

Canadian Helicopters Group Inc. (CHL.A C\$29.71, TSX)

4Q11 results blow past expectations, debt-free this year thanks to Afghanistan; raising our target to C\$35 (from C\$33) and maintaining Buy rating

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Canadian Helicopters Group Inc.

Rating	Buy—Average Risk	
Target	C\$35.00	
Symbol	CHL.A	
Exchange	TSX	
Sector	Transportation & Aerospace	
Closing price	C\$29.71	
Potential return	22%	
52-week range	C\$13.40–29.71	
Shares O/S	13.1m	
Market cap	C\$389m	
TSX weighting	0.0%	
Year-end	Dec-31	
Revenue	2011A	C\$264m
	2012E	C\$275m
Adj EPS	2011A	C\$3.78
	2012E	C\$3.95
P/E	2011A	7.9x
	2012E	7.5x
Book value/sh	C\$16.23	
LQ ROE	13.1%	
Debt/total capital	17%	
Net debt/LTM EBITDA	0.4x	
Dividend	C\$1.10	
Dividend yield	3.7%	
Quarterly data		
Adj EPS 1Q12E	Desjardins	C\$0.56
	Consensus	NA
Adj EPS 1Q10A	C\$0.40	

Source: Desjardins Capital Markets



Highlights

4Q11 results blow past our estimates on strong contribution from HNZ, Afghanistan and mining. Yesterday Canadian Helicopters reported another stellar quarter, with revenue of C\$69m (+60% yoy or +24% yoy organically) beating our estimate of C\$60m and consensus of C\$63m. EBITDA of C\$19m beat our estimate of C\$14m and C\$8m in 4Q10. Adjusted EPS of C\$0.78 beat our Street-high estimate of C\$0.47 and consensus of C\$0.40. The beat can be attributed to the solid contribution from the HNZ acquisition (C\$15m revenue contribution in 4Q) as well as the continued contribution from the Afghanistan contracts (these contracts had not fully ramped up in 4Q10). 4Q results also benefited from increased mining activity in Canada. Of note, seasonality in 4Q11 was reduced compared with past years, given CHL's Asian operations are at their seasonal high point during this period.

Confident on Afghanistan; business secured until late fall 2012. Options in Afghanistan have been exercised until the end of 2012. Recall that CHL's two Afghanistan contracts expire in October and November (subject to monthly funding). Despite increasing pressure on the US government to withdraw from the country, CHL is confident that there is potential for the US to remain until 2016, the last year of the options. Management is currently bidding on some opportunities for reconstruction efforts in Afghanistan although it was unsuccessful on two recent potential contracts. Nonetheless, CHL is confident it can follow USTRANSCOM to other countries (outside Afghanistan) and is hopeful that an announcement could be made in the next 21 months.

Stellar balance sheet positions the company for acquisitions. CHL ended 2011 with net debt of C\$33m. Based on the company's cash flow profile, we believe it could end 2012 debt-free. However, management's main priority is to profitably grow the company, most likely internationally. CHL is actively looking at acquisition opportunities both in Canada and abroad (Asia, South America and Africa), with a focus on offshore oil & gas and military support operations.

Increasing our 2012 estimates. In light of CHL's 4Q results, we have increased our 2012 revenue and margin estimates. As a result, we are increasing our 2012 adjusted EPS estimate to C\$3.95 (from C\$3.31). We now assume the company will end 2012 debt-free.

Raising our target to C\$35 from C\$33. Our new C\$35 target is based on the sum of our DCF estimate of the value of the recurring business of C\$33.40 (from C\$31.28), assuming no Afghanistan options are exercised past 2012, and our estimate of the value of the 2013 options on the Afghanistan contracts—which we believe will be exercised—of C\$1.53.

Recommendation

We reiterate our Buy—Average Risk recommendation, with a revised target price of C\$35 (from C\$33). While 2012 options in Afghanistan have been exercised, revenue from that country will eventually need to be replaced as current levels are not sustainable over the long run. As a result, we continue to believe CHL will make an acquisition to diversify its revenue away from Afghanistan. We are pleased with the company's constructive outlook in Canada and internationally, and believe CHL is well positioned to increase shareholder value.

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Highlights

Solid momentum in Canada and the southern hemisphere; bookings and pricing look solid. The company expects “steady growth” from the company’s activities in the southern hemisphere. CHL is in several marketing campaigns in Asia and is currently looking to secure some new business from HNZ; it expects these efforts to yield results in the coming quarters. There is also strong momentum in Canada, where most of the activity is driven by mining. Management noted that it is already benefiting from mining investments in northern Quebec (Plan Nord), where junior miners are exploring intensively.

Potential opportunity with Ornge in the future. CHL’s contract with Ornge for the air ambulance service in Ontario ends on March 31. In light of the current management problems at Ornge, we believe the Ontario government could send the contract back to the private sector; we believe CHL would be well positioned under that scenario.

Exhibit 1: Canadian Helicopters Group Inc. financial summary and breakdown

Year end Dec-31 (C\$m)	Desjardins				Chg (%)	
	4Q11	4Q11 est	3Q11	4Q10	Qoq	Yoy
Revenue	68.7	60.4	85.4	43.0	-20	60
Operating expenses	50.0	46.2	51.7	34.0	-3	47
EBITDA	18.9	14.1	33.8	8.4	-44	123
EBITDA margin (%)	27.5	23.4	39.5	19.6	-30	40
Net income	10.2	6.2	20.5	-28.8	-50	-135
Net margin (%)	14.8	10.3	24.0	-67.0	-38	-122
EPS (C\$)	0.78	0.47	1.56	NA	-50	-
Adjusted EPS (C\$)	0.78	0.47	1.54	0.39	-49	100
Segmented information						
Revenue by division (C\$m)						
Helicopter transportation svcs	58.0	54.3	77.7	37.2	-25	56
Other	10.6	6.0	7.7	5.8	38	83
Total	68.7	60.4	85.4	43.0	-20	60
Other						
FCF	42.5	19.1	21.1	19.4	101	119
Capex	3.8	1.3	1.4	0.8	168	366
Flying hours	15,875	-	29,870	10,990	-47	44
Average revenue/hour flown (C\$000)	3.7	-	2.6	3.4	42	9

Source: Desjardins Capital Markets, company reports

Exhibit 2: Summary of historical numbers and outlook

Year end Dec-31 (C\$m)	2006	2007	2008	2009	2010	2011	Old 2012E	New 2012E
Revenue	135.7	147.5	150.9	154.2	170.7	264.3	271.4	275.4
Growth (yoy%)	-	8.7	2.3	2.2	10.7	54.8	6.0	4.2
EBITDA	23.3	31.1	25.5	32.6	42.9	85.1	82.5	91.8
EBITDA margin (%)	17.2	21.1	16.9	21.1	25.1	32.2	30.4	33.3
Effective tax rate (%)	-3.2	-0.8	10.8	5.2	-12.5	28.5	30.0	30.0
Net income	15.3	21.4	15.3	21.2	-52.6	50.2	43.3	51.6
Net margin (%)	11.3	14.5	10.1	13.7	-30.8	19.0	15.9	18.7
EPS (C\$)	1.45	2.03	1.46	2.05	-4.64	3.84	3.31	3.95
Adjusted EPS (C\$)	0.85	1.28	1.04	1.45	1.75	3.78	3.31	3.95
DPS (C\$)	1.05	1.06	1.10	1.10	1.10	1.10	1.10	1.10
Payout (%)	73	57	69	54	55	29	33	28
Other information								
Capex (C\$m)	4.4	3.7	12.4	4.6	10.5	14.3	8.0	20.0
FCF (C\$m)	23.8	30.4	10.7	62.6	8.8	65.3	59.7	57.3
Cash position (C\$m)	10.0	6.0	0.0	43.1	42.9	8.4	17.8	7.4
Total debt (C\$m)	18.9	0.0	1.8	0.0	0.7	42.4	32.0	0.0
ROE (%)	14.4	18.7	13.0	16.7	-29.8	23.7	18.3	20.7
ROIC (%)	20.8	28.9	19.3	37.1	27.6	26.4	25.5	28.8
Book value/share (C\$)	10.06	10.88	11.23	12.28	13.51	16.23	18.09	19.07
Tangible book value/share (C\$)	5.63	6.53	6.95	8.01	9.75	11.78	13.75	14.71

Source: Desjardins Capital Markets, company reports

Exhibit 3: Comparative valuation

Company (US\$)	Ticker	Mkt cap (\$m)	Share price (\$)	1y chg (%)	EBITDA mgn (%)	Net mgn (%)	P/E ² (x)			EV/EBITDA ² (x)			TTM sls (\$m)	P/S FY2 (x)	P/B (x)	Debt/cap (x)	Net dt/EBITDA (x)
							TTM	FY1	FY2	TTM	FY1	FY2					
Air Methods	AIRM	1,122	89.00	37.0	24.3	6.4	24.1	16.4	14.7	10.3	7.6	7.1	661	1.4	3.9	67	3.6
Bristow Group	BRS	1,713	48.00	1.0	18.9	7.7	21.7	16.4	11.5	9.3	8.8	7.5	1,294	1.2	1.1	35	2.4
Discovery Air ¹	DAA	58	3.99	-1.5	25.7	11.2	4.3	7.0	4.5	3.7	3.7	3.3	187	0.3	0.6	56	2.5
PHI	PHIHK	301	24.18	11.3	12.5	2.3	NM	NA	NA	8.8	NA	NA	540	NA	0.8	42	3.6
Average					11.9	20.4	6.9	16.7	13.3	10.2	8.0	6.7	6.0	0.9	1.6	50	3.0
Median					6.1	21.6	7.1	21.7	16.4	11.5	9.1	7.6	7.1	1.2	1.0	49	3.0
Canadian Helicopters¹	CHLA	389	29.71	59.6	31.5	18.1	7.9	7.5	NA	5.0	4.6	NA	264	NA	1.8	17	0.4

¹ Data in Canadian dollars; ² Multiples greater than 70x are considered not meaningful
 Note: Estimates from I/B/E/S and FirstCall, except for CHLA (Desjardins Capital Markets)
 Source: Desjardins Capital Markets, Bloomberg, I/B/E/S, FirstCall

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Hold	Hold	32	20	11	23
Sell	Sell	4	3	2	4
Total		158	100	48	100

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Stocks that are expected to perform in line with their respective peer group* over a 12-month period

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Stocks that are expected to underperform their respective peer group* over a 12-month period

Not Rated

Stock is being covered exclusively on an informational basis

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Risk represented by the stock is in line with its peer group* in terms of volatility, liquidity and earnings predictability

Above-average Risk

Risk represented by the stock is greater than that of its peer group* in terms of volatility, liquidity and earnings predictability

Speculative

High degree of risk represented by the stock, marked by an exceptionally low level of predictability

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