
# Bombardier, Inc. vs. BRP Inc.: DOO Is Still the Better Buy

## Description

**BRP Inc.** (TSX:DOO), the iconic Canadian brand that manufactures both the Ski Doo and Sea Doo recreational transportation products, is majority owned by the same family behind **Bombardier, Inc.** ( TSX:BBD.B).



Laurent Beaudoin is chairman of BRP. His son, Pierre Beaudoin, was Bombardier's executive chairman until the end of June, when he stepped down from his executive position as a result of governance issues facing the company. He remains non-executive chairman of the plane and train manufacturer.

### A first recommendation

In June 2016, I recommended that investors buy BRP stock.

My rationale centred around the fact that Bain Capital was still hanging on to its stock more than four years after taking BRP public in May 2013.

No private equity firm hangs in there four years after an exit has been arranged if the price of the stock is anywhere near its intrinsic value. That told me DOO was a good value play.

### A second recommendation

Six months later, I suggested investors forget about Bombardier — the flashier of the Beaudoin/Bombardier family interests — and buy DOO, because it was the better stock.

Now, it's important to remember that I was doubling down on BRP, despite the fact its stock was up 47% since I'd recommended it that June.

I was confident that the work BRP was undertaking to produce better products at lower costs was progressing as planned and that would ultimately be reflected in a higher stock price.

“Do I think BRP’s stock will gain 46% over the next six months like it did in the past six?” I wrote on December 14, 2016. “No, I don’t, but I do think it could do so by the end of 2017.”

As I write this, DOO is up more than 2% on the day, and 40.6% in 2017 — within shouting distance of 46%.

**A third recommendation**

In April of this year, I suggested that DOO stock was still cheap.

“The guidance [2018] 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,” I wrote April 7, 2017. “Bottom line, DOO stock is currently trading at 13.5 times earnings, or about 25% less than the **S&P/TSX Composite Index**.”

In case you haven’t noticed, I really like its stock.

**The devil’s advocate**

This article wouldn’t be balanced if I didn’t mention the risks associated with investing in a leisure stock whose share price has actually doubled in less than a year.



Fool.ca contributor Chris MacDonald recently did an excellent job summarizing the risks associated with BRP.

“One thing BRP has shown in recent years is impressive growth; this growth has propelled BRP to higher valuation levels, linked to the company’s proven ability to churn out profits and cash flow in a time when growth remains otherwise constrained,” MacDonald wrote. “What investors need to keep in mind, however, is that these companies are the ones that are typically most prone to large declines in down cycles — a situation which I believe to be right around the corner.”

**Healthy economic growth**

The Bank of Canada raised interest rates September 6 for a second time this summer in reaction to the 4.5% annual GDP growth rate for the second quarter. The North American economy is strong, and that bodes well for the sale of recreational products.

Also, younger people today are looking for experiences rather than just buying stuff. Sure, that might mean fewer sales to individuals but more sales to tourist operations in Canada and the U.S. requiring snowmobiles, personal watercraft, and ATVs.

Finally, DOO is currently trading at 15.1 times its 2017 earnings, while the TSX is trading at 16.6 times earnings — an indication that BRP is still a reasonably priced stock.

That’s especially true when you consider revenues for Q2 2018 increased by 20.0% to $1.03 billion, a record quarter for the company, with significant increases from both its year-round (ATVs, SSVs) and seasonal products (snowmobiles, PWC).

I think BRP is in a winning position and will continue to run higher as long as the economy continues to cooperate.

If you own BRP stock, I wouldn't sell. If you don't, I'd consider buying in before it goes up another 46%.

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