



ValuEngine™

The Leader in Stock Valuation and Forecasting

Valuengine - Toronto Quantitative Stock Report

AIR CANADA-A Ticker: AC (TSX)

Oct 14, 2014

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ValuEngine's fundamentally-based, quant-derived research is now available to private investors. ValuEngine's research will enhance your ability to evaluate individual stocks, manage your portfolio, and allocate capital for maximum returns.

ValuEngine currently covers @5500 US equities as well as @500 ADRs and foreign stocks that trade on US markets. In addition, the firm covers most major Canadian stocks and can provide coverage of Tokyo markets on an as needed basis.

ValuEngine Recommendation

BUY	Most Favorable
	Favorable
HOLD	Neutral
SELL	Unfavorable
	Most Unfavorable

CURRENCY N/A

Recommendation Factors

	Value	Rank
Overall Rank		top 1%
1-Yr Target Price	7.51	top 1%

Company Fundamentals

Sector	Transportation
Industry	TRANSPORTATION-AIRLINE
Last Trade	6.20
Trade Date	10/13/14
Fair Value	7.77
P/E Ratio	4.37
Last 1-Yr Return	29.19%
Market Cap(mil)	1,772.56
Trailing P/E	4.37
Forward P/E	2.62
Sharp Ratio	0.46
5-Yr Ann Return	30.54%
Volatility	66.03%
EPS Growth	66.90%
Annual Dividend	n/a
Dividend Yield	n/a
Beta	1.64

Valuation Analysis
AC Today's Fair value: 7.77, 20.21% undervalued

Forecast Analysis

	Target Price	Exp. Return
1-Month	6.31	1.76%
3-Month	6.54	5.44%
6-Month	6.83	10.11%
1-Year	7.51	21.14%
2-Year	7.79	25.71%
3-Year	3.54	-42.83%

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VALUENGINE RECOMMENDATION

ValuEngine has issued a **STRONG BUY** recommendation for AIR CANADA-A on Oct 14, 2014. Based on the information we have gathered and our resulting research, we feel that AIR CANADA-A has the probability to **OUTPERFORM** average market performance for the next year. The company exhibits **ATTRACTIVE** P/E ratio, 5-year annualized return and momentum.

RECOMMENDATION OVERVIEW

ValuEngine's stock recommendations are based on the proprietary ValuEngine one-year forecast return (1YFR) model output for each individual equity. A stock is rated Strong Buy, Buy, Hold, Sell, Strong Sell based on the Forecast One Year Return. The breakdown for each rating is as follows:

- Strong Buy: Better than +12% 1YFR
- Buy: Between +5% and +12% 1YFR
- Hold: Between -5% and +5% 1YFR
- Sell: Between -12% and -5% 1YFR
- Strong Sell: Worse than -12% 1YFR

There is an additional buffer for stock upgrades or stock downgrades to eliminate stocks moving back and forth quickly between ratings. ValuEngine's Strong Buy-rated stocks have an average annual return of 24% since 2001. For more details on the ValuEngine One Year Forecast Target price and its components, please go [HERE](#).

FAIR MARKET VALUATION PRICE

Based on available data as of Oct 14, 2014, we believe that AC should be trading at \$7.77. This makes AC 20.21% undervalued. Fair Value indicates what we believe the stock should be trading at today if the stock market were perfectly efficient and everything traded at its true worth. For AC, we base this on actual earnings per share (EPS) for the previous four quarters of 1.42, and forecasted EPS for the next four quarters of 2.37. There are an additional 10 firm specific and interest rate related parameters, each playing a role in the valuation analysis. For more details on ValuEngine's Fair Value Model, please go [HERE](#).

FORECASTED TARGET PRICES

The predictive variables used in Valuengine's forecast target price models include both proprietary and well-established forecasting variables derived from credible financial research studies and publications. Our forecasting models capture, among other things, several important tendencies that stock prices consistently exhibit: Short-term price reversals, Intermediate-term momentum continuation, and Long-term price reversals. We use a distinct forecasting model for each time horizon and for every industry. We then apply the most advanced statistical/econometric techniques to ensure that our stock return forecasts are as reliable as possible. For more details on ValuEngine's Forecasted Target Price Model, please go [HERE](#).

EVALUATION & RANKINGS

	Value	Rank
Valuation	-20.21%	79
12-Month Return	29.19%	87
5-Yr Avg Ann Rtn	30.54%	96
Volatility	66.03%	28
EPS Growth	66.90%	76
Market Cap(mil)	1.77	73
Sharpe Ratio	0.46	77
P/S Ratio	0.15	96
M/B Ratio	n/a	n/a
P/E Ratio	4.37	100

EVALUATION & RANKINGS SUMMARY

Just as important as the percentages shown for our ten predictive variables for each stock is the way they are ranked against the 5500 plus stocks in our database. This is sometimes confusing to newcomers to ValuEngine. Each of these quantitative measurements is ranked on a scale of 1 to 100. Generally the higher the ranking, the more positive the influence each measurement has on the overall attractiveness of the stock. In other words a high rank is always better. Let's take them one by one:

- Valuation rank 79: 21% of stocks are more undervalued
- Momentum rank 87: 13% of stocks have higher momentum
- 5-Year Average Annual Return 96: 4% of stocks have higher average annual return
- Volatility rank 28: 72% of stocks have less volatility
- EPS growth rank 76: 24% of stocks have greater projected EPS growth
- Size rank 73: 27% of companies have higher market capitalization
- Sharpe Ratio rank 77: 23% of stocks have a higher Sharpe Ratio
- Price/Sales rank 96: 4% of stocks have lower price/sales ratios
- P/E rank 100: 0% of stocks have lower P/E ratios

MARKET RATIO BASED VALUATION

Portfolio managers and professionals traditionally rely on market ratios to gauge whether a stock is fair valued or overvalued. On this page, we present such a valuation based on one of three market ratios: PEG (price to trailing 4 quarter earnings ratio, divided by the consensus analyst forecasted next year EPS growth), P/E ratio (price to forward 4 quarter earnings ratio), and P/S ratio (price to trailing 4 quarter sales). Among the three, PEG is the most informative as it reflects both the price/earnings ratio and expected future EPS growth, while P/E is better than P/S. For each given stock, we apply the PEG to give a fair value assessment if both its trailing 4 quarter EPS and forecasted EPS growth rate are positive. If its forecasted EPS growth is negative but its forward 4 quarter EPS is positive, we apply the P/E to give a fair value for the stock as of today. Otherwise, we resort to the P/S to assess its fair value.

To establish a valuation standard, we use both (i) the average historical market ratio of the stock over the past 10 years (or however long there is data available for the stock), and (ii) the average market ratio today of five comparable stocks in the same sector and from companies of similar size. These two alternative perspectives should give you a good idea about where this stock's valuation stands today.

1. Valuation Based on AC's Past PEG

Over the past 7 years, AC's average PEG is 0.17. AC earned 1.42 per share in its recent 4 quarters. The analyst consensus estimate is 2.37 for its 4 quarter forward EPS. AC's current price sales ratio is 0.15. The following assessment is based on multiplying the historical PEG with recent 4 quarter EPS and the forecasted EPS growth rate over the next 4 quarters for AC.

Fair Value

Historical Average PEG	0.17
PEG-Based Fair Value	16.36

2. Valuation Based on Comparables' PEG

AC's comparables are CHR, TRZ and WJA. The current PEG average of these comparables is 1.27. AC earned 1.42 per share in its recent 4 quarters. The analyst consensus estimate is 2.37 for its 4-quarter-forward EPS. AC's current price sales ratio is 0.15. The following assessment is based on multiplying comparable stocks' average PEG today with AC's recent 4 quarter EPS and the forecasted EPS growth rate over the next 4 quarters .

Comparables' PEG

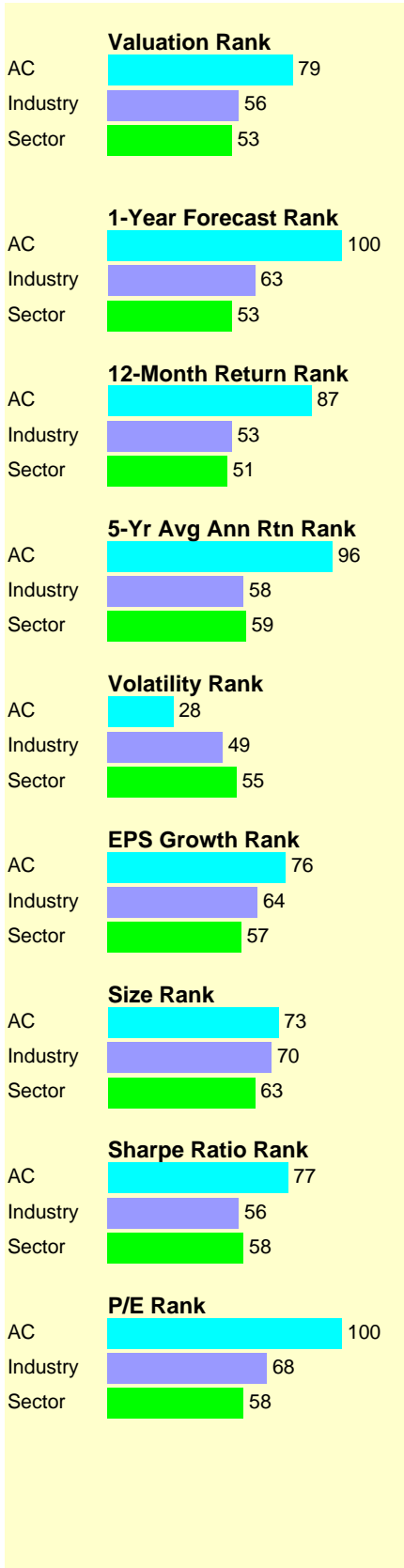
Comparables	Current PEG
CHR	3.27
TRZ	0.07
WJA	0.46

Fair Value

Comparable Stocks' Avg PEG	1.27
Comparable PEG-Based Fair Value	120.40

ValuEngine Rankings

Just as important as the percentages shown for our ten predictive variables for each stock is the way they are ranked against the 5,500 plus stocks in our database. Each of these quantitative measurements is ranked on a scale of 1 to 100. Generally the higher the ranking, the more positive the influence each measurement has on the overall attractiveness of the stock. In other words a high rank is always better. The below data points show how the rank for each data point for symbol AC relates to the overall industry and sector averages.



The ValuEngine Valuation Rank measures the relationship between a company's stock price and its Fair Value. The higher the Valuation rank, the more undervalued the stock. With a Valuation Rank of 79, symbol AC is moderately higher than the average of its industry group, which carries a Valuation Rank of 56.

The ValuEngine Forecast Rank reflects the relative future performance of a stock for the next year. A higher forecast rank indicates stronger potential performance over the next year. With a Forecast Rank of 100, Symbol AC is significantly higher than the industry's rank score of 63.

The ValuEngine 12-Month Return Rank reflects the relative stock performance over the past 12 months. A higher 12-Month Return Rank indicates a higher return over the past year. With a 12-Month Return Rank of 87, symbol AC is significantly higher than the industry's rank score of 53.

The ValuEngine 5-Year Average Return Rank reflects a stock's average annual return over the last 5 years, in comparison with the coverage universe. A higher rank indicates better return performance over the past 5 years. With a rank of 96, symbol AC is significantly higher than the industry, which has a rank of 58.

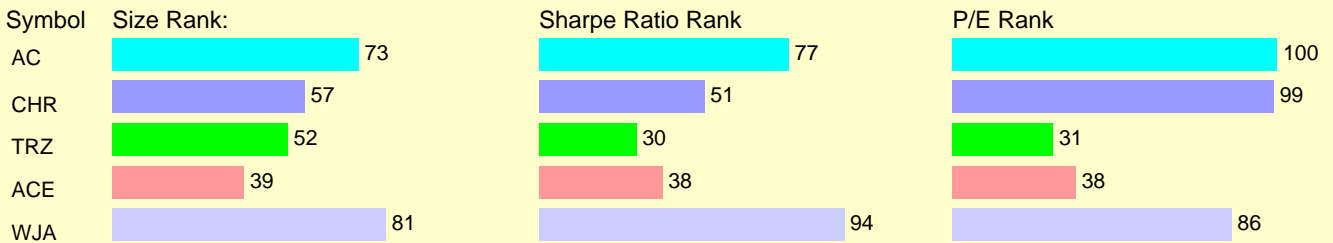
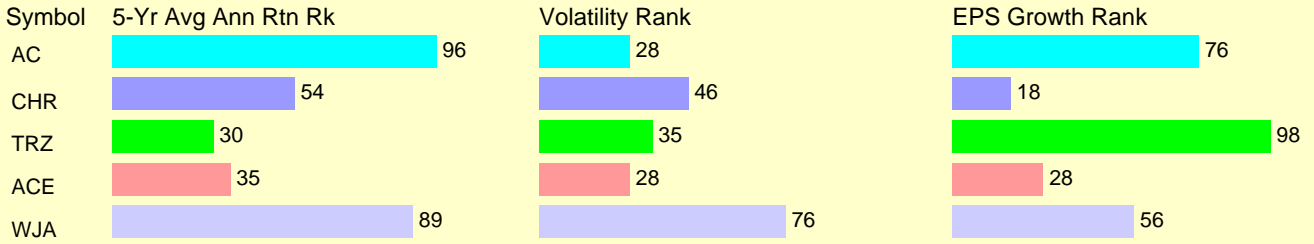
The ValuEngine Volatility Rank reflects the volatility associated with the stock. A higher Volatility Rank indicates lower volatility performance. Symbol AC has a Volatility Rank of 28, which is moderately lower than the industry Rank of 49.

The ValuEngine EPS Growth Rank indicates a stock's expected EPS growth rate. A high rank indicates a high growth rate expectation. Symbol AC has an EPS Growth Rank of 76. This is slightly higher than the industry rank of 64.

The ValuEngine Size Rank signifies the company's size in terms of market capitalization. A higher rank denotes a larger market capitalization within ValuEngine's stock universe. With a Size rank of 73, symbol AC is in line with the industry, which has a rank of 70.

The ValuEngine Sharpe Ratio Rank measures the risk return tradeoff offered by a stock. Sharpe ratio is the stock's average annual return (over the last five years) divided by its annualized volatility over the same 5 years. With a rank of 77, symbol AC is moderately higher than the industry, which has a rank of 56.

The ValuEngine P/E Rank signifies the relative standing of a company on its P/E ratio, relative to the universe. Stocks in the top P/E percentile are each assigned a rank of 1 (highest P/E stocks) while those in the bottom P/E percentile are assigned a rank of 100 (traditional value stocks). With a P/E rank of 100, symbol AC is significantly higher than the industry P/E rank of 68.

Comparables & Business Description
Comparing symbol AC* to its Peers


C - AIR CANADA-A
 CHR - CHORUS AVIATION
 TRZ - TRANSAT A T INC
 ACE - ACE AVIATION
 WJA - WESTJET AIR LTD

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Advanced academic research that brings you superior investment strategies in an actionable format. The most comprehensive and useful report available. ValuEngine's three models: Valuation Model, Forecast Model and Ratings Model are incorporated to give you a well-rounded analysis from three different perspectives. Consensus EPS trend and Earnings Surprise statistics provide additional insights. Also, detailed Company Profile, ValuEngine Fair Valuation; 1-3-6 month and 1-2-3 yr forecasts, ValuEngine 1-5 Engine Rating, Multi-stock comparison, Financials, Earnings Estimates, Risk Assessment, Data Summary and much more. More report information: www.valuengine.com/rep/mainrep

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The ValuEngine Weekly Newsletter:

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Please call (800) 381-5576 to speak with a sales representative or email support@valuEngine.com.

VALUENGINE'S METHODOLOGY

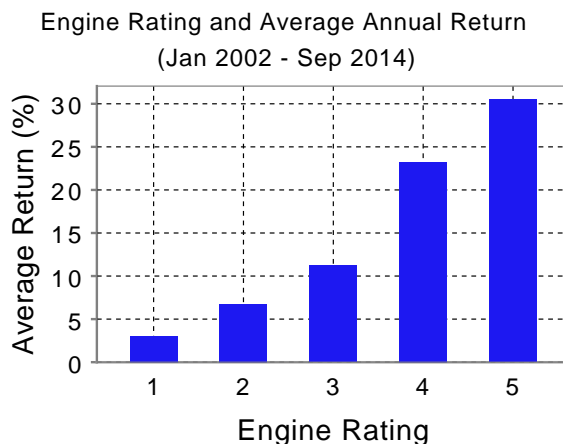
ValuEngine's research combines the most advanced academic concepts with real world Wall Street practice. The result is state-of-the-art fair market valuation and price forecasting technologies.

ValuEngine's stock valuation employs a sophisticated, three-factor approach. Fundamental variables, such as a company's trailing 12-month Earnings-Per-Share (EPS), the analyst consensus estimate of the company's future 12-month EPS, and the 30-year Treasury yield, are all used to create a more accurate reflection of a company's fair value. Together with eleven additional variables, ValuEngine paints a detailed picture of a company's fair value, represented by the model price.

ValuEngine's stock forecasts examine, among other things, short-term price reversals, intermediate-term momentum continuation, and long-term price reversals over six time horizons for every industry to ensure forecasts are established relative to a stock's proper peer groups. Advanced statistical/econometric techniques are used to run thousands of simulations estimating the probability of a double in stock price, as well as the probability of meeting and exceeding any given portfolio or stock investment target.

The VE Engine Rating is an assessment of a stock's overall attractiveness, according to VE. It is based on the one year forecast target price, which is the final evolution of VE's equity modeling. On average, only 2 percent of ValuEngine's 5,500 stocks under coverage achieve a 5 rating, but this can vary depending upon market conditions. 5 and 4 rated stocks are expected to outperform the overall markets, 3 rated to roughly match market performance, and 2 and 1 rated are expected to underperform.

For additional information about ValuEngine's financial research and financial modeling on over 5,500 companies, please click [HERE](#).



DISCLOSURES

ValuEngine offers equity recommendations and related return estimates to investors and their advisors. It uses a three-class Buy-Hold-Sell rating system. This is a consolidated version of the firm's five class rating system: most favorable and favorable ratings are buys; neutral ratings are holds and the categories unfavorable and most unfavorable are sells.

STOCK RATINGS: The terms below are used to rate a stock's 12-month performance:

1. Buy: Expected to outperform the SP500 producing above average returns.
2. Hold: Expected to perform in line with the SP500 with average returns.
3. Sell: Expected to underperform the SP500 producing below-average returns.

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