Allegiant Travel(ALGT)

$135.54 (As of 03/02/20)

Price Target (6-12 Months): **$144.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/01/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: A | Momentum: C	

Summary

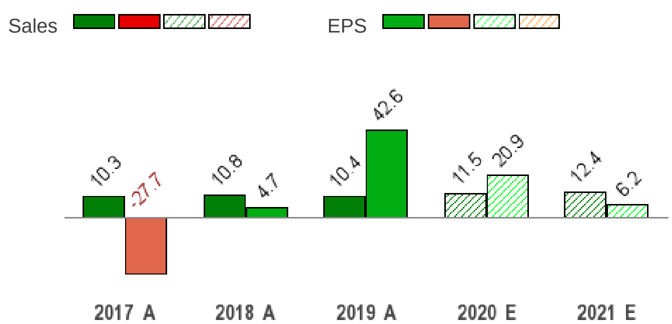
Shares of Allegiant Travel have outperformed its industry in a year's time, mainly owing to robust passenger revenues. Solid demand for air travel is leading to higher passenger revenues. Evidently, in 2019, passenger revenues, which account for the bulk of the company's top line, increased 9.7% on a 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)	**210,606**
Market Cap	**$2.2 B**
YTD Price Change	**-21.0%**
Beta	**1.21**
Dividend / Div Yld	**$2.80 / 2.0%**
Industry	**Transportation - Airline**
Zacks Industry Rank	**Top 14% (36 out of 255)**
Last EPS Surprise	**-3.9%**
Last Sales Surprise	**0.2%**
EPS F1 Est- 4 week change	**-0.0%**
Expected Report Date	**04/22/2020**
Earnings ESP	**0.0%**
P/E TTM	**9.3**
P/E F1	**7.9**
PEG F1	**0.3**
P/S TTM	**1.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	563 E	604 E	547 E	563 E	2,306 E
2020	524 E	543 E	483 E	495 E	2,052 E
2019	452 A	492 A	437 A	461 A	1,841 A

EPS Estimates

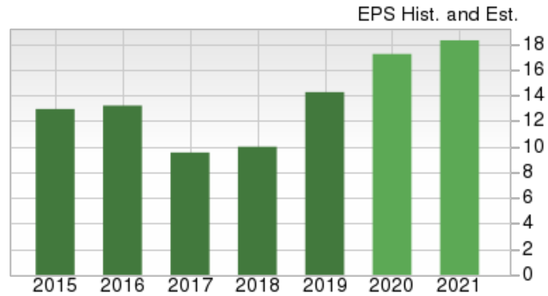
	Q1	Q2	Q3	Q4	Annual*
2021	$4.10 E	$6.26 E	$3.73 E	$5.29 E	$18.30 E
2020	$4.48 E	$5.56 E	$3.21 E	$3.97 E	$17.24 E
2019	$3.98 A	$4.33 A	$2.70 A	$3.72 A	$14.26 A

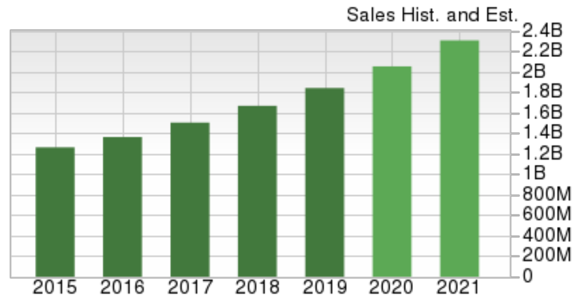
*Quarterly figures may not add up to annual.

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

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.





At 2019-end, the company which competes with the likes of Southwest Airlines, JetBlue Airlines and Spirit Airlines in the low-cost space, provides services on 466 routes across 97 origination cities and 27 leisure destinations, simultaneously covering 43 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, 2019, the company's operating fleet consisted of 54 A320 and 37 A-319 jets.

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 10.4% year over year increase in operating revenues to $1,841 million in 2019. The uptick was driven by a 9.7% increase in passenger revenues. Passenger revenues accounted for 91.4% of the top line in 2019.

Revenues from third-party products increased 20.6% year over year and contributed 3.8% to the top line in 2019. Fixed fee contract revenues, increased 29.4% and contributed 3.5%. Other sources of revenues accounted for the balance. Notably, the company's fiscal year coincides with the calendar year.

Reasons To Buy:

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

- 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 andf 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.

Reasons To Sell:

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

- 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.

Last Earnings Report

Allegiant Beats on Q4 Earnings

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

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 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

January Traffic – Feb 17, 2020

Traffic for scheduled service, measured in revenue passenger miles (RPMs), increased 12.6% on a year-over-year basis to 964.77 million. Scheduled capacity, calculated in available seat miles (ASMs), also rose 11.9% to 1.18 billion in the month.

With traffic growth exceeding capacity expansion, load factor (percentage of seats filled with passengers) inched up 50 basis points year over year to 81.8%.

The number of departures for scheduled service climbed 14.6%. However, the average stage length (average distance flown per aircraft departure) dipped 2.3% to 880 miles in the same month. For the total system (including scheduled service and fixed fee contract), number of departures ascended 15.8% while the average stage length slipped 2.3%.

Valuation

Allegiant shares are up 5.6% over the trailing 12-month period. Stocks in the Zacks sub-industry shed 19.2% of their value in a year's time. Stocks in the Zacks Transportation sector are down 11.1% in the past year. The S&P 500 index is up 4.9% in a year's time.

The stock is currently trading at 7.89X forward 12-month price to earnings, which compares to 6.6X for the Zacks sub-industry, 11.23X for the Zacks sector and 16.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.88X and as low as 7.52X, with a 5-year median of 10.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $144 price target reflects 8.26X forward 12-month earnings.

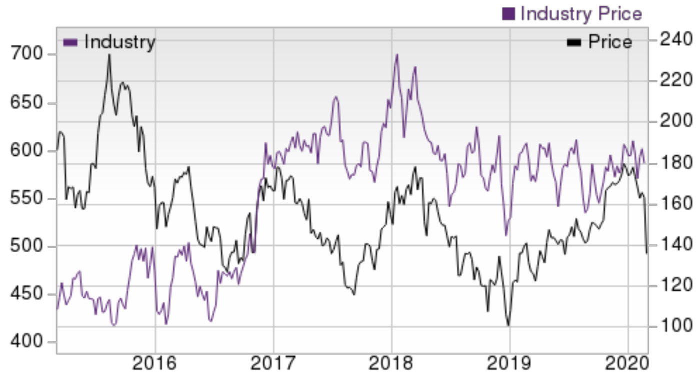
The table below shows summary valuation data for ALGT

Valuation Multiples - ALGT

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.89	6.6	11.23	16.87
	5-Year High	11.88	9.31	13.66	18.68
	5-Year Low	7.52	6.6	11.23	16.13
	5-Year Median	10.1	8.75	12.85	17.24
EV/EBITDA TTM	Current	5.99	4.87	6.86	10.93
	5-Year High	8.05	6.91	8.11	12.56
	5-Year Low	5.99	4.87	6.86	10.49
	5-Year Median	7.43	6.63	7.77	11.21
P/S F12M	Current	1.07	0.54	0.97	3.12
	5-Year High	1.56	0.73	1.18	3.43
	5-Year Low	1.02	0.54	0.97	3
	5-Year Median	1.23	0.69	1.11	3.17

As of 03/02/2020

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



Top Peers

Delta Air Lines, Inc. **(DAL)**	Outperform
Spirit Airlines, Inc. **(SAVE)**	Outperform
American Airlines Group Inc. **(AAL)**	Neutral
Hawaiian Holdings, Inc. **(HA)**	Neutral
JetBlue Airways Corporation **(JBLU)**	Neutral
Southwest Airlines Co. **(LUV)**	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 Outperform
VGM Score	A	-	-	A	C	B
Market Cap	2.25 B	3.92 B	22.14 B	4.39 B	24.29 B	1.87 B
# of Analysts	6	4	13	6	13	8
Dividend Yield	2.04%	0.00%	1.98%	0.00%	1.53%	0.00%
Value Score	A	-	-	A	B	A
Cash/Price	0.21	0.32	0.05	0.30	0.17	0.56
EV/EBITDA	5.71	4.54	12.79	4.23	5.45	5.22
PEG Ratio	0.26	0.46	1.92	0.28	1.20	0.30
Price/Book (P/B)	2.53	0.93	3.00	0.94	2.47	0.83
Price/Cash Flow (P/CF)	5.77	3.42	11.97	4.11	6.90	3.20
P/E (F1)	7.97	6.74	17.43	6.25	10.31	4.94
Price/Sales (P/S)	1.22	0.51	2.48	0.54	1.08	0.49
Earnings Yield	12.54%	14.84%	5.74%	15.99%	9.69%	20.24%
Debt/Equity	1.41	0.64	0.70	0.56	0.30	1.41
Cash Flow ($/share)	23.82	4.14	6.94	3.79	6.80	8.51
Growth Score	A	-	-	A	C	F
Hist. EPS Growth (3-5 yrs)	1.54%	3.75%	10.85%	0.16%	7.94%	3.49%
Proj. EPS Growth (F1/F0)	20.88%	15.12%	6.48%	31.14%	6.59%	8.47%
Curr. Cash Flow Growth	33.25%	12.07%	6.03%	14.33%	-3.22%	19.78%
Hist. Cash Flow Growth (3-5 yrs)	14.30%	8.82%	8.52%	14.43%	8.55%	15.50%
Current Ratio	0.92	0.69	1.23	0.67	0.67	1.25
Debt/Capital	58.56%	47.20%	42.57%	35.83%	23.31%	58.43%
Net Margin	12.58%	6.96%	11.57%	7.03%	10.26%	8.75%
Return on Equity	29.40%	15.54%	16.66%	12.06%	23.31%	16.38%
Sales/Assets	0.64	0.66	0.54	0.71	0.85	0.57
Proj. Sales Growth (F1/F0)	11.49%	4.11%	4.07%	7.21%	3.35%	16.85%
Momentum Score	C	-	-	A	D	A
Daily Price Chg	1.39%	0.00%	3.82%	-1.33%	1.65%	-4.15%
1 Week Price Chg	-16.78%	-20.29%	-12.06%	-23.44%	-18.29%	-30.78%
4 Week Price Chg	-17.08%	-17.74%	-6.43%	-22.23%	-14.98%	-35.01%
12 Week Price Chg	-20.00%	-20.00%	-5.15%	-17.75%	-15.36%	-29.15%
52 Week Price Chg	5.54%	-22.56%	4.77%	-5.98%	-12.78%	-52.21%
20 Day Average Volume	210,606	79,992	2,363,047	5,732,955	4,728,519	1,971,682
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.05%	0.00%	-0.04%	1.87%	-0.03%	10.43%
(F1) EPS Est 12 week change	1.84%	1.68%	-0.33%	4.58%	-7.59%	12.51%
(Q1) EPS Est Mthly Chg	0.00%	0.19%	-0.38%	4.95%	2.92%	30.22%

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	A
Momentum Score	C
VGM Score	A

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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