



# Exchange Income Corporation. (EIFZF)

Updated August 12<sup>th</sup>, 2022 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$37	<b>5 Year CAGR Estimate:</b>	5.6%	<b>Market Cap:</b>	\$1.45 B
<b>Fair Value Price:</b>	\$34	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	08/29/2022 <sup>1</sup>
<b>% Fair Value:</b>	111%	<b>5 Year Valuation Multiple Estimate:</b>	-2.1%	<b>Dividend Payment Date:</b>	08/15/2022
<b>Dividend Yield:</b>	5.0%	<b>5 Year Price Target</b>	\$39	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## 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 dollars, unless specified otherwise.

On May 17<sup>th</sup>, 2022, Exchange Income raised its dividend by 5.3% to a monthly rate of CAD 0.20 per share. This came after the company paid CAD 0.19 monthly dividends for 33 consecutive months. It implies a dividend per share of USD \$1.88 on an annualized basis based on the current FX rates.

On August 11<sup>th</sup>, 2022, Exchange Income reported its Q2-2022 results for the period ending June 30<sup>th</sup>, 2022. Revenues increased by 64% (in constant currency) to a record high of \$413.7 million. The increase in revenues was driven primarily by the Aerospace & Aviation segment, whose revenues grew 78% to \$275.6 million. In fact, the segment's revenues hit an all-time high, having recovered from their depressed levels during the midst of the pandemic and then some. The improvement was driven by strong demand across the segment. In its Legacy Airlines and Provincial operations, the company saw significant increases in its passenger volumes as pandemic restrictions in northern communities were lessened or eliminated. Access to medical resources in the south improved, further boosting Medevac operations.

Adjusted EPS was \$0.77, implying an increase of 95% lower year-over-year. This was due to higher revenues expanding profitability margins, despite the higher share count. Free cash flow per share came in strong, at \$1.77, 15.6% higher year-over-year. Free cash flow minus maintenance expenditures came in at \$0.78 per share, 10% higher year-over-year.

That said, the payout ratio to free cash flow post-CAPEX slightly worsened, from 58% in Q2-2021 to 56% in Q2-2022. We continue to expect a FY2022 EPS power of \$2.10, excluding any one-off effects on the bottom line.

## 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>\$2.10</b>	<b>\$2.43</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>\$1.88</b>	<b>\$2.08</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>39.1</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 initiating it 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\$0.20, as of today. However, American investors have experienced a weaker growth rate due to the depreciation of the C\$ against the \$US. We have set our estimated adjusted EPS growth at 3% in the

<sup>1</sup> Estimates dates based on past dividend dates

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

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medium-term, given that much of the company's recovery from COVID-19 has already taken place. We also 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>17.8</b>	<b>16.0</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>5.0%</b>	<b>5.3%</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 5.0%. While the company's performance remains resilient, we believe its per-share growth prospects will soften moving forward. Hence, we have set our fair P/E at 16, implying modest valuation headwinds. We also believe that investors will keep valuing the stock so its yield is close to its historical average.

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

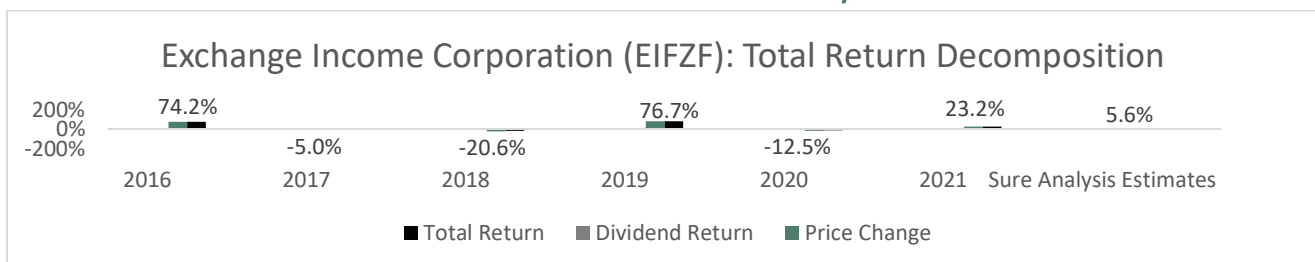
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>Payout</b>	112%	---	---	77%	81%	77%	73%	59%	161%	98%	<b>90%</b>	<b>85%</b>

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 rate is not as volatile as most FX rates. We forecast annualized returns of around 5.6% over the medium term, primarily powered by the company's dividend yield and our growth estimates, offset by the possibility of 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	801	494	491	633	673	782	929	1,011	858	1127
Gross Profit	132	104	108	158	183	216	249	273	204	267
Gross Margin	16.5%	21.0%	22.0%	25.0%	27.1%	27.6%	26.8%	27.1%	23.8%	23.7%
SG&A Exp.	76	67	68	84	93	116	141	154	128	152
D&A Exp.	38	47	49	66	71	92	107	128	136	149
Operating Profit	56	36	40	74	89	100	108	120	76	114
Op. Margin	7.0%	7.4%	8.1%	11.7%	13.3%	12.8%	11.6%	11.8%	8.9%	10.1%
Net Profit	25	9	7	32	46	56	55	63	21	55
Net Margin	3.2%	1.8%	1.5%	5.0%	6.9%	7.1%	5.9%	6.2%	2.4%	4.9%
Free Cash Flow	(87)	(84)	14	(37)	(98)	(110)	(21)	(28)	85	4.5
Income Tax	13	8	29	15	19	18	14	17	11	20

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	713	903	616	886	1,057	1,391	1,437	1,735	1,799	2,030
Cash & Equivalents	4	22	13	11	20	58	32	17	55	59
Acc. Receivable	135	133	71	90	112	163	171	216	207	237
Inventories	64	103	72	85	96	142	159	172	185	200
Goodwill & Int.	102	144	122	259	272	337	342	401	439	524
Total Liabilities	417	616	358	564	696	932	984	1,176	1,261	1,403
Accounts Payable	126	142	72	78	95	---	---	---	168	210
Long-Term Debt	229	411	233	365	487	673	718	789	871	941
Total Equity	296	287	258	322	361	459	453	559	538	628
LTD/E Ratio	0.77	1.43	0.90	1.13	1.35	1.47	1.59	1.41	1.62	1.50

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.3%	1.1%	1.0%	4.2%	4.8%	4.5%	3.9%	4.0%	1.2%	2.9%
Return on Equity	9.8%	3.0%	2.7%	10.9%	13.6%	13.6%	12.0%	12.5%	3.8%	9.4%
ROIC	5.6%	1.4%	1.3%	5.4%	6.1%	5.6%	4.7%	5.0%	1.5%	3.7%
Shares Out.	20.0	21.3	22.1	24.7	28.2	31.0	31.5	32.4	36	38.1
Revenue/Share	36.77	23.03	22.21	24.68	19.82	21.71	26.72	26.53	23.85	29.59
FCF/Share	(3.98)	(3.93)	0.63	(1.45)	(2.87)	(3.06)	(0.59)	(0.74)	2.36	0.12

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

### Disclaimer

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