



Position Update: Spirit AeroSystems (SPR)

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Spirit AeroSystems (SPR: \$78/share) – Maintaining Long Position – SPR +40% vs. S&P +3%

Spirit AeroSystems (SPR) was selected as a Long Idea on 6/26/17 in [An Undervalued Stock That's Ready for Take-Off](#). SPR earned a Very Attractive risk/reward rating at the time due to its high return on invested capital (ROIC), high free cash flow (FCF) yield, and low price-to-economic book value (PEBV) ratio.

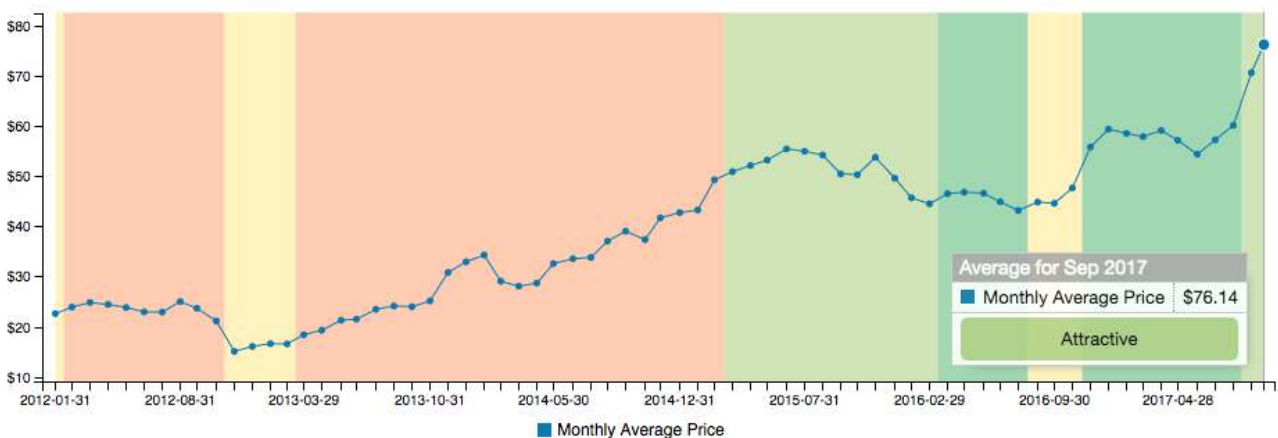
Following a 27% gain driven by [strong 2Q17 earnings](#) and a [new Boeing contract](#), SPR's risk/reward rating was downgraded one level to Attractive on 8/7/17 due to higher market-implied expectations. The shares have risen an additional 13% since, but still earn an Attractive rating as of 9/22/17. Current fundamental and valuation highlights underlying SPR's [Attractive rating](#) include:

- Economic EPS is 84% of GAAP EPS for SPR vs. 41% for Industrials and 36% for the S&P 500.
- ROIC of 14% for SPR ranks in second quintile overall vs. 9% for Industrials.
- FCF Yield of 10% for SPR vs. 1% for Industrials and 2% for the S&P 500.
- PEBV valuation of 1.3 for SPR vs. 2.2 for Industrials and 2.5 for the S&P 500.
- Growth Appreciation Period (GAP) of <1 year vs. 27 years for Industrials and 23 years for S&P 500.

SPR continues to offer an attractive risk/reward trade-off based on potential upside to low market-implied expectations for future profit growth. To justify the current price of \$78/share, SPR must [grow NOPAT by just 1% compounded annually over the next ten years](#). If SPR can [grow NOPAT by 3% compounded annually over the next ten years](#), the stock is worth \$95/share today – a 21% upside. This scenario assumes a stable NOPAT margin of 8% and revenue growth of 4% compounded annually.

Figure 1: SPR Stock Price and Risk/Reward Rating History

Normalized Rating History - Monthly Average*



Sources: New Constructs, LLC and company filings

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Disclosure: David Trainer, Kyle Guske II, and Kenneth James receive no compensation to write about any specific stock, style, or theme.

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