



Exchange Income Corporation. (EIFZF)

Updated March 3rd, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$37	5 Year CAGR Estimate:	5.5%	Market Cap:	\$1.61 B
Fair Value Price:	\$34	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	02/27/2023 ¹
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.0%	Dividend Payment Date:	03/14/2023
Dividend Yield:	4.9%	5 Year Price Target	\$39	Years Of Dividend Growth:	2
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 February 23rd, 2023, Exchange Income reported its full-year results for the period ending December 31st, 2022. Revenues increased by 46% (in constant currency) to a record high of \$1.51 billion. The increase in revenues was driven both by the Aerospace & Aviation and manufacturing segments, whose revenues each grew to \$982 million and \$530 million, 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.

Earnings-per-share for the year was \$2.01, 47.8% higher on an FX-neutral basis. U.S.-based investors experienced a smaller increase due to the depreciation of the CAD against the USD. Regardless, earnings growth was driven by higher revenues and margin maintenance, offset by a higher share count driven by shares issued to fund last year's acquisitions. For fiscal 2023, management expects a new all-time high adjusted EBITDA of between \$510 million and \$540 million. Based on this, we assume an earnings power of \$2.60 per share, excluding any extraordinary items. All other entries in our tables depict GAAP figures.

The company's current annual dividend rate stands at \$C.52, implying an annual rate of \$1.85 at current FX rates.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.40	\$0.32	\$1.18	\$1.63	\$1.85	\$1.65	\$1.99	\$0.63	\$1.46	\$2.01	\$2.60	\$3.01
DPS	\$1.58	\$1.46	\$1.31	\$1.49	\$1.67	\$1.59	\$1.72	\$1.79	\$1.80	\$1.78	\$1.85	\$2.04
Shares²	21.3	22.1	24.7	28.2	31	31.5	32.4	35	37.4	40.3	40.3	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 the company's recovery from COVID-19 has already taken place. We also estimate DPS growth of

¹ Estimates dates based on past 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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around 2% through 2028, which makes for a prudent estimate considering that management’s top priority includes adequate dividend coverage.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	10.8	12.7	12.1	11.8	9.9	---	17.5	16.4	14.4	13.0
Avg. Yld.	5.9%	7.9%	7.3%	7.4%	5.9%	6.8%	5.6%	5.6%	5.5%	5.4%	4.9%	5.2%

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 6.3%. Following the recent market action, Exchange Income is now yielding 4.9% and trades at 14.4 times our expected earnings. A further P/E compression is possible as investors should demand a higher yield in a rising-rates landscape from a YieldCo. That said, the stock is likely to retain its premium due to its excellent track record.

Safety, Quality, Competitive Advantage, & Recession Resiliency

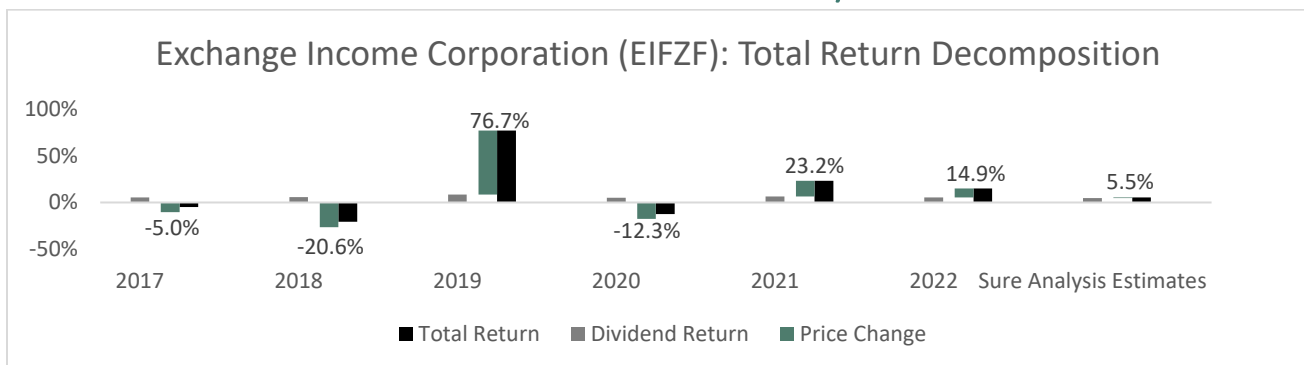
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	395%	456%	111%	91%	90%	96%	86%	284%	123%	89%	71%	68%

At the beginning of the decade, the company had an artificially high payout ratio, mostly attributed to accounting reasons amid its serial acquisitions. And while the dividend appears to lack coverage in some years (2020 and 2021,) this is due to the company’s GAAP figures, including some non-cash items due to its constant acquisitions that affect results. The dividend has historically been covered from a free-cash flow per share or adjusted earnings-per-share point of view, hence the 16 increases over the past 18 years (in CAD terms). 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 relatively 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 5.5% through 2028, primarily powered by the 4.9% yield and our growth estimates, offset by the possibility of a 2% annual valuation headwind. 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.

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