



# Exchange Income Corporation. (EIFZF)

Updated September 19<sup>th</sup>, 2023 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$34	<b>5 Year CAGR Estimate:</b>	7.5%	<b>Market Cap:</b>	\$1.60 B
<b>Fair Value Price:</b>	\$34	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	09/28/2023
<b>% Fair Value:</b>	100%	<b>5 Year Valuation Multiple Estimate:</b>	-0.3%	<b>Dividend Payment Date:</b>	10/13/2023
<b>Dividend Yield:</b>	5.5%	<b>5 Year Price Target</b>	\$39	<b>Years Of Dividend Growth:</b>	2
<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 August 11<sup>th</sup>, 2023, Exchange Income reported its Q2 results for the period ending June 30<sup>th</sup>, 2023. Revenues increased by 19% (in constant currency) to a record high of \$398.8 million. The increase in revenues was driven both by the aerospace and aviation and manufacturing segments, whose revenues grew by 5.7% and 44%, respectively. The improvements were driven by strong demand across the board and the company's acquisitions over the past four quarters.

Earnings-per-share for the quarter was \$0.64, up about 12% on an FX-neutral basis. 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 maintained their guidance, projecting a new all-time high adjusted EBITDA of between C\$540 million and C\$570 million. Based on this, we estimate earnings-per-share of \$2.60, excluding any extraordinary items. All other entries in our tables depict GAAP figures.

The company's current annual dividend rate stands at \$C2.52, implying an annual rate of \$1.90 at current FX rates.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$0.40	\$0.32	\$1.18	\$1.63	\$1.85	\$1.65	\$1.99	\$0.63	\$1.46	\$2.01	<b>\$2.60</b>	<b>\$3.01</b>
<b>DPS</b>	\$1.58	\$1.46	\$1.31	\$1.49	\$1.67	\$1.59	\$1.72	\$1.79	\$1.80	\$1.78	<b>\$1.90</b>	<b>\$2.10</b>
<b>Shares<sup>1</sup></b>	21.3	22.1	24.7	28.2	31.0	31.5	32.4	35	37.4	40.3	<b>46.6</b>	<b>55.0</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\$0.21, 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 USD. 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 around 2% through 2028, which makes for a prudent estimate considering that management's top priority includes adequate dividend coverage.

<sup>1</sup> 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	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	13.2	13.0
Avg. Yld.	5.9%	7.9%	7.3%	7.4%	5.9%	6.8%	5.6%	5.6%	5.5%	5.4%	5.5%	5.4%

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 5.5% and trades at 13.2 times our expected earnings. A future P/E compression is possible as investors should demand a higher yield in a rising-rates landscape. That said, the stock is likely to retain its premium due to its excellent track record.

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

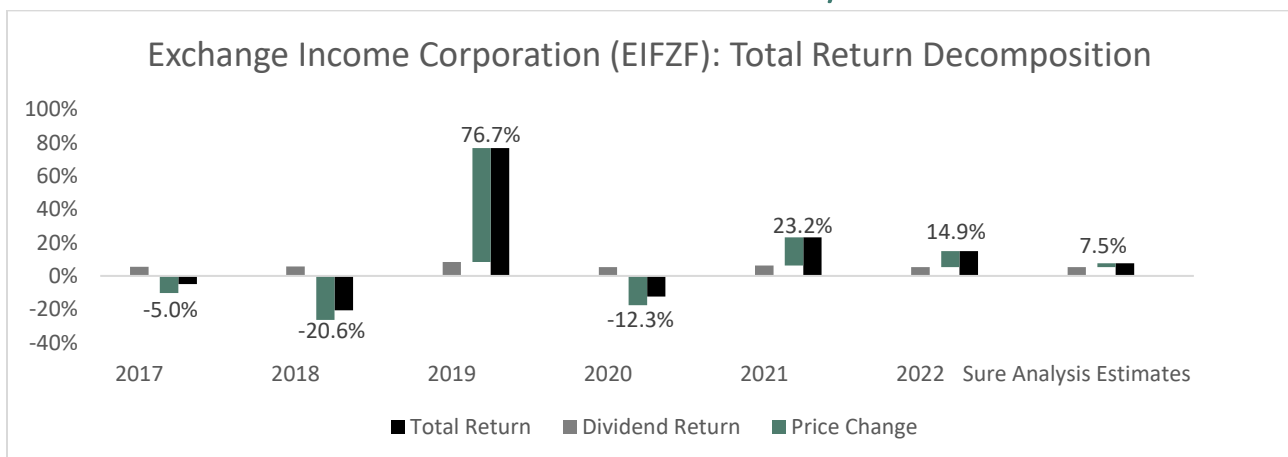
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	395%	456%	111%	91%	90%	96%	86%	284%	123%	89%	73%	70%

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 7.5% through 2028, primarily powered by the 5.5% yield and our growth estimates, offset by the possibility of a 0.3% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	494	491	633	673	782	929	1,011	858	1127	1583
<b>Gross Profit</b>	104	108	158	183	216	249	273	204	267	378
<b>Gross Margin</b>	21.0%	22.0%	25.0%	27.1%	27.6%	26.8%	27.1%	23.8%	23.7%	23.9%
<b>SG&amp;A Exp.</b>	67	68	84	93	116	141	154	128	152	196
<b>D&amp;A Exp.</b>	47	49	66	71	92	107	128	136	149	169
<b>Operating Profit</b>	36	40	74	89	100	108	120	76	114	182
<b>Op. Margin</b>	7.4%	8.1%	11.7%	13.3%	12.8%	11.6%	11.8%	8.9%	10.1%	11.5%
<b>Net Profit</b>	9	7	32	46	56	55	63	21	55	84
<b>Net Margin</b>	1.8%	1.5%	5.0%	6.9%	7.1%	5.9%	6.2%	2.4%	4.9%	5.3%
<b>Free Cash Flow</b>	(84)	14	(37)	(98)	(110)	(21)	(28)	85	4.5	(24)
<b>Income Tax</b>	8	29	15	19	18	14	17	11	20	32

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	903	616	886	1,057	1,391	1,437	1,735	1,799	2,030	2,615
<b>Cash &amp; Equivalents</b>	22	13	11	20	58	32	17	55	59	103
<b>Acc. Receivable</b>	133	71	90	112	163	171	216	207	237	320
<b>Inventories</b>	103	72	85	96	142	159	172	185	200	247
<b>Goodwill &amp; Int.</b>	144	122	259	272	337	342	401	439	524	683
<b>Total Liabilities</b>	616	358	564	696	932	984	1,176	1,261	1,403	1,864
<b>Accounts Payable</b>	142	72	78	95	---	---	---	168	210	333
<b>Long-Term Debt</b>	411	233	365	487	673	718	789	871	941	1,189
<b>Total Equity</b>	287	258	322	361	459	453	559	538	628	751
<b>LTD/E Ratio</b>	1.43	0.90	1.13	1.35	1.47	1.59	1.41	1.62	1.50	1.58

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	1.1%	1.0%	4.2%	4.8%	4.5%	3.9%	4.0%	1.2%	2.9%	3.6%
<b>Return on Equity</b>	3.0%	2.7%	10.9%	13.6%	13.6%	12.0%	12.5%	3.8%	9.4%	12.2%
<b>ROIC</b>	1.4%	1.3%	5.4%	6.1%	5.6%	4.7%	5.0%	1.5%	3.7%	4.8%
<b>Shares Out.</b>	21.3	22.1	24.7	28.2	31.0	31.5	32.4	36	38.1	47.3
<b>Revenue/Share</b>	23.03	22.21	24.68	19.82	21.71	26.72	26.53	23.85	29.59	33.45
<b>FCF/Share</b>	(3.93)	0.63	(1.45)	(2.87)	(3.06)	(0.59)	(0.74)	2.36	0.12	(0.51)

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

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