



Exchange Income Corporation. (EIFZF)

Updated November 16th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$37	5 Year CAGR Estimate:	9.8%	Market Cap:	\$1.39B
Fair Value Price:	\$35	5 Year Growth Estimate:	7.0%	Ex-Dividend Date¹:	11/28/2021
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Dividend Payment Date¹:	12/15/2021
Dividend Yield:	5.0%	5 Year Price Target	\$48	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	N/A

Overview & Current Events

Exchange Income Corporation engages in aerospace and aviation services by offering scheduled airline and charter services, emergency medical services, after-market aircraft & engines, and pilot flight training services. Additionally, the company is invested in manufacturing window wall systems used in skyscrapers, vessels, and other industrial purposes. Finally, Exchange Income also owns telecom towers, which it leases to America's and Canada's major telecom providers. The company generates just over \$1 billion in annual revenue, is based in Winnipeg, Canada, and aims to pay out the majority of its earnings through monthly dividends while it grows through acquisitions. All numbers in this report have been converted into \$US, unless specified otherwise.

On November 11th, 2021, Exchange Income reported its Q3-2021 results for the period ending September 30th, 2021. Revenues came in at \$319.3 million, a 34.5% increase year-over-year (in constant currency). The record revenue level was driven by a number of factors, the largest of which was the strong performance at Regional One (the company's distributor of regional aircraft, engines, and aftermarket parts) due to the strong recovery in demand for individual parts, engines, and aircraft. Adjusted EPS was \$0.58, 24% higher year-over-year, due to the severe environment the company went through in the early months of the COVID-19 outbreak and increased expenses related to the pandemic. Free cash flow per share also came in strong, at \$1.52. Including maintenance expenses, this figure hit a new all-time high of \$1.01 during the quarter. Hence, the payout ratio to free cash flow post-CAPEX improved to 56%, compared to 73% in Q3-2020, implying that dividend coverage has now normalized. Subsequent to the quarter, Exchange Income acquired Telcon Datvox Inc. for \$7.98 million, a wireline installation and maintenance services company that is expected to add another stable stream of future cash flows for Exchange Income. We now expect FY2021 EPS of \$2.30.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.42	\$1.46	\$0.54	\$0.61	\$1.70	\$1.85	\$2.17	\$2.19	\$2.94	\$1.07	\$2.30	\$3.23
DPS	\$1.58	\$1.64	\$1.58	\$1.46	\$1.31	\$1.49	\$1.67	\$1.59	\$1.72	\$1.72	\$1.84	\$2.24
Shares²	16.8	20	21.3	22.1	24.7	28.2	31	31.5	32.4	32.4	38.1	44.0

Exchange Income pays dividends on a monthly basis. In its original Toronto listing, the company has never cut its payouts since its first one in 2004, growing them whenever management sees fit. In its TSX listing, its monthly dividend has grown from C\$0.10 in 2005 to C\$0.19, as of today. However, American investors have mostly seen stable dividends due to the depreciation of the C\$ against the \$US. We have set our estimated adjusted EPS growth to 7% in the medium term, driven by the company's acquisitions and ongoing tailwinds supported by its post-COVID-19 recovery.

We retain our DPS growth projections at around 4% through 2026, slightly lower than the company's historical (Canadian) average, which makes for a prudent estimate considering that management's top priority includes adequate dividend coverage.

¹ Estimated dates based on past monthly-dividend dates.

² 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	23	19	---	---	10.8	12.7	12.1	11.8	9.9	30.1	16.0	15.0
Avg. Yld.	6.1%	6.1%	5.9%	7.9%	7.3%	7.4%	5.9%	6.8%	5.6%	5.6%	5.0%	4.6%

Exchange Income shares have retained a relatively moderate valuation multiple throughout the years, as its operations mainly involve investing in other businesses (a holding company). The stock has mostly traded based on its yield, which the averaged around 6%. Due to the stock's rally over the past few months, Exchange Income is now yielding around 5%. Investors should likely expect a lower yield than its historical average going forward as a result of the low-rate environment persisting. We believe a future valuation near 15 times earnings is fair, taking into consideration the security's history, reliable dividend, and low-rate environment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

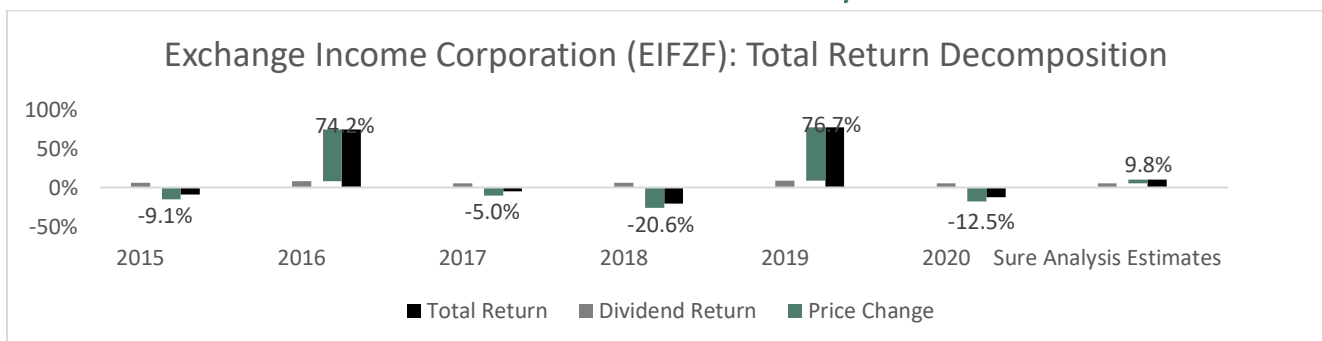
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	111%	112%	---	---	77%	81%	77%	73%	59%	161%	80%	69%

At the beginning of the decade, the company had an artificially high payout ratio, mostly attributed to accounting reasons amid its serial acquisitions. Exchange Income's adjusted EPS and free cash flow, at least from 2015, appear to adequately cover the current dividend run rate, allowing for some cash retention to be utilized in times of uncertainty, such as the past year. In line with management's confident dividend coverage guidance, we believe that the stock's dividend remains quite safe. Additionally, while the company's businesses, such as aviation and manufacturing, are very recession-sensitive and subject to brutal competition, they are usually powered by multi-year contracts, resulting in a bit more stable revenues. Further, the company's cargo segment is seeing increased volumes amid growing e-commerce sales due to the work-from-home economy, which should also assist in financials recovering quite fast compared to other (mostly passenger-focused) aviation businesses.

Final Thoughts & Recommendation

Exchange Income's goal, as its name suggests, is to provide sustainable and growing income to its shareholders. While U.S. investors may have lacked the latter due to currency fluctuations in past years, the CAD/USD rate has mostly benefited U.S.-based investors this year. Emerging from COVID-19 stronger than before, Exchange Income's financials hit new record highs in Q3, while the stock is still trading with a high yield despite the recent rally. We forecast annualized returns of around 9.8% over the medium term, primarily powered by the company's dividend yield and our growth estimates. For conservative investors looking for a reliable stream of income, Exchange Income could be an attractive non-U.S. option. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	516	801	494	491	633	673	782	929	1,011	858
Gross Profit	108	132	104	108	158	183	216	249	273	204
Gross Margin	20.9%	16.5%	21.0%	22.0%	25.0%	27.1%	27.6%	26.8%	27.1%	23.8%
SG&A Exp.	63	76	67	68	84	93	116	141	154	128
D&A Exp.	31	38	47	49	66	71	92	107	128	136
Operating Profit	45	56	36	40	74	89	100	108	120	76
Op. Margin	8.7%	7.0%	7.4%	8.1%	11.7%	13.3%	12.8%	11.6%	11.8%	8.9%
Net Profit	21	25	9	7	32	46	56	55	63	21
Net Margin	4.1%	3.2%	1.8%	1.5%	5.0%	6.9%	7.1%	5.9%	6.2%	2.4%
Free Cash Flow	14	(87)	(84)	14	(37)	(98)	(110)	(21)	(28)	85
Income Tax	9	13	8	29	15	19	18	14	17	11

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	469	713	903	616	886	1,057	1,391	1,437	1,735	1,799
Cash & Equivalents	11	4	22	13	11	20	58	32	17	55
Acc. Receivable	68	135	133	71	90	112	163	171	216	207
Inventories	39	64	103	72	85	96	142	159	172	185
Goodwill & Int.	90	102	144	122	259	272	337	342	401	439
Total Liabilities	248	417	616	358	564	696	932	984	1,176	1,261
Accounts Payable	57	126	142	72	78	95	---	---	---	168
Long-Term Debt	158	229	411	233	365	487	673	718	789	871
Total Equity	221	296	287	258	322	361	459	453	559	538
D/E Ratio	0.72	0.77	1.43	0.90	1.13	1.35	1.47	1.59	1.41	1.62

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.3%	4.3%	1.1%	1.0%	4.2%	4.8%	4.5%	3.9%	4.0%	1.2%
Return on Equity	10.5%	9.8%	3.0%	2.7%	10.9%	13.6%	13.6%	12.0%	12.5%	3.8%
ROIC	6.9%	5.6%	1.4%	1.3%	5.4%	6.1%	5.6%	4.7%	5.0%	1.5%
Shares Out.	16.8	20.0	21.3	22.1	24.7	28.2	31.0	31.5	32.4	36
Revenue/Share	26.82	36.77	23.03	22.21	24.68	19.82	21.71	26.72	26.53	23.85
FCF/Share	0.72	(3.98)	(3.93)	0.63	(1.45)	(2.87)	(3.06)	(0.59)	(0.74)	2.36

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

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