

CAE Inc.

3QFY2024 – Adj. EPS misses Street expectations on weaker margins

Maintain Rating: UNDERPERFORM | PO: 26.00 CAD | Price: 28.38 CAD

Operating margins below estimates

CAE reported 3QFY2024 Adj. EPS of \$0.24 vs. BofAe: \$0.21 vs. BBG: \$0.25. The EPS miss was driven by weaker margins in Civil, Defense, and Healthcare (now reported as discounted operation). Civil Aviation's topline growth was robust (up 20% Y/Y) with 13 full-flight simulators delivered, and training center utilization rates at 76%. Despite the strong topline results, op. margins declined 642bps Y/Y. Defense revenue grew a modest 4.4% Y/Y, and op. margins declined 114bps Y/Y. In Defense, legacy fixed priced contracts continue to weigh on margins and are expected to remain a headwind for the next two fiscal years. We look forward to the call with management to hear more details on what's driving the margin headwinds in Civil, and where progress is being made in Defense.

Healthcare moved to discounted operations

The Healthcare segment sale remains on track to close by the end of FY2024. In preparation of the sale, Healthcare was reported under discounted operations. Healthcare sales declined by 28.6% Y/Y, which resulted in a net loss of \$1.9mn. We maintain our underperform rating, as we expect the margins headwinds to continue from legacy defense contracts, and potential over capacity in Civil Aviation.

Exhibit 1: CAE 3QFY2024 Quick Take Results

CAE reported Adj. EPS of \$0.24, missing street estimates

Quick-take of results vs. Expectations:	
Adj. EPS	3Q24: \$0.24 vs. BofAe: \$0.21 vs. BBG: \$0.25 vs. 3Q23: \$0.27 (3Q24 down 12.3% Y/Y)
Revenue	3Q24: \$1,095mn vs. BofAe: \$1,059mn vs. BBG: \$1,097mn vs. 3Q23: \$970mn (3Q24 up 12.8% Y/Y)
Operating Margin	3Q24: 11.1% vs. BofAe: 11.8% vs. 3Q23: 14.7%
Revenue by segment	Civil: 3Q24: \$622mn vs. BofAe: \$512mn vs. 3Q23: \$517mn Defence and Security: 3Q24: \$472mn vs. BofAe: \$492mn vs. 3Q23: \$453mn Healthcare: 3Q24: \$0mn vs. BofAe: \$55mn vs. 3Q23: \$0mn
FCF	3Q24: \$135mn vs. BofAe: \$59mn vs. 3Q23: \$187mn (3Q24 down 27.7% Y/Y)

Source: BofA Global Research, Bloomberg, company filings

BofA GLOBAL RESEARCH

14 February 2024

Equity

Ronald J. Epstein
Research Analyst
BofAS
r.epstein@bofa.com

Mariana Perez Mora
Research Analyst
BofAS
mariana.perez mora@bofa.com

Jordan Lyonna
Research Analyst
BofAS
jordan.lyonna@bofa.com

Andre Madrid
Research Analyst
BofAS
andre.madrid@bofa.com

Samantha Stiroh
Research Analyst
BofAS
samantha.stiroh@bofa.com

Stock Data

Price (TOR / NYS)	28.38 CAD / 20.92 USD
Price Objective	26.00 CAD / 19.00 USD
Date Established	29-Nov-2023 / 29-Nov-2023
Investment Opinion	B-3-9 / C-3-9
52-Week Range	25.69 CAD - 33.88 CAD
Market Value (mn)	9,059 CAD
Free Float	99.4%
Average Daily Value	20.59 USD
Shares Outstanding (mn)	319.2 / 319.2
BofA Ticker / Exchange	YCAE / TOR
BofA Ticker / Exchange	CAE / NYS
Bloomberg / Reuters	CAE CN / CAE.TO
ROE (2024E)	7.8%
Net Dbt to Eqty (Mar-2023A)	66.1%
ESGMeter™	Medium

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Timestamp: 14 February 2024 11:38AM EST

Price objective basis & risk

CAE Inc. (YCAE / CAE)

Our C\$26 PO is based on a relative 1.2x P/FCF multiple on CY24E estimates. In our view, the 1.2x relative multiple, slightly below average of 1.3x, fairly factors in the scarcity premium for a pure play on aircraft simulators, new defense wins, and the concerns over defense underperforming for longer and risk of not executing on Civil. In USD our PO of \$19 is derived by applying an FX rate of 1.37 to our CAD PO.

Downside risks to our PO: If there is another downturn in commercial aviation and pressures seen in the economy worsen, earnings could fare worse than our projections and the stock could underperform. If margins fare worse than we are expecting, there could also be downside to our valuation. M&A risk includes additional findings from the LHX acquisition.

Upside risks to our PO: sales and margins within civil, military and new core markets could exceed our expectations (if the aviation recovery is faster than we expect), and defense multiples could exceed their previous market multiple.

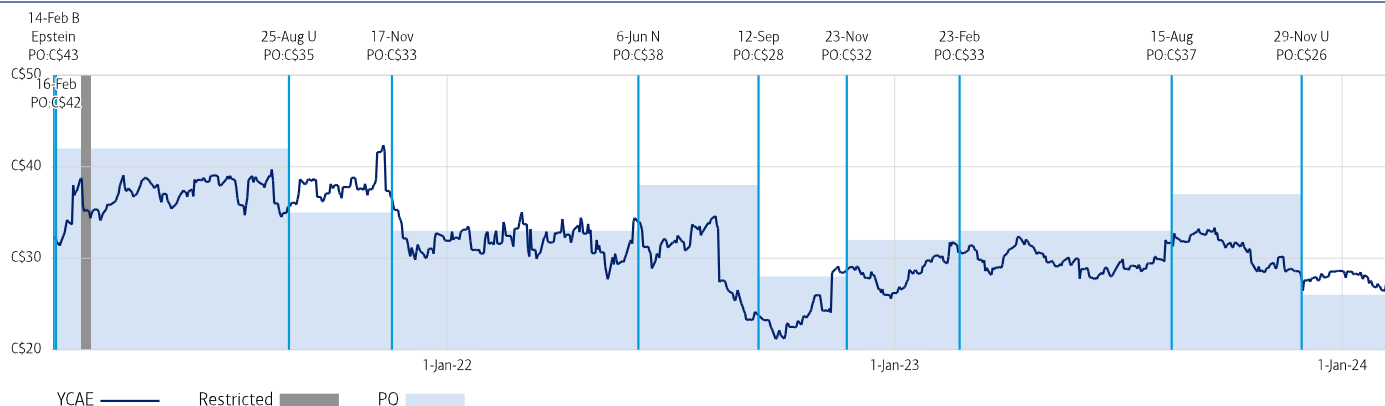
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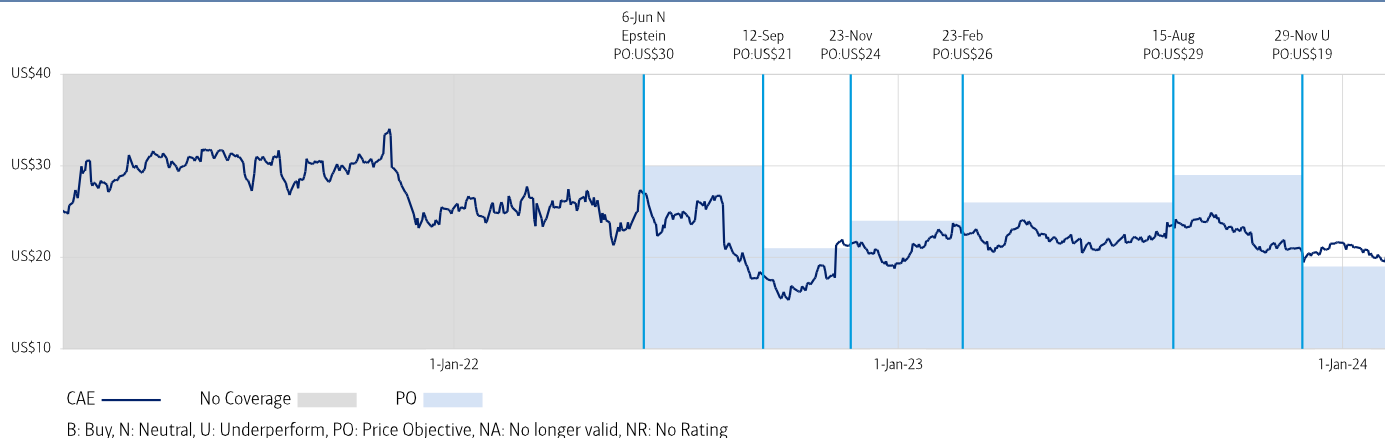
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CAE Inc. (YCAE) Price Chart



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CAE Inc. (CAE) Price Chart



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Equity Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	31	62.00%	Buy	23	74.19%
Hold	11	22.00%	Hold	9	81.82%
Sell	8	16.00%	Sell	6	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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