



Chorus Aviation Inc. (CHRRF)

Updated October 14th, 2019 by Trond Odegaard

Key Metrics

Current Price:	\$5.85	5 Year CAGR Estimate:	15.9%	Volatility Percentile:	73.8%
Fair Value Price:	\$5.98	5 Year Growth Estimate:	5.0%	Momentum Percentile:	65.2%
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.4%	Growth Percentile:	41.0%
Dividend Yield:	6.2%	5 Year Price Target	\$7.63	Valuation Percentile:	23.3%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	38.9%

Overview & Current Events

Chorus Aviation Inc (CHRRF) is a relatively small Canadian aviation company, providing a range of aviation services including: contract flying, aircraft leasing, and maintenance, repair, and overhaul services. Through a long-term contract, CHRRF provides substantially all of the flight operations for Air Canada Express. This part of the business provides 92% of revenues and 70% of EBITDA. The contract extends through 2035. CHRRF also provides regional aircraft leasing to 14 other airlines, through a fleet of 56 planes. CHRRF had 2018 revenues of \$1.5 billion and has a current market cap of \$929 million.

The business is having a good year. First half 2019 revenue and EBITDA are almost exactly the same as the first half 2018, at \$676.4 million and \$160.4 million, respectively. Cash flow from operations was down for the first half versus last year, at \$122.5 million versus \$130.9 million last year. The company has explained that they expected some shortfall this year due to contract changes made with Air Canada, which will hurt a little in the short term, but be beneficial longer term. CHRRF does not provide guidance.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
CFS	\$1.14	\$0.82	\$0.87	\$1.13	\$1.30	\$1.67	\$1.51	\$1.73	\$1.93	\$2.07	\$1.59	\$2.03
DPS	\$0.84	\$0.60	\$0.60	\$0.60	\$0.41	\$0.45	\$0.48	\$0.48	\$0.48	\$0.48	\$0.48	\$0.61
Shares¹	122.2	122.8	123.5	123.9	123.4	121.3	121.7	122.2	123.4	136.5	154.3	154.3

We use a cash flow measure for our analysis - cash provided by operating activities, from the cash flow statement. CFS and DPS are in Canadian dollars. In the absence of guidance, the estimate for 2019 CFS is simply a linear extrapolation of their first half. 2019 DPS is likely to be unchanged, given the trend of the last 4 years.

For the 2024 CFS estimate, we assessed their 10-year history. CFS grew at an average annual rate of 8.9%, not including the 2019 estimate. We used a conservative 5% growth rate to estimate 2024's CFS. Estimating DPS is a bit more of a guess, frankly.

We assume a parallel 5% growth in the dividend, but caution that this may be overly optimistic based on history. Management has held it stable for some time, even as their coverage ratio has increased to a quite high 4.3X (and averaged a quite high 2.8 through 2018). The company's debt levels are reasonable (Debt/EBITDA ratio of 3.65; D/E of 2.0), so should their cash flow grow at the conservatively expected 5% rate, it would seem reasonable that they start kicking up the dividend at some point.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/CFS	-	-	4.8	3.2	3.0	2.5	3.4	3.6	4.4	3.7	4.9	5.0
Avg. Yld.	-	-	14.4%	16.8%	10.5%	10.6%	9.2%	7.6%	5.7%	6.3%	6.2%	6.0%

¹ Average Weighted Share count is in millions.

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Even though CHRRF has been a public company since 2010, we are unable to locate share price data prior to August 2011. For the table above, we also note that CFS and DPS have been currency adjusted to be consistent with share price, which is US dollar denominated. CHRRF's current CFS price multiple is a bit higher than its average of 3.6, but both are low versus what would seem to be reasonable for their industry. If oil and gas midstream companies with all their cyclicalities are between 6 to 8, then CHRRF should be higher by some amount. However, given that their multiple has never been anywhere near this, it may be that Mr. Market knows something we don't. They did have a dividend cut back in 2013, so perhaps they are still being punished for this. The market has a long memory for negative surprises and it is unforgiving. In any event, we will abjure risk and conjure caution – and assign a 5-multiple going forward as fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

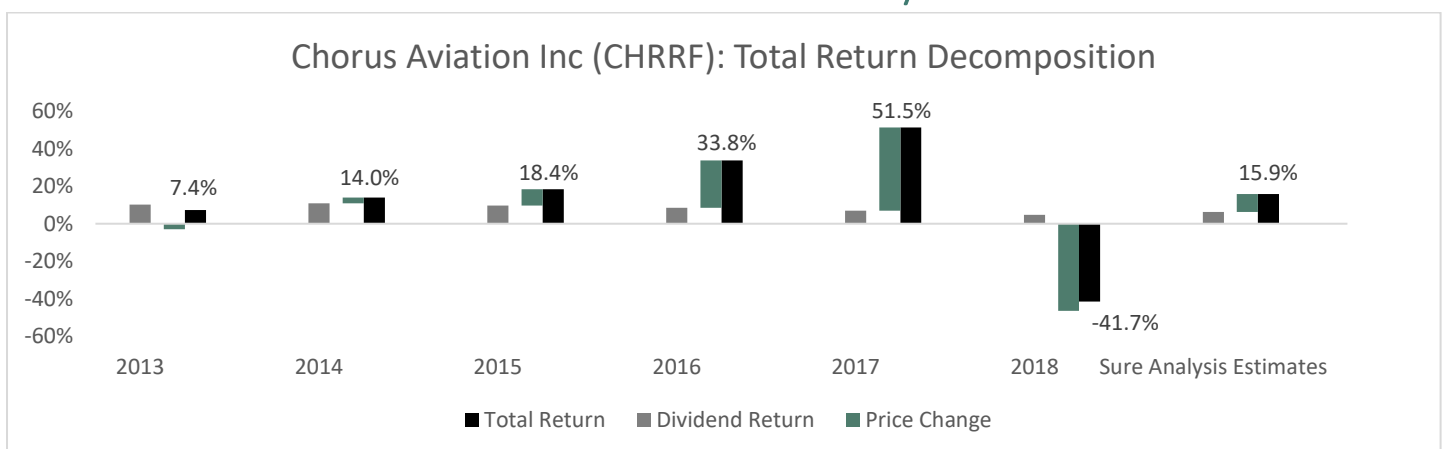
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	74%	73%	70%	53%	32%	27%	31%	28%	25%	23%	30%	30%

On the positive side, the company has maintained a steady dividend for several years. Their leverage is reasonable. They have grown cash flow nicely for the past 9 years, and management sees many growth opportunities in the aircraft leasing segment of the business. Further, they have a long-term relationship with Air Canada, and a newly negotiated contract going through 2035. The structure of the contract provides some stability to their revenue stream. Lastly, the regional aviation sector is typically more resilient during economic downturns than major airlines. During such times, mainline carriers contract more flying to their regional partners because they (the regional partners) have lower costs and the smaller aircraft they operate are better suited to service reduced market demand. The only (obvious) negative is the lack of recent dividend growth and the history of dividend reductions.

Final Thoughts & Recommendation

CHRRF pays a reasonable dividend (5.25% after 15% Canadian tax on non-residents), has done so stably for almost 5 years, and their stock seems to be trading very cheaply. They have demonstrated an ability to grow the business. And they should be reasonably recession resilient. They have a very low payout ratio of 30%. So there's quite a bit to like. CHRRF is a buy, based on the reasonable yield and reasonable growth prospects. They are trading roughly in the middle of their 2019 price range (\$3.5 to \$8.5) currently.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	1474	1486	1664	1711	1672	1666	1545	1277	1352	1451
Gross Profit	747	1033	221	247	246	259	277	288	317	357
Gross Margin	50.7%	69.5%	13.3%	14.4%	14.7%	15.6%	17.9%	22.5%	23.4%	24.6%
SG&A Exp.	480	787								
D&A Exp.	72	44	44	57	63	66	60	81	103	121
Operating Profit	89	87	102	127	124	138	149	151	173	217
Operating Margin	6.0%	5.8%	6.1%	7.4%	7.4%	8.3%	9.7%	11.9%	12.8%	14.9%
Net Profit	93	56	68	100	62	65	25	112	167	67
Net Margin	6.3%	3.8%	4.1%	5.9%	3.7%	3.9%	1.6%	8.8%	12.4%	4.6%
Distr. Cash Flow	117	64	-55	-27	1	137	-92	-247	-297	-87
Income Tax	-10	14	21	18	24	30	36	33	17	37

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	1266	524	773	812	977	903	1107	1462	2025	2316
Cash & Equivalents	224	66	108	118	160	115	33	23	78	93
Accounts Receivable	59	87	73	62	60	53	57	49	61	64
Inventories	41	34	37	38	45	43	46	50	52	56
Goodwill & Int. Ass.	682	7	7	7	7	7	10	10	10	9
Total Liabilities	462	363	630	680	791	773	997	1323	1743	1886
Accounts Payable		203	213	188	189	197	161	166	186	173
Long-Term Debt	193	74	271	354	481	404	585	888	1307	1440
Partner's Equity	804	161	143	132	186	130	111	139	282	430
D/E Ratio	0.24	0.46	1.90	2.68	2.59	3.11	5.28	6.39	4.64	3.35

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	7.4%	6.2%	10.5%	12.6%	6.9%	6.9%	2.5%	8.7%	9.6%	3.1%
Return on Equity	11.5%	11.6%	44.8%	72.8%	38.9%	41.0%	21.2%	89.5%	79.5%	18.8%
ROIC	9.6%	9.1%	21.0%	22.3%	10.7%	10.8%	4.1%	13.0%	12.8%	3.9%
Shares Out.	122.2	122.8	123.5	123.9	123.4	121.3	121.7	122.2	123.4	136.5
Revenue/Share	11.86	12.16	11.99	12.29	12.06	13.48	12.36	10.17	10.73	10.42
DCF/Share	0.94	0.53	-0.40	-0.20	0.01	1.11	-0.74	-1.97	-2.36	-0.62

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

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