

Air Lease Corporation (AL)

\$38.36 (As of 02/28/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

Summary

Shares of Air Lease have outperformed its industry in a year's time owing to strong revenues from rentals of flight equipment. In 2019, revenues from this segment rose 17.5%. The segment is anticipated to keep up with this robust performance in 2020 as well. The company's fleet expansion initiatives are also appreciative. In 2019, the company's aircraft investments totaled \$5 billion, the largest ever in its history. We are also impressed with the company's decision announced last November to increase its quarterly dividend by 15.4%. However, delivery delays from Airbus and Boeing are hurting Air Lease's performance. Additionally, the slowdown in air travel demand due to the coronavirus outbreak may weigh on demand for the company's aircraft as well. Rising operating expenses and high debt levels are worrisome too.

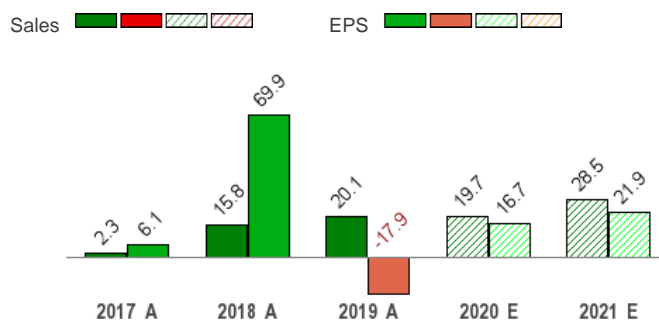
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$49.96 - \$31.98
20 Day Average Volume (sh)	920,774
Market Cap	\$4.3 B
YTD Price Change	-19.3%
Beta	1.91
Dividend / Div Yld	\$0.60 / 1.6%
Industry	Transportation - Equipment and Leasing
Zacks Industry Rank	Top 43% (109 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.9%
Last Sales Surprise	1.7%
EPS F1 Est- 4 week change	-4.1%
Expected Report Date	NA
Earnings ESP	0.0%

P/E TTM	7.5
P/E F1	6.5
PEG F1	0.9
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,101 E
2020	518 E	557 E	579 E	597 E	2,414 E
2019	466 A	471 A	531 A	549 A	2,017 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$7.24 E
2020	\$1.34 E	\$1.43 E	\$1.59 E	\$1.63 E	\$5.94 E
2019	\$1.23 A	\$1.10 A	\$1.34 A	\$1.42 A	\$5.09 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/28/2020. The reports text is as of 03/02/2020.

Overview

Founded in 2010, Los Angeles, CA-based Air Lease Corporation is a leading aircraft leasing company. It is primarily involved in purchasing commercial aircraft directly from the manufacturers, leasing the same to its airline customers across the globe. Some noteworthy manufacturers that the company works with are The Boeing Company and Airbus S.A.S.

Besides leasing, the company sells planes from its portfolio to third parties such as other leasing companies, financial services and corporate airline entities. It also provides investors and owners with fleet management services and charges a management fee in return. The company faces competition from aircraft manufacturers, banks, financial institutions, other leasing companies, aircraft brokers and airlines. Air Lease reduces the risks of lessee defaults and adverse economic conditions by diversifying its operating lease portfolio.

The company's operating performance depends on growth of its fleet, the terms of its leases, interest rates on its debt and the aggregate amount of its indebtedness alongside gains from aircraft sales, trading activities and management fees.

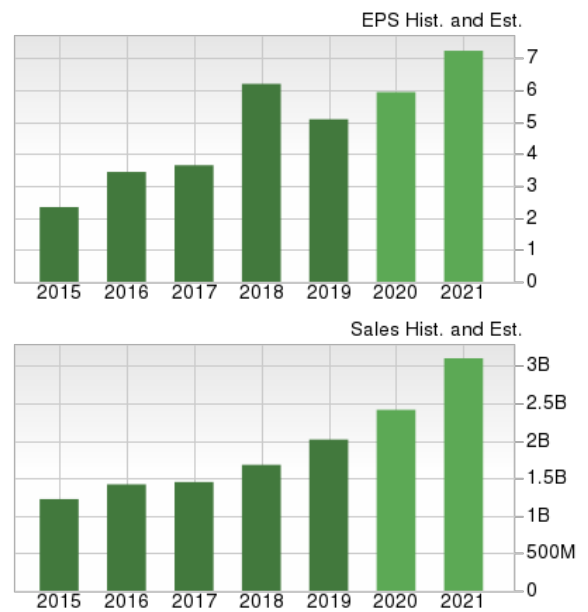
Air Lease currently covers more than 200 airlines across 70 countries. It has markets in all major geographies, namely Asia, the Pacific Rim, Latin America, the Middle East, Europe, Africa and North America. The company expects to benefit from significant replacement opportunities going forward as many of its airline customers look to replace their old planes with new, modern and more fuel efficient ones.

The company's debt financing strategy, used for funding its business activities, is aimed at raising unsecured debt with minimal usage of export credit or any other secured financing variant.

The company entered into a joint venture with Blackbird Capital I LLC in 2014 and owns 9.5% of the joint venture. The collaboration is aimed at supplementing the growth of the company.

Air Lease is constantly making efforts to expand its fleet. It has multiple owned and managed aircraft in its portfolio. The company's total revenues increased 20% to \$2.02 billion in 2019. Revenues from rentals of flight equipment accounted for bulk (95%) of the top line. Remaining revenues came from aircraft sales, trading and other sources.

The company's fiscal year coincides with the calendar year.



Reasons To Buy:

- ▲ Air Lease's efforts to expand its fleet are encouraging. To this end, the company is constantly adding new planes to its fleet and removing outdated ones. Despite the MAX groundings and the persistent delivery delays, the company's aircraft investments totaled \$5 billion in 2019, the largest ever in its history. It sold \$1 billion worth of aircraft during 2019. As of Dec 31, 2019, Air Lease owned 292 aircraft in the operating lease portfolio with a net book value of \$18.7 billion, up 19.1% year over year. The total fleet size at the end of 2019 was 858 (including owned fleet of 292) compared with 758 (including owned fleet of 275) at 2018 end. In line with its fleet-modernization efforts, this Los Angeles, CA-based company finalized deals to purchase an additional 102 aircraft (25 Airbus A321neo aircraft, 27 Airbus A321neo XLR and 50 Airbus A220 aircraft) with purchase option for an additional 25 Airbus A220 jets. In 2020, the company expects to deliver 46 aircraft that represents roughly 4.1 billion in aircraft investment.
- ▲ We are also encouraged by the impressive revenues from rentals of flight equipment. Revenues from the segment rallied 17.5% in 2019 and led to a 20% improvement in the company's top line. The segment is anticipated to continue with this robust performance in 2020 as well.
- ▲ We are also impressed by the company's endeavors to reward shareholders. In fact, Air Lease has an impressive dividend payment history. In November 2019, its board approved a 15.4% hike in its quarterly cash dividend to 15 cents per share (annualized 60 cents). This raise marks the 7th dividend increase in the company's history. Moreover, it rewarded its shareholders with dividends for 28 consecutive quarters. As investors prefer an income-generating stock, a high dividend-yielding one is much coveted. Needless to say that investors are always on the lookout for companies, which boast an impressive history of regular and incremental dividend payments.

Significant rise in revenues from rentals of flight equipment is aiding the company's top line. Its fleet expansion initiatives are an added positive.

Reasons To Sell:

- ▼ The fortunes of Air Lease are tied to the airline industry. Given the significant blow the coronavirus dealt to the airline industry, in terms of declining air traffic, Air Lease is also likely to witness substantial sluggishness in demand at least in the near term. Additionally, persistent delivery delays from Airbus and Boeing (as a result of the MAX groundings) are quite concerning and may hamper prospects going forward. Notably, the company witnessed delivery delays of 3-5 months throughout 2018 and 2019. The situation is expected to persist in the current year as well.
- ▼ Rising operating expenses pose a threat to the company's bottom line. Notably, operating expenses increased more than 23% during 2019, thanks to higher interest expenses, and selling, general and administrative expenses. The adversity is expected to persist in 2020, which in turn, might weigh on the bottom line.
- ▼ Air Lease is a highly leveraged company, indicated by its long-term debt-to-capitalization (expressed as a percentage) ratio, which is currently 70.7. This figure compares unfavorably with the industry's average of 52.5. Moreover, Air Lease's debt-to-equity ratio exceeds 100%. A high debt-to-equity ratio implies that the company is funding most of its ventures with debt.

Escalating operating expenses may hurt the bottom line going forward. Persistent delivery delays further add to the woes.

Last Earnings Report

Earnings Beat at Air Lease in Q4

Air Lease's fourth-quarter 2019 earnings of \$1.42 per share surpassed the Zacks Consensus Estimate by 4 cents. However, the bottom line declined 13.9% on a year-over-year basis due to increase in operating costs. However, quarterly revenues of \$548.6 million not only surpassed the Zacks Consensus Estimate of \$539.2 million, but also increased 21.9% on a year-over-year basis.

This year-over-year uptick in top line can be primarily attributed to 15.4% increase in revenues from the rental of flight equipment. Notably, rental of flight equipment revenues contributed 91.9% to the top line.

Other Statistics

Revenues from aircraft sales, trading activity and other sources surged more than 100% to \$44.2 million in the reported quarter. Total expenses rose 23.1% to \$342.1 million due to higher interest expenses, selling, general and administrative costs as well as other factors.

During the December-end quarter, the carrier received delivery of 11 aircraft in its fleet and purchased one aircraft from the secondary market, which represented \$825 million in aircraft investments. As of Dec 31, 2019, Air Lease owned 292 aircraft in the operating lease portfolio, with a net book value of \$18.7 billion. Total fleet size at the end of 2019 was 858 (including owned fleet of 292) compared with 758 (including owned fleet of 275) at 2018-end.

In sync with its fleet-modernization efforts, this Los Angeles, CA-based company finalized deals to purchase an additional 102 aircraft (25 Airbus A321neo aircraft, 27 Airbus A321neo XLR and 50 Airbus A220 aircraft) with purchase option for an additional 25 Airbus A220 jets.

In 2020, the company expects to deliver 46 aircraft that represents roughly 4.1 billion in aircraft investment.

Liquidity

Air Lease exited the year with cash and cash equivalents of \$317.5 million compared with \$300.1 million at 2018 end. As of December end quarter, the company has \$13.6 billion of debt financing, net of discount and issuance costs, compared with \$11.66 billion as of Dec 31, 2018.

Quarter Ending **12/2019**

Report Date	Feb 14, 2020
Sales Surprise	1.73%
EPS Surprise	2.90%
Quarterly EPS	1.42
Annual EPS (TTM)	5.09

Recent News

Delivery Update — Dec 13, 2019

Air Lease announced the delivery of an Airbus A321-200neo aircraft to Air Macau on long-term lease. The company has another A321-200neo aircraft yet to be delivered to the airline.

Valuation

Air Lease shares are up 3.1% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Transportation sector are down 0.6% and 11.1% respectively.

The S&P 500 index is up 4.9% over the past year.

The stock is currently trading at 9.04X trailing 12-month Enterprise Value-to-EBITDA, which compares to 8.88X for the Zacks sub-industry, 6.86X for the Zacks sector and 10.93X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.62X and as low as 8.57X, with a 5-year median of 9.75X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$40 price target reflects 6.49X forward 12-month earnings.

The table below shows summary valuation data for AL

Valuation Multiples - AL					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	9.04	8.88	6.86	10.93
	5-Year High	13.62	13.64	11.07	12.88
	5-Year Low	8.57	5.87	6	8.49
	5-Year Median	9.75	9.47	7.38	10.79
P/E F 12M	Current	6.23	10.66	11.23	16.87
	5-Year High	14.08	16.22	17	19.34
	5-Year Low	5.27	8.63	10.48	15.18
	5-Year Median	9.1	12.19	13.13	17.44
P/S F 12M	Current	1.72	1.18	0.97	3.12
	5-Year High	3.36	1.74	1.4	3.43
	5-Year Low	1.4	1.05	0.97	2.54
	5-Year Median	2.33	1.43	1.21	3.01

As of 02/28/2020

Industry Analysis Zacks Industry Rank: Top 43% (109 out of 254)



Top Peers

Aercap Holdings N.V. (AER)	Neutral
Aircastle Limited (AYR)	Neutral
Fly Leasing Limited (FLY)	Neutral
General Electric Company (GE)	Neutral
Herc Holdings Inc. (HRI)	Neutral
Freightcar America, Inc. (RAIL)	Neutral
Trinity Industries, Inc. (TRN)	Neutral
The Boeing Company (BA)	Underperform

Industry Comparison Industry: Transportation - Equipment And Leasing				Industry Peers		
	AL Neutral	X Industry	S&P 500	AER Neutral	AYR Neutral	FLY Neutral
VGM Score	A	-	-	B	B	B
Market Cap	4.35 B	1.06 B	21.48 B	6.98 B	2.39 B	528.36 M
# of Analysts	4	1	13	5	4	3
Dividend Yield	1.56%	0.00%	2.07%	0.00%	4.02%	0.00%
Value Score	B	-	-	A	B	A
Cash/Price	0.07	0.07	0.04	0.14	0.06	0.91
EV/EBITDA	9.06	7.80	12.57	8.91	2.71	6.27
PEG Ratio	0.87	0.80	1.84	NA	NA	NA
Price/Book (P/B)	0.77	1.02	2.88	0.76	1.17	0.66
Price/Cash Flow (P/CF)	3.18	3.62	11.58	3.01	4.32	1.92
P/E (F1)	6.50	12.19	16.87	6.80	12.19	4.83
Price/Sales (P/S)	2.16	0.95	2.34	1.41	2.61	0.92
Earnings Yield	15.48%	8.12%	5.91%	14.71%	8.19%	20.70%
Debt/Equity	2.41	2.41	0.70	3.17	0.00	3.17
Cash Flow (\$/share)	12.06	8.93	6.94	17.31	7.37	8.93
Growth Score	B	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	16.82%	-2.37%	10.85%	5.93%	9.45%	11.07%
Proj. EPS Growth (F1/F0)	16.70%	11.00%	6.79%	-9.09%	0.87%	-54.32%
Curr. Cash Flow Growth	18.20%	16.45%	5.92%	-1.56%	-6.60%	67.32%
Hist. Cash Flow Growth (3-5 yrs)	16.99%	6.16%	8.38%	30.83%	2.63%	2.25%
Current Ratio	0.65	1.55	1.23	0.31	0.03	1.51
Debt/Capital	70.71%	70.71%	42.53%	76.01%	0.00%	76.04%
Net Margin	29.11%	9.01%	11.57%	23.20%	17.06%	39.28%
Return on Equity	10.89%	10.49%	16.80%	12.60%	7.71%	32.21%
Sales/Assets	0.10	0.31	0.54	0.11	0.11	0.14
Proj. Sales Growth (F1/F0)	19.67%	0.00%	4.07%	-0.96%	0.94%	-23.23%
Momentum Score	A	-	-	C	A	B
Daily Price Chg	1.64%	-0.58%	-1.44%	-0.12%	0.00%	-1.95%
1 Week Price Chg	-4.33%	0.00%	-0.94%	-1.39%	0.06%	-0.16%
4 Week Price Chg	-12.98%	-4.81%	-10.98%	-11.00%	-0.72%	-1.50%
12 Week Price Chg	-15.84%	-7.88%	-7.84%	-13.19%	-0.87%	-12.17%
52 Week Price Chg	2.68%	-5.64%	1.20%	15.37%	60.37%	48.95%
20 Day Average Volume	920,774	203,219	2,169,477	1,184,581	601,696	154,240
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-4.08%	0.00%	-0.09%	-1.16%	4.19%	0.00%
(F1) EPS Est 12 week change	-6.60%	-0.22%	-0.24%	-0.29%	7.04%	0.00%
(Q1) EPS Est Mthly Chg	NA%	-17.54%	-0.72%	NA	NA	NA

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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