

Copa Holdings (CPA)

\$48.38 (As of 06/02/20)

Price Target (6-12 Months): **\$51.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/14/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

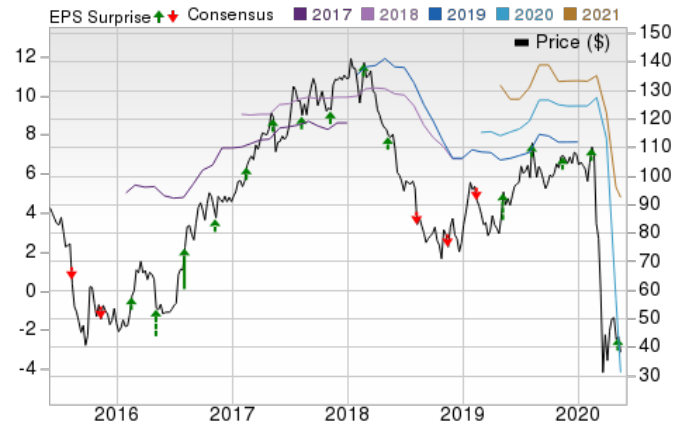
Growth: C

Momentum: F

Summary

Shares of Copa Holdings have plunged 57% since the beginning of March due to drop in air-travel demand as a fallout from the coronavirus breakout. Thanks to the sharp drop in passenger revenues, the company reported a decline in the top line on a year-over-year basis in first-quarter 2020. Load factor declined in the quarter as the reduction in traffic was more than the capacity decline. The prolonged MAX 737 grounding that resulted in multiple flight cancellations is another major challenge. Despite this downturn, low fuel prices are expected to partly offset the adversity and aid the bottom line in turn. Notably, fuel costs declined 6.7% in first-quarter 2020. Reduction in long-term debt is an added positive.

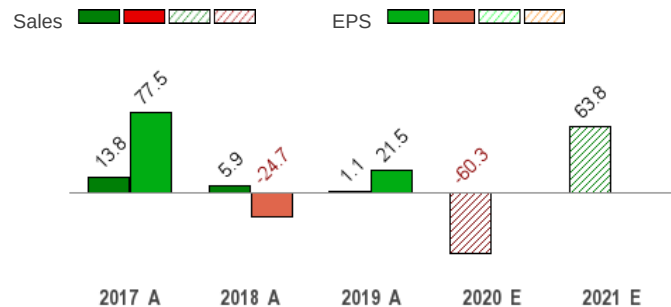
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$116.88 - \$24.00
20 Day Average Volume (sh)	824,109
Market Cap	\$2.0 B
YTD Price Change	-55.2%
Beta	1.49
Dividend / Div Yld	\$3.20 / 6.6%
Industry	Transportation - Airline
Zacks Industry Rank	Top 32% (81 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.2%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	-172.9%
Expected Report Date	08/05/2020
Earnings ESP	0.0%
P/E TTM	6.4
P/E F1	NA
PEG F1	NA
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	485 E	466 E	511 E	491 E	1,761 E
2020	595 A	19 E	176 E	316 E	1,075 E
2019	672 A	645 A	708 A	682 A	2,707 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.91 E	\$0.59 E	\$1.32 E	\$1.10 E	\$3.51 E
2020	\$1.75 A	-\$3.20 E	-\$1.89 E	-\$0.81 E	-\$5.10 E
2019	\$2.11 A	\$1.20 A	\$2.45 A	\$2.17 A	\$7.92 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 06/02/2020. The reports text is as of 06/03/2020.

Overview

Copa Holdings is based in Panama City, Panama. The company, through its main subsidiaries — Copa Airlines and Copa Colombia — offers airline passenger and cargo services. Copa Airlines was founded in 1947. Copa Colombia was purchased in 2005.

On a daily basis, the company operates approximately more than 360 scheduled flights and flies to 80 destinations covering 32 countries in North, Central, South America and the Caribbean from its Panama City hub. Passengers of the carrier also have access to flights serving many more destinations, courtesy of its code-share arrangements with United Airlines among other carriers. The partnership with United Airlines was inked in 1998. The agreement was amended in 2016 and extended through 2021.

In 2015, the company launched its own frequent flyer program in a bid to boost its relationship with customers. The move followed its decision to stop co-branding the MileagePlus frequent flyer program in Latin America.

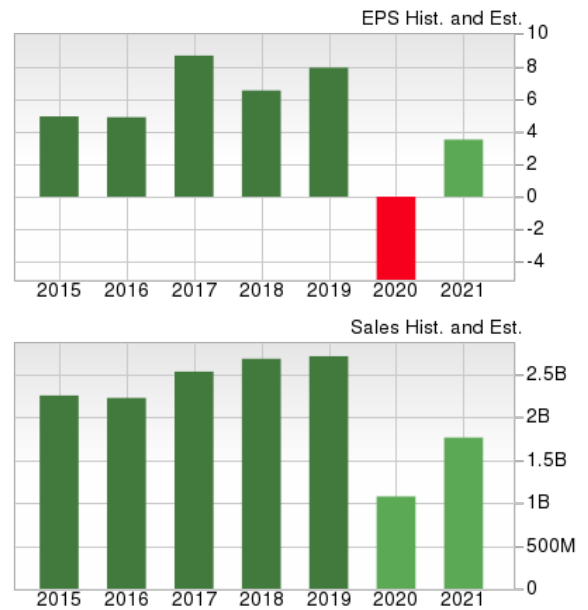
Furthermore, Copa Holdings is constantly looking to modernize its fleet. The planes are equipped with modern facilities aimed at promoting safety, enhancing flying experience etc. Moving ahead, the company aims to increase its fleet size.

The company's fleet size at the end 2018 was 105 (82 Boeing 737-Next Generation, 19 Embraer 190 and four Boeing 737 MAX 9 jets), with an average age of 8.5 years. Moreover, 67 Boeing 737 MAX planes are expected to be delivered to Copa Holdings in the 2019-2025 time frame.

In 2018, total revenues increased 6.2% year over year to \$2.68 billion. Passenger revenues were up 5.9% and accounted for bulk of the top line (96.6%). Cargo and mail revenues contributed 2.3% to the top line. Remainder of the top line came from other operating revenues during the same year.

Geographically, Copa Holdings' total revenues come from the South, North, Caribbean and Central American markets. The South American market accounted for bulk (46.6%) of the company's revenues in 2018. Markets in North America, Central America and the Caribbean accounted for a respective 26.4%, 21.8% and 5.2% of Copa Holdings' top line in 2018.

Notably, the company's fiscal year coincides with the calendar year.



Reasons To Buy:

- ▲ Copa Holdings exited first-quarter 2020 with total cash, cash equivalents and short-term investments of \$1,012.6 million. This is much higher than the current maturities of long-term debt figure of \$261.2 million. This underscores the company's solid cash position to meet its short-term debt obligations. The sequential decline in long-term debt in first-quarter 2020 is also encouraging.
- ▲ As of Mar 31, 2020, Copa Holdings' fleet size was 102 (on a consolidated basis). The fleet included 68 Boeing 737-800s, 14 Boeing 737-700s, 14 Embraer-190s and six Boeing MAX9s. In a bid to improve efficiencies, the carrier decided to expedite the departure of E190 jets from its fleet. Even though the fleet-modernization exercise might have taken a backseat due to the coronavirus pandemic, we believe that the company, owing to its strong cash position, will resume such efforts once things are normalized.
- ▲ The current scenario of low fuel costs is a positive for the company. Evidently, average fuel cost per gallon declined 9.2% to \$2.16. in the December-end quarter. Additionally, expenses on fuel declined 19.5% year over year in the first quarter due to reduction in volume consumed and lower jet fuel prices. Average fuel price per gallon declined 6.7% in the reported quarter to \$1.95.

The current scenario of low fuel costs is a positive for the company.

Reasons To Sell:

- ▼ Dwindling air travel demand due to the coronavirus outbreak resulted in a decline in passenger revenues in the first quarter of 2020. With passenger revenues comprising of majority of the top line, total revenues too declined in the first quarter. This bleak scenario is likely to hurt second-quarter results too
- ▼ The increase in non-fuel unit costs (up 8% in first-quarter 2020) on account of lower capacity mainly due to flight cancellations in March stemming from the COVID-19 outbreak. Moreover, the temporary grounding of the fleet from Mar 22 resulted in a significant year-over-year capacity reduction. The company expects to resume operations (on a scaled-down basis) from Jun 1. However, the date is tentative and could be pushed back in the event of further travel restrictions. Non-fuel unit costs are likely to increase going forward too as capacity is likely to be even lower due to the coronavirus pandemic. This might limit bottom-line growth
- ▼ Copa Holdings currently has six Boeing MAX 9 jets in its fleet. However, with the MAX fleet being grounded since March 2019, the company has had to cancel multiple flights. This, in turn, is hurting revenues. Moreover, mainly due to coronavirus-induced low demand, shares of the company have slumped 57% since the beginning of March. With the crisis showing no signs of fading, the stock price may depreciate further, dampening investor confidence in the stock.

Declining air-travel demand due to the coronavirus pandemic is a huge setback for the company.

Last Earnings Report

Earnings Beat at Copa Holdings in Q1

Copa Holdings' earnings earnings of \$1.75 per share beat the Zacks Consensus Estimate by 19 cents. However, the bottom line fell 17.1% year over year primarily due to lower revenues. Quarterly revenues also declined 11.4% to \$595.5 million, which beat the Zacks Consensus Estimate of \$592.8 million. The downside was caused by 11.4% decrease in passenger revenues. Notably, passenger revenues contributed 96.5% to the top line in the reported quarter.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	0.46%
EPS Surprise	12.18%
Quarterly EPS	1.75
Annual EPS (TTM)	7.57

Operational Statistics

While passenger unit revenue per available seat mile (PRASM) ascended 3.5%, yield per passenger mile rose 5.8%. On a consolidated basis, traffic (measured in revenue passenger miles or RPMs) dropped 16.3% and capacity (or available seat miles/ASMs) slid 14.4% due to significant decline in travel demand due to COVID-19 pandemic. As capacity contraction was less than traffic plunge, consolidated load factor (% of seats filled with passengers) contracted 190 basis points to 81.5%. Meanwhile, unit revenue per available seat mile (RASM) increased 3.5%.

Total operating costs declined 11.2% to \$496.5 million backed by lower capacity. Expenses on fuel declined 19.5% due to reduction in volume consumed and lower jet fuel prices. Average fuel price per gallon declined 6.7% in the reported quarter to \$1.95. Expenses on wages, salaries and other employee benefits fell 3%. Adjusted operating cost per available seat mile (Adjusted CASM) increased 3.8% to 9 cents in first-quarter 2020. The metric excluding fuel costs increased 8% to 6.6 cents, mainly due to flight cancellations in March stemming from the COVID-19 outbreak. Moreover, the temporary grounding of the fleet from Mar 22 resulted in a significant year-over-year capacity reduction. The company expects to resume operations (on a scaled-down basis) from Jun 1. However, the date is tentative and could be pushed back in the event of further travel restrictions.

Other Details

The company exited the first quarter with cash and cash equivalents of \$339.92 million compared with \$158.73 million at 2019 end. Long-term debt declined to \$907.9 million from \$938.1 million at the end of 2019.

Due to COVID-19 pandemic uncertainties, on Apr 26, the company's board of directors postponed dividend payments for the remaining quarters of 2020. The company ended the first quarter with a consolidated fleet of 102 aircraft — 6 Boeing 737MAX9s, 68 Boeing 737- 800s, 14 Boeing 737-700s and 14 Embraer 190s. Due to coronavirus-related uncertainties, the company did not provide financial guidance for 2020.

Recent News

March Traffic - Apr 13, 2020

Consolidated traffic plunged 43.4% while capacity declined 35.7%. Load factor declined 990 basis points (bps) to 73.4% as traffic decreased more than the contraction in capacity.

Valuation

Copa Holdings shares have been down 55.2% and 47.7% year to date and over the past year, respectively. Stocks in the Zacks sub-industry have shed 51.5% and 46.4% of value so far this year and in a year's time each. Stocks in the Zacks Transportation sector have declined 18.8% and 13.2% year to date and in the past year, respectively.

The S&P 500 Index has lost 5.1% and up 9.1% year to date and in the past 12 months, respectively.

The stock is currently trading at 6.39X trailing 12-month price to earnings, which compares to 8.54X for the Zacks sub-industry, 14.84X for the Zacks sector and 19.67X for the S&P 500 index.

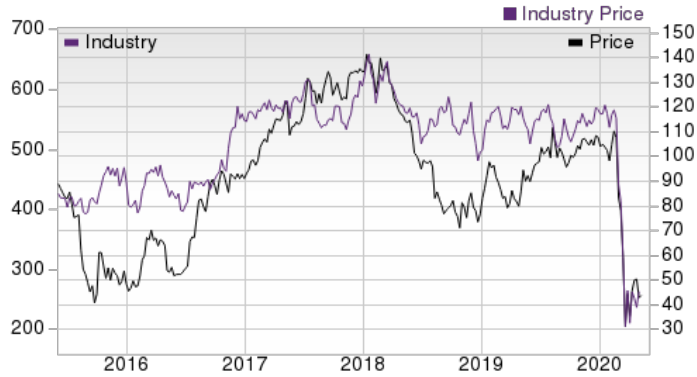
Over the past five years, the stock has traded as high as 24.13X and as low as 3.49X, with a 5-year median of 14.53X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$51 price target reflects 6.73X trailing 12-month earnings.

The table below shows summary valuation data for CPA

Valuation Multiples - CPA					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	6.39	8.54	14.84	19.67
	5-Year High	24.13	13.2	19.58	22.23
	5-Year Low	3.49	7.45	11.63	15.96
	5-Year Median	14.53	10.72	15.56	19.11
EV/EBITDA TTM	Current	3.13	4.55	7.11	11.3
	5-Year High	16.41	7.01	11.15	12.86
	5-Year Low	1.91	3.26	5.44	8.26
	5-Year Median	7.35	5.9	7.33	10.81
P/S F 12M	Current	1.5	0.59	1.14	3.44
	5-Year High	2.32	0.98	1.42	3.44
	5-Year Low	0.42	0.38	0.84	2.53
	5-Year Median	1.45	0.77	1.19	3.02

As of 06/02/2020

Industry Analysis Zacks Industry Rank: Top 32% (81 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Allegiant Travel Company (ALGT)	Neutral	3
SIGNATURE AVIAT (BBAVY)	Neutral	3
Gol Linhas Aereas Inteligentes S.A. (GOL)	Neutral	2
Hawaiian Holdings, Inc. (HA)	Neutral	3
Spirit Airlines, Inc. (SAVE)	Neutral	3
SkyWest, Inc. (SKYW)	Neutral	5
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		
	CPA	X Industry	S&P 500	AZUL	BBAVY	HA
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	F	B	B
Market Cap	2.04 B	2.55 B	22.11 B	4.03 B	2.56 B	729.69 M
# of Analysts	6	4.5	14	4	1	4
Dividend Yield	6.61%	0.00%	1.93%	0.00%	0.00%	3.02%
Value Score	B	-	-	F	A	A
Cash/Price	0.55	0.60	0.06	0.09	NA	1.23
EV/EBITDA	3.38	3.38	12.69	11.88	NA	2.64
PEG Ratio	NA	5.32	2.98	NA	NA	NA
Price/Book (P/B)	1.03	0.72	3.07	NA	1.32	0.79
Price/Cash Flow (P/CF)	3.30	2.32	11.86	3.29	5.67	1.94
P/E (F1)	NA	40.83	21.79	NA	40.83	NA
Price/Sales (P/S)	0.78	0.34	2.29	1.41	NA	0.27
Earnings Yield	-10.54%	-26.39%	4.39%	-115.07%	2.45%	-46.91%
Debt/Equity	0.56	0.68	0.76	-1.70	NA	1.50
Cash Flow (\$/share)	14.66	4.15	7.01	2.93	2.16	8.18
Growth Score	C	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	7.82%	2.29%	10.87%	NA	NA	9.44%
Proj. EPS Growth (F1/F0)	-164.33%	-264.81%	-10.74%	-520.84%	-57.14%	-261.96%
Curr. Cash Flow Growth	11.77%	12.49%	5.48%	306.47%	5.74%	-9.18%
Hist. Cash Flow Growth (3-5 yrs)	0.28%	8.82%	8.55%	NA	NA	13.32%
Current Ratio	1.23	0.69	1.29	0.37	NA	0.96
Debt/Capital	35.91%	47.44%	44.75%	NA	NA	60.06%
Net Margin	8.81%	2.60%	10.59%	-41.88%	NA	1.58%
Return on Equity	16.53%	9.01%	16.29%	-10.49%	NA	14.93%
Sales/Assets	0.59	0.62	0.55	0.62	NA	0.68
Proj. Sales Growth (F1/F0)	-60.30%	-45.14%	-2.67%	-58.79%	-34.24%	-54.08%
Momentum Score	F	-	-	F	F	C
Daily Price Chg	3.51%	2.56%	0.99%	14.39%	1.24%	5.94%
1 Week Price Chg	6.22%	5.39%	4.60%	0.25%	0.58%	7.85%
4 Week Price Chg	16.47%	17.13%	9.15%	18.47%	41.13%	26.43%
12 Week Price Chg	-32.92%	-24.04%	4.65%	-58.45%	-3.12%	-9.05%
52 Week Price Chg	-47.70%	-43.24%	-0.30%	-68.86%	-25.89%	-41.03%
20 Day Average Volume	824,109	265,296	2,486,038	2,985,549	598	1,604,359
(F1) EPS Est 1 week change	-14.91%	0.00%	0.00%	-74.43%	0.00%	0.00%
(F1) EPS Est 4 week change	-172.95%	-12.43%	-0.33%	-3,589.17%	0.00%	-6.50%
(F1) EPS Est 12 week change	-151.95%	-205.62%	-16.13%	-521.22%	-65.71%	-289.69%
(Q1) EPS Est Mthly Chg	-35.82%	-7.19%	-0.55%	-41.40%	NA	23.02%

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	C
Momentum Score	F
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.

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