

Copa Holdings (CPA)

\$83.20 (As of 03/03/20)

Price Target (6-12 Months): **\$88.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 10/09/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

Summary

We are encouraged by Copa Holdings' efforts to modernize its fleet. Reduction in fuel prices (down 9.2% in fourth-quarter 2019) is an added positive. Also, the carrier's efforts to expand its operations are commendable. Efforts to reward shareholders are commendable too. Backed by these tailwinds, shares of Copa Holdings have outperformed its industry in a year's time. However, the prolonged MAX 737 grounding is hurting revenues due to multiple flight cancellations. Notably, passenger traffic dipped 2.7% in 2019. The carrier with six Boeing MAX 9 jets in its fleet removed all MAX flights from schedule through the end of August. Additionally, the increase in non-fuel unit costs (up 6.4% in fourth-quarter 2019) due to reduced capacity following the MAX groundings is weighing on the bottom line.

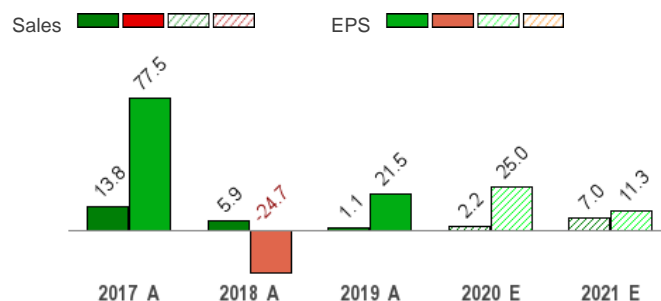
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$116.88 - \$77.57
20 Day Average Volume (sh)	426,189
Market Cap	\$3.5 B
YTD Price Change	-23.0%
Beta	1.40
Dividend / Div Yld	\$3.20 / 3.8%
Industry	Transportation - Airline
Zacks Industry Rank	Top 12% (31 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.6%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	4.5%
Expected Report Date	05/13/2020
Earnings ESP	1.0%
P/E TTM	10.5
P/E F1	8.4
PEG F1	0.6
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	718 E	690 E	759 E	758 E	2,962 E
2020	678 E	649 E	730 E	714 E	2,767 E
2019	672 A	645 A	708 A	682 A	2,707 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.68 E	\$2.11 E	\$2.86 E	\$2.68 E	\$11.02 E
2020	\$2.61 E	\$1.95 E	\$2.90 E	\$2.56 E	\$9.90 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 03/03/2020. The reports text is as of 03/04/2020.

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.

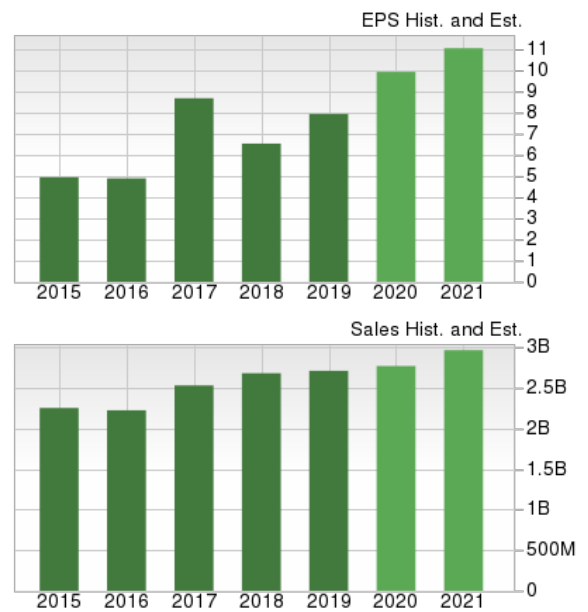
Furthermore, Copa Holdings is constantly looking to modernize its fleet. The planes are equipped with modern facilities aimed at promoting safety, enhancing flying experience etc. Moving ahead, the company aims to increase its fleet size.

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:

▲ We are encouraged by Copa Holdings' initiatives to modernize its fleet. Apart from adding planes, this carrier is replacing the outdated ones as part of its fleet modernization efforts. As of Dec 31, 2019, 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.

We are impressed by Copa Holdings' initiatives to modernize its fleet.

▲ The company's 2020 operating margin forecast is impressive. Backed by modest fuel prices and the rising revenue trends, the company expects 2020 operating margin in the 18-20%. Notably, the company's operating margin in 2019 was 16.1%. Meanwhile, the effective price per gallon of jet fuel (inclusive of into-plane costs) is predicted to be \$1.95 in 2020, lower than the 2019 figure of \$2.16. Furthermore, the carrier's efforts to expand its operations are commendable.

▲ Like other players in the Latin American aviation space, Copa is being aided by the suspension of Avianca Holdings' Brazilian operations by the country's civil aviation regulator National Civil Aviation Agency in May 2019. We are also encouraged by the company's efforts to reward its shareholders. To this end, the carrier announced a 23% hike in quarterly dividend to 80 cents per share (annualized: \$3.20 per share) in February. The first installment of the new quarterly dividend will be paid out on Mar 13 to shareholders on record as of Feb 28, 2020.

Reasons To Sell:

- ▼ 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. Like fourth-quarter 2019, the company's first-quarter 2020 results might reflect this headwind as well. Copa Holdings has removed all MAX flights from its schedule through end-August2020.
- ▼ The increase in non-fuel unit costs (up 6.4% in fourth-quarter 2019) on account of lower capacity due to the grounding of the MAX fleet is also worrisome. Non-fuel unit costs are likely to increase going forward too. This might limit bottom-line growth. Moreover, the rapid spread of coronavirus beyond its country of origin, China, is a setback. This headwind might hurt Copa's already declining passenger traffic (down 2.7% in 2019) further.
- ▼ Copa Holdings' operations were significantly disrupted in April 2018 when it had to cancel approximately 360 flights pertaining to its Venezuela operations. This was because of the political dispute involving Panama and Venezuela. Re-occurrence of such events might hurt the stock significantly.

Copa has had to cancel multiple flight due to the grounding of the Boeing MAX 9 jets in its fleet. This, in turn, is hurting revenues.

Last Earnings Report

Earnings Beat at Copa Holdings in Q4

Copa Holdings' earnings of \$2.17 per share (excluding \$2.11 from non-recurring items) beat the Zacks Consensus Estimate by 19 cents. Moreover, the bottom line surged more than 100% year over year primarily owing to higher revenues and low fuel costs. Quarterly revenues also increased 3.9% to \$681.9 million, which beat the Zacks Consensus Estimate of \$666.9 million. The uptick can be attributed to a 4.1% increase in passenger revenues. Notably, passenger revenues contributed 96.45% to the top line in the reported quarter.

Quarter Ending **12/2019**

Report Date	Feb 12, 2020
Sales Surprise	2.26%
EPS Surprise	9.60%
Quarterly EPS	2.17
Annual EPS (TTM)	7.93

Operational Statistics

While passenger unit revenue per available seat mile (PRASM) ascended 9.2%, yield per passenger mile rose 6%. On a consolidated basis, traffic (measured in revenue passenger miles or RPMs) dipped 1.7% and capacity (or available seat miles/ASMs) slid 4.6% due to the MAX groundings in the December-end quarter. As capacity contraction was more than traffic plunge, consolidated load factor (% of seats filled with passengers) improved 250 basis points to 85.3%. Meanwhile, unit revenue per available seat mile (RASM) increased 8.9%.

Average fuel price per gallon declined 9.2% in the reported quarter to \$2.16. However, operating cost per available seat mile (CASM), excluding special items (adjusted CASM) increased 1.4% to 9.3 cents in fourth-quarter 2019. The metric excluding fuel costs increased 6.4% to 6.6 cents, mainly due to lower capacity as well as expenses associated with the Boeing MAX fleet grounding. With the ongoing groundings, the company removed all MAX flights from its schedule until the end of August 2020.

Liquidity

The company exited the year with cash and cash equivalents of \$158.73 million compared with \$156.16 million at 2018 end. Long-term debt declined to \$938.2 million from \$975.3 million at the end of 2018.

Fleet Update

Copa Holding ended the year with a consolidated fleet of 102 aircraft — 6 Boeing 737MAX 9s, 68 Boeing 737- 800s, 14 Boeing 737-700s and 14 Embraer 190s.

Outlook for 2020

Even after prolonged period of MAX groundings, Copa Holdings now anticipates capacity to inch up 1% year over year compared with 2.7% decline in 2019. However, with modest fuel prices and the rising revenue trends, the company expects operating margin in the range of 18-20%. Notably, the company's operating margin in 2019 was 16.1%. Meanwhile, the effective price per gallon of jet fuel (inclusive of into-plane costs) is projected at \$1.95.

Recent News

January Traffic - Feb 12, 2020

Consolidated traffic, measured in revenue passenger miles (RPMs), slipped 5.7% to 1.82 billion in the month. On a year-over-year basis, consolidated capacity (measured in available seat miles/ASMs) dropped 7% year over year to 2.16 billion.

Meanwhile, with traffic declining less than the amount of capacity contraction, load factor (% of seats filled by passengers) increased 120 basis points to 84.2% in January.

Valuation

Copa Holdings shares are down 1.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 21.9% and 11.9% over the past year, respectively. The S&P 500 index is up 6.3% over the trailing 12-month period.

The stock is currently trading at 8.24X forward 12-month price to earnings, which compares to 6.44X for the Zacks sub-industry, 11.09X for the Zacks sector and 17.15X for the S&P 500 index.

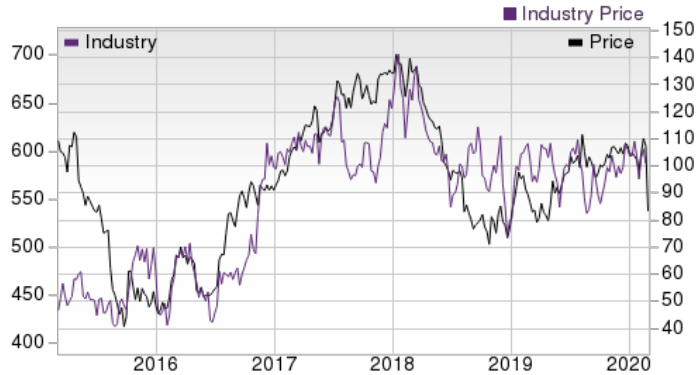
Over the past five years, the stock has traded as high as 19.43X and as low as 6.9X, with a 5-year median of 12.07X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$88 price target reflects 8.72X forward 12-month earnings.

The table below shows summary valuation data for CPA

Valuation Multiples - CPA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.24	6.44	11.09	17.15
	5-Year High	19.43	12.3	17	19.34
	5-Year Low	6.9	6.44	10.48	15.18
	5-Year Median	12.07	9.05	13.13	17.44
EV/EBITDA TTM	Current	6.14	4.87	6.86	10.93
	5-Year High	16.35	7.22	11.07	12.88
	5-Year Low	2.99	4.32	6	8.49
	5-Year Median	7.47	5.98	7.38	10.79
P/S F12M	Current	1.25	0.53	0.95	3.16
	5-Year High	2.32	0.98	1.4	3.43
	5-Year Low	0.74	0.53	0.95	2.54
	5-Year Median	1.49	0.77	1.21	3.01

As of 03/03/2020

Industry Analysis Zacks Industry Rank: Top 12% (31 out of 255)



Top Peers

AZUL SA (AZUL)	Outperform
Gol Linhas Aereas Inteligentes S.A. (GOL)	Outperform
Spirit Airlines, Inc. (SAVE)	Outperform
Avianca Holdings S.A. (AVH)	Neutral
Hawaiian Holdings, Inc. (HA)	Neutral
JetBlue Airways Corporation (JBLU)	Neutral
LATAM Airlines Group S.A. (LTM)	Neutral
SkyWest, Inc. (SKYW)	Neutral

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	CPA Neutral	X Industry	S&P 500	AZUL Outperform	GOL Outperform	LTM Neutral
VGM Score	A	-	-	C	A	A
Market Cap	3.51 B	3.77 B	21.37 B	12.20 B	1.95 B	4.03 B
# of Analysts	7	4	13	3	5	3
Dividend Yield	3.85%	0.00%	2.04%	0.00%	0.00%	0.60%
Value Score	C	-	-	F	A	A
Cash/Price	0.24	0.32	0.05	0.03	0.37	0.23
EV/EBITDA	11.60	4.46	12.65	37.74	3.97	4.72
PEG Ratio	0.60	0.45	1.87	NA	NA	NA
Price/Book (P/B)	1.81	0.88	2.96	NA	NA	1.42
Price/Cash Flow (P/CF)	5.68	3.32	11.68	40.46	3.28	22.18
P/E (F1)	8.34	6.61	16.98	10.40	5.28	16.32
Price/Sales (P/S)	1.30	0.48	2.44	4.40	0.56	0.41
Earnings Yield	11.90%	15.14%	5.87%	9.61%	18.89%	6.17%
Debt/Equity	0.59	0.64	0.70	-18.95	-1.48	0.00
Cash Flow (\$/share)	14.66	4.14	7.01	0.72	3.40	0.30
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	4.00%	3.75%	10.85%	NA	NA	11.99%
Proj. EPS Growth (F1/F0)	25.00%	15.18%	6.36%	40.10%	151.67%	139.71%
Curr. Cash Flow Growth	38.61%	12.07%	6.07%	10.49%	210.04%	17.15%
Hist. Cash Flow Growth (3-5 yrs)	0.28%	8.82%	8.52%	NA	39.43%	28.50%
Current Ratio	1.19	0.69	1.23	0.67	0.48	0.59
Debt/Capital	37.18%	47.20%	42.57%	NA	NA	0.00%
Net Margin	9.12%	6.96%	11.57%	1.85%	-0.96%	1.13%
Return on Equity	17.56%	15.54%	16.66%	196.76%	-10.35%	3.45%
Sales/Assets	0.61	0.66	0.54	0.66	0.94	0.51
Proj. Sales Growth (F1/F0)	2.19%	4.11%	4.01%	17.72%	4.11%	5.55%
Momentum Score	A	-	-	B	A	D
Daily Price Chg	-3.96%	-0.93%	-2.60%	-3.00%	-4.04%	-3.76%
1 Week Price Chg	-22.49%	-20.29%	-12.06%	-22.02%	-26.43%	-22.11%
4 Week Price Chg	-19.95%	-22.37%	-10.01%	-31.91%	-32.51%	-23.12%
12 Week Price Chg	-20.29%	-20.58%	-7.46%	-24.35%	-33.83%	-40.14%
52 Week Price Chg	-1.65%	-23.49%	2.54%	-1.02%	-21.34%	-41.31%
20 Day Average Volume	426,189	95,110	2,406,738	603,346	1,340,808	822,374
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	53.70%	0.00%
(F1) EPS Est 4 week change	4.52%	0.00%	-0.06%	0.00%	-4.38%	0.00%
(F1) EPS Est 12 week change	4.60%	1.84%	-0.39%	11.10%	21.92%	-0.61%
(Q1) EPS Est Mthly Chg	6.22%	0.19%	-0.45%	-50.00%	56.25%	0.00%

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	A
Momentum Score	A
VGM Score	A

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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