

Spirit AeroSystems (SPR)

\$52.84 (As of 03/02/20)

Price Target (6-12 Months): **\$45.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/07/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: C

Growth: C

Momentum: A

Summary

Spirit AeroSystems ended the fourth quarter of 2019 on a mixed note, wherein earnings missed the Zacks Consensus Estimate, while revenues outpaced the same. It operates in a highly competitive market. To keep up with other players in this space, the company needs to invest substantially for technological progress that would increase capital expenses and in turn may adversely affect its operations and financial condition. Moreover, prolonged delays related to the Asco transaction is further escalating its expenses. The company has also underperformed the industry in the past year. However, it is one of the largest independent non-OEM aircraft parts designers. Both commercial and defense aerospace markets offer immense growth opportunities for the company. It strives to become more innovative by investing in technology and automation.

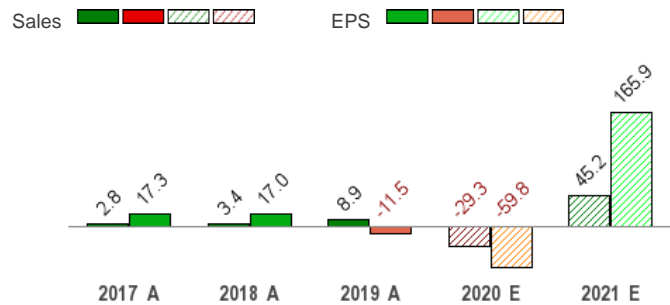
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$100.34 - \$49.81
20 Day Average Volume (sh)	1,382,222
Market Cap	\$5.5 B
YTD Price Change	-27.3%
Beta	1.27
Dividend / Div Yld	\$0.04 / 0.9%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 29% (182 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-49.7%
Last Sales Surprise	1.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/06/2020
Earnings ESP	0.0%
P/E TTM	9.5
P/E F1	23.7
PEG F1	3.1
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,005 E	2,172 E	2,174 E	2,187 E	8,069 E
2020	1,066 E	1,308 E	1,452 E	1,668 E	5,558 E
2019	1,968 A	2,016 A	1,920 A	1,959 A	7,863 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.23 E	\$1.36 E	\$1.55 E	\$1.65 E	\$5.93 E
2020	\$0.43 E	\$0.41 E	\$0.76 E	\$1.11 E	\$2.23 E
2019	\$1.68 A	\$1.71 A	\$1.38 A	\$0.79 A	\$5.54 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 03/02/2020. The reports text is as of 03/03/2020.

Overview

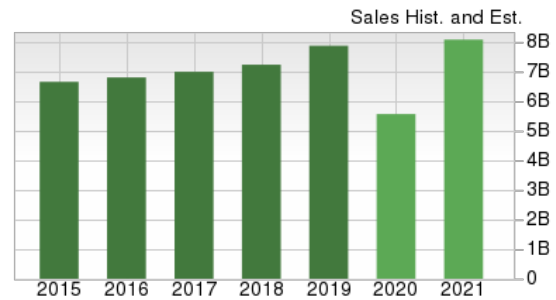
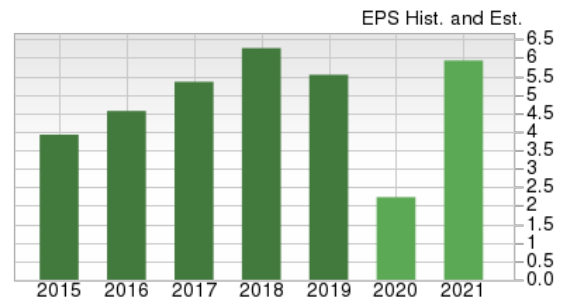
Spirit AeroSystems Holdings, Inc. is one of the largest independent non-OEM aircraft parts designers and manufacturers of commercial aerostructures in the world, in terms of annual revenues. Incorporated in 2005, it is also the largest independent supplier of aerostructures to Boeing and Airbus —the two largest aircraft OEMs — globally. Aerostructures are structural components such as fuselages, propulsion systems and wing systems for commercial and military aircraft.

The company operates through three business segments namely — Fuselage Systems, Propulsion Systems and Wing Systems.

Fuselage Systems includes development, production and marketing of forward, mid and rear fuselage sections and systems, mainly aircraft OEMs, as well as related spares and MRO. The segment generated sales of \$4,206.2 million in 2019, representing 54% of total business sales.

Propulsion Systems includes development, production and marketing of struts/pylons, nacelles (including thrust reversers), and related engine structural components. This division generated sales of \$2,057.8 million in 2019, representing 26% of total sales.

Wing Systems segment includes development, production and marketing of wings and wing components (including flight control surfaces), and other miscellaneous structural parts. It generated sales of \$1,588.3 million in 2019, representing 20% of total sales.



Reasons To Sell:

- ▼ The U.S. Aerospace giant, Boeing, temporarily suspended the 737-production beginning this January. This will most likely affect Spirit AeroSystems as well, as the company makes 70% of the structure for the 737 MAX aircraft. Before the turmoil, Spirit AeroSystems' plan was to increase production from 52 to 57 aircraft per month during the second quarter of 2019. But following Boeing's decision to adjust their production temporarily to 42 aircraft per month, Spirit AeroSystems decided to continue manufacturing 52 aircraft in a monthly basis. In fact, the beginning of its final assembly line had already started cycling to produce 57 aircraft per month. Taking the factory back down to rate 52 in a short time frame created a whipsaw effect and caused a lot of disruption in a complex production system like the 737, especially the fuselage. This resulted in the company incurring disruption costs, along with costs associated with quality improvement in the last two quarters of 2019.

Uncertainty revolving around Boeing's 737 Max may hamper the stock's growth. Delay in Asco acquisition may further escalate its costs

The latest production halt decision is, thus, expected to deal another blow to Spirit AeroSystems' operating results. In fact, uncertainties regarding the timing of MAX's return to service has forced Spirit AeroSystems to detain its 2020 guidance for now. It has also put a hold on its share-repurchase program.

- ▼ Although the company expects to get due delivery payments from Boeing, its increased production rate compared with Boeing's toned-down production rate might create issues. First of all, it will elevate expenses for Spirit AeroSystems as it is going to install temporary mechanisms at its expenses to protect fuselages from inclement weather during storage in Wichita. The company will also store all the other Boeing 737 MAX parts indoors in its facilities. These storages will be for 737 only and so Spirit AeroSystems will not produce fuselage for any other model for now. The company is making these rearrangements, anticipating that the 737 issue will resolve by mid-2020. In case it does not, such production delays and corresponding revenue reduction will dent its operating results.
 - ▼ Asco experienced a cyber-attack in June 2019. Although Asco resumed its operations in the fourth quarter, following the cyber-attack, this caused another delay in the completion of the Asco-Spirit AeroSystems acquisition deal. Meanwhile, Spirit AeroSystems and Asco have already negotiated a purchase-price reduction from \$602 million to \$420 million, on account of the incremental acquisition costs and business impact due to the delayed closing. Notably, any further delay in this deal might hurt Spirit AeroSystems' operating results, reducing the benefits that the Asco acquisition was initially expected to offer.
 - ▼ The company operates in a highly competitive market. Some competitors may have more extensive or specialized business segments. Meanwhile, to keep up with other players in this space, the company needs to invest substantially for technological progress that would escalate capital expenses and in turn, affect its operations and financial condition. This resulted in the Spirit AeroSystems' stock underperforming its industry in the past year. The stock has lost 26% as against the industry's growth of 32.3% during this time period.
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Risks

- Spirit AeroSystems is currently focusing on executing its supply-chain strategy, improving productivity and meeting its customers' requirements for production rate changes. Additionally, it strives to become more innovative by investing in technology and automation. These investments will be aimed at reducing costs and allowing the company to meet increasing production rates on many of its programs as well as ensuring its competitiveness for the next generation of aircraft. In line with this, the company announced the development of new production methods for carbon fiber composite material, which will lead to lower costs and higher production volumes for future aircraft components during the second quarter. Using this new proprietary architecture, Spirit AeroSystems brought the Advanced Structures Technology and Revolutionary Architectures demonstration fuselage panel in the market, which offers step-change improvements in terms of costs and weight on fuselage panels. This particular innovation is expected to expand the company's footprint in the composite aerostructures business.
- In January 2020, Spirit Aerosystems closed its purchase of Fiber Materials, an industry-leading technology company specializing in high-temperature materials and composites primarily for defense. The acquisition of Fiber Materials aligns with the company's strategic growth objectives to diversify its customer base and expand the current defense business. Fiber Materials' advanced capabilities in high-temperature materials, combined with Spirit Aerosystems' expertise in industrializing next-generation aerostructures, can be expected to create a critical capability to industrialize state-of-the-art defense technologies essential for the advancement of hypersonic weapons.
- Toward the end of October, Spirit AeroSystems announced its plans to acquire select assets of Bombardier aerostructures and aftermarket services businesses in Belfast, Casablanca and Dallas. The acquisition aligns well with the company's priorities of capturing more business from aircraft manufacturing giant, Airbus, and expanding its low-cost country footprint and scaling aftermarket businesses with good long-term shareholder returns. The acquired business also brings in a world-class aftermarket business, which more than doubles Spirit's geographic reach on a global scale.

Furthermore, the company expects to realize approximately \$60 million in synergies from the planned acquisition. The transaction is expected to close in the first half of 2020.

Last Earnings Report

Spirit AeroSystems Q4 Earnings Miss, Revenues Up Y/Y

Spirit AeroSystems Holdings, Inc. reported fourth-quarter 2019 adjusted earnings of 79 cents per share, which lagged the Zacks Consensus Estimate of \$1.57 by 49.7%. The bottom line also plunged 57% from the year ago quarter's earnings of \$1.85.

Barring one-time adjustments, the company reported GAAP earnings of \$1.68 per share compared with \$1.07 in the year-ago quarter.

For 2019, Spirit AeroSystems' earnings came in at \$5.54 per share, which declined 12% from the prior-year's earnings of \$6.26.

Quarter Ending **12/2019**

Report Date	Feb 28, 2020
Sales Surprise	1.75%
EPS Surprise	-49.68%
Quarterly EPS	0.79
Annual EPS (TTM)	5.56

Highlights of the Release

Total revenues of \$1,959 million exceeded the Zacks Consensus Estimate of \$1,926 million by 1.7%. Moreover, the top line rose 7% on a year-over-year basis.

Backlog at the end of fourth quarter 2019 was \$43 billion, compared to the backlog of \$48 million at the end of fourth quarter 2018.

For 2019, Spirit AeroSystems generated revenues of \$7,863 million, which improved 9% from the prior-year's revenue of \$7,222 million.

Segment Performance

Fuselage Systems: Revenues at the segment grew 1.7% to \$1,034.5 million from \$1017.4 million registered in fourth-quarter 2018. Higher production volumes on the Boeing 787 and increased GCS&S activities drove top-line growth.

Operating margin for the fourth quarter of 2019 decreased to 5.8%, compared to 15.6 %during the same period of 2018.

Propulsion Systems: The segment recorded revenues of \$532.3 million in the reported quarter, soaring 20.2% from \$442.9 million a year ago. The uptick can be attributed to higher production volumes on the Boeing 737, 777 and Airbus A220 programs as well as favorable model mix on the Boeing 737 program.

Operating margin for the fourth quarter of 2019 increased to 18.7%, compared to 18% during the same period of 2018.

Wing Systems: Revenues at the segment rose 4.4% to \$390.9 million from \$374.4 million in the prior-year quarter. The uptick can be attributed to higher production volumes on the Boeing 787 and Airbus A350 programs.

Operating margin for the fourth quarter of 2019 decreased to 10%, compared to 16.1% during the same period of 2018.

Operational Highlights

Total operating expenses rose 17.1% year over year to \$1,863.6 million on account of higher cost of sales, selling, general and administrative as well as higher research and development expenses.

The company's operating income plunged 60.7% in the fourth quarter to \$95.7 million from the year-ago quarter's \$243.6 million.

Financial Position

As of Dec 31, 2019, Spirit AeroSystems had \$2,350.5 million in cash and cash equivalents compared with \$773.6 as of Dec 31, 2018.

At the end of 2019, long-term debt (excluding current portion) totaled \$2,984.1 million compared with \$1,864 million at the end of 2018.

Cash flow from operating activities increased to \$922.7 million at the end of 2019 from \$769.9 million at the end of 2018.

Capital expenditures summed \$232 million in 2019 compared with \$271 million in the prior year.

Recent News

On **Jan 30, 2020**, Spirit AeroSystems announced that it reached an agreement with Boeing relating to the 737 MAX production rate. Under the agreement, Spirit will restart production slowly, ramping up deliveries throughout the year to reach a total of 216 MAX shipsets delivered to Boeing in 2020. Spirit does not expect to achieve a production rate of 52 shipsets per month until late 2022. The parties are continuing to negotiate other terms.

Valuation

Spirit AeroSystems' shares are down 34.3% in the past six months period and down 46.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 3.5% and 11% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 8.7% while the sector is down 6.8%.

The S&P 500 index is up 5.5% in the past six months period and up 9.6% in the past year.

The stock is currently trading at 18.4X of forward 12-month earnings, which compares to 18.5X for the Zacks sub-industry, 18.4X for the Zacks sector and 17.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.5X and as low as 9X, with a 5-year median of 12X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$45 price target reflects 15.7X forward 12-month earnings.

The table below shows summary valuation data for SPR

Valuation Multiples - SPR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.42	18.56	18.4	17.66
	5-Year High	28.51	20.63	21.54	19.34
	5-Year Low	9.04	14.51	14.26	15.18
	5-Year Median	12.01	18.07	16.9	17.46
P/S F12M	Current	0.92	1.71	1.18	3.26
	5-Year High	1.64	1.9	1.39	3.43
	5-Year Low	0.75	1.09	0.8	2.54
	5-Year Median	1.06	1.48	1.09	3.01
EV/EBITDA TTM	Current	5.84	11.06	14.78	10.93
	5-Year High	13.32	13.17	17.14	12.88
	5-Year Low	5.37	8.85	7.28	8.49
	5-Year Median	8.21	10.28	9.96	10.79

As of 03/02/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (182 out of 255)



Top Peers

Heico Corporation (HEI)	Outperform
AAR Corp. (AIR)	Neutral
Aerojet Rocketdyne Holdings, Inc. (AJRD)	Neutral
Curtiss-Wright Corporation (CW)	Neutral
Teledyne Technologies Incorporated (TDY)	Neutral
Astronics Corporation (ATRO)	Underperform
Hexcel Corporation (HXL)	Underperform
Triumph Group, Inc. (TGI)	Underperform

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	SPR Underperform	X Industry	S&P 500	ATRO Underperform	CW Neutral	HEI Outperform
VGM Score	A	-	-	C	B	C
Market Cap	5.48 B	1.27 B	22.14 B	624.23 M	5.39 B	15.16 B
# of Analysts	6	2	13	2	4	5
Dividend Yield	0.91%	0.00%	1.98%	0.00%	0.54%	0.14%
Value Score	C	-	-	B	B	F
Cash/Price	0.27	0.08	0.05	0.04	0.08	0.00
EV/EBITDA	6.48	11.16	12.79	8.05	11.14	28.84
PEG Ratio	3.10	2.79	1.92	2.93	NA	3.61
Price/Book (P/B)	3.11	2.96	3.00	1.55	3.04	8.38
Price/Cash Flow (P/CF)	6.56	12.69	11.97	8.05	12.99	37.94
P/E (F1)	24.01	23.74	17.43	29.30	16.56	40.83
Price/Sales (P/S)	0.70	1.67	2.48	0.81	2.17	7.23
Earnings Yield	4.21%	4.21%	5.74%	3.41%	6.04%	2.45%
Debt/Equity	1.72	0.32	0.70	0.42	0.51	0.31
Cash Flow (\$/share)	8.07	2.53	6.94	2.51	9.72	2.97
Growth Score	C	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	13.43%	13.63%	10.85%	-20.14%	18.69%	22.72%
Proj. EPS Growth (F1/F0)	-59.72%	8.83%	6.48%	-24.18%	4.92%	20.00%
Curr. Cash Flow Growth	-10.39%	7.60%	6.03%	28.11%	7.60%	23.18%
Hist. Cash Flow Growth (3-5 yrs)	10.83%	7.51%	8.52%	14.18%	7.51%	20.26%
Current Ratio	2.64	2.34	1.23	2.96	2.05	3.39
Debt/Capital	63.21%	29.68%	42.57%	29.72%	33.79%	29.68%
Net Margin	6.74%	6.73%	11.57%	6.73%	12.36%	17.68%
Return on Equity	37.69%	9.39%	16.66%	6.21%	18.63%	21.76%
Sales/Assets	1.17	0.75	0.54	1.00	0.71	0.71
Proj. Sales Growth (F1/F0)	-29.32%	0.33%	4.07%	-11.59%	5.21%	6.86%
Momentum Score	A	-	-	F	D	D
Daily Price Chg	0.26%	0.13%	3.82%	-0.25%	5.31%	4.50%
1 Week Price Chg	-19.19%	-12.23%	-12.06%	-17.43%	-17.11%	-14.92%
4 Week Price Chg	-17.13%	-9.29%	-6.43%	-23.38%	-13.10%	-8.66%
12 Week Price Chg	-36.84%	-8.69%	-5.15%	-31.34%	-10.37%	-8.36%
52 Week Price Chg	-46.29%	1.57%	4.77%	-39.88%	4.32%	21.05%
20 Day Average Volume	1,382,222	172,501	2,363,047	208,872	224,013	744,109
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-29.59%	-0.16%	1.92%
(F1) EPS Est 4 week change	0.00%	-0.01%	-0.04%	-37.56%	-0.01%	1.92%
(F1) EPS Est 12 week change	-69.13%	-0.40%	-0.33%	-55.10%	0.01%	8.07%
(Q1) EPS Est Mthly Chg	0.00%	-0.85%	-0.38%	NA	-9.17%	-8.50%

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	C
Growth Score	C
Momentum Score	A
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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