

Air Transport Services (ATSG)

\$24.54 (As of 07/16/20)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/02/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

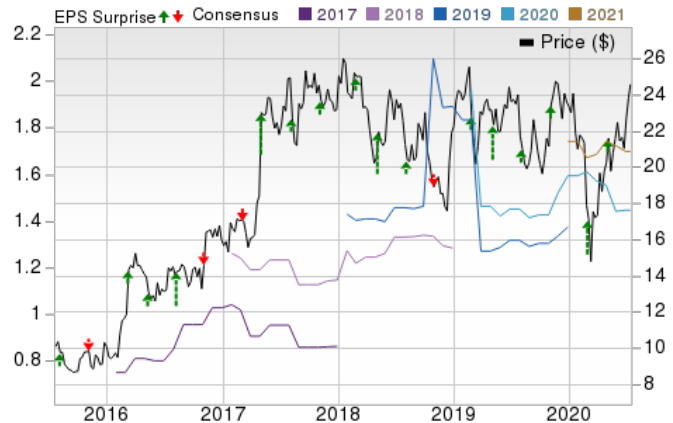
Growth: B

Momentum: B

Summary

We are initiating coverage on Air Transport Services Group. The company is being aided by its partnership with Amazon, which was expanded in June. The surge in e-commerce demand during these coronavirus-ravaged times is also a tailwind for the company as its main customers are Amazon, DHL and United Parcel Service. Moreover, the company's ACMI segment, which contributes to bulk of the top line, is benefiting from growth in Omni Air and ATI operations. Its liquidity position is also impressive. However, the company's bottom line might be hurt due to high capital expenditures (up 55% in 2019 and 56% in first-quarter 2020). The coronavirus-led softness in passenger travel within the company's Department of Defense business is also concerning and might have hampered its second-quarter 2020 performance

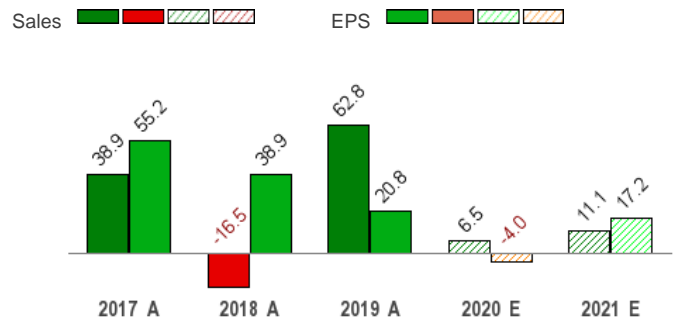
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$25.60 - \$13.20
20 Day Average Volume (sh)	478,345
Market Cap	\$1.5 B
YTD Price Change	4.6%
Beta	0.86
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Air Freight and Cargo
Zacks Industry Rank	Top 21% (53 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.2%
Last Sales Surprise	4.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/03/2020
Earnings ESP	0.0%
P/E TTM	15.6
P/E F1	16.9
PEG F1	NA
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	417 E	406 E	438 E	470 E	1,718 E
2020	389 A	359 E	388 E	410 E	1,546 E
2019	348 A	335 A	366 A	403 A	1,452 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.44 E	\$0.34 E	\$0.37 E	\$0.49 E	\$1.70 E
2020	\$0.43 A	\$0.31 E	\$0.34 E	\$0.43 E	\$1.45 E
2019	\$0.37 A	\$0.27 A	\$0.31 A	\$0.56 A	\$1.51 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 07/16/2020. The reports text is as of 07/17/2020.

Overview

Air Transport Services Group is a leading provider of aircraft leasing, and air cargo transportation and related services globally. Moreover, this Wilmington, OH-based company is the largest lessor of freighter aircraft across the globe and operates through many subsidiaries.

Additionally, it owns and operates the following airline subsidiaries, namely ABX Air Inc., Air Transport International Inc., and Omni Air International, LLC. Moreover, Air Transport Services Group's in-service fleet size at the end of 2019 was 98, of which 94 were owned. The remaining jets were leased from external companies. Notably, 94% of its freighter aircraft fleet comprises the highly sought-after Boeing 767 jets.

Moreover, the company, founded in 1980, is the largest provider of passenger charter service to the United States Department of Defense (DoD) and other governmental agencies. The DoD accounted for 34% of the company's revenues in 2019.

Apart from the Department of Defense, major customers of the company include Amazon.com, DHL and United Parcel Service. UPS is Air Transport Services Group's newest 767 freighter lease customer. In 2019, the company leased two 767-300s to UPS.

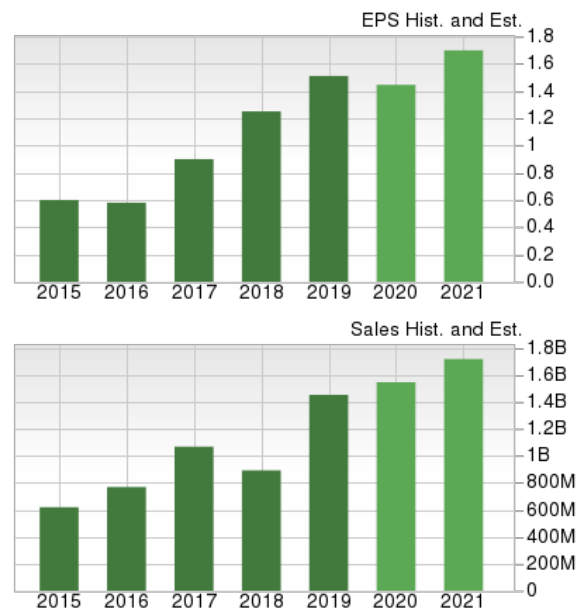
The company also offers a wide range of air-transportation-related services to its customers including aircraft maintenance and modification, ground handling and crew training.

Air Transport Services Group primarily operates through the following reporting segments, namely Cargo Aircraft Management or **CAM** and **ACMI** (aircraft, crew, maintenance & insurance) **Services**.

The CAM segment (which accounted for 19.6% of 2019 revenues) is responsible for the company's aircraft leasing operations. As of Dec 31, 2019, CAM had 62 jets under lease to external customers.

The ACMI Services segment (representing 74.3% of 2019 revenues) is responsible for the operations of the company's above-mentioned airline subsidiaries. These airlines provide airlift operations to customers. As of Dec 31, 2019, ABX, Air Transport International and Omni Air International leased 32 in-service jets internally from CAM so that those could be utilized in ACMI Services.

The remainder of the top line was aided by other activities in 2019. The company's fiscal year coincides with the calendar year.



Reasons To Buy:

▲ We are impressed with Air Transport Services Group's decision to expand its partnership with e-commerce giant Amazon. To this end, the former announced in June that it will lease 12 additional Boeing 767-300 freighters to Amazon. Notably, of these 12 new cargo planes, one already joined Amazon's air fleet operations last month and the rest is expected to join by 2021. Per the latest announcement, the total number of Boeing 767s estimated to be leased by the CAM segment to Amazon within this year-end will be 31 while another 42 will be leased by Dec 31, 2021.

We are upbeat about Air Transport Services Group's decision to extend its partnership with e-commerce giant Amazon.

▲ The company's total debt to total capital ratio stood at 0.73 at the end of the first quarter of 2020, comparing favorably with the respective 0.77 reading the end of the third and the fourth quarter of 2019. This decreasing ratio indicates that the proportion of debt to finance the company's assets is falling. Moreover, the company exited the first quarter with cash & cash equivalents of \$71 million, higher than the current debt figure of \$27 million, implying that it has enough cash to meet its current debt obligations. The company's current ratio also improved to 1.21 at the end of first-quarter 2020 from 1.01 at the end of fourth-quarter 2019. A high ratio indicates that a company is able to service its short-term debt burden. The payroll support of approximately \$67 million to be received in monthly installments through September 2020 under the CARES Act should provide a further boost to the company's liquidity position.

▲ E-commerce — the method of buying and selling goods and services via a software platform — continues to drive demand for Air Transport Services Group's fleet. Moreover, in this coronavirus-ravaged world, the same is gaining a further momentum amid the pandemic-induced social-distancing protocols, quarantine and lockdowns. This is because the need for door-to-door delivery of essentials during this unprecedented crisis is rising. Despite, coronavirus-induced disruptions, the company's airline operations were strong in first-quarter 2020. With its customers, namely Amazon and DHL benefiting from a surge in e-commerce activity, Air Transport Services Group's airline operations are gaining from the deepened focus on cargo activities.

Reasons To Sell:

- ▼ Capital expenses are high at Air Transport Services Group, thereby limiting bottom-line growth. Notably, capital expenditure soared 55% to \$453.5 million in 2019, mainly due to costs incurred for the purchase of five Boeing 767 aircraft apart from expenses related to freighter modification. Continuing with this trend, in the first quarter of 2020, capital spending surged 56% year over year to \$143.5 million, mainly due to costs borne for buying five Boeing 767 aircraft besides expenses related to freighter modification.
- ▼ Though Air Transport Services Group expects 2020 EBITDA (on an adjusted basis) to exceed the 2019 figure of \$452 million, it withdrew its prior 2020 adjusted EBITDA guidance in May, while releasing its first-quarter 2020 results. Coronavirus-related uncertainty prompted this decision. As the company is a provider of passenger charter service to the DoD, reduced passenger travel within its DoD business following the COVID-19 outbreak is likely to hit its ACMI revenues going forward.
- ▼ Joe Hete, who served as Air Transport Services Group's chief executive officer since 2003, retired on May 7, 2020. He is replaced by Rich Corrado. In the event of Corrado failing to replicate the success achieved by the company under Hete, the stock, which has already underperformed its industry since Corrado's elevation to the top spot, may take a further beating.

Capital expenses are high at Air Transport Services Group, thereby restricting bottom-line growth.

Last Earnings Report

Air Transport Services Group's Earnings Beat Mark in Q1

Air Transport Services Group's earnings (excluding 47 cents from non-recurring items) of 43 cents per share surpassed the Zacks Consensus Estimate by 6 cents. Moreover, the bottom line increased 16.2% year over year.

Customer revenues of \$389.3 million also topped the Zacks Consensus Estimate of \$371.7 million and improved 11.8% year over year as well. The top line was aided by higher revenues at both segments. While CAM revenues climbed 5.4% to \$74.2 million, ACMI revenues appreciated 10.2% to \$284.2 million.

The ACMI segment benefited from growth in Omni Air and ATI operations. Meanwhile, revenues from other activities ascended 19% to \$80 million owing to ramped-up maintenance services and ground services for external customers.

Total operating expenses flared up 12.5% to \$339.5 million. Capital expenditures escalated 56% to \$143.5 million.

Outlook

Due to coronavirus-related unpredictability, the company chose not to provide any specific guidance for 2020 adjusted EBITDA. However, it expects 2020 EBITDA (on an adjusted basis) to cross the 2019 figure of \$452 million. Adjusted EBITDA for the second quarter is anticipated in the \$110-\$115 million band. Capital spending for the current year is projected at \$420 million.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	4.73%
EPS Surprise	16.22%
Quarterly EPS	0.43
Annual EPS (TTM)	1.57

Recent News

Deal With Amazon — Jun 3, 2020

Air Transport Services Group expands its alliance with Amazon. Per the deal, the company will lease 12 additional 767 freighters to Amazon. Notably, of these 12 new cargo planes, one already joined Amazon's air fleet operations in May while the remaining will likely be included within 2021.

Valuation

Air Transport Services shares are up 4.6% year to date and 2.3% over the past year. Stocks in the Zacks sub-industry have increased 18.4% in a year's time and 11.4% year to date. Stocks in the Zacks Transportation sector have declined 8.4% and 5.6% year to date and in the past year, respectively. The S&P 500 index is up 0.1% and 8% year to date and over the past year, respectively.

The stock is currently trading at 15.63X trailing 12-month price to earnings which compares to 17X for the Zacks sub-industry, 16.89X for the Zacks sector and 20.77X for the S&P 500 index.

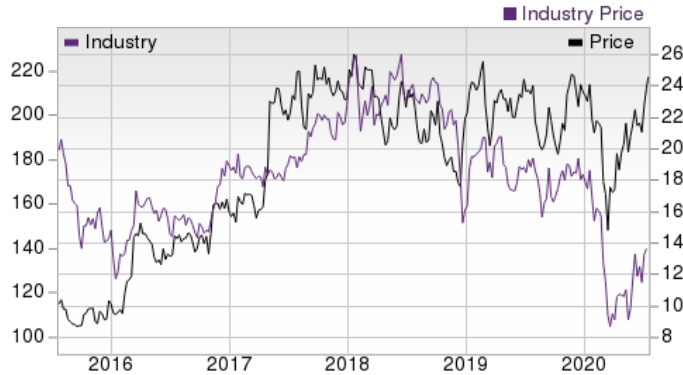
Over the past five years, the stock has traded as high as 37.86X and as low as 9.25X, with a 5-year median of 18.88X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$26 price target reflects 16.56X trailing 12-month earnings.

The table below shows summary valuation data for ATSG

Valuation Multiples - ATSG					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	15.63	17	16.89	20.77
	5-Year High	37.86	20.85	19.57	22.25
	5-Year Low	9.25	11.51	11.63	15.98
	5-Year Median	18.88	17.2	15.55	19.13
EV/EBITDA TTM	Current	7.19	9.9	7.63	11.95
	5-Year High	8.37	12.99	11.21	12.86
	5-Year Low	4.46	6.77	5.45	8.25
	5-Year Median	6.18	9.76	7.38	10.87
P/S F 12M	Current	0.89	1.12	1.29	3.58
	5-Year High	1.61	1.5	1.42	3.58
	5-Year Low	0.54	0.84	0.85	2.53
	5-Year Median	1.04	1.19	1.2	3.02

As of 07/16/2020

Industry Analysis Zacks Industry Rank: Top 21% (53 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Atlas Air Worldwide Holdings (AAWW)	Outperform	2
Air Lease Corporation (AL)	Neutral	3
Allegiant Travel Company (ALGT)	Neutral	3
Echo Global Logistics, Inc. (ECHO)	Neutral	2
Forward Air Corporation (FWRD)	Neutral	3
Hawaiian Holdings, Inc. (HA)	Neutral	3
Spirit Airlines, Inc. (SAVE)	Neutral	3
SkyWest, Inc. (SKYW)	Underperform	4

Industry Comparison Industry: Transportation - Air Freight And Cargo				Industry Peers		
	ATSG	X Industry	S&P 500	AAWW	ALGT	ECHO
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	2
VGM Score	A	-	-	A	B	B
Market Cap	1.46 B	1.37 B	22.43 B	1.29 B	1.88 B	624.38 M
# of Analysts	4	3	14	2	5	7
Dividend Yield	0.00%	0.00%	1.82%	0.00%	2.42%	0.00%
Value Score	A	-	-	A	B	A
Cash/Price	0.05	0.11	0.07	0.19	0.26	0.07
EV/EBITDA	6.91	6.52	13.00	-93.29	5.05	10.76
PEG Ratio	NA	2.16	2.97	NA	NA	1.66
Price/Book (P/B)	2.44	1.94	3.13	0.70	2.34	1.67
Price/Cash Flow (P/CF)	3.67	5.51	12.13	2.79	4.86	9.24
P/E (F1)	17.20	16.77	21.97	5.82	NA	29.80
Price/Sales (P/S)	0.98	0.56	2.38	0.48	1.05	0.28
Earnings Yield	5.91%	5.97%	4.35%	17.18%	-3.77%	3.37%
Debt/Equity	2.64	1.87	0.75	1.37	1.56	0.53
Cash Flow (\$/share)	6.69	6.69	6.94	17.63	23.82	2.54
Growth Score	B	-	-	A	D	C
Hist. EPS Growth (3-5 yrs)	27.77%	8.27%	10.85%	7.45%	0.19%	18.68%
Proj. EPS Growth (F1/F0)	-4.30%	11.06%	-9.37%	61.45%	-130.55%	-45.71%
Curr. Cash Flow Growth	34.57%	-3.18%	5.51%	-3.18%	33.25%	-15.27%
Hist. Cash Flow Growth (3-5 yrs)	22.99%	9.73%	8.55%	15.30%	14.30%	16.03%
Current Ratio	1.21	1.22	1.30	0.72	0.98	1.42
Debt/Capital	72.52%	69.39%	44.33%	57.76%	60.96%	34.66%
Net Margin	11.79%	1.86%	10.59%	-8.88%	7.86%	0.38%
Return on Equity	22.63%	16.04%	15.74%	7.15%	24.99%	6.57%
Sales/Assets	0.53	0.98	0.54	0.48	0.60	2.59
Proj. Sales Growth (F1/F0)	6.48%	1.32%	-2.44%	7.61%	-44.12%	-5.07%
Momentum Score	B	-	-	D	B	F
Daily Price Chg	0.90%	0.90%	-0.06%	1.07%	-2.56%	0.21%
1 Week Price Chg	4.94%	1.31%	-0.41%	6.35%	0.98%	2.67%
4 Week Price Chg	14.14%	12.72%	1.63%	22.24%	1.53%	4.13%
12 Week Price Chg	26.43%	23.42%	15.55%	76.36%	65.29%	56.92%
52 Week Price Chg	2.38%	1.41%	-4.26%	15.72%	-21.43%	22.89%
20 Day Average Volume	478,345	439,123	2,236,294	399,901	252,203	184,762
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	23.87%	0.00%
(F1) EPS Est 4 week change	0.00%	0.10%	0.01%	0.12%	17.81%	0.00%
(F1) EPS Est 12 week change	-6.97%	-4.05%	-5.24%	27.31%	-203.91%	-45.50%
(Q1) EPS Est Mthly Chg	0.00%	0.92%	0.00%	0.73%	-4.38%	0.00%

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	B
Momentum Score	B
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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