

## Allegiant Travel(ALGT)

**\$69.50** (As of 04/02/20)

Price Target (6-12 Months): **\$59.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 03/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**5-Strong Sell**

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

### Summary

Shares of Allegiant have plunged more than 58% since the beginning of February due to the drop in air-travel demand for leisure travel in the wake of the coronavirus outbreak. With demand drooping massively, the company announced a 15% cut in airline capacity for April and May. The reduction is likely to increase further. Despite this downturn, low fuel prices are expected to partly offset the adversity and aid the bottom line in turn. The carrier is also taking substantial cost-cutting measures, such as freezing hiring and suspending construction of Florida resort. Due to the ongoing economic crunch, it suspended dividend payments and buyback activities as well. Its high debt levels are worrisome too. The negativity surrounding the stock can be gauged from the Zacks Consensus Estimate for current-year earnings moving south over the past 60 days.

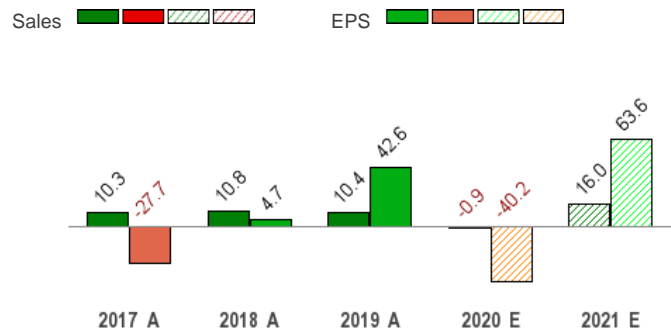
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$183.26 - \$60.06</b>
20 Day Average Volume (sh)	<b>361,980</b>
Market Cap	<b>\$1.1 B</b>
YTD Price Change	<b>-60.1%</b>
Beta	<b>1.57</b>
Dividend / Div Yld	<b>\$2.80 / 4.0%</b>
Industry	<a href="#">Transportation - Airline</a>
Zacks Industry Rank	<b>Bottom 18% (208 out of 254)</b>

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



Last EPS Surprise	<b>-3.9%</b>
Last Sales Surprise	<b>0.2%</b>
EPS F1 Est- 4 week change	<b>-50.8%</b>
Expected Report Date	<b>04/22/2020</b>
Earnings ESP	<b>-31.2%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	563 E	604 E	547 E	563 E	2,116 E
2020	508 E	509 E	485 E	486 E	1,824 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	\$13.94 E
2020	\$2.17 E	\$2.73 E	\$2.91 E	\$4.26 E	\$8.52 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	<b>4.7</b>
P/E F1	<b>8.2</b>
PEG F1	<b>0.3</b>
P/S TTM	<b>0.6</b>

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/02/2020. The reports text is as of 04/03/2020.

## 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.

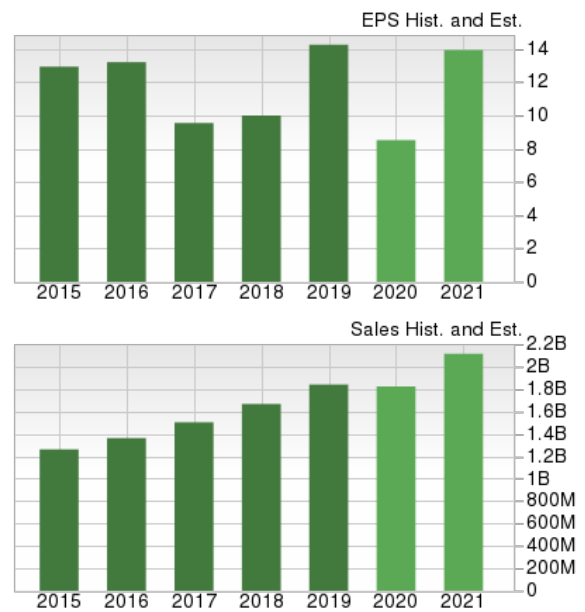
The company focusses on unbundling its air-related products and services like baggage fees, advance seat assignment among others. Allegiant, which also offers air transportation through fixed fee flight arrangements, focuses on generating significant additional ancillary revenues thanks to its unique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



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### Reasons To Sell:

- ▼ The coronavirus pandemic is taking a significant toll on Allegiant. With air-travel demand for leisure stooping to an unprecedented level, the company announced a 15% decline in airline capacity for April and May. The cutback is likely to worsen between 30 and 35% in the coming days. With travel demand likely to be unexpectedly low in the usually busy summer season, Allegiant's top line might take a huge beating
- ▼ The negativity surrounding the stock is evident from the Zacks Consensus Estimate for current-year earnings being revised downward over the past 60 days. Particularly, due to coronavirus-induced low demand, shares of the company have slumped more than 58% since the beginning of February. With the crisis showing no signs of fading, the stock price may depreciate further, dampening investor confidence in the stock.
- ▼ 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.

**Allegiant's high debt levels and woes related to coronavirus are quite concerning.**

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## Risks

- Even though Allegiant suspended buybacks and dividends due to the present crisis, we note that the company had an impressive record of dividend payments and share repurchases prior to the outbreak. Additionally, the company's performance on the punctuality front is impressive.
  - 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 transition to an all-Airbus fleet, completed in November 2018, increased Allegiant's fuel efficiency.
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## Last Earnings Report

### Allegiant Misses 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	<b>Jan 29, 2020</b>
Sales Surprise	<b>0.20%</b>
EPS Surprise	<b>-3.88%</b>
Quarterly EPS	<b>3.72</b>
Annual EPS (TTM)	<b>14.73</b>

### 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

### February Traffic – Mar 9, 2020

Traffic for scheduled service, measured in revenue passenger miles (RPMs), increased 18.3% on a year-over-year basis. Scheduled capacity, calculated in available seat miles (ASMs), also rose 20.5%.

With traffic growth falling short of capacity expansion, load factor (percentage of seats filled with passengers) declined 150 basis points year over year to 81.8%.

The number of departures for scheduled service climbed 20.9%. Also, the average stage length (average distance flown per aircraft departure) dipped 0.7% to 902 miles in the same month. For the total system (including scheduled service and fixed fee contract), number of departures ascended 19.8% while the average stage length slipped 0.6%.

## Valuation

Allegiant's shares have been down 60.1% and 48.9% year to date and over the past year, respectively. Stocks in the Zacks sub-industry have shed 59.1% and 58.7% of value so far this year and in a year's time each. Stocks in the Zacks Transportation sector have declined 31.3% and 30.2% year to date and in the past year, respectively. The S&P 500 Index has lost 23.1% and 14.3% year to date and in the past 12 months, respectively.

The stock is currently trading at 4.16X forward 12-month price to earnings, which compares to 8.52X for the Zacks sub-industry, 11.7X for the Zacks sector and 15.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.4X and as low as 4.16X, with a 5-year median of 11.88X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$59 price target reflects 3.53X forward 12-month earnings.

The table below shows summary valuation data for ALGT

Valuation Multiples - ALGT					
		Stock	Sub-Industry	Sector	S&P 500
P/ F 12M	Current	4.16	8.52	11.7	15.37
	5-Year High	18.4	12.3	17.05	19.34
	5-Year Low	4.16	6.61	10.47	15.18
	5-Year Median	11.88	9.05	13.14	17.44
EV/EBITDA TTM	Current	3.95	3.4	6.11	9.15
	5-Year High	11.6	7.01	11.12	12.88
	5-Year Low	3.93	3.32	5.72	8.27
	5-Year Median	7.18	5.98	7.4	10.78
P/S F 12M	Current	0.54	0.33	0.82	2.7
	5-Year High	2.89	0.98	1.41	3.43
	5-Year Low	0.54	0.33	0.82	2.54
	5-Year Median	1.48	0.77	1.21	3

As of 04/02/2020

## Industry Analysis Zacks Industry Rank: Bottom 18% (208 out of 254)



## Top Peers

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

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	ALGT Underperform	X Industry	S&P 500	JBLU Neutral	LUV Neutral	SAVE Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>B</b>	<b>B</b>	<b>C</b>
Market Cap	1.14 B	2.09 B	17.16 B	2.15 B	16.29 B	720.83 M
# of Analysts	5	4.5	13	6	10	6
Dividend Yield	4.03%	0.00%	2.5%	0.00%	2.29%	0.00%
<b>Value Score</b>	<b>A</b>	-	-	<b>B</b>	<b>A</b>	<b>A</b>
Cash/Price	0.32	0.58	0.06	0.48	0.22	1.07
EV/EBITDA	3.61	3.19	10.80	2.58	3.57	3.71
PEG Ratio	0.26	1.10	1.74	7.95	2.54	1.54
Price/Book (P/B)	1.28	0.55	2.33	0.46	1.66	0.32
Price/Cash Flow (P/CF)	2.92	2.02	9.11	2.02	4.63	1.24
P/E (F1)	8.02	9.45	14.73	176.08	9.25	19.20
Price/Sales (P/S)	0.62	0.27	1.81	0.27	0.73	0.19
Earnings Yield	12.26%	5.49%	6.71%	0.52%	10.83%	5.22%
Debt/Equity	1.41	0.66	0.70	0.56	0.30	1.41
Cash Flow (\$/share)	23.82	4.14	7.01	3.79	6.80	8.51
<b>Growth Score</b>	<b>B</b>	-	-	<b>A</b>	<b>D</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	1.54%	4.00%	10.92%	0.16%	7.94%	3.49%
Proj. EPS Growth (F1/F0)	-40.24%	-83.87%	1.02%	-97.72%	-20.21%	-89.23%
Curr. Cash Flow Growth	33.25%	5.74%	5.93%	14.33%	-3.22%	19.78%
Hist. Cash Flow Growth (3-5 yrs)	14.30%	8.40%	8.55%	14.43%	8.55%	15.50%
Current Ratio	0.92	0.68	1.24	0.67	0.67	1.25
Debt/Capital	58.56%	47.20%	42.33%	35.83%	23.31%	58.43%
Net Margin	12.58%	6.96%	11.67%	7.03%	10.26%	8.75%
Return on Equity	29.40%	12.67%	16.70%	12.06%	23.31%	16.38%
Sales/Assets	0.64	0.64	0.54	0.71	0.85	0.57
Proj. Sales Growth (F1/F0)	-0.93%	-4.29%	1.54%	-11.22%	-4.09%	-3.09%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>F</b>	<b>B</b>	<b>F</b>
Daily Price Chg	-2.51%	-0.55%	1.45%	-5.92%	-1.69%	-6.98%
1 Week Price Chg	32.10%	10.32%	12.29%	36.36%	13.90%	70.20%
4 Week Price Chg	-43.73%	-42.91%	-21.33%	-44.95%	-30.39%	-51.11%
12 Week Price Chg	-60.32%	-54.35%	-28.56%	-59.22%	-41.99%	-73.68%
52 Week Price Chg	-48.88%	-57.35%	-22.55%	-54.04%	-40.77%	-80.61%
20 Day Average Volume	361,980	185,473	4,257,668	16,811,884	11,371,201	6,547,701
(F1) EPS Est 1 week change	0.00%	0.00%	-0.04%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-50.78%	-66.70%	-4.30%	-98.26%	-25.89%	-90.29%
(F1) EPS Est 12 week change	-50.43%	-68.37%	-5.47%	-98.17%	-29.86%	-88.87%
(Q1) EPS Est Mthly Chg	-50.96%	-99.73%	-5.91%	-133.96%	-22.75%	-99.73%

## 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>A</b>
Growth Score	<b>B</b>
Momentum Score	<b>C</b>
VGM Score	<b>A</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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