

## American Airlines(AAL)

**\$11.33** (As of 04/08/20)

Price Target (6-12 Months): **\$13.00**

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: C

Growth: C

Momentum: F

### Summary

American Airlines, which already took a massive hit from flight cancellations due to the grounding of Boeing 737 Max jets, is now grappling with the dreaded coronavirus outbreak. Due to coronavirus-induced tepid air-travel demand, the carrier American Airlines plans to lower its April capacity by 70-75%. Its May schedule will be slashed by 80%. The carrier is reducing international flights by nearly 90% on a combined basis for the months of April and May. To combat the crisis, the carrier plans to apply for \$12 billion, under the government aid. Through this decision, the carrier ensured to protect its employees' jobs and payroll through Sep 30. With passenger revenues dwindling, the carrier's focus on operating cargo-only flights is a positive and should boost its top line. The current scenario of low fuel costs is an added positive.

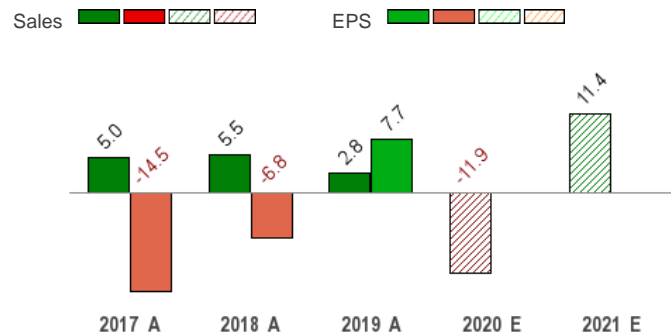
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$35.24 - \$9.09
20 Day Average Volume (sh)	73,401,080
Market Cap	\$4.8 B
YTD Price Change	-60.5%
Beta	2.04
Dividend / Div Yld	\$0.40 / 3.5%
Industry	<a href="#">Transportation - Airline</a>
Zacks Industry Rank	Bottom 9% (229 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	-159.2%
Expected Report Date	04/24/2020
Earnings ESP	-142.0%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	10,931 E	12,216 E	12,303 E	11,690 E	44,910 E
2020	10,292 E	8,873 E	10,400 E	10,754 E	40,320 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	\$0.53 E	\$1.95 E	\$1.41 E	\$1.11 E	\$3.68 E
2020	-\$0.84 E	-\$1.11 E	\$0.29 E	\$0.93 E	-\$2.66 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	2.3
P/E F1	NA
PEG F1	NA
P/S TTM	0.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/08/2020. The reports text is as of 04/09/2020.

## 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.

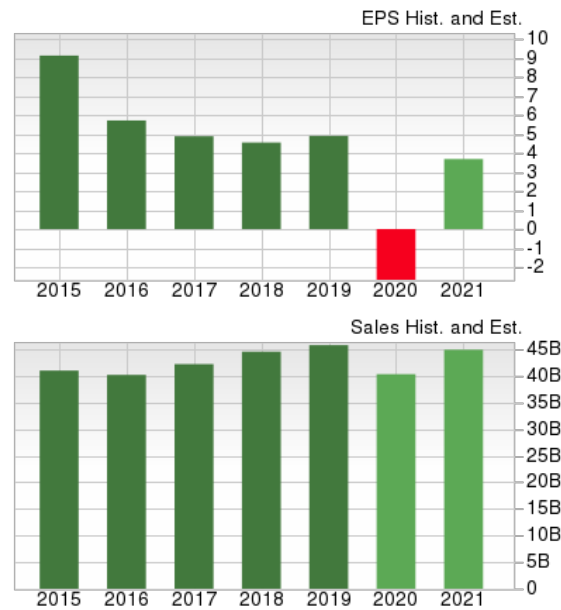
On domestic routes, the company competes with the likes of Alaska Airlines, Allegiant Air, Delta Air Lines, Frontier Airlines, Hawaiian Airlines, JetBlue Airways, Southwest Airlines, Spirit Airlines and United Airlines, while on the international routes some of its competitors are Emirates, Etihad Airways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



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## Reasons To Buy:

- ▲ With passenger revenues dwindling due to the pandemic, the carrier's focus on operating cargo-only flights is a positive and should boost its top line. Notably, American Airlines is operating two cargo-only flights from the United States to Germany. Moreover, its decision to apply for \$12 billion government aid is a positive. Through this decision, the carrier ensured to protect its employees' jobs and payroll through Sep 30. Moreover, the carrier is offering partial pay to its employees in a cost-cutting measure to drive the bottom line. In another coronavirus-related measure, the company decided to waive change fees for travel through May 31.
  - ▲ Even though, the company is currently cutting capacity in the wake of the pandemic, it was active on expanding its operations prior to the outbreak. We expect the company to resume its expansion initiatives, once the crisis is over. Moreover, 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. With oil prices falling constantly, fuel cost per gallon is expected to decline further.
  - ▲ We are also impressed by the company's efforts to reward shareholders. 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. During 2019, the carrier returned \$1.3 billion to shareholders through dividends and share repurchases.
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### Reasons To Sell:

- ▼ The sharp drop in air-travel demand is hurting passenger revenues, which comprise majority of its top line. Consequently, its near-term results are likely to be severely dented. Due to coronavirus-induced tepid air-travel demand, the carrier American Airlines plans to lower its April capacity by 70-75%. Its May schedule will be slashed by 80%. The carrier is reducing international flights by nearly 90% on a combined basis for the months of April and May.
- ▼ The carrier, which currently has 24 Boeing 737 MAX jets in its fleet, expects the jets to remain grounded until Aug 18, 2020. Notably, the carrier canceled roughly 10,000 flights in the final quarter of 2019. Non-availability of the Boeing 737 MAX jets is a setback to the company
- ▼ 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 47.4. The reading for the S&P 500 Index, of which American Airlines is a key member, is 43.6.

Rapid spread of coronavirus is causing American Airlines to cancel multiple flights.

## 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

### Capacity Cut - Apr 05,2020

American Airlines will now operate only 13 daily flights from New York's JFK and LaGuardia airports and New Jersey's Newark airport between Apr 9 and May 6. This is a massive reduction from the April 2019 average of 271 daily flights across all three airports.

### Financial Aid – Mar 30 , 2020

In a bid to bolster its financial position in the face of the coronavirus-induced dwindling air-travel demand, American Airlines decided to apply for the government stimulus package. The \$2-trillion relief package (comprising \$50 billion for passenger airlines) was legalized by President Donald Trump on Mar 27 after being passed by the Senate and the House of Representatives.

American Airlines will apply for the \$12-billion sum in the rescue package that it is eligible for. Of the whole amount, \$6 billion will be in payroll grants and the remaining amount will be via loans. Through this decision, the carrier ensured to protect its employees' jobs and payroll through Sep 30. The government aid apart, American Airlines recently secured a \$1-billion loan.

## Valuation

American Airlines shares have been down 60.5% and 66.7% year to date and over the past year, respectively. Stocks in the Zacks sub-industry have shed 56.5% and 55.7% of value so far this year and in a year's time. Stocks in the Zacks Transportation sector have declined 28% and 26.7% year to date and in the past year, respectively. The S&P 500 Index has lost 17.3% and 8% year to date and in the past 12 months, respectively.

The stock is currently trading at 2.4X forward 12-month price to earnings, which compares to 12.65X for the Zacks sub-industry, 13.08X for the Zacks sector and 16.99X for the S&P 500 index.

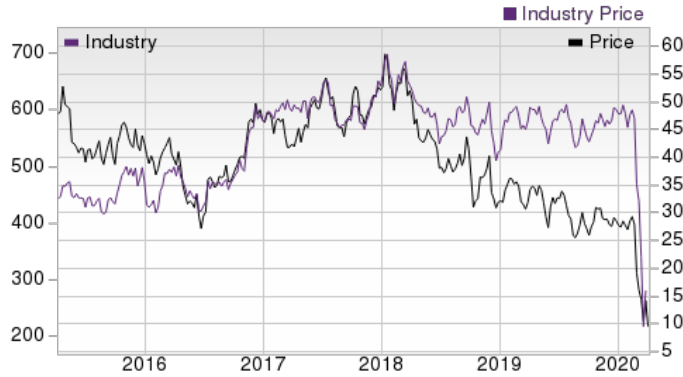
Over the past five years, the stock has traded as high as 11.42X and as low as 2.21X, with a 5-year median of 6.41X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$13 price target reflects 2.75X forward 12-month earnings.

The table below shows summary valuation data for AAL

Valuation Multiples - AAL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12 M	Current	2.4	12.65	13.08	16.99
	5-Year High	11.42	12.65	17.05	19.34
	5-Year Low	2.21	6.6	10.47	15.19
	5-Year Median	6.41	9.11	13.11	17.44
EV/EBITDA TTM	Current	4.28	3.51	6.26	9.75
	5-Year High	7.09	7.01	11.12	12.87
	5-Year Low	4.12	3.33	5.69	8.27
	5-Year Median	5.75	5.98	7.39	10.78
P/S F 12M	Current	0.1	0.36	0.87	2.94
	5-Year High	0.84	0.98	1.41	3.44
	5-Year Low	0.09	0.36	0.85	2.54
	5-Year Median	0.5	0.77	1.2	3

As of 04/07/2020

## Industry Analysis Zacks Industry Rank: Bottom 9% (229 out of 253)



## Top Peers

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

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	AAL Neutral	X Industry	S&P 500	DAL Neutral	LUV Underperform	UAL Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>C</b>	<b>D</b>	<b>A</b>
Market Cap	4.83 B	2.48 B	19.05 B	14.87 B	17.74 B	6.82 B
# of Analysts	10	4.5	13	10	11	15
Dividend Yield	3.53%	0.00%	2.23%	0.00%	2.10%	0.00%
<b>Value Score</b>	<b>C</b>	-	-	<b>C</b>	<b>C</b>	<b>A</b>
Cash/Price	1.00	0.67	0.06	0.20	0.26	0.87
EV/EBITDA	3.93	3.13	11.47	2.88	3.91	2.95
PEG Ratio	NA	1.23	2.00	2.07	4.58	0.63
Price/Book (P/B)	NA	0.60	2.56	0.98	1.80	0.60
Price/Cash Flow (P/CF)	1.10	2.04	10.14	2.04	5.04	1.28
P/E (F1)	NA	14.00	16.97	14.00	16.68	7.93
Price/Sales (P/S)	0.11	0.29	2.01	0.32	0.79	0.16
Earnings Yield	-23.48%	1.53%	5.81%	7.15%	6.01%	12.61%
Debt/Equity	-181.81	0.66	0.70	0.92	0.30	1.59
Cash Flow (\$/share)	10.27	4.14	7.01	11.37	6.80	21.42
<b>Growth Score</b>	<b>C</b>	-	-	<b>C</b>	<b>D</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	-14.34%	4.00%	10.92%	10.23%	7.94%	0.79%
Proj. EPS Growth (F1/F0)	-154.37%	-99.60%	-0.64%	-77.31%	-51.84%	-71.21%
Curr. Cash Flow Growth	5.17%	12.86%	5.93%	17.74%	-3.22%	15.52%
Hist. Cash Flow Growth (3-5 yrs)	-4.04%	8.82%	8.55%	10.18%	8.55%	8.25%
Current Ratio	0.45	0.68	1.24	0.41	0.67	0.55
Debt/Capital	99.27%	47.20%	42.36%	47.98%	23.31%	61.36%
Net Margin	3.68%	6.96%	11.64%	10.14%	10.26%	6.96%
Return on Equity	-1,414.94%	12.61%	16.74%	33.32%	23.31%	29.16%
Sales/Assets	0.75	0.64	0.54	0.75	0.85	0.83
Proj. Sales Growth (F1/F0)	-11.90%	-10.41%	0.61%	-11.42%	-11.12%	-5.05%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>B</b>	<b>C</b>	<b>B</b>
Daily Price Chg	10.86%	2.39%	4.33%	4.40%	4.67%	12.38%
1 Week Price Chg	-33.12%	-14.03%	-4.40%	-23.93%	-16.05%	-30.31%
4 Week Price Chg	-30.32%	-28.78%	-1.70%	-45.56%	-19.28%	-44.24%
12 Week Price Chg	-58.92%	-51.71%	-20.64%	-62.30%	-37.67%	-68.84%
52 Week Price Chg	-66.70%	-52.79%	-12.97%	-59.85%	-34.82%	-67.45%
20 Day Average Volume	73,401,080	185,753	4,016,075	51,809,820	11,696,776	28,014,646
(F1) EPS Est 1 week change	-1.37%	0.00%	-0.26%	-3.49%	-8.64%	1.03%
(F1) EPS Est 4 week change	-159.24%	-97.26%	-5.64%	-75.91%	-51.91%	-69.82%
(F1) EPS Est 12 week change	-152.18%	-93.18%	-7.49%	-76.86%	-57.36%	-72.70%
(Q1) EPS Est Mthly Chg	-160.68%	-163.35%	-9.90%	-95.82%	-84.00%	-62.90%

## 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	C
Growth Score	C
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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