BRP Inc.: Ride the Bombardier Family’s Original Business to Profits

Description

Bombardier, Inc. (TSX:BBD.B) has received a lot of bad press recently because of excessive compensation to its top executives, including Executive Chairman Pierre Beaudoin, whose family, along with the Bombardiers, hold a majority of the company’s voting shares through a dual-class share structure.

The Bombardier family’s original business, **BRP Inc.** (TSX:DOO) — makers of Ski-Doo snowmobiles, Sea-Doo personal watercraft and ATVs — was originally spun off to separate the consumer products business from its more institutional, government-supported trains and planes operation.

Bain Capital, Mitt Romney’s old private equity firm and the same people behind **Canada Goose**, along with the Bombardier family and Caisse de dépôt et placement du Québec, paid $960 million in December 2003 to buy it from Bombardier.

Eventually, BRP went public in 2013 at $21.50 per share, and while it’s had rough ride since its IPO hit a low of $13.87 in February 2016, it’s delivered some stellar earnings in recent quarters, sending its stock price flying.

Up 9.7% year to date and 54% since I recommended DOO stock last June, its fourth-quarter earnings report on March 24 suggests it will continue to outperform its former stablemate in the months ahead.

BRP is a much more stable investment than Bombardier.

While it’s easy to jump to conclusions about why this is simply by looking at their respective share prices — $30.70 and market cap of $3.4 billion for DOO versus $2.06 and a market cap of $4.7 billion for BBD.B — the reality is, it has everything to do with BRP’s profitability.

Bombardier’s in the middle of a contentious turnaround, while BRP is firing on all cylinders. Life is about choices; right now, DOO is the better one. Here’s why:

- Revenues grew 17.7% in Q4 2017 to $1.3 billion and 8.9% in fiscal 2017 to $4.2 billion, both company records.

- Earnings in the fourth quarter grew 33% to $1 per share; on an annual basis, earnings per share grew 15% to $1.96.
- Gross margin for fiscal 2017 increased 30 basis points to 24.2%.
- Its year-round products, which include ATVs and side-by-sides (SSVs), have seen revenues increase by 25.3% over the past two years to $1.6 billion.
- Seasonal products (Ski-Doo and Sea-Doo) increased by 14.4% over the same period to $1.5 billion providing a very balanced product mix.

"We have completed a record quarter and a record year in difficult market conditions, and I firmly believe that our success is largely due to the quality of our team, and the diversification of our product offering, geographic sales and manufacturing footprint," said BRP president and CEO José Boisjoli. "I remain convinced that our focus on our strategic priorities is key to achieving our objectives and delivering our FY18 guidance."

What is that fiscal 2018 guidance?

The guidance is revenue growth of as much as 6% year over year, normalized earnings per share as high as $2.27 per share, a 16% increase, and capital expenditures as high as $230 million, 23% higher than in fiscal 2017.

Bottom line, DOO stock is currently trading at 13.5 times earnings, or about 25% less than the **S&P/TSX Composite Index**.

It's been on a quite run since the summer, but I expect that to continue given its reasonable valuation. The only fly in the ointment? Trump's border tax. However, BRP has a plan to shift production from Mexico should it go ahead. BRP is ready.

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