

Alaska Air Group, Inc. (ALK)

\$38.46 (As of 08/12/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/15/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: D

Summary

Shares of Alaska Air have plunged 40.4% since February due to coronavirus-led drop in air travel demand. Owing to waning demand, passenger revenues declined 53% year over year in the first six months of 2020. With suppressed travel demand, the carrier reduced capacity by 39.6% in the same period. Spike in coronavirus cases has added uncertainty to the airline's recovery. Alaska Air's management stated that "recovery to 2019 levels will take at least two years." With travel demand having taken a back seat, the carrier's move to operate some of its passenger planes as cargo freighters should help the company recoup a bit of the lost passenger revenues. Additionally, low fuel prices (prices declined 19.5% in the first half of 2020) are a boon to the company. Steady improvement in the cash burn rate is also encouraging.

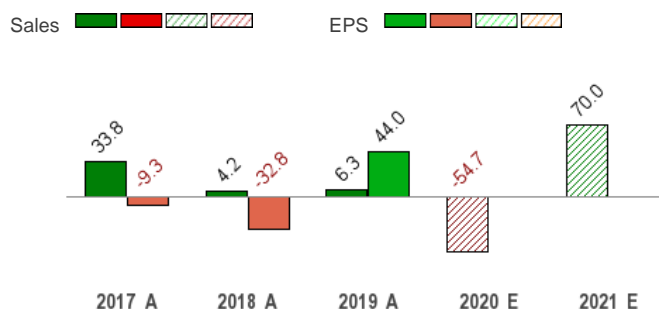
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$72.22 - \$20.02
20 Day Average Volume (sh)	2,291,680
Market Cap	\$4.8 B
YTD Price Change	-43.2%
Beta	1.44
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Airline
Zacks Industry Rank	Bottom 6% (239 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.4%
Last Sales Surprise	36.8%
EPS F1 Est- 4 week change	-47.5%
Expected Report Date	10/22/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,209 E	1,718 E	1,929 E	1,877 E	6,766 E
2020	1,636 A	421 A	745 E	1,190 E	3,979 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	-\$0.59 E	\$1.38 E	\$1.70 E	\$1.10 E	\$3.23 E
2020	-\$0.82 A	-\$3.54 A	-\$2.73 E	-\$0.74 E	-\$8.23 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.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/12/2020. The reports text is as of 08/13/2020.

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.

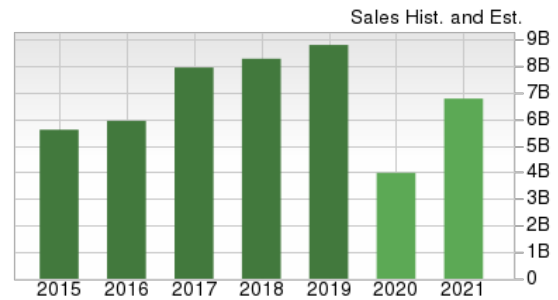
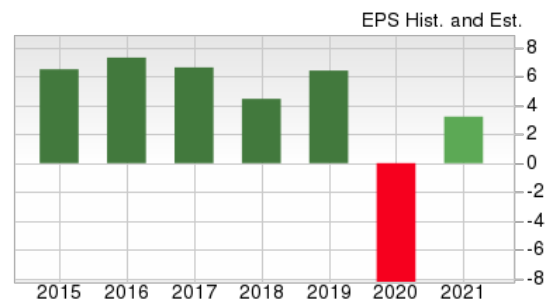
Along with a strong fleet of passenger jets (mainline), the company boasts contracts with Horizon, SkyWest Airlines and Peninsula Airways, that are responsible for the company's regional operations. The company's objective of entering into such contracts is to receive the entire passenger revenue from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

- ▲ 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 19.5% year over year in the first half of 2020. The savings on fuel costs are supporting the bottom line and thus helping in offsetting the adversities to some extent.
- ▲ With consistent cost-reduction measures and modest improvement in travel demand, the company has reduced its monthly cash burn rate to \$165 million in May from \$400 million in April. The company's June cash burn decreased to approximately \$120 million. Alaska Air hopes to breakeven by the year-end. The carrier's total operating expenses reduced 20% year over year in the first half of 2020.
- ▲ With air travel demand having taken a back seat, Alaska Air is operating some of its passenger planes as cargo freighters. The carrier has received FAA approval to transport cargo in the passenger cabin on five Boeing 737-900 passenger aircraft. Moreover, it is offering cargo-only service to Unalakleet, AK. Given the spike in demand for essential goods amid the pandemic, this is a notable move, and should help the carrier recoup a bit of the lost revenues. Additionally, at the end of the second quarter, Alaska Air had cash and marketable securities of \$2,803 million, much higher than the current debt of \$1,087 million, implying that the company has sufficient cash to meet its current debt obligations.

Low fuel prices and cost-reduction efforts are partly offsetting the coronavirus-related woes.

Reasons To Sell:

- ▼ With passenger demand way below year-ago levels amid coronavirus concerns, Alaska Air is suffering significant loss of passenger revenues. Passenger revenues have plunged 53% year over year in the first six months of 2020. Weak passenger revenues in turn are hurting the bottom line. Notably, the carrier incurred losses in both the first and the second quarters. In order to match capacity with the current demand scenario, the carrier reduced capacity by 39.6% in the first half of 2020. The carrier anticipates third-quarter capacity to decline approximately 50%, while in the fourth quarter, the same is estimated to decrease by approximately 35%.

Alaska Air is suffering significant loss of passenger revenues due to coronavirus-led travel demand woes.
 - ▼ The already weak travel demand has been worsened by the surge in coronavirus cases in some parts of the United States. Rising coronavirus cases and new quarantine rules have stalled the modest improvement in demand which Alaska Air has been witnessing since the reopening of economies. This adds uncertainty to the carrier's recovery. During the second-quarter earnings call, management stated that "recovery to 2019 levels will take at least two years." As a result, the carrier expects to operate a 35% smaller airline (compared to 2019) in October and a 20% smaller airline by summer 2021.
 - ▼ With an aim to operate a smaller airline, the carrier has decided to reduce management positions by 15%, i.e, 300, effective Oct 1. Meanwhile, the carrier is offering early-out programs and other voluntary-separation options to employees in order to reduce furloughs. Moreover, Alaska Air received \$992 million via the payroll support program under the CARES Act. While \$725 million of the above amount will be through grants (it doesn't have to be paid back), \$267 million will be via loans. The company has also applied for \$1.1 billion in federal loan funding through a separate program under the CARES Act. This may affect the company's debt profile.
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Last Earnings Report

Alaska Air's Q2 Loss Wider Than Expected

Alaska Air Group incurred a loss of \$3.54 per share (excluding \$1.81 from non-recurring items) in the second quarter of 2020, wider than the Zacks Consensus Estimate of a loss of \$3.39. In the year-ago quarter, the company reported earnings of \$2.17. Amid coronavirus concerns, significantly low air travel demand weighed on the company's performance.

Revenues came in at \$421 million, surpassing the Zacks Consensus Estimate of \$307.7 million. The top line declined 82% year over year. Passenger revenues — contributing 73.4% to the top line — were down 85% on a year-over-year basis due to weak travel demand.

Quarter Ending **06/2020**

Report Date	Jul 23, 2020
Sales Surprise	36.83%
EPS Surprise	-4.42%
Quarterly EPS	-3.54
Annual EPS (TTM)	-0.27

Operating Statistics

Consolidated traffic, measured in revenue passenger miles, declined 88.7% year over year in the reported quarter. Capacity (measured in available seat miles) dropped 74.6%. Load factor (percentage of seats occupied by passengers) deteriorated 4780 basis points to 38.4% as traffic declined more than the amount of capacity contraction.

Total revenue per available seat mile ("RASM": a key measure of unit revenues) fell 27.5% year over year to 9.77 cents in the quarter under discussion. Meanwhile, yield increased 29.5% to 18.68 cents.

Operating Expenses & Income

In the second quarter, total operating expenses (on a reported basis) dropped 63% year over year to \$709 million. Fuel price (economic) was \$1.2 per gallon, down 47.1% year over year.

The company reported operating loss of \$288 million in the second quarter against operating income of \$364 million in the year-ago quarter. Consolidated cost per available seat mile — excluding fuel and special items — surged more than 100% to 21.87 cents.

Liquidity

At the end of the second quarter, this Seattle, WA-based company had \$2,803 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 \$1,549 million compared with \$1,264 million at the end of 2019. Adjusted debt-to-capitalization ratio was 51% compared with 41% at the end of December 2019.

Recent News

Boosts Los Angeles Service by Adding New Routes — Jul 16, 2020

Alaska Air announced plans of adding total 12 new destinations to meet the gradually increasing demand amid COVID-19. The carrier plans to add seven new routes from Los Angeles International Airport ("LAX") to boost connectivity between Southern California and key markets around the country.

Embraer 175 Jets to Operate in Alaska From October — Jun 23, 2020

Alaska Air announced plans of flying the Embraer 175 jet aircraft in few selected markets of Alaska from October 2020. Given its smaller size compared with Alaska Air's flagship Boeing 737s jets, the airline will increase the daily frequency between Anchorage and Fairbanks up to seven times a day. Moreover, the carrier will offer year-round service to King Salmon and Dillingham. The utilization of the Embraer 175 jets will enable the carrier serve small markets more efficiently, where the usage of larger planes are not the best option.

Valuation

Alaska Air shares are down 43.2% and 37.1% 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 1.3% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector are down 39.2% but up 5% respectively.

While the S&P 500 index is up 4.8% in the year-to-date period and 15.6% in the past year.

The stock is currently trading at 0.83X forward 12-month price to sales, which compares to 0.71X for the Zacks sub-industry, 1.36X for the Zacks sector and 3.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.89X and as low as 0.33X, with a 5-year median of 0.97X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$41 price target reflects 0.88X forward 12-month sales.

The table below shows summary valuation data for ALK

Valuation Multiples - ALK					
		Stock	Sub-Industry	Sector	S&P 500
P/S F 12M	Current	0.83	0.71	1.36	3.7
	5-Year High	1.89	0.94	1.41	3.7
	5-Year Low	0.33	0.37	0.84	2.53
	5-Year Median	0.97	0.74	1.2	3.05
EV/EBITDA TTM	Current	15.45	16.65	9.82	12.75
	5-Year High	15.69	16.68	11.09	12.84
	5-Year Low	3.03	3.22	5.41	8.24
	5-Year Median	6.55	5.63	7.24	10.9

As of 08/12/2020

Industry Analysis Zacks Industry Rank: Bottom 6% (239 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	4
Hawaiian Holdings, Inc. (HA)	Neutral	4
JetBlue Airways Corporation (JBLU)	Neutral	4
Southwest Airlines Co. (LUV)	Neutral	4
Ryanair Holdings PLC (RYAAY)	Neutral	3
Spirit Airlines, Inc. (SAVE)	Neutral	4

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	ALK	X Industry	S&P 500	JBLU	LUV	SAVE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	4	4
VGM Score	B	-	-	C	C	D
Market Cap	4.76 B	2.20 B	23.75 B	3.16 B	20.79 B	1.58 B
# of Analysts	6	1.5	14	7	12	6
Dividend Yield	0.00%	0.00%	1.68%	0.00%	1.53%	0.00%
Value Score	A	-	-	B	B	B
Cash/Price	0.62	0.61	0.07	0.99	0.74	0.82
EV/EBITDA	3.22	3.78	13.35	3.23	3.98	5.17
PEG Ratio	NA	0.93	2.98	NA	NA	NA
Price/Book (P/B)	1.22	0.77	3.20	0.77	1.91	0.68
Price/Cash Flow (P/CF)	3.88	2.35	12.97	3.07	5.18	2.10
P/E (F1)	NA	42.03	22.17	NA	NA	NA
Price/Sales (P/S)	0.71	0.44	2.54	0.53	1.25	0.55
Earnings Yield	-21.40%	-26.18%	4.31%	-48.58%	-18.01%	-43.53%
Debt/Equity	0.76	0.98	0.77	1.01	0.98	1.54
Cash Flow (\$/share)	9.91	4.09	6.94	3.79	6.80	8.51
Growth Score	C	-	-	D	C	F
Hist. EPS Growth (3-5 yrs)	-7.47%	2.82%	10.41%	-6.90%	3.78%	1.58%
Proj. EPS Growth (F1/F0)	-228.17%	-249.03%	-6.32%	-396.77%	-248.75%	-252.62%
Curr. Cash Flow Growth	28.26%	11.77%	5.22%	14.33%	-3.22%	19.78%
Hist. Cash Flow Growth (3-5 yrs)	7.14%	8.55%	8.55%	14.43%	8.55%	15.50%
Current Ratio	0.79	0.80	1.33	0.95	1.70	1.31
Debt/Capital	43.10%	52.86%	44.59%	50.20%	49.42%	60.60%
Net Margin	0.85%	-3.84%	10.13%	-4.05%	0.99%	-0.26%
Return on Equity	-0.83%	-4.09%	14.59%	-7.24%	-4.11%	-7.51%
Sales/Assets	0.50	0.50	0.51	0.48	0.58	0.40
Proj. Sales Growth (F1/F0)	-54.69%	-46.66%	-1.40%	-59.74%	-57.15%	-52.20%
Momentum Score	D	-	-	F	F	D
Daily Price Chg	-1.33%	-0.06%	0.67%	-0.85%	-0.11%	-1.05%
1 Week Price Chg	6.30%	5.62%	2.30%	4.06%	7.74%	9.30%
4 Week Price Chg	-0.77%	0.00%	4.87%	0.52%	-1.40%	-7.80%
12 Week Price Chg	27.10%	12.43%	13.54%	26.33%	20.93%	83.08%
52 Week Price Chg	-35.07%	-40.76%	6.06%	-36.38%	-27.71%	-52.36%
20 Day Average Volume	2,291,680	170,943	2,006,991	11,329,433	13,127,920	12,529,482
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.08%	-0.04%	0.00%
(F1) EPS Est 4 week change	-47.51%	-19.45%	1.95%	-49.06%	-40.27%	-37.70%
(F1) EPS Est 12 week change	-52.28%	-48.98%	2.72%	-70.78%	-45.68%	-30.30%
(Q1) EPS Est Mthly Chg	-168.14%	-70.36%	0.84%	-90.79%	-92.23%	-119.97%

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	A
Growth Score	C
Momentum Score	D
VGM Score	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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