

SkyWest, Inc. (SKYW)

\$32.30 (As of 08/11/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 06/09/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: F

Summary

Plummeting air-travel demand due to the coronavirus pandemic primarily induced a share price depreciation of 41.4% in SkyWest since February. Weakness related to air travel is affecting the company's bottom line and passenger load factor (percentage of seats filled by passengers). Notably, the load factor deteriorated 4950 basis points to 34.4% in the second quarter of 2020 due to shrinkage in air-travel demand, thanks to the prevalent pandemic. In fact, second-quarter revenues plunged 53% in the second quarter due to dwindling air-travel demand. The negativity revolving around the stock is evident from the Zacks Consensus Estimate for current-year earnings being revised downward over the past 60 days. However, SkyWest's liquidity position is impressive. Federal funding under the CARES Act further enhanced its cash position.

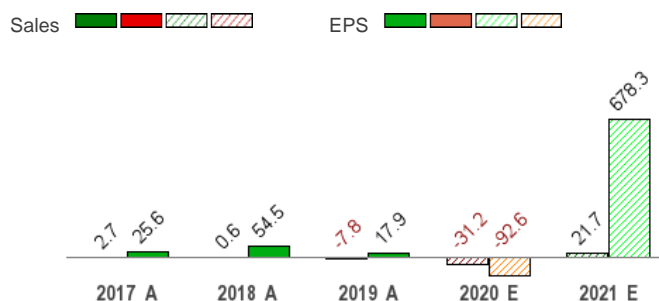
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$66.52 - \$10.58
20 Day Average Volume (sh)	490,321
Market Cap	\$1.6 B
YTD Price Change	-50.0%
Beta	1.71
Dividend / Div Yld	\$0.56 / 1.7%
Industry	Transportation - Airline
Zacks Industry Rank	Bottom 8% (233 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2,450.0%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	-90.3%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	9.8
P/E F1	70.2
PEG F1	NA
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	569 E	614 E	625 E	640 E	2,491 E
2020	730 A	350 A	435 E	530 E	2,046 E
2019	724 A	744 A	760 A	744 A	2,972 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.65 E	\$0.88 E	\$1.02 E	\$0.89 E	\$3.58 E
2020	\$0.59 A	-\$0.51 A	-\$0.07 E	\$0.07 E	\$0.46 E
2019	\$1.33 A	\$1.71 A	\$1.79 A	\$1.43 A	\$6.25 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 08/11/2020. The reports text is as of 08/12/2020.

Overview

SkyWest, founded in 1972, is based in St. George, UT and operates as a regional airline in the United States through its subsidiary SkyWest Airlines.

SkyWest is also the holding company of an aircraft leasing company. In January 2019, SkyWest completed the sale of its erstwhile subsidiary, ExpressJet Airlines, to United Airlines joint venture — ManaAir LLC.

SkyWest Airlines offers high-quality regional service to airports located primarily in the Midwestern and Western United States as well as Mexico and Canada. The carrier primarily operates from Chicago (O'Hare), Denver, Houston, Los Angeles, Minneapolis, Phoenix, Salt Lake City, San Francisco and Seattle airports.

Offering scheduled regional airline service under code-share agreements (a deal between airlines allowing them to use each other's codes on flights among other things) with its airline partners, forms the basis of the company's operating model. On a daily basis, SkyWest is responsible for operating more than 2,100 flights to multiple destinations in North America.

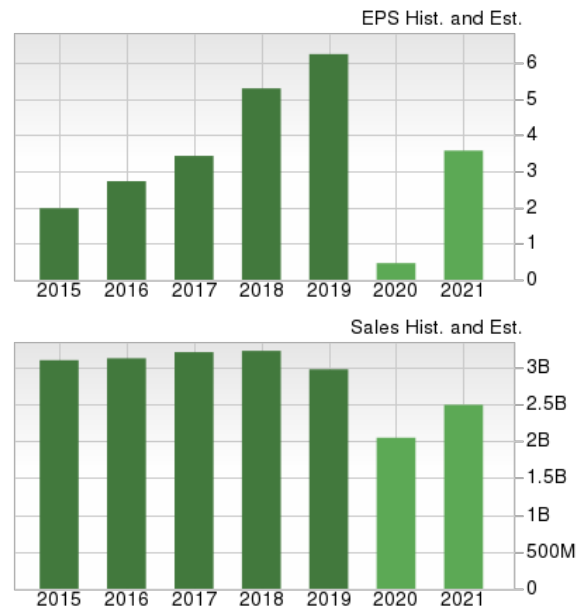
SkyWest provides regional operations to its major airline partners under long-term, fixed-fee, code-share agreements. The company has codeshare agreements with key airline players like Delta Air Lines, American Airlines, United and Alaska Airlines.

The fixed-fee agreement with these companies obligate the respective major airline partner to refund the amount of fuel costs SkyWest incurs under those agreements.

Under the prorate agreements with Delta, United Airlines and American Airlines, SkyWest is liable to cover the costs including fuel expenses of operating the concerned flights. Going by historical evidence, these multiple agreements consisting of a mix of fixed-fee and prorate flying arrangements should bolster the company's operating results.

In 2019, 96.9% of the company's operating revenues of \$2.97 billion came from flying agreements. The rest came from airport customer services and others. Moreover, SkyWest is undergoing fleet transition. As part of the exercise, the company aims to reduce the 50-seat jets and add new E175 aircraft. Fleet size (scheduled) as of Dec 31, 2019 was 483.

The company's fiscal year coincides with the calendar year.



Reasons To Sell:

- ▼ SkyWest reported wider-than-expected loss for second-quarter 2020. In fact, the coronavirus impact was more severe on the June quarter than on the March quarter as the entire three-month period (April to June) bore the brunt of this meltdown in air-travel demand as opposed to only a single month (March) in the last reported quarter. Notably, quarterly revenues in the June quarter plunged 53% year over year and also missed the Zacks Consensus Estimate. The COVID-19 pandemic caused a significant reduction in the number of scheduled flights, thereby hurting the top line.
- ▼ SkyWest's fleet modernization plans may get hampered by the lackluster air-travel demand. However, the company is working on fleet solutions with major airline partners to tide over this unprecedented crisis. For instance, SkyWest, which has an agreement with American Airlines for 20 new E175 planes, is in talks to announce new delivery dates. The new E175 planes were originally scheduled to be delivered by 2021-end/mid 2022..
- ▼ Shares of Skywest have declined 41.4% since the beginning of February mainly due to the coronavirus-induced low air-travel demand. With the health peril not yet subsiding, shares of the company might decline further. This will dent investor confidence even more. Additionally, the fact that the Zacks Consensus Estimate for current-year earnings has been revised downward over the past sixty days highlights the negative sentiment surrounding the stock.

With the plaguing health peril showing no signs of subsiding, the company expects the same to dent its performance further in the remainder of 2020

Risks

- SkyWest's strong liquidity position at the end of the second quarter looks impressive. The carrier exited the period with cash and equivalents worth \$762 million compared with \$578 million at the end of first-quarter 2020 and \$520 million at the end of fourth quarter-2019. In fact, the cash balance at the end of the March quarter is higher than the current portion of long-term debt figure of \$309.2 million. This underscores the company's solid cash position to meet its current debt obligations. Moreover, the company expects to receive roughly \$438 million (\$337 million in direct grants and \$101 million in unsecured debt) under the CARES Act, thereby bolstering its cash position. Out of the \$438 million, \$307 million (\$245 million in grants and \$62 million in loan) were received in the June quarter.
 - Even though the company suspended dividends and buybacks as a condition for receiving financial help under the CARES Act, we note that prior to the outbreak its track record with respect to these shareholder friendly measures were impressive. The carrier had consistently raised dividends for the past few years prior to the outbreak.
 - We are positive on SkyWest's sale of its subsidiary, ExpressJet Airlines, to a joint venture. The transaction was completed in January 2019. By getting rid of ExpressJet, SkyWest is able to focus more on its profit-making areas. We note that ExpressJet, which was acquired by SkyWest in 2010, was struggling with respect to profitability.
-

Last Earnings Report

SkyWest Reports Loss in Q2

SkyWest's loss of 51 cent per share was wider than the Zacks Consensus Estimate of a loss of 2 cents. Results were hurt by coronavirus-induced low air-travel demand. The company reported earnings of \$1.71 per share in the year-ago quarter when air-travel demand was strong.

Moreover, quarterly revenues of \$350 million plunged 53% year over year and missed the Zacks Consensus Estimate of \$352.4 million. The COVID-19 pandemic caused a significant reduction in the number of scheduled flights, thereby hurting the top line.

Revenues from flying agreements (contributing 96.1% to the top line) decreased 53.6% from the year-ago quarter's figure. Total expenses fell 41% to \$354.4 million due to lower number of operating flights. The carrier reported a 66% decline in block hours (a measure of aircraft utilization) during the reported quarter. Passenger load factor (percentage of seats filled by passengers) deteriorated 4950 basis points to 34.4% in the reported quarter due to shrink in air travel demand thanks to the pandemic.

Liquidity

The company exited the second quarter with cash and marketable securities of \$762 million, up from \$520 million at 2019 end. Long-term debt (net of current maturities) inched up 1.3% year over year to \$2.6 billion.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	-0.68%
EPS Surprise	-2,450.00%
Quarterly EPS	-0.51
Annual EPS (TTM)	3.30

Valuation

SkyWest shares have tumbled 50% and 42.2% 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 have declined 43.4% and 2% each in the year-to-date period. Over the past year, the Zacks sub-industry has decreased 39.9% and the sector has inched up 4.3%.

The S&P 500 Index has been up 4.2% and 15% in the year-to-date period and over the past year, respectively.

The stock is currently trading at 0.7X forward 12-month Price/Sales, which compares to 0.71X for the Zacks sub-industry, 1.35X for the Zacks sector and 3.67X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 1.1X and as low as 0.19X, with a 5-year median of 0.7X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$28 price target reflects 0.61X forward 12-month sales.

The table below shows summary valuation data for SKYW

Valuation Multiples - SKYW					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.7	0.71	1.35	3.67
	5-Year High	1.1	0.94	1.41	3.67
	5-Year Low	0.19	0.37	0.85	2.53
	5-Year Median	0.7	0.74	1.2	3.05
EV/EBITDA TTM	Current	5.62	16.68	9.77	12.66
	5-Year High	12.26	16.68	11.09	12.84
	5-Year Low	3.99	3.22	5.41	8.24
	5-Year Median	7.2	5.63	7.24	10.9
EV/S TTM	Current	1.59	1.07	1.77	3.23
	5-Year High	1.92	1.17	1.82	3.46
	5-Year Low	0.61	0.51	1.18	2.14
	5-Year Median	1.35	0.97	1.62	2.86

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (233 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
American Airlines Group Inc. (AAL)	Neutral	3
Allegiant Travel Company (ALGT)	Neutral	3
Alaska Air Group, Inc. (ALK)	Neutral	4
Hawaiian Holdings, Inc. (HA)	Neutral	4
JetBlue Airways Corporation (JBLU)	Neutral	4
Southwest Airlines Co. (LUV)	Neutral	4
Spirit Airlines, Inc. (SAVE)	Neutral	4
United Airlines Holdings Inc (UAL)	Neutral	3

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	SKYW	X Industry	S&P 500	ALK	HA	JBLU
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	4	4
VGM Score	A	-	-	B	C	C
Market Cap	1.62 B	2.28 B	23.61 B	4.82 B	638.90 M	3.19 B
# of Analysts	2	4	14	6	4	7
Dividend Yield	1.73%	0.00%	1.69%	0.00%	0.00%	0.00%
Value Score	A	-	-	A	A	B
Cash/Price	0.51	0.61	0.07	0.62	1.26	0.99
EV/EBITDA	3.99	3.79	13.32	3.26	2.32	3.25
PEG Ratio	NA	3.80	2.95	NA	NA	NA
Price/Book (P/B)	0.76	0.78	3.22	1.24	0.77	0.78
Price/Cash Flow (P/CF)	2.36	2.36	12.79	3.93	1.70	3.09
P/E (F1)	70.02	51.77	22.02	NA	NA	NA
Price/Sales (P/S)	0.63	0.44	2.57	0.72	0.31	0.54
Earnings Yield	1.42%	-26.73%	4.29%	-21.11%	-70.99%	-48.08%
Debt/Equity	1.35	0.98	0.77	0.76	1.54	1.01
Cash Flow (\$/share)	13.67	4.09	6.94	9.91	8.18	3.79
Growth Score	B	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	26.47%	2.82%	10.41%	-7.47%	5.61%	-6.90%
Proj. EPS Growth (F1/F0)	-92.64%	-249.01%	-6.51%	-228.17%	-314.40%	-396.54%
Curr. Cash Flow Growth	12.07%	11.77%	5.22%	28.26%	-9.18%	14.33%
Hist. Cash Flow Growth (3-5 yrs)	21.18%	8.55%	8.55%	7.14%	13.32%	14.43%
Current Ratio	0.96	0.80	1.34	0.79	0.93	0.95
Debt/Capital	57.53%	52.86%	44.59%	43.10%	60.58%	50.20%
Net Margin	6.51%	-3.84%	10.13%	0.85%	-5.83%	-4.05%
Return on Equity	7.82%	-4.09%	14.59%	-0.83%	-8.35%	-7.24%
Sales/Assets	0.39	0.50	0.51	0.50	0.51	0.48
Proj. Sales Growth (F1/F0)	-31.17%	-46.66%	-1.45%	-54.69%	-64.04%	-59.74%
Momentum Score	F	-	-	C	D	F
Daily Price Chg	2.02%	0.92%	-0.17%	-0.69%	0.87%	0.17%
1 Week Price Chg	12.58%	5.62%	2.30%	6.30%	10.68%	4.06%
4 Week Price Chg	7.31%	5.31%	6.41%	9.83%	4.75%	12.70%
12 Week Price Chg	24.28%	18.77%	15.42%	36.01%	11.75%	31.28%
52 Week Price Chg	-42.15%	-42.39%	2.88%	-36.28%	-45.70%	-37.65%
20 Day Average Volume	490,321	174,002	2,007,486	2,358,305	1,075,260	11,797,227
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-90.29%	-18.92%	1.84%	-39.19%	-25.76%	-47.00%
(F1) EPS Est 12 week change	-90.39%	-49.02%	2.40%	-52.28%	-32.38%	-70.65%
(Q1) EPS Est Mthly Chg	-117.65%	-43.29%	0.72%	-168.14%	-70.36%	-90.52%

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	B
Momentum Score	F
VGM Score	A

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.