

Delta Air Lines, Inc. (DAL)

\$24.39 (As of 04/09/20)

Price Target (6-12 Months): **\$21.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/08/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: B

Summary

Shares of Delta Air Lines have declined 50% since March as it takes a significant hit from the coronavirus outbreak, which crippled air travel demand. Consequently, the carrier reduced its flight capacity. In April, it trimmed capacity by at least 80% with 115,000 flight cancellations. Moreover, the carrier expects second-quarter 2020 (Apr-Jun) revenues to shrink as much as 90% in the face of plummeting passenger revenues induced by the COVID-19 pandemic. The negativity surrounding the stock is evident from the Zacks Consensus Estimate for current-year earnings being revised downward over the past 60 days. However, modest fuel prices should help partly offset the revenue decline due to demand slump. Delta's decision to launch cargo-only flights on the Shanghai-Detroit route is an added positive.

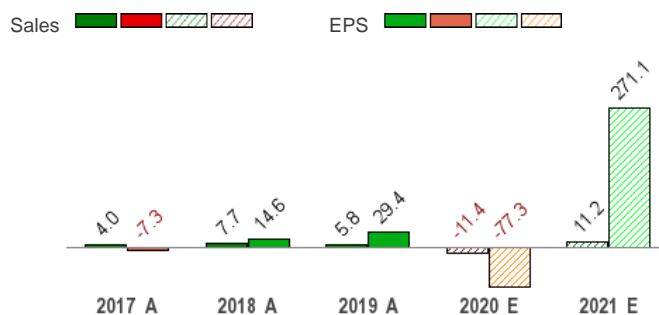
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.44 - \$19.10
20 Day Average Volume (sh)	54,577,876
Market Cap	\$15.6 B
YTD Price Change	-58.3%
Beta	1.59
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Airline
Zacks Industry Rank	Bottom 11% (225 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	21.4%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	-75.9%
Expected Report Date	04/15/2020
Earnings ESP	-762.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	10,975 E	12,915 E	12,919 E	11,799 E	46,297 E
2020	10,553 E	9,978 E	11,226 E	10,983 E	41,640 E
2019	10,472 A	12,536 A	12,560 A	11,439 A	47,007 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.06 E	\$2.44 E	\$2.30 E	\$1.60 E	\$6.16 E
2020	\$0.11 E	\$0.10 E	\$1.45 E	\$1.54 E	\$1.66 E
2019	\$0.96 A	\$2.35 A	\$2.32 A	\$1.70 A	\$7.31 A

*Quarterly figures may not add up to annual.

P/E TTM	3.3
P/E F1	14.7
PEG F1	1.1
P/S TTM	0.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/09/2020. The reports text is as of 04/13/2020.

Overview

Delta Air Lines is one of the four carriers that controls majority of the US aviation market (the carriers account for more than 60% of the domestic market share). This development followed a spate of mergers in the industry during the early part of this century.

Delta, the second airline company to have joined the coveted S&P 500 Index, commands more than 17% share of the domestic market.

Bulk of this Atlanta-GA based carrier's revenues are recognized from its airline segment. Evidently, 99.8% of the \$47-billion amount generated in 2019 came from this unit. Balance is represented by the refinery segment, which operates for the benefit of the airline division by providing it with jet fuel from its own production and agreements with third parties.

Moreover, with demand for air travel remaining strong, passenger revenues accounted for the bulk (89.9%) of the top line in 2019. Cargo revenues contributed 1.6% while the rest came from other sources.

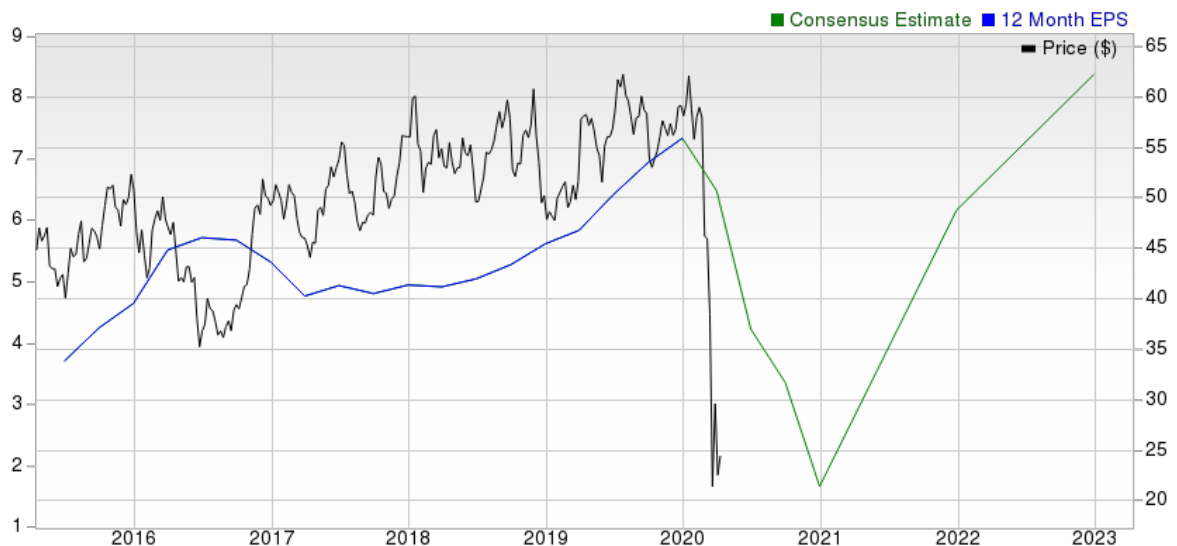
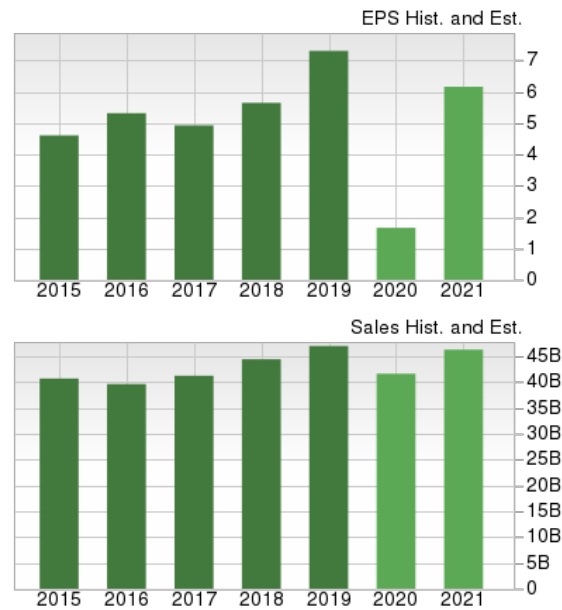
Passenger revenues come from three sources, such as ticket sales, loyalty travel awards and travel-related services. In 2019, 87.3% of passenger revenues are recorded from ticket sales. Loyalty travel awards and travel-related services reflected 6.9% and 5.8% of passenger revenues, respectively, in 2019.

Geographically, passenger revenues are generated by domestic operations in the Atlantic, Latin America and the Pacific region. In 2019, 71.8% of passenger revenues was derived from domestic activities. Operations in the Atlantic, Latin American and the Pacific regions accounted for 15.1%, 7.1% and 6% of 2019's passenger revenues, respectively.

Delta offers more than 5,000 departures per day apart from 15,000 affiliated departures. Also, through its partnerships with the likes of Aeromexico, Air France-KLM, Alitalia, China Eastern, Korean Air, Virgin Atlantic, Virgin Australia and WestJet, Delta aims to improve the travel experience of its passengers and widen its network.

The carrier's hub operations include flights and the network is supported by a fleet of aircraft, which is varied in terms of size and capabilities. Moreover, the absence of Boeing 737 MAX jets in its fleet makes Delta immune to the troubles stemming from prolonged groundings.

The company's fiscal year coincides with the calendar year.



Reasons To Sell:

- ▼ Delta is taking a significant hit from the coronavirus outbreak, which has crippled air travel demand. Due to tepid demand, the carrier reduced capacity by at least 80% with 115,000 flight cancellations. Delta is burning more than \$60 million in cash each day. The carrier's first quarter was "unlike any quarter in Delta's history". The second quarter 2020 (Apr-Jun) is expected to be even worse as the coronavirus pandemic concerns rise. The company expects its second-quarter revenues to shrink as much as 90% in the face of plummeting passenger revenues.
- ▼ Delta has been suffering from technological snags very often. Evidently, a computer glitch affected Delta's domestic operations on the morning of Apr 1, 2019. Although the computer fault has been resolved, the carrier's record with respect to such disruptions is disappointing. The company had encountered similar issues earlier too. In fact, technical hitches have time and again impeded the players' progress in the airline space. Since airlines spend a lot on the technological infrastructure, their profitability might be hurt in the event of any such malfunctions.
- ▼ Shares of Delta Air Lines have declined 50% since March, as it takes a significant hit from the coronavirus outbreak, which has crippled air travel demand. The negativity surrounding the stock is evident from the fact that the Zacks Consensus Estimate for current year earnings has been revised downward over the past 60 days.
- ▼ Weather-related disruptions hurt Delta's operations frequently of late. In 2019, the company was forced to cancel flights following Hurricane Dorian. Simultaneously, the carrier issued travel waivers for several cities across Florida, Coastal Georgia, the Carolinas and the Bahamas. Such instances of inclement weather might occur in the future as well and in turn, weigh on the airline's profitability.

Large-scale flight cancellations due to the coronavirus outbreak may result in substantial revenue loss.

Risks

- Even though Delta suspended buybacks and dividends due to the present crisis, we note that the company had an impressive record of dividend payments and share repurchases prior to the outbreak. In 2018, Delta returned \$2.5 billion to shareholders through dividends (\$909 million) and buybacks (\$1.6 billion). Sustaining its shareholder-friendly approach, in 2019, the company returned \$3 billion to shareholders through dividends (\$980 million) and share buybacks (\$2 billion).
 - As the carrier suffers from low travel demand in the wake of the coronavirus outbreak, modest fuel prices should provide some support in dealing with the revenue decline. Notably, the airline expects to save \$2 billion on fuel expenses in 2020. Additionally, Delta is exercising significant cost-controls to offset the adversity from numerous flight cancellations led by the tumbling demand. For instance, the airline has put a halt to hiring and is offering voluntary leave options to employees. In-line with its cost-cutting moves, the carrier is persuading its employees to continue applying for unpaid leaves of absence. With significant reduction in operations, the carrier has also lowered hours for merit and hourly ground-based employees by 25% in the short-term. The carrier is also grounding wide-body and narrow-body aircraft as well as contemplating early retirement of the older aircraft.
 - With passenger revenues dropping due to the coronavirus-induced decline in air-travel demand, the carrier launched cargo-only flights on the Shanghai-Detroit route. The carrier is using a fuel-efficient Airbus A350-900 aircraft (a widebody jet) to ply on the route. The decision is aimed at keeping the supply chain of medical requirements like surgical masks, gloves, gowns and other protective equipment operative between the United States and China. With passenger demand plummeting, the cargo-only operations should help Delta recoup a bit of the lost revenues. Meanwhile, Delta has submitted its application for the coronavirus relief grant. The financial aid to protect the short-term interests of airline employees is praiseworthy.
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Last Earnings Report

Earnings Beat at Delta in Q4

Delta's earnings per share (excluding 1 cent from non-recurring items) of \$1.70 per share surpassed the Zacks Consensus Estimate by 30 cents. The bottom line also improved 30.8% on a year-over-year basis, mainly owing to low fuel costs. Delta's results were also aided by the sale of its stake in GOL Linhas.

Operating revenues in the quarter came in at \$11,439 million, edging past the Zacks Consensus Estimate. However, the top line increased 6.5% on a year-over-year basis, backed by upbeat air-travel demand from holiday travelers.

Quarter Ending **12/2019**

Report Date	Jan 14, 2020
Sales Surprise	0.85%
EPS Surprise	21.43%
Quarterly EPS	1.70
Annual EPS (TTM)	7.33

Other Details

During the reported quarter, passenger revenues, which accounted for 89.6% of the top line, improved 6% mainly owing to strong demand for air travel. Meanwhile, cargo revenues declined 13%. Other revenues increased 14%. The average fuel price (adjusted) in the fourth quarter was \$1.99 per gallon, down 17.7% on a year-over-year basis.

Revenue passenger miles (a measure of air traffic) increased 5.2% to 56 billion. Capacity (measured in available seat miles) expanded 4.7% to 65.46 billion. Load factor (percentage of seats filled by passengers) improved 40 basis points to 85.6%, as traffic growth outpaced capacity expansion. Passenger revenue per available seat mile (PRASM) increased 1.4% year over year to 15.65 cents. Passenger mile yield improved 0.9% to 18.29 cents. On an adjusted basis, total revenue per available seat mile (TRASM) in the fourth quarter increased 2.4% year over year to 17.47 cents.

Total operating expenses, including special items, climbed 4% year over year to \$10,040 million. Operating cost per available seat mile (non-fuel or CASM-Ex) increased 4.4% to 11.21 cents, driven by increased investments and a mark-up of benefit-related balance-sheet obligations.

Liquidity, Dividend and Share Repurchase

Delta generated free cash flow of \$141 million and operating cash flow of \$969 million in the fourth quarter. For full-year 2019, the carrier generated \$8.4 billion of operating cash flow and \$4.2 billion of free cash flow. Delta exited the quarter with \$2,882 million in cash and cash equivalents compared with the \$1,565 million recorded at the end of 2018.

Delta returned \$484 million to its shareholders through dividends (\$259 million) and share buybacks (\$225 million) in the quarter under review. For the full year, Delta returned \$3 billion to shareholders through dividends (\$980 million) and share buybacks (\$2 billion).

Annual Results

For full-year 2019, the carrier's earnings (on an adjusted basis) climbed 30% to \$7.31 per share. Revenues increased 7.5% to \$47 billion. The Zacks Consensus Estimate was of earnings of \$7.03 per share on revenues of \$46.9 billion.

Guidance

For the first quarter of 2020, the carrier expects revenues to grow in the range of 5% to 7%. The estimated fuel price, including taxes and refinery impact, is expected in the range of \$2-\$2.20 per gallon for the ongoing quarter. Pre-tax margin is expected to be flat on a year-over-year basis. The company expects total revenues per available seat miles (TRASM: adjusted) to be either flat or increase up to 2% in the quarter. Non fuel unit cost (CASM-Ex) is estimated to increase in the 2-3% range during this period.

The carrier anticipates to generate free cash flow of \$4 billion in 2020. The carrier aims to deliver a three-year cumulative free cash flow in excess of \$10 billion by Dec 31, 2020. Delta expects 2020 earnings per share between \$6.75 and \$7.75.

Recent News

Launch of Cargo-only Flights – Mar 30, 2020

In a bid to keep the supply chain of medical requirements like surgical masks, gloves, gowns and other protective equipment operative between the United States and China, Delta launched cargo-only flights on the Shanghai-Detroit route. The carrier is using a fuel-efficient Airbus A350-900 aircraft (a widebody jet) to ply on the route. The aircraft has the capacity to carry 49 tons of cargo in its hold. On arrival of the cargo in Detroit, it will be transferred to domestic passenger flights to be shipped to various destinations across the United States.

Valuation

Delta Air Lines shares have been down 52.3% and 57.5% year to date and over the past year, respectively. Stocks in the Zacks sub-industry have shed 58.3% and 50.9% of value so far this year and in a year's time each. Stocks in the Zacks Transportation sector have declined 24.2% and 25.2% year to date and in the past year, respectively. The S&P 500 Index has lost 13.6% and 4.5% year to date and in the past 12 months, respectively.

The stock is currently trading at 3.43X forward 12-month price-to earnings, which compares to 16.03X for the Zacks sub-industry, 13.96X for the Zacks sector and 18.11X for the S&P 500 index.

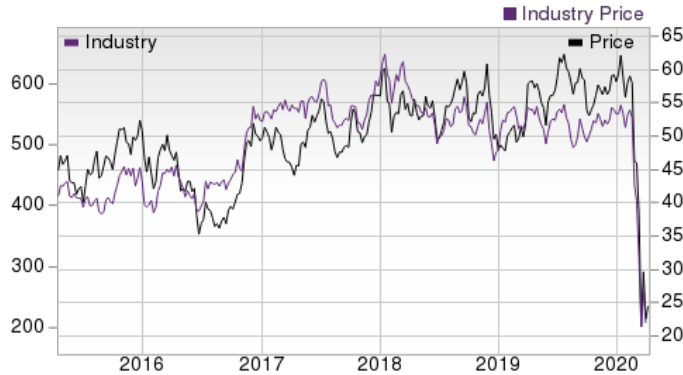
Over the past five years, the stock has traded as high as 11.59X and as low as 3.05X, with a 5-year median of 8.46X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$21 price target reflects 2.95X forward 12-month earnings.

The table below shows summary valuation data for DAL

Valuation Multiples - DAL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	3.43	16.03	13.96	18.11
	5-Year High	11.59	16.03	17.05	19.34
	5-Year Low	3.05	6.6	10.47	15.19
	5-Year Median	8.46	9.11	13.16	17.45
EV/EBITDA TTM	Current	3.22	3.72	6.45	10.17
	5-Year High	6.9	7.01	11.16	12.87
	5-Year Low	3.02	3.35	5.71	8.27
	5-Year Median	5.42	5.98	7.39	10.78
P/S F12M	Current	0.32	0.41	0.91	3.07
	5-Year High	1	0.98	1.42	3.44
	5-Year Low	0.28	0.39	0.85	2.54
	5-Year Median	0.83	0.77	1.21	3.01

As of 04/09/2020

Industry Analysis Zacks Industry Rank: Bottom 11% (225 out of 253)



Top Peers

American Airlines Group Inc. (AAL)	Neutral
Alaska Air Group, Inc. (ALK)	Neutral
Hawaiian Holdings, Inc. (HA)	Neutral
JetBlue Airways Corporation (JBLU)	Neutral
Spirit Airlines, Inc. (SAVE)	Neutral
United Airlines Holdings Inc (UAL)	Neutral
Southwest Airlines Co. (LUV)	Underperform
SkyWest, Inc. (SKYW)	Underperform

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	DAL Underperform	X Industry	S&P 500	AAL Neutral	LUV Underperform	UAL Neutral
VGM Score	C	-	-	D	D	A
Market Cap	15.61 B	2.52 B	19.66 B	5.33 B	18.87 B	7.81 B
# of Analysts	10	4.5	13	10	11	15
Dividend Yield	0.00%	0.00%	2.18%	3.20%	1.97%	0.00%
Value Score	C	-	-	C	C	A
Cash/Price	0.20	0.67	0.06	1.00	0.26	0.87
EV/EBITDA	2.96	3.30	11.72	4.02	4.18	3.09
PEG Ratio	1.06	1.38	2.04	NA	4.87	0.72
Price/Book (P/B)	1.03	0.63	2.66	NA	1.92	0.69
Price/Cash Flow (P/CF)	2.14	2.14	10.44	1.22	5.36	1.47
P/E (F1)	14.69	14.70	17.51	NA	17.74	9.08
Price/Sales (P/S)	0.33	0.29	2.12	0.12	0.84	0.18
Earnings Yield	6.81%	0.09%	5.65%	-21.26%	5.65%	11.02%
Debt/Equity	0.92	0.66	0.70	-181.81	0.30	1.59
Cash Flow (\$/share)	11.37	4.14	7.01	10.27	6.80	21.42
Growth Score	C	-	-	C	D	A
Hist. EPS Growth (3-5 yrs)	10.23%	4.00%	10.92%	-14.34%	7.94%	0.79%
Proj. EPS Growth (F1/F0)	-77.31%	-104.16%	-1.14%	-154.37%	-51.84%	-71.21%
Curr. Cash Flow Growth	17.74%	12.86%	5.93%	5.17%	-3.22%	15.52%
Hist. Cash Flow Growth (3-5 yrs)	10.18%	8.82%	8.55%	-4.04%	8.55%	8.25%
Current Ratio	0.41	0.68	1.24	0.45	0.67	0.55
Debt/Capital	47.98%	47.20%	42.36%	99.27%	23.31%	61.36%
Net Margin	10.14%	6.96%	11.64%	3.68%	10.26%	6.96%
Return on Equity	33.32%	12.61%	16.74%	-1,414.94%	23.31%	29.16%
Sales/Assets	0.75	0.64	0.54	0.75	0.85	0.83
Proj. Sales Growth (F1/F0)	-11.42%	-10.41%	0.45%	-11.90%	-11.12%	-5.05%
Momentum Score	B	-	-	F	C	C
Daily Price Chg	4.99%	0.76%	2.48%	10.41%	6.33%	14.50%
1 Week Price Chg	-23.93%	-14.03%	-4.40%	-33.12%	-16.05%	-30.31%
4 Week Price Chg	-27.65%	-8.62%	11.26%	-6.99%	1.11%	-15.05%
12 Week Price Chg	-60.59%	-52.50%	-20.02%	-55.69%	-34.05%	-64.82%
52 Week Price Chg	-58.23%	-51.70%	-11.31%	-64.06%	-31.19%	-63.27%
20 Day Average Volume	54,577,876	193,376	3,931,994	76,582,296	11,398,290	29,749,388
(F1) EPS Est 1 week change	-3.49%	0.00%	-0.12%	-1.37%	-8.64%	1.03%
(F1) EPS Est 4 week change	-75.91%	-101.23%	-5.78%	-159.24%	-51.91%	-69.82%
(F1) EPS Est 12 week change	-76.86%	-98.99%	-7.64%	-152.76%	-57.30%	-72.66%
(Q1) EPS Est Mthly Chg	-95.82%	-163.35%	-10.13%	-160.68%	-84.00%	-62.90%

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	C
Momentum Score	B
VGM Score	C

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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