

## Spirit Airlines, Inc. (SAVE)

**\$42.93** (As of 01/20/20)

Price Target (6-12 Months): **\$46.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 11/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: B

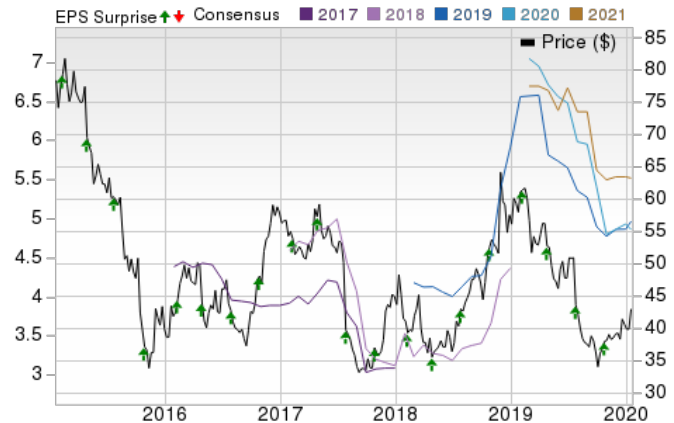
Growth: F

Momentum: F

### Summary

Shares of Spirit Airlines have underperformed its industry in a year's time, mainly due to rising non-fuel unit costs, thanks to factors like flight cancellations from Hurricane Dorian and crew costs. The company expects the metric to reflect a 3.3% increase for fourth-quarter 2019. Results should be out on Feb 5. Decline in load factor due to capacity expansion exceeding traffic growth is also concerning. However, the carrier is benefiting from robust passenger revenues (up 16.3% in the first nine months of 2019) owing to strong air-travel demand. Passenger revenues are likely to have been strong in the fourth quarter too. The carrier's fleet modernization efforts also hold promise. Moderate fuel costs are also supporting bottom-line growth. The metric is expected to reflect a 7.1% drop on a year-over-year basis in fourth-quarter 2019.

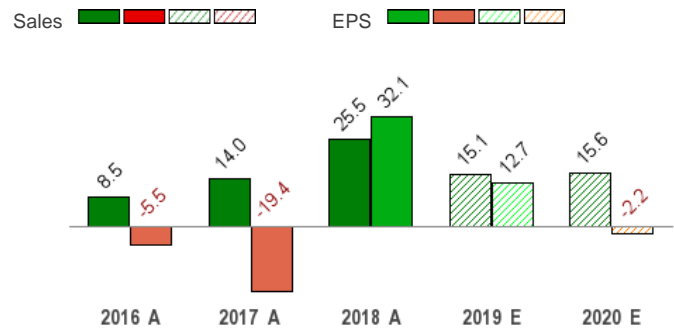
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$64.76 - \$32.97</b>
20 Day Average Volume (sh)	<b>1,066,662</b>
Market Cap	<b>\$2.9 B</b>
YTD Price Change	<b>6.5%</b>
Beta	<b>0.37</b>
Dividend / Div Yld	<b>\$0.00 / 0.0%</b>
Industry	<a href="#">Transportation - Airline</a>
Zacks Industry Rank	<b>Top 27% (68 out of 254)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>3.9%</b>
Last Sales Surprise	<b>0.3%</b>
EPS F1 Est- 4 week change	<b>-1.3%</b>
Expected Report Date	<b>02/04/2020</b>
Earnings ESP	<b>8.2%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	957 E	1,189 E	1,156 E	1,107 E	4,420 E
2019	856 A	1,013 A	992 A	969 E	3,824 E
2018	704 A	852 A	904 A	863 A	3,323 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.53 E	\$1.65 E	\$1.48 E	\$1.10 E	\$4.85 E
2019	\$0.84 A	\$1.69 A	\$1.32 A	\$1.09 E	\$4.96 E
2018	\$0.44 A	\$1.11 A	\$1.47 A	\$1.38 A	\$4.40 A

\*Quarterly figures may not add up to annual.

P/E TTM	<b>8.2</b>
P/E F1	<b>8.9</b>
PEG F1	<b>NA</b>
P/S TTM	<b>0.8</b>

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/20/2020. The reports text is as of 01/21/2020.

## 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 5.5 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 2018 was 128 (31 A319, 60 A320 CEOs, 30 A321 CEOs and 7 A320 NEOs).

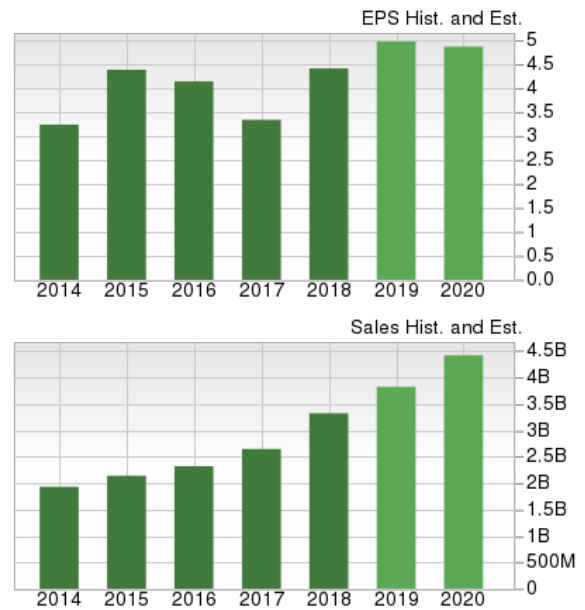
The fleet size is expected to continue expanding. It is projected to have touched 145 at the end of 2019. The same is expected to increase to 166 (31 A319, 64 A320 CEOs, 30 A321 CEOs and 41 A320 NEOs) and 193 (31 A319, 64 A320 CEOs, 30 A321 CEOs and 68 A320 NEOs) at the end of 2020 and 2021, respectively.

By 2021, the ultra low-cost carrier anticipates more than 30% of its fleet to be powered by Neo engines. The modern planes are more fuel efficient and reduce carbon emissions.

The carrier reported operating revenues of \$3,323 million in 2018. **Passenger revenues**, up 26.7% 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 \$55 in 2018 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.



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## Reasons To Buy:

- ▲ The carrier is being aided by robust passenger revenues on the back of strong demand for air travel. Passenger revenues, accounting for a majority of the top line, increased 26.7% in 2018. The same increased 16.3% year over year in the first nine months of 2019. The trend most likely continued in the fourth quarter owing to strong demand for air travel. Non-ticket revenue growth is also likely to have aided the top line during the period under consideration.
- ▲ The carrier's 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 expects the fleet size to have 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. The company's initiatives to reward stockholders through share buybacks (\$46.6 million in 2018) are also impressive. Moderate fuel costs also bode well. As an evidence, average economic fuel cost per gallon declined 7.5% year over year to \$2.11, in the first nine months of 2019. The metric is expected to display a 7.1% decline on a year-over-year basis for fourth-quarter 2019.

The carrier is being aided by robust passenger revenues on the back of strong demand for air travel. Additionally, its fleet-modernization efforts are impressive.

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## Reasons To Sell:

- ▼ 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 22.1% in the first nine months of 2019. Such high labor costs have the potential to limit bottom-line growth going forward. Additionally, the carrier has been struggling with factors like increased flight cancellations owing to Hurricane Dorian, 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. The carrier expects fourth-quarter 2019 TRASM to reflect a 3.6% decline from the fourth-quarter 2018's reported figure of 9.59 cents. Moreover, the carrier is struggling due to capacity overexpansion. With fuel costs declining, woes related to capacity overexpansion are likely to hurt the carrier going forward as well.
- ▼ 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 17.5% compares unfavorably with its industry's 24.6%. This undercuts its growth potential and implies that the company is less efficient in utilizing its shareholders' funds.

High labor costs are hurting bottom-line growth.

## Last Earnings Report

### Spirit Airlines' Q3 Earnings Beat

Spirit Airlines' earnings per share (excluding 10 cents from non-recurring items) of \$1.32 surpassed the Zacks Consensus Estimate by 5 cents. However, the bottom line declined 10.2% on a year-over-year basis due to higher costs.

Operating revenues of \$992 million edged past the Zacks Consensus Estimate of \$989 million. The top line also improved 9.7% year over year on the back of a 17.7% expansion in flight volume. Passenger revenues, accounting for bulk (98.1%) of the top line, improved 9.6% year over year as well. Additionally, revenues from other sources increased 13.7%.

Total operating revenue per available seat mile (TRASM) dipped 1.7% in the reported quarter due to the 120-basis point contraction in load factor (% of seats filled by passengers) to 84.8% as traffic growth (9.9%) lagged capacity expansion (11.6%), unfavorable passenger yields (down 0.2%) and the Hurricane Dorian-related adversity. However, excluding Hurricane Dorian's negative impact, this metric slid roughly 1% in third-quarter 2019.

Adjusted operating expenses increased 13.1% to \$858.2 million, mainly due to higher expenses on salaries, wages and benefits plus costs related to passenger re-accommodation. Moreover, cost per available seat miles (CASM) inched up 2.4% in the reported quarter.

Average economic fuel cost per gallon in the reported quarter decreased 11.9% year over year to \$2.08. However, CASM excluding operating special items and fuel (adjusted CASM ex-fuel) increased 8.4% year over year. Factors like increased flight cancellations due to foul weather, additional crew costs and expenses related to passenger re-accommodation caused higher adjusted CASM ex-fuel.

### Outlook

Spirit Airlines anticipates capacity growth of approximately 16% year over year for the fourth quarter of 2019. The company expects fourth-quarter TRASM to decline in the 4.5-6.5% band.

Economic fuel cost is projected to be \$2.09 per gallon. Moreover, an effective tax rate of 24% is envisioned for the fourth quarter. Operating expense per available seat mile (excluding fuel) is predicted to increase in the 3.5-4.5% range. For 2019, the company expects total capital expenditures to be \$407 million.

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	<b>0.31%</b>
EPS Surprise	<b>3.94%</b>
Quarterly EPS	<b>1.32</b>
Annual EPS (TTM)	<b>5.23</b>

## Recent News

### Expansion Update – Jan 09, 2020

In a bid to broaden its network, Spirit Airlines announced the decision to start operating flights to two Colombian cities — Bucaramanga and Barranquilla — from April 2020. Non-stop flights connecting Fort Lauderdale and Bucaramanga will take to the skies from Apr 22, and operate thrice a week (Monday, Wednesday and Friday). Flights connecting Fort Lauderdale and Barranquilla will commence operations a day later, flying on Tuesdays, Thursdays and Sundays.

## Valuation

Spirit Airlines shares are down 27.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are up 10.7% and 11.2%, respectively, in the past year. Over the past year, the S&P 500 Index is up 23.8%.

The stock is currently trading at 8.78X forward 12-month price to earnings, which compares to 9.05X for the Zacks sub-industry, 13.35X for the Zacks sector and 19.19X for the S&P 500 index.

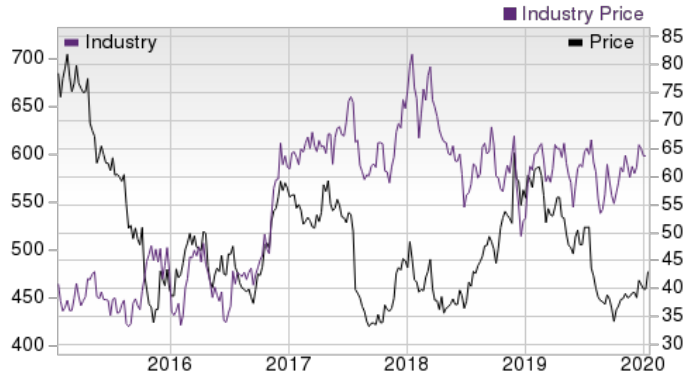
Over the past five years, the stock has traded as high as 15.87X and as low as 6.19X, with a 5-year median of 10.93X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$46 price target reflects 9.41X forward 12-month earnings.

The table below shows summary valuation data for SAVE

Valuation Multiples - SAVE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.78	9.05	13.35	19.19
	5-Year High	15.87	12.3	16.98	19.34
	5-Year Low	6.19	6.85	10.46	15.17
	5-Year Median	10.93	9.05	13.11	17.44
EV/EBITDA TTM	Current	6.84	6.76	8.07	12.38
	5-Year High	13.21	7.36	11.11	12.86
	5-Year Low	4.11	4.31	5.97	8.48
	5-Year Median	6.92	6.05	7.41	10.67
P/S F12M	Current	0.66	0.74	1.16	3.57
	5-Year High	2.49	0.98	1.44	3.57
	5-Year Low	0.53	0.63	1.03	2.54
	5-Year Median	1.07	0.78	1.23	3

As of 01/17/2020

## Industry Analysis Zacks Industry Rank: Top 27% (68 out of 254)



## Top Peers

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
Controladora Vuela Compania de Aviacion, S.A.B. de C.V. (VLRS)	Neutral

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	SAVE Neutral	X Industry	S&P 500	HA Neutral	JBLU Neutral	SKYW Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Market Cap	2.94 B	5.10 B	24.65 B	1.40 B	5.55 B	3.34 B
# of Analysts	8	4	13	5	8	5
Dividend Yield	0.00%	0.00%	1.73%	1.60%	0.00%	0.73%
<b>Value Score</b>	<b>B</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Cash/Price	0.38	0.26	0.04	0.55	0.18	0.18
EV/EBITDA	10.30	6.54	14.11	3.79	8.35	6.87
PEG Ratio	NA	0.61	2.08	NA	0.38	NA
Price/Book (P/B)	1.35	1.41	3.39	1.31	1.16	1.60
Price/Cash Flow (P/CF)	6.02	5.52	13.81	3.54	5.99	5.59
P/E (F1)	8.66	9.38	19.19	8.02	8.13	9.93
Price/Sales (P/S)	0.79	0.69	2.69	0.50	0.69	1.10
Earnings Yield	11.30%	10.66%	5.21%	12.48%	12.29%	10.08%
Debt/Equity	1.32	0.78	0.72	1.09	0.43	1.36
Cash Flow (\$/share)	7.13	3.88	6.94	8.50	3.21	11.85
<b>Growth Score</b>	<b>F</b>	-	-	<b>B</b>	<b>B</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	3.40%	3.40%	10.56%	24.25%	5.01%	67.40%
Proj. EPS Growth (F1/F0)	-2.14%	12.62%	7.57%	-17.56%	24.03%	7.03%
Curr. Cash Flow Growth	28.39%	4.80%	14.73%	-0.12%	-4.51%	29.51%
Hist. Cash Flow Growth (3-5 yrs)	18.42%	9.69%	9.00%	24.94%	15.59%	15.14%
Current Ratio	1.33	0.70	1.24	0.87	0.53	0.84
Debt/Capital	56.96%	47.20%	42.99%	52.10%	30.18%	57.61%
Net Margin	9.29%	5.81%	11.14%	7.30%	7.19%	11.04%
Return on Equity	17.52%	14.71%	17.16%	22.23%	12.03%	15.52%
Sales/Assets	0.60	0.67	0.55	0.76	0.73	0.47
Proj. Sales Growth (F1/F0)	14.69%	4.90%	4.16%	4.07%	7.42%	4.01%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>F</b>	<b>B</b>	<b>D</b>
Daily Price Chg	0.66%	0.00%	0.27%	-1.28%	1.11%	0.70%
1 Week Price Chg	-0.08%	0.00%	0.39%	0.03%	0.75%	0.14%
4 Week Price Chg	3.97%	0.27%	2.95%	-1.15%	1.69%	1.61%
12 Week Price Chg	15.22%	2.12%	7.76%	9.15%	4.23%	14.65%
52 Week Price Chg	-28.82%	0.00%	22.29%	-10.27%	10.09%	36.52%
20 Day Average Volume	1,066,662	90,592	1,536,375	429,557	3,669,905	246,298
(F1) EPS Est 1 week change	-0.28%	0.00%	0.00%	0.00%	-0.32%	0.00%
(F1) EPS Est 4 week change	-1.35%	0.00%	0.00%	-1.83%	-0.32%	0.00%
(F1) EPS Est 12 week change	-1.28%	1.11%	-0.40%	-2.19%	2.37%	1.11%
(Q1) EPS Est Mthly Chg	4.95%	1.29%	0.00%	0.00%	9.52%	0.00%

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## 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.

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### 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	<b>B</b>
Growth Score	<b>F</b>
Momentum Score	<b>F</b>
VGM Score	<b>D</b>

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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