



Forget Bombardier, Inc.: BRP Inc. Is the Better Buy

Description

Do you remember the TV series, *The A-Team*?

If you're over the age of 50, you probably do, and those younger probably know it because of the 2010 movie based on the original characters.

Anyway, the leader of the A-Team, Colonel John "Hannibal" Smith, played in the TV series by actor George Peppard, would always say, "I love it when a plan comes together" after a successful rescue or gun battle was over.

That's how I feel reading the third-quarter earnings report for the Bombardier/Beaudoin family's other company: **BRP Inc.** ([TSX:DOO](#)), makers of Ski-Doo snowmobiles, Sea-Doo personal watercraft, and Can-Am all-terrain vehicles.

At the end of June, I [recommended](#) investors buy DOO stock because I felt it was cheap and BRP's business was growing—a wonderful combination that doesn't appear much these days given the frothy stock markets.

It's up 47% since June 28, and I think BRP is just getting going. If you're looking for a good long-term hold, forget about its better known sibling **Bombardier, Inc.** ([TSX:BBD.B](#)), and throw that money into DOO stock.

Five years from now, I'm confident you'll be glad you did. Here's are some metrics from the quarter:

- Revenues in Q3 2017 grew 6.9% year over year to \$1.1 billion.
- Gross margins were 28.4%—400 basis points than in the same quarter a year earlier.
- Normalized EBITDA increased 39.2% to \$197 million, or 18.2% of revenue.
- Normalized diluted earnings per share were \$0.93—50% higher year over year.
- Its year-round products (ATVs, SSVs) increased 47.6% to \$123.8 million.
- Its personal watercraft business achieved high-single-digit growth in North America, capturing record market share.
- Through the first nine months of fiscal 2017, it generated free cash flow of \$66.4 million—a \$98.4

million difference from the same nine-month period last year.

- For those unsure about the strength of the U.S. economy (no thanks to Mr. Trump), BRP's U.S. sales increased 21% in the ninth-month period ended October 31, 2016.
- Canadian revenue declined 10% in the same period, and international sales were flat. U.S. revenues exceeded Canadian and international revenues combined—always a good trend.
- For the first nine months of the fiscal year, revenue for its year-round products exceeded its seasonal products, setting its overall business on solid ground.

“I am proud of our excellent third-quarter results for fiscal 2017. We are on track with our plan despite the global context of political and economic uncertainties and a competitive market,” said José Boisjoli, president and CEO. “I believe that our product, geographic and manufacturing diversification continues to place BRP in a favourable position to achieve our objectives.”

What exactly are those objectives?

Long term, it's looking to make BRP a more efficient and nimble organization. Included in those plans are the acceleration of its Can-Am growth combined with state-of-the-art R&D to deliver future products that its customer base demands.

By improving its supply chain and introducing cutting-edge technologies to build better products at lower costs, its initial results are encouraging.

Two years ago, it set in place a goal of 10% compound annual revenue growth and 15% normalized compound annual EPS growth over the next seven years. While it hasn't met those numbers just yet, the fact that BRP has upped its revenue and earnings-per-share guidance for fiscal 2017 by a considerable amount suggests its business is gaining tremendous momentum.

Do I think BRP's stock will gain 46% over the next six months like it did in the past six? No, I don't, but I do think it could do so by the end of 2017.

Things are setting up nicely for DOO. Hop on board!

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)
2. TSX:DOO (BRP Inc.)

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Date

2025/08/26

Date Created

2016/12/14

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