

Delta Air Lines, Inc. (DAL)

\$26.22 (As of 07/20/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: A

Growth: D

Momentum: F

Summary

Delta put up a disappointing performance in second-quarter 2020 due to the 94% decline in passenger revenues. This sharp drop in air-travel demand induced a 93% fall in enplaned passengers in the June quarter. With the decline in traffic outpacing the capacity contraction, load factor (percentage of seats filled by passengers) tanked to 34% from 88% a year ago. However, with bulk of the fleet remaining grounded or under-utilized, consumption of fuel dwindled 85%. Moreover, the 53% reduction in adjusted operating expenses during the June quarter is a positive. The company expects a similar decrease in the metric in the September quarter. The dip in cash burn rate is an added boon. However, the recent spurt in coronavirus cases offset the uptick in demand witnessed since May. Consequently, shares of Delta have declined 11% in the past month.

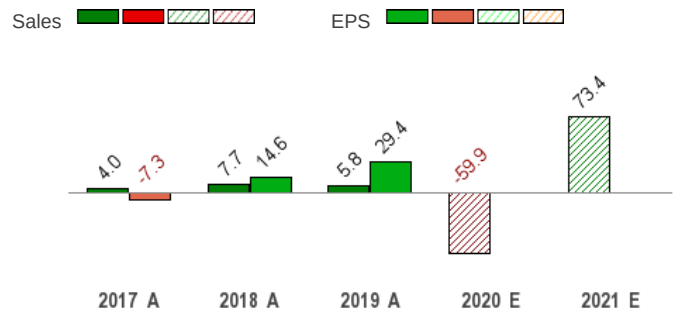
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.44 - \$17.51
20 Day Average Volume (sh)	31,518,220
Market Cap	\$16.7 B
YTD Price Change	-55.2%
Beta	1.25
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Airline
Zacks Industry Rank	Bottom 14% (216 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-11.6%
Last Sales Surprise	4.8%
EPS F1 Est- 4 week change	-13.4%
Expected Report Date	10/08/2020
Earnings ESP	-11.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,891 E	7,956 E	9,282 E	9,229 E	32,713 E
2020	8,592 A	1,468 A	3,913 E	5,962 E	18,866 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	-\$0.31 E	\$0.93 E	\$1.01 E	\$1.01 E	\$1.84 E
2020	-\$0.51 A	-\$4.43 A	-\$2.62 E	-\$1.10 E	-\$9.08 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	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/20/2020. The reports text is as of 07/21/2020.

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.

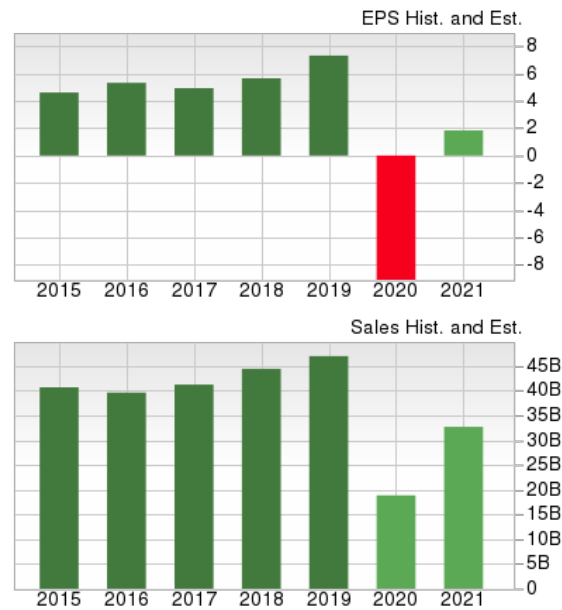
Passenger revenues come from three sources, such as ticket sales, loyalty travel awards and travel-related services. In 2019, 87.3% of passenger revenues are recorded from ticket sales. Loyalty travel awards and travel-related services reflected 6.9% and 5.8% of passenger revenues, respectively, in 2019.

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 Buy:

- ▲ As the carrier suffers weak travel demand in the wake of the coronavirus outbreak, modest fuel prices should provide some cushion to deal with the softness in revenues. Notably, expenses on aircraft fuel and related taxes saw a substantial fall of 84% in the June quarter. Moreover, with the majority of the fleet remaining grounded or under-utilized, consumption of fuel shrank 85% to \$165 million in the June quarter.
- ▲ With passenger revenues declining due to the coronavirus-led air-travel demand woes, Delta is focusing on controlling costs. Notably, total adjusted operating expense decreased 53 % in the June quarter owing to lower capacity- and revenue-related expenses and prudent cost management. The company expects a similar decline in the metric in the September quarter. The reduction in cash-burn rate is also a positive. Daily cash burn was \$43 million, on average, in the second quarter. However, the same for June was \$27 million, reflecting a 70% slump from the late March-levels..
- ▲ 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).

Modest fuel prices should help in partly offsetting the impact of low travel demand in the wake of the coronavirus outbreak.

Reasons To Sell:

- ▼ Delta performed miserably in second-quarter 2020, reporting wider-than-expected loss per share due to the 94% plunge in passenger revenues. This sharp drop in air-travel demand caused a 93% plummet in enplaned passengers in the June quarter. With the fall in traffic outpacing the capacity reduction, load factor (percentage of seats filled by passengers) was down to 34% from 88% a year ago. Passenger revenue per available seat mile (PRASM) too tumbled 60% year over year in the June quarter to merely 6.4 cents.
- ▼ Due to the drastic fall in demand, Delta suspended flights to 11 U.S. destinations from Jun 8 onward. With demand being persistently tepid at the following destinations, namely Aspen, CO, Bangor, ME, Erie, PA, Flint, MI, Fort Smith, AR, Lincoln, NE, New Bern/Morehead/Beaufort, NC, Peoria, IL, Santa Barbara, CA, Scranton/Wilkes-Barre, PA and Williston, ND, Delta suspended operations to these destinations, which make up approximately 5% of its domestic services. Further, the carrier decided to indefinitely suspend flights to Ottawa from Jun 21 onward due to lackluster demand. Moreover, the recent spurt in coronavirus cases has negated the uptick in demand witnessed since May. In fact, Delta's CEO Ed Bastian stated that beyond August, there might not be many more flight additions through the remainder of the year as coronavirus cases shoot up in certain parts of the country. As a result of the recent increase in cases and the resultant adverse impact on air-travel demand, Delta shares have declined 11% in the past month.
- ▼ Even though Delta's cash and cash equivalents at the end of second-quarter 2020 exceed its current debt levels, we note that the company is receiving a total of \$5.4 billion via the payroll support program under the CARES Act. While a \$3.8-billion amount of the above is through grants (it doesn't have to pay back), \$1.6 billion is via 10-year loans. This is likely to worsen its debt profile. Moreover, with Delta expected to borrow substantially during 2020 to meet its liquidity obligations apart from anticipations of work-force reductions after Sep 30, 2020, Fitch Ratings lowered its credit default rating on Delta to BB+ from BBB-. Moreover, Fitch assigned a Negative outlook to the company due to the headwinds. Also, Moody's lowered its outlook on Delta to Negative from Watch Negative. The negative outlook is due to the anticipation of worse-than-expected impact of the pandemic on the company's liquidity and slow recovery of air-travel demand.

Low passenger revenues dent Delta's second-quarter results.

Last Earnings Report

Wider-Than-Expected Loss in Q2

The company incurred a loss (excluding \$4.58 from non-recurring items) of \$4.43 per share, wider than the Zacks Consensus Estimate of a loss of \$3.97. Meanwhile, Delta reported earnings of \$2.35 per share (on an adjusted basis) in the year-ago quarter, driven by high passenger revenues as air-travel demand was buoyant at that time.

Notably, passenger revenues slumped 94% year over year in the June quarter to \$678 million with enplaned passengers plummeting 93% due to low demand for air travel. Cargo revenues declined 42% to \$108 million. Revenues from other sources decreased 31% to \$682 million. Consequently, total revenues in the June quarter tanked 88.3% to \$1,468 million but surpassed the Zacks Consensus Estimate of \$1,400.8 million.

Quarter Ending 06/2020

Report Date	Jul 14, 2020
Sales Surprise	4.80%
EPS Surprise	-11.59%
Quarterly EPS	-4.43
Annual EPS (TTM)	-0.92

Other Financial Details

Revenue passenger miles (a measure of air traffic) tumbled 94% to 3,621 million. With Delta making significant capacity cuts to match the coronavirus-induced sharp decrease in traffic, capacity (measured in available seat miles) contracted 85% to 10,596 million. With the fall in traffic outpacing the capacity reduction, load factor (percentage of seats filled by passengers) was down to 34% from 88% a year ago. Passenger revenue per available seat mile (PRASM) too took a 60% dive year over year tumble to merely 6.4 cents. Passenger mile yield increased to 18.73 cents from 18 cents in the second quarter of 2019. On an adjusted basis, total revenue per available seat mile (TRASM) in the second quarter deteriorated 36% year over year to 11.1 cents.

Total operating expenses including special items declined 40% year over year to \$6,283 million. Notably, expenses on aircraft fuel and related taxes plunged 84% in the reported quarter. With most of the fleet remaining grounded/under-utilized, fuel gallons consumed moderated 85% to 165 million. Average fuel price per gallon (adjusted) rose 4% to \$2.16. Total adjusted operating expense decreased 53 % owing to lower capacity- and revenue-related expenses and prudent cost management. Per Paul Jacobson, Delta's chief financial officer, "We expect to achieve a similar 50 percent year-over-year reduction in the September quarter despite a sequential increase in capacity, reflecting the increased variability we have achieved in our cost structure."

The airline had liquidity worth \$15.7 billion at the end of the June quarter. Notably, during the quarter, the company raised \$11 billion in new liquidity. Daily cash burn was \$43 million on average in the reported quarter. However, the same for June was \$27 million, reflecting a 70% decline from the levels witnessed in late March.

Recent News

Delta Proposes Pilot Pay Cuts to Avoid Furloughs for a Year — Jul 19, 2020

Delta has proposed a 15% cut to pilots' minimum pays in order to avoid furloughs for a year. With air travel demand way below year-ago levels amid coronavirus concerns, the airline is focusing on cost cuts which require rightsizing its network to align with the current demand scenario. To this end, Delta sent potential furlough notices to more than 2,500 pilots.

Valuation

Delta shares are down 55.2% and 57.2% in the year-to-date period and over the trailing 12-month period respectively. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 42.6% and 7.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 42.6% and 4.8%, respectively.

The S&P 500 index is up 0.3% in the year-to-date period and 8.7% in the past year.

The stock is currently trading at 6.73X trailing 12-month Enterprise Value/EBITDA, which compares to 4.73X for the Zacks sub-industry, 7.68X for the Zacks sector and 11.98X for the S&P 500 index.

Over the past five years, the stock has traded as high as 7.12X and as low as 3.06X, with a 5-year median of 5.32X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$28 price target reflects 0.95X forward 12-month sales.

The table below shows summary valuation data for DAL

Valuation Multiples - DAL					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	6.73	4.73	7.68	11.98
	5-Year High	7.12	7.04	11.2	12.86
	5-Year Low	3.06	3.26	5.45	8.25
	5-Year Median	5.32	5.91	7.38	10.88
P/S F 12M	Current	0.89	1.12	1.29	3.58
	5-Year High	1.61	1.5	1.42	3.58
	5-Year Low	0.54	0.84	0.85	2.53
	5-Year Median	1.04	1.19	1.2	3.02
P/B TTM	Current	1.92	1.93	3.43	4.41
	5-Year High	3.99	3.89	4.04	4.56
	5-Year Low	0.86	1.02	2.1	2.83
	5-Year Median	2.8	2.83	3.44	3.71

As of 07/20/2020

Industry Analysis Zacks Industry Rank: Bottom 14% (216 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
American Airlines Group Inc. (AAL)	Neutral	3
Air FranceKLM SA (AFLYY)	Neutral	4
Alaska Air Group, Inc. (ALK)	Neutral	3
Deutsche Lufthansa AG (DLAKY)	Neutral	4
International Consolidated Airlines Group SA (ICAGY)	Neutral	4
Southwest Airlines Co. (LUV)	Neutral	3
United Airlines Holdings Inc (UAL)	Neutral	3
China Southern Airlines Company Limited (ZNH)	Neutral	3

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	DAL	X Industry	S&P 500	AAL	DLAKY	UAL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	C	-	-	B	B	C
Market Cap	16.72 B	2.28 B	22.29 B	5.83 B	4.78 B	8.02 B
# of Analysts	9	4.5	14	7	1	15
Dividend Yield	0.00%	0.00%	1.85%	0.00%	0.00%	0.00%
Value Score	A	-	-	A	A	B
Cash/Price	0.91	0.50	0.06	0.62	1.29	0.62
EV/EBITDA	2.85	3.54	13.06	4.17	1.38	3.13
PEG Ratio	NA	4.61	2.98	NA	NA	NA
Price/Book (P/B)	1.92	0.67	3.12	NA	0.58	0.85
Price/Cash Flow (P/CF)	2.31	2.28	12.03	1.12	1.05	1.51
P/E (F1)	NA	23.46	22.15	NA	NA	NA
Price/Sales (P/S)	0.49	0.40	2.35	0.13	0.12	0.19
Earnings Yield	-34.63%	-26.17%	4.30%	-122.84%	-101.90%	-63.66%
Debt/Equity	2.85	0.79	0.75	-8.18	1.12	1.98
Cash Flow (\$/share)	11.37	4.15	6.94	10.27	9.49	21.42
Growth Score	D	-	-	F	C	D
Hist. EPS Growth (3-5 yrs)	6.97%	2.29%	10.82%	-19.39%	-15.18%	-0.69%
Proj. EPS Growth (F1/F0)	-224.27%	-253.95%	-9.08%	-387.63%	-455.94%	-270.82%
Curr. Cash Flow Growth	17.74%	11.77%	5.51%	5.17%	-11.99%	15.52%
Hist. Cash Flow Growth (3-5 yrs)	10.18%	8.55%	8.55%	-4.04%	21.18%	8.25%
Current Ratio	0.94	0.69	1.30	0.37	0.61	0.49
Debt/Capital	74.04%	54.62%	44.41%	NA	52.86%	66.42%
Net Margin	-10.74%	1.58%	10.54%	-1.69%	-1.49%	2.43%
Return on Equity	-4.02%	9.39%	15.74%	-124.31%	10.05%	20.51%
Sales/Assets	0.51	0.60	0.54	0.72	0.81	0.79
Proj. Sales Growth (F1/F0)	-59.86%	-46.66%	-2.36%	-55.46%	0.00%	-56.82%
Momentum Score	F	-	-	A	C	B
Daily Price Chg	-3.07%	-0.82%	-0.77%	-3.69%	-0.84%	-4.69%
1 Week Price Chg	-0.15%	1.83%	3.82%	-0.25%	2.81%	3.83%
4 Week Price Chg	-10.54%	-3.12%	2.71%	-23.12%	-9.67%	-11.52%
12 Week Price Chg	18.32%	12.24%	9.79%	14.47%	14.75%	29.32%
52 Week Price Chg	-57.22%	-48.64%	-3.79%	-65.14%	-41.34%	-65.54%
20 Day Average Volume	31,518,220	145,626	2,095,914	91,760,848	100,639	55,873,480
(F1) EPS Est 1 week change	-17.40%	0.00%	0.00%	1.15%	0.00%	0.00%
(F1) EPS Est 4 week change	-13.39%	0.00%	0.09%	9.11%	0.59%	2.98%
(F1) EPS Est 12 week change	-118.17%	-124.92%	-4.60%	-46.30%	-57.59%	-131.11%
(Q1) EPS Est Mthly Chg	-25.20%	0.00%	0.00%	4.07%	NA	-4.75%

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	D
Momentum Score	F
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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