

Hawaiian Holdings (HA)

\$19.46 (As of 06/04/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/09/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: A

Growth: D

Momentum: D

Summary

Shares of Hawaiian Holdings have shed more than 56% of value since the beginning of February due to the unprecedented air-travel demand crisis in the wake of the coronavirus. With demand plummeting and large-scale travel restrictions already imposed, the carrier reported a loss in first-quarter 2020 results. Passenger revenues also declined 16.3% due to bleak travel demand. Additionally, passenger unit revenues dropped 18.4%. Consolidated load factor deteriorated 10.5 percentage points to 74.6% as traffic declined while capacity expanded. Due to this coronavirus-related uncertainty, the carrier did not provide any detailed guidance for second-quarter 2020. Amid this severe crisis, low fuel prices should help the company partly mitigate the adversities stemming from the shrinkage in demand. Additionally, the focus on cargo services is encouraging.

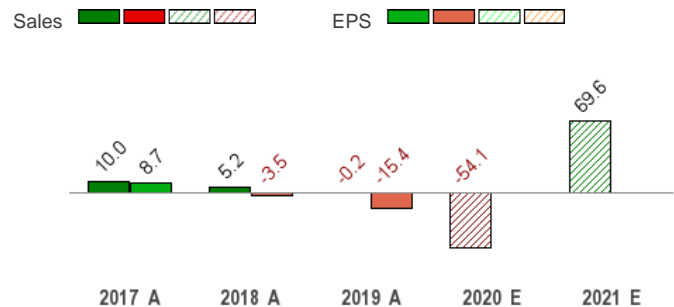
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$31.34 - \$7.55 |
| 20 Day Average Volume (sh) | 1,627,488 |
| Market Cap | \$894.2 M |
| YTD Price Change | -33.6% |
| Beta | 2.34 |
| Dividend / Div Yld | \$0.48 / 2.5% |
| Industry | Transportation - Airline |
| Zacks Industry Rank | Top 34% (86 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | 26.0% |
| Last Sales Surprise | -0.9% |
| EPS F1 Est- 4 week change | -6.5% |
| Expected Report Date | 08/04/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 6.1 |
| P/E F1 | NA |
| PEG F1 | NA |
| P/S TTM | 0.3 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 555 E | 595 E | 635 E | 601 E | 2,207 E |
| 2020 | 559 A | 60 E | 251 E | 431 E | 1,301 E |
| 2019 | 657 A | 712 A | 755 A | 708 A | 2,832 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-----------|-----------|-----------|-----------|-----------|
| 2021 | \$0.08 E | \$0.38 E | \$0.62 E | \$0.06 E | \$0.68 E |
| 2020 | -\$0.74 A | -\$3.84 E | -\$1.66 E | -\$0.62 E | -\$7.45 E |
| 2019 | \$0.67 A | \$1.23 A | \$1.72 A | \$0.99 A | \$4.60 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 06/04/2020. The reports text is as of 06/05/2020.

Overview

Hawaiian Holdings, Inc., the parent of Hawaiian Airlines, is headquartered in Honolulu County, HI. In fact, it is Hawaii's biggest airline and has been serving the islands for more than 85 years. The carrier focuses in providing scheduled air transportation of passengers and cargo.

The company, founded in 1929, offers non-stop service to Hawaii from 11 gateway cities of the United States. Additionally, the carrier offers approximately 180 daily flights between the Hawaiian Islands apart from providing charter services. It is also expanding on the international front.

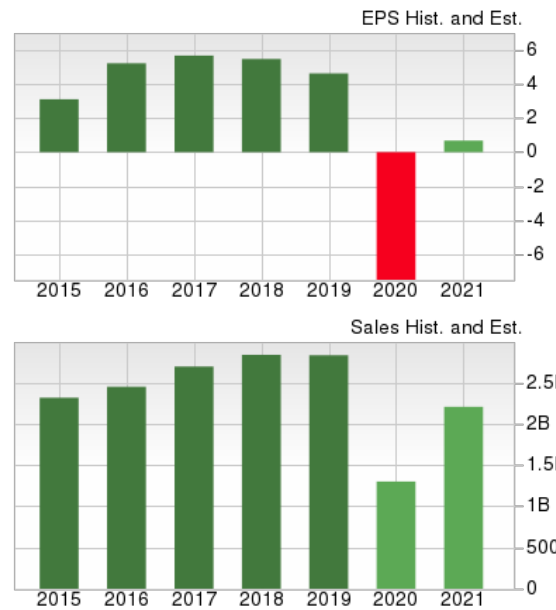
Hawaiian Holdings is aiming to modernize its fleet. At the end of 2019, Hawaiian Holdings' fleet consisted of 20 Boeing 717-200 aircraft for the Neighbor Island routes, 24 Airbus A330-200 aircraft and 17 Airbus A321-200 for the North America and International routes (including charter flights). The carrier owns four ATR42 aircraft for the "Ohana by Hawaiian" Neighbour Island service and three ATR71 aircraft for our Neighbor Island cargo operations. Through its frequent flier program (HawaiianMiles), Hawaiian Holdings offers mileage credits thereby promoting customer loyalty.

The HawaiianMiles frequent flyer program was initiated in 1983 to encourage and develop customer loyalty. HawaiianMiles allows passengers flying on Hawaiian and its partner flights to earn mileage credits. The members can also earn mileage credits for patronage with Hawaiian's program partners like credit card issuers, hotels and car rental firms.

Hawaiian Holdings is the 10th largest domestic airline in the United States based on revenue passenger miles (RPMs). The finding is based on the latest data reported by the Research and Innovative Technology Administration Bureau of Transportation Services. Apart from frequent flier partnerships, the carrier also has codeshare and other agreements with other carriers. Such customer-friendly arrangements boost the top line of Hawaiian Holdings.

Bulk of the top line at Hawaiian Holdings is generated through passenger revenues. In 2019 passenger revenues accounted for 91.7% of the company's top line of \$2.6 billion. The company, which flew 11.8 million passengers in 2019, flat year over year, witnessed a 0.2% dip in passenger revenues.

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



Reasons To Buy:

- ▲ To combat the current air-travel demand woes, the carrier undertook several cost-cutting measures to support the bottom line and preserve cash as well. For instance, it halted hiring (except for critical and essential posts) and deferred non-critical capital expenses. The carrier also suspended dividend payments and share buybacks. Moreover, to improve its liquidity position, the carrier fully drew down \$235 million from its revolving credit facility.
- ▲ We are impressed by the carrier's efforts to modernize its fleet. To this end, it is remodeling its A330 fleet by adding lie flat premium seats. The carrier is constantly adding new planes and removing outdated ones from its fleet. As part of its fleet modernization exercise, the company took delivery of six A321neos in 2019. Evidently, the number of such jets in its fleet increased to 17. Efforts to expand internationally also raise optimism. The airline is currently seeking antitrust immunity for its partnership with Japan Airlines. Upon being granted the antitrust immunity, the carrier expects to implement the joint venture at the end of 2020.
- ▲ Amid dwindling air-travel demand due to coronavirus, low fuel prices should help the carrier partly offset the adversities as fuel expenses comprise a major chunk of airline expenditures. Additionally, the airline's focus on cargo services should help to recoup a bit of the lost revenues from the demand slump. To this end, the carrier extended its inter-island cargo services to facilitate movement of certain essentials including food and medicine. Moreover, Hawaiian Holdings' cost-controlling efforts are encouraging.

Low fuel prices and focus on cargo services should help Hawaiian Holdings partly counter the adversities.

Reasons To Sell:

- ▼ Alike other airlines, Hawaiian Holdings has been taking a significant hit from the coronavirus pandemic. The demand scenario, which started deteriorating in late January, began to worsen in mid-March. Due to declining passenger revenues, the carrier reported wider-than-expected loss for first-quarter 2020. Moreover, load factor (percentage of seats filled by passengers) contracted 1050 basis points to 74.6% in the quarter as capacity expanded while traffic declined. With waning demand, Hawaiian Holdings expects its May 2020 capacity to plunge 91% from the year-ago period's tally. Due to market instability emanating from the ongoing health emergency, the carrier did not issue a detailed financial outlook for the second quarter.
- ▼ Hawaiian Holdings' trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 14.5% compared unfavorably with the industry's average of 25.5%. Moreover, shares of Hawaiian Holdings have shed more than 56% of value since the beginning of February due to the unprecedented air-travel demand crisis in the wake of the coronavirus. With the health peril showing no sign of subsiding, the stock might be battered further. As a result, investor confidence will be shaken further.
- ▼ Southwest Airlines started operations to Hawaii from Mar 17, 2019. Following Southwest Airlines' entry, competition has intensified at Hawaiian Holdings' primary market — Hawaii. Loss of market share has naturally hurt the Hawaiian Holdings stock as the carrier's growth depends to a large extent on the demand for air travel to Hawaii. Consequently, passenger revenues slipped 0.2% in 2019, mainly due to pricing pressures following Southwest Airlines' entry in Hawaii.
- ▼ The company's total debt-to-total capital ratio stood at 0.62 at the end of the first quarter of 2020, comparing unfavorably to the reading of 0.52 at the end of the fourth quarter of 2019. The reading for its industry at the end of first quarter stood at 0.68. Higher debt as a percentage of total capital indicates that a company has a higher risk of insolvency. Moreover, as of Mar 31, 2020, the company's unrestricted cash, cash equivalents and short-term investments totaled \$815 million. Outstanding debt and finance lease obligations were higher at \$976 million.

With tumbling air-travel demand due to coronavirus, the carrier suffered a loss in first quarter.

Last Earnings Report

Wider-Than-Expected Loss in Q1

Hawaiian Holdings' first-quarter 2020 loss (excluding \$2.40 from non-recurring items) of \$1.00 per share was wider than the the Zacks Consensus Estimate of a loss of 74 cents. The carrier reported earnings of 67 cents in first-quarter 2019. Moreover, quarterly revenues of \$559.1 million missed the Zacks Consensus Estimate of \$564 million, down 14.9% year over year.

Due to massive drop in travel demand due to the COVID-19 pandemic, passenger revenues (accounting for 90% of the top line) declined 16.3% year over year. Airline traffic, measured in revenue passenger miles, fell 10.1% year over year to 3.71 billion in the quarter under review. Capacity or available seat miles (ASMs) expanded 2.6% to 4.97 billion. Load factor (percentage of seats filled by passengers) deteriorated 1050 basis points to 74.6% in the reported quarter as capacity expanded while traffic declined

Meanwhile, operating revenue per available seat mile (RASM: a key measure of unit revenues) in the quarter fell 17.1% year over year. Average fuel cost per gallon (economic) dropped 8.5% to \$1.83 in the first quarter, while non-fuel unit costs fell 0.9%.

As of Mar 31, 2020, the company's unrestricted cash, cash equivalents and short-term investments totaled \$815 million. Outstanding debt and finance lease obligations were \$976 million.

Outlook

Due to COVID-19 pandemic uncertainties, Hawaiian Holdings is unable to provide its detailed guidance for second-quarter2020. The company expects its May 2020 capacity to plunge 91% compared with the year-ago period's tally. Operating expenses are expected to decline at a slower pace than capacity.

Quarter Ending **03/2020**

| | |
|------------------|---------------------|
| Report Date | May 05, 2020 |
| Sales Surprise | -0.85% |
| EPS Surprise | 26.00% |
| Quarterly EPS | -0.74 |
| Annual EPS (TTM) | 3.20 |

Recent News

March Traffic – Apr 9, 2020

Traffic (measured in Revenue Passenger Miles or RPMs) plunged 40.9% in March with acceleration in government travel restrictions due to the coronavirus pandemic. Available Seat Miles (ASMs) also declined 11.9%. With traffic declining more than the contraction in capacity, load factor (percentage of seats filled by passengers) decreased 28.4 basis points (bps) to 58%.

Additionally, earlier in the month, Hawaiian Airlines' flight attendants represented by the Association of Flight Attendants-CWA ratified a collective bargaining agreement. The deal includes a ratification payment to be cleared over the course of a year, increased medical cost sharing, better pays and a one-time medical savings contribution to eligible flight attendants upon retirement. The contract will become amenable on Apr 3, 2025. The company is likely to record a charge of around \$24 million in the first quarter due to ratification-related bonus and other benefits.

Valuation

Hawaiian Holdings shares have been down 33.6% and 26.2% year to date and over the past year, respectively. Stocks in the Zacks sub-industry have shed 46.3% and 41.4% of value so far this year and in a year's time each. Stocks in the Zacks Transportation sector have declined 14.5% and 9.4% year to date and in the past year, respectively.

The S&P 500 index is down 3.1% in the year-to-date period and up 10.5% in the past year.

The stock is currently trading at 6.08X trailing 12-month price-to-earnings, which compares to 9.22X for the Zacks sub-industry, 15.76X for the Zacks sector and 20.08X for the S&P 500 index.

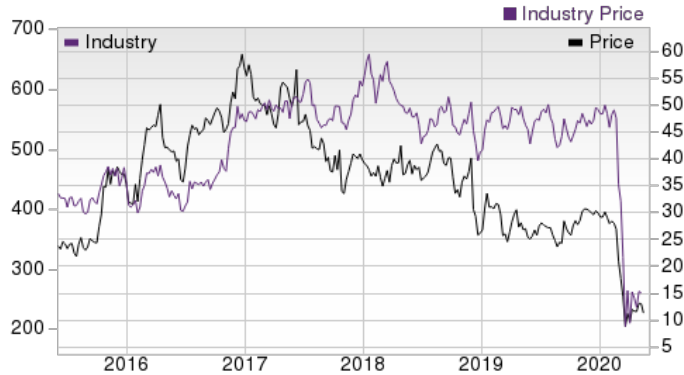
Over the past five years, the stock has traded as high as 15.11X and as low as 1.87X, with a 5-year median of 7.04X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$21 price target reflects 6.56X of trailing 12-month earnings.

The table below shows summary valuation data for HA

| Valuation Multiples - HA | | | | | |
|--------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E TTM | Current | 6.08 | 9.22 | 15.76 | 20.08 |
| | 5-Year High | 15.11 | 13.2 | 19.58 | 22.23 |
| | 5-Year Low | 1.87 | 7.45 | 11.63 | 15.96 |
| | 5-Year Median | 7.04 | 10.72 | 15.67 | 19.11 |
| EV/EBITDA TTM | Current | 3.89 | 4.8 | 7.36 | 11.56 |
| | 5-Year High | 5.36 | 7.01 | 11.15 | 12.86 |
| | 5-Year Low | 2.03 | 3.26 | 5.44 | 8.26 |
| | 5-Year Median | 3.82 | 5.9 | 7.33 | 10.81 |
| P/S F12M | Current | 0.53 | 0.66 | 1.2 | 3.51 |
| | 5-Year High | 1.26 | 0.98 | 1.42 | 3.51 |
| | 5-Year Low | 0.14 | 0.38 | 0.84 | 2.53 |
| | 5-Year Median | 0.68 | 0.77 | 1.2 | 3.02 |

As of 06/04/2020

Industry Analysis Zacks Industry Rank: Top 34% (86 out of 253)



Top Peers

| Company (Ticker) | Rec | Rank |
|---|---------|------|
| Allegiant Travel Company (ALGT) | Neutral | 3 |
| Alaska Air Group, Inc. (ALK) | Neutral | 3 |
| Gol Linhas Aereas Inteligentes S.A. (GOL) | Neutral | 2 |
| JetBlue Airways Corporation (JBLU) | Neutral | 3 |
| Southwest Airlines Co. (LUV) | Neutral | 3 |
| Ryanair Holdings PLC (RYAAY) | Neutral | 2 |
| Spirit Airlines, Inc. (SAVE) | Neutral | 3 |
| SkyWest, Inc. (SKYW) | Neutral | 5 |

| Industry Comparison Industry: Transportation - Airline | | | | Industry Peers | | |
|--|-----------|------------|-----------|----------------|------------|------------|
| | HA | X Industry | S&P 500 | ALK | JBLU | LUV |
| Zacks Recommendation (Long Term) | Neutral | - | - | Neutral | Neutral | Neutral |
| Zacks Rank (Short Term) | 3 | - | - | 3 | 3 | 3 |
| VGM Score | C | - | - | D | D | D |
| Market Cap | 894.19 M | 2.67 B | 22.58 B | 5.19 B | 3.51 B | 19.48 B |
| # of Analysts | 4 | 4.5 | 14 | 6 | 6 | 11 |
| Dividend Yield | 2.47% | 0.00% | 1.87% | 0.00% | 0.00% | 1.88% |
| Value Score | A | - | - | B | B | C |
| Cash/Price | 1.23 | 0.60 | 0.06 | 0.51 | 0.66 | 0.34 |
| EV/EBITDA | 2.97 | 3.64 | 12.93 | 3.72 | 3.19 | 4.08 |
| PEG Ratio | NA | 6.12 | 3.06 | NA | NA | NA |
| Price/Book (P/B) | 0.97 | 0.79 | 3.09 | 1.29 | 0.80 | 2.15 |
| Price/Cash Flow (P/CF) | 2.38 | 2.73 | 12.17 | 4.27 | 3.44 | 5.63 |
| P/E (F1) | NA | 42.55 | 22.17 | NA | NA | NA |
| Price/Sales (P/S) | 0.33 | 0.39 | 2.41 | 0.61 | 0.45 | 0.91 |
| Earnings Yield | -38.28% | -23.86% | 4.27% | -12.76% | -25.35% | -11.24% |
| Debt/Equity | 1.50 | 0.68 | 0.76 | 0.64 | 0.60 | 0.38 |
| Cash Flow (\$/share) | 8.18 | 4.15 | 7.01 | 9.91 | 3.79 | 6.80 |
| Growth Score | D | - | - | F | D | F |
| Hist. EPS Growth (3-5 yrs) | 9.44% | 2.29% | 10.87% | -5.75% | -4.34% | 4.95% |
| Proj. EPS Growth (F1/F0) | -261.96% | -264.81% | -10.79% | -184.16% | -273.77% | -200.66% |
| Curr. Cash Flow Growth | -9.18% | 12.49% | 5.48% | 28.26% | 14.33% | -3.22% |
| Hist. Cash Flow Growth (3-5 yrs) | 13.32% | 8.82% | 8.55% | 7.14% | 14.43% | 8.55% |
| Current Ratio | 0.96 | 0.69 | 1.29 | 0.69 | 0.61 | 0.69 |
| Debt/Capital | 60.06% | 47.44% | 44.75% | 39.10% | 37.48% | 27.38% |
| Net Margin | 1.58% | 2.43% | 10.59% | 6.24% | 3.32% | 8.46% |
| Return on Equity | 14.93% | 9.01% | 16.26% | 16.29% | 8.63% | 18.92% |
| Sales/Assets | 0.68 | 0.62 | 0.55 | 0.65 | 0.67 | 0.81 |
| Proj. Sales Growth (F1/F0) | -54.08% | -47.91% | -2.61% | -49.00% | -50.37% | -52.31% |
| Momentum Score | D | - | - | C | D | A |
| Daily Price Chg | 14.81% | 2.36% | -0.08% | 7.68% | 15.53% | 5.08% |
| 1 Week Price Chg | 7.85% | 5.39% | 4.60% | 10.22% | 8.98% | 11.19% |
| 4 Week Price Chg | 64.92% | 33.05% | 12.07% | 49.81% | 59.17% | 50.37% |
| 12 Week Price Chg | 58.73% | 5.77% | 25.17% | 20.64% | 13.32% | 6.10% |
| 52 Week Price Chg | -25.81% | -35.84% | 0.34% | -30.57% | -27.34% | -23.43% |
| 20 Day Average Volume | 1,627,488 | 311,306 | 2,537,324 | 3,473,393 | 19,026,584 | 25,346,692 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | -6.50% | -5.06% | -0.08% | -0.43% | -44.49% | -3.62% |
| (F1) EPS Est 12 week change | -299.73% | -208.53% | -16.19% | -177.03% | -235.87% | -195.15% |
| (Q1) EPS Est Mthly Chg | 23.02% | -10.30% | 0.00% | -8.49% | -20.18% | -0.24% |

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 | D |
| 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.

Disclosures

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