

## SkyWest, Inc. (SKYW)

**\$55.48** (As of 02/21/20)

Price Target (6-12 Months): **\$55.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 11/15/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:B

Value: A

Growth: B

Momentum: D

### 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 2020, SkyWest hiked its quarterly dividend by 16.7%. Moreover, decline in operating expenses (down 9.4% in fourth-quarter 2019) mainly due to the sale of ExpressJet Airlines in January 2019, is aiding the bottom line. The carrier's earnings history is also impressive. 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.

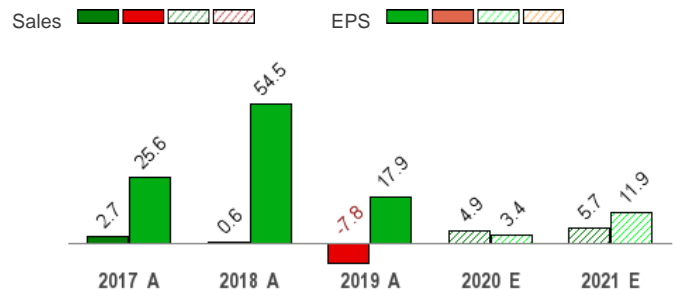
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$66.52 - \$49.35
20 Day Average Volume (sh)	329,373
Market Cap	\$2.8 B
YTD Price Change	-14.2%
Beta	1.57
Dividend / Div Yld	\$0.56 / 0.9%
Industry	<a href="#">Transportation - Airline</a>
Zacks Industry Rank	Top 16% (41 out of 255)

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



Last EPS Surprise	1.4%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	-3.1%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	8.9
P/E F1	8.6
PEG F1	NA
P/S TTM	0.9

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	811 E	833 E	847 E	832 E	3,296 E
2020	750 E	770 E	800 E	798 E	3,117 E
2019	724 A	744 A	760 A	744 A	2,972 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.52 E	\$1.95 E	\$2.09 E	\$1.84 E	\$7.23 E
2020	\$1.23 E	\$1.60 E	\$1.91 E	\$1.67 E	\$6.46 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 02/21/2020. The reports text is as of 02/24/2020.

## 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.

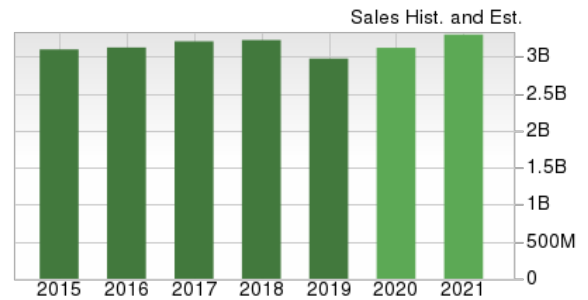
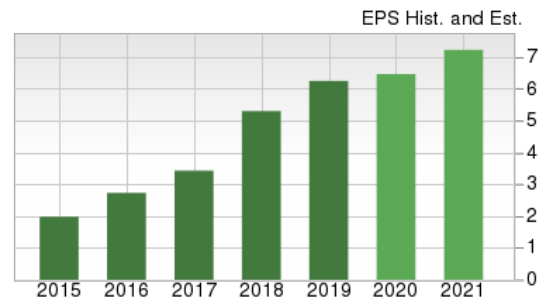
SkyWest provides regional operations to its major airline partners under long-term, fixed-fee, code-share agreements. The company has codeshare agreements with key airline players like Delta Air Lines, American Airlines, United and Alaska Airlines.

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.



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## Reasons To Buy:

- ▲ We are impressed by SkyWest's efforts to modernize its fleet and streamline operations. In 2019, the carrier reported a 6.1% 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 10 E175 aircraft and seven CRJ900 aircraft to its fleet since the fourth 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 2019, SkyWest's fleet consisted of 483 scheduled service aircraft. The deal with Embraer, inked in January, is part of its fleet modernization exercise. SkyWest inked a firm order for 20 E175 jets. The contract is valued at \$972 million, based on 2019 list prices. Embraer is expected to start delivering the jets from the second half of 2020.
- ▲ The company's efforts to reward shareholders, through dividends and buybacks, are also commendable. To this end, SkyWest increased its quarterly dividend payment by 16.5% to 14 cents per share (56 cents annualized) in February 2020. 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 Dec 31, 2019, \$160 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.

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

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## 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. In 2019, the company spent \$636 million as capital expenditures, driven by the purchase of 10 new E175s. Due to the impending acquisition of 16 new E175s in 2020, capex for 2020 is expected to be higher (in the range of \$650- \$700 million). This might dent the bottom line in 2020.
- ▼ Apart from fleet transition related expenses, factors like incentives to retain pilots are also weighing on the company's bottom-line performance and might do so in 2020 as well. Moreover, the year-over- year decline in fourth-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. This compares unfavorably to the industry's average of 46.6. 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.

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## Last Earnings Report

### Earnings Beat at SkyWest in Q4

The company's earnings of \$1.43 per share surpassed the Zacks Consensus Estimate of \$1.41. Also, the bottom line improved 11.7% on a year-over-year basis. Results benefited from the company's fleet-transition initiatives. Notably, SkyWest added 10 E175 aircraft and seven CRJ900 aircraft to its fleet since the fourth quarter of 2018.

Quarterly revenues came in at \$743.6 million, which beat the Zacks Consensus Estimate of \$737.1 million. However, the top line declined 7.45% year over year due to the sale of ExpressJet Airlines in January 2019. The carrier reported a 4.7% increase in block hours (a measure of aircraft utilization) during the reported quarter. Operating expenses declined 9.4% to \$618 million owing to the sale of ExpressJet Airlines. Expenses on salaries, wages and benefits declined 16.7% to \$249 million.

The company exited 2019 with cash and marketable securities of \$520 million, down 24.5% year over year. Long-term debt (net of current maturities) fell 7.14% year over year to \$2.6 billion. You can see the complete list of today's Zacks #1 Rank (Strong Buy) stocks [here](#).

We are optimistic about the company's efforts to reward shareholders. Evidently, the company bought back shares worth \$10 million under its \$250-million buyback program during the quarter under review.

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Quarter Ending **12/2019**

Report Date	<b>Jan 30, 2020</b>
Sales Surprise	<b>0.88%</b>
EPS Surprise	<b>1.42%</b>
Quarterly EPS	<b>1.43</b>
Annual EPS (TTM)	<b>6.26</b>

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## Recent News

### Dividend Hiked – Feb 4, 2020

SkyWest announced a 16.7% raise in its dividend payout to 14 cents per share (or 56 cents annually). The amount will be paid out on Apr 6, 2020 to its shareholders of record as of Mar 31. The move is indicative of the company's commitment to create value for shareholders and also underlines its confidence in business growth.

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## Valuation

SkyWest shares are down 1% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry are down 2.5%. Shares in the Zacks Transportation sector are up 1.2%.

The S&P 500 index is up 18.6% over the past year.

The stock is currently trading at 6.53X trailing 12-month Enterprise Value-to-EBITDA, which compares to 6.48X for the Zacks sub-industry, 7.85X for the Zacks sector and 12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.27X and as low as 4.49X, with a 5-year median of 7.19X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$55 price target reflects 6.92X 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	6.53	6.48	7.85	12
	5-Year High	12.27	7.22	11.08	12.87
	5-Year Low	4.49	4.31	6	8.48
	5-Year Median	7.19	6.01	7.4	10.77
P/E F12M	Current	8.44	8.42	13.05	19.09
	5-Year High	16.6	12.3	17	19.34
	5-Year Low	6.65	6.85	10.48	15.18
	5-Year Median	10.31	9.04	13.16	17.47
P/S F12M	Current	0.89	0.69	1.12	3.51
	5-Year High	1.1	0.98	1.44	3.51
	5-Year Low	0.23	0.63	1.02	2.54
	5-Year Median	0.63	0.77	1.21	3

As of 02/21/2020

## Industry Analysis Zacks Industry Rank: Top 16% (41 out of 255)



## Top Peers

Spirit Airlines, Inc. (SAVE)	Outperform
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
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
<b>VGM Score</b>	<b>B</b>	-	-	<b>B</b>	<b>A</b>	<b>A</b>
Market Cap	2.80 B	4.91 B	24.03 B	8.04 B	1.23 B	5.82 B
# of Analysts	5	4	13	7	5	6
Dividend Yield	0.87%	0.00%	1.76%	2.29%	1.79%	0.00%
<b>Value Score</b>	<b>A</b>	-	-	<b>B</b>	<b>B</b>	<b>B</b>
Cash/Price	0.18	0.24	0.04	0.19	0.48	0.16
EV/EBITDA	6.29	6.13	14.08	6.08	3.38	9.47
PEG Ratio	NA	0.57	2.08	0.39	NA	0.38
Price/Book (P/B)	1.29	1.24	3.29	1.86	1.14	1.21
Price/Cash Flow (P/CF)	4.06	4.96	13.42	6.60	3.28	5.44
P/E (F1)	8.20	8.58	19.00	9.17	6.86	8.40
Price/Sales (P/S)	0.94	0.64	2.64	0.92	0.43	0.72
Earnings Yield	11.64%	11.64%	5.26%	10.90%	14.58%	11.89%
Debt/Equity	1.33	0.64	0.70	0.62	0.98	0.56
Cash Flow (\$/share)	13.67	3.94	7.03	9.91	8.18	3.79
<b>Growth Score</b>	<b>B</b>	-	-	<b>A</b>	<b>C</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	41.80%	3.75%	10.84%	-3.84%	17.35%	0.16%
Proj. EPS Growth (F1/F0)	3.42%	14.58%	7.09%	11.08%	-15.04%	29.21%
Curr. Cash Flow Growth	12.07%	11.76%	6.72%	28.26%	-9.18%	11.76%
Hist. Cash Flow Growth (3-5 yrs)	21.18%	8.55%	8.25%	7.14%	13.32%	14.43%
Current Ratio	0.82	0.70	1.22	0.64	0.81	0.67
Debt/Capital	57.04%	47.20%	42.37%	38.43%	49.54%	35.83%
Net Margin	11.44%	6.10%	11.56%	8.76%	7.91%	7.03%
Return on Equity	15.39%	15.54%	16.80%	19.58%	21.20%	12.06%
Sales/Assets	0.45	0.66	0.55	0.68	0.72	0.71
Proj. Sales Growth (F1/F0)	4.88%	4.07%	3.90%	4.96%	3.47%	7.21%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>D</b>	<b>A</b>	<b>B</b>
Daily Price Chg	-1.96%	-0.72%	-0.83%	0.11%	0.07%	-1.06%
1 Week Price Chg	1.09%	0.51%	1.65%	3.36%	-1.34%	6.67%
4 Week Price Chg	-14.75%	-2.60%	-0.37%	-2.60%	-10.14%	-2.18%
12 Week Price Chg	-13.22%	-2.11%	3.74%	-5.41%	-12.59%	7.01%
52 Week Price Chg	0.31%	-12.19%	14.14%	4.09%	-15.43%	17.84%
20 Day Average Volume	329,373	67,640	1,992,841	1,335,220	621,461	4,769,385
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.06%	0.00%	-0.02%	-0.40%	4.32%	3.81%
(F1) EPS Est 12 week change	-2.94%	0.73%	-0.17%	1.11%	2.41%	3.04%
(Q1) EPS Est Mthly Chg	-9.93%	0.00%	-0.48%	-37.90%	106.25%	-26.81%

## 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	D
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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