

<b>Maxcal Corporation</b>		Symbol: HXL
Analyst		Thamar Burke
Buy Rating		\$46.37
Sell above		\$64.60
Probability of Price Increase		34%
Last Price		\$71.06
Intrinsic Value		\$52.30
Target Dividend		\$0.61
Target Price		\$57.35

<b>Financials</b>			
<b>Profitability</b>	<b>HXL (LTM)</b>	<b>HXL Historical</b>	<b>Peers' Median (LTM)</b>
Return on Capital	9.7%	11.2%	8.21%
Adjusted EBITDA Margin	20.5%	14.4%	10.00%
Return on Equity	16.5%	14.0%	7.4%
Adjusted Net margin	13.3%	10.2%	8.7%

<b>Invested Funds</b>	<b>HXL (LTM)</b>	<b>HXL Historical</b>	<b>Peers' Median (LTM)</b>
CapEx/Capital	1.3%	2.5%	4.5%
WOC/Capital	14.5%	15.8%	18.8%
Operating Assets/Capital	80.0%	81.3%	26.4%
Goodwill/Capital	4.3%	0.0%	32.9%
<b>Capital Structure</b>	<b>HXL (LTM)</b>	<b>HXL Historical</b>	<b>Peers' Median (LTM)</b>
Total Debt/Market Cap.	0.20	0.13	0.20
Reported CapEx/Borrowing	5.3%		4.6%
CapEx Interest/Total Debt	3.9%		4.3%
CGFS Credit Rating	BBB		BB
Credit Model Rating	bb+		bbb-
Probability of Default	0.10%		0.04%

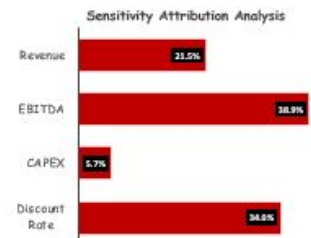
<b>Quarterly Earnings Surprises (Actual Vs. Median Estimator)</b>	
<b>Revenue</b>	
12/31/2017	1.41%
3/31/2018	7.38%
6/30/2018	1.00%
9/30/2018	-0.59%
12/31/2018	0.95%
Mean (Standard Error)	2.03% (1.01%)

<b>EBITDA</b>	
12/31/2017	-16.52%
3/31/2018	-10.75%
6/30/2018	-22.06%
9/30/2018	-5.94%
12/31/2018	-18.80%
Mean (Standard Error)	2.03% (5.25%)

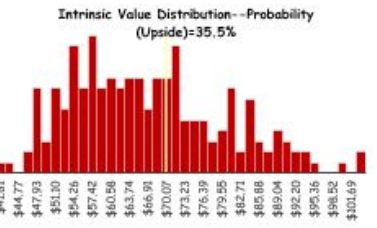
<b>Cost of Capital</b>			
<b>CGFS Credit Rating</b>	<b>Credit Model Rating</b>	<b>Probability of Default</b>	
Implied Cost of Borrowing (HXL)	5.1%	6.5%	4.2%
Implied Cost of Borrowing (Peers)	5.6%	6.1%	6.1%
Cost of Non Debt Estimate	5.0%		
Market Risk Premium Estimate	5.7%		
Cost of Equity Estimate	10.7%		
WACC Estimate	9.4%		

**Valuation**

<b>DCF Valuation</b>						
	Revenue	EBITDA Margin	LFCF	WACC	BOIC	Price Per Share
Base Year (Actual)	\$566.34	39%	\$288.20	8.12%	35.33%	\$129.14
Year 1	\$711.74	41%	\$293.32	8.93%	40.08%	\$139.94
Year 2	\$869.28	42%	\$323.29	8.92%	35.83%	\$151.51
Year 3	\$1,049.52	42%	\$425.88	8.91%	31.49%	\$163.82
Year 4	\$1,252.44	42%	\$524.88	8.91%	28.19%	\$176.85
Year 5	\$1,477.08	42%	\$630.33	8.90%	25.57%	\$190.58
Year 6	\$1,721.34	42%	\$746.80	8.89%	23.59%	\$204.97
Year 7	\$1,981.91	42%	\$878.58	8.88%	21.53%	\$219.98
Year 8	\$2,254.19	42%	\$1,019.72	8.88%	19.90%	\$235.55
Year 9	\$2,532.34	41%	\$1,170.59	8.87%	18.45%	\$251.62
Year 10	\$2,809.38	41%	\$1,338.22	8.87%	17.11%	\$268.11
Year 11	\$3,077.42	41%	\$1,517.48	8.86%	15.86%	\$284.95
Year 12	\$3,327.98	41%	\$1,701.04	8.86%	14.69%	\$302.05
Year 13	\$3,552.36	41%	\$1,894.59	8.86%	13.57%	\$319.33
Year 14	\$3,742.18	41%	\$1,089.59	8.86%	12.50%	\$336.72
Year 15	\$3,889.77	41%	\$1,141.58	8.86%	11.46%	\$354.02
Continuing Period	\$3,988.76	41%	\$743.65	8.87%	8.87%	



<b>Relative Valuation</b>		<b>Asset Based Valuation</b>	
EV/Rev (FW)	EV/EBITDA (FW)	P/BV (TTM)	P/E (FW)
8.2x	54.0x	19.7x	98.2x
Median (Peers)			Recovery Rate: 100%
			Capital: \$7,395.45
Revenue (NTM)	EBITDA (NTM)	Book Value (LTM)	Net Income (NTM)
\$729.87	\$297.87	\$463.10	\$222.24
			Intangibles: \$52.63
			Claims: \$70.35
Implied EV	\$4,020.88	\$16,088.95	
Total Net Claims	-\$90.33	-\$90.33	
Implied EQ	\$4,111.21	\$16,179.28	\$9,110.77
			\$21,819.43
			\$7,272.47



<b>Valuation Summary</b>			
Model	Intrinsic Value	Target Price	Weight
DCF Valuation	\$129.14	\$139.94	40.00%
EV/Rev (FW)	\$104.32	\$112.79	0.00%
EV/EBITDA (FW)	\$276.18	\$298.60	30.00%
P/BV (TTM)	\$195.52	\$168.15	30.00%
P/E (FW)	\$372.46	\$402.69	0.00%
Asset Based Valuation	\$124.14	\$134.22	0.00%
Price per Share	\$181.16	\$196.00	100%

Target return threshold 25%

Hexcel Corporation	Symbol: HXL
Analyst	Thomas Burke
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**Description**

Hexcel Corporation, together with its subsidiaries, develops, manufactures, and markets structural materials for use in commercial aerospace, space and defense, and industrial markets.

Sector	Industrials
Industry	Aerospace and Defense
Last Guidance	December 11, 2018
Next earnings date	NM

**People**

Stonago, Nick, Chairman of the Board, President & CEO
Winterlich, Patrick, Executive VP & CFO
Luhman, Gail, Executive VP, General Counsel & Secretary
Honnemuth, Robert, Executive Vice President of Human Resources & C
Morlat, Thierry, President of Aerospace, Europe, Middle East & A
Hendricka, Kimberly, Senior VP, Corporate Controller & Chief Account

**Key Competitors**

Esterline Technologies Corporation	Spirit AeroSystems Holdings, Inc.
Triumph Group, Inc.	HEICO Corporation
Northrop Grumman Corporation	ARR Corp.
TransDigm Group Incorporated	Wesco Aircraft Holding, Inc.
Manq Inc.	Raytheon Company

**Market Statistics**

Market Capitalization (mil)	\$6,061.11
Last Price per share	\$71.06
52-Week High	\$73.42
52-Week Low	\$52.50
Volatility	21.89%
Daily Volume (mil)	0.15
Short Interest	2.96%
Days to cover short interest	4.76
Beta	1.42

**Investment Thesis**

**PRESSING TIME TO SELL CURRENTLY HELD POSITION WHICH IS OVERVALUED.**

I am initiating coverage of Hexcel Corporation with a Sell at the current price of \$71.31 because it has hit its \$70 price target. I view HXL as a leading company in the industrials and composite materials industry. HXL is diversified in three separate divisions. These divisions are commercial aerospace, industrial and space and defense. As of recently HXL is about to hit its peak price while exhibiting signs of being overvalued. HXL has hit a plateau of growth and must be sold within the immediate future in order to secure a 20% earning from this position.

**For the long:**

- 1) **New investment in acquisition of ABC technologies.** This new acquisition has the possibility to increase sales and profitability in the Space & Defense sector of Hexcel. The Space and Defense industry represents 17% of the corporation. With the acquisition of ABC technologies to Hexcel this has the opportunity to create a competitive advantage.
- 2) **Non competition parts will allow for continued growth stability for Hexcel.** Hexcel currently has several noncompetition agreements which will allow for stability within the industry.
- 3) **Stock buy backs are in schedule to happen within the next year or two.** If this is the case the price of the stock will rise and EPS will also rise. EPS is already at company record level so it is quite possible that the stock price will rise even higher. The amount of stock repurchased is supposed to be \$75 Million.

**For the short:**

- 1) **Profits are slipping.** While sales may be on the increase by 8% profits are currently slipping. This may ward off some potential investors.
- 2) **Earnings and other important measures are decreasing.** Earnings are down by 2.6% as compared to the last year for this first quarter. Another notable decrease was recorded in the Return on Capital from 18% to 15% within the last three years. RDC, ROA, and ROIC are all in 5 year lows. 2018's growth rate, which rested at 8.3%, was worse than the last 5 years which is an indicator that Hexcel maybe slowing down.
- 3) **The stock price for Hexcel is about to reach an all time high.** The previous high was at \$73.09. The proforma also indicates that the stock is highly overpriced meaning that the price may fall under our 20% benchmark. It is imperative to buy high and sell low.

**Key Catalysts for price change**

- Government Contracts (New election on horizon)
- Schedule for stock repurchases
- Impact on gross margins due to regionalization and inventory management.

**Valuation**

My intrinsic value stands at \$52.16. The sell above value stands at \$64.43 dollars which is derived from Gross Profit estimates.

**Ownership**

Ownership	Change in Ownership (%)
Shares outstanding (mil)	84.79
Diluted shares outstanding (mil)	89.00
Options and Warrants (Shares equivalent)	0.73
Shares held by institutions	97%
Shares held by investment Managers	80%
Shares held by hedge funds	5.49%
Shares held by VC/PE firms	0.605%
Shares held by insiders	0.88%
Patron Pill Type	NONE

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