

American Airlines(AAL)

\$29.10 (As of 02/05/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: F

Summary

Shares of American Airlines have underperformed its industry in a year, mainly due to the grounding of Boeing 737 MAX jets, which is causing multiple flight cancellations. Notably, the carrier canceled roughly 10,000 flights in the final quarter of 2019 and currently expects its Boeing 737 MAX jets to be grounded through Jun 3, 2020. Its high debt levels and soft cargo revenues (down 14.8% in 2019) are concerning too. However, we are impressed by the uptick in passenger revenues (up 3.3% in 2019) due to the strong demand for air travel. We are also appreciative of the company's efforts to reward its shareholders. Notably, the carrier returned \$1.3 billion to its shareholders through dividends and share repurchases in 2019. Measures to expand its operations are also encouraging. Reduction in fuel costs is an added positive.

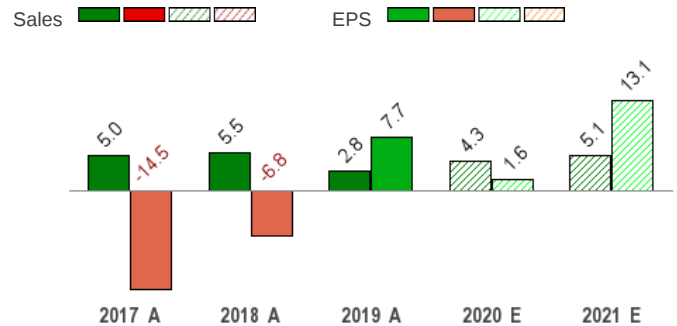
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$37.17 - \$24.23
20 Day Average Volume (sh)	10,548,615
Market Cap	\$12.7 B
YTD Price Change	1.5%
Beta	1.63
Dividend / Div Yld	\$0.40 / 1.4%
Industry	Transportation - Airline
Zacks Industry Rank	Top 13% (34 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	-2.8%
Expected Report Date	04/24/2020
Earnings ESP	0.0%
P/E TTM	5.9
P/E F1	5.8
PEG F1	0.3
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	11,559 E	12,890 E	12,966 E	12,326 E	50,173 E
2020	10,938 E	12,408 E	12,483 E	11,897 E	47,726 E
2019	10,584 A	11,960 A	11,911 A	11,313 A	45,768 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.43 E	\$2.27 E	\$1.80 E	\$1.31 E	\$5.63 E
2020	\$0.44 E	\$1.97 E	\$1.42 E	\$1.08 E	\$4.98 E
2019	\$0.52 A	\$1.82 A	\$1.42 A	\$1.15 A	\$4.90 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 02/05/2020. The reports text is as of 02/06/2020.

Overview

American Airlines Group Inc. was formed following the December 2013 merger between AMR (American Airlines' parent group, which was founded in 1934) and U.S. Airways.

The merger, which occurred after a bankruptcy filing by American Airlines, resulted in the formation of the largest airline internationally. Interestingly, the carrier has been making substantial profits ever since the merger took place. American Airlines Group is headquartered in Fort Worth, TX.

This Delaware corporation's wholly-owned subsidiaries are American Airlines, Envoy Aviation Group, PSA Airlines and Piedmont Airlines. The company's primary business is to provide passenger and cargo services.

The carrier operates more than 6,700 daily flights to over 330 destinations in more than 50 nations across the globe from its hubs and gateways in Charlotte, Chicago, Dallas/Fort Worth, London Heathrow, Los Angeles, Miami, New York, Philadelphia, Phoenix and Washington, D.C.

Apart from a vast network of domestic services, the airline company provides international services to Canada, Central and South America, Asia, Europe, Australia and New Zealand.

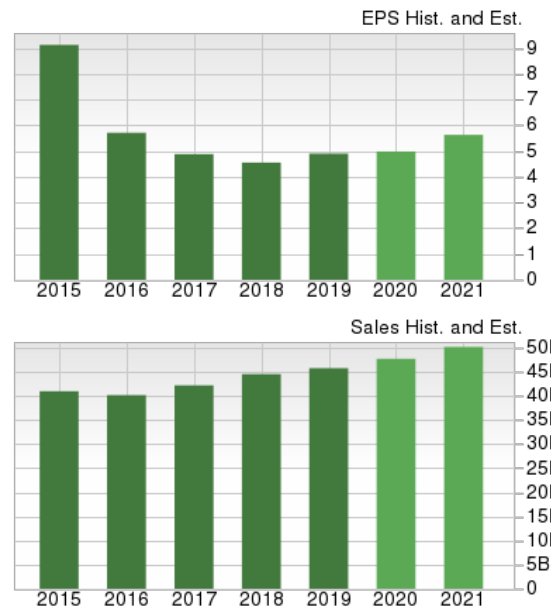
On domestic routes, the company competes with the likes of Alaska Airlines, Allegiant Air, Delta Air Lines, Frontier Airlines, Hawaiian Airlines, JetBlue Airways, Southwest Airlines, Spirit Airlines and United Airlines, while on the international routes some of its competitors are Emirates, Etihad Airways and Qatar Airways.

American Airlines Group maintains a fleet comprising of multiple mainline jets in addition to many regional aircraft which were operated by its regional airline subsidiaries and third-party regional carriers. The company is leaving no stone unturned to upgrade its facilities. As of Dec 31, 2018, the company operated 956 mainline and 595 regional aircraft.

The company primarily operates in two segments: Mainline and Regional affiliates. Furthermore, through its large cargo unit, the company offers a broad range of freight and mail services across the globe.

In 2018, the company reported operating revenues of \$44.54 billion, up 4.5%. Passenger and cargo revenues accounted for 91.3% and 2.3% respectively of the top line. The remainder was accounted for by other sources.

American Airlines' fiscal year coincides with the calendar year.



Reasons To Buy:

▲ American Airlines is being aided by the strong demand for air travel. As a result of strong demand, passenger revenues have been on the rise. We expect the momentum to continue in 2020 as well. The company's performance with respect to unit revenues is also encouraging. The carrier expects total unit revenues to be either flat or increase up to 2% on a year-over-year basis in the first quarter of 2020.. Pre-tax margin, excluding special items, is projected in the range of 2-4%. Reduction in fuel costs is an added positive.

We are impressed by the efforts to reward its shareholders through share buybacks and dividend payments.

▲ The company's efforts to expand operations are added positives. In this regard, its decision to expand European footprint is noteworthy. Furthermore, American Airlines' decision to enter the African market in 2020 is in line with its expansion plans. In July, the company's efforts to strengthen its foothold in the Oceania region received a boost when the U.S. Department of Transportation approved its joint venture with Australia's leading carrier — Qantas Airways. The joint venture, which has become effective following the approval, strengthens the carriers' 30-plus years of partnership by fostering air travel between the United States and Australia as well as New Zealand. Additionally, in May the carrier started operating 15 new gates at DFW, its most profitable hub. As a result, the carrier is operating flights to 23 new destinations across the globe like Dublin, Munich, Santo Domingo and Monterey, California. Moreover, the carrier's codeshare deal with GOL Linhas will strengthen the former's footprint in Latin America, upon materialization. Additionally, efforts to modernize its fleet also please us.

▲ We are also impressed by the company's efforts to reward shareholders through share buybacks and dividend payments. The carrier, which pays a quarterly dividend of 10 cents per share, has returned more than \$11 billion to stockholders through share repurchases and dividends since mid-2014. Moreover, in April 2018, the company's board cleared a new buyback program worth \$2 billion. It will be completed by Dec 31, 2020. During 2019, the carrier returned \$1.3 billion to shareholders through dividends and share repurchases.

Reasons To Sell:

- ▼ American Airlines, which has 24 Boeing 737 MAX jets in its fleet, extended the grounding period of such jets until Jun 3, 2020 from Apr 7, 2020, expected earlier. Notably, the carrier canceled roughly 10,000 flights in the final quarter of 2019. The grounding of the jets since March 2019 dented its 2019 earnings per share. The carrier expects the groundings to negatively impact its 2020 earnings by roughly the same amount. Moreover, due to the coronavirus outbreak, American Airlines suspended all flights to and from China. American Airlines has suspended service to mainland China from Feb 6 through Mar 27, 2020. The flight cancellations are denting revenues. Additionally, due to weaker-than-expected demand following the coronavirus outbreak and also political unrest, American Airlines suspended flights to Hong Kong through Feb 20.
- ▼ Declining cargo revenues are concerning as well. As an evidence, cargo revenues declined 14.8% to \$863 million in 2019. The decrease is due to sluggish cargo ton miles with international freight volumes continuing to be weak. Even though positive on its fleet modernization efforts, we note that this is increasing capital expenditures which in turn is limiting bottom-line growth. For example, its 2020 capex is expected to be \$3.3 billion. Out of \$3.3 billion, \$1.6 billion will be spent toward aircraft
- ▼ American Airlines is a highly leveraged company. In fact, its long-term debt-to-capitalization (expressed as a percentage) is currently 99.3, much higher than the industry's average of 48.3. The reading for the S&P 500 Index, of which American Airlines is a key member, is 43.5.

The grounding of Boeing 737 MAX jets is resulting in multiple flight cancellations. High debt levels are also concerning.

Last Earnings Report

In-line Earnings at American Airlines in Q4

American Airlines' earnings (excluding 20 cents from non-recurring items) of \$1.15 per share matched the Zacks Consensus Estimate. However, the bottom line improved 10.6% on a year-over-year basis, backed by low fuel costs. Operating revenues of \$11,313 million increased 3.4% year over year and also marginally beat the Zacks Consensus Estimate of \$11,308.3 million. Higher passenger revenues drove the top line.

Passenger revenues, which accounted for bulk of the top line (91.5%), increased 3.9% owing to strong demand for air travel. But cargo revenues declined 18.3% to \$216 million, mainly due to a 15.6% reduction in cargo ton miles. Other revenues increased 5.4%.

Total revenue per available seat miles (TRASM: a key measure of unit revenues) inched up 0.5% to 16.1 cents in the reported quarter. Passenger revenue per available seat miles (PRASM) increased 0.9% to 14.72 cents in the fourth quarter. However, consolidated yield dipped 2%.

While traffic (measured by revenue passenger miles) was up 6%, capacity (measured by average seat miles) expanded 2.9%. Consolidated load factor (percentage of seats filled by passengers) increased 240 basis points to 83.8% as traffic growth outpaced capacity expansion.

Total operating costs (on a reported basis) were up 2.1% year over year to \$10,584 million with expenses pertaining to salaries, wages and benefits rising 3%. Consolidated operating costs per available seat miles (CASM: excluding fuel and special items) increased 2% to 11.59 cents. However, CASM (including fuel and special items) declined 0.8%. Average fuel cost per gallon (on a consolidated basis: including taxes) declined 8.7% to \$2.05.

American Airlines currently has 24 Boeing 737 MAX jets in its fleet, which are grounded since March 2019. Notably, American Airlines canceled roughly 10,000 flights in the final quarter of 2019. The carrier currently expects its Boeing 737 MAX jets to be grounded through Jun 3, 2020.

American Airlines rewarded its shareholders to the tune of \$329 million in the reported quarter through buybacks (\$285 million) and dividends (\$44 million). Furthermore, the carrier declared a dividend of 10 cents per share. The amount will be paid out on Feb 19, 2020 to the shareholders of record on Feb 5. Notably, the carrier \$1.3 billion to its shareholders through dividends and share repurchases in 2019.

Outlook

For the first quarter of 2020, TRASM is expected to be either flat or increase up to 2% on a year-over-year basis. Pre-tax margin excluding special items is projected in the range of 2-4%. Additionally, fuel costs are estimated between \$2.00 and \$2.05 per gallon in the ongoing quarter. The company predicts first-quarter costs per available seat miles (excluding fuel and special items) to increase in the 2-4% band. Capacity is expected to grow approximately 2.5% in the March-end quarter.

For 2020, capacity is expected to expand in the range of 4-5%. American Airlines expects 2020 earnings per share between \$4 and \$6. Moreover, the carrier anticipates to generate approximately \$6 billion of free cash flow between 2020 and 2021.

Quarter Ending **12/2019**

Report Date	Jan 23, 2020
Sales Surprise	0.04%
EPS Surprise	0.00%
Quarterly EPS	1.15
Annual EPS (TTM)	4.91

Recent News

Codeshare Agreement With GOL Linhas – Feb 4, 2020

American Airlines entered into a codeshare agreement with GOL Linhas, which will be effective upon approval by the authorities in Brazil and the United States. As a result of the agreement, passengers of either carrier can purchase tickets of connecting flights using one reservation. The contract also provides extended and seamless connectivity between flights of the two carriers. Moreover, passengers of both carriers will enjoy benefits like seamless ticketing and better baggage check-in facilities. The codeshare pact on materialization will enable American Airlines to boost its Latin American footprint.

Labor Deal – Jan 31, 2020

American Airlines reached Agreements in Principle for five new joint collective bargaining agreements worth \$4.2 billion with its mechanics union (TWU-IAM). Notably, TWU-IAM association represents more than 30,000 employees of American Airlines. The agreements primarily pertain to wage hikes, working conditions and retirement benefits.

Expansion Update – Dec 22, 2019

American Airlines inked a codeshare agreement with Morocco's Royal Air Maroc, in a bid to facilitate air travel between the United States and Africa. The deal will expand to additional African cities early next year. It precedes American Airlines' decision to commence operating flights connecting Casablanca, Morocco and Philadelphia from Jun 4, 2020. American Airlines will operate three flights a week on the route using Boeing 757 jets. As part of its efforts to broaden its network, American Airlines will be operating flights (thrice a week) connecting Dallas-Fort Worth and Tel Aviv, Israel from Sep 9, 2020.

Valuation

American Airlines shares are down 19.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 1% and 4.4%, respectively, over the past year. The S&P 500 index is up 20.9% over the past year.

The stock is currently trading at 5.77X forward 12-month price to earnings, which compares to 8.64X for the Zacks sub-industry, 13.07X for the Zacks sector and 18.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.42X and as low as 4.39X, with a 5-year median of 6.39X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$31 price target reflects 6.15X forward 12-month earnings.

The table below shows summary valuation data for AAL

Valuation Multiples - AAL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	5.77	8.64	13.07	18.88
	5-Year High	11.42	12.3	17	19.34
	5-Year Low	4.39	6.85	10.48	15.18
	5-Year Median	6.39	9.05	13.18	17.46
EV/EBITDA TTM	Current	5.37	6.39	7.7	11.95
	5-Year High	6.96	7.22	11.08	12.85
	5-Year Low	4.3	4.32	6	8.49
	5-Year Median	5.52	6.05	7.41	10.66
P/S F 12M	Current	0.27	0.71	1.12	3.5
	5-Year High	0.9	0.98	1.44	3.5
	5-Year Low	0.23	0.63	1.02	2.54
	5-Year Median	0.51	0.78	1.22	3

As of 02/05/2020

Industry Analysis Zacks Industry Rank: Top 13% (34 out of 255)



Top Peers

Air France-KLM SA (AFLYY)	Outperform
Delta Air Lines, Inc. (DAL)	Outperform
Alaska Air Group, Inc. (ALK)	Neutral
JetBlue Airways Corporation (JBLU)	Neutral
Southwest Airlines Co. (LUV)	Neutral
Ryanair Holdings PLC (RYAAY)	Neutral
United Airlines Holdings Inc (UAL)	Neutral
China Southern Airlines Company Limited (ZNH)	Neutral

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	AAL Neutral	X Industry	S&P 500	DAL Outperform	LUV Neutral	UAL Neutral
VGM Score	B	-	-	A	B	A
Market Cap	12.75 B	4.83 B	24.26 B	38.09 B	29.97 B	20.71 B
# of Analysts	12	4	13	11	13	18
Dividend Yield	1.37%	0.00%	1.75%	2.73%	1.26%	0.00%
Value Score	A	-	-	A	B	A
Cash/Price	0.34	0.26	0.04	0.08	0.14	0.26
EV/EBITDA	6.04	6.20	14.19	6.34	6.78	6.13
PEG Ratio	0.31	0.64	2.04	0.57	1.45	0.30
Price/Book (P/B)	NA	1.28	3.31	2.47	3.05	1.80
Price/Cash Flow (P/CF)	3.06	5.32	13.70	5.18	8.52	3.82
P/E (F1)	5.77	9.24	19.17	8.06	12.49	6.50
Price/Sales (P/S)	0.28	0.65	2.67	0.81	1.34	0.48
Earnings Yield	17.11%	10.82%	5.22%	12.41%	8.01%	15.37%
Debt/Equity	-181.81	0.64	0.71	0.92	0.30	1.59
Cash Flow (\$/share)	9.50	3.94	6.92	11.37	6.69	21.42
Growth Score	C	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	-14.34%	2.47%	10.80%	10.23%	7.94%	0.79%
Proj. EPS Growth (F1/F0)	1.67%	14.58%	7.35%	-0.06%	6.74%	4.42%
Curr. Cash Flow Growth	-0.55%	10.49%	10.12%	17.74%	-3.22%	13.70%
Hist. Cash Flow Growth (3-5 yrs)	-5.52%	8.55%	8.55%	10.18%	8.55%	8.25%
Current Ratio	0.45	0.70	1.20	0.41	0.67	0.55
Debt/Capital	99.27%	47.20%	42.91%	47.85%	23.31%	61.36%
Net Margin	3.68%	5.81%	11.79%	10.14%	10.26%	6.96%
Return on Equity	-1,414.94%	14.71%	17.21%	33.28%	23.31%	29.16%
Sales/Assets	0.75	0.66	0.54	0.75	0.85	0.83
Proj. Sales Growth (F1/F0)	4.28%	4.92%	4.15%	4.87%	3.38%	5.02%
Momentum Score	F	-	-	B	C	D
Daily Price Chg	2.36%	0.88%	1.40%	1.66%	2.28%	3.75%
1 Week Price Chg	-2.89%	-3.95%	-2.60%	-5.22%	-2.78%	-8.67%
4 Week Price Chg	4.53%	-0.31%	1.96%	0.07%	4.75%	-6.24%
12 Week Price Chg	1.54%	-0.20%	6.04%	4.23%	-1.11%	-11.44%
52 Week Price Chg	-20.84%	-5.66%	16.68%	16.57%	-1.15%	-8.80%
20 Day Average Volume	10,548,615	126,315	1,966,046	8,025,111	4,873,656	5,002,467
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.10%	0.00%
(F1) EPS Est 4 week change	-2.78%	0.75%	0.00%	1.80%	-6.18%	-1.72%
(F1) EPS Est 12 week change	-0.62%	3.38%	-0.08%	5.35%	-7.88%	-0.83%
(Q1) EPS Est Mthly Chg	-0.15%	0.00%	0.00%	6.31%	6.57%	8.88%

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	A
Growth Score	C
Momentum Score	F
VGM Score	B

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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