

Hawaiian Holdings (HA)

\$28.51 (As of 02/13/20)

Price Target (6-12 Months): **\$30.00**

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: A

Summary

Hawaiian Holdings is benefiting from low fuel prices, which are aiding its bottom line. The carrier's cost-controlling efforts are also appreciative. In 2019, it reaped benefits worth \$26 million from structural cost savings. The company's non-fuel unit cost view for the first quarter is also encouraging. The carrier's efforts to add shareholder value are impressive too. During 2019, it returned \$91.6 million to shareholders. However, increased competition is hurting the airline's prospects as evidenced by the dip in passenger revenues in 2019. Operating revenues per available seat miles also dipped 2.3% in 2019. The same is anticipated to decline 4.5-7.5% in the first quarter. Hawaiian Holdings' high debt levels are an added woe. Due to these headwinds, shares of the company have underperformed its industry in a year.

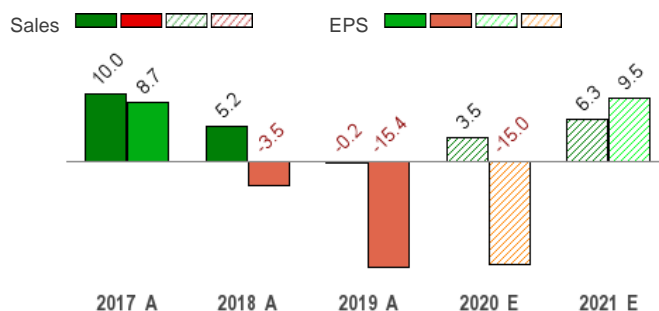
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$32.89 - \$22.84
20 Day Average Volume (sh)	681,308
Market Cap	\$1.3 B
YTD Price Change	-2.7%
Beta	1.60
Dividend / Div Yld	\$0.48 / 1.7%
Industry	Transportation - Airline
Zacks Industry Rank	Top 14% (35 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.8%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	4.3%
Expected Report Date	04/28/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	698 E	753 E	810 E	756 E	3,115 E
2020	676 E	741 E	780 E	733 E	2,930 E
2019	657 A	712 A	755 A	708 A	2,832 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.27 E	\$1.15 E	\$1.64 E	\$0.85 E	\$4.28 E
2020	\$0.41 E	\$1.18 E	\$1.49 E	\$0.80 E	\$3.91 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.

P/E TTM	6.2
P/E F1	7.3
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 02/13/2020. The reports text is as of 02/14/2020.

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.

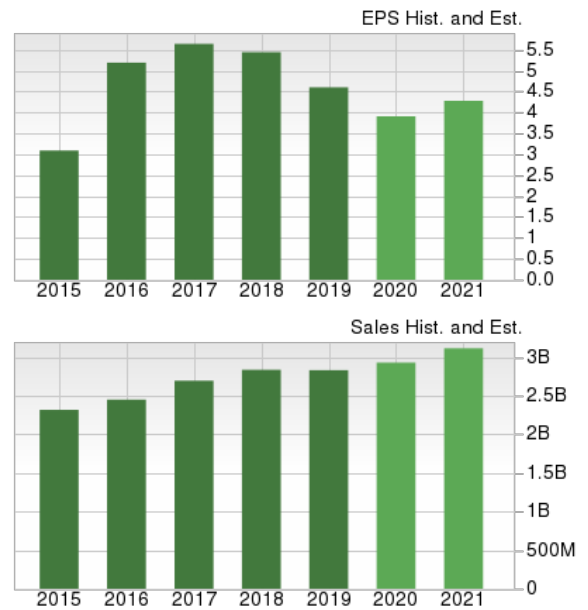
Hawaiian Holdings is aiming to modernize its fleet. At the end of 2018, Hawaiian Holdings' fleet consisted of 20 Boeing 717-200 aircraft for the Neighbor Island routes, four Boeing 767-300 aircraft, 24 Airbus A330-200 aircraft, and 11 Airbus A321-200 for the North America, International, and charter 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 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, during 2019, Hawaiian Holdings returned \$91.6 million to its shareholders through \$68.8 million in buybacks and \$22.8 million in dividends. Such investor-friendly initiatives bode well for the stock.

The company's cost-saving initiatives should drive growth going forward. Its measures to add shareholder value are also appreciative.

▲ 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.

▲ The company's cost-reduction efforts should drive the bottom line going forward. Notably, in 2019, it achieved benefits worth \$26 million from structural cost savings. The airline expects to achieve \$100 million in structural cost reductions by 2021. Additionally, its non-fuel unit costs guidance holds promise. For the first quarter of 2020, adjusted cost per available seat mile (CASM) excluding fuel is estimated to slip 1.5-4.5%. Considering the anticipated benefits of the cost-transformation initiatives, the carrier estimates CASM excluding fuel to either decline up to 2.5% or increase up to 0.5%. Modest fuel prices are aiding the company's bottom line. For the first quarter of 2020, economic fuel costs are estimated at \$1.97, indicating a decrease of 1.5% from the year-ago reported number. The same for the current year is predicted to be \$1.85, denoting a decrease of 10.1% from the 2019 reported number.

Reasons To Sell:

- ▼ Increased competition within the Hawaiian Islands, between North America and Hawaii, and from Japan 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 2019. The company expects RASM to have declined in the 4.5-7.5% in the current quarter.
- ▼ 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.
- ▼ 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 48.2. Outstanding debt and capital lease obligations were \$764 million as of Dec 31, 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' unit revenues.

Last Earnings Report

Earnings Beat at Hawaiian Holdings in Q4

Hawaiian Holdings' fourth-quarter 2019 earnings (excluding 8 cents from non-recurring items) of 99 cents per share outpaced the Zacks Consensus Estimate of 87 cents. However, the bottom line dipped 1% year over year. Although quarterly revenues of \$708.1 million missed the Zacks Consensus Estimate of \$709.3 million it inched up 1.5% year over year.

Passenger revenues accounting for bulk (91.6%) of the top line increased 1.6% year over year. Airline traffic, measured in revenue passenger miles, climbed 5.6% year over year to 4.53 billion in the quarter under review. Capacity or available seat miles (ASMs) expanded 3.7% to 5.26 billion. Load factor (percentage of seats filled by passengers) improved 150 basis points to 86.1% in the reported quarter as traffic growth outpaced capacity expansion.

Meanwhile, operating revenue per available seat mile (RASM: a key measure of unit revenues) in the quarter slid 2.1% year over year. Average fuel cost per gallon decreased 6.8% to \$2.05 in the fourth quarter while non-fuel unit costs inched up 0.8%.

During 2019, Hawaiian Holdings returned \$91.6 million to shareholders through \$68.8 million in buybacks and \$22.8 million in dividends.

Liquidity

As of Dec 31, 2019, the company's unrestricted cash, cash equivalents and short-term investments totaled \$619 million while outstanding debt and finance lease obligations were \$764 million.

Q1 Outlook

Capacity (or ASMs) is anticipated to increase 7.5-10.5% year over year. RASM is expected to decline 4.5-7.5% in the current quarter. Adjusted Cost per ASM (CASM) excluding fuel is estimated to slip 1.5-4.5%. Additionally, economic fuel cost per gallon is estimated at \$1.97.

2020 Outlook

For the current year, ASMs are projected to expand 5.5-8.5%. Adjusted CASM excluding fuel is predicted to either decline up to 2.5% or increase up to 0.5%. Economic fuel cost per gallon is expected to be \$1.85. For full-year effective tax rate is forecast in the range of 26-28%.

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	-0.17%
EPS Surprise	13.79%
Quarterly EPS	0.99
Annual EPS (TTM)	4.61

Recent News

January Traffic – Feb 6, 2020

Traffic (measured in Revenue Passenger Miles or RPMs) increased 6.6% to 1.53 billion in the month. Available Seat Miles (ASMs) climbed 7.5% to 1.83 billion in the period. With capacity expansion exceeding traffic growth, load factor (percentage of seats filled by passengers) deteriorated 70 basis points (bps) to 83.6%. The carrier transported 963,053 passengers in January, up 0.5% year over year.

Valuation

Hawaiian Holdings shares are down 9.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 2.3% and 3.1% over the past year, respectively. The S&P 500 index is up 21% over the past year.

The stock is currently trading at 7.21X forward 12-month price-to-earnings, which compares to 8.7X for the Zacks sub-industry, 13.23X for the Zacks sector and 19.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.75X and as low as 4.77X, with a 5-year median of 8.06X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$30 price target reflects 7.59X 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 F 12M	Current	7.21	8.7	13.23	19.37
	5-Year High	12.75	12.3	17	19.37
	5-Year Low	4.77	6.85	10.48	15.18
	5-Year Median	8.06	9.04	13.21	17.47
EV/EBITDA TTM	Current	4.07	6.53	7.83	11.36
	5-Year High	5.36	7.22	11.09	12.85
	5-Year Low	2.65	4.34	6.01	8.47
	5-Year Median	3.86	6.01	7.41	10.7
P/S F 12M	Current	0.45	0.72	1.14	3.57
	5-Year High	1.26	0.98	1.44	3.57
	5-Year Low	0.38	0.63	1.02	2.54
	5-Year Median	0.68	0.77	1.21	3

As of 02/13/2020

Industry Analysis Zacks Industry Rank: Top 14% (35 out of 255)



Top Peers

Gol Linhas Aereas Inteligentes S.A. (GOL)	Outperform
Ryanair Holdings PLC (RYAAY)	Outperform
Spirit Airlines, Inc. (SAVE)	Outperform
Allegiant Travel Company (ALGT)	Neutral
Alaska Air Group, Inc. (ALK)	Neutral
JetBlue Airways Corporation (JBLU)	Neutral
Southwest Airlines Co. (LUV)	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	C
Market Cap	1.31 B	4.94 B	24.56 B	8.17 B	6.22 B	30.28 B
# of Analysts	5	4	13	7	6	13
Dividend Yield	1.68%	0.00%	1.78%	2.11%	0.00%	1.23%
Value Score	A	-	-	A	A	B
Cash/Price	0.56	0.25	0.04	0.19	0.17	0.14
EV/EBITDA	3.60	6.24	14.00	8.71	9.20	6.86
PEG Ratio	NA	0.58	2.10	0.39	0.40	1.49
Price/Book (P/B)	1.25	1.28	3.31	1.89	1.31	3.08
Price/Cash Flow (P/CF)	3.52	5.22	13.68	6.71	5.69	8.61
P/E (F1)	7.28	9.12	19.23	9.32	8.87	12.81
Price/Sales (P/S)	0.46	0.65	2.69	0.93	0.77	1.35
Earnings Yield	13.71%	10.96%	5.20%	10.72%	11.27%	7.81%
Debt/Equity	1.09	0.64	0.71	0.62	0.43	0.30
Cash Flow (\$/share)	8.11	3.94	6.92	9.91	3.79	6.80
Growth Score	B	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	17.35%	2.52%	10.85%	-3.84%	0.16%	7.94%
Proj. EPS Growth (F1/F0)	-15.04%	14.58%	7.17%	11.08%	27.89%	7.04%
Curr. Cash Flow Growth	-9.99%	10.49%	8.56%	28.26%	11.76%	-3.22%
Hist. Cash Flow Growth (3-5 yrs)	13.12%	8.55%	8.36%	7.14%	14.43%	8.55%
Current Ratio	0.87	0.70	1.23	0.64	0.53	0.67
Debt/Capital	52.10%	47.20%	42.91%	38.43%	30.18%	23.31%
Net Margin	7.91%	5.81%	11.81%	8.76%	7.03%	10.26%
Return on Equity	21.54%	13.82%	16.86%	19.58%	12.13%	23.31%
Sales/Assets	0.73	0.66	0.54	0.68	0.72	0.85
Proj. Sales Growth (F1/F0)	3.47%	4.57%	3.85%	4.96%	7.21%	3.35%
Momentum Score	A	-	-	B	C	D
Daily Price Chg	-2.09%	0.00%	0.00%	1.46%	2.04%	0.10%
1 Week Price Chg	1.65%	2.85%	2.47%	-0.98%	0.55%	4.15%
4 Week Price Chg	-6.34%	-4.14%	0.56%	-0.06%	13.47%	5.86%
12 Week Price Chg	-5.09%	0.00%	6.96%	-2.21%	15.73%	3.45%
52 Week Price Chg	-8.86%	-8.12%	16.68%	-0.11%	19.25%	0.93%
20 Day Average Volume	681,308	68,939	2,020,569	1,408,451	6,154,171	4,547,973
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.29%
(F1) EPS Est 4 week change	4.32%	0.00%	-0.05%	0.42%	3.26%	-5.19%
(F1) EPS Est 12 week change	5.81%	0.87%	-0.17%	1.55%	3.30%	-7.07%
(Q1) EPS Est Mthly Chg	106.25%	-0.54%	-0.24%	-37.90%	-26.81%	8.31%

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	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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