

## AEROMECHANICAL SERVICES LTD.

AMA-TSX V: \$0.55 — **BUY**

TARGET PRICE: \$1.50; PROJECTED RETURN: 173%

**JACQUES KAVAFIAN 416.860.7797**

[jacques.kavafian@researchcapital.com](mailto:jacques.kavafian@researchcapital.com)

Susan Cheng ASSOCIATE 416.860.7648

### ACQUISITION OF WINGSPEED CORPORATION

#### EVENT – AEROMECHANICAL ACQUIRES ASSETS OF WINGSPEED

AeroMechanical has purchased all assets of Wingspeed Corp. for US\$0.25 million in cash. Closing is expected to occur on October 26, 2009. Wingspeed, which was placed in Chapter 7 bankruptcy in August 2009, develops and markets products for commercial aviation, providing voice, data, and aircraft messaging over Iridium satellite, in addition to providing paperless cockpit technologies.

#### IMPACT – ANOTHER CAPABILITY FOR AEROMECHANICAL

This acquisition allows AeroMechanical to takeout a potential competitor and expand its product offering by developing paperless cockpit technologies. In addition, this purchase includes certain supplier contracts and customer contracts. Some of Wingspeed's customers include known airlines in the U.S. and Europe. Over time, we expect AeroMechanical to convert Wingspeed's customers onto its AFIRS technology. Wingspeed has approximately 70 units installed and 85 units in backlog.

#### VALUATION – BASED ON LONG-TERM P/E RATIO

We value the shares based 20x on our F2013 EPS estimate of \$0.24 discounted at 25% for a target price of \$1.50 per share.

#### RECOMMENDATION – BUY

AeroMechanical is a very early-stage growth company and, as such, earnings estimates do not yet reflect its full potential. We remain a **BUY** on the stock as our target price provides a 173% return from current levels.

#### VALUATION CATALYSTS – FURTHER INSTALLATIONS

We will be watching the flow of orders, and if the pace picks up with the backlog growing to over 300 units, we may have to increase our valuation. The company presently has 231 units under contract, with 183 units installed.

#### Financial Metrics (US\$)

Share Price:	\$0.55	Basic Sh. O/S (mm):	90.0
Target:	\$1.50	FD Shares (mm):	96.0
Return:	173%	Market Cap (mm):	\$49.5
Div/Distn:	N/A	Enterprise Val (mm):	\$44.9
Yield:	N/A	52 Wk. Low-High:	\$0.105-\$0.60

FY Dec.-31	F2007A	F2008A	F2009E	F2010E
Revenue (mm)	\$2.0	\$3.2	\$7.0	\$15.8
EV/S	22.6x	14.1x	6.4x	2.8x

#### Quarterly EPS per Share

	F2007A	F2008A	F2009E	F2010E
Q1	-0.01	-0.03	-0.02	0.00E
Q2	-0.03	-0.03	-0.02	0.00E
Q3	-0.03	-0.02	-0.01E	0.00E
Q4	-0.04	-0.02	-0.01E	0.01E
Fiscal year total	-0.11	-0.10	-0.06	0.01
P/E	n.m.	n.m.	n.m.	n.m.

#### Target Valuation Parameter

20 x 2013 EPS discounted @ 25%



Courtesy of BigCharts.com

#### Key Risks

We believe that the largest risk for the company is that it may not install the number of AFIRS units as expected.

#### Corporate Profile

AeroMechanical Services Ltd. ([www.amscanada.com](http://www.amscanada.com)) is a Canadian manufacturer and provider of aeronautical monitoring products to help airlines save on costs and predict mechanical malfunctions before they occur.

#### Multiple Share Structure

Not applicable.

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**AeroMechanical Services Ltd.**  
**Consolidated Statement of Earnings**

<b>For the year ended December 31 (in millions C\$)</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>
<b>Assumptions:</b>				
<i>AFIRS installed units, beginning of period</i>	66	61	151	226
<i>AFIRS units installed during period</i>	28	90	75	40
<i>AFIRS units installed during period under new acctg rule</i>	0	0	0	48
<i>AFIRS installed units, end of period</i>	94	151	226	314
<b>Total revenues</b>	<b>1.99</b>	<b>3.18</b>	<b>6.99</b>	<b>15.83</b>
Cost of sales	1.35	2.16	3.67	6.66
<b>Gross margin</b>	<b>0.64</b>	<b>1.02</b>	<b>3.32</b>	<b>9.18</b>
<b>Gross margin as %</b>	<b>32.1%</b>	<b>32.0%</b>	<b>47.5%</b>	<b>58.0%</b>
Expenses:				
Salaries and benefits	4.10	5.16	4.36	4.45
Marketing	1.08	1.01	0.50	0.72
Stock-based compensation	0.53	0.70	0.41	0.52
Research and development	0.25	0.75	0.85	0.40
General and administrative	1.40	1.50	1.71	1.60
Depreciation	0.09	0.17	0.15	0.16
Interest and bank charges	0.02	0.04	0.03	0.03
Foreign exchange currency loss	0.04	0.02	0.07	0.00
Stock exchange fees	0.00	0.00	0.00	0.00
Third-party contracts	0.00	0.00	0.00	0.00
Other	0.00	0.18	0.03	0.00
	7.50	9.54	8.11	7.88
Earnings before taxes	(6.87)	(8.52)	(4.79)	1.30
Income taxes	0.00	0.00	0.00	0.49
<b>Net income (loss)</b>	<b>\$ (6.9)</b>	<b>\$ (8.5)</b>	<b>\$ (4.8)</b>	<b>\$ 0.8</b>
Basic EPS	\$ (0.11)	\$ (0.10)	\$ (0.06)	\$ 0.01
Diluted EPS	\$ (0.11)	\$ (0.10)	\$ (0.06)	\$ 0.01
<b>Diluted EPS before one-time items</b>	<b>\$ (0.11)</b>	<b>\$ (0.10)</b>	<b>\$ (0.06)</b>	<b>\$ 0.01</b>
Weighted average common shares	64.3	82.3	82.5	82.5
<b>EBITDA</b>	<b>\$ (6.7)</b>	<b>\$ (8.1)</b>	<b>\$ (4.5)</b>	<b>\$ 1.5</b>

Figure 1. Income Statement  
Source. Company reports, Research Capital estimates



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4. As at this date, Jacques Kavafian made several visits to AeroMechanical's headquarters in Calgary at Research Capital Corporation's expense.

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Toronto 416.860.7600

Montreal 514.399.1500

Vancouver 604.662.1800

Calgary 403.265.7400

Regina 306.566.7550