



# Exchange Income Corporation. (EIFZF)

Updated February 27<sup>th</sup>, 2021 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$33	<b>5 Year CAGR Estimate:</b>	6.4%	<b>Market Cap:</b>	\$1.24 B
<b>Fair Value Price:</b>	\$30	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	03/30/2022
<b>% Fair Value:</b>	109%	<b>5 Year Valuation Multiple Estimate:</b>	-1.6%	<b>Dividend Payment Date<sup>1</sup>:</b>	04/15/2022
<b>Dividend Yield:</b>	5.5%	<b>5 Year Price Target</b>	\$35	<b>Years Of Dividend Growth:</b>	N/A
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Last Dividend Increase:</b>	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 February 23<sup>rd</sup>, 2022, Exchange Income reported its Q4-2021 results for the period ending December 31<sup>st</sup>, 2021. Revenues came in at \$306.9 million, a 29% increase year-over-year (in constant currency). The increase in revenues 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). It was driven by a strong recovery in demand for individual parts, engines, and aircraft, illustrating the travel industry's rebound and boosting the segment's top line by 54%.

Adjusted EPS was \$0.58, 40% 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 \$1.48. Free cash flow including maintenance expenses was \$0.89 during the quarter.

Amid improving results, the payout ratio to free cash flow post-CAPEX improved from 71% in FY2020 to 58% in FY2021, implying that dividend coverage has now normalized. During Q4, Exchange Income acquired three more companies, each specializing in wire-line installation, aerial and underground fiber optic installation, and pilot training solutions, respectively. Our initial estimates point towards FY2022 EPS of \$2.00.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$1.46	\$0.54	\$0.61	\$1.70	\$1.85	\$2.17	\$2.19	\$2.94	\$1.07	\$1.82	<b>\$2.00</b>	<b>\$2.32</b>
<b>DPS</b>	\$1.64	\$1.58	\$1.46	\$1.31	\$1.49	\$1.67	\$1.59	\$1.72	\$1.72	\$1.79	<b>\$1.80</b>	<b>\$1.99</b>
<b>Shares<sup>2</sup></b>	20	21.3	22.1	24.7	28.2	31	31.5	32.4	35	37.4	<b>37.4</b>	<b>44.0</b>

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 softened our estimated adjusted EPS growth from 7% to 4% in the medium term, given that much of the company's recovery from COVID-19 has already taken place. We also

<sup>1</sup> Estimated dates based on past monthly-dividend dates.

<sup>2</sup> Share count is in millions.

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estimate DPS growth of around 2% through 2027, which makes for a prudent estimate considering that management's top priority includes adequate dividend coverage.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
<b>Avg. P/E</b>	19.0	---	---	10.8	12.7	12.1	11.8	9.9	30.1	17.5	<b>16.3</b>	<b>15.0</b>
<b>Avg. Yld.</b>	6.1%	5.9%	7.9%	7.3%	7.4%	5.9%	6.8%	5.6%	5.6%	5.5%	<b>5.5%</b>	<b>5.7%</b>

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 has averaged close to 6%. Following the recent market action, Exchange Income is now yielding 5.5%. Investors should likely expect a lower yield than its historical average going forward as a result of the low-rate environment persisting. That said, we believe that a future valuation near 15 times earnings makes for a fairer multiple, considering that the majority of future shareholder returns are to be sourced from the dividend yield.

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

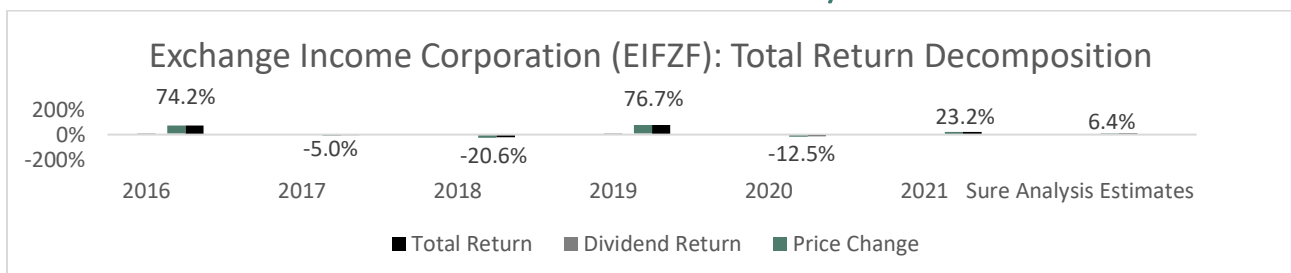
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>Payout</b>	112%	---	---	77%	81%	77%	73%	59%	161%	98%	90%	<b>86%</b>

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 two years. 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. Hence, revenues remained robust during the pandemic compared to the 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 features quite low volatility levels and is rather stable overall. Emerging from COVID-19 stronger than before, Exchange Income's financials hit new record highs in FY2021. We forecast annualized returns of around 6.4% over the medium term, primarily powered by the company's dividend yield and our growth estimates, offset by the possibility for modest valuation headwinds. 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
LTD/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.

### Disclaimer

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