



Chorus Aviation (CHRRF)

Updated November 25th, 2020 by Quinn Mohammed

Key Metrics

Current Price:	\$3.21	5 Year CAGR Estimate:	4.5%	Market Cap:	\$521M
Fair Value Price:	\$2.64	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	-
% Fair Value:	122%	5 Year Valuation Multiple Estimate:	-3.8%	Dividend Payment Date:	-
Dividend Yield:	4.6%	5 Year Price Target	\$3	Years of Dividend Growth:	0
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	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 \$521 million USD.

On November 10th, Chorus Aviation reported third quarter results. CHRRF generated adjusted net income of \$10.9 million CAD, a 63% decrease due to the global economic impact of COVID-19. Per basis share, the company earned \$0.07 in adjusted net income. Adjusted EBITDA of \$86 million was down by 7.3% compared to the third quarter of 2019.

Over the nine months of 2020, adjusted net income has dropped 21%, but the company managed to squeeze a 4.9% adjusted EBITDA gain.

Despite the significant troubles in the airline sector, Chorus' portfolio of leased aircraft is holding up well. Aircraft leasing revenue increased year-over-year due to an addition 8 aircrafts in the portfolio versus 2019. Chorus collected 50% of lease revenue billed in the third quarter, improved performance over the 28% collected in the second quarter. While Chorus' business model is not directly exposed to market risks faced by airlines, practically of its revenue is derived from airline customers, through its CPA and aircraft leasing to global airline customers. These airline customers are facing unprecedented challenges due to the coronavirus pandemic, the duration of which is unknown, but traffic trends and regional aircraft utilization has improved from their low point.

Chorus suspended all future dividend payments and the DRIP following the March dividend paid in April. Savings are estimated to be \$55 million annually.

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	\$0.33	\$0.42
DPS	\$0.60	\$0.59	\$0.61	\$0.39	\$0.39	\$0.35	\$0.33	\$0.37	\$0.37	\$0.36	\$0.09	\$0.15
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 expect that they will be able to continue growing their earnings by 5% over the near term, off the 2020 low point. There are a few avenues of growth in CHRRF's business, however they have been put on pause as the company navigates through the COVID-19 pandemic. Once airline markets recover, the company may return to the plan to increase their leasing fleet by around 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 recently established a

¹ Average Weighted Share count is in millions.

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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 is possible to gain new customers or increase their business in specialized contracted flying or charter flights. The company has initiated multiple cost reduction measures to overcome the crisis, including capex reductions and deferrals, the 65% workforce reduction of over 3,000 employees and compensation reductions for management, administrative employees, and board of directors. As a result, the company has a strong liquidity position with access to \$218 million in cash and committed facilities.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
P/E	-	-	-	-	-	-	7.5	9.2	8	12.3	9.7	8.0
Avg. Yld.	-	-	-	-	-	-	7.2%	5.8%	6.4%	6.4%	2.8%	4.5%

Given the little historical data we have on CHRRF (stock price not available before 2016), the average PE ratio has been 9.3. Despite their steady growth initiatives and long-term predictable revenue, the world has changed, and air travel has declined dramatically, so we decrease this to a respectable PE ratio of 8 in the medium term. We are forecasting a 5-year valuation multiple contraction of 3.8% to achieve the PE ratio of 8 by 2025.

The yield has averaged 6.5% over the same time period and today yields 2.8% based on dividends paid so far in 2020, however going forward the yield is nil as dividends have been suspended.

Safety, Quality, Competitive Advantage, & Recession Resiliency

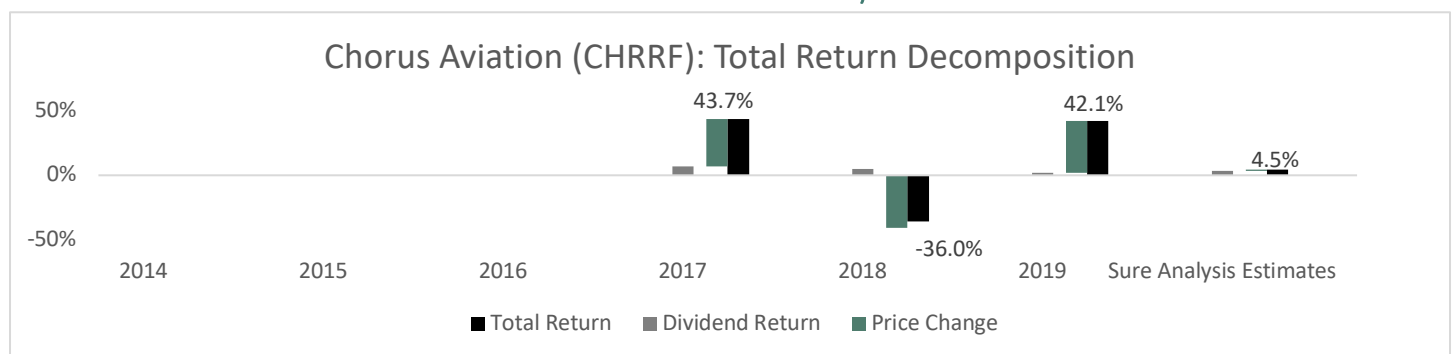
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	154%	111%	77%	89%	89%	250%	49%	36%	103%	57%	27%	36%

The dividend cut likely came as a shock to many who expected long term stability from Chorus, however air travel declines have made it illogical to pay at this time. The company 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.

Final Thoughts & Recommendation

Total expected returns of 4.5% is decent, however 4.6% of those returns in dividends have been suspended. The company is above fair value by 22% and there is no margin of safety in the stock price. We rate CHRRF a sell, based on practically nonexistent real expected returns and lack of margin of safety.

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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