

## Spirit Airlines, Inc. (SAVE)

**\$16.54** (As of 07/28/20)

Price Target (6-12 Months): **\$17.00**

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:D

Value: A

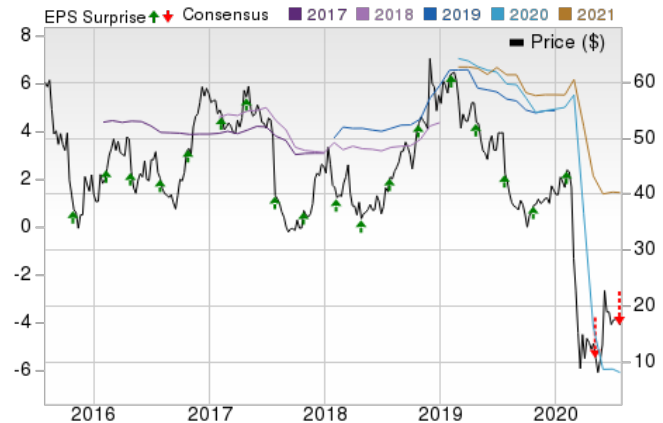
Growth: F

Momentum: F

### Summary

Shares of Spirit Airlines have declined 43.2% since the beginning of March, as it takes a hit from the coronavirus outbreak, which has crippled air travel demand. Notably, passenger revenues, which contributed 94.5% to the top line, plummeted 86.8% year over year in the June quarter. Consequently, the carrier's April and May capacity was lowered by nearly 75% and 95% respectively. Moreover, capacity contracted to the tune of 83.2% in second quarter 2020. However, the carrier's cost-control measures to curb the impact of the fall in demand are appreciative. The average daily cash burn rate 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, a measure of liquidity, is also on the increase.

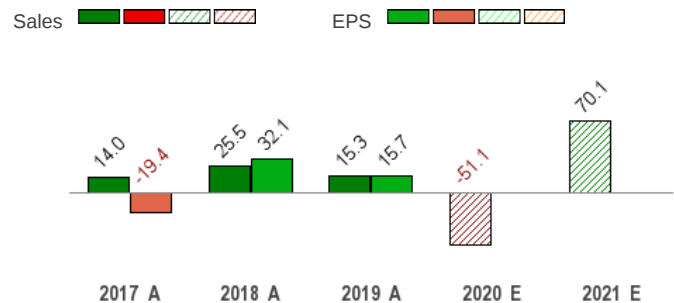
### Price, Consensus & Surprise



### Data Overview

|                            |                                          |
|----------------------------|------------------------------------------|
| 52 Week High-Low           | \$47.50 - \$7.01                         |
| 20 Day Average Volume (sh) | 14,512,824                               |
| Market Cap                 | \$1.1 B                                  |
| YTD Price Change           | -59.9%                                   |
| Beta                       | 1.32                                     |
| Dividend / Div Yld         | \$0.00 / 0.0%                            |
| Industry                   | <a href="#">Transportation - Airline</a> |
| Zacks Industry Rank        | Bottom 17% (210 out of 253)              |

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



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | -33.0%     |
| Last Sales Surprise       | 16.9%      |
| EPS F1 Est- 4 week change | -33.6%     |
| Expected Report Date      | 10/28/2020 |
| Earnings ESP              | -10.1%     |

### Sales Estimates (millions of \$)

|      | Q1    | Q2      | Q3    | Q4    | Annual* |
|------|-------|---------|-------|-------|---------|
| 2021 | 742 E | 893 E   | 951 E | 941 E | 3,187 E |
| 2020 | 771 A | 139 A   | 383 E | 469 E | 1,874 E |
| 2019 | 856 A | 1,013 A | 992 A | 970 A | 3,831 A |

### EPS Estimates

|      | Q1        | Q2        | Q3        | Q4        | Annual*   |
|------|-----------|-----------|-----------|-----------|-----------|
| 2021 | -\$0.29 E | \$0.41 E  | \$0.60 E  | \$0.56 E  | \$1.23 E  |
| 2020 | -\$0.86 A | -\$3.59 A | -\$2.33 E | -\$0.82 E | -\$7.95 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.

|         |     |
|---------|-----|
| P/E TTM | NA  |
| P/E F1  | NA  |
| PEG F1  | NA  |
| P/S TTM | 0.4 |

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/28/2020. The reports text is as of 07/29/2020.

## 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 (Firm 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).

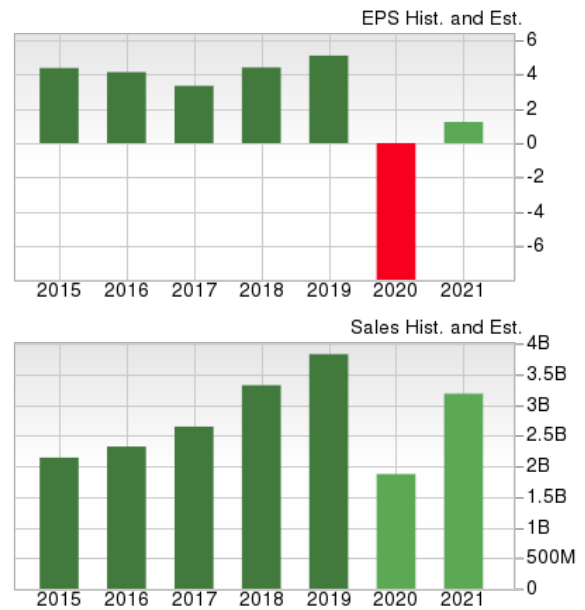
The company maintains a young (average of roughly 5.9 years) all-airbus fleet, which operates more than 500 daily flights to 72 destinations in 16 countries including the United States, Caribbean and Latin America.

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.



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## 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 20.2% year over year to \$1.7 in the first half of 2020. Additionally, the airline's stringent cost-cutting measures support its bottom line growth. The carrier's average daily cash burn rate is expected to improve in the second half of 2020. The carrier estimates average daily cash burn between \$3 and \$4 million for the September quarter. In a bid to preserve cash,

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

▲ The carrier exited the June quarter with cash and equivalents of \$1,264 million, above the current debt of \$417 million, implying that the company has sufficient cash to meet its short-term debt obligations. The company's current ratio, a measure of liquidity, at the end of the June quarter was 1.31, comparing favorably to the reading of 1 at the end of the first quarter.

▲ 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.

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## 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. The coronavirus concerns further aggravated the situation. Consequently, TRASM declined 21.2% in the first half of 2020 due to 1,440-basis point decrease in load factor (% of seats filled by passengers) and 4.8% fall in average yield.
- ▼ Spirit Airlines has been witnessing significant pressure on fares and impact on load factor since late-February. Evidently, passenger revenues fell 51.7% year over year in the first half of 2020. 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%. Moreover, capacity contracted to the tune of 83.2% in second quarter 2020.
- ▼ Due to the capacity cuts, unit costs are increasing substantially. Evidently, in second quarter 2020, cost per available seat mile (CASM) excluding operating special items and fuel, escalated more than 100%. Moreover, the carrier's return on equity has dropped to a negative territory due to the unprecedented crisis.

Coronavirus-led drop in travel demand is weighing on total unit revenues. Load factor is also declining significantly.

## Last Earnings Report

### Spirit Airlines Incurs Loss in Q2

Spirit Airlines suffered a loss of \$3.59 per share (excluding \$1.78 from non-recurring items) for the second quarter, wider than the Zacks Consensus Estimate of a loss of \$2.70. However, in the year-ago quarter, the company delivered earnings of \$1.69. Meanwhile, operating revenues of \$138.5 million surpassed the Zacks Consensus Estimate of \$118.5 million. The top line, however, plunged 86.3% year over year due to the coronavirus-led air-travel demand disaster.

Passenger revenues, which contributed 94.5% to the top line, plummeted 86.8% year over year. Additionally, revenues from other sources tanked 58.4%. With the traffic decline of 90.2% exceeding the capacity contraction of 83.2%, load factor declined to 49.4% from 85% a year ago. Average fuel cost per gallon in the reported quarter fell 51.4% year over year to \$1.05. Also, CASM excluding operating special items and fuel (non-fuel unit costs), escalated more than 100% in the reported quarter due to reduced capacity. Spirit ended the quarter with unrestricted cash, cash equivalents and short-term investments worth \$1.2 billion.

The carrier estimates average daily cash burn between \$3 and \$4 million for the September quarter. For the third quarter 2020, capacity is estimated to be down 32% year over year. Total capital expenditures for the current year are estimated to be roughly \$560 million

| Quarter Ending   | 06/2020      |
|------------------|--------------|
| Report Date      | Jul 22, 2020 |
| Sales Surprise   | 16.90%       |
| EPS Surprise     | -32.96%      |
| Quarterly EPS    | -3.59        |
| Annual EPS (TTM) | -1.89        |

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## 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.

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## Valuation

Spirit Airlines shares are down 59.9% 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 8.3% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector are down 44.3% and 7.3% respectively.

While the S&P 500 index is flat in the year-to-date period, it is up 6.9% in the past year.

The stock is currently trading at 0.42X forward 12-month price to sales, which compares to 0.69X for the Zacks sub-industry, 1.28X for the Zacks sector and 3.57X for the S&P 500 index.

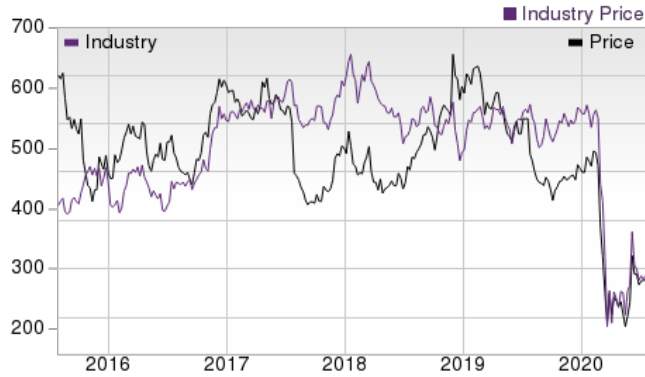
Over the past five years, the stock has traded as high as 1.84X and low as 0.13X, with a 5-year median of 0.94X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our target price of \$17 reflects 0.44X trailing 12-month sales.

The table below shows summary valuation data for SAVE

| Valuation Multiples - SAVE |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F 12M                  | Current       | 0.42  | 0.69         | 1.28   | 3.57    |
|                            | 5-Year High   | 1.84  | 0.98         | 1.42   | 3.57    |
|                            | 5-Year Low    | 0.13  | 0.38         | 0.85   | 2.53    |
|                            | 5-Year Median | 0.94  | 0.76         | 1.2    | 3.02    |
| EV/EBITDA TTM              | Current       | 36.81 | 4.64         | 7.61   | 11.95   |
|                            | 5-Year High   | 38.91 | 7.03         | 11.21  | 12.85   |
|                            | 5-Year Low    | 4.07  | 3.19         | 5.45   | 8.25    |
|                            | 5-Year Median | 6.71  | 5.9          | 7.39   | 10.88   |

As of 07/27/2020

## Industry Analysis Zacks Industry Rank: Bottom 17% (210 out of 253)



## Top Peers

| Company (Ticker)                                               | Rec          | Rank |
|----------------------------------------------------------------|--------------|------|
| Gol Linhas Aereas Inteligentes S.A. (GOL)                      | Outperform   | 1    |
| Allegiant Travel Company (ALGT)                                | Neutral      | 3    |
| SIGNATURE AVIAT (BBAVY)                                        | Neutral      | 4    |
| Copa Holdings, S.A. (CPA)                                      | Neutral      | 3    |
| Hawaiian Holdings, Inc. (HA)                                   | Neutral      | 3    |
| Controladora Vuela Compania de Aviacion, S.A.B. de C.V. (VLRS) | Neutral      | 2    |
| 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    | -          | -         | Outperform     | Neutral  | Underperform |
| Zacks Rank (Short Term)                                | 3          | -          | -         | 1              | 3        | 5            |
| VGM Score                                              | D          | -          | -         | B              | C        | B            |
| Market Cap                                             | 1.11 B     | 2.19 B     | 22.74 B   | 1.27 B         | 600.11 M | 1.43 B       |
| # of Analysts                                          | 6          | 5          | 14        | 2              | 4        | 3            |
| Dividend Yield                                         | 0.00%      | 0.00%      | 1.8%      | 0.00%          | 2.76%    | 1.97%        |
| Value Score                                            | A          | -          | -         | A              | A        | A            |
| Cash/Price                                             | 1.12       | 0.64       | 0.07      | 0.51           | 1.35     | 0.41         |
| EV/EBITDA                                              | 4.54       | 3.64       | 13.03     | 3.40           | 2.37     | 3.87         |
| PEG Ratio                                              | NA         | 3.30       | 3.03      | NA             | NA       | NA           |
| Price/Book (P/B)                                       | 0.47       | 0.67       | 3.17      | NA             | 0.65     | 0.66         |
| Price/Cash Flow (P/CF)                                 | 1.90       | 2.24       | 12.05     | 2.11           | 1.60     | 2.08         |
| P/E (F1)                                               | NA         | 21.37      | 21.90     | NA             | NA       | 17.64        |
| Price/Sales (P/S)                                      | 0.39       | 0.39       | 2.38      | 0.38           | 0.22     | 0.48         |
| Earnings Yield                                         | -49.23%    | -27.05%    | 4.30%     | -69.46%        | -58.35%  | 5.66%        |
| Debt/Equity                                            | 1.54       | 0.90       | 0.76      | -1.14          | 1.50     | 1.29         |
| Cash Flow (\$/share)                                   | 8.51       | 4.15       | 7.01      | 3.40           | 8.18     | 13.67        |
| Growth Score                                           | F          | -          | -         | A              | D        | B            |
| Hist. EPS Growth (3-5 yrs)                             | 1.58%      | 2.20%      | 10.85%    | NA             | 9.44%    | 33.22%       |
| Proj. EPS Growth (F1/F0)                               | -256.22%   | -250.80%   | -7.56%    | -692.46%       | -265.60% | -74.19%      |
| Curr. Cash Flow Growth                                 | 19.78%     | 11.77%     | 5.47%     | 210.04%        | -9.18%   | 12.07%       |
| Hist. Cash Flow Growth (3-5 yrs)                       | 15.50%     | 8.55%      | 8.55%     | 39.43%         | 13.32%   | 21.18%       |
| Current Ratio                                          | 1.31       | 0.78       | 1.31      | 0.40           | 0.96     | 0.75         |
| Debt/Capital                                           | 60.60%     | 54.62%     | 44.41%    | NA             | 60.06%   | 56.38%       |
| Net Margin                                             | -0.26%     | -0.26%     | 10.45%    | -16.07%        | 1.58%    | 9.47%        |
| Return on Equity                                       | -7.51%     | -0.83%     | 15.13%    | -10.77%        | 14.93%   | 13.26%       |
| Sales/Assets                                           | 0.40       | 0.55       | 0.54      | 0.91           | 0.68     | 0.45         |
| Proj. Sales Growth (F1/F0)                             | -51.08%    | -46.66%    | -2.00%    | -57.09%        | -56.19%  | -30.22%      |
| Momentum Score                                         | F          | -          | -         | F              | D        | D            |
| Daily Price Chg                                        | -1.94%     | 0.00%      | 0.48%     | 0.14%          | -0.61%   | 0.99%        |
| 1 Week Price Chg                                       | -6.47%     | -3.52%     | 0.37%     | -6.89%         | -3.52%   | -6.87%       |
| 4 Week Price Chg                                       | -10.28%    | -6.77%     | 5.61%     | 3.61%          | -8.48%   | -13.39%      |
| 12 Week Price Chg                                      | 25.19%     | 8.88%      | 13.36%    | 75.74%         | 0.62%    | 8.75%        |
| 52 Week Price Chg                                      | -61.88%    | -49.77%    | -3.30%    | -66.88%        | -50.61%  | -53.97%      |
| 20 Day Average Volume                                  | 14,512,824 | 153,794    | 1,917,592 | 1,675,776      | 926,090  | 408,826      |
| (F1) EPS Est 1 week change                             | -43.06%    | 0.00%      | 0.00%     | 0.00%          | 0.00%    | 0.00%        |
| (F1) EPS Est 4 week change                             | -33.64%    | 0.00%      | 0.21%     | 0.00%          | -2.25%   | 0.00%        |
| (F1) EPS Est 12 week change                            | -139.63%   | -60.47%    | -2.00%    | -155.81%       | -8.90%   | -38.95%      |
| (Q1) EPS Est Mthly Chg                                 | -96.84%    | 0.00%      | 0.00%     | 0.00%          | -18.73%  | 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    | A |
| Growth Score   | F |
| Momentum Score | F |
| 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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### Disclosures

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