

Spirit Airlines, Inc. (SAVE)

\$12.75 (As of 04/21/20)

Price Target (6-12 Months): **\$13.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/18/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: A

Growth: D

Momentum: D

Summary

Shares of Spirit Airlines have declined 69% since the beginning of February, as it takes a hit from the coronavirus outbreak, which has crippled air travel demand. Consequently, the carrier slashed capacity by 45% for April and 75% for May. These capacity cuts are likely to cause substantial loss of revenues in 2020. With uncertainty looming over the duration of the viral outbreak and its subsequent impact demand, the airline suspended first-quarter and 2020 view. However, the carrier is exercising significant cost-controls to curb the impact of the fall in demand due to the virus outbreak. Additionally, modest fuel prices should help partly offset the revenue decline from demand slump. Moreover, the carrier's fleet modernization efforts are encouraging. The company maintains a young fleet, which promotes fuel-efficient operations.

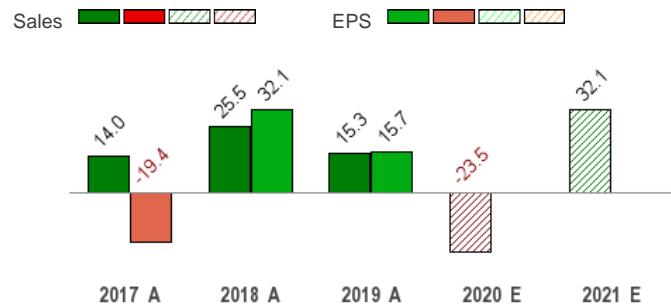
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.55 - \$7.01
20 Day Average Volume (sh)	6,227,726
Market Cap	\$872.8 M
YTD Price Change	-68.4%
Beta	1.31
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Airline
Zacks Industry Rank	Bottom 17% (209 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	-129.7%
Expected Report Date	04/22/2020
Earnings ESP	-109.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	925 E	1,046 E	1,056 E	1,041 E	3,874 E
2020	898 E	468 E	662 E	806 E	2,932 E
2019	856 A	1,013 A	992 A	970 A	3,831 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.45 E	\$1.01 E	\$0.82 E	\$0.78 E	\$3.09 E
2020	-\$0.36 E	-\$1.10 E	\$0.12 E	\$1.03 E	-\$1.23 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	2.5
P/E F1	NA
PEG F1	NA
P/S TTM	0.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/21/2020. The reports text is as of 04/22/2020.

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).

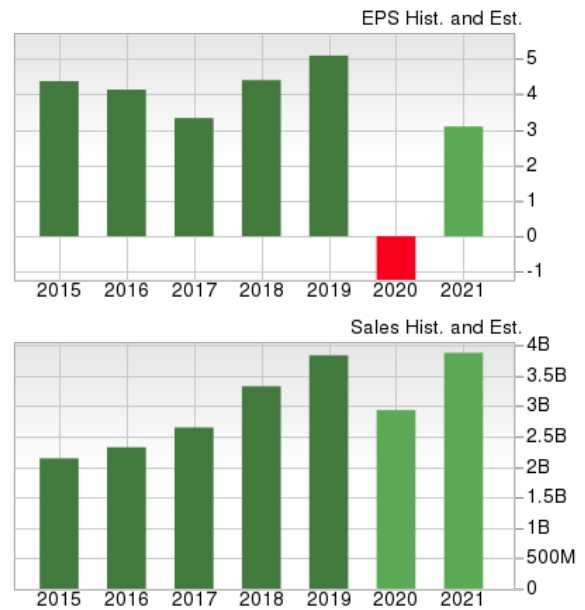
The company maintains a young (average of roughly 5.9 years) all-airbus fleet, which operates more than 500 daily flights to 72 destinations in 16 countries including the United States, Caribbean and Latin America.

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:

▲ We are also positive about the carrier's constant efforts to expand its operations. In February, it launched a four-time weekly service from Austin, TX to Cancun, Mexico. Apart from the Cancun service, Spirit currently offers flights to Atlanta, Baltimore, Chicago, Denver, Detroit, Fort Lauderdale, Las Vegas, Los Angeles, New Orleans and Orlando from Austin. Moreover, during last year's winter holiday season, the airline introduced daily non-stop flights connecting Puerto Rico, San Juan's Luis Muñoz Marín International airport, Boston Logan International airport and Newark Liberty International airport.

Modest fuel prices should aid in partly offsetting the adversity from low demand due to the coronavirus fear.

▲ 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 since the beginning of this year, economic fuel costs are expected to be down significantly this year, compared with 2019. The significant savings on fuel expenses should in turn support bottom-line growth amid the demand crisis. Moreover, to combat the coronavirus crisis, the carrier has resorted to cost-cutting measures, such as reducing capital spending and putting a freeze on hiring, except for crucial roles.

▲ 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.

Reasons To Sell:

- ▼ 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 have further weighed on unit revenues in the first quarter (results are expected to be available on May 6). In fact, the carrier has been witnessing significant pressure on fares and impact on load factor since late-February. Spirit Airlines also slashed its April and May capacity by 45% and 75% respectively 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 first-quarter and 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 26.7%. This undercuts its growth potential and implies that the company is less efficient in utilizing its shareholders' funds.
- ▼ 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.

Due to tumbling air-travel demand as a result of coronavirus, the company reduced capacity by 45% and 75% for April and May, respectively.

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

Humanitarian Flights—Apr 16, 2020

After weeks of negotiation with U.S. embassies and local governments, Spirit Airlines has been granted permission to operate 'humanitarian flights' for bringing back passengers who are unable to return home in the United States due to travel restrictions imposed since mid-March. To this end, the airline has been operating flights to Colombia, Panama, Haiti, Aruba the Dominican Republic and Honduras since the beginning of April.

Flight Cancellation Update – Apr 1, 2020

Spirit Airlines has cancelled all flights to and from New York, Connecticut and New Jersey in response to the Centers for Disease Control and Prevention's (CDC) warning against non-essential travel to and from the regions as the COVID-19 pandemic spreads. The flight suspensions will be in effect through at least May 4.

Valuation

Spirit Airlines shares are down 68.4% and 77.8% in the year-to-date period and over the trailing 12-month period respectively. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 56.3% and 27.6% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector are down 55.4% and 28.3% respectively. The S&P 500 index is down 12.4% and 4.3% in the year-to-date period and in the past year, respectively.

The stock is currently trading at 2.51X trailing 12-month price to earnings, which compares to 4.27X for the Zacks sub-industry, 11.31X for the Zacks sector and 17.04X for the S&P 500 index.

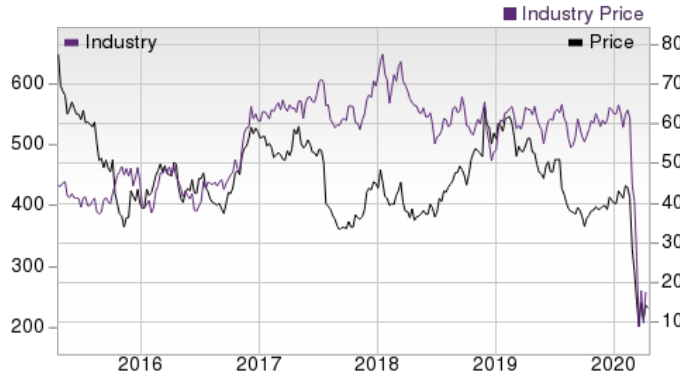
Over the past five years, the stock has traded as high as 21.16X and low as 1.65X, with a 5-year median of 11.33X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$13 price target reflects 2.56X trailing 12-month earnings.

The table below shows summary valuation data for SAVE

Valuation Multiples - SAVE					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	2.51	4.27	11.31	17.04
	5-Year High	21.16	13.2	19.6	22.17
	5-Year Low	1.65	4.27	11.31	15.91
	5-Year Median	11.33	10.79	15.58	18.9
EV/EBITDA TTM	Current	4.47	3.54	6.28	10.31
	5-Year High	12.83	7.01	11.15	12.87
	5-Year Low	4.07	3.35	5.69	8.28
	5-Year Median	6.86	5.97	7.38	10.78
P/S F 12M	Current	0.19	0.43	0.94	3.2
	5-Year High	1.26	0.98	1.42	3.44
	5-Year Low	0.13	0.39	0.85	2.54
	5-Year Median	1.02	0.77	1.21	3.01

As of 04/21/2020

Industry Analysis Zacks Industry Rank: Bottom 17% (209 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
American Airlines Group Inc. (AAL)	Neutral	3
Alaska Air Group, Inc. (ALK)	Neutral	3
Hawaiian Holdings, Inc. (HA)	Neutral	3
JetBlue Airways Corporation (JBLU)	Neutral	3
Controladora Vuela Compania de Aviacion, S.A.B. de C.V. (VLRS)	Neutral	3
Allegiant Travel Company (ALGT)	Underperform	5
Copa Holdings, S.A. (CPA)	Underperform	5
SkyWest, Inc. (SKYW)	Underperform	5

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	SAVE	X Industry	S&P 500	HA	JBLU	SKYW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	5
VGM Score	C	-	-	D	A	B
Market Cap	872.80 M	2.15 B	18.60 B	525.19 M	2.25 B	1.22 B
# of Analysts	6	4	14	4	6	4
Dividend Yield	0.00%	0.00%	2.28%	4.20%	0.00%	2.31%
Value Score	A	-	-	C	B	A
Cash/Price	1.19	0.56	0.05	1.17	0.55	0.40
EV/EBITDA	3.91	3.01	11.41	1.96	2.65	3.81
PEG Ratio	NA	1.50	2.13	NA	NA	NA
Price/Book (P/B)	0.39	0.59	2.52	0.49	0.50	0.56
Price/Cash Flow (P/CF)	1.50	2.04	10.05	1.40	2.20	1.78
P/E (F1)	NA	17.14	17.41	NA	NA	6.38
Price/Sales (P/S)	0.23	0.27	1.98	0.19	0.28	0.41
Earnings Yield	-9.65%	-3.74%	5.58%	-30.45%	-9.12%	15.69%
Debt/Equity	1.41	0.68	0.71	0.98	0.56	1.33
Cash Flow (\$/share)	8.51	4.14	7.01	8.18	3.79	13.67
Growth Score	D	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	3.49%	4.00%	10.92%	17.35%	0.16%	41.80%
Proj. EPS Growth (F1/F0)	-124.10%	-116.14%	-4.01%	-175.71%	-140.00%	-39.12%
Curr. Cash Flow Growth	19.78%	12.49%	5.93%	-9.18%	14.33%	12.07%
Hist. Cash Flow Growth (3-5 yrs)	15.50%	9.63%	8.55%	13.32%	14.43%	21.18%
Current Ratio	1.25	0.68	1.24	0.81	0.67	0.82
Debt/Capital	58.43%	47.44%	42.91%	49.54%	35.83%	57.04%
Net Margin	8.75%	6.96%	11.57%	7.91%	7.03%	11.44%
Return on Equity	16.38%	12.61%	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)	-23.45%	-19.22%	-0.39%	-25.67%	-27.16%	-8.65%
Momentum Score	D	-	-	F	D	B
Daily Price Chg	-1.54%	-2.19%	-2.84%	-0.95%	-3.48%	-2.92%
1 Week Price Chg	-5.18%	-2.07%	0.42%	-2.62%	-5.47%	-9.27%
4 Week Price Chg	-5.77%	0.05%	10.78%	11.95%	-11.38%	-3.57%
12 Week Price Chg	-69.93%	-53.77%	-22.58%	-58.56%	-58.91%	-61.00%
52 Week Price Chg	-77.82%	-53.04%	-16.41%	-62.45%	-52.54%	-59.44%
20 Day Average Volume	6,227,726	172,654	2,973,334	1,774,887	13,287,968	825,679
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-3.11%	0.00%	0.00%
(F1) EPS Est 4 week change	-129.74%	-105.25%	-6.75%	-215.41%	-155.80%	-34.23%
(F1) EPS Est 12 week change	-124.63%	-109.44%	-11.09%	-192.97%	-132.14%	-42.94%
(Q1) EPS Est Mthly Chg	-236.34%	-256.05%	-9.83%	-305.53%	-758.93%	-53.58%

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	D
Momentum Score	D
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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