



Chorus Aviation (CHRRF)

Updated February 21st, 2019 by Quinn Mohammed

Key Metrics

Current Price:	\$5.80	5 Year CAGR Estimate:	12.4%	Market Cap:	\$930M
Fair Value Price:	\$6.40	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	02/28/2020
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.1%	Dividend Payment Date:	03/17/2020
Dividend Yield:	6.0%	5 Year Price Target	\$9	Years of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	0

Overview & Current Events

Chorus Aviation Inc (CHRRF) is a relatively small Canadian aviation company, providing a range of aviation services including aircraft acquisitions and leasing; aircraft refurbishment, engineering, modification, repurposing and preparation; contract flying; aircraft and component maintenance, disassembly, and parts provisioning. Through a long-term contract, CHRRF provides substantially all the flight operations for Air Canada Express, and is contracted through to 2035. Chorus has a predictable revenue stream, with 90%+ of annual revenues secured through long-term contracts and strong relationships CHRRF also provides regional aircraft leasing to 16 other airlines, for a total of 64 aircrafts. CHRRF generated \$1.04 billion USD in revenue for 2019 and has a current market cap of \$930 million.

On February 12th, Chorus Aviation reported fourth quarter and full year results. In the fourth quarter, CHRRF generated adjusted net income of \$17.6 million USD, down 34% from \$26.7 million in the prior year. Adjusted EBITDA, however, decreased only 3.7% to \$67.0 million. Revenue for the quarter increased 1.5%, while expenses rose 5.4%.

On a full year basis, adjusted net income was down 21.4% to \$72.6 million USD due to expected reductions resulting from the 2019 Capacity Purchase Agreement (“CPA”) Amendments. Adjusted EBITDA, on the other hand, squeezed a 0.3% increase to \$258 million.

The company increased the committed leased fleet to 64 aircrafts by the fourth quarter, which is a 60% year-over-year growth. They also added a new airline customer to the leasing portfolio, Croatia Airlines. In this year, the company also extended the CPA with Air Canada into the end of 2035. Nine CRJ900s were purchased and will earn leasing revenue under the CPA in 2020.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.39	\$0.53	\$0.79	\$0.44	\$0.44	\$0.14	\$0.67	\$1.02	\$0.36	\$0.63	\$0.64	\$0.86
DPS	\$0.60	\$0.59	\$0.61	\$0.39	\$0.39	\$0.35	\$0.33	\$0.37	\$0.37	\$0.36	\$0.36	\$0.36
Shares¹	122	139	139	139	124	125	126	126	139	159	160.0	165.0

Chorus Aviation has managed to grow their earnings by 5.5% on average over the last 9 years, and an impressive 36% in the last 5 years. We conservatively expect that they will be able to continue growing their earnings by 6% over the near term. There are a few avenues of growth in CHRRF’s business. The company continues to significantly increase their leasing fleet and expects to increase the fleet by 20 aircrafts per year through debt and cash. Additionally, the company is expanding geographically as they can. They have added global airlines as customers and have just established a regional aircraft parts depot in Dubai, UAE, which will help market its parts provisioning and sales offering internationally. While Air Canada is CHRRF’s primary regional partner, it’s possible to gain new customers or increase their business in specialized contracted flying or charter flights.

We don’t foresee any changes in the monthly dividend as it has remained consistent for some years now, and given a dividend decrease years ago, we expect they will maintain a buffer.

¹ Average Weighted Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
P/E	-	-	-	-	-	-	7.5	9.2	8	12.3	9.4	10.0
Avg. Yld.	-	-	-	-	-	-	7.2%	5.8%	6.4%	6.4%	6.0%	4.2%

Given the little historical data we have on CHRRF (stock price not available before 2016), the average PE ratio has been 9.3. Given their steady growth initiatives and long-term predictable revenue, we increase this slightly to a respectable PE ratio of 10 in the medium term. We are forecasting a 5-year valuation multiple expansion of 2.1x to achieve the PE ratio of 10 by 2025.

The yield has averaged 6.5% over the same time period and today yields 6.0%, but we expect this will drop in the future as earnings increase and the dividend remains constant.

Safety, Quality, Competitive Advantage, & Recession Resiliency

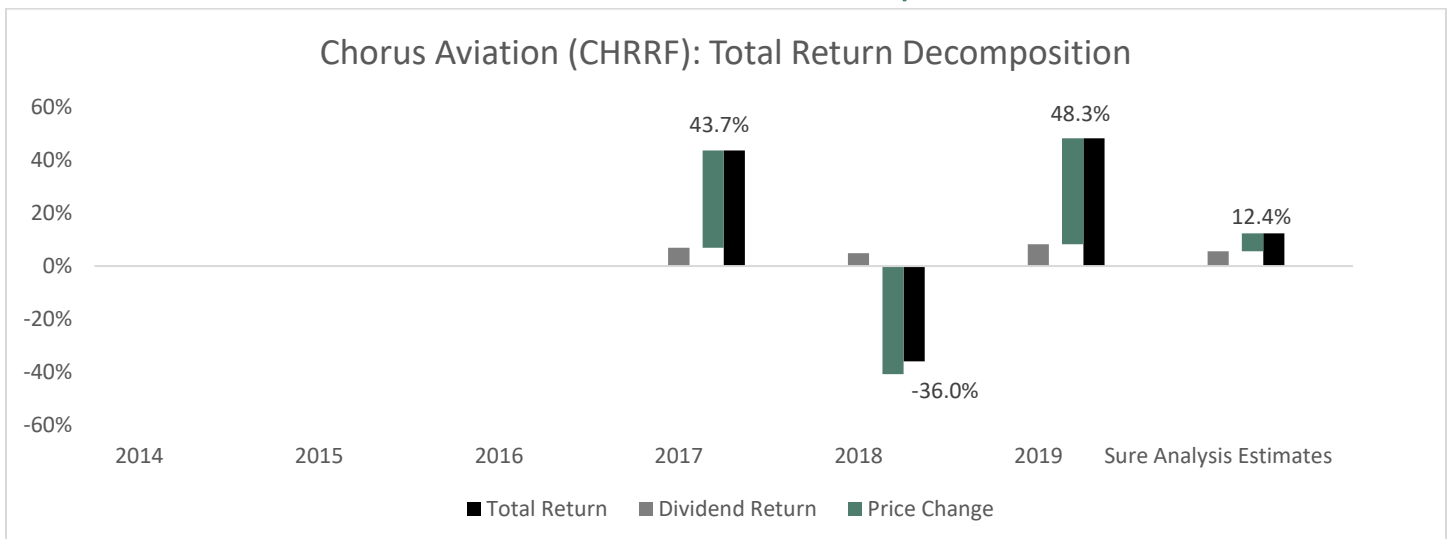
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	154%	111%	77%	89%	89%	250%	49%	36%	103%	57%	56%	42%

On the positive side, the company has maintained a steady dividend for several years. Their leverage is reasonable. They have grown earnings respectively for the past 9 years, and management sees many growth opportunities in the aircraft leasing segment of the business. Further, they have a long-term relationship with Air Canada, and a newly negotiated contract going through 2035. The structure of the contract provides significant stability to their revenue stream. Lastly, the regional aviation sector is typically more resilient during economic downturns than major airlines. During such times, mainline carriers contract more flying to their regional partners because they (the regional partners) have lower costs and the smaller aircraft they operate are better suited to service reduced market demand. The only (obvious) negative is the lack of recent dividend growth and the history of dividend reductions.

Final Thoughts & Recommendation

Total expected returns of 12.4% is excellent, however half of those returns are credited to CHRRF's attractive 6.0% monthly dividend. The company is near fair value at 90% and so there is little margin of safety in the stock price. We rate CHRRF a buy, based on the large yield and reasonable growth prospects, but would remain cautious of the stock price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	1486	1664	1711	1672	1666	1545	1277	1352	1451	1366
Gross Profit	1033	221	247	246	259	277	288	317	357	360
Gross Margin	69.5%	13.3%	14.4%	14.7%	15.6%	17.9%	22.5%	23.4%	24.6%	26.3%
SG&A Exp.	787									
D&A Exp.	44	44	57	63	66	60	81	103	121	137
Operating Profit	87	102	127	124	138	149	151	173	217	200
Operating Margin	5.8%	6.1%	7.4%	7.4%	8.3%	9.7%	11.9%	12.8%	14.9%	14.7%
Net Profit	56	68	100	62	65	25	112	167	67	133
Net Margin	3.8%	4.1%	5.9%	3.7%	3.9%	1.6%	8.8%	12.4%	4.6%	9.7%
Distr. Cash Flow	64	-55	-27	1	137	-92	-247	-297	-87	-614
Income Tax	14	21	18	24	30	36	33	17	37	25.1

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	524	773	812	977	903	1107	1462	2025	2316	2946
Cash & Equivalents	66	108	118	160	115	33	23	78	93	87
Accounts Receivable	87	73	62	60	53	57	49	61	64	61
Inventories	34	37	38	45	43	46	50	52	56	62
Goodwill & Int. Ass.	7	7	7	7	7	10	10	10	9	9
Total Liabilities	363	630	680	791	773	997	1323	1743	1886	2341
Accounts Payable	203	213	188	189	197	161	166	186	173	162
Long-Term Debt	74	271	354	481	404	585	888	1307	1440	1823
Partner's Equity	161	143	132	186	130	111	139	282	430	605
D/E Ratio	0.46	1.90	2.68	2.59	3.11	5.28	6.39	4.64	3.35	3.01

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	6.2%	10.5%	12.6%	6.9%	6.9%	2.5%	8.7%	9.6%	3.1%	5.1%
Return on Equity	11.6%	44.8%	72.8%	38.9%	41.0%	21.2%	89.5%	79.5%	18.8%	25.7%
ROIC	9.1%	21.0%	22.3%	10.7%	10.8%	4.1%	13.0%	12.8%	3.9%	6.2%
Shares Out.	122.8	123.5	123.9	123.4	121.3	121.7	122.2	123.4	136.5	158.9
Revenue/Share	12.16	11.99	12.29	12.06	13.48	12.36	10.17	10.73	10.42	8.60
DCF/Share	0.53	-0.40	-0.20	0.01	1.11	-0.74	-1.97	-2.36	-0.62	-3.86

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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