



Now's the Time to Own BRP Inc.

Description

It's been three years since Canada's **BRP Inc.** (TSX:BRP) went public at \$21.50 per share. The founding Beaudoin and Bombardier families, along with Bain Capital, originally bought the recreational products company in December 2003 for \$998 million; the IPO, which saw it sell 12.2 million shares to the public on May 29, 2013, valued it at \$2.2 billion. Today, despite approximately 10 million additional shares outstanding, its market cap is \$100 million less.

BRP's been a good, if not spectacular, investment for Bain Capital.

Bain Capital contributed \$310 million in cash to buy 48% of the company and has already received approximately \$254 million in dividends paid out immediately prior to the IPO, along with \$377 million from an October 2013 secondary offering as well as the over-allotment the following January. It still holds 31.7 million shares, representing 37.4% of the votes outstanding and valued at \$623 million as of June 27.

Together, that translates into an annualized return of 11.8%, about 470 basis points better than the **iShares S&P/TSX Capped Composite Index Fund**.

Why are they still holding? Clearly, it sees DOO stock being worth more than where it's been trading for most of the past year, which is below \$20, hitting a low of \$13.87 in February. Since then it's managed to claw its way back and, despite two horrendous days of trading for the broader markets caused by the U.K. leaving the E.U., its stock's only lost about 7% of its value on lower-than-average volume.

That tells me that other investors, not just Bain, feel BRP's bottom isn't too far from \$20. And remember, that's still lower than its IPO pricing. Anyone who bought back then and is still holding should continue to do so.

Here are three reasons to hang in there.

Reason one

BRP is actually doing a good job growing its business. In the first quarter ended April 30, it grew the top line by 3.5% year over year to \$930 million. Its North American Powersports retail sales, which includes its legacy snowmobile business, increased 14% in Q1 2016 compared to 3% for the industry as a whole. In fact, Ski-Doo, its snowmobile brand, achieved its highest market share ever during the quarter, taking three percentage points from its competitors.

Reason two

Internationally, with the exception of Latin America, BRP's growth outside Canada and the United States was very strong in the first quarter, up 17% year over year to \$297.1 million. In Australia and New Zealand it saw 26% retail growth in Q1 2016 from two products: the 300 horsepower versions of its personal watercraft offerings and its Can-Am all-terrain vehicles.

BRP's products have become so popular that I've even seen a couple of its Can-Am Roadster three-wheeled motorcycles driving around my neighbourhood in midtown Toronto.

Reason three

BRP is starting to make headway in the side-by-side vehicle (SSV) market, where it saw 20% retail growth thanks in large part to the launch of Defender, its utility SSV. The company intends to launch a new SSV every six months for the next four years, hoping that by introducing as many as 10 new vehicles into the marketplace, it will gain additional market share in a very competitive arena.

Bottom line

BRP expects normalized earnings per share in fiscal 2017 to be at least \$1.79 per share, perhaps as high as \$1.89 if business continues to look up in all four of its segments: seasonal (Ski-Doo and Sea-Doo), year round (Can-Am ATVs and SSVs and Can-Am Roadsters), propulsion (Evinrude and Rotax engines), and parts and accessories.

Currently, its enterprise value is \$26.76 on a per-share basis. Management expects its normalized EBITDA in fiscal 2017 to grow 10% over the \$460 million from fiscal 2016, which would be \$4.40 per share. That's an enterprise value of 6.1 times normalized EBITDA, less than the seven times EBITDA investors are willing to pay for **Polaris Industries Inc.**

I wouldn't bet the farm on BRP, but if you use any of their products and like them, it might not be a bad little wager—but only a tiny one.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOO (BRP Inc.)

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Date

2025/08/18

Date Created

2016/06/28

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