

Air Lease Corporation (AL)

\$44.35 (As of 01/27/20)

Price Target (6-12 Months): **\$47.00**

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:B

Value: A

Growth: C

Momentum: C

Summary

Shares of Air Lease have outperformed its industry in a year owing to strong revenues from rentals of flight equipment. In the first nine months of 2019, revenues from this segment rose 18.3%. The segment is anticipated to have performed well in the fourth quarter as well. On the back of strong passenger traffic, numerous orders received during the Paris Air Show in June 2019 are appreciative. 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. In fact, the MAX groundings and delays from Airbus forced the company to cut 2019 aircraft investment view for the third time to approximately \$4.8 billion (\$5.1 billion expected earlier). Air Lease's high costs and debts are worrisome too.

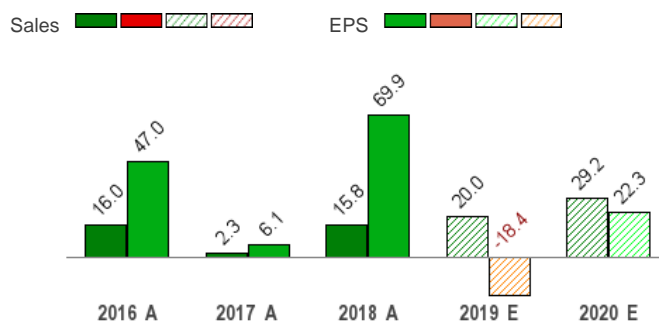
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$49.96 - \$31.98
20 Day Average Volume (sh)	611,965
Market Cap	\$5.0 B
YTD Price Change	-6.7%
Beta	1.85
Dividend / Div Yld	\$0.60 / 1.4%
Industry	Transportation - Equipment and Leasing
Zacks Industry Rank	Bottom 11% (228 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.9%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	-1.1%
Expected Report Date	02/14/2020
Earnings ESP	0.0%
P/E TTM	8.3
P/E F1	7.2
PEG F1	1.0
P/S TTM	2.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					2,605 E
2019	466 A	471 A	531 A	548 E	2,016 E
2018	381 A	398 A	451 A	450 A	1,680 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$6.19 E
2019	\$1.23 A	\$1.10 A	\$1.34 A	\$1.42 E	\$5.06 E
2018	\$1.38 A	\$1.44 A	\$1.41 A	\$1.65 A	\$6.20 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 01/27/2020. The reports text is as of 01/28/2020.

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.

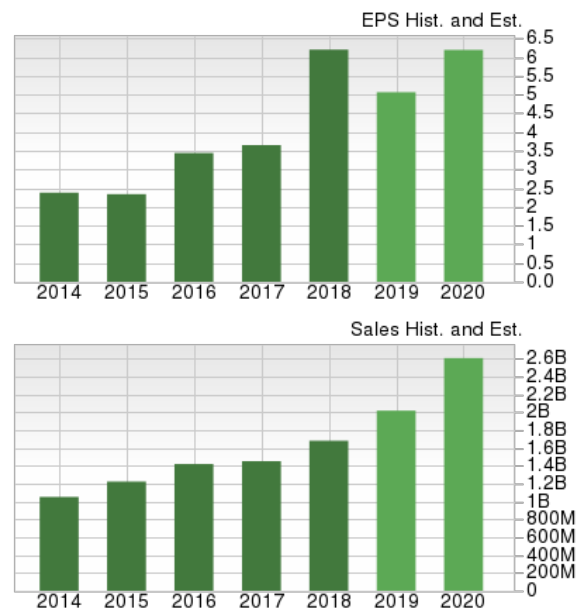
Air Lease currently covers more than 200 airlines across 70 countries. It has markets in all major geographies, namely Asia, the Pacific Rim, Latin America, the Middle East, Europe, Africa and North America. The company expects to benefit from significant replacement opportunities going forward as many 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 10.8% to \$1.68 billion in 2018. Revenues from rentals of flight equipment accounted for bulk (97.1%) 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:

- ▲ The fortune of Air Lease is tied to the airline industry. With the overall economy remaining stable, passenger traffic has been rising. Evidently, the International Air Transport Association (IATA) anticipates passenger traffic to rise 4.1% in 2020, with 4.72 billion passengers expected to take to the skies in 2020, up year over year. Additionally, strong aircraft replacement market is another positive for Air Lease, as it focuses primarily on this business. All these upsides are likely to aid the demand for the company's aircraft. In this regard, the Paris Air Show was extremely fruitful for Air Lease, receiving several orders from the likes of LOT Polish Airlines, Air Caraïbes, French Bee, Virgin Atlantic etc.
- ▲ We are also encouraged by the impressive revenues from rentals of flight equipment. Revenues from the segment rallied 18.3% in the first nine months of 2019 and led to a 19.4% improvement in the company's top line. The segment is anticipated to have performed well in the fourth quarter as well and aided overall results (fourth-quarter earnings numbers will be available on Feb 14). The company's efforts to expand its fleet are also encouraging. To this end, the company is constantly adding new planes to its fleet and removing outdated ones. Air Lease, which sold five jets during third-quarter 2019, had 307 owned aircraft in its fleet, representing a net book value of \$18.9 billion, up 20% from the 2018-end figure. Total fleet size at the end of the third quarter was 737, lower than 758 (including owned fleet of 275) at the end of 2018.
- ▲ 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.

Reasons To Sell:

- ▼ Delivery delays from Airbus and Boeing are concerning. The grounding of Boeing 737 Max planes has further complicated the situation. Moreover, on account of the MAX groundings and delivery delays by Airbus, Air Lease lowered its 2019 projection pertaining to aircraft investments for the third time to approximately \$4.8 billion. Earlier in August, the company trimmed its outlook for the same to \$5.1 billion from \$5.8 billion anticipated previously.
- ▼ Rising operating expenses pose a threat to the company's bottom line. Notably, operating expenses increased more than 27% during the first nine months of 2019, thanks to higher interest expenses, and selling, general and administrative expenses. The same increased more than 14% during 2018. The adversity is most likely to have persisted in the fourth quarter and in turn, affected the company's earnings.
- ▼ Air Lease is a highly leveraged company, indicated by its long-term debt-to-capitalization (expressed as a percentage) ratio, which is currently 71.6. This figure compares unfavorably with the industry's average of 54.3. 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.

Delivery delays from Airbus and Boeing are hampering the company's prospects.

Last Earnings Report

Earnings Beat at Air Lease in Q3

Air Lease's earnings per share of \$1.34 per share surpassed the Zacks Consensus Estimate of \$1.29. Quarterly revenues also increased 17.8% year over year to \$530.9 million and beat the Zacks Consensus Estimate of \$526.2 million as well. This year-over-year top-line improvement for the company that leases planes to airlines can be primarily attributed to higher revenues from the rental of flight equipment.

Further, rental of flight equipment revenues, accounting for bulk (92.8%) of the top line, increased 16.7% from the year-ago figure. Also, revenues from aircraft sales, trading activity and other sources surged 36.1% to \$38 million. Total expenses rose 24.3% to \$337.2 million, thanks to higher interest expenses, costs due to depreciation of flight equipment plus selling, general and administrative expenses.

Moreover, the company delivered 15 aircraft from its order book in the September quarter despite the MAX groundings and the delivery delays by Airbus. This reflected \$1.6 billion investment in aircraft. Air Lease, which sold five jets during the reported quarter, had 307 owned aircraft in its fleet, representing a net book value of \$18.9 billion, up 20% from the 2018-end figure. Total fleet size at the end of the third quarter was 737, lower than 758 (including owned fleet of 275) at the end of 2018.

Aircraft investments in the first nine months of 2019 were \$4.1 billion, up 20% from similar investments made through 2018. Due to the ongoing Boeing 737 MAX groundings, the company announced that it will not take delivery of the MAX planes until second-quarter 2020.

Following the MAX groundings and delivery delays by Airbus, Air Lease lowered its 2019 projection for aircraft investments for the third time this year. For the full year, the company now expects aircraft investments of \$4.8 billion.

Dividend Hike

Air Lease's board approved a 15.4% hike in its quarterly cash dividend to 15 cents per share (annualized 60 cents). The amount is payable Jan 6, 2020 to its shareholders of record as of Dec 20, 2019. The current raise marks the 7th dividend increase in the company's history. Moreover, it rewarded its shareholders with dividends for 28 consecutive quarters.

Liquidity

Air Lease exited the third quarter with cash and cash equivalents of \$291.77 million compared with \$300.13 million at 2018 end. As of Sep 30, 2019, the company has \$13.8 billion of debt financing, net of discount and issuance costs, compared with \$11.54 billion as of Dec 31, 2018.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	0.89%
EPS Surprise	3.88%
Quarterly EPS	1.34
Annual EPS (TTM)	5.32

Recent News

Q4 Update — Jan 15, 2020

As of Dec 31, 2019, Air Lease's fleet consisted of 292 owned and 85 managed aircraft. During the fourth quarter, the company sold 19 aircraft and received sales proceeds worth \$585 million. Moreover, the company entered into agreements with Airbus for A220, A321neo and A321neo XLR line of aircraft. The delivery of these aircraft is expected to begin in 2021 and continue through 2026.

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 19% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Transportation sector are up 17.1% and 5.7% respectively.

The S&P 500 index is up 22.1% over the past year.

The stock is currently trading at 10.27X trailing 12-month Enterprise Value-to-EBITDA, which compares to 9.79X for the Zacks sub-industry, 7.96X for the Zacks sector and 12.25X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.98X and as low as 8.57X, with a 5-year median of 9.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$47 price target reflects 7.48X 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	10.27	9.79	7.96	12.25
	5-Year High	13.98	13.8	11.08	12.86
	5-Year Low	8.57	5.84	6	8.48
	5-Year Median	9.9	9.47	7.43	10.68
P/E F 12M	Current	7.06	12.17	13.28	18.93
	5-Year High	14.1	16.22	17	19.34
	5-Year Low	5.27	8.63	10.48	15.18
	5-Year Median	9.16	12.34	13.21	17.45
P/S F 12M	Current	1.89	1.18	1.12	3.46
	5-Year High	3.36	1.74	1.44	3.46
	5-Year Low	1.4	1.05	1.02	2.54
	5-Year Median	2.35	1.43	1.24	3

As of 01/27/2020

Industry Analysis Zacks Industry Rank: Bottom 11% (228 out of 255)



Top Peers

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

Industry Comparison Industry: Transportation - Equipment And Leasing				Industry Peers		
	AL Neutral	X Industry	S&P 500	AER Outperform	AYR Neutral	FLY Underperform
VGM Score	B	-	-	A	B	B
Market Cap	5.00 B	1.82 B	23.86 B	7.79 B	2.40 B	560.81 M
# of Analysts	4	1.5	13	5	5	2
Dividend Yield	1.35%	0.00%	1.81%	0.00%	3.99%	0.00%
Value Score	A	-	-	A	B	A
Cash/Price	0.06	0.10	0.04	0.15	0.11	0.91
EV/EBITDA	11.59	7.97	13.94	9.11	2.54	6.35
PEG Ratio	0.97	0.97	2.00	1.55	NA	NA
Price/Book (P/B)	0.91	1.07	3.25	0.85	1.18	0.71
Price/Cash Flow (P/CF)	4.01	4.08	13.46	3.36	4.16	2.03
P/E (F1)	7.22	12.30	18.67	7.49	12.30	5.30
Price/Sales (P/S)	2.61	1.09	2.62	1.59	2.48	1.03
Earnings Yield	13.96%	7.30%	5.35%	13.34%	8.13%	18.84%
Debt/Equity	2.52	2.52	0.72	3.17	0.00	3.17
Cash Flow (\$/share)	11.05	8.93	6.92	17.31	7.72	8.93
Growth Score	C	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	17.03%	-2.17%	10.68%	6.53%	10.12%	11.07%
Proj. EPS Growth (F1/F0)	22.32%	8.65%	7.51%	-4.81%	18.10%	-46.17%
Curr. Cash Flow Growth	19.19%	16.45%	13.40%	-1.56%	23.23%	67.32%
Hist. Cash Flow Growth (3-5 yrs)	17.69%	6.63%	8.78%	30.83%	8.76%	2.25%
Current Ratio	0.80	1.57	1.22	0.31	0.05	1.51
Debt/Capital	71.57%	71.57%	42.92%	76.01%	0.00%	76.04%
Net Margin	29.22%	9.16%	11.39%	21.81%	21.97%	33.46%
Return on Equity	10.81%	10.81%	17.19%	11.82%	10.52%	26.68%
Sales/Assets	0.10	0.32	0.54	0.11	0.12	0.13
Proj. Sales Growth (F1/F0)	29.20%	1.50%	4.09%	1.46%	4.83%	-20.85%
Momentum Score	C	-	-	A	B	F
Daily Price Chg	-3.59%	-0.63%	-1.40%	-3.31%	-0.06%	-2.00%
1 Week Price Chg	-6.92%	-2.71%	-1.09%	-3.62%	0.09%	-5.17%
4 Week Price Chg	-6.81%	-6.16%	-0.25%	-5.20%	0.28%	-7.16%
12 Week Price Chg	-3.08%	-4.64%	3.64%	-1.53%	17.50%	-12.95%
52 Week Price Chg	19.44%	6.12%	18.08%	23.99%	57.38%	67.43%
20 Day Average Volume	611,965	188,508	1,615,215	518,757	355,376	101,598
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.08%	0.00%	0.00%	0.00%	0.00%	-1.77%
(F1) EPS Est 12 week change	-2.55%	-3.70%	-0.17%	5.04%	2.73%	-5.69%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	NA	NA	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	C
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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