

HEICO Corporation (HEI)

\$103.33 (As of 02/26/20)

Price Target (6-12 Months): **\$119.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**
(Since: 12/30/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5) **2-Buy**

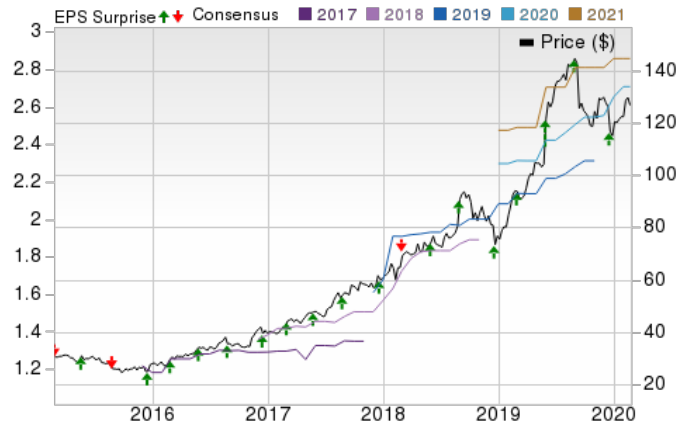
Zacks Style Scores: VGM:C

Value: F | Growth: A | Momentum: B

Summary

HEICO ended first quarter of fiscal 2020 on a solid note, with both its top and bottom line surpassing the respective Zacks Consensus Estimate. Increased demand for new products, ranging from aftermarket replacement parts to repair and overhaul parts along with services product lines, have been fueling organic growth. Its operational performance also exhibits solid inorganic growth. Such a solid financial position must have encouraged the company's investors, as evident from its share price performance. The company successfully completed seven acquisitions in fiscal 2019. Its disciplined acquisition strategy has been driving overall growth, further supplementing organic growth. However, expansion of tariffs on imports of aluminum is likely to hurt the stock. Its shares have underperformed the industry in the past year.

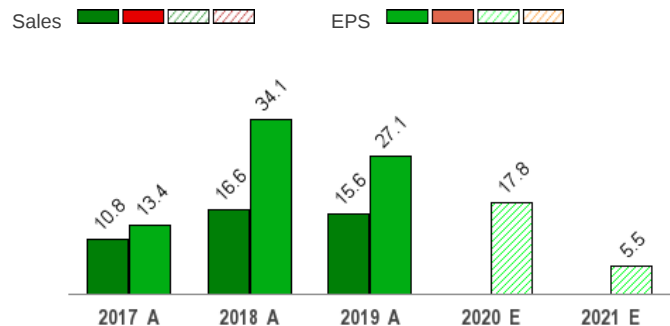
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$147.93 - \$89.25
20 Day Average Volume (sh)	533,396
Market Cap	\$13.9 B
YTD Price Change	-9.5%
Beta	0.56
Dividend / Div Yld	\$0.16 / 0.2%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 19% (206 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.6%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/26/2020
Earnings ESP	-0.5%
P/E TTM	38.3
P/E F1	38.1
PEG F1	3.2
P/S TTM	6.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,369 E
2020	506 A	557 E	568 E	576 E	
2019	466 A	516 A	532 A	542 A	2,056 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.66 E	\$0.75 E	\$0.76 E	\$0.77 E	\$2.86 E
2020	\$0.89 A	\$0.63 E	\$0.67 E	\$0.63 E	\$2.71 E
2019	\$0.49 A	\$0.60 A	\$0.59 A	\$0.62 A	\$2.30 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 02/26/2020. The reports text is as of 02/27/2020.

Overview

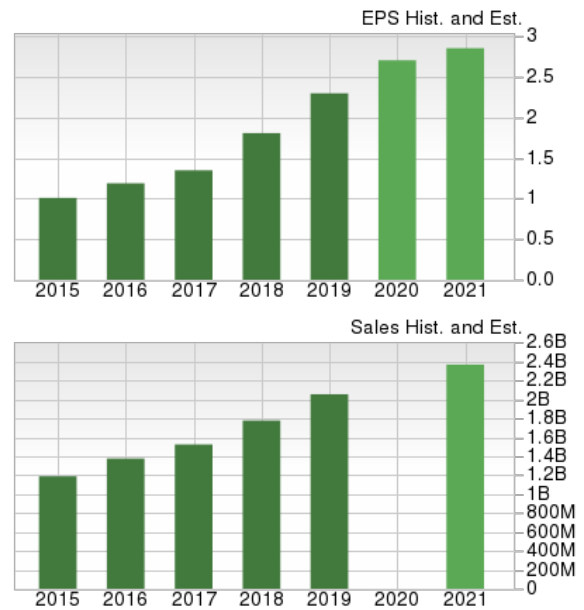
Florida-based HEICO Corporation, incorporated in 1957, is one of the world's leading manufacturers of Federal Aviation Administration ("FAA")-approved jet engine and aircraft component replacement parts. It also manufactures various types of electronic equipment for the aviation, defense, space, medical, telecommunications and electronics industries. The company's products are found on large commercial aircraft, regional, business and military aircraft, as well as on a large variety of industrial turbines, targeting systems, missiles and electro-optical devices.

HEICO Corp. operates in two segments, the Flight Support group and the Electronic Technologies group.

The **Flight Support Group** consists of HEICO Aerospace Holdings Corp. and HEICO Flight Support Corp., and their collective subsidiaries. The group uses proprietary technology to design and manufacture jet engine and aircraft component replacement parts. In addition, it repairs, overhauls and distributes jet engine and aircraft components, avionics and instruments. The segment also manufactures thermal insulation products, complex composite assemblies and other component parts, primarily for aerospace, defense, industrial and commercial applications. Net sales for this group were \$1.24 billion in fiscal 2019, contributing 60.3% to the company's total sales.

The **Electronic Technologies Group** consists of HEICO Electronic Technologies Corp. and its subsidiaries. It designs, manufactures and sells various types of electronic, microwave and electro-optical products. These products include infrared simulation and test equipment, laser rangefinder receivers, electrical power supplies, back-up power supplies, power conversion products, underwater locator beacons, electromagnetic interference and radio frequency interference shielding, high power capacitor charging power supplies, amplifiers, photo detectors, and radio frequency (RF) and microwave amplifiers. Net sales for this group were \$0.83 billion in fiscal year 2019, contributing 40.6% to the company's total sales.

Total sales consisted of intersegment expenses of \$0.2 billion.



Reasons To Buy:

- ▲ Thanks to rapidly expanding commercial air traffic due to increased trade activity worldwide and rising geopolitical tensions across the globe boosting defense space, a significant expansion can be witnessed in the global aerospace market. This in turn has been instilling substantial growth for aircraft original equipment manufacturers like HEICO Corp. As a result, the company has been witnessing increased demand for its new products ranging from aftermarket replacement parts to repair and overhaul parts as well as services product lines.

HEICO Corps disciplined acquisition strategy has been an important element for the company's overall growth.

In line with this trend, HEICO Corp.'s fiscal first-quarter results reflected solid organic revenue growth at both its operating segments along with improved gross profit margins. Net sales in the FSG unit reflected organic growth of 4%, driven by increased demand and new product offerings across all its product lines. ETG unit net sales reflected organic growth of 6% in the first quarter of fiscal 2020, led by higher demand for defense products.

- ▲ The company's disciplined acquisition strategy has been driving the overall performance, further supplementing organic growth. Notably, in December 2019, the company announced that its ETG acquired 80.1% of the stock of rapidly-growing Quell Corporation in an all cash transaction. The company expects the acquisition to be accretive to its earnings within the first year following the closing. As of Jan 31, 2020, the company successfully completed two acquisitions and seven acquisitions in fiscal 2019. We expect such acquisitions to expand its product portfolio and customer base, which, in turn, should keep its cash flow in a good shape. Notably, the company has no significant debt maturities until fiscal 2023, which should offer it financial flexibility to aggressively pursue high-quality acquisitions, thereby accelerating growth.
 - ▲ HEICO Corp continues to exhibit a solid financial performance. The company exited the first quarter of fiscal 2020 with cash and cash equivalents of \$64 million, compared with \$57 million as of Oct 31, 2019. Moreover, cash provided by operating activities was \$81.1 million at the end of the quarter compared with \$49.6 million in the year-ago quarter. Such a strong balance sheet and cash flow generation capacity provide the company a financial flexibility in matters of dividend hikes and earnings accretive acquisitions. Such a solid financial position can be expected to attract investors' attention toward this stock.
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Risks

- In January 2020, the Trump administration announced plans to expand its existing tariffs on imports of steel and aluminum, stating that from Feb 8, steel and aluminum derivatives will also come under the tariff mandate. This tariff expansion is expected to deal a heavy blow to the U.S. aerospace and defense industry, which relies heavily on imported aluminum. In 2018, when the initial tariff was imposed, the AIA had expressed concern by saying that such a tariff will raise cost and disrupt the supply chain. Now that tariffs are being imposed on derivatives as well, the growth prospects for aerospace and defense equipment stocks like Heico Corp seem bleak. This may have raised concern among the company's investors. Evidently, the company's shares have risen 10.3% in the past year, underperforming the industry's growth of 14%.
 - The company has a significant presence in the commercial aerospace market, which is cyclical in nature. A large portion of the company's aftermarket sales comes from third-party repair and overhaul, thus exposing it to tough competition from OEMs and third-party organizations. With volatile freight demand, outlook of the cargo market is uncertain. Additionally, the company markets its products and services to approximately 115 countries, with a significant portion of revenues being derived from sales to foreign customers. As a result, HEICO Corp is subject to risks of doing business internationally, which includes fluctuations in currency exchange rates along with imposition of taxes, export controls and tariffs.
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Last Earnings Report

HEICO Q1 Earnings Surpass Estimates, Cost Increases

HEICO Corporation reported first-quarter fiscal 2020 earnings of 89 cents per share, which surpassed the Zacks Consensus Estimate of 77 cents by 15%. The bottom line also rose 53.4% from the prior-year quarter's figure of 58 cents.

The upside can be attributed to a discrete income tax benefit from stock option exercises.

Total Sales

Quarterly net sales of \$506.3 million beat the Zacks Consensus Estimate of \$505 million by 0.3%.

The top line also increased 8.6% from the year-ago quarter's figure of \$466.1 million. The uptick can be primarily attributed to the company's single-digit organic net sales growth within Flight Support Group and Electronic Technologies Group segments.

Operational Update

HEICO's total costs and expenses increased 7.4% year over year to \$395.3 million in the quarter under review. The increase was due to higher cost of sales as well as increased selling, general and administrative expenses.

Segmental Performance

Flight Support Group: Net sales rose 5% year over year to \$301.1 million driven by continued strong organic growth of 12% mainly due to increased demand and new offerings across all product lines.

Operating income improved 17% year over year to \$62 million, courtesy of net sales growth, improved gross profit margin and a favorable impact from lower expenses related to changes in the estimated fair value of accrued contingent consideration.

Also, its operating margin expanded 220 basis points (bps) to 20.6% in the first quarter of fiscal 2020.

Electronic Technologies Group: Net sales increased 13% year over year to \$208.4 million primarily owing to increased demand for its defense products. Also, a favorable impact from fiscal 2019 and 2020 acquisitions contributed to this segment's top line.

Operating income increased 11% year over year to \$57.5 million, primarily on account of quarterly net sales growth.

The company's operating margin came down 40 bps to 27.6% in the first quarter of fiscal 2020.

Financial Details

As of Jan 31, 2020, cash and cash equivalents totaled \$64 million compared with \$57 million as of Oct 31, 2019.

Long-term debt (net of current maturities) totaled \$567.9 million as of Jan 31, 2020, up from \$561 million as of Oct 31, 2019.

As of Jan 31, 2020, cash provided by operating activities was \$81.1 million compared with \$49.6 million as of Jan 31, 2019.

Cash flow provided by operating activities grew 64% to \$81.1 million in the first quarter of fiscal 2020.

Fiscal 2020 Guidance

HEICO Corp has partially raised its fiscal 2020 guidance. The company's net income is currently expected to grow in the range of 14-15%, compared with the earlier range of 13-14%. However, net sales are still expected to rise in the band of 6-8% over fiscal 2019 levels.

The company also anticipates operating margin in the range of 21.5- 22.0%.

Quarter Ending **01/2020**

Report Date	Feb 25, 2020
Sales Surprise	0.19%
EPS Surprise	15.58%
Quarterly EPS	0.89
Annual EPS (TTM)	2.70

Recent News

On **Jan 6, 2020**, HEICO Corporation announced that its Radiant Power Corp. subsidiary acquired 100% of the business and assets of the Human-Machine Interface product line of Spectralux Corporation in an all cash transaction. HEICO stated that it expects the acquisition to be accretive to its earnings within a year following the purchase. Further financial terms and details were not disclosed. The purchase is HEICO's seventh acquisition in the past year.

On **Dec 16, 2019**, HEICO Corporation today announced that its Electronic Technologies Group acquired 80.1% of the stock of rapidly-growing Quell Corporation in an all cash transaction. Additional financial details were not disclosed. HEICO expects the acquisition to be accretive to its earnings within the first year following the closing.

Valuation

HEICO Corp.'s shares are down 28.1% in the past six months period and up 10.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are up 2.8% and down 1.8% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 14% whereas the sector rose 1.1%.

The S&P 500 index is up 9.8% in the past six months period and 13.3% in the past year.

The stock is currently trading at 37.5X of forward 12-month earnings, which compares to 19.1X for the Zacks sub-industry, 19.8X for the Zacks sector and 17.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 60.2X and as low as 22.4X, with a 5-year median of 36.4X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$119 price target reflects 43.1X forward 12-month earnings.

The table below shows summary valuation data for HEI

Valuation Multiples - HEI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	37.49	19.08	19.84	17.88
	5-Year High	60.22	20.63	21.54	19.34
	5-Year Low	22.37	14.51	14.26	15.18
	5-Year Median	36.42	18.01	16.87	17.47
P/S F12M	Current	6.15	1.75	1.28	3.29
	5-Year High	9.11	1.9	1.39	3.43
	5-Year Low	2.49	1.09	0.8	2.54
	5-Year Median	4.4	1.47	1.09	3
P/B TTM	Current	8.2	4.33	14.44	4.52
	5-Year High	11.92	5.26	16.03	4.9
	5-Year Low	3.62	2.82	5.26	2.85
	5-Year Median	6.01	3.89	9.19	3.62

As of 02/26/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (206 out of 254)



Top Peers

Leidos Holdings, Inc. (LDOS)	Outperform
AAR Corp. (AIR)	Neutral
Aerojet Rocketdyne Holdings, Inc. (AJRD)	Neutral
Bae Systems PLC (BAESY)	Neutral
Curtiss-Wright Corporation (CW)	Neutral
Teledyne Technologies Incorporated (TDY)	Neutral
Hexcel Corporation (HXL)	Underperform
Spirit Aerosystems Holdings, Inc. (SPR)	Underperform

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	HEI Outperform	X Industry	S&P 500	CW Neutral	HXL Underperform	SPR Underperform
VGM Score	C	-	-	B	C	B
Market Cap	13.90 B	1.33 B	22.59 B	5.58 B	5.87 B	6.11 B
# of Analysts	5	3	13	4	3	6
Dividend Yield	0.15%	0.00%	1.92%	0.52%	0.97%	0.81%
Value Score	F	-	-	C	D	C
Cash/Price	0.00	0.05	0.04	0.05	0.01	0.22
EV/EBITDA	26.52	12.07	13.29	12.48	12.07	6.27
PEG Ratio	3.15	3.07	1.93	NA	3.51	3.41
Price/Book (P/B)	8.20	3.01	3.03	3.28	4.11	3.83
Price/Cash Flow (P/CF)	34.79	13.31	12.33	14.83	13.31	6.68
P/E (F1)	38.13	21.94	17.79	17.06	19.70	26.45
Price/Sales (P/S)	6.63	1.73	2.47	2.24	2.49	0.79
Earnings Yield	2.62%	4.56%	5.60%	5.87%	5.07%	3.78%
Debt/Equity	0.33	0.33	0.70	0.52	0.73	1.35
Cash Flow (\$/share)	2.97	2.53	7.02	8.81	5.29	8.84
Growth Score	A	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	20.89%	14.73%	10.85%	17.93%	10.06%	14.73%
Proj. EPS Growth (F1/F0)	17.74%	8.83%	6.79%	5.33%	0.94%	-64.78%
Curr. Cash Flow Growth	23.18%	9.60%	6.53%	18.64%	12.73%	9.90%
Hist. Cash Flow Growth (3-5 yrs)	20.26%	4.66%	8.38%	8.01%	9.27%	10.83%
Current Ratio	2.81	2.34	1.22	2.19	2.19	2.06
Debt/Capital	30.66%	29.72%	42.37%	34.03%	42.08%	57.37%
Net Margin	17.68%	6.73%	11.57%	12.36%	13.02%	8.27%
Return on Equity	22.23%	9.39%	16.80%	18.99%	21.39%	49.21%
Sales/Assets	0.72	0.75	0.54	0.73	0.75	1.24
Proj. Sales Growth (F1/F0)	7.35%	0.31%	4.06%	5.22%	0.67%	-29.02%
Momentum Score	B	-	-	A	D	A
Daily Price Chg	-8.83%	-0.74%	-0.98%	-2.18%	0.33%	-0.32%
1 Week Price Chg	-2.30%	-1.99%	-0.94%	-1.26%	2.32%	-3.71%
4 Week Price Chg	-15.99%	-11.18%	-6.27%	-12.14%	-4.44%	-12.73%
12 Week Price Chg	-19.28%	-6.78%	-3.33%	-4.79%	-11.41%	-29.40%
52 Week Price Chg	11.22%	0.28%	6.81%	5.10%	-2.39%	-39.61%
20 Day Average Volume	533,396	153,703	2,109,774	192,357	687,490	1,250,466
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.08%	0.15%	-6.54%	0.00%
(F1) EPS Est 12 week change	6.03%	-0.95%	-0.22%	0.18%	-8.22%	-69.13%
(Q1) EPS Est Mthly Chg	-5.00%	0.00%	-0.61%	0.00%	NA	0.00%

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	F
Growth Score	A
Momentum Score	D
VGM Score	D

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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