

SkyWest, Inc. (SKYW)

\$64.85 (As of 01/21/20)

Price Target (6-12 Months): **\$68.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/15/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: A

Growth: B

Momentum: F

Summary

SkyWest's efforts to modernize its fleet and streamline operations are commendable. The company's measures to reward its shareholders through dividends and share buybacks are also encouraging. In February 2019, SkyWest hiked its quarterly dividend by 25%. Moreover, decline in operating expenses mainly due to the sale of ExpressJet Airlines in January 2019, is aiding the bottom line. Additionally, the carrier has an impressive history with respect to the bottom line, having outpaced the Zacks Consensus Estimate in each of the past four quarters. Owing to these tailwinds, SkyWest shares have outperformed its industry in a year. However, SkyWest's high-debt levels are concerning. Moreover, with SkyWest investing significantly toward upgrading its fleet, capital expenditures are significant, which might play spoilsport.

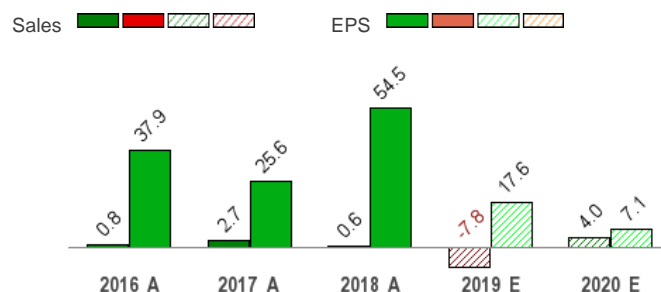
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$66.52 - \$47.62
20 Day Average Volume (sh)	203,154
Market Cap	\$3.3 B
YTD Price Change	0.3%
Beta	1.56
Dividend / Div Yld	\$0.48 / 0.7%
Industry	Transportation - Airline
Zacks Industry Rank	Top 27% (68 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.5%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/30/2020
Earnings ESP	0.0%
P/E TTM	10.6
P/E F1	9.7
PEG F1	NA
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	756 E	785 E	798 E	789 E	3,091 E
2019	724 A	744 A	760 A	737 E	2,972 E
2018	783 A	806 A	829 A	803 A	3,222 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.36 E	\$1.75 E	\$2.00 E	\$1.64 E	\$6.67 E
2019	\$1.33 A	\$1.71 A	\$1.79 A	\$1.41 E	\$6.23 E
2018	\$1.03 A	\$1.43 A	\$1.57 A	\$1.28 A	\$5.30 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 01/21/2020. The reports text is as of 01/22/2020.

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.

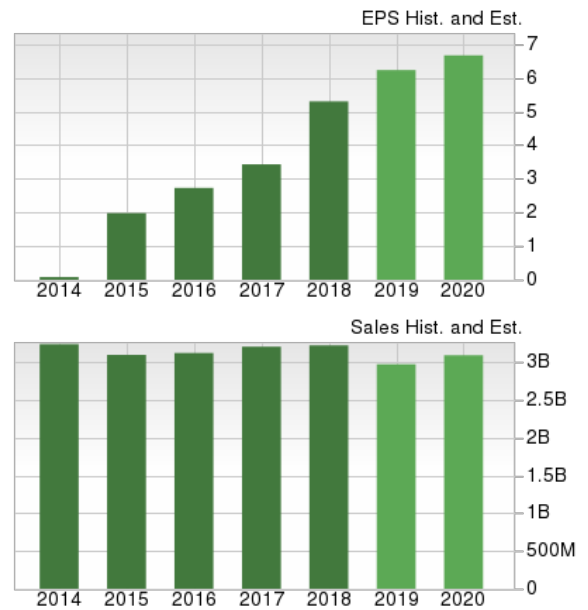
SkyWest provides regional operations to its major airline partners under long-term, fixed-fee, code-share agreements. The company has codeshare agreements with key airline players like Delta Air Lines, American Airlines, United and Alaska Airlines.

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 2018, 98.4% of the company's operating revenues of \$3.22 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 Sep 30, 2019 was 483.

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



Reasons To Buy:

- ▲ We are impressed by SkyWest's efforts to modernize its fleet and streamline operations. In the first nine months of 2019, the carrier reported a 6.6% increase in block hours (a measure of aircraft utilization) mainly due to the addition of more efficient planes in its fleet. The carrier has added 13 E175 aircraft and 11 CRJ900 aircraft to its fleet since the third quarter of 2018. It has also removed multiple planes from its fleet that were operating under less profitable/unprofitable flying agreements. Notably, at the end of 2018, SkyWest's fleet consisted of 146 E175 aircraft. At the end of third-quarter 2019, the company's fleet included 151 E175 jets. The carrier's E175 fleet is expected to increase to 168 by Dec 31, 2020. SkyWest expects to add 11 new E175 (five to have been delivered by Delta in the December quarter, and six by June 30, 2020) and one new CRJ900 plane to its fleet by 2020-end. The carrier expects to replace older CRJ900 and CRJ700 aircraft currently operating under fixed-fee agreements with these new jets. Additionally, in 2020 SkyWest expects to take delivery of six used E175 jets to be financed by Delta under the agreement with the latter. Driven by its fleet-modernization efforts, the carrier expects 2020 earnings to improve in mid-to-high single digits over the 2019 level.
- ▲ The company's efforts to reward shareholders, through dividends and buybacks, are also commendable. To this end, SkyWest increased its quarterly dividend payment by 20% to 12 cents per share (48 cents annualized) in February 2019. The carrier is also active on the buyback front. In February 2019, SkyWest announced that its board of directors has approved a new share repurchase program worth \$250 million. As of Sep 30, 2019, \$170 million remained under the program.
- ▲ 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. Also, operating expenses have declined due to the sale. The multi-year extension with American Airlines, inked in April 2019, on 38 CRJ700 jets is also a positive. In July, the company announced another deal with American Airlines pertaining to 10 CRJ700s. The planes are expected to be put into service throughout 2020. Moreover, free cash flow in 2020 is expected to be double the figure achieved in 2019.

SkyWest's initiatives to modernize its fleet are encouraging. Efforts to reward its shareholders are commendable as well.

Reasons To Sell:

- ▼ SkyWest is spending a substantial amount to modernize its fleet, which in turn is pushing up capital expenditures. Evidently, capital expenditures were \$1.1 billion in 2018. Moreover, the company's decision to invest \$30 million on its CRJ fleet, announced in August 2019, is expected to hurt earnings in the first half of 2020. First-half 2020 earnings are expected to be either flat or improve slightly year over year.
- ▼ Apart from fleet transition related expenses, factors like incentives to retain pilots are also weighing on the company's bottom-line performance and the fourth quarter of 2019 is not likely to have been any different. Detailed results will be available on Jan 30. Moreover, even though the year-over-year decline in third-quarter 2019 revenues was due to the sale of the unprofitable ExpressJet Airlines business, continuous below-par top line performances might hurt the stock.
- ▼ SkyWest is a highly leveraged company. This is indicated by the fact that the ratio of its long-term debt-to-capitalization ratio (expressed as a percentage) is currently 57.6. This compares unfavorably to the industry's average of 46.1. Moreover, the company's debt-equity ratio currently exceeds 100%. A high debt-to-equity ratio implies that the company is funding most of its ventures with debt.

High labor costs are a cause of concern and may hurt SkyWest's bottom line going forward. Escalated debt levels are worrisome too.

Last Earnings Report

Earnings Beat at SkyWest in Q3

The company's earnings of \$1.79 per share surpassed the Zacks Consensus Estimate of \$1.73. Also, the bottom line improved 14% on a year-over-year basis. Results benefited from the company's fleet transition initiatives.

Quarterly revenues came in at \$760.3 million, beating the Zacks Consensus Estimate of \$754.7 million. However, the top line declined 8.3% year over year due to the sale of ExpressJet Airlines in January 2019.

SkyWest's efforts to modernize its fleet and streamline operations are very impressive. The company aims to reduce the 50-seat jets from its fleet and add E175 aircraft. The carrier reported a 5.8% increase in block hours (a measure of aircraft utilization) during the quarter under review.

Operating expenses declined 11.1% to \$614 million owing to the sale of ExpressJet Airlines. Expenses on salaries, wages and benefits decreased 16.6% to \$251.41 million.

The company exited the reported quarter with cash and marketable securities of \$572 million, up 4% sequentially. Total debt as of Sep 30, 2019 decreased 3.2% sequentially to \$3 billion. We are also pleased by the company's efforts to reward shareholders. Evidently, the company bought back shares worth \$25 million under its \$250-million buyback program.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	0.74%
EPS Surprise	3.47%
Quarterly EPS	1.79
Annual EPS (TTM)	6.11

Recent News

Dividend Update – Nov 15, 2019

SkyWest's board of directors approved the quarterly dividend of 12 cents per share. The amount will be paid on Jan 7, 2020 to shareholders of record at the close of business on Dec 31, 2019.

Valuation

SkyWest shares are up 35.9% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Transportation sector are up 13% and 13.9% respectively.

The S&P 500 index is up 25.4% over the past year.

The stock is currently trading at 7.39X trailing 12-month Enterprise Value-to-EBITDA, which compares to 6.76X for the Zacks sub-industry, 8.07X for the Zacks sector and 12.38X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.26X and as low as 4.49X, with a 5-year median of 7.23X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$68 price target reflects 10.16X forward 12-month earnings.

The table below shows summary valuation data for SKYW

Valuation Multiples - SKYW					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	7.39	6.76	8.07	12.38
	5-Year High	12.26	7.36	11.11	12.86
	5-Year Low	4.49	4.31	5.97	8.48
	5-Year Median	7.23	6.05	7.41	10.67
P/E F 12M	Current	9.69	9.05	13.35	19.18
	5-Year High	19.82	12.3	16.98	19.34
	5-Year Low	6.65	6.85	10.46	15.17
	5-Year Median	10.41	9.05	13.11	17.44
P/S F 12M	Current	1.06	0.74	1.16	3.57
	5-Year High	1.1	0.98	1.44	3.57
	5-Year Low	0.2	0.63	1.03	2.54
	5-Year Median	0.61	0.78	1.23	3

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Top 27% (68 out of 255)



Top Peers

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

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	SKYW Neutral	X Industry	S&P 500	ALK Neutral	HA Neutral	JBLU Neutral
VGM Score	B	-	-	A	A	A
Market Cap	3.27 B	4.82 B	24.43 B	8.01 B	1.32 B	5.50 B
# of Analysts	5	4	13	7	5	8
Dividend Yield	0.74%	0.00%	1.75%	2.15%	1.69%	0.00%
Value Score	A	-	-	A	A	A
Cash/Price	0.17	0.24	0.04	0.20	0.53	0.18
EV/EBITDA	6.79	6.24	14.00	8.57	3.63	8.29
PEG Ratio	NA	0.59	2.06	0.43	NA	0.38
Price/Book (P/B)	1.57	1.24	3.39	1.88	1.24	1.15
Price/Cash Flow (P/CF)	5.47	5.39	13.69	8.42	3.34	5.94
P/E (F1)	9.72	9.15	19.00	9.15	7.58	8.05
Price/Sales (P/S)	1.08	0.67	2.68	0.93	0.47	0.68
Earnings Yield	10.29%	10.92%	5.26%	10.92%	13.20%	12.44%
Debt/Equity	1.36	0.68	0.72	0.66	1.09	0.43
Cash Flow (\$/share)	11.85	3.88	6.94	7.72	8.50	3.21
Growth Score	B	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	67.40%	4.20%	10.60%	-2.40%	24.25%	5.01%
Proj. EPS Growth (F1/F0)	7.03%	12.62%	7.57%	11.06%	-17.45%	24.34%
Curr. Cash Flow Growth	29.51%	4.80%	14.00%	-20.33%	-0.12%	-4.51%
Hist. Cash Flow Growth (3-5 yrs)	15.14%	10.18%	9.00%	7.83%	24.94%	15.59%
Current Ratio	0.84	0.70	1.23	0.66	0.87	0.53
Debt/Capital	57.61%	47.20%	42.99%	39.88%	52.10%	30.18%
Net Margin	11.04%	5.81%	11.15%	7.09%	7.30%	7.19%
Return on Equity	15.52%	14.71%	17.16%	18.06%	22.23%	12.03%
Sales/Assets	0.47	0.67	0.55	0.70	0.76	0.73
Proj. Sales Growth (F1/F0)	4.01%	4.76%	4.05%	5.37%	4.07%	7.42%
Momentum Score	F	-	-	A	A	A
Daily Price Chg	-2.04%	-2.45%	-0.27%	-2.45%	-5.49%	-0.83%
1 Week Price Chg	3.26%	0.00%	2.29%	1.11%	3.26%	2.67%
4 Week Price Chg	-0.46%	-2.62%	2.13%	-5.93%	-7.61%	-0.37%
12 Week Price Chg	9.80%	-0.90%	6.99%	-6.84%	1.10%	-2.16%
52 Week Price Chg	33.77%	-3.33%	21.25%	1.61%	-13.20%	9.67%
20 Day Average Volume	203,154	64,306	1,415,064	890,475	405,801	4,005,228
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.16%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.73%	-1.83%	0.05%
(F1) EPS Est 12 week change	1.11%	1.11%	-0.34%	0.53%	4.54%	2.14%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	30.14%	0.00%	4.55%

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	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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