



Why Exchange Income Corp. (TSX:EIF) Should Be on Your Investment Radar

Description

Exchange Income Corp. ([TSX:EIF](#)) is a company in the aerospace and aviation services industry. It has two primary business segments, aviation and manufacturing. The aviation business provides airline and charter service as well as emergency medical services to communities in Ontario, Manitoba, and Nunavut.

The Aviation business accounted for 73.5% of sales for EIF, while manufacturing contributed 26.5% of sales in 2018. EIF is currently valued at \$1.32 billion and has returned 112% in the last five years. The stock is up close to 40% year to date.

A look at EIF's growth and valuation metrics

Exchange Income Corp. has been able to increase revenue on a consistent basis over the last few years. Company sales rose from \$891 million in 2016 to \$1.203 billion in 2018. Analysts expect sales to increase by 8.7% to \$1.31 billion in 2019, 8.1% to \$1.41 billion in 2020 and 7.1% to \$1.51 billion in 2021.

They also expect the company earnings to grow by 4.6% in 2019, 16.4% in 2020 and at an annual rate of 11.4% in the next five years. EIF increased earnings at an annual rate of 21.8% in the last five years. Moreover, EIF also has a forward dividend yield of 5.5%.

Compare this to the stocks forward price to earnings multiple of 12 and we can see that it's undervalued despite a stellar run since 2014.

Diversification benefits investors

EIF isn't a traditional aviation company. It has several subsidiaries across both business segments, which helps the company generate constant demand across economic cycles.

We've seen that EIF [operates water cleaning systems](#) as well as providing cell phone tower

construction services in manufacturing.

It's also one of the few companies to provide flight services in remote regions of Northern Canada. In the June quarter, EIF began flying for the Manitoba provincial government under the new General Transportation Contract.

Earlier this year, EIF entered into a joint venture with **Skywest Inc** to lease narrow-body aircrafts and engines to airlines around the world.

The company's press release states, "This relationship has hit the ground running, and in the first week of August, we announced that the joint venture had entered into an agreement whereby all 14 engines owned by the partnership, together with nine air frames provided by Regional One, will be leased to a North American carrier for a 10-year period."

The verdict

One of EIF's primary goals is to focus on long-term revenue streams that will help it grow earnings and dividend payouts in the coming years. We've seen the way EIF is looking to diversify revenue base with a slew of partnerships and joint ventures.

The company's high operating leverage enables it to improve the bottom line at a significant pace. While EIF's sales are expected to increase at an annual rate of 7.8% in the next three years, its operating profit will rise by 12.1% in the same period. Comparatively EIF's EBITDA increased at an annual rate of 11.6% between 2018 and 2021.

The stock is trading at a reasonable valuation with significant upside potential. Analysts covering Exchange Income Corp. have a 12-month average target price of \$46.36, which is 13.4% above its current trading price.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:EIF (Exchange Income Corporation)

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Author

araghunath

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