

Copa Holdings (CPA)

\$45.58 (As of 04/14/20)

Price Target (6-12 Months): **\$39.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/15/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: C

Summary

Shares of Copa Holdings have plunged 56% since the beginning of March due to drop in air-travel demand as a fallout from the coronavirus breakout. Thanks to the pandemic, the company suspended all international flights from Mar 22 through Apr 21. Notably, the carrier reported a double-digit decline in March traffic due to vanishing air-travel demand. Due to low passenger revenues, the carrier's top line is likely to have suffered in first-quarter 2020. The prolonged MAX 737 grounding that resulted in multiple flight cancellations is another major challenge. The carrier with six Boeing MAX 9 jets in its fleet removed all MAX flights from schedule until August-end. Despite this downturn, low fuel prices are expected to partly offset the adversity and aid the bottom line in turn. Notably, fuel costs declined 9.2% in fourth-quarter 2019.

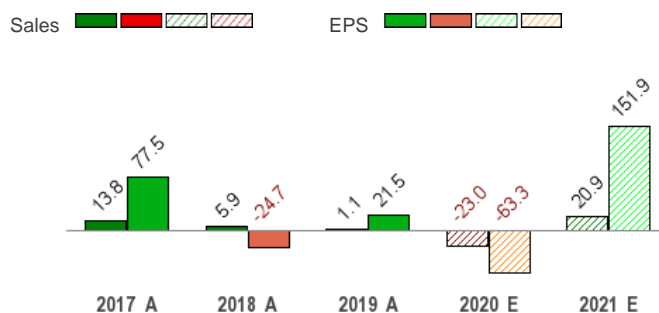
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$116.88 - \$24.00
20 Day Average Volume (sh)	804,785
Market Cap	\$1.9 B
YTD Price Change	-57.8%
Beta	1.77
Dividend / Div Yld	\$3.20 / 7.0%
Industry	Transportation - Airline
Zacks Industry Rank	Bottom 15% (215 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.6%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	-70.3%
Expected Report Date	05/13/2020
Earnings ESP	-17.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	599 E	603 E	659 E	634 E	2,520 E
2020	604 E	232 E	470 E	556 E	2,085 E
2019	672 A	645 A	708 A	682 A	2,707 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.66 E	\$1.22 E	\$2.25 E	\$1.96 E	\$7.33 E
2020	\$1.33 E	-\$1.66 E	\$1.22 E	\$1.78 E	\$2.91 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 04/14/2020. The reports text is as of 04/15/2020.

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.

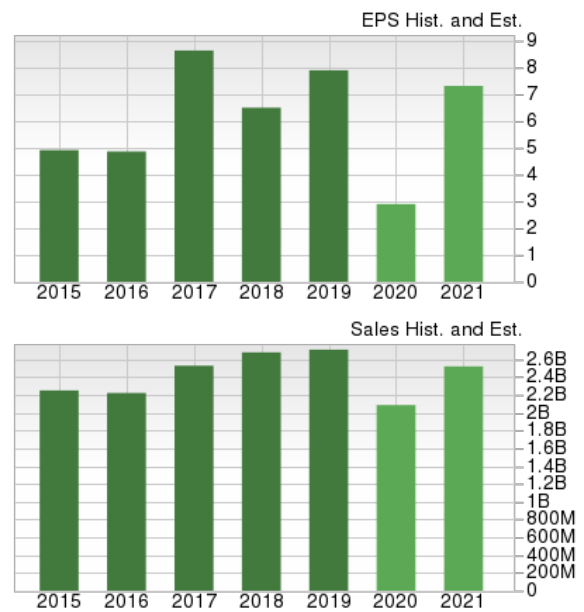
Furthermore, Copa Holdings is constantly looking to modernize its fleet. The planes are equipped with modern facilities aimed at promoting safety, enhancing flying experience etc. Moving ahead, the company aims to increase its fleet size.

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 Sell:

- ▼ Dwindling air travel demand due to the coronavirus outbreak is likely to hurt Copa Holdings' performance in 2020. Due to the extremely-low demand scenario, Copa Holdings suspended all international flights effective Mar 22 through Apr 21. Notably, the carrier reported a double-digit decline in March traffic due to vanishing air-travel demand. Due to low passenger revenues, the carrier's top line is likely to have suffered in first-quarter 2020.
- ▼ 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-August 2020.
- ▼ 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 as capacity is likely to be even lower following the coronavirus pandemic. This might limit bottom-line growth.
- ▼ The negativity surrounding the stock is evident from the Zacks Consensus Estimate for current-year earnings being revised downward over the past 60 days. Particularly, due to coronavirus-induced low demand, shares of the company have slumped 56% 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.

Risks

- 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.
 - 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.
 - 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. The company expects the effective price per gallon of jet fuel (inclusive of into-plane costs) to be \$1.95 in 2020, lower than the 2019 figure of \$2.16.
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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

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 42.8% and 57.8% year to date and over the past year, respectively. Stocks in the Zacks sub-industry have shed 54.5% and 55.7% of value so far this year and in a year's time each. Stocks in the Zacks Transportation sector have declined 25.4% and 24.8% year to date and in the past year, respectively. The S&P 500 Index has lost 5.5% and 14.4% year to date and in the past 12 months, respectively.

The stock is currently trading at 5.75X trailing 12-month price to earnings, which compares to 14.98X for the Zacks sub-industry, 4.57X for the Zacks sector and 17.72X for the S&P 500 index.

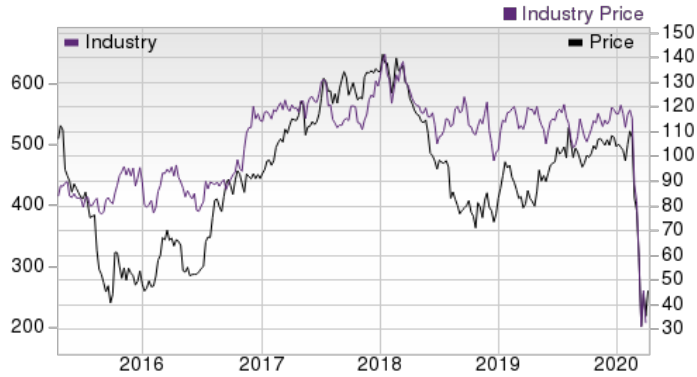
Over the past five years, the stock has traded as high as 24.13X and as low as 3.49X, with a 5-year median of 14.53X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$39 price target reflects 4.92X trailing 12-month earnings.

The table below shows summary valuation data for CPA

Valuation Multiples - CPA					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	5.75	14.98	4.57	17.72
	5-Year High	24.13	19.35	13.2	22.17
	5-Year Low	3.49	13.46	4.57	15.91
	5-Year Median	14.53	16.63	10.79	18.9
EV/EBITDA TTM	Current	2.97	3.68	6.43	10.07
	5-Year High	16.41	7.01	11.16	12.87
	5-Year Low	1.91	3.35	5.71	8.27
	5-Year Median	7.35	5.98	7.39	10.78
P/S F12M	Current	0.68	0.44	0.95	3.04
	5-Year High	2.32	0.98	1.42	3.44
	5-Year Low	0.42	0.39	0.85	2.54
	5-Year Median	1.47	0.77	1.21	3.01

As of 04/14/2020

Industry Analysis Zacks Industry Rank: Bottom 15% (215 out of 253)



Top Peers

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

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	CPA Underperform	X Industry	S&P 500	AZUL Underperform	GOL Neutral	LTM Neutral
VGM Score	B	-	-	B	A	A
Market Cap	1.92 B	2.41 B	19.79 B	3.97 B	778.81 M	2.14 B
# of Analysts	6	4.5	14	3	3	4
Dividend Yield	7.02%	0.00%	2.16%	0.00%	0.00%	1.13%
Value Score	C	-	-	D	B	A
Cash/Price	0.44	0.55	0.06	0.12	0.92	0.53
EV/EBITDA	3.50	3.07	11.74	17.59	2.77	1.46
PEG Ratio	1.11	1.24	2.15	NA	NA	NA
Price/Book (P/B)	0.99	0.65	2.65	NA	NA	0.68
Price/Cash Flow (P/CF)	3.11	2.16	10.40	5.68	1.31	11.24
P/E (F1)	15.36	13.01	17.72	7.26	2.90	NA
Price/Sales (P/S)	0.71	0.28	2.06	1.36	0.22	0.21
Earnings Yield	6.38%	-2.20%	5.46%	13.82%	34.61%	-0.28%
Debt/Equity	0.59	0.68	0.70	-3.85	-1.48	0.00
Cash Flow (\$/share)	14.66	4.14	7.01	1.67	3.40	0.31
Growth Score	B	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	4.00%	4.00%	10.92%	NA	NA	26.80%
Proj. EPS Growth (F1/F0)	-63.24%	-116.14%	-2.65%	-50.32%	82.94%	-101.61%
Curr. Cash Flow Growth	11.77%	12.49%	5.93%	131.71%	210.04%	4.67%
Hist. Cash Flow Growth (3-5 yrs)	0.28%	8.82%	8.55%	NA	39.43%	4.04%
Current Ratio	1.24	0.68	1.24	0.60	0.48	0.58
Debt/Capital	37.18%	47.44%	42.36%	NA	NA	0.00%
Net Margin	9.12%	6.96%	11.64%	7.80%	-0.96%	1.89%
Return on Equity	17.56%	12.61%	16.74%	-114.05%	-10.35%	6.15%
Sales/Assets	0.60	0.64	0.54	0.63	0.94	0.49
Proj. Sales Growth (F1/F0)	-22.97%	-19.22%	0.00%	-1.26%	-7.75%	-6.78%
Momentum Score	C	-	-	B	D	F
Daily Price Chg	8.94%	0.45%	2.56%	1.17%	1.37%	9.63%
1 Week Price Chg	29.41%	17.47%	16.01%	23.36%	29.83%	46.26%
4 Week Price Chg	16.96%	0.21%	11.39%	0.21%	40.82%	4.44%
12 Week Price Chg	-54.91%	-51.50%	-19.33%	-77.86%	-74.23%	-59.61%
52 Week Price Chg	-42.85%	-50.74%	-11.64%	-62.68%	-61.64%	-67.47%
20 Day Average Volume	804,785	178,280	3,452,738	1,517,247	2,471,737	2,598,098
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-70.31%	-114.49%	-6.42%	-53.72%	-155.56%	-101.23%
(F1) EPS Est 12 week change	-69.26%	-113.70%	-8.69%	-53.37%	-134.56%	-101.27%
(Q1) EPS Est Mthly Chg	-185.35%	-198.51%	-11.08%	NA	NA	-1,040.00%

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	B
Momentum Score	C
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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