5i Research

COMPANY REPORT / 5i OPINION

Whistler Blackcomb Holdings Inc

- Integrity
- Independence
- Insight
- Individually-focused
- Investments

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- Expect little capital growth
- Dividend should be reliable
- Biggest 'unknown/risk' relates to weather
- Some shorter term positives exist
- Rating upgraded to 'B-'

NOVEMBER 23, 2015

Traded as:	WB (TSX)
Price:	C$21.09
Dividend:	4.6%
Debt:	Medium
Market Cap:	$804 MM
Stability:	Medium

"B-"

5i Report Card

Metric	Value	Grade
Expected 1 year Revenue Growth	-3.9%	B-
5 Yr. Revenue Growth	3.08%	C+
5 Yr. EPS Growth	26.07%	A+
5 Yr. ROE	8.12%	B
Gross Margin	88.7%	A
Net Margin	7.1%	B
Current Ratio	0.63	C+
Debt/Equity	0.60	B+
Insider Ownership	0.24%	C+
Recessionary EPS (2008/2009)	1.6/1.4	B+
5 Yr Dividend Growth	N/A	N/A
Qualitative	Good for income, short-term positives	B
Rating -		B-

Company Profile

Whistler Blackcomb Holdings Inc. (WB) holds a 75% interest in and manages the entities (2 partnerships) that operate Whistler Blackcomb, the largest ski operator in North America featuring 2 adjacent and integrated mountains with over 8,000 acres of skiable terrain and some 200 marked runs; a vertical drop of a mile and a long ski season with an average annual snowfall of more than 450 inches. It provides a variety of non-winter activities such as hiking and mountain biking. It is located next to pedestrian villages at its base, which house attractive hotels, restaurants and some golf courses. Whistler Blackcomb has attracted an average of approximately two million skier visits annually since the operations were integrated during the 1999 season. WB sells lift tickets and vacation packages. Its customers are divided between local/regional and destination visitors. The latter are from afar and are not likely to have annual passes and tend to pay higher effective ticket prices than the locals while also tending to spend more on ancillary offerings.

Revenue Mix

The majority of WB's revenues come from ski lift operations, which for the 9 months ended June 30, 2015, generated roughly 50% of total revenues. A further 12% comes from the WB ski school, 20% from retail and rentals and another 11% coming from dining/entertainment. Retail and rental revenues were up 11.7% over the prior year largely at the expense of ski lift operations. Weather will always be a consideration in WB's future revenue and earnings, so investors should not forget WB's sensitivity to this variable factor.

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Growth Plans

Under WB's arrangements with the BC government, WB has a further 2,000 acres set aside for future development. However, at the current level of investment, the capacity is finite and the company can grow only by attracting more visitors or by raising prices. WB's vision is to be the number one mountain resort in the world. The strategy is designed to grow skier visits, revenue per visit and Adjusted EBITDA primarily by enhancing guest experiences through product and service leadership. WB follows a disciplined capital allocation process with respect to upgrading and/or expanding the ski mountain facilities and infrastructure as well as expanding non-ski business (mountain and attractions) and other strategic investments. A sporting goods store, Summit Ski Ltd, was acquired in Dec. 2014 and ~$24 million was spent to install new uphill capacity in 2013 and 2014. The current investment plan is to spend $5.4 million to upgrade and expand the Rendezvous Lodge on Blackcomb Mountain, which management expects to be completed by the start of the 2015-2016 ski season.

Valuation

WB would not be a name to own for capital appreciation. In the $21 range, the stock looks to be fairly valued between the dividend and assets. However, we do think WB is a solid distribution vehicle for investors looking for stable and tax-efficient dividends. Looking at the relative valuation, WB is essentially trading on par with historical trading multiples. The maintenance of the dividend is key at WB and while the company does not have a whole lot of room for error, we think the distribution could be maintained through cap-ex cuts or increased debt if necessary.

Recent Financial Results

Total revenue for the nine months ended June 30, 2015 was $226.7 million, an increase of $3.5 million, or 1.6% over the same period in the prior year. This was primarily attributable to increased revenue in the retail, rental and snow school ancillary businesses, driven mainly by growth in destination skier visits and the acquisition of Summit Ski Ltd. Management estimates that destination skier visits were 49% of total skier visits during this ski season compared to 41% in the prior year. Higher revenue per visit was up 8.8% at $113.96 over nine months (but down on the quarter) due in part to this higher proportion of destination

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visitors and by an improved effective ticket price (ETP). ETP is total ski-related lift revenue divided by skier visits. Total visits for the nine months were 1,989,000, a decrease of 6.6% from the prior year of which regional visits were the prime culprit due to unfavorable weather conditions and below average snowfall. Barring a disastrous winter any given year, we would view the dividend as sustainable. As of the nine-month period, the payout ratio typically falls in the 70% to 80% range based on cash flows but by year-end hovers closer to the 90%-100% range. WB does have the ability to cut cap-ex if the company found itself in a pinch. WB also announced that the ski season would be starting a week early which should add a lift to revenues.

RECOMMENDATION:

Low growth, income oriented

Some trends may provide ST support

Expecting an improved payout ratio

"B-"

Key Risks

The most significant risk is weather and when/how much snow falls, which is out of the company's control. The operation is seasonal but the company is finding ways to improve the non-ski related revenues. The economy is of concern as well but also being a tourist destination, there is some sheltering from the Canadian economy as many visitors can be from other areas. The low Canadian dollar should actually benefit WB, with Canadian's vying to stay within the country and travellers South of the border likely seeing more value from a ski trip to Canada. This can and does work both ways, however.

SUMMARY AND INVESTMENT RECOMMENDATION

Whistler Blackcomb continues to be a good stock for dividends but investors should not expect much in the way of capital gains or dividend growth. In the short-term, the low Canadian dollar should actually benefit the company and WB has been able to start ski operations a week early, both factors that should support the stock. We do not think investors are getting a 'deal' with WB at this price but rather a healthy distribution we would expect to be stable, and even if the stock only returns the nearly 5% yield every year, we think investors could do worse with many other names for the risk being assumed. The main concern we have is the tail-risk with WB where a really bad winter could greatly change prospects any year. With this in mind, we are cautiously upgrading our rating one notch to 'B-', with the understanding that WB is sensitive to the weather, a factor that is out of the company's control.