



January 29, 2024

RBC Elements™: Q4/23 Flight Deck

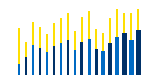
Q4 Airlines & Aerospace Preview

Our view: We keep our estimates unchanged with the exception of AC, bringing estimates higher on lower fuel costs offset by lower capacity growth assumptions in 2024, and CAE, which we adjusted down on Civil margin. Our Cdn Airlines & Aerospace Heatmap powered by RBC Elements™ points to continued weak leading indicators and robust coincident indicators (pg 2). In addition, we note Cdn/US airfare CPI continues to trend negatively, directionally supported by our proprietary Canadian Airfare Index. Key given US peers' guidance is predicated on continued higher fares to offset the higher cost environment due to new labour agreements and MRO costs. Overall, we expect guidance updates in Q4 with details of each below. We like the set-up for BBD into 2024; which based on our estimates means that the 2025 (multi-year) guide is also looking increasingly conservative with risk to the upside, in our view.

Q4 estimate revisions

- AC: Estimates higher on lower fuel costs offset by lower capacity in 2024; price target increases to \$18 (from \$17); reaffirm Sector Perform rating.** We are increasing our Q4/23 estimate to \$524MM (from \$439MM) vs consensus of \$539MM, strictly on the benefit from lower fuel prices. For 2024, we previously anticipated a return to 2019 capacity levels by 2024. However, given the robust capacity ramp-up over the last two years, OEM delays, and MRO slowdowns, we reduce our capacity assumption for AC to -3% vs. 2019 (or +10% y/y). Our 2024 estimate of \$3,209MM remains below consensus of \$3,765MM and guidance of \$3.5B to \$4B as we see multiple headwinds facing the airline industry, including the sustainability of higher fares, increased new entrants, and higher labour costs. Given the challenging operating environment (supply-chain challenges, MRO delays, high costs, and geopolitical downside risks), we believe AC will leave 2024 EBITDA guidance unchanged. Our target price moves to \$18 on higher 2025E EBITDA applied to our unchanged target multiple of 3.5x.
- BBD: Q4 estimates unchanged; price target remains at \$98; reaffirm Outperform rating.** We are maintaining our Q4/23 EBITDA estimate of \$411MM, slightly below consensus of \$419MM. Our estimate reflects a seasonally high 57 total deliveries built throughout the year, generating a strong FCF print of \$621MM. Our out-year estimates remain above consensus, and we expect BBD to provide solid 2024 guidance, with upside risk to 2025 guidance on solid execution to date, growth in services, and a supportive business jet market. Key focus into the quarter will be on demand, book-to-bill and services growth. Our price remains at \$98, and our target multiple is unchanged at 6.5x. BBD remains our top idea and trades at a 50% discount to peers.
- CAE: FQ3 estimate lower but above consensus; price target remains at \$34; maintain Outperform.** Our FQ3 EBITDA estimate decreases to \$249MM (from \$255MM) on lower margin but remains above consensus \$243MM on higher Civil. Our F24 Civil adj. operating income estimate of +17% aligns with guidance for growth of mid-to-high teen. We also introduce our F26 EBITDA estimate of \$1,199MM, which is below consensus \$1,272 due to lower Defense margin, and roll forward our valuation year. Target price remains at \$34 on our lower target multiple of 11.2x (from 12.5x).
- CHR: Q4 estimate unchanged; price target unchanged at \$3.75; reaffirm Outperform rating.** We are maintaining our Q4/23 EPS estimate of \$0.12, slightly above consensus of \$0.10, (in line with FY RBCe: \$0.37 vs cons. \$0.36) and make no changes to out-year estimates. Key focus for the call will be on 2024 guidance and the extent to which any contributions from Fund III will be incorporated, given the delayed launch. Additionally, we look for visibility on new growth avenues in RAS and the pilot shortage's impacts on capacity growth.
- EIF: Q4 estimate unchanged; price target remains at \$65; maintain Outperform.** Our Q4 estimate is unchanged into the quarter at \$141MM, a touch below consensus \$143MM on lower Manufacturing EBITDA reflecting uncertainty surrounding Northern Mat and weak PMI readings. Our 2024 estimate remains at \$624MM, in line with consensus \$625MM, in the mid to high range of 2024 guidance for EBITDA of \$600–635MM.

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Summary of ratings and price targets

Company	Ticker	New Rating	Previous Rating	Curr. Market Cap(MM)	Price	New Price Target	Previous Price Target	% Change	Implied All-in Return %
James McGarragle									
CAE Inc.	CAE CN	Outperform	Outperform	CAD 8,551	26.79	34.00	34.00	--	28
Exchange Income Corporation	EIF CN	Outperform	Outperform	CAD 2,200	47.20	65.00	65.00	--	43
Walter Spracklin									
Air Canada	AC CN	Sector Perform	Sector Perform	CAD 7,114	18.92	18.00	17.00	6	(5)
Bombardier Inc.	BBD/B CN	Outperform	Outperform	CAD 4,973	49.97	98.00	98.00	--	96
Chorus Aviation Inc.	CHR CN	Outperform	Outperform	CAD 498	2.56	3.75	3.75	--	46

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
Macro Indicators YY																	
US GDP**		(4.6%)	(29.9%)	35.3%	3.9%	6.3%	7.0%	2.7%	7.0%	(1.6%)	(0.6%)	32%	2.6%	2.2%	2.1%	4.9%	1.0%
CAD GDP**		(8.3%)	(37.1%)	41.3%	8.8%	5.3%	(2.3%)	5.9%	6.9%	2.6%	3.6%	23%	(0.1%)	2.6%	1.4%	(1.1%)	0.6%
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%)
Returns (vs 2019)																	
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%)
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%)
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%)
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%)
Leading Indicators (Powered by RBC Elements)																	
RBC Canadian Airfare Index										102.0	103.8	99.0	101.0	99.5	100.4	101.2	99.5
RBC GOAT Index YY		(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%)
Corporate Travel Search Interest YY		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%
AC Travel Search Interest YY		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%
US Travel Search Interest YY		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%)
Cdn Travel Search Interest YY		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%
Cdn Non-Mainline Search Interest YY		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%
% 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%
Coincident Indicators (vs 2019)																	
CAD Airfare CPI		8.5%	7.8%	(9.7%)	(7.7%)	5.1%	3.8%	4.2%	8.8%	13.0%	19.2%	34.1%	28.6%	23.2%	14.2%	10.3%	9.1%
US Airfare CPI		(1.3%)	(26.3%)	(24.4%)	(18.9%)	(21.4%)	(12.1%)	(18.2%)	(20.7%)	(10.2%)	18.6%	9.6%	7.7%	10.5%	5.1%	(7.0%)	(4.7%)
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%)	(1.4%)
Global ASKs*		(14.4%)	(84.4%)	(65.6%)	(58.4%)	(59.5%)	(53.3%)	(45.0%)	(39.5%)	(36.7%)	(29.8%)	(24.1%)	(24.1%)	(12.0%)	(5.6%)	(3.5%)	(2.4%)
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%	7.2%
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%	6.8%
North American Load Factors*		72.7%	35.2%	49.3%	53.1%	54.5%	73.4%	78.5%	78.3%	79.2%	87.0%	86.4%	84.6%	79.7%	86.9%	86.8%	83.2%
TSA Passenger Throughput		(20.3%)	(88.1%)	(70.9%)	(63.0%)	(54.0%)	(32.6%)	(22.4%)	(17.7%)	(15.9%)	(9.6%)	(9.0%)	(6.0%)	0.3%	(0.0%)	1.7%	4.3%
CATSA Passenger Throughput		(22.6%)	(95.4%)	(86.8%)	(85.6%)	(90.6%)	(89.6%)	(62.0%)	(49.8%)	(54.5%)	(25.3%)	(15.4%)	(11.2%)	(8.4%)	(3.4%)	2.7%	(0.9%)

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
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%	14.6%
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%
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%	14.7%
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%
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%
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%
Number of Billionaires		(2.7%)	(2.7%)	(2.7%)	(2.7%)	28.0%	28.0%	28.0%	28.0%	23.9%	23.9%	23.9%	23.9%	22.6%	22.6%	22.6%	22.6%
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%	

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

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



Canadian Airlines & Aerospace Q4/23 preview

In this report, we overview recent share price performance, discuss relevant industry trends/themes, and update our Q4 estimates. Items of focus include:

1. The set-up: share price performance in Q4 and valuation
2. An overview of air traffic trends, pricing, and leading indicators via RBC Elements™
3. A discussion of our Q4 estimates for each company in our coverage

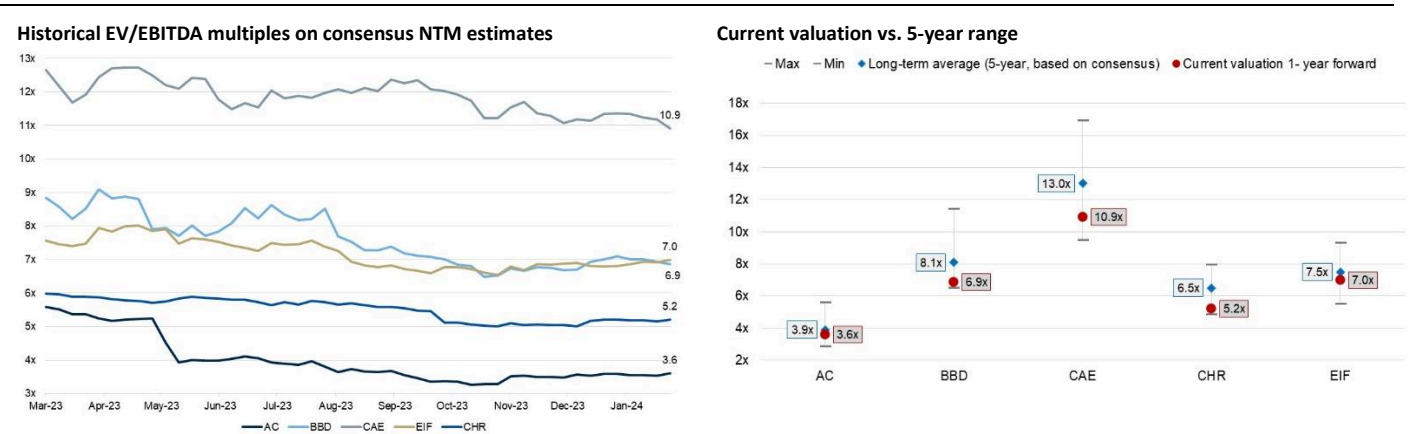
The set-up: Aerospace share price performance during Q4

Company	Q4/23 Share Price Performance
BBD	12.4%
CHR	8.9%
S&P TSX	7.3%
EIF	0.6%
AC	-3.6%
CAE	-9.8%

Share prices mixed in Q4. Canadian Airlines & Aerospace share prices were mixed during the quarter, with BBD outperforming the index, up +12.4%. The performance was driven by a solid Q3 report, which sets up the company to exceed 2023 guidance. CAE underperformed against the peer set on legacy defence margin overhang but remains one of our top ideas in Aerospace. CHR recovered off lows, gaining 8.9% and AC ended lower as the industry moves past peaking pricing and faces increasing cost headwinds.

Thoughts on valuations. Referencing Exhibit 3, the bar chart below shows current valuations (red dot) relative to the 5-year range. CAE is trading at the low end of its historical range despite positive long-term trends and solid execution in Civil and opportunity for operating leverage in Defense. AC is trading slightly below its historical average and in line with pre-pandemic levels. We flag EIF as attractively valued in our view, with valuation not reflecting our expectation for double-digit 2-year EBITDA CAGR 2023 to 2025. Additionally, we see CHR as attractively valued at the low end of its range, with Fund III and new business opportunities providing upside. Finally, we highlight Bombardier as our top pick and the stock attractively valued at the low end of its historical range and at a 50% discount to peers.

Exhibit 3 - Airlines & Aerospace shares mostly trading toward bottom of relative valuation



Source: FactSet consensus estimates as of market close January 22, 2023. Note: Excludes pandemic impact from Jan. 2020 to Mar. 2023 for AC and BBD

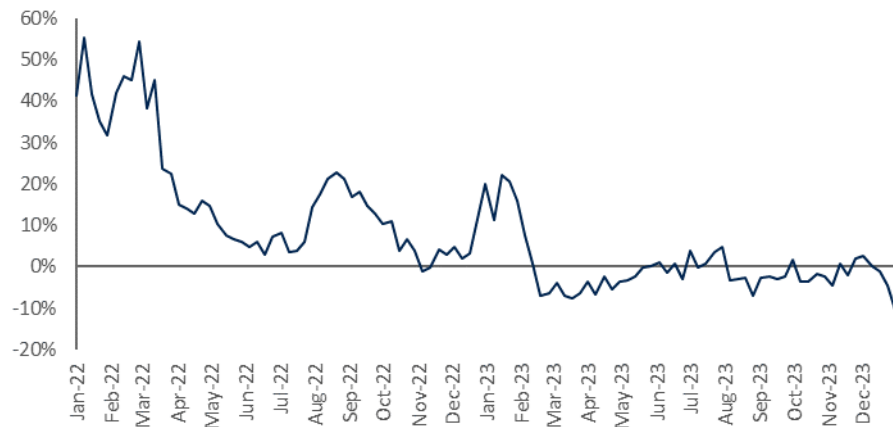
Canadian Airlines & Aerospace Heatmap powered by RBC Elements™

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 continue to be negative. 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 -1.1% y/y through Q4, after having first inflected downward in February, resulting in -2.4% y/y in Q2. We track travel search interest y/y as measured by website traffic across corporate, leisure and non-mainline carriers and flag that travel search interest across most segments moved lower sequentially in Q4, with US travel search interest inflecting negative for the first time since Q1/21. Notably, non-mainline search interest, which was trending generally higher than mainline, had the largest sequential drop from 21% in Q3 to 7% in Q4, indicating demand may be fading for all participants. In contrast, corporate search interest significantly increased to +30% y/y (though we caution is from a single data point). However, we note positive commentary from US peers on a pickup in business travel, with some noting ~90% recovery.

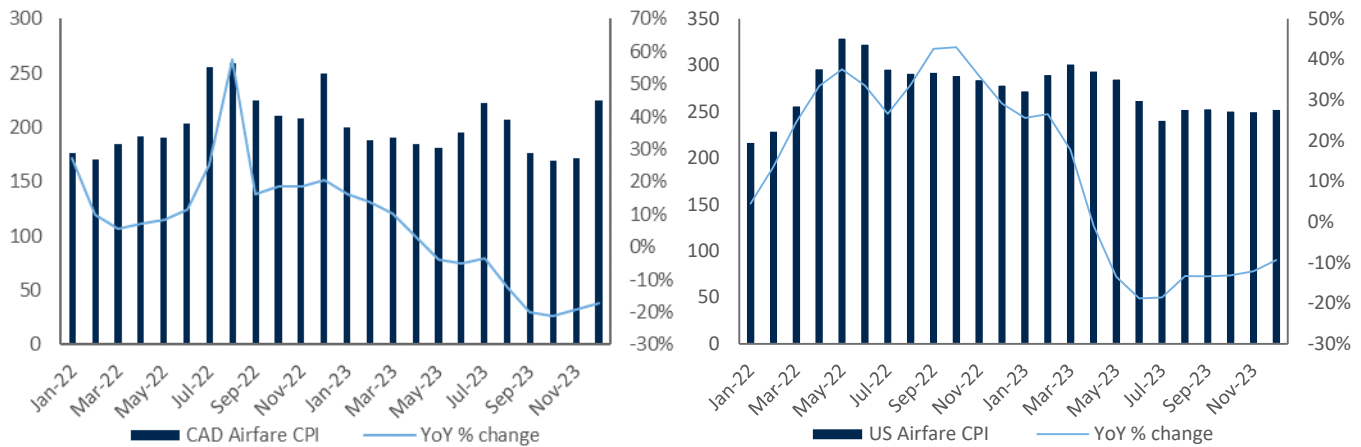
Exhibit 4 - GOAT travel indicators remain negative since February 2023



Source: RBC Elements, RBC Capital Markets

Airfares continue to moderate. Airfares hit a seasonal peak in the summer of 2022 and have since trended downwards. We note continued negative momentum in the past quarter, driven by excess capacity in the system, with airlines discounting fares to fill seats. Canadian and US airfare CPI saw a marked decline in Q4/23 of -15% and -12%, respectively. Data from our Canadian Airfare Index indicate the same directional trend, with prices down -1% Y/Y in Q4. Given a stretched consumer and increased competition in Canada, we expect further price normalization in 2024.

Exhibit 5 - Canadian and US airfare CPI continue to moderate



Source: RBC Capital Markets, Statistics Canada, BLS

Growth in the non-mainline fleet continues. We track non-mainline fleet activity in Canada and have seen a steady incline since reopening. Total non-mainline (Flair, Lynx, and Porter) as % of the total fleet (including AC and WJA) increased in Q4 to 19%, up sequentially but below the peak of 23%. WestJet's acquisition of Sunwing provides some opposing pressure in the medium term (as seen in the non-mainline fleet decline to 18%) last quarter. 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, in our view.

Bizjets: Activity remains robust, and used inventory remains below normal levels. Total bizjet traffic in the US ended the year ~15% ahead of 2019 levels and has hovered in this mid-teen range since Q3/22, indicating structurally higher demand for private travel. In addition, global transponder data shows bizjet activity 49% higher in Q4 vs 2019, with Bombardier jet activity +32.6% (vs 2019) above that of Gulfstream +22.5% (vs 2019). As of last quarter, used inventory sits at 6.3%, well below the normal range of 11-14%, and we note the number of UHNW individuals has increased to 25.4% above 2019 levels. The data points to robust manufacturing and aftermarket demand, which supports our 2025E EBITDA estimates above consensus.

Q4 Estimates

We are leaving our Q4 estimates largely unchanged for the group ahead of reporting season, except for AC. Details by company are below:

- AC: Estimates higher on lower fuel costs offset by lower capacity in 2024; price target increases to \$18 (from \$17); reaffirm Sector Perform rating.** We are increasing our Q4/23 estimate to \$524MM (from \$439MM) vs consensus of \$539MM, strictly on the benefit from lower fuel prices. For 2024, we previously anticipated a return to 2019 capacity levels by 2024. However, given the robust capacity ramp-up over the last two years, OEM delays, and MRO slowdowns, we reduce our capacity assumption to -3% vs. 2019 (or +10% y/y). Our 2024 estimate of \$3,209MM remains below consensus of \$3,765MM and guidance of \$3.5B to \$4B as we see multiple headwinds facing the airline industry, including the sustainability of higher fares, increased new entrants, and higher labour costs. Given the challenging operating environment (supply-chain challenges, MRO delays, high costs, and geopolitical downside risks),



we believe AC will leave 2024 EBITDA guidance unchanged. Our target price moves to \$18 on higher 2025E EBITDA applied to our unchanged target multiple of 3.5x. See Exhibit 7.

- **BBD: Q4 estimates unchanged; price target remains at \$98; reaffirm Outperform rating.** We are maintaining our Q4/23 EBITDA estimate of \$411MM, slightly below cons. of \$419MM. Our estimate reflects a significant 57 total deliveries built throughout the year, which we see generating strong FCF print of \$621MM. Our out-year estimates remain above consensus, and we expect BBD to provide solid 2024 guidance, with upside risk to 2025 guidance on solid execution to date, growth in services, and a supportive business jet market. Key focus into the quarter will be on demand, book-to-bill, and services growth. Target price remains at \$98 on our unchanged target multiple of 6.5x. BBD remains our top idea and currently trades at a 50% discount to peers. See Exhibit 8.
- **CAE: FQ3 estimate lower but above consensus; price target remains at \$34; maintain Outperform.** Our FQ3 EBITDA estimate decreases to \$249MM (from \$255MM) on lower margin but remains above consensus \$243MM on higher Civil. Our F24 EBITDA estimate decreases to \$1,038MM (from \$1,044MM), in line with consensus \$1,037MM, and our F24 Civil adj. operating income estimate of +17% aligns with guidance for growth of mid-to-high teen. Our F25 EBITDA estimate increases to \$1,109MM (from \$1,084MM) due to indication from US peers that the Aerospace outlook remains solid; however, our estimate remains below consensus \$1,147MM reflecting our lower Defense estimates. Our F25 EPS estimate of \$1.40 implies 3-year EPS CAGR of +19% below guidance for mid-20% CAGR. We also introduce our F26 EBITDA estimate of \$1,199MM, which is below consensus \$1,272MM, and roll forward our valuation year. Target price remains at \$34 on our lower target multiple of 11.2x (from 12.5x). Key focus into the quarter will be on margins in the Defense segment, continuation of solid demand in Civil, and shareholder returns, which we expect to be reinstated in FQ4. See Exhibit 9.
- **CHR: Q4 estimate unchanged; price target unchanged at \$3.75; reaffirm Outperform rating.** We are maintaining our Q4/23 EPS estimate of \$0.12, slightly above consensus of \$0.10 (in line with FY RBCe: \$0.37 vs cons. \$0.36) and make no changes to out-year estimates. Key focus for the call will be on 2024 guidance and the extent to which any contributions from Fund III will be incorporated given the delayed launch. Additionally, we look for visibility on new growth avenues in RAS and the pilot shortage impacts on capacity growth. Target price remains at \$3.75 on our unchanged target multiple of 10x. See Exhibit 10.
- **Exchange Income (EIF): Q4 estimate unchanged and a touch below consensus; price target remains at \$65; maintain Outperform.** Our Q4 estimate is unchanged into the quarter at \$141MM, a touch below consensus \$143MM on lower Manufacturing EBITDA reflecting uncertainty surrounding Northern Mat and weak PMI readings. Our 2023 EBITDA estimate is also unchanged at \$553MM versus consensus \$555MM. Our 2024 estimate remains at \$624MM, in line with consensus \$625MM, 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 \$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 7.6x and price target remains at \$65. See Exhibit 11.



Exhibit 6 - Estimate changes ahead of the quarter

	Q4 2023E EBITDA			2023E EBITDA			2024E EBITDA			2025E EBITDA			Target Multiple		Price Target (CAD)		Rating	Implied Return
	Prior	RBC	Street	Prior	RBC	Street	Prior	RBC	Street	Prior	RBC	Street	Old	RBC	Old	New		
Air Canada	\$439	\$524	\$539	\$3,900	\$3,985	\$3,984	\$3,078	\$3,209	\$3,765	\$3,483	\$3,535	\$4,026	3.5x	3.5x	\$17	\$18	SP	(5%)
Bombardier	unchg.	U\$411	\$419	unchg.	U\$1,183	U\$1,191	unchg.	U\$1,399	\$1,352	unchg.	U\$1,645	\$1,600	unchg.	6.5x	unchg.	\$98	O	+96%
CAE ¹	\$255	\$249	\$243	\$1,044	\$1,038	\$1,037	\$1,084	\$1,109	\$1,147	n.a.	\$1,199	\$1,272	12.5x	11.2x	unchg.	\$34	O	+28%
Exchange Income	unchg.	\$141	\$143	unchg.	\$553	\$555	unchg.	\$624	\$625	unchg.	\$689	\$694	unchg.	7.6x	unchg.	\$65	O	+43%

1. CAE estimates are for FQ3/23, F2024, F2025, and F2026, respectively

	Q4 2023E EPS			2023E EPS			2024E EPS			2025E EPS			Target Multiple		Price Target (CAD)		Rating	Implied Return
	Prior	RBC	Street	Prior	RBC	Street	Prior	RBC	Street	Prior	RBC	Street	Old	RBC	Old	New		
Chorus Aviation	unchg.	\$0.12	\$0.10	unchg.	\$0.37	\$0.36	unchg.	\$0.37	\$0.38	unchg.	\$0.37	\$0.40	unchg.	10.0x	unchg.	\$3.75	O	+46%

Source: RBC Capital Markets estimates, FactSet for consensus. Note: Priced as of market close January 26, 2024.

Exhibit 7 - Air Canada estimate revisions detail

(C\$MM's unless specified)	Q4/23E			2023E			2024E			2025E		
	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ	Old	Cur	% Δ
Traffic: RPMs (% chg)	11.1%	11.1%	0bp	29.3%	29.3%	0bp	11.3%	7.5%	-382bp	1.0%	1.0%	0bp
Capacity: ASMs (% chg)	9.5%	9.5%	0bp	20.0%	20.0%	0bp	13.9%	10.0%	-388bp	1.0%	1.0%	0bp
Load Factor (%pts)	84.0%	84.0%	0bp	86.8%	86.8%	0bp	84.8%	84.8%	-2bp	84.8%	84.8%	-2bp
Yield (% chg)	3.0%	3.0%	0bp	6.7%	6.7%	0bp	-3.3%	-3.3%	0bp	2.0%	2.0%	0bp
RASM (% chg)	4.1%	4.1%	0bp	14.1%	14.1%	0bp	-5.4%	-5.4%	-2bp	2.0%	2.0%	0bp
Adj. CASM ex fuel+other (% chg)	5.8%	5.8%	0bp	2.6%	2.6%	0bp	-2.4%	-0.8%	166bp	2.8%	2.8%	3bp
Avg Jet Fuel Price: (\$C/Ltr)	\$1.19	\$1.13	-5.8%	\$1.13	\$1.11	-1.5%	\$1.14	\$1.07	-5.5%	\$1.09	\$1.04	-4.7%
Revenue	5,211	5,211	0.0%	21,869	21,869	0.0%	23,368	22,649	-3.1%	24,050	23,309	-3.1%
Expenses	4,771	4,687	-1.8%	17,968	17,884	-0.5%	20,290	19,440	-4.2%	20,566	19,775	-3.9%
EBITDA	439	524	19.3%	3,900	3,985	2.2%	3,078	3,209	4.3%	3,483	3,535	1.5%
EBITDA Margin	8.4%	10.1%	19.3%	17.8%	18.2%	2.2%	13.2%	14.2%	7.6%	14.5%	15.2%	4.7%
EPS ex-one time items (\$)	(0.33)	(0.10)	-68.8%	5.24	5.46	4.3%	2.38	2.74	15.2%	2.33	2.45	5.0%

Source: Company reports, RBC Capital Markets estimates

Exhibit 8 - Bombardier estimate revisions detail

(\$MM's unless specified)	Q4/23E			2023E			2024E			2025E		
	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ
Total aircraft deliveries	41	41	0.0%	139	139	0.0%	145	145	0.0%	150	150	0.0%
Total Revenues	3,012	3,012	0.0%	7,996	7,996	0.0%	8,367	8,367	0.0%	9,066	9,066	0.0%
Total EBIT	256	256	0.0%	777	777	0.0%	922	922	0.0%	1,145	1,145	0.0%
Mgn%	8.5%	8.5%	0 bps	9.7%	9.7%	0 bps	11.0%	11.0%	0 bps	12.6%	12.6%	0 bps
Free Cash Flow	621	621	0.0%	256	256	0.0%	642	642	0.0%	912	912	0.0%
EBITDA	411	411	0.0%	1,183	1,183	0.0%	1,399	1,399	0.0%	1,645	1,645	0.0%
Mgn%	13.6%	13.6%	0 bps	14.8%	14.8%	0 bps	16.7%	16.7%	0 bps	18.1%	18.1%	0 bps
Adjusted EPS	\$1.03	\$1.03	0.0%	\$3.55	\$3.55	0.0%	\$4.38	\$4.38	0.0%	\$8.27	\$8.27	0.0%

Source: Company reports, RBC Capital Markets estimates



Exhibit 9 - CAE estimate revisions detail

ESTIMATE SUMMARY (C\$ millions)	FQ3/24E			FQ3/23	F2024E			F2025E			F2026E
	Old	New	% Δ	Actual	Old	New	% Δ	Old	New	% Δ	New
Revenue	1,096	1,096	0.0%	1,020	4,526	4,526	0.0%	4,566	4,727	3.5%	4,911
Civil Revenue	597	597	0.0%	517	2,486	2,486	0.0%	2,659	2,677	0.7%	2,800
Defense & Security Revenue	449	449	0.0%	453	1,850	1,850	0.0%	1,907	2,050	7.5%	2,111
Healthcare Revenue	50	50	0.0%	50	190	190	0.0%	0	n.a.	n.a.	n.a.
Adj. EBITDA	255	249	(2.3%)	249	1,044	1,038	(0.6%)	1,084	1,109	2.3%	1,199
Civil Adj. EBITDA	203	197	(2.9%)	195	836	830	(0.7%)	882	898	1.8%	962
Defence & Security Adj. EBITDA	46	46	0.0%	47	184	184	0.0%	202	210	4.1%	237
Healthcare Adj. EBITDA	6	6	0.0%	7	23	23	0.0%	0	n.a.	n.a.	n.a.
Adjusted Operating Income	164	158	(3.7%)	161	676	670	(0.9%)	726	750	3.4%	828
<i>Adj. Operating Income Margin %</i>	<i>14.9%</i>	<i>14.4%</i>	<i>-54bps</i>	<i>15.7%</i>	<i>14.9%</i>	<i>14.8%</i>	<i>-13bps</i>	<i>15.9%</i>	<i>15.9%</i>	<i>-3bps</i>	<i>16.9%</i>
Civil Adj. EBIT	137	131	(4.3%)	131	572	566	(1.0%)	619	635	2.6%	688
Defence & Security Adj. EBIT	22	22	0.0%	25	91	91	0.0%	107	115	7.7%	140
Healthcare Adj. EBIT	4	4	0.0%	4	13	13	0.0%	0	n.a.	n.a.	n.a.
Adj. EPS (F.D.)	\$0.28	\$0.26	(5.3%)	\$0.28	\$1.23	\$1.21	(1.2%)	\$1.35	\$1.40	4.2%	\$1.65
Consensus EBITDA	243			1,037			1,147			1,272	

Source: Company reports, RBC Capital Markets estimates

Exhibit 10 - Chorus estimate revisions detail

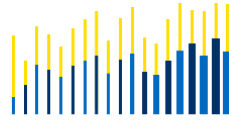
Revenue breakdown	Q4/23E			2023E			2024E			2025E		
	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ
Regional Aircraft Services	358	358	0.0%	1,403	1,403	0.0%	1,392	1,392	0.0%	1,381	1,381	0.0%
Regional Aircraft Leasing	59	59	0.0%	274	274	0.0%	269	269	0.0%	267	267	0.0%
Total Revenues	418	418	0.0%	1,678	1,678	0.0%	1,661	1,661	0.0%	1,648	1,648	0.0%
Total Expenses	354	354	0.0%	1,435	1,435	0.0%	1,434	1,434	0.0%	1,424	1,424	0.0%
Total Operating Income	64	64	0.0%	243	243	0.0%	228	228	0.0%	224	224	0.0%
Depreciation and Amortization	48	48	0.0%	227	227	0.0%	199	199	0.0%	177	177	0.0%
Adj. EBITDA	112	112	0.0%	454	454	0.0%	427	427	0.0%	401	401	0.0%
Adj. EPS	0.12	\$0.12		0.37	\$0.37	0.0%	0.37	\$0.37	0.0%	0.37	\$0.37	0.0%

Source: Company reports, RBC Capital Markets estimates

Exhibit 11 - Exchange Income estimate revisions detail

ESTIMATE SUMMARY (C\$ millions)	Q4/23E			Q4/22	2023E			2024E			2025E		
	Old	New	% Δ	Actual	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ
Total revenue	631	631	0.0%	543	2,473	2,473	0.0%	2,661	2,661	0.0%	2,867	2,867	0.0%
Total Aviation Revenues	380	380	0.0%	340	1,493	1,493	0.0%	1,629	1,629	0.0%	1,784	1,784	0.0%
Total Manufacturing Revenues	251	251	0.0%	203	980	980	0.0%	1,032	1,032	0.0%	1,083	1,083	0.0%
Adj. EBITDA	141	141	0.0%	124	553	553	0.0%	624	624	0.0%	689	689	0.0%
Total Aviation EBITDA	106	106	0.0%	88	412	412	0.0%	466	466	0.0%	519	519	0.0%
Total Manufacturing EBITDA	45	45	0.0%	47	180	180	0.0%	192	192	0.0%	207	207	0.0%
Net income	27	27	0.0%	27	121	121	0.0%	141	141	0.0%	183	183	0.0%
EPS (Diluted)	\$0.59	\$0.59	0.0%	\$0.63	\$2.63	\$2.63	0.0%	\$2.91	\$2.91	0.0%	\$3.65	\$3.65	0.0%
Adj. net income (diluted)	31	31	0.0%	32	141	141	0.0%	155	155	0.0%	197	197	0.0%
Adj. EPS (Diluted)	\$0.65	\$0.65	0.0%	\$0.73	\$3.03	\$3.03	0.0%	\$3.16	\$3.16	0.0%	\$3.90	\$3.90	0.0%
FCF (less maintenance capex)	43	43	0.0%	40	195	195	0.0%	214	214	0.0%	245	245	0.0%
FCF (less maintenance capex) / share	\$0.87	\$0.87	0.0%	\$0.89	\$4.07	\$4.07	0.0%	\$4.23	\$4.23	0.0%	\$4.77	\$4.77	0.0%
Consensus EBITDA	143			555			625			694			

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.



Company Profiles



Air Canada

Walter Spracklin (Analyst)

Sector Perform

TSX: AC CN; CAD 18.92

Price Target CAD 18.00 ↑ 17.00

Key Statistics

Shares O/S (MM):	376.0	Market Cap (MM):	7,114
Dividend:	0.00	Yield:	0.0%
Float (MM):	375.3	Avg. Daily Volume:	3,578,349

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	16,556.0	21,868.9	22,649.2	23,309.1
Prev.			23,368.0	24,049.5
EBITDA	1,457.0	3,985.2	3,209.0	3,534.5
Prev.		3,900.4	3,077.7	3,483.0
Revenue	Q1	Q2	Q3	Q4
2022	2,573.0A	3,981.0A	5,322.0A	4,680.0A
2023	4,887.0A	5,427.0A	6,344.0A	5,210.9E
2024	4,962.4E	5,707.0E	6,537.8E	5,442.1E
Prev.	5,306.3E	5,866.6E	6,845.4E	5,349.7E
EBITDA				
2022	(143.0)A	154.0A	1,057.0A	389.0A
2023	411.0A	1,220.0A	1,830.0A	524.2E
Prev.				439.4E
2024	428.7E	952.7E	1,282.3E	545.2E
Prev.	420.1E	920.6E	1,295.3E	441.7E

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

Valuation

Applying a 3.5x EV/EBITDA multiple to our 2025 estimates, we derive our price target of \$18. Our target multiple is in line with the historical group average multiple and in line with peers and supported by our view that the industry should largely return to normal by 2024. Our base case reflects the following assumptions: (1) near-term headwinds from return to travel disruptions followed by a general return to "normal" by 2024; and (2) a reduction in capital intensity out to 2024. Our price target supports our Sector Perform rating.

Investment summary

A strong business in the midst of a tough operating environment. Despite unprecedented industry conditions, we believe Air Canada has done a commendable job navigating an exceptionally challenging industry environment. Going forward, we believe upside is limited in the medium-term given: (1) sustainability of high fares in a recession; (2) increased new entrant activity increasing competition, (3) increased operating costs and pilot contract renewal; and (4) business travel plateau.

Risks to rating and price target

Risks to our price target and rating include but are not limited to very high operating leverage given a fixed-cost structure, above-average sensitivity to the economy, exposure to volatile fuel prices and the risk of terrorism and epidemics. This is a very competitive industry in which WestJet is focusing on Western Canada and Porter Airlines is expanding in Eastern Canada.

Appendix I – AC Model Summary

C\$MM	2022	Q1/23	Q2/23	Q3/23	Q4/23E	2023E	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	20,574	85,971	20,242	23,277	26,545	22,362	92,426	20,444	23,510	26,810	22,586	93,350
% change	216.0%	95.9%	32.0%	13.9%	11.1%	29.3%	9.0%	7.7%	5.3%	8.7%	7.5%	1.0%	1.0%	1.0%	1.0%	1.0%
Capacity / ASM (MMs)	82,558	21,907	24,606	28,060	24,493	99,066	24,098	27,067	30,866	26,942	108,973	24,339	27,337	31,175	27,212	110,062
% change	147.3%	53.2%	21.0%	9.8%	9.5%	20.0%	10.0%	10.0%	10.0%	10.0%	10.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Load Factor (%)	80.5%	84.8%	87.9%	89.8%	84.0%	86.8%	84.0%	86.0%	86.0%	83.0%	84.8%	84.0%	86.0%	86.0%	83.0%	84.8%
change (% pts)	17.5%	18.5%	7.3%	3.3%	1.2%	6.2%	-0.8%	-1.9%	-3.8%	-1.0%	-2.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (\$)	0.212	0.220	0.227	0.233	0.226	0.226	0.213	0.220	0.225	0.218	0.219	0.218	0.225	0.229	0.222	0.223
% change	-4.3%	8.9%	8.1%	6.9%	3.0%	6.7%	-3.0%	-3.0%	-3.5%	-3.5%	-3.3%	2.0%	2.0%	2.0%	2.0%	2.0%
RASM (Rev per unit of capacity, cents)	17.2	18.7	19.9	20.9	18.9	19.7	17.9	18.9	19.3	18.1	18.6	18.3	19.3	19.7	18.4	19.0
CASM (Costs per unit of capacity, cents)	20.3	22.4	18.8	17.6	20.8	19.7	20.5	19.1	18.4	19.7	19.4	20.8	19.3	18.6	20.0	19.6
Fuel Cost/ASM (cents)	6.4	6.3	4.8	4.9	5.6	5.4	5.4	5.4	5.3	5.3	5.4	5.3	5.2	5.2	5.2	5.2
CASM (excl. fuel) (cents)	13.9	16.1	14.0	12.7	15.2	14.4	15.1	13.7	13.0	14.4	14.0	15.5	14.1	13.4	14.8	14.4
Total Revenues	16,556	4,887	5,427	6,344	5,211	21,869	4,962	5,707	6,538	5,442	22,649	5,106	5,873	6,729	5,601	23,309
% change	158.7%	89.9%	36.3%	19.2%	11.3%	32.1%	1.5%	5.2%	3.1%	4.4%	3.6%	2.9%	2.9%	2.9%	2.9%	2.9%
Wages, salaries and benefits	3260	914	971	995	1103	3983	969	1029	1055	1170	4222	1027	1091	1118	1240	4476
% Sales	19.7%	18.7%	17.9%	15.7%	21.2%	18.2%	19.5%	18.0%	16.1%	21.5%	18.6%	20.1%	18.6%	16.6%	22.1%	19.2%
Aircraft Fuel - total	5276	1375	1187	1365	1377	5304	1303	1458	1651	1428	5840	1278	1428	1619	1405	5731
% Sales	31.9%	28.1%	21.9%	21.5%	26.4%	24.3%	26.3%	25.5%	25.2%	26.2%	25.8%	25.0%	24.3%	24.1%	25.1%	24.6%
Sales and distribution costs	797	273	264	307	318	1162	300	290	338	323	1252	303	293	341	327	1264
% Sales	4.8%	5.6%	4.9%	4.8%	6.1%	5.3%	6.1%	5.1%	5.2%	5.9%	5.5%	5.9%	5.0%	5.1%	5.8%	5.4%
Ground package costs	474	318	126	99	147	690	268	107	93	128	595	270	108	94	129	601
% Sales	2.9%	6.5%	2.3%	1.6%	2.8%	3.2%	5.4%	1.9%	1.4%	2.4%	2.6%	5.3%	1.8%	1.4%	2.3%	2.6%
Catering and onboard services	425	128	158	181	147	614	145	162	201	162	669	146	164	203	163	676
% Sales	2.6%	2.6%	2.9%	2.9%	2.8%	2.8%	2.9%	2.8%	3.1%	3.0%	3.0%	2.9%	2.8%	3.0%	2.9%	2.9%
Aircraft maintenance	706	261	275	236	250	1022	250	250	250	250	1000	258	258	258	258	1030
% Sales	4.3%	5.3%	5.1%	3.7%	4.8%	4.7%	5.0%	4.4%	3.8%	4.6%	4.4%	5.0%	4.4%	3.8%	4.6%	4.4%
Airport and navigation fees	1213	312	364	392	367	1435	301	338	386	337	1362	304	342	390	340	1376
% Sales	7.3%	6.4%	6.7%	6.2%	7.1%	6.6%	6.1%	5.9%	5.9%	6.2%	6.0%	6.0%	5.8%	5.8%	6.1%	5.9%
Communications and information technol	468	146	128	141	150	565	145	135	154	162	596	146	137	156	163	602
% Sales	2.8%	3.0%	2.4%	2.2%	2.9%	2.6%	2.9%	2.4%	2.4%	3.0%	2.6%	2.9%	2.3%	2.3%	2.9%	2.6%
Other	1717	533	533	580	476	2122	447	514	588	490	2038	460	529	606	504	2098
% Sales	10.4%	10.9%	9.8%	9.1%	9.1%	9.7%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Capacity purchase fees	763	216	201	218	350	985	407	470	541	448	1865	419	484	557	461	1921
% Sales	4.6%	4.4%	3.7%	3.4%	6.7%	4.5%	8.2%	8.2%	8.3%	8.2%	8.2%	8.2%	8.2%	8.3%	8.2%	8.2%
Total Operating Costs	15,099	4,476	4,207	4,514	4,687	17,884	4,534	4,754	5,255	4,897	19,440	4,611	4,834	5,340	4,990	19,775
EBITDA	1,457	411	1,220	1,830	524	3,985	429	953	1,282	545	3,209	495	1,040	1,389	611	3,535
% of sales	8.8%	8.4%	22.5%	28.8%	10.1%	18.2%	8.6%	16.7%	19.6%	10.0%	14.2%	9.7%	17.7%	20.6%	10.9%	15.2%
Depreciation, amortization and impairm	1,640	428	418	415	412	1,673	408	411	414	417	1,649	440	443	445	446	1,774
EBIT (Excluding Special Charges)	(187)	(17)	802	1,415	112	2,312	21	542	868	128	1,560	54	597	945	164	1,761
% of sales	-1.1%	-0.3%	14.8%	22.3%	2.2%	10.6%	0.4%	9.5%	13.3%	2.4%	6.9%	1.1%	10.2%	14.0%	2.9%	7.6%
Net Income	(1,700)	4	838	1,250	(38)	2,054	(129)	391	774	(6)	1,030	(63)	333	622	29	921
EPS (F.D) (\$) (Exc. Special charges)	\$ (4.24)	\$ 0.01	\$ 2.23	\$ 3.32	\$ (0.10)	\$ 5.46	\$ (0.34)	\$ 1.04	\$ 2.06	\$ (0.02)	\$ 2.74	\$ (0.17)	\$ 0.88	\$ 1.66	\$ 0.08	\$ 2.45
Net debt	8,318	7,547	6,239	6,080	5,993	5,993	6,214	5,913	5,226	5,905	5,905	6,051	5,653	4,856	6,035	6,035
Net debt/LTM EBITDA	5.7x	3.8x	2.0x	1.6x	1.5x	1.5x	1.6x	1.6x	1.6x	1.8x	1.8x	1.8x	1.7x	1.4x	1.7x	1.7x

Source: Company reports, RBC Capital Markets estimates



Bombardier Inc.

Walter Spracklin (Analyst)

Outperform

TSX: BBD/B CN; CAD 49.97

Price Target CAD 98.00

Key Statistics

Shares O/S (MM):	99.5	Market Cap (MM):	4,973
Dividend:	0.00	Yield:	0.0%
Float (MM):	2,227.5	Avg. Daily Volume:	634,410
Strategic Ownership: Bombardier/Beaudoin families Equity (11%); Voting (52%)			

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
EPS, Ops Diluted	0.74	3.55	4.39	8.26
EBITDA, Adj	930.0	1,183.0	1,398.9	1,645.2
P/E	50.1x	10.5x	8.5x	4.5x
CFPS Diluted	1.93	7.51	9.26	13.27
P/CFPS	19.2x	4.9x	4.0x	2.8x
Revenue	6.9	8.0	8.4	9.1
EPS, Ops Diluted	Q1	Q2	Q3	Q4
2022	(0.80)A	(0.47)A	(0.10)A	2.09A
2023	1.06A	0.72A	0.73A	1.03E
2024	0.41E	0.93E	0.75E	2.31E
CFPS Diluted				
2022	(1.80)A	(0.28)A	1.16A	2.88A
2023	3.51A	0.97A	0.54A	2.54E
2024	1.35E	1.96E	1.93E	4.03E

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 \$98 price target. Our target multiple is based on a significant discount to peers and a structurally higher demand environment. We use EBITDA (as opposed to PE) as our primary valuation methodology, as we believe it better reflects the company's growth potential while also taking into account its capital structure. Our price target supports our Outperform rating.

Investment summary

Our Outperform rating reflects our view that the company presently screens as an attractive deep-value opportunity with the transition to a pure-play biz jet company now complete. While risks remain with the execution of strategic objectives, we see the existing business as less complex and the cost structure as more streamlined, which should eventually support a return to FCF breakeven on a sustainable basis.

With Bombardier now finishing a multi-year period of high investment spend to develop and position its product and service portfolio, 2023 should be an important transition year. The company has pursued ways to further deleverage the balance sheet through strategic alternatives (i.e., asset sales), and we believe BBD has sufficient liquidity to absorb smaller issues that may still arise.

Key potential catalysts for the shares would be related to: (1) an acceleration in demand for the company's business jet aircraft (particularly the Global 7500/8000); (2) better-than-expected FCF generation/usage; and (3) formal guidance provided on longer-term run-rate margins.

Risks to rating and price target

Risks to our estimates, price target, and rating include but are not limited to the performance of the global airline industry, possible changes to Bombardier's credit rating, and demand for business jets. We also see risk in renewed supply chain disruption leading to production halts in both Bombardier and suppliers. For these reasons, our earnings estimates could be more at risk than for most companies.

Appendix II – Bombardier Model Summary

Summary Income Statement																
(in US \$MM's)	2022	Q1/23	Q2/23	Q3/22	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E	Q1/25E	Q2/25E	Q3/25E	Q4/25E	2025E
Aerospace Key Drivers																
Business Jet Deliveries	123	22	29	31	57	139	25	33	29	58	145	26	34	30	60	150
<i>Delivery Growth</i>	2.5%	4.8%	3.6%	24.0%	16.3%	13.0%	13.6%	13.8%	-6.5%	1.8%	4.3%	4.0%	3.0%	3.4%	3.4%	3.4%
Revenue																
Manufacturing	5,345	1,020	1,237	1,433	2,562	6,252	1,061	1,481	1,308	2,652	6,501	1,161	1,599	1,419	2,839	7,017
Services	1,508	424	428	414	449	1,715	445	471	455	494	1,866	485	518	501	544	2,048
Total Revenues	6,913	1,453	1,675	1,856	3,012	7,996	1,506	1,951	1,763	3,146	8,367	1,646	2,117	1,920	3,382	9,066
<i>Revenue Growth</i>	12.3%	17.5%	4.7%	34.1%	15.1%	17.0%	4.0%	19.7%	-8.7%	3.5%	4.0%	9.4%	8.0%	8.5%	7.0%	7.9%
Total EBITDA	930	212	275	285	411	1,183	241	334	309	515	1,399	313	383	355	595	1,645
<i>EBITDA Margin %</i>	13.5%	14.7%	19.7%	15.6%	13.6%	14.8%	16.0%	17.1%	17.5%	16.4%	16.7%	19.0%	18.1%	18.5%	17.6%	18.1%
Total EBIT	512	138	190	193	256	777	151	234	194	343	922	198	268	240	440	1,145
<i>EBIT Margin %</i>	7.4%	9.5%	11.3%	10.4%	8.5%	9.7%	10.0%	12.0%	11.0%	10.9%	11.0%	12.0%	12.7%	12.5%	13.0%	12.6%
Adj. Net Income (Loss) to Common	73	105	72	73	103	353	25	111	74	225	436	109	183	165	367	823
Adj. EPS	\$ 0.74	\$ 1.06	\$ 0.72	\$ 0.73	\$ 1.03	\$ 3.55	\$ 0.25	\$ 1.12	\$ 0.75	\$ 2.26	\$ 4.38	\$ 1.10	\$ 1.84	\$ 1.65	\$ 3.68	\$ 8.27
CFPS \$(Basic)	\$ 1.93	\$ 3.51	\$ 0.97	\$ 0.54	\$ 2.67	\$ 7.61	\$ 1.23	\$ 2.20	\$ 1.98	\$ 4.08	\$ 9.49	\$ 2.33	\$ 3.07	\$ 2.89	\$ 5.33	\$ 13.62
Net debt	4,689	4,437	4,701	4,596	3,985	3,985	3,910	3,764	3,659	3,371	3,371	3,187	2,954	2,759	2,487	2,487

Source: Company reports, RBC Capital Markets estimates



CAE Inc.

James McGarragle (Analyst)

Outperform

TSX: CAE CN; CAD 26.79; NYSE: CAE

Price Target CAD 34.00

Key Statistics

Shares O/S (MM):	319.2	Market Cap (MM):	8,551
Dividend:	0.40	Yield:	1.5%
		Avg. Daily Volume:	927,266

RBC Estimates

FY Mar	2022A	2023A	2024E	2025E
Revenue	3,371.3	4,203.3	4,526.2	4,726.8
Prev.				4,565.6
EPS, Adj Diluted	0.84	0.88	1.21	1.40
Prev.			1.23	1.35
P/AEPS	31.9x	30.4x	22.1x	19.1x
EBITDA	755.0	890.3	1,037.6	1,108.6
Prev.			1,043.6	1,084.2
Revenue	Q1	Q2	Q3	Q4
2022	752.7A	814.9A	848.7A	955.0A
2023	933.3A	993.2A	1,020.3A	1,256.5A
2024	1,054.4A	1,088.5A	1,096.2E	1,287.1E
EPS, Adj Diluted				
2022	0.19A	0.17A	0.19A	0.29A
2023	0.06A	0.19A	0.28A	0.35A
2024	0.24A	0.27A	0.26E	0.43E
Prev.			0.28E	

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 \$1,199MM. 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 three key points:

- 1. 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 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.
- 2. 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.
- 3. Key investments made during the pandemic sets the stage for growth.** On the back of CAE's resilience demonstrated during the pandemic, the company was able to invest heavily in growth and executed successfully on key restructuring initiatives. We point to: i) the acquisitions of L3H MT and Sabre; ii) a meaningful restructuring program; and iii) a ramp-up in capex. We view these investments as setting the stage for a significant rebound in growth exiting the pandemic.

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

Appendix III – CAE Model Summary

CAE (C\$MM unless otherwise indicated)	F2022A	F2023	FQ1/24	FQ2/24	FQ3/24E	FQ4/24E	F2024E	FQ1/25E	FQ2/25E	FQ3/25E	FQ4/25E	F2025E	FQ1/26E	FQ2/26E	FQ3/26E	FQ4/26E	F2026E
SEGMENTED RESULTS																	
CIVIL AVIATION																	
Revenue	1,617.8	2,166.4	540.3	572.6	597.2	775.5	2,485.7	595.2	627.0	658.5	796.1	2,676.8	689.6	667.1	696.8	746.2	2,799.8
Adjusted Operating Income	314.7	485.3	119.0	114.3	131.4	201.6	566.3	137.0	131.4	151.4	214.9	634.9	165.7	146.5	167.2	208.9	688.4
Adjusted Operating Margin	19.5%	22.4%	22.0%	20.0%	22.0%	26.0%	22.8%	23.0%	21.0%	23.0%	27.0%	23.7%	24.0%	22.0%	24.0%	28.0%	24.6%
DEFENSE & SECURITY																	
Revenue	1,602.1	1,844.2	471.7	477.4	448.5	452.5	1,850.1	501.2	517.4	518.9	512.6	2,050.0	520.4	533.7	532.8	524.3	2,111.2
Adjusted Operating Income	119.2	53.1	24.3	21.3	22.4	22.6	90.7	26.3	28.5	29.8	30.8	115.4	32.5	34.7	36.0	36.7	139.9
Adjusted Operating Margin	7.4%	2.9%	5.2%	4.5%	5.0%	5.0%	4.9%	5.3%	5.5%	5.8%	6.0%	5.6%	6.3%	6.5%	6.8%	7.0%	6.6%
HEALTHCARE																	
Revenue	151.4	192.7	42.4	38.5	50.4	59.1	190.4	-	-	-	-	-	-	-	-	-	-
Adjusted Operating Income	10.6	9.7	1.8	2.9	3.8	4.5	12.9	-	-	-	-	-	-	-	-	-	-
Adjusted Operating Margin	7.0%	5.0%	4.2%	7.5%	7.5%	7.5%	6.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CONSOLIDATED RESULTS																	
Revenue	3,371.3	4,203.3	1,054.4	1,088.5	1,096.2	1,287.1	4,526.2	1,096.4	1,144.4	1,177.3	1,308.6	4,726.8	1,210.0	1,200.9	1,229.6	1,270.5	4,911.0
y/y growth (%)	13.1%	24.7%	13.0%	9.6%	7.4%	2.4%	7.7%	4.0%	5.1%	7.4%	1.7%	4.4%	10.4%	4.9%	4.4%	-2.9%	3.9%
Expenses																	
COGS	2,415.8	3,037.0	748.5	785.4	760.7	893.3	3,187.9	762.0	795.4	818.3	909.5	3,285.1	841.0	834.6	854.6	883.0	3,413.1
R&D	120.8	143.1	39.1	34.6	34.6	34.6	142.9	34.6	34.6	34.6	34.6	138.4	34.6	34.6	34.6	34.6	138.4
SG&A	489.1	560.9	139.7	148.2	148.2	148.2	584.3	148.2	148.2	148.2	148.2	592.8	148.2	148.2	148.2	148.2	592.8
Other Gains/Losses	(37.0)	(22.8)	(1.4)	(3.9)	(3.9)	(3.9)	(13.1)	(3.9)	(3.9)	(3.9)	(3.9)	(15.6)	(3.9)	(3.9)	(3.9)	(3.9)	(15.6)
After Tax share in profit of equity accounted in	(48.5)	(53.2)	(16.6)	(14.3)	(13.3)	(13.3)	(57.5)	(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	12.2	(0.5)	64.7	5.4	23.6	12.2	(12.2)	29.0	5.2	19.5	6.2	(23.7)	7.2
Adj. Operating Income	444.5	548.1	145.1	138.5	157.6	228.7	669.9	163.4	159.9	181.3	245.7	750.2	198.2	181.2	203.2	245.6	828.2
Adjusted Operating Margin	13.2%	13.0%	13.8%	12.7%	14.4%	17.8%	14.8%	14.9%	14.0%	15.4%	18.8%	15.9%	16.4%	15.1%	16.5%	19.3%	16.9%
y/y growth (%)	58.4%	23.3%	138.3%	11.1%	-1.9%	13.3%	22.2%	12.6%	15.4%	15.0%	7.4%	12.0%	21.3%	13.3%	12.1%	0.0%	10.4%
Depreciation & Amortization	310.5	342.2	92.2	91.2	91.8	92.5	367.7	88.5	89.2	90.0	90.7	358.4	91.5	92.3	93.1	93.9	370.9
Adj. EBITDA	755.0	890.3	237.3	229.7	249.4	321.2	1,037.6	251.8	249.1	271.2	336.4	1,108.6	289.7	273.5	296.3	339.6	1,199.2
Adjusted EBITDA Margin	22.4%	21.2%	22.5%	21.1%	22.8%	25.0%	22.9%	23.0%	21.8%	23.0%	25.7%	23.5%	23.9%	22.8%	24.1%	26.7%	24.4%
y/y growth (%)	25.8%	17.9%	65.4%	11.2%	0.2%	10.3%	16.6%	6.1%	8.4%	8.7%	4.7%	6.8%	15.1%	9.8%	9.2%	0.9%	8.2%
Adj. Operating EPS	\$0.84	\$0.88	\$0.24	\$0.27	\$0.26	\$0.43	\$1.21	\$0.29	\$0.28	\$0.34	\$0.50	\$1.40	\$0.39	\$0.35	\$0.40	\$0.51	\$1.65
y/y growth (%)	80.0%	4.5%	335.1%	41.9%	-6.7%	25.0%	38.2%	19.9%	2.8%	28.3%	14.6%	15.9%	33.9%	23.0%	19.8%	2.6%	17.3%
Free Cash Flow (excl. dividends)	341.5	335.7	(104.9)	147.5	220.3	261.4	524.4	13.8	24.2	214.1	250.1	502.1	45.7	46.3	237.0	256.0	585.1
FCF conversion	131%	120%	-137%	169%	264%	189%	136%	15%	27%	201%	158%	112%	37%	42%	186%	158%	112%
Net Debt to EBITDA	3.6x	3.4x	3.2x	3.2x	3.0x	2.6x	2.6x	2.6x	2.6x	2.5x	2.3x	2.3x	2.3x	2.2x	2.1x	2.0x	2.0x

Source: Company reports, RBC Capital Markets estimates



Chorus Aviation Inc.

Walter Spracklin (Analyst)

Outperform

TSX: CHR CN; CAD 2.56

Price Target CAD 3.75

Key Statistics

Shares O/S (MM):	194.7	Market Cap (MM):	498
Dividend:	0.00	Yield:	0.0%
Float (MM):	180.6	Avg. Daily Volume:	646,191

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	1,595.8	1,677.5	1,661.5	1,648.3
EBITDA	441.0	454.1	427.3	401.1
CFPS Diluted	1.26	1.84	1.59	1.47
P/CFPS	2.0x	1.4x	1.6x	1.7x

Revenue	Q1	Q2	Q3	Q4
2022	342.4A	392.3A	421.3A	439.8A
2023	415.3A	396.8A	447.6A	417.9E
2024	415.0E	393.6E	440.9E	411.9E
EBITDA				
2022	83.3A	104.9A	123.4A	129.5A
2023	118.1A	110.7A	113.1A	112.2E
2024	107.7E	105.7E	101.8E	112.1E

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

Valuation

We value Chorus' total business at 10x P/E multiple based on our 2025 EPS estimate. We believe a blended multiple approach is most appropriate to value the CPA, leasing and asset management earnings streams at Chorus. Our target multiple is in line with the average of similar companies across the airlines, lessors and asset management space. This method generates our \$3.75 price target, which is the basis of our Outperform rating.

Investment summary

We rate Chorus Aviation Outperform, as we believe the CHR share price does not represent the enhanced value of the new CPA contract with Air Canada at current valuations. As anticipated, management has delivered with Chorus and Air Canada developing a new framework agreement, which we believe is mutually beneficial and provides CHR with a level of earnings and FCF stability. The new arrangement removes inefficiencies inherent under the previous contract and fundamentally transforms CHR into a sustainable company, in our view.

Chorus acquires Falko. We take a positive view on the transaction that would see Chorus acquire Falko for US \$855MM. This positive view stems from mgmt indication related to immediate accretion; together with the value of a financial backer that is key to aircraft leasing (and to this point largely absent for CHR). With significantly improved scale and diversification as a result of this transaction, we believe CHR is now set to substantially grow its leasing business going forward.

Diversification progressing. With the new CPA in place and long-term collective agreements secured with the pilots and flight attendants, management is focusing on diversification efforts. The acquisition of Voyageur in the first quarter of 2015 began the initiatives outside of the CPA, with the creation of Chorus Aviation Capital in 2017 adding to the growth platform. We expect CHR to make incremental progress with growth outside of the CPA, with what we see as potential for a more material impact on earnings (and valuations) longer term.

Business model still provides significantly less risk than a "plain vanilla" airline. The fixed-fee nature of the company's business model provides substantially less risk than a conventional airline, in our view. Exposure to non-controllable costs, including jet fuel prices, is limited as the costs are passed through accordingly to Air Canada. Additionally, controllable costs are no longer subjected to benchmarking of a group of peers, and as such, the level of profitability has less exposure to variability.

Risks to rating and price target

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

Appendix IV – CHR Model Summary

C\$MM	2022	Q1/23	Q2/23	Q3/23	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E	Q1/25E	Q2/25E	Q3/25E	Q4/25E	2025E
Income Statement																
Revenue	1595.8	415.3	396.8	447.6	417.9	1677.5	415.0	393.6	440.9	411.9	1661.5	417.0	390.7	434.5	406.1	1648.3
<i>% change</i>	56.0%	21.3%	1.1%	6.2%	-5.0%	5.1%	-0.1%	-0.8%	-1.5%	-1.4%	-1.0%	0.5%	-0.7%	-1.4%	-1.4%	-0.8%
Airline Operations Total - RAS	1333	339	327	378	358	1403	350	321	370	351	1392	360	314	363	344	1381
Regional Aircraft Leasing - RAL	262	76	69	70	59	274	65	73	71	61	269	57	76	72	62	267
Total Operating Expenses	1,408	353	341	386	354	1,435	357	335	392	349	1,434	361	332	387	344	1,424
Operating Income	188	62	55	61	64	243	58	58	49	63	228	56	59	48	62	224
Adjusted EBITDA	441.0	118.1	110.7	113.1	112.2	454.1	107.7	105.7	101.8	112.1	427.3	97.4	101.5	95.7	106.5	401.1
<i>% of sales</i>	27.6%	28.4%	27.9%	25.3%	26.9%	27.1%	25.9%	26.8%	23.1%	27.2%	25.7%	23.4%	26.0%	22.0%	26.2%	24.3%
Adj. Net Income	119	31	26	21	33	110	28	29	21	32	110	27	29	21	32	108
Adj. EPS (F.D) (\$)	\$0.47	\$0.11	\$0.08	\$0.06	\$0.12	\$0.37	\$0.10	\$0.10	\$0.06	\$0.12	\$0.37	\$0.09	\$0.10	\$0.06	\$0.11	\$0.37
CFPS (F.D) (\$) (Excluding Special charges)	\$1.26	\$0.41	\$0.40	\$0.62	\$0.42	\$1.84	\$0.40	\$0.39	\$0.38	\$0.42	\$1.59	\$0.35	\$0.37	\$0.35	\$0.39	\$1.47
Net debt	1,925	1,897	1,825	1,694	1,625	1,625	1,547	1,471	1,397	1,315	1,315	1,247	1,175	1,106	1,030	1,030
Net debt/LTM EBITDA	4.4x	4.0x	3.8x	3.6x	3.6x	3.6x	3.5x	3.4x	3.3x	3.1x	3.1x	3.0x	2.8x	2.7x	2.6x	2.6x

Source: Company reports, RBC Capital Markets estimates



Exchange Income Corporation

James McGarragle (Analyst)

Outperform

TSX: EIF CN; CAD 47.20

Price Target CAD 65.00

Key Statistics

Shares O/S (MM):	46.6	Market Cap (MM):	2,200
Dividend:	2.64	Yield:	5.6%
		Avg. Daily Volume:	159,239

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	2,059.4	2,472.7	2,661.1	2,867.3
EBITDA, Adj	456.4	552.7	623.6	688.7
Free Cash Flow	176.1	195.2	214.2	245.3
FCF Yield	8.0%	8.9%	9.7%	11.2%

Revenue	Q1	Q2	Q3	Q4
2022	400.2A	529.0A	586.8A	543.4A
2023	526.8A	627.2A	687.7A	630.9E
2024	586.1E	650.5E	744.5E	680.0E
EBITDA, Adj				
2022	67.0A	115.1A	150.4A	124.1A
2023	97.1A	147.0A	167.8A	140.8E
2024	112.7E	158.9E	190.0E	162.0E

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 8%, 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.

Appendix V – EIF Model Summary

(CAD \$000's unless otherwise indicated)	2022	Q1/23	Q2/23	Q3/23	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E	Q1/25E	Q2/25E	Q3/25E	Q4/25E	2025E	2026E
Segmented revenues																	
Aviation revenues	1,337,440	325,929	372,361	414,693	379,890	1,492,873	347,448	394,808	457,987	428,988	1,629,230	388,397	436,704	501,147	457,567	1,783,815	1,859,491
Manufacturing revenues	721,933	200,915	254,861	272,980	251,053	979,809	238,644	255,643	286,505	251,053	1,031,845	250,576	268,425	300,830	263,606	1,083,437	1,105,106
Segmented EBITDA																	
Aviation EBITDA	336,512	73,807	107,691	124,066	106,369	411,933	82,154	118,131	141,598	124,406	466,290	93,779	132,850	157,448	134,982	519,060	549,651
EBITDA Margin	25.2%	22.6%	28.9%	29.9%	28.0%	27.6%	23.6%	29.9%	30.9%	29.0%	28.6%	24.1%	30.4%	31.4%	29.5%	29.1%	29.6%
Manufacturing EBITDA	157,206	32,145	49,040	53,974	45,190	180,349	38,181	49,190	58,081	46,445	191,897	41,343	52,992	62,489	50,085	206,909	216,573
EBITDA Margin	21.8%	16.0%	19.2%	19.8%	18.0%	18.4%	16.0%	19.2%	20.3%	18.5%	18.6%	16.5%	19.7%	20.8%	19.0%	19.1%	19.6%
Revenues, Net	2,059,373	526,844	627,222	687,673	630,943	2,472,682	586,092	650,451	744,492	680,041	2,661,075	638,973	705,129	801,977	721,173	2,867,252	2,964,597
Revenue growth (Y/Y)	45.7%	98.0%	18.6%	17.2%	16.1%	20.1%	11.2%	3.7%	8.3%	7.8%	7.6%	9.0%	8.4%	7.7%	6.0%	7.7%	3.4%
Aviation expenses	854,487	211,447	225,690	251,076	218,817	907,030	212,235	221,342	253,111	243,665	930,352	235,694	243,083	274,959	258,068	1,011,804	1,047,872
Aviation expenses (% of sales)	41.5%	40.1%	36.0%	36.5%	34.7%	36.7%	36.2%	34.0%	34.0%	35.8%	35.0%	36.9%	34.5%	34.3%	35.8%	35.3%	35.3%
Manufacturing expenses	493,833	150,241	179,941	192,594	174,984	697,760	170,393	175,485	194,161	173,917	713,956	177,848	183,118	202,590	181,492	745,049	755,253
Manufacturing expenses (% of sales)	57.8%	71.1%	79.7%	76.7%	80.0%	76.9%	80.3%	79.3%	76.7%	71.4%	76.7%	75.5%	75.3%	73.7%	70.3%	73.6%	72.1%
Gross profit	711,053	165,156	221,591	244,003	237,142	867,892	203,464	253,625	297,220	262,459	1,016,768	225,431	278,928	324,428	281,613	1,110,399	1,161,473
Gross margin	34.5%	31.3%	35.3%	35.5%	37.6%	35.1%	34.7%	39.0%	39.9%	38.6%	38.2%	35.3%	39.6%	40.5%	39.0%	38.7%	39.2%
EBITDA	449,595	96,703	144,433	166,120	140,833	548,089	112,717	158,866	190,001	162,011	623,594	126,816	176,676	209,511	175,692	688,695	727,685
EBITDA Margin (%)	21.8%	18.4%	23.0%	24.2%	22.3%	22.2%	19.2%	24.4%	25.5%	23.8%	23.4%	19.8%	25.1%	26.1%	24.4%	24.0%	24.5%
EBITDA growth (Y/Y)	35.1%	45.4%	30.6%	11.4%	14.1%	21.9%	16.6%	10.0%	14.4%	15.0%	13.8%	12.5%	11.2%	10.3%	8.4%	10.4%	5.7%
Adj. EBITDA	456,442	97,117	147,036	167,751	140,833	552,737	112,717	158,866	190,001	162,011	623,594	126,816	176,676	209,511	175,692	688,695	727,685
Adj. EBITDA Margin (%)	22.2%	18.4%	23.4%	24.4%	22.3%	22.4%	19.2%	24.4%	25.5%	23.8%	23.4%	19.8%	25.1%	26.1%	24.4%	24.0%	24.5%
Adj. EBITDA growth (Y/Y)	38.4%	45.0%	27.8%	11.6%	13.5%	21.1%	16.1%	8.0%	13.3%	15.0%	12.8%	12.5%	11.2%	10.3%	8.4%	10.4%	5.7%
EBIT	229,887	36,271	80,390	95,815	70,528	283,004	37,422	83,571	114,706	86,716	322,415	50,028	99,888	132,723	98,904	381,543	392,432
Depreciation and Amort.	219,708	60,432	64,043	70,305	70,305	265,085	75,295	75,295	75,295	75,295	301,178	76,788	76,788	76,788	76,788	307,151	335,253
Interest Expense	78,418	27,310	29,896	31,339	32,858	121,403	31,105	32,728	32,759	32,791	129,382	32,822	32,869	32,901	32,932	131,524	132,091
Taxes	41,800	2,100	13,598	14,953	10,171	40,822	1,706	13,728	22,126	14,560	52,119	4,646	18,095	26,952	17,812	67,505	70,292
Adj. net income	132,915	11,540	43,480	55,263	30,999	141,282	8,111	40,616	63,321	42,866	154,914	16,060	52,424	76,370	51,660	196,514	204,049
Weighted average shares outstanding (diluted)	47,314	43,404	52,551	55,514	55,514	51,746	55,514	55,514	55,514	55,514	55,514	55,614	55,714	55,814	55,914	55,764	56,164
Adj. EPS (FD)	3.13	0.27	0.93	1.09	0.65	3.03	0.24	0.83	1.23	0.87	3.16	0.38	1.03	1.46	1.02	3.90	4.00
Cash flow from operations (CFO)	335,119	(10,774)	76,986	117,257	99,804	283,273	81,906	115,410	137,116	116,660	451,092	91,348	128,711	151,658	126,947	498,665	534,301
Changes in working capital	(21,217)	(77,579)	(27,559)	(7,362)	0	(112,500)	0	0	0	0	0	0	0	0	0	0	0
FCF from operations (company definition)	332,025	59,708	98,002	117,143	93,804	368,657	75,906	109,410	131,116	110,660	427,092	85,348	122,711	145,658	120,947	474,665	510,301
Maintenance capital expenditures	155,921	40,785	39,410	42,802	50,475	173,472	46,887	52,036	59,559	54,403	212,886	51,118	56,410	64,158	57,694	229,380	237,168
Growth capital expenditures	125,416	34,411	85,952	81,115	37,857	239,335	35,166	39,027	44,670	40,802	159,665	0	0	0	0	0	0
FCF from operations less maintenance capex (company definition)	176,104	18,923	58,592	74,341	43,329	195,185	29,018	57,374	71,557	56,257	214,206	34,230	66,301	81,500	63,254	245,285	273,134
FCF growth (Y/Y)	19.7%	-2.9%	23.7%	7.7%	7.7%	10.8%	53.4%	-2.1%	-3.7%	29.8%	9.7%	18.0%	15.6%	13.9%	12.4%	14.5%	11.4%
FCF / share	4.36	0.44	1.34	1.60	0.92	4.34	0.62	1.22	1.52	1.20	4.56	0.73	1.41	1.73	1.34	5.20	5.74
Adj. EBITDA conversion	38.6%	19.5%	39.8%	44.3%	30.8%	35.3%	25.7%	36.1%	37.7%	34.7%	34.4%	27.0%	37.5%	38.9%	36.0%	35.6%	37.5%
Free Cash Flow (CFO - total capex)	53,782	(85,970)	(48,376)	(6,660)	11,472	(129,534)	(147)	24,347	32,887	21,455	78,542	40,230	72,301	87,500	69,254	269,285	297,134
FCF % of revenue	2.6%	-16.3%	-7.7%	-1.0%	1.8%	-5.2%	0.0%	3.7%	4.4%	3.2%	3.0%	6.3%	10.3%	10.9%	9.6%	9.4%	10.0%
Adj. EBITDA conversion	11.8%	-88.5%	-32.9%	-4.0%	8.1%	-23.4%	-0.1%	15.3%	17.3%	13.2%	12.6%	31.7%	40.9%	41.8%	39.4%	39.1%	40.8%
Dividend payout ratio (FCF less maintenance capex)	55.3%	141.7%	47.5%	39.5%	71.5%	58.9%	106.8%	54.0%	43.3%	55.1%	57.9%	95.2%	49.3%	40.2%	51.9%	53.3%	50.7%
Dividend payout ratio (FCF less total capex)	181.2%	-31.2%	-57.5%	-441.0%	270.1%	-88.8%	-2106.0%	127.2%	94.2%	144.4%	157.8%	81.0%	45.2%	37.4%	47.4%	48.6%	46.6%
Net debt	1,638,571	1,761,689	1,785,930	1,855,154	1,954,922	1,954,922	2,063,883	2,124,349	2,175,275	2,237,634	2,237,634	2,232,003	2,195,370	2,142,607	2,108,160	2,108,160	1,958,541
Net debt/LTM EBITDA	3.6x	3.6x	3.4x	3.5x	3.5x	3.5x	3.6x	3.7x	3.6x	3.6x	3.6x	3.5x	3.3x	3.2x	3.1x	3.1x	2.7x
Net debt/LTM EBITDA (covenant metric, excl. converts)	2.4x	2.5x	2.4x	2.4x	2.5x	2.5x	2.6x	2.7x	2.7x	2.7x	2.7x	2.6x	2.5x	2.4x	2.3x	2.3x	2.0x

Source: Company reports, RBC Capital Markets estimates



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

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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 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.

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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.

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

Restricted (R): RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances.



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.

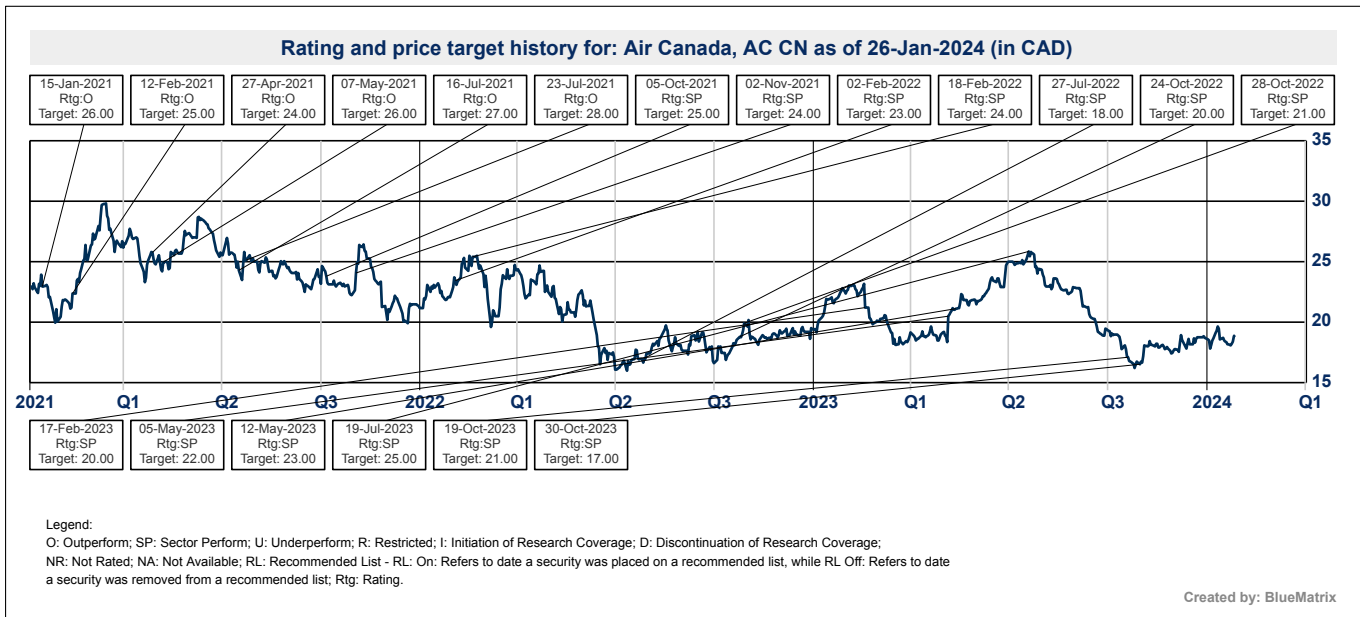
Risk Rating

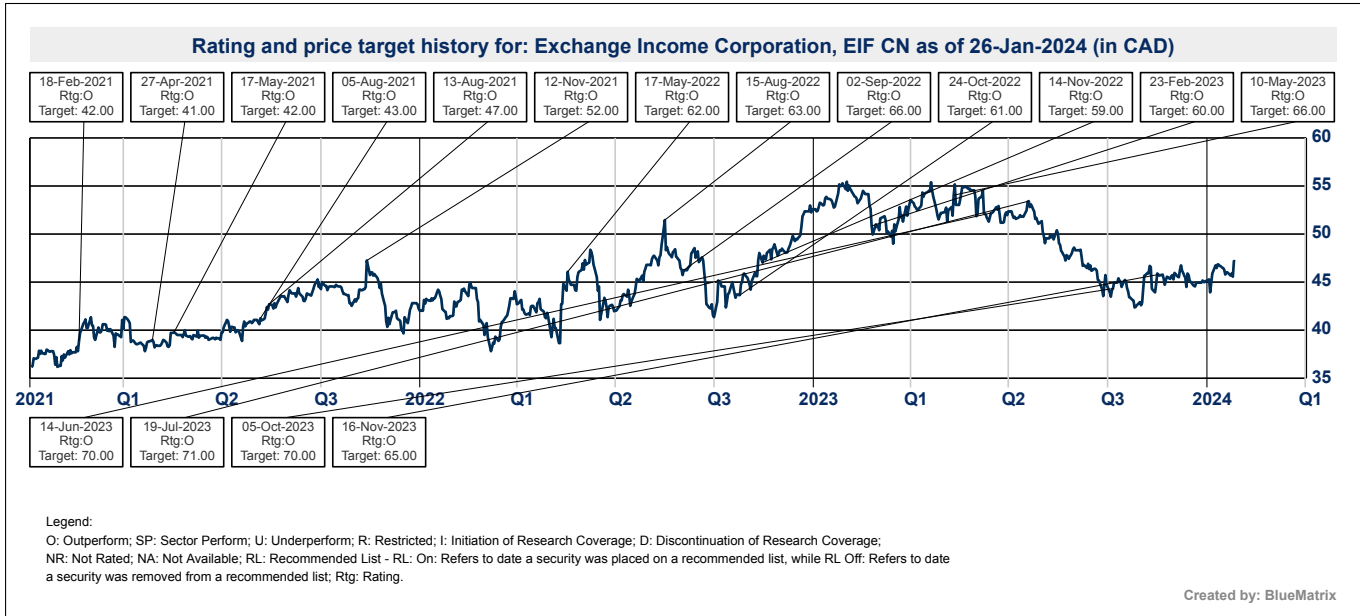
The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

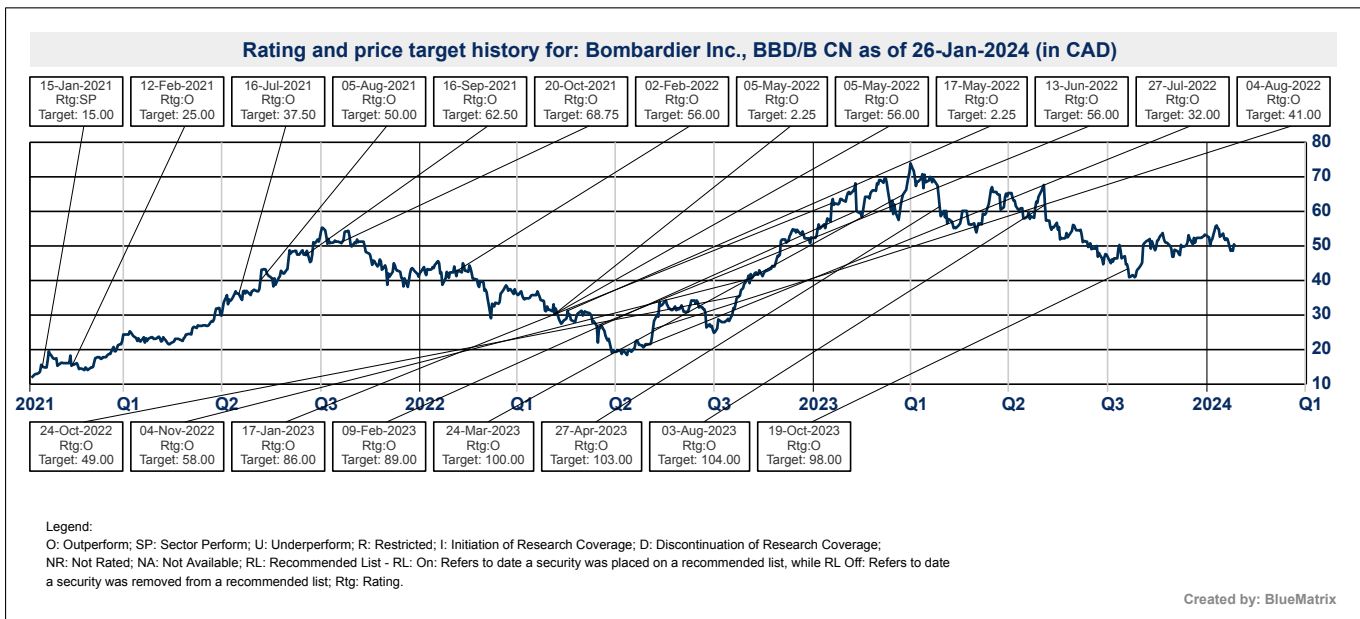
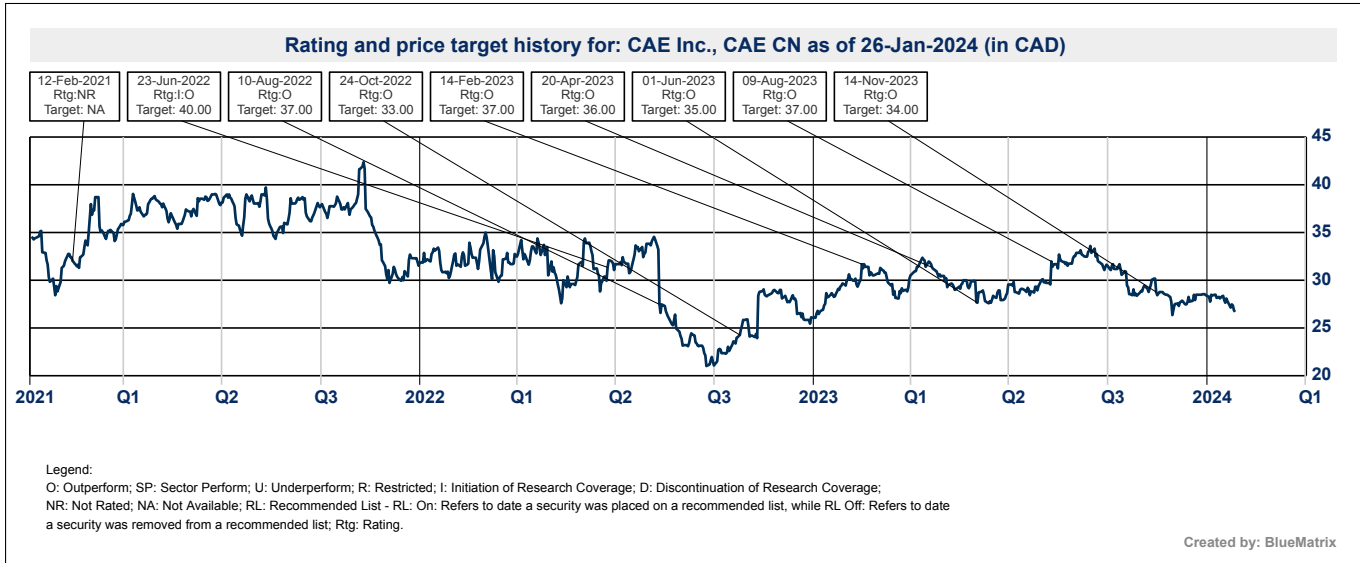
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Distribution of ratings				
RBC Capital Markets, Equity Research				
As of 31-Dec-2023				
Rating	Count	Percent	Investment Banking	
			Serv./Past 12 Mos.	
			Count	Percent
BUY [Outperform]	829	57.17	253	30.52
HOLD [Sector Perform]	575	39.66	154	26.78
SELL [Underperform]	46	3.17	6	13.04







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.

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Air Canada

Valuation

Applying a 3.5x EV/EBITDA multiple to our 2025 estimates, we derive our price target of \$18. Our target multiple is in line with the historical group average multiple and in line with peers and supported by our view that the industry should largely return to normal by 2024. Our base case reflects the following assumptions: (1) near-term headwinds from return to travel disruptions followed by a general return to “normal” by 2024; and (2) a reduction in capital intensity out to 2024. Our price target supports our Sector Perform rating.

Risks to rating and price target

Risks to our price target and rating include but are not limited to very high operating leverage given a fixed-cost structure, above-average sensitivity to the economy, exposure to volatile fuel prices and the risk of terrorism and epidemics. This is a very competitive industry in which WestJet is focusing on Western Canada and Porter Airlines is expanding in Eastern Canada.

Bombardier Inc.

Valuation

We apply a target multiple of 6.5x to our 2025 EBITDA estimate of \$1.65B to derive our \$98 price target. Our target multiple is based on a significant discount to peers and a structurally higher demand environment. We use EBITDA (as opposed to PE) as our primary valuation methodology, as we believe it better reflects the company’s growth potential while also taking into account its capital structure. Our price target supports our Outperform rating.

Risks to rating and price target

Risks to our estimates, price target, and rating include but are not limited to the performance of the global airline industry, possible changes to Bombardier’s credit rating, and demand for business jets. We also see risk in renewed supply chain disruption leading to production halts in both Bombardier and suppliers. For these reasons, our earnings estimates could be more at risk than for most companies.

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 \$1,199MM. 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' total business at 10x P/E multiple based on our 2025 EPS estimate. We believe a blended multiple approach is most appropriate to value the CPA, leasing and asset management earnings streams at Chorus. Our target multiple is in line with the average of similar companies across the airlines, lessors and asset management space. This method generates our \$3.75 price target, which is the basis of our Outperform rating.

Risks to rating and price target

Chorus Aviation's revenues and operating earnings are highly dependent on the CPA with Air Canada. The CPA agreement provides

for a fixed fee per aircraft and other services rendered. Significant changes in the average daily utilization of aircraft by Air Canada covered by the CPA could impact the revenues and earnings generated under the CPA. Increases in Controllable Costs above the level estimated would reduce the margins earned on Scheduled Flights Revenue.

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 8%, 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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