

SkyWest, Inc. (SKYW)

\$29.27 (As of 04/28/20)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months | **Zacks Recommendation:** **Underperform**
(Since: 03/30/20)
Prior Recommendation: Neutral

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **5-Strong Sell**
Zacks Style Scores: VGM:B
Value: A | Growth: C | Momentum: F

Summary

Plummeting air-travel demand due to the coronavirus pandemic is likely to have affected SkyWest's passenger revenues in the first quarter. 2020 results might also take a hit. The coronavirus-related issues caused a 60.8% decline in the company's shares since the beginning of February. Additionally, with SkyWest investing heavily in fleet upgrade, capital expenditures are on the rise. The high capital expenses might hurt the bottom line going forward. Moreover, expenses for pilot incentives are weighing on the airline's bottom line. The carrier's high debt levels further add to its woes. The negativity revolving around the stock is evident from the Zacks Consensus Estimate for 2020 earnings being revised downward in the past 60 days. However, SkyWest's efforts to modernize its fleet and streamline operations are commendable.

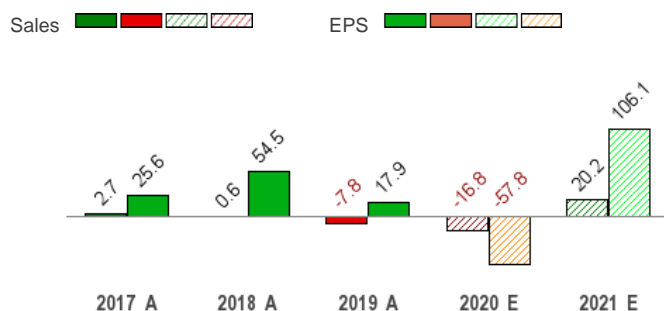
Price, Consensus & Surprise



Data Overview

52 Week High-Low **\$66.52 - \$10.58**
20 Day Average Volume (sh) **679,409**
Market Cap **\$1.5 B**
YTD Price Change **-54.7%**
Beta **1.94**
Dividend / Div Yld **\$0.56 / 1.9%**
Industry [Transportation - Airline](#)
Zacks Industry Rank **Bottom 34% (166 out of 253)**

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise **1.4%**
Last Sales Surprise **0.9%**
EPS F1 Est- 4 week change **-35.1%**
Expected Report Date **05/07/2020**
Earnings ESP **-18.2%**

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	767 E	800 E	827 E	809 E	2,972 E
2020	690 E	481 E	608 E	643 E	2,472 E
2019	724 A	744 A	760 A	744 A	2,972 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.90 E	\$1.60 E	\$1.69 E	\$1.47 E	\$5.44 E
2020	\$0.88 E	-\$0.01 E	\$0.84 E	\$1.19 E	\$2.64 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.

P/E TTM **4.7**
P/E F1 **11.1**
PEG F1 **NA**
P/S TTM **0.5**

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/28/2020. The reports text is as of 04/29/2020.

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.

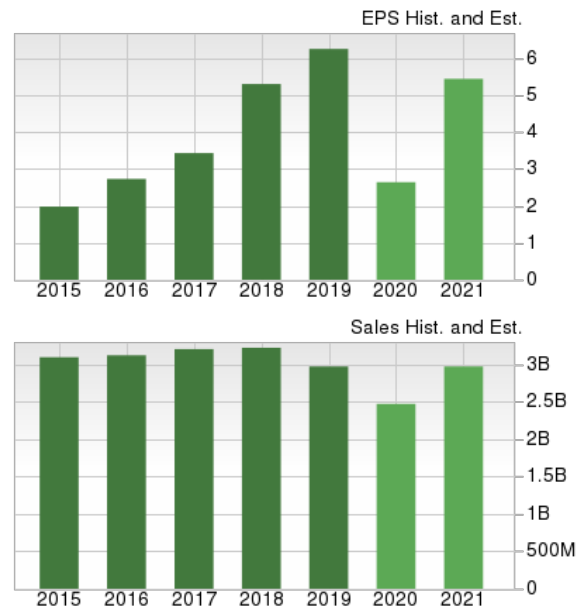
SkyWest provides regional operations to its major airline partners under long-term, fixed-fee, code-share agreements. The company has codeshare agreements with key airline players like Delta Air Lines, American Airlines, United and Alaska Airlines.

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 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. The sharp drop in air-travel demand due to coronavirus-led issues is likely to have hurt SkyWest's first quarter earnings. Detailed results should be out on May 7. In fact, the carrier expects its scheduled block-hour (a measure of aircraft utilization) production for April to decline roughly 50%.
- ▼ SkyWest is a highly leveraged company. This is indicated by the fact that the ratio of its long-term debt-to-capitalization ratio is currently 0.57. This compares unfavorably to the industry's average of 0.486. Moreover, the company's debt-equity ratio currently exceeds 1. 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.

Risks

- 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.
 - 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. Also, operating expenses have declined due to the sale.
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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.

Quarter Ending **12/2019**

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

Recent News

Inks Deal with United Airlines on E175 Jets - Feb 24, 2020

SkyWest became the largest operator of United Airlines' E175 planes when it fortified its relationship with the latter through a new multi-year deal. In fact, SkyWest is now the largest operator of these planes in the United States.

The deal allows SkyWest to operate United Airlines' 25 Embraer E175 jets. These planes will enter service over a 12-month period spanning from second-quarter 2020 to first-quarter 2021.

Valuation

SkyWest shares are down 54.7% and 52.5% 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 57% and 23.5% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and sector are down 55.8% and 23.1%, respectively.

The S&P 500 index is down 10.8% and 2.9% in the year-to-date period and in the past year, respectively.

The stock is currently trading at 4.99X trailing 12-month Enterprise Value-to-EBITDA, which compares to 3.69X for the Zacks sub-industry, 6.43X for the Zacks sector and 10.52X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.26X and as low as 3.99X, with a 5-year median of 7.2X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$26 price target reflects 7.03X 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	4.99	3.69	6.43	10.52
	5-Year High	12.26	7.03	11.16	12.87
	5-Year Low	3.99	3.4	5.61	8.27
	5-Year Median	7.2	5.98	7.38	10.78
P/E F 12M	Current	8.23	-9.42	24.19	20.2
	5-Year High	15.97	12.3	24.19	20.2
	5-Year Low	1.86	-9.42	10.48	15.19
	5-Year Median	10.13	9.06	13.17	17.45
P/S F 12M	Current	0.56	0.5	1.05	3.22
	5-Year High	1.1	0.98	1.42	3.44
	5-Year Low	0.19	0.39	0.85	2.54
	5-Year Median	0.64	0.77	1.21	3.01

As of 04/28/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (166 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
American Airlines Group Inc. (AAL)	Neutral	3
Alaska Air Group, Inc. (ALK)	Neutral	3
Hawaiian Holdings, Inc. (HA)	Neutral	3
JetBlue Airways Corporation (JBLU)	Neutral	3
Spirit Airlines, Inc. (SAVE)	Neutral	3
United Airlines Holdings Inc (UAL)	Neutral	3
Allegiant Travel Company (ALGT)	Underperform	3
Southwest Airlines Co. (LUV)	Underperform	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)	5	-	-	3	3	3
VGM Score	B	-	-	C	D	B
Market Cap	1.47 B	2.15 B	20.14 B	3.87 B	624.67 M	2.43 B
# of Analysts	4	4	14	6	4	6
Dividend Yield	1.91%	0.00%	2.13%	0.00%	3.53%	0.00%
Value Score	A	-	-	C	C	C
Cash/Price	0.40	0.62	0.06	0.44	1.18	0.62
EV/EBITDA	4.07	3.24	12.15	3.33	2.16	2.79
PEG Ratio	NA	2.09	2.43	NA	NA	NA
Price/Book (P/B)	0.68	0.68	2.68	0.90	0.59	0.54
Price/Cash Flow (P/CF)	2.14	2.14	10.78	3.19	1.66	2.38
P/E (F1)	12.13	20.80	19.06	NA	NA	NA
Price/Sales (P/S)	0.49	0.29	2.12	0.44	0.22	0.30
Earnings Yield	9.02%	-21.17%	5.11%	-11.24%	-51.47%	-19.18%
Debt/Equity	1.33	0.68	0.72	0.62	0.98	0.56
Cash Flow (\$/share)	13.67	4.14	7.01	9.91	8.18	3.79
Growth Score	C	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	41.80%	4.00%	10.88%	-3.84%	17.35%	0.16%
Proj. EPS Growth (F1/F0)	-57.72%	-193.69%	-6.33%	-155.30%	-252.07%	-190.88%
Curr. Cash Flow Growth	12.07%	12.49%	5.92%	28.26%	-9.18%	14.33%
Hist. Cash Flow Growth (3-5 yrs)	21.18%	9.63%	8.55%	7.14%	13.32%	14.43%
Current Ratio	0.82	0.68	1.23	0.64	0.81	0.67
Debt/Capital	57.04%	47.44%	43.90%	38.43%	49.54%	35.83%
Net Margin	11.44%	6.69%	11.13%	8.76%	7.91%	7.03%
Return on Equity	15.39%	12.61%	16.47%	19.58%	21.20%	12.06%
Sales/Assets	0.45	0.64	0.55	0.68	0.72	0.71
Proj. Sales Growth (F1/F0)	-16.82%	-33.30%	-1.35%	-39.13%	-52.15%	-39.13%
Momentum Score	F	-	-	F	F	F
Daily Price Chg	7.97%	2.30%	1.10%	13.39%	18.01%	11.08%
1 Week Price Chg	0.08%	-4.56%	-1.74%	-6.41%	-0.61%	-11.47%
4 Week Price Chg	11.76%	3.51%	11.80%	10.92%	30.22%	0.78%
12 Week Price Chg	-49.33%	-49.33%	-17.28%	-51.98%	-53.43%	-55.83%
52 Week Price Chg	-52.48%	-49.90%	-10.69%	-48.98%	-51.81%	-51.38%
20 Day Average Volume	679,409	183,131	2,660,864	2,911,481	1,465,849	13,015,586
(F1) EPS Est 1 week change	-30.55%	-38.30%	0.00%	-147.67%	-100.86%	-127.19%
(F1) EPS Est 4 week change	-35.11%	-187.20%	-6.46%	-563.04%	-688.17%	-4,084.61%
(F1) EPS Est 12 week change	-60.37%	-166.62%	-12.81%	-149.52%	-290.29%	-170.59%
(Q1) EPS Est Mthly Chg	-101.35%	-386.43%	-10.84%	-520.26%	-650.83%	-500.00%

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	A
Growth Score	C
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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