

August 10, 2016 02:25 AM GMT

Embraer

Not There Yet Given Low BizJet Visibility

✔ Stock Rating
Equal-weight

👁 Industry View
In-Line

🎯 Price Target
US\$21.00

ERJ's sharp sell-off (down 37% YTD and 13% in the past month) and its disappointing 2Q prompted us to take a closer look at its biz jet division and other key issues such as a potential loss of tax breaks. Having done so, we conclude that staying Equal-weight the shares makes sense for now.

Big move down has a lot of investors looking at the shares. In the past two or three months we've seen a major step up in investor interest in ERJ, as the shares have declined to levels not seen since the 2008 financial crisis. The performance of ERJ shares contrasts sharply with the Brazilian market (up 33% YTD), though we view Embraer as much more of a global company than a Brazilian one today. With the sell-off, the shares are now trading at 2017e P/E of 11x, a 10% discount to the company's historical average 12-month forward P/E. Despite this discount, we are not quite there yet. The main factors keeping us Equal-weight are: 1) low visibility on the company's biz jet division outlook; 2) some added caution on the commercial segment due to competition and the stronger BRL; and 3) the risk Embraer could potentially lose payroll tax breaks.

Digging deeper on Embraer's biz jet performance which sharply underperformed its peers' results. Embraer's biz jet margins were slightly negative in 1Q16 and significantly negative in 2Q16. As evident from Exhibit 1, the company's competitors in the space fared much better. Bombardier and Textron have the advantages of both delivering greater aircraft volumes and having much higher after-market service revenues. We understand that after-market revenues account for 20-30% of Bombardier's total biz jet revenues and 30-40% for Textron, while they contribute only ~10% for Embraer. The higher levels are due to substantially larger existing fleets of Bombardier and Textron aircraft operating in the market today. The margins on after-market revenues are significantly above those of aircraft sales, we understand, and they tend to reduce margin volatility. Textron has also been helped by its contract with NetJets, a fractional ownership fleet operator.

The above doesn't explain the degree of Embraer's underperformance versus its peers. Non-recurring costs were another source of biz jet margin pressure. The company recognized a US\$10mn marketing charge in 1Q16, and in 2Q16 it had both a US\$7mn provision for closure of its Harbin Chinese plant and some pre-operational expenses related to its Melbourne facility. However, the biggest drivers of the weakness were price/mix, in our view. From the 2Q conference calls, it's clear that some meaningful price competition has arisen this year

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Embraer (ERJ.N, ERJ US)

Brazil Aerospace & Defense / Brazil

Stock Rating	Equal-weight
Industry View	In-Line
Price target	US\$21.00
Shr price, close (Aug 9, 2016)	US\$18.51
Mkt cap, curr (mm)	US\$3,379
52-Week Range	US\$32.50-17.24
Avg daily trading value (mm)	US\$8.0

Fiscal Year Ending	12/15	12/16e	12/17e	12/18e
Revenue (US\$ mm)**	5,928	5,841	5,705	5,955
EBITDA (US\$ mm)**	648	554	807	861
Net income (US\$ mm)**	69	174	305	320
ModelWare EPS (US\$)	0.38	0.96	1.67	1.75
P/E**	77.9	19.4	11.1	10.6

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

** = Based on consensus methodology
e = Morgan Stanley Research estimates

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between Embraer's Legacy 500s and Textron's Latitude, as overall industry volumes have declined this year. Regarding mix, Embraer sold only eight Legacy 500s and zero Legacy 450s in 1H16.

We still expect some recovery in ERJ's biz jet profitability in 2H16/2017 but visibility is low due to tough market conditions.

One key likely driver of improved margins in this division is a better mix and higher volumes. Management expects significantly higher Legacy 450s/500s volumes in 2H16 and the low end of its guidance implies seven more deliveries for the period than what we saw in 1H16. A back of the envelope calculation that could shed light on the impact of higher deliveries follows: if one assumes an average selling price per aircraft of US\$15mn, a gross margin of 20% and stable SG&A expenses, then seven additional aircraft would increase EBIT by US\$21mn. Had it come in 1H16, this US\$21mn amount would have increased ERJ's EBIT margin by around 3 p.p. What should also help profitability is the company's plans to scale back its biz jet operations. We project a biz jet margin of 3.8% for 2H16 and of 3.0% for 2017e. However, with the weakness of global biz jet market and the company's past shortfalls, visibility here is low, in our view.

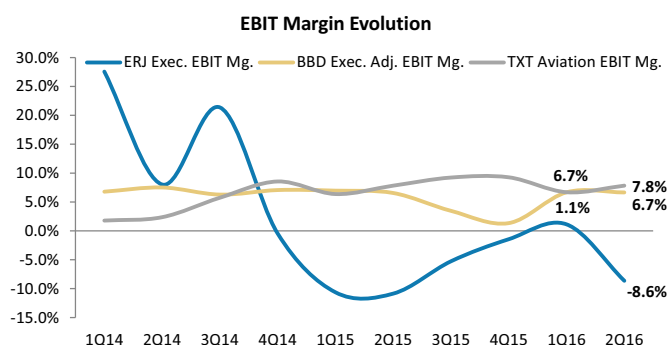
Other factors behind our Equal-weight; refining estimates and PT. In the body of this report we discuss two other main factors that have led us to keep an Equal-weight rating on the stock: a challenging Commercial business outlook and the risk that payroll tax breaks (which give ERJ an annual US\$50mn benefit at the EBIT line) could potentially be revoked. We are taking this opportunity to refine our estimates. Most important, we've pared back our Executive delivery forecast and incorporated lower commercial EBIT margins due to the stronger BRL and to E2 ramp-up in 2018. As a result our PT decreases to US\$21.0 from US\$23.0. At our new PT, the stock trades at 12.6x 2017 PE, in-line with its historical level.

Supporting Data and Additional Comments

Executive Division

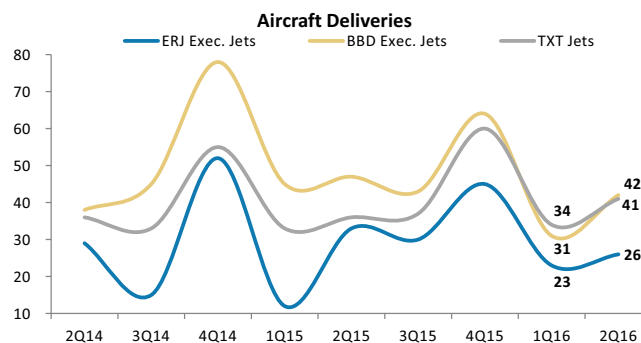
The data below largely speaks for Embraer's lagging performance. Exhibit 1 shows the wide disparity highlighted above between Embraer and its peers in terms of executive profitability, partially explained both by its lower level of deliveries (Exhibit 2) and its smaller fleet in operation (Exhibit 3). While Embraer has faced some meaningful pricing pressure, interestingly, the executive jet ask price data (Exhibit 4) doesn't show any deterioration in 1H16 for light and medium jets. Also, the level of pre-owned aircraft available for sale as a percentage of the total in service fleet has been fairly stable this year.

Exhibit 1: ERJ Executive Margin Lagged Its Peers In The Last Two Quarters...



Source: Company Data, Morgan Stanley Research

Exhibit 2: ...Partially Explained by Lower Delivery Levels...



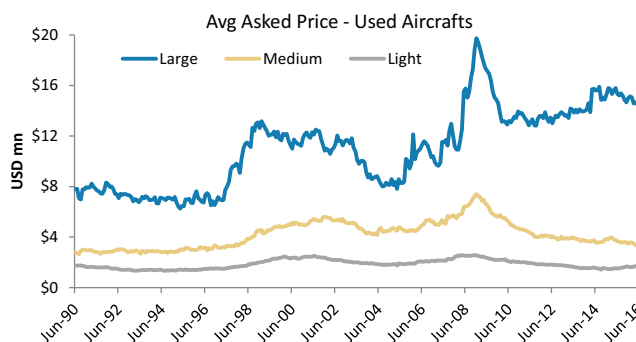
Source: Company Data, Morgan Stanley Research

Exhibit 3: ... And ERJ's Lower Fleet In Service

Executive Fleet Size in Operation	#
Embraer	1,000
TXT - Cessna	8,000 - 10,000
Bombardier	5,000 - 8,000

Source: Morgan Stanley Research

Exhibit 4: Used Aircrafts Average Ask Prices



Source: AMSTAT, Morgan Stanley Research

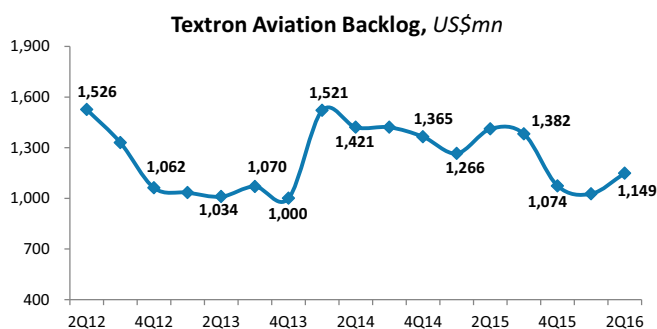
Our US Aerospace team led by Rajeev Lalwani believes it is difficult to be tactically positive on the bizjet segment over the next 1-2 years, particularly since backlogs tend to be modest. Uncertainty around an inflection is bolstered by subdued growth on the economic and corporate profit fronts, in part due to commodity-related pressure on both the equity and credit markets, pressures in developing countries such as Brazil,

China, the Middle East, and Russia, and market trends that demonstrate only some stability.

To assess key drivers for bizjet demand fundamentals, our US peers took a close look at a host of factors over the last several years. It found that factors relating to the health of the economy such as GDP (US and global), corporate profits, and equity market values closely correlate to fleet levels. US GDP in particular stood out over shorter and longer time horizons (5, 10, and 35-year periods) with correlations that in many instances approach 1.0, through which the growth in the global fleet (adjusted for retirements) expanded at ~2x that of the economy. As an example, over the last 5 years real US GDP grew at ~2% annually and the global fleet added on average ~4% a year. Other factors that appear to have bizjet demand implications, though to a less consistent extent, are retirement levels, pricing / supply of used aircraft, and new product introductions. Accordingly, the focus for investors should remain on the vibrancy of economic growth trends when evaluating the outlook.

With this softness expected to continue for some time, **we believe Embraer is doing the right thing with its plan to scale back its Executive operation** and to seek cost efficiencies across its business. In the last several days, Embraer announced a voluntary layoff plan. Combining it with other cost initiatives, the company aims to reduce annual costs by US\$200mn at the consolidated level. We see these reductions offsetting to some degree the negative effect of union negotiated wage hikes and revenues pressures (rather than a move that's likely to drive a rebound of profitability). The US\$200mn is equivalent to ~3% of the company's total 2015 revenues.

Exhibit 5: Textron Aviation Backlog



Source: Company Data, Morgan Stanley Research

Exhibit 6: Executive Jets Specifications

Specifications	Legacy 450	Citation Latitude	Legacy 500
Range, nm	2,900	2,850	3,125
# of Seats	7-9	9	8-12
Full Fly By Wire	Yes	No	Yes

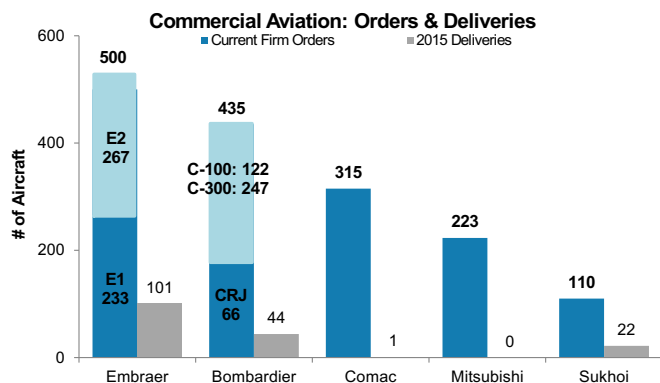
Source: Company Data, Morgan Stanley Research

Commercial Division

In the commercial segment, Embraer faces the challenges of higher competition, a stronger BRL and risk related to its Republic orders. We believe that management has begun to signal that commercial deliveries are likely to decline from the guided 105 -110 range for this year down to near the 100 level in 2017 (though this isn't far off from what we've projected for some time). Currency represents a clear headwind for the company. For next year the company has hedge only 20-25% of its exposure (with a floor at R\$3.4/USD and a cap of R\$4.3/USD. Exhibits 7-8 shows the updated backlog figures for Embraer and its regional aircraft peers. A key question is the degree to which it will be able to maintain a healthy book to bill as E2 production (due to start in 2018) approaches. That we are advanced in the cycle and that many large campaigns are

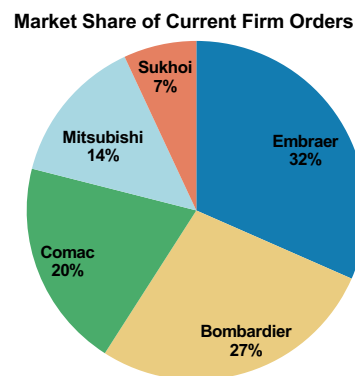
behind us, may make this difficult. Regarding Republic, Embraer postponed the delivery of nine aircraft that were due to be delivered this year. As a result, its new schedule for delivering Republic 24 orders is 20 in 2017 and 4 in 2018. The prior schedule was 9 in 2H16 and 15 in 2017. Management remains confident that Republic will take these deliveries.

Exhibit 7: Commercial Aviation Orders & Deliveries



Note: many CS-300s orders have options to convert to CS-100s
Source: Company Data, Morgan Stanley Research

Exhibit 8: Commercial Firm Order Backlog Market Share



Source: Company Data, Morgan Stanley Research

Exhibit 9: Embraer LTM Commercial Orders

ERJ Commercial Orders				
Date	Client	Firm Orders	Options	Model
Jun-15	Colorful Guizhou Airlines	7	10	E190
Jun-15	Skywest	8	0	E175
Jun-15	United Airlines	10	0	E175
Jun-15	Aircastle	25	25	E190-E2/E195-E2
Sep-15	Skywest	18	0	E175
Oct-15	Skywest	19	0	E175
Jan-16	KLM Cityhopper	2	0	E175/E190
Apr-16	Horizon Air	30	33	E175
Jul-16	Nordic Aviation Capital	4	0	E190
Jul-16	Kalstar Aviation	5	5	E190-E2
Jul-16	Arkia Israeli Airlines	6	4	E195-E2
Total		134	77	

Source: Company Data, Morgan Stanley Research

Exhibit 10: Bombardier LTM Commercial Orders

Commercial Orders				
Date	Client	Firm Orders	Options	Model
Jun-15	Swiss	10	0	CS300
Oct-15	Trident Jet	8	6	CRJ900
Dec-15	China Express Airlines	10	0	CRJ900
Apr-16	Chorus Aviation	5	5	CRJ900
Apr-16	Delta Airlines	75	50	CS100
Apr-16	Trident Jet	4	0	CRJ900
Apr-16	Air Baltic	7	0	CS300
Jun-16	Air Canada	45	30	CS300
Jun-16	Undisclosed	10	0	CRJ900
Total		174	91	

Source: Company Data, Morgan Stanley Research

Growth of the regional air market continues to underperform the mainline one. In the detailed update we published on Embraer last December ([here](#)), we highlighted the historical evolution of commercial aircraft sales, showing that regional jet deliveries significantly underperformed mainline ones. We continue to attribute this to a combination of the following factors: 1) limited expansion of the regional jet market outside the United States; 2) a global upgauging trend; and 3) growth of the low-cost carrier segment. What's worth adding here is that mainline commercial air traffic, measured by RPK, continues to outpace regional traffic in 1H16. Mainline volume was up in the mid single digits, while regional traffic was fairly flat.

Risks Related to Tax Incentives

In our view, there is considerable risk related to a potential loss of an exemption that allows the company to pay a tax on domestic gross revenues in lieu of paying a payroll tax. Morgan Stanley's Brazil economist, Arthur Carvalho, sees a high probability that this

tax break will be eliminated based on the government's need to achieve a R\$139 billion primary deficit in 2017. We understand that this tax break contributes roughly US\$50mn per year to Embraer's EBIT. Were it to be removed, the negative impact on our DCF would be an estimated ~15%.

We are less concerned about the risk Embraer could potentially lose tax incentives it receives for R&D investment under a law called the Lei do Bem. A provisional measure published by the government in September 2015 called for the suspension of the law but it has not been passed by Congress. Embraer's benefit from these R&D incentives in 2016 should be on the order of R\$150mn. As these tax incentive are targeted and are aimed at helping Brazil develop from a technological standpoint, we see them as less likely to be eliminated.

Forecast Revisions

Exhibit 11: Embraer OLD vs. NEW Estimates

ERJ, USD mn	2016e			2017e			2018e		
	OLD	NEW	diff	OLD	NEW	% diff	OLD	NEW	% diff
Commercial Deliveries	105	105	0%	103	100	-3%	102	102	0%
Executive Deliveries	118	106	-10%	132	103	-22%	138	109	-21%
Net Revenues	6,015	5,841	-3%	6,132	5,705	-7%	6,290	5,955	-5%
Adj. EBITDA	762	754	-1%	863	807	-6%	903	861	-5%
Adj. EBITDA mg	12.7%	12.9%	23bps	14.1%	14.2%	9bps	14.4%	14.5%	10bps
Adj. EBIT	420	411	-2%	482	429	-11%	504	465	-8%
Adj. EBIT mg	7.0%	7.0%	7bps	7.9%	7.5%	-33bps	8.0%	7.8%	-20bps
Net Income	180	174	-3%	340	305	-10%	341	320	-6%

Source: Company data, Morgan Stanley Research

Exhibit 12: Embraer Margin per Segment

EBIT Margin per Segment	2014	2015*	1Q16	2Q16	3Q16E	4Q16E	2016E	2017E	2018E
Commercial	9.7%	13.4%	12.2%	10.7%	9.8%	11.5%	11.1%	10.6%	9.8%
Executive	4.2%	3.2%	-1.9%	-8.7%	2.0%	5.0%	0.0%	3.0%	4.5%
Defense & Security	10.1%	-11.2%	2.4%	2.4%	4.0%	4.0%	3.1%	4.0%	6.5%

Source: Company Data, Morgan Stanley Research

*Commercial EBIT Margin for 2015 is adjusted for the provision related to Republic orders

Exhibit 13: Embraer Summary Financials, US\$ mn

Financial Summary	2014	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16	3Q16E	4Q16E	2016E	2017E	2018E
Net revenues	6,289	1,056	1,513	1,285	2,074	5,928	1,309	1,366	1,333	1,833	5,841	5,705	5,955
Cost of Goods Sold (COGS)	(5,038)	(806)	(1,227)	(1,060)	(1,725)	(4,817)	(1,048)	(1,083)	(1,073)	(1,446)	(4,650)	(4,541)	(4,705)
Cash COGS	(4,752)	(736)	(1,151)	(986)	(1,626)	(4,500)	(966)	(1,003)	(984)	(1,355)	(4,307)	(4,163)	(4,309)
D&A	(286)	(70)	(75)	(74)	(98)	(317)	(82)	(80)	(89)	(91)	(342)	(378)	(395)
EBIT	543	80	102	84	65	332	86	(127)	92	162	211	429	465
EBIT margin (%)	8.6%	7.5%	6.8%	6.6%	3.1%	5.6%	6.5%	-9.3%	6.9%	8.8%	3.6%	7.5%	7.8%
Adjusted EBIT	543	80	102	84	65	332	86	73	92	162	411	429	465
Adj. EBIT margin (%)	8.6%	7.5%	6.8%	6.6%	3.1%	5.6%	6.5%	5.3%	6.9%	8.8%	7.0%	7.5%	7.8%
Net financial income (expense)	(25)	(15)	1	(1)	(7)	(23)	(0)	5	(9)	(10)	(15)	(2)	(20)
Pre-tax income	504	59	152	59	66	336	74	(118)	83	152	191	423	444
Net income	335	(62)	129	(110)	111	69	104	(99)	59	110	174	305	320
Net margin (%)	5.3%	-5.8%	8.5%	-8.5%	5.4%	1.2%	7.9%	-7.3%	4.5%	6.0%	3.0%	5.3%	5.4%
EBITDA	830	149	178	158	164	648	168	(48)	181	253	554	807	861
EBITDA margin (%)	13.2%	14.1%	11.7%	12.3%	7.9%	10.9%	12.8%	-3.5%	13.6%	13.8%	9.5%	14.2%	14.5%
Adj. EBITDA	830	149	178	158	164	648	168	152	181	253	754	807	861
Adj. EBITDA margin (%)	13.2%	14.1%	11.7%	12.3%	7.9%	10.9%	12.8%	11.1%	13.6%	13.8%	12.9%	14.2%	14.5%
EPS	0.46	-0.08	0.18	-0.15	0.15	0.09	0.14	-0.14	0.08	0.15	0.24	0.42	0.44
Operational Data	2014	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16	3Q16E	4Q16E	2016E	2017E	2018E
COMMERCIAL JETS													
Total deliveries (for the period)	92	20	27	21	33	101	21	26	24	34	105	100	102
Total deliveries (accumulated)	1,906	1,926	1,953	1,974	2,007	2,007	2,028	2,033	2,057	2,091	2,091	2,191	2,293
New firm orders	122	15	104	20	16	155	-	72	37	52	123	153	157
Firm backlog	459	454	531	530	513	513	492	521	534	552	552	605	660
EXECUTIVE JETS													
Total deliveries (for the period)	116	12	33	30	45	120	23	26	24	33	106	103	109
CONSOLIDATED													
Total firm backlog (US\$ billion)	20.9	20.4	22.9	22.8	22.5	22.5	21.9	21.9	21.9	21.9	21.9	21.9	21.9
Balance Sheet	2014	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16	3Q16E	4Q16E	2016E	2017E	2018E
Total assets	10,411	10,165	11,482	11,296	11,670	11,670	11,802	11,937	14,223	10,999	10,999	11,144	11,509
Cash and equivalents	2,469	1,854	3,065	2,746	3,538	3,538	3,443	3,056	5,465	3,213	3,213	3,138	3,275
Total debt	2,508	2,389	3,529	3,389	3,531	3,531	3,663	3,669	6,127	3,253	3,253	3,466	3,570
Net debt	39	536	465	644	(7)	(7)	220	613	662	41	41	328	295
Shareholders' equity	3,865	3,772	3,905	3,770	3,844	3,844	3,946	3,819	3,866	3,953	3,953	4,183	4,363
Cash Flow	2014	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16	3Q16E	4Q16E	2016E	2017E	2018E
Total cash flow from operations	59	(410)	193	(31)	847	599	(114)	(169)	121	877	714	351	689
Total cash flow from investment	(471)	(55)	(126)	(123)	(159)	(463)	(111)	(197)	(155)	(228)	(690)	(551)	(504)
Total free cash flow from operations	(411)	(465)	67	(154)	688	136	(225)	(366)	(34)	649	24	(200)	185
Total free cash flow to equity	(200)	(616)	1,211	(319)	792	1,068	(94)	(387)	2,409	(2,252)	(325)	(75)	138

Source: Company data, Morgan Stanley Research

ERJ.N

Our \$21.0 price target for ERJ is based on a full DCF model (WACC= 8.8%; g= 4%). We also assume a long-term EBIT margin of 8.6%. Downside risks to our call include stepped-up competition in the Commercial & Executive divisions, E2 development delays, weaker global GDP, FX volatility, lower fuel prices pressuring demand and exposure to the Brazilian government in the Defense segment.

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(as of July 31, 2016)

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For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover.

Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1149	34%	274	38%	24%	566	35%
Equal-weight/Hold	1461	44%	351	48%	24%	729	46%
Not-Rated/Hold	77	2%	8	1%	10%	11	1%
Underweight/Sell	647	19%	95	13%	15%	289	18%
TOTAL	3,334		728			1595	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index on a risk-adjusted basis, over the next 12-18 months.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

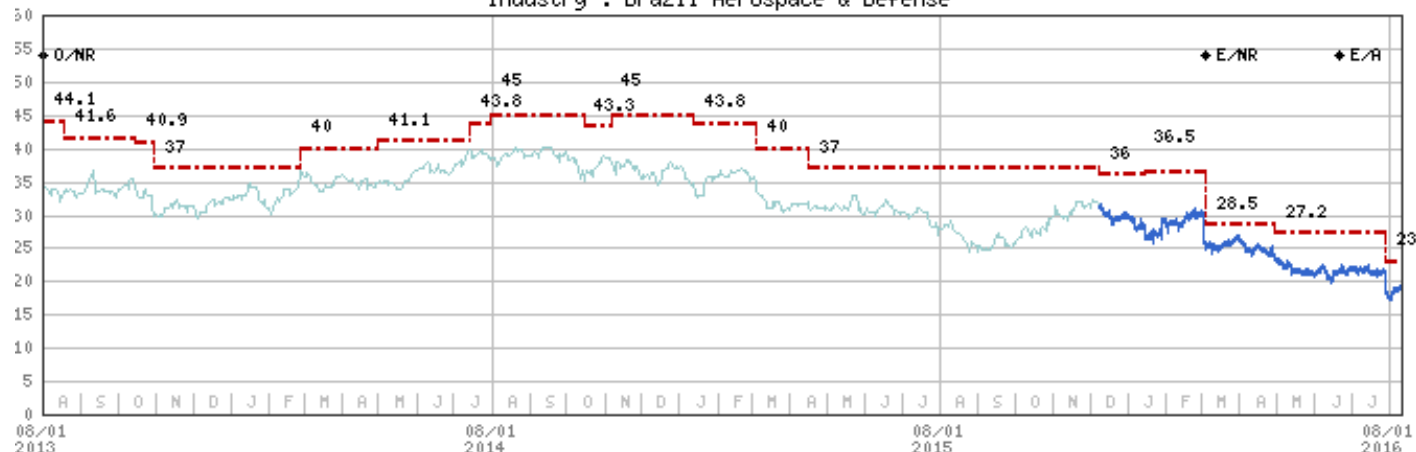
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)

Embraer (ERJ.N) - As of 8/9/16 in USD
Industry : Brazil Aerospace & Defense



Stock Rating History: 8/1/13 : 0/NR; 3/4/16 : E/NR; 6/21/16 : E/A

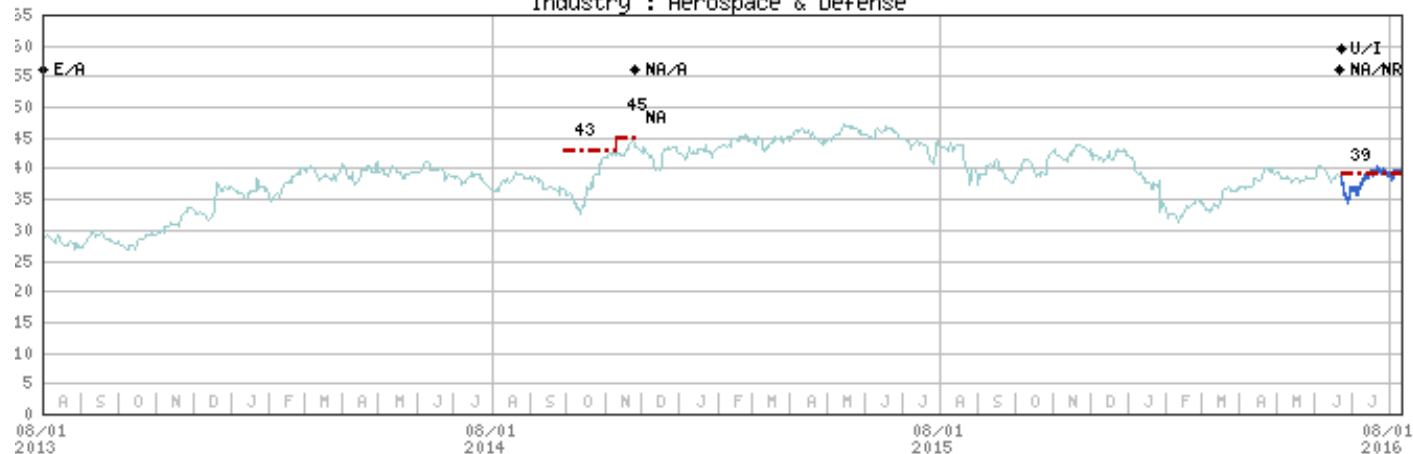
Price Target History: 7/10/13 : 44.1; 8/18/13 : 41.6; 10/15/13 : 40.9; 10/31/13 : 37; 2/26/14 : 40; 4/30/14 : 41.1; 7/14/14 : 43.8; 7/31/14 : 45; 10/15/14 : 43.3; 11/6/14 : 45; 1/13/15 : 43.8; 3/5/15 : 40; 4/16/15 : 37; 12/9/15 : 36; 1/14/16 : 36.5; 3/4/16 : 28.5; 4/29/16 : 27.2; 7/29/16 : 23

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Textron Inc. (TXT.N) - As of 8/9/16 in USD
Industry : Aerospace & Defense



Stock Rating History: 8/1/13 : E/A; 11/25/14 : NA/A; 6/21/16 : NA/NR; 6/22/16 : U/I

Price Target History: 6/13/13 : NA; 9/29/14 : 43; 11/10/14 : 45; 11/25/14 : NA; 6/22/16 : 39

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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INDUSTRY COVERAGE: Brazil Aerospace & Defense

COMPANY (TICKER)	RATING (AS OF)	PRICE* (08/09/2016)
Josh Milberg, CFA Embraer (ERJ.N)	E (03/04/2016)	US\$18.72

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.

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