

Alaska Air Group, Inc. (ALK)

\$26.35 (As of 04/01/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/15/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

Summary

Shares of Alaska Air have plunged roughly 61% since the beginning of February due to the drop in air-travel demand for leisure travel in the wake of the coronavirus outbreak. Due to the coronavirus-induced waning demand, Alaska Airlines plans to reduce capacity by 70% for April and May. In fact, Alaska Airlines expects demand to be significantly suppressed for the next several months. 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 reducing duty hours of management employees. To bolster its balance sheet, the carrier drew down \$400 million on its line of credit and closed a secured loan for \$425 million. Due to the ongoing economic crunch, it suspended dividend payments and buyback activities.

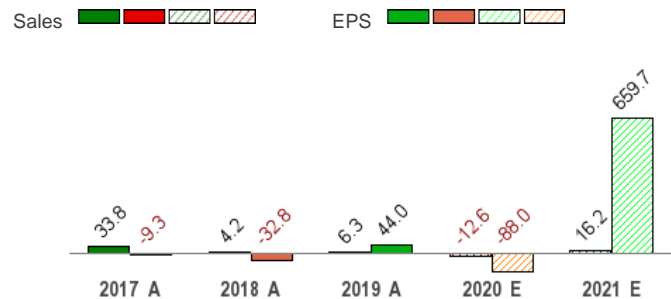
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$72.22 - \$20.02
20 Day Average Volume (sh)	4,051,336
Market Cap	\$3.2 B
YTD Price Change	-61.1%
Beta	1.54
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Airline
Zacks Industry Rank	Bottom 19% (207 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.6%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	-89.3%
Expected Report Date	04/23/2020
Earnings ESP	-31.1%
P/E TTM	4.1
P/E F1	34.2
PEG F1	2.0
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,071 E	2,482 E	2,549 E	2,392 E	8,917 E
2020	1,851 E	1,767 E	2,143 E	2,122 E	7,672 E
2019	1,876 A	2,288 A	2,389 A	2,228 A	8,781 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.36 E	\$2.82 E	\$2.80 E	\$1.78 E	\$5.85 E
2020	-\$0.90 E	-\$0.58 E	\$1.78 E	\$1.65 E	\$0.77 E
2019	\$0.17 A	\$2.17 A	\$2.63 A	\$1.46 A	\$6.42 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 04/01/2020. The reports text is as of 04/02/2020.

Overview

Alaska Air Group, together with its partner regional carriers, serves more than 100 cities across North America. The carrier's mainline operating fleet includes multiple B737 and Airbus A320 family jets. Its regional operations include flights operated by Horizon Air, which was acquired in 1986, SkyWest and PenAir. The carrier's mainline and regional fleet strength at the end of 2019 was 237 and 95 respectively. The carrier serves 115 destinations.

Horizon Air, which serves nearly 7 million passengers annually, sells its entire capacity to Alaska Airlines under a capacity purchase arrangement. Alaska Airlines was founded in 1932. The regional fleet operated by SkyWest had 32 E175 planes at the end of 2019.

Alaska Air Group, through its mainline operations, covers western United States, Canada and Mexico. It also offers passenger and cargo services to/within Alaska.

Furthermore, the company operates on long-haul east/west routes to Hawaii and multiple cities in the mid-continental and eastern United States, primarily from Seattle.

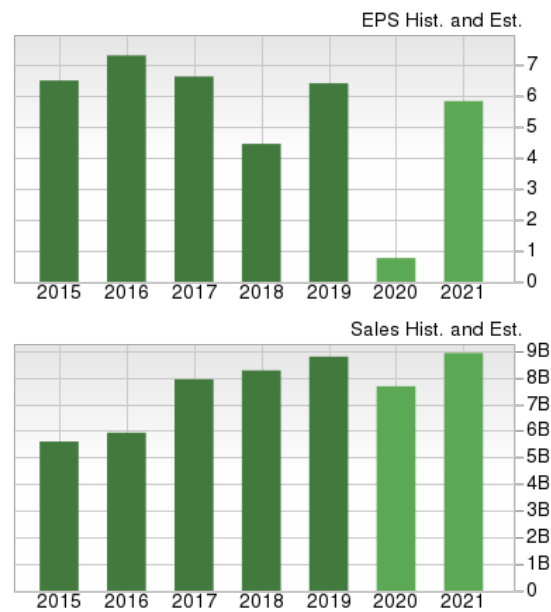
Along with a strong fleet of passenger jets (mainline), the company boasts contracts with Horizon, SkyWest Airlines and Peninsula Airways, that are responsible for the company's regional operations. The company's objective of entering into such contracts is to receive the entire passenger revenue from such operations.

The bulk of the company's revenue is generated through passenger operations. In 2019, passenger revenues contributed 92% (of which 84.3% came from mainline operations) to the company's top line of \$8,781 million. Mileage Plan and cargo and other revenues contributed 5% and 3% respectively to the company's top line in 2019.

Through its frequent flier partnerships, Alaska Air Group offers mileage credits and redemptions for members of its Mileage Plan scheme. Apart from frequent flier partnerships, the carrier also has codeshare and Interline agreements with other carriers.

Such customer-friendly arrangements boost the top line of Alaska Air Group. The acquisition of Virgin America, completed in Dec 2016, has significantly expanded Alaska Air Group's presence.

Alaska Air Group is based in Seattle, WA. 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. The carrier repurchased 1,192,820 shares worth roughly \$75 million in 2019. Solid free cash-flow generation should lead to a further uptick in such shareholder-friendly activities. Notably, the company's free cash flow improved \$750 million year over year to \$1.1 billion in 2019. On another positive note, low fuel prices are expected to partly offset the adversity and aid the bottom line in turn. As fuel expenses comprise a major chunk of airline expenditure, a decline in costs is likely to boost earnings in the quarter.
- ▲ The airline's measures to reduce its debt levels are also encouraging. The carrier exited 2019 with long-term debt of \$1,264 million compared with \$1,617 million at the end of 2018. Additionally, debt-to-capitalization ratio was 41% compared with 47% in December 2018. During 2019, the company paid off more than \$600 million of its debt. Additionally, to bolster its balance sheet amid the coronavirus-led crisis, the carrier drew down \$400 million on its line of credit and closed a secured loan for \$425 million.
- ▲ The ratification of two five-year agreements with 5,200 airline staffs (clerical, office and passenger service employees as well as ramp service employees and store agents), represented by the International Association of Machinists and Aerospace Workers, is a positive for the company. Alaska Air Group's efforts to expand its presence along the West Coast also raise optimism in the stock.

Low fuel prices should support bottom-line growth at Alaska Air.

Reasons To Sell:

- ▼ The coronavirus pandemic is taking a significant toll on Alaska Airlines. With air-travel demand for leisure stooping to an unprecedented level, the company plans to reduce capacity by 70% for April and May. In fact, Alaska Airlines expects demand to be significantly suppressed for the next several months. Consequently, travel demand likely to be unexpectedly low in the usually busy summer season. As a result, the company's top line might take a huge beating
- ▼ The carrier's return on equity (ROE) of 19.6% compares unfavorably with the industry's average of 27.5. The unfavorable reading undercuts its growth potential.
- ▼ Due to coronavirus-induced low demand, shares of the company have slumped more than 53% since the beginning of February. With the crisis showing no signs of fading, the stockprice may depreciate further, dampening investor confidence in the stock. Notably, the Zacks Consensus Estimate for current-year earnings has been revised downward over the past 90 days.

With air-travel demand for leisure stooping to an unprecedented level, the company plans to reduce capacity by 70% for April and May.

Last Earnings Report

Alaska Air Group Beats on Q4 Earnings

Alaska Air Group's earnings per share of \$1.46 beat the Zacks Consensus Estimate by 5 cents. Moreover, the bottom line surged 94.7% year over year on low fuel costs.

Revenues came in at \$2,228 million, surpassing the Zacks Consensus Estimate of \$2,220.5 million. The top line also increased approximately 8% year over year. Passenger revenues — contributing 92.3% to the top line — were up 8% on a year-over-year basis.

Quarter Ending **12/2019**

Report Date	Jan 28, 2020
Sales Surprise	0.34%
EPS Surprise	3.55%
Quarterly EPS	1.46
Annual EPS (TTM)	6.43

Operating Statistics

Consolidated traffic, measured in revenue passenger miles, rose 3.9% year over year in the reported quarter. Capacity (measured in available seat miles) expanded 3.5%. Load factor (percentage of seats occupied by passengers) improved 40 basis points to 83.7% as traffic growth outpaced capacity expansion in the reported quarter.

Total revenue per available seat mile (RASM: a key measure of unit revenues) increased 4.2% year over year to 13.38 cents in the quarter under discussion. Meanwhile, yield climbed 3.7% to 14.77 cents.

Operating Expenses & Income

In the fourth quarter, total operating expenses (on a reported basis) were down 2% year over year to \$1,976 million with expenses on aircraft fuel (including hedging gains and losses) declining 13%. Fuel price (economic) was \$2.21 per gallon, down 6% year over year.

Expenses on wages and benefits, however, flared up 14% in the December-end quarter. Operating income increased in excess of 100% from the prior-year quarter's level to \$252 million. Consolidated cost per available seat mile — excluding fuel and special items — inched up 0.7% to 9.01 cents.

Liquidity & Buybacks

At the end of 2019, the company had \$ 1,521 million in cash and marketable securities compared with \$1,236 million at the end of 2018.

Alaska Air exited the year with long-term debt of \$1,264 million compared with \$1,617 million at the end of 2018. Adjusted debt-to-capitalization ratio was 41% compared with 47% in December 2018. The carrier repurchased 1,192,820 shares worth roughly \$75 million in 2019.

Q1 Outlook

The company envisions capacity to rise approximately 4% year over year in the first quarter of 2020. Additionally, non-fuel unit costs (excluding special items) are projected to be up approximately 3% for the March-end quarter. RASM is projected to increase in the 0.5-3.5% band. Meanwhile, economic fuel cost is projected at \$2.21.

2020 Outlook

The company expects capacity for the full year to increase between 3% and 4% from 2019 levels. Non-fuel unit costs (excluding special items) are expected to rise roughly 2%. Meanwhile, capital expenditures are currently anticipated to be approximately \$750 million in the current year

Recent News

Alliance With American Airlines — Feb 13, 2020

Alaska Air Group's subsidiary Alaska Airlines forged an alliance with American Airlines to offer West Coast customers with more travel options. As part of this expanded partnership, Alaska Airlines hopes to join the oneworld alliance by summer 2021 that would provide the airlines' customers with more than 1,200 destinations to travel to. Additionally, loyalty members of both airlines will have access to each other's facilities and can enjoy benefits, such as earn and use miles on both airlines' entire network, elite status reciprocity etc.

Valuation

Alaska Air Group shares have been down 61.1% and 54.4% year to date and over the past year, respectively. Stocks in the Zacks sub-industry have shed 58.1% and 57.8% of value so far this year and in a year's time each. Stocks in the Zacks Transportation sector have declined 32.3% and 31.1% year to date and in the past year, respectively. The S&P 500 Index has lost 19.1% and 10.2% year to date and in the past 12 months, respectively.

The stock is currently trading at 3.98X trailing 12-month price to earnings, which compares to 8.76X for the Zacks sub-industry, 12.15X for the Zacks sector and 15.99X for the S&P 500 index.

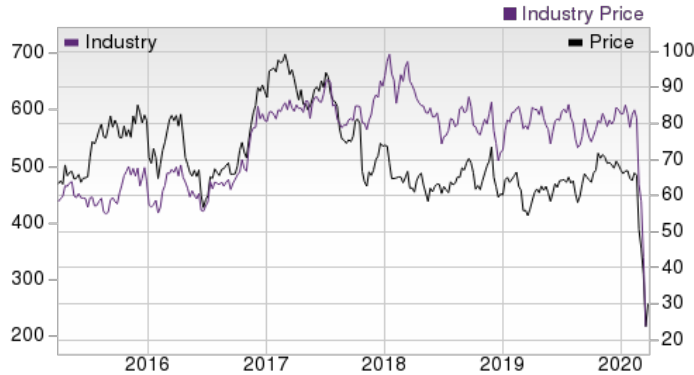
Over the past 5 years, the stock has traded at a high of 14.04X and as low as 3.68X, with a 5-year median of 10.32X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$28 price target reflects 4.22X forward 12-month earnings.

The table below shows summary valuation data for ALK

Valuation Multiples - ALK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	3.98	8.76	12.15	15.99
	2-Year High	14.04	12.3	15.24	18.68
	2-Year Low	3.68	6.61	11.23	15.18
	2-Year Median	10.32	9.05	13.1	17.01
EV/EBITDA TTM	Current	3.26	3.44	6.26	9.57
	2-Year High	10.29	7.01	11.12	12.65
	2-Year Low	3.03	3.32	5.72	8.27
	2-Year Median	6.49	5.98	7.95	11.17
P/S F 12M	Current	0.35	0.34	0.85	2.81
	2-Year High	1.89	0.98	1.29	3.43
	2-Year Low	0.33	0.34	0.85	2.76
	2-Year Median	1.11	0.77	1.14	3.15

As of 04/01/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (207 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
Ryanair Holdings PLC (RYAAY)	Neutral
Spirit Airlines, Inc. (SAVE)	Neutral
Allegiant Travel Company (ALGT)	Underperform

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	ALK Neutral	X Industry	S&P 500	JBLU Neutral	LUV Neutral	SAVE Neutral
VGM Score	C	-	-	B	B	D
Market Cap	3.23 B	2.14 B	16.87 B	2.29 B	16.57 B	774.91 M
# of Analysts	6	4.5	13	6	10	6
Dividend Yield	0.00%	0.00%	2.53%	0.00%	2.25%	0.00%
Value Score	C	-	-	B	A	A
Cash/Price	0.41	0.58	0.06	0.48	0.22	1.07
EV/EBITDA	2.91	3.18	10.63	2.68	3.64	3.78
PEG Ratio	1.95	1.11	1.69	8.45	2.58	1.65
Price/Book (P/B)	0.75	0.57	2.30	0.49	1.69	0.34
Price/Cash Flow (P/CF)	2.66	2.10	9.07	2.14	4.71	1.33
P/E (F1)	33.61	9.38	14.38	187.15	9.40	20.64
Price/Sales (P/S)	0.37	0.28	1.80	0.28	0.74	0.20
Earnings Yield	2.92%	5.62%	6.90%	0.49%	10.64%	4.86%
Debt/Equity	0.62	0.66	0.70	0.56	0.30	1.41
Cash Flow (\$/share)	9.91	4.14	7.01	3.79	6.80	8.51
Growth Score	B	-	-	A	D	F
Hist. EPS Growth (3-5 yrs)	-3.84%	4.00%	10.92%	0.16%	7.94%	3.49%
Proj. EPS Growth (F1/F0)	-88.06%	-83.87%	1.52%	-97.72%	-20.21%	-89.23%
Curr. Cash Flow Growth	28.26%	5.74%	5.98%	14.33%	-3.22%	19.78%
Hist. Cash Flow Growth (3-5 yrs)	7.14%	8.40%	8.55%	14.43%	8.55%	15.50%
Current Ratio	0.64	0.68	1.24	0.67	0.67	1.25
Debt/Capital	38.43%	47.20%	42.33%	35.83%	23.31%	58.43%
Net Margin	8.76%	6.96%	11.67%	7.03%	10.26%	8.75%
Return on Equity	19.58%	12.67%	16.70%	12.06%	23.31%	16.38%
Sales/Assets	0.68	0.64	0.54	0.71	0.85	0.57
Proj. Sales Growth (F1/F0)	-12.63%	-4.29%	1.75%	-11.22%	-4.09%	-3.09%
Momentum Score	F	-	-	F	D	F
Daily Price Chg	-7.45%	-7.37%	-5.14%	-9.39%	-10.03%	-12.18%
1 Week Price Chg	26.78%	10.32%	12.29%	36.36%	13.90%	70.20%
4 Week Price Chg	-46.97%	-46.04%	-25.58%	-47.81%	-31.73%	-57.02%
12 Week Price Chg	-60.38%	-56.16%	-29.13%	-56.16%	-41.07%	-71.66%
52 Week Price Chg	-54.40%	-58.12%	-23.44%	-51.64%	-39.42%	-79.15%
20 Day Average Volume	4,051,336	189,422	4,261,481	17,098,516	11,517,266	6,664,038
(F1) EPS Est 1 week change	-63.20%	0.00%	-0.18%	-92.26%	0.00%	-66.57%
(F1) EPS Est 4 week change	-89.31%	-66.56%	-3.95%	-98.26%	-25.49%	-90.23%
(F1) EPS Est 12 week change	-89.13%	-68.37%	-5.28%	-98.17%	-29.86%	-88.87%
(Q1) EPS Est Mthly Chg	-122.84%	-99.73%	-5.80%	-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	C
Growth Score	B
Momentum Score	F
VGM Score	C

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.