



# Chorus Aviation (CHRRF)

Updated May 17<sup>th</sup>, 2021 by Quinn Mohammed

## Key Metrics

|                             |        |  |       |                                  |        |
|-----------------------------|--------|--|-------|----------------------------------|--------|
| <b>Current Price:</b>       | \$3.72 | <b>5 Year CAGR Estimate:</b>               | -3.7% | <b>Market Cap:</b>               | \$602M |
| <b>Fair Value Price:</b>    | \$2.66 | <b>5 Year Growth Estimate:</b>             | 3.0%  | <b>Ex-Dividend Date:</b>         | -      |
| <b>% Fair Value:</b>        | 140%   | <b>5 Year Valuation Multiple Estimate:</b> | -6.5% | <b>Dividend Payment Date:</b>    | -      |
| <b>Dividend Yield:</b>      | 0.0%   | <b>5 Year Price Target</b>                 | \$3.1 | <b>Years of Dividend Growth:</b> | 0      |
| <b>Dividend Risk Score:</b> | N/A    | <b>Retirement Suitability Score:</b>       | N/A   | <b>Last Dividend Increase:</b>   | 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 \$752 million USD in revenue for 2020 and has a current market cap of \$602 million USD.

On May 12<sup>th</sup>, Chorus Aviation reported first quarter results. CHRRF generated adjusted net income of USD \$13 million, a 34% decrease compared to last year due to a decrease in adjusted EBITDA, and an increase in net interest costs and realized foreign exchange losses. On a per share basis, CHRRF generated USD \$0.08 in the first quarter. Adjusted EBITDA fell 5.1% to roughly USD \$70 million compared to the first quarter of 2020.

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 additional 9 CRJ900 aircrafts in the portfolio. Chorus collected 62% of lease revenue billed in the first quarter. 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. The dividend remains suspended today.

## Growth on a Per-Share Basis

| Year                      | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021          | 2026          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$0.53 | \$0.79 | \$0.44 | \$0.44 | \$0.14 | \$0.67 | \$1.02 | \$0.36 | \$0.63 | \$0.40 | <b>\$0.32</b> | <b>\$0.37</b> |
| <b>DPS</b>                | \$0.59 | \$0.61 | \$0.39 | \$0.39 | \$0.35 | \$0.33 | \$0.37 | \$0.37 | \$0.36 | \$0.09 | <b>\$0.00</b> | <b>\$0.15</b> |
| <b>Shares<sup>1</sup></b> | 139.0  | 139.0  | 139.0  | 124.0  | 125.0  | 126.0  | 126.0  | 139.0  | 159.0  | 162.0  | <b>165.0</b>  | <b>170.0</b>  |

Chorus Aviation has managed to grow their earnings by -3% on average over the last 9 years, and an impressive 23% in the last 5 years, however this is off a low point. We expect that they will be able to grow their earnings by 3% over the near term, off the 2021 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 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

<sup>1</sup> Average Weighted Share count is in millions.

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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 USD \$142 million in cash and committed facilities.

## Valuation Analysis

| Year      | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now  | 2026 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| P/E       | -    | -    | -    | -    | -    | 7.5  | 9.2  | 8    | 12.3 | 6.9  | 11.6 | 8.3  |
| Avg. Yld. | -    | -    | -    | -    | -    | 7.2% | 5.8% | 6.4% | 6.4% | 2.8% | 0.0% | 4.9% |

Given the little historical data we have on CHRRF (stock price not available before 2016), the average PE ratio has been 8.8. 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 8.3 in the medium term. We see the PE potentially increasing once vaccination rates increase and the demand for air travel increases. We are forecasting a 5-year valuation multiple contraction of 6.5% to achieve the PE ratio of 8.3 by 2026. The yield has averaged 5.7% over the same time period and today yields 0% based on dividends expected in 2021 as of now.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

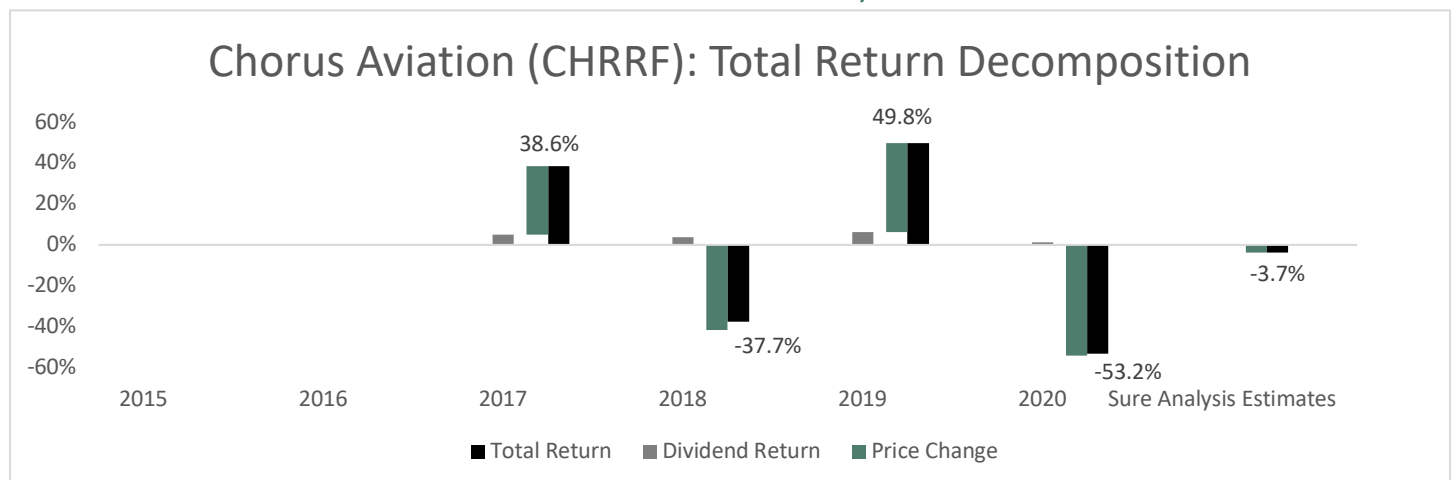
| Year   | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 111% | 77%  | 89%  | 89%  | 250% | 49%  | 36%  | 103% | 57%  | 23%  | 0%   | 40%  |

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 -3.7% bode negatively for Chorus aviation; shareholders expected the bulk of returns through the dividend which remains suspended. The company trades 40% above our estimated fair value and there is no margin of safety in the stock price. We rate CHRRF a sell, based on negative expected returns and no margin of safety.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year                    | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Revenue</b>          | 1664  | 1711  | 1672  | 1666  | 1545  | 1277  | 1352  | 1451  | 1366  | 949   |
| <b>Gross Profit</b>     | 221   | 247   | 246   | 259   | 277   | 288   | 317   | 357   | 360   | 230   |
| <b>Gross Margin</b>     | 13.3% | 14.4% | 14.7% | 15.6% | 17.9% | 22.5% | 23.4% | 24.6% | 26.3% | 24.3% |
| <b>D&amp;A Exp.</b>     | 44    | 57    | 63    | 66    | 60    | 81    | 103   | 121   | 137   | 224   |
| <b>Operating Profit</b> | 102   | 127   | 124   | 138   | 149   | 151   | 173   | 217   | 200   | 115   |
| <b>Operating Margin</b> | 6.1%  | 7.4%  | 7.4%  | 8.3%  | 9.7%  | 11.9% | 12.8% | 14.9% | 14.7% | 12.1% |
| <b>Net Profit</b>       | 68    | 100   | 62    | 65    | 25    | 112   | 167   | 67    | 133   | 41    |
| <b>Net Margin</b>       | 4.1%  | 5.9%  | 3.7%  | 3.9%  | 1.6%  | 8.8%  | 12.4% | 4.6%  | 99.7% | 4.4%  |
| <b>Distr. Cash Flow</b> | -55   | -27   | 1     | 137   | -92   | -247  | -297  | -87   | -614  | -249  |
| <b>Income Tax</b>       | 21    | 18    | 24    | 30    | 36    | 33    | 17    | 37    | 25    | 5     |

## Balance Sheet Metrics

| Year                            | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------------------------|------|------|------|------|------|------|------|------|------|------|
| <b>Total Assets</b>             | 773  | 812  | 977  | 903  | 1107 | 1462 | 2025 | 2316 | 2946 | 3338 |
| <b>Cash &amp; Equivalents</b>   | 108  | 118  | 160  | 115  | 33   | 23   | 78   | 93   | 87   | 166  |
| <b>Accounts Receivable</b>      | 73   | 62   | 60   | 53   | 57   | 49   | 61   | 64   | 61   | 96   |
| <b>Inventories</b>              | 37   | 38   | 45   | 43   | 46   | 50   | 52   | 56   | 62   | 81   |
| <b>Goodwill &amp; Int. Ass.</b> | 7    | 7    | 7    | 7    | 10   | 10   | 10   | 9    | 9    | 9    |
| <b>Total Liabilities</b>        | 630  | 680  | 791  | 773  | 997  | 1323 | 1743 | 1886 | 2341 | 2696 |
| <b>Accounts Payable</b>         | 213  | 188  | 189  | 197  | 161  | 166  | 186  | 173  | 162  | 136  |
| <b>Long-Term Debt</b>           | 271  | 354  | 481  | 404  | 585  | 888  | 1307 | 1440 | 1823 | 2183 |
| <b>Partner's Equity</b>         | 143  | 132  | 186  | 130  | 111  | 139  | 282  | 430  | 605  | 641  |
| <b>D/E Ratio</b>                | 1.90 | 2.68 | 2.59 | 3.11 | 5.28 | 6.39 | 4.64 | 3.35 | 3.01 | 3.40 |

## Profitability & Per Share Metrics

| Year                    | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 10.5% | 12.6% | 6.9%  | 6.9%  | 2.5%  | 8.7%  | 9.6%  | 3.1%  | 5.1%  | 1.3%  |
| <b>Return on Equity</b> | 44.8% | 72.8% | 38.9% | 41.0% | 21.2% | 89.5% | 79.5% | 18.8% | 25.7% | 6.7%  |
| <b>ROIC</b>             | 21.0% | 22.3% | 10.7% | 10.8% | 4.1%  | 13.0% | 12.8% | 3.9%  | 6.2%  | 1.6%  |
| <b>Shares Out.</b>      | 123.5 | 123.9 | 123.4 | 121.3 | 121.7 | 122.2 | 123.4 | 136.5 | 158.9 | 162.0 |
| <b>Revenue/Share</b>    | 11.99 | 12.29 | 12.06 | 13.48 | 12.36 | 10.17 | 10.73 | 10.42 | 8.60  | 5.80  |
| <b>DCF/Share</b>        | -0.40 | -0.20 | 0.01  | 1.11  | -0.74 | -1.97 | -2.36 | -0.62 | -3.86 | -1.52 |

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

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