



Why BRP Inc. Rose 1.08% on Friday

Description

BRP Inc. ([TSX:DOO](#)), one of the world's leading manufacturers and distributors of powersports vehicles and propulsion systems, announced its fiscal 2018 third-quarter earnings results on Friday morning, and its stock responded by rising 1.08% in the day's trading session. Let's break down the quarterly results and the fundamentals of its stock to determine if it could continue higher from here and if we should be long-term buyers today.

The results that sent the stock higher

Here's a quick breakdown of 10 of the most notable financial statistics from BRP's three-month period ended October 31, 2017, compared with the same period in 2016:

Metric	Q3 2018	Q3 2017	Change
Year-Round Products revenues	\$460.9 million	\$383.9 million	20.1%
Seasonal Products revenues	\$491.7 million	\$417.1 million	17.9%
Propulsion Systems revenues	\$93.5 million	\$94.2 million	(0.7%)
Parts, Accessories, Clothing, and Other Services (PAC) revenues	\$194.4 million	\$185.0 million	5.1%
Total revenues	\$1,240.5 million	\$1,080.2 million	14.8%
Gross profit	\$329.4 million	\$307.2 million	7.2%
Gross margin	26.6%	28.4%	(180 basis points)
Normalized EBITDA	\$199.2 million	\$196.9 million	1.2%
Normalized net income	\$109.3 million	\$104.4 million	4.7%

Normalized diluted earnings per share(EPS)	\$1.05	\$0.93	12.9%
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Revisions to its guidance

In the press release, BRP made revisions to its full-year guidance, most of which were positive; here's a breakdown:

Metric	Fiscal 2018 Guidance vs. Fiscal 2017 Results
Year-Round Products revenues	Up 11-12% (narrowed from up 8-12%)
Seasonal Products revenues	Up 1-3% (narrowed from down 1% to up 3%)
Propulsion Systems revenues	Down 2% to up 1% (lowered from flat to up 5%)
Parts, Accessories, Clothing, and Other Services (PAC) revenues	Up 7-9% (narrowed from up 5-9%)
Total revenues	Up 6-8% (narrowed from up 4-8%)
Normalized EBITDA	Up 10-13% (unchanged)
Effective Tax Rate	27-28% (28.6% in 2017) (lowered from 28-29%)
Normalized net income	Up 11-16% (narrowed from up 10-16%)

Normalized diluted EPS	Up 15-20% to a range of \$2.25-2.35 (narrowed from up 14-20% to a range of \$2.23-2.35)
Capital expenditures	\$240-255 million (unchanged)

Should you be a long-term buyer today?

It was a phenomenal quarter overall for BRP, highlighted by record revenue and normalized diluted EPS, and it has been on a tear so far in fiscal 2018, with its revenue up 12.5% to \$3.22 billion, and its normalized diluted EPS up 48.5% to \$1.44 in the first nine months of the year compared with the same period in fiscal 2017; with these very strong results in mind, I think the market responded correctly by sending BRP's stock higher in Friday's trading session.

With all of this being said, I think BRP represents a fantastic long-term investment opportunity for two fundamental reasons.

First, it's one of the best growth stocks in the industry. As mentioned before, BRP achieved 12.5% revenue growth and 48.5% earnings growth in the first nine months of fiscal 2018, and it's on pace to post revenue growth of 6-8% and EPS growth of 15-20% in the full year of fiscal 2018. Analysts expect the growth to continue in fiscal 2019, with current projections calling for EPS of \$2.70, which would result in growth of 14.9-20% from BRP's current EPS guidance of \$2.25-2.35 for fiscal 2018.

Second, it's undervalued based on its growth. BRP's stock trades at just 20.7 times the median of its normalized EPS outlook for fiscal 2018 (\$2.30) and only 17.7 times the consensus analyst estimate of \$2.70 for fiscal 2019, both of which are very inexpensive given its aforementioned growth rates and its long-term growth potential.

BRP's stock is up more than 100% since I first recommended it on [December 15, 2014](#) and more than 81% since I last recommended it on [October 20, 2015](#), and I think it is still a great long-term buy today, so take a closer look and consider initiating a position.

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