

## Spirit AeroSystems (SPR)

**\$20.50** (As of 04/28/20)

Price Target (6-12 Months): **\$24.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/17/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

## Summary

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. The company is currently focusing on executing its supply-chain strategy, improving productivity and meeting its customers' requirements for production rate changes. However, it operates in a highly competitive market. Moreover, prolonged delays related to the Asco transaction is further escalating its expenses. The company has also underperformed the industry in the past year. Spirit AeroSystems has been incurring losses due to the grounding and subsequent suspension of Boeing's 737 program. The company has to detain its 2020 guidance for now.

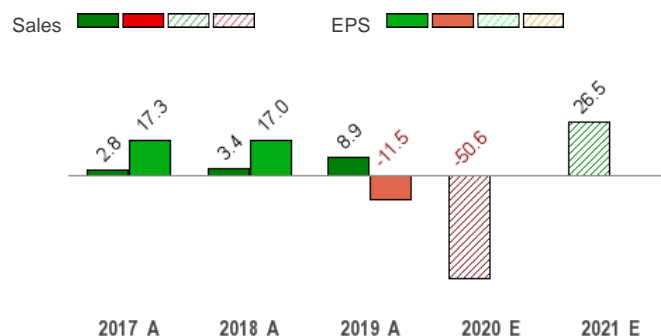
## Price, Consensus & Surprise



## Data Overview

|                            |   |
|----------------------------|---|
| 52 Week High-Low           | \$92.81 - \$13.69                             |
| 20 Day Average Volume (sh) | 4,113,859                                     |
| Market Cap                 | \$2.1 B                                       |
| YTD Price Change           | -71.9%  |
| Beta                       | 1.83  |
| Dividend / Div Yld         | \$0.04 / 0.2%                                 |
| Industry                   | <a href="#">Aerospace - Defense Equipment</a> |
| Zacks Industry Rank        | Bottom 26% (186 out of 253)                   |

## Sales and EPS Growth Rates (Y/Y %)



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | -49.7%     |
| Last Sales Surprise       | 1.8%       |
| EPS F1 Est- 4 week change | -5,452.2%  |
| Expected Report Date      | 05/06/2020 |
| Earnings ESP              | 18.4%      |
| P/E TTM                   | 3.7        |
| P/E F1                    | NA         |
| PEG F1                    | NA         |
| P/S TTM                   | 0.3        |

## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | 1,065 E | 1,104 E | 1,346 E | 1,348 E | 4,914 E |
| 2020 | 973 E   | 876 E   | 972 E   | 1,065 E | 3,886 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 | \$0.32 E  | \$0.32 E  | \$0.66 E  | \$0.79 E | \$0.76 E  |
| 2020 | -\$1.42 E | -\$0.62 E | -\$0.27 E | \$0.31 E | -\$2.05 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 04/28/2020. The reports text is as of 04/29/2020.

## Overview

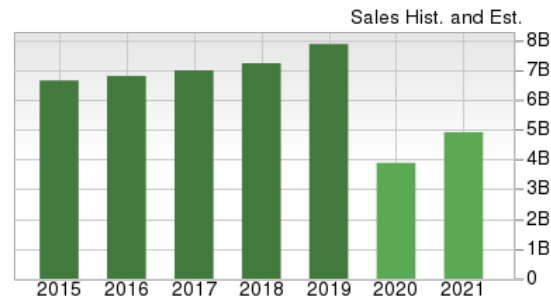
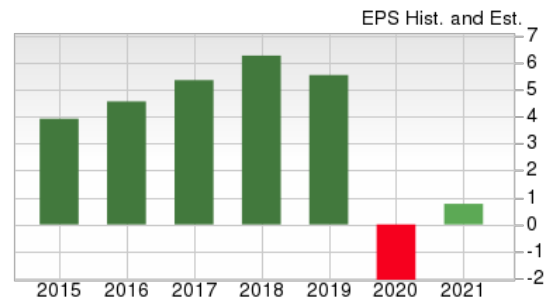
**Spirit AeroSystems Holdings, Inc.** is one of the largest independent non-OEM aircraft parts designers and manufacturers of commercial aerostructures in the world, in terms of annual revenues. Incorporated in 2005, it is also the largest independent supplier of aerostructures to Boeing and Airbus —the 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.



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## Reasons To Buy:

- ▲ 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.

Immense growth opportunities in commercial and defense aerospace markets are expected to benefit Spirit AeroSystems. Flexible financial position will also boost its performance.

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## 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.
- ▼ Spirit AeroSystems has long-term debt of \$3,027 million as of Dec 31, 2019, 39% higher compared to the prior quarter. Notably, its debt-to-capital at the end of fourth quarter 2019 was 63.6%, higher than the quarter-ago level of 57.9%. The debt to capital of the company is also higher than the industry's 58.3%. The company also witnessed an increase in interest expense at the end of fourth quarter, which increased 9.3% sequentially. Such declining times interest earned ratio indicates the stock's vulnerability, in terms of solvency, at times of crisis.

Moreover, 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 78% compared to the industry's decline of 44% during this time period.

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## Last Earnings Report

### Spirit AeroSystems Q4 Earnings Miss, Revenues Up Y/Y

Spirit AeroSystems 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.

### 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.

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         |

## Recent News

On **Apr 16, 2020**, Spirit AeroSystems announced that Kansas public utility regulators cleared a path for the company's complete conversion to renewable wind-generated electricity for its 12.8 million square-foot aerospace manufacturing site in Wichita, starting this year.

On **Mar 24, 2020**, following Boeing's announcement to temporarily suspend production at its Washington state facilities, Spirit AeroSystems will also suspend Boeing work performed at its facilities in Wichita, Kansas, and in Tulsa and McAlester, Oklahoma. Spirit will continue to support 787 work for Boeing's Charleston, South Carolina, facility as needed.

On **Feb 28, 2020**, Spirit AeroSystems announced that it has opened a new composite manufacturing facility at its site in Prestwick, Scotland. This facility leverages advanced composite technology from Spirit's research and development portfolio and brings new work to the site in the form of the Airbus A320 family spoiler.

This new facility will allow the company to utilize innovative technologies like the Spirit-developed Resin Transfer Molding (RTM) solution to better meet the needs of its customer. The RTM solution supports the high-volume production of spoilers and other monolithic components and promises to deliver improved quality and significant cost savings.

On **Feb 7, 2020**, Spirit AeroSystems announced a reduction in its quarterly cash dividend to a penny per share. The dividend is payable April 9, 2020, to stockholders of record as of the close of business on March 20, 2020.

The grounding and subsequent temporary production halt in Boeing's 737 Max program have forced the company to take such a drastic step, in order to preserve liquidity until these jets come back to service and there is a hike in production rate.

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 71.9% in the year-to-date period and 76.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 44.8% and 32.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 40.8% and 32.2% respectively.

The S&P 500 index is down 11.4% in the year-to-date period and 3.3% in the past year.

The stock is currently trading at 0.5X forward 12-month sales, which compares to 0.8X for the Zacks sub-industry, 1.1X for the Zacks sector and 3.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.6X and as low as 0.3X, with a 5-year median of 1.1X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$24 price target reflects 0.55X forward 12-month sales.

The table below shows summary valuation data for SPR

| Valuation Multiples - SPR |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M                  | Current       | 0.51  | 0.78         | 1.09   | 3.21    |
|                           | 5-Year High   | 1.64  | 1.29         | 1.49   | 3.44    |
|                           | 5-Year Low    | 0.34  | 0.78         | 0.92   | 2.54    |
|                           | 5-Year Median | 1.06  | 1.01         | 1.17   | 3.01    |
| P/B TTM                   | Current       | 1.22  | 1.4          | 3.73   | 3.78    |
|                           | 5-Year High   | 10.43 | 2.8          | 6.77   | 4.55    |
|                           | 5-Year Low    | 1.08  | 1.15         | 3.03   | 2.84    |
|                           | 5-Year Median | 4.22  | 2.28         | 5.13   | 3.64    |
| EV/EBITDA TTM             | Current       | 2.7   | 7.06         | 10.26  | 10.45   |
|                           | 5-Year High   | 13.51 | 12.02        | 14.99  | 12.87   |
|                           | 5-Year Low    | 2.46  | 6.26         | 7.39   | 8.27    |
|                           | 5-Year Median | 7.95  | 8.77         | 10.42  | 10.78   |

As of 04/28/2020

## Industry Analysis Zacks Industry Rank: Bottom 26% (186 out of 253)



## Top Peers

| Company (Ticker)                         | Rec          | Rank |
|--|--------------|------|
| AAR Corp. (AIR)                          | Neutral      | 3    |
| Aerojet Rocketdyne Holdings, Inc. (AJRD) | Neutral      | 3    |
| Astronics Corporation (ATRO)             | Neutral      | 3    |
| Curtiss-Wright Corporation (CW)          | Neutral      | 3    |
| Heico Corporation (HEI)                  | Neutral      | 4    |
| Hexcel Corporation (HXL)                 | Neutral      | 5    |
| Teledyne Technologies Incorporated (TDY) | Neutral      | 3    |
| Triumph Group, Inc. (TGI)                | Underperform | 5    |

| Industry Comparison Industry: Aerospace - Defense Equipment |            |            |           | Industry Peers |         |         |
|---|------------|------------|-----------|----------------|---------|---------|
|   | SPR        | X Industry | S&P 500   | ATRO           | CW      | HEI     |
| Zacks Recommendation (Long Term)                            | Neutral    | -          | -         | Neutral        | Neutral | Neutral |
| Zacks Rank (Short Term)                                     | 3          | -          | -         | 3              | 3       | 4       |
| VGM Score   | C          | -          | -         | D              | B       | C       |
| Market Cap  | 2.15 B     | 1.04 B     | 20.14 B   | 271.56 M       | 4.32 B  | 11.41 B |
| # of Analysts   | 6          | 3          | 14        | 2              | 4       | 5       |
| Dividend Yield  | 0.20%      | 0.00%      | 2.13%     | 0.00%          | 0.67%   | 0.19%   |
| Value Score   | C          | -          | -         | C              | B       | F       |
| Cash/Price  | 1.24       | 0.11       | 0.06      | 0.13           | 0.10    | 0.01    |
| EV/EBITDA   | 2.80       | 7.23       | 12.15     | 3.98           | 9.12    | 21.94   |
| PEG Ratio   | NA         | 3.16       | 2.43      | NA             | NA      | 6.42    |
| Price/Book (P/B)  | 1.22       | 1.81       | 2.68      | 0.70           | 2.45    | 6.31    |
| Price/Cash Flow (P/CF)                                      | 2.57       | 6.56       | 10.78     | 4.37           | 10.45   | 28.53   |
| P/E (F1)  | NA         | 18.82      | 19.06     | NA             | 14.87   | 40.70   |
| Price/Sales (P/S)   | 0.27       | 0.74       | 2.12      | 0.35           | 1.74    | 5.44    |
| Earnings Yield  | -10.00%    | 4.79%      | 5.11%     | -9.39%         | 6.72%   | 2.45%   |
| Debt/Equity   | 1.72       | 0.35       | 0.72      | 0.48           | 0.51    | 0.31    |
| Cash Flow (\$/share)  | 7.97       | 2.02       | 7.01      | 2.02           | 9.72    | 2.97    |
| Growth Score  | B          | -          | -         | C              | B       | A       |
| Hist. EPS Growth (3-5 yrs)                                  | 13.43%     | 13.43%     | 10.88%    | -20.14%        | 18.69%  | 22.72%  |
| Proj. EPS Growth (F1/F0)                                    | -137.03%   | -15.06%    | -6.33%    | -190.66%       | -6.02%  | -9.48%  |
| Curr. Cash Flow Growth                                      | -10.39%    | 9.60%      | 5.92%     | -23.43%        | 7.60%   | 23.18%  |
| Hist. Cash Flow Growth (3-5 yrs)                            | 3.45%      | 4.37%      | 8.55%     | -8.28%         | 7.51%   | 20.26%  |
| Current Ratio   | 2.64       | 2.34       | 1.23      | 2.84           | 2.05    | 3.39    |
| Debt/Capital  | 63.21%     | 31.14%     | 43.90%    | 32.59%         | 33.79%  | 29.68%  |
| Net Margin  | 6.74%      | 6.73%      | 11.13%    | 6.73%          | 12.36%  | 17.68%  |
| Return on Equity  | 37.69%     | 8.64%      | 16.47%    | 6.44%          | 18.63%  | 21.76%  |
| Sales/Assets  | 1.17       | 0.75       | 0.55      | 0.99           | 0.71    | 0.71    |
| Proj. Sales Growth (F1/F0)                                  | -50.58%    | 0.00%      | -1.35%    | -31.59%        | 0.04%   | -12.80% |
| Momentum Score  | F          | -          | -         | F              | C       | B       |
| Daily Price Chg   | 7.11%      | 1.69%      | 1.10%     | 4.62%          | 3.42%   | 7.68%   |
| 1 Week Price Chg  | -20.10%    | -4.81%     | -1.74%    | -1.36%         | -3.10%  | -8.36%  |
| 4 Week Price Chg  | -14.33%    | 0.49%      | 11.80%    | -3.70%         | 9.98%   | 13.56%  |
| 12 Week Price Chg   | -68.71%    | -28.55%    | -17.28%   | -66.90%        | -31.15% | -32.51% |
| 52 Week Price Chg   | -76.41%    | -31.04%    | -10.69%   | -73.49%        | -10.80% | -19.71% |
| 20 Day Average Volume                                       | 4,113,859  | 187,102    | 2,660,864 | 365,989        | 225,433 | 880,088 |
| (F1) EPS Est 1 week change                                  | 0.00%      | 0.00%      | 0.00%     | 0.00%          | 0.00%   | 0.00%   |
| (F1) EPS Est 4 week change                                  | -5,452.18% | -15.87%    | -6.46%    | -353.85%       | -4.87%  | -8.60%  |
| (F1) EPS Est 12 week change                                 | -191.93%   | -27.49%    | -12.81%   | -174.66%       | -10.64% | -23.12% |
| (Q1) EPS Est Mthly Chg                                      | -720.00%   | -9.44%     | -10.84%   | NA             | -7.53%  | -9.44%  |

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## 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.

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### 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   | B |
| 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.

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