

Spirit AeroSystems (SPR)

\$20.50 (As of 07/29/20)

Price Target (6-12 Months): **\$22.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/17/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: C

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. It plans to acquire select assets of Bombardier aerostructures and aftermarket services businesses will allow it to capture more business from Airbus. However, the 737 MAX situation will continue to present challenges to its liquidity, at least in the near future. Any further delay in return of the 737 Max to service might hurt this stock significantly. On the other hand, COVID-19 pandemic is expected to significantly impact its second-quarter results. Its unfavorable financial ratios pose risk. The stock has underperformed its industry over the past year.

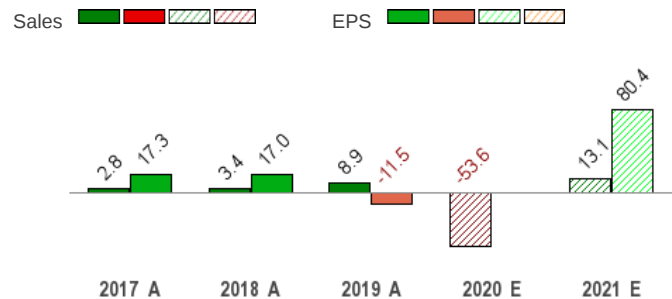
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$92.81 - \$13.69
20 Day Average Volume (sh)	3,773,768
Market Cap	\$2.2 B
YTD Price Change	-71.9%
Beta	1.50
Dividend / Div Yld	\$0.04 / 0.2%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 13% (220 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	44.4%
Last Sales Surprise	10.7%
EPS F1 Est- 4 week change	-4.7%
Expected Report Date	08/04/2020
Earnings ESP	-18.5%
P/E TTM	6.6
P/E F1	NA
PEG F1	NA
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	984 E	1,014 E	1,009 E	1,045 E	4,128 E
2020	1,077 A	806 E	873 E	893 E	3,649 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	-\$0.17 E	-\$0.16 E	-\$0.10 E	\$0.01 E	-\$0.53 E
2020	-\$0.79 A	-\$1.19 E	-\$0.43 E	-\$0.29 E	-\$2.71 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 07/29/2020. The reports text is as of 07/30/2020.

Overview

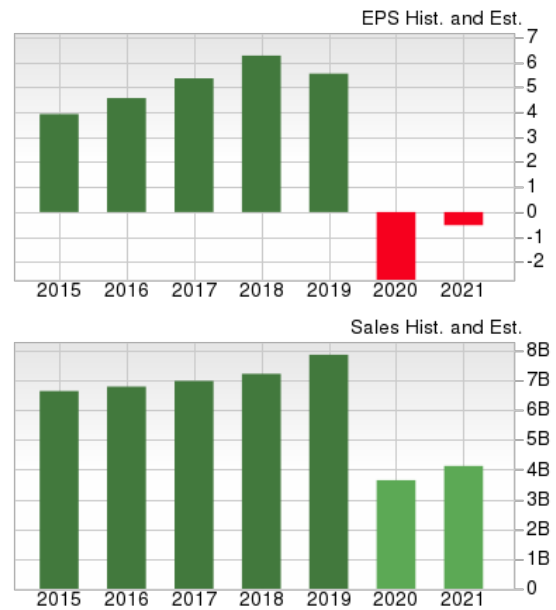
Spirit AeroSystems Holdings, Inc. is one of the largest independent non-OEM aircraft parts designers and manufacturers of commercial aerostructures in the world, in terms of annual revenues. The company's core products include fuselages, pylons, nacelles and wing components. It has long-term agreements in place with our largest customers, Boeing and Airbus. Other major customers include Bell Helicopter, Bombardier, Mitsubishi, Northrop Grumman, Rolls-Royce, and Sikorsky. 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 also provides aftermarket services, including MRO services, through its Global Customer Support & Services organization.

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 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 also allow the company to meet increasing production rates on many of its programs as well as ensuring its competitiveness for the next generation of aircraft.

Strategic acquisitions and investments in technology are expected to benefit Spirit AeroSystems

Moreover, the novel coronavirus-led uncertainty has dealt a huge blow to the global aviation industry. Big house jet makers like Boeing and Airbus have reduced their production rates. Spirit AeroSystems continues to take full advantage of this period of reduced production to implement initiatives that are harder to achieve at full run rates and to improve quality and efficiency. These initiatives include optimizing product flows, streamlining factories, accelerating automation, digitizing projects, and completing the transition to its Global Digital Logistics Center. These initiatives are projected to boost the company's future production rates with increased productivity and improved quality. The company remains confident in the ultimate recovery of commercial air travel, thereby maintaining its position as a leading aerostructure supplier to both Boeing and Airbus.

- ▲ In January 2020, Spirit Aerosystems closed its purchase of Fiber Materials, an industry-leading technology company specializing in complex composite solutions that are primarily used in aerospace applications. Fiber materials also build high-temperature materials, which are used in priority programs such as hypersonics. 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 2019, 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 deal will also strengthen Spirit AeroSystems' relationship as a key supplier to Airbus through the A220 wing and the A320neo thrust reverser. 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.

Reasons To Sell:

- ▼ The U.S. Aerospace giant, Boeing, temporarily suspended 737-production beginning this January. This has affected Spirit AeroSystems as well, as the company makes 70% of the structure for the 737 MAX aircraft. Before the suspension, Boeing had started to lower its production rate for the 737 program. This resulted in the company incurring disruption costs, along with costs associated with quality improvement in the last two quarters of 2019. While the company has taken actions to align its cost structure to the lower 2020 production rates, the benefit of such actions will be realized over time and the 737 MAX situation will continue to present challenges to Spirit AeroSystems' liquidity, at least in the near future. Unfortunately, these challenges are exacerbated by the COVID-19 pandemic as other programs that alleviate the strain of the lower B737 MAX production rate are now suspended or producing at lower rates.

Uncertainty revolving around Boeing's 737 Max may hamper the stock's growth. Its unfavorable financial ratios also pose risk

This must have resulted in the Spirit AeroSystems' stock underperforming its industry in past twelve months. The stock has lost 73.4% compared to the industry's decline of 40.8% during this time period.

- ▼ The COVID-19 pandemic has created significant uncertainty for Spirit AeroSystems. Notably, aviation demand has deteriorated significantly due to the pandemic and responsive government preventative measures. More than 19,000 aircraft are grounded, and traffic in April in the United States was down 96%. Consequently, some of Spirit AeroSystems' customers have temporarily suspended production, which has delayed the company's delivery schedules, thereby impacting revenue recognition timing. The company currently expects the COVID-19 outbreak to impact its financial performance in the second quarter much more significantly than the first quarter. It is difficult to predict the eventual outcome and duration of the pandemic and the resulting impact on the aviation industry.
- ▼ Spirit AeroSystems had long-term debt of \$3,020 million as of Mar 31, 2020, while its current debt value was \$59 million. The company's cash and equivalents as of Mar 31, 2020 was \$1,834 million, down 22% sequentially. The cash reserve remained considerably lower than the company's long-term debt value although it was higher than current debt. This indicates weak solvency. Further, the company's interest coverage stands at 3 as of Mar 31, 2020, drastically lower than the prior quarter level of 8.2 and the lowest in the trailing four quarters.

Also, its debt-to-capital ratio at the end of first quarter 2020 was 0.68, higher than the quarter-ago level of 0.64 and also the highest in the trailing four quarters. Such unfavorable financial ratios are a concern for this stock amid the uncertainty caused by the COVID-19 pandemic. Further, the company fears that if Boeing is unable to return its 737 MAX to service in one or more jurisdictions, begin timely deliveries to customers and if production levels by Boeing or Airbus are reduced beyond current expectations due to depressed demand on account of the COVID-19 pandemic, the company's liquidity position may worsen.

Last Earnings Report

Spirit AeroSystems Q1 Earnings Beat, Revenues Fall Y/Y

Spirit AeroSystems reported first-quarter 2020 adjusted loss of 79 cents per share, which came in narrower than the Zacks Consensus Estimate of a loss of \$1.42. The bottom line however deteriorated from the year-ago quarter's earnings of \$1.68.

Including one-time adjustments, the company reported GAAP loss of \$1.57 per share against earnings of \$1.55 in the year-ago quarter.

The year-over-year deterioration can be attributed to lower margins and higher restructuring expenses that the company witnessed as a result of production suspension of Boeing (BA) 737.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	10.67%
EPS Surprise	44.37%
Quarterly EPS	-0.79
Annual EPS (TTM)	3.09

Highlights of the Release

Total revenues of \$1,077 million exceeded the Zacks Consensus Estimate of \$973 million by 10.7%. However, the top line declined a staggering 45% on a year-over-year basis.

Backlog at the end of first-quarter 2020 was \$42 billion compared with \$43 billion at the end of 2019.

Segment Performance

Fuselage Systems: Revenues at the segment declined 48% year over year to \$552 million in first-quarter 2020. Lower production volumes of the Boeing 737 program resulting from the production suspension that began from Jan 1, 2020 caused the top-line deceleration.

Operating loss for the first quarter of 2020 decreased to \$86.4 million against operating earnings of \$138.9 million in the year-ago quarter.

Propulsion Systems: The segment recorded revenues of \$225 million in the reported quarter, down 54% year over year. The decline can be attributed to lower production volumes from the Boeing 737 program.

Operating loss for the first quarter of 2020 decreased to \$5.3 million against operating earnings of \$95.5 million in the year-ago quarter.

Wing Systems: Revenues at the segment decreased 29% year over year to \$291 million in the first quarter. The decline can be attributed to lower production volumes from the Boeing 737 program as well as lower revenues recognized on the Airbus A350 program as a result of pricing terms.

Operating earnings for the first quarter of 2020 decreased to \$13.6 million from \$65.8 million in the year-ago quarter.

Operational Highlights

Total operating costs and expenses declined 28.3% year over year to \$1,244.8 million on account of lower cost of sales; selling, general and administrative expenses; as well as reduced research and development expenses.

The company incurred operating loss of \$167.5 million in the first quarter of 2020 against operating earnings of \$233 million in the prior-year quarter.

Financial Position

As of Apr 2, 2020, Spirit AeroSystems had \$1,833.6 million in cash and cash equivalents compared with \$2,350.5 million as of Dec 31, 2019.

At the end of first-quarter 2020, long-term debt totaled \$2,978.2 million compared with \$2,984.1 million at the end of 2019.

Cash outflow from operating activities was \$331.3 million at the end of first-quarter 2020 against cash inflow of \$242.2 million at the end of 2019.

Capital expenditures totaled \$31 million in first-quarter 2020 compared with \$41 million in the prior-year quarter.

Recent News

On **Jun 25, 2020**, Spirit AeroSystems joined in partnership with Virgin Hyperloop as it prepares to move towards a commercial product. The collaboration will help to solidify the hyperloop prototype utilizing Spirit Aerosystems engineers, fabricators, builders, supply chain and certification experts, and technicians.

Valuation

Spirit AeroSystems' shares are down 71.9% in the year-to-date period and 73.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 43.9% and 30.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 40.8% while the sector is down 31%.

The S&P 500 index witnessed no movement in the year-to-date period, whereas it is up 8.4% in the past year.

The stock is currently trading at 0.6X forward 12-month sales, which compares to 0.9X for the Zacks sub-industry, 1.1X for the Zacks sector and 3.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.6X and as low as 0.4X, with a 5-year median of 1X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$22 price target reflects 0.59X 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	0.55	0.86	1.14	3.54
	5-Year High	1.64	1.29	1.49	3.54
	5-Year Low	0.35	0.79	0.92	2.53
	5-Year Median	1.04	1.01	1.17	3.02
EV/SALES F12M	Current	0.91	1.33	1.46	3.17
	5-Year High	1.72	1.76	1.9	3.52
	5-Year Low	0.49	1.06	0.99	2.28
	5-Year Median	1.11	1.34	1.41	2.84
EV/EBITDA TTM	Current	4.57	6.78	11.36	11.95
	5-Year High	13.51	12.02	14.98	12.85
	5-Year Low	2.53	5.99	7.39	8.25
	5-Year Median	7.78	8.77	10.56	10.88

As of 07/29/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (220 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
AAR Corp. (AIR)	Neutral	4
Astronics Corporation (ATRO)	Neutral	4
CurtissWright Corporation (CW)	Neutral	3
Hexcel Corporation (HXL)	Neutral	3
Teledyne Technologies Incorporated (TDY)	Neutral	2
Triumph Group, Inc. (TGI)	Neutral	4
Aerojet Rocketdyne Holdings, Inc. (AJRD)	Underperform	3
Heico Corporation (HEI)	Underperform	4

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	SPR	X Industry	S&P 500	ATRO	CW	HEI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	4	3	4
VGM Score	F	-	-	A	F	B
Market Cap	2.16 B	1.18 B	22.69 B	270.95 M	3.80 B	12.92 B
# of Analysts	6	4	14	2	4	4
Dividend Yield	0.20%	0.00%	1.8%	0.00%	0.75%	0.17%
Value Score	D	-	-	B	C	D
Cash/Price	0.79	0.15	0.07	0.68	0.04	0.03
EV/EBITDA	3.32	7.51	13.11	3.87	8.84	24.51
PEG Ratio	NA	5.99	3.05	NA	NA	7.03
Price/Book (P/B)	1.48	1.86	3.15	0.86	2.32	6.84
Price/Cash Flow (P/CF)	2.57	7.06	12.28	4.36	9.37	32.27
P/E (F1)	NA	28.42	22.27	NA	14.28	44.59
Price/Sales (P/S)	0.31	1.05	2.46	0.38	1.51	6.31
Earnings Yield	-13.22%	3.33%	4.25%	-32.35%	7.00%	2.24%
Debt/Equity	2.07	0.39	0.75	1.06	0.63	0.39
Cash Flow (\$/share)	7.97	2.26	6.94	2.02	9.72	2.97
Growth Score	F	-	-	A	F	B
Hist. EPS Growth (3-5 yrs)	8.47%	10.59%	10.85%	-23.19%	19.12%	23.92%
Proj. EPS Growth (F1/F0)	-148.95%	-31.76%	-7.70%	-412.64%	-12.24%	-6.52%
Curr. Cash Flow Growth	-10.39%	12.73%	5.31%	-23.43%	7.60%	23.18%
Hist. Cash Flow Growth (3-5 yrs)	3.45%	5.32%	8.55%	-8.28%	7.51%	20.26%
Current Ratio	2.81	2.78	1.31	4.11	2.04	4.39
Debt/Capital	67.46%	34.62%	44.23%	51.48%	38.53%	33.12%
Net Margin	2.92%	4.46%	10.45%	-12.89%	12.10%	17.78%
Return on Equity	20.46%	9.47%	14.99%	3.49%	18.48%	20.70%
Sales/Assets	1.01	0.73	0.53	0.91	0.70	0.66
Proj. Sales Growth (F1/F0)	-53.59%	-1.25%	-1.97%	-38.79%	-4.85%	-15.19%
Momentum Score	C	-	-	C	F	A
Daily Price Chg	-4.74%	0.00%	1.52%	-2.44%	1.22%	1.67%
1 Week Price Chg	-2.30%	-0.85%	0.37%	-3.22%	-0.98%	-2.38%
4 Week Price Chg	-11.49%	-1.42%	5.44%	-12.86%	4.57%	-4.85%
12 Week Price Chg	14.98%	13.19%	15.38%	23.39%	-3.84%	17.94%
52 Week Price Chg	-73.32%	-27.81%	-1.61%	-76.09%	-28.19%	-29.90%
20 Day Average Volume	3,773,768	161,358	1,846,377	235,163	270,661	291,383
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	9.14%
(F1) EPS Est 4 week change	-4.70%	-0.59%	0.27%	-6.85%	-0.78%	8.70%
(F1) EPS Est 12 week change	-32.17%	-6.01%	-0.85%	5.45%	-6.62%	3.27%
(Q1) EPS Est Mthly Chg	-10.26%	0.00%	0.13%	-3.70%	0.90%	-1.49%

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	F
Momentum Score	C
VGM Score	F

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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