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International Stock Market Weekly

Small cap/ Air Freight & Logistics

Skyrocketing demand for air cargo transportation has proven a boon for Atlas Air Worldwide (AAWW.US). The global distribution of COVID-19 vaccinations will be the biggest logistics challenge in history and Atlas Air Worldwide will be one the major beneficiaries of this massive endeavor.

Atlas Air Worldwide has the largest fleet of Boeing (BA.US) 747 freighters in the world. In mid-January, the company announced that it placed an order for four new Boeing 747-8 freighters as part of its strategic growth plan. Boeing will no longer produce the 747 as it shifts production to smaller, more fuel-efficient aircraft. The 747 line is expected to remain in service for 20-30 years and Atlas Air Worldwide's addition of these four additional freighters secures the company's leadership position in the cargo market for these highly valued freighters.

Atlas Air Worldwide continues to see positive momentum with rising commercial yields, significant demand for air freight, and declining availability of cargo capacity in the market. The company is leveraging its fleet and business model by deepening its position in fast-growing markets. It also added Alibaba (BABA.US) backed logistics arm Cainiao and other companies as long-term charter customers. Despite some concerns about Amazon's (AMZN.US) purchase of more aircraft for Prime Air, the e-commerce titan expanded its 737 operations with Atlas Air Worldwide.

We believe Atlas Air Worldwide is a great business and despite the surge in price, is now trading below book value. Furthermore, the valuation allowance is contracting, and the shares have corrected slightly, offering an attractive entry point. Demand for the company's services will grow over the coming years. All of these factors make Atlas Air Worldwide a compelling value investment with growth potential, in our view.

Stock pick for the first week of February

Atlas Air Worldwide Holdings, Inc. (AAWW.US)

Delivering results

Atlas Air Worldwide continues to add customers with the global expansion of ecommerce.

Our top pick for the second week of February is Atlas Air Worldwide Holdings, Inc. (NASDAQ: AAWW).

Atlas Air Worldwide Holdings (Atlas Air Worldwide) is a holding company. It provides outsourced air services across the world via three business segments: Aircraft Maintenance and Inspection (ACMI), Charter, and Dry Leasing. Atlas Air Worldwide provides a complete range of outsourced aircraft services for freight, passenger and military personnel. Atlas Air Worldwide operates a fleet of around 749 freighters and provides customers a choice of Boeing 747, 777, 767, 757, and 737 aircraft for domestic, regional, and international cargo and passenger applications. The Company's subsidiaries include Atlas Air, Inc. (Atlas) and Southern Air, Inc. (Southern Air). The company has a 51% economic interest and 75% voting interest in Polar Air Cargo Worldwide, Inc. Atlas Air Worldwide also has several wholly owned subsidiaries related to its dry leasing services which are collectively known as "Titan". Atlas Air Worldwide is a leading global provider of outsourced aircraft and aviation operating services.

Atlas Air Worldwide continues to see positive momentum with rising commercial yields, significant demand for air freight, and declining availability of cargo capacity in the market. The company is leveraging its fleet and business model by deepening its position in fast-growing markets. It also added Alibaba (BABA.US)-backed Cainiao and other companies as long-term charter customers. Despite some concerns about Amazon's (NASDAQ: AMZN) purchase of more aircraft for Prime Air, it expanded 737 operations for the e-commerce titan.

Atlas Air Worldwide operates the world's largest fleet of Boeing (NYSE: BA) 747 freighters, the biggest air cargo aircraft in the business. In mid-January, the company announced that it placed an order for four new Boeing 747-8 freighters as part of the company's strategic growth plan. The addition of the new freighters will enable the company to meet rapidly growing demand for air freight, and especially the blistering expansion of the e-commerce and express businesses. Atlas's business model gives it the flexibility to run the new aircraft for customers or to provide them via dry-leasing via its subsidiary, Titan Aviation Leasing.

Rationale

Atlas Air Worldwide is one of a handful of companies that is thriving in the pandemic, which is apparent when reviewing the company's financial performance in 2020. In the first nine months alone EPS was up 400% and sales were around 14% higher. The company is currently trading at a discount to book value and that, along with a low P/E and FCF means that the stock is now a bargain at its current price level.

While demand is strong for air cargo, it should continue to grow as the economy recovers. When looking at institutional investor activities, we see that the world's largest asset manager BlackRock (NYSE: BLK), which was already Atlas Air Worldwide's biggest shareholder, increased its stake to more than 14% of the company's shares. There were some concerns about Amazon's purchase of some 767s from Delta Air Lines (DL.US) and Westjet last and the rollout of 12 767-300 freighters leased from rival ATSG (ATSG.US), this was already expected in the market and is a natural evolution of how Amazon operates as a company. Indeed, Amazon plans to boost its freighter fleet to more than 85 aircraft by the end of 2022. However, Amazon's interest is managing the delivery of its own products, and it is unlikely to compete directly with companies such as Atlas Air, FedEx (FDX.US), and UPS (UPS.US) as it does not have 747 freighters in its fleet. As of June 2020, 39% of Amazon Air's fleet was composed of aircraft from Atlas Air and Atlas subsidiary Titan Air. While rival ATSG made up 46% of Amazon's fleet, for investors Atlas Air is far more attractive operators as it has a much wider footprint globally in terms of customers, destinations, and of course freighter.

The mainstay of Amazon's freighter fleet is composed of Boeing 767 aircraft, which make up around 90% of the remaining being the smaller 737. And these freighters have less cargo-carrying capacity than larger aircraft used by other cargo airlines, such the 52 Airbus (OTC: EADSY) A300s flown by UPS and 65 Airbus A300 operated by FedEx, and of course Atlas Air's 53 Boeing 747s.

Even before the start of the Covid-19 pandemic, the 747 was largely being shunned by passenger carriers in favor of smaller, more fuel-efficient aircraft. Even the 747-8i the latest re-engined variant failed to garner interest from passenger airlines but demand from air cargo airlines such as Atlas Air and UPS scooped them up due to the amount of cargo it can carry compared to other freighters. Cargolux, one of the biggest all-747 cargo airlines estimates that its 747-400F aircraft can fly 250,000 pounds of cargo and the 747-8F can ferry around 300,000 pounds. This compares to the 205,500 pounds that can be carried by the McDonnell Douglas MD-11 that is currently in use by FedEx Express, Lufthansa (DLAKY.US OTC) subsidiary Lufthansa Cargo, and UPS. And it crushes the 227,000 pounds for the Boeing 777-200F used by FedEx and other carriers. But the most important feature that sets the 747 apart, and which is why it is the most favored aircraft for freight: its nose loading cargo door, which enables the aircraft to be loaded from two ends at once, greatly reducing load times and allowing for oversized items to be easily loaded without disassembly. These freighters provide Atlas Air Worldwide with a competitive advantage over carriers that operate more single-level planes.

The addition of the new 747-8 helps Atlas Air Worldwide to strengthen its already robust position in the air freight business. The 747-8 is the most technologically advanced and environmentally friendly widebody freighter ever built and offers 20% higher payload and 16% lower fuel consumption than the than the 747-400F and boasts 25% higher capacity than the newer 777-200LRF. What is more, the aircraft is the only factory-built freighter with nose-loading capability, which makes it very attractive to the long-term needs of the air freight market.

Dedicated freighters such as the ones that Atlas Air Worldwide provides will continue to be in demand as the e-commerce and express sectors continue to grow. With the addition of the latest 747-8s, Atlas Air Worldwide ensures that it will have the flexibility to handle future capacity needs with customer demand. The aircraft are expected to be delivered from May–October 2022 and will be the last 747-8Fs produced. Owning the world’s largest fleet of the biggest and arguably most popular freighter should provide Atlas Air Worldwide with a competitive moat which it can benefit for years to come as the global economy recovers.

While we agree with the widely held view that airline stocks are, in general, terrible investments for myriad reasons which we will not go into here. The air freight segment stands apart with compelling investment stories. In this space, we think that the Atlas Air Worldwide story is one of the most interesting for investors today. The surging growth of ecommerce globally, massive distribution of vaccines to combat the pandemic, and shortage of ‘belly space’ to haul large volumes, and relatively attractive valuations for a growth stock, all make for a promising investment.

Fig 1. Atlas Air 747 freighter



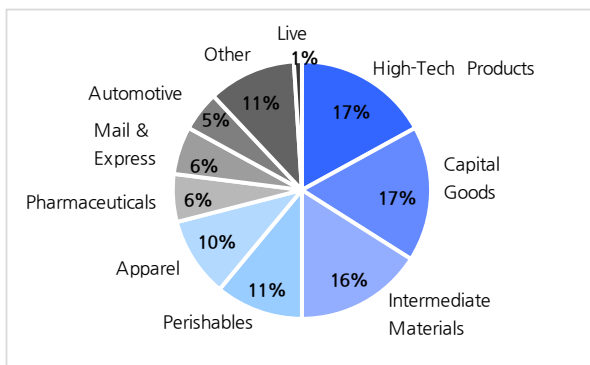
Source: Atlas Air Worldwide, Hyundai Motor Securities

Fig 2. Atlas Air Worldwide group



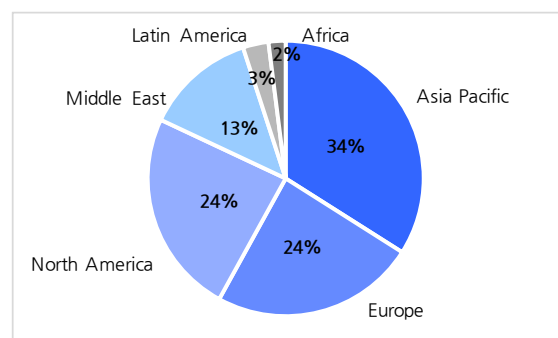
Source: Atlas Air Worldwide, Hyundai Motor Securities

Fig 3. Industry sectors served by customers



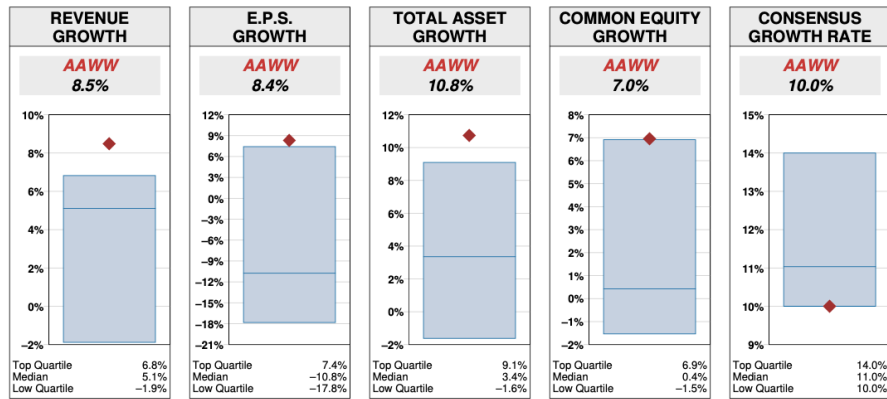
Source: Atlas Air Worldwide, Hyundai Motor Securities

Fig 4. Percent of international cargo tonne kilometers



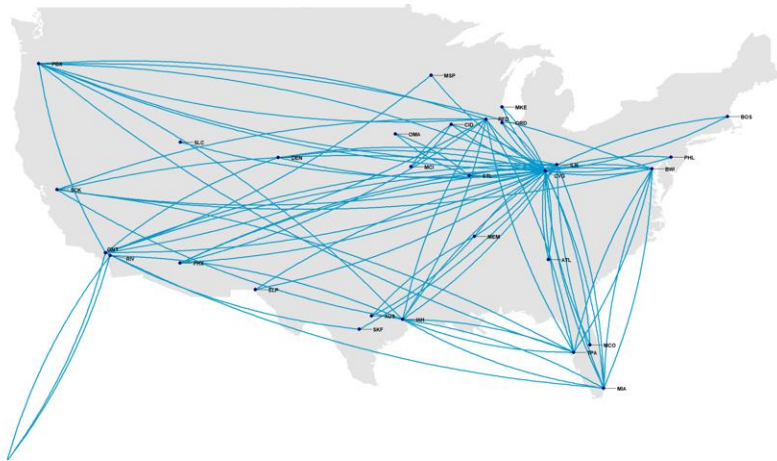
Source: Atlas Air Worldwide, Hyundai Motor Securities

Fig 5. Historical growth measures consistently top quartile



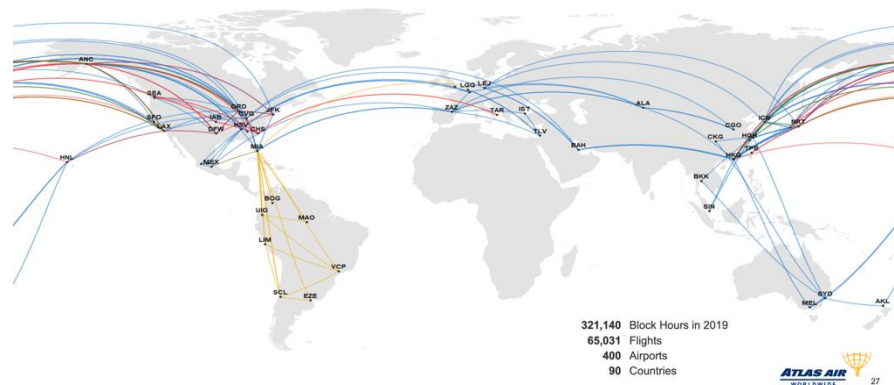
Source: Price Target Research, Hyundai Motor Securities

Fig 6. Atlas Worldwide Holdings North America operating network



Source: Atlas Air Worldwide Holdings, Hyundai Motor Securities

Fig 7. Atlas Worldwide Holdings global operating network



Source: Atlas Air Worldwide Holdings, Hyundai Motor Securities

Spreading its wings

We see Atlas Air Worldwide as a growth stock that is priced as a value stock. Our view is based on the fact that sales have expanded by roughly 7.3% since 2014. What is more, net income surged by a CAGR of nearly 22% from 2014-2018. While net income crashed in 2019 due to a one-off event, it took off in 2020, up 50% over the first nine months of the year compared to the same period in 2019.

For ACMI/CMI, the company has a strong record of placements and expanding service for existing customers. Customers added include EL AL, Inditex, Nippon Cargo Airlines, Asiana, SF Express, and more. It is seeing growing interest for its 777F and 747F CMI solutions and there has been substantial additional placements with DHL, FedEx, and UPS. For Amazon, it operates 17 767-300Fs and eight 737-800Fs.

Atlas Air Worldwide is the world’s leading 747 charter operator and counts a growing number of high-profile sports, racing, and entertainment charters as its customers. It is expanding its long-term charter business with names such as APEX Logistics, HP Inc (NASDAQ: HPQ), DHL Global Forwarding, Cainao, GEODIS , DB Shenker, and Flexport. It is the number one cargo carrier in South America and the largest provider of cargo and passenger charters to the US military.

In dry leasing, Atlas Air Worldwide is the third-largest freighter lessor by value. The company has a JV with Bain Capital Credit to develop a separate freight aircraft leasing portfolio with an estimated value of around SD1bn.

For Amazon, the company has a strategic long-term relationship. Amazon has rights to acquire Atlas Air Worldwide equity. This provides inherent value creation and aligns the companies’ interests while simultaneously strengthening their long-term relationship. The agreements with Amazon provide for substantial future growth opportunities for Atlas Air Worldwide.

Atlas Air Worldwide’s current valuations, such as its forward P/E of at the 7.6 level indicates that the share

Atlas Air Worldwide is growth stock that can be had at a value stock price.

trades at a discount to the industry average forward P/E of around 15, making it a growth stock that can be purchased for the price of a value stock.

Fig 8. Amazon Air's fleet

Airplane / Lessor	Aircraft contracted by Amazon Air	Percentage of Amazon fleet
Sun Country Airlines / CECAS	3	5%
Atlas Air / Titan Aviation	22	39%
Southern Air / GECAS	5	9%
Air Transport International / ATSG	26	46%
Total	56	

Source: Cirium, Hyundai Motor Securities

Fig 9. Broad array of aircraft for domestic, regional, and international passenger and cargo operations



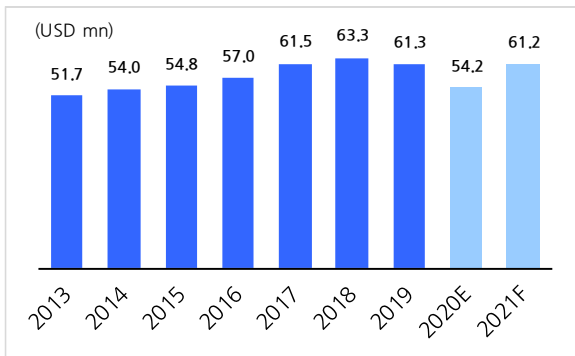
Source: IATA 2020, Hyundai Motor Securities

Fig 10. Low valuation relative to peer group and S & P 500 Composite



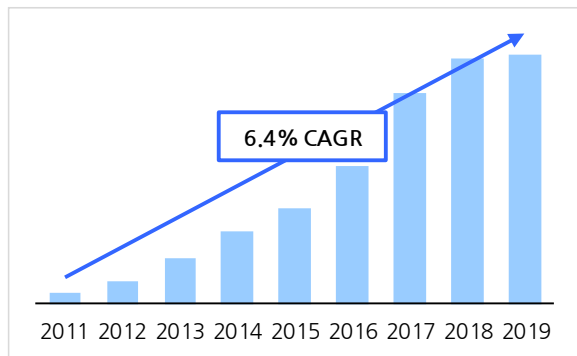
Source: IATA 2020, Hyundai Motor Securities

Fig 11. Largest provider of charters to the US military



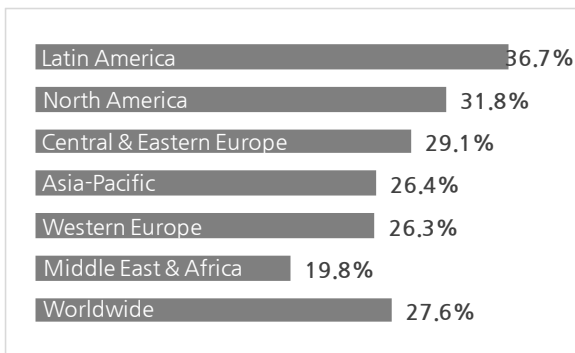
Source: Atlas Worldwide Holdings, Hyundai Motor Securities

Fig 12. International express market is growing



Source: Atlas Worldwide Holdings, Hyundai Motor Securities

Fig 13. Retail ecommerce sales growth by region, 2020



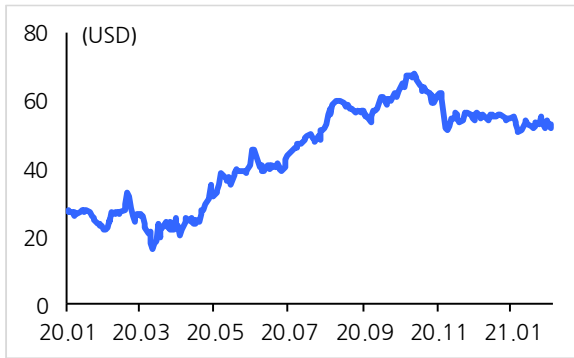
Source: emarketer, Hyundai Motor Securities

Fig 14. Very diversified customer base



Source: Atlas Worldwide Holdings, Hyundai Motor Securities

Fig 15. AAWW Stock Price



Source: Bloomberg, Hyundai Motor Securities

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Stock ratings distribution (January 1-December 31, 2020)

Rating	Count	% of rating category
BUY	145	89%
MARKETPERFORM	18	11%
SELL	0	0%

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