CAE Inc. (CAE)

Updated August 27th, 2021, by Aristofanis Papadatos

Key Metrics

Current Price:	$28	**5 Year CAGR Estimate:**	4.0%	**Market Cap:**	$8.7 B
Fair Value Price:	$17	**5 Year Growth Estimate:**	15.0%	**Ex-Dividend Date:**	N/A
% Fair Value:	165%	**5 Year Valuation Multiple Estimate:**	-9.5%	**Dividend Payment Date:**	N/A
Dividend Yield:	N/A	**5 Year Price Target**	$34	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	N/A	**Retirement Suitability Score:**	N/A	**Last Dividend Increase:**	N/A

Overview & Current Events

CAE Inc. is the global leader in training and simulation devices for civil aviation, defense, military security, and healthcare employees. The company operates in three reporting segments, including Civil Aviation Training Solutions, Defense and Security, and Healthcare. CAE is headquartered in Montreal, Quebec, Canada and is cross listed on both the Toronto Stock Exchange and the New York Stock Exchange, where it trades with a market capitalization of US$8.7 billion. The company reports financial results in Canadian dollars, but we have converted all the figures to USD for this report.

On July 2nd, 2021, CAE closed the acquisition of the Military Training business of L3Harris Technologies for $1.05 billion. This deal will enhance the annual revenues of CAE by ~$500 million. As the amount of the transaction is 12% of the market cap of CAE and annual revenue is likely to grow approximately 20%, it is evident that this acquisition is a major one. Indeed, CAE expects the deal to enhance its earnings per share at a low-teens rate in the first full year after the completion of the transaction.

In mid-August, CAE reported (8/11/21) financial results for the first quarter of fiscal 2022. After many quarters of poor results due to the pandemic, CAE began to recover. Revenue grew 37% over last year's quarter and the company switched from an adjusted loss-per-share of -$0.31 to a profit per share of $0.13. During the quarter, CAE gained market share in Civil training, with two new 10-year exclusive contracts.

The pandemic has put airlines under great pressure. As a result, CAE has suspended its dividend and share repurchases. On the bright side, CAE believes that the worst is behind the company and expects improved performance in fiscal 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.70	$0.72	$0.64	$0.57	$0.62	$0.79	$0.86	$0.94	$1.01	$0.10	***$0.84***	***$1.69***
DPS	$0.16	$0.18	$0.19	$0.20	$0.21	$0.24	$0.26	$0.30	$0.33	$0.08	---	---
Shares[1]	258.3	259.4	263.8	266.9	269.6	268.4	267.7	265.5	265.6	287.3	***300.0***	***300.0***

CAE is facing an unprecedented downturn in its business due to the pandemic, which has caused extreme financial stress to airlines. However, the company has begun to recover lately. In the long run, CAE has a strong growth outlook as the leader in the employee training and simulation industry, which is characterized by secular growth. CAE is also likely to emerge stronger from the pandemic thanks to its aforementioned acquisition and its restructuring program, which aims to reduce annual operating costs by $50 million. Given these growth drivers, we now expect CAE to generate 15% (vs. 13% previously) average annual earnings-per-share growth over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.8	16.6	19.1	16.7	19.0	19.9	20.8	25.9	25.2	---	***33.3***	***20.2***
Avg. Yld.	1.9%	1.8%	1.8%	2.0%	1.7%	1.5%	1.5%	1.2%	1.3%	0.4%	---	---

[1] In millions.

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CAE has traded at an average price-to-earnings ratio of 20.2 over the last decade. The stock is now trading at 33.3 times its expected earnings, a nearly decade-high valuation level. If the stock reverts to its average valuation level over the next five years, it will incur a -9.5% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	22.9%	25.7%	30.1%	34.2%	33.7%	30.1%	30.6%	32.0%	32.8%	80.0%	---	---

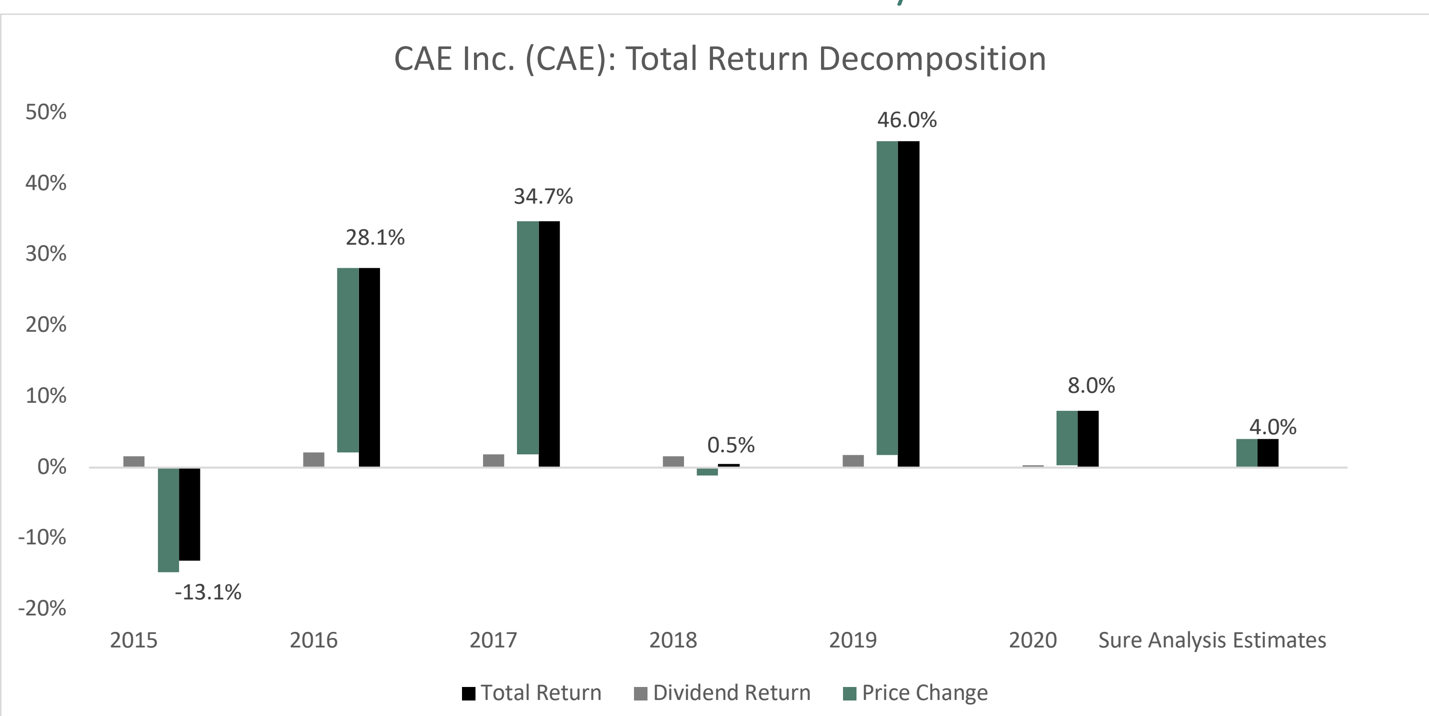
CAE operates in highly regulated industries, which have mandatory and recurring training requirements for the renewal of professional certifications. As a result, the company has long-term contracts with many airlines and business aircraft operators and a significant portion of its revenues are recurring. In addition, as CAE is the global leader in its business, it has a strong brand name, which provides a meaningful competitive advantage to the company.

Moreover, CAE has a healthy balance sheet. While its interest expense has increased in recent quarters, it is still consuming only 30% of its operating income and hence it stands at a manageable level. The company can endure the coronavirus crisis and it is likely to recover strongly after the end of the pandemic.

Final Thoughts & Recommendation

CAE is the leader in the business-to-business training and simulation industry, but it is now facing an unprecedented downturn in its business. However, the company has begun to recover from the pandemic lately. For those who want to invest in the recovery of the airline industry, CAE is much safer than airlines, as the former has a much healthier balance sheet than most airlines and has remained profitable, in sharp contrast to airlines. On the other hand, the stock has doubled in the last eleven months thanks to the massive rollout of vaccines. In other words, the market has already priced a strong recovery in the stock. As a result, CAE may offer just a 4.0% average annual rate over the next four years and thus receives a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,835	2,033	1,974	1,979	1,918	2,060	2,205	2,518	2,725	2,257
Gross Profit	604	584	537	532	531	618	686	717	815	579
Gross Margin	33.0%	28.7%	27.2%	26.9%	27.7%	30.0%	31.1%	28.5%	29.9%	25.7%
SG&A Exp.	258	264	246	233	238	278	297	316	329	302
D&A Exp.	127	143	156	167	166	161	156	166	230	242
Operating Profit	290	261	238	247	244	260	297	321	392	194
Operating Margin	15.8%	12.8%	12.1%	12.5%	12.7%	12.6%	13.5%	12.7%	14.4%	8.6%
Net Profit	182	138	181	178	175	192	270	251	234	(36)
Net Margin	9.9%	6.8%	9.1%	9.0%	9.1%	9.3%	12.3%	10.0%	8.6%	-1.6%
Free Cash Flow	51	39	100	92	162	174	142	146	121	154
Income Tax	58	28	28	51	16	27	24	45	55	(30)

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,038	3,633	3,833	3,673	3,849	4,048	4,476	5,367	5,982	6,931
Cash & Equivalents	255	256	283	260	374	378	474	334	667	734
Accounts Receivable	303	243	267	229	227	338	268	275	318	292
Inventories	147	173	199	187	214	412	400	402	434	513
Goodwill & Int. Ass.	530	782	788	666	716	708	817	1,519	1,450	1,629
Total Liabilities	1,984	2,505	2,492	2,343	2,355	2,539	2,697	3,562	4,164	4,385
Accounts Payable	558	264	261	218	235	514	237	344	381	366
Long-Term Debt	710	1,030	1,033	992	965	941	963	1,597	1,992	1,588
Shareholder's Equity	1,034	1,097	1,304	1,290	1,455	1,464	1,726	1,746	1,756	2,488
D/E Ratio	0.69	0.94	0.79	0.77	0.66	0.64	0.56	0.91	1.13	0.64

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.1%	4.1%	4.8%	4.7%	4.7%	4.9%	6.3%	5.1%	4.1%	-0.6%
Return on Equity	18.4%	12.9%	15.0%	13.7%	12.8%	13.1%	16.9%	14.5%	13.4%	-1.7%
ROIC	10.7%	7.0%	8.0%	7.6%	7.3%	7.8%	10.4%	8.2%	6.5%	-0.9%
Shares Out.	258.3	259.4	263.8	266.9	269.6	268.4	267.7	265.5	265.6	287.3
Revenue/Share	7.10	7.84	7.54	7.44	7.13	7.64	8.18	9.40	10.15	8.13
FCF/Share	0.20	0.15	0.38	0.35	0.60	0.65	0.53	0.55	0.45	0.55

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.