid FCF generation and BBD's on a recovery from in our view an investor overreaction to Q4 earnings on the back of subsequent announcements on debt reduction and new service offerings. CAE underperformed against the peer set on legacy defense margin overhang. CHR declined -20% on delays in its asset-light transition, and AC slightly underperformed the index at +4.9% as the industry moves past peaking pricing and faces increasing cost headwinds, in our view.

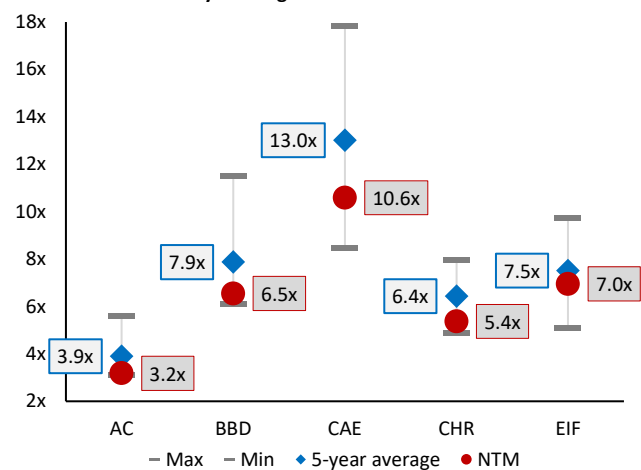
**Thoughts on valuations.** Referencing Exhibit 3, the bar chart below shows current valuations (red dot) relative to the 5-year range. Most names in our coverage are trading at the lower end of their relative valuation ranges. AC is trading below its historical average and in line with pre-pandemic levels as the industry grapples with higher costs and uncertain demand. We highlight Bombardier as our top pick, with the company attractively valued in our view at the low end of its historical range and at a 43% discount to peers despite what we see as a meaningful long-term opportunity. CAE is trading at the low end of its historical range due to defense margin headwinds (despite positive long-term secular trends and solid execution in Civil). We see CHR as attractively valued at the low-end of its historical range and believe risks due to the delay of Fund III have been fully priced into shares. Finally, we flag EIF as attractively valued in our view, with valuation not reflecting significant upcoming growth on the back of new air ambulance contracts.

Exhibit 3 - Airlines & Aerospace shares mostly trading toward bottom of relative valuation (on consensus estimates)

Historical EV/EBITDA multiples on consensus NTM estimates



Current valuation vs. 5-year range



Source: FactSet consensus estimates. Note: Excludes pandemic impact from Jan. 2020 to Mar. 2023 for AC and BBD

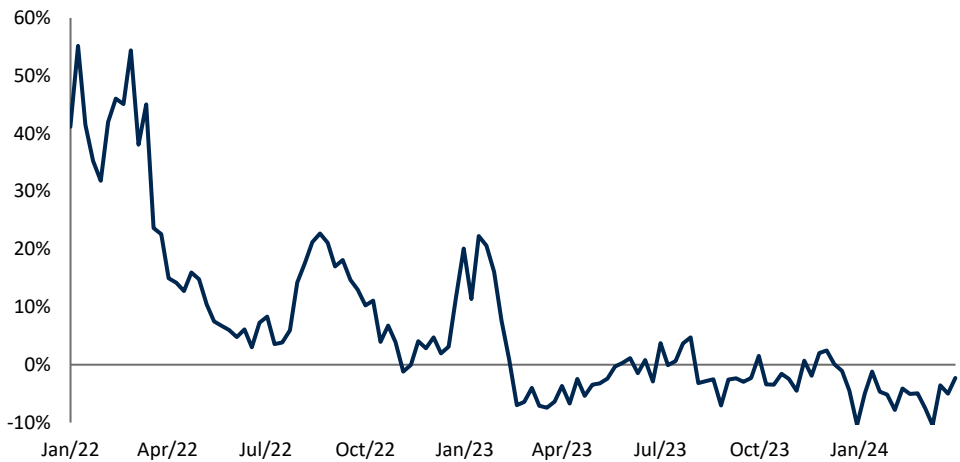


**Canadian Airlines & Aerospace Heatmap powered by RBC Elements™**

Given the variable demand for commercial and private air travel since the pandemic, we began to track a series of travel indicators across the Airlines & Aerospace sectors quarterly. In collaboration with RBC Elements, our in-house data science team, we analyzed alternative data sets to gain insights into the forward demand and pricing environment. As part of our work with the Elements team, we built a proprietary Canadian Airfare Index that utilizes real-time ticket prices from Canadian mainline operators. We expand further on certain Elements indicators summarized in the heatmap.

**Leading indicators mixed in Q1.** We look to RBC's proprietary Get Out and Travel (GOAT) index to gauge consumer travel demand. As seen in Exhibit 4, the GOAT index remains down -5.3% y/y through Q1 and has been consistently negative since early December 2023. Separately, we track travel search interest changes y/y as measured by website traffic across corporate, mainline and non-mainline carriers and flag that travel search interest across most segments showed improvement in Q1, with non-mainline search interest showing the most significant increase at +15.7%, though we expect this to be pressured as Lynx's bankruptcy will be fully incorporated next quarter. Interestingly, corporate search interest significantly increased to +29% y/y in Q1, similar to Q4, which may indicate a change in company booking patterns. Key is that this is consistent with positive commentary from DAL on a pickup in managed corporate sales in Q1 of +14%, and we plan to keep an eye on this trend to the extent it continues.

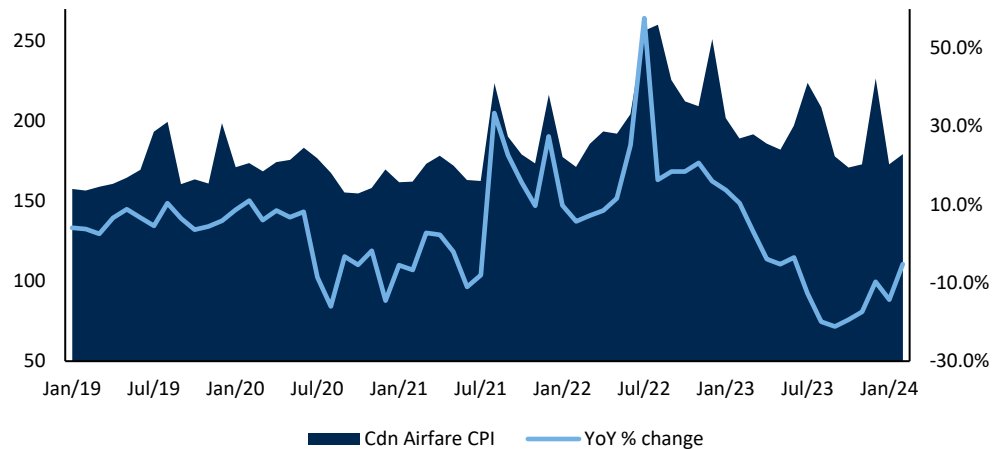
Exhibit 4 - GOAT travel indicators trending negative



Source: RBC Elements, RBC Capital Markets

**Airfares continue to moderate, potentially buoyed by premium fares.** Airfares hit a seasonal peak in the summer of 2022 and have since trended downwards. We note continued negative price growth in the past quarter, though the trend is decelerating. Canadian airfare CPI saw a decline in Q1 of -9.3%, improving from -15.1% last quarter, see Exhibit 5. Data from our Canadian Airfare Index indicates an opposing directional trend, with prices up +1.5% Y/Y in Q1. We believe the difference can be attributed to methodology, where CPI focuses on economy fares across Canada and non-business travel, while our index includes all fair types across mainline operators (economy, premium and business travel). Overall, we expect further price normalization in 2024, given our view that higher interest rates will continue to weigh on discretionary spending.

Exhibit 5 - Canadian airfare CPI continues to moderate



Source: RBC Capital Markets, Statistics Canada, BLS

**Non-mainline competition decreases on Lynx.** We track non-mainline fleet activity in Canada and have seen a steady increase since reopening post-pandemic. Total Non-mainline (Flair, Lynx, and Porter) as % of the total fleet (including AC and WJA) decreased in Q1 to 18.6%, down sequentially and below the peak of 23%. The decrease was driven by Lynx’s bankruptcy in February. We see a similar pattern with the number of non-mainline flights, which also goes down sequentially to 14.3% of total flights. However, Porter’s expansion to Pearson with a firm order for 75 E-jets and increased collaboration with Air Transat is sure to shake up the competitive landscape, putting further pressure on prices looking ahead, in our view.

**Bizjets: Above-average demand trends continue.** Total bizjet traffic in the US ended the quarter ~12% ahead of 2019 levels and has hovered in this low to mid-teen range since Q3/22, indicating structurally higher demand for private travel. In addition, global transponder data shows bizjet activity ~50% higher in Q1 vs 2019, with Bombardier jet activity +32.9% (vs 2019) above that of Gulfstream +22.3% (vs 2019). As of last quarter, used inventory sits at 6.5%, well below the normal range of 11-14%, and we note the number of UHNW individuals has increased to 26% above 2019 levels, with total billionaire wealth up 63% vs 2019. In our view, wealth creation is a positive demand indicator for large, long-range jets. This data points to robust manufacturing and aftermarket demand, which supports our 2025E EBITDA estimates above consensus.

### Q1 Estimates

We are updating our estimates for AC, BBD, and CHR ahead of reporting season. Details by company are below:

- AC: Q1 estimate lower on higher fuel costs and below consensus; price target unchanged at \$18; reaffirm Sector Perform rating.** We are lowering our Q1/24 estimate to \$468MM (from \$495MM), below consensus of \$513MM, strictly on increased fuel prices. Our 2024 estimate of \$3,417MM remains unchanged below consensus of \$3,858MM and guidance of \$3.75B to \$4B as we see multiple headwinds facing the airline industry, including the sustainability of higher fares, supply-chain challenges, MRO delays, and high operating costs. Our 2025 estimate remains unchanged at \$3,549MM vs consensus of \$4,124MM. Our target price remains at \$18 on our unchanged target multiple of 3.4x. See Exhibit 7.



- **BBD: Q1 estimate unchanged and slightly above consensus; price target unchanged at \$95; reaffirm Outperform rating.** We are maintaining our Q1/24 EBITDA estimate of \$234MM, slightly above consensus of \$226MM. While our full year aircraft production estimate is unchanged at 150, we adjusted mix and now forecast Challenger growth of +19% y/y and Global production flat y/y reflecting supply chain challenges highlighted last quarter. Our 2024 EBITDA estimate therefore decreases to \$1,322MM (from \$1,356MM), a touch below consensus \$1,332MM and in line with guidance of \$1.30B - \$1.35B. Due to the ramp of Global deliveries expected next year, we increased our NWC estimate to \$305MM (from \$200MM) therefore reducing our 2024 FCF estimate to \$236MM (from \$377MM) near the midpoint of mgmt's guidance of \$100MM-\$400MM. Our 2025 EBITDA and FCF estimates of \$1,645 and \$917MM, respectively, remain unchanged and in line with the company's 2025 targets for EBITDA of >\$1,625MM and FCF of >\$900MM. Our target price remains at \$95 on our unchanged 2025 EBITDA estimate and target multiple of 6.5x. BBD remains our top idea and currently trades at a -43% discount to peers. See Exhibit 8.
- **CAE: FQ4 estimate unchanged and in line with consensus; price target remains at \$34; maintain Outperform.** Our FQ4 EBITDA estimate remains at \$318MM in line with consensus \$319MM. Our F24 EBITDA estimate remains at \$1,024MM, in line with consensus \$1,024MM, and our F24 Civil adj. operating income estimate of +15% aligns with guidance for growth of mid-to-high teen. Our F25 and F26 EBITDA estimates remain at \$1,098MM (cons. \$1,110MM) and \$1,194MM (cons. 1,230MM), respectively, and below consensus reflecting our lower Defense estimates. In terms of guidance, we expect management to guide to Civil operating income growth of "double-digit", which compares to consensus +10% and our +14% - we expect solid demand trends and a strong FQ4 margin exit rate as driving above consensus Civil growth in F25. Target price remains at \$34 on our unchanged target multiple of 11.2x. Key focus into the quarter will be on margins in both the Civil and Defense segment, continuation of solid demand in Civil, and shareholder returns, which we expect to be reinstated during the quarter. See Exhibit 9.
- **CHR: Q1 estimates lower on asset sales; price target unchanged at \$3.50; reaffirm Outperform rating.** We are lowering our Q1/24 EPS estimate to \$0.06 (from \$0.08), slightly above consensus of \$0.05, due to the cadence of realized asset sales announced during the quarter and the flow-through impact on leasing revenue. Our 2024 EPS moves to \$0.25 (from 0.26) in line with consensus at \$0.25, with no change to our 2025 EPS estimate of \$0.34, which is above consensus \$0.29. Key focus for the call will be on Fund III progress, FCF generation from operations and asset sales, and associated deleveraging. Additionally, we will look for an update on return of capital via share buybacks, given the in our view the undervalued share price. Target price remains at \$3.50 on our unchanged target multiple of 10x. See Exhibit 10.
- **EIF: Q1 estimate unchanged and below consensus; price target remains at \$65; maintain Outperform.** Our Q1 estimate is unchanged into the quarter at \$107MM, below consensus \$110MM on lower Manufacturing EBITDA, reflecting the uncertainty surrounding Northern Mat and weak industrial indicators. Our 2024 estimate remains at \$624MM, in line with consensus \$623MM, in the mid to high range of 2024 guidance for EBITDA of \$600-\$635MM. Our 2025 EBITDA estimate remains at \$689MM, a touch below consensus of \$694MM. Key into the quarter will be colour on the Manufacturing outlook, especially in the Temporary Mat and Window Solutions segments, as well as capex and revenues associated with recent business wins. We continue to value the shares using a blended target multiple of 7.5x, and price target remains at \$65. See Exhibit 11.



Exhibit 6 - Estimate changes ahead of the quarter

|                  | Q1/24E EBITDA |        |        | 2024E EBITDA |          |         | 2025E EBITDA |          |         | Target Multiple |       | Price Target (CAD) |      | Rating | Implied Return |
|------------------|---------------|--------|--------|--------------|----------|---------|--------------|----------|---------|-----------------|-------|--------------------|------|--------|----------------|
|                  | Prior         | RBC    | Street | Prior        | RBC      | Street  | Prior        | RBC      | Street  | Old             | RBC   | Old                | New  |        |                |
| Air Canada       | \$495         | \$468  | \$513  | unchg.       | \$3,417  | \$3,844 | unchg.       | \$3,549  | \$4,063 | unchg.          | 3.4x  | unchg.             | \$18 | SP     | (2%)           |
| Bombardier       | unchg.        | U\$234 | \$226  | \$1,356      | U\$1,322 | \$1,332 | unchg.       | U\$1,645 | \$1,577 | unchg.          | 6.5x  | unchg.             | \$95 | O      | +67%           |
| CAE <sup>1</sup> | unchg.        | \$318  | \$319  | unchg.       | \$1,098  | \$1,110 | unchg.       | \$1,194  | \$1,230 | unchg.          | 11.2x | unchg.             | \$34 | O      | +30%           |
| Exchange Income  | unchg.        | \$107  | \$110  | unchg.       | \$624    | \$623   | unchg.       | \$689    | \$694   | unchg.          | 7.5x  | unchg.             | \$65 | O      | +48%           |

1. CAE estimates are for FQ4/24, F2025, and F2026, respectively

|                 | Q4/24E EPS |        |        | 2024E EPS |        |        | 2025E EPS |        |        | Target Multiple |       | Price Target (CAD) |        | Rating | Implied Return |
|-----------------|------------|--------|--------|-----------|--------|--------|-----------|--------|--------|-----------------|-------|--------------------|--------|--------|----------------|
|                 | Prior      | RBC    | Street | Prior     | RBC    | Street | Prior     | RBC    | Street | Old             | RBC   | Old                | New    |        |                |
| Chorus Aviation | \$0.08     | \$0.06 | \$0.05 | \$26.00   | \$0.25 | \$0.25 | \$0.34    | \$0.34 | \$0.29 | unchg.          | 10.0x | unchg.             | \$3.50 | O      | +64%           |

Source: RBC Capital Markets estimates, FactSet for consensus. Note: Priced as of market close April 15, 2024

Exhibit 7 - Air Canada estimate revisions detail

| (\$MM's unless specified)       | Q1/24E       |              |              | 2024E          |                |             | 2025E          |                |             |
|---------------------------------|--------------|--------------|--------------|----------------|----------------|-------------|----------------|----------------|-------------|
|                                 | Old          | New          | % Δ          | Old            | New            | % Δ         | Old            | Cur            | % Δ         |
| <b>Operating Metrics</b>        |              |              |              |                |                |             |                |                |             |
| Traffic: RPMs (% chg)           | 9.6%         | 9.6%         | 0bp          | 5.4%           | 5.4%           | 0bp         | 5.6%           | 5.6%           | 0bp         |
| Capacity: ASMs (% chg)          | 10.0%        | 10.0%        | 0bp          | 6.9%           | 6.9%           | 0bp         | 7.0%           | 7.0%           | 0bp         |
| Load Factor (%pts)              | 84.5%        | 84.5%        | 0bp          | 85.5%          | 85.5%          | 0bp         | 84.3%          | 84.3%          | 0bp         |
| Yield (% chg)                   | -2.0%        | -2.0%        | 0bp          | -2.5%          | -2.5%          | 0bp         | 0.0%           | 0.0%           | 0bp         |
| RASM (% chg)                    | -2.6%        | -2.6%        | 0bp          | -3.8%          | -3.8%          | 0bp         | -1.3%          | -1.3%          | 0bp         |
| Adj. CASM ex fuel+other (% chg) | -0.2%        | -0.2%        | 0bp          | 4.0%           | 4.0%           | 0bp         | -0.3%          | -0.3%          | 0bp         |
| Avg Jet Fuel Price: (\$/Ltr)    | \$1.02       | \$1.04       | 2.2%         | \$1.01         | \$1.01         | 0.1%        | \$0.97         | \$0.97         | 0.0%        |
| Revenue                         | \$5,033      | \$5,033      | 0.0%         | \$22,338       | \$22,338       | 0.0%        | \$23,501       | \$23,501       | 0.0%        |
| Expenses                        | \$4,538      | \$4,565      | 0.6%         | \$18,921       | \$18,922       | 0.0%        | \$19,951       | \$19,952       | 0.0%        |
| <b>EBITDA</b>                   | <b>\$495</b> | <b>\$468</b> | <b>-5.5%</b> | <b>\$3,417</b> | <b>\$3,417</b> | <b>0.0%</b> | <b>\$3,549</b> | <b>\$3,549</b> | <b>0.0%</b> |
| EBITDA Margin                   | 9.8%         | 9.3%         | -55bp        | 15.3%          | 15.3%          | 0bp         | 15.1%          | 15.1%          | 0bp         |
| EPS ex-one time items (\$)      | -\$0.24      | -\$0.31      | 29.5%        | \$2.90         | \$2.90         | -0.1%       | \$2.14         | \$2.14         | -0.1%       |

Source: Company reports, RBC Capital Markets estimates

Exhibit 8 - Bombardier estimate revisions detail

| (\$MM's unless specified) | Q1/24E        |               |              | 2024E          |                |               | 2025E          |                |             |
|---------------------------|---------------|---------------|--------------|----------------|----------------|---------------|----------------|----------------|-------------|
|                           | Old           | New           | % Δ          | Old            | New            | % Δ           | Old            | New            | % Δ         |
| Total aircraft deliveries | 24            | 24            | 0.0%         | 150            | 150            | 0.0%          | 152            | 152            | 0.0%        |
| Total Revenues            | \$1,522       | \$1,522       | 0.0%         | \$8,611        | \$8,274        | -3.9%         | \$9,039        | \$9,039        | 0.0%        |
| Total EBIT                | \$152         | \$152         | 0.0%         | \$899          | \$865          | -3.8%         | \$1,180        | \$1,180        | 0.0%        |
| Margin (%)                | 10.0%         | 10.0%         | 0 bps        | 10.4%          | 10.4%          | 0 bps         | 13.1%          | 13.1%          | 0 bps       |
| <b>Free Cash Flow</b>     | <b>-\$159</b> | <b>-\$249</b> | <b>56.4%</b> | <b>\$377</b>   | <b>\$236</b>   | <b>-37.4%</b> | <b>\$917</b>   | <b>\$917</b>   | <b>0.0%</b> |
| <b>EBITDA</b>             | <b>\$234</b>  | <b>\$234</b>  | <b>0.0%</b>  | <b>\$1,356</b> | <b>\$1,322</b> | <b>-2.5%</b>  | <b>\$1,645</b> | <b>\$1,645</b> | <b>0.0%</b> |
| Margin (%)                | 15.4%         | 15.4%         | 0 bps        | 15.7%          | 16.0%          | 22 bps        | 18.2%          | 18.2%          | 0 bps       |

Source: Company reports, RBC Capital Markets estimates



Exhibit 9 - CAE estimate revisions detail

| ESTIMATE SUMMARY<br>(C\$ millions) | FQ4/24E |               |      | F2024E |               |      | F2025E |               |      | F2026E |               |      |
|------------------------------------|---------|---------------|------|--------|---------------|------|--------|---------------|------|--------|---------------|------|
|                                    | Old     | New           | % Δ  | Old    | New           | % Δ  | Old    | New           | % Δ  | Old    | New           | % Δ  |
| Revenue                            | 1,229   | <b>1,229</b>  | 0.0% | 4,466  | <b>4,466</b>  | 0.0% | 4,683  | <b>4,683</b>  | 0.0% | 4,892  | <b>4,892</b>  | 0.0% |
| Civil Revenue                      | 767     | <b>767</b>    | 0.0% | 2,502  | <b>2,502</b>  | 0.0% | 2,693  | <b>2,693</b>  | 0.0% | 2,835  | <b>2,835</b>  | 0.0% |
| Defense & Security Revenue         | 462     | <b>462</b>    | 0.0% | 1,883  | <b>1,883</b>  | 0.0% | 1,990  | <b>1,990</b>  | 0.0% | 2,057  | <b>2,057</b>  | 0.0% |
| Healthcare Revenue                 | 59      | <b>59</b>     | 0.0% | 176    | <b>176</b>    | 0.0% | n.a.   | <b>n.a.</b>   | n.a. | n.a.   | <b>n.a.</b>   | n.a. |
| Adj. EBITDA                        | 318     | <b>318</b>    | 0.0% | 1,024  | <b>1,024</b>  | 0.0% | 1,098  | <b>1,098</b>  | 0.0% | 1,194  | <b>1,194</b>  | 0.0% |
| Civil Adj. EBITDA                  | 271     | <b>271</b>    | 0.0% | 830    | <b>830</b>    | 0.0% | 895    | <b>895</b>    | 0.0% | 967    | <b>967</b>    | 0.0% |
| Defense & Security Adj. EBITDA     | 47      | <b>47</b>     | 0.0% | 184    | <b>184</b>    | 0.0% | 202    | <b>202</b>    | 0.0% | 226    | <b>226</b>    | 0.0% |
| Healthcare Adj. EBITDA             | 9       | <b>9</b>      | 0.0% | 23     | <b>23</b>     | 0.0% | n.a.   | <b>n.a.</b>   | n.a. | n.a.   | <b>n.a.</b>   | n.a. |
| Adjusted Operating Income          | 222     | <b>222</b>    | 0.0% | 651    | <b>651</b>    | 0.0% | 742    | <b>742</b>    | 0.0% | 826    | <b>826</b>    | 0.0% |
| Adj. Operating Income Margin %     | 18.1%   | <b>18.1%</b>  | 0bps | 14.6%  | <b>14.6%</b>  | 0bps | 15.9%  | <b>15.9%</b>  | 0bps | 16.9%  | <b>16.9%</b>  | 0bps |
| Civil Adj. EBIT                    | 199     | <b>199</b>    | 0.0% | 557    | <b>557</b>    | 0.0% | 635    | <b>635</b>    | 0.0% | 696    | <b>696</b>    | 0.0% |
| Defense & Security Adj. EBIT       | 23      | <b>23</b>     | 0.0% | 90     | <b>90</b>     | 0.0% | 108    | <b>108</b>    | 0.0% | 130    | <b>130</b>    | 0.0% |
| Healthcare Adj. EBIT               | 7       | <b>7</b>      | 0.0% | 13     | <b>13</b>     | 0.0% | n.a.   | <b>n.a.</b>   | n.a. | n.a.   | <b>n.a.</b>   | n.a. |
| Adj. EPS (F.D)                     | \$0.42  | <b>\$0.42</b> | 0.0% | \$1.18 | <b>\$1.18</b> | 0.0% | \$1.33 | <b>\$1.33</b> | 0.0% | \$1.56 | <b>\$1.56</b> | 0.0% |

Source: Company reports, RBC Capital Markets estimates

Exhibit 10 - Chorus estimate revisions detail

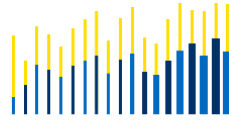
| Revenue breakdown             | Q1/24E       |               |        | 2024E          |                |       | 2025E          |                |       |
|-------------------------------|--------------|---------------|--------|----------------|----------------|-------|----------------|----------------|-------|
|                               | Old          | New           | % Δ    | Old            | New            | % Δ   | Old            | New            | % Δ   |
| Regional Aircraft Services    | \$350        | <b>\$350</b>  | 0.0%   | \$1,388        | <b>\$1,388</b> | 0.0%  | \$1,388        | <b>\$1,388</b> | 0.0%  |
| Regional Aircraft Leasing     | <u>\$61</u>  | <u>\$58</u>   | -5.3%  | <u>\$228</u>   | <u>\$233</u>   | 2.0%  | <u>\$251</u>   | <u>\$241</u>   | -4.0% |
| Total Revenues                | \$411        | <b>\$407</b>  | -0.8%  | \$1,616        | <b>\$1,620</b> | 0.3%  | \$1,639        | <b>\$1,629</b> | -0.6% |
| Total Expenses                | <u>\$354</u> | <u>\$352</u>  | -0.6%  | <u>\$1,403</u> | <u>\$1,406</u> | 0.2%  | <u>\$1,407</u> | <u>\$1,400</u> | -0.5% |
| Operating Income              | \$56         | <b>\$55</b>   | -2.1%  | \$213          | <b>\$214</b>   | 0.6%  | \$232          | <b>\$229</b>   | -1.3% |
| Depreciation and Amortization | <u>\$45</u>  | <u>\$45</u>   | -0.8%  | <u>\$178</u>   | <u>\$178</u>   | 0.3%  | <u>\$180</u>   | <u>\$179</u>   | -0.6% |
| Adj. EBITDA                   | <b>\$101</b> | <b>\$100</b>  | -1.5%  | <b>\$391</b>   | <b>\$393</b>   | 0.4%  | <b>\$412</b>   | <b>\$408</b>   | -1.0% |
| Adj. EPS                      | \$0.08       | <b>\$0.06</b> | -16.2% | \$0.26         | <b>\$0.25</b>  | -3.0% | \$0.34         | <b>\$0.34</b>  | -0.2% |

Source: Company reports, RBC Capital Markets estimates

Exhibit 11 - Exchange Income estimate revisions detail

| (C\$MM's unless specified)   | Q1/24E     |               |      | 2024E      |               |      | 2025E      |               |      |
|------------------------------|------------|---------------|------|------------|---------------|------|------------|---------------|------|
|                              | Old        | New           | % Δ  | Old        | New           | % Δ  | Old        | New           | % Δ  |
| Total revenue                | 576        | <b>576</b>    | 0.0% | 2,677      | <b>2,677</b>  | 0.0% | 2,884      | <b>2,884</b>  | 0.0% |
| Total Aviation Revenues      | 347        | <b>347</b>    | 0.0% | 1,635      | <b>1,635</b>  | 0.0% | 1,789      | <b>1,789</b>  | 0.0% |
| Total Manufacturing Revenues | 229        | <b>229</b>    | 0.0% | 1,042      | <b>1,042</b>  | 0.0% | 1,094      | <b>1,094</b>  | 0.0% |
| Adj. EBITDA                  | <b>107</b> | <b>107</b>    | 0.0% | <b>624</b> | <b>624</b>    | 0.0% | <b>689</b> | <b>689</b>    | 0.0% |
| Total Aviation EBITDA        | 82         | <b>82</b>     | 0.0% | 469        | <b>469</b>    | 0.0% | 522        | <b>522</b>    | 0.0% |
| Total Manufacturing EBITDA   | 32         | <b>32</b>     | 0.0% | 190        | <b>190</b>    | 0.0% | 204        | <b>204</b>    | 0.0% |
| Adj. net income (diluted)    | 4          | <b>4</b>      | 0.0% | 155        | <b>155</b>    | 0.0% | 201        | <b>201</b>    | 0.0% |
| Adj. EPS (Diluted)           | \$0.16     | <b>\$0.16</b> | 0.0% | \$3.16     | <b>\$3.16</b> | 0.0% | \$3.97     | <b>\$3.97</b> | 0.0% |

Source: Company reports, RBC Capital Markets estimates



## RBC Elements™

Driving insights through data

### Description

RBC Elements™ is a primary research and data science team embedded within RBC's Global Research division. The main focus of RBC Elements™ is to use scientific methods, algorithms and systems to analyze vast amounts of structured and unstructured data, to obtain insights that are inputs into RBC's Fundamental Global Research teams.

### Objective

The team is involved in creating various machine learning and predictive modeling tools and processes, helping RBC Research discover the information hidden in big data, and allowing the Research division to make smarter decisions and deliver differentiated products to our clients. RBC Elements™ strives to augment the already available industry data with different alternative data sources, and enhance data collection procedures to include information that is relevant.

### Methods

The team is implementing different machine learning and data mining algorithms using state-of-the-art methods. Examples include:

- Machine learning techniques and algorithms, such as k-NN, Naive Bayes, SVM, Decision Forests, Clustering, Artificial Neural Networks, and Natural Language Processing to find patterns in the past, and to predict the future.
- Feature selection techniques to find what matters most in the data.
- Statistical modeling and analysis, and statistical tests such as distributions, and regression/GLM.
- Developing hypotheses and making inferences using large amounts of data.



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## Company Profiles

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## Air Canada

James McGarragle (Analyst)

### Sector Perform

TSX: AC CN; CAD 18.42

Price Target CAD 18.00

### Key Statistics

|                  |       |                    |           |
|------------------|-------|--------------------|-----------|
| Shares O/S (MM): | 383.0 | Market Cap (MM):   | 7,055     |
| Dividend:        | 0.00  | Yield:             | 0.0%      |
| Float (MM):      | 375.3 | Avg. Daily Volume: | 3,834,337 |

### RBC Estimates

| FY Dec  | 2022A    | 2023A    | 2024E    | 2025E    |
|---------|----------|----------|----------|----------|
| Revenue | 16,556.0 | 21,833.0 | 22,338.1 | 23,500.9 |
| EBITDA  | 1,457.0  | 3,982.0  | 3,416.9  | 3,549.4  |
| Revenue | Q1       | Q2       | Q3       | Q4       |
| 2023    | 4,887.0A | 5,427.0A | 6,344.0A | 5,175.0A |
| 2024    | 5,032.9E | 5,647.9E | 6,451.4E | 5,206.0E |
| 2025    | 5,265.3E | 5,912.8E | 6,874.5E | 5,448.3E |
| EBITDA  |          |          |          |          |
| 2023    | 411.0A   | 1,220.0A | 1,830.0A | 521.0A   |
| 2024    | 495.0E   | 1,007.0E | 1,395.3E | 519.6E   |
| 2025    | 481.9E   | 1,032.9E | 1,532.2E | 502.4E   |

All values in CAD unless otherwise noted.  
Priced as of prior trading day's market close, EST (unless otherwise noted).

### Valuation

Applying a 3.4x EV/EBITDA multiple to our 2025 estimates, we derive our price target of \$18. Our target multiple is in line with AC's historical average multiple and supported by our view that the industry should largely return to normal by 2025. Our base case reflects the following assumptions: (1) near-term constraints continue with a return to 2019 capacity levels by 2025; (2) negative pricing; and (3) continued cost increases. Our price target supports our Sector Perform rating.

### Investment summary

Our neutral view on AC shares is driven by three points:

- Sustainability of higher fares at risk.** In our view, the sustainability of higher fares is at risk going forward, as we expect a normalization of demand following a surge in travel emerging from the pandemic. We also see risk to household spending resulting from higher interest costs and elevated debt levels, which we note is consistent with recent data from RBC Economics. In our view, a weaker demand backdrop, combined with growing and less rational competition, introduces significant downside risk to airline pricing in the near term and therefore to 2024 consensus EBITDA estimates.
- Higher costs expected to weigh on profitability.** Costs are up +20% compared to 2019, reflecting meaningful inflation across a number of expense categories. Looking ahead, we flag added risk, in our view, from pilot negotiations that could increase wages significantly. In addition, we see a changing regulatory environment as well as flight attendant contract negotiations as further potential headwinds going forward. Overall, we see these factors as pointing to upside risk to costs and therefore adding more uncertainty to the near-term outlook for Air Canada.
- Capex program to limit FCF in the medium term.** While we believe that fleet renewals are key to an airline's long-term success, we see new capex plans at AC limiting its FCF in the medium term. We flag that FCF is an important driver of sentiment toward AC shares (as well as of our longer-term thesis on the company), and we therefore view the capex program as pushing out an inflection in FCF to 2027.

### Risks to rating and price target

Risks to our price target and rating include:

- Delayed recovery for air travel.
- Collective agreements.
- Regulation risk.
- Supply chain risk.
- Increasing competition.

## AC Model Summary

| C\$MM                                    | 2022           | Q1/23        | Q2/23        | Q3/23        | Q4/23        | 2023          | Q1/24E       | Q2/24E       | Q3/24E       | Q4/24E       | 2024E         | Q1/25E       | Q2/25E       | Q3/25E       | Q4/25E       | 2025E         |
|--|----------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|---------------|
| Traffic / RPM (MMs)                      | 66,495         | 18,578       | 21,617       | 25,202       | 20,405       | 85,802        | 20,363       | 22,774       | 26,026       | 21,299       | 90,461        | 21,381       | 23,913       | 27,847       | 22,364       | 95,504        |
| % change                                 | 216.0%         | 95.9%        | 32.0%        | 13.9%        | 10.1%        | 29.0%         | 9.6%         | 5.4%         | 3.3%         | 4.4%         | 5.4%          | 5.0%         | 5.0%         | 7.0%         | 5.0%         | 5.6%          |
| Capacity / ASM (MMs)                     | 82,558         | 21,907       | 24,606       | 28,060       | 24,439       | 99,012        | 24,098       | 26,328       | 29,744       | 25,661       | 105,831       | 25,785       | 28,171       | 31,826       | 27,457       | 113,239       |
| % change                                 | 147.3%         | 53.2%        | 21.0%        | 9.8%         | 9.3%         | 19.9%         | 10.0%        | 7.0%         | 6.0%         | 5.0%         | 6.9%          | 7.0%         | 7.0%         | 7.0%         | 7.0%         | 7.0%          |
| Load Factor (%)                          | 80.5%          | 84.8%        | 87.9%        | 89.8%        | 83.5%        | 86.7%         | 84.5%        | 86.5%        | 87.5%        | 83.0%        | 85.5%         | 82.9%        | 84.9%        | 87.5%        | 81.4%        | 84.3%         |
| change (% pts)                           | 17.5%          | 18.5%        | 7.3%         | 3.3%         | 0.7%         | 6.1%          | -0.3%        | -1.4%        | -2.3%        | -0.5%        | -1.2%         | -1.6%        | -1.6%        | 0.0%         | -1.6%        | -1.1%         |
| Yield (\$)                               | 0.212          | 0.220        | 0.227        | 0.233        | 0.223        | 0.226         | 0.216        | 0.222        | 0.226        | 0.216        | 0.220         | 0.216        | 0.222        | 0.226        | 0.216        | 0.220         |
| % change                                 | -4.3%          | 8.9%         | 8.1%         | 6.9%         | 1.8%         | 6.4%          | -2.0%        | -2.0%        | -3.0%        | -3.0%        | -2.5%         | 0.0%         | 0.0%         | 0.0%         | 0.0%         | 0.0%          |
| RASM (Rev per unit of capacity, cents)   | 17.2           | 18.7         | 19.9         | 20.9         | 18.6         | 19.6          | 18.2         | 19.2         | 19.8         | 18.0         | 18.8          | 17.9         | 18.9         | 19.8         | 17.6         | 18.6          |
| CASM (Costs per unit of capacity, cents) | 20.3           | 22.4         | 18.8         | 17.6         | 20.9         | 19.7          | 20.8         | 19.4         | 18.5         | 20.0         | 19.6          | 20.4         | 19.1         | 18.4         | 19.9         | 19.4          |
| Fuel Cost/ASM (cents)                    | 6.4            | 6.3          | 4.8          | 4.9          | 5.7          | 5.4           | 5.2          | 5.1          | 5.0          | 4.9          | 5.0           | 4.9          | 4.8          | 4.8          | 4.7          | 4.8           |
| CASM (excl. fuel) (cents)                | 13.9           | 16.1         | 14.0         | 12.7         | 15.2         | 14.4          | 15.6         | 14.3         | 13.5         | 15.1         | 14.6          | 15.5         | 14.2         | 13.6         | 15.1         | 14.5          |
| <b>Total Revenues</b>                    | <b>16,556</b>  | <b>4,887</b> | <b>5,427</b> | <b>6,344</b> | <b>5,175</b> | <b>21,833</b> | <b>5,033</b> | <b>5,648</b> | <b>6,451</b> | <b>5,206</b> | <b>22,338</b> | <b>5,265</b> | <b>5,913</b> | <b>6,874</b> | <b>5,448</b> | <b>23,501</b> |
| % change                                 | 158.7%         | 89.9%        | 36.3%        | 19.2%        | 10.6%        | 31.9%         | 3.0%         | 4.1%         | 1.7%         | 0.6%         | 2.3%          | 4.6%         | 4.7%         | 6.6%         | 4.7%         | 5.2%          |
| Wages, salaries and benefits             | 3260           | 914          | 971          | 995          | 1075         | 3955          | 987          | 1049         | 1075         | 1161         | 4271          | 1066         | 1133         | 1161         | 1254         | 4613          |
| % Sales                                  | 19.7%          | 18.7%        | 17.9%        | 15.7%        | 20.8%        | 18.1%         | 19.6%        | 18.6%        | 16.7%        | 22.3%        | 19.1%         | 20.2%        | 19.2%        | 16.9%        | 23.0%        | 19.6%         |
| Aircraft Fuel - total                    | 5276           | 1375         | 1187         | 1365         | 1391         | 5318          | 1254         | 1339         | 1479         | 1248         | 5320          | 1270         | 1366         | 1526         | 1302         | 5464          |
| % Sales                                  | 31.9%          | 28.1%        | 21.9%        | 21.5%        | 26.9%        | 24.4%         | 24.9%        | 23.7%        | 22.9%        | 24.0%        | 23.8%         | 24.1%        | 23.1%        | 22.2%        | 23.9%        | 23.3%         |
| Sales and distribution costs             | 797            | 273          | 264          | 307          | 253          | 1097          | 300          | 282          | 325          | 308          | 1216          | 321          | 302          | 348          | 329          | 1301          |
| % Sales                                  | 4.8%           | 5.6%         | 4.9%         | 4.8%         | 4.9%         | 5.0%          | 6.0%         | 5.0%         | 5.0%         | 5.9%         | 5.4%          | 6.1%         | 5.1%         | 5.1%         | 6.0%         | 5.5%          |
| Ground package costs                     | 474            | 318          | 126          | 99           | 177          | 720           | 268          | 104          | 89           | 122          | 583           | 286          | 111          | 95           | 131          | 624           |
| % Sales                                  | 2.9%           | 6.5%         | 2.3%         | 1.6%         | 3.4%         | 3.3%          | 5.3%         | 1.8%         | 1.4%         | 2.3%         | 2.6%          | 5.4%         | 1.9%         | 1.4%         | 2.4%         | 2.7%          |
| Catering and onboard services            | 425            | 128          | 158          | 181          | 161          | 628           | 145          | 158          | 193          | 154          | 650           | 155          | 169          | 207          | 165          | 695           |
| % Sales                                  | 2.6%           | 2.6%         | 2.9%         | 2.9%         | 3.1%         | 2.9%          | 2.9%         | 2.8%         | 3.0%         | 3.0%         | 2.9%          | 2.9%         | 2.9%         | 3.0%         | 3.0%         | 3.0%          |
| Aircraft maintenance                     | 706            | 261          | 275          | 236          | 311          | 1083          | 250          | 250          | 250          | 250          | 1000          | 258          | 258          | 258          | 258          | 1030          |
| % Sales                                  | 4.3%           | 5.3%         | 5.1%         | 3.7%         | 6.0%         | 5.0%          | 5.0%         | 4.4%         | 3.9%         | 4.8%         | 4.5%          | 4.9%         | 4.4%         | 3.7%         | 4.7%         | 4.4%          |
| Airport and navigation fees              | 1213           | 312          | 364          | 392          | 350          | 1418          | 301          | 329          | 372          | 321          | 1323          | 322          | 352          | 398          | 343          | 1415          |
| % Sales                                  | 7.3%           | 6.4%         | 6.7%         | 6.2%         | 6.8%         | 6.5%          | 6.0%         | 5.8%         | 5.8%         | 6.2%         | 5.9%          | 6.1%         | 6.0%         | 5.8%         | 6.3%         | 6.0%          |
| Communications and information technol   | 468            | 146          | 128          | 141          | 140          | 555           | 145          | 132          | 149          | 154          | 579           | 155          | 141          | 159          | 165          | 619           |
| % Sales                                  | 2.8%           | 3.0%         | 2.4%         | 2.2%         | 2.7%         | 2.5%          | 2.9%         | 2.3%         | 2.3%         | 3.0%         | 2.6%          | 2.9%         | 2.4%         | 2.3%         | 3.0%         | 2.6%          |
| Other                                    | 1717           | 533          | 533          | 580          | 573          | 2219          | 503          | 537          | 581          | 521          | 2141          | 527          | 562          | 619          | 545          | 2252          |
| % Sales                                  | 10.4%          | 10.9%        | 9.8%         | 9.1%         | 11.1%        | 10.2%         | 10.0%        | 9.5%         | 9.0%         | 10.0%        | 9.6%          | 10.0%        | 9.5%         | 9.0%         | 10.0%        | 9.6%          |
| Capacity purchase fees                   | 763            | 216          | 201          | 218          | 223          | 858           | 413          | 465          | 533          | 428          | 1839          | 433          | 488          | 569          | 448          | 1938          |
| % Sales                                  | 4.6%           | 4.4%         | 3.7%         | 3.4%         | 4.3%         | 3.9%          | 8.2%         | 8.2%         | 8.3%         | 8.2%         | 8.2%          | 8.2%         | 8.2%         | 8.3%         | 8.2%         | 8.2%          |
| <b>Total Operating Costs</b>             | <b>15,099</b>  | <b>4,476</b> | <b>4,207</b> | <b>4,514</b> | <b>4,654</b> | <b>17,851</b> | <b>4,565</b> | <b>4,644</b> | <b>5,046</b> | <b>4,666</b> | <b>18,922</b> | <b>4,792</b> | <b>4,881</b> | <b>5,339</b> | <b>4,939</b> | <b>19,952</b> |
| <b>EBITDA</b>                            | <b>1,457</b>   | <b>411</b>   | <b>1,220</b> | <b>1,830</b> | <b>521</b>   | <b>3,982</b>  | <b>468</b>   | <b>1,003</b> | <b>1,406</b> | <b>540</b>   | <b>3,417</b>  | <b>473</b>   | <b>1,032</b> | <b>1,535</b> | <b>509</b>   | <b>3,549</b>  |
| % of sales                               | 8.8%           | 8.4%         | 22.5%        | 28.8%        | 10.1%        | 18.2%         | 9.3%         | 17.8%        | 21.8%        | 10.4%        | 15.3%         | 9.0%         | 17.4%        | 22.3%        | 9.3%         | 15.1%         |
| Depreciation, amortization and impairm   | 1,640          | 428          | 418          | 415          | 442          | 1,703         | 448          | 456          | 463          | 470          | 1,837         | 478          | 490          | 501          | 512          | 1,980         |
| <b>EBIT (Excluding Special Charges)</b>  | <b>(187)</b>   | <b>(17)</b>  | <b>802</b>   | <b>1,415</b> | <b>79</b>    | <b>2,279</b>  | <b>19</b>    | <b>548</b>   | <b>943</b>   | <b>70</b>    | <b>1,580</b>  | <b>(4)</b>   | <b>542</b>   | <b>1,034</b> | <b>(3)</b>   | <b>1,569</b>  |
| % of sales                               | -1.1%          | -0.3%        | 14.8%        | 22.3%        | 1.5%         | 10.4%         | 0.4%         | 9.7%         | 14.6%        | 1.3%         | 7.1%          | -0.1%        | 9.2%         | 15.0%        | -0.1%        | 6.7%          |
| <b>Net Income</b>                        | <b>(1,700)</b> | <b>4</b>     | <b>838</b>   | <b>1,250</b> | <b>184</b>   | <b>2,276</b>  | <b>(120)</b> | <b>406</b>   | <b>856</b>   | <b>(31)</b>  | <b>1,110</b>  | <b>(97)</b>  | <b>299</b>   | <b>692</b>   | <b>(73)</b>  | <b>821</b>    |
| EPS (F.D) (\$) (Exc. Special charges)    | \$ (4.24)      | \$ 0.01      | \$ 2.23      | \$ 3.32      | \$ 0.48      | \$ 6.03       | \$ (0.31)    | \$ 1.06      | \$ 2.23      | \$ (0.08)    | \$ 2.90       | \$ (0.25)    | \$ 0.78      | \$ 1.81      | \$ (0.19)    | \$ 2.14       |
| Net debt                                 | 8,318          | 7,547        | 6,239        | 6,080        | 5,311        | 5,311         | 5,631        | 5,417        | 4,746        | 4,990        | 4,990         | 5,436        | 5,328        | 4,671        | 5,126        | 5,126         |
| Net debt/LTM EBITDA                      | 5.7x           | 3.8x         | 2.0x         | 1.6x         | 1.3x         | 1.3x          | 1.4x         | 1.4x         | 1.4x         | 1.5x         | 1.5x          | 1.6x         | 1.5x         | 1.3x         | 1.4x         | 1.4x          |

Source: Company reports, RBC Capital Markets estimates



## Bombardier Inc.

James McGarragle (Analyst)

### Outperform

TSX: BBD/B CN; CAD 56.95

Price Target CAD 95.00

### Key Statistics

|  |         |                    |         |
|--|---------|--------------------|---------|
| Shares O/S (MM):   | 99.5    | Market Cap (MM):   | 5,668   |
| Dividend:  | 0.00    | Yield:             | 0.0%    |
| Float (MM):  | 2,227.5 | Avg. Daily Volume: | 666,231 |
| Strategic Ownership: Bombardier/Beaudoin families Equity (11%); Voting (52%) |         |                    |         |

### RBC Estimates

| FY Dec                  | 2022A     | 2023A     | 2024E     | 2025E     |
|-------------------------|-----------|-----------|-----------|-----------|
| <b>EPS, Ops Diluted</b> | 0.74      | 3.94      | 3.53      | 8.45      |
| Prev.                   |           |           | 3.90      | 8.48      |
| <b>EBITDA, Adj</b>      | 930.0     | 1,230.0   | 1,321.6   | 1,645.2   |
| Prev.                   |           |           | 1,356.0   |           |
| <b>P/E</b>              | 55.8x     | 10.5x     | 11.7x     | 4.9x      |
| <b>CFPS Diluted</b>     | 1.93      | 8.68      | 8.44      | 13.42     |
| Prev.                   |           |           | 8.81      | 13.45     |
| <b>P/CFPS</b>           | 21.4x     | 4.8x      | 4.9x      | 3.1x      |
| <b>Revenue</b>          | 6.9       | 8.0       | 8.3       | 9.0       |
| Prev.                   |           |           | 8.6       |           |
| <b>EPS, Ops Diluted</b> | <b>Q1</b> | <b>Q2</b> | <b>Q3</b> | <b>Q4</b> |
| 2023                    | 1.06A     | 0.72A     | 0.73A     | 1.37A     |
| 2024                    | 0.21E     | 0.76E     | 0.79E     | 1.77E     |
| Prev.                   |           | 0.84E     | 0.87E     | 1.98E     |
| 2025                    | 1.20E     | 1.72E     | 1.83E     | 3.71E     |
| Prev.                   |           | 1.73E     | 1.84E     |           |
| <b>CFPS Diluted</b>     |           |           |           |           |
| 2023                    | 3.51A     | 0.97A     | 0.54A     | 3.75A     |
| 2024                    | 1.12E     | 1.79E     | 1.88E     | 3.66E     |
| Prev.                   |           | 1.87E     | 1.95E     | 3.87E     |
| 2025                    | 2.13E     | 2.77E     | 2.94E     | 5.58E     |
| Prev.                   |           | 2.78E     | 2.95E     | 5.59E     |

All market data in CAD; all financial data in USD; dividends paid in CAD.  
Priced as of prior trading day's market close, EST (unless otherwise noted).

### Valuation

We apply a target multiple of 6.5x to our 2025 EBITDA estimate of \$1.65B to derive our \$95 price target. Our target multiple represents a discount to peers to reflect higher debt and a lower proportion of Defense revenue. Our price target supports our Outperform rating.

### Investment summary

Our Outperform rating reflects the following key 3 points:

- 1. Solid near-term demand backdrop expected in our view to support meaningful inflection in FCF.** We are calling for FCF to inflect meaningfully by 2025E to >\$900MM. We expect higher FCF to be driven by better operating margins, lower interest costs, and decreased working capital investment. Key is that we believe the current business jet demand environment will support production at targeted 2024/2025 levels setting the stage in our view for Bombardier to execute on its near-term strategy and therefore achieve its 2025 targets
- 2. Defense, CPO, and Services set the stage out to 2030.** While we see a near-term inflection in FCF as key to our investment thesis, we also believe the market is not appreciating Defense, CPO, and Services opportunities longer-term. We note that the company has guided to \$1B opportunities in both Defense and CPO, which we believe sets the stage for GDP-plus revenue growth out to 2030. We also see further opportunity to grow Services on the back of an increasing fleet size and expanded network. Key is that we estimate each of Defense, CPO, and Services have EBITDA margins of >20% providing a platform for significant operating leverage longer-term.
- 3. Bombardier has changed; why believe the shares will re-rate higher.** The operational improvements and recent deleveraging since 2021, as well as upside levers discussed above, makes us question whether the 45% valuation discount to peers is entirely appropriate. We believe shares are primed for a re-rating given solid execution, debt reduction, and FCF growth, all of which we expect to over time erase the historical valuation hangover.

### Risks to rating and price target

- Execution on operational and financial targets.
- Slowdown in the bizjet market.
- Environmental concerns.
- New aircraft investments.

## Bombardier Model Summary

| Summary Income Statement         |               |               |               |                 |                 |               |               |               |               |               |               |               |               |
|----------------------------------|---------------|---------------|---------------|-----------------|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| (in US \$MM's)                   | 2021          | 2022          | 2023          | Q1/24E          | Q2/24E          | Q3/24E        | Q4/24E        | 2024E         | Q1/25E        | Q2/25E        | Q3/25E        | Q4/25E        | 2025E         |
| <b>Aerospace Key Drivers</b>     |               |               |               |                 |                 |               |               |               |               |               |               |               |               |
| Business Jet Deliveries          | 120           | 123           | 138           | 24              | 31              | 33            | 62            | 150           | 25            | 32            | 32            | 63            | 152           |
| <i>Delivery Growth</i>           | 5.3%          | 2.5%          | 12.2%         | 7.3%            | 7.8%            | 7.7%          | 10.0%         | 8.6%          | 5.9%          | 2.4%          | -4.2%         | 2.3%          | 1.4%          |
| <b>Revenue</b>                   |               |               |               |                 |                 |               |               |               |               |               |               |               |               |
| Manufacturing                    | 4,759         | 5,345         | 6,261         | 1,056           | 1,241           | 1,424         | 2,630         | 6,351         | 1,205         | 1,432         | 1,501         | 2,844         | 6,982         |
| Services                         | 1,237         | 1,508         | 1,748         | 466             | 471             | 455           | 530           | 1,923         | 499           | 504           | 487           | 567           | 2,057         |
| <b>Total Revenues</b>            | <b>6,085</b>  | <b>6,913</b>  | <b>8,046</b>  | <b>1,522</b>    | <b>1,711</b>    | <b>1,879</b>  | <b>3,161</b>  | <b>8,274</b>  | <b>1,704</b>  | <b>1,936</b>  | <b>1,988</b>  | <b>3,411</b>  | <b>9,039</b>  |
| <i>Revenue Growth</i>            | 3.3%          | 12.3%         | 17.1%         | 3.5%            | 0.3%            | -0.6%         | 2.3%          | 1.4%          | 14.1%         | 15.4%         | 5.4%          | 8.1%          | 9.9%          |
| <b>Total EBITDA</b>              | <b>658</b>    | <b>930</b>    | <b>1,230</b>  | <b>234</b>      | <b>300</b>      | <b>307</b>    | <b>480</b>    | <b>1,322</b>  | <b>298</b>    | <b>358</b>    | <b>365</b>    | <b>623</b>    | <b>1,645</b>  |
| <i>EBITDA Margin %</i>           | 10.8%         | 13.5%         | 15.3%         | 15.4%           | 17.6%           | 16.3%         | 15.2%         | 16.0%         | 17.5%         | 18.5%         | 18.4%         | 18.3%         | 18.2%         |
| Total EBIT                       | 223           | 512           | 799           | 152             | 205             | 207           | 300           | 865           | 213           | 261           | 262           | 443           | 1,180         |
| <i>EBIT Margin %</i>             | 3.7%          | 7.4%          | 9.9%          | 10.0%           | 12.0%           | 11.0%         | 9.5%          | 10.4%         | 12.5%         | 13.5%         | 13.2%         | 13.0%         | 13.1%         |
| Adj. Net Income (Loss) to Common | (855)         | 73            | 385           | 21              | 75              | 78            | 174           | 347           | 118           | 169           | 180           | 365           | 832           |
| Adj. EPS                         | \$ (0.35)     | \$ 0.74       | \$ 3.94       | \$ 0.21         | \$ 0.76         | \$ 0.79       | \$ 1.77       | \$ 3.53       | \$ 1.20       | \$ 1.72       | \$ 1.83       | \$ 3.71       | \$ 8.45       |
| CFPS \$(Basic)                   | \$ 0.11       | \$ 1.93       | \$ 8.68       | \$ 1.12         | \$ 1.79         | \$ 1.88       | \$ 3.66       | \$ 8.44       | \$ 2.13       | \$ 2.77       | \$ 2.94       | \$ 5.58       | \$ 13.42      |
| <b>Free Cash Flow</b>            | <b>\$ 103</b> | <b>\$ 735</b> | <b>\$ 257</b> | <b>\$ (249)</b> | <b>\$ (107)</b> | <b>\$ 101</b> | <b>\$ 492</b> | <b>\$ 236</b> | <b>\$ 171</b> | <b>\$ 209</b> | <b>\$ 206</b> | <b>\$ 331</b> | <b>\$ 917</b> |
| Net debt                         | 5,372         | 4,689         | 4,013         | 4,270           | 4,386           | 4,293         | 3,809         | 3,809         | 3,646         | 3,445         | 3,246         | 2,924         | 2,924         |

Source: Company reports, RBC Capital Markets estimates



## CAE Inc.

James McGarragle (Analyst)

### Outperform

TSX: CAE CN; CAD 26.37; NYSE: CAE

Price Target CAD 34.00

### Key Statistics

|                  |       |                    |         |
|------------------|-------|--------------------|---------|
| Shares O/S (MM): | 319.1 | Market Cap (MM):   | 8,415   |
| Dividend:        | 0.40  | Yield:             | 1.5%    |
|                  |       | Avg. Daily Volume: | 861,488 |

### RBC Estimates

| FY Mar           | 2022A   | 2023A   | 2024E   | 2025E   |
|------------------|---------|---------|---------|---------|
| Revenue          | 3,371.3 | 4,203.3 | 4,466.0 | 4,682.8 |
| EPS, Adj Diluted | 0.84    | 0.88    | 1.18    | 1.33    |
| P/AEPS           | 31.4x   | 30.0x   | 22.3x   | 19.8x   |
| EBITDA           | 755.0   | 890.3   | 1,024.0 | 1,097.7 |

| Revenue          | Q1       | Q2       | Q3       | Q4       |
|------------------|----------|----------|----------|----------|
| 2023             | 933.3A   | 993.2A   | 1,020.3A | 1,256.5A |
| 2024             | 1,054.4A | 1,088.5A | 1,094.5A | 1,228.6E |
| 2025             | 1,156.2E | 1,144.3E | 1,154.9E | 1,227.5E |
| EPS, Adj Diluted |          |          |          |          |
| 2023             | 0.06A    | 0.19A    | 0.28A    | 0.35A    |
| 2024             | 0.24A    | 0.27A    | 0.24A    | 0.42E    |
| 2025             | 0.33E    | 0.29E    | 0.29E    | 0.42E    |

F2025 estimated dividend

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

### Valuation

We value CAE shares on a sum of the parts basis using a blended EV/EBITDA multiple of 11.2x on our FY26 EBITDA estimate of \$1,194MM. Our 12x Civil multiple is driven off the Rail and Waste sectors, which trade in the 13x to 17x range, and our Defense multiple of 7x is derived using a discount to peers due to lower margins and recent headwinds. We anticipate that CAE's valuation will be supported by the company's favourable industry fundamentals (including secular growth and high barriers to entry) and FCF conversion, as well as the continued recovery in travel and defense procurement. Based on relative returns to our \$34 price target, we rate the shares Outperform.

### Investment summary

Our positive investment thesis on the CAE shares is based on the following key points:

- **Meaningful secular tailwinds.** We believe CAE's Civil segment is well positioned to benefit from long-term secular tailwinds. Our view is that the Civil segment will grow at a pace that meaningfully exceeds the overall economy at an organic growth rate that we peg at a mid- to high-single-digit range out to 2030. Key drivers of this growth are: i) a near- to medium-term recovery in passenger travel; ii) favourable pilot demographics; and iii) specific to the Defense segment, increased spending by NATO members driven by Russia's invasion of Ukraine.
- **Differentiated Civil service / product offering.** CAE is an industry leader in the Civil Aviation Training market and we note that CAE operates the world's largest civil aviation training network, which we believe acts as a significant barrier to entry as well as a key differentiator. Our view is that this favourably positions CAE to capitalize on meaningful Civil tailwinds going forward.

### Risks to rating and price target

- Supply chain risk
- Delayed recovery for air travel
- Reduction in defense spending
- Regulation risk
- R&D and technology risk
- US foreign ownership
- Acquisition risk

## CAE Model Summary

| CAE<br>(C\$MM unless otherwise indicated)        | F2022A  | F2023   | FQ1/24  | FQ2/24  | FQ3/24  | FQ4/24E | F2024E  | FQ1/25E | FQ2/25E | FQ3/25E | FQ4/25E | F2025E  | FQ1/26E | FQ2/26E | FQ3/26E | FQ4/26E | F2026E  |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>SEGMENTED RESULTS</b>                         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| <b>CIVIL AVIATION</b>                            |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Revenue  | 1,617.8 | 2,166.4 | 540.3   | 572.6   | 622.1   | 766.9   | 2,501.9 | 671.5   | 640.9   | 647.9   | 732.3   | 2,692.6 | 699.5   | 676.4   | 702.5   | 756.4   | 2,834.8 |
| Adjusted Operating Income                        | 314.7   | 485.3   | 119.0   | 114.3   | 124.2   | 199.4   | 556.9   | 161.2   | 141.0   | 142.3   | 190.4   | 634.9   | 174.9   | 155.6   | 161.4   | 204.2   | 696.0   |
| Adjusted Operating Margin                        | 19.5%   | 22.4%   | 22.0%   | 20.0%   | 20.0%   | 26.0%   | 22.3%   | 24.0%   | 22.0%   | 22.0%   | 26.0%   | 23.6%   | 25.0%   | 23.0%   | 23.0%   | 27.0%   | 24.6%   |
| <b>DEFENSE &amp; SECURITY</b>                    |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Revenue  | 1,602.1 | 1,844.2 | 471.7   | 477.4   | 472.4   | 461.7   | 1,883.2 | 484.7   | 503.4   | 507.0   | 495.2   | 1,990.2 | 505.6   | 521.2   | 522.1   | 508.1   | 2,057.0 |
| Adjusted Operating Income                        | 119.2   | 53.1    | 24.3    | 21.3    | 20.9    | 23.1    | 89.6    | 24.7    | 26.7    | 27.9    | 28.2    | 107.5   | 30.3    | 32.3    | 33.4    | 33.5    | 129.6   |
| Adjusted Operating Margin                        | 7.4%    | 2.9%    | 5.2%    | 4.5%    | 4.4%    | 5.0%    | 4.8%    | 5.1%    | 5.3%    | 5.5%    | 5.7%    | 5.4%    | 6.0%    | 6.2%    | 6.4%    | 6.6%    | 6.3%    |
| <b>HEALTHCARE</b>                                |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Revenue  | 151.4   | 192.7   | 42.4    | 38.5    | 36.0    | 59.1    | 176.0   | -       | -       | -       | -       | -       | -       | -       | -       | -       | -       |
| Adjusted Operating Income                        | 10.6    | 9.7     | 1.8     | 2.9     | 1.7     | 6.5     | 12.9    | -       | -       | -       | -       | -       | -       | -       | -       | -       | -       |
| Adjusted Operating Margin                        | 7.0%    | 5.0%    | 4.2%    | 7.5%    | 4.7%    | 11.0%   | 7.3%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| <b>CONSOLIDATED RESULTS</b>                      |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Revenue  | 3,371.3 | 4,203.3 | 1,054.4 | 1,088.5 | 1,094.5 | 1,228.6 | 4,466.0 | 1,156.2 | 1,144.3 | 1,154.9 | 1,227.5 | 4,682.8 | 1,205.1 | 1,197.6 | 1,224.6 | 1,264.4 | 4,891.8 |
| y/y growth (%)                                   | 13.1%   | 24.7%   | 13.0%   | 9.6%    | 7.3%    | -2.2%   | 6.2%    | 9.7%    | 5.1%    | 5.5%    | -0.1%   | 4.9%    | 4.2%    | 4.7%    | 6.0%    | 3.0%    | 4.5%    |
| <b>Expenses</b>                                  |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| COGS   | 2,415.8 | 3,037.0 | 748.5   | 785.4   | 791.9   | 852.6   | 3,178.4 | 803.5   | 795.3   | 802.6   | 853.1   | 3,254.5 | 837.6   | 832.3   | 851.1   | 878.8   | 3,399.8 |
| R&D  | 120.8   | 143.1   | 39.1    | 34.6    | 38.1    | 38.1    | 149.9   | 38.1    | 38.1    | 38.1    | 38.1    | 152.4   | 38.1    | 38.1    | 38.1    | 38.1    | 152.4   |
| SG&A   | 489.1   | 560.9   | 139.7   | 148.2   | 140.9   | 140.9   | 569.7   | 140.9   | 140.9   | 140.9   | 140.9   | 563.6   | 140.9   | 140.9   | 140.9   | 140.9   | 563.6   |
| Other Gains/Losses                               | (37.0)  | (22.8)  | (1.4)   | (3.9)   | (4.8)   | (4.8)   | (14.9)  | (4.8)   | (4.8)   | (4.8)   | (4.8)   | (19.2)  | (4.8)   | (4.8)   | (4.8)   | (4.8)   | (19.2)  |
| After Tax share in profit of equity accounted in | (48.5)  | (53.2)  | (16.6)  | (14.3)  | (16.7)  | (13.3)  | (60.9)  | (13.3)  | (13.3)  | (13.3)  | (13.3)  | (53.2)  | (13.3)  | (13.3)  | (13.3)  | (13.3)  | (53.2)  |
| Restructuring Cost/Other                         | 146.9   | 64.3    | 15.0    | 37.9    | 23.5    | (13.9)  | 62.5    | 5.9     | 20.4    | 21.1    | (5.1)   | 42.3    | 1.5     | 16.5    | 17.8    | (13.0)  | 22.8    |
| Adj. Operating Income                            | 444.5   | 548.1   | 145.1   | 138.5   | 145.1   | 222.5   | 651.2   | 185.9   | 167.7   | 170.2   | 218.6   | 742.4   | 205.2   | 187.9   | 194.8   | 237.8   | 825.6   |
| Adjusted Operating Margin                        | 13.2%   | 13.0%   | 13.8%   | 12.7%   | 13.3%   | 18.1%   | 14.6%   | 16.1%   | 14.7%   | 14.7%   | 17.8%   | 15.9%   | 17.0%   | 15.7%   | 15.9%   | 18.8%   | 16.9%   |
| y/y growth (%)                                   | 58.4%   | 23.3%   | 138.3%  | 11.1%   | -9.7%   | 10.2%   | 18.8%   | 28.1%   | 21.1%   | 17.3%   | -1.7%   | 14.0%   | 10.4%   | 12.1%   | 14.4%   | 8.7%    | 11.2%   |
| Depreciation & Amortization                      | 310.5   | 342.2   | 92.2    | 91.2    | 94.3    | 95.1    | 372.8   | 87.6    | 88.4    | 89.3    | 90.0    | 355.3   | 90.8    | 91.6    | 92.4    | 93.2    | 367.9   |
| Adj. EBITDA                                      | 755.0   | 890.3   | 237.3   | 229.7   | 239.4   | 317.6   | 1,024.0 | 273.4   | 256.0   | 259.5   | 308.7   | 1,097.7 | 296.0   | 279.5   | 287.2   | 330.9   | 1,193.5 |
| Adjusted EBITDA Margin                           | 22.4%   | 21.2%   | 22.5%   | 21.1%   | 21.9%   | 25.9%   | 22.9%   | 23.7%   | 22.4%   | 22.5%   | 25.1%   | 23.4%   | 24.6%   | 23.3%   | 23.4%   | 26.2%   | 24.4%   |
| y/y growth (%)                                   | 25.8%   | 17.9%   | 65.4%   | 11.2%   | -3.8%   | 9.0%    | 15.0%   | 15.2%   | 11.5%   | 8.4%    | -2.8%   | 7.2%    | 8.2%    | 9.1%    | 10.6%   | 7.2%    | 8.7%    |
| Adj. Operating EPS                               | \$0.84  | \$0.88  | \$0.24  | \$0.27  | \$0.24  | \$0.42  | \$1.18  | \$0.33  | \$0.29  | \$0.29  | \$0.42  | \$1.33  | \$0.39  | \$0.34  | \$0.36  | \$0.47  | \$1.56  |
| y/y growth (%)                                   | 80.0%   | 4.5%    | 335.1%  | 41.9%   | -14.2%  | 21.7%   | 34.4%   | 37.7%   | 4.9%    | 22.3%   | -2.0%   | 12.7%   | 16.5%   | 19.8%   | 22.9%   | 12.8%   | 17.5%   |
| Free Cash Flow (excl. dividends)                 | 341.5   | 335.7   | (104.9) | 147.5   | 187.2   | 261.3   | 491.1   | 28.3    | 27.1    | 193.0   | 225.7   | 474.2   | 47.8    | 48.0    | 217.3   | 246.1   | 559.2   |
| FCF conversion                                   | 131%    | 120%    | -137%   | 169%    | 244%    | 193%    | 131%    | 27%     | 29%     | 205%    | 169%    | 111%    | 38%     | 43%     | 187%    | 163%    | 111%    |
| Net Debt to EBITDA                               | 3.6x    | 3.4x    | 3.2x    | 3.2x    | 3.1x    | 2.6x    | 2.6x    | 2.6x    | 2.6x    | 2.5x    | 2.4x    | 2.4x    | 2.4x    | 2.3x    | 2.2x    | 2.0x    | 2.0x    |

Source: Company reports, RBC Capital Markets estimates



## Chorus Aviation Inc.

James McGarragle (Analyst)

### Outperform

TSX: CHR CN; CAD 2.14

Price Target CAD 3.50

### Key Statistics

|                  |       |                    |         |
|------------------|-------|--------------------|---------|
| Shares O/S (MM): | 194.7 | Market Cap (MM):   | 417     |
| Dividend:        | 0.00  | Yield:             | 0.0%    |
| Float (MM):      | 180.6 | Avg. Daily Volume: | 860,451 |

### RBC Estimates

| FY Dec                  | 2022A     | 2023A     | 2024E     | 2025E     |
|-------------------------|-----------|-----------|-----------|-----------|
| <b>Revenue</b>          | 1,595.8   | 1,681.1   | 1,620.5   | 1,629.1   |
| Prev.                   |           |           | 1,615.9   | 1,639.0   |
| <b>EBITDA</b>           | 441.0     | 458.7     | 392.6     | 407.9     |
| Prev.                   |           |           | 390.9     | 412.0     |
| <b>EPS, Adj Diluted</b> | 0.47      | 0.30      | 0.25      | 0.34      |
| Prev.                   |           |           | 0.26      |           |
| <b>CFPS Diluted</b>     | 1.26      | 1.87      | 1.37      | 1.49      |
| Prev.                   |           |           | 1.41      | 1.51      |
| <b>P/CFPS</b>           | 1.7x      | 1.1x      | 1.6x      | 1.4x      |
| <b>P/AEPS</b>           | 4.6x      | 7.1x      | 8.6x      | 6.3x      |
| <b>Revenue</b>          | <b>Q1</b> | <b>Q2</b> | <b>Q3</b> | <b>Q4</b> |
| 2023                    | 415.3A    | 396.8A    | 447.6A    | 421.5A    |
| 2024                    | 407.4E    | 377.9E    | 428.5E    | 406.7E    |
| Prev.                   | 410.6E    | 377.0E    | 426.7E    | 401.7E    |
| 2025                    | 412.4E    | 379.1E    | 430.7E    | 406.9E    |
| Prev.                   | 409.1E    | 386.5E    | 434.2E    | 409.3E    |
| <b>EBITDA</b>           |           |           |           |           |
| 2023                    | 118.1A    | 110.7A    | 113.1A    | 116.7A    |
| 2024                    | 99.9E     | 94.1E     | 93.6E     | 105.1E    |
| Prev.                   | 101.4E    | 93.6E     | 93.0E     | 102.8E    |
| 2025                    | 106.8E    | 97.8E     | 100.7E    | 102.6E    |
| Prev.                   | 105.2E    | 101.4E    | 101.8E    | 103.7E    |

All values in CAD unless otherwise noted.  
Priced as of prior trading day's market close, EST (unless otherwise noted).

### Valuation

We value Chorus on our 2025 EPS estimate which reflects anticipated asset sales, deleveraging, and the launch of Fund III. Our target multiple of 10x represents a discount of 18% compared to peers, which we view as warranted as the company transitions to asset light and leverages. We also consider Chorus' valuation versus its historical and consensus NTM valuation, where we believe a premium to the 5-year average and consensus NTM is appropriate given the declining debt load, solid FCF generation and scalable asset management growth (which was not present in the past). This results in our price target of \$3.50, and we therefore rate the shares as Outperform.

### Investment summary

- 1. Asset sales to inflect and support deleveraging.** We expect Chorus to successfully execute on its asset sale targets this year. Alongside the company's stable core operations, we see line of sight to lower debt levels, which in our view will increase capital deployment optionality for growth capex, M&A and shareholder returns, all of which we see as important catalysts. We also view the near-term demand backdrop as supportive due to favourable trends in turboprop and regional jet valuation as well as in lease rates.
- 2. Fund III a key catalyst.** Fund III is a key piece of Chorus' asset light transition as we expect it to offset decreases in lease revenue brought on by the disposition of aircraft. While Fund III has had launch delays reflecting uncertain market conditions, we flag Falko's long-term track record as giving us confidence in the team's ability to execute as conditions become more favorable. Key is that we see the backdrop for Fund III as improving namely due to lower expected interest rates, limited regional jet supply, and an increase in transaction activity and high lease renewal rates on narrowbodies.
- 3. We expect shares to re-rate higher.** We believe the market for regional aircraft is on the rebound and lease rates are inflecting, and we therefore expect sentiment in Chorus shares to improve as these factors start to benefit near-term results. We also expect the transition to asset light and debt reduction on the back of solid FCF to improve the valuation discount versus peers over time.

### Risks to rating and price target

- **Asset sales.** We flag a lack of asset sales as a potential headwind to CHR's FCF and deleveraging targets. We view a potentially weaker regional aircraft leasing market on the back of decreased travel demand as potentially impacting the company's 2024 targets.
- **Fund III execution.** A recession or change in market dynamics could impact investor appetite for the new fund, negatively affecting Chorus' financial results. However, we believe the delay of Fund III has been adequately priced into shares, limiting potential downside.
- **Slowdown in travel demand.** A slowdown in passenger demand for air travel could affect airlines' performance and financial condition, including Air Canada and Chorus' lessees.
- **Contract risk.** Most of Chorus' revenues are derived from the CPA and AC, and loss could negatively impact the company's operations and cash flow.
- **Competition from large players.** CHR has the second-largest regional aircraft fleet but is smaller relative to peers. We believe this risk is mitigated as larger competitors are focused on narrowbodies and widebodies and not regional.

## CHR Model Summary

| C\$MM                                       | 2022   | Q1/23  | Q2/23  | Q3/23  | Q4/23  | 2023   | Q1/24E | Q2/24E | Q3/24E | Q4/24E | 2024E  | Q1/25E | Q2/25E | Q3/25E | Q4/25E | 2025E  |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Income Statement</b>                     |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Revenue                                     | 1595.8 | 415.3  | 396.8  | 447.6  | 421.5  | 1681.1 | 407.4  | 377.9  | 428.5  | 406.7  | 1620.5 | 412.4  | 379.1  | 430.7  | 406.9  | 1629.1 |
| % change                                    | 56.0%  | 21.3%  | 1.1%   | 6.2%   | -4.2%  | 5.3%   | -1.9%  | -4.8%  | -4.3%  | -3.5%  | -3.6%  | 1.2%   | 0.3%   | 0.5%   | 0.0%   | 0.5%   |
| Airline Operations Total - RAS              | 1333   | 339    | 327    | 378    | 354    | 1399   | 350    | 321    | 370    | 347    | 1388   | 350    | 321    | 370    | 347    | 1388   |
| Regional Aircraft Leasing - RAL             | 262    | 76     | 69     | 70     | 67     | 281    | 58     | 57     | 58     | 59     | 233    | 63     | 58     | 61     | 60     | 241    |
| Total Operating Expenses                    | 1,408  | 353    | 341    | 386    | 368    | 1,449  | 352    | 325    | 382    | 346    | 1,406  | 351    | 323    | 377    | 349    | 1,400  |
| Operating Income                            | 188    | 62     | 55     | 61     | 53     | 232    | 55     | 53     | 46     | 60     | 214    | 61     | 56     | 53     | 58     | 229    |
| Adjusted EBITDA                             | 441.0  | 118.1  | 110.7  | 113.1  | 116.7  | 458.7  | 99.9   | 94.1   | 93.6   | 105.1  | 392.6  | 106.8  | 97.8   | 100.7  | 102.6  | 407.9  |
| % of sales                                  | 27.6%  | 28.4%  | 27.9%  | 25.3%  | 27.7%  | 27.3%  | 24.5%  | 24.9%  | 21.8%  | 25.8%  | 24.2%  | 25.9%  | 25.8%  | 23.4%  | 25.2%  | 25.0%  |
| Adj. Net Income to Common shareholders      | 93     | 21     | 15     | 12     | 9      | 58     | 13     | 11     | 8      | 19     | 50     | 20     | 16     | 14     | 17     | 67     |
| Adj. EPS (F.D) (\$)                         | \$0.47 | \$0.11 | \$0.08 | \$0.06 | \$0.05 | \$0.30 | \$0.06 | \$0.06 | \$0.04 | \$0.09 | \$0.25 | \$0.10 | \$0.08 | \$0.07 | \$0.09 | \$0.34 |
| FCF   | 371.3  | 73.1   | 70.3   | 113.7  | 74.4   | 331.4  | 98.7   | 71.0   | 72.7   | 81.4   | 323.8  | 92.5   | 84.9   | 88.7   | 89.6   | 355.8  |
| CFPS (F.D) (\$) (Excluding Special charges) | \$1.26 | \$0.41 | \$0.40 | \$0.62 | \$0.43 | \$1.87 | \$0.34 | \$0.32 | \$0.33 | \$0.37 | \$1.37 | \$0.39 | \$0.35 | \$0.37 | \$0.37 | \$1.49 |
| Net debt                                    | 1,925  | 1,897  | 1,825  | 1,694  | 1,666  | 1,666  | 1,526  | 1,461  | 1,394  | 1,318  | 1,318  | 1,229  | 1,147  | 1,062  | 976    | 976    |
| Net debt/LTM EBITDA                         | 4.4x   | 4.0x   | 3.8x   | 3.6x   | 3.6x   | 3.6x   | 3.5x   | 3.4x   | 3.4x   | 3.4x   | 3.4x   | 3.1x   | 2.8x   | 2.6x   | 2.4x   | 2.4x   |

Source: Company reports, RBC Capital Markets estimates



## Exchange Income Corporation

James McGarragle (Analyst)

### Outperform

TSX: EIF CN; CAD 45.77

Price Target CAD 65.00

### Key Statistics

|                  |      |                    |         |
|------------------|------|--------------------|---------|
| Shares O/S (MM): | 47.0 | Market Cap (MM):   | 2,151   |
| Dividend:        | 2.64 | Yield:             | 5.8%    |
|                  |      | Avg. Daily Volume: | 106,525 |

### RBC Estimates

| FY Dec         | 2022A   | 2023A   | 2024E   | 2025E   |
|----------------|---------|---------|---------|---------|
| Revenue        | 2,059.4 | 2,498.4 | 2,676.9 | 2,883.7 |
| EBITDA, Adj    | 456.4   | 555.5   | 624.0   | 688.9   |
| Free Cash Flow | 176.1   | 201.8   | 213.8   | 243.0   |
| FCF Yield      | 8.2%    | 9.4%    | 9.9%    | 11.3%   |

| Revenue     | Q1     | Q2     | Q3     | Q4     |
|-------------|--------|--------|--------|--------|
| 2023        | 526.8A | 627.2A | 687.7A | 656.7A |
| 2024        | 576.0E | 650.5E | 744.5E | 705.9E |
| 2025        | 628.4E | 705.1E | 802.0E | 748.1E |
| EBITDA, Adj |        |        |        |        |
| 2023        | 97.1A  | 147.0A | 167.8A | 143.6A |
| 2024        | 106.7E | 160.8E | 192.1E | 164.4E |
| 2025        | 120.4E | 178.7E | 211.7E | 178.0E |

Note: Free Cash Flow shown above uses the company's FCF less maintenance capex definition. All values in CAD unless otherwise noted. Priced as of prior trading day's market close, EST (unless otherwise noted).

### Valuation

In valuing EIF, we apply a blended 7.6x EV/EBITDA multiple (8x for Aviation & Aerospace and 6.5x for Manufacturing, ahead of aviation peers and in line with manufacturing) to our \$728MM 2026E EBITDA, reflecting a valuation blend of ~70% Aviation & Aerospace and ~30% Manufacturing. We apply our target multiples to our 2026E EBITDA for each segment and discount back one year at 10%, generating our \$65 price target, which supports our Outperform rating.

### Investment summary

Exchange Income Corporation is a diversified, acquisition-oriented company that acts as a holding company for a number of different subsidiaries within the aviation, aerospace, and manufacturing industries. We believe the shares currently represent an attractive opportunity for investors to own a company that provides a unique blend of growth and income at an attractive relative valuation. In summary, our positive view on the EIF shares stems from:

**Regional One provides upside potential as regional travel recovers in Europe.** Regional One EBITDA and cash flows have proved resilient emerging from the pandemic, a development we attribute to strong cost-management, the high-margin nature of Regional One's lease revenues (~95% EBITDA margins according to management), and solid capex flexibility (an aspect we believe may not be fully appreciated by investors).

**Quest as well as Northern Mat to drive growth within Manufacturing.** Going forward, we see tailwinds in EIF's Window Solutions business on the back of apartment construction and easing of production gaps. Moreover, despite near-term headwinds, we view Northern Mat as well positioned to benefit from oil and gas as well as hydro electric investment longer-term.

**Recent contract wins set the stage for solid 3-year EBITDA CAGR.** Recent contract wins, including with the BC and Manitoba governments, as well as with Air Canada, set the stage in our view for a double-digit EBITDA CAGR for 2023 to 2026.

### Risks to rating and price target

- **Access to external capital.** If the capital markets' desire for income-producing investments were to significantly decrease, EIF could have difficulty executing its strategy.
- **Acquisition integration and related risks.** EIF has a solid record of identifying and making accretive acquisitions, but its ability to successfully grow or diversify through additional acquisitions is dependent on a number of factors.
- **Contract risk.** EIF is party to a number of significant contracts with key customers. The loss of any one of these significant contracts could have a negative impact on the company's operations and cash flow.
- **Competition.** New competition or increased competition could have a significant impact on the business, operations, and financial condition of EIF's Aerospace & Aviation and Manufacturing segments.

## EIF Model Summary

| (CAD \$000's unless otherwise indicated)                               | 2022             | Q1/23          | Q2/23          | Q3/23          | Q4/23          | 2023             | Q1/24E         | Q2/24E         | Q3/24E         | Q4/24E         | 2024E            | Q1/25E         | Q2/25E         | Q3/25E         | Q4/25E         | 2025E            |
|--|------------------|----------------|----------------|----------------|----------------|------------------|----------------|----------------|----------------|----------------|------------------|----------------|----------------|----------------|----------------|------------------|
| <b>Segmented revenues</b>  |                  |                |                |                |                |                  |                |                |                |                |                  |                |                |                |                |                  |
| Aviation revenues  | 1,337,440        | 325,929        | 372,361        | 414,693        | 385,233        | 1,498,216        | 347,448        | 394,808        | 457,987        | 434,438        | 1,634,680        | 388,397        | 436,704        | 501,147        | 463,126        | 1,789,374        |
| Manufacturing revenues   | 721,933          | 200,915        | 254,861        | 272,980        | 271,443        | 1,000,199        | 228,599        | 255,643        | 286,505        | 271,443        | 1,042,189        | 240,028        | 268,425        | 300,830        | 285,015        | 1,094,299        |
| <b>Segmented EBITDA</b>  |                  |                |                |                |                |                  |                |                |                |                |                  |                |                |                |                |                  |
| Aviation EBITDA  | 336,512          | 73,807         | 107,691        | 124,066        | 108,907        | 414,471          | 82,154         | 118,131        | 141,598        | 127,162        | 469,046          | 93,779         | 132,850        | 157,448        | 137,875        | 521,952          |
| EBITDA Margin  | 25.2%            | 22.6%          | 28.9%          | 29.9%          | 28.3%          | 27.7%            | 23.6%          | 29.9%          | 30.9%          | 29.3%          | 28.7%            | 24.1%          | 30.4%          | 31.4%          | 29.8%          | 29.2%            |
| Manufacturing EBITDA   | 157,206          | 32,145         | 49,040         | 53,974         | 45,412         | 180,571          | 32,004         | 51,129         | 60,166         | 46,417         | 189,715          | 34,804         | 55,027         | 64,679         | 49,878         | 204,387          |
| EBITDA Margin  | 21.8%            | 16.0%          | 19.2%          | 19.8%          | 16.7%          | 18.1%            | 14.0%          | 20.0%          | 21.0%          | 17.1%          | 18.2%            | 14.5%          | 20.5%          | 21.5%          | 17.5%          | 18.7%            |
| <b>Revenues, Net</b>   | <b>2,059,373</b> | <b>526,844</b> | <b>627,222</b> | <b>687,673</b> | <b>656,676</b> | <b>2,498,415</b> | <b>576,046</b> | <b>650,451</b> | <b>744,492</b> | <b>705,881</b> | <b>2,676,870</b> | <b>628,425</b> | <b>705,129</b> | <b>801,977</b> | <b>748,142</b> | <b>2,883,673</b> |
| Revenue growth (Y/Y)   | 45.7%            | 98.0%          | 18.6%          | 17.2%          | 20.9%          | 21.3%            | 9.3%           | 3.7%           | 8.3%           | 7.5%           | 7.1%             | 9.1%           | 8.4%           | 7.7%           | 6.0%           | 7.7%             |
| <b>Aviation expenses</b>   | <b>854,487</b>   | <b>211,447</b> | <b>225,690</b> | <b>251,076</b> | <b>231,417</b> | <b>919,630</b>   | <b>212,235</b> | <b>221,342</b> | <b>253,111</b> | <b>245,821</b> | <b>932,508</b>   | <b>235,694</b> | <b>243,083</b> | <b>274,959</b> | <b>260,201</b> | <b>1,013,938</b> |
| Aviation expenses (% of sales)   | 41.5%            | 40.1%          | 36.0%          | 36.5%          | 35.2%          | 36.8%            | 36.8%          | 34.0%          | 34.0%          | 34.8%          | 34.8%            | 37.5%          | 34.5%          | 34.3%          | 34.8%          | 35.2%            |
| <b>Manufacturing expenses</b>  | <b>493,833</b>   | <b>150,241</b> | <b>179,941</b> | <b>192,594</b> | <b>195,693</b> | <b>718,469</b>   | <b>167,106</b> | <b>173,837</b> | <b>192,388</b> | <b>191,272</b> | <b>724,603</b>   | <b>174,441</b> | <b>181,388</b> | <b>200,729</b> | <b>199,867</b> | <b>756,425</b>   |
| Manufacturing expenses (% of sales)                                    | 57.8%            | 71.1%          | 79.7%          | 76.7%          | 84.6%          | 78.1%            | 78.7%          | 78.5%          | 76.0%          | 77.8%          | 77.7%            | 74.0%          | 74.6%          | 73.0%          | 76.8%          | 74.6%            |
| <b>Gross profit</b>  | <b>711,053</b>   | <b>165,156</b> | <b>221,591</b> | <b>244,003</b> | <b>229,566</b> | <b>860,316</b>   | <b>196,706</b> | <b>255,272</b> | <b>298,993</b> | <b>268,788</b> | <b>1,019,759</b> | <b>218,290</b> | <b>280,658</b> | <b>326,289</b> | <b>288,073</b> | <b>1,113,310</b> |
| Gross margin   | 34.5%            | 31.3%          | 35.3%          | 35.5%          | 35.0%          | 34.4%            | 34.1%          | 39.2%          | 40.2%          | 38.1%          | 38.1%            | 34.7%          | 39.8%          | 40.7%          | 38.5%          | 38.6%            |
| <b>EBITDA</b>  | <b>449,595</b>   | <b>96,703</b>  | <b>144,433</b> | <b>166,120</b> | <b>141,451</b> | <b>548,707</b>   | <b>106,670</b> | <b>160,804</b> | <b>192,086</b> | <b>164,402</b> | <b>623,961</b>   | <b>120,413</b> | <b>178,711</b> | <b>211,701</b> | <b>178,027</b> | <b>688,852</b>   |
| EBITDA Margin (%)  | 21.8%            | 18.4%          | 23.0%          | 24.2%          | 21.5%          | 22.0%            | 18.5%          | 24.7%          | 25.8%          | 23.3%          | 23.3%            | 19.2%          | 25.3%          | 26.4%          | 23.8%          | 23.9%            |
| EBITDA growth (Y/Y)  | 35.1%            | 45.4%          | 30.6%          | 11.4%          | 14.6%          | 22.0%            | 10.3%          | 11.3%          | 15.6%          | 16.2%          | 13.7%            | 12.9%          | 11.1%          | 10.2%          | 8.3%           | 10.4%            |
| <b>Adj. EBITDA</b>   | <b>456,442</b>   | <b>97,117</b>  | <b>147,036</b> | <b>167,751</b> | <b>143,621</b> | <b>555,525</b>   | <b>106,670</b> | <b>160,804</b> | <b>192,086</b> | <b>164,402</b> | <b>623,961</b>   | <b>120,413</b> | <b>178,711</b> | <b>211,701</b> | <b>178,027</b> | <b>688,852</b>   |
| Adj. EBITDA Margin (%)   | 22.2%            | 18.4%          | 23.4%          | 24.4%          | 21.9%          | 22.2%            | 18.5%          | 24.7%          | 25.8%          | 23.3%          | 23.3%            | 19.2%          | 25.3%          | 26.4%          | 23.8%          | 23.9%            |
| Adj. EBITDA growth (Y/Y)   | 38.4%            | 45.0%          | 27.8%          | 11.6%          | 15.8%          | 21.7%            | 9.8%           | 9.4%           | 14.5%          | 14.5%          | 12.3%            | 12.9%          | 11.1%          | 10.2%          | 8.3%           | 10.4%            |
| <b>EBIT</b>  | <b>229,887</b>   | <b>36,271</b>  | <b>80,390</b>  | <b>95,815</b>  | <b>70,404</b>  | <b>282,880</b>   | <b>31,204</b>  | <b>85,338</b>  | <b>116,620</b> | <b>88,936</b>  | <b>322,098</b>   | <b>45,078</b>  | <b>103,376</b> | <b>136,365</b> | <b>102,691</b> | <b>387,510</b>   |
| Depreciation and Amort.  | 219,708          | 60,432         | 64,043         | 70,305         | 71,047         | 265,827          | 75,466         | 75,466         | 75,466         | 75,466         | 301,863          | 75,335         | 75,335         | 75,335         | 75,335         | 301,341          |
| Interest Expense   | 78,418           | 27,310         | 29,896         | 31,339         | 31,242         | 119,787          | 30,953         | 32,575         | 32,607         | 32,638         | 128,774          | 32,670         | 32,717         | 32,749         | 32,780         | 130,916          |
| Taxes  | 41,800           | 2,100          | 13,598         | 14,953         | 10,135         | 40,786           | 68             | 14,246         | 22,684         | 15,200         | 52,198           | 3,350          | 19,078         | 27,977         | 18,876         | 69,280           |
| <b>Adj. net income</b>   | <b>132,915</b>   | <b>11,540</b>  | <b>43,480</b>  | <b>55,263</b>  | <b>33,768</b>  | <b>144,051</b>   | <b>3,683</b>   | <b>42,017</b>  | <b>64,830</b>  | <b>44,597</b>  | <b>155,127</b>   | <b>12,558</b>  | <b>55,081</b>  | <b>79,140</b>  | <b>54,535</b>  | <b>201,314</b>   |
| Weighted average shares outstanding (diluted)                          | 47,314           | 43,404         | 52,551         | 55,514         | 55,500         | 51,989           | 55,500         | 55,500         | 55,500         | 55,500         | 55,500           | 55,600         | 55,700         | 55,800         | 55,900         | 55,750           |
| <b>Adj. EPS (FD)</b>   | <b>3.13</b>      | <b>0.27</b>    | <b>0.93</b>    | <b>1.09</b>    | <b>0.70</b>    | <b>3.07</b>      | <b>0.16</b>    | <b>0.85</b>    | <b>1.26</b>    | <b>0.89</b>    | <b>3.16</b>      | <b>0.32</b>    | <b>1.08</b>    | <b>1.51</b>    | <b>1.07</b>    | <b>3.97</b>      |
| <b>Cash flow from operations (CFO)</b>                                 | <b>335,119</b>   | <b>-10,774</b> | <b>76,986</b>  | <b>117,257</b> | <b>169,757</b> | <b>353,226</b>   | <b>77,649</b>  | <b>116,982</b> | <b>138,795</b> | <b>118,563</b> | <b>451,990</b>   | <b>86,393</b>  | <b>129,916</b> | <b>152,976</b> | <b>128,370</b> | <b>497,655</b>   |
| Changes in working capital   | -21,217          | -77,579        | -27,559        | -7,362         | 59,945         | -52,555          | 0              | 0              | 0              | 0              | 0                | 0              | 0              | 0              | 0              | 0                |
| <b>FCF from operations (company definition)</b>                        | <b>332,025</b>   | <b>59,708</b>  | <b>98,002</b>  | <b>117,143</b> | <b>102,265</b> | <b>377,118</b>   | <b>71,649</b>  | <b>110,982</b> | <b>132,795</b> | <b>112,563</b> | <b>427,990</b>   | <b>80,393</b>  | <b>123,916</b> | <b>146,976</b> | <b>122,370</b> | <b>473,655</b>   |
| Maintenance capital expenditures                                       | 155,921          | 40,785         | 39,410         | 42,802         | 52,294         | 175,291          | 46,084         | 52,036         | 59,559         | 56,470         | 214,150          | 50,274         | 56,410         | 64,158         | 59,851         | 230,694          |
| Growth capital expenditures  | 125,416          | 34,411         | 85,952         | 81,115         | 101,566        | 303,044          | 98,875         | 76,851         | 80,613         | 79,068         | 335,407          | 25,000         | 25,000         | 25,000         | 25,000         | 100,000          |
| <b>FCF from operations less maintenance capex (company definition)</b> | <b>176,104</b>   | <b>18,923</b>  | <b>58,592</b>  | <b>74,341</b>  | <b>49,971</b>  | <b>201,827</b>   | <b>25,565</b>  | <b>58,946</b>  | <b>73,236</b>  | <b>56,093</b>  | <b>213,840</b>   | <b>30,119</b>  | <b>67,506</b>  | <b>82,817</b>  | <b>62,519</b>  | <b>242,961</b>   |
| FCF growth (Y/Y)   | 19.7%            | -2.9%          | 23.7%          | 7.7%           | 24.2%          | 14.6%            | 35.1%          | 0.6%           | -1.5%          | 12.3%          | 6.0%             | 17.8%          | 14.5%          | 13.1%          | 11.5%          | 13.6%            |
| FCF / share  | 4.36             | 0.44           | 1.34           | 1.60           | 1.06           | 4.49             | 0.54           | 1.25           | 1.56           | 1.19           | 4.55             | 0.64           | 1.43           | 1.75           | 1.32           | 5.14             |
| Adj. EBITDA conversion   | 38.6%            | 19.5%          | 39.8%          | 44.3%          | 34.8%          | 36.3%            | 24.0%          | 36.7%          | 38.1%          | 34.1%          | 34.3%            | 25.0%          | 37.8%          | 39.1%          | 35.1%          | 35.3%            |
| Dividend payout ratio (FCF less maintenance capex)                     | 55.3%            | 141.7%         | 47.5%          | 39.5%          | 61.2%          | 56.8%            | 121.3%         | 52.6%          | 42.4%          | 55.3%          | 58.0%            | 108.4%         | 48.5%          | 39.6%          | 52.5%          | 53.9%            |
| Dividend payout ratio (FCF less total capex)                           | 181.2%           | -31.2%         | -57.5%         | -441.0%        | 192.5%         | -91.6%           | -46.1%         | -260.6%        | -2253.4%       | -182.7%        | -127.2%          | 293.5%         | 67.4%          | 51.4%          | 75.5%          | 78.4%            |
| Net debt   | 1,638,571        | 1,761,689      | 1,785,930      | 1,855,154      | 1,903,012      | 1,903,012        | 2,003,342      | 2,049,267      | 2,083,663      | 2,133,659      | 2,133,659        | 2,132,180      | 2,094,384      | 2,040,345      | 2,006,674      | 2,006,674        |
| <b>Net debt/LTM EBITDA</b>   | <b>3.6x</b>      | <b>3.6x</b>    | <b>3.4x</b>    | <b>3.5x</b>    | <b>3.4x</b>    | <b>3.4x</b>      | <b>3.5x</b>    | <b>3.5x</b>    | <b>3.5x</b>    | <b>3.4x</b>    | <b>3.4x</b>      | <b>3.3x</b>    | <b>3.2x</b>    | <b>3.0x</b>    | <b>2.9x</b>    | <b>2.9x</b>      |
| <b>Net debt/LTM EBITDA (covenant metric, excl. converts)</b>           | <b>2.4x</b>      | <b>2.5x</b>    | <b>2.4x</b>    | <b>2.4x</b>    | <b>2.4x</b>    | <b>2.4x</b>      | <b>2.5x</b>    | <b>2.5x</b>    | <b>2.5x</b>    | <b>2.5x</b>    | <b>2.5x</b>      | <b>2.5x</b>    | <b>2.3x</b>    | <b>2.2x</b>    | <b>2.1x</b>    | <b>2.1x</b>      |

Source: Company reports, RBC Capital Markets estimates



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A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from CAE Inc. in the next three months.

RBC Capital Markets, LLC makes a market in the securities of CAE Inc..

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

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

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A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Bombardier Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from Bombardier Inc. in the next three months.

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

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Bombardier Inc. 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 Bombardier Inc..

RBC Capital Markets is currently providing Bombardier Inc. with investment banking 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.

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

Diane Fontaine, Vice President and Portfolio Manager at RBC Dominion Securities Inc., is a member of the Board of Directors of Bombardier Inc.

An analyst involved in the preparation of this report has visited material operations of Exchange Income Corporation, and more specifically, the facilities of Exchange Income Corporation, 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 Exchange Income Corporation as applicable.

An analyst involved in the preparation of this report has visited material operations of CAE Inc., and more specifically, the facilities of CAE 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 CAE 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.

### Ratings

**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.

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**Not Rated (NR):** The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

### Risk Rating

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.

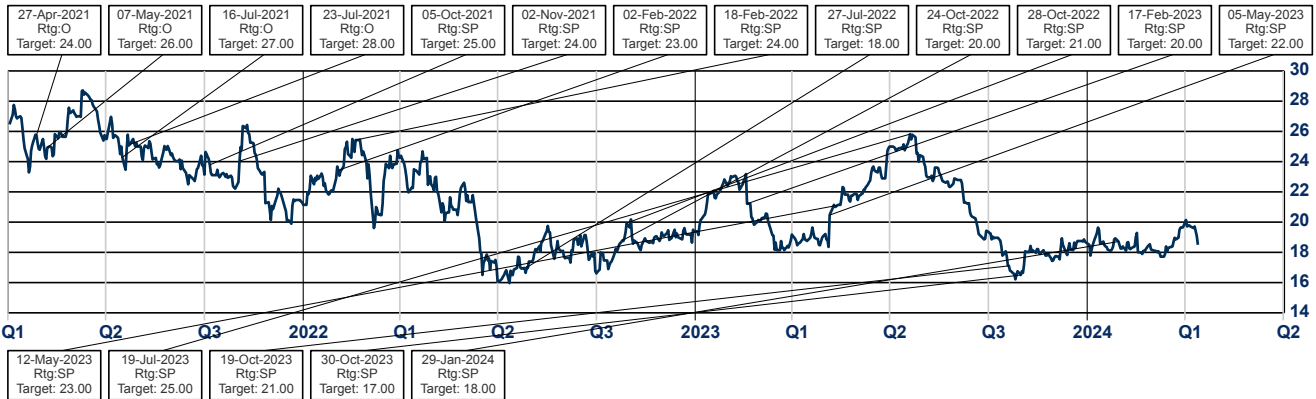
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For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of 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.

| Distribution of ratings              |       |         |                    |         |
|--------------------------------------|-------|---------|--------------------|---------|
| RBC Capital Markets, Equity Research |       |         |                    |         |
| As of 31-Mar-2024                    |       |         |                    |         |
| Rating                               | Count | Percent | Investment Banking |         |
|                                      |       |         | Serv./Past 12 Mos. |         |
|                                      |       |         | Count              | Percent |
| BUY [Outperform]                     | 831   | 56.84   | 264                | 31.77   |
| HOLD [Sector Perform]                | 585   | 40.01   | 151                | 25.81   |
| SELL [Underperform]                  | 46    | 3.15    | 4                  | 8.70    |



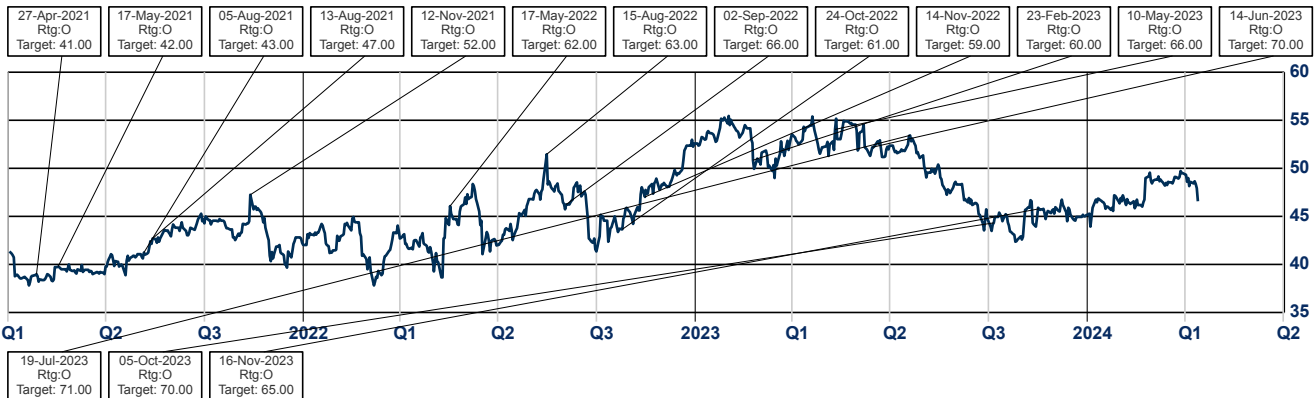
Rating and price target history for: Air Canada, AC CN as of 12-Apr-2024 (in CAD)



Legend:  
 O: Outperform; SP: Sector Perform; U: Underperform; R: Restricted; 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.

Created by: BlueMatrix

Rating and price target history for: Exchange Income Corporation, EIF CN as of 12-Apr-2024 (in CAD)



Legend:  
 O: Outperform; SP: Sector Perform; U: Underperform; R: Restricted; 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.

Created by: BlueMatrix



Rating and price target history for: Chorus Aviation Inc., CHR CN as of 12-Apr-2024 (in CAD)

|                                      |                                      |                                      |                                      |                                      |                                      |                                      |
|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| 07-Apr-2021<br>Rtg:O<br>Target: 5.50 | 12-Aug-2021<br>Rtg:O<br>Target: 4.75 | 09-May-2022<br>Rtg:O<br>Target: 5.00 | 27-Jul-2022<br>Rtg:O<br>Target: 4.50 | 24-Oct-2022<br>Rtg:O<br>Target: 4.00 | 04-Aug-2023<br>Rtg:O<br>Target: 3.75 | 23-Feb-2024<br>Rtg:O<br>Target: 3.50 |
|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|



Legend:  
 O: Outperform; SP: Sector Perform; U: Underperform; R: Restricted; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage;  
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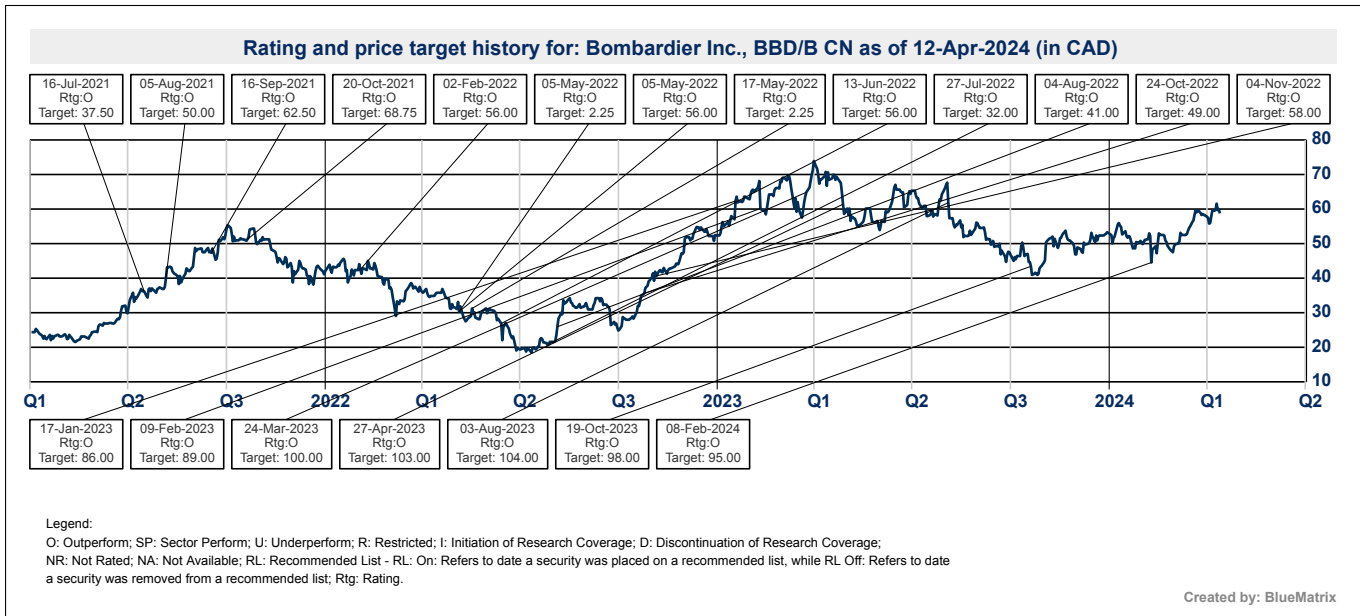
Rating and price target history for: CAE Inc., CAE CN as of 12-Apr-2024 (in CAD)

|   |                                       |                                       |                                       |                                       |                                       |                                       |                                       |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| 23-Jun-2022<br>Rtg:I:O<br>Target: 40.00 | 10-Aug-2022<br>Rtg:O<br>Target: 37.00 | 24-Oct-2022<br>Rtg:O<br>Target: 33.00 | 14-Feb-2023<br>Rtg:O<br>Target: 37.00 | 20-Apr-2023<br>Rtg:O<br>Target: 36.00 | 01-Jun-2023<br>Rtg:O<br>Target: 35.00 | 09-Aug-2023<br>Rtg:O<br>Target: 37.00 | 14-Nov-2023<br>Rtg:O<br>Target: 34.00 |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|



Legend:  
 O: Outperform; SP: Sector Perform; U: Underperform; R: Restricted; 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.

Created by: BlueMatrix



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). 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. As of April 3, 2023, U.S. RBC Wealth Management's quarterly reports will serve as the primary communication for its models and will highlight any changes to the model made during the quarter.

## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at [www.rbcinsightresearch.com](http://www.rbcinsightresearch.com) or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

### Air Canada

#### Valuation

Applying a 3.4x EV/EBITDA multiple to our 2025 estimates, we derive our price target of \$18. Our target multiple is in line with AC's historical average multiple and supported by our view that the industry should largely return to normal by 2025. Our base case reflects the following assumptions: (1) near-term constraints continue with a return to 2019 capacity levels by 2025; (2) negative pricing; and (3) continued cost increases. Our price target supports our Sector Perform rating.

#### Risks to rating and price target

Risks to our price target and rating include:

- Delayed recovery for air travel.
- Collective agreements.
- Regulation risk.
- Supply chain risk.
- Increasing competition.

### Bombardier Inc.

#### Valuation

We apply a target multiple of 6.5x to our 2025 EBITDA estimate of \$1.65B to derive our \$95 price target. Our target multiple represents a discount to peers to reflect higher debt and a lower proportion of Defense revenue. Our price target supports our

Outperform rating.

### Risks to rating and price target

- Execution on operational and financial targets.
- Slowdown in the bizjet market.
- Environmental concerns.
- New aircraft investments.

#### CAE Inc.

##### Valuation

We value CAE shares on a sum of the parts basis using a blended EV/EBITDA multiple of 11.2x on our FY26 EBITDA estimate of \$1,194MM. Our 12x Civil multiple is driven off the Rail and Waste sectors, which trade in the 13x to 17x range, and our Defense multiple of 7x is derived using a discount to peers due to lower margins and recent headwinds. We anticipate that CAE's valuation will be supported by the company's favourable industry fundamentals (including secular growth and high barriers to entry) and FCF conversion, as well as the continued recovery in travel and defense procurement. Based on relative returns to our \$34 price target, we rate the shares Outperform.

### Risks to rating and price target

- Supply chain risk
- Delayed recovery for air travel
- Reduction in defense spending
- Regulation risk
- R&D and technology risk
- US foreign ownership
- Acquisition risk

#### Chorus Aviation Inc.

##### Valuation

We value Chorus on our 2025 EPS estimate which reflects anticipated asset sales, deleveraging, and the launch of Fund III. Our target multiple of 10x represents a discount of 18% compared to peers, which we view as warranted as the company transitions to asset light and deleverages. We also consider Chorus' valuation versus its historical and consensus NTM valuation, where we believe a premium to the 5-year average and consensus NTM is appropriate given the declining debt load, solid FCF generation and scalable asset management growth (which was not present in the past). This results in our price target of \$3.50, and we therefore rate the shares as Outperform.

### Risks to rating and price target

- **Asset sales.** We flag a lack of asset sales as a potential headwind to CHR's FCF and deleveraging targets. We view a potentially weaker regional aircraft leasing market on the back of decreased travel demand as potentially impacting the company's 2024 targets.
- **Fund III execution.** A recession or change in market dynamics could impact investor appetite for the new fund, negatively affecting Chorus' financial results. However, we believe the delay of Fund III has been adequately priced into shares, limiting potential downside.
- **Slowdown in travel demand.** A slowdown in passenger demand for air travel could affect airlines' performance and financial condition, including Air Canada and Chorus' lessees.
- **Contract risk.** Most of Chorus' revenues are derived from the CPA and AC, and loss could negatively impact the company's operations and cash flow.
- **Competition from large players.** CHR has the second-largest regional aircraft fleet but is smaller relative to peers. We believe this risk is mitigated as larger competitors are focused on narrowbodies and widebodies and not regional.

#### Exchange Income Corporation

##### Valuation

In valuing EIF, we apply a blended 7.6x EV/EBITDA multiple (8x for Aviation & Aerospace and 6.5x for Manufacturing, ahead of aviation peers and in line with manufacturing) to our \$728MM 2026E EBITDA, reflecting a valuation blend of ~70% Aviation &



Aerospace and ~30% Manufacturing. We apply our target multiples to our 2026E EBITDA for each segment and discount back one year at 10%, generating our \$65 price target, which supports our Outperform rating.

### Risks to rating and price target

- **Access to external capital.** If the capital markets' desire for income-producing investments were to significantly decrease, EIF could have difficulty executing its strategy.
- **Acquisition integration and related risks.** EIF has a solid record of identifying and making accretive acquisitions, but its ability to successfully grow or diversify through additional acquisitions is dependent on a number of factors.
- **Contract risk.** EIF is party to a number of significant contracts with key customers. The loss of any one of these significant contracts could have a negative impact on the company's operations and cash flow.
- **Competition.** New competition or increased competition could have a significant impact on the business, operations, and financial condition of EIF's Aerospace & Aviation and Manufacturing segments.

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