



Exchange Income Corporation. (EIFZF)

Updated November 15th, 2022 by Nikolaos Sismanis

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|-------------------------|
| Current Price: | \$35 | 5 Year CAGR Estimate: | 7.5% | Market Cap: | \$1.50 B |
| Fair Value Price: | \$35 | 5 Year Growth Estimate: | 3.0% | Ex-Dividend Date: | 11/30/2022 ¹ |
| % Fair Value: | 101% | 5 Year Valuation Multiple Estimate: | -0.1% | Dividend Payment Date: | 12/15/2022 |
| Dividend Yield: | 5.4% | 5 Year Price Target | \$41 | Years Of Dividend Growth: | 1 |
| Dividend Risk Score: | F | Retirement Suitability Score: | D | Rating: | 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 August 17th, 2022, Exchange Income raised its dividend by 5.0% to a monthly rate of CAD 0.21 per share. This is the second intra-year dividend hike. It implies a dividend per share of USD \$1.90 on an annualized basis based on the current FX rates.

On November 9th, 2022, Exchange Income reported its Q3-2022 results for the period ending September 30th, 2022. Revenues increased by 46.7% (in constant currency) to a record high of \$441.6 million. The increase in revenues was driven both by the Aerospace & Aviation and manufacturing segments, whose revenues grew 32% and 78% to \$273.5 and \$168.1, respectively. In fact, both segments' 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 board.

Adjusted EPS was \$0.90, implying an increase of 107% year-over-year. This was due to higher revenues expanding profitability margins, despite the higher share count. The company stopped posting free cash flow metrics. We now expect FY2022 EPS of \$2.20, 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 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$1.46 | \$0.54 | \$0.61 | \$1.70 | \$1.85 | \$2.17 | \$2.19 | \$2.94 | \$1.07 | \$1.82 | \$2.20 | \$2.55 |
| DPS | \$1.64 | \$1.58 | \$1.46 | \$1.31 | \$1.49 | \$1.67 | \$1.59 | \$1.72 | \$1.72 | \$1.79 | \$1.90 | \$2.10 |
| Shares² | 20 | 21.3 | 22.1 | 24.7 | 28.2 | 31 | 31.5 | 32.4 | 35 | 37.4 | 40.7 | 44.0 |

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\$0.21, as of today, including the company paying a C\$0.19 monthly dividend for 33 consecutive months between 2019 and 2022. 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 medium-term, given that much of the company's recovery from COVID-19 has already taken place. We also estimate DPS growth

¹ Estimates dates based on past dividend dates

² Share count is in millions.

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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 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 19.0 | --- | --- | 10.8 | 12.7 | 12.1 | 11.8 | 9.9 | 30.1 | 17.5 | 16.1 | 16.0 |
| Avg. Yld. | 6.1% | 5.9% | 7.9% | 7.3% | 7.4% | 5.9% | 6.8% | 5.6% | 5.6% | 5.5% | 5.4% | 5.1% |

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 6.4%. Following the recent market action, Exchange Income is now yielding 5.4% and trades at a P/E of 16.1, meaning it has already approached our fair P/E of 16. A modest P/E compression is possible as investors demand a higher yield in a rising-rates landscape, but Exchange Income is likely to retain a premium due to its qualities.

Safety, Quality, Competitive Advantage, & Recession Resiliency

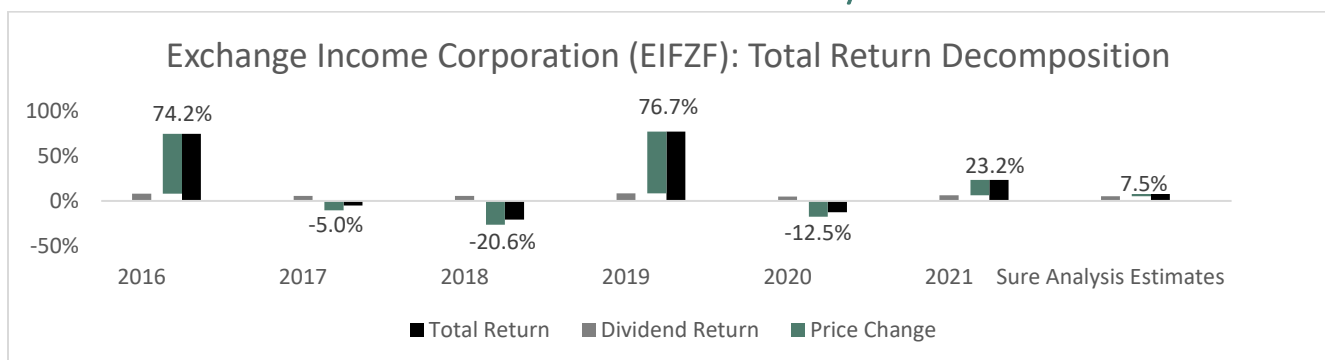
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 112% | --- | --- | 77% | 81% | 77% | 73% | 59% | 161% | 98% | 86% | 82% |

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, 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 in the case of Exchange Income, 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 be subject to currency fluctuations, the CAD/USD rate is not as volatile as most currencies. We forecast annualized returns of around 7.5% through 2027, primarily powered by the 5.4% 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 | 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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