

Mossberg's Investor Digest

Best Idea Profile:

DESCRIPTION:

Air Transport Services Group, Inc. is the leader in providing medium wide-body air cargo transportation to domestic and foreign air carriers and other companies that outsource their air cargo business. Their primary customers are the cargo transportation and package delivery industries. ATSG provides air cargo lift, aircraft leasing, aircraft maintenance services, airport ground services, fuel management, specialized transportation management, and air charter brokerage services. ATSG's business model is to purchase Boeing 767s at prices that are consistent with ROI expectations, modify them from passenger to cargo vehicles, and deploy them to customers with cargo transport needs. Founded in 1980, ATSG has been in business for thirty years but spent the first two-thirds of that as a wholly owned subsidiary of Airborne, Inc. ATSG is headquartered in Wilmington, Ohio, and went public in August of 2003.

KEY INVESTMENT CONSIDERATIONS:

Positive Rebound From Customer Loss – Year-over-year comparisons for ATSG have been tough since the loss of the company's second largest customer due to its own business restructuring. However, block hours from other customers have increased, which is a good sign for future results. Also ATSG merged its two carriers to combine the remaining business volumes after the loss of Shenker's business and expects \$4.5 million in annualized expense savings in 2013 from the synergies of the merger. ATSG's relationship with DHL, its largest customer, remains strong and business continues to expand and grow at a double-digit pace.

International Opportunities– The market for 767 freight conversions is good. Nine of the twelve international air cargo markets are good targets for the medium-sized 767, with only three markets that will require bigger planes and are not targets for ATSG. Also benefiting ATSG is the fact that retail and business-to-business companies are increasingly turning to air cargo for their shipment needs, especially for products sourced overseas.

Exclusive Military Market Opportunities – ATSG just won an exclusive award for its combi cargo services—a cargo plane in front that can carry passengers in the back.

Air Transport Services Group, Inc. (NASDAQ:ATSG)

Incremental Return Driven by Complementary Services – The Company targets an ROI of up to 11% on the conversion of 767 passenger planes to cargo planes. However, the potential exists for incremental returns of up to 13.5% when the company can also secure complementary services such as maintenance agreements and crew.

Clean Balance Sheet and Modern Fleet – Despite significant capital invested in the growth of its 767 aircraft fleet, the company is not highly levered. The 2012 capital expenditures budget is approximately \$190 million. Debt at the end of 2012 is expected to be 2.1 times adjusted EBITDA.

Risk – Air cargo volumes are uncertain and dependent on the overall global economic environment. However, the risk is primarily for the marginal players who may be forced out of the market.

VALUATION:

Valuation of ATSG stock still lags its air transport peers. Given the growth in its adjusted EBITDA, expansion of its 767 fleet, and reduced leverage, the stock should close in on its peers' valuations. Many of the risks of the industry are well known and already reflected in the price of the air transport stocks.

Air Transport Services Group, Inc. (NASDAQ:ATSG) Investment Data (as of 9/24/12)

Recent Price	\$4.67
52-Week Range	\$3.86 - \$6.88
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	64.2 M
Average Trading Volume (3 mos)	243k
Market Capitalization	\$300 M
Cash	\$48 M
Long Term Debt	\$367 M
Enterprise Value (EV)	\$616 M
Book Value	\$4.53
TTM Revenue	\$661 M
P/ Revenue	0.45
TTM EPS	\$0.40
P/ EPS	11.8x
TTM EBITDA	\$174 M
EV/ EBITDA	3.6x

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