

Copa Holdings (CPA)

\$107.85 (As of 12/30/19)

Price Target (6-12 Months): **\$114.00**

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: B

Summary

We are encouraged by Copa Holdings' efforts to modernize its fleet. Reduction in fuel prices is an added positive. Evidently, average fuel price per gallon declined 10.2% year over year in third-quarter 2019 to \$2.16. Also, the carrier's efforts to expand its operations are commendable. Improvement in the Latin American economy is an added positive. Backed by these tailwinds, shares of Copa Holdings outperformed its industry in a year's time. However, the prolonged MAX 737 grounding is worrisome. Evidently, non-fuel unit costs increased 5.5% in third-quarter 2019 due to lower capacity as a result of the Boeing 737 MAX grounding. The carrier, with six Boeing MAX 9 jets in its fleet, removed all MAX flights from its schedule through mid-February 2020. Moreover, the decision to trim its quarterly dividend payout does not bode well.

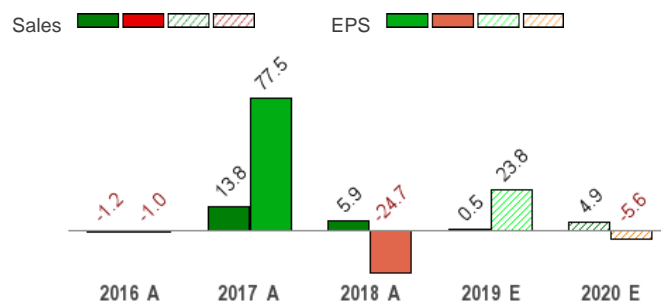
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$116.88 - \$76.69
20 Day Average Volume (sh)	228,255
Market Cap	\$4.6 B
YTD Price Change	37.0%
Beta	1.32
Dividend / Div Yld	\$2.60 / 2.4%
Industry	Transportation - Airline
Zacks Industry Rank	Top 12% (31 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.1%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	02/12/2020
Earnings ESP	0.0%
P/E TTM	15.9
P/E F1	13.4
PEG F1	1.0
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	692 E	673 E	730 E	699 E	2,825 E
2019	672 A	645 A	708 A	667 E	2,692 E
2018	715 A	634 A	672 A	656 A	2,678 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.98 E	\$2.45 E	\$1.77 E	\$2.77 E	\$7.62 E
2019	\$2.11 A	\$1.20 A	\$2.45 A	\$2.31 E	\$8.07 E
2018	\$3.22 A	\$1.18 A	\$1.36 A	\$1.04 A	\$6.52 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 12/30/2019. The reports text and the analyst-provided sales and EPS estimates are as of 12/31/2019.

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.

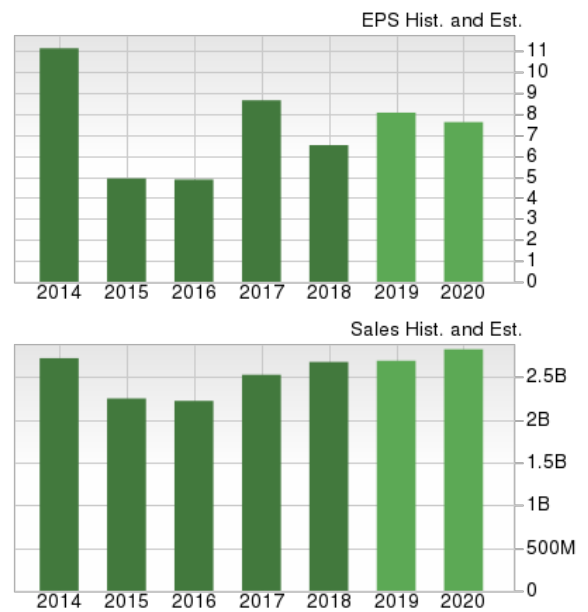
Furthermore, Copa Holdings is constantly looking to modernize its fleet. The planes are equipped with modern facilities aimed at promoting safety, enhancing flying experience etc. Moving ahead, the company aims to increase its fleet size.

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 Sep 30, 2019, Copa Holdings' fleet size was 103 (on a consolidated basis). The fleet included 68 Boeing 737-800s, 14 Boeing 737-700s, 15 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. As part of this plan, the airline intends to sell such jets over the next 18 months, three years ahead of its previous schedule.
- ▲ The company's 2019 operating margin forecast is impressive. Backed by modest fuel prices and the rising revenue trends, the company expects operating margin of approximately 16% for the current year. This indicates an increase from 13% achieved in 2018. Meanwhile, the effective price per gallon of jet fuel (inclusive of into-plane costs) is predicted at \$2.15, again lower than 2018 levels. 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. The regulatory body took the decision as Avianca had filed for bankruptcy in 2018. Improvement in the Latin American economy is an added positive.

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

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. In fact, passenger traffic declined almost 1% in the first ten months of 2019. Copa Holdings has removed all MAX flights from its schedule through mid-February 2020.
- ▼ Copa Holdings' board of directors decided to trim quarterly dividend by 25.3% to 65 cents per share (annualized \$2.60) in February. The decision reflects its financial struggles. The increase in non-fuel unit costs in third-quarter 2019 on account of lower capacity due to the grounding of the MAX fleet is also worrisome.
- ▼ Copa Holdings' operations were significantly disrupted in Apr 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 Q3

Copa Holdings' earnings of \$2.45 per share surpassed the Zacks Consensus Estimate by 14 cents. Moreover, the bottom line soared 80.2% year over year on higher revenues and low fuel costs. Quarterly revenues also increased 5.3% to \$708.2 million, above the Zacks Consensus Estimate of \$701 million. This upside was owing to a 5.6% increase in passenger revenues. Notably, passenger revenues accounted for bulk of the top line (96.8%) in the September quarter.

Quarter Ending **09/2019**

Report Date	Nov 13, 2019
Sales Surprise	1.03%
EPS Surprise	6.06%
Quarterly EPS	2.45
Annual EPS (TTM)	6.80

Operational Statistics

While passenger unit revenue per available seat mile (PRASM) ascended 9.7%, yield per passenger mile rose 7.9%. However, on a consolidated basis, traffic (measured in revenue passenger miles or RPMs) dipped 2.2% while capacity (or available seat miles/ASMs) slid 3.7% (due to the MAX groundings) in the reported quarter. As capacity decline was more than the contraction in traffic, consolidated load factor (% of seats filled with passengers) improved 140 basis points (bps) to 85.6%.

Meanwhile, unit revenue per available seat mile (RASM) augmented 9.4%. However, operating cost per available seat mile (CASM) inched up 0.5% in the reported quarter. The metric excluding fuel costs increased 5.5% on account of lower capacity due to the grounding of the MAX fleet. Meanwhile, average fuel price per gallon declined 10.2% year over year to \$2.16. With the ongoing groundings, the company removed all MAX flights from its schedule through mid-February 2020.

Liquidity

The company exited the third quarter with cash and cash equivalents of \$225.28 million compared with \$156.16 million at 2018 end. Long-term debt declined to \$965.5 from \$975.28 million at the end of 2018.

Dividend Update

The company's board cleared a quarterly cash dividend of 65 cents per share, payable Dec 13, 2019 to its shareholders of record as of Nov 29.

Recent News

November Traffic - Dec 16, 2019

Consolidated traffic, measured in revenue passenger miles (RPMs), slipped 1.5% to 1.7 billion in the month. On a year-over-year basis, consolidated capacity (measured in available seat miles/ASMs) dipped 2.9% year over year to 1.99 billion. Meanwhile, with traffic declining less than the amount of capacity contraction, load factor (% of seats filled by passengers) improved 120 basis points (bps).

In the first 11 months of 2019, the carrier generated RPMs of 19.49 billion, down 0.9% year over year, and ASMs of 22.99 billion, down 2.4%. Load factor expanded 130 bps to 84.8% in the period.

Valuation

Copa Holdings shares are up 37% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 13.8% and 17.8%, respectively, over the past year. The S&P 500 index is up 27.2% over the trailing 12-month period.

The stock is currently trading at 11.39X forward 12-month price to earnings, which compares to 9.11X for the Zacks sub-industry, 13.01X for the Zacks sector and 18.65X 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 12.23X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$114 price target reflects 12.03X 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	11.39	9.11	13.01	18.65
	5-Year High	19.43	12.3	17	19.34
	5-Year Low	6.9	6.85	10.46	15.17
	5-Year Median	12.23	9.08	13.13	17.44
EV/EBITDA TTM	Current	8.76	6.67	7.97	12.01
	5-Year High	16.35	7.36	11.13	12.86
	5-Year Low	2.99	4.31	6.06	8.49
	5-Year Median	7.34	6.06	7.44	10.65
P/S F12M	Current	1.61	0.73	1.13	3.39
	5-Year High	2.32	0.98	1.44	3.41
	5-Year Low	0.74	0.63	1.02	2.54
	5-Year Median	1.5	0.79	1.24	3

As of 12/30/2019

Industry Analysis Zacks Industry Rank: Top 12% (31 out of 253)



Top Peers

Avianca Holdings S.A. (AVH)	Neutral
AZUL SA (AZUL)	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
SkyWest, Inc. (SKYW)	Neutral

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	CPA Neutral	X Industry	S&P 500	AZUL Neutral	GOL Neutral	LTM Neutral
VGM Score	A	-	-	B	A	A
Market Cap	4.55 B	5.05 B	23.75 B	18.13 B	3.20 B	6.25 B
# of Analysts		3	13			
Dividend Yield	2.41%	0.00%	1.79%	0.00%	0.00%	0.39%
Value Score	C	-	-	F	B	B
Cash/Price	0.17	0.24	0.04	0.02	0.22	0.15
EV/EBITDA	15.21	6.33	13.92	52.81	15.24	8.11
PEG Ratio	0.96	0.70	2.12	NA	NA	NA
Price/Book (P/B)	2.31	1.25	3.32	NA	NA	2.20
Price/Cash Flow (P/CF)	10.20	5.71	13.73	60.13	16.65	34.36
P/E (F1)	13.36	10.36	19.56	19.63	24.47	62.42
Price/Sales (P/S)	1.70	0.67	2.67	6.54	0.93	0.63
Earnings Yield	7.07%	9.65%	5.10%	5.10%	4.11%	1.65%
Debt/Equity	0.61	0.78	0.72	-18.95	-1.41	0.00
Cash Flow (\$/share)	10.57	3.88	6.94	0.72	1.10	0.30
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	-0.36%	7.77%	10.53%	NA	NA	11.99%
Proj. EPS Growth (F1/F0)	16.94%	12.62%	6.30%	38.79%	633.34%	-45.00%
Curr. Cash Flow Growth	-16.54%	5.27%	14.83%	10.49%	-6.14%	17.15%
Hist. Cash Flow Growth (3-5 yrs)	-5.90%	9.94%	9.00%	NA	35.20%	28.50%
Current Ratio	1.04	0.68	1.23	0.67	0.47	0.59
Debt/Capital	37.81%	46.98%	42.99%	NA	NA	0.00%
Net Margin	3.29%	5.81%	11.08%	1.85%	0.37%	1.13%
Return on Equity	15.24%	14.71%	17.10%	141.80%	-10.24%	3.45%
Sales/Assets	0.61	0.67	0.55	0.67	0.99	0.51
Proj. Sales Growth (F1/F0)	0.52%	0.00%	2.86%	11.46%	10.24%	4.82%
Momentum Score	B	-	-	B	D	C
Daily Price Chg	0.32%	0.00%	-0.43%	1.62%	0.88%	1.88%
1 Week Price Chg	-0.57%	-0.01%	0.13%	2.57%	3.07%	-13.74%
4 Week Price Chg	4.61%	0.78%	2.78%	15.37%	15.05%	-2.74%
12 Week Price Chg	8.09%	9.93%	8.67%	17.18%	16.30%	-9.49%
52 Week Price Chg	37.02%	8.00%	27.07%	56.45%	34.83%	0.00%
20 Day Average Volume	228,255	92,139	1,731,328	374,761	646,705	1,076,015
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.09%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-3.89%	1.58%	0.14%	-1.63%	-10.04%	-13.16%
(Q1) EPS Est Mthly Chg	0.51%	0.00%	0.00%	0.67%	0.00%	-2.70%

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	C
Growth Score	A
Momentum Score	B
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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