

Allegiant Travel(ALGT)

\$168.04 (As of 01/31/20)

Price Target (6-12 Months): **\$178.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/01/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: D

Summary

Shares of Allegiant Travel have outperformed its industry in a year's time, mainly owing to robust passenger revenues. Solid demand for air travel is leading to higher passenger revenues. Evidently, in 2019, passenger revenues, which account for the bulk of the company's top line, increased 9.7% on a year over year basis. Anticipating air-travel demand to remain strong, Allegiant expects 2020 earnings to exceed 2019 levels. The company's initiatives to reward its shareholders through share buybacks and dividend payments are encouraging as well. Declining fuel costs also support bottom-line growth. However, high expenses pertaining to salary and benefits are limiting bottom-line growth at Allegiant. Also, the massive capex might be a spoilsport. High-debt levels and capacity overexpansion add to the company's woes.

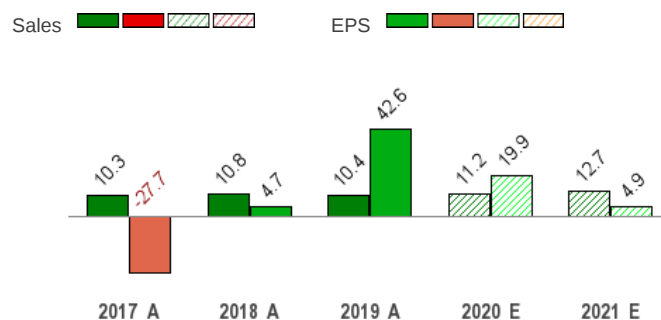
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$183.26 - \$120.91
20 Day Average Volume (sh)	172,068
Market Cap	\$2.7 B
YTD Price Change	-3.5%
Beta	0.92
Dividend / Div Yld	\$2.80 / 1.7%
Industry	Transportation - Airline
Zacks Industry Rank	Top 14% (36 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.9%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	-0.6%
Expected Report Date	NA
Earnings ESP	-5.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	565 E	594 E	535 E	557 E	2,306 E
2020	514 E	540 E	476 E	503 E	2,047 E
2019	452 A	492 A	437 A	461 A	1,841 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.89 E	\$5.76 E	\$3.38 E	\$5.07 E	\$17.93 E
2020	\$4.61 E	\$5.41 E	\$2.97 E	\$3.98 E	\$17.09 E
2019	\$3.98 A	\$4.33 A	\$2.70 A	\$3.72 A	\$14.26 A

*Quarterly figures may not add up to annual.

P/E TTM	11.4
P/E F1	9.8
PEG F1	0.3
P/S TTM	1.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/31/2020. The reports text is as of 02/03/2020.

Overview

Allegiant Travel Company, based in Las Vegas, NV, was founded in 1997. The company, through its subsidiary Allegiant Air LLC, operates a low-cost passenger airline. It focuses on linking leisure travelers in small and medium sized cities to world-class leisure destinations.

The company which competes with the likes of Southwest Airlines, Spirit Airlines, American Airlines, Delta Air Lines, JetBlue Airlines and United Airlines, provides services on 405 routes across 99 origination cities and 23 leisure destinations, simultaneously covering 42 states and Puerto Rico.

Apart from air travel, the company offers vacation deals including car rentals and hotel bookings. Allegiant is making constant efforts to modernize its fleet. As of Dec 31, 2018, the company's fleet consisted of 44 A320 and 32 A319 aircraft. During the year, it retired 37 MD-80 aircraft.

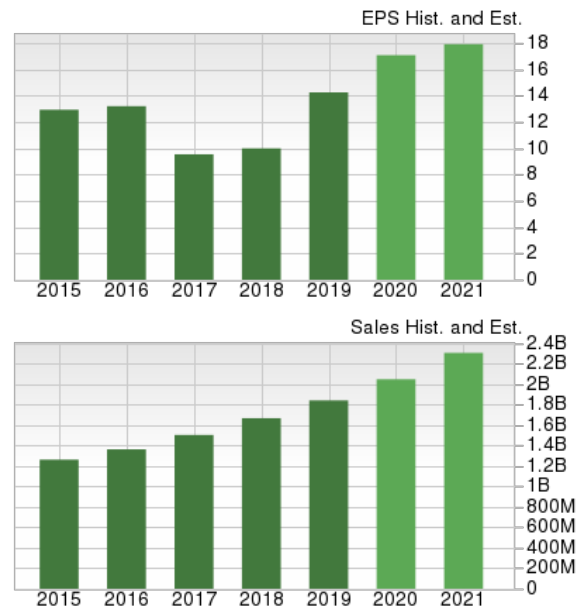
The company focusses on unbundling its air-related products and services like baggage fees, advance seat assignment among others. Allegiant, which also offers air transportation through fixed fee flight arrangements, focuses on generating significant additional ancillary revenues thanks to its unique business model.

By focusing on leisure travelers only, this unique business model enables the company to avoid heavy costs of serving a variety of customers. In order to reduce costs, Allegiant usually purchases used aircraft with useful remaining years. Additionally, this non-traditional approach also brings down distribution-related expenses.

The company also attracts customers by offering third party travel products like hotel rooms and ground transportation. The company also generates revenues by temporarily functioning as a lessor to acquire aircraft and/or engines. Unlike many other carriers, Allegiant does not offer connecting flights. It also does not have frequent flier agreements.

The company reported a 10.3% year over year increase in operating revenues to \$1,667.4 million in 2018. The uptick was driven by a 11.8% increase in passenger revenues. Passenger revenues accounted for 92% of the top line in 2018.

Revenues from third-party products and fixed fee contract contributed 3.5% and 3% respectively to the top line in 2018. Other sources of revenues accounted for the balance at Allegiant. Notably, the company's fiscal year coincides with the calendar year.



Reasons To Buy:

- ▲ Allegiant's results have been aided by strong passenger revenues over the last few quarters. On the back of surging demand for air travel, passenger revenues rose 11.8% in 2018 and 9.7% in 2019. Anticipating air-travel demand to remain strong, Allegiant expects 2020 earnings to exceed 2019 levels. The carrier expects 2020 earnings per share between \$16.5 and \$19. The mid-point of the guided range (\$17.75 per share) is above 2019's reported earnings of \$14.26 per share.
- ▲ We are impressed by the company's efforts to reward shareholders through share buybacks and dividend payments. Additionally, the company's performance on the punctuality front is impressive. As an evidence, on-time arrival increased four percentage points in 2018 from 2017 levels to 77%. Impressive performances on the punctuality front might enable the carrier to attract more traffic. Moreover, the current scenario of low fuel costs is a positive for the company. Evidently, average fuel cost per gallon (scheduled) declined 6.4% to \$2.18 in the December-end quarter. The company expects fuel cost per gallon of \$2.15 for full-year 2020, below the 2019's reported figure of \$2.18.
- ▲ We are also impressed by the company's efforts to modernize its fleet. The carrier operates an all-Airbus fleet. Allegiant's fleet-size at the end of 2019 was 91 (37 A319 and 54 A320), indicating an increase from 2018's reported figure. The fleet size is expected to expand to 105 (38 A319 and 67 A320) by 2020-end. The transition to an all-Airbus fleet, completed in November 2018, increased Allegiant's fuel efficiency.

With demand likely to be consistently buoyant, passenger revenues, accounting for bulk of the top line, should aid the company's results going forward.

Reasons To Sell:

- ▼ Allegiant is a highly leveraged company. This is indicated by the fact that the ratio of its debt-to-equity (expressed as a percentage) is currently more than 100. This compares unfavorably to the industry's already high average. A high debt-to-equity ratio implies that the company is funding most of its ventures through borrowings.
- ▼ Woes related to capacity overexpansion pose a major challenge to the company. Evidently, load factor (% of seats filled by passengers) contracted 80 basis points to 83.9% in 2019 as capacity expansion (8.4%) outweighed traffic growth (7.2%). The company expects full-year 2020 scheduled and system capacity to increase in the 10-12% range each.
- ▼ The company's high capital expenditures have the potential to hamper bottom-line growth over the long term. With the company investing heavily in fleet modernization, its capex is quite high. Allegiant's capital expenditures (airline) for full-year 2019 exceeded guidance, which was in the \$375-\$380 million range. Additionally, high labor costs have been affecting the company's bottom line for quite some time (for example, expenses on salary and benefits rose 8.8% in 2019) and the situation is not likely to change going forward.

Allegiant's high debt levels and woes related to capacity overexpansion are quite concerning.

Last Earnings Report

Allegiant Beats on Q4 Earnings

Allegiant's fourth-quarter 2019 earnings of \$3.72 per share fell short off the Zacks Consensus Estimate of \$3.87. However, the bottom line rose 45.3% year over year, driven by lower fuel costs and higher revenues. Total operating revenues increased 11.9% year over year to \$461.1 million on the back of a 10.8% rise in passenger revenues. Moreover, the top line surpassed the consensus mark of \$460.2 million.

Notably, quarterly earnings (airline operations) increased to \$4.04 per share.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	0.20%
EPS Surprise	-3.88%
Quarterly EPS	3.72
Annual EPS (TTM)	14.73

Quarter in Details

Air traffic (measured in revenue passenger miles or RPMs) for scheduled service rose 8% in the quarter under review. Capacity (measured in available seat miles or ASMs) increased 8.3% year over year. Load factor (percentage of seats filled by passengers) was 82.1%, down 20 basis points as capacity expansion outweighed traffic growth.

Airline operating cost per available seat miles (CASM) excluding fuel fell 1.5%. Average fuel cost per gallon (scheduled) declined 6.4% to \$2.18 in the quarter. Moreover, total scheduled service passenger revenue per available seat miles (TRASM) increased 2.5% to 11.57 cents.

In the quarter under review, Allegiant rewarded shareholders with dividends worth \$11 million. Notably, the company has roughly \$85 million remaining under its current buyback program. Furthermore, the board of directors has cleared a quarterly dividend of 70 cents per share, which is payable on Mar 12, 2020, to shareholders of record as of Mar 2.

2020 Outlook

The company continues to expect scheduled and system ASMs to increase between 10% and 12% each. Allegiant Travel anticipates non-fuel unit costs (airline) to either remain flat or decline up to 2%.

The company now expects fuel cost per gallon of \$2.15 (old guidance: \$2.12). Additionally, the effective tax rate is anticipated between 23% and 24%.

The company still expects earnings per share between \$16.5 and \$19 for the current year.

Recent News

December Traffic – Jan 14, 2020

Traffic for scheduled service, measured in revenue passenger miles (RPMs), inched up 19.6% on a year-over-year basis to 1.16 billion. Scheduled capacity, calculated in available seat miles (ASMs), also increased 18.5% to 1.41 billion in December.

With traffic growth exceeding capacity expansion, load factor (percentage of seats filled with passengers) improved 80 basis points (bps) year over year to 82.6%. The number of departures for scheduled service climbed 22.7%. However, average stage length (average distance flown per aircraft departure) dipped 3.3% to 871 miles in the month.

Valuation

Allegiant shares are up 20.8% over the trailing 12-month period. Stocks in the Zacks sub-industry shed 3.9% of their value in a year's time. Stocks in the Zacks Transportation sector are up 1.9% in the past year. The S&P 500 index is up 17.4% in a year's time.

The stock is currently trading at 9.79X forward 12-month price to earnings, which compares to 8.32X for the Zacks sub-industry, 12.8X for the Zacks sector and 18.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.4X and as low as 8.49X, with a 5-year median of 12.08X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$178 price target reflects 10.37X forward 12-month earnings.

The table below shows summary valuation data for ALGT

Valuation Multiples - ALGT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.79	8.32	12.8	18.5
	5-Year High	18.4	12.3	17	19.34
	5-Year Low	8.49	6.85	10.48	15.18
	5-Year Median	12.08	9.05	13.18	17.66
EV/EBITDA TTM	Current	7.03	7.39	7.7	11.95
	5-Year High	13.41	7.22	11.08	12.85
	5-Year Low	3.99	4.32	6	9.32
	5-Year Median	7.16	6.05	7.41	11.15
P/S F12M	Current	1.33	0.68	1.1	3.43
	5-Year High	2.89	0.98	1.4	3.43
	5-Year Low	0.88	0.63	1.02	2.76
	5-Year Median	1.5	0.78	1.22	3.15

As of 01/31/2020

Industry Analysis Zacks Industry Rank: Top 14% (36 out of 255)



Top Peers

Delta Air Lines, Inc. (DAL)	Outperform
American Airlines Group Inc. (AAL)	Neutral
Hawaiian Holdings, Inc. (HA)	Neutral
JetBlue Airways Corporation (JBLU)	Neutral
Southwest Airlines Co. (LUV)	Neutral
Spirit Airlines, Inc. (SAVE)	Neutral
SkyWest, Inc. (SKYW)	Neutral
United Airlines Holdings Inc (UAL)	Neutral

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	ALGT Neutral	X Industry	S&P 500	JBLU Neutral	LUV Neutral	SAVE Neutral
VGM Score	B	-	-	B	C	C
Market Cap	2.74 B	4.53 B	23.55 B	5.72 B	28.93 B	2.81 B
# of Analysts	6	2	13	6	13	8
Dividend Yield	1.67%	0.00%	1.81%	0.00%	1.31%	0.00%
Value Score	B	-	-	A	B	A
Cash/Price	0.15	0.24	0.04	0.17	0.14	0.36
EV/EBITDA	9.22	6.08	13.97	8.57	6.54	10.02
PEG Ratio	0.32	0.54	1.97	0.36	1.40	NA
Price/Book (P/B)	3.31	1.29	3.21	1.20	2.94	1.29
Price/Cash Flow (P/CF)	7.05	5.07	13.36	5.24	8.22	5.76
P/E (F1)	9.84	8.32	18.42	8.16	12.07	8.21
Price/Sales (P/S)	1.49	0.62	2.60	0.71	1.29	0.75
Earnings Yield	10.17%	12.02%	5.43%	12.25%	8.28%	12.17%
Debt/Equity	1.47	0.64	0.72	0.43	0.30	1.32
Cash Flow (\$/share)	23.82	3.94	6.92	3.79	6.69	7.13
Growth Score	C	-	-	B	C	F
Hist. EPS Growth (3-5 yrs)	3.24%	3.32%	10.68%	0.16%	7.94%	3.40%
Proj. EPS Growth (F1/F0)	19.87%	14.16%	7.59%	27.89%	6.63%	-0.10%
Curr. Cash Flow Growth	33.25%	10.49%	10.81%	11.76%	-3.22%	28.39%
Hist. Cash Flow Growth (3-5 yrs)	12.42%	8.55%	8.78%	14.43%	8.55%	18.42%
Current Ratio	0.96	0.70	1.22	0.53	0.67	1.33
Debt/Capital	59.48%	47.20%	42.99%	30.18%	23.31%	56.96%
Net Margin	12.58%	5.81%	11.69%	7.03%	10.26%	9.29%
Return on Equity	30.27%	14.71%	17.33%	12.13%	23.31%	17.52%
Sales/Assets	0.64	0.66	0.55	0.72	0.85	0.60
Proj. Sales Growth (F1/F0)	11.22%	4.91%	4.12%	7.49%	3.49%	15.60%
Momentum Score	D	-	-	F	F	C
Daily Price Chg	-1.00%	-1.40%	-1.98%	-1.83%	-1.52%	-3.23%
1 Week Price Chg	-2.69%	-2.69%	-1.09%	7.47%	2.80%	-1.93%
4 Week Price Chg	-4.55%	-5.59%	-2.11%	4.98%	0.26%	1.03%
12 Week Price Chg	-0.05%	-7.74%	2.15%	1.30%	-5.60%	4.24%
52 Week Price Chg	29.26%	-12.08%	14.15%	10.23%	-3.14%	-30.18%
20 Day Average Volume	172,068	113,689	1,808,632	6,406,305	4,795,338	1,238,151
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.37%	-0.93%	0.00%
(F1) EPS Est 4 week change	-0.57%	0.00%	0.00%	3.48%	-5.91%	1.12%
(F1) EPS Est 12 week change	7.36%	1.41%	-0.09%	3.99%	-7.55%	3.90%
(Q1) EPS Est Mthly Chg	-4.41%	0.00%	0.00%	-30.00%	2.04%	0.94%

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	B
Growth Score	C
Momentum Score	D
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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