

Delta Air Lines, Inc. (DAL)

\$50.89 (As of 02/25/20)

Price Target (6-12 Months): **\$59.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 01/14/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

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.

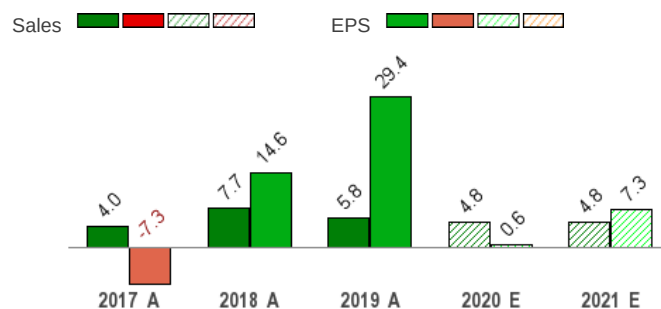
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.44 - \$48.22
20 Day Average Volume (sh)	6,420,050
Market Cap	\$32.6 B
YTD Price Change	-13.0%
Beta	1.11
Dividend / Div Yld	\$1.61 / 3.2%
Industry	Transportation - Airline
Zacks Industry Rank	Top 15% (39 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	21.4%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	1.0%
Expected Report Date	04/08/2020
Earnings ESP	6.3%
P/E TTM	6.9
P/E F1	6.9
PEG F1	0.5
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	11,556 E	13,678 E	13,641 E	12,417 E	51,672 E
2020	11,095 E	13,118 E	13,152 E	11,917 E	49,282 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	\$1.19 E	\$2.76 E	\$2.52 E	\$1.80 E	\$7.89 E
2020	\$1.06 E	\$2.44 E	\$2.30 E	\$1.55 E	\$7.35 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 02/25/2020. The reports text is as of 02/26/2020.

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.

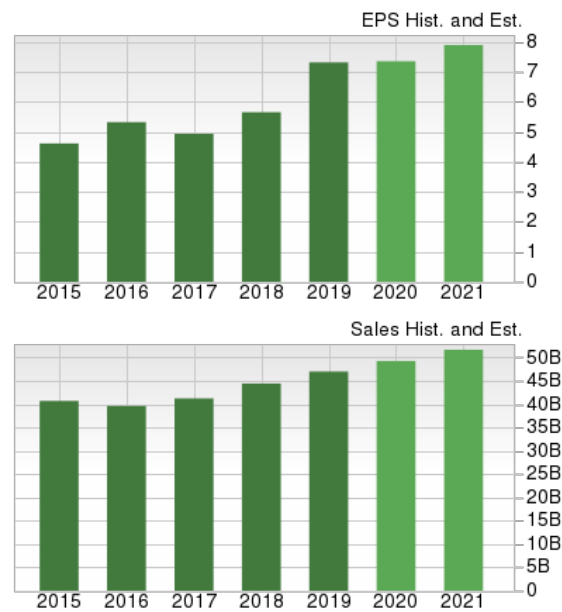
Passenger revenues come from three sources, such as ticket sales, loyalty travel awards and travel-related services. In 2019, 87.3% of passenger revenues are recorded from ticket sales. Loyalty travel awards and travel-related services reflected 6.9% and 5.8% of passenger revenues, respectively, in 2019.

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:

▲ 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.

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

▲ 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's decision to invest \$1 billion over the next decade in a bid to limit the impact of air travel on climate is an added positive.

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. Moreover, In response to the coronavirus outbreak Delta suspended all flights to and from China through Apr 30. The cancellations are likely to cause loss of revenues and might hurt its first-quarter 2020 results.
 - 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.
 - 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. 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

Dividend Update - Feb 6, 2020

Delta's board of directors declared a quarterly dividend of 40.25 cents per share. The dividend will be paid on Mar 12, 2020 to shareholders of record on Feb. 20, 2020.

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.

Valuation

Delta Air Lines shares are up 0.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 12.2% and 6.1% over the past year, respectively. The S&P 500 index is up 11.2% in a year's time.

The stock is currently trading at 6.89X forward 12-month price-to earnings, which compares to 7.43X for the Zacks sub-industry, 12.04X for the Zacks sector and 17.88X 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 8.5X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$59 price target reflects 7.98X 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	6.89	7.43	12.04	17.88
	5-Year High	11.59	12.3	17	19.34
	5-Year Low	5.2	6.85	10.48	15.18
	5-Year Median	8.5	9.04	13.16	17.47
EV/EBITDA TTM	Current	5.56	6.48	7.85	12
	5-Year High	7.42	7.22	11.08	12.87
	5-Year Low	3.39	4.31	6	8.48
	5-Year Median	5.48	6.01	7.4	10.77
P/S F12M	Current	0.66	0.61	1.04	3.29
	5-Year High	1	0.98	1.44	3.43
	5-Year Low	0.63	0.61	1.02	2.54
	5-Year Median	0.84	0.77	1.21	3

As of 02/25/2020

Industry Analysis Zacks Industry Rank: Top 15% (39 out of 255)



Top Peers

Spirit Airlines, Inc. (SAVE)	Outperform
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
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	-	-	A	B	A
Market Cap	32.57 B	4.40 B	22.56 B	9.85 B	25.69 B	17.86 B
# of Analysts	11	4	13	12	13	18
Dividend Yield	3.16%	0.00%	1.88%	1.73%	1.45%	0.00%
Value Score	B	-	-	A	B	A
Cash/Price	0.08	0.25	0.04	0.34	0.14	0.25
EV/EBITDA	4.83	5.00	13.36	4.82	5.78	5.62
PEG Ratio	0.50	0.49	1.94	0.71	1.27	0.25
Price/Book (P/B)	2.14	1.05	3.09	NA	2.61	1.55
Price/Cash Flow (P/CF)	4.48	4.09	12.57	2.25	7.30	3.30
P/E (F1)	6.92	7.78	17.93	4.53	10.91	5.58
Price/Sales (P/S)	0.69	0.59	2.51	0.22	1.15	0.41
Earnings Yield	14.44%	12.85%	5.55%	22.10%	9.16%	17.93%
Debt/Equity	0.92	0.64	0.70	-181.81	0.30	1.59
Cash Flow (\$/share)	11.37	3.94	7.02	10.27	6.80	21.42
Growth Score	B	-	-	C	C	A
Hist. EPS Growth (3-5 yrs)	10.23%	3.75%	10.85%	-14.34%	7.94%	0.79%
Proj. EPS Growth (F1/F0)	0.52%	14.58%	6.86%	4.25%	6.59%	5.02%
Curr. Cash Flow Growth	17.74%	12.49%	6.53%	5.17%	-3.22%	13.70%
Hist. Cash Flow Growth (3-5 yrs)	10.18%	8.55%	8.38%	-4.04%	8.55%	8.25%
Current Ratio	0.41	0.70	1.22	0.45	0.67	0.55
Debt/Capital	47.98%	47.20%	42.37%	99.27%	23.31%	61.36%
Net Margin	10.14%	6.96%	11.57%	3.68%	10.26%	6.96%
Return on Equity	33.32%	15.54%	16.80%	-1,414.94%	23.31%	29.16%
Sales/Assets	0.75	0.66	0.54	0.75	0.85	0.83
Proj. Sales Growth (F1/F0)	4.84%	4.11%	4.03%	4.24%	3.35%	4.95%
Momentum Score	A	-	-	A	B	A
Daily Price Chg	-6.16%	-3.13%	-3.36%	-9.16%	-8.22%	-6.49%
1 Week Price Chg	-1.75%	-1.80%	-0.94%	-4.73%	-2.48%	-1.94%
4 Week Price Chg	-11.47%	-9.97%	-5.65%	-14.05%	-13.79%	-8.41%
12 Week Price Chg	-8.50%	-9.46%	-1.04%	-15.28%	-11.21%	-20.59%
52 Week Price Chg	-0.45%	-20.61%	8.00%	-36.22%	-7.51%	-21.18%
20 Day Average Volume	6,420,050	61,962	2,073,853	10,255,666	3,772,417	4,349,357
(F1) EPS Est 1 week change	0.54%	0.00%	0.00%	1.44%	0.00%	0.61%
(F1) EPS Est 4 week change	1.03%	0.00%	-0.06%	1.11%	-0.07%	1.62%
(F1) EPS Est 12 week change	5.22%	0.73%	-0.19%	-0.95%	-7.59%	-0.70%
(Q1) EPS Est Mthly Chg	2.03%	0.00%	-0.61%	-4.58%	2.13%	0.64%

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
Growth Score	B
Momentum Score	A
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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