

Spirit Airlines, Inc. (SAVE)

\$15.67 (As of 03/12/20)

Price Target (6-12 Months): **\$16.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 02/06/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: A

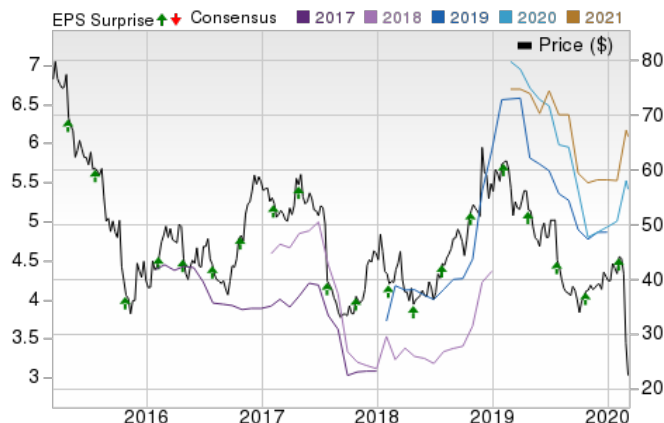
Growth: F

Momentum: F

Summary

Spirit Airlines' fleet modernization efforts are encouraging. The company maintains a young fleet, which promotes fuel-efficient operations. Its network expansion initiatives also raise optimism on the stock. In this regard, recently, the airline announced its intention to include more flights from the Louis Armstrong New Orleans International Airport to two international destinations, namely Cancun, Mexico and San Pedro Sula, Honduras. Additionally, modest fuel prices are expected to support the bottom line of the carrier. The positivity revolving around the stock is evident from the Zacks Consensus Estimate for 2020 earnings being revised upward in the past 60 days. However, shares of the company have significantly underperformed its industry in a month's time due to dwindling demand induced by the novel coronavirus.

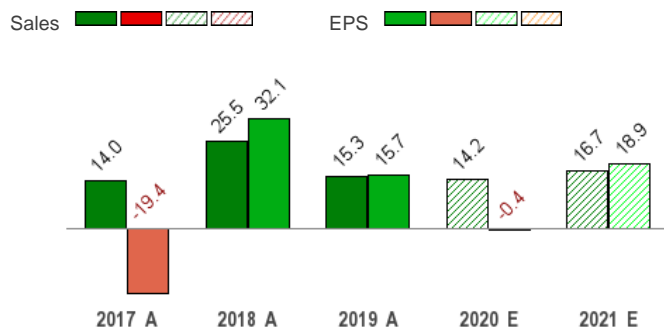
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.54 - \$14.00
20 Day Average Volume (sh)	3,354,666
Market Cap	\$962.5 M
YTD Price Change	-65.1%
Beta	0.67
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Airline
Zacks Industry Rank	Top 30% (75 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.2%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	-7.7%
Expected Report Date	04/22/2020
Earnings ESP	-11.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,088 E	1,336 E	1,345 E	1,305 E	5,107 E
2020	956 E	1,147 E	1,153 E	1,118 E	4,375 E
2019	856 A	1,013 A	992 A	970 A	3,831 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.60 E	\$1.99 E	\$1.87 E	\$1.76 E	\$6.03 E
2020	\$0.58 E	\$1.73 E	\$1.61 E	\$1.38 E	\$5.07 E
2019	\$0.84 A	\$1.69 A	\$1.32 A	\$1.24 A	\$5.09 A

*Quarterly figures may not add up to annual.

P/E TTM	2.8
P/E F1	3.1
PEG F1	0.3
P/S TTM	0.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/12/2020. The reports text is as of 03/13/2020.

Overview

Miramar, FL-based Spirit Airlines is an ultra low-cost carrier that went public in 2011. The carrier, previously known as Clippert Trucking Company, changed its name in 1992.

The company, which commenced air charter operations in 1990, provides travel opportunities principally to and from South Florida, the Caribbean and Latin America.

Spirit Airlines' strategy of unbundling its services and offering customers (Frill Control) the option for purchase – ranging from bags and seat assignment to refreshments – has been much appreciated. The unbundled base fares do away with the components that are traditionally included in ticket prices.

Spirit Airlines' primary markets are of three types – large leisure destinations (Orlando, Ft. Lauderdale, Las Vegas, New Orleans, Myrtle Beach, Ft. Myers), big origination cities (large metropolitan cities) and international destinations (Latin America, Caribbean & northern South America).

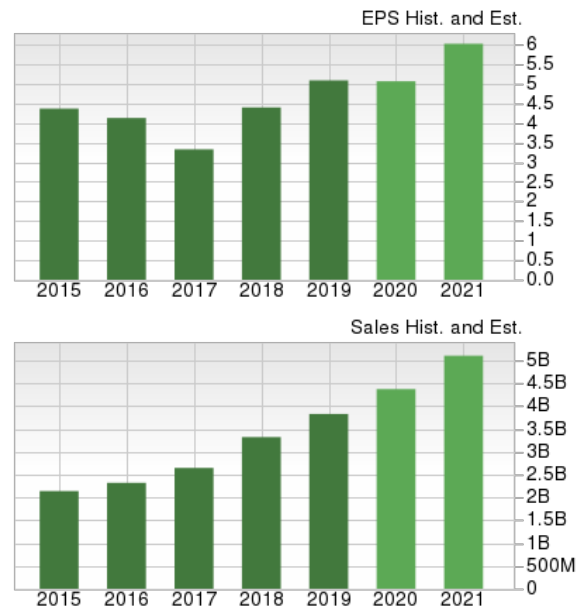
The company maintains a young (average of roughly 5.9 years) all-airbus fleet, which operates more than 500 daily flights to 72 destinations in 16 countries including the United States, Caribbean and Latin America. The fleet size at the end of 2019 was 145 (31 A319ceos, 64 A320ceos, 20 A320neos and 30 A321ceos).

The fleet size is expected to continue expanding. It is projected to touch 160 at the end of 2020. The same is expected to increase to 186 (31 A319, 64 A320 CEOs, 61 A320 NEOs and 30 A321 CEOs) at the end of 2021.

The carrier reported operating revenues of \$3.83 billion in 2019. **Passenger revenues**, up 15.3% year over year, accounted for 98.1% of the top line. The remainder came from non-ticket product purchases.

The carrier has increased non-ticket revenue per passenger flight segment from approximately \$5 in 2006 to \$56 in 2019 by virtue of adopting measures like charging for checked and carry-on baggage and passing through all distribution-related expenses.

Spirit Airlines' fiscal year coincides with the calendar year.



Reasons To Buy:

▲ Spirit Airlines' efforts to modernize its fleet raise optimism. The fleet strength at the end of 2018 stood at 128, up from 112 at the end of 2017. For 2019, the company's fleet size expanded to 145 (31 A319, 64 A320 CEOs, 30 A321 CEOs and 20 A320 NEOs). Moreover, the company maintains a young fleet. This promotes fuel-efficient operations and is also likely to bring down capital expenditures (aimed at replacing outdated planes). In line with its fleet-modernization efforts, the carrier inked a deal with Airbus in December 2019 to buy 100 new Airbus A320neo Family jets. In addition, Spirit Airlines has the option to purchase up to 50 more planes under the MoU, which includes Airbus A319, A320 and A321 models. The airline intends to take delivery of these fuel-efficient jets through 2027.

▲ We are also positive on the carrier's constant efforts to expand its operations. In March, the airline announced its intention to include more flights from the Louis Armstrong New Orleans International Airport to two international destinations, namely, Cancun, Mexico and San Pedro Sula, Honduras. These flights will start operations in June. Additionally, from April onward, the carrier intends to operate twice daily on the New Orleans-Orlando route. Currently, the carrier operates once a week on the route.

▲ With coronavirus affecting demand significantly, low fuel prices should help the company partly cope with the lost revenues. Average economic fuel cost per gallon declined 7.5% year over year to \$2.11 in 2019. With fuel prices trending pretty low of late, the company now estimates economic fuel costs to be \$1.45 per gallon in 2020 compared with \$2.05 expected previously. The significant savings on fuel expenses should support bottom-line growth amid the demand crisis.

Modest fuel prices should aid in partly offsetting the adversity from low demand due to the coronavirus fear. Fleet modernization efforts are also appreciative.

Risks

- Spirit Airlines' labor costs are on the rise. Evidently, during 2018, expenses on salaries, wages and benefits have risen 36.3% year over year. The same increased 20.2% in 2019. Such high labor costs have the potential to limit bottom-line growth going forward. Additionally, the carrier struggled in 2019 due to factors like increased flight cancellations due to weather-related adversities, additional crew costs and expenses related to passenger re-accommodation.
 - Spirit Airlines' performance with respect to total operating revenue per available seat mile (TRASM: a key measure of unit revenues) is disappointing. Evidently, in fourth-quarter 2019, TRASM declined 3.6% year over year. The downside was primarily caused by lower operating yields. Significant decline in yields since late February due to tumbling demand as a result of the coronavirus outbreak is expected to further weigh on unit revenues. In fact, the carrier witnessed significant pressure on fares and some impact on load factor as well since late-February. Spirit Airlines also slashed its April capacity by 5% due to falling demand. With uncertainty looming over the duration of the viral outbreak and its subsequent impact on air travel demand, the airline suspended its 2020 guidance.
 - Spirit Airlines is a highly leveraged company. This is indicated by the fact that the debt-to-equity ratio (expressed as a percentage) is more than 100. A high debt-to-equity ratio implies that the company is funding most of its ventures with debt. Moreover, Spirit Airlines' return on equity (ROE) of 16.4% compares unfavorably with its industry's 28%. This undercuts its growth potential and implies that the company is less efficient in utilizing its shareholders' funds.
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Last Earnings Report

Spirit Airlines' Q4 Earnings Beat

Spirit Airlines' earnings per share (excluding 6 cents from non-recurring items) of \$1.24 surpassed the Zacks Consensus Estimate by 5 cents. However, the bottom line declined 10.1% on a year-over-year basis due to increased operating costs.

Additionally, this low-cost carrier announced delivery of nine new aircraft (seven A320neo and two A320ceo) during the fourth quarter 2019, which is in sync with its fleet modernization efforts. The company ended the year with 145 aircraft in its fleet.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	0.08%
EPS Surprise	4.20%
Quarterly EPS	1.24
Annual EPS (TTM)	5.09

Other Q4 Details

Operating revenues of \$969.8 million edged past the Zacks Consensus Estimate of \$969.1 million. The top line also improved 12.4 % year over year on the back of a 18.6% expansion in flight volume. Passenger revenues, which contributed 98.1% to the top line, increased 12.4% year over year as well. Additionally, revenues from other sources rose 11.3%.

Total operating revenue per available seat mile (TRASM: a measure of unit revenues) plunged 3.6% in the reported quarter. The downside was primarily caused by lower operating yields as load factor (% of seats filled by passengers) for the period was up by 30 basis points. Notably, traffic growth (17%) outweighed capacity expansion (16.6%) in the reported quarter. Moreover, average yield declined 3.9% in the October-December period.

Adjusted operating expenses increased 16.1% to \$840.2 million, mainly due to increased flight volume and higher ground handling rates. Average fuel cost per gallon in the reported quarter fell 7.1% year over year to \$2.10. Moreover, cost per available seat miles(CASM) dropped 0.2% in the reported quarter.

However, CASM, excluding operating special items and fuel (non-fuel unit costs) increased 3.3% year over year. Factors like increase in heavy maintenance amortization, maintenance, material and repairs as well as other operating expenses led to higher non-fuel unit costs.

Spirit ended the year with unrestricted cash, cash equivalents and short-term investments of \$1.1 billion.

Outlook

The carrier anticipates capacity growth of 15% year over year for the first quarter of 2020. Economic fuel cost is projected to be \$1.90 per gallon. Moreover, an effective tax rate of 25% is envisioned during the first quarter. Operating expense per available seat mile (excluding fuel) is predicted to increase 3.5-4.5%.

For 2020, capacity is projected to increase in the 17-19% range. Economic fuel cost is anticipated to be \$2.05 per gallon and adjusted operating expense per available seat mile (excluding fuel) is predicted to increase in the 1-2% range.

For 2020, the company expects total capital expenditures to be \$820 million.

Recent News

JP Morgan Industrials Conference Update — Mar 10, 2020

At the JP Morgan Industrials Conference, Spirit Airlines stated that it trimmed its April capacity by 5% due to decline in demand from the coronavirus outbreak. Capacity is now expected to increase 9% in the month compared with 14% anticipated previously.

Cost per available seat mile excluding fuel is now estimated to rise approximately 3% in the first quarter. Previously, the metric was projected to increase 3.5-4.5%. Pre-tax margin for the first quarter is estimated in the range of 2-4%.

Valuation

Spirit Airlines shares are down 74.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are down 41.8% and 27.8% in the past year respectively. Over the past year, the S&P 500 Index is down 3.4%.

The stock is currently trading at 2.54X forward 12-month price to earnings, which compares to 5.01X for the Zacks sub-industry, 9.15X for the Zacks sector and 15.84X for the S&P 500 index.

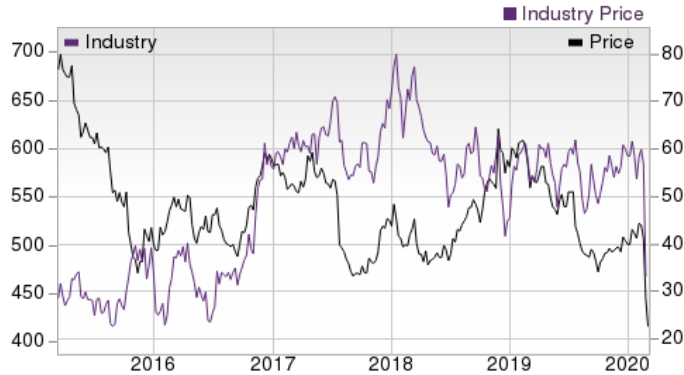
Over the past five years, the stock has traded as high as 15.31X and as low as 2.54X, with a 5-year median of 10.77X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$16 price target reflects 2.89X forward 12-month earnings.

The table below shows summary valuation data for SAVE

Valuation Multiples - SAVE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	2.54	5.01	9.15	15.84
	5-Year High	15.31	12.3	17	19.34
	5-Year Low	2.54	5.01	9.15	15.18
	5-Year Median	10.77	9.04	13.11	17.42
EV/EBITDA TTM	Current	4.59	4.54	6.17	9.17
	5-Year High	12.89	7.22	11.07	12.87
	5-Year Low	4.09	4.12	5.84	8.31
	5-Year Median	6.93	6.05	7.38	10.78
P/S F 12M	Current	0.21	0.39	0.78	2.91
	5-Year High	2.39	0.98	1.4	3.44
	5-Year Low	0.21	0.39	0.78	2.54
	5-Year Median	1.04	0.77	1.2	3

As of 03/12/2020

Industry Analysis Zacks Industry Rank: Top 30% (75 out of 253)



Top Peers

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
Copa Holdings, S.A. (CPA)	Neutral
Hawaiian Holdings, Inc. (HA)	Neutral
JetBlue Airways Corporation (JBLU)	Neutral
SkyWest, Inc. (SKYW)	Neutral

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	SAVE Outperform	X Industry	S&P 500	HA Neutral	JBLU Neutral	SKYW Neutral
VGM Score	C	-	-	C	A	A
Market Cap	962.48 M	2.94 B	17.38 B	562.41 M	3.24 B	1.32 B
# of Analysts	6	4	13	4	4	4
Dividend Yield	0.00%	0.00%	2.51%	3.92%	0.00%	1.83%
Value Score	A	-	-	A	A	A
Cash/Price	0.70	0.33	0.05	0.77	0.34	0.25
EV/EBITDA	4.03	3.66	10.90	2.03	3.38	3.91
PEG Ratio	0.25	0.40	1.54	NA	0.23	NA
Price/Book (P/B)	0.43	0.74	2.35	0.53	0.69	0.61
Price/Cash Flow (P/CF)	1.65	2.74	9.60	1.50	3.03	1.91
P/E (F1)	3.09	4.40	13.98	4.06	5.08	4.14
Price/Sales (P/S)	0.25	0.37	1.89	0.20	0.40	0.44
Earnings Yield	36.06%	22.71%	7.07%	24.63%	19.67%	24.16%
Debt/Equity	1.41	0.64	0.70	0.98	0.56	1.33
Cash Flow (\$/share)	8.51	4.42	7.01	8.18	3.79	13.67
Growth Score	F	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	3.49%	3.75%	10.85%	17.35%	0.16%	41.80%
Proj. EPS Growth (F1/F0)	-0.43%	8.52%	5.99%	-34.40%	19.08%	1.16%
Curr. Cash Flow Growth	19.78%	10.49%	6.15%	-9.18%	14.33%	12.07%
Hist. Cash Flow Growth (3-5 yrs)	15.50%	8.82%	8.52%	13.32%	14.43%	21.18%
Current Ratio	1.25	0.69	1.24	0.81	0.67	0.82
Debt/Capital	58.43%	47.20%	42.57%	49.54%	35.83%	57.04%
Net Margin	8.75%	7.03%	11.64%	7.91%	7.03%	11.44%
Return on Equity	16.38%	13.82%	16.74%	21.20%	12.06%	15.39%
Sales/Assets	0.57	0.64	0.54	0.72	0.71	0.45
Proj. Sales Growth (F1/F0)	14.21%	2.89%	3.54%	-0.71%	4.41%	3.60%
Momentum Score	F	-	-	F	F	D
Daily Price Chg	-32.82%	-12.84%	-10.03%	-22.11%	-15.33%	-26.78%
1 Week Price Chg	-20.84%	-2.83%	-0.67%	-15.61%	-12.04%	-10.09%
4 Week Price Chg	-68.46%	-44.42%	-28.22%	-57.00%	-46.71%	-55.60%
12 Week Price Chg	-65.95%	-43.00%	-25.63%	-59.67%	-39.17%	-59.85%
52 Week Price Chg	-74.51%	-39.96%	-16.72%	-53.86%	-31.24%	-49.18%
20 Day Average Volume	3,354,666	132,722	3,061,271	1,155,941	10,441,021	663,486
(F1) EPS Est 1 week change	-7.74%	-3.50%	0.00%	-19.10%	-8.64%	-1.44%
(F1) EPS Est 4 week change	-7.70%	-5.78%	-0.32%	-22.79%	-9.57%	-2.19%
(F1) EPS Est 12 week change	3.28%	-5.61%	-0.65%	-20.93%	-6.33%	-5.18%
(Q1) EPS Est Mthly Chg	-16.18%	-4.78%	-0.62%	-16.97%	-1.98%	-0.20%

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	F
Momentum Score	F
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.

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