



Does BRP Inc. Have Any Gas Left in the Tank?

Description

If there's a family that's benefited from the stock market success of both **BRP Inc.** ([TSX:DOO](#)) and **Bombardier, Inc.** ([TSX:BBD.B](#)) over the past two years more than the Bombardier/Beaudoin clan, I'd love to know who it is.

In 2017, BRP and Bombardier had total annual returns of 65% and 40%, respectively. In 2016, they flipped positions, with Bombardier generating an annual return of 61%, while BRP settled for a 43% return.

Together, the Bombardier and Beaudoin families have seen the value of their shares in the two companies grow over the past two years by \$2 billion — 65% on account of BRP, the families' former recreational products company they [took private](#) with Bain Capital back in late 2003.

If you've owned DOO and BBD.B since the end of 2015, pat yourself on the back. You've done very well.

Any more gas in the tank?

As we enter the second quarter, Bombardier is comfortably ahead of its old stablemate, up 18% year to date through April 9, double BRP. With the markets expected to get more volatile, gains to the upside will become more challenging to obtain, making it harder for BRP to catch Bombardier by the end of the year.

BRP has been on an amazing run since the beginning of 2016. It's probably unrealistic to think the maker of Sea-Doos, Ski-Doos, and ATVs can deliver a +20% annual return for a third consecutive year. Or is it?

On March 21, BRP announced its fourth-quarter results, and they were a mixed bag but not unexpected. Overall, fiscal 2018 was a record year for the company, and 2019 is expected to be even better.

"The results for the year, the strongest in BRP's history, are partly based on the excellent worldwide momentum of its retail sales and the increased demand for its Can-Am side-by-side vehicles," stated the company's press release. "For example, BRP's global market share for this product has reached

the #3 position in the past year, only seven years after our entry into the industry.”

The company has [moved](#) its North American sales office to Texas to be closer to its largest and most profitable market. Texas sells more side-by-side vehicles (SSVs) than any other state in the union.

The company expects to grow revenues by 5-8% in fiscal 2019 while delivering normalized earnings-per-share growth of 20-25%. At \$2.82, the high end of its guidance, we’re looking at a price-to-earnings ratio of 18.3 — a reasonable multiple when compared to its U.S. rival, **Polaris Industries Inc.**, at 20 times earnings.

Of the 13 analysts who cover BRP’s stock, nine have an “overweight” or “buy” rating on its stock with zero sell recommendations.

The bottom line on BRP stock

I’ve been on the BRP [bandwagon](#) for a couple of years.

Now, with consumers looking for experiences rather than just buying more stuff to fill the storage unit, it appears the company is ready to capture market share in the year-round category (SSVs and ATVs) south of the border, which will translate into higher profits and even higher stock prices.

As far as BRP stock has come, I think it still has lots of room to run — perhaps to \$100.

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