

Mossberg's Investor Digest

Best Idea Profile:

Ducommun Inc. (NYSE:DCO)

DESCRIPTION:

Ducommun Inc. is a global provider of engineering and manufacturing services to aerospace, defense, and diverse technology-driven markets. It is made up of two operating segments, the first of which is Ducommun AeroStructures, which represents 42% of sales. DAS designs, engineers and manufactures large and complex contoured aerostructure components and assemblies for commercial and military aircraft. Its largest program is the BLACK HAWK Helicopter. It also supplies composite and metal bonded structures. Products from this division include fuselage skin panels, flight control surface assemblies, door panels and engine ducts. Ducommun acquired LaBarge Technologies in 2011, which now represents the other 58% of revenues. Its technology products are used in aerospace and defense, natural resources, industrial and medical industries. The company's revenues by end market are: 34% defense technologies, 19% defense structures, 27% commercial aerospace, 7% industrial, 7% natural resources, and 6% medical.

KEY INVESTMENT CONSIDERATIONS:

Build Rates for Commercial Growing – The build rate for large commercial aircraft for Boeing and Airbus is expected to grow steadily as the aging of the global air transport fleet continues. Ducommun's strong aerospace business was recently bolstered by the five-year extension of the Boeing 737 spoiler contract. Ducommun will also benefit as deliveries of Boeing's 787 Dreamliner recommence. The commercial aerospace market represents good growth opportunities, providing Ducommun with nearly record level backlog.

Defense Backlog Higher Despite Sequestration – The nation's defense spending has decreased but it remains above historic averages. Sequestration has not had a negative impact on Ducommun's military and space business thus far. The company expects 2013 revenue across defense programs to be flat to up slightly because of a strong product mix and the diversity of its programs. In fact, total defense backlog is higher now than it was a year ago.

Strength of BLACK HAWK Program – Ducommun has supported the BLACK HAWK helicopter since its inception two decades ago. It is Ducommun's largest defense program at \$75 million. It appears to be a very solid contract. In fact, last week Ducommun received an additional multi-year contract related to the helicopter's electronics.

Cross Selling and Expansion Opportunities – Although Ducommun's business outside of aerospace and defense has been weak, management believes it has bottomed out. Additionally, there are significant cross-selling opportunities between business units. Management recently stated it is "able to sell on both sides of the fence." Ducommun is also working to penetrate its major customers more fully, as in the case of Baker and Halliburton. The diversity of the company's end markets will help in expanding its business.

Balance Sheet Improvement – Ducommun is deleveraging its balance sheet. It expects to pay down \$25 to \$30 million of debt this year and is reducing interest expenses. Net debt/EBITDA peaked after the 2011 acquisition of LaBarge in 2011 at 4.2 times. This ratio has declined to 3.9 times at the end of the first quarter and should cross the 3 times threshold by the end of 2015. This will enhance Ducommun's financial flexibility and increase earnings power.

VALUATION:

The aging fleet theme should continue to entice investors to invest in related companies, especially if the merger and acquisition market heats up.

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Investment Data (as of 6/30/13)

Recent Price	\$21.26
52-Week Range	\$9.01 - \$26.71
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	11 M
Average Trading Volume (3 mos)	117 K
Market Capitalization	\$223 M
Cash	\$30 M
Long-term Debt	\$358 M
Enterprise Value (EV)	\$549 M
Book Value	\$21.43
TTM Revenue	\$739 M
P/ Revenue	0.3x
TTM EPS	\$1.67
P/ EPS	12.6
TTM EBITDA	\$83 M
EV/ EBITDA	6.64

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