

JetBlue Airways(JBLU)

\$18.25 (As of 02/25/20)

Price Target (6-12 Months): **\$19.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/29/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

Summary

JetBlue is gaining from high passenger revenues, which account for the bulk of its top line. In 2019, passenger revenues rose 5.5% over 2018 levels, owing to robust demand for air travel. Average air fares, which increased 4.1% in 2019, also boosted passenger revenues. Low fuel costs (down 6.7% in 2019) are an added positive. Due to low fuel costs, cost per available seat miles (unit costs) declined 7.4% in 2019. We also like the company's efforts to modernize its fleet. Backed by these tailwinds, JetBlue has outperformed its industry in a year's time. However, the rise in expenses pertaining to salaries, wages and benefits (up 13.5% in 2019) are straining the bottom line. Its high capital expenditures might also play spoilsport. Woes related to capacity overexpansion are concerning too. Weather-related disruptions are also not welcome.

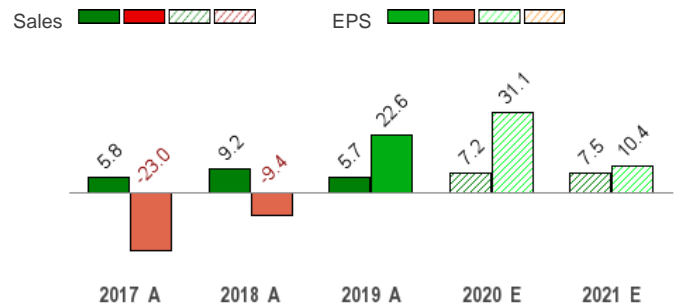
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$21.65 - \$15.60
20 Day Average Volume (sh)	4,319,753
Market Cap	\$5.2 B
YTD Price Change	-2.5%
Beta	0.82
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Airline
Zacks Industry Rank	Top 15% (39 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.8%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	1.4%
Expected Report Date	04/28/2020
Earnings ESP	15.1%
P/E TTM	9.6
P/E F1	7.3
PEG F1	2.6
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,078 E	2,379 E	2,418 E	2,335 E	9,332 E
2020	1,953 E	2,243 E	2,274 E	2,207 E	8,677 E
2019	1,871 A	2,105 A	2,086 A	2,031 A	8,094 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.20 E	\$0.86 E	\$0.98 E	\$0.93 E	\$2.75 E
2020	\$0.18 E	\$0.80 E	\$0.78 E	\$0.72 E	\$2.49 E
2019	\$0.16 A	\$0.60 A	\$0.59 A	\$0.56 A	\$1.90 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

JetBlue Airways Corporation, incorporated in Delaware in Aug 1998, is a passenger airline that focuses on providing high-quality customer service. JetBlue, which started operations on Feb 11, 2000, was the sixth largest passenger carrier (in terms of available seat miles or ASMs i.e. capacity) in the United States at 2018-end. The low-fare, low-cost carrier operates primarily on point-to-point routes. In 2018, the carrier transported more than 42 million customers to 105 cities in the United States, Caribbean and Latin America with an average of 1000 daily flights.

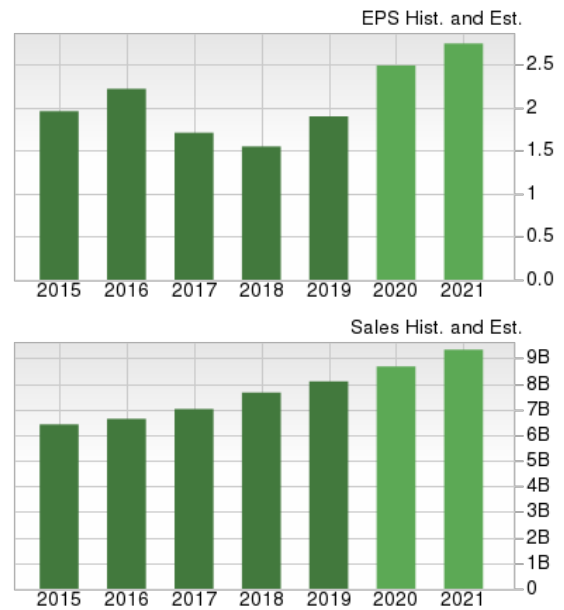
In line with the carrier's efforts to promote a differentiated product and culture apart from competitive costs, JetBlue is constantly working toward expanding its premium product, the Mint service. The service includes 16 fully lie-flat seats, four of which are in suites with a privacy door, by adding seasonal service from John F. Kennedy International Airport, to Liberia, Costa Rica, and from Boston to St. Lucia.

JetBlue currently operates Airbus A321, Airbus A320 and Embraer E190 planes. In 2018, the average age of the carrier's fleet was 9.8 years. Moreover, JetBlue flights operated an average of 11.8 hours per day in 2018.

The carrier is constantly looking to modernize its fleet. To this end, the carrier took delivery of ten Airbus A321 planes, three of which were equipped with its Mint cabin layout. JetBlue expects to take delivery of at least six Airbus A321neo engine option (neo) aircraft in 2019. Options for delivery of 60 additional A220-300 aircraft are anticipated to commence in 2025

The carrier, whose fiscal year coincides with the calendar year, is also looking to remove outdated planes from its fleet as part of the modernization process. To this end, the carrier expects to reduce its fleet of Embraer E190 aircraft from 2020. The phase out is anticipated to continue through approximately 2025.

The Long Island City, New York based company reported operating revenues of \$7.7 billion in 2018, up 9.2%. The carrier is being aided by robust growth in passenger revenues owing to healthy demand for air travel. Passenger revenues account for bulk of the total revenues. As an evidence, passenger revenues accounted for 96.4% of the top line in 2018. Balance came from other sources.



Reasons To Buy:

- ▲ JetBlue is being aided by the strong demand for air travel. As a result of the robust demand, passenger revenues, which account for bulk of the top line, increased 5.5% in 2019. Increase in average air fares also aided passenger revenues. We expect passenger revenues to be strong going forward as well.
- ▲ Low fuel costs aid bottom-line growth for any airline company and JetBlue is no exception. Notably, average fuel cost per gallon, including fuel taxes, declined 6.7% at JetBlue in 2019. The tailwind resulted in an 7.4% decline in unit costs 2019. We are also impressed by the company's efforts to modernize its fleet. To this end, the new, highly-efficient Airbus A321neo jet commenced passenger service at JetBlue officially in September 2019. The first flight was from New York's John F. Kennedy International Airport to Fort Lauderdale-Hollywood International Airport. The carrier stated that flights connecting New York JFK to Guayaquil, Ecuador, (service started on Dec 5, 2019) and to Georgetown, Guyana, (scheduled to begin on Apr 2, 2020) will be operated by these new jets. Notably, JetBlue placed orders for 85 such jets long back. However, deliveries of the same were delayed due to production issues at Airbus. The first of these planes, equipped with modern facilities like a brand-new cabin and new in-flight entertainment system, were delivered in late June this year. The A321neo has now started flying passengers after test flights were conducted for some time following delivery by Airbus. JetBlue expects a maximum of 11 neos to be delivered in 2020 (14 were expected initially). As a result of the delay, the carrier inked a deal to lease four used A321s. Moreover, it anticipates delivery of the first new, highly fuel-efficient Airbus 220 jet by Dec 31, 2020.
- ▲ We are impressed by the carrier's efforts to reward shareholders. To this end, the company's board of directors approved a \$700 million share repurchase program in December 2017, which has been completed. Additionally, in September 2019, the company's board of directors approved a \$800 million share repurchase program, that runs from Oct. 1, 2019 until 2021-end. As part of the \$800-million share repurchase program, in November 2019, the company entered into an accelerated share buyback (ASR) agreement with Morgan Stanley to buy back shares worth \$160 million. Even after executing the ASR agreement, JetBlue will have \$640 million worth of shares left to be purchased. Additionally, JetBlue is focused on strengthening its presence in key cities like Boston as well as expanding its premium service (Mint). The carrier's decision to start operating flights to London from 2021 is also a positive. Efforts to reduce debt levels are also encouraging.

JetBlue is being aided by the strong demand for air travel. We are also impressed by the carriers efforts to reward shareholders.

Reasons To Sell:

- ▼ Woes related to capacity overexpansion are concerning. A key metric, load factor (% of seats filled by passengers), has suffered as traffic growth has been outpaced by capacity expansion. Evidently, in 2019, capacity increased 6.6% outpacing traffic growth of 5.6%. Load factor contracted 80 basis points year over year to 84%. With fuel costs moderating, maintaining capacity discipline might be a significant problem.
- ▼ Disruptions due to inclement weather have hurt airline operations quite frequently. For example, operations were disrupted in 2019 due to Hurricane Dorian. The coronavirus outbreak has significantly affected air traffic demand and is likely to be reflected in the first quarter 2020 results. Moreover, the company's performance with respect to revenue per available seat mile (RASM; a key measure of unit revenues) in 2019 was disappointing. In 2019, RASM declined 0.9% to 12.68 cents.
- ▼ Moreover, with fuel costs at low levels, expenses on the labor front are limiting bottom-line growth. Evidently, even though unit costs declined 7.4% during 2019, the metric increased 0.8%, excluding fuel. Non-fuel unit costs are expected to increase between 1.5% and 3.5% in the first quarter of 2020.

Load factor declines in 2019 as capacity expansion outweighs traffic growth.

Last Earnings Report

JetBlue Beats on Q4 Earnings

JetBlue's earnings per share came in at 56 cents surpassing the Zacks Consensus Estimate by a penny. Moreover, quarterly earnings increased 12% on a year-over-year basis, mainly due to low fuel costs. Operating revenues totaled \$2,031 million, narrowly beating the Zacks Consensus Estimate. Moreover, it increased 3.2% from the year-ago number. Passenger revenues, which accounted for bulk of the top line (95.9%), improved 3% year over year in the quarter under review. Other revenues were also up 6.3%.

Quarter Ending **12/2019**

Report Date	Jan 23, 2020
Sales Surprise	0.10%
EPS Surprise	1.82%
Quarterly EPS	0.56
Annual EPS (TTM)	1.91

However, revenue per available seat mile (RASM: a key measure of unit revenues) in the reported quarter dipped 2.7% to 12.63 cents. Passenger revenue per available seat mile (PRASM) slid 2.8% to 12.12 cents. Average fare at JetBlue during the quarter inched up 1.3% to \$185.96. Yield per passenger mile slipped 2.1% year over year to 14.79 cents.

Capacity, measured in available seat miles, expanded 6% year over year. Meanwhile, traffic, measured in revenue passenger miles, grew 5.2% in the final quarter of 2019. Consolidated load factor (percentage of seats filled by passengers) contracted 60 basis points year over year to 81.9% as traffic growth was outpaced by capacity expansion in the reported quarter.

In the fourth quarter, total operating expenses (on a reported basis) increased 3% year over year partly due to higher costs pertaining to salaries, wages and benefits. Average fuel cost per gallon (including fuel taxes) decreased 7.6% year over year to \$2.07. JetBlue's operating expenses per available seat mile (CASM) declined 2.9% to 11.22 cents. Excluding fuel, the metric was flat at 8.31 cents.

JetBlue exited 2019 with cash and cash equivalents of \$929 million compared with \$474 million at the end of 2018. Total debt at the end of 2019 was \$2,334 million compared with \$1,670 million at 2018 end.

Outlook

For the first quarter of 2020, JetBlue expects RASM to either remain flat or increase up to 3% from the year-ago reported figure. For the same time frame, the carrier anticipates capacity to increase between 1.5% and 3.5%. The metric is projected to improve in the 5.5-7.5% range for 2020.

Consolidated operating cost per available seat mile excluding fuel is expected to increase between 1.5% and 3.5% in the first quarter. For 2020, the metric is expected to either remain flat or decrease up to 2%. The company expects effective tax rate of around 26% for the full year.

First-quarter fuel cost, net of hedges, is estimated to be \$2.09 per gallon. The company expects first-quarter 2020 earnings between 10 cents and 20 cents. JetBlue expects 2020 earnings per share between \$2.5 and \$3. Total capital expenditures for the first quarter are expected between \$325 million and \$425 million. The metric is forecast in the range of \$1.35-\$1.55 billion for the ongoing year.

Recent News

Board Reshuffles – Jan 18, 2020

JetBlue announced that three directors, such as Joel Peterson, Frank Sica and Stephan Gemkow will retire once their current tenure expires. Peter Boneparth will replace Peterson as the Board Chair. Moreover, Robert Leduc is nominated as an independent director. Leduc, who recently retired as president of Pratt & Whitney, will stand for elections at the shareholders' annual meeting in May.

Valuation

JetBlue shares are up 7.9% over the trailing 12-month period, Stocks in the Zacks sub-industry are down 12.2%. Stocks in the Zacks Transportation sector are down 6.1%. The S&P 500 index is up 11.2% in a year's time.

The stock is currently trading at 7.31X 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 13.47X and as low as 6.89X, with a 5-year median of 10.06X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$19 price target reflects 7.61X forward 12-month earnings.

The table below shows summary valuation data for JBLU

Valuation Multiples - JBLU					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.31	7.43	12.04	17.88
	5-Year High	13.47	12.3	17	19.34
	5-Year Low	6.89	6.85	10.48	15.18
	5-Year Median	10.06	9.04	13.16	17.47
EV/EBITDA TTM	Current	5.87	6.48	7.85	12
	5-Year High	14.39	7.22	11.08	12.87
	5-Year Low	3.15	4.31	6	8.48
	5-Year Median	5.75	6.01	7.4	10.77
P/S F12M	Current	0.59	0.61	1.04	3.29
	5-Year High	1.25	0.98	1.44	3.43
	5-Year Low	0.55	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
Controladora Vuela Compania de Aviacion, S.A.B. de C.V. (VLRS)	Outperform
American Airlines Group Inc. (AAL)	Neutral
Allegiant Travel Company (ALGT)	Neutral
Alaska Air Group, Inc. (ALK)	Neutral
Hawaiian Holdings, Inc. (HA)	Neutral
Southwest Airlines Co. (LUV)	Neutral
SkyWest, Inc. (SKYW)	Neutral

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	JBLU Neutral	X Industry	S&P 500	ALK Neutral	HA Neutral	LUV Neutral
VGM Score	A	-	-	A	B	B
Market Cap	5.15 B	4.40 B	22.56 B	7.23 B	1.11 B	25.69 B
# of Analysts	6	4	13	7	5	13
Dividend Yield	0.00%	0.00%	1.88%	2.55%	1.98%	1.45%
Value Score	A	-	-	B	B	B
Cash/Price	0.23	0.25	0.04	0.19	0.50	0.14
EV/EBITDA	4.79	5.00	13.36	5.54	3.14	5.78
PEG Ratio	2.61	0.49	1.94	0.35	NA	1.27
Price/Book (P/B)	1.10	1.05	3.09	1.67	1.04	2.61
Price/Cash Flow (P/CF)	4.82	4.09	12.57	5.93	2.96	7.30
P/E (F1)	7.33	7.78	17.93	8.20	6.20	10.91
Price/Sales (P/S)	0.64	0.59	2.51	0.82	0.39	1.15
Earnings Yield	13.64%	12.85%	5.55%	12.19%	16.12%	9.16%
Debt/Equity	0.56	0.64	0.70	0.62	0.98	0.30
Cash Flow (\$/share)	3.79	3.94	7.02	9.91	8.18	6.80
Growth Score	A	-	-	A	C	C
Hist. EPS Growth (3-5 yrs)	0.16%	3.75%	10.85%	-3.84%	17.35%	7.94%
Proj. EPS Growth (F1/F0)	31.14%	14.58%	6.86%	11.70%	-15.17%	6.59%
Curr. Cash Flow Growth	14.33%	12.49%	6.53%	28.26%	-9.18%	-3.22%
Hist. Cash Flow Growth (3-5 yrs)	14.43%	8.55%	8.38%	7.14%	13.32%	8.55%
Current Ratio	0.67	0.70	1.22	0.64	0.81	0.67
Debt/Capital	35.83%	47.20%	42.37%	38.43%	49.54%	23.31%
Net Margin	7.03%	6.96%	11.57%	8.76%	7.91%	10.26%
Return on Equity	12.06%	15.54%	16.80%	19.58%	21.20%	23.31%
Sales/Assets	0.71	0.66	0.54	0.68	0.72	0.85
Proj. Sales Growth (F1/F0)	7.21%	4.11%	4.03%	4.91%	3.40%	3.35%
Momentum Score	A	-	-	A	C	B
Daily Price Chg	-5.83%	-3.13%	-3.36%	-6.67%	-4.61%	-8.22%
1 Week Price Chg	-3.10%	-1.80%	-0.94%	-1.03%	-4.11%	-2.48%
4 Week Price Chg	-9.97%	-9.97%	-5.65%	-10.27%	-12.29%	-13.79%
12 Week Price Chg	-2.93%	-9.46%	-1.04%	-11.71%	-16.82%	-11.21%
52 Week Price Chg	6.23%	-20.61%	8.00%	-6.56%	-20.61%	-7.51%
20 Day Average Volume	4,319,753	61,962	2,073,853	1,274,098	617,025	3,772,417
(F1) EPS Est 1 week change	1.49%	0.00%	0.00%	0.56%	-0.15%	0.00%
(F1) EPS Est 4 week change	1.39%	0.00%	-0.06%	0.86%	6.15%	-0.07%
(F1) EPS Est 12 week change	4.58%	0.73%	-0.19%	1.68%	2.25%	-7.59%
(Q1) EPS Est Mthly Chg	13.98%	0.00%	-0.61%	-30.88%	100.00%	2.13%

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	A
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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