

## Delta Air Lines, Inc. (DAL)

**\$29.64** (As of 06/23/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: B

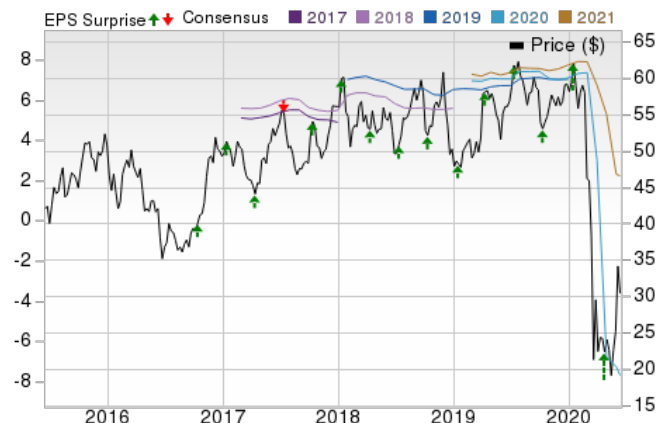
Growth: F

Momentum: D

### Summary

Shares of Delta have declined 35.7% since March as it takes a significant hit from the coronavirus outbreak, which crippled air travel demand. The company posted its first quarterly loss since 2010 in first-quarter 2020, due to the coronavirus-induced dwindling passenger revenues (down 18.2%). For the second quarter, the carrier expects revenues to shrink as much as 90% year over year. Delta expects to cut total system capacity by 85% in the June quarter. However, modest fuel prices should help partly offset the revenue decline. Delta's decision to boost its Asia-U.S. cargo flight schedule is an added positive. Additionally, signs of recovery in air-travel demand are quite encouraging. Delta expects to reduce its average daily cash outflow to approximately \$40 million in the June quarter, thanks to "recent improvement in net sales".

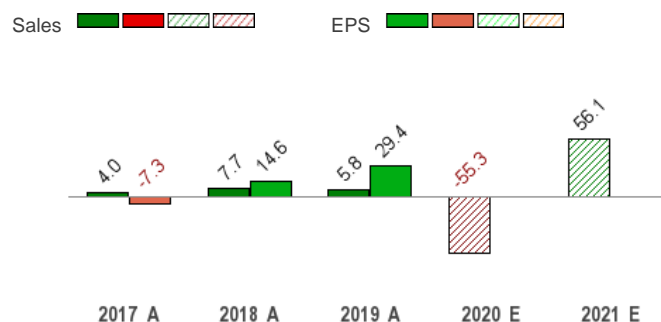
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$63.44 - \$17.51
20 Day Average Volume (sh)	66,821,492
Market Cap	\$18.9 B
YTD Price Change	-49.3%
Beta	1.24
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Transportation - Airline</a>
Zacks Industry Rank	Bottom 31% (175 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	29.2%
Last Sales Surprise	-10.9%
EPS F1 Est- 4 week change	-4.5%
Expected Report Date	07/09/2020
Earnings ESP	2.8%
P/E TTM	5.1
P/E F1	NA
PEG F1	NA
P/S TTM	0.4

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	7,586 E	8,187 E	9,767 E	9,560 E	32,800 E
2020	8,592 A	1,396 E	4,286 E	6,676 E	21,012 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	-\$0.16 E	\$1.05 E	\$1.26 E	\$1.09 E	\$2.21 E
2020	-\$0.51 A	-\$4.15 E	-\$2.07 E	-\$0.67 E	-\$7.63 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 06/23/2020. The reports text is as of 06/24/2020.

## 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.

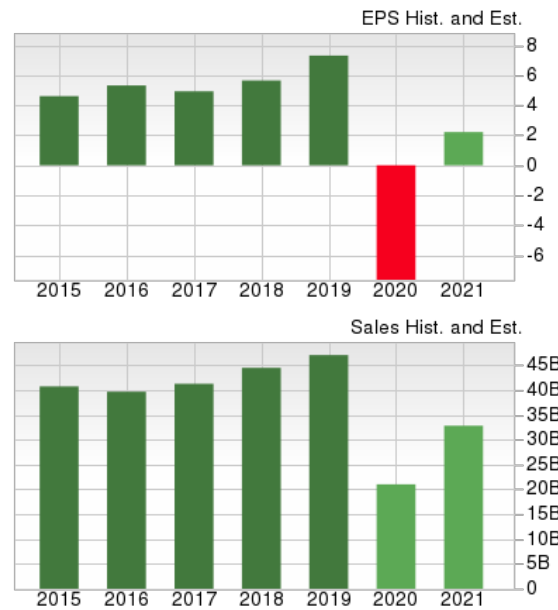
Passenger revenues come from three sources, such as ticket sales, loyalty travel awards and travel-related services. In 2019, 87.3% of passenger revenues are recorded from ticket sales. Loyalty travel awards and travel-related services reflected 6.9% and 5.8% of passenger revenues, respectively, in 2019.

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.



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## Reasons To Buy:

- ▲ 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. The average fuel price (adjusted) in the first quarter of 2020 was \$1.82 per gallon, down 11%. Notably, the airline expects to save \$2 billion on fuel expenses in 2020. Additionally, the “recent improvement in net sales and stabilization in refund requests”, is anticipated to reduce the carrier’s average daily cash outflow to approximately \$40 million by the end of June from roughly \$100 million per day at the end of March. With modest improvement in demand, particularly domestic leisure travel demand and greater cost cuts, the airline hopes to reduce its average daily cash outflow to zero by the end of this year. Delta anticipates the demand-recovery environment to be better on the domestic front than in international markets. As a result, the carrier added 100 additional domestic flights in June. It plans to continue adding flights in the third quarter as demand increases.
- ▲ With passenger revenues declining due to the coronavirus-triggered bearish air-travel demand, Delta is focusing on its cargo-only flights. To this end, the carrier decided to operate daily flights connecting Seoul-Incheon with Detroit. Moreover, cargo-special flights will operate four-times a week (Tuesday, Wednesday, Friday, Sunday) on the Incheon-Los Angeles route and thrice a week (Monday, Thursday, Saturday) connecting Incheon and Atlanta. 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 Asia. With passenger demand plummeting, the cargo-only operations should help Delta recoup a bit of the lost revenues.

Signs pertaining to the recovery in air-travel demand are very encouraging.. Modest fuel prices should help in partly offsetting the impact of low travel demand in the wake of the coronavirus outbreak.

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## Reasons To Sell:

- ▼ Delta is taking a significant hit from the coronavirus outbreak, which has crippled air travel demand. In fact, the company posted its first quarterly loss since 2010 in first-quarter 2020, due to coronavirus-led dwindling passenger revenues (down 18.2%). Moreover, due to tepid demand, the carrier expects system-wide capacity to be down 85% year over year in the June quarter. Of the total, 80% cut will be on the domestic front and 90% internationally. Further, the company expects its second-quarter revenues to shrink as much as 90% in the face of plummeting passenger revenues.
- ▼ 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. Also, worries regarding a second wave of the infection are very concerning. In the event of the fears coming true, the Delta stock will be hammered further as air-travel demand will take longer to recover. Additionally, Delta has been suffering from technological snags very often. Since airlines spend a lot on the technological infrastructure, their profitability might be hurt in the event of any such malfunctions.
- ▼ Delta's total debt to total capital ratio, a measure of a company's financial leverage, stood at 0.62 at the end of first-quarter 2020, comparing unfavorably to the reading of 0.53 at the end of the fourth quarter of 2019. Even though, Delta's cash and equivalents at the end of first-quarter 2020 (\$5,967 million) exceeds its current debt levels (\$5,105 million), we note that Delta will get a total of \$5.4 billion via the payroll support program under the CARES Act. While a \$3.8-billion amount of the above will be through grants (it doesn't have to pay back), \$1.6 billion will be 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.

Large-scale flight cancellations due to the coronavirus outbreak are resulting in substantial revenue loss.

## Last Earnings Report

### Narrower Than Expected Loss in Q1

The company reported a loss (excluding 33 cents from non-recurring items) of 51 cents in the March-end quarter compared with the Zacks Consensus Estimate of a loss of 72 cents. Delta had reported earnings of 96 cents 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.

However, with the advent of coronavirus things have changed drastically. Due to the spread of the coronavirus by geometric progression, blanket travel bans are imposed by governments across the globe. With several countries placed under lockdown, most people are debarred from taking trips in a bid to stay safe and avoid contracting the highly contagious disease from a fellow passenger.

As a result of the restrictions, passenger revenues, which account for bulk of Delta's top line (89.1% in the first quarter), have been crippled thereby hurting its top line. Due to the passenger revenue weakness (down 18.2%), Delta's total top line shrunk 18% year over year to \$8,592 million. Additionally, total revenues fell short of the Zacks Consensus Estimate of \$9,637.5 million.

### Other Financial Details

Cargo revenues declined 20.8%. Other revenues decreased 15.1%. The average fuel price (adjusted) in the first quarter was \$1.82 per gallon, down 11% on a year-over-year basis.

Revenue passenger miles (a measure of air traffic) decreased 16.6% to 43.1 billion. With Delta making significant capacity-cuts to match the coronavirus-induced sharp decrease in traffic, capacity (measured in available seat miles) contracted 5.7% to 58.88 billion. With the decline in traffic outpacing the fall in capacity, load factor (percentage of seats filled by passengers) declined 960 basis points to 73.1%. Passenger revenue per available seat mile (PRASM) declined 13.3% year over year to 12.85 cents. Passenger mile yield fell 2% to 17.58 cents. On an adjusted basis, total revenue per available seat mile (TRASM) in the first quarter decreased 12.3% year over year to 14.59 cents.

Total operating expenses, including special items, declined 5% year over year to \$9,002 million on the back of low fuel costs. Notably, expenses on aircraft fuel and related taxes declined 19% in the reported quarter. Operating cost per available seat mile (non-fuel or CASM- Ex: on an adjusted basis) increased 9% to 12.58 cents. Delta, which has suspended dividend payouts and share buybacks due to the current crisis, exited the quarter with unrestricted liquidity of \$6 billion.

### Cash Burn Rate for Q2

Delta which burned \$100 million in cash per day through March-end due to the coronavirus-led crisis, expects to bring down the rate to \$50 million per day by the end of the second quarter. Delta expects to cut total system capacity by 85 % in the June-end quarter. While international capacity is likely to be trimmed by 90%, the measure is anticipated to be cut by 80% on the domestic front.

Due to the capacity cuts, low fuel costs and cost management initiatives like parking more than 650 planes, pay cuts and putting a freeze on hiring, Delta expects a 50% (\$5 billion) reduction in second-quarter expenses. Delta expects to end the second quarter of 2020 with roughly \$10 billion in liquidity.

Quarter Ending **03/2020**

Report Date	Apr 22, 2020
Sales Surprise	-10.85%
EPS Surprise	29.17%
Quarterly EPS	-0.51
Annual EPS (TTM)	5.86

## Recent News

### Resumption of U.S.-China Flights — Jun 23, 2020

Delta is set to resume service between the United States and China as travel restrictions ease, making it the first U.S. airline to re-start flights to the nation after the temporary halt since February due to the COVID-19 outbreak. Effective Jun 25, the carrier will re-start flights between Seattle and Shanghai-Pudong via Seoul-Incheon, operating twice a week. From July onward, it will operate flights once a week from Seattle and Detroit, also via Incheon.

### July Capacity to be Increased by 1000 Flights — Jun 16, 2020

With countries across the globe relaxing travel restrictions, Delta plans to increase capacity for the busy summer travel period, adding nearly 1000 flights in July. Among other services, the carrier will be adding capacity to Florida as well as throughout the West Coast. It will also add transcontinental flights for business travelers. Despite the increase in capacity, Delta's July schedule is expected to be down approximately 70% from the year-ago period.

## Valuation

Delta shares are down 49.3% and 47% 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 40.1% and 12.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 35.5% and 6.7%, respectively.

The S&P 500 index is down 3.2% in the year-to-date period and up 7% in the past year.

The stock is currently trading at 5.06X trailing 12-month price-to-earnings, which compares to 10.43X for the Zacks sub-industry, 16.17X for the Zacks sector and 20.17X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.97X and as low as 2.91X, with a 5-year median of 9.64X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$31 price target reflects 5.29X trailing 12-month earnings.

The table below shows summary valuation data for DAL

Valuation Multiples - DAL					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	5.06	10.43	16.17	20.17
	5-Year High	12.97	13.19	19.57	22.23
	5-Year Low	2.91	7.45	11.63	15.96
	5-Year Median	9.64	10.48	15.53	19.04
EV/EBITDA TTM	Current	4.45	4.82	7.31	11.56
	5-Year High	6.9	7.03	11.16	12.85
	5-Year Low	3.06	3.26	5.44	8.25
	5-Year Median	5.32	5.91	7.33	10.83
P/S F 12M	Current	0.7	0.76	1.24	3.49
	5-Year High	1	0.98	1.42	3.49
	5-Year Low	0.28	0.38	0.85	2.53
	5-Year Median	0.83	0.77	1.2	3.02

As of 06/23/2020

## Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
American Airlines Group Inc. (AAL)	Neutral	3
Air FranceKLM SA (AFYY)	Neutral	4
Alaska Air Group, Inc. (ALK)	Neutral	3
Deutsche Lufthansa AG (DLAKY)	Neutral	3
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)	3	-	-	3	3	3
VGM Score	D	-	-	C	B	D
Market Cap	18.90 B	2.55 B	21.86 B	5.92 B	5.09 B	8.95 B
# of Analysts	9	4.5	14	10	1	16
Dividend Yield	0.00%	0.00%	1.92%	0.00%	6.03%	0.00%
Value Score	B	-	-	B	A	B
Cash/Price	0.32	0.52	0.07	0.55	1.15	0.57
EV/EBITDA	3.39	3.55	12.65	4.19	1.43	3.26
PEG Ratio	NA	4.87	2.90	NA	NA	NA
Price/Book (P/B)	1.32	0.70	2.99	NA	0.62	0.95
Price/Cash Flow (P/CF)	2.61	2.34	11.61	1.36	1.12	1.68
P/E (F1)	NA	41.50	21.08	NA	NA	NA
Price/Sales (P/S)	0.42	0.39	2.25	0.14	0.13	0.21
Earnings Yield	-25.74%	-25.74%	4.42%	-111.50%	-95.68%	-49.03%
Debt/Equity	1.25	0.72	0.77	-8.18	1.12	1.98
Cash Flow (\$/share)	11.37	4.59	7.01	10.27	9.49	21.42
Growth Score	F	-	-	F	C	F
Hist. EPS Growth (3-5 yrs)	8.27%	2.29%	10.84%	-19.39%	-15.18%	-0.69%
Proj. EPS Growth (F1/F0)	-204.39%	-242.26%	-10.80%	-418.65%	-455.94%	-246.81%
Curr. Cash Flow Growth	17.74%	12.49%	5.46%	5.17%	-11.99%	15.52%
Hist. Cash Flow Growth (3-5 yrs)	10.18%	9.08%	8.55%	-4.04%	21.18%	8.25%
Current Ratio	0.53	0.69	1.29	0.37	0.61	0.49
Debt/Capital	55.53%	52.86%	45.14%	99.27%	52.86%	66.42%
Net Margin	7.76%	2.43%	10.53%	-1.69%	-1.49%	2.43%
Return on Equity	25.95%	9.01%	16.06%	-124.31%	10.05%	20.51%
Sales/Assets	0.70	0.62	0.55	0.72	0.81	0.79
Proj. Sales Growth (F1/F0)	-55.30%	-48.19%	-2.66%	-55.21%	0.00%	-55.68%
Momentum Score	D	-	-	A	F	C
Daily Price Chg	1.13%	0.00%	0.04%	-6.17%	-3.80%	-1.26%
1 Week Price Chg	-3.02%	-3.33%	0.92%	-4.42%	-4.75%	-7.11%
4 Week Price Chg	15.56%	5.14%	2.71%	25.67%	5.98%	22.14%
12 Week Price Chg	3.89%	12.06%	19.78%	14.85%	12.06%	14.36%
52 Week Price Chg	-47.00%	-41.29%	-6.05%	-55.21%	-35.79%	-57.58%
20 Day Average Volume	66,821,492	348,955	2,819,961	138,945,072	189,561	84,332,624
(F1) EPS Est 1 week change	1.05%	0.00%	0.00%	-1.46%	0.59%	-0.02%
(F1) EPS Est 4 week change	-4.48%	-1.33%	0.00%	-1.11%	-39.64%	-1.55%
(F1) EPS Est 12 week change	-276.60%	-242.60%	-12.72%	-3,135.12%	-1,397.06%	-562.68%
(Q1) EPS Est Mthly Chg	2.08%	0.00%	0.00%	3.27%	NA	2.66%

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## 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.

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### 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	<b>B</b>
Growth Score	<b>F</b>
Momentum Score	<b>D</b>
VGM Score	<b>D</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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