



Mossberg's Investor Digest

Idea Profile

CPI Aerostructures (Amex: CVU)

DESCRIPTION:

Founded in 1980 and headquartered in Edgewood, New York, CPI Aerostructures builds structural aircraft parts for the military and commercial aircraft to the U.S. armed forces and leading aerospace contractors, such as Boeing, Lockheed Martin, Sikorsky, Northrop Grumman and others. Parts include skin panels, leading edges, flight control surfaces, engine components, wing tips, cowl doors, inlet assemblies, aprons, engine mounts and other complex flight structures. More notable programs the C-5A Galaxy cargo jet, the T-38 Talon jet trainer, the UH-6 Black Hawk, the A-10 Thunderbolt attack jet, the E-3 Sentry AWACS jet. The company also provides engineering technical and program management services.

KEY INVESTMENT CONSIDERATION:

Focus on subcontract business increases the scope of business opportunities – Since 2004 when the company put more emphasis on cultivating its subcontractor business, subcontracting orders have grown from \$1.8 million annually to \$38.5 million in 2008 (89% of total awards). Winning and executing on bids with large contractors such as Sikorsky, and Boeing allows CPI to bid for additional contracts. In most cases CPI is being asked to bid on these contracts. The company now has \$231 million outstanding, un-awarded solicitations.

(Amex: CVU)

Investment Data (as of 10/27/08)

Recent Price	\$5.30
52-Week Range	4.62 - 9.00
Fiscal Year End	Dec
Dividend	N/A
Yield	N/A
Shares Outstanding	6 MM
Average Trading Volume (3 mos)	20,000
Market Capitalization	32 MM
Cash	0.2 MM
Long Term Debt	0.6 MM
Enterprise Value (EV)	32 MM
LT Debt/ Equity	2%
Tangible BV/ Share	5.39
TTM Revenue	32 MM
P/ Revenue	1.0x
TTM EPS	0.30
P/ EPS	18x
TTM EBITDA	3.1 MM
EV/ TTM EBITDA	10x

CPI has significant visibility in '09 and into 2011 – The company has given revenue guidance for 2009 of \$42 to \$45 million, which is a 24% increase from 2008 guidance. Management has also guided revenue to grow at a compound annual growth rate of 30% to 35% from 2008 to 2011. Giving confidence in these expectations, the company has announced several large multi-year contract wins including:

- **Boeing A-10 Thunderbolt** - \$70 million contract to provide 242 enhanced wings.
- **Unnamed global aerospace and defense company** - \$98 million contract to provide structural kits for an in-production aircraft.
- **Gulfstream G650 Business Jet**
- **Sikorsky Aircraft** - \$12.5 million for Infra Red Reduction System module assemblies and \$10 million for structural assembly kits for S-92 civil helicopters.
- **T-38 Talon Jet** – Prime contract win to supply \$61 million worth of structural inlets for the propulsion system.

Bottom line should grow faster than the top line - Net income is expected to grow at a CAGR is 50% to 60% through 2011. The company recently began several multi-year programs which tend to be less profitable in the early stages. In the initial stages of a multi-year contract there are significant planning and engineering costs to build initial units for customer approval before volume production can begin. As units move into regular production, the company should gain significant operating leverage.

KEY RISKS:

Government contracts represent over 90% of the company's business – Revenue and profitability could be significantly affected if programs are cancelled or spending is reduced.

VALUATION:

For 2008, management has given guidance of approximately \$0.43 per share, up from \$0.31 earned during 2007. Currently shares are trading at 12x the forward number, a considerable discount considering the company's strong visibility and attractive growth rate. If the company continues to execute its plans, EPS could grow to \$1.50 per share by 2011 (applying the lower end of the expected 50% to 60% earnings growth rate), which should justify a price at least 2x its current levels.

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.