



STOCKTRADES PREMIUM COMPANY SUMMARY

BRP INC

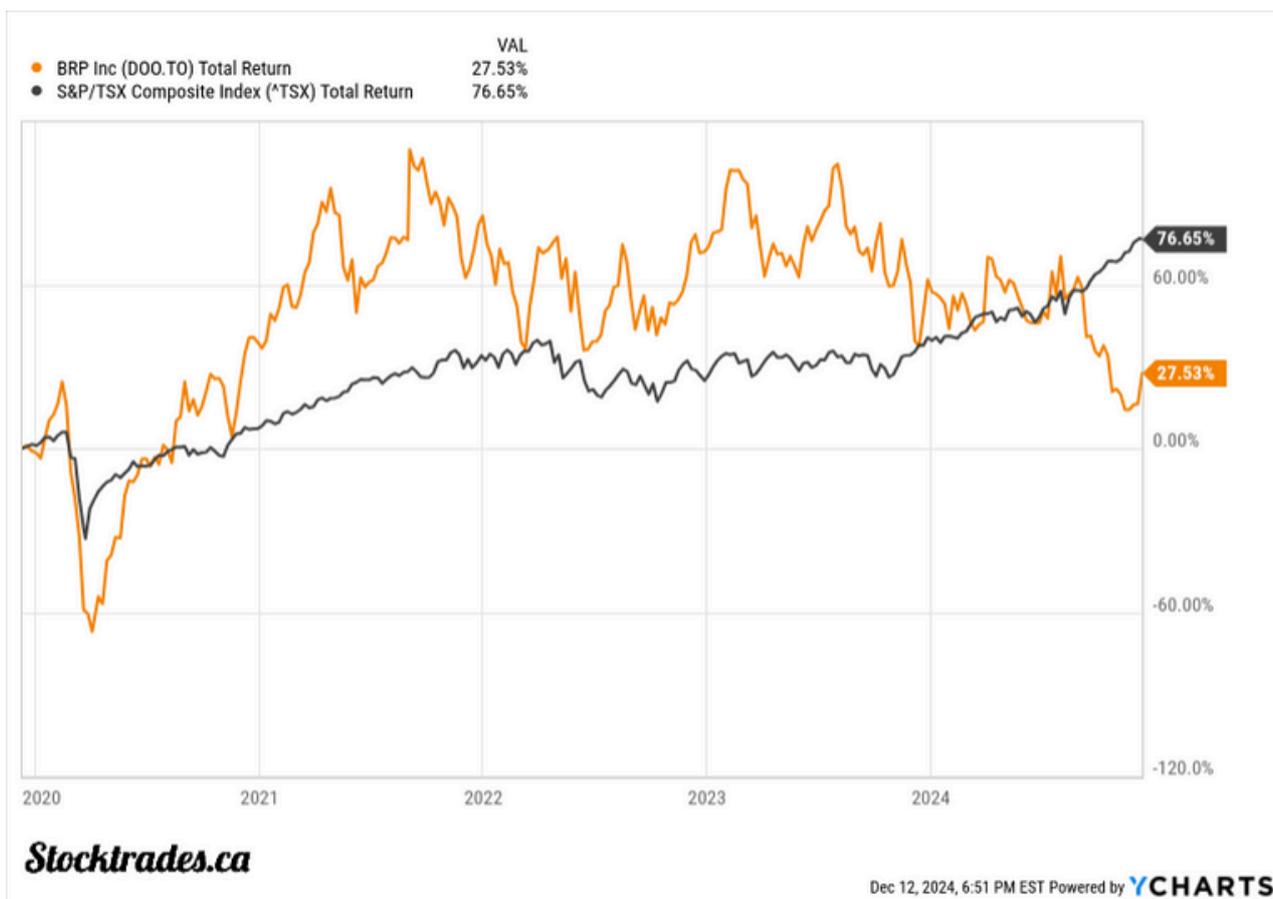
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BRP designs, develops, manufactures, distributes, and markets snowmobiles, all-terrain vehicles, and personal watercraft under the Ski-Doo, Sea-Doo, Can-Am, and Lynx brand names. It also builds engines under the Rotax brand (after shuttering the Evinrude outboard engine business in 2020) and offers clothing, parts, and accessories that cater to its core consumers. In 2018, BRP created a marine group, acquiring boat manufacturers Alumacraft, Triton (which makes Manitou pontoon boats), and Telwater (in Australia). At the end of fiscal 2023, the company sold its products through a network of more than 2,600 independent dealers and 150 distributors in about 130 countries.

Focus Areas	Score (0/100)	Focus Areas	Score (0/100)
Valuation	60	Dividend	74
Profitability	24	Outlook	64
Risk	26	Debt	4
Returns	14	Growth	42
Overall	38		

*Our Risk Rating: Our opinion of the overall risk an investment presents. Can be shown as Defensive (DEF), Moderate (MOD), or Aggressive (AGG). By no means is this an indication of future potential gains or lower volatility.

PROS

- Global play with exposure in over 120 countries
- Economic slowdown and a decline in revenue and earnings are likely already baked into current valuations
- Continuing aggressive share buybacks
- Arguably the strongest brand in the industry
- Getting back into motorcycles in 2024
- Commodity prices are cooling, which is helping margins
- A double digit chunk of the company's earnings decline expected in Fiscal 2025 is coming from unfavorable winter conditions, which is likely to be a one-off.

CONS

- Although this is a Canadian company, the bulk of its revenue is generated in USD. A high Canadian dollar can have an impact on revenue
- The economic downturn is no doubt impacting the company at this point in time
- The current war in Ukraine is no doubt still impacting foreign sales and material cost
- Rising dealer inventory is something to watch
- The company cut guidance for 3 straight quarters
- Despite falling rates, Canadians are not opening up their wallets yet

OVERALL THESIS

BRP is a company is a leader in the recreational vehicle industry. Although it is a Canadian stock, it provides global exposure for those who wish to own it, with exposure to 130 different countries. It has some of the strongest brands in the industry and a well-established footing in terms of market share. A prime example? The Ski-Doo brand has over 50% of the market share in the United States, the highest it's ever been.

The company stated that the popularity of recreational vehicles shows no signs of slowing down. We're cautiously optimistic in this regard. Is there a chance that retail sales could slow down moving forward? Absolutely. We are already seeing it. But even with slower growth rates, BRP remains attractively priced.

The company pays dividends; however, the priority is to use capital to fuel future growth. Because the dividend makes up such a small portion of earnings, we do expect this to be a low-yielding income company that continually grows the dividend by double digits. BRP has built up most of its brands in-house or acquired them long ago; thus, its balance sheet is under-represented.

This lowers the company's total assets, as the selling power and overall value of brands like Can-Am, Ski-Doo, Sea-Doo, Lynx, and Alumacraft are not considered assets. If they had acquired them via an acquisition of another company, they would have been placed on the balance sheet as goodwill, an asset, and increased overall book value. This is why you'll see a company like BRP trading at a near 10x book multiple.

Overall, we believe it is a strong opportunity over the long-term. You may not immediately see the benefit with BRP, but once the economy improves and consumers start spending again, we should see improved sales and multiple expansion from BRP.

POTENTIAL RISKS

It is important to note that this is a consumer cyclical stock and is subject to increased volatility if the economy were to slow down or the demand for its products was to slow down. At the time of writing, the stock has a beta of 2.4, which indicates that it is 2.4 times as volatile as the market. This ranks up there with high-growth plays such as Lightspeed Commerce. We score this company a "Moderate" risk rating simply because it has the

economic moat and branding power to withstand a lot of economic environments. If it lacked this, it would likely be an aggressive growth play. 75%~ of BRP Inc's products are financed. The company has an agreement with many lenders that it will buy back the units in the case of repossession.

Beta	2.43
Alpha	-6.4
Our Risk Rating	Mod*
Max Drawdown	73.6%

Although BRP Inc will likely be able to sell the units again, this does pose a heightened risk in the event of consumer defaults. Sales in Canada make up only a small amount of the company's overall revenue. As such, it is highly exposed to the US dollar and, to an extent, the Mexican Peso. This could put more pressure on the company's overall earnings if there are large swings in currency values.

There is also always the risk that consumer activity in the sector could continue to fade, and BRP's growth could slow even further.

The increase in interest rates was fast, and it was substantial. The stock is discounted at today's levels primarily because of this rate hike causing discretionary spending to practically halt. As sales slow, there will likely be more pressure put on the stock price.

And finally, the company is exposed to many fluctuating commodity prices to build its products, primarily copper, steel, and aluminum. An inflationary environment tends to drive prices for these materials up, and as a result, BRP Inc will be forced to eat the costs or pass them on to the consumer. This could result in an increase in the price of its units and a slowing in purchases. We can already see margins being impacted this year.

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VALUATION

	TTM	5 Year Average	Industry Average
P/E	29	11.22	N/A
P/S	0.62	0.91	N/A
P/B	10	N/A	N/A
P/FCF	10.8	N/A	N/A
PEG Ratio (FWD)	0.367	N/A	N/A

Generally, the best time to buy cyclical stocks is when their price-to-earnings ratios are high. This may seem counter-intuitive, but with a cyclical stock, it makes perfect sense. Let me explain.

During economic downturns, cyclical companies typically experience declining earnings due to reduced demand for their products or services. BRP is a prime example of this.

As earnings drop, the P/E ratio tends to rise, even if the stock price has fallen. This can make the stock appear expensive based on its earnings multiple, but this can be a potential buying opportunity since the cycle is near its low.

On the flip side, during economic booms, cyclical companies benefit from increased demand, leading to higher earnings.

At this stage, stock prices often rise, but earnings grow even faster, compressing the P/E ratio. This results in a low P/E, which can signal a potential selling point as the economic cycle nears its peak.

Stock prices are forward-looking and tend to anticipate economic recoveries or slowdowns before they occur.

Because of this, a high P/E during a downturn might reflect the market's expectation of a rebound, making it a good time to buy. Similarly, a low P/E during a boom could indicate the market's expectation of a slowdown, making it a good time to sell.

At this point in time, I believe we are in the situation where we are likely at an economic bottom. BRP's near 30x P/E, nearly triple the company's historical average, is potentially signalling a bottom in terms of share price.

COMPETITOR ANALYSIS

	DOO.TO	PII	YAMHF
P/E	28.5	17.55	8.67
P/S	0.61	0.46	0.51
P/B	9.98	2.61	1.13
P/FCF	10.7	14	24.13

When we look at competitors, we can see that the entire industry is amid a valuation reset due to a multitude of headwinds. However, neither Polaris (PII) nor Yamaha (YAMHF) has the global reach or economic moat that BRP Inc. does. Brand power and recognition go a long way in the recreational vehicle space, and if there were to be a slowdown, we feel BRP Inc. would not be impacted as much as its major competitors.

DIVIDEND ANALYSIS

Yield	Earnings Payout Ratio	5 Year Dividend Growth %	Dividend Growth Streak
1.11%	30%	14.9%	4

BRP pays a relatively small dividend. Yielding in the 1% range, it is unlikely to attract many income investors. However, it's important to note that prior to the company halting its dividend as a precautionary (and likely not needed) action during the COVID-19 pandemic, it had increased its dividend payment from \$0.13 on a quarterly basis to \$0.21 over the span of just four years.

The company increased the dividend to \$0.16 per share to kick off 2022, representing 100% growth since it issued its first dividend in 2017. In 2023, the company grew the dividend yet again by \$0.02 to \$0.72.

The company increased the dividend by 17% at the end of Fiscal 2024, from \$0.72 to \$0.84. The company has always been solid regarding returning cash to shareholders via buybacks and dividends.

Although the macro environment certainly isn't good at this point, the company still generates a large amount of cash flow and should be able to continue returning capital to shareholders in both good and bad times.

RECENT EARNINGS

Earnings Estimates	2025	2026	2027
EPS	\$4.50	\$5.05	\$7
Revenue	\$7.74B	\$7.89B	\$8.46B
EBITDA	\$1.02B	\$1.12B	\$1.28B
EBITDA Margins	13%	14.2%	15.2%

BRP posted a much better Q3 than expected. Because of the large-scale drawdown in the company's business due to the economic decline, analysts have had the bar set pretty low for the company. Earnings per share of \$1.16 came in 50% higher than estimates, and revenue of \$1.95B topped expectations by 3%.

The most notable thing on the quarter for BRP is that it didn't decrease its guidance. For the last 3 quarters, the company has had to come out and reduce its guidance because of the overall economic uncertainty. Not reducing it this quarter gives a bit of reassurance that the company now knows what to expect from the current economy.

The company anticipates a decline in year-round products by 20-22% and a steeper 30-32% drop in seasonal products. Despite this, inventories are beginning to normalize after elevated dealership stock levels disrupted new product production. Over the last three quarters, network inventories have decreased by 10%, with further normalization expected.

Free cash flow has been another weak point, falling over 71% in the first nine months of the year, even with reduced capital expenditures. This highlights the challenges the company faces in the current economic climate. However, a strategic decision to sell its marine business in October should be a pivotal move. By focusing on its higher-margin powersports segment, BRP expects an approximate \$225 million revenue impact in fiscal 2025 but anticipates immediate improvements in EBITDA, earnings, and free cash flow.

The tough results are not entirely unexpected, given the macroeconomic backdrop. As a long-term holder of BRP, I remain confident in its ability to navigate this downturn. External factors like high interest rates continue to weigh on consumer spending, but these are largely out of the company's control.

Looking ahead, I expect BRP to prioritize share buybacks as a key capital allocation strategy. While some may question this move given the company's nearly 30x trailing P/E ratio, it aligns with the cyclical stock investment principle I explained in the valuation section: buy during high P/E periods (typically at the bottom of a cycle) and sell during low P/E periods (usually at the peak).

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