



# Chorus Aviation (CHRRF)

Updated November 15<sup>th</sup>, 2021 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$3.43	<b>5 Year CAGR Estimate:</b>	-5.4%	<b>Market Cap:</b>	\$612 M
<b>Fair Value Price:</b>	\$2.24	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	-
<b>% Fair Value:</b>	153%	<b>5 Year Valuation Multiple Estimate:</b>	-8.2%	<b>Dividend Payment Date:</b>	-
<b>Dividend Yield:</b>	0.0%	<b>5 Year Price Target</b>	\$2.60	<b>Years of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	N/A	<b>Retirement Suitability Score:</b>	N/A	<b>Last Dividend Increase:</b>	0

## Overview & Current Events

Chorus Aviation Inc (CHRRF) is a relatively small Canadian aviation company, providing a range of aviation services including aircraft acquisitions and leasing; aircraft refurbishment, engineering, modification, repurposing, and preparation; contract flying; aircraft and component maintenance, disassembly, and parts provisioning. Through a long-term contract, CHRRF provides substantially all the flight operations for Air Canada Express and is contracted through to 2035. Chorus has a predictable revenue stream, with 90%+ of annual revenues secured through long-term contracts and strong relationships CHRRF also provides regional aircraft leasing to 17 other airlines, for a total of 101 aircrafts. CHRRF generated \$752 million USD in revenue for 2020 and has a current market cap of \$612 million USD.

On November 10<sup>th</sup>, Chorus Aviation reported third quarter results. CHRRF generated adjusted net income of \$15.3 million CAD, a 40% increase compared to last year, in part due to a reduction in interest expense as a result of the early repayment on amortizing term loans under some aircraft financings, and lower depreciation expense. On a per share basis, CHRRF generated \$0.09 CAD in the third quarter. Adjusted EBITDA fell 9% compared to the third quarter of 2020 to roughly \$78 million CAD.

Despite the significant troubles in the airline sector, Chorus' portfolio of leased aircraft is holding up well. Aircraft leasing revenue increased year-over-year due to an additional six CRJ900 aircrafts in the portfolio. Chorus collected 77% of lease revenue billed in the third quarter. Chorus' business model is not directly exposed to market risks faced by airlines, practically of its revenue is derived from airline customers, through its CPA and aircraft leasing to global airline customers. These airline customers are facing unprecedented challenges due to the coronavirus pandemic, the duration of which is unknown, but traffic trends and regional aircraft utilization has improved from their low point.

Chorus suspended all future dividend payments and the DRIP following the March dividend paid in April. Savings are estimated to be \$55 million annually. The dividend remains suspended today.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$0.53	\$0.79	\$0.44	\$0.44	\$0.14	\$0.67	\$1.02	\$0.36	\$0.63	\$0.40	<b>\$0.27</b>	<b>\$0.31</b>
<b>DPS</b>	\$0.59	\$0.61	\$0.39	\$0.39	\$0.35	\$0.33	\$0.37	\$0.37	\$0.36	\$0.09	<b>\$0.00</b>	<b>\$0.15</b>
<b>Shares<sup>1</sup></b>	139.0	139.0	139.0	124.0	125.0	126.0	126.0	139.0	159.0	162.0	<b>178.0</b>	<b>200.0</b>

Chorus Aviation has managed to grow their earnings by -3% on average over the last 9 years, and an impressive 23% in the last 5 years, however this is off a low point. We expect that they will be able to grow their earnings by 3% annually over the medium term, off the 2021 low point. There are a few avenues of growth in CHRRF's business, however they have been put on pause as the company navigates through the COVID-19 pandemic. Once airline markets recover, the company may return to the plan to increase their leasing fleet by around 20 aircrafts per year through debt and cash. Additionally, the company is expanding geographically as they can. They have added global airlines as customers and have established a regional aircraft parts depot in Dubai, UAE, which will help market its parts provisioning and sales offering internationally. While Air Canada is CHRRF's primary regional partner, it is possible to gain new customers or

<sup>1</sup> Average Weighted Share count is in millions.

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increase their business in specialized contracted flying or charter flights. The company has initiated multiple cost reduction measures to overcome the crisis, including capex reductions and deferrals, the 65% workforce reduction of over 3,000 employees and compensation reductions for management, administrative employees, and board of directors. As a result, the company has a strong liquidity position with access to USD \$206 million in cash and committed facilities.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/E	-	-	-	-	-	7.5	9.2	8	12.3	6.9	12.7	8.3
Avg. Yld.	-	-	-	-	-	7.2%	5.8%	6.4%	6.4%	2.8%	0.0%	5.8%

Given the little historical data we have on CHRRF (stock price not available before 2016), the average PE ratio has been 8.8. Despite their steady growth initiatives and long-term predictable revenue, the world has changed, and air travel has declined dramatically, so we decrease this to a respectable PE ratio of 8.3 in the medium term. We see the PE potentially increasing once vaccination rates increase and the demand for air travel increases. We are forecasting a 5-year valuation multiple contraction of 8.2% to achieve the PE ratio of 8.3 by 2026. The yield has averaged 5.7% over the same time period and today yields 0% based on dividends expected in 2021 as of now.

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

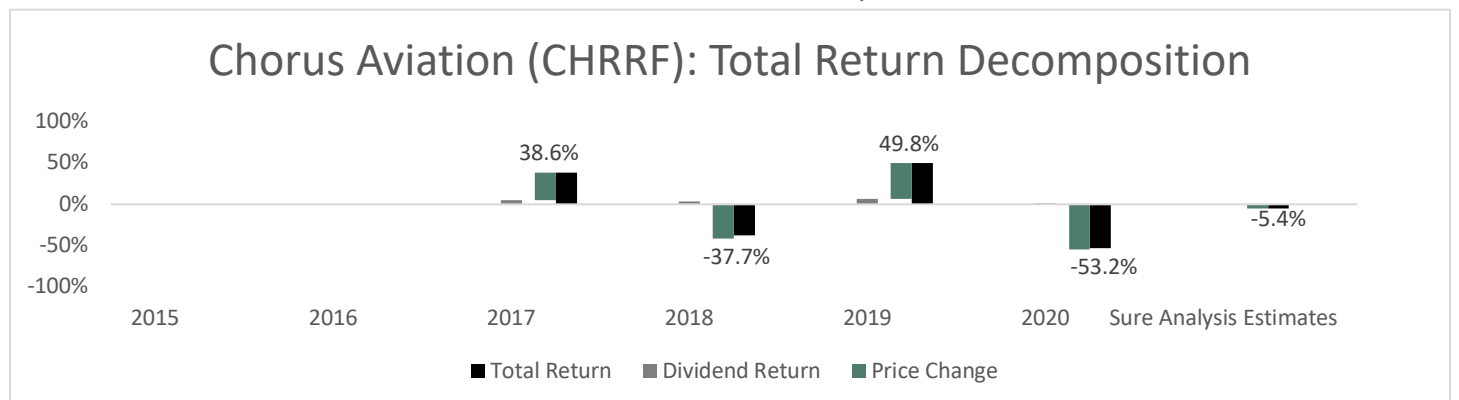
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	111%	77%	89%	89%	250%	49%	36%	103%	57%	23%	0%	48%

The dividend cut likely came as a shock to many who expected long term stability from Chorus, however air travel declines have made it illogical to pay at this time. The company leverage is reasonable. They have grown earnings respectively 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 significant 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.

## Final Thoughts & Recommendation

Total expected returns of (5.4%) annually bode negatively for Chorus aviation; shareholders expected the bulk of returns through the dividend which remains suspended. The company trades 53% above our estimated fair value and there is no margin of safety in the stock price. We rate CHRRF a sell, based on negative expected returns and no margin of safety.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1664	1711	1672	1666	1545	1277	1352	1451	1366	949
Gross Profit	221	247	246	259	277	288	317	357	360	230
Gross Margin	13.3%	14.4%	14.7%	15.6%	17.9%	22.5%	23.4%	24.6%	26.3%	24.3%
D&A Exp.	44	57	63	66	60	81	103	121	137	224
Operating Profit	102	127	124	138	149	151	173	217	200	115
Operating Margin	6.1%	7.4%	7.4%	8.3%	9.7%	11.9%	12.8%	14.9%	14.7%	12.1%
Net Profit	68	100	62	65	25	112	167	67	133	41
Net Margin	4.1%	5.9%	3.7%	3.9%	1.6%	8.8%	12.4%	4.6%	9.7%	4.4%
Distr. Cash Flow	-55	-27	1	137	-92	-247	-297	-87	-614	-249
Income Tax	21	18	24	30	36	33	17	37	25	5

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	773	812	977	903	1107	1462	2025	2316	2946	3338
Cash & Equivalents	108	118	160	115	33	23	78	93	87	166
Accounts Receivable	73	62	60	53	57	49	61	64	61	96
Inventories	37	38	45	43	46	50	52	56	62	81
Goodwill & Int. Ass.	7	7	7	7	10	10	10	9	9	9
Total Liabilities	630	680	791	773	997	1323	1743	1886	2341	2696
Accounts Payable	213	188	189	197	161	166	186	173	162	136
Long-Term Debt	271	354	481	404	585	888	1307	1440	1823	2183
Partner's Equity	143	132	186	130	111	139	282	430	605	641
D/E Ratio	1.90	2.68	2.59	3.11	5.28	6.39	4.64	3.35	3.01	3.40

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	10.5%	12.6%	6.9%	6.9%	2.5%	8.7%	9.6%	3.1%	5.1%	1.3%
Return on Equity	44.8%	72.8%	38.9%	41.0%	21.2%	89.5%	79.5%	18.8%	25.7%	6.7%
ROIC	21.0%	22.3%	10.7%	10.8%	4.1%	13.0%	12.8%	3.9%	6.2%	1.6%
Shares Out.	123.5	123.9	123.4	121.3	121.7	122.2	123.4	136.5	158.9	162.0
Revenue/Share	11.99	12.29	12.06	13.48	12.36	10.17	10.73	10.42	8.60	5.80
DCF/Share	-0.40	-0.20	0.01	1.11	-0.74	-1.97	-2.36	-0.62	-3.86	-1.52

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

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