

## Copa Holdings (CPA)

**\$50.06** (As of 08/11/20)

Price Target (6-12 Months): **\$53.00**

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: C

Growth: D

Momentum: F

### Summary

Shares of Copa Holdings have plunged 39.8% since the beginning of March due to coronavirus-related adversities on its operations. Due to travel restrictions, the airline could not operate scheduled commercial flights during the second quarter. As a result, passenger revenues declined 98.3%. The third quarter is not likely to see much respite from these travel restrictions. Due to rising coronavirus cases, the Panamanian government has extended air-travel restrictions through Aug 21, 2020. The company's efforts to combat these adversities through significant cost-reduction initiatives are encouraging. It expects to reduce monthly cash burn to \$66 million in the second half of 2020 from \$77 million in the second quarter of 2020. Additionally, Copa Holdings' improving cash position is an indicator of its sound financial position.

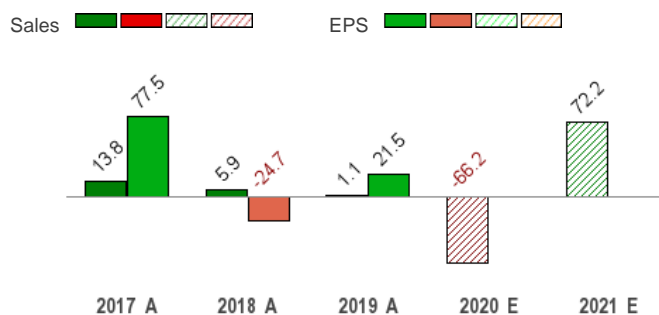
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$116.88 - \$24.00</b>
20 Day Average Volume (sh)	<b>790,984</b>
Market Cap	<b>\$2.1 B</b>
YTD Price Change	<b>-53.7%</b>
Beta	<b>1.40</b>
Dividend / Div Yld	<b>\$2.10 / 4.2%</b>
Industry	<a href="#">Transportation - Airline</a>
Zacks Industry Rank	<b>Bottom 8% (233 out of 253)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>20.1%</b>
Last Sales Surprise	<b>0.6%</b>
EPS F1 Est- 4 week change	<b>-8.6%</b>
Expected Report Date	<b>11/11/2020</b>
Earnings ESP	<b>-11.7%</b>
P/E TTM	<b>13.6</b>
P/E F1	<b>NA</b>
PEG F1	<b>NA</b>
P/S TTM	<b>1.1</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	289 E	355 E	430 E	441 E	1,577 E
2020	595 A	15 A	81 E	216 E	916 E
2019	672 A	645 A	708 A	682 A	2,707 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.39 E	\$0.10 E	\$0.91 E	\$0.76 E	\$2.13 E
2020	\$1.75 A	-\$2.70 A	-\$2.61 E	-\$1.55 E	-\$6.38 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 08/11/2020. The reports text is as of 08/12/2020.

## 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.

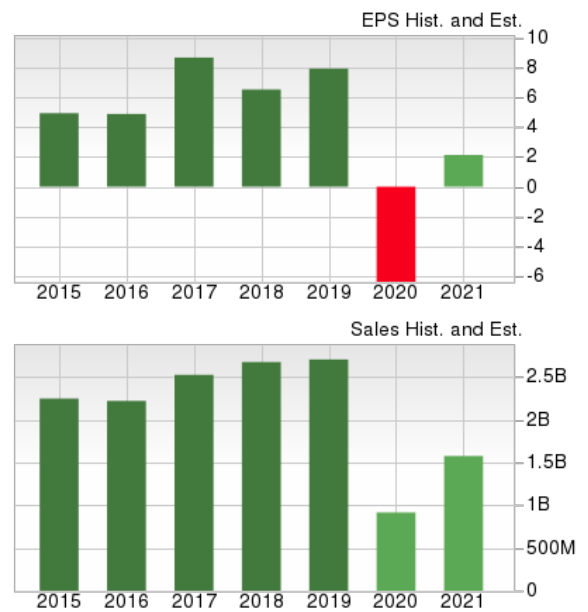
Furthermore, Copa Holdings is constantly looking to modernize its fleet. The planes are equipped with modern facilities aimed at promoting safety, enhancing flying experience etc. Moving ahead, the company aims to increase its fleet size.

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.



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## Reasons To Buy:

▲ Copa Holdings exited second-quarter 2020 with cash and cash equivalents of \$307.3 million compared with \$158.73 million at the end of 2019. This improving cash position is an indicator of its sound financial position. Moreover, the company's current ratio was 1.62 at the end of the second quarter, higher than the industry's average of 0.95.

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

▲ Through significant cost-reduction efforts, the airline anticipates to reduce its monthly cash burn to approximately \$66 million in the second half of 2020 from \$77 million in the second quarter of 2020. Moreover, as of Jun 30, 2020, Copa Holdings' fleet size was 102 (on a consolidated basis). The fleet included 6 Boeing 737MAX9s, 68 Boeing 737-800s, 14 Boeing 737-700s and 14 Embraer-190s. 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 quarter. Additionally, expenses on fuel declined 19.5% year over year in the first quarter due reduced fuel consumption and low jet fuel prices. The same fell 99.9% in the second quarter. Significant reduction in fuel prices should continue to support the bottom line.

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## Reasons To Sell:

- ▼ The Panamanian government-imposed travel restrictions due to coronavirus weighed significantly on Copa Holdings' passenger revenues in the second quarter. Due to travel restrictions, the airline could not operate scheduled commercial flights during the quarter. Instead it operated a small number of charter and humanitarian flights, representing less than 1% of second-quarter 2019's capacity. Thanks to this limited flying, passenger revenues plunged 98.3% year over year in the period. Consequently, total revenues declined 98%. Coronavirus-related headwinds affected the company's first-quarter performance as well. However, amid nationwide lockdowns and large-scale travel restrictions, the second quarter bore the brunt of the adversities. The top line is expected to remain under pressure unless coronavirus concerns fade.
- ▼ Copa Holdings is not likely to get much respite from travel restrictions in the third quarter as well. Due to rising coronavirus cases, the company has had to reschedule its plans to restart commercial operations. With the Panamanian government having extended air-travel restrictions through Aug 21, 2020, the carrier now expects to resume operations (on a scaled-down basis) from Sep 4, 2020, as opposed to Jun 1 it anticipated previously. With the initial start of operations, the carrier's capacity is estimated to be less than 10% of its 2019 level.
- ▼ Due to travel restrictions, the company reduced its capacity dramatically. The airline's capacity declined 99.5% year over year in the second quarter. Due to weak air-travel demand amid coronavirus concerns, traffic declined by an even larger amount, dropping 99.7%. Additionally, with the carrier's fleet consisting of six Boeing MAX 9 jets, the Boeing MAX grounding-related concerns remain. This MAX aircraft has been grounded since March 2019 and the company has had to cancel multiple flights as a result of it. This in turn hurt revenues. Moreover, the fact that the carrier was fined by the Department of Transportation for violating a May 2019 order and transporting passengers between the United States and Venezuela by using a stopover point, is a setback to the company.

Similar to the second quarter, government travel restrictions are expected to significantly impact the company's third-quarter performance.

## Last Earnings Report

### Copa Holdings Incurs Loss in Q2

Copa Holdings incurred a loss (excluding \$6.38 from non-recurring items) of \$2.7 per share in second-quarter 2020, narrower than the Zacks Consensus Estimate of a loss of \$3.38. In the year-ago quarter, the company reported earnings of \$1.2 per share.

Thanks to coronavirus-led travel restrictions, the company could not operate scheduled commercial flights during the second quarter. Instead it operated a small number of charter and humanitarian flights, representing less than 1% of second-quarter 2019's capacity. Due to this limited flying, Copa Holdings did not provide certain financial ratios, unit metrics and operational indicators this time, since they were either not measurable or applicable in such a scenario.

Quarterly revenues of \$14.5 million beat the Zacks Consensus Estimate of \$14.4 million. However, the top line plunged 97.7% year over year with passenger revenues (accounted for 74.2% of the top line) declining 98.3%.

Quarter Ending **06/2020**

Report Date	Aug 05, 2020
Sales Surprise	<b>0.62%</b>
EPS Surprise	<b>20.12%</b>
Quarterly EPS	<b>-2.70</b>
Annual EPS (TTM)	<b>3.67</b>

### Operational Statistics

On a consolidated basis, traffic (measured in revenue passenger miles or RPMs) dropped 99.7% and capacity (or available seat miles/ASMs) declined 99.5%. Travel restrictions due to coronavirus concerns forced the company to reduce capacity dramatically. As traffic decline was more than the amount of capacity contraction, load factor (% of seats filled with passengers) decreased in the reported quarter.

Total operating expenses declined 33.8% year over year to \$372.41 million, backed by lower capacity among other factors. Expenses on fuel fell 99.9% due to reduced fuel consumption and low jet fuel prices. Expenses on wages, salaries and other employee benefits decreased 64.7% due to temporary work-contract suspensions, voluntary pay cuts and work-hour reductions for employees.

### Other Details

Copa Holdings exited the second quarter with cash and cash equivalents of \$307.3 million compared with \$158.73 million at 2019 end. Total debt at the end of the second quarter was \$1.3 billion. The company repaid \$95 million in short-term lines of credit.

This company ended the second quarter with a consolidated fleet of 102 aircraft – 6 Boeing 737MAX9s, 68 Boeing 737-800s, 14 Boeing 737-700s, and 14 Embraer-190s.

### Outlook

Due to rising coronavirus cases, the Panamanian government has extended air-travel restrictions through Aug 21, 2020. Hence the company now expects to resume operations (on a scaled-down basis) from Sep 4, 2020. During the first-quarter earnings release, management stated that the company is expected to restart commercial operations from Jun 1.

With the initial start of operations, the carrier's capacity is estimated to be less than 10% of its 2019 level. This could gradually increase to up to 30-40% by the end of this year.

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## Valuation

Copa Holdings shares are down 53.7% and 51.8% in the year-to-date period and over the past year, respectively. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 43.4% and 2.1% in the year-to-date period respectively. Over the past year, stocks in the Zacks sub-industry are down 38.9%, while those in the sector are up 4.3%.

The S&P 500 index is up 4.2% and 15% in the year-to-date period and in the past year respectively.

The stock is currently trading at 1.45X forward 12-month price to sales, which compares to 0.71X for the Zacks sub-industry, 1.35X for the Zacks sector and 3.67X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.32X and as low as 0.42X, with a 5-year median of 1.47X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$53 price target reflects 1.53X forward 12-month sales.

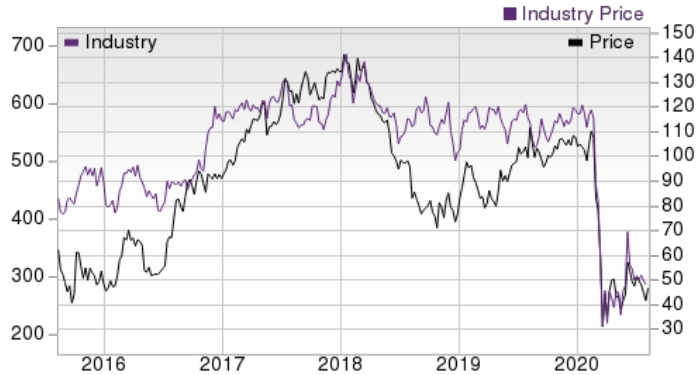
The table below shows summary valuation data for CPA

Valuation Multiples - CPA					
		Stock	Sub-Industry	Sector	S&P 500
P/S F 12M	Current	1.45	0.71	1.35	3.67
	5-Year High	2.32	0.94	1.41	3.67
	5-Year Low	0.42	0.37	0.84	2.53
	5-Year Median	1.47	0.74	1.2	3.05
EV/EBITDA TTM	Current	4.47	16.68	9.77	12.66
	5-Year High	16.41	16.68	11.09	12.84
	5-Year Low	1.91	3.22	5.41	8.24
	5-Year Median	7.35	5.63	7.24	10.9

As of 08/11/2020

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## Industry Analysis Zacks Industry Rank: Bottom 8% (233 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Allegiant Travel Company (ALGT)	Neutral	3
SIGNATURE AVIAT (BBAVY)	Neutral	4
Gol Linhas Aereas Inteligentes S.A. (GOL)	Neutral	5
Hawaiian Holdings, Inc. (HA)	Neutral	4
Spirit Airlines, Inc. (SAVE)	Neutral	4
Controladora Vuela Compania de Aviacion, S.A.B. de C.V. (VLRS)	Neutral	2
AZUL SA (AZUL)	Underperform	3
SkyWest, Inc. (SKYW)	Underperform	4

## Industry Comparison Industry: Transportation - Airline

	CPA	X Industry	S&P 500	Industry Peers		
				AZUL	BBAVY	HA
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	4
VGM Score	D	-	-	D	B	C
Market Cap	2.11 B	2.28 B	23.61 B	5.39 B	3.01 B	638.90 M
# of Analysts	5	4	14	1	2	4
Dividend Yield	4.20%	0.00%	1.69%	0.00%	0.00%	0.00%
Value Score	C	-	-	F	B	A
Cash/Price	0.52	0.61	0.07	0.06	0.04	1.26
EV/EBITDA	3.83	3.79	13.32	14.07	11.32	2.32
PEG Ratio	NA	3.80	2.95	NA	NA	NA
Price/Book (P/B)	1.33	0.78	3.22	NA	1.87	0.77
Price/Cash Flow (P/CF)	3.42	2.36	12.79	4.40	7.21	1.70
P/E (F1)	NA	51.77	22.02	NA	41.71	NA
Price/Sales (P/S)	1.06	0.44	2.57	1.89	NA	0.31
Earnings Yield	-12.74%	-26.73%	4.29%	-11.87%	2.36%	-70.99%
Debt/Equity	0.83	0.98	0.77	-1.70	1.41	1.54
Cash Flow (\$/share)	14.66	4.09	6.94	2.93	2.00	8.18
Growth Score	D	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	6.21%	2.82%	10.41%	NA	NA	5.61%
Proj. EPS Growth (F1/F0)	-180.51%	-249.01%	-6.51%	-158.17%	-46.92%	-314.40%
Curr. Cash Flow Growth	11.77%	11.77%	5.22%	306.47%	-7.68%	-9.18%
Hist. Cash Flow Growth (3-5 yrs)	0.28%	8.55%	8.55%	NA	11.75%	13.32%
Current Ratio	1.62	0.80	1.34	0.37	1.01	0.93
Debt/Capital	45.40%	52.86%	44.59%	NA	58.56%	60.58%
Net Margin	-10.25%	-3.84%	10.13%	-41.88%	NA	-5.83%
Return on Equity	8.34%	-4.09%	14.59%	-10.49%	NA	-8.35%
Sales/Assets	0.46	0.50	0.51	0.62	NA	0.51
Proj. Sales Growth (F1/F0)	-66.16%	-46.66%	-1.45%	-58.79%	-26.23%	-64.04%
Momentum Score	F	-	-	D	A	D
Daily Price Chg	2.98%	0.92%	-0.17%	8.14%	5.19%	0.87%
1 Week Price Chg	12.38%	5.62%	2.30%	0.69%	7.91%	10.68%
4 Week Price Chg	5.23%	5.31%	6.41%	5.31%	27.23%	4.75%
12 Week Price Chg	22.88%	18.77%	15.42%	84.14%	39.17%	11.75%
52 Week Price Chg	-51.82%	-42.39%	2.88%	-68.34%	-22.17%	-45.70%
20 Day Average Volume	790,984	174,002	2,007,486	1,594,671	1,306	1,075,260
(F1) EPS Est 1 week change	-9.33%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-8.56%	-18.92%	1.84%	0.00%	-29.59%	-25.76%
(F1) EPS Est 12 week change	-52.29%	-49.02%	2.40%	-410.00%	15.00%	-32.38%
(Q1) EPS Est Mthly Chg	-16.13%	-43.29%	0.72%	0.00%	NA	-70.36%

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## 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.

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### 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	D
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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