Jun 04, 2020

Alaska Air Group, Inc. (ALK)

$39.30 (As of 06/03/20)

Price Target (6-12 Months): **$42.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/15/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: B | Growth: F | Momentum: D	

Summary

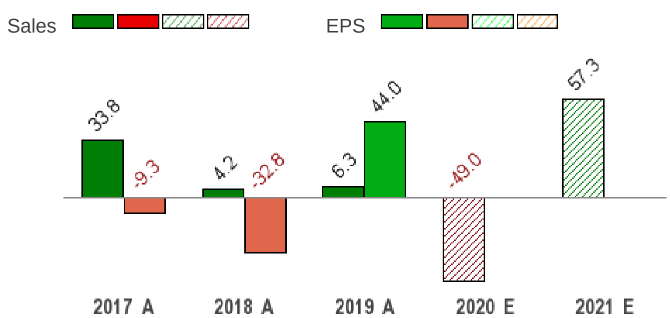
Shares of Alaska Air have plunged roughly 57% since the beginning of February due to drop in air-travel demand in the wake of the coronavirus outbreak. Owing to waning demand, the carrier reduced April and May capacity by 80%. Similar cuts are anticipated in June as well. With demand approximately 90% below normal, the company anticipates second-quarter loss to be greater than the first (incurred loss of 82 cents per share). To combat the crisis, the carrier's measures to strengthen its financial position are noteworthy. The company has reduced its monthly cash burn rate to $260 million in May from $400 million in April. By June it aims to lower the rate further to $200 million. Additionally, the airline is generating substantial cost savings from low fuel prices (declined 9.4% in the first quarter).

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$72.22 - $20.02**
20 Day Average Volume (sh)	**3,280,489**
Market Cap	**$4.8 B**
YTD Price Change	**-42.0%**
Beta	**1.49**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Transportation - Airline**
Zacks Industry Rank	**Top 33% (83 out of 253)**
Last EPS Surprise	**35.4%**
Last Sales Surprise	**-3.3%**
EPS F1 Est- 4 week change	**-15.4%**
Expected Report Date	**07/23/2020**
Earnings ESP	**0.0%**
P/E TTM	**7.2**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**0.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,472 E	1,736 E	1,987 E	1,945 E	7,045 E
2020	1,636 A	238 E	1,090 E	1,514 E	4,479 E
2019	1,876 A	2,288 A	2,389 A	2,228 A	8,781 A

EPS Estimates

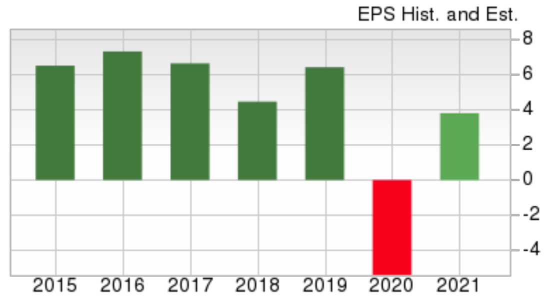
	Q1	Q2	Q3	Q4	Annual*
2021	-$0.71 E	$0.59 E	$1.67 E	$1.39 E	$3.81 E
2020	-$0.82 A	-$3.73 E	-$0.50 E	$0.15 E	-$5.40 E
2019	$0.17 A	$2.17 A	$2.63 A	$1.46 A	$6.42 A

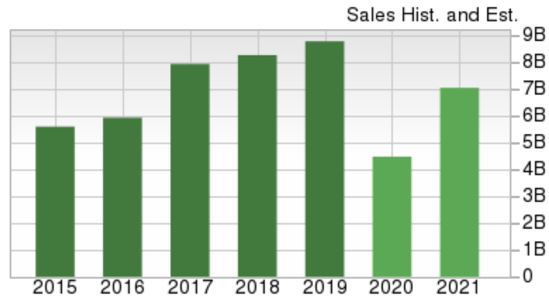
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/03/2020. The reports text is as of 06/04/2020.

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:

> Low fuel prices are a boon for Alaska Air amid coronavirus concerns.

- Amid the coronavirus concerns, low fuel costs are a boon to Alaska Air as fuel expenses comprise a major chunk of airline expenditures. Notably, fuel prices declined 9.4% year over year in the first quarter. The savings on fuel costs should support the bottom line and thus help in offsetting the adversities to some extent.

- With consistent cost-reduction measures, the company has reduced its monthly cash burn rate to $260 million in May from $400 million in April. By June it aims to lower the rate further to $200 million and hopes to breakeven by the year-end. Additionally, the carrier reduced discretionary and overhead spending by approximately $50 million per month. For the current year, Alaska Air has deferred capital expenditures worth approximately $600 million. With this, the carrier's expected capital expenditures for 2020 is below $175 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. Prior to the coronavirus outbreak, Alaska Air made consistent efforts to expand its presence along the West Coast. We expect the carrier to resume such initiatives once the crisis is over.

Reasons To Sell:

- Alaska Air started witnessing the impact of coronavirus in late February. The downfall aggravated in March with cancellations exceeding bookings. Consequently, the carrier incurred an adjusted pre-tax loss of $102 million in the first quarter due to a 14% decline in passenger revenues. With demand approximately 90% below normal, the company anticipates second-quarter loss to be much greater. With passenger demand nearly wiped out, the airline reduced its April and May capacity by 80%. Dramatic cuts are anticipated in June as well. Alaska Air expects demand to be significantly suppressed over the next several months.

> Alaska Air reduced April and May capacity by 80% due to the coronavirus-induced demand slump.Escalating operating expenses are an added concern.

- Escalating operating expenses are a concern for the carrier, given that the bottom line is already stressed due to low passenger revenues. Notably, operating expenses rose 6% year over year in the first quarter with costs on wages and benefits increasing 10%. Moreover, adjusted non-fuel unit costs inched up 1.8%. Additionally, the carrier's return on equity (ROE) of 16.3% compares unfavorably with the industry's average of 25.5. The unfavorable reading undercuts its growth potential.

- Due to coronavirus-induced low demand, shares of the company have slumped roughly 57% since the beginning of February. With the crisis showing no signs of fading, the share price may depreciate further, dampening investor confidence in the stock. Notably, the Zacks Consensus Estimate for current-year earnings has been revised downward significantly over the past 60 days.

- The company's total debt to total capital ratio stood at 0.97 at the end of the first quarter of 2020, comparing unfavorably to the reading of 0.74 at the end of the fourth quarter of 2019. The increasing debt to capitalization ratio indicates that the proportion of debt to finance the company's assets is on the rise. Moreover, Alaska Air exited the first quarter of 2020 with cash and equivalents of $2,125 million, way below the total debt figure of $3,907 million.

Last Earnings Report

Alaska Air Q1 Loss Narrower Than Expected

Quarter Ending	03/2020
Report Date	May 05, 2020
Sales Surprise	-3.26%
EPS Surprise	35.43%
Quarterly EPS	-0.82
Annual EPS (TTM)	5.44

Alaska Air incurred a loss of 82 cents per share (excluding $1.05 from non-recurring items) in the first quarter of 2020, narrower than the Zacks Consensus Estimate of a loss of $1.27. In the year-ago quarter, the company reported earnings of 17 cents. The downturn is due to unprecedented drop in air travel demand in the wake of the coronavirus outbreak.

Having started in February, the downfall aggravated in March, with cancellations exceeding bookings. Demand is around 90% below the normal level.

Revenues came in at $1,636 million, missing the Zacks Consensus Estimate of $1,691.1 million. The top line also declined approximately 13% year over year. Passenger revenues — contributing 90.5% to the top line — were down 14% on a year-over-year basis.

Operating Statistics

Consolidated traffic, measured in revenue passenger miles, declined 14.4% year over year in the reported quarter. Capacity (measured in available seat miles) dropped 1.3%. Load factor (percentage of seats occupied by passengers) deteriorated 1,070 basis points to 69.6% as traffic declined more than the amount of capacity contraction.

Total revenue per available seat mile (RASM: a key measure of unit revenues) fell 11.7% year over year to 10.69 cents in the quarter under discussion. Meanwhile, yield inched up 0.9% to 13.9 cents.

Operating Expenses & Income

In the first quarter, total operating expenses (on a reported basis) were up 6% year over year to $1,957 million, with expenses on wages and benefits increasing 10%. Fuel price (economic) was $1.93 per gallon, down 9.4% year over year.

The company reported operating loss of $321 million in the first quarter against operating income of $25 million in the year-ago quarter. Consolidated cost per available seat mile — excluding fuel and special items — inched up 1.8% to 9.22 cents.

Liquidity

At the end of the first quarter, the company had $2,125 million in cash and marketable securities compared with $1,521 million at the end of 2019.

The company exited the quarter with long-term debt of $1,203 million compared with $1,264 million at the end of 2019. Adjusted debt-to-capitalization ratio was 48% compared with 41% at the end of December 2019.

Recent News

Offers Customers Mileage Plan Promotions - Jun 1, 2020

Alaska Airlines announced three new promotions that customers and Mileage Plan members can enjoy. Apart from guaranteeing 2020 elite status through 2021, the airline is extending a 50% bonus of elite qualifying miles for flights taken through the end of this year.

For the first time, Alaska Airlines Visa cardholders have the chance to earn elite qualifying miles. They also have the option to earn 2,500 miles for every $5,000 spent on purchases from Jun 1 through Sep 30, 2020. The maximum limit is 10,000 elite qualifying miles for a single cardholder. Alaska Airlines Visa consumer cardholders can earn two miles for every dollar spent, up to $1,500, for restaurant and related purchases, including delivery services from Jun 1 through Jul 31, 2020.

Valuation

Alaska Air shares are down 42% and 36.3% 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 49.9% and 17.3% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector are down 45.3% and 12.4% respectively.

The S&P 500 index is down 4.4% and up 9.1% in the year-to-date period and in the past year respectively.

The stock is currently trading at 7.22X trailing 12-month price to earnings, which compares to 8.82X for the Zacks sub-industry, 15.08X for the Zacks sector and 19.82X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.46X and as low as 3.66X, with a 5-year median of 12.08X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $42 price target reflects 7.72X trailing 12-month earnings.

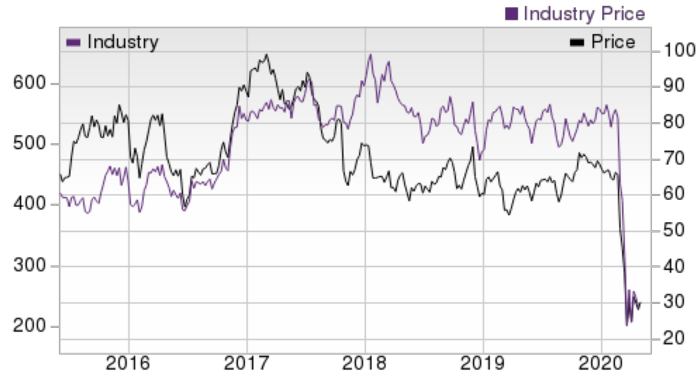
The table below shows summary valuation data for ALK

Valuation Multiples - ALK

		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	7.22	8.82	15.08	19.82
	5-Year High	16.46	13.2	19.58	22.23
	5-Year Low	3.66	7.45	11.63	15.96
	5-Year Median	12.08	10.72	15.56	19.11
EV/EBITDA TTM	Current	5.14	4.63	7.2	11.4
	5-Year High	10.29	7.01	11.15	12.86
	5-Year Low	3.03	3.26	5.44	8.26
	5-Year Median	6.49	5.9	7.33	10.81
P/S F 12M	Current	0.87	0.62	1.16	3.47
	5-Year High	1.89	0.98	1.42	3.47
	5-Year Low	0.33	0.38	0.84	2.53
	5-Year Median	1	0.77	1.19	3.02

As of 06/03/2020

Industry Analysis **Zacks Industry Rank:** Top 33% (83 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
American Airlines Group Inc. **(AAL)**	Neutral	3
Allegiant Travel Company **(ALGT)**	Neutral	3
Delta Air Lines, Inc. **(DAL)**	Neutral	3
Hawaiian Holdings, Inc. **(HA)**	Neutral	3
JetBlue Airways Corporation **(JBLU)**	Neutral	3
Southwest Airlines Co. **(LUV)**	Neutral	3
Ryanair Holdings PLC **(RYAAY)**	Neutral	2
Spirit Airlines, Inc. **(SAVE)**	Neutral	3

Industry Comparison Industry: Transportation - Airline

	ALK	X Industry	S&P 500	JBLU	LUV	SAVE
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	D	F	D
Market Cap	4.82 B	2.72 B	22.50 B	3.04 B	18.53 B	1.19 B
# of Analysts	6	4.5	14	6	11	5
Dividend Yield	0.00%	0.00%	1.88%	0.00%	1.98%	0.00%
Value Score	B	-	-	B	C	B
Cash/Price	0.51	0.60	0.06	0.66	0.34	1.01
EV/EBITDA	3.47	3.53	12.98	2.84	3.85	4.64
PEG Ratio	NA	5.70	3.05	NA	NA	NA
Price/Book (P/B)	1.20	0.75	3.11	0.70	2.04	0.53
Price/Cash Flow (P/CF)	3.96	2.50	12.18	2.98	5.35	2.03
P/E (F1)	NA	43.27	22.19	NA	NA	NA
Price/Sales (P/S)	0.56	0.38	2.40	0.39	0.86	0.32
Earnings Yield	-13.74%	-25.71%	4.31%	-29.28%	-11.81%	-34.43%
Debt/Equity	0.64	0.68	0.76	0.60	0.38	1.45
Cash Flow ($/share)	9.91	4.15	7.01	3.79	6.80	8.51
Growth Score	F	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	-5.75%	2.29%	10.87%	-4.34%	4.95%	1.76%
Proj. EPS Growth (F1/F0)	-184.16%	-264.81%	-10.74%	-273.77%	-200.66%	-217.13%
Curr. Cash Flow Growth	28.26%	12.49%	5.48%	14.33%	-3.22%	19.78%
Hist. Cash Flow Growth (3-5 yrs)	7.14%	8.82%	8.55%	14.43%	8.55%	15.50%
Current Ratio	0.69	0.69	1.29	0.61	0.69	1.00
Debt/Capital	39.10%	47.44%	44.75%	37.48%	27.38%	59.14%
Net Margin	6.24%	2.43%	10.59%	3.32%	8.46%	6.71%
Return on Equity	16.29%	9.01%	16.29%	8.63%	18.92%	10.59%
Sales/Assets	0.65	0.62	0.55	0.67	0.81	0.54
Proj. Sales Growth (F1/F0)	-49.00%	-45.14%	-2.65%	-50.37%	-52.31%	-50.44%
Momentum Score	D	-	-	D	C	F
Daily Price Chg	8.56%	6.38%	2.42%	9.31%	5.63%	19.46%
1 Week Price Chg	10.22%	5.39%	4.60%	8.98%	11.19%	27.34%
4 Week Price Chg	41.22%	27.58%	13.40%	40.52%	46.09%	49.87%
12 Week Price Chg	-14.00%	-16.97%	12.78%	-16.95%	-14.29%	-17.30%
52 Week Price Chg	-36.21%	-38.46%	0.89%	-37.84%	-27.48%	-65.68%
20 Day Average Volume	3,280,489	269,016	2,528,787	17,023,648	23,861,762	29,055,434
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-15.37%	-10.94%	-0.14%	-44.49%	-3.62%	-42.46%
(F1) EPS Est 12 week change	-177.03%	-208.53%	-16.00%	-235.87%	-195.15%	-208.53%
(Q1) EPS Est Mthly Chg	-3.68%	-6.19%	-0.02%	-20.18%	-0.24%	-15.67%

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	F
Momentum Score	D
VGM Score	D

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

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