

Hawaiian Holdings (HA)

\$29.10 (As of 01/10/20)

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

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:A

Value: A

Growth: B

Momentum: F

Summary

Hawaiian Holdings is benefiting from low fuel prices, which in turn, are driving its bottom line. Additionally, the carrier's view for non-fuel unit costs in the fourth quarter is encouraging. The company's fleet modernization efforts also raise optimism on the stock. Its measures to add shareholder value further add to the positivity. In the first nine months of 2019, the airline repurchased 3.9% of its outstanding shares. Owing to these tailwinds, shares of the company have outperformed its industry in the past six months. However, decline in passenger revenues mainly due to pricing pressures following Southwest's entry in Hawaii, the primary market of Hawaiian Holdings, is quite concerning. Moreover, weakness in inter-island travel demand is hurting unit revenues (RASM). The carrier's high debt levels are an added woe.

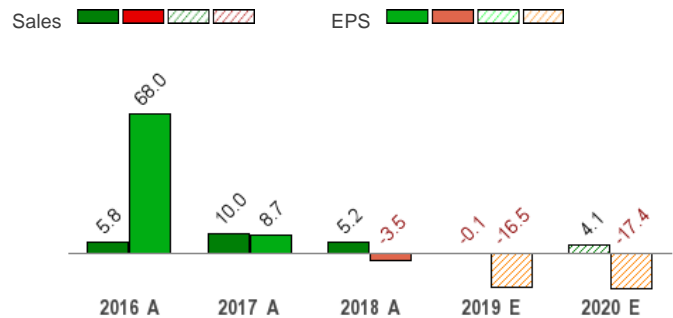
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$34.15 - \$22.84
20 Day Average Volume (sh)	468,278
Market Cap	\$1.4 B
YTD Price Change	-0.7%
Beta	1.71
Dividend / Div Yld	\$0.48 / 1.6%
Industry	Transportation - Airline
Zacks Industry Rank	Top 14% (35 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.8%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	-1.8%
Expected Report Date	02/04/2020
Earnings ESP	-8.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	674 E	722 E	762 E	715 E	2,949 E
2019	657 A	712 A	755 A	709 E	2,833 E
2018	665 A	715 A	759 A	697 A	2,837 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.20 E	\$0.90 E	\$1.21 E	\$0.46 E	\$3.75 E
2019	\$0.67 A	\$1.23 A	\$1.72 A	\$0.88 E	\$4.54 E
2018	\$1.09 A	\$1.44 A	\$1.91 A	\$1.00 A	\$5.44 A

*Quarterly figures may not add up to annual.

P/E TTM	6.3
P/E F1	7.8
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 01/10/2020. The reports text is as of 01/13/2020.

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.

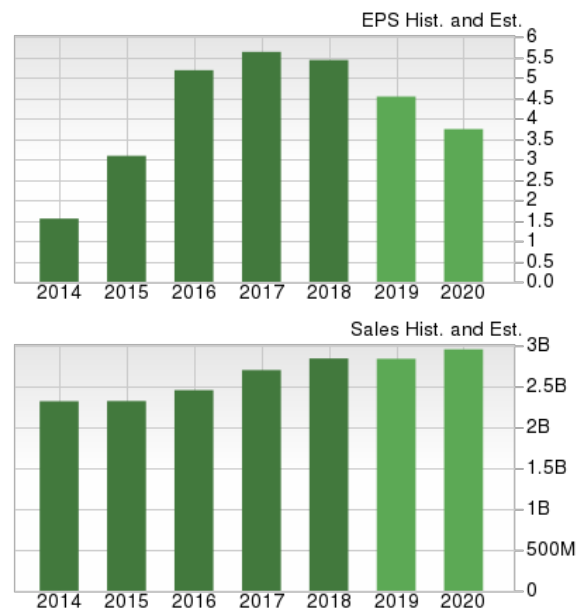
Hawaiian Holdings is aiming to modernize its fleet. At the end of 2018, Hawaiian Holdings' fleet consisted of 20 Boeing 717-200 aircraft for the Neighbor Island routes, four Boeing 767-300 aircraft, 24 Airbus A330-200 aircraft, and 11 Airbus A321-200 for the North America, International, and charter routes. 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 2018 passenger revenues accounted for 91.6% of the company's top line of \$2.69 billion. The company, which flew 11.8 million passengers in 2018, up 2.9%, saw passenger revenues increasing by 4.7% on a year-over-year basis.

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



Reasons To Buy:

▲ We are impressed by the company's efforts to reward shareholders through dividends and buybacks. In 2018, the company rewarded shareholders to the tune of \$126.7 million through dividends (\$24.2 million) and buybacks (\$102.5 million). In Dec 2018, the company announced a share repurchase program worth \$100 million through Dec 31, 2020. The company has been rewarding its shareholders in 2019 as well. Evidently, Hawaiian Holdings returned \$67.9 million to its shareholders through \$17.2 million in dividends and \$50.7 million in buybacks in the first nine months of 2019. Such investor-friendly initiatives bode well for the stock.

▲ 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 two A321neos in the September quarter. Evidently, the number of such jets in its fleet increased to 15. Efforts to expand internationally also raise optimism.

▲ Reduction in fuel costs are supporting the company's bottom-line performance. In fact, economic fuel cost per gallon declined 5.1% to \$2.04 in the September quarter. The outlook for non-fuel unit costs for the December quarter is also encouraging. The metric is expected to have increased merely in the 0.5-3.5% range. The projection is highly favorable compared with the 4.9% increase in the metric in the September quarter. Moreover, the carrier's history with respect to punctuality also raises optimism.

We are impressed by the carrier's efforts to reward its shareholders. Moreover, reduction in fuel costs are supporting the company's bottom-line performance.

Reasons To Sell:

- ▼ Weakness pertaining to inter-island travel demand is hurting operating revenues per available seat miles (RASM: a key measure of unit revenues) at Hawaiian Holdings. As an evidence, RASM dipped 2.3% in the first nine months of 2019. The company expects RASM to have declined in the 0.5-3.5% range during the December quarter due to pressures related to average fares in the carrier's domestic markets.
- ▼ 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 0.8% in the first nine months of 2019, mainly due to pricing pressures following Southwest Airlines' entry in Hawaii.
- ▼ Hawaiian Holdings is a highly leveraged company. This is indicated by the fact that the ratio of its long-term debt-to-capitalization (expressed as a percentage) currently reads 52.1. This compares unfavorably with its industry average of 47.9. Outstanding debt and capital lease obligations were \$565 million as of Sep 30, 2019. Moreover, its debt-to-equity (expressed as a percentage) currently exceeds 100. A high debt-to-equity ratio implies that the company is funding most of its ventures with debt.

Increased competition is affecting Hawaiian Holdings' passenger revenues. Declining unit revenues and high debt levels are an added concern.

Last Earnings Report

Earnings Beat at Hawaiian Holdings in Q3

Hawaiian Holdings' earnings (excluding 2 cents from non-recurring items) of \$1.72 per share outpaced the Zacks Consensus Estimate of \$1.69. However, the bottom line declined 9.9% year over year. Although quarterly revenues of \$755.2 million surpassed the Zacks Consensus Estimate of \$748.1 million, it dipped marginally year over year.

Passenger revenues accounting for bulk (91.9%) of the top line slipped 0.4% year over year. Airline traffic, measured in revenue passenger miles, inched up 2.7% year over year to 4.67 billion (for total operations) in the quarter under review. Capacity, measured in available seat miles, contracted 0.4% to 5.33 billion. Meanwhile, operating revenue per available seat mile (RASM: a key measure of unit revenue) in the quarter slipped 0.1% year over year. Average fuel cost per gallon declined 11.9% to \$1.99 in the third quarter while operating cost per ASM excluding aircraft fuel and non-recurring items increased 4.9%. Economic fuel cost per gallon declined 5.1% to \$2.04. During the quarter, Hawaiian Holdings returned \$25.7 million to shareholders through \$5.7 million in dividends and \$20 million in buybacks.

The company anticipates capacity to increase between 3% and 4.5% in the fourth quarter. RASM is projected to decline 0.5-3.5% in the period due to pressures related to average fares in the carrier's domestic markets. Cost per ASM excluding fuel and non-recurring items is projected to increase 0.5-3.5%. Economic fuel costs are envisioned to be \$2.04 per gallon in the December quarter.

Capacity for the full year is expected to rise in the 1.9-2.4% band. Cost per ASM excluding fuel and non-recurring items is projected to increase in the 1.8-2.6% in the current year. Additionally, economic fuel costs are estimated at \$2.05 per gallon in 2019. Capital expenditures for 2019 are predicted in the \$410-\$430 million range.

Quarter Ending **09/2019**

Report Date	Oct 22, 2019
Sales Surprise	0.94%
EPS Surprise	1.78%
Quarterly EPS	1.72
Annual EPS (TTM)	4.62

Recent News

December Traffic – Jan 8, 2020

Traffic (measured in Revenue Passenger Miles or RPMs) increased 7.7% to 1.57 billion in the month. Available Seat Miles (ASMs) climbed 5.4% to 1.83 billion in the period. With traffic growth outpacing capacity expansion, load factor (percentage of seats filled by passengers) improved 190 basis points (bps) to 85.9%.

During 2019, the carrier recorded a 3.6% rise in RPMs while ASMs inched up 2.1%. As a result, load factor was up 130 bps. While passenger count slipped 0.8% in 2019, it augmented 2.2% in December.

Valuation

Hawaiian Holdings shares are down 4.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 11.3% and 11.5% in the year-to-date period over the past year, respectively. The S&P 500 index is up 25.7% over the past year.

The stock is currently trading at 7.76X forward 12-month price-to-earnings, which compares to 9.04X for the Zacks sub-industry, 12.99X for the Zacks sector and 18.88X for the S&P 500 index.

Over the past three years, the stock has traded as high as 12.75X and as low as 4.77X, with a 5-year median of 8.08X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$31 price target reflects 8.26X of forward 12-month earnings.

The table below shows summary valuation data for HA

Valuation Multiples - HA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.76	9.04	12.99	18.88
	5-Year High	12.75	12.3	16.98	19.34
	5-Year Low	4.77	6.85	10.46	15.17
	5-Year Median	8.08	9.04	13.1	17.44
EV/EBITDA TTM	Current	3.96	6.67	7.97	12.01
	5-Year High	5.36	7.36	11.13	12.86
	5-Year Low	2.65	4.32	6.06	8.49
	5-Year Median	3.86	6.06	7.43	10.66
P/S F12M	Current	0.46	0.73	1.13	3.5
	5-Year High	1.26	0.98	1.44	3.5
	5-Year Low	0.36	0.63	1.03	2.54
	5-Year Median	0.68	0.78	1.23	3

As of 01/10/2020

Industry Analysis Zacks Industry Rank: Top 14% (35 out of 254)



Top Peers

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

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	HA Neutral	X Industry	S&P 500	ALK Neutral	JBLU Neutral	LUV Neutral
VGM Score	A	-	-	A	A	A
Market Cap	1.36 B	5.05 B	24.03 B	8.12 B	5.40 B	28.39 B
# of Analysts	5	3.5	13	7	8	12
Dividend Yield	1.65%	0.00%	1.78%	2.12%	0.00%	1.33%
Value Score	A	-	-	A	A	B
Cash/Price	0.55	0.24	0.04	0.20	0.19	0.14
EV/EBITDA	3.70	6.39	14.04	8.67	8.16	6.27
PEG Ratio	NA	0.52	2.02	0.44	0.37	1.28
Price/Book (P/B)	1.27	1.27	3.32	1.91	1.13	2.92
Price/Cash Flow (P/CF)	3.43	5.50	13.52	8.53	5.83	8.34
P/E (F1)	7.74	9.35	18.82	9.36	7.91	11.17
Price/Sales (P/S)	0.48	0.67	2.63	0.94	0.67	1.27
Earnings Yield	12.89%	10.67%	5.31%	10.68%	12.67%	8.95%
Debt/Equity	1.09	0.89	0.72	0.66	0.43	0.36
Cash Flow (\$/share)	8.50	3.88	6.94	7.72	3.21	6.47
Growth Score	B	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	24.25%	3.40%	10.56%	-2.40%	5.01%	10.60%
Proj. EPS Growth (F1/F0)	-17.56%	13.11%	7.49%	10.05%	23.62%	9.84%
Curr. Cash Flow Growth	-0.12%	4.80%	14.83%	-20.33%	-4.51%	9.35%
Hist. Cash Flow Growth (3-5 yrs)	24.94%	9.94%	9.00%	7.83%	15.59%	16.81%
Current Ratio	0.87	0.68	1.23	0.66	0.53	0.65
Debt/Capital	52.10%	47.00%	42.99%	39.88%	30.18%	26.52%
Net Margin	7.30%	5.81%	11.08%	7.09%	7.19%	10.90%
Return on Equity	22.23%	14.71%	17.16%	18.06%	12.03%	24.71%
Sales/Assets	0.76	0.67	0.55	0.70	0.73	0.85
Proj. Sales Growth (F1/F0)	4.07%	4.90%	4.20%	5.16%	7.50%	5.91%
Momentum Score	F	-	-	F	C	D
Daily Price Chg	0.83%	0.00%	-0.33%	-0.72%	0.00%	-0.66%
1 Week Price Chg	-2.48%	-0.12%	-0.30%	-2.01%	-1.69%	0.06%
4 Week Price Chg	-3.39%	0.00%	1.71%	-2.66%	-1.11%	-1.01%
12 Week Price Chg	0.00%	3.00%	6.05%	-1.63%	8.84%	0.15%
52 Week Price Chg	-1.36%	2.95%	22.39%	3.93%	9.10%	10.10%
20 Day Average Volume	468,278	79,345	1,580,816	1,025,506	2,993,197	3,388,868
(F1) EPS Est 1 week change	-1.83%	0.00%	0.00%	-0.18%	0.26%	-0.73%
(F1) EPS Est 4 week change	-1.83%	0.00%	0.00%	-0.22%	-0.52%	-1.94%
(F1) EPS Est 12 week change	-2.19%	0.91%	-0.50%	-0.02%	2.80%	-5.13%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-14.12%	-2.22%	-4.78%

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	B
Momentum Score	F
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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