NATIONAL BANK OF CANADA
FINANCIAL MARKETS

**INDUSTRY RATING**

Aerospace & Defense: Overweight

Airlines: Overweight

Construction & Engineering: Overweight

Information Technology: Market Weight

(NBF Economics & Strategy Group)

# Aerospace & Defence

## Canadian defence spending set to soar - implications for NBF coverage companies

In recent years, Canada has come under increased criticism around its commitment to spend on defence where it has consistently spent well below the prior NATO alliance target of 2% of GDP. In 2024, Canada spent ~1.4% of its GDP on defence, but last month Prime Minister Carney announced that the government would accelerate defence spending with a goal to reach the 2% target by the end of this fiscal year. At the recent NATO summit in late June, the Prime Minister went further, announcing that Canada had officially agreed to the new NATO defence spending target of 3.5% of GDP plus 1.5% on defence-related infrastructure by 2035.

In this report, we explore how NBF coverage companies could benefit from Canada's higher defence spend. We specifically outline:

- The strategic focus areas for new spending.
- What new equipment procurement programs and infrastructure investments may be launched.
- How each of the NBF coverage companies stand to benefit.

Coverage names mentioned in this report include:

**Bombardier (Outperform, $171.00 target)**

**CAE (Outperform, $43.00 target)**

**Chorus Aviation (Outperform, $29.00 target)**

**Exchange Income (Outperform, $81.00 target)**

**Kraken Robotics (Outperform, $4.00 target)**

**Bird Construction (Sector Perform, $28.00 target)**

**AtkinsRealis (Sector Perform, $98.00 target)**

| | Stock Sym. | Stock Rating | Analyst | Stock Price | Market Cap | EV/EBITDA FY1 | EV/EBITDA FY2 | P/E FY1 | P/E FY2 | 12-Mth Price Target | Total Return |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Aerospace & Defence** | | | | | | | | | | | |
| Bombardier Inc. | BBD.b | OP | Doerksen | $156.20 | $15,665 | 10.5x | 9.8x | 17.9x | 14.2x | $171.00 | 9% |
| CAE Inc. | CAE | OP | Doerksen | $40.45 | $12,988 | 13.0x | 12.0x | 31.1x | 25.4x | $43.00 | 6% |
| Chorus Aviation Inc. | CHR | OP | Doerksen | $22.40 | $601 | 4.7x | 5.6x | 10.6x | 15.2x | $29.00 | 31% |
| Exchange Income | EIF | OP | Doerksen | $66.72 | $3,444 | 8.1x | 7.3x | 18.6x | 15.6x | $81.00 | 25% |
| Kraken Robotics Inc. | PNG | OP | Shao | $3.41 | $1,066 | 36.0x | 22.9x | na | 45.2x | $4.00 | 17% |
| **Engineering & Construction** | | | | | | | | | | | |
| AtkinsRealis Group Inc. | ATRL | SP | Sytchev | $99.04 | $17,283 | 18.9x | 16.2x | 33.0x | 25.5x | $98.00 | -1% |
| Bird Construction Inc. | BDT | SP | Sytchev | $29.67 | $1,643 | 8.0x | 6.8x | 11.8x | 9.8x | $28.00 | -3% |

Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; T=Tender; UR= Under Review; R=Restricted
Pricing as of July 9, 2025

*Source: Companies, LSEG, NBF*

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# Canadian Defence spending set to soar - implications for NBF coverage universe

In recent years, Canada has come under increased criticism around its commitment to spend on defence where it has consistently spent well below the prior NATO alliance target of 2% of GDP. In 2024, Canada spent ~1.4% of its GDP on defence, one of just nine NATO countries (out of 32) to be below the 2% target. The Canadian government announced last year that it intended to reach the 2% NATO target only in 2032 and during the federal election earlier this year, candidate Mark Carney pledged to accelerate the timeline to 2030. Last month, Prime Minister Carney announced that the government would accelerate defence spending with a goal to reach the 2% target by the end of this fiscal year. At the recent NATO summit in late June, the Prime Minister went further, announcing that Canada had officially agreed to the new NATO defence spending target of 3.5% of GDP plus 1.5% on defence-related infrastructure (which could potentially include investments in things like critical mineral development) by 2035.

In this report, we explore how NBF coverage companies could benefit from Canada's higher defence spend. We specifically outline:

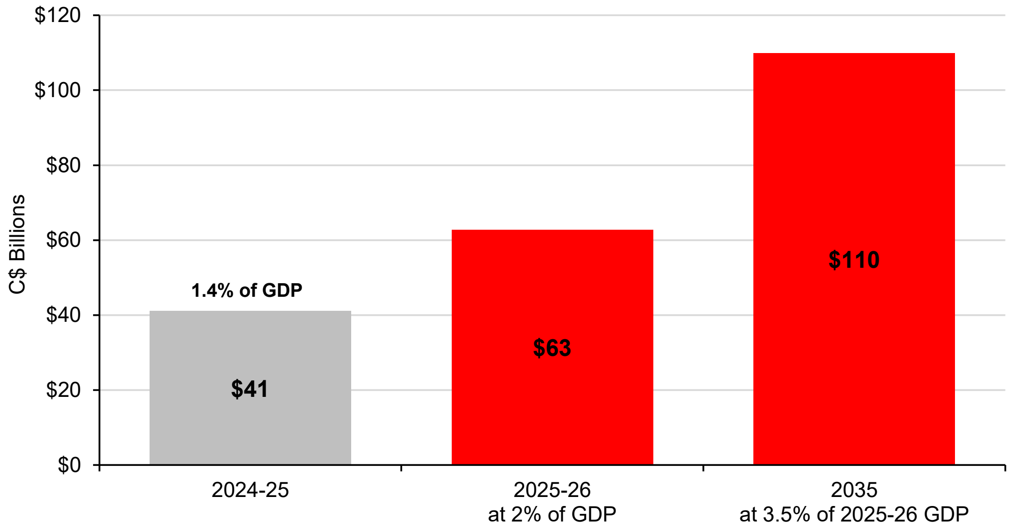
- The strategic focus areas for new spending.
- What new equipment procurement programs and infrastructure investments may be launched.
- How each of our coverage companies stand to benefit.

## Additional dollars would be significant

Canada spent ~$41 billion on defence last year and the additional ~$11 billion that was already budgeted for this year would bring defence spending up to ~1.7% of GDP. To get to the 2% target by the end of this fiscal year, the government will further increase defence spending by an additional $9 billion. Not all the additional funds will have a direct impact on procurement as $2.6 billion will go towards additional recruitment and personnel retention (i.e. pay raises for military members). However, DND highlights that $844 million will go towards the revitalization of key infrastructure, another $1.0 billion towards new capabilities, $2.1 billion to strengthen Canada's defence industry, and $2.0 billion to diversify Canada's partnerships beyond the U.S.

Although Canada looks set to meet the 2% target sooner than expected, we note that in late June NATO members committed to boosting defence spending even further to 3.5% of GDP with an additional 1.5% commitment to other defence-related infrastructure expenditures (which could include investments in critical minerals for instance). Canada has agreed to meet the new NATO spending target by 2035, making it clear that Canada's defence spending will remain on an upward trajectory for years to come. At 3.5% of 2025-26 GDP (based on the PBO's GDP forecast), Canada's defence spending would be ~$110 billion, a 168% increase from the level spent last year. However, given that Canada's GDP in 2035 should be higher than where it is today, annual defence spending by then would likely need to exceed $110 billion to reach the 3.5% target.

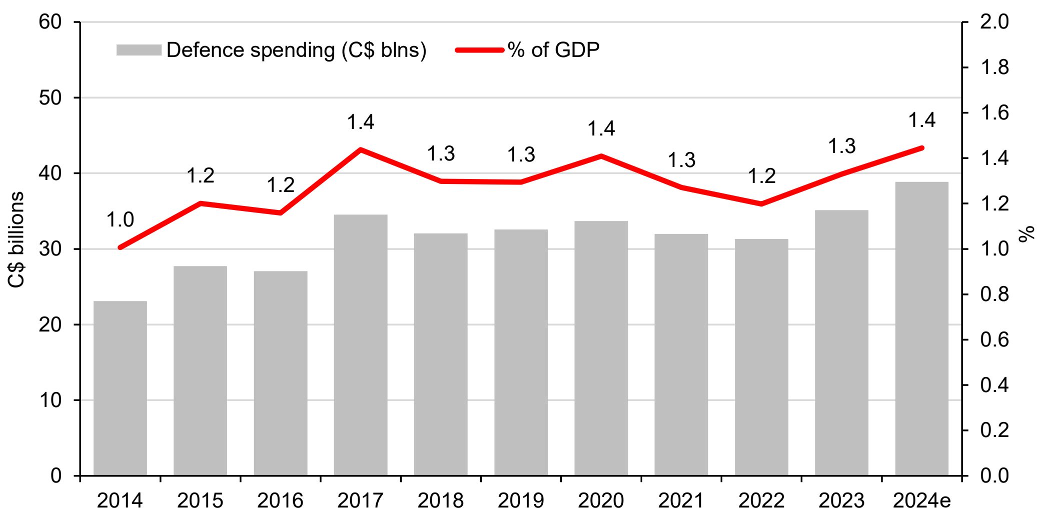
**Figure 1: Projected Canadian defence expenditures**




Note: 2025-26 GDP based on the Parliamentary Budget Officer's forecast

*Source: Canadian Department of National Defence, Parliamentary Budget Officer, NBF*

**Figure 2: Canadian defence expenditures and % of GDP**




Note: based on constant 2021 prices

*Source: NATO, NBF*

The European Union (EU) announced earlier this year its ReArm Europe plan/Readiness 2030, which aims to significantly increase defence spending in Europe in the coming years, equating to an additional 1.5% of GDP which would get members closer to the new target. In late June, Canada signed a new Security and Defence Partnership agreement with the EU that will see enhanced cooperation on defence and security. This agreement is also intended to be a step towards Canada's participation in the ReArm Europe initiative that could create new defence procurement opportunities for Canadian companies. Thus, Canadian industry will not only benefit from higher spending domestically, but also potentially from spending increases in Europe.

## Where is Canada's focus for new spending?

The Canadian government has outlined several areas of focus for defence spending and has notably made a commitment to 'Buy Canadian' when possible, which will be beneficial not only to Canadian defence companies but also to infrastructure companies, steel and aluminum producers and many other domestic suppliers. We detail specific programs which could benefit NBF coverage companies in the sections below, but based on Canada's 2024 Defence review and more recent policy statements by the current government, some of the more relevant areas which could see increased investment include:

- **Modernized surveillance systems and investments in modern technology.** As part of Canada's NORAD modernization plan (a $38.6 billion commitment over the next 20 years), it will invest $7.0 billion to modernize its surveillance systems (including over-the-horizon radars and satellites) as well as $4.1 billion in modern technology to improve communications and decision-making.
- **Northern basing infrastructure.** Also part of the NORAD modernization plan, Canada will invest $15.7 billion in infrastructure and support capabilities, part of which will include upgrading four Canadian Armed Forces (CAF) Forward Operating Locations in the North (Inuvik, Yellowknife, Iqaluit and Goose Bay).
- **Arctic sovereignty.** Another area of focus for Canada is centered around strengthening the country's Arctic sovereignty. Part of this will include investments in a network of deep water ports to help protect the Northwest Passage as well as Northern infrastructure investments such as hydroelectricity projects, housing development, railways, airstrips and highways.
- **New submarines.** Canada has previously committed to replacing its aging fleet of four Victoria-class submarines and in July last year, the government announced it would be launching a process to acquire up to 12 new submarines for $60 billion. Canada is expecting a contract award by 2028 with delivery of the first submarine no later than 2035.
- **New polar icebreakers.** Earlier this year, Canada announced the purchase of two new polar icebreakers for the Canadian Coast Guard. Two contracts were awarded for construction of the vessels with the first being built by Seaspan in Vancouver ($3.2 billion) and the second by Davie Shipbuilding in Levis, Quebec ($3.3 billion). The Davie icebreaker is expected to be delivered by 2030 with the Seaspan icebreaker delivered by 2032.
- **Aerial and underwater drones.** The government has committed to expanding Canada's fleet of both aerial and underwater drones to improve its surveillance in the Arctic as well as at its borders.
- **Airborne Early Warning & Control (AEW&C) planes.** Canada has indicated that it would like to add an AEW&C capability to the Canadian Armed Forces that would be able to detect aircraft and missiles at long ranges.
- **Canadian Army investments.** New investments to support the Canadian Army are also a priority for Canada with commitments to upgrade or replace its fleet of tanks, light armored vehicles, artillery as well as to acquire new long-range missiles and ground-based air defence capabilities.
- **Investing in innovation and overhauling defence procurement.** Outside of investments in new capabilities and infrastructure, Canada has also committed to leveraging Canadian innovation as well as overhauling its defence procurement system. To drive innovation, the government has established the Bureau of Research, Engineering and Advanced Leadership in Science (BOREALIS) along with a new Defence Procurement Agency and a commitment to amend legislation and regulations as required to make the overall defence procurement system more efficient.

# Multiple large procurement programs already underway before new spending was announced

## F-35 Fighter Jets

In early 2023, Canada signed a contract to acquire 88 new F-35 fighter jets to replace its aging fleet of CF-18 jets. The first eight aircraft are expected to be delivered in the U.S. in 2026 where the initial training for RCAF pilots will be done. Deliveries to Canada are expected to begin in 2028 and although the initial training will be done in the U.S., we believe that CAE is well positioned to be involved in the training over the long term. We note that CAE already has multiple long term contracts to provide training and associated support for Canada's fleets of C-130J transport planes, the CH-47 helicopter and the CC-295 search and rescue planes.

Given the backdrop of increased trade and political tensions between Canada and the U.S. under the Trump Administration, earlier this year Canada ordered a review of its purchase of the U.S.-made F-35 with the review expected to be completed this summer. Canada has so far only made financial commitments for the first 16 F-35s, so it is possible a different fighter jet could be selected and Canada could operate a mixed fleet. The other contender in the original fighter jet procurement competition was the SAAB JAS 39 Gripen. If Canada does choose to acquire a different jet, we would still expect CAE to be a key sub-supplier of training and other services.

## Future Aircrew Training (FAcT) Program

Last year, Canada formally awarded the contract for its FAcT program to the SkyAlyne Canada Limited Partnership, which is a JV between CAE and KF Aerospace but also includes other companies (including Exchange Income's PAL Aerospace). The program covers all training for the RCAF including pilot training, other aircrew training and maintenance training. The contract is a 25-year deal worth $11.2 billion and includes the acquisition of 70+ training aircraft, new simulators and long-term training. CAE has subsequently signed a 25-year sub-contract with SkyAlyne worth ~$1.7 billion, noting that EIF's PAL Aerospace will also have a piece of the overall contract.

## Future Fighter Lead-in Training (FFLIT) Program

Earlier this year, Canada selected CAE as its strategic partner for the FFLIT program, which will support the pilot training capabilities for Canada's incoming fleet of F-35 fighter jets. CAE was previously providing fighter training using a fleet of CT-155 Hawk training jets under the NATO Flying Training in Canada (NFTC) program, but that ended with the retirement of the Hawk training jets last year. Being selected as the strategic partner under the new program is positive for CAE as it cements its position as the training provider, although it is still in the early stages and will likely only be fully contributing to CAE sometime past 2030.

## River Class Destroyer Project

Canada is in the process of acquiring 15 new surface combatant ships known as the River-Class Destroyers (RCD) with an estimated cost of $56-$60 billion (although it is widely expected to be higher). An implementation contract worth $8 billion over six years was awarded to Irving Shipbuilding (who is also the prime contractor) earlier this year for the construction and delivery (along with the associated training, spares and maintenance products) of the first three ships with a contract extension to follow as the program progresses. The first ship is expected to be completed in the early 2030s with final delivery by 2050. Lockheed Martin Canada was selected and awarded a sub-contract for the design of the RCDs in 2019 and shortly after sub-contracted CAE to develop combat systems training as well as other professional services throughout the design phase. We therefore expect there will be additional contract opportunities for CAE on this program as it progresses.

## Strategic Tanker Transport Capability Project

In 2023, Canada announced a new contract (valued at $3.6 billion) to acquire nine Airbus A330-200 Multi Role Tanker Transport (MRTT) aircraft (to be known as the CC-330 Husky in operation with the RCAF) to provide in-flight refueling and strategic cargo lift. The fleet will be a mix of four new and five used A330s that will be converted into the CC-330 tankers. All five of the used CC-330s have already been delivered and are in service with the RCAF as transport-only planes, but will eventually be sent to Spain to be converted into the MRTT configuration (noting that the first new A330 recently arrived in Spain for conversion). First delivery of a CC-330 with aerial refueling capabilities is expected in 2027 and the initial fleet is expected to be operational by 2028-29 with the full fleet in place by 2032-33.

Although the contract with Airbus includes a training and simulation capability, it is not clear what company will provide the simulators, but we note that CAE has provided simulators for other A330 tanker operators (the Royal Australian Air Force, notably) so it could be a possible beneficiary. Not included in the contract, however, is a long-term in-service support solution (maintenance and materiel support). We note that a JV between Airbus and Exchange Income's PAL Aerospace (known as AirPro) is currently under contract to provide in-service support for Canada's CC-295 fleet of fixed wing search and rescue aircraft, so the JV could be considered for the CC-330 support solution. Both AirPro and PAL Aerospace were included on a list of qualified suppliers eligible to bid on the contracts noting that an RFP for the long-term in-service support was issued in November last year.

## Remotely Piloted Aircraft System (RPAS) Project

In December 2023, Canada awarded a contract to General Atomics Aeronautical Systems for 11 MQ-9 SkyGuardian remotely piloted aerial vehicles and associated ground control stations under its Remotely Piloted Aircraft System (RPAS) project. First deliveries are expected in 2028 with initial operational capability in 2027-30 and full capability in 2030-33. CAE is a member of the General Atomics-led team that was awarded the contract and in May last year, the company officially announced a $250 million contract for the initial nine years of operations to provide aircrew and maintenance training as well as other in-service support for the new aircraft. Additionally, with CAE historically being the training systems provider for General Atomics on the MQ-9 in general, the two companies announced a long-term agreement earlier this year for the development and production of mission trainers for the MQ-9 which includes a firm order for 11 mission trainers from CAE with the potential for up to 50 over the next five years.

**Figure 3: General Atomics MQ-9B SkyGuardian RPAS**


*Source: General Atomics, NBF*

## Canadian Multi-Mission Aircraft (CMMA) Project

Canada announced in late 2023 that it would be acquiring up to 16 Boeing P-8A Poseidon maritime patrol aircraft (MPA) to replace its existing fleet of CP-140 Aurora MPAs as part of its CMMA project. Total cost of the project is $10.4 billion including infrastructure and simulators. First delivery is expected in 2026 with final delivery by late 2027. Under the terms of the contract, Boeing must make investments in Canada equal to the value of the sale, which implies that the Canadian aerospace industry will see new contracts related to the project. We note that CAE was a member of Boeing's Team Poseidon bidding on the contract and has also provided P-8 simulators for other operators of the aircraft including the U.S. Navy, so we expect CAE will be awarded contracts for simulators and other training devices related to the purchase.

**Figure 4: Boeing P-8A Poseidon**


*Source: Boeing, NBF*

## Potential benefits from new proposed programs

Below we summarize some of the key new potential procurement programs and how our coverage companies could be involved.

### Canadian Patrol Submarine Project (CPSP)

As noted above, Canada formally launched a process in July last year to acquire up to 12 conventionally-powered submarines and in September a Request for Information (RFI) was issued to gain information on the availability of potential solutions. A contract award is anticipated by 2028 with delivery of the first submarine no later than 2035. We note that CAE is a leading provider of submarine training systems (including for the U.S. Navy) and in May this year, CAE and Saab signed a Memorandum of Understanding (MoU) to cooperate on a training and simulation solution for the project. Another likely bidder for the submarine procurement is South Korea's Hanwha, who has also signed a teaming agreement with CAE which would see it provide training and other operational support solutions.

### Airborne Early Warning & Control (AEW&C)

Following Canada's desire to add an AEW&C capability to the CAF, it is expected that a fleet of six aircraft would be required with the total cost greater than $5 billion, noting that this is still an early stage program with the first delivery not anticipated until the late 2030s and final delivery not until 2040-41 (although this program could be accelerated, in our view). In May this year, Saab announced that it would be partnering with Bombardier to offer the GlobalEye AEW&C aircraft to Canada. GlobalEye is based on the Bombardier Global 6000/6500 platform and is already in operation with other militaries around the world. Given Canada's commitment to prioritize Canadian solutions for future defence needs, we see the GlobalEye as the likely choice for this program, although another possible contender for the contract is an L3Harris AEW&C platform that is also based on the Global 6500 business jet. We suspect that the new fleet will also require a dedicated training solution for which CAE would be ideally suited given that it already provides simulators and training solutions for the Global business jet platform.

**Figure 5: Saab GlobalEye AEW&C Aircraft**

*Source: Saab, NBF*

## Land Vehicle Crew Training System (LVCTS)

The LVCTS is a Canadian Army project intended to deliver a networked, simulation-based training solution to allow soldiers to train individually or as a full combat team. The LVCTS will be delivered to the five main Canadian Army garrison locations with initial delivery expected in 2030-31 and final delivery in 2032-33. The cost is expected to be between $250-$499 million. CAE and Elbit Systems announced in late 2022 that they would be pursuing the program together with CAE acting as prime contractor and Elbit the major sub-contractor. However, the CAE and Elbit solution will face competition from other defence companies in Canada, notably a Rheinmetall Canada and Lockheed Martin Canada-led team (known as FORC3) that was announced in 2020 and includes other Canadian companies such as Bluedrop Training and Simulation, Calian and EllisDon.

## Ground Based Air Defence (GBAD) System

Another Canadian Army project is the Ground Based Air Defence system, which seeks to provide tactical air defence protection from threats such as rocket, artillery and mortar (RAM) munitions, air-to-surface missiles (ASM) and remotely piloted aircraft systems (RPAS). We note that the project will also include a training and simulation system and we expect this to be another potential contract opportunity for CAE.

## Long Range Precision Strike

Canada has also identified a need for a land-based Long Range Precision Strike capability for the Army (mobile missile launcher). The stated requirements by DND include the provision for a training and simulation solution for the new platform, which could be another potential contract of interest for CAE. Initial delivery of the system is targeted for 2029-30.

## Next Tactical Aviation Capability Set (nTACS)

Canada's nTACS project is part of a previous commitment by the government to spend $18.4 billion over 20 years on new tactical helicopters to replace its existing fleet of CH-146 Griffon tactical helicopters. Canada is in the process of implementing an upgrade to the existing Griffon fleet which will extend the useful life to the mid-2030s, so delivery of the new fleet is not expected in the near term (initial operating capability currently expected in 2033). The RCAF currently operates 82 CH-146 Griffons as well as 14 CH-147F Chinook medium to heavy lift helicopters which, after a planned mid-life block upgrade, will remain in the fleet along with the new helicopters. The RCAF has indicated that in addition to replacing the capabilities of the existing CH-146 fleet, it is also looking to acquire new capabilities (potentially including armed un-crewed aerial vehicles that can operate together with crewed helicopters) and suggests that more than one type of helicopter could be considered.

Depending on which helicopter(s) are ultimately chosen, we view CAE as the likely training partner given that CAE built the original simulators for the CH-146 fleet and undertook a major upgrade to the simulators a decade ago. The company is also one of the leaders in developing simulators and training solutions for rotary wing platforms including significant contracts with the U.S. and other militaries. We note that one program the RCAF is monitoring as a potential solution to replicate is the U.S. Army's Future Long Range Assault Aircraft (FLRAA) program where Bell Textron's V-280 Valor helicopter was selected as the platform with CAE notably being awarded a contract from Bell in early 2024 to provide maintenance training aids, devices and simulators to support the program.

## Polar Over-the-Horizon Radar (P-OTHR) and Arctic Over-the-Horizon Radar (A-OTHR) Systems

DND has two separate procurement programs for new radar systems. The Polar Over-the-Horizon Radar system is part of Canada's $7.0 billion commitment to modernize its surveillance systems under its NORAD modernization project. The P-OTHR system will use technology that can detect targets at long ranges beyond the typical radar horizon, providing surveillance across the Arctic Circle. The P-OTHR systems could cost upwards of $5 billion with full operational capability in 2033. As part of the program, earlier this year a JV consisting of ATCO Frontec and Inuvialuit Development Corporation (IDC) was awarded a $48 million contract to design and build a new radar system in the Northwest Territories. Construction related to the P-OTHR and other related NORAD site modernization will drive more activity in the North which may benefit local air service providers including Exchange Income subsidiaries.

The separate Arctic Over-the-Horizon Radar (A-OTHR) program aims to provide long-range surveillance of the northern approaches to the major population centers in North America. This radar will be built in Ontario and in March, Canada announced it had selected BAE Systems Australia as the provider of the radar system that is similar to a system already in operation in Australia. The expected cost of the A-OTHR system is $6 billion with operational capability in 2031. We suspect some benefits from the A-OTHR program will flow to Canadian companies, but it is not clear at this point what specific opportunities will emerge.

## Northern Operational Support Hubs

Canada announced last year that it would be investing $2.67 billion over the next twenty years to establish a network of Northern Operational Support Hubs (consisting of airstrips, logistics facilities and equipment) which will help strengthen its presence across the Arctic and the North. In March this year, the DND officially announced Iqaluit, Inuvik and Yellowknife as the first three locations for new support hubs, noting that the RCAF already has Forward Operating Locations (FOLs) for its CF-18 fighter jets at each of these locations. We note that all three of the announced support hubs are key destinations in Canadian North's network so with Exchange Income's acquisition of the airline now officially closed, it could see increased traffic from these investments over time. In addition, we note that Bird Construction has an established history of supporting infrastructure projects in the Canadian Arctic.

**Figure 6:** **RCAF CF-18 Forward Operating Locations and proposed Northern Operational Support Hubs**


*Source: RCAF, Google Images, NBF*

## Underwater Environmental Awareness (UEA)

This new procurement program will deliver underwater uncrewed vehicles (UUVs) for long duration patrols in Canada's coastal and Arctic waters. The UUVs will be equipped with various sensors and will be able to operate both autonomously and in support of Navy surface ships. The procurement is still in the option-analysis phase with initial deliveries only expected in 2035-36. We believe Kraken Robotics is well-positioned in this project as it provides market-leading synthetic aperture sonar (SAS) and subsea battery technologies, both of which are critical components of UUVs. Of note, there are two projects relevant to Kraken under the current military blueprint – "Underwater Environmental Awareness" and "Remote Minehunting and Disposal System". The latter one was already awarded to Kraken in 2022 and is expected to be completed later this year. If anything, we believe Kraken's role as a prime contractor in the procurement of UUVs has already been proven, and the Underwater Environmental Awareness project appears to be a low-hanging fruit for the company.

## Canadian Multi-Mission Corvette (CMC) Project

The CMC project is an early-stage procurement project intended to replace Canada's existing fleet of 12 Kingston-class Maritime Coastal Defence Vessels which are 30+ years old. In addition to coastal surveillance, one of the missions of the current fleet of ships is mine hunting. Based on the trend in recent years towards more automation, it's expected that this new class of corvette to integrate with UUVs for the detection of underwater hazards, potentially to benefit Kraken Robotics.

## General infrastructure investment

In addition to the large infrastructure projects related to radar systems and northern logistics support hubs, we see higher defence spending potentially leading to large new investments in other infrastructure, including at major military bases. Recall that of the immediate funding boost for Canada's military announced recently, $844 million is earmarked for the revitalization of key infrastructure for DND, but significantly greater investments will be needed over the longer-term. As an example, the acquisition of new submarines will require the building of new on-shore docking, support and training facilities. Any acquisition of new aircraft may similarly necessitate the building of new hangars and training facilities. Within the NBF coverage universe, Bird Construction stands out as a potential beneficiary of new infrastructure investments given its strong existing book of business with DND.

## Specific company benefits

### CAE

CAE was recently named Canada's Top Defence Company by Canadian Defence Review magazine, so it stands to reason that within NBF's coverage universe, CAE stands out as the biggest potential beneficiary from Canada's higher defence spending. We estimate that about 20% of CAE's Defense segment revenue last year was generated from Canadian programs. As we have highlighted, CAE is under contract to provide training and other support services on multiple major procurement programs already underway in Canada. Furthermore, most of the large scale new procurement programs will require some form of training program for which CAE is ideally placed. Indeed, Canada's commitment to prioritize Canadian companies in new procurement makes CAE an essential partner to any new non-Canadian supplier bidding on major programs.

Last year, CAE's Defense & Security segment accounted for 42% of total company revenue and the segment sports a backlog of over $11 billion. CAE has growth opportunities globally, but based on existing programs in backlog and the backdrop for increased spending, new contracts in Canada should allow the company to outgrow broader defence market growth rates. With segment margins also rising (EBIT margins forecasted at 8.0-8.5% this fiscal year but improving to 10%+ in the coming years), Defense should become a much more meaningful contributor to the bottom line for CAE.

### Bombardier

Bombardier's Defense segment revenue today is modest (we estimate ~US$500 million or 6% of total revenue based on 2024), but the company has aspirations to grow the business to US$1.0-1.5 billion by 2030. Assuming Canada moves forward with the planned AEW&C procurement, the Saab GlobalEye or the L3Harris solutions (both based on the Bombardier Global 6000/6500 platform) will almost certainly be the chosen aircraft (in June, France committed to acquiring up to four GlobalEye aircraft). Given its position as one of Canada's leading aerospace companies with extensive engineering and program management capabilities, we could also see Bombardier expanding its range of services for the Canadian military into areas such as aftermarket support.

### Exchange Income

EIF's Aerospace segment accounts for 11% of total company revenue, but EIF should see some direct benefits over time from Canada's increased defence spending, particularly for the company's PAL Aerospace division. PAL is under long-term contract to provide aerial surveillance for Canada's Department of Fisheries and Oceans, but the company's aerial surveillance capabilities could support additional surveillance in the North or in coastal waters should Canada need to expand its coverage. PAL also has long-term contracts supporting in-service military aircraft so new opportunities could arise on that front as well.

Perhaps the bigger opportunity for EIF from higher Canadian defence spending is the indirect impact stemming from sizeable new investments in infrastructure in the North. EIF's airline subsidiaries are already major players supporting northern communities in Nunavut, Manitoba, and Labrador, and with the recently closed acquisition of Canadian North, EIF will expand its reach to the Northwest Territories and additional destinations in Nunavut. Investment in the North, both from defence-related infrastructure, but also potentially from critical mineral and other resource development, will drive additional passenger and air cargo demand for EIF. Essential Air Services, which includes the northern airline subsidiaries, accounts for 36% of EIF's total revenue.

### Chorus Aviation

Although a relatively small part of Chorus's overall revenue and earnings, the company does have some existing Canadian defence contracts at its Voyageur Aviation subsidiary, including in-service support for military aircraft and expertise in special mission aircraft. We expect Voyageur will pursue similar new contracts in the future, and we suspect that future M&A opportunities for the company may include companies with Canadian defence exposure.

## Kraken Robotics

Kraken Robotics is a Canadian company that is deeply rooted in the defence sector. We estimate that ~77% of its announced contract awards are military-related. Based on its existing capabilities, we see future opportunities directly coming from (1) Canada's ongoing maintenance and potential expansion of its remote minehunting and disposal operation; (2) the Underwater Environmental Awareness (UEA) program with Kraken providing critical UUV components and potentially functioning as a prime contractor. In areas not yet covered by the current military blueprint, we see opportunities such as (1) underwater power and energy storage systems by leveraging Kraken's subsea battery technologies, and (2) the protection of critical underwater and offshore assets by leveraging Kraken's Robotics-as-a-Service for underwater imaging and hazard detection.

The company recently strengthened its balance sheet with the *completion of an equity offering*. We'd note that one of the uses of proceeds is to make large acquisitions to complement its capabilities and global profile. As Kraken continues to evolve with broader defence coverage, new opportunities might surface.

## Engineering and Construction companies

While there is still little clarity on the specific allocation of incremental defence spending, especially as it relates to the infrastructure and related spending component, we would expect a generally favourable impact on the engineering, construction and heavy equipment names in our NBF coverage universe. That being said, the other major unknown is whether higher military spending "crowds out" other initiatives such as the proposed "nation-building" projects put forth by the new Government. In our infrastructure coverage, Bird Construction is the only name with material direct exposure to the Canadian defence sector while AtkinsRealis should benefit from similar initiatives in the UK region.

**Bird Construction.** As at the end of Q1/25, Bird had close to 10% of its combined $7.4 billion backlog tied to defence-related projects – a significant increase y/y. More importantly, this growth had been achieved largely under the prior Liberal administration (and before the current 3.5% + 1.5% targets were rolled out) and there are ample opportunities ("ten-fold what we would normally see" according to the Q1/25 transcript) in the bidding pipeline, including training facilities, military housing, and storage/general base infrastructure. BDT has long been a core partner for Canadian defence initiatives with an established history of operations in the Canadian Arctic where a significant portion of the necessary infrastructure expansion would likely take place and has limited competition in this space given the specialized and highly sensitive nature of associated projects.

**AtkinsRealis.** Defence is a vital end-market for AtkinsRealis' core ESR vertical, comprising approximately 10% of the business unit's revenues ($7.0 billion in 2024 – i.e. $700 million); while the majority (we estimate ~$550 million) is derived from the U.K. & Ireland region, about 2% of Canada revenues ($2.4 billion in 2024 – i.e. $50 million) are attributed to military end-markets, while Australia and remaining geographies make up the difference. Although ATRL's nominal exposure to increased Canadian defence budgets remains relatively minor, management does see a $1 billion TAM for the region and extensive UK expertise should facilitate the company's ability to secure/cross-sell additional contracts in the space.

## Targets and ratings

**Figure 7: NBF Defence Coverage Valuation Methodology**

| Aerospace & Defence | Stock Rating | 12-Mth Price Target | Analyst | Valuation Methodology |
|---|---|---|---|---|
| Bombardier Inc. | OP | $171.00 | Doerksen | 9.5x EV/EBITDA on 2026 |
| CAE Inc. | OP | $43.00 | Doerksen | 12.0x EV/EBITDA on F2027 |
| Chorus Aviation Inc. | OP | $29.00 | Doerksen | 5.0x EV/EBITDA on 2026 |
| Exchange Income | OP | $81.00 | Doerksen | 8.5x EV/EBITDA on 2026 |
| Kraken Robotics Inc. | OP | $4.00 | Shao | Multi-stage DCF model |
| **Engineering & Construction** | | | | |
| AtkinsRealis Group Inc. | SP | $98.00 | Sytchev | SOTP based on blended 2025/26 EV/EBITDA (14.0x ESR, 20.0x Nuclear, 4.0x Linxon) |
| Bird Construction Inc. | SP | $28.00 | Sytchev | 6.5x EV/EBITDA on blended 2025/26 |

Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; T=Tender; UR= Under Review; R=Restricted

*Source: NBF*

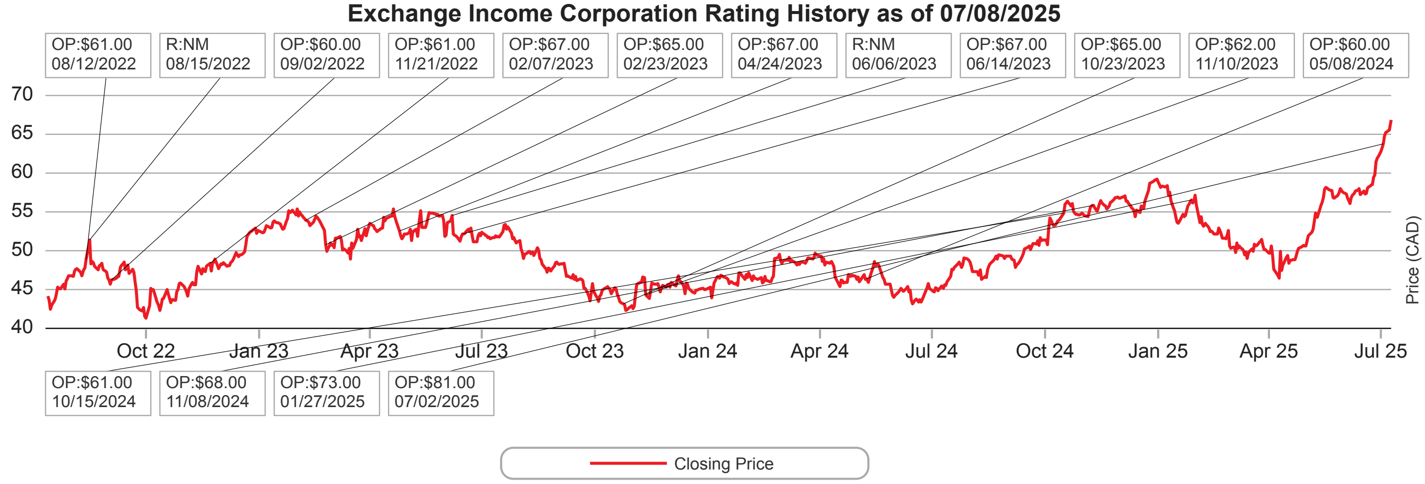
## Disclosures

**PRICE, RATING AND TARGET HISTORY: I = Initiation, OP = Outperform, SP = Sector Perform, UP = Underperform, UR = Under Review, R = Restricted; T = Tender (Source: Factset, NBF)**

**CAE Inc. Rating History as of 07/08/2025**

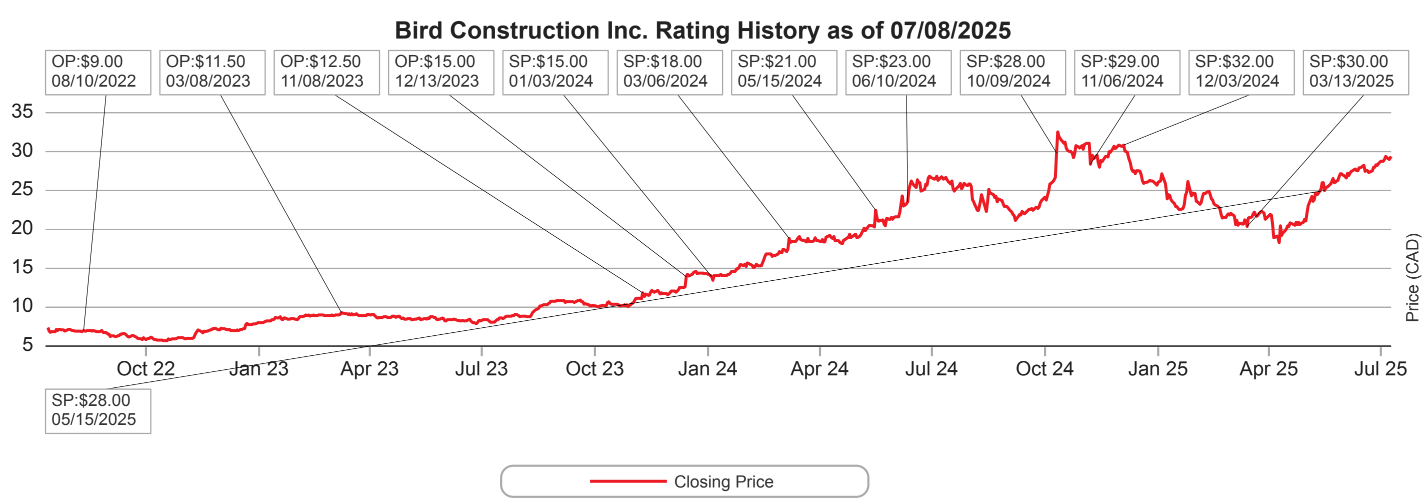

**Bombardier Inc. Rating History as of 07/08/2025**

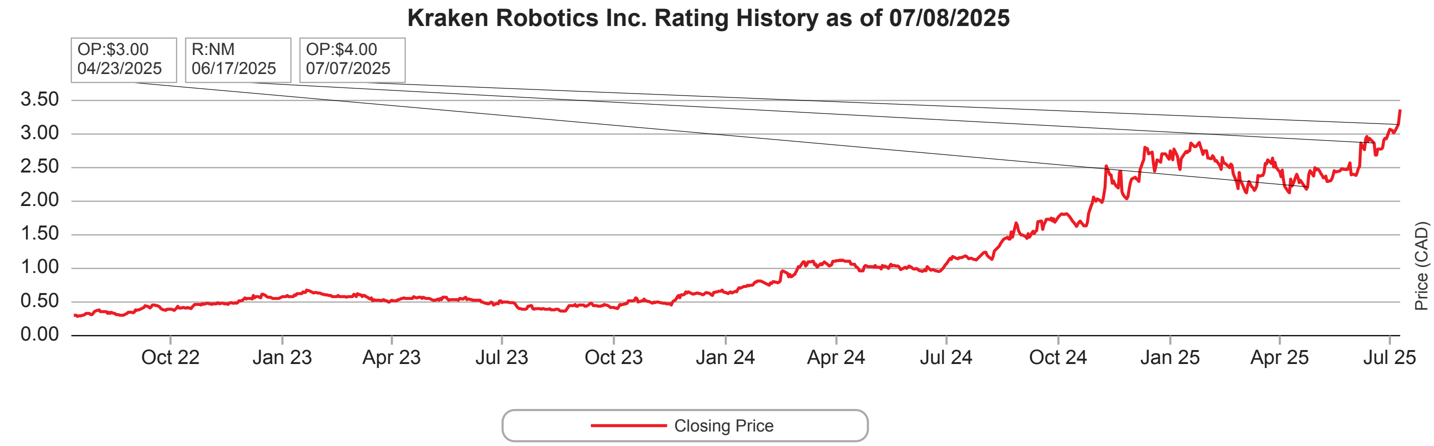

**Exchange Income Corporation Rating History as of 07/08/2025**




Chorus Aviation Inc. Rating History as of 07/08/2025
OP:$5.00 08/05/2022
OP:$4.80 11/14/2022
OP:$4.50 02/16/2023
OP:$4.25 05/09/2023
OP:$4.00 08/04/2023
OP:$3.50 11/13/2023
OP:$3.25 02/23/2024
OP:$3.65 07/30/2024
OP:$3.85 08/14/2024
OP:$4.00 11/07/2024
OP:$3.75 01/16/2025
OP:$26.00 02/10/2025
OP:$28.00 02/20/2025
OP:$29.00 05/07/2025
Price (CAD)
Closing Price


AtkinsRéalis Rating History as of 07/08/2025
OP:$39.00 10/13/2022
OP:$36.00 11/04/2022
OP:$39.00 01/10/2023
OP:$46.00 08/03/2023
OP:$53.00 10/09/2023
OP:$57.00 03/01/2024
OP:$61.00 05/15/2024
OP:$67.00 06/13/2024
OP:$68.00 08/09/2024
OP:$74.00 10/21/2024
OP:$76.00 11/14/2024
OP:$87.00 12/03/2024
OP:$88.00 03/13/2025
OP:$92.00 05/15/2025
OP:$98.00 06/01/2025
SP:$98.00 06/11/2025
Price (CAD)
Closing Price


Bird Construction Inc. Rating History as of 07/08/2025
OP:$9.00 08/10/2022
OP:$11.50 03/08/2023
OP:$12.50 11/08/2023
OP:$15.00 12/13/2023
SP:$15.00 01/03/2024
SP:$18.00 03/06/2024
SP:$21.00 05/15/2024
SP:$23.00 06/10/2024
SP:$28.00 10/09/2024
SP:$29.00 11/06/2024
SP:$32.00 12/03/2024
SP:$30.00 03/13/2025
SP:$28.00 05/15/2025
Price (CAD)
Closing Price




**RISKS:**

**CAE**

**Civil aviation health:** A slowdown in passenger demand, capacity growth and a deterioration in the health of airlines and business jet operators can negatively impact the industry and suppliers such as CAE.

**Defence budgets:** CAE generates revenue from a number of government defence agencies throughout the world with funding largely dependent on budgets, which can be subject to variability.

**Competition:** CAE is the largest competitor in the full flight simulator market and one of the largest players in Civil training, but it faces competition for simulator sales and training. In Defense, there are numerous well-capitalized competitors competing for new contracts.

**BBD.B / BBD.A**

**Cyclical end market:** Demand for business jets has historically been tied to the broader economic cycle.

**Competitive end market:** Bombardier faces strong and well-capitalized competitors in the business jet market.

**Trade restrictions:** Implementation of tariffs or other restrictions could impact the company's costs and competitive position.

**EIF**

**Economic sensitivity:** Although EIC's Aviation operations generate relatively stable earnings through the economic cycle (significant exposure to government contracts), its Regional One operation can be impacted by a slowdown in the broader airline industry. Some of EIC's manufacturing businesses are also sensitive to the economic cycle and could be negatively impacted in a recession.

**Contract re-bid risk:** Although EIC has been successful recently in renewing and expanding contracts, in the future, it could face re-bid risk on several large contracts in the medevac and surveillance segments.

**CHR**

**Reliance on Air Canada:** A significant portion of the company's revenues are derived from the Air Canada Capacity Purchase Agreement.

**Limited growth under the Air Canada CPA:** There are limited growth opportunities under the CPA with Air Canada.

**Economic sensitivity:** Given the cyclicality of the aviation industry, Chorus can be impacted by a slowdown in the broader economy.

**ATRL**

**Legacy LSTK projects:** Any incremental losses from existing lump-sum turnkey projects could result in a negative impact on working capital and investor sentiment.

**Global economic slowdown:** ATRL’s business is sensitive to macro cycle/infrastructure programs. Global economic slowdown in key geographies could impact revenue generation.

**Brexit risks:** Uncertainties remain with the political situation in the UK.

**BDT**

**Competitive positioning:** The company faces intense competition in Canada's robust vertical infrastructure market.

**Project-related risks:** Bird is subject to certain risks outside the company's control, such as project timing, cost overruns, subcontractor performance and other contractual obligations.

**PNG**

**Growth Risk.** If the Company fails to manage its growth effectively, its business and operating results could be adversely affected. The Company expects to continue to grow its operations domestically and internationally, and to hire additional employees. Any growth in its operations and staff will place a significant strain on its management systems and resources. If the Company fails to manage its future anticipated growth, it may experience higher operating expenses and may be unable to meet the expectations of investors with respect to future operating results.

**Macroeconomic Risks.** Global financial and economic conditions can be volatile. Some of the key impacts of the financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange markets and a lack of market liquidity. Such factors may impact the Company's ability to obtain financing in the future on favorable terms or obtain any financing at all.

**Government Contracts.** The Company will depend, in part, on government contracts, which may only be partially funded, subject to termination, heavily regulated and audited. The termination of one or more of these contracts could have a negative impact on the operations of the Company. The termination of funding for a government program would result in a loss of anticipated future revenues attributable to that program that could have a negative impact on the operations of the Company.

**Competitive Bidding.** The Company will derive significant revenue from contracts awarded through a competitive bidding process, which can impose substantial costs upon it, and the Company could fail to maintain its current and projected revenue if it fails to compete effectively. The Company expects that much of the business it will seek in the foreseeable future will be awarded through competitive bidding. Competitive bidding imposes substantial costs and presents a number of risks.

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AtkinsRéalis 2, 3, 5, 7, 9, 10, 14, 1001
Bird Construction Inc. 2, 3, 5, 7, 9
Bombardier Inc. 2, 3, 4, 5, 7
CAE Inc. 2, 3, 5, 7, 9, 357
Chorus Aviation Inc.
Exchange Income Corporation 2, 3, 5, 7, 9, 335, 356
Kraken Robotics Inc. 2, 3, 4, 5, 6

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15 A redacted draft version of this report has been shown to the issuer for fact checking purposes and changes may have been made to the report before publication.

357 The analyst attended a site visit of CAE's SIMCOM aviation training centre in Orlando, Florida on March 11, 2025. A portion of the analyst's expenses were paid for by the issuer.
335 An NBF analyst attended a tour of one of Exchange Income's BVGlazing System's construction projects in Toronto, Ontario on Oct. 10, 2024. All expenses were paid by NBF.
356 An NBF analyst attended a tour of Exchange Income's Spartan Mat and Regional One operations in Florida on March 6, 2025. A portion of the expenses were paid by NBF.
1001 A member of the Board of Directors of National Bank of Canada is also a member of the Board of Directors or is an officer of AtkinsRéalis: Robert Paré.

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| | Outperform | Sector Perform | Underperform |
|---|---|---|---|
| Coverage Universe Ratings Distribution | 62% | 33% | 2% |
| % of Rating with Investment Banking Relationship | 67% | 55% | 85% |

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