Analysts differ on value of Bombardier's parts

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MONTREAL - When it comes to valuing transportation giant Bombardier Inc., it seems there are as many methods as analysts. But perhaps one form of analyst arithmetic has begun to catch on: a sum-of-the-parts calculation. This basically imagines splitting the company into its business units, slapping a value on each, then adding them up.

Given that it implies breaking up the family-controlled company, it may not be the most practical way. But considering how dense the company's financials are and how hard it is to predict earnings or free cash flow, it is probably as good a method as any. That is, unless analysts come up with wildly different valuations for each part of the business.

In March, Anthony Scilipoti of Veritas Investment Research came up with a sum-of-the-parts (SOTP) valuation that established a floor price of $2.30 on the stock, including the eye-catching assumption Bombardier's regional jet business had zero value.

Now, Fadi Chamoun at UBS has taken a similar approach, throwing out predecessor Peter Rozenberg's method of valuing estimated earnings a year out and valuing them at a 15.5x multiple. "We believe that historical price-to-earnings and enterprise value-to-EBITDA (earnings before interest, taxes, depreciation and amortization) multiples are largely irrelevant to determine value," Mr. Chamoun said in his first report yesterday.

Mr. Rozenberg had a $3.60 target price for Bombardier. Mr. Chamoun's SOTP method establishes a $4 value on the stock. He likes the prospects for the company's passenger railcar division (which he thinks is worth US$3.2-billion based on a 7x multiple on an estimate of US$450-million in operating income in the next year), predicting it will increase historically sluggish margins due to lower costs, rising demand and good industry fundamentals.

That compares to the US$1.8-billion Mr. Scilipoti gave it four months ago.
Mr. Chamoun thinks the luxury business jet division is worth 7.5x EV-to-EBITDA, or just under $4-billion. That's a step up from the US$2.2-billion Mr. Scilipoti thought it was worth four months ago, but he was using a different multiple (six times estimated EBITDA). And Mr. Chamoun has given the regional jet business more value than the zero awarded by Veritas.

Adding up all the parts is an interesting exercise, but investors should note that it would be very difficult to sell the regional aircraft and private jet businesses separately, since much of the work is done at common facilities in the Montreal area, Toronto and Ireland. For now, that is.
Within a few years, much of the assembly work on the planes is likely to transfer to Mexico. Sean Silcoff

In the bargain bin Shares of home improvement retailer Rona Inc. have been under pressure for months. Investors appear to be concerned about a potential slowdown in the housing market, as well as Rona's proposed expansion into the United States. The entry of U.S. giant Lowe's into the Canadian market next year is also raising jitters. At the same time, the company has reported modest same-store sales growth amid high fuel costs.

UBS analyst Peter Rozenberg thinks enough is enough. He is upgrading the stock based purely on the valuation.

Mr. Rozenberg lifted his rating to "buy" from "neutral." He believes the investor concerns are overdone, and that the Canadian consumer and housing outlook is more favourable than in the United States.

Mr. Rozenberg is projecting solid earnings per share growth of 15% in fiscal 2006, and 12% in 2007. But, that growth may not be obvious right away.

"Same-store sales could continue to be modest until [the second half of 2006] due to a continued shift from higher revenue/lower margin building materials, to higher margin home renovation and decoration products," he wrote in a research note. Mr. Rozenberg's target price is $26 a share. Rona closed yesterday at $20.45. Peter Koven

TSX popping TSX Group Inc., which owns and operates the Toronto Stock Exchange, could be set for a pop of as much as $2 a share as analysts raise their targets for second-quarter earnings, according to John Aiken of National Bank Financial.

Mr. Aiken raised his earnings per share estimate to 52 cents from 45 cents based on "higher than expected trading" activity on the exchange and noted that his forecast is well above the consensus for the stock. The average estimate of five analysts polled by IBES International Inc. stands at 47 cents a share.

"Therefore, either consensus numbers will increase heading into the quarter or TSX will once again materially exceed expectations," Mr. Aiken wrote in a report yesterday.

TSX shares have been under pressure since April when the exchange operator said that it would cut prices to increase trading volume, betting the result would still be increased trading revenue. The stock plunged and has since traded in the mid-$40s. Mr. Aiken has been urging investors to use the drop to pick up TSX shares, which he rates a "buy" with a target of $59.