EQUITY RESEARCH

Capital Markets

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RBC Elements™: Q3/24 Flight Deck

Q3 Airlines & Aerospace Preview

Our view: In this report, we update our near term estimates for AC and CAE and roll forward our valuation year to 2026 making adjustments to target multiples accordingly. Our Canadian Airlines & Aerospace Heatmap powered by RBC Elements™ points to weaker leading indicators, including airfares, web traffic, and steady competition (see Exhibit 1), which aligns with peer commentary and promotional discounting witnessed late in the quarter across carriers. Interestingly, data from our proprietary Canadian Airfare Index indicates a similar directional trend, with prices down -4.6% y/y in Q3. Furthermore, our Business Jet Heatmap indicates slight y/y activity declines that we attribute to the smaller jet segment offset by solid fractional operator growth, which when taken together highlight a supportive demand backdrop that we expect to aid Bombardier in achieving its 2025 EBITDA and FCF targets.

Q3 estimate revisions

- **AC: Q3 estimate lower and below consensus; price target unchanged at $17; maintain Sector Perform rating.** We are decreasing our Q3/24 EBITDA estimate to $1,275MM (from $1,422MM), below consensus of $1,319 MM on lost bookings, higher one-time costs related to the pilot deal, and lower fares from discounting witnessed post the pilot agreement. Our lowered 2024 EBITDA estimate of $3,115MM (from $3,256MM) is below consensus of $3,203MM and at the low end of guidance of $3.1B to $3.4B. Our 2025 estimate moves to $3,113MM (from $3,384MM), which represents the street low (cons. $3,519MM) given our view yields will remain pressured into next year on a weaker consumer and increased industry capacity. Our target multiple moves to 3.1x (from 3.4x) resulting in our unchanged target price of $17.
- **BBD: Q3 estimate unchanged and slightly below consensus; price target maintained at $133; reaffirm Outperform rating.** Our Q3/24 EBITDA estimate is unchanged at $271MM, below consensus of $279MM. Our 2024 EBITDA estimate is also unchanged at $1,344MM, a touch below consensus $1,351MM, and in line with guidance of $1.30B -$1.35B. Our 2024 FCF estimate of $250MM is unchanged and at the midpoint of management's guidance of $100MM-$400MM. Our 2025 EBITDA and FCF estimates of $1,680 and $952MM, respectively, remain unchanged and in line with the company's 2025 targets for EBITDA of >$1,625MM and FCF of >$900MM. Our target multiple moves to 7.1x (from 8x) as we shift our valuation year to 2026, resulting in our unchanged price target of $133. We continue to flag Bombardier as our top idea reflecting a double-digit FCF yield on our 2026 estimates and the opportunity to compound FCF at a double-digit CAGR out to 2030, which we see as underappreciated at current levels.
- **CAE: FQ2 estimate lower and in line with consensus; price target unchanged at $27; maintain Outperform.** Our FQ2 EBITDA estimate moves to $232MM (from $239MM), in line with consensus $232MM, on the back of supply chain issues and labour disruptions delaying commercial aircraft deliveries. Our F25 EBITDA estimate remains unchanged at $1,093MM, in line with consensus $1,095MM. However, our F25 Civil adj. operating income growth estimate of +6% (cons. +8%) remains below guidance of ~10%. Our target price remains at $27 on our blended target multiple of 9.7x. Key focus into the quarter will be on margins in the Defense segment and the impact of the Boeing strike and temporary hiring freezes on results in Civil.
- **CHR: Q3 estimates unchanged and slightly below consensus; price target unchanged at $3.25; reaffirm Outperform rating.** We are keeping our Q3/24 EBITDA estimate unchanged at $46MM, below consensus of $50MM. Our 2024 EBITDA remains at $253MM (including Q1 RAL contribution), above consensus of $228MM. Key focus for the call will be on sale progress of RAL and new growth initiatives in Voyageur. Target price remains at $3.25 on our unchanged target multiple of 6x.
- **EIF: Q3 estimate unchanged and in line with consensus; price target remains at $65; maintain Outperform.** Our Q3 estimate is unchanged into the quarter at $190MM, above consensus $187MM.

RBC Elements™
Driving insights through data

See RBC Elements page at the end of this note.

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

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Our 2024 estimate remains at $624MM, in line with consensus $622MM, and in line with guidance for EBITDA "at the mid to high end" of $600–635MM. Our 2025 EBITDA estimate remains at $689MM, in line with consensus of $693MM. Key into the quarter will be colour on the Manufacturing outlook, as lower rates potentially begin to benefit Windows and reflecting recent commentary from Fedex noting weakness in the industrial economy. We shift our valuation year to 2026 (removing one year discount) and move our blended target multiple to 7.1x (from 7.6x), resulting in our unchanged price target of $65.

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										
Air Canada	AC CN	Sector Perform	Sector Perform	CAD	6,133	16.31	17.00	17.00	--	4
Bombardier Inc.	BBD/B CN	Outperform	Outperform	CAD	10,124	101.72	133.00	133.00	--	31
CAE Inc.	CAE CN	Outperform	Outperform	CAD	8,114	25.45	27.00	27.00	--	6
Chorus Aviation Inc.	CHR CN	Outperform	Outperform	CAD	566	2.86	3.25	3.25	--	14
Exchange Income Corporation	EIF CN	Outperform	Outperform	CAD	2,406	50.86	65.00	65.00	--	33

Source: Bloomberg and RBC Capital Markets estimates

Exhibit 1 - Canadian Airlines Heatmap powered by RBC Elements

Airlines Heat Map

	High/Low	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
Macro Indicators Y/Y												
US GDP*		(2.0%)	(0.6%)	2.7%	2.6%	2.2%	2.1%	4.9%	3.4%	1.4%	3.0%	1.8%
CAD GDP*		3.9%	3.8%	1.8%	(0.9%)	3.4%	0.7%	(0.3%)	0.1%	1.8%	2.1%	1.0%
Jet Fuel		85.3%	148.9%	77.8%	55.1%	13.4%	(46.9%)	(15.6%)	(20.0%)	(17.7%)	7.3%	(23.3%)
Returns Y/Y												
Cdn Airlines & Aerospace Index Return		6.3%	(22.7%)	(34.1%)	4.2%	15.8%	60.9%	33.3%	(5.6%)	(14.2%)	(8.4%)	23.6%
North American Airlines Index return		(26.5%)	(47.6%)	(53.0%)	(40.9%)	(32.2%)	19.4%	(2.8%)	7.1%	1.4%	(21.9%)	5.5%
European Airlines Index Return		(24.9%)	(31.6%)	(28.4%)	37.5%	57.2%	91.1%	91.5%	0.2%	4.5%	10.3%	3.2%
Asian Airlines Index Return		(10.1%)	(24.6%)	(23.6%)	(8.9%)	(5.7%)	6.4%	9.7%	(3.5%)	(1.6%)	(5.3%)	12.6%
Leading Indicators (Powered by RBC Elements)												
Fares/Pricing												
RBC Canadian Airfare Index Y/Y						17.1%	8.1%	8.7%	(0.3%)	(3.5%)	(0.9%)	(4.6%)
RBC Vacation Price Index Y/Y***		20.2%	16.8%	9.8%	10.4%	7.9%	(3.8%)	(3.0%)	(3.8%)	(2.5%)	(1.2%)	(0.7%)
CAN Airfare CPI Y/Y**		7.5%	14.9%	28.7%	18.2%	9.0%	(4.2%)	(17.8%)	(15.2%)	(5.7%)	2.2%	(2.7%)
US Airfare CPI Y/Y***		13.7%	35.0%	34.3%	35.7%	23.2%	(11.5%)	(15.1%)	(11.6%)	(6.6%)	(5.6%)	(2.1%)
Travel Indexes												
RBC GOAT Index (CAN) Y/Y		109.2%	104.2%	45.9%	31.2%	29.2%	(1.6%)	(2.2%)	(1.7%)	(4.8%)	(4.9%)	(1.3%)
RBC GOAT Index (US) Y/Y		40.7%	11.4%	14.1%	5.2%	4.4%	(2.2%)	(0.6%)	(1.4%)	(4.6%)	(4.6%)	(4.0%)
Search Interest												
Corporate Travel Search Interest Y/Y		(25.7%)	18.7%	29.2%	(11.4%)	29.8%	(5.0%)	(9.5%)	59.1%	14.3%	2.39%	(8.0%)
AC Travel Search Interest Y/Y		10.9%	164.9%	69.7%	42.4%	69.4%	16.2%	20.4%	15.3%	3.6%	(6.7%)	(7.2%)
US Travel Search Interest Y/Y		(0.3%)	19.7%	25.8%	26.5%	20.3%	9.9%	3.6%	(3.5%)	(2.4%)	(1.1%)	2.5%
CAN Travel Search Interest Y/Y		32.3%	196.7%	80.0%	53.5%	68.8%	17.0%	21.6%	12.0%	7.4%	4.0%	(0.3%)
CAN Non-Mainline Search Interest Y/Y		137.1%	404.2%	193.9%	111.6%	130.7%	31.4%	35.5%	14.7%	17.8%	24.7%	0.1%
Competition												
% of Cdn Non-Mainline Fleet		16.7%	15.8%	16.8%	21.3%	22.3%	23.0%	18.1%	19.1%	18.6%	19.1%	19.4%
% of Cdn Non-Mainline Flights		8.4%	13.3%	15.5%	14.4%	15.1%	17.5%	18.1%	17.5%	16.9%	17.5%	18.5%
Coincident Indicators												
NAV Canada Movements Y/Y		31.0%	51.3%	30.1%	9.5%	21.5%	7.5%	1.7%	3.1%	3.2%	3.2%	3.9%
Canadian RPKs Y/Y**		516.6%	1,032.3%	200.2%	93.6%	108.0%	31.5%	16.3%	11.9%	15.5%	11.2%	8.2%
Canadian ASKs Y/Y**		304.7%	512.5%	151.8%	60.4%	62.1%	23.0%	12.0%	10.7%	16.3%	12.9%	10.2%
Canadian Load Factors**		65.9%	80.5%	85.6%	82.2%	85.2%	86.3%	88.9%	83.0%	84.6%	85.0%	88.0%
North American RPKs Y/Y**		113.7%	58.0%	32.1%	23.1%	28.1%	13.6%	11.8%	10.4%	7.1%	5.4%	4.9%
North American ASKs Y/Y**		58.9%	35.6%	19.8%	13.8%	18.2%	13.7%	12.5%	12.3%	6.8%	7.1%	5.1%
North American Load Factors**		74.9%	87.0%	86.4%	84.6%	79.7%	86.9%	86.2%	83.1%	81.0%	85.5%	88.9%
CATSA Passenger Throughput Y/Y		196.9%	336.5%	185.2%	83.6%	84.6%	25.1%	23.3%	14.1%	8.2%	3.8%	6.3%
TSA Passenger Throughput Y/Y		69.2%	34.0%	18.5%	15.0%	17.7%	10.5%	12.1%	12.1%	7.1%	5.6%	4.8%

* Indicates Estimates

** Data through July

*** Data through August

Source: Company Reports, FactSet, Bloomberg, RBC Elements, Company Websites, SEMRush, Google Trends, Planespotters Net

Exhibit 2 - Canadian Aerospace Heatmap

BizJet Indicators (Y/Y)	High/Low	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
Total FAA Traffic***		25.2%	10.8%	(2.3%)	(7.0%)	(4.5%)	(6.6%)	(4.6%)	(1.4%)	(1.4%)	(1.0%)	(0.6%)
Domestic FAA Traffic***		23.1%	8.3%	(3.8%)	(8.0%)	(5.5%)	(7.0%)	(4.9%)	(1.4%)	(1.9%)	0.3%	1.9%
International FAA Traffic***		38.0%	28.0%	8.2%	(1.1%)	1.4%	(4.7%)	(3.0%)	(1.1%)	1.5%	(7.6%)	(14.8%)
Global Bizjet Activity		23.8%	11.8%	2.4%	(1.6%)	1.4%	(2.6%)	0.1%	4.0%	(2.3%)	(1.4%)	(1.9%)
Bombardier Activity		19.6%	8.6%	2.4%	(0.2%)	5.0%	(0.2%)	3.5%	9.1%	4.3%	4.0%	(1.8%)
Gulfsteam Activity		23.1%	18.1%	5.9%	0.9%	4.2%	(4.0%)	(0.8%)	3.2%	(0.7%)	(0.3%)	1.3%
Used Inventory (% of Total)		3.0%	3.4%	3.8%	4.8%	5.0%	5.7%	6.3%	6.5%	6.8%	7.3%	

*** Data through August

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

Click here to access the individual company pages.

Canadian Airlines & Aerospace Q3/24 preview

In this report, we overview recent share price performance, discuss relevant industry trends/themes, and update our Q3 estimates. Items of focus include:

1) The set-up: share price performance in Q3 and valuation
2) An overview of air traffic trends, pricing, and leading indicators via RBC Elements™
3) A discussion of our Q3 estimates for each company in our coverage

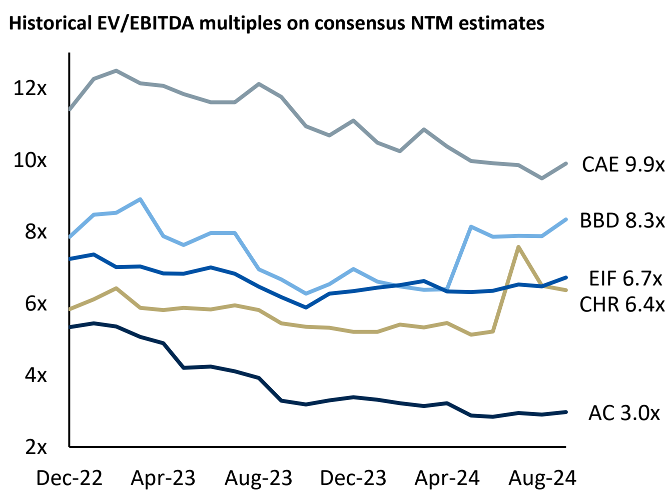
The set-up: Aerospace share price performance during Q3

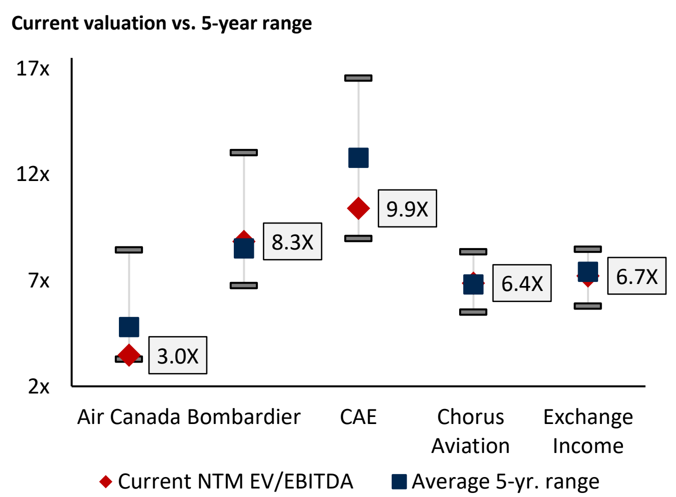
Company	Q3/24 Share Price Performance
CHR	17.8%
BBD	17.3%
EIF	13.7%
S&P/TSX	9.7%
CAE	-0.1%
AC	-8.4%

Share prices mixed in Q3. Canadian Airlines & Aerospace share prices were mixed during the quarter, with CHR, BBD, and EIF outperforming the index, up +17.8%, +17.3%, and +13.7%, respectively. CHR's performance was driven by the sale of its RAL segment, which upon completion should greatly reduce the company's leverage, making room for growth investments and return of capital initiatives. BBD was up reflecting strong deliveries and a robust demand backlog, while EIF shares also rallied on the back of increased/tightened F24 EBITDA guidance. CAE and AC underperformed, down -0.1% and -8.4%, respectively, with CAE shares flat given continued near-term headwinds in the Civil segment. AC's share price performance (-8.4%) was impacted by yield pressures in addition to uncertainty relating to potential labour disruptions.

Thoughts on valuations. Referencing Exhibit 3, the bar chart below shows current valuations (red dot) relative to the 5-year range. The aerospace companies in our coverage are mixed to below trailing 5-year averages. AC is trading at the low-end of its historical average as the industry grapples with normalizing demand, yield pressure, higher costs, and capacity risk. Bombardier is trading in line with its historical average, though at a meaningful discount to peers and remains our top idea on the back of a meaningful FCF inflection in 2025, in addition to longer-term opportunities in services and defense. CAE is trading at the low-end of its historical range due to the previously highlighted challenges, while valuations for CHR and EIF reverted to their 5-yr. range following the RAL sale announcement and an improving manufacturing outlook in our view, respectively.

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





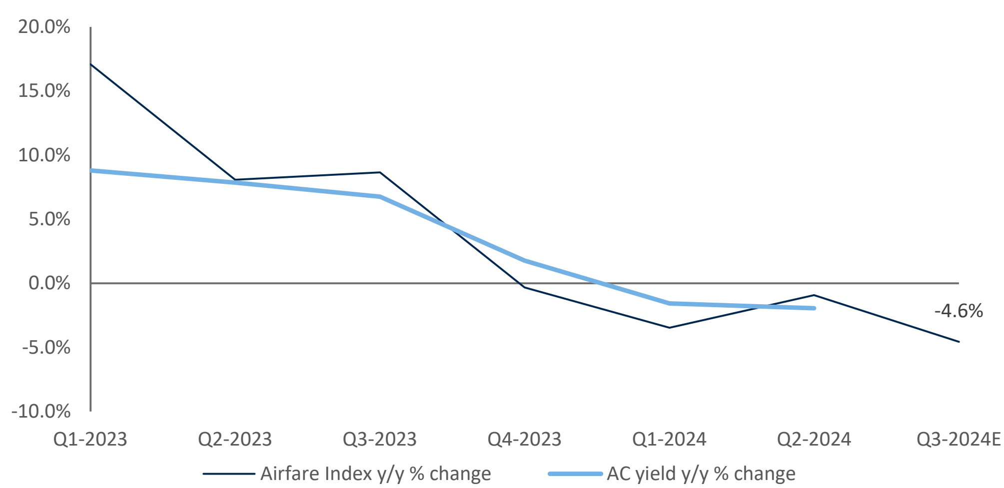
Source: FactSet consensus estimates. Note: Excludes pandemic impact from Jan. 2020 to Mar. 2023 for AC and BBD

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.

Airfares continue to see pressure from discounting and weaker consumer spending. We note continued negative price growth in the past quarter across the data we track, consistent with promotional discounting noted late in the quarter across carriers. Canadian airfare CPI saw a decline in of -2.7% y/y in July, down from +2.2% last quarter. Similarly, data from our proprietary Canadian Airfare Index indicates a similar directional trend, with prices down -4.6% y/y in Q3. We also incorporate RBC's Vacation Price Index, which tracks the changing cost of travel and which is down -0.7% y/y in Q3. Overall, we expect further price normalization during the remainder of 2024, given our view that higher interest rates will continue to weigh on discretionary spending and increasing capacity will result in lower fares. Moreover, we note similar read-throughs from peers such as Transat that highlighted downward pressure on yields (down -9.7%) due to intensified competition and overcapacity throughout the industry as well as consumers who are increasingly price-conscious given the economic climate.

Exhibit 4 - Canadian Airfare Index indicating weaker yields in Q3

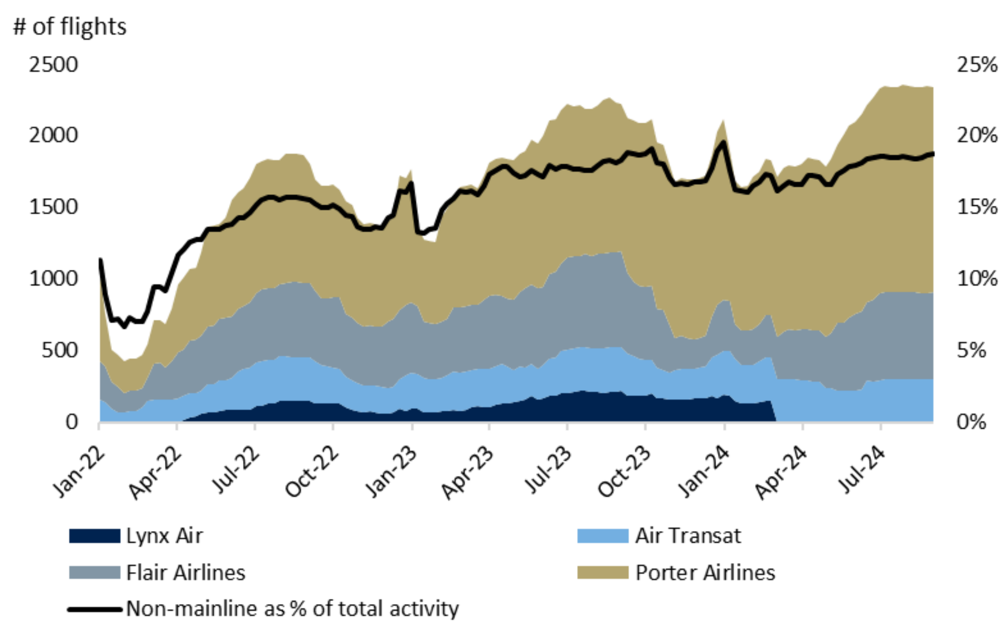


Source: RBC Elements, RBC Capital Markets

Leading indicators generally weaker with some variability across carriers. We track travel search interest changes y/y as measured by website traffic across mainline and non-mainline carriers. We flag that overall Canadian travel search interest declined -0.3% in Q3. AC search interest was down -7.2% vs WestJet +25%, which we attribute to booking away related to potential disruptions from the pilot strike and higher traffic for WestJet from the Sunwing merger. Interestingly, Canadian non-mainline search interest was flat in Q3 at 0.1%, versus being consistently positive since 2022, which may indicate lower demand across fare types and booking hesitancy given recent closures of start-ups. Additionally, we look to RBC's proprietary Get Out and Travel (GOAT) index to gauge consumer travel demand. The Canadian GOAT index was down -1.3% y/y through Q3 and has been consistently negative since mid-June 2023.

Non-mainline competition steady, even with closures. Total non-mainline fleet (Flair, Transat, and Porter) as percentage of the total fleet (including AC and WJA) increased in Q3 to 19.4% from 19.1% last quarter. We saw both Canadian Jetlines and Lynx fold this year, however the percentage of flights from non-mainline operators (restated to include Transat) reached a high of 18.5% of total flights, mainly due to route expansions at Porter offsetting any losses at smaller start-ups (Exhibit 5). While we see mainline operators ultimately gaining from the rationalization of the competitive landscape, we note Porter continues to expand route offerings, becoming a notable third option for air travel among Canadians.

Exhibit 5 - Competition holding steady



Source: RBC Elements, RBC Capital Markets

Bizjets: Slight y/y declines off highs, fleet operators showing strong growth. According to WingX, year to date global bizjet activity is 1% below last year, 30% ahead of 2019, though weakness was noted in September primarily in the smaller jet segment. Additionally, both number of flights and hours are up for fractional ownership ~+10% y/y and above 60% since 2019, which we see as a tailwind for Bombardier's fleet sales and aftermarket revenues. Total bizjet traffic in the US was down -0.6% y/y through August (+1.9% domestic; -14.8% international) and up 10% vs 2019, indicating structurally higher demand for private travel. In addition, global transponder data shows bizjet activity down -1.9% in Q3 y/y, with Bombardier jet activity -1.8% below that of Gulfstream +1.3%. As of last quarter, used inventory sits at 7.3%, well below the normal range of 11-14%. Taken together, the data points to robust demand trends which we see supporting Bombardier and CAE (with respect to business aviation pilot training).

Exhibit 6 - Fractional operators' growth offsetting declines in corporate flight departments

Operator Type	Flights	% of total	vs 1Y ago: Flights	vs 5Y ago: Flights	Hours	vs 1Y ago: Hours	vs 5Y ago: Hours
Aircraft Management	593,400	23.8%	-1.2%	42.2%	1,039,122	-2.0%	44.2%
Fractional Ownership	454,545	18.3%	10.4%	61.6%	711,700	9.9%	66.3%
Corporate Flight Department	444,442	17.9%	-12.1%	-10.5%	698,316	-12.5%	-8.8%
Branded Charter	389,238	15.6%	-9.6%	9.3%	673,928	-8.8%	15.8%
Private Flight Department	298,486	12.0%	-5.2%	38.2%	461,711	-5.9%	36.6%
Under Research	152,875	6.1%	90.1%	536.8%	248,228	86.3%	503.6%
Government / Military	49,039	2.0%	-18.6%	85.0%	82,401	-20.1%	83.7%
Shuttle	47,561	1.9%	-16.6%	17.5%	77,360	-16.5%	21.6%
Ambulance / Medical	38,879	1.6%	-1.3%	43.1%	62,444	-2.5%	40.6%
Cargo / Logistics	9,023	0.4%	-9.8%	-8.6%	18,528	1.2%	16.3%
OEM	8,098	0.3%	10.5%	-27.5%	15,375	14.8%	-29.1%
Training	4,017	0.2%	-1.1%	-8.7%	6,968	-5.4%	42.7%
Grand Total	2,489,603	100.0%	-1.3%	30.3%	4,096,082	-1.7%	33.4%

Source: WingX

Exhibit 7 - Estimate changes ahead of the quarter

	Q3/24E EBITDA			2024E EBITDA			2025E EBITDA			2026E EBITDA			Target Multiple		Price Target (CAD)			Implied
	Prior	RBC	Street	Prior	RBC	Street	Prior	RBC	Street	Prior	RBC	Street	Old	RBC	Old	New	Rating	Return
Air Canada	$1,422	**$1,275**	$1,319	$3,256	**$3,115**	$3,203	$3,384	**$3,113**	$3,519	$3,893	**$3,535**	$3,798	3.4x	**3.1x**	Unchg.	**$17**	SP	+4%
Bombardier	Unchg.	**U$271**	U$279	Unchg.	**U$1,344**	U$1,351	Unchg.	**U$1,680**	U$1,612	U$1,823	**U$1,796**	U$1,695	8.0x	**7.1x**	Unchg.	**$133**	O	+31%
CAE[1]	$239	**$232**	$232	Unchg.	**$1,093**	$1,095	Unchg.	**$1,171**	$1,188	N/A	**N/A**	N/A	Unchg.	**9.7x**	Unchg.	**$27**	O	+6%
Chorus Aviation	Unchg.	**$46**	$50	Unchg.	**$253**	$228	Unchg.	**$182**	$192	Unchg.	**$152**	$167	Unchg.	**6.0x**	Unchg.	**$3.25**	O	+14%
Exchange Income	Unchg.	**$190**	$187	Unchg.	**$624**	$622	Unchg.	**$689**	$693	Unchg.	**$728**	$730	7.6x	**7.1x**	Unchg.	**$65**	O	+33%

1. CAE estimates are for FQ2/25, F2025, and F2026, respectively

Source: RBC Capital Markets estimates, FactSet for consensus. Note: Priced as of market close October 2, 2024.

Exhibit 8 - Air Canada estimate revisions detail

	Q3/24E			2024E			2025E			2026E		
(C$MM's unless specified)	Old	New	% Δ	Old	New	% Δ	Old	Cur	% Δ	Old	Cur	% Δ
Operating Metrics												
Traffic: RPMs (% chg)	0.6%	-1.4%	-202bp	4.0%	3.3%	-71bp	5.0%	5.0%	0bp	5.0%	5.0%	0bp
Capacity: ASMs (% chg)	4.5%	3.0%	-150bp	6.2%	5.7%	-55bp	6.0%	6.0%	0bp	6.0%	6.0%	0bp
Load Factor (%pts)	86.5%	86.0%	-50bp	84.8%	84.7%	-14bp	84.0%	83.9%	-14bp	83.2%	83.1%	-14bp
Yield (% chg)	-3.0%	-4.0%	-100bp	-2.4%	-2.7%	-26bp	0.2%	-1.0%	-118bp	2.0%	2.0%	0bp
RASM (% chg)	-6.5%	-8.0%	-150bp	-4.5%	-4.9%	-45bp	-0.7%	-1.9%	-119bp	1.0%	1.0%	0bp
Adj. CASM ex fuel+other (% chg)	2.0%	3.1%	109bp	2.6%	3.0%	37bp	0.5%	0.3%	-22bp	1.0%	1.0%	0bp
Avg Jet Fuel Price: ($C/Ltr)	$1.03	$1.04	1.7%	$1.03	$1.03	0.0%	$0.97	$0.95	-1.7%	$0.92	$0.91	-0.5%
Revenue	$6,225	$6,052	-2.8%	$22,120	$21,925	-0.9%	$23,198	$22,747	-1.9%	$24,718	$24,236	-2.0%
Expenses	$6,225	$6,052	-2.8%	$22,120	$21,925	-0.9%	$23,198	$22,747	-1.9%	$24,718	$24,236	-2.0%
EBITDA	**$1,422**	**$1,275**	**-10.3%**	**$3,256**	**$3,115**	**-4.3%**	**$3,384**	**$3,113**	**-8.0%**	**$3,893**	**$3,535**	**-9.2%**
EBITDA Margin	22.8%	21.1%	-178bp	14.7%	14.2%	-51bp	14.6%	13.7%	-90bp	15.8%	14.6%	-116bp
EPS ex-one time items ($)	$2.39	$2.05	-14.1%	$2.86	$2.58	-9.8%	$2.29	$1.89	-17.5%	$3.14	$2.56	-18.6%
Consensus EBITDA		**1,319**			**3,203**			**3,519**			**3,798**	

Source: Company reports, RBC Capital Markets estimates

Exhibit 9 - Bombardier estimate revisions detail

	Q3/24E			2024E			2025E			2026E		
($MM's unless specified)	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ
Total aircraft deliveries	29	29	0.0%	150	150	0.0%	152	154	1.3%	150	150	0.0%
Total Revenues	$1,751	$1,751	0.0%	$8,530	$8,530	0.0%	$9,185	$9,189	0.0%	$9,748	$9,548	-2.1%
Total EBIT	$179	$179	0.0%	$879	$879	0.0%	$1,207	$1,207	0.0%	$1,320	$1,293	-2.0%
Margin (%)	10.2%	10.2%	0 bps	10.3%	10.3%	0 bps	13.1%	13.1%	0 bps	13.5%	13.5%	0 bps
Free Cash Flow	-$52	-$52	0.0%	$250	$250	0.0%	$952	$952	0.0%	$1,230	$1,078	-12.4%
EBITDA	**$271**	**$271**	**0.0%**	**$1,344**	**$1,344**	**0.0%**	**$1,680**	**$1,680**	**0.0%**	**$1,823**	**$1,796**	**-1.5%**
Margin (%)	15.5%	15.5%	0 bps	15.8%	15.8%	0 bps	18.3%	18.3%	0 bps	18.7%	18.8%	10 bps
Consensus EBITDA		279			1,351			1,612			1,695	

Source: Company reports, RBC Capital Markets estimates

Exhibit 10 - CAE estimate revisions detail

ESTIMATE SUMMARY	FQ2/25E			FQ2/24	F2025E			F2026E		
(C$ millions)	Old	New	% Δ	Actual	Old	New	% Δ	Old	New	% Δ
Revenue	1,100	**1,096**	(0.4%)	**1,050**	4,554	**4,550**	(0.1%)	4,760	**4,760**	0.0%
Civil Revenue	627	**623**	(0.6%)	**573**	2,642	**2,638**	(0.2%)	2,825	**2,825**	0.0%
Defense & Security Revenue	473	**473**	0.0%	**477**	1,912	**1,912**	0.0%	1,935	**1,935**	0.0%
Adj. EBITDA	239	**232**	(2.9%)	**224**	1,093	**1,093**	(0.0%)	1,171	**1,171**	0.0%
Civil Adj. EBITDA	186	**179**	(3.7%)	**180**	877	**877**	(0.0%)	940	**940**	0.0%
Defence & Security Adj. EBITDA	53	**53**	0.0%	**45**	216	**216**	0.0%	231	**231**	0.0%
Adjusted Operating Income	141	**134**	(4.9%)	**136**	701	**701**	(0.0%)	768	**768**	0.0%
Adj. Operating Income Margin %	*12.8%*	***12.3%***	*-59bps*	***12.9%***	*15.4%*	***15.4%***	*1bps*	*16.1%*	***16.1%***	*0bps*
Civil Adj. EBIT	113	**106**	(6.2%)	**114**	584	**584**	(0.0%)	638	**638**	0.0%
Defence & Security Adj. EBIT	28	**28**	0.0%	**21**	118	**118**	0.0%	130	**130**	0.0%
Adj. EPS (F.D)	$0.20	**$0.19**	(8.0%)	**$0.26**	$1.16	**$1.16**	(0.0%)	$1.32	**$1.32**	0.0%
Consensus EBITDA		**232**				**1,095**			**1,188**	

Source: Company reports, RBC Capital Markets estimates

Exhibit 11 - Chorus estimate revisions detail

	Q3/24E			2024E			2025E			2026E		
	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ
Revenue breakdown												
Regional Aircraft Services	$347	$347	0.0%	$1,413	$1,413	0.0%	$1,401	$1,401	0.0%	$1,380	$1,380	0.0%
Total Revenues	$347	$347	0.0%	$1,481	$1,481	0.0%	$1,401	$1,401	0.0%	$1,380	$1,380	0.0%
Total Expenses	$325	$325	0.0%	$1,361	$1,361	0.0%	$1,317	$1,317	0.0%	$1,308	$1,308	0.0%
Operating Income	$22	$22	0.0%	$119	$119	0.0%	$84	$84	0.0%	$72	$72	0.0%
Depreciation and Amortization	$24	$24	0.0%	$128	$128	0.0%	$98	$98	0.0%	$79	$79	0.0%
Adj. EBITDA	**$46**	**$46**	**0.0%**	**$253**	**$253**	**0.0%**	**$182**	**$182**	**0.0%**	**$152**	**$152**	**0.0%**
Adj. EPS	$0.00	$0.00	0.0%	$0.14	$0.14	0.0%	$0.27	$0.27	0.0%	$0.23	$0.23	0.0%
Consensus EPS		$50			$228			$192			$167	

Source: Company reports, RBC Capital Markets estimates

Exhibit 12 - Exchange Income estimate revisions detail

	Q3/24E			2024E			2025E			2026E		
(C$MM's unless specified)	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ
Total revenue	744	744	0.0%	2,713	2,713	0.0%	2,886	2,886	0.0%	2,976	2,976	0.0%
Total Aviation Revenues	458	458	0.0%	1,688	1,688	0.0%	1,810	1,810	0.0%	1,846	1,846	0.0%
Total Manufacturing Revenues	287	287	0.0%	1,025	1,025	0.0%	1,076	1,076	0.0%	1,130	1,130	0.0%
Adj. EBITDA	**190**	**190**	**0.0%**	**624**	**624**	**0.0%**	**689**	**689**	**0.0%**	**728**	**728**	**0.0%**
Total Aviation EBITDA	144	144	0.0%	500	500	0.0%	545	545	0.0%	565	565	0.0%
Total Manufacturing EBITDA	60	60	0.0%	174	174	0.0%	182	182	0.0%	202	202	0.0%
Adj. net income (diluted)	62	62	0.0%	152	152	0.0%	211	211	0.0%	218	218	0.0%
Adj. EPS (Diluted)	$1.22	$1.22	0.0%	$3.11	$3.11	0.0%	$4.19	$4.19	0.0%	$4.29	$4.29	0.0%
Consensus EBITDA		**187**			**622**			**693**			**730**	

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

James McGarragle (Analyst)

Sector Perform

TSX: AC CN; CAD 16.31

Price Target CAD 17.00

Key Statistics

Shares O/S (MM):	376.0	Market Cap (MM):	6,133
Dividend:	0.00	Yield:	0.0%
Float (MM):	375.3	Avg. Daily Volume:	3,163,571

RBC Estimates

FY Dec	2023A	2024E	2025E	2026E
Revenue	21,833.0	21,925.3	22,747.4	24,235.6
Prev.		22,120.0	23,197.7	24,718.0
EBITDA	3,982.0	3,115.1	3,112.9	3,535.5
Prev.		3,256.2	3,383.6	3,893.0

Revenue	Q1	Q2	Q3	Q4
2023	4,887.0A	5,427.0A	6,344.0A	5,175.0A
2024	5,226.0A	5,519.0E	6,052.3E	5,127.9E
Prev.			6,225.2E	5,149.8E
2025	5,427.4E	5,720.1E	6,281.8E	5,318.1E
Prev.	5,450.8E	5,772.4E	6,557.8E	5,416.7E
EBITDA				
2023	411.0A	1,220.0A	1,830.0A	521.0A
2024	453.0A	914.0E	1,274.6E	473.5E
Prev.			1,421.6E	467.6E
2025	465.1E	935.5E	1,311.1E	401.1E
Prev.	457.0E	955.9E	1,516.1E	454.6E

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

Valuation

Applying a 3.1x EV/EBITDA multiple to our 2026 estimates, we derive our price target of $17. 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 continues to 2025; 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:

1. **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.
2. **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.
3. **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.

Appendix I – AC Model Summary

C$MM	2022	2023	Q1/24	Q2/24	Q3/24E	Q4/24E	2024E	Q1/25E	Q2/25E	Q3/25E	Q4/25E	2025E	2026E	2027E
Traffic / RPM (MMs)	66,495	85,802	20,520	22,449	24,856	20,767	88,592	21,546	23,571	26,098	21,805	93,021	97,672	102,556
% change	216.0%	29.0%	10.5%	3.8%	-1.4%	1.8%	3.3%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Capacity / ASM (MMs)	82,558	99,012	24,337	26,203	28,902	25,172	104,614	25,797	27,775	30,636	26,683	110,891	117,544	123,725
% change	147.3%	19.9%	11.1%	6.5%	3.0%	3.0%	5.7%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	5.3%
Load Factor (%)	80.5%	86.7%	84.3%	85.7%	86.0%	82.5%	84.7%	83.5%	84.9%	85.2%	81.7%	83.9%	83.1%	82.9%
change (% pts)	17.5%	6.1%	-0.5%	-2.2%	-3.8%	-1.0%	-2.0%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.2%
Yield ($)	0.212	0.226	0.217	0.222	0.224	0.216	0.220	0.215	0.220	0.221	0.214	0.218	0.222	0.226
% change	-4.3%	6.4%	-1.4%	-2.2%	-4.0%	-3.0%	-2.7%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	2.0%	2.0%
RASM (Rev per unit of capacity, cents)	17.2	19.6	18.3	19.0	19.2	17.9	18.6	17.9	18.7	18.9	17.5	18.3	18.5	18.8
CASM (Costs per unit of capacity, cents)	20.3	19.7	21.4	19.3	18.1	20.3	19.7	21.1	18.8	17.7	20.2	19.4	19.3	19.3
Fuel Cost/ASM (cents)	6.4	5.4	5.2	5.1	5.2	4.9	5.1	4.7	4.6	4.8	4.8	4.7	4.5	4.3
CASM (excl. fuel, ground packages & freighter) (cents	13.2	13.5	14.8	13.5	12.6	14.7	13.9	15.0	13.6	12.6	14.7	13.9	14.1	14.2
Total Revenues	**16,556**	**21,833**	**5,226**	**5,519**	**6,052**	**5,128**	**21,925**	**5,427**	**5,720**	**6,282**	**5,318**	**22,747**	**24,236**	**25,827**
% change	158.7%	31.9%	6.9%	1.7%	-4.6%	-0.9%	0.4%	3.9%	3.6%	3.8%	3.7%	3.7%	6.5%	6.6%
Wages, salaries and benefits	3260	3955	1108	1071	1122	1190	4491	1221	1180	1236	1311	4947	5399	5783
% Sales	19.7%	18.1%	21.2%	19.4%	18.5%	23.2%	20.5%	22.5%	20.6%	19.7%	24.7%	21.7%	22.3%	22.4%
Aircraft Fuel - total	5276	5318	1254	1333	1494	1242	5323	1203	1290	1460	1268	5222	5250	5367
% Sales	31.9%	24.4%	24.0%	24.2%	24.7%	24.2%	24.3%	22.2%	22.6%	23.2%	23.8%	23.0%	21.7%	20.8%
Sales and distribution costs	797	1097	266	269	316	261	1112	282	285	335	276	1179	1249	1315
% Sales	4.8%	5.0%	5.1%	4.9%	5.2%	5.1%	5.1%	5.2%	5.0%	5.3%	5.2%	5.2%	5.2%	5.1%
Ground package costs	474	720	335	137	102	182	756	355	145	108	193	802	850	894
% Sales	2.9%	3.3%	6.4%	2.5%	1.7%	3.6%	3.4%	6.5%	2.5%	1.7%	3.6%	3.5%	3.5%	3.5%
Catering and onboard services	425	628	155	154	186	166	661	164	163	198	176	701	743	782
% Sales	2.6%	2.9%	3.0%	2.8%	3.1%	3.2%	3.0%	3.0%	2.9%	3.1%	3.3%	3.1%	3.1%	3.0%
Aircraft maintenance	706	1083	315	335	243	320	1213	334	355	258	340	1286	1363	1435
% Sales	4.3%	5.0%	6.0%	6.1%	4.0%	6.2%	5.5%	6.2%	6.2%	4.1%	6.4%	5.7%	5.6%	5.6%
Airport and navigation fees	1213	1418	348	372	404	361	1484	369	394	428	382	1573	1668	1755
% Sales	7.3%	6.5%	6.7%	6.7%	6.7%	7.0%	6.8%	6.8%	6.9%	6.8%	7.2%	6.9%	6.9%	6.8%
Communications and information technology	468	555	186	145	145	144	620	197	154	154	153	658	697	734
% Sales	2.8%	2.5%	3.6%	2.6%	2.4%	2.8%	2.8%	3.6%	2.7%	2.5%	2.9%	2.9%	2.9%	2.8%
Other	1717	2219	598	572	553	568	2291	621	593	574	589	2377	2532	2698
% Sales	10.4%	10.2%	11.4%	10.4%	9.1%	11.1%	10.4%	11.4%	10.4%	9.1%	11.1%	10.4%	10.4%	10.4%
Capacity purchase fees	763	858	208	217	212	221	858	216	225	220	229	890	948	1010
% Sales	4.6%	3.9%	4.0%	3.9%	3.5%	4.3%	3.9%	4.0%	3.9%	3.5%	4.3%	3.9%	3.9%	3.9%
Total Operating Costs	**15,099**	**17,851**	**4,773**	**4,605**	**4,778**	**4,654**	**18,810**	**4,962**	**4,785**	**4,971**	**4,917**	**19,635**	**20,700**	**21,773**
EBITDA	**1,457**	**3,982**	**453**	**914**	**1,275**	**474**	**3,115**	**465**	**935**	**1,311**	**401**	**3,113**	**3,535**	**4,054**
% of sales	8.8%	18.2%	8.7%	16.6%	21.1%	9.2%	14.2%	8.6%	16.4%	20.9%	7.5%	13.7%	14.6%	15.7%
Depreciation, amortization and impairment (Mainline	1,640	1,703	442	448	455	462	1,808	469	441	457	473	1,840	1,937	2,089
EBIT (Excluding Special Charges)	**(187)**	**2,279**	**11**	**466**	**819**	**11**	**1,307**	**(4)**	**495**	**854**	**(72)**	**1,273**	**1,598**	**1,965**
% of sales	-1.1%	10.4%	0.2%	8.4%	13.5%	0.2%	6.0%	-0.1%	8.7%	13.6%	-1.4%	5.6%	6.6%	7.6%
Net Income	**(1,700)**	**2,276**	**(96)**	**369**	**771**	**(73)**	**972**	**(50)**	**302**	**565**	**(106)**	**710**	**962**	**1,244**
EPS (F.D) ($) (Exc. Special charges)	**$ (4.24)**	**$ 6.03**	**$ (0.27)**	**$ 0.98**	**$ 2.05**	**$ (0.19)**	**$ 2.58**	**$ (0.13)**	**$ 0.80**	**$ 1.50**	**$ (0.28)**	**$ 1.89**	**$ 2.56**	**$ 3.31**
Net debt	**8,318**	**5,311**	**4,574**	**4,345**	**4,966**	**5,006**	**5,006**	**4,322**	**4,354**	**4,010**	**4,569**	**4,569**	**4,457**	**3,166**
Net debt/LTM EBITDA	**5.7x**	**1.3x**	**1.1x**	**1.2x**	**1.6x**	**1.6x**	**1.6x**	**1.4x**	**1.4x**	**1.3x**	**1.5x**	**1.5x**	**1.3x**	**0.8x**

Source: Company reports, RBC Capital Markets estimates

Bombardier Inc.

James McGarragle (Analyst)

Outperform

TSX: BBD/B CN; CAD 101.72

Price Target CAD 133.00

Key Statistics

Shares O/S (MM):	99.5	Market Cap (MM):	10,124
Dividend:	0.00	Yield:	0.0%
Float (MM):	2,227.5	Avg. Daily Volume:	507,524

Strategic Ownership: Bombardier/Beaudoin families Equity (11%); Voting (52%)

RBC Estimates

FY Dec	2023A	2024E	2025E	2026E
EPS, Ops Diluted	3.94	4.11	8.15	9.73
Prev.				10.00
P/E	19.1x	18.3x	9.2x	7.7x
CFPS Diluted	8.68	9.59	13.22	15.10
Prev.				15.37
P/CFPS	8.7x	7.9x	5.7x	5.0x
Revenue	8.0	8.5	9.2	9.5
Prev.				9.7
EBITDA, Adj	1,230.0	1,343.6	1,680.0	1,795.6
Prev.			1,679.7	1,822.6

EPS, Ops Diluted	Q1	Q2	Q3	Q4
2023	1.06A	0.72A	0.73A	1.37A
2024	0.36A	1.04A	0.52E	2.19E
2025	1.13E	1.65E	1.65E	3.72E
Prev.	1.14E	1.68E	1.77E	3.57E
CFPS Diluted				
2023	3.51A	0.97A	0.54A	3.75A
2024	1.40A	2.47A	1.53E	4.18E
2025	2.08E	2.73E	2.78E	5.63E
Prev.	2.09E	2.75E	2.90E	5.48E

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 7.1x to our 2026 EBITDA estimate of $1.8B to derive our $133 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 we 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.

Capital Markets

Appendix II – Bombardier Model Summary

Summary Income Statement (in US $MM's)	2022	2023	Q1/24	Q2/24	Q3/24E	Q4/24E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Aerospace Key Drivers													
Business Jet Deliveries	123	138	20	39	29	62	150	154	150	150	150	150	150
Delivery Growth	*2.5%*	*12.2%*	*-9.1%*	*34.5%*	*-6.5%*	*10.7%*	*8.7%*	*2.7%*	*-2.6%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Revenue													
Manufacturing	5,345	6,261	795	1,685	1,254	2,789	6,523	7,083	7,115	7,158	7,201	7,243	7,286
Services	1,508	1,748	477	507	497	506	1,987	2,106	2,232	2,366	2,508	2,659	2,818
Total Revenues	**6,913**	**8,046**	**1,281**	**2,203**	**1,751**	**3,295**	**8,530**	**9,189**	**9,548**	**9,824**	**10,209**	**10,602**	**11,104**
Revenue Growth	*13.6%*	*16.4%*	*-11.8%*	*31.5%*	*-5.7%*	*7.6%*	*6.0%*	*7.7%*	*3.9%*	*2.9%*	*3.9%*	*3.9%*	*4.7%*
Total EBITDA	**930**	**1,230**	**205**	**335**	**271**	**533**	**1,344**	**1,680**	**1,796**	**1,888**	**2,003**	**2,124**	**2,265**
EBITDA Margin %	*13.5%*	*15.3%*	*16.2%*	*14.1%*	*15.5%*	*16.2%*	*15.8%*	*18.3%*	*18.8%*	*19.2%*	*19.6%*	*20.0%*	*20.4%*
Total EBIT	512	799	142	216	179	343	879	1,207	1,293	1,369	1,464	1,562	1,681
EBIT Margin %	*7.4%*	*9.9%*	*11.1%*	*9.8%*	*10.2%*	*10.4%*	*10.3%*	*13.1%*	*13.5%*	*13.9%*	*14.3%*	*14.7%*	*15.1%*
Adj. Net Income (Loss) to Common	73	385	36	103	52	218	409	811	968	1,076	1,210	1,344	1,485
Adj. EPS	**$ 0.74**	**$ 3.94**	**$ 0.36**	**$ 1.04**	**$ 0.52**	**$ 2.19**	**$ 4.11**	**$ 8.15**	**$ 9.73**	**$ 10.81**	**$ 12.16**	**$ 13.51**	**$ 14.92**
CFPS $(Basic)	$ 1.93	$ 8.68	$ 1.40	$ 2.47	$ 1.53	$ 4.18	$ 9.59	$ 13.22	$ 15.10	$ 16.33	$ 17.89	$ 19.46	$ 21.10
Free Cash Flow	**$ 735**	**$ 257**	**$ (387)**	**$ (68)**	**$ (52)**	**$ 757**	**$ 250**	**$ 952**	**$ 1,078**	**$ 1,176**	**$ 1,281**	**$ 1,438**	**$ 1,601**
Net debt	4,689	4,013	4,425	4,534	4,594	3,845	3,845	2,925	1,854	710	(237)	(1,307)	(2,504)

Source: Company reports, RBC Capital Markets estimates

CAE Inc.

James McGarragle (Analyst)

Outperform

TSX: CAE CN; CAD 25.45; NYSE: CAE

Price Target CAD 27.00

Key Statistics

Shares O/S (MM):	318.8	Market Cap (MM):	8,114
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	980,285

RBC Estimates

FY Mar	2023A	2024A	2025E	2026E
Revenue	4,203.3	4,282.8	4,549.9	4,759.7
Prev.			4,554.0	
EPS, Adj Diluted	0.88	0.87	1.16	1.32
P/AEPS	29.0x	29.3x	21.9x	19.3x
EBITDA	890.3	918.4	1,092.6	1,170.8

Revenue	**Q1**	**Q2**	**Q3**	**Q4**
2023	933.3A	993.2A	1,020.3A	1,256.5A
2024	1,012.0A	1,050.0A	1,094.5A	1,126.3A
2025	1,072.5A	1,096.3E	1,155.1E	1,226.0E
Prev.		1,100.3E		
EPS, Adj Diluted				
2023	0.06A	0.19A	0.28A	0.35A
2024	0.24A	0.26A	0.24A	0.12A
2025	0.21A	0.19E	0.34E	0.42E
Prev.		0.20E		0.41E

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 9.7x on our FY26 EBITDA estimate of $1,171MM. Our 10.5x Civil multiple is in line with Aerospace and Defense peers, and our Defense multiple of 6x 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), as well as the continued recovery in travel and defense procurement. Based on relative returns to our $27 price target, we rate the shares Outperform.

Investment summary

Our positive investment thesis on 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

Appendix III – CAE Model Summary

CAE (C$MM unless otherwise indicated)	F2023	FQ1/24	FQ2/24	FQ3/24	FQ4/24	F2024	FQ1/25	FQ2/25E	FQ3/25E	FQ4/25E	F2025E	FQ1/26E	FQ2/26E	FQ3/26E	FQ4/26E	F2026E
SEGMENTED RESULTS																
CIVIL AVIATION																
Revenue	2,166.4	540.3	572.6	622.1	700.8	2,435.8	587.6	623.3	674.6	752.8	2,638.3	697.7	679.1	707.1	740.6	2,824.5
Adjusted Operating Income	485.3	119.0	114.3	124.2	191.4	548.9	106.4	106.0	168.7	202.7	583.7	132.6	129.0	180.3	196.3	638.2
Adjusted Operating Margin	*22.4%*	*22.0%*	*20.0%*	*20.0%*	*27.3%*	*22.5%*	*18.1%*	*17.0%*	*25.0%*	*26.9%*	*22.1%*	*19.0%*	*19.0%*	*25.5%*	*26.5%*	*22.6%*
DEFENSE & SECURITY																
Revenue	1,844.2	471.7	477.4	472.4	425.5	1,847.0	484.9	472.9	480.5	473.2	1,911.6	489.4	480.3	486.6	478.8	1,935.1
Adjusted Operating Income	53.1	24.3	21.3	20.9	(65.7)	0.8	27.8	28.4	30.8	30.8	117.7	32.8	32.2	32.6	32.1	129.7
Adjusted Operating Margin	*2.9%*	*5.2%*	*4.5%*	*4.4%*	*-15.4%*	*0.0%*	*5.7%*	*6.0%*	*6.4%*	*6.5%*	*6.2%*	*6.7%*	*6.7%*	*6.7%*	*6.7%*	*6.7%*
CONSOLIDATED RESULTS																
Revenue	**4,203.3**	**1,012.0**	**1,050.0**	**1,094.5**	**1,126.3**	**4,282.8**	**1,072.5**	**1,096.3**	**1,155.1**	**1,226.0**	**4,549.9**	**1,187.1**	**1,159.4**	**1,193.8**	**1,219.4**	**4,759.7**
y/y growth (%)	*24.7%*	*8.4%*	*5.7%*	*7.3%*	*-10.4%*	*1.9%*	*6.0%*	*4.4%*	*5.5%*	*8.9%*	*6.2%*	*10.7%*	*5.8%*	*3.3%*	*-0.5%*	*4.6%*
Expenses																
COGS	3,037.0	726.3	765.3	791.9	844.8	3,128.3	793.8	761.9	802.8	852.1	3,210.6	825.1	805.8	829.7	847.5	3,308.0
R&D	143.1	36.7	33.3	38.1	41.7	149.8	35.9	35.9	35.9	35.9	143.6	35.9	35.9	35.9	35.9	143.6
SG&A	560.9	123.7	132.3	140.9	138.1	535.0	133.5	133.5	133.5	133.5	534.0	133.5	133.5	133.5	133.5	534.0
Other Gains/Losses	(22.8)	(1.4)	(2.2)	(4.8)	36.3	27.9	(0.9)	(0.9)	(0.9)	(0.9)	(3.6)	(0.9)	(0.9)	(0.9)	(0.9)	(3.6)
After Tax share in profit of equity accounted in	(53.2)	(16.6)	(14.3)	(16.7)	(24.6)	(72.2)	(24.0)	(24.0)	(24.0)	(24.0)	(96.0)	(24.0)	(24.0)	(24.0)	(24.0)	(96.0)
Restructuring Cost/Other	64.3	15.0	37.9	23.5	623.0	699.4	25.6	55.5	8.4	(4.0)	85.6	52.2	47.9	6.7	(0.9)	105.9
Adj. Operating Income	**548.1**	**143.3**	**135.6**	**145.1**	**125.7**	**549.7**	**134.2**	**134.3**	**199.4**	**233.4**	**701.4**	**165.4**	**161.2**	**212.9**	**228.3**	**767.8**
Adjusted Operating Margin	13.0%	14.2%	12.9%	13.3%	11.2%	12.8%	12.5%	12.3%	17.3%	19.0%	15.4%	13.9%	13.9%	17.8%	18.7%	16.1%
y/y growth (%)	*23.3%*	*135.3%*	*8.7%*	*-9.7%*	*-37.7%*	*0.3%*	*-6.4%*	*-0.9%*	*37.4%*	*85.7%*	*27.6%*	*23.2%*	*20.0%*	*6.8%*	*-2.2%*	*9.5%*
Depreciation & Amortization	342.2	89.8	88.4	94.3	96.2	368.7	97.8	97.8	97.8	97.8	391.2	100.7	100.7	100.7	100.7	402.9
Adj. EBITDA	**890.3**	**233.1**	**224.0**	**239.4**	**221.9**	**918.4**	**232.0**	**232.1**	**297.2**	**331.2**	**1,092.6**	**266.1**	**261.9**	**313.7**	**329.1**	**1,170.8**
Adjusted EBITDA Margin	*21.2%*	*23.0%*	*21.3%*	*21.9%*	*19.7%*	*21.4%*	*21.6%*	*21.2%*	*25.7%*	*27.0%*	*24.0%*	*22.4%*	*22.6%*	*26.3%*	*27.0%*	*24.6%*
y/y growth (%)	*17.9%*	*62.4%*	*8.4%*	*-3.8%*	*-23.8%*	*3.2%*	*-0.5%*	*3.6%*	*24.1%*	*49.3%*	*19.0%*	*14.7%*	*12.8%*	*5.5%*	*-0.6%*	*7.2%*
Adj. Operating EPS	**$0.88**	**$0.24**	**$0.26**	**$0.24**	**$0.12**	**$0.87**	**$0.21**	**$0.19**	**$0.34**	**$0.42**	**$1.16**	**$0.27**	**$0.26**	**$0.38**	**$0.42**	**$1.32**
y/y growth (%)	*4.5%*	*324.9%*	*37.2%*	*-14.2%*	*-65.1%*	*-1.0%*	*-9.8%*	*-29.2%*	*41.9%*	*247.1%*	*33.9%*	*25.1%*	*36.6%*	*10.9%*	*-0.7%*	*13.4%*
Free Cash Flow (excl. dividends)	**335.7**	**(106.7)**	**144.6**	**190.0**	**191.1**	**418.2**	**(25.6)**	**17.0**	**253.7**	**280.9**	**526.0**	**60.0**	**40.7**	**242.5**	**256.8**	**600.0**
FCF conversion	120%	-142%	171%	248%	494%	151%	-38%	28%	233%	209%	142%	71%	50%	201%	192%	142%
Net Debt to EBITDA	**3.4x**	**3.2x**	**3.2x**	**3.1x**	**3.2x**	**3.2x**	**3.4x**	**3.5x**	**3.1x**	**2.6x**	**2.6x**	**2.6x**	**2.5x**	**2.3x**	**2.2x**	**2.2x**

Source: Company reports, RBC Capital Markets estimates

Chorus Aviation Inc.

James McGarragle (Analyst)

Outperform

TSX: CHR CN; CAD 2.86

Price Target CAD 3.25

Key Statistics

Shares O/S (MM):	197.8	Market Cap (MM):	566
Dividend:	0.00	Yield:	0.0%
Float (MM):	180.6	Avg. Daily Volume:	562,246

RBC Estimates

FY Dec	2023A	2024E	2025E	2026E
Revenue	1,681.1	1,480.8	1,400.9	1,380.3
EBITDA	458.7	252.9	182.1	151.8
EPS, Adj Diluted	0.30	0.14	0.27	0.23
P/AEPS	9.5x	20.4x	10.6x	12.4x

Revenue	Q1	Q2	Q3	Q4
2023	415.3A	396.8A	447.6A	421.5A
2024	426.2A	351.2A	347.1E	356.3E
2025	354.5E	348.5E	347.3E	350.7E
EBITDA				
2023	118.1A	110.7A	113.1A	116.7A
2024	109.1A	51.0A	45.8E	47.0E
2025	46.1E	45.3E	45.1E	45.6E

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 2026 EBITDA estimate which reflects deleveraging and continued growth in Voyageur. Our target multiple of 6x is in line with airline peers and we discount back one year at 8%. This results in our price target of $3.25, and we therefore rate the shares as Outperform.

Investment summary

1. **Regional Aircraft Leasing (RAL) sale to support deleveraging.** We expect Chorus to successfully execute on the sale of Falko 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. **Growth in regional aircraft services.** Post transaction, Chorus will focus on growing regional services in cargo, defense, flight training and parts across its Jazz, Voyageur, and Cygnet lines of business. Key is the sale of Falko greatly simplifies the capital structure thereby increasing flexibility to focus on these familiar growth avenues and shareholder returns, in our view.
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.

Risks to rating and price target

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.

RAL sale. We view the RAL sale as a meaningful positive. While we expect the deal to go through by the end of 2024, we would view the deal not going through as a negative.

Capital Markets

Appendix IV – CHR Model Summary

C$MM	2023	Q1/24	Q2/24	Q3/24E	Q4/24E	2024E	Q1/25E	Q2/25E	Q3/25E	Q4/25E	2025E	2026E
Income Statement												
Revenue	**1681.1**	**426.2**	**351.2**	**347.1**	**356.3**	**1480.8**	**354.5**	**348.5**	**347.3**	**350.7**	**1400.9**	**1380.3**
% change	**5.3%**	**2.6%**	**-11.5%**	**-22.5%**	**-15.5%**	**-11.9%**	**-16.8%**	**-0.8%**	**0.0%**	**-1.6%**	**-5.4%**	**-1.5%**
Airline Operations Total - RAS	1399	358	351	347	356	1413	354	348	347	351	1401	1380
Regional Aircraft Leasing - RAL	281	68	0	0	0	212	0	0	0	0	0	0
Total Operating Expenses	1,449	376	327	325	333	1,361	332	329	326	329	1,317	1,308
Operating Income	232	50	24	22	23	119	22	19	21	22	84	72
Adjusted EBITDA	**458.7**	**109.1**	**51.0**	**45.8**	**47.0**	**252.9**	**46.1**	**45.3**	**45.1**	**45.6**	**182.1**	**151.8**
% of sales	27.3%	25.6%	14.5%	13.2%	13.2%	17.1%	13.0%	13.0%	13.0%	13.0%	13.0%	11.0%
Adj. Net Income to Common shareholders	**58**	**12**	**2**	**1**	**13**	**28**	**14**	**12**	**14**	**14**	**54**	**46**
Adj. EPS (F.D) ($)	**$0.30**	**$0.06**	**$0.01**	**$0.00**	**$0.07**	**$0.14**	**$0.07**	**$0.06**	**$0.07**	**$0.07**	**$0.27**	**$0.23**

Source: Company reports, RBC Capital Markets estimates

Exchange Income Corporation

James McGarragle (Analyst)

Outperform

TSX: EIF CN; CAD 50.86

Price Target CAD 65.00

Key Statistics

Shares O/S (MM):	47.3	Market Cap (MM):	2,406
Dividend:	2.64	Yield:	5.2%
		Avg. Daily Volume:	136,250

RBC Estimates

FY Dec	2023A	2024E	2025E	2026E
Revenue	2,498.4	2,712.7	2,885.7	2,975.7
EBITDA, Adj	555.5	624.1	689.3	728.3
Free Cash Flow	201.8	197.0	231.3	260.0
FCF Yield	8.4%	8.2%	9.6%	10.8%

Revenue	Q1	Q2	Q3	Q4
2023	526.8A	627.2A	687.7A	656.7A
2024	601.8A	660.6A	744.5E	705.9E
2025	654.8E	714.8E	788.0E	728.1E
EBITDA, Adj				
2023	97.1A	147.0A	167.8A	143.6A
2024	111.1A	157.0A	190.5E	165.5E
2025	127.8E	178.8E	210.3E	172.3E

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 7.1x EV/EBITDA multiple (7.5x for Aviation & Aerospace and 6x for Manufacturing, ahead of aviation peers and in line with manufacturing) to our $728MM 2026E EBITDA, reflecting a valuation blend of ~74% Aviation & Aerospace and ~26% Manufacturing. We apply our target multiples to our 2026E EBITDA for each segment, 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 lease rates beginning to inflect. 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.

Capital Markets

Appendix V – EIF Model Summary

(CAD $000's unless otherwise indicated)	2022	2023	Q1/24	Q2/24	Q3/24E	Q4/24E	2024E	Q1/25E	Q2/25E	Q3/25E	Q4/25E	2025E	Q1/26E	Q2/26E	Q3/26E	Q4/26E	2026E
Segmented revenues																	
Aviation revenues	1,337,440	1,498,216	368,514	426,922	457,987	434,438	1,687,861	409,884	469,460	487,147	443,126	1,809,618	418,082	478,850	496,890	451,989	1,845,810
Manufacturing revenues	721,933	1,000,199	233,255	233,653	286,505	271,443	1,024,856	244,918	245,336	300,830	285,015	1,076,099	257,164	257,602	315,872	299,266	1,129,904
Segmented EBITDA																	
Aviation EBITDA	336,512	414,471	94,038	134,397	144,266	127,162	499,863	106,644	150,136	155,887	131,921	544,587	110,868	155,533	161,489	136,819	564,708
EBITDA Margin	25.2%	27.7%	25.5%	31.5%	31.5%	29.3%	29.6%	26.0%	32.0%	32.0%	29.8%	30.1%	26.5%	32.5%	32.5%	30.3%	30.6%
Manufacturing EBITDA	157,206	180,571	27,051	35,026	60,166	51,574	173,817	29,628	38,004	64,679	49,878	182,188	33,681	42,480	71,071	55,065	202,297
EBITDA Margin	*21.8%*	*18.1%*	*11.6%*	*15.0%*	*21.0%*	*19.0%*	*17.0%*	*12.1%*	*15.5%*	*21.5%*	*17.5%*	*16.9%*	*13.1%*	*16.5%*	*22.5%*	*18.4%*	*17.9%*
Revenues, Net	**2,059,373**	**2,498,415**	**601,769**	**660,575**	**744,492**	**705,881**	**2,712,717**	**654,802**	**714,796**	**787,977**	**728,142**	**2,885,717**	**675,246**	**736,452**	**812,761**	**751,255**	**2,975,714**
Revenue growth (Y/Y)	45.7%	21.3%	102.6%	5.3%	8.3%	7.5%	8.6%	8.8%	8.2%	5.8%	3.2%	6.4%	3.1%	3.0%	3.1%	3.2%	3.1%
Aviation expenses	**854,487**	**919,630**	**229,322**	**248,956**	**250,977**	**245,821**	**975,076**	**242,592**	**255,460**	**265,008**	**248,965**	**1,012,024**	**245,771**	**258,654**	**268,320**	**252,136**	**1,024,881**
Aviation expenses (% of sales)	41.5%	36.8%	38.1%	37.7%	33.7%	34.8%	35.9%	37.0%	35.7%	33.6%	34.2%	35.1%	36.4%	35.1%	33.0%	33.6%	34.4%
Manufacturing expenses	**493,833**	**718,469**	**178,569**	**173,980**	**192,388**	**186,889**	**731,826**	**182,996**	**176,232**	**200,729**	**199,867**	**759,824**	**189,960**	**182,854**	**208,081**	**207,571**	**788,465**
Manufacturing expenses (% of sales)	57.8%	78.1%	77.9%	69.9%	76.7%	76.0%	75.1%	75.4%	69.0%	75.7%	80.3%	75.1%	77.3%	70.7%	77.5%	82.3%	76.9%
Gross profit	**711,053**	**860,316**	**193,878**	**237,639**	**301,127**	**273,171**	**1,005,815**	**229,214**	**283,104**	**322,240**	**279,310**	**1,113,868**	**239,514**	**294,945**	**336,360**	**291,548**	**1,162,367**
Gross margin	34.5%	34.4%	32.2%	36.0%	40.4%	38.7%	37.1%	35.0%	39.6%	40.9%	38.4%	38.6%	35.5%	40.0%	41.4%	38.8%	39.1%
EBITDA	**449,595**	**548,707**	**109,746**	**155,801**	**190,481**	**165,509**	**621,537**	**127,760**	**178,847**	**210,322**	**172,332**	**689,261**	**135,771**	**188,439**	**221,994**	**182,118**	**728,321**
EBITDA Margin (%)	21.8%	22.0%	18.2%	23.6%	25.6%	23.4%	22.9%	19.5%	25.0%	26.7%	23.7%	23.9%	20.1%	25.6%	27.3%	24.2%	24.5%
EBITDA growth (Y/Y)	35.1%	22.0%	13.5%	7.9%	14.7%	17.0%	13.3%	16.4%	14.8%	10.4%	4.1%	10.9%	6.3%	5.4%	5.5%	5.7%	5.7%
Adj. EBITDA	**456,442**	**555,525**	**111,051**	**157,045**	**190,481**	**165,509**	**624,086**	**127,760**	**178,847**	**210,322**	**172,332**	**689,261**	**135,771**	**188,439**	**221,994**	**182,118**	**728,321**
Adj. EBITDA Margin (%)	22.2%	22.2%	18.5%	23.8%	25.6%	23.4%	23.0%	19.5%	25.0%	26.7%	23.7%	23.9%	20.1%	25.6%	27.3%	24.2%	24.5%
Adj. EBITDA growth (Y/Y)	38.4%	21.7%	14.3%	6.8%	13.6%	15.2%	12.3%	15.0%	13.9%	10.4%	4.1%	10.4%	6.3%	5.4%	5.5%	5.7%	5.7%
EBIT	**229,887**	**282,880**	**39,172**	**78,712**	**113,392**	**88,420**	**319,696**	**54,671**	**105,758**	**137,233**	**99,243**	**396,905**	**55,460**	**108,129**	**141,684**	**101,807**	**407,081**
Depreciation and Amort.	219,708	265,827	70,574	77,089	77,089	77,089	301,841	73,089	73,089	73,089	73,089	292,356	80,310	80,310	80,310	80,310	321,241
Interest Expense	78,418	119,787	31,799	33,751	33,785	33,818	133,153	31,764	31,812	31,843	31,875	127,293	31,906	31,953	31,985	32,016	127,860
Taxes	41,800	40,786	2,845	12,313	21,494	14,742	51,395	6,185	19,966	28,455	18,190	72,795	6,360	20,567	29,619	18,844	75,389
Adj. net income	**132,915**	**144,051**	**9,574**	**37,662**	**61,614**	**43,359**	**152,209**	**20,222**	**57,481**	**80,434**	**52,679**	**210,817**	**20,695**	**59,108**	**83,581**	**54,447**	**217,831**
Weighted average shares outstanding (diluted)	47,314	51,989	48,154	52,522	52,522	52,522	51,430	52,622	52,722	52,822	52,922	52,772	53,022	53,122	53,222	53,322	53,172
Adj. EPS (FD)	**3.13**	**3.07**	**0.20**	**0.77**	**1.22**	**0.87**	**3.11**	**0.43**	**1.14**	**1.57**	**1.04**	**4.19**	**0.44**	**1.16**	**1.62**	**1.07**	**4.29**
Cash flow from operations (CFO)	**335,119**	**353,226**	**50,977**	**40,529**	**137,203**	**118,948**	**347,657**	**91,811**	**130,070**	**152,023**	**124,268**	**498,173**	**99,505**	**138,918**	**162,391**	**133,258**	**534,072**
Changes in working capital	-21,217	-52,555	-19,085	-68,491	0	0	-87,576	0	0	0	0	0	0	0	0	0	0
FCF from operations (company definition)	**332,025**	**377,118**	**61,931**	**100,502**	**128,203**	**109,948**	**400,584**	**82,811**	**121,070**	**143,023**	**115,268**	**462,173**	**90,505**	**129,918**	**153,391**	**124,258**	**498,072**
Maintenance capital expenditures	155,921	175,291	39,338	48,180	59,559	56,470	203,548	52,384	57,184	63,038	58,251	230,857	54,020	58,916	65,021	60,100	238,057
Growth capital expenditures	125,416	303,044	39,326	44,800	80,613	79,068	243,807	25,000	25,000	25,000	25,000	100,000	25,000	25,000	25,000	25,000	100,000
FCF from operations less maintenance capex (company definit	**176,104**	**201,827**	**22,593**	**52,322**	**68,643**	**53,478**	**197,036**	**30,427**	**63,886**	**79,985**	**57,017**	**231,315**	**36,485**	**71,002**	**88,370**	**64,157**	**260,015**
FCF growth (Y/Y)	19.7%	14.6%	19.4%	-10.7%	-7.7%	7.0%	-2.4%	34.7%	22.1%	16.5%	6.6%	17.4%	19.9%	11.1%	10.5%	12.5%	12.4%
FCF / share	4.36	4.49	0.48	1.11	1.45	1.13	4.16	0.64	1.34	1.68	1.19	4.86	0.76	1.48	1.84	1.33	5.42
Adj.EBITDA conversion	38.6%	36.3%	20.3%	33.3%	36.0%	32.3%	31.6%	23.8%	35.7%	38.0%	33.1%	33.6%	26.9%	37.7%	39.8%	35.2%	35.7%
Dividend payout ratio (FCF less maintenance capex)	55.3%	56.8%	138.0%	59.8%	45.5%	58.4%	63.4%	108.1%	51.6%	41.3%	58.0%	57.0%	95.4%	49.1%	39.6%	54.6%	53.7%
Dividend payout ratio (FCF less total capex)	181.2%	-91.6%	-112.6%	-59.6%	-1052.5%	-188.4%	-125.3%	227.9%	68.8%	51.6%	80.7%	78.9%	170.0%	63.4%	48.3%	72.8%	71.3%
Net debt	1,638,571	1,903,012	1,993,443	2,098,745	2,134,965	2,184,805	2,184,805	2,180,261	2,143,326	2,089,361	2,058,434	2,058,434	2,049,766	2,007,654	1,947,247	1,911,125	1,911,125
Net debt/LTM EBITDA	**3.6x**	**3.4x**	**3.5x**	**3.6x**	**3.5x**	**3.5x**	**3.5x**	**3.4x**	**3.2x**	**3.1x**	**3.0x**	**3.0x**	**2.9x**	**2.8x**	**2.7x**	**2.6x**	**2.6x**
Net debt/LTM EBITDA (covenant metric, excl. converts)	**2.4x**	**2.4x**	**2.5x**	**2.7x**	**2.7x**	**2.7x**	**2.7x**	**2.6x**	**2.5x**	**2.3x**	**2.3x**	**2.3x**	**2.2x**	**2.1x**	**2.0x**	**2.0x**	**2.0x**

Source: Company reports, RBC Capital Markets estimates

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Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of the equity securities of Chorus Aviation Inc..

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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 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 Bombardier Inc., and more specifically, the facilities of Bombardier Inc., which includes but is not limited to mines, distribution centres, warehouses, production plants and/or other facilities related to the day-to-day operation of Bombardier Inc. as applicable.

Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

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.

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

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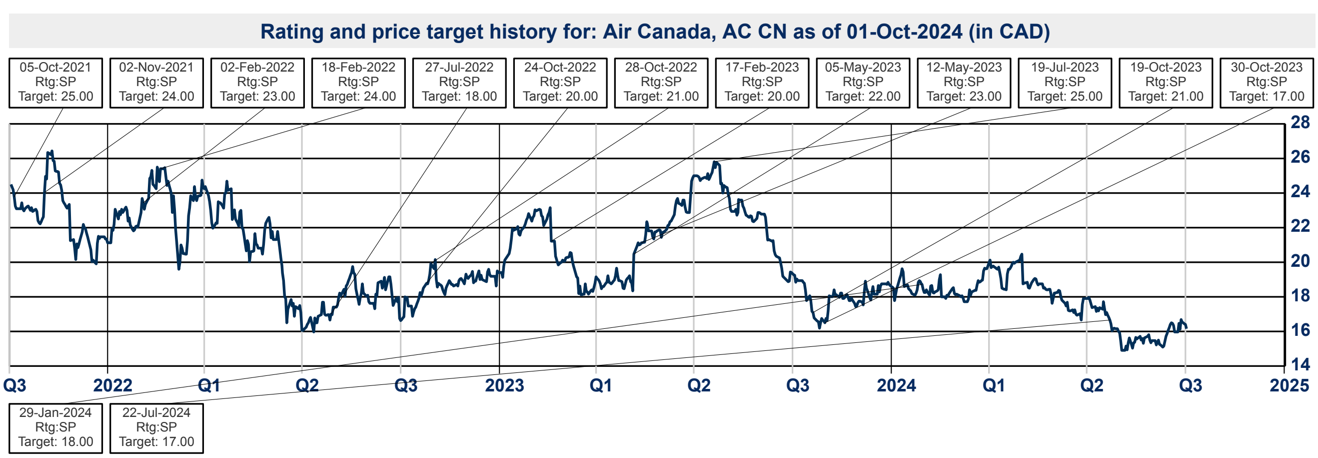
Distribution of ratings
RBC Capital Markets, Equity Research
As of 30-Sep-2024

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [Outperform]	858	57.39	290	33.80
HOLD [Sector Perform]	599	40.07	153	25.54
SELL [Underperform]	38	2.54	3	7.89



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Rating and price target history for: Exchange Income Corporation, EIF CN as of 01-Oct-2024 (in CAD)

Legend:
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Rating and price target history for: Chorus Aviation Inc., CHR CN as of 01-Oct-2024 (in CAD)

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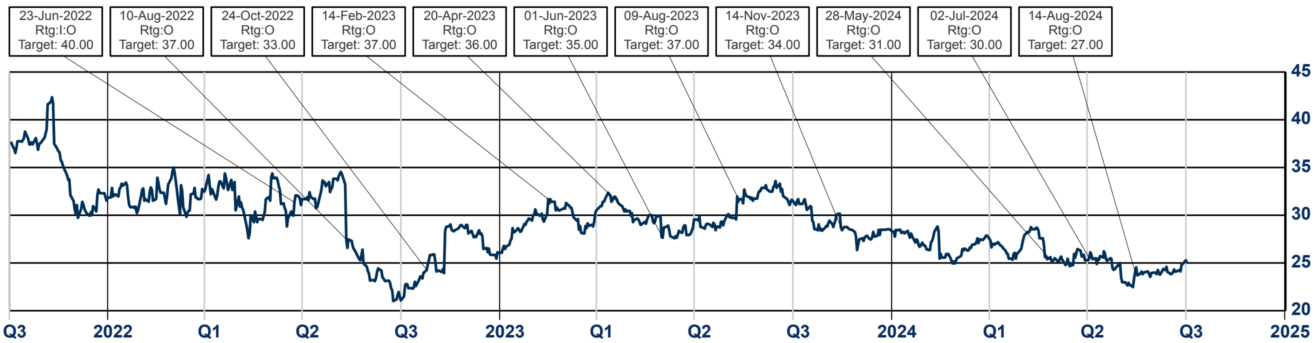
Rating and price target history for: CAE Inc., CAE CN as of 01-Oct-2024 (in CAD)



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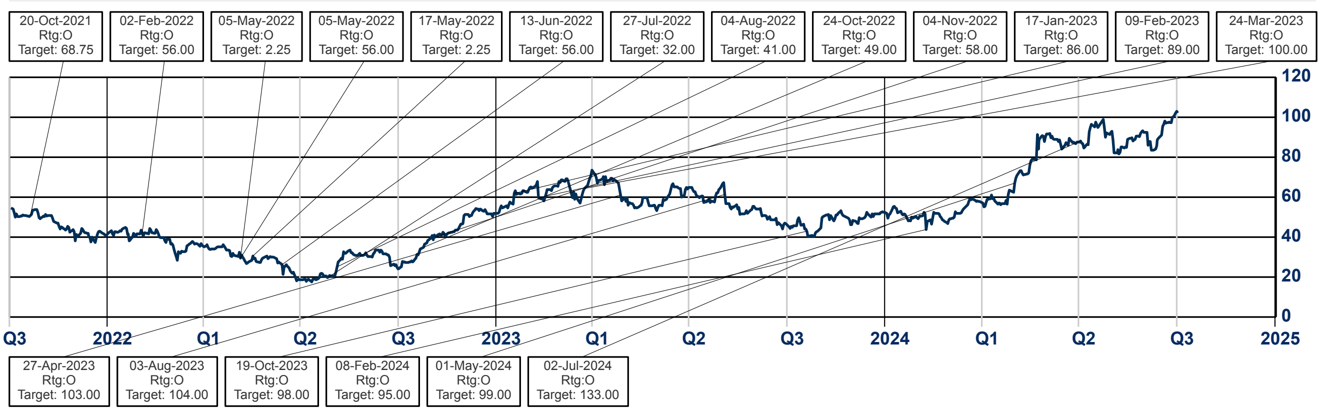
Rating and price target history for: Bombardier Inc., BBD/B CN as of 01-Oct-2024 (in CAD)



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References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12). 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 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 3.1x EV/EBITDA multiple to our 2026 estimates, we derive our price target of $17. 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 continues to 2025; 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 7.1x to our 2026 EBITDA estimate of $1.8B to derive our $133 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 9.7x on our FY26 EBITDA estimate of $1,171MM. Our 10.5x Civil multiple is in line with Aerospace and Defense peers, and our Defense multiple of 6x 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), as well as the continued recovery in travel and defense procurement. Based on relative returns to our $27 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 2026 EBITDA estimate which reflects deleveraging and continued growth in Voyageur. Our target multiple of 6x is in line with airline peers and we discount back one year at 8%. This results in our price target of $3.25, and we therefore rate the shares as Outperform.

Risks to rating and price target

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.

RAL sale. We view the RAL sale as a meaningful positive. While we expect the deal to go through by the end of 2024, we would view the deal not going through as a negative.

Exchange Income Corporation

Valuation

In valuing EIF, we apply a blended 7.1x EV/EBITDA multiple (7.5x for Aviation & Aerospace and 6x for Manufacturing, ahead of aviation peers and in line with manufacturing) to our $728MM 2026E EBITDA, reflecting a valuation blend of ~74% Aviation & Aerospace and ~26% Manufacturing. We apply our target multiples to our 2026E EBITDA for each segment, 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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