

October, 4, 2017

Hexcel Company (HXL)

Timothy Cousin

Sector: Industrials

Industry: Aerospace and Defense

Current Price: \$58.23

Target Price: \$63.13

Company Description: Hexcel can be described as a company that has been thriving in the sense of they reached a new mark of two billion sales toward the end of 2016. Hexcel is a company that prides themselves in having the ability to be advanced when it comes to technology. They are the leading manufacturer of composite materials. These materials can be used in airplanes, fighter jets, and wind turbines. Since Hexcel has such a strong outlook on their technology advancement, it gives them a great opportunity to specialize in the production of light weight carbon fiber, which essentially separates them apart from the rest of their competitors. Hexcel essentially develops, manufacturers, lightweight materials that are used in two segments of composite materials and engineered products. Hexcel's products can be found in military aircraft, space equipment, wind turbines, and everyday products.

BUY

Current Price: \$58.23
 Target Price: \$63.13
 Market Cap: 2B
 Beta: 1.60
 Gross Profit Margin: 28.2%
 EBITA Margin: 22.6%
 ROE: 19.9%
 S&P Rating: BBB



Thesis: Hexcel is a company that has many factors causing them to grow. Their ability to try and find a way to continue to increase their growth is a strong indicator that they will continue to make money in the long run. Hexcel is coming off of one of their best years in the sense of earning over two billion dollars, and still have room to grow with the ten million dollar research center they just opened up in the United Kingdom. There a ton of projects coming on in 2018 that will cause the value of Hexcel to increase, supporting the fact that they are a strong buy.

Catalysts: Forward looking projections that call for positive/negative outlook that will strengthen your thesis. Example:

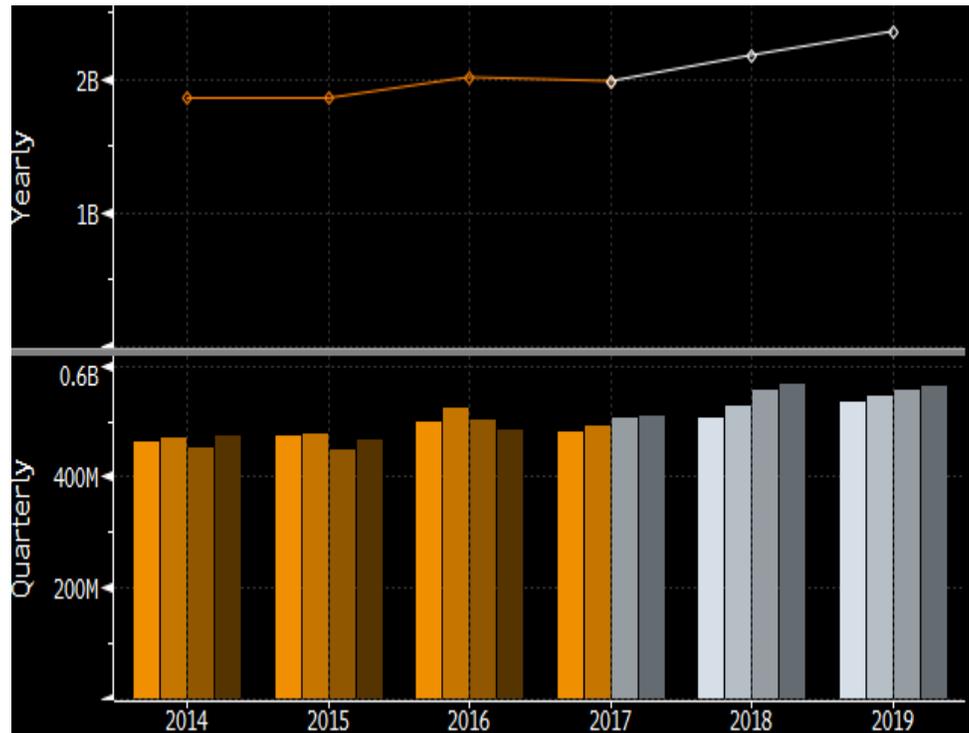
- Short Term (within the year): Fossil fuel for projects is something that needs to be closely monitored in the sense the more expensive the price is, the company will stick to using older aircrafts rather than newer ones.
- Mid Term (1-2 years): Hexcel has many projects coming in 2018 that will add more value to the company.
- Long Term (3+): Trump's infrastructure

plan, and if his one trillion dollar spending plan will pass. More money going into that market will benefit Hexcel.

Earnings Performance:

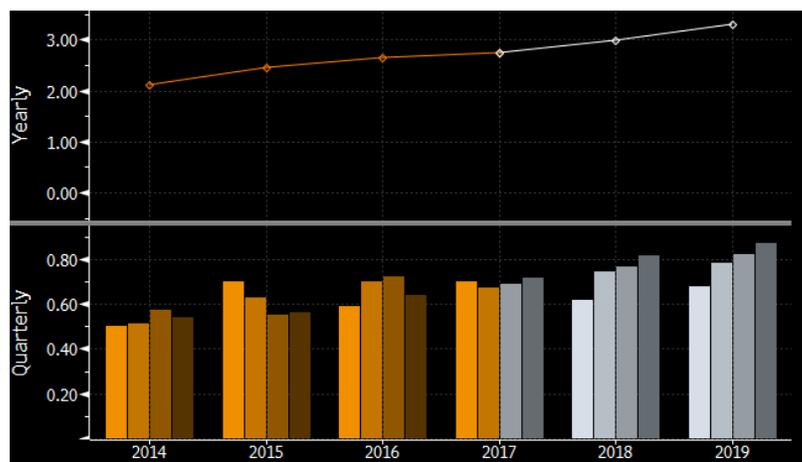
Hexcel is a company that is strongly based on the fact of the amount of revenue they bring in. After running all of the analysis, the company is sensitive to revenue by 61.2%.

As indicated by the graph, Hexcel has had the ability to continue their revenue stream for some time now. Hexcel hit their peak of revenue in the year of 2016 reaching two billion in sales. Continuing from the year 2017 to 2019 there seems to be a continued positive stream of revenue for Hexcel. The projected



increase of revenue can be credited to the extra types of project the company has coming on in 2018. There are many types of fighter jets that the company is trying to bring on.

A lot of the projected revenue has to do with what President Trump is going to do when it comes to his infrastructure plan. He is planning to release a one trillion dollar plan that will extremely help in this market. President Trump is extremely determined to try and strengthen the military, and since Hexcel does a lot of work with military aircraft, that would be beneficial for the company.

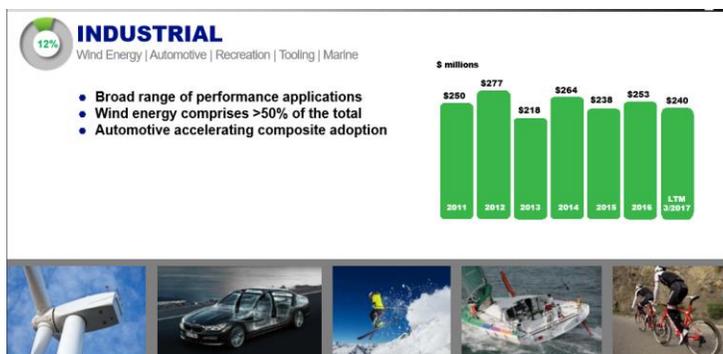


Earnings per share is another strong indicator of not only how well the company has done, but how it will continue to do. At the end year of 2016 the earnings per share hit 2.65 and is project to hit 3.30 by the year 2019. There is a huge opportunity for this company to grow, and it mainly has to do with the types of aircrafts they will be developing within the next couple of years.

Industrial Overview:

Hexcel is in an extremely good position due to the fact of the industry it is currently sitting in. Due to the fact that President Donald Trump is concerned with the military and defense of the country is a huge upside of the company.

Due to the fact that Hexcel is primarily in self-defense it would be huge for the company for President Trump to release the details for his infrastructure plan of one trillion dollars in spending. If his proposal would to approve, a ton of money would be dumped into the Industry that would allow Hexcel to not only expand, but to try and work on new products that would be able to separate themselves from their competitors.



Hexcel is primarily known for being involved in military and defense, and can also be found in aerospace products as well. Hexcel has a lot of products that is used in everyday use.

Hexcel began to try and branch out in the sense that they decided to create products that are able to use in wind turbines. This is extremely crucial for the company in the sense that they are finding alternate ways to increase their revenue, since 61.2% of their earning is all based on revenue due to my analysis. Since Hexcel is so sensitive to revenue having a lower operating costs, will cause the company to have an immediate increase.

Slow Growth, but Promising Future:

Throughout some time now Hexcel has reached a 52 week high at \$58.86 The company has seen a slowdown in production due to the fact that the helicopter projects the company has been working on, has not seen as much of a return as they would like. The company has not lost any money over this time period however, the company leveled out and hasn't seem to make strides in the last couple of months.

With that being said, Hexcel is taking on a new project. That project is projected to create a lot of growth for the company. The new project that the company is taking on is predicted to meet the goal of 6-9% growth for the year. The company is trying take on a project called "777X". The company is expecting that this project will increase its content per aircraft by 33%. This is a great alternate for the company to find another way to create revenue for themselves.

After the "777X" project, Hexcel is trying to work on a project with Boeing. Boeing is one of their main partners and they are working on the Boeing 797 that is expected to be a large opportunity in the mid 2020's. Hexcel is a company that looks like it doesn't have a

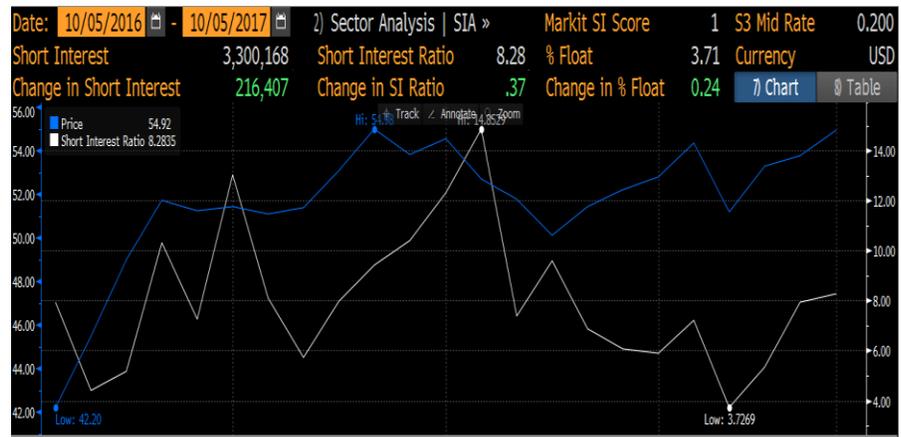
Increasing Content on New Aircraft			
	Composite Weight Share	Content (\$Mln p/Aircraft)	First Delivery
Boeing aircraft			
737 (legacy)	<5%	\$0.30	
737MAX	10%	\$0.40 +33%	2017
777	10%	\$1.00	
777X	20%+	??	2020
Airbus aircraft			
A320 (legacy)	10%	\$0.30	
A320neo	15%	\$0.45 +50%	2015
A330	10%	\$0.90	
A330neo	15%	\$1.05 +17%	2017

Source: Bloomberg Intelligence, Hexcel Dec. 2016 presentation

lot of true revenue coming in as of right now, but with a ton of great projects that are going to come in the later years.

Price to Short Ratio:

Hexcel is a stock that has hit a low point at \$42.20 and a high of \$58.86. During that time period the highest the short ratio hit was around 14.85%. During that time period as the stock continues to climb up and reach the 52 week high, the short percentage is at 3.7%. This is extremely telling in the fact that many analyst are not shorting the stock due the fact that they believe there is potential growth in this company.



The reason analysts don't see a real need to be able to short the stock has to do with the fact that their equity is lower than the rest of the competitors. Hexcel is seeing a cost equity at 10.1% while their competitors are looking at a 10.5%. Therefore the company is creating more value than their competitors.

	Ke (Kd+Country Risk)	
	History	LTM
HXL	10.1%	10.1%
Competitors	11.5%	10.5%
Target	10.1%	

Fourth Quarter Impact:

Hexcel is a company that has continued to see great growth in the past couple of years. The percentage growth of revenue from the fiscal year of 2013 was 6.3% and climbed all the way to 7.7% in 2016. There is even more room for growth in the sense the company is predicting another 6-9% of growth in the next year for the company.

Revenue, Adj	1,678.2	1,855.5	1,861.2	2,004.3	1,954.1
Growth %, YoY	6.3	10.6	0.3	7.7	1.0
Gross Profit, Adj	454.0	508.8	532.8	564.6	545.3
Margin %	27.1	27.4	28.6	28.2	27.9
EBITDA, Adj	331.1	383.0	409.3	453.4	441.7
Margin %	19.7	20.6	22.0	22.6	22.6
Net Income, Adj	188.5	213.3	225.9	243.2	238.2
Margin %	11.2	11.5	12.1	12.1	12.2

Hexcel has had a strong gross profit margin over the years that has continued to see a continued climb from 27.1% to 28.2%. This is extremely telling in the value of the company due to the fact there is a comfortable amount of money left over after accounting for costs of goods sold.

Growth Strategy:

When it comes to the growth strategy of Hexcel, they have many areas that they are trying to expand and find new ways to gain profits. For starters, Hexcel has found many ways to try and expand their manufacturing plants in a way to decrease costs and improve revenue. They just recently opened a new ten million dollar facility that is solely related for analytical labs and mixer rooms. This clearly illustrates the growth for the company and how they are expanding overseas to try and find different areas of revenue.



Not only is Hexcel trying to expand overseas and trying to establish new manufacturing points, they are also investing in a lot of different areas to try and increase revenue. The types of companies that they were trying to pin point were emerging small industries that would cut costs for their company. One investment the company took on was Oxford Performance Materials. This is extremely important for the company in the sense that it is a leader in high-performance for manufacturing and aerospace. The unique factor about this company is that they are the leading manufacturer for mission critical parts to aerospace and defense companies. It will not only cut costs for Hexcel, but it will be able to create a lot of revenue for the company.

Another investment in the company made in may had to do with a company called Luminati. The deciding factor when it comes to Luminati is a company that is developing next-generation solar electric material using the Hexcel materials. This is huge for the company in the sense that that it is another way for Hexcel to generate revenue.

Conclusion:

Hexcel is a company that has continued to be on the rise for the past couple of years. They are an innovative company that has the ability to continue to put out new technology and products that keeps them ahead of their competitors.

Hexcel is looking at a positive year in the sense that their earnings are expected to climb up to 9%. They are on the brink of taking on a couple of new projects, with fighter jets for the military that will increase the value of their company. They are also branching out into the wind turbine company to try and expand their product and begin to enter into new markets, where they will hopefully be able to see a return.

Due to the fact that Hexcel has a strong growth strategy is even more of an incentive to buy it. Hexcel is investing in many companies that are only benefiting them and cutting their costs down at the same time. That is a huge upside for Hexcel and will cause them to see the returns they projected for 2018. Hexcel is a clear buy, and would absolutely benefit our portfolio.

Hexcel Corporation (HXL)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Timothy Cousin
10/5/2017

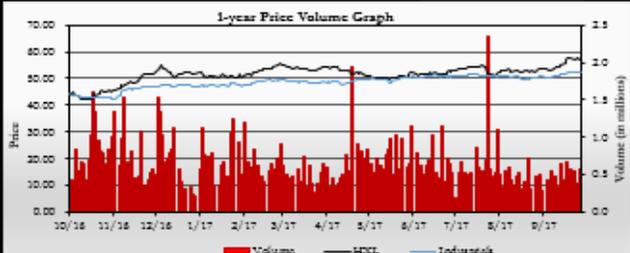
Current Price:
Dividend Yield:

\$58.23
0.8%

Intrinsic Value
Target Price:

\$62.22
\$63.13

Target 1 year Return: 9.18%
Probability of Price Increase: 87.5%



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

General Information

Sector	Industrials
Industry	Aerospace and Defense
Last Guidance	November 3, 2015
Next earnings date	October 19, 2017
Estimated Country Risk Premium	6.09%
Effective Tax rate	22%
Effective Operating Tax rate	25%

Market Data

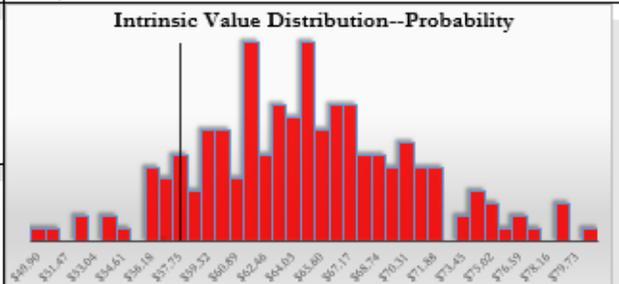
Market Capitalization	\$5,227.81
Daily volume (mil)	0.50
Shares outstanding (mil)	89.78
Diluted shares outstanding (mil)	93.05
% Shares held by institutions	99%
% Shares held by investment Managers	84%
% Shares held by hedge funds	6%
% Shares held by insiders	0.83%
Short interest	3.68%
Days to cover short interest	6.47
52-week high	\$58.55
52-week low	\$41.03
Volatility	21.87%

Quarter ending

6/30/2016	1.81%
9/30/2016	-0.84%
12/31/2016	-5.06%
3/31/2017	-10.10%
6/30/2017	-9.20%
Mean	-4.68%
Standard error	2.3%

Part Earnings Surprise

Revenue	3.87%
EBITDA	-3.51%
	-4.84%
	-18.45%
	-8.47%
	-6.28%
	3.6%



Management

Stange, Nick	President, Chief Executive Officer
Hennebuth, Robert	Executive Vice President of
Merlat, Thierry	President of Aerospace, Euro
Winterlich, Patrick	Executive VP & CFO
Hendrick, Kimberly	Senior VP, Corporate Control
Mackenzie, Paul	Senior VP & CTO

Peers

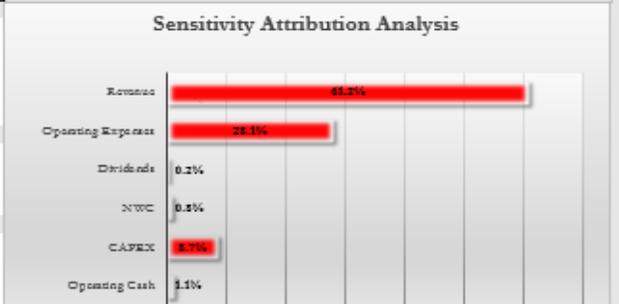
Enterline Technologies Corporation
Maag Inc.
TransDigm Group Incorporated
Triumph Group, Inc.
Rackwell Collins, Inc.
AAR Corp.
Northrop Grumman Corporation
HEICO Corporation

Profitability

Return on Capital (GAAP)	14.1%
Operating Margin	14%
Revenue/Capital (GAAP)	1.03
ROE (GAAP)	20.4%
Net margin	13.0%
Revenue/Book Value (GAAP)	1.57

HL (LTM)

14.1%
14%
1.03
20.4%
13.0%
1.57



Inverted Funds

Cash/Capital	2.1%
NWC/Capital	15.6%
Operating Assets/Capital	82.3%
Goodwill/Capital	0.0%

HL (LTM)

2.1%
15.6%
82.3%
0.0%



Period

Base Year	1%
6/30/2018	2%
6/30/2019	6%
6/30/2020	8%
6/30/2021	7%
6/30/2022	6%
6/30/2023	6%
6/30/2024	5%
6/30/2025	4%
6/30/2026	3%
6/30/2027	3%
Continuing Period	2%

Valuation

Revenue Growth Forecast	NOFAT Margin Forecast	Revenue to Capital Forecast
14.8%	14.8%	0.84
14.5%	14.5%	0.78
15.5%	15.5%	0.73
15.8%	15.8%	0.70
16.1%	16.1%	0.67
16.4%	16.4%	0.64
16.7%	16.7%	0.61
17.1%	17.1%	0.58
17.4%	17.4%	0.55
17.7%	17.7%	0.52
18.0%	18.0%	0.49
18.3%	18.3%	0.46

Period

Base Year	12.3%
6/30/2018	11.3%
6/30/2019	11.2%
6/30/2020	11.1%
6/30/2021	10.9%
6/30/2022	10.9%
6/30/2023	10.2%
6/30/2024	9.9%
6/30/2025	9.6%
6/30/2026	9.2%
6/30/2027	8.9%

WACC Forecast

8.1%	\$65.49
7.9%	\$72.07
7.9%	\$78.35
7.9%	\$84.77
7.9%	\$91.29
8.0%	\$98.00
8.2%	\$105.68
8.2%	\$112.60
8.3%	\$119.67
8.5%	\$126.83
8.7%	\$134.06