Spirit Airlines, Inc. (SAVE)

$16.58 (As of 06/26/20)

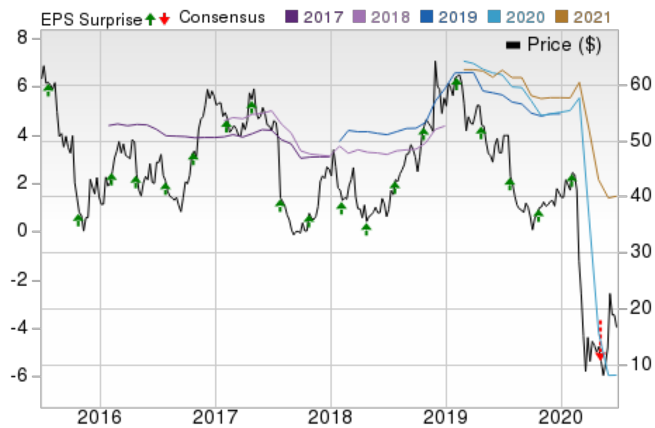
Price Target (6-12 Months): **$18.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/18/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: B | Growth: F	Momentum: D

Summary

Shares of Spirit Airlines have declined 59.6% since the beginning of February, as it takes a hit from the coronavirus outbreak, which has crippled air travel demand. Consequently, the carrier's April and May capacity was lowered by nearly 75% and 95% respectively. Similar to the first quarter, these capacity cuts are likely to cause substantial loss of revenues in the second quarter. Due to the coronavirus-related uncertainty, the airline suspended 2020 view. However, the carrier's cost-control measures to curb the impact of the fall in demand are appreciative. The average daily cash burn rate of $4 million is expected to improve in the second half of 2020. Modest fuel prices are an added positive. The carrier also has a sound liquidity position. Spirit Airlines' current ratio compares favorably to that of its industry.

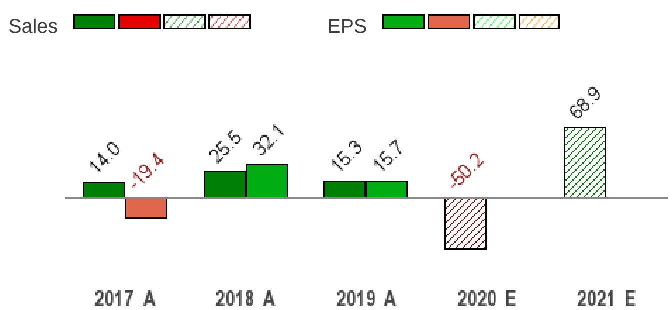
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$55.21 - $7.01**
20 Day Average Volume (sh)	**41,220,184**
Market Cap	**$1.1 B**
YTD Price Change	**-58.9%**
Beta	**1.28**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Transportation - Airline**
Zacks Industry Rank	**Bottom 33% (170 out of 253)**
Last EPS Surprise	**-43.3%**
Last Sales Surprise	**-9.2%**
EPS F1 Est- 4 week change	**0.2%**
Expected Report Date	**07/22/2020**
Earnings ESP	**17.0%**
P/E TTM	**4.9**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**0.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	748 E	940 E	952 E	995 E	3,225 E
2020	771 A	102 E	421 E	494 E	1,909 E
2019	856 A	1,013 A	992 A	970 A	3,831 A

EPS Estimates

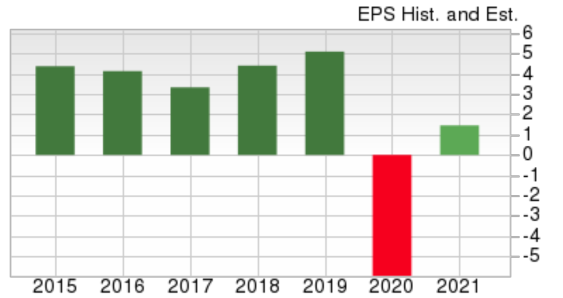
	Q1	Q2	Q3	Q4	Annual*
2021	-$0.19 E	$0.51 E	$0.34 E	$0.70 E	$1.46 E
2020	-$0.86 A	-$2.93 E	-$1.18 E	-$0.52 E	-$5.95 E
2019	$0.84 A	$1.69 A	$1.32 A	$1.24 A	$5.09 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/26/2020. The reports text is as of 06/29/2020.

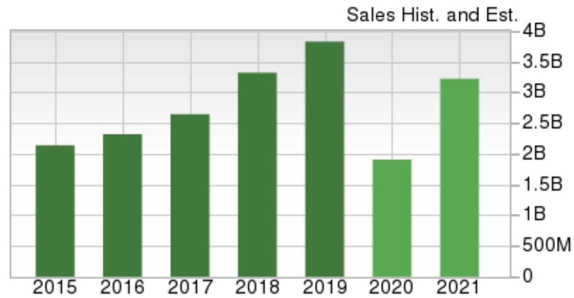
Overview

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:

- With coronavirus affecting demand significantly, low fuel prices are helping Spirit Airlines partly offset the adversities. Notably, average fuel cost per gallon fell 13.4% year over year to $1.81 in the first quarter of 2020. The same declined 7.5% year over year to $2.11 in 2019. Additionally, the airline's stringent cost-cutting measures support its bottom line growth. The carrier's average daily cash burn rate of $4 million is expected to improve in the second half of 2020. In a bid to preserve cash, Spirit Airlines reduced the current-year planned gross capital expenses by $235 million.

Low fuel costs and stringent cost-cutting measures support Spirit Airlines' bottom line.

- Total debt to total capital ratio, which is an indicator of a company's leverage, stood at 0.62 and 0.61 for Spirit Airlines at the end of the first quarter of 2020 and at the end of the fourth quarter of 2019 respectively. The readings compare favorably with the respective numbers for its industry's of 0.69 and 0.62. Moreover, cash and cash equivalents stood at $894 million for Spirit Airlines at the end of the first quarter, above the current debt of $461 million, implying that the company has sufficient cash to meet its short-term debt obligations. The company's current ratio of 1 and 1.25 at the end of the first quarter and at the end of the fourth quarter of 2019 respectively compares favorably with the respective figures for the industry of 0.48 and 0.47.

- The airline's expansion initiatives prior to the dramatic drop in air travel demand are noteworthy. Only this February, the carrier 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. We expect the carrier to resume its expansion initiatives once the coronavirus concerns end.

Reasons To Sell:

> Coronavirus-led drop in travel demand is weighing on total unit revenues due to low yields.

- 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. The coronavirus concerns further aggravated the situation. Consequently, TRASM plunged 18.8% in the first quarter due to 990-basis point decrease in load factor (% of seats filled by passengers) and 7.8% fall in average yield. 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 has been witnessing significant pressure on fares and impact on load factor since late-February. Evidently, passenger revenues, which contributed 97.7% to the top line, fell 10.1% year over year in the first quarter. Due to an unprecedented drop in passenger demand, the company's April and May capacity was lowered by approximately 75% and 95% respectively. The same for June has been reduced by approximately 95%. Also, Spirit Airlines' return on equity (ROE) of 10.6% compares unfavorably with its industry's 16.6%. 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 2019, expenses on salaries, wages and benefits rose 20.2% year over year. The same increased 17.9% in the first quarter of 2020. This was the primary contributor to the 3.3% rise in first-quarter non-fuel unit costs. Such high labor costs have the potential to limit bottom-line growth going forward.

Last Earnings Report

Spirit Airlines Incurs Loss in Q1

Quarter Ending	03/2020
Report Date	**May 06, 2020**
Sales Surprise	**-9.16%**
EPS Surprise	**-43.33%**
Quarterly EPS	**-0.86**
Annual EPS (TTM)	**3.39**

Spirit Airlines incurred loss of 86 cents per share (excluding 45 cents from non-recurring items) in first-quarter 2020, wider than the Zacks Consensus Estimate of a loss of 60 cents. In the year-ago quarter, the company reported earnings of 84 cents. First-quarter results reflect the impact of the coronavirus crisis on domestic and international air travel in March.

Operating revenues of $771.1 million missed the Zacks Consensus Estimate of $848.8 million and also declined 9.9% year over year. Passenger revenues, which contributed 97.7% to the top line, fell 10.1% year over year. Additionally, revenues from other sources dropped 1.1%.

Other Details on Q1

Total operating revenue per available seat mile (TRASM: a measure of unit revenues) plunged 18.8% in the reported quarter. The downside was caused by fall in load factor (% of seats filled by passengers) and yields due to the COVID-19 crisis. Notably, capacity expanded (11%) while traffic contracted (2.3%) in the quarter, leading to a 990-basis point decline in load factor (72.8% in the first quarter). Moreover, average yield declined 7.85 in the January-March period.

Adjusted operating expenses increased 8.2% to $829.07 million, mainly on increased flight volume and higher depreciation and amortization. Average fuel cost per gallon in the reported quarter fell 13.4% year over year to $1.81. Moreover, adjusted cost per available seat miles (CASM) dropped 2.4% in the reported quarter.

However, CASM, excluding operating special items and fuel (non-fuel unit costs), increased 3.3% year over year. Increased expenses on salaries, wages and benefits led to higher non-fuel unit costs.

Spirit ended the quarter with unrestricted cash, cash equivalents, and short-term investments of $894.4 million and an undrawn $110 million revolver.

Dealing With the Coronavirus Crisis

Due to an unprecedented drop in passenger demand in the wake of the coronavirus outbreak and to comply with government-imposed travel restrictions, the company reduced its April capacity by approximately 75%. The same has been reduced by approximately 95% for May and June.

With stringent cost-cutting measures, the airline has been able to reduce capital spending by approximately $50 millionfor 2020. Additionally, the carrier is in talks with Airbus to defer some of its aircraft deliveries for 2020 and 2021, which would help the airline lower aircraft-related capital expenses by approximately $185 million.

Besides savings from lower capacity, Spirit reduced non-fuel operating costs by $20-$30 million for 2020.

Recent News

Spirit Airlines Fined — Jun 19, 2020

The U.S. Department of Transportation (DOT) slapped a fine on Spirit Airlines for violating its rule pertaining to oversold seats. Notably, Spirit Airlines wrongly classified more than 1,000 passengers as “volunteers” when they were actually passengers who were denied a boarding pass on the Miramar, FL-based carrier’s oversold flights.

While reviewing complaints filed by consumers with the DOT, its Office of Aviation Consumer Protection found that Spirit required passengers, who were involuntarily denied boarding on its flights, to sign waivers or documents suggesting that they were “volunteers”. The review also showed that on many occasions between January 2017 and June 2018, Spirit’s compensation offered to those passengers through travel vouchers was less than adequate. Per federal law, such passengers had the option to receive cash or a check.

Valuation

Spirit Airlines shares are down 58.9% and 66.1% 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 44.4% and 16.2% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector are down 41.9% and 13% respectively.

The S&P 500 index is down 6.6% in the year-to-date period but up 2.1% and in the past year.

The stock is currently trading at 4.89X trailing 12-month price to earnings, which compares to 9.55X for the Zacks sub-industry, 15.51X for the Zacks sector and 19.39X for the S&P 500 index.

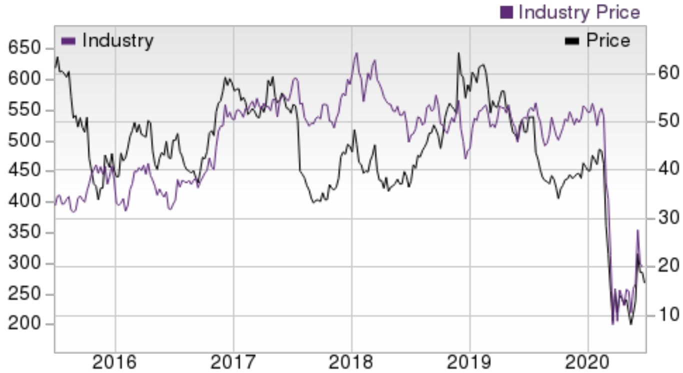
Over the past five years, the stock has traded as high as 17.22X and low as 1.65X, with a 5-year median of 11.02X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $18 price target reflects 5.31X trailing 12-month earnings.

The table below shows summary valuation data for SAVE

Valuation Multiples - SAVE		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	4.89	9.55	15.51	19.39
	5-Year High	17.22	13.19	19.57	22.25
	5-Year Low	1.65	7.45	11.63	15.98
	5-Year Median	11.02	10.48	15.51	19.07
EV/EBITDA TTM	Current	6.73	4.56	7.39	11.88
	5-Year High	12.83	7.03	11.14	12.85
	5-Year Low	4.07	3.26	5.44	8.25
	5-Year Median	6.71	5.91	7.33	10.81
P/S F 12M	Current	0.44	0.7	1.25	3.6
	5-Year High	1.84	0.98	1.42	3.6
	5-Year Low	0.13	0.38	0.84	2.53
	5-Year Median	0.96	0.77	1.2	3.02

As of 06/26/2020

Industry Analysis **Zacks Industry Rank:** Bottom 33% (170 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Allegiant Travel Company **(ALGT)**	Neutral	3
SIGNATURE AVIAT **(BBAVY)**	Neutral	3
Copa Holdings, S.A. **(CPA)**	Neutral	4
Gol Linhas Aereas Inteligentes S.A. **(GOL)**	Neutral	2
Hawaiian Holdings, Inc. **(HA)**	Neutral	3
Controladora Vuela Compania de Aviacion, S.A.B. de C.V. **(VLRS)**	Neutral	3
AZUL SA **(AZUL)**	Underperform	3
SkyWest, Inc. **(SKYW)**	Underperform	5

Industry Comparison Industry: Transportation - Airline

Industry Peers

	SAVE	X Industry	S&P 500	GOL	HA	SKYW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	2	3	5
VGM Score	D	-	-	A	B	B
Market Cap	1.14 B	2.63 B	21.00 B	1.19 B	621.24 M	1.53 B
# of Analysts	6	4.5	14	3	4	4
Dividend Yield	0.00%	0.00%	2%	0.00%	3.55%	1.83%
Value Score	B	-	-	A	A	A
Cash/Price	0.69	0.52	0.07	0.52	1.13	0.34
EV/EBITDA	4.58	3.39	12.28	3.32	2.42	3.98
PEG Ratio	NA	4.69	2.80	NA	NA	NA
Price/Book (P/B)	0.51	0.67	2.88	NA	0.67	0.71
Price/Cash Flow (P/CF)	1.95	2.10	11.08	1.97	1.65	2.24
P/E (F1)	NA	41.93	20.57	NA	NA	25.01
Price/Sales (P/S)	0.30	0.36	2.14	0.35	0.23	0.51
Earnings Yield	-35.89%	-26.96%	4.62%	-74.33%	-55.10%	3.99%
Debt/Equity	1.45	0.76	0.77	-1.14	1.50	1.29
Cash Flow ($/share)	8.51	4.97	7.01	3.40	8.18	13.67
Growth Score	F	-	-	A	D	B
Hist. EPS Growth (3-5 yrs)	1.76%	2.29%	10.84%	NA	9.44%	33.22%
Proj. EPS Growth (F1/F0)	-216.90%	-242.26%	-10.73%	-692.46%	-261.96%	-80.44%
Curr. Cash Flow Growth	19.78%	12.28%	5.46%	210.04%	-9.18%	12.07%
Hist. Cash Flow Growth (3-5 yrs)	15.50%	9.63%	8.55%	39.43%	13.32%	21.18%
Current Ratio	1.00	0.69	1.29	0.40	0.96	0.75
Debt/Capital	59.14%	54.19%	45.14%	NA	60.06%	56.38%
Net Margin	6.71%	2.43%	10.53%	-16.07%	1.58%	9.47%
Return on Equity	10.59%	9.39%	16.06%	-10.77%	14.93%	13.26%
Sales/Assets	0.54	0.62	0.55	0.91	0.68	0.45
Proj. Sales Growth (F1/F0)	-50.16%	-48.19%	-2.70%	-57.09%	-54.08%	-30.22%
Momentum Score	D	-	-	F	C	D
Daily Price Chg	-4.71%	-3.06%	-1.90%	-6.16%	-3.91%	-2.36%
1 Week Price Chg	-0.05%	-3.51%	0.92%	-4.90%	-3.33%	-3.01%
4 Week Price Chg	28.23%	0.00%	-3.33%	48.89%	-8.96%	-6.40%
12 Week Price Chg	57.45%	20.50%	19.31%	79.14%	41.57%	42.10%
52 Week Price Chg	-64.69%	-45.55%	-9.84%	-59.07%	-50.02%	-47.33%
20 Day Average Volume	41,220,184	348,721	2,782,477	3,991,971	1,714,683	848,003
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-1.01%
(F1) EPS Est 4 week change	0.20%	-1.52%	0.00%	-205.88%	0.00%	-1.01%
(F1) EPS Est 12 week change	-1,185.11%	-242.60%	-12.23%	-139.05%	-739.44%	-69.98%
(Q1) EPS Est Mthly Chg	-4.02%	0.00%	0.00%	0.00%	0.00%	0.00%

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	B
Growth Score	F
Momentum Score	D
VGM Score	D

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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