

American Airlines(AAL)

\$12.56 (As of 08/05/20)

Price Target (6-12 Months): **\$14.00**

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:C

Value: A

Growth: F

Momentum: F

Summary

Shares of American Airlines have declined 57.2% since the beginning of February due to coronavirus-led travel-demand woes. Passenger demand is at an unprecedented low level. Notably, passenger revenues declined 57.5% in the first half of 2020. The recent spike in coronavirus cases in the United States adds uncertainty to the carrier's outlook, as demand might be dampened even further. Amid coronavirus-related woes, the airline is benefiting from low fuel prices. Improvement in the cash burn rate is also a positive. Thanks to significant reduction in costs, American Airlines' cash-burn rate in the June quarter was approximately \$55 million per day, comparing favorably with its previous forecast of \$70 million per day. Also, the company exited the same time frame with available liquidity of \$10.2 billion.

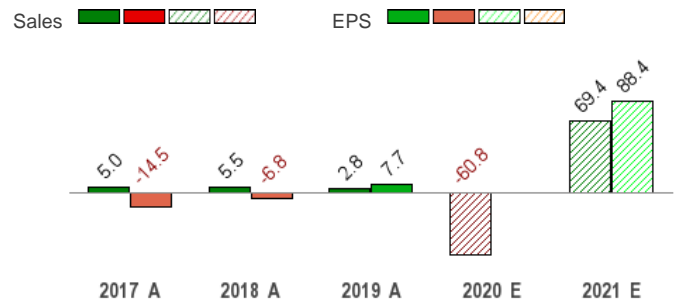
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$31.67 - \$8.25
20 Day Average Volume (sh)	70,428,840
Market Cap	\$6.4 B
YTD Price Change	-56.2%
Beta	1.63
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Airline
Zacks Industry Rank	Bottom 6% (237 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-15.9%
Last Sales Surprise	9.5%
EPS F1 Est- 4 week change	-29.9%
Expected Report Date	10/22/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,243 E	7,588 E	8,245 E	8,484 E	30,347 E
2020	8,515 A	1,622 A	2,912 E	4,844 E	17,919 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	-\$1.62 E	-\$0.55 E	\$0.03 E	\$0.30 E	-\$2.19 E
2020	-\$2.65 A	-\$7.82 A	-\$5.66 E	-\$2.88 E	-\$18.92 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.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/05/2020. The reports text is as of 08/06/2020.

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.

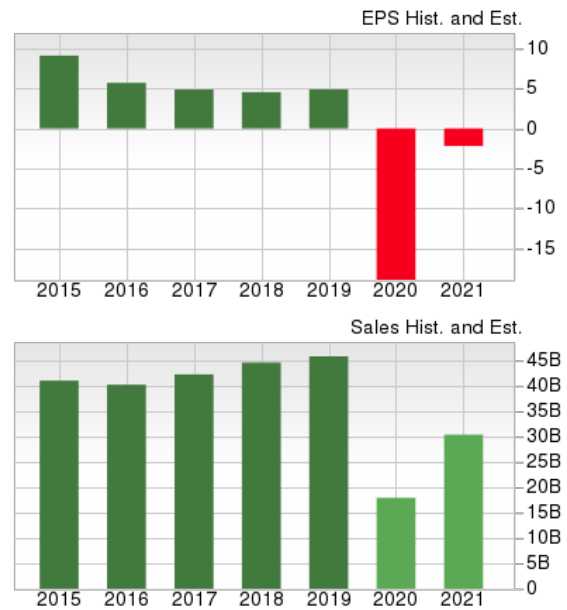
On domestic routes, the company competes with the likes of Alaska Airlines, Allegiant Air, Delta Air Lines, Frontier Airlines, Hawaiian Airlines, JetBlue Airways, Southwest Airlines, Spirit Airlines and United Airlines, while on the international routes some of its competitors are Emirates, Etihad Airways 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, 2019, the company operated 942 mainline and 605 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 2019, the company reported operating revenues of \$45.77 billion, up 2.8%. Passenger and cargo revenues accounted for 91.8% and 1.9% 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:

- ▲ After being battered over the past few months due to dwindling air-travel demand due to the coronavirus-fueled crisis, the American Airlines stock made a spectacular comeback on Jun 4, gaining 41.3%. The massive gain was owing to the carrier's announcement that it will push up its capacity for July owing to improving trends for air-travel demand. Management at American Airlines stated that it intends to operate 55% of its domestic scheduled flights in July 2020 compared with July 2019. Moreover, American Airlines is not keeping the middle seats empty on its flights effective Jul 1. However, the recent spike in coronavirus cases in the United States has dampened the scenario. As the desired rebound in air travel is no way a near-term possibility, airlines are seeking a six-month extension of the payroll support program (after Sep 30). Recent updates pertaining to the same are encouraging and have boosted stocks including American Airlines.
- ▲ Thanks to significant reduction in costs, American Airlines slashed its cash-burn rate to roughly \$30 million per day in June from \$100 million in April. The company's cash-burn rate in the June quarter was approximately \$55 million per day, comparing favorably with its previous forecast of \$70 million per day. By the end of 2020, the carrier hopes to reduce its cash burn rate to zero.
- ▲ The current scenario of low fuel costs is a positive for the company. Evidently, average fuel cost per gallon (scheduled) declined 8.7% to \$2.05 in the December-end quarter. Continuing the trend, average fuel cost per gallon (on a consolidated basis: including taxes) declined 19.8% to \$1.68 in first-half 2020. With major part of the fleet remaining grounded/under-utilized, fuel gallons consumed declined 43.6% in first-half 2020, thereby aiding the bottom line.

Amid coronavirus-related challenges, low fuel prices are aiding the company.

Reasons To Sell:

- ▼ The sharp drop in air-travel demand is hurting passenger revenues, which comprise majority of its top line. The carrier incurred a loss in each of the first two quarters of 2020, mainly due to the 57.5% drop in passenger revenues in first-half 2020. American Airlines expects system capacity for the September quarter to nosedive nearly 60% on a year-over-year basis. Notably, the spike in coronavirus cases in some parts of the United States and the new quarantine rules imposed as a result has dampened the improvement in passenger demand the airline was witnessing since the last week of May.
- ▼ The Hong Kong government's mandatory coronavirus testing rules for airline crew members deals a blow to American Airlines. As the airline was planning to resume its Dallas-Hong Kong flights, Hong Kong imposed new rules amid a rise in coronavirus cases in the country, which require crew members to submit deep-throat saliva samples at the Hong Kong International Airport. Following this mandate, the airline has postponed the resumption of Dallas-Hong Kong flights from Jul 9 . Moreover, the Boeing 737 MAX grounding issues are a setback to the company. The 24 Boeing 737 MAX jets in American Airlines' fleet, have remained grounded since March 2019. Notably, the carrier canceled roughly 10,000 flights in the final quarter of 2019.
- ▼ The company's long-term debt to capitalization ratio, a measure of solvency, stands at 0.99, much higher than its industry's 0.47 and the S&P 500's 0.44. A higher ratio implies that a company is highly leveraged with a higher risk of insolvency.

The carrier anticipates second-quarter revenues to decline 90% year over year with 75% reduction in capacity.

Last Earnings Report

American Airlines Incurs Loss in Q2

American Airlines incurred a loss (excluding \$3 from non-recurring items) of \$7.82 per share, comparing unfavorably with the Zacks Consensus Estimate of a loss of \$6.75. However, the company delivered earnings per share of \$1.82 in the year-ago quarter. Results in the second quarter were hurt by the coronavirus-induced air-travel demand woes.

Operating revenues of \$1,622 million slumped 86.4% year over year but surpassed the Zacks Consensus Estimate of \$1,481.1 million. Passenger revenues, which accounted for bulk of the top line (68.3%), plunged 89.9% to \$1,108 million. Cargo revenues also declined 41% to \$130 million, mainly due to 72.6% lower cargo ton miles. Other revenues dropped 47.2% as well.

Total revenue per available seat mile (TRASM: a key measure of unit revenues) decreased 42.6% to 9.5 cents in the reported quarter. Passenger revenue per available seat miles (PRASM) fell 57.4% to 6.48 cents in the period. Moreover, consolidated yield was down 12.8%.

While consolidated traffic (measured in revenue passenger miles) plummeted 88.5%, capacity (measured in average seat miles) contracted 76.4%. Consolidated load factor (percentage of seats filled by passengers) decreased 44.3 percentage points to 42.3% as traffic decline was more than capacity reduction.

Total operating costs (on a reported basis) declined 62% year over year to \$4,108 million with expenses pertaining to aircraft fuel and related taxes tumbling 89.1%. Consolidated operating costs per available seat mile (CASM: excluding fuel and special items) skyrocketed more than 100% to 32.04 cents due to weak capacity. With major part of the fleet remaining grounded/under-utilized, fuel gallons consumed tanked 76.3% to 275 million. Average fuel price per gallon (including related taxes) also declined 47.5% to \$1.13.

Moreover, American Airlines expects system capacity for the September quarter to nosedive nearly 60% on a year-over-year basis.

Quarter Ending 06/2020

Report Date	Jul 23, 2020
Sales Surprise	9.51%
EPS Surprise	-15.85%
Quarterly EPS	-7.82
Annual EPS (TTM)	-7.90

Recent News

Partnership with JetBlue — Jul 16, 2020

In a bid to expedite the recovery process from the coronavirus crisis, American Airlines and JetBlue Airways announced a strategic partnership. The deal also aims to boost connectivity options for travelers in the Northeast through an array of new routes. Notably, airlines are looking for ways and means to attract passengers amid the coronavirus-triggered travel-demand woes.

The alliance allows both carriers to sell seats on each other's flights and share frequent flyer benefits. The codeshare agreement under the partnership permits JetBlue passengers to access more than 60 routes operated by American Airlines. Similarly, passengers of the latter can fly on more than 130 routes operated by the former. As a result of the above pact, 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 airlines will enjoy benefits like easy ticketing and better baggage check-in facilities.

The partnership also allows American Airlines to start offering international flights from New York to destinations like Tel Aviv and Athens. Meanwhile, JetBlue will gain access to more U.S. sites by teaming up with airline heavyweight American Airlines, which will help expand its services in the coastal markets from both New York and Boston.

Valuation

American Airlines shares are down 56.2% and 56.1% in the year-to-date period and over the trailing 12-month period respectively. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 44% and 6% in the year-to-date period respectively. Over the past year, the Zacks sub-industry is down 40.1% and the sector is up 0.2%.

The S&P 500 index is up 2.6%% and 15%, in the year to date period and over the past year, respectively.

The stock is currently trading at 0.24X trailing 12-month price-to-sales, which compares to 0.63X for the Zacks sub-industry, 1.26X for the Zacks sector and 3.61X for the S&P 500 index.

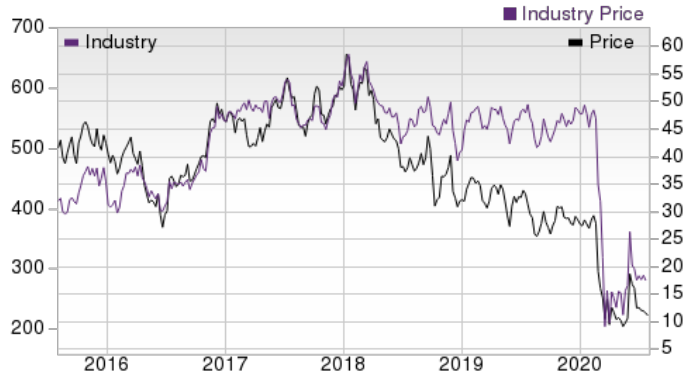
Over the past five years, the stock has traded as high as 0.75X and as low as 0.09X, with a 5-year median of 0.47X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$14 price target reflects 0.99X trailing 12-month sales.

The table below shows summary valuation data for AAL

Valuation Multiples - AAL					
		Stock	Sub-Industry	Sector	S&P 500
P/S F 12M	Current	0.24	0.63	1.26	3.61
	5-Year High	0.75	0.98	1.42	3.61
	5-Year Low	0.09	0.38	0.85	2.53
	5-Year Median	0.47	0.75	1.2	3.04
EV/S TTM	Current	0.74	0.68	1.64	3.28
	5-Year High	1.06	1.19	1.83	3.43
	5-Year Low	0.48	0.5	1.17	2.1
	5-Year Median	0.82	0.98	1.62	2.82

As of 08/05/2020

Industry Analysis Zacks Industry Rank: Bottom 6% (237 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Alaska Air Group, Inc. (ALK)	Neutral	4
Delta Air Lines, Inc. (DAL)	Neutral	4
JetBlue Airways Corporation (JBLU)	Neutral	4
Southwest Airlines Co. (LUV)	Neutral	4
Ryanair Holdings PLC (RYAAY)	Neutral	3
United Airlines Holdings Inc (UAL)	Neutral	4
China Southern Airlines Company Limited (ZNH)	Neutral	3
Air FranceKLM SA (AFLLY)	Underperform	5

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	AAL	X Industry	S&P 500	DAL	LUV	UAL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	4
VGM Score	C	-	-	C	C	C
Market Cap	6.39 B	2.29 B	22.93 B	16.88 B	19.30 B	9.81 B
# of Analysts	11	5	14	10	12	15
Dividend Yield	0.00%	0.00%	1.76%	0.00%	1.65%	0.00%
Value Score	A	-	-	A	B	B
Cash/Price	1.83	0.62	0.07	0.98	0.79	0.82
EV/EBITDA	4.36	3.63	13.16	2.86	3.63	3.23
PEG Ratio	NA	3.29	2.99	NA	NA	NA
Price/Book (P/B)	NA	0.71	3.20	1.94	1.77	1.15
Price/Cash Flow (P/CF)	1.22	2.21	12.45	2.33	4.81	1.58
P/E (F1)	NA	44.79	21.78	NA	NA	NA
Price/Sales (P/S)	0.19	0.45	2.47	0.50	1.16	0.31
Earnings Yield	-150.64%	-26.87%	4.33%	-35.81%	-19.41%	-71.18%
Debt/Equity	-9.06	1.01	0.77	2.85	0.98	2.32
Cash Flow (\$/share)	10.27	4.20	6.94	11.37	6.80	21.42
Growth Score	F	-	-	D	C	D
Hist. EPS Growth (3-5 yrs)	-20.54%	2.20%	10.46%	6.97%	3.78%	-1.10%
Proj. EPS Growth (F1/F0)	-486.20%	-244.39%	-7.14%	-229.63%	-248.69%	-299.21%
Curr. Cash Flow Growth	5.17%	11.92%	5.47%	17.74%	-3.22%	15.52%
Hist. Cash Flow Growth (3-5 yrs)	-4.04%	9.36%	8.55%	10.18%	8.55%	8.25%
Current Ratio	0.77	0.80	1.32	0.94	1.70	0.61
Debt/Capital	NA%	55.42%	44.59%	74.04%	49.42%	69.87%
Net Margin	-10.40%	-2.20%	10.15%	-10.74%	0.99%	-5.25%
Return on Equity	-124.31%	-3.10%	14.46%	-4.02%	-4.11%	-15.01%
Sales/Assets	0.55	0.50	0.51	0.51	0.58	0.60
Proj. Sales Growth (F1/F0)	-60.85%	-45.14%	-1.68%	-61.40%	-57.15%	-60.55%
Momentum Score	F	-	-	D	F	D
Daily Price Chg	9.50%	2.06%	0.59%	3.12%	4.20%	4.46%
1 Week Price Chg	-2.37%	-2.25%	0.14%	-3.81%	-2.43%	-4.56%
4 Week Price Chg	4.75%	-2.59%	5.31%	-2.00%	-0.52%	3.69%
12 Week Price Chg	37.87%	20.52%	19.84%	36.37%	36.33%	62.87%
52 Week Price Chg	-56.13%	-46.77%	2.73%	-55.32%	-34.47%	-61.00%
20 Day Average Volume	70,428,840	184,557	2,098,555	24,353,094	13,393,586	47,139,044
(F1) EPS Est 1 week change	-2.12%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-29.92%	-3.25%	1.10%	-24.82%	-35.85%	-15.56%
(F1) EPS Est 12 week change	-23.60%	-52.28%	1.04%	-33.15%	-48.73%	-17.95%
(Q1) EPS Est Mthly Chg	-43.29%	-42.76%	0.39%	-42.23%	-92.16%	-24.40%

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	A
Growth Score	F
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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