

Air Lease Corporation (AL)

\$34.51 (As of 06/04/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: C

Summary

Shares of Air Lease have declined more than 29% since the beginning of February due to the coronavirus-related woes. Low lease demand due to declining air travel demand, and lease deferrals are hurting revenues. The company's collection rate is also declining. Due to this headwind, Air Lease reduced capital expenditures in aircraft investments for the current year. This in turn is expected to limit the top line. Persistent delivery delays from Airbus and Boeing are an added concern. Escalating operating expenses are also worrisome. However, impressive rise in revenues from rentals of flight equipment are helping to partly offset the adversities. The company's measures to reward its shareholders are also appreciative. Steady growth in Air Lease's fleet is another positive. The company also has a sound liquidity position.

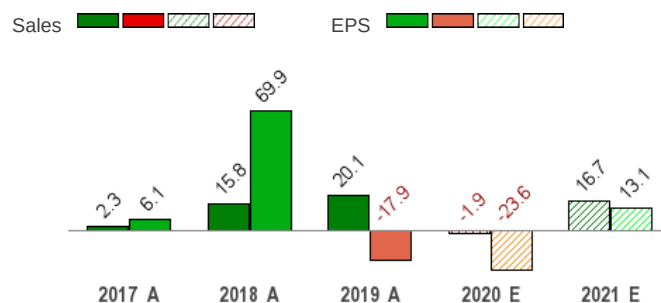
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$49.96 - \$8.41
20 Day Average Volume (sh)	1,524,031
Market Cap	\$3.9 B
YTD Price Change	-27.4%
Beta	2.05
Dividend / Div Yld	\$0.60 / 1.7%
Industry	Transportation - Equipment and Leasing
Zacks Industry Rank	Bottom 9% (230 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-8.6%
Last Sales Surprise	-6.2%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	08/13/2020
Earnings ESP	0.0%
P/E TTM	6.9
P/E F1	8.9
PEG F1	1.2
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,309 E
2020	511 A	466 E	490 E	510 E	1,978 E
2019	466 A	471 A	531 A	549 A	2,017 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$4.40 E
2020	\$1.17 A	\$0.81 E	\$0.88 E	\$0.64 E	\$3.89 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 06/04/2020. The reports text is as of 06/05/2020.

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.

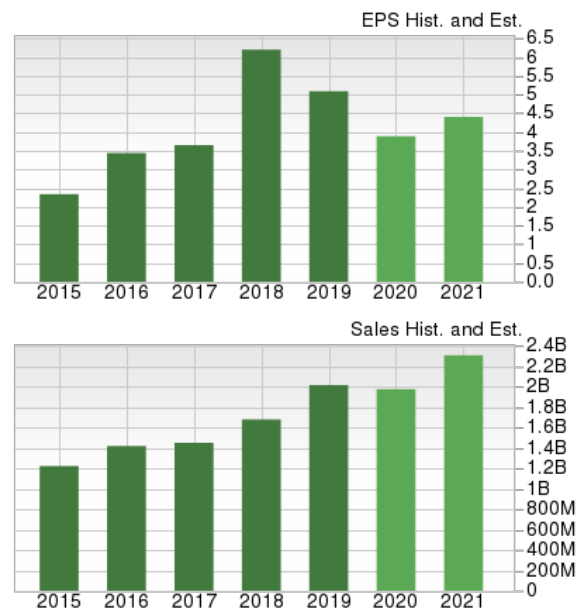
Air Lease currently covers more than 200 airlines across 70 countries. It has markets in all major geographies, namely Asia, the Pacific Rim, Latin America, the Middle East, Europe, Africa and North America. The company expects to benefit from significant replacement opportunities going forward as many 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:

- ▲ We are impressed by Air Lease's endeavors to reward shareholders. In fact, the company 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.
 - ▲ 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 same rose 9% in the first quarter and led to an approximate 10% increase in the top line. Given the coronavirus-related setback, the segment's performance in the first quarter is quite encouraging.
 - ▲ Steady growth in Air Lease's fleet is also appreciative. During the March-quarter, the company received delivery of eight aircraft and purchased one aircraft from the secondary market, which represented \$709 million in aircraft investments. As of Mar 31, Air Lease owned 300 aircraft in the operating lease portfolio, with a net book value of \$19.2 billion. This compares with 292 aircraft at the end of 2019, with a net book value of \$18.7 billion. This fleet growth is aiding the company's top line. Additionally, the company had no short-term debt obligations at the end of the first quarter. Its cash and cash equivalents stood at \$753 million at the end of the same period.
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The rise in revenues from rentals of flight equipment is encouraging.

Reasons To Sell:

- ▼ The fortunes of Air Lease are tied to the airline industry. Given how severely coronavirus is impacting the airline industry, in terms of declining air traffic, Air Lease is experiencing weakness in lease demand. Airline companies deferring aircraft deliveries to cope with the crisis are also weighing on the company. Notably, as of May 8, the company's lease deferrals amounted to \$125 million, representing approximately 6% of total revenues in 2019. The company's collection rate (total cash collected from lease rentals and maintenance reserves) also declined substantially. While collection rate was 90% in the first quarter, it declined to 86% in April. Additionally, persistent delivery delays from Airbus and Boeing (as a result of the MAX groundings) are affecting the company's operations. Notably, the company witnessed delivery delays of 3-5 months throughout 2018 and 2019. The situation might persist throughout the remainder of the year.
- ▼ Due to the coronavirus-led disruptions, Air Lease reduced its capital expenditures in aircraft investments and is expecting to minimize aircraft sales for the rest of 2020. The lower capital expenditures will in turn affect revenues.
- ▼ 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 same rose 16.7% in the first quarter of 2020 and in turn weighed on the bottom line, which declined 4.9%.

Reduced capital expenditures due to coronavirus woes are likely to limit the top line.

Last Earnings Report

Air Lease's Q1 Earnings Miss Estimates

Air Lease's first-quarter 2020 earnings of \$1.17 per share missed the Zacks Consensus Estimate by 11 cents. Also, the bottom line declined 4.9% on a year-over-year basis due to increase in operating costs. Quarterly revenues of \$511.4 million missed the Zacks Consensus Estimate of \$545.2 million, but increased 9.73% on a year-over-year basis.

This year-over-year uptick can be primarily attributed to 9% increase in revenues from the rental of flight equipment. Notably, rental of flight equipment revenues contributed 97% to the top line.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	-6.20%
EPS Surprise	-8.59%
Quarterly EPS	1.17
Annual EPS (TTM)	5.03

Other Statistics

Revenues from aircraft sales, trading activity and other sources surged 42.5% to \$14.7 million in the reported quarter. Total expenses rose 16.7% to \$339.7 million due to higher interest expenses, selling, general and administrative costs as well as other factors.

During the March-end quarter, the carrier received delivery of eight aircraft in its fleet and purchased one aircraft from the secondary market, which represented \$709 million in aircraft investments. As of Mar 31, Air Lease owned 300 aircraft in the operating lease portfolio, with a net book value of \$19.2 billion. Total fleet size at the end of first quarter was 806 (including owned fleet of 300) compared with 858 (including owned fleet of 292) at 2019-end.

Thanks to the COVID-19 outbreak, the company reduced its capital expenditures in aircraft investments and is expecting to minimize aircraft sales for the rest of 2020.

In order to counter the COVID-19 impact in the financial market, Air Lease is maintaining a significant liquid position with \$6.3 billion as of Mar 31, 2020.

Liquidity

Air Lease exited the quarter with cash and cash equivalents of \$732.7 million compared with \$317.4 million at 2019 end. As of March end, the company had \$14.4 billion of debt financing, net of discount and issuance costs compared with \$13.6 billion as of Dec 31, 2019.

Air Lease cleared a quarterly cash dividend of 15 cents per share (annualized 60 cents). The amount will be paid on Jul 9, 2020 to its shareholders on record as on Jun 5.

Recent News

Dividend Update — May 7, 2020

Air Lease's board of directors approved its regular quarterly dividend of 15 cents per share. The first installment of the dividend will be paid on Jul 9 to the shareholders of record on Jun 5.

Delivery Update — Mar 19, 2020

Air Lease announced the delivery of an Airbus A320-200neo aircraft to Air Seychelles on long-term lease.

Valuation

Air Lease shares are down 27.4% and 10.1% in the year-to-date period and over the trailing 12-month period respectively. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 19.5% and 14.6% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector are down 7.7% and 9.3% respectively.

The S&P 500 index is down 3.2% in the year-to-date period but up 10.6% in the past year.

The stock is currently trading at 8.83X trailing 12-month EV-to-EBITDA, which compares to 8.54X for the Zacks sub-industry, 7.36X for the Zacks sector and 11.56X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.69X and as low as 7.45X, with a 5-year median of 9.67X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$37 price target reflects 9.02X 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	8.83	8.54	7.36	11.56
	5-Year High	13.69	14.38	11.15	12.86
	5-Year Low	7.45	5.6	5.44	8.26
	5-Year Median	9.67	9.62	7.33	10.81
P/E F12M	Current	8.4	15.68	39.25	22.55
	5-Year High	13.97	16.77	39.25	22.55
	5-Year Low	1.77	8.63	10.48	15.23
	5-Year Median	8.85	12.2	13.24	17.49
P/S F12M	Current	1.85	0.69	1.2	3.51
	5-Year High	3.36	1.73	1.42	3.51
	5-Year Low	0.48	0.69	0.84	2.53
	5-Year Median	2.26	1.38	1.2	3.02

As of 06/04/2020

Industry Analysis Zacks Industry Rank: Bottom 9% (230 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Aercap Holdings N.V. (AER)	Neutral	3
The Boeing Company (BA)	Neutral	3
General Electric Company (GE)	Neutral	3
Herc Holdings Inc. (HRI)	Neutral	3
Freightcar America, Inc. (RAIL)	Neutral	3
Fly Leasing Limited (FLY)	Underperform	4
GATX Corporation (GATX)	Underperform	4
Trinity Industries, Inc. (TRN)	Underperform	5

Industry Comparison Industry: Transportation - Equipment And Leasing				Industry Peers		
	AL	X Industry	S&P 500	AER	FLY	GATX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Underperform
Zacks Rank (Short Term)	2	-	-	3	4	4
VGM Score	B	-	-	B	B	C
Market Cap	3.92 B	875.55 M	22.58 B	4.93 B	311.77 M	2.34 B
# of Analysts	4	2	14	4	2	2
Dividend Yield	1.74%	0.00%	1.87%	0.00%	0.00%	2.87%
Value Score	A	-	-	A	A	C
Cash/Price	0.22	0.26	0.06	1.15	1.53	0.26
EV/EBITDA	9.05	6.72	12.93	7.61	3.92	10.49
PEG Ratio	1.19	2.91	3.06	NA	NA	NA
Price/Book (P/B)	0.68	1.01	3.09	0.52	0.35	1.28
Price/Cash Flow (P/CF)	2.86	2.86	12.17	1.75	0.77	4.32
P/E (F1)	8.87	19.19	22.17	6.26	3.55	16.32
Price/Sales (P/S)	1.90	0.85	2.41	0.99	0.55	1.69
Earnings Yield	11.27%	4.80%	4.27%	15.99%	28.15%	6.13%
Debt/Equity	2.51	2.51	0.76	3.47	2.47	3.12
Cash Flow (\$/share)	12.06	10.88	7.01	21.45	13.03	15.49
Growth Score	D	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	16.13%	-2.50%	10.87%	6.28%	22.94%	-2.50%
Proj. EPS Growth (F1/F0)	-23.62%	-25.17%	-10.79%	-28.97%	-63.35%	-25.59%
Curr. Cash Flow Growth	18.20%	18.20%	5.48%	7.37%	57.24%	1.08%
Hist. Cash Flow Growth (3-5 yrs)	16.99%	6.12%	8.55%	8.11%	8.74%	2.02%
Current Ratio	1.53	1.56	1.29	1.25	1.44	5.87
Debt/Capital	71.53%	71.53%	44.75%	77.61%	71.18%	75.75%
Net Margin	28.42%	8.81%	10.59%	23.91%	38.97%	15.59%
Return on Equity	10.60%	9.99%	16.26%	12.79%	29.19%	11.26%
Sales/Assets	0.10	0.33	0.55	0.11	0.15	0.17
Proj. Sales Growth (F1/F0)	-1.95%	-0.98%	-2.61%	-5.11%	-36.41%	0.00%
Momentum Score	C	-	-	D	B	A
Daily Price Chg	-0.14%	2.87%	-0.08%	5.43%	3.81%	2.87%
1 Week Price Chg	12.64%	4.39%	4.60%	11.94%	34.20%	1.39%
4 Week Price Chg	41.61%	16.30%	12.07%	32.64%	86.85%	13.36%
12 Week Price Chg	53.92%	26.49%	25.17%	39.66%	1.82%	20.44%
52 Week Price Chg	-10.53%	-15.32%	0.34%	-20.55%	-37.45%	-9.06%
20 Day Average Volume	1,524,031	221,226	2,537,324	1,589,163	613,690	236,820
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-5.71%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.45%	-0.45%	-0.08%	-0.37%	1.91%	5.81%
(F1) EPS Est 12 week change	-34.55%	-34.55%	-16.19%	-21.88%	-19.77%	-28.70%
(Q1) EPS Est Mthly Chg	36.13%	-1.85%	0.00%	10.24%	1.96%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	A
Growth Score	D
Momentum Score	C
VGM Score	B

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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