

## Allegiant Travel(ALGT)

**\$110.29** (As of 07/10/20)

Price Target (6-12 Months): **\$117.00**

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:C

Value: B

Growth: D

Momentum: C

### Summary

Shares of Allegiant have plunged more than 21% since March due to the drop in leisure travel demand in the wake of the coronavirus outbreak. Akin to the first quarter, the company's second-quarter results, scheduled to be disclosed on Jul 29, are likely to be hurt by declining passenger revenues. Notably, traffic in June declined 45% due to weak travel demand. Load factor plunged 2860 basis points year over year to 57.3% in the month. 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, the company suspended dividend payments and buyback activities as well. Its high debt levels are worrisome too.

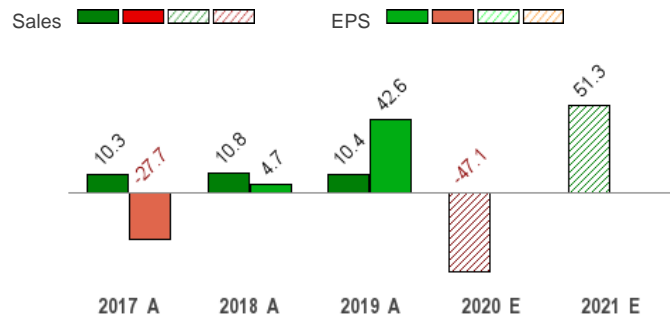
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$183.26 - \$60.06</b>
20 Day Average Volume (sh)	<b>268,834</b>
Market Cap	<b>\$1.8 B</b>
YTD Price Change	<b>-36.6%</b>
Beta	<b>1.47</b>
Dividend / Div Yld	<b>\$2.80 / 2.5%</b>
Industry	<a href="#">Transportation - Airline</a>
Zacks Industry Rank	<b>Bottom 13% (218 out of 252)</b>

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



Last EPS Surprise	<b>253.5%</b>
Last Sales Surprise	<b>0.2%</b>
EPS F1 Est- 4 week change	<b>-8.0%</b>
Expected Report Date	<b>07/29/2020</b>
Earnings ESP	<b>18.9%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	376 E	427 E	389 E	429 E	1,474 E
2020	409 A	85 E	179 E	301 E	974 E
2019	452 A	492 A	437 A	461 A	1,841 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.37 E	\$2.78 E	\$1.29 E	\$2.93 E	\$7.56 E
2020	\$2.05 A	-\$5.80 E	-\$2.08 E	\$0.43 E	-\$5.72 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>8.6</b>
P/E F1	<b>NA</b>
PEG F1	<b>NA</b>
P/S TTM	<b>1.0</b>

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/10/2020. The reports text is as of 07/13/2020.

## 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.

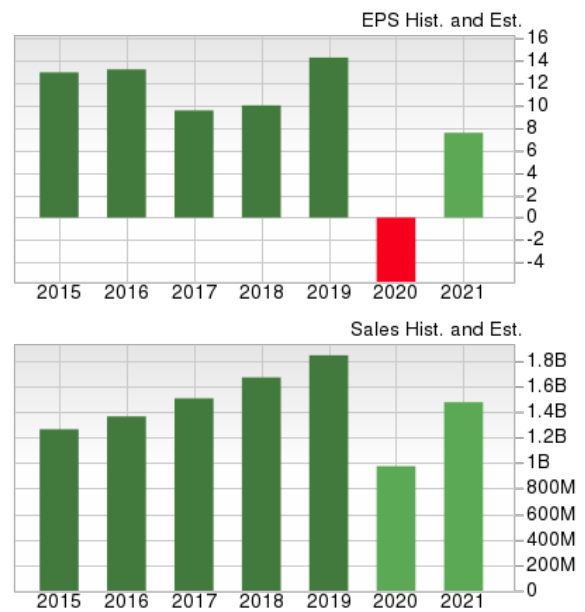
The company focusses on unbundling its air-related products and services like baggage fees, advance seat assignment among others. Allegiant, which also offers air transportation through fixed fee flight arrangements, focuses on generating significant additional ancillary revenues thanks to its unique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

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▲ The current scenario of low fuel costs is a positive for the company. Evidently, average fuel cost per gallon (scheduled) declined 12.2% to \$1.87 in the March-end quarter. Low fuel costs are likely to have boosted the bottom line in the June quarter too, thereby partly mitigating the adversity due to low air-travel demand.

▲ 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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### 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 quarter revenues declined 9.4% year over year on the back of 9.8% fall in passenger revenue. Capacity at the end of first quarter was up 4.3% year on year. Load factor tanked 1010 basis points as capacity expansion surpassed traffic plunge. With air traffic continuing to be low, the company's performance in the June quarter is likely to have been disappointing as well.
- ▼ 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 36% 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's liquidity position is bland. The carrier exited the first quarter with cash and equivalents of \$138.4 million, compared with \$121.9 million at the end of fourth quarter 2019. In fact, the cash balance at the end of first-quarter 2020 is far less than the total debt levels of \$1488 million. This implies 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 Beats on Q1 Earnings

Allegiant reported first-quarter 2020 earnings (excluding \$4.13 from non-recurring items) of \$2.05 per share, which surpassed the Zacks Consensus Estimate of 58 cents per share. However, the bottom line fell 48.5% year over year due to lower revenues stemming from falling demand for air travel. Quarterly revenues came in at \$409.2 million, which beat the Zacks Consensus Estimate of \$408.3 million. However, the top line declined 9.4% year over year on the back of a 9.8% fall in passenger revenues.

Notably, quarterly earnings (airline operations adjusted for tax) fell to \$1.89 per share.

### Quarter in Details

Air traffic (measured in revenue passenger miles or RPMs) for scheduled service fell 8.3% in the quarter under review. Capacity (measured in available seat miles or ASMs) increased 4.3% year over year. Load factor (percentage of seats filled by passengers) was 73.8%, down 1010 basis points as capacity expanded while traffic declined.

Airline operating cost per available seat miles (CASM) excluding fuel rose 1.7% year over year. Average fuel cost per gallon (scheduled) declined 12.2% to \$1.87 in the quarter. Moreover, total scheduled service passenger revenue per available seat miles (TRASM) fell 13.4% to 9.96 cents.

The company has suspended all share repurchase and dividends payouts due to the uncertain economic conditions stemming from the pandemic.

Quarter Ending **03/2020**

Report Date	<b>May 12, 2020</b>
Sales Surprise	<b>0.22%</b>
EPS Surprise	<b>253.45%</b>
Quarterly EPS	<b>2.05</b>
Annual EPS (TTM)	<b>12.80</b>

## Recent News

### JuneTraffic — Jul 9, 2020

Traffic for scheduled service, measured in revenue passenger miles (RPMs), plunged 45% on a year-over-year basis to 745.6 million. Scheduled capacity, measured in available seat miles (ASMs), also fell 17.5% to 1.3 billion in the month. Since the decline in traffic exceeded capacity reduction, load factor (percentage of seats filled with passengers) plunged 2860 basis points year over year to 57.3%. Moreover, number of passengers for scheduled service declined 45.6% on year over year basis to 867.2 million.

## Valuation

Allegiant's shares are down 36.6% and 25.6% 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 43.6% and 12.1% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector are down 43.2% and 9.8% respectively.

The S&P 500 index is down 0.7% but up 6.3% in the year-to-date period and in the past year, respectively.

The stock is currently trading at 8.62X trailing 12-month price to earnings, which compares to 9.71X for the Zacks sub-industry, 16.19X for the Zacks sector and 20.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.5X and as low as 4.67X, with a 5-year median of 12.55X. Our Neutral recommendation indicates that the stock will perform in line the market. Our \$117 price target reflects 9.14X 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	8.62	9.71	16.19	20.6
	5-Year High	24.5	13.66	19.83	22.26
	5-Year Low	4.67	7.5	11.53	15.97
	5-Year Median	12.55	10.6	15.69	19.16
EV/EBITDA TTM	Current	7.32	6.31	8.26	12.18
	5-Year High	11.6	7.25	11.18	12.45
	5-Year Low	3.93	3.89	5.77	8.04
	5-Year Median	7.08	6.1	7.42	10.76
P/S F 12M	Current	1.45	0.7	1.24	3.55
	5-Year High	2.89	0.98	1.41	3.55
	5-Year Low	0.54	0.38	0.85	2.52
	5-Year Median	1.45	0.76	1.2	3.04

As of 07/10/2020

## Industry Analysis Zacks Industry Rank: Bottom 13% (218 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
SIGNATURE AVIAT (BBAVY)	Neutral	3
Corporacion America Airports S.A. (CAAP)	Neutral	2
Copa Holdings, S.A. (CPA)	Neutral	4
Hawaiian Holdings, Inc. (HA)	Neutral	4
Southwest Airlines Co. (LUV)	Neutral	3
Ryanair Holdings PLC (RYAAY)	Neutral	3
Controladora Vuela Compania de Aviacion, S.A.B. de C.V. (VLRS)	Neutral	3
AZUL SA (AZUL)	Underperform	3

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	ALGT	X Industry	S&P 500	BBAVY	CAAP	VLRS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	C	-	-	D	F	A
Market Cap	1.79 B	2.37 B	21.61 B	2.57 B	401.65 M	515.04 M
# of Analysts	5	4.5	14	1	1	2
Dividend Yield	2.54%	0.00%	1.92%	0.00%	0.00%	0.00%
Value Score	B	-	-	A	D	A
Cash/Price	0.26	0.51	0.07	0.05	0.70	1.18
EV/EBITDA	4.89	3.52	12.75	10.36	14.69	3.44
PEG Ratio	NA	4.42	2.87	NA	NA	NA
Price/Book (P/B)	2.23	0.69	3.01	1.60	0.35	NA
Price/Cash Flow (P/CF)	4.63	2.34	11.53	6.16	NA	1.21
P/E (F1)	NA	40.93	21.07	40.93	NA	NA
Price/Sales (P/S)	1.00	0.38	2.23	NA	0.27	0.29
Earnings Yield	-5.19%	-26.32%	4.48%	2.44%	-56.97%	-38.51%
Debt/Equity	1.56	0.83	0.76	1.41	0.83	-11.10
Cash Flow (\$/share)	23.82	4.15	6.94	2.00	-1.01	4.20
Growth Score	D	-	-	D	F	B
Hist. EPS Growth (3-5 yrs)	0.19%	2.29%	10.90%	NA	NA	-17.40%
Proj. EPS Growth (F1/F0)	-140.13%	-247.87%	-9.99%	-53.85%	-2,483.33%	-241.67%
Curr. Cash Flow Growth	33.25%	12.07%	5.51%	-7.68%	585.24%	-4,547.50%
Hist. Cash Flow Growth (3-5 yrs)	14.30%	10.18%	8.55%	11.75%	NA	45.93%
Current Ratio	0.98	0.61	1.30	1.01	0.87	0.61
Debt/Capital	60.96%	55.53%	44.46%	58.56%	45.33%	87.49%
Net Margin	7.86%	2.01%	10.62%	NA	-1.84%	2.60%
Return on Equity	24.99%	9.72%	15.75%	NA	-1.99%	82.24%
Sales/Assets	0.60	0.64	0.55	NA	0.40	0.54
Proj. Sales Growth (F1/F0)	-47.09%	-45.47%	-2.52%	-28.30%	-56.16%	-51.42%
Momentum Score	C	-	-	F	F	D
Daily Price Chg	8.40%	1.80%	1.51%	0.00%	5.91%	-0.20%
1 Week Price Chg	2.36%	2.52%	3.66%	-7.31%	10.50%	2.52%
4 Week Price Chg	3.10%	-2.73%	1.85%	3.37%	-10.99%	4.09%
12 Week Price Chg	52.02%	10.42%	12.57%	49.21%	42.61%	36.46%
52 Week Price Chg	-23.68%	-48.10%	-7.10%	-29.55%	-69.83%	-47.47%
20 Day Average Volume	268,834	171,505	2,339,510	375	293,659	402,011
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-7.96%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-236.50%	-126.19%	-7.77%	-61.54%	3.38%	-1,677.27%
(Q1) EPS Est Mthly Chg	-52.07%	0.00%	0.00%	NA	0.00%	NA

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## 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.

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