Why Exchange Income Corporation (TSX:EIF) Is Now on My Watchlist

Description

Exchange Income Corporation (TSX:EIF) is an incredible long-term growth and income play that if you haven't already added to your portfolio, should probably be on a shortlist of companies to consider.

For those that are unaware of Exchange Income, the Winnipeg-based company owns over a dozen aviation and manufacturing subsidiaries that cater to very specified niche areas of the market or to remote areas of the country where there is minimal competition, but impressive margins.

Exchange income's aviation subsidiaries, in particular, provide unique services such as Keewatin Air, which provides medevac services into Winnipeg from Nunavut. Two other examples include Bearskin airlines and Provincial Aerospace. Bearskin provides cargo and flight routes between northwestern Ontario and Manitoba, whereas Provincial has scheduled flight services between Quebec and the Maritimes, as well as providing surveillance functions over the area.

On the manufacturing side, Exchange Income has an equally diversified mix of companies that includes Overlanders Manufacturing, an Abbotsford-based fabricator of sheet metal and tubular products, as well as Ontario-based Ben Machine, which is a manufacturer of components and assemblies used across the defense and aerospace industry.

Not only is Exchange income an extremely diversified investment option, but the company also continues to pursue additional investment opportunities through acquisitions, wherever they may appear. Earlier this year, Exchange income acquired CANLink Global Inc., which is more commonly referred to as Moncton Flight College. Moncton Flight College is the largest flight training college in the country, having trained over 19,000 students since its inception back in 1929.

What makes Exchange Income a good investment?

Exchange Income's strong candidacy for any portfolio falls down to the following three key points:

First, the company is diversified. The over one dozen subsidiaries are all operated autonomously, with their own branding and unique identity. This diversification also helps the company offset weak results in one area with another. This was evident in the most recent quarter in which the Quest subsidiary generated $7.4 million in EBITDA, whereas some weakness was felt in the aviation subsidiaries due to fuel price fluctuations.

Second, the company's holdings are profitable and cater to a specific niche with little competition.

The company provided a quarterly update for the second fiscal earlier this month that was in a word, impressive. Revenue for the quarter came in at $313 million, representing a 15% increase over the same quarter last year. EBITDA also saw an improvement over the same period last year, coming in 7% higher at $75.1 million.

Adjusted net earnings for the quarter came in at $25.2 million, or $0.80 per share, registering a 5% improvement, or 4% per share improvement over the same quarter last year. Free cash flow saw a 34% hike in the quarter, coming in at $0.94 per share.

Finally, Exchange income offers an impressive monthly dividend that will make the company appeal to both income-seeking and growth-minded investors. The current monthly dividend provides a lucrative 6.66% yield, which based on a percentage of free cash flow, less capital expenditures came in at a very impressive 58%. When the payout is calculated from adjusted net earnings, it came in at a still impressive 68%.

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