

Delta Air Lines, Inc. (DAL)

\$61.62 (As of 01/15/20)

Price Target (6-12 Months): **\$71.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 01/14/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:A

Value: A

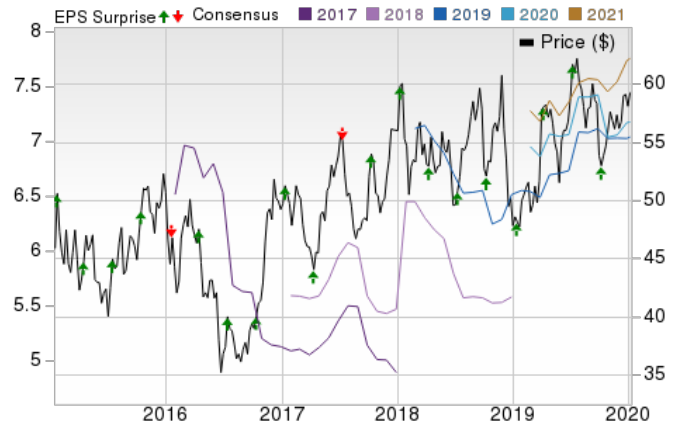
Growth: A

Momentum: C

Summary

Delta is being aided by a healthy uptick in passenger revenues (up 6% in 2019) on the back of strong demand for air travel. Reduction in fuel prices is an added positive. Further, we are upbeat about Delta's efforts to reward its shareholders through dividends and buybacks. For full-year 2019, Delta returned \$3 billion to shareholders through dividends (\$980 million) and share buybacks (\$2 billion). Strong free cash flow generation is an added positive. The carrier expects to generate free cash flow of \$4 billion in 2020. Delta expects 2020 earnings per share between \$6.75 and \$7.75. The fact that the Zacks Consensus Estimate for 2020 earnings has been revised upward over the past 60 days reflects the positivity surrounding the stock. However, declining cargo revenues (down 13% in 2019) are concerning. High operating costs are worrisome too.

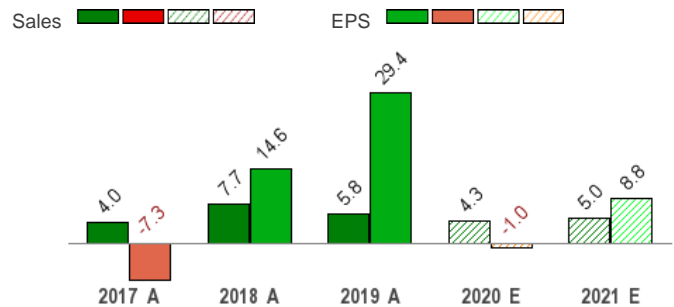
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.44 - \$46.84
20 Day Average Volume (sh)	5,379,520
Market Cap	\$39.9 B
YTD Price Change	5.4%
Beta	1.11
Dividend / Div Yld	\$1.61 / 2.6%
Industry	Transportation - Airline
Zacks Industry Rank	Top 24% (61 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	21.4%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	1.3%
Expected Report Date	04/08/2020
Earnings ESP	4.6%
P/E TTM	8.4
P/E F1	8.5
PEG F1	0.6
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	11,311 E	13,591 E	13,599 E	12,302 E	51,457 E
2020	11,089 E	13,040 E	13,132 E	11,813 E	49,024 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	\$2.78 E	\$2.55 E	\$1.79 E	\$7.88 E
2020	\$1.02 E	\$2.42 E	\$2.28 E	\$1.51 E	\$7.24 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/15/2020. The reports text is as of 01/16/2020.

Overview

Delta Air Lines, founded in 1924, is a leading provider of scheduled air transportation for passengers and cargo throughout the United States and around the world. The carrier is based in Atlanta, GA.

Delta offers service to more than 300 destinations across 50 countries across the globe. It operates a fleet of more than 700 aircraft and serves nearly 200 million customers annually.

The company's route network is centered on the hub system that it operates at airports in Atlanta, Cincinnati, Detroit, Memphis, Minneapolis/St. Paul, New York – John F. Kennedy International Airport (JFK), Salt Lake City, Paris-Charles de Gaulle, Amsterdam and Tokyo-Narita.

The hub operations include flights and the network is supported by a fleet of aircraft, which is varied in terms of size and capabilities.

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, GOL Linhas, Korean Air, Virgin Atlantic, Virgin Australia and WestJet, Delta aims to improve the travel experience of its passengers and widen its network.

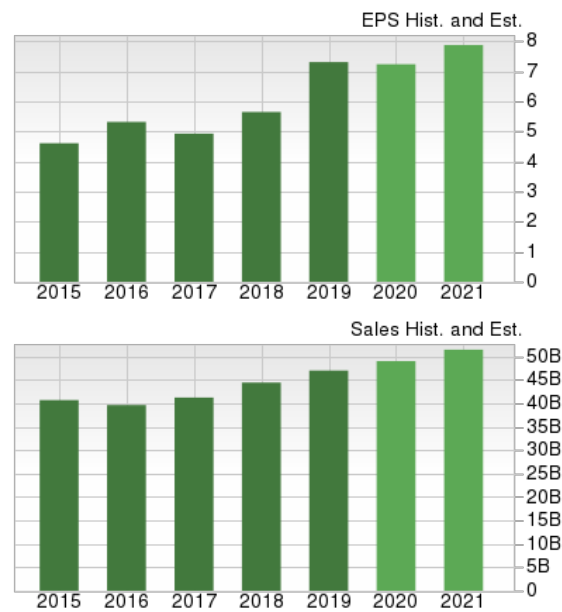
Delta's operating revenues increased 8% to \$47 billion in 2019, bulk of which of which was accounted for by its **airline segment**. Balance came from the **refinery segment**, which operates for the benefit of the airline division by providing jet fuel to the latter from its own production and agreements with third parties.

With demand for air travel remaining strong, passenger revenues accounted for the bulk (89.5%) of the top line in 2019. Cargo revenues accounted for 1.6% while the remaining came from other sources.

Passenger revenues come from three sources -- ticket sales, loyalty travel awards and travel-related services. In 2019, 87.2% of passenger revenues came from ticket sales. Loyalty travel awards and travel-related services accounted for the balance.

Geographically, passenger revenues emanate from operations domestically, in the Atlantic, Latin America and Pacific region.

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



Reasons To Buy:

- ▲ Solid demand for air travel is providing a boost to Delta's passenger revenues, which account for the bulk of the company's top line. Evidently, passenger revenues increased 8% year over year in 2018. In 2019, the metric increased 6%. Moreover, passenger traffic, measured in revenue passenger miles, increased 5.2% to 56 billion in 2019. Load factor (percentage of seats filled by passengers) improved 40 basis points to 85.6%, as traffic growth outpaced capacity expansion. Anticipating demand to remain strong, Delta expects revenues to increase in the range of 5% to 7% in first-quarter 2020. The company also expects 2020 earnings per share in the \$6.75-\$7.75 range, indicating a rise from the 2019 reported figure of \$7.31.
- ▲ We are impressed by the company's efforts to reward its shareholders. In a shareholder-friendly move, the company's board cleared a dividend hike of 15% in July 2019. As a result, the current quarterly dividend is 40.25 cents per share. The carrier is also active on the buyback front. 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). 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.
- ▲ We are also impressed by Delta's employee-friendly approach. The carrier shelled out \$1.6 billion through profit sharing to its employees in 2019. Efforts to reduce debt levels are also commendable. Initiatives to modernize its fleet are also commendable. Moreover, the carrier is taking initiatives to strengthen its foothold in the lucrative Asian aviation market. Delta's decision to boost its transatlantic capacity, in excess of 30% next year, to meet the surge in demand is a prudent one. Delta also aims to ramp up services to popular Caribbean destinations from its hubs during the upcoming winter season. Moreover, the \$1.9-billion deal inked by Delta in September 2019 with LATAM Airlines to buy 20% stake in the latter is aimed at strengthening its footprint in the Latin American market. Delta aims to grow internationally by signing contracts with foreign airlines. To this end, the carrier already has partnerships with Virgin Atlantic Airways Ltd., Air France-KLM, Korean Air Lines Co. and Grupo Aeromexico SAB.

Delta is being aided by a healthy uptick in passenger revenues. We are also impressed by the company's efforts to reward its shareholders.

Risks

- High operating expenses have been limiting Delta's bottom-line growth for quite sometime. In 2018, operating expenses, including special items, increased 11% year over year. Operating expenses increased in 2019 as well. With fuel costs declining, expenses are likely to increase going forward mainly due to high non-fuel unit costs. Evidently, non-fuel unit costs are projected to rise in the 2-3% range in the first quarter of 2020.
 - 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 in 2018, 2017 and 2016 as well. 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.
 - Weather-related disruptions hurt Delta's operations frequently of late. Earlier this year, 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. These waivers allowed customers to change their travel plans without incurring an additional change fee. Such instances of inclement weather might occur in the future as well and in turn, weigh on the airline's profitability.. Declining cargo revenues (down 13% in 2019) are also concerning.
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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

Investor Day - Nov 12, 2019

For 2020, the carrier anticipates earnings per share of \$6.75- \$7.75. Additionally, Delta predicts revenues of \$49 billion for 2020, indicating a rise of 4-6% year over year. The company's free cash flow target stands at \$4 billion for the period.

Moreover, Delta's subsidiary Delta Private Jets has entered into a long-term partnership with Wheels Up, a private aviation company. The agreement is expected to create one of the world's largest fleet of private jets with 200 planes. On approval of the deal, expected early next year, Delta will hold a minority stake in the combined entity.

Valuation

Delta Air Lines shares are up 27.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 9.6% and 11.9% over the past year. The S&P 500 index is up 23.9% in a year's time.

The stock is currently trading at 8.57X forward 12-month price-to earnings, which compares to 9.05X for the Zacks sub-industry, 13.17X for the Zacks sector and 18.97X for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.59X and as low as 5.2X, with a 5-year median of 8.54X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$71 price target reflects 9.87X 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 F 12M	Current	8.57	9.05	13.17	18.97
	5-Year High	11.59	12.3	16.98	19.34
	5-Year Low	5.2	6.85	10.46	15.17
	5-Year Median	8.54	9.05	13.11	17.44
EV/EBITDA TTM	Current	6.02	6.67	7.9	12.12
	5-Year High	7.84	7.36	11.1	12.86
	5-Year Low	3.39	4.32	5.98	8.48
	5-Year Median	5.48	6.06	7.42	10.67
P/S F12M	Current	0.81	0.73	1.14	3.53
	5-Year High	1.02	0.98	1.44	3.53
	5-Year Low	0.63	0.63	1.03	2.54
	5-Year Median	0.84	0.78	1.23	3

As of 01/15/2020

Industry Analysis Zacks Industry Rank: Top 24% (61 out of 254)



Top Peers

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

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	DAL Outperform	X Industry	S&P 500	AAL Neutral	LUV Neutral	UAL Neutral
VGM Score	A	-	-	B	B	A
Market Cap	39.85 B	5.05 B	24.22 B	12.08 B	28.96 B	22.34 B
# of Analysts	11	4	13	12	12	17
Dividend Yield	2.61%	0.00%	1.75%	1.45%	1.31%	0.00%
Value Score	A	-	-	A	B	A
Cash/Price	0.05	0.26	0.04	0.45	0.14	0.23
EV/EBITDA	6.69	6.54	14.11	5.67	6.40	6.34
PEG Ratio	0.62	0.61	2.06	1.57	1.30	0.33
Price/Book (P/B)	2.58	1.25	3.34	75.51	2.98	1.98
Price/Cash Flow (P/CF)	5.42	5.44	13.57	3.04	8.51	5.05
P/E (F1)	8.51	9.38	18.90	5.45	11.38	6.90
Price/Sales (P/S)	0.85	0.67	2.65	0.27	1.29	0.52
Earnings Yield	11.75%	10.66%	5.29%	18.35%	8.80%	14.50%
Debt/Equity	0.92	0.78	0.72	135.16	0.36	1.60
Cash Flow (\$/share)	11.37	3.88	6.94	9.08	6.47	17.49
Growth Score	A	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	10.53%	3.40%	10.56%	-13.11%	10.60%	2.52%
Proj. EPS Growth (F1/F0)	-0.98%	12.62%	7.59%	1.49%	9.96%	6.46%
Curr. Cash Flow Growth	17.74%	4.80%	14.73%	-2.74%	9.35%	13.45%
Hist. Cash Flow Growth (3-5 yrs)	7.27%	9.69%	9.00%	13.07%	16.81%	11.04%
Current Ratio	0.41	0.70	1.24	0.49	0.65	0.54
Debt/Capital	47.85%	47.20%	42.99%	99.27%	26.52%	61.47%
Net Margin	10.14%	5.81%	11.14%	3.50%	10.90%	6.60%
Return on Equity	33.28%	14.71%	17.16%	-1,294.15%	24.71%	30.06%
Sales/Assets	0.75	0.67	0.55	0.74	0.85	0.86
Proj. Sales Growth (F1/F0)	4.29%	4.90%	4.23%	4.52%	5.69%	5.33%
Momentum Score	C	-	-	F	D	A
Daily Price Chg	0.28%	0.00%	0.27%	0.18%	0.99%	0.50%
1 Week Price Chg	2.03%	0.00%	0.39%	-1.19%	-0.75%	-0.67%
4 Week Price Chg	5.19%	-0.09%	2.17%	-1.50%	2.67%	-0.62%
12 Week Price Chg	14.51%	3.00%	6.65%	-2.51%	3.36%	-1.79%
52 Week Price Chg	29.73%	1.55%	22.43%	-16.02%	10.55%	2.23%
20 Day Average Volume	5,379,520	91,447	1,545,017	6,565,017	3,549,790	2,097,331
(F1) EPS Est 1 week change	0.80%	0.00%	0.00%	-0.83%	0.11%	0.31%
(F1) EPS Est 4 week change	1.27%	0.00%	0.00%	-1.83%	-1.67%	0.51%
(F1) EPS Est 12 week change	2.76%	1.11%	-0.41%	-3.65%	-5.16%	1.46%
(Q1) EPS Est Mthly Chg	3.65%	0.00%	0.00%	0.00%	-2.60%	2.66%

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	A
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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