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Jan 09, 2020

Spirit AeroSystems (SPR)

$73.96 (As of 01/08/20)

Price Target (6-12 Months): **$63.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/07/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**5-Strong Sell**
	Zacks Style Scores:	VGM:C
	Value: B | Growth: C | Momentum: D	

Summary

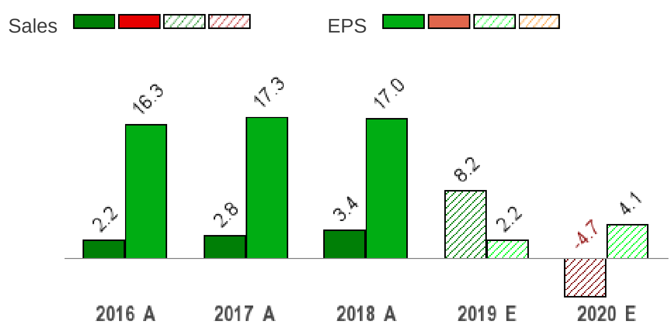
Spirit AeroSystems operates in a highly competitive market. To keep up with other players in this space, the company needs to invest substantially for technological progress that would increase capital expenses and in turn may adversely affect its operations and financial condition. Moreover, the uncertainty revolving around Boeing 737 forced Spirit AeroSystems to detain the 2019 guidance for now. Furthermore, prolonged delays related to the Asco transaction is further escalating Spirit AeroSystems' expenses. The company also underperformed the industry in the past year. However, Spirit AeroSystems 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 - $70.69**
20 Day Average Volume (sh)	**1,223,600**
Market Cap	**$7.7 B**
YTD Price Change	**1.5%**
Beta	**1.11**
Dividend / Div Yld	**$0.48 / 0.6%**
Industry	**Aerospace - Defense Equipment**
Zacks Industry Rank	**Top 42% (106 out of 254)**
Last EPS Surprise	**-17.4%**
Last Sales Surprise	**-2.3%**
EPS F1 Est- 4 week change	**-7.9%**
Expected Report Date	**02/07/2020**
Earnings ESP	**0.0%**
P/E TTM	**11.2**
P/E F1	**11.1**
PEG F1	**1.4**
P/S TTM	**1.0**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	967 E	1,440 E	2,024 E	2,059 E	7,445 E
2019	1,968 A	2,016 A	1,920 A	1,909 E	7,813 E
2018	1,736 A	1,837 A	1,814 A	1,835 A	7,222 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$0.60 E	$1.01 E	$1.68 E	$1.86 E	$6.66 E
2019	$1.68 A	$1.71 A	$1.38 A	$1.67 E	$6.40 E
2018	$1.10 A	$1.63 A	$1.70 A	$1.85 A	$6.26 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 01/08/2020. The reports text is as of 01/09/2020.

Overview

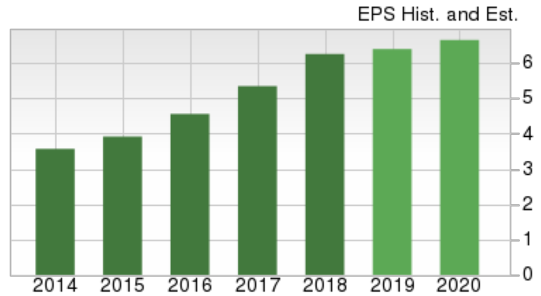
Spirit AeroSystems Holdings, Inc. is one of the largest independent non-OEM aircraft parts designers and manufacturers of commercial aerostructures in the world, in terms of annual revenues. Incorporated in 2005, it is also the largest independent supplier of aerostructures to Boeing and Airbus —the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

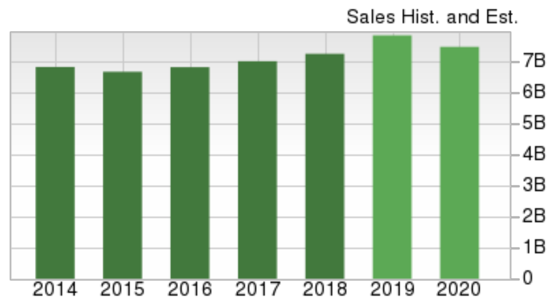
The company operates through three business segments namely — Fuselage Systems, Propulsion Systems and Wing Systems.

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 $4,000.8 million in 2018, representing 55.4% 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 $1,702.5 million in 2018, representing 23.6% 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 $1,513 million in 2018, representing 21% of total sales.





Reasons To Sell:

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

- The ongoing disruption, with respect to Boeing's 737 Max program, affected Spirit AeroSystems as well. Notably it makes 70% of the structure of the MAX aircraft, thus, it is an important program for the company. 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 produce 52 aircraft per month. 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 led the company to incur some disruption costs in the third quarter. In fact, the uncertainty regarding 737 forced Spirit AeroSystems to detain its 2019 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 soon but in case it does not, such production delays and corresponding revenue reduction will hurt its operating results.

- Asco experienced a cyber-attack in June. Prior to the attack, Spirit AeroSystems worked with the European Commission to finalize methodology for data segregation to meet the conditions of their approval, granted in March. The cyber-attack hindered this process. As a result, Spirit AeroSystems extended the long-stop date of the contract to Oct 29. Currently, Asco is in the process of recovering their systems after the cyber-attack and management at Spirit AeroSystems expects that Asco will restart the data segregation process once that activity is completed. Notably, this caused another delay in the completion of this 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. 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 increase capital expenses and in turn may adversely affect its operations and financial condition. This may have led Spirit AeroSystems' stock to underperform the industry in the past year. The stock has lost 4.3% in the past year against the industry's growth of 44.7%.

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 June 2019, the company announced its collaboration role on the Airbus Wing of Tomorrow program, which aims at supporting commercial aviation applications. Under this agreement, the company will develop solutions essential for the fabrication and assembly of leading edges, wing boxes and lower wing covers. Spirit AeroSystems also aims to leverage its full suite of distinctive capabilities to improve product performance by lowering costs and shortening development cycles. This collaboration is in addition to the 70,000 square foot Aerospace Innovation Center at its Prestwick, Scotland facility, which will open in 2020. The site's focus is on resonant fusion processes for composite materials, part handling, assembly automation, rapid prototyping and virtual and augmented reality. Such initiatives will boost the company's wing development efforts to meet the increased production rates of 14 aircraft per month for 787 and 60 per month for Airbus' A320.

- Toward the end of October, Spirit AeroSystems announced the planned acquisition of Bombardier Aerostructures and aftermarket services businesses in Belfast, Casablanca and Dallas. The acquisition aligns very 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 revenues from Bombardier operations are expected to be approximately $1 billion in 2019. The transaction is expected to close in the first half of 2020. Moreover, the company expects to realize approximately $60 million in synergies from the acquisition.

Last Earnings Report

Spirit AeroSystems Q3 Earnings Miss, Backlog Slips Q/Q

Quarter Ending	09/2019
Report Date	Oct 31, 2019
Sales Surprise	-2.32%
EPS Surprise	-17.37%
Quarterly EPS	1.38
Annual EPS (TTM)	6.62

Spirit AeroSystems Holdings, Inc. reported third-quarter 2019 adjusted earnings of $1.38 per share, which missed the Zacks Consensus Estimate of $1.67 by 17.4%. Moreover, on a year-over-year basis, the bottom line declined 19% from $1.70 per share.

Barring one-time adjustments, the company reported GAAP earnings of $1.26 per share compared with $1.59 in the year-ago quarter.

Highlights of the Release

Total revenues of $1,920 million lagged the Zacks Consensus Estimate of $1,966 million by 2.3%. However, the top line rose 6% from $1,814 million on a year-over-year basis.

Backlog at the end of third-quarter 2019 was $44 billion, lower than $46 billion in the prior quarter.

Segment Performance

Fuselage Systems: Revenues at the segment grew 1.4% to $1,005.3 million from $991 million in third-quarter 2018. Higher production volumes of the Boeing 787 and Airbus A350 programs in addition to higher revenues generated from the Boeing 787 program drove the top line.

Propulsion Systems: The segment recorded revenues of $520.9 million in the reported quarter, up 17.7% from $442.4 million a year ago. The uptick can be attributed to a favorable model mix in the Boeing 737 program and higher production volumes of the Boeing 777 program.

Wing Systems: Revenues at the segment rose 3.3% to $391 million from $378.6 million in the prior-year quarter, primarily driven by higher production volumes of the Boeing 777 and 787 programs.

Financial Position

As of Sep 26, 2019, Spirit AeroSystems had $1,477.3 million in cash and cash equivalents compared with $773.6 million as of Dec 31, 2018.

As of Sep 26, 2019, long-term debt totaled $2,132.2 million compared with $1,864 million at the end of 2018.

Cash flow from operating activities increased to $718.6 million at the end of third-quarter 2019 from $567.4 million at the end of third-quarter 2018.

Capital expenditures summed $41 million during the third quarter, down from $62 million in the prior-year quarter.

Update on 737 MAX

Spirit AeroSystems continues to produce at a rate of 52 aircraft per month, per its agreement with Boeing.

Valuation

Spirit AeroSystems' shares are up 0.3% in the past six months period but down 4.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are up 14.5% and 8% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 44.7% while the sector is up by 27.2%.

The S&P 500 index is up 9.7% in the past six months period and up 26.4% in the past year.

The stock is currently trading at 10.77X of forward 12-month earnings, which compares to 19.83X for the Zacks sub-industry, 17.34X for the Zacks sector and 18.73X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.57X and as low as 9.04X, with a 5-year median of 11.95X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $63 price target reflects 9.2X 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	10.77	19.83	17.34	18.73
	5-Year High	17.57	20.63	21.56	19.34
	5-Year Low	9.04	14.51	14.28	15.17
	5-Year Median	11.95	17.91	16.83	17.44
P/S F12M	Current	0.99	1.85	1.26	3.47
	5-Year High	1.64	1.85	1.37	3.47
	5-Year Low	0.75	1.09	0.79	2.54
	5-Year Median	1.06	1.42	1.05	3
EV/EBITDA TTM	Current	6.93	13.2	12.65	11.99
	5-Year High	13.32	13.2	13.08	12.86
	5-Year Low	5.37	8.85	7.18	8.48
	5-Year Median	8.57	10.2	9.78	10.67

As of 01/08/2020

Industry Analysis **Zacks Industry Rank:** Top 42% (106 out of 254)

Top Peers

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

Industry Comparison Industry: Aerospace - Defense Equipment

Industry Peers

	SPR Underperform	X Industry	S&P 500	ATRO Neutral	CW Neutral	HEI Outperform
VGM Score	C	-	-	B	C	C
Market Cap	7.66 B	1.64 B	23.84 B	867.19 M	6.19 B	16.22 B
# of Analysts	6	3	13	1	5	4
Dividend Yield	0.65%	0.00%	1.79%	0.00%	0.47%	0.13%
Value Score	B	-	-	B	C	F
Cash/Price	0.19	0.03	0.04	0.03	0.05	0.00
EV/EBITDA	7.70	14.74	13.88	10.56	13.73	30.80
PEG Ratio	1.43	2.27	2.02	1.79	2.30	3.93
Price/Book (P/B)	4.80	3.32	3.33	2.16	3.64	9.57
Price/Cash Flow (P/CF)	8.36	14.91	13.76	11.19	16.46	40.61
P/E (F1)	11.11	18.99	18.76	17.89	18.97	44.47
Price/Sales (P/S)	0.99	1.89	2.63	1.12	2.50	7.89
Earnings Yield	9.00%	5.26%	5.32%	5.59%	5.27%	2.25%
Debt/Equity	1.35	0.37	0.72	0.42	0.52	0.33
Cash Flow ($/share)	8.84	2.52	6.94	2.51	8.81	2.97
Growth Score	C	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	14.73%	12.34%	10.56%	-19.77%	17.93%	20.89%
Proj. EPS Growth (F1/F0)	4.01%	9.28%	7.46%	65.26%	6.34%	17.93%
Curr. Cash Flow Growth	9.90%	11.25%	14.83%	28.11%	18.64%	23.18%
Hist. Cash Flow Growth (3-5 yrs)	10.83%	4.09%	9.00%	14.18%	8.01%	20.26%
Current Ratio	2.06	2.24	1.23	2.96	2.19	2.81
Debt/Capital	57.37%	29.72%	42.99%	29.72%	34.03%	30.66%
Net Margin	8.27%	7.81%	11.08%	12.68%	12.13%	15.95%
Return on Equity	49.21%	9.39%	17.16%	7.98%	18.83%	19.15%
Sales/Assets	1.24	0.75	0.55	1.00	0.74	0.71
Proj. Sales Growth (F1/F0)	-4.72%	3.48%	4.16%	2.53%	3.68%	7.35%
Momentum Score	D	-	-	A	C	A
Daily Price Chg	-1.36%	0.00%	0.39%	-1.09%	-0.17%	-1.42%
1 Week Price Chg	1.45%	1.13%	-0.30%	1.13%	1.20%	4.68%
4 Week Price Chg	-9.13%	1.98%	2.38%	-4.29%	1.98%	-2.80%
12 Week Price Chg	-11.27%	7.35%	6.40%	-7.39%	14.23%	-1.46%
52 Week Price Chg	-3.18%	24.22%	22.97%	-9.30%	37.66%	55.52%
20 Day Average Volume	1,223,600	88,466	1,610,101	252,728	189,878	600,424
(F1) EPS Est 1 week change	-2.72%	0.00%	0.00%	2.17%	0.00%	2.23%
(F1) EPS Est 4 week change	-7.91%	0.00%	0.00%	2.17%	0.00%	6.21%
(F1) EPS Est 12 week change	-13.93%	-1.14%	-0.50%	-14.36%	0.10%	6.58%
(Q1) EPS Est Mthly Chg	-66.85%	0.00%	0.00%	31.15%	0.00%	21.39%

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	B
Growth Score	C
Momentum Score	F
VGM Score	C

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.

Disclosures

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