

SkyWest, Inc. (SKYW)

\$29.20 (As of 07/28/20)

Price Target (6-12 Months): **\$24.00**

Long Term: 6-12 Months | **Zacks Recommendation:** **Underperform**
(Since: 06/09/20)
Prior Recommendation: Neutral

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

Summary

Plummeting air-travel demand due to the coronavirus pandemic has primarily induced SkyWest shares declining 41.8% since February. Weakness related to air travel is affecting the company's bottom line and passenger load factor (percentage of seats filled by passengers). Amid fears of a second wave of the virus, and cases rising in the United States, the company's second-quarter performance is expected to have taken a hit. Additionally, SkyWest's escalating operating expenses are hurting the bottom line. 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. Its current ratio too compares favorably to the industry.

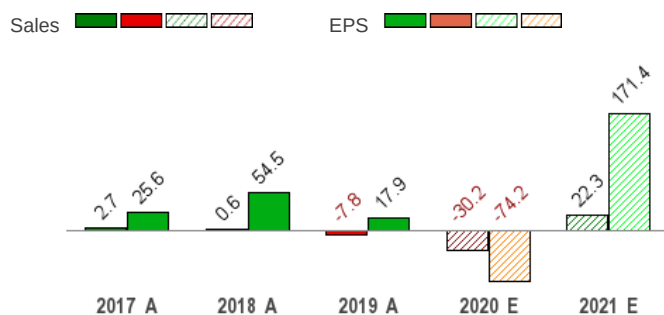
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$66.52 - \$10.58
20 Day Average Volume (sh)	408,826
Market Cap	\$1.4 B
YTD Price Change	-56.0%
Beta	1.85
Dividend / Div Yld	\$0.56 / 2.0%
Industry	Transportation - Airline
Zacks Industry Rank	Bottom 22% (198 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-33.0%
Last Sales Surprise	5.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/30/2020
Earnings ESP	-1,300.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	627 E	688 E	697 E	685 E	2,537 E
2020	730 A	352 E	438 E	554 E	2,074 E
2019	724 A	744 A	760 A	744 A	2,972 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.77 E	\$1.12 E	\$1.11 E	\$0.87 E	\$4.37 E
2020	\$0.59 A	-\$0.02 E	\$0.40 E	\$0.56 E	\$1.61 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 07/28/2020. The reports text is as of 07/29/2020.

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.

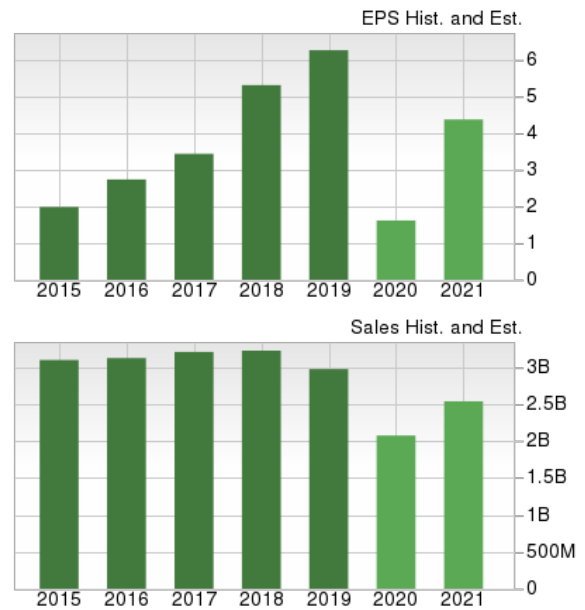
SkyWest provides regional operations to its major airline partners under long-term, fixed-fee, code-share agreements. The company has codeshare agreements with key airline players like Delta Air Lines, American Airlines, United and Alaska Airlines.

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 reported lower-than-expected earnings per share for first-quarter 2020. Moreover, the bottom line plunged 55.6% on a year-over-year basis, primarily due to slumping demand in March, stemming from the COVID-19 outbreak. Additionally, passenger load factor (percentage of seats filled by passengers) deteriorated 11.1 percentage points to 67.5% in the first quarter due to the waning air-travel demand in the wake of the pandemic. With the plaguing health peril not yet subsiding, the company expects the same to dent its performance during the second quarter. Detailed results will be available on Jul 30.
- ▼ Total operating expenses increased 5.8% in the first quarter on a year-over-year basis due to higher aircraft maintenance, materials and repairs as well as depreciation and amortization costs. With results being hurt by the coronavirus pandemic, the rise in costs poses a further challenge to the bottom 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.
- ▼ Shares of Skywest have declined 41.8% 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 first quarter looks impressive. The carrier exited the period with cash and equivalents worth \$578 million compared with \$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 debt burden of \$453.2 million. This underscores the company's solid cash position to meet its current debt obligations. Additionally, current ratio, a measure of liquidity, at SkyWest stood at 0.75 at the end of first-quarter 2020, higher than its industry's 0.48. Moreover, the company expects to receive roughly \$438 million under the CARES Act, thereby bolstering its liquidity further.
 - 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. Additionally, in first-quarter 2020, quarterly revenues increased year over year due to inclusion of 16 E175 jets since first-quarter 2019.
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Last Earnings Report

Earnings Miss at SkyWest in Q1

The company's earnings of 59 cents per share missed the Zacks Consensus Estimate of 88 cents. Also, the bottom line deteriorated 55.64% on a year-over-year basis primarily due to fall in demand in March 2020 stemming from the COVID-19 outbreak.

Quarterly revenues came in at \$729.9 million, which beat the Zacks Consensus Estimate of \$690 million. Moreover, the top line increased marginally year over year due to inclusion of 16 E175 aircrafts since first-quarter 2019. Revenues from flying agreements (contributing 97.2% to the top line) inched up 1.35% from the year-ago quarter's figure. Total expenses rose 5.8% to \$663.6 million due to higher aircraft maintenance, materials and repairs as well as depreciation and amortization costs.

The carrier reported a 2.2% increase in block hours (a measure of aircraft utilization) during the reported quarter. Passenger load factor (percentage of seats filled by passengers) deteriorated 11.1 percentage points to 67.5% in the reported quarter due to shrink in air travel demand thanks to the pandemic.

The company exited the quarter with cash and marketable securities of \$578 million, up from \$520 million at 2019 end. Long-term debt (net of current maturities) fell 3.8% year over year to \$2.5 billion.

Quarter Ending 03/2020

Report Date	May 07, 2020
Sales Surprise	5.79%
EPS Surprise	-32.95%
Quarterly EPS	0.59
Annual EPS (TTM)	5.52

Valuation

SkyWest shares are up 56% and 54% 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% and 9.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 43.9% and 8.1%, respectively.

The S&P 500 index has not shown any movement in the year-to-date period but increased 6.9% in the past year.

The stock is currently trading at 4.82X trailing 12-month EV/EBITDA, which compares to 4.66X for the Zacks sub-industry, 7.61X for the Zacks sector and 11.95X 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 \$24 price target reflects 4.36X trailing 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	4.82	4.66	7.61	11.95
	5-Year High	12.26	7.03	11.21	12.85
	5-Year Low	3.99	3.19	5.45	8.25
	5-Year Median	7.2	5.9	7.39	10.88
P/E TTM	Current	5.16	9.62	16.8	20.75
	5-Year High	17.63	13.19	19.57	22.25
	5-Year Low	1.93	7.45	11.63	15.98
	5-Year Median	10.8	10.58	15.55	19.13
P/S F 12M	Current	0.61	0.69	1.28	3.55
	5-Year High	1.1	0.98	1.42	3.55
	5-Year Low	0.19	0.38	0.85	2.53
	5-Year Median	0.7	0.76	1.2	3.02

As of 07/27/2020

Industry Analysis Zacks Industry Rank: Bottom 22% (198 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	3
JetBlue Airways Corporation (JBLU)	Neutral	3
Southwest Airlines Co. (LUV)	Neutral	4
Spirit Airlines, Inc. (SAVE)	Neutral	3
United Airlines Holdings Inc (UAL)	Neutral	4

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	-	-	4	3	3
VGM Score	A	-	-	D	C	D
Market Cap	1.43 B	2.19 B	22.74 B	4.19 B	600.11 M	2.76 B
# of Analysts	3	5	14	6	4	7
Dividend Yield	1.97%	0.00%	1.8%	0.00%	2.76%	0.00%
Value Score	A	-	-	B	A	B
Cash/Price	0.41	0.64	0.07	0.65	1.35	0.65
EV/EBITDA	3.87	3.64	13.03	2.84	2.37	2.63
PEG Ratio	NA	3.30	3.03	NA	NA	NA
Price/Book (P/B)	0.66	0.67	3.17	1.08	0.65	0.63
Price/Cash Flow (P/CF)	2.08	2.24	12.05	3.44	1.60	2.70
P/E (F1)	18.14	21.37	21.90	NA	NA	NA
Price/Sales (P/S)	0.48	0.39	2.38	0.63	0.22	0.35
Earnings Yield	5.66%	-27.05%	4.30%	-20.53%	-58.35%	-37.44%
Debt/Equity	1.29	0.90	0.76	0.76	1.50	0.60
Cash Flow (\$/share)	13.67	4.15	7.01	9.91	8.18	3.79
Growth Score	B	-	-	F	D	D
Hist. EPS Growth (3-5 yrs)	33.22%	2.20%	10.85%	-7.47%	9.44%	-4.34%
Proj. EPS Growth (F1/F0)	-74.19%	-250.80%	-7.56%	-209.24%	-265.60%	-301.73%
Curr. Cash Flow Growth	12.07%	11.77%	5.47%	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	0.75	0.78	1.31	0.79	0.96	0.61
Debt/Capital	56.38%	54.62%	44.41%	43.10%	60.06%	37.48%
Net Margin	9.47%	-0.26%	10.45%	0.85%	1.58%	3.32%
Return on Equity	13.26%	-0.83%	15.13%	-0.83%	14.93%	8.63%
Sales/Assets	0.45	0.55	0.54	0.50	0.68	0.67
Proj. Sales Growth (F1/F0)	-30.22%	-46.66%	-2.00%	-53.15%	-56.19%	-53.15%
Momentum Score	C	-	-	F	D	F
Daily Price Chg	0.99%	0.00%	0.48%	-2.60%	-0.61%	-0.63%
1 Week Price Chg	-6.87%	-3.52%	0.37%	-5.24%	-3.52%	-4.90%
4 Week Price Chg	-13.39%	-6.77%	5.61%	-7.48%	-8.48%	-7.51%
12 Week Price Chg	8.75%	8.88%	13.36%	18.70%	0.62%	18.62%
52 Week Price Chg	-53.97%	-49.77%	-3.30%	-46.62%	-50.61%	-47.40%
20 Day Average Volume	408,826	153,794	1,917,592	2,202,779	926,090	11,004,322
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-23.87%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.21%	-13.79%	-2.25%	-1.09%
(F1) EPS Est 12 week change	-38.95%	-60.47%	-2.00%	-97.56%	-8.90%	-121.98%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-102.17%	-18.73%	-5.46%

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	C
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.

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