

Allegiant Travel(ALGT)

\$66.23 (As of 05/07/20)

Price Target (6-12 Months): **\$70.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/28/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

Summary

Shares of Allegiant have plunged more than 54% since the beginning of February due to the drop in leisure travel demand in the wake of the coronavirus outbreak. With demand drooping massively, the company's March revenues declined around 36%. Moreover, for April and May, the company expects capacity to decline 80-90%. With travel demand likely to be significantly low in the usually busy summer season, Allegiant's top line might take a beating. Amid 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.

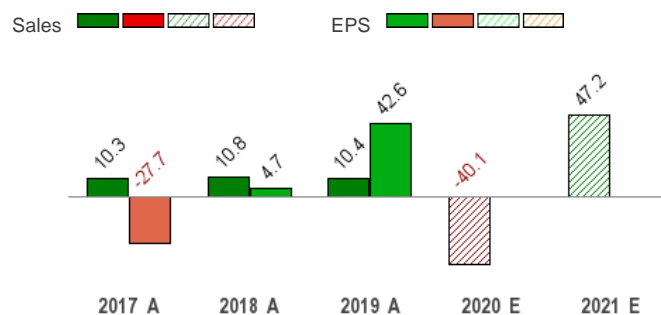
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$183.26 - \$60.06
20 Day Average Volume (sh)	265,210
Market Cap	\$1.1 B
YTD Price Change	-62.0%
Beta	1.31
Dividend / Div Yld	\$2.80 / 4.2%
Industry	Transportation - Airline
Zacks Industry Rank	Bottom 42% (147 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.9%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	-134.7%
Expected Report Date	05/12/2020
Earnings ESP	14.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	425 E	483 E	461 E	477 E	1,624 E
2020	408 E	43 E	164 E	291 E	1,103 E
2019	452 A	492 A	437 A	461 A	1,841 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.15 E	\$2.61 E	\$2.01 E	\$3.27 E	\$8.98 E
2020	\$0.92 E	-\$5.43 E	-\$1.44 E	\$2.15 E	-\$1.51 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	4.5
P/E F1	NA
PEG F1	NA
P/S TTM	0.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/07/2020. The reports text is as of 05/08/2020.

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.

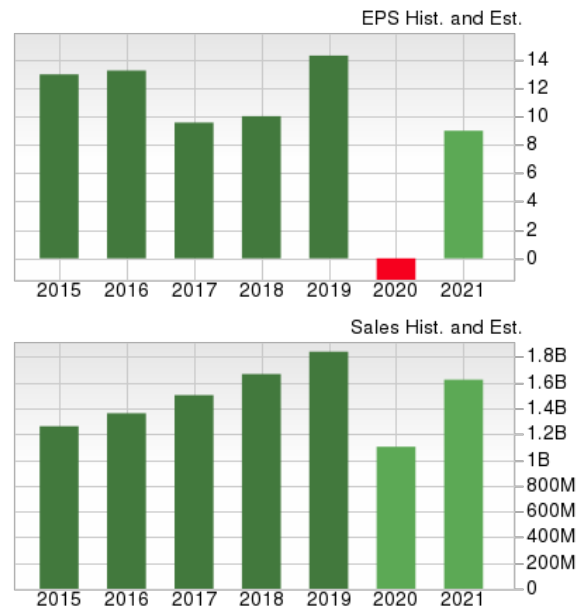
The company focusses on unbundling its air-related products and services like baggage fees, advance seat assignment among others. Allegiant, which also offers air transportation through fixed fee flight arrangements, focuses on generating significant additional ancillary revenues thanks to its unique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

- ▲ 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.

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:

- ▼ The coronavirus pandemic is taking a toll on Allegiant. With air-travel demand for leisure spiraling down to an unprecedented level, the company's March revenues declined approximately 36% year over year. Capacity in the month was down 12.3%. Additionally, for April and May, the company expects capacity to decline 80-90% year over year. The carrier will also trim its summer schedule. With travel demand likely to be significantly low in the usually busy summer season, Allegiant's top line might take a beating. Owing to the COVID-19 outbreak we expect Allegiant's first-quarter results to be hurt by low passenger revenues (detailed results will be out on May 12).
- ▼ 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 54% 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
- ▼ The debt-to-capitalization ratio, which is an indicator of the company's leverage, stood at 0.61, 0.64, 0.63 and 0.6 at the end of 2019, 2018, 2017 and 2016, respectively. The readings compare unfavorably with the respective numbers for its industry of 0.6, 0.59, 0.57 and 0.55. Moreover, the cash and cash equivalents at Allegiant for 2019 stood at \$473 million, way below the total debt figure of \$1,422 million, implying that the company doesn't have enough cash to meet its total debt burden.

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

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	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

March Traffic – Apr 15, 2020

Traffic for scheduled service, measured in revenue passenger miles (RPMs), plunged 39.4% on a year-over-year basis in March. Scheduled capacity, calculated in available seat miles (ASMs), also declined 12.2%. With traffic declining more than the contraction in capacity, load factor (or percentage of seats filled by passengers) deteriorated 2,670 basis points (bps) year over year to 59.4%.

The number of departures for scheduled service decreased 13.3%. The average stage length (average distance flown per aircraft departure) was flat at 914 miles in the same month. For the total system (including scheduled service and fixed fee contract), the number of departures declined 14% while the average stage length was unaltered.

Valuation

Allegiant's shares are down 62% and 53.5% 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 59.8% and 27% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector are down 57.8% and 25.1% respectively.

The S&P 500 index is down 11.5% and 1% in the year-to-date period and in the past year, respectively.

The stock is currently trading at 4.5X trailing 12-month price to earnings, which compares to 4.13X for the Zacks sub-industry, 11.54X for the Zacks sector and 18.2X for the S&P 500 index.

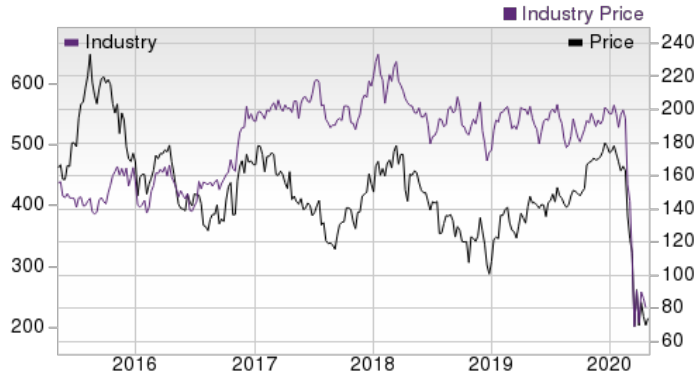
Over the past five years, the stock has traded as high as 24.5X and as low as 4.5X, with a 5-year median of 12.68X. Our Neutral recommendation indicates that the stock will perform in line the market. Our \$70 price target reflects 4.75X trailing 12-month earnings.

The table below shows summary valuation data for ALGT

Valuation Multiples - ALGT					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	4.5	4.13	11.54	18.2
	5-Year High	24.5	13.2	19.58	22.17
	5-Year Low	4.5	4.13	11.54	15.91
	5-Year Median	12.68	10.78	15.53	18.95
EV/EBITDA TTM	Current	3.86	3.21	6.01	10.44
	5-Year High	11.6	7.03	11.16	12.86
	5-Year Low	3.86	3.19	5.42	8.28
	5-Year Median	7.11	5.92	7.36	10.78
P/S F 12M	Current	0.84	0.45	1	3.21
	5-Year High	2.89	0.98	1.42	3.44
	5-Year Low	0.54	0.38	0.85	2.54
	5-Year Median	1.46	0.77	1.2	3.01

As of 05/07/2020

Industry Analysis Zacks Industry Rank: Bottom 42% (147 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
American Airlines Group Inc (AAL)	Neutral	4
Hawaiian Holdings Inc (HA)	Neutral	3
JetBlue Airways Corporation (JBLU)	Neutral	3
Southwest Airlines Co (LUV)	Neutral	3
Spirit Airlines Inc (SAVE)	Neutral	3
United Airlines Holdings Inc (UAL)	Neutral	3
Delta Air Lines Inc (DAL)	Underperform	3
SkyWest Inc (SKYW)	Underperform	5

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	ALGT	X Industry	S&P 500	JBLU	LUV	SAVE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	B	F	C
Market Cap	1.08 B	1.90 B	19.51 B	2.21 B	12.95 B	720.35 M
# of Analysts	5	4	14	6	7	6
Dividend Yield	4.23%	0.00%	2.15%	0.00%	2.83%	0.00%
Value Score	B	-	-	C	C	B
Cash/Price	0.39	0.51	0.06	0.55	0.37	1.20
EV/EBITDA	3.51	2.98	11.77	2.62	2.54	3.78
PEG Ratio	NA	2.00	2.54	NA	NA	NA
Price/Book (P/B)	1.22	0.63	2.67	0.49	1.43	0.32
Price/Cash Flow (P/CF)	2.78	2.08	10.44	2.16	3.74	1.23
P/E (F1)	NA	20.59	19.30	NA	NA	NA
Price/Sales (P/S)	0.59	0.28	1.99	0.28	0.60	0.19
Earnings Yield	-2.28%	-25.16%	4.91%	-28.00%	-16.66%	-39.87%
Debt/Equity	1.41	0.64	0.75	0.56	0.38	1.45
Cash Flow (\$/share)	23.82	4.15	7.01	3.79	6.80	8.51
Growth Score	A	-	-	B	F	F
Hist. EPS Growth (3-5 yrs)	1.54%	3.16%	10.87%	0.16%	4.95%	3.49%
Proj. EPS Growth (F1/F0)	-110.58%	-208.41%	-9.87%	-220.26%	-199.33%	-182.22%
Curr. Cash Flow Growth	33.25%	12.49%	5.88%	14.33%	-3.22%	19.78%
Hist. Cash Flow Growth (3-5 yrs)	14.30%	9.63%	8.55%	14.43%	8.55%	15.50%
Current Ratio	0.92	0.69	1.24	0.67	0.69	1.00
Debt/Capital	58.56%	47.44%	44.23%	35.83%	27.38%	59.14%
Net Margin	12.58%	3.34%	10.68%	3.32%	8.46%	6.71%
Return on Equity	29.40%	11.22%	16.36%	8.46%	18.92%	10.59%
Sales/Assets	0.64	0.64	0.55	0.68	0.81	0.54
Proj. Sales Growth (F1/F0)	-40.10%	-34.28%	-2.26%	-39.13%	-51.22%	-37.76%
Momentum Score	C	-	-	D	F	B
Daily Price Chg	-0.09%	0.00%	1.52%	2.00%	2.09%	-9.00%
1 Week Price Chg	6.11%	3.74%	0.53%	13.46%	-0.34%	8.40%
4 Week Price Chg	-20.52%	-7.24%	0.73%	-13.90%	-30.22%	-25.36%
12 Week Price Chg	-60.37%	-56.46%	-21.09%	-62.06%	-56.53%	-76.42%
52 Week Price Chg	-53.48%	-53.79%	-10.17%	-55.40%	-51.49%	-78.73%
20 Day Average Volume	265,210	189,942	2,398,409	14,934,958	27,768,900	7,817,374
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-134.65%	-117.41%	-6.95%	-200.66%	-4,178.30%	-241.17%
(F1) EPS Est 12 week change	-108.75%	-178.13%	-15.68%	-193.08%	-192.83%	-176.21%
(Q1) EPS Est Mthly Chg	-424.12%	-62.13%	-13.12%	-91.44%	-146.96%	-121.87%

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	B
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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