

American Airlines(AAL)

\$13.32 (As of 06/29/20)

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: D

Summary

American Airlines has been seeing improvement in demand, especially on the domestic front, since May. The carrier's domestic passenger count surged more than 100% in May, from that in April. The improving demand coupled with significant reduction in costs has helped the company reduce cash burn rate significantly. Cash burn rate is anticipated to fall to \$40 million per day in June and to zero by the year-end. However, the company's worsening debt profile is worrisome. Although passenger numbers are increasing, it is way below the year-ago levels, indicating a long road to recovery. With 75% reduction in second quarter capacity, revenues in the period are anticipated to be down around 90% year over year. Due to the coronavirus-induced travel demand woes, shares of the company have declined 50.4% since the beginning of February.

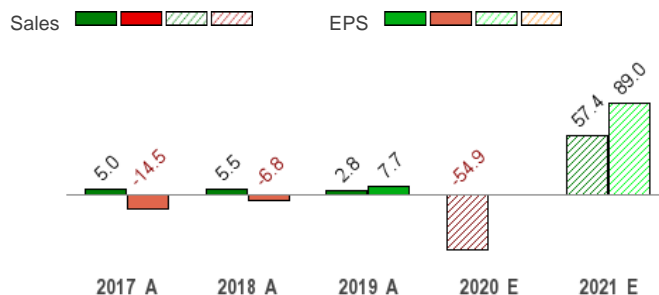
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$34.99 - \$8.25
20 Day Average Volume (sh)	149,062,224
Market Cap	\$6.8 B
YTD Price Change	-53.6%
Beta	1.70
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Airline
Zacks Industry Rank	Bottom 31% (175 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-22.7%
Last Sales Surprise	-6.9%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	07/23/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	7,279 E	7,678 E	9,006 E	9,382 E	32,485 E
2020	8,515 A	1,303 E	4,161 E	6,586 E	20,637 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	-\$1.80 E	-\$1.74 E	-\$0.64 E	\$0.15 E	-\$1.73 E
2020	-\$2.65 A	-\$1.98 E	-\$7.33 E	-\$4.12 E	-\$15.68 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	7.7
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 06/29/2020. The reports text is as of 06/30/2020.

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.

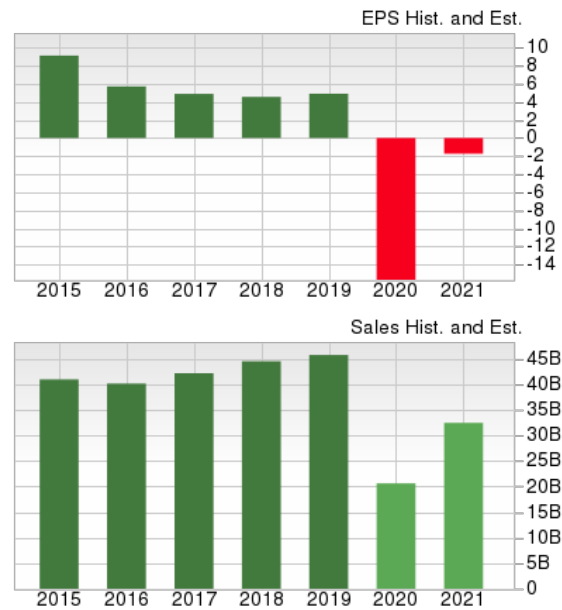
On domestic routes, the company competes with the likes of Alaska Airlines, Allegiant Air, Delta Air Lines, Frontier Airlines, Hawaiian Airlines, JetBlue Airways, Southwest Airlines, Spirit Airlines and United Airlines, while on the international routes some of its competitors are Emirates, Etihad Airways 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. With passenger demand slowly returning, Vasu Raja, the carrier's senior vice president of Network Strategy, said that "We're seeing a slow but steady rise in domestic demand". Evidently, the company flew nearly 110,000 passengers per day on average in the last week of May. The reading marks a 71% jump from the total 32,000 passengers carried per day on average in April. As a result of the bounce in traffic on American Airlines' flights, the load factor (% of seats filled by passengers) soared to 55% in the last week of May from a mere 15% in April. Moreover, American Airlines has decided not to keep the middle seats empty on its flights from Jul 1 onward.
- ▲ Thanks to significant reduction in costs (operating and capital expenditures lowered by more than \$13.5 billion for 2020) and the improvement in demand since May, American Airlines anticipates cash burn rate to fall to approximately \$40 million per day in June from the high of \$100 million per day in April. Previously, the carrier predicted the cash burn rate to be \$50 million per day in June. By the end of 2020, the carrier hopes to reduce its cash burn rate to zero.
- ▲ 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, the funds received from the government under the CARES Act have protected 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.
- ▲ 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 10.1% to \$1.83 in first-quarter 2020. With oil prices falling constantly, fuel cost per gallon is expected to decline further.

Management at American Airlines stated that it intends to operate 55% of its domestic scheduled flights in July 2020 compared with July 2019.

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 first-quarter 2020, mainly due to the 20.5% drop in passenger revenues. For the second quarter, revenues are anticipated to decline 90% year over year due to the coronavirus-induced travel-demand woes. Capacity in the period is expected to be down approximately 75% year over year. Despite the recent increase in bookings, the resurgence of passenger demand to pre-coronavirus levels is still a distant possibility.
- ▼ 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. Non-availability of the Boeing 737 MAX jets is a setback to the company.
- ▼ The company's total debt to total capital ratio stood at 1.11 at the end of the first quarter of 2020, comparing unfavorably to the reading of 1 at the end of the fourth quarter of 2019. The increasing total debt to total capital ratio indicates that the proportion of debt to finance the company's assets is on the rise. Moreover, the first-quarter 2020 reading for the company compared unfavorably to that of its industry which stood at 0.69.

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 Q1

The airline incurred a loss (excluding \$2.61 from non-recurring items) of \$2.65 per share, comparing unfavorably with the Zacks Consensus Estimate of a loss of \$2.16. The company reported earnings per share of 52 cents in the year ago quarter. Results in first-quarter 2020 were hurt by the coronavirus-led drop in air-travel demand.

Operating revenues of \$8,515 million declined 19.6% year over year and also fell short of the Zacks Consensus Estimate of \$9,146.7 million. Passenger revenues, which accounted for bulk of the top line (90.2%), decreased 20.5%. Cargo revenues also plunged 32.7% to \$147 million, mainly due to 30.2% lower cargo ton miles. Other revenues slid 2.9%.

Total revenue per available seat miles (TRASM: a key measure of unit revenues) decreased 13.6% to 13.71 cents in the reported quarter. Passenger revenue per available seat miles (PRASM) fell 14.6% to 12.37 cents in the first quarter. Moreover, consolidated yield dipped 3.5%.

While consolidated traffic (measured by revenue passenger miles) was down 17.6%, capacity (measured by average seat miles) contracted 6.9%. Consolidated load factor (percentage of seats filled by passengers) decreased 950 basis points to 72.7% as traffic decline was more than capacity contraction.

Total operating costs (on a reported basis) were up 8.4% year over year to \$11,064 million with expenses pertaining to salaries, wages and benefits rising 1.6%. Consolidated operating costs per available seat miles (CASM: excluding fuel and special items) increased 9.2% to 12.97 cents. CASM (including fuel and special items) increased 16.3%. Average fuel cost per gallon (on a consolidated basis: including taxes) declined 10.1% to \$1.83.

Other Details

Due to the coronavirus pandemic, American Airlines expects the cash-burn rate for the June quarter to be roughly \$70 million per day. Driven by its cost-reduction initiatives, cash-burn rate (on a daily basis) is expected to decline over time to roughly \$50 million per day for the month. Also, the company expects to have approximately \$11 billion in terms of liquidity for the second quarter.

Moreover, to mitigate this extremely bleak-demand scenario, the carrier reduced system capacity by approximately 80% in both April and May and 70% for June.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	-6.91%
EPS Surprise	-22.69%
Quarterly EPS	-2.65
Annual EPS (TTM)	1.74

Recent News

Full Flight Booking — Jun 29, 2020

Despite coronavirus cases rising in some parts of the United States, American Airlines will not keep the middle seats empty on flights from Jul 1 onward. In accordance with its policy, the carrier will see its flights filled to capacity from Wednesday. This implies, the carrier's policy (effective since April) of limiting bookings to 85% of a plane's capacity will stand invalid.

However, management stated that it will continue to inform passengers if their flights are likely to be packed to capacity and let them change the same free of cost. Moreover, passengers will be allowed to change seats on the plane if there is an option. However, they can avail of this facility only if they stay in the same cabin. Moreover, American Airlines decided to waive change fees for travel until Sep 30, 2020. Also, the carrier will ask its customers to confirm during the check-in process that they have not displayed any COVID-19 symptoms in the past 14 days.

Valuation

American Airlines shares are down 53.6% and 59.5% 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 44.4% and 16.2% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector are down 42% and 13% respectively.

The S&P 500 index is down 6.6% in the year-to-date period but up 2.1% and in the past year.

The stock is currently trading at 7.66X trailing 12-month price-to-earnings, which compares to 9.55X for the Zacks sub-industry, 15.51X for the Zacks sector and 19.39X for the S&P 500 index.

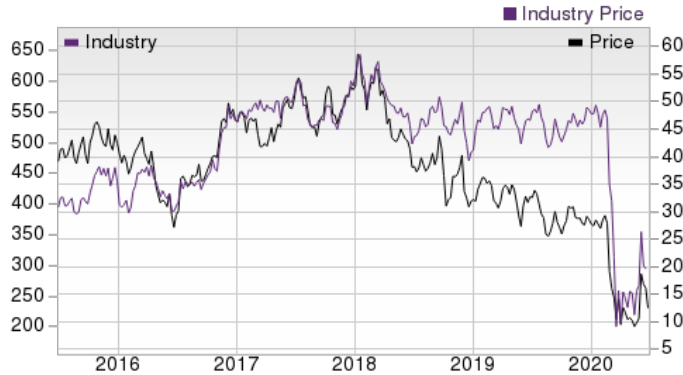
Over the past five years, the stock has traded as high as 11.93X and as low as 2.09X, with a 5-year median of 6.8X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$14 price target reflects 8.05X trailing 12-month earnings.

The table below shows summary valuation data for AAL

Valuation Multiples - AAL					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	7.66	9.55	15.51	19.39
	5-Year High	11.93	13.19	19.57	22.25
	5-Year Low	2.09	7.45	11.63	15.98
	5-Year Median	6.8	10.58	15.52	19.13
EV/EBITDA TTM	Current	6.73	4.56	7.1	11.14
	5-Year High	7.46	7.03	11.16	12.86
	5-Year Low	4.12	3.26	5.44	8.25
	5-Year Median	5.81	5.91	7.32	10.85
P/S F 12M	Current	0.26	0.7	1.19	3.37
	5-Year High	0.75	0.98	1.42	3.44
	5-Year Low	0.09	0.38	0.85	2.53
	5-Year Median	0.48	0.77	1.2	3.02

As of 06/29/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 253)



Top Peers

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

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	-	-	3	3	3
VGM Score	C	-	-	D	D	C
Market Cap	6.77 B	2.44 B	21.46 B	18.25 B	17.83 B	8.75 B
# of Analysts	11	4	14	9	11	16
Dividend Yield	0.00%	0.00%	1.95%	0.00%	2.05%	0.00%
Value Score	A	-	-	B	C	B
Cash/Price	0.59	0.54	0.07	0.35	0.34	0.64
EV/EBITDA	4.34	3.57	12.54	3.32	3.69	3.23
PEG Ratio	NA	4.80	2.81	NA	NA	NA
Price/Book (P/B)	NA	0.71	2.93	1.28	1.96	0.93
Price/Cash Flow (P/CF)	1.30	2.26	11.53	2.52	5.15	1.65
P/E (F1)	NA	41.93	20.96	NA	NA	NA
Price/Sales (P/S)	0.15	0.38	2.25	0.40	0.83	0.21
Earnings Yield	-117.72%	-26.62%	4.53%	-27.44%	-13.21%	-59.80%
Debt/Equity	-8.18	0.72	0.76	1.25	0.38	1.98
Cash Flow (\$/share)	10.27	4.59	7.01	11.37	6.80	21.42
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	-19.39%	2.29%	10.93%	8.27%	4.95%	-0.69%
Proj. EPS Growth (F1/F0)	-420.00%	-242.26%	-10.50%	-207.34%	-208.54%	-275.03%
Curr. Cash Flow Growth	5.17%	12.49%	5.51%	17.74%	-3.22%	15.52%
Hist. Cash Flow Growth (3-5 yrs)	-4.04%	9.08%	8.62%	10.18%	8.55%	8.25%
Current Ratio	0.37	0.69	1.30	0.53	0.69	0.49
Debt/Capital	99.27%	52.86%	44.51%	55.53%	27.38%	66.42%
Net Margin	-1.69%	1.58%	10.62%	7.76%	8.46%	2.43%
Return on Equity	-124.31%	9.01%	15.82%	25.95%	18.92%	20.51%
Sales/Assets	0.72	0.62	0.55	0.70	0.81	0.79
Proj. Sales Growth (F1/F0)	-54.91%	-48.19%	-2.61%	-55.56%	-53.01%	-56.48%
Momentum Score	D	-	-	D	A	C
Daily Price Chg	7.59%	2.44%	1.71%	6.32%	9.64%	7.24%
1 Week Price Chg	-22.63%	-7.68%	-3.90%	-8.81%	-7.50%	-10.72%
4 Week Price Chg	19.89%	2.22%	-2.17%	9.32%	4.22%	19.72%
12 Week Price Chg	40.21%	19.16%	14.42%	28.18%	14.14%	46.84%
52 Week Price Chg	-59.49%	-45.45%	-8.82%	-50.49%	-32.01%	-60.12%
20 Day Average Volume	149,062,224	329,283	2,732,041	62,964,500	26,658,264	83,984,752
(F1) EPS Est 1 week change	0.72%	0.00%	0.00%	0.00%	3.43%	0.00%
(F1) EPS Est 4 week change	-0.37%	-0.19%	0.00%	-4.36%	2.32%	-1.68%
(F1) EPS Est 12 week change	-1,254.32%	-251.55%	-10.60%	-355.66%	-277.57%	-902.17%
(Q1) EPS Est Mthly Chg	1.55%	0.00%	0.00%	2.08%	12.01%	1.94%

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	D
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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