

HEICO Corporation (HEI)

\$94.26 (As of 07/27/20)

Price Target (6-12 Months): **\$80.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 07/27/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: D

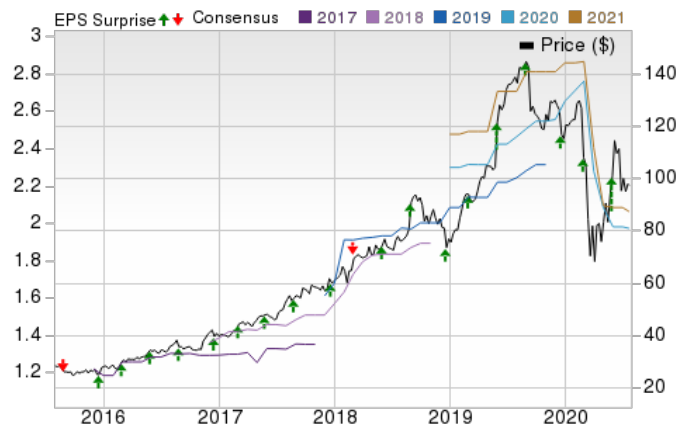
Growth: B

Momentum: A

Summary

Expansion of tariffs on imports of aluminum is likely to hurt aerospace and defense players like Heico Corp., which relies heavily on aluminum import for production. The company derives almost half of its sales from commercial aviation products and services. Notably, its businesses that operate within the commercial aerospace industry have been materially impacted by the significant decline in global commercial air travel that began in March 2020, following the spread of the coronavirus pandemic. A comparative analysis of its trailing 12-month price/earnings ratio reflects a relatively gloomy picture. However, demand for its components used in medical equipment like ventilators and personal protective equipment increased as a result of the coronavirus outbreak. Its shares have outperformed the industry in the past year.

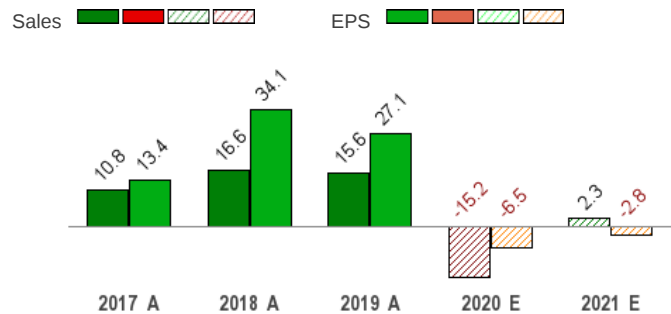
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$147.93 - \$52.01
20 Day Average Volume (sh)	322,668
Market Cap	\$12.7 B
YTD Price Change	-17.4%
Beta	1.12
Dividend / Div Yld	\$0.16 / 0.2%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 8% (233 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	31.0%
Last Sales Surprise	4.4%
EPS F1 Est- 4 week change	8.7%
Expected Report Date	08/25/2020
Earnings ESP	-3.0%
P/E TTM	35.6
P/E F1	43.8
PEG F1	3.6
P/S TTM	6.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,783 E
2020	506 A	468 A	370 E	400 E	1,743 E
2019	466 A	516 A	532 A	542 A	2,056 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.09 E
2020	\$0.89 A	\$0.55 A	\$0.33 E	\$0.39 E	\$2.15 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 07/27/2020. The reports text is as of 07/28/2020.

Overview

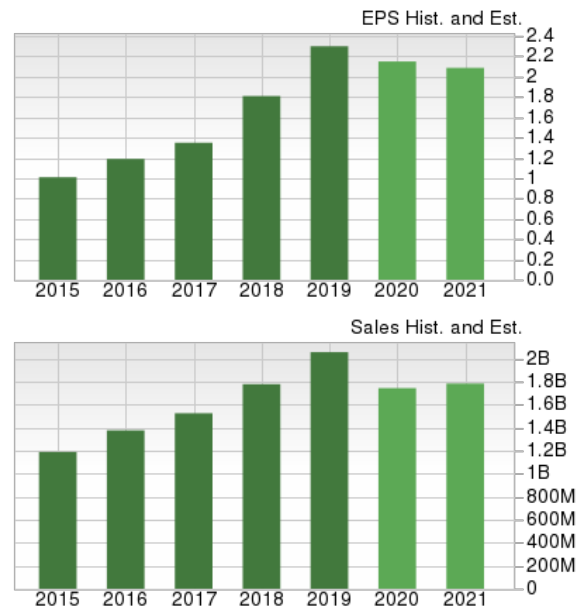
Florida-based HEICO Corporation, incorporated in 1957, is one of the world's leading manufacturers of Federal Aviation Administration ("FAA")-approved jet engine and aircraft component replacement parts. It also manufactures various types of electronic equipment for the aviation, defense, space, medical, 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 Sell:

- ▼ 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.
- ▼ A comparative analysis of the company's trailing 12-months Price/Earnings ratio reflects a relatively gloomy picture, which might be a cause for investors' concern. Evidently, the stock has a trailing 12-month Price/Earnings ratio of 41.65. The valuation is higher when compared with its industry's trailing 12-month Price/Earnings ratio of 13.11 in the same time period and with what the industry witnessed in the past one year.
- ▼ Heico Corp. derives almost half of its sales from commercial aviation products and services. To this end, it is imperative to mention that owing to the ongoing government-induced travel restrictions worldwide, following the spread of the COVID-19, the commercial aerospace industry has been experiencing a substantial decline in demand. As a result, Heico Corp.'s businesses that operate within the commercial aerospace industry have been materially impacted by the significant decline in global commercial air travel that began in March 2020. Notably, the pandemic had an adverse effect on the company's Flight Support Group segment in the fiscal second quarter, owing to lower demand across all of this unit's product lines resulting into 18% decline in its quarterly top line. Since one cannot estimate the duration and magnitude of the virus outbreak, Heico Corp. cannot confidently predict when demand for its commercial aerospace products will return to pre-outbreak levels. This surely remains a cause of concern for investors.

Expansion of tariff on import of aluminum might hurt HEICO Corp.'s growth. The stock boasts an unfavorable valuation when compared to its industry

Risks

- Heico Corp. generates approximately half of its sales from defense, space and other industrial markets including electronics, medical and communications. Impressively, demand for products in that half of Heico Corp.'s business has not been fundamentally impacted, considering the weakening macroeconomic scenario following the novel coronavirus outbreak. In fact, many of its defense and medical component design, manufacturing and supply operations are crucial suppliers to markets with continuing strong needs. Consequently, demand for its components used in medical equipment, such as ventilators, x-ray systems, sterilization equipment as well as personal protective equipment increased as a result of the outbreak. This should bode well for the company's growth in the coming days. This may have boosted investors' confidence in this stock's growth potential. Evidently, the company's shares have lost 31.5% in the past year compared with the industry's decline of 40.5%.
- Heico Corp.'s cash and cash equivalent at the end of fiscal second-quarter 2020 was \$347 million, which increased significantly from the prior-quarter figure of \$64 million. On the other hand, the company's long-term debt as of Apr 30, 2020, stands at \$739 million, up sequentially from \$568 million. Although its long-term debt level lies much above the company's cash reserve, its current debt worth \$1 million as of Apr 30, 2020 is almost insignificant compared to the cash reserve. This reflects the company's strong solvency position, at least in the short run, which is a positive amid the prevailing economic uncertainty caused by the COVID-19 pandemic.

Moreover, the company's current ratio as of Apr 30, 2020 of 4.39 increased sequentially from 3.39. Further, the ratio being more than 1 indicates that the company has sufficient capital on hand to meet its short-term obligations. Further, its debt-to-capital ratio of 0.28 is much lower than the industry average of 0.54. Its interest coverage stands at 24.5 as of Apr 30, 2020, compared with 23.1 as of Jan 31, 2019. All these favorable financial ratio levels of Heico Corp. make us optimistic about the company's ability to meet debt obligations in the near future.

Last Earnings Report

HEICO Q2 Earnings Beat Estimates, Revenues Fall Y/Y

HEICO Corporation reported second-quarter fiscal 2020 earnings of 55 cents per share, which surpassed the Zacks Consensus Estimate of 42 cents by 31%. The bottom line however declined 8.3% from the prior-year quarter's figure of 60 cents.

The downturn can be attributed to decline in quarterly sales as well as operating income.

Total Sales

Quarterly net sales of \$468.1 million beat the Zacks Consensus Estimate of \$448 million by 4.5%.

The top line however declined 9.2% from the year-ago quarter's figure of \$515.6 million due to lower revenues generated by the company's Flight Support Group segment.

Operational Update

HEICO's total costs and expenses declined 9% year over year to \$359.5 million in the quarter under review. The decrease was due to lower cost of sales as well as selling, general and administrative expenses.

Segmental Performance

Flight Support Group: Net sales declined 18.3% year over year to \$252 million owing to lower demand across all of this segment's product lines. This resulted from the significant decline in global commercial air travel beginning March 2020 due to the novel coronavirus outbreak.

Operating income decreased 24% year over year to \$47.5 million, courtesy of sales decline and lower gross profit margin mainly within its aftermarket replacement parts and repair and overhaul parts and services product line. Also, its operating margin contracted 130 basis points (bps) to 18.9% in the second quarter of fiscal 2020.

Electronic Technologies Group: Net sales rose 2% year over year to \$219 million primarily owing to favorable impact of the company's fiscal 2019 and 2020 acquisitions.

Operating income dropped 3% year over year to \$65.5 million, primarily on account of lower gross profit margin mainly due to a decrease in net sales of space and commercial aerospace products.

The company's operating margin was down 150 bps to 29.9% in the second quarter of fiscal 2020.

Financial Details

As of Apr 30, 2020, cash and cash equivalents totaled \$346.8 million compared with \$64 million as of Jan 31, 2020.

Long-term debt (net of current maturities) totaled \$739.2 million as of Apr 30, 2020, up from \$567.9 million as of Jan 31, 2020.

As of Apr 30, 2020, cash provided by operating activities was \$205.9 million compared with \$178.3 million as of Apr 30, 2019.

Fiscal 2020 Guidance

HEICO Corp withdrew its earlier announced fiscal 2020 financial guidance due to recent developments pertaining to the impact of the virus outbreak.

Quarter Ending 04/2020

Report Date	May 26, 2020
Sales Surprise	4.39%
EPS Surprise	30.95%
Quarterly EPS	0.55
Annual EPS (TTM)	2.65

Valuation

HEICO Corp.'s shares are down 17.4% in the year-to-date period and 31.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 43% and 30.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 40.5% while the sector is down 30.9%.

The S&P 500 index is up 0.03% in the year-to-date period and 6.9% in the past year.

The stock is currently trading at 46.3X of forward 12-month earnings, which compares to 23.4X for the Zacks sub-industry, 20.3X for the Zacks sector and 22.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 60.2X and as low as 22.2X, with a 5-year median of 37.7X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$80 price target reflects 39.2X 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	46.28	23.42	20.33	22.49
	5-Year High	60.22	23.54	20.94	22.49
	5-Year Low	22.2	12.99	14.17	15.25
	5-Year Median	37.72	17.18	17.19	17.52
P/S F12M	Current	7.17	0.87	1.15	3.55
	5-Year High	9.11	1.29	1.49	3.55
	5-Year Low	2.49	0.79	0.92	2.53
	5-Year Median	4.7	1.01	1.17	3.02
EV/EBITDA TTM	Current	25.32	6.84	11.45	11.95
	5-Year High	42.17	12.02	14.98	12.86
	5-Year Low	13.86	5.99	7.39	8.25
	5-Year Median	24.12	8.77	10.56	10.88

As of 07/27/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (233 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
AAR Corp. (AIR)	Neutral	4
Bae Systems PLC (BAESY)	Neutral	3
CurtissWright Corporation (CW)	Neutral	3
Hexcel Corporation (HXL)	Neutral	2
Leidos Holdings, Inc. (LDOS)	Neutral	3
Spirit Aerosystems Holdings, Inc. (SPR)	Neutral	4
Teledyne Technologies Incorporated (TDY)	Neutral	2
Aerojet Rocketdyne Holdings, Inc. (AJRD)	Underperform	4

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	HEI	X Industry	S&P 500	CW	HXL	SPR
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	2	4
VGM Score	B	-	-	F	F	F
Market Cap	12.70 B	1.18 B	22.74 B	3.75 B	3.73 B	2.26 B
# of Analysts	4	3	14	4	5	6
Dividend Yield	0.17%	0.00%	1.8%	0.76%	0.00%	0.19%
Value Score	D	-	-	C	D	D
Cash/Price	0.03	0.15	0.07	0.04	0.09	0.79
EV/EBITDA	24.11	7.62	13.03	8.75	8.43	3.41
PEG Ratio	3.62	6.23	3.03	NA	5.74	NA
Price/Book (P/B)	6.72	1.83	3.17	2.29	2.62	1.55
Price/Cash Flow (P/CF)	31.73	7.01	12.05	9.26	8.44	2.69
P/E (F1)	43.84	27.65	21.90	14.11	32.35	NA
Price/Sales (P/S)	6.20	1.03	2.38	1.49	1.81	0.32
Earnings Yield	2.28%	3.13%	4.30%	7.09%	3.09%	-12.66%
Debt/Equity	0.39	0.39	0.76	0.63	0.98	2.07
Cash Flow (\$/share)	2.97	2.26	7.01	9.72	5.29	7.97
Growth Score	B	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	23.92%	10.59%	10.85%	19.12%	10.08%	8.47%
Proj. EPS Growth (F1/F0)	-6.52%	-31.76%	-7.56%	-12.24%	-61.02%	-148.95%
Curr. Cash Flow Growth	23.18%	12.73%	5.47%	7.60%	12.73%	-10.39%
Hist. Cash Flow Growth (3-5 yrs)	20.26%	5.32%	8.55%	7.51%	9.27%	3.45%
Current Ratio	4.39	2.78	1.31	2.04	3.36	2.81
Debt/Capital	33.12%	37.95%	44.41%	38.53%	49.44%	67.46%
Net Margin	17.78%	4.56%	10.45%	12.10%	9.48%	2.92%
Return on Equity	20.70%	9.47%	15.13%	18.48%	14.75%	20.46%
Sales/Assets	0.66	0.74	0.54	0.70	0.63	1.01
Proj. Sales Growth (F1/F0)	-15.19%	-1.25%	-2.00%	-4.85%	-32.25%	-53.59%
Momentum Score	A	-	-	D	B	F
Daily Price Chg	-1.25%	0.00%	0.48%	-1.34%	-2.19%	-3.08%
1 Week Price Chg	-2.38%	-0.85%	0.37%	-0.98%	1.81%	-2.30%
4 Week Price Chg	-6.40%	-2.50%	5.61%	0.06%	-5.00%	-18.26%
12 Week Price Chg	14.30%	10.11%	13.36%	-6.88%	46.68%	5.26%
52 Week Price Chg	-31.51%	-29.53%	-3.30%	-29.53%	-46.37%	-71.72%
20 Day Average Volume	322,668	180,641	1,917,592	277,243	767,586	4,116,139
(F1) EPS Est 1 week change	9.14%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	8.70%	-1.37%	0.21%	-0.78%	9.23%	-4.70%
(F1) EPS Est 12 week change	3.27%	-6.01%	-2.00%	-6.62%	9.23%	-32.17%
(Q1) EPS Est Mthly Chg	-1.49%	0.00%	0.00%	0.90%	1,633.33%	-10.26%

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	D
Growth Score	B
Momentum Score	A
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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