



Overall Rating	
Overvalued by 6.8%	
Valuation Models (in order of importance)	Analyst Consensus: \$12.57 (CAD) Comparables: \$12.40 (CAD)
Valuation Methods	This company is:
Cash Flow:	Undervalued on a Cash Flow Valuation
Comparable Company:	Overvalued on a Comparable Valuation
Asset:	Overvalued on an Asset Valuation

Information

My name is Michael El-khoury, I am a Student at the University of New Brunswick, majoring in Finance and I am just starting an internship here at StockCalc for the summer. One of my tasks is to do reports on companies using StockCalc's useful tool and external resources.

This Stock is	Technically		
Fundamentally	Buy	Hold	Sell
Under Valued	Buy the Stock	Buy or Wait on Technical	Wait on Technical
Fairly Valued	Buy or Wait on Fundamental	Wait on Both Indicators for Direction	Sell or Wait on Technical
Over Valued	Wait on Fundamental	Sell or Wait on Fundamental	Sell the Stock

Company Overview (TRZ:TSE CAD)	
Price	13.42
Range	12.82 - 13.46
52 week	4.57 - 14.19
Open	13.11
Vol / Avg.	1.55M/369592
Mkt cap	505.77M
P/E	3.45
Div/yield	0.00/0.00
EPS	0.10
Shares	37.69M
Beta	0.53

Drivers of Consumer Cyclical Sector

The consumer cyclical refers to stocks that are impacted by the business cycle, during booms in the cycle, we can see stocks perform exceptionally well but when the economy shrinks, these stocks suffer. In the case of Transat AT their business is focused on leisure services, such as travel packages to Europe and Canada that include, air transportation, distribution through a dynamic travel agency network and accommodations. Drivers the leisure sector would the economic health, when it is at its peak there is a correlation with consumer spending, where they decide to spend their money on non-essential products such as travelling but when the economy weakens we see consumers save money instead spending it. Also a factor would be oil prices since one of TRZ main stream of revenue is Air Transat. Competition is another factor that affects tourism business and the exchange rate for the desired destination.

Recommendation

My recommendation for Transat AT inc. is a **HOLD**. I looked at the provided information from StockCalc, TRZ is fundamentally overvalued by 6.8% noted in the valuation detail section on a basis of analyst data and comparable approach deriving a \$12.50 weighted valuation. Taking a deeper look into the leisure industry drivers, tourism forecast and Transat itself, I have determine my hold decision. Reasoning behind this is due the Air Canada acquisition deal, it has driving TRZ stock price up to \$13.42 from \$4.99 when the letter of intent went public, there could be some over valuation of the stock, this why I recommend to hold as for now.

Company Description

Transat A.T. Inc is a Canadian company which specializes in the organization, marketing and distribution of holiday travel in the tourism industry. The company's core business consists of tour operators based in Canada and Europe which are vertically integrated with its other services of air transportation, distribution through a dynamic travel agency network, value-added services at travel destinations and accommodations.

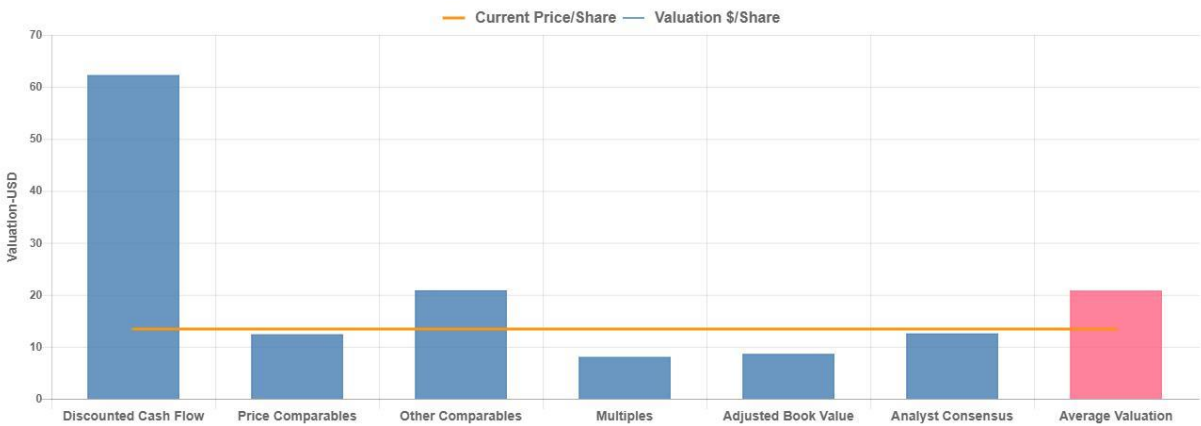
Company Latest News

As of May 16, 2019 TRZ entered into a letter of intent with Air Canada trying to acquire the corporation with a 30 day negation period. June 13<sup>th</sup> 2019, Transat AT announced their second quarter results, \$897.4 million in revenue, which is a 3.5% increase from Q2 2018, \$3 million adjusted operating income, \$9.1 million decrease in 2018, the drop in operating income is a result from many factors, such as, increase in fuel price, weakened CAD to USD and some optimization cost to their fleets. Thursday June 27<sup>th</sup>, Transat has agreed to a take-over by Air Canada at a price of 13\$ per share making a \$520 million deal, but before the transaction is complete 2/3 of Transat shareholders need to accept the bid. There has also been an offer for 14\$ a share by Group Mach, which they later withdrew as TRZ didn't show any interest of selling to them.

Tourism Forecast

The tourism sector outperforms during periods strong economic conditions but when economic condition worsen we see less demand for travels. According to Statistics Canada, the tourism sector is growing, from January to September 2018, there was \$80.8 billion in tourism spending which is a 5.9% increase compared to same period in 2017. With the growth of leisure travelling arising, big player Air Canada has offered to acquire TRZ at 13\$ a share, Thursday June 27<sup>th</sup>, Transat has agreed to a take-over by Air Canada. Most trends during a acquisition of one company buying another, is that the targeting corporation stock will rise and the acquiring stock will fall in the short run, we can see this pattern with AC and TRZ. If the shareholders approve of the take-over by Air Canada, both entities will be kept separate and protect the different brands and leaving the head offices and critical functions with Transat head office in Montreal. TRZ has a 9% increase in their total seats during the winter season to sun destination, totalling 4,697,000 seats in the market, putting them third behind Air Canada Vacations. TRZ has also plans on updating their fleets with 17 new A321neo and neo LR, as result of lower fuel costs and higher margins. The next 6-12 months for TRZ looks promising, depending the Air Canada deal.

Valuation Details



We have up to 6 valuation points for each company. Details are at the bottom of the report

Discounted Cash Flow and Sensitivity Analysis for TRZ:TSE

Using a discounted cash flow model we generated an intrinsic value of \$62.28 (CAD) for TRZ:TSE

Sensitivity Analysis

(showing how changes in the input variables impact the DCF calculation)

TRZ:TSE	Current Values	Valuation If Dropped *		Valuation If Raised *	
Calculated Value:	\$62.28	1%	5%	1%	5%
WACC (or Ke)	8.82	\$66.78		\$58.56	
Terminal Growth Rate	3.00	\$57.08		\$69.64	
Tax Rate	-4.19	\$62.93		\$61.63	
Cash Flow	67,910,686	\$54.94		\$69.62	
Capital Expenditures	-76,720,200	\$56.97		\$67.58	
Long Term Debt	0	\$62.28		\$62.28	

\* Changes are absolute: ex WACC from 8% to 7%

Comparables Model

Using similar companies and price based ratios we generated a valuation of \$12.40 (CAD) for TRZ:TSE. We also generated a valuation of \$20.86 (CAD) using other metrics and comparables. The comparable companies were Speedway Motorsports (TRK:NYS), Acushnet Holdings (GOLF:NYS), International Speedway (ISCA:NAS), Johnson Outdoors (JOUT:NAS), Lindblad Expeditions (LIND:NAS), trivago (TRVG:NAS) and Callaway Golf (ELY:NYS).

Company TRZ:TSE	End Date Value	Price Based on Comps	Adjustment Factor (%)
Earnings/Share	(\$1.13) (CAD)	(\$21.98) (CAD)	-71.7
Book Value/Share	\$14.79 (CAD)	\$34.97 (CAD)	-85.4
Sales/Share	\$80.93 (CAD)	\$0.00 (CAD)	-94.7
Cash Flow/Share	\$3.55 (CAD)	\$52.65 (CAD)	-50.3
EBITDA/Share	\$1.66 (CAD)	\$0.00 (CAD)	-90.6

TRZ:TSE	Ratios Used	Average Values	TRK:NYS	GOLF:NYS	ISCA:NAS	JOUT:NAS	LIND:NAS	TRVG:NAS	ELY:NYS
3.45	PE Ratio	47.00	14.83	21.28	25.13	17.45	56.35	175.40	18.56
0.91	PB Ratio	2.36	0.81	2.17	1.17	2.57	6.22	1.42	2.19
0.17	PS Ratio	1.76	1.55	1.22	2.90	1.41	2.58	1.43	1.23
3.78	PCF Ratio	14.84	8.32	12.37	9.41	18.82	13.36	20.90	20.68
0.00	EV to EBITDA	14.57	6.61	12.29	8.66	8.97	19.04	31.20	15.23

Multiples

Using a multiples approach we generated a valuation of \$8.05 (CAD) for TRZ:TSE

Company TRZ:TSE	End Date Value	Price Based on Comps	Adjustment Factor
Earnings/Share	(\$1.13) (CAD)	\$0.00 (CAD)	0
Book Value/Share	\$14.79 (CAD)	\$8.54 (CAD)	0
Sales/Share	\$80.93 (CAD)	\$6.59 (CAD)	0
Cash Flow/Share	\$3.55 (CAD)	\$9.03 (CAD)	0
EBITDA/Share	\$1.66 (CAD)	\$0.00 (CAD)	0

Ratios	Ratio Average
PE Ratio	5.70
PB Ratio	0.58
PS Ratio	0.08
PCF Ratio	2.54
EV to EBITDA	0.00

Adjusted Book Value versus Historical Price to Book

The average the Price to Book ratio for TRZ:TSE for the last 10 years was 0.58. We ran the Adjusted Book Value for TRZ:TSE and generated a book value of \$14.89 (CAD). By multiplying these we get an adjusted valuation of \$8.63 (CAD)

Analyst Data

In the Stockcalc database there are 7 analysts that provide a valuation for TRZ:TSE. The 7 analysts have a consensus valuation for TRZ:TSE for 2019 of \$12.57 (CAD).

Analyst Recommendation					
Buy	Hold	Sell	Rating (of 5)	Guidance	As Of
0	5	1	2.8571	Hold	2019-6-26

Current Price: 13.42 CAD

Analyst Consensus			
CAD Millions	2019	2020	2021
Mean EPS	-0.50	-0.10	0.33
# EPS Analysts	7	7	1
Mean Revenue	2,915.00	3,030.20	3,151.70
# Revenue Analysts	7	7	1
Mean Target Price	12.57		
Mean Cash Flow			
Mean EBITDA			
Mean Net Income			
Mean Debt Outstanding			
Mean Tax Rate			
Mean Growth Rate			
Mean Capital Expenditure			

## Explanation of Valuation Models

We have up to 6 valuation points for each company in the database.

The Discounted Cash Flow (DCF) valuation is a cash flow model where cash flow projections are discounted back to the present to calculate value per share. DCF is a common valuation technique especially for companies undergoing irregular cash flows such as resource companies (mining, forestry, oil and gas) going through price cycles or smaller companies about to generate cash flow (junior exploration companies, junior pharma, technology firms...).

The Price Comparables valuation is the result of valuing the company we are looking at on the basis of ratios from selected comparable companies: Price to Earnings, Price to Book, Price to Sales, Price to Cash Flow, Enterprise Value (EV) to EBITDA. Each of these ratios for the selected comparable companies are averaged and multiplied by the values for the company we are interested in to calculate a value per share for our selected company.

We have included the Other Comparables as a way to value companies that cannot be valued using Earnings based ratios. This technique is very useful for companies still experiencing negative cash flows such as mining exploration firms. We use Cash/Share, Book Value/Share, MarketCap, 1 Year Return, NetPPE as the ratios here. Each of these ratios for the selected comparable companies are averaged and multiplied by the values for the company we are interested in to calculate a value per share for our selected company.

Multiples are similar to Price comparables where we look at current or historic ratios for the company in question to assess what it should be worth today based on those historic ratios. We use the same 5 ratios as in the price comparables and value the company with its historic averages.

With Adjusted Book Value (ABV) we calculate the book value per share for the company based on its balance sheet and multiply that book value per share by its historical price to book ratio to calculate a value per share.

If we have Analyst coverage for the company we use the consensus target price here.

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