



March 14, 2017

RBC Flight Deck

Navigating within a profitable flight envelope

Airlines continue to manage towards sustainable profits. There continues to be a changing demand and competitive dynamic, with input costs (namely jet fuel) ever more variable. However, global airlines as a whole are looking at delivering another year of positive profits and returns in excess of their cost of capital. And yes, the underlying operating fundamentals are changing. However, airlines have become far more apt (and rational) in managing through these changes in the pursuit of delivering sustainable profits. We believe this dynamic is set to continue through 2017, setting the stage for an eventual lift in airline sector multiples, in our view.

Traffic trends remain positive. We continue to use industry peer data on a monthly basis as a gauge of overall traffic trends. On average, the early responders reported positive traffic growth for the month of February – albeit at a modestly slower rate than in January. However, North America airlines continue to manage capacity effectively, leading to fuller planes and higher load factors. For the month of February, WestJet reported traffic growth at 5.2% Y/Y (vs. our 5.5%), on capacity growth at 2.7% (vs. our 6%). This led to a very healthy load factor at 85.2% (up 200bp). Overall, we do see the positive traffic growth as indicative of a still strong air travel demand environment, which is a positive.

Fare trends remain supportive. Air Canada and WestJet are seeing fare pricing that is at or above our Q1/17 estimates (as per the RBC Fare Survey). We clearly saw a fare price lift in early January from WestJet, which was followed by more modest fare price increases by Air Canada. For WestJet, the RBC Fare Survey is pointing to fare price growth at +2.9% quarter-to-date. After adjusting down by 50bp to account for stage length changes, it implies a yield of +2.4% Y/Y, which compares to our current Q1/17 yield estimate at +2.5%. For Air Canada, the RBC Fare Survey is pointing towards flat fare growth at 0.1% quarter-to-date. After adjusting by 350bp to account for stage length changes, it points towards a yield decline of -3.4%, which compares to our current Q1/17 yield estimate at -5%.

In This Edition...

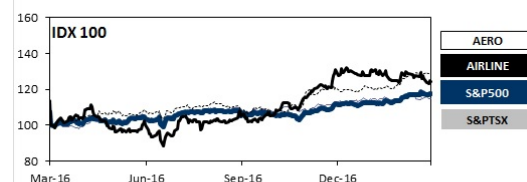
- **RBC Fare Tracker (p. 2):** Seeing positive fare growth, as per the RBC Fare Survey.
- **The Load Factor (p. 3):** Traffic demand remains robust.
- **The Bombardier New Order Heat Map (p. 4):** Looking for sales momentum as the C Series flies revenue generating routes.

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INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&PTSX	(1.3)	1.7	15.0	▼
S&P 500	1.9	6.0	17.3	△
AMEX Airline	(3.9)	(3.0)	24.2	▼
AMEX Aerospace	2.1	8.4	28.4	△



COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	(9.4)	(12.7)	8.2	▼
Jet Fuel	(11.4)	(10.5)	22.8	▼
CAD/USD	2.9	0.0	1.4	△

AEROSPACE				
Bombardier	(20.0)	(4.8)	78.0	▼
Boeing	6.4	14.8	43.4	△
EADS	6.2	11.3	16.3	△
Embraer	1.9	24.7	(3.9)	△
General Dynamics	2.5	10.8	41.2	△
Textron	(3.5)	(2.2)	40.0	▼
United Technologies	0.1	2.3	15.9	△

N.A. MAINLINE				
Air Canada	(4.4)	(2.4)	59.2	▼
AMR	(10.0)	(8.6)	0.5	▼
Delta	(5.3)	(3.6)	(0.6)	▼
United	(5.5)	(4.2)	19.6	▼

N.A. REGIONAL				
Alaska	(1.4)	8.9	19.6	▼
Allegiant	(9.2)	(4.7)	(6.7)	▼
Chorus Aviation	4.3	3.3	19.5	△
JetBlue	1.3	(10.3)	(0.3)	△
SkyWest	(0.7)	(3.2)	78.9	▼
Southwest	(1.6)	10.0	26.5	▼
WestJet	(1.3)	(3.8)	14.6	▼

INTL. AIRLINES				
Lufthansa	11.7	16.7	(4.4)	△
Air France/KLM	39.9	42.8	(13.3)	△
BA/Iberia	14.3	28.1	5.7	△
Cathay Pacific	(14.5)	(19.2)	45.7	▼
Air China	3.1	20.6	14.4	△
China Eastern	4.3	22.8	7.7	△
China Southern	4.4	24.1	1.0	△
Singapore Airlines	1.5	3.3	(12.0)	△
Qantas	14.1	16.5	(4.7)	△

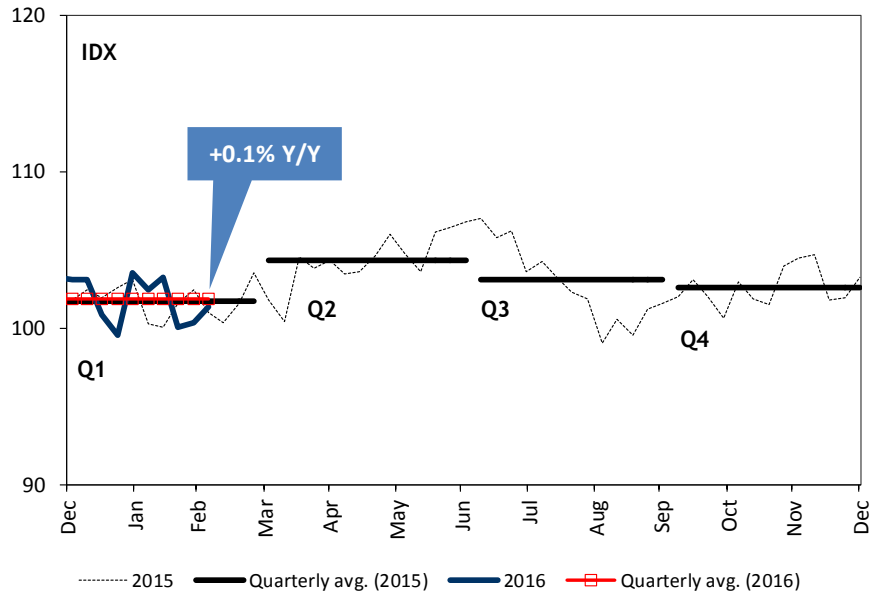
Source: Bloomberg

RBC Fare Survey

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

Air Canada

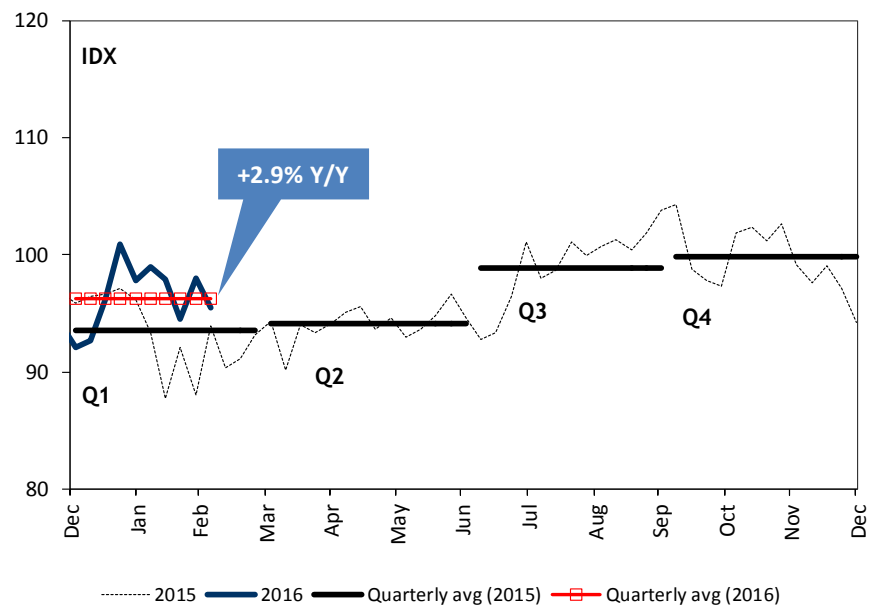
Air Canada is seeing fare price stabilization in the early parts of 2017, as compiled by the RBC Fare Survey. The RBC Fare Survey is pointing towards flat fare growth of +0.1% Y/Y quarter-to-date. After adjusting by 350bp to account for stage length changes, it points towards a yield decline of -3.4%, which compares to our current Q1/17 yield estimate at -5%.



Source: RBC Capital Markets estimates, Company websites

WestJet

We note that the RBC Fare Survey did pick up a nice lift in fares in January – which points to management's comments on the Q4/16 conference call that they had implemented a couple of fare increases to help offset higher jet fuel prices. The RBC Fare Survey is pointing to fare price growth at +2.9% quarter-to-date for WestJet. After adjusting down by 50bp to account for stage length changes, it implies a yield of +2.4% Y/Y, as compared to our current Q1/17 yield estimate at +2.5%.

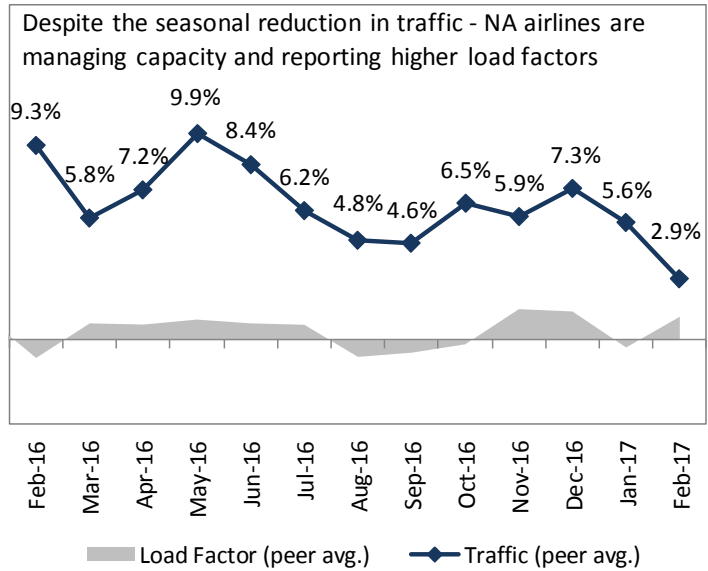


Source: RBC Capital Markets estimates, Company websites

The Load Factor

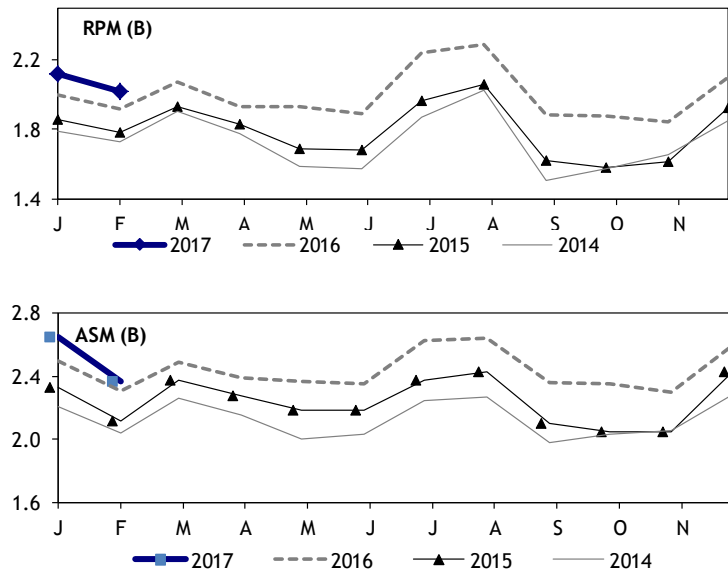
Industry trends

Air Canada no longer provides monthly traffic stats, and as such, we continue to use industry peer data. Our sample includes Delta, IAG, Ryanair, easyJet, Alaska, Norwegian, WestJet, and SouthWest. On average, the early responders reported still positive traffic growth – albeit at a slower rate. However, the NA airlines continue to manage capacity effectively, leading to fuller planes for the month of February.



WestJet

For the month of February, WestJet reported traffic growth at 5.2% Y/Y (vs. our 5.5%), on capacity growth at 2.7% (vs. our 6%). This led TO a very healthy load factor at 85.2% (up 200bp). Management did guide for 6% to 6.5% capacity growth in Q1/17 with fourth quarter results. As such, we believe there will be a significant capacity lift in March (with capacity growth in the first two months in the quarter coming in at 4.6%), which will likely temper the Q1/17 load factor before the quarter rounds out. Overall, we do see the continued strong traffic numbers indicative of a still strong air travel demand environment, which is a positive.











	February			QTD		
	2017	2016	Δ	2017	2016	Δ
RPMs (B)	2.019	1.919	+5.2%	4.141	3.917	+5.7%
ASMs (B)	2.370	2.308	+2.7%	5.023	4.803	+4.6%
Load Factor	85.2%	83.2%	2 pts	82.4%	81.5%	0.9 pts

Source: RBC Capital Markets estimates, Company websites

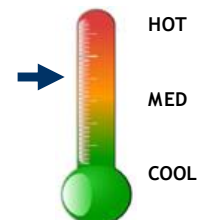
The Bombardier New Order Map

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

CUSTOMER	TYPE	SIZE / VALUE	TIMING / COMMENTS	HEAT
Multiple airlines	Commercial: CSeries	Potentially 50+ (~\$3.4B)	With eight airlines with Cseries' order commitments (at 200+ aircraft), BBD could announce several conversions to firm orders.	
Chinese Airlines	Commercial: CSeries	+20 potential order size (+\$1.4B)	BBD flew in the CS300 to Air Show China last month, which generated good interest. With two conditional orders, which includes CDB Leasing (five CS100s and ten CS300s) and Zhejiang Loong Airlines (LOI signed for 20 CS100s) we continue to look for these orders to convert, and potentially new ones in the region.	
Latin American Airlines	Commercial: CSeries	Uncertain	Bombardier is set to take the CSeries on a Latin American tour later this year. The plane is set to stop in every country from Mexico to Argentina – according to Bombardier executives.	
JetBlue	Commercial: CSeries	Uncertain	Following the Delta win, JetBlue has resumed talks with Bombardier. The CSeries may substitute E-190s for short-haul, high-frequency routes out of Boston.	
AtlasJet	Commercial: CSeries	LOI signed for 10 CS300 + 5 options	The LOI was signed November 2011. We expect this order to firm once in-flight data is compiled.	
SpiceJet	Regional: Q400	Up to 50	The carrier is looking to buy 50 additional regional jets and is in talks with Bombardier, ATR and Embraer about placing a large aircraft.	
CityJet	Commercial: CSeries	Uncertain	CityJet chose to take 15 Superjets over 12-year leases. A CSeries order is still possible, but timing has likely been pushed out.	
Delta Air Lines	Regional: CRJ900	Potentially 50+ (~\$2.3B)	Recent Union negotiations failed to secure scope-clause changes for 100-seat jets to be flown by regional airliners. Next opportunity will be in 2018.	

OVERALL HEAT GAUGE

We are maintaining the heat at more elevated levels. With the CSeries now on revenue generating flights, and as performance and dispatch reliability numbers come in, we believe there will be renewed interest in the CSeries. Bombardier management showed renewed vigor on the potential sales ramp following the Air Canada and Delta orders – highlighting interest from Chinese airlines, lessors, and low cost carriers.





Air Buzz

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

Bombardier

Narrow-bodies

- **Leasing opportunities.** According to an article in Flight Global, Bombardier continues to express confidence in the appeal of its CSeries to aircraft leasing companies, saying a lack of early CSeries leasing placements highlighted by a top aircraft lessor reflects Bombardier's early focus on sales directly to airlines. Three aircraft leasing companies have ordered 80 of the aircraft, but the largest lessors have so far avoided the 100-150 narrow-body aircraft family. Bombardier noted that they will look to expand leasing sales "when the time is right.", and "are convinced that the CSeries will prove to be a highly attractive alternative investment for lessors,". (Source: Flight Global, March 6)
- **Filling in the holes: Sixth CS100 delivered to SWISS.** Bombardier delivered the sixth CS100 aircraft to Swiss in March – the first CSeries since late December. In total, Bombardier delivered seven CSeries last year, and continues to insist it will meet a goal to deliver between 30 and 35 CSeries this year. But 2017 got off to a slow start, according to Flight Global. For one, Pratt & Whitney has suffered delays in deliveries of the CSeries' geared turbofan engine. Amid that bottleneck, Bombardier halted deliveries for the first two months of 2017 to refine its production system and upgrade the aircraft configuration. Bombardier has now delivered a total of eight CSeries aircraft; six CS100 to SWISS and two CS300 to airBaltic. (Source: Flight Global, March 5)

Regional Jet

- **Go small or go home.** There are growing expectations that there will be a boost in regional jet orders from China. Looking to improve access in smaller regional cities, China is seeking to establish a new policy aimed at encouraging fledgling carriers to boost domestic flights serving secondary markets, rather than focusing exclusively on big cities. These new rules are fueling hopes that regional jet makers will see a spike in orders next year, but local competition and doubts about size restrictions still loom as major obstacles. Industry experts peg the potential order upside of roughly 200 to 300 units, and while sizable, we believe the bulk (if enacted) will likely go to China's homegrown aircraft OEMs. (Source: Business Insiders, December 17)

Business Aviation

- **Going global.** Bombardier announced that the Global 7000/8000 aircraft program's second flight test vehicle (FTV2) completed its initial flight. Management further confirmed that the program's development is progressing well and that the Global 7000 aircraft is on track to enter into service in the second half of 2018. FTV2, named, "The Powerhouse," is designed to test aircraft systems, including propulsion, electrical and mechanical systems, all of which were fully functional during the 4 hour, 28 minute flight. (Source: Bombardier, March 6)
- **Trump will help - but inventory needs to come down further.** There are growing expectations that an improving US economy (and higher stock markets) will help buoy new bizjet sales in 2017/2018. And while it should no question help, the issue of high inventory levels remain and continues to pressure pricing. JetNet reported 2,315 used bizjets for sale at the end of 2016, which is lower than the 2,782 reported in 2009, but still far above the 1,635 reported in 2007. The average transaction price fell by ~8% Y/Y in 2016 and the residual discount on a 3 year old bizjet remains north of 40%.. (Source: JetNet, February 6)



CAE

Civil

- **Passenger demand growth hits five-year peak in January:** The International Air Transport Association (IATA) announced global passenger traffic results for January 2017 showing demand (in RPKs) rose 9.6% from the year prior, the strongest increase in more than five years. 2017 is off to a very strong start, with demand at its highest since 2011. The strength is supported by a rebound in the global economic cycle and a recovery from the aftermath of terrorism and political events seen in early 2016. The news is supportive of our forecasted long term growth trends in Air Traffic. (IATA, Mar 7, 2017)
- **L3 awarded \$115MM contract to provide 11 FFS and training equipment:** L3 Technologies announced that it has been awarded a contract valued at \$115MM+ to provide 11 full flight simulators and auxiliary training equipment. The contract was awarded by HNA Group's Hainan Sky Plumage Flight Training Co., Ltd, and is expected to be delivered over the next 18 months. This business award follows arrangements for three Airbus A320 FFS and one Boeing 787 FFS to be delivered in the second quarter of 2017 to HNA Group. The 11 FFS includes five Airbus A320s, two Airbus A330s, two Boeing 737 NGs and one Boeing 737 Max. (L3 Technologies, Mar 9, 2017)

Military

- **Trump reiterates plan to rebuild military.** At his address to Congress on Feb 28, President Trump reiterated his plan to rebuild military capabilities and eliminate the sequester cap. His preview of his FY18 budget (\$603bn in defense spending) is \$54bn (+10%) above the sequester limit, and ~3% increase from Obama budget levels. RBC forecasts ~3.6% CAGR in US defense spending through 2021; we believe any upside to the defense budget should positively impact the military segment's revenues. In February 2017, CAE's CEO Marc Parent noted that "the military business will be a growth business for years to come. For the first time since the Cold War, you have a level of global uncertainty that's going to drive an increase in defense expenditures pretty much everywhere we see. For us, it stimulates more potential for bids". (Bloomberg, RBCCM, Feb 2017)
- **Military Simulation Training Market projected to grow at ~2.9% through 2026E, to US\$17.7bn by 2026.** Orbis research, in its forecast for the Global Military Simulation and Virtual training market, suggests that the Military S&T market is currently valued at US\$13.3bn, and is projected to grow at a CAGR of 2.9% through the 2016-2026E period, to US\$17.7bn by 2026. Current data suggests flight simulators will account for 59% of the global military simulation market, followed by maritime and combat simulators with shares of 21% and 20%, respectively. The sector is dominated by spending in North America, accounting for 36.4% of the market, followed by Europe and Asia Pacific, with 25.4% and 25.2%, respectively. In FQ3/17, CAE reported ~36% of revenues in the military segment, and ~47% of revenues in North America. (Orbis Research, CAE, Feb 2017)



The Landing Strip

ERA Regional Airline Conference

When: March 29-30

Where: Copenhagen, Denmark

What: Annual conference put on by the European Regions Airline Association (ERA), a non-profit trade association representing almost 200 companies involved in European air transport, including airlines, airframe and engine manufacturers, airports, suppliers and service providers from all over Europe.

The Buzz: High level executives from airlines, airports, and suppliers are set to convene over a two-day period to discuss all things air travel. Sessions include topics ranging from a focus on aviation security to the impact of the airline industry on the environment. Bombardier will be present; however, outside of further relationship building, we do not expect a direct order to be negotiated at this conference.



Appendix 1: Airline Comparables

Symbol	13-Mar-17		EV/EBITDAR				EV/Sales				EBITDAR Margin				2018E	Net Debt to	
	Price		2015	2016E	2017E	2018E	2015	2016E	2017E	2018E	2015	2016E	2017E	2018E	FCF yield	EBITDAR	
Discount Airlines																	
WestJet	WJA-CA	C\$	\$22.12	4.8x	4.9x	5.4x	5.0x	1.2x	1.2x	1.1x	1.0x	25%	24%	21%	21%	4.7%	1.9x
Southwest	LUV-US	US\$	\$54.96	6.8x	6.6x	6.6x	5.9x	1.8x	1.8x	1.7x	1.6x	27%	27%	26%	27%	7.3%	0.4x
JetBlue	JBLU-US	US\$	\$20.12	5.1x	4.5x	5.1x	4.8x	1.4x	1.4x	1.3x	1.2x	28%	31%	25%	24%	9.1%	1.3x
Discount Average				5.6x	5.4x	5.8x	5.3x	1.5x	1.4x	1.4x	1.3x	27%	27%	24%	24%	7.0%	0.8x
Mainline Airlines																	
Air Canada	AC-CA	C\$	\$13.32	4.2x	3.8x	4.2x	3.7x	0.8x	0.7x	0.7x	0.7x	18%	19%	17%	18%	12.8%	2.4x
Delta Air Lines	DAL-US	US\$	\$47.41	4.6x	4.5x	4.8x	4.6x	1.0x	1.0x	1.0x	1.0x	21%	22%	20%	21%	10.6%	0.6x
United Continental	UAL-US	US\$	\$69.81	4.3x	4.1x	4.7x	4.4x	0.9x	0.9x	0.9x	0.9x	21%	23%	19%	20%	9.1%	1.6x
American Airlines	AAL-US	US\$	\$42.80	4.8x	4.6x	5.5x	5.2x	1.1x	1.1x	1.0x	1.0x	22%	23%	19%	19%	9.8%	2.6x
Mainline Average				4.5x	4.3x	4.8x	4.5x	0.9x	0.9x	0.9x	0.9x	21%	22%	19%	19%	10.6%	1.6x
Regional Airlines																	
Chorus Aviation	CHR-CA	C\$	\$7.46	7.6x	7.3x	6.7x	6.3x	1.5x	1.9x	1.8x	1.8x	20%	25%	27%	28%	12.5%	4.0x
SkyWest Inc.	SKYW-US	US\$	\$35.23	5.5x	5.8x	5.2x	5.8x	2.0x	1.9x	1.9x	1.9x	36%	34%	37%	33%	14.1%	4.1x
Regional Average				6.6x	6.6x	5.9x	6.1x	1.7x	1.9x	1.9x	1.9x	28%	29%	32%	31%	13.3%	4.1x
Airline Average				5.3x	5.1x	5.4x	5.1x	1.3x	1.3x	1.3x	1.2x	24%	25%	23%	23%	10.0%	2.1x

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada, Chorus Aviation, and WestJet. Priced at 3:35pm on March 13, 2017



Appendix 2: Aerospace Comparables

Company	Exch: Ticker	13-Mar Price	CY EPS ⁽¹⁾				CY PER				CY EV/EBITDA ⁽¹⁾				Mkt Cap B	
			2015	2016E	2017E	2018E	2015	2016E	2017E	2018E	2015	2016E	2017E	2018E		
Aerospace																
Boeing**	NYSE:BA	US\$	\$178.99	\$7.72	\$7.24	\$9.28	\$10.12	23.1x	24.7x	19.2x	17.6x	11.6x	14.2x	9.8x	9.3x	\$109.6
Embraer*	NYSE: ERJ	US\$	\$23.97	\$1.48	\$1.58	\$1.45	\$1.53	16.1x	15.1x	16.5x	15.6x	7.1x	6.4x	6.4x	6.1x	\$4.4
General Dynamics**	NYSE: GD	US\$	\$191.48	\$9.08	\$8.64	\$9.74	\$10.54	21.0x	22.0x	19.5x	18.1x	12.7x	14.1x	12.6x	11.8x	\$58.0
Textron	NYSE: TXT	US\$	\$47.43	\$2.50	\$2.62	\$2.62	\$3.01	19.0x	18.1x	18.1x	15.8x	9.8x	9.8x	9.5x	8.6x	\$12.8
Average								19.8x	20.0x	18.4x	16.8x	10.3x	11.1x	9.6x	9.0x	
Transportation & Conglomerates																
Siemens	XE: SIE	EUR	122.90	6.17	6.93	8.01	8.52	19.9x	17.7x	15.3x	14.4x	13.8x	12.2x	10.7x	10.1x	\$104.5
General Electric	NYSE: GE	US\$	\$29.84	\$1.31	\$1.49	\$1.63	\$1.90	22.8x	20.0x	18.3x	15.7x	17.5x	19.2x	16.9x	15.6x	\$260.3
United Technologies	NYSE: UTX	US\$	\$112.15	\$6.30	\$6.61	\$6.54	\$7.03	17.8x	17.0x	17.1x	16.0x	9.6x	10.1x	10.1x	9.6x	\$90.4
Average								20.2x	18.2x	16.9x	15.4x	13.7x	13.8x	12.6x	11.8x	
Aerospace Multiples								19.8x	20.0x	18.4x	16.8x	10.3x	11.1x	9.6x	9.0x	
Transportation Multiples (ex. GE, UTX)								19.9x	17.7x	15.3x	14.4x	13.8x	12.2x	10.7x	10.1x	
Average								19.9x	18.9x	16.8x	15.6x	12.0x	11.7x	10.2x	9.5x	
Bombardier	TSX: BBD.B	C\$	\$2.04	\$0.16	-\$0.15	\$0.00	\$0.08	9.4x	nmf	nmf	19.4x	10.6x	13.1x	10.6x	7.8x	\$4.5

* Covered by RBC Dominion Securities, Industrials analyst Derek Spronck

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

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

Sources: Company reports, FactSet, and RBC Capital Markets estimates. Priced at 3:35pm on March 13, 2017



Companies mentioned

Air Canada (TSX: AC CN; C\$13.35; Top Pick; Speculative Risk)
 Bombardier Inc. (TSX: BDB.TO; C\$2.04; Outperform; Speculative Risk)
 CAE Inc. (TSX: CAE.TO; C\$20.14; Sector Perform)
 Chorus Aviation Inc. (TSX: CHR.TO; C\$7.47; Outperform)
 Embraer S.A. (NYSE: ERJ; \$23.96; Sector Perform)
 WestJet Airlines Ltd. (TSX: WJA.TO; C\$22.29; Sector Perform)

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			Count	Percent
BUY [Top Pick & Outperform]	824	51.38	289	35.07
HOLD [Sector Perform]	676	42.14	141	20.86
SELL [Underperform]	104	6.48	11	10.58

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