

United Airlines (UAL)

\$34.49 (As of 07/16/20)

Price Target (6-12 Months): **\$36.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/14/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

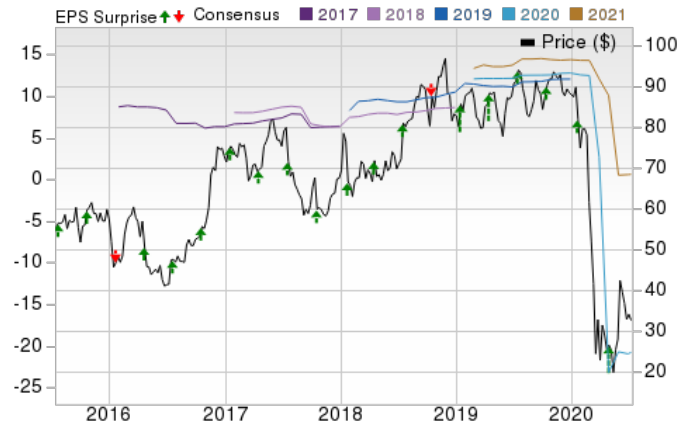
Growth: D

Momentum: B

Summary

Shares of United Airlines have declined 53.9% since the beginning of February due to coronavirus-led drop in demand. With the recent surge in coronavirus cases in the United States and new quarantine rules, the modest uptick in passenger demand (from the April lows) seems to be fading. Due to the demand slump, the carrier's June capacity was reduced by 88% year over year while its July capacity is anticipated to be down 75%. For second quarter, the carrier expects revenues to have declined 88%. However, low fuel prices are partly offsetting the adversities. The company is making consistent efforts to preserve cash through reduction in capital expenses and operating costs. The carrier expects operating costs to have plunged 53% for the second quarter. Moreover, United Airlines reduced its adjusted capex guidance for 2020 by \$2.5 billion.

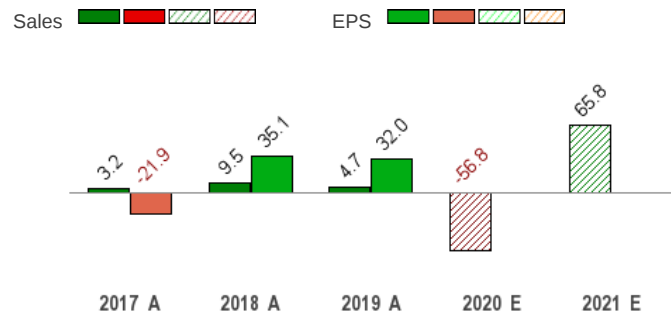
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$96.03 - \$17.80
20 Day Average Volume (sh)	60,470,868
Market Cap	\$8.6 B
YTD Price Change	-60.9%
Beta	1.49
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Airline
Zacks Industry Rank	Bottom 15% (213 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	20.9%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	2.2%
Expected Report Date	07/21/2020
Earnings ESP	13.0%
P/E TTM	4.1
P/E F1	NA
PEG F1	NA
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,589 E	7,460 E	8,241 E	9,033 E	30,964 E
2020	7,979 A	1,217 E	3,536 E	5,958 E	18,680 E
2019	9,589 A	11,402 A	11,380 A	10,888 A	43,259 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$1.77 E	\$0.49 E	\$0.97 E	\$1.84 E	\$0.56 E
2020	-\$2.57 A	-\$9.13 E	-\$5.88 E	-\$2.72 E	-\$20.58 E
2019	\$1.15 A	\$4.21 A	\$4.07 A	\$2.67 A	\$12.05 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 07/16/2020. The reports text is as of 07/17/2020.

Overview

United Airlines Holdings is based in Chicago. The carrier changed its name from United Continental Holdings to United Airlines Holdings in June 2019. It is the holding company for both United Airlines and Continental Airlines.

United Airlines, whose fiscal year coincides with the calendar year, transports people and cargo not only throughout North America but also destinations in Asia, Europe, the Middle East and Latin America. The company operates more than 4,800 flights (mainline+regional) a day to 353 airports across multiple destinations. The regional carriers operate under the United Express brand.

The carrier's hubs are at Newark Liberty International Airport, Chicago O'Hare International Airport, Denver International Airport, George Bush Intercontinental Airport, Los Angeles International Airport, A.B. Won Pat International Airport, San Francisco International Airport and Washington Dulles International Airport.

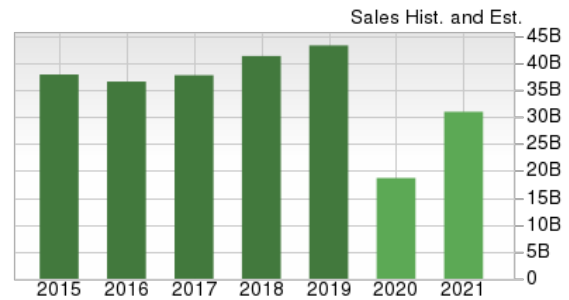
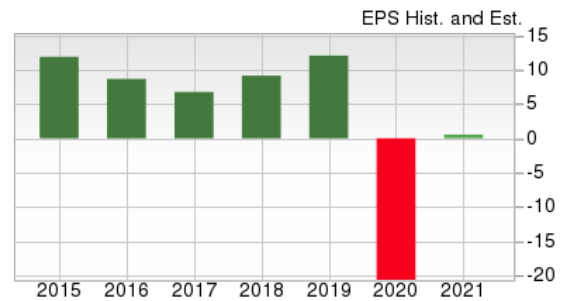
As of Dec 31, 2019, the carrier's total fleet size stood at 1,358, out of which 777 and 581 were mainline and regional aircraft respectively. United Airlines is a member of Star Alliance, the largest and most comprehensive airline alliance in the world.

As of January 1, 2020, Star Alliance carriers served more than 1,300 airports in 195 countries across the globe. United Airlines is part of four passenger joint business arrangements ("JBAs"). Moreover, the company's MileagePlus loyalty program is aimed at promoting customer loyalty by offering awards, benefits and services to its members.

Participants in the program are eligible to earn miles for flights on United Airlines, United Express, Star Alliance members and certain other airlines. MileagePlus flight awards represented 7.2% of the company's total revenue passenger miles in 2019. In August 2019, the carrier removed expiration dates on its frequent flyer miles.

Passenger revenues account for the bulk of its top line. In 2019, 91.6% of the top line came from passenger revenues. **Cargo revenues** accounted for approximately 2.7% and the remaining came from "others."

Domestic revenues (United States and Canada) accounted for 62.3% of the total revenues in 2019. Atlantic, Pacific and Latin American regions accounted for 17.1%, 11.9% and 8.7% respectively in 2019.



Reasons To Buy:

▲ Amid low air travel demand due to coronavirus concerns, significant reduction in fuel prices since the beginning of this year should partly offset the adversity. In fact, low fuel prices (down 7.1% in 2019 and 7.3% in first-quarter 2020) are aiding the carrier's bottom line. The company's strong 2019 performance despite headwinds, such as the prolonged MAX groundings, government shutdown and poor weather conditions, can be gauged from the fact that it achieved its 2020 adjusted earnings per share target of \$11-\$13 in 2019 itself.

Cost cuts and low fuel prices are partly offsetting the coronavirus-related adversities

▲ To counteract the enormous slump in demand, the company took several cost-controlling measures like freezing hiring (except for crucial roles), delaying salary increases as well as giving employees the option to apply for voluntary leave or early retirement. The carrier is also trying to preserve cash by cutting down on capital expenditures and operating expenses. While releasing its first-quarter results, the carrier reduced its adjusted capex guidance for 2020 by \$2.5 billion in view of the coronavirus crisis. The current-year metric is now expected below \$4.5 billion. For the second quarter, United Airlines estimates operating expenses to have plunged 53% year over year. With this, average daily cash burn for the second quarter is expected to be at the low end of the guidance of \$40-\$45 million. In the third quarter, the same is forecast at approximately \$30 million per day.

▲ Efforts to modernize its fleet also buoy optimism on the stock. To this end, the carrier is replacing the outdated planes with new ones to its fleet. The recent deal with Bank of China Aviation to sell 22 planes is a positive in this respect. The pact covers a fleet of six Boeing 787-9 and 16 Boeing 737-9 MAX planes. However, the planes can be leased back to the carrier under long-term agreements. Additionally, the company's projection for second-quarter cargo revenues is encouraging. For the second quarter, cargo revenues are expected to have surged more than 30% year over year, backed by international cargo-only flying. Detailed results will be available on Jul 21.

Reasons To Sell:

- ▼ The coronavirus outbreak is taking a significant toll on United Airlines. Due to slump in air-travel demand, the carrier incurred a loss in first-quarter 2020 with passenger revenues declining 19%. Given the recent surge in coronavirus cases in the United States, the uptick in passenger demand (from the lows in April) seems to be fading. With fresh quarantine rules announced in New York, New Jersey and Connecticut in June, the company is seeing reduced demand on some of its routes. The impact is especially grave in Newark. With air-travel demand at an unprecedented low level, the airline's June capacity was reduced by approximately 88% year over year, while July capacity is expected to be down approximately 75%. The August schedule is expected to be down approximately 65%. Similar to the first quarter, the airline's second-quarter revenues are expected to have been affected significantly. United Airlines anticipates total revenues to have declined 88% year over year for the second quarter.
 - ▼ The company exited the first quarter of 2020 with cash and cash equivalents of \$3,442 million, less than the current maturities of long-term debt, which stands at \$4,055 million as of Mar 31, 2020. Notably, the company's total debt to total capital ratio at the end of the first quarter was 0.66 compared with 0.64 at the end of fourth-quarter 2019. Also, United Airlines expects to get approximately \$5 billion via the payroll support program under the CARES Act. While a \$3.5-billion amount of the above will be through grants (it doesn't have to pay back), \$1.5 billion will be via 10-year loans. This is likely to worsen its debt profile. Moreover, in March, international credit rating agency Fitch lowered its outlook for the carrier to a negative due to the plunge in air-travel demand amid the coronavirus pandemic.
 - ▼ The government funding will protect jobs only through Sep 30, 2020. However, air-travel demand is likely to remain suppressed for a much longer time. Given the current demand scenario, United Airlines expects to operate a smaller airline in future. As a result, the carrier has warned that up to 30% of its managerial staff may be laid off after Sep 30. Moreover, in July, United Airlines informed approximately 36,000 U.S.-based employees about potential furloughs, expected to take effect on or after Oct 1. The job cuts may continue through the end of 2020. In the meantime, the company is offering voluntary-separation options to employees, with regard to which it expects to have recorded a charge of approximately \$300 million for the second quarter. The company has already cut 13 officer jobs, although eight of those removed will continue to be attached with the company through Sep 30. Moreover, United Airlines is taking a hit from the Boeing 737 MAX groundings. In February 2020, the carrier extended the grounding period of its MAX jets, which have remained non-operational since March 2019.
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The carrier anticipates total revenues to have declined 88% year over year for the second quarter.

Last Earnings Report

Narrower-Than-Expected Loss in Q1

The company incurred a loss (excluding \$4.29 from non-recurring items) of \$2.57 per share, comparing favorably with the Zacks Consensus Estimate of a loss of \$3.25. Results were hurt by the coronavirus-induced weakness in air-travel demand.

Even though operating revenues of \$7,979 million decreased 16.8% year over year, the same marginally beat the Zacks Consensus Estimate of \$7,976 million. The year-over-year plunge was due to the 19% decrease in passenger revenues, which accounted for bulk (88.5%) of the top line. Moreover, cargo revenues representing 3.3% of the top line declined 7.7%. Revenues from other sources contributed to the remainder.

Quarter Ending 03/2020

Report Date	Apr 30, 2020
Sales Surprise	0.04%
EPS Surprise	20.92%
Quarterly EPS	-2.57
Annual EPS (TTM)	8.38

Operating Results

Consolidated passenger revenue per available seat mile (PRASM: a key measure of unit revenues) decreased 12.8% year over year to 11.59 cents. Total revenue per available seat mile declined 10.4% year over year to 13.09 cents. On a consolidated basis, average yield per revenue passenger mile dipped 0.5% from the year-ago quarter.

During the quarter under review, consolidated airline traffic, measured in revenue passenger miles, decreased 18.7% year over year. Capacity (or available seat miles) contracted 7.2%. Consolidated load factor (percentage of seat occupancy) deteriorated 10 percentage points to 70.9% as traffic decline was more than capacity contraction. Meanwhile, average fuel price per gallon (on a consolidated basis) decreased 7.3% year over year to \$1.90.

Total adjusted operating expenses inched up 1.8% year over year to \$7,118 million in the reported quarter. Consolidated unit cost or cost per available seat mile (CASM) excluding fuel, third-party business expenses, profit sharing and special charges was up 9.7% year over year. Moreover, total unit costs increased 6.1% year over year.

United Airlines exited the first quarter with cash and cash equivalents of \$3,442 million compared with \$2,762 million at 2019 end. Long-term debt at the end of the reported quarter was \$13,198 million compared with \$13,145 million at 2019 end.

Other Details

The company anticipates daily cash burn (on average) in the \$40-\$45 million range during the second quarter of 2020. Moreover, the carrier had \$9.6 billion in liquidity as of Apr 29, 2020. The figure is inclusive of \$2 billion under its undrawn revolving credit facility.

Moreover, the carrier reduced its adjusted capex guidance for 2020 by \$2.5 billion in view of the coronavirus crisis. The current-year metric is now expected below \$4.5 billion.

Recent News

Deal With Pilots' Union to Limit Involuntary Layoffs — Jul 17, 2020

United Airlines has reached an agreement with its pilots' union to reduce involuntary furloughs during fall. The deal with the Air Line Pilots Association International includes an early-retirement option for pilots aged 62 or more, as well as other options where pilots can voluntarily reduce work hours or take leaves of absence. Employees opting for these packages would receive health benefits provided they keep up their training. An important provision in this deal is that pilots can remain qualified and can join back once passenger demand returns.

Valuation

United Airlines shares are down 60.9% and 63.8% 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 39.6% and 8.9% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector are down 40% and 5.8% respectively.

The S&P 500 index is up 0.4% and 8.4% in the year-to-date period and in the past year respectively.

The stock is currently trading at 4.12X trailing 12-month price to earnings, which compares to 10.39X for the Zacks sub-industry, 16.85X for the Zacks sector and 20.83X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.29X and as low as 1.76X, with a 5-year median of 8X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$36 price target reflects 4.3X trailing 12-month earnings.

The table below shows summary valuation data for UAL

Valuation Multiples - UAL					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	4.12	10.39	16.85	20.83
	5-Year High	12.29	13.19	19.57	22.25
	5-Year Low	1.76	7.45	11.63	15.98
	5-Year Median	8	10.58	15.55	19.13
EV/EBITDA TTM	Current	4.19	4.88	7.62	11.99
	5-Year High	7.27	7.03	11.21	12.86
	5-Year Low	3.07	3.19	5.45	8.25
	5-Year Median	5.18	5.9	7.38	10.87
P/S F 12M	Current	0.34	0.75	1.29	3.58
	5-Year High	0.66	0.98	1.42	3.58
	5-Year Low	0.12	0.38	0.85	2.53
	5-Year Median	0.51	0.76	1.2	3.02

As of 07/16/2020

Industry Analysis Zacks Industry Rank: Bottom 15% (213 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
American Airlines Group Inc. (AAL)	Neutral	3
Air FranceKLM SA (AFLYY)	Neutral	4
Delta Air Lines, Inc. (DAL)	Neutral	3
Hawaiian Holdings, Inc. (HA)	Neutral	3
JetBlue Airways Corporation (JBLU)	Neutral	3
Southwest Airlines Co. (LUV)	Neutral	3
Spirit Airlines, Inc. (SAVE)	Neutral	3
China Southern Airlines Company Limited (ZNH)	Neutral	3

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	UAL	X Industry	S&P 500	AAL	DAL	LUV
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	B	D	D
Market Cap	8.55 B	2.35 B	22.43 B	6.33 B	17.39 B	17.41 B
# of Analysts	15	4.5	14	11	9	11
Dividend Yield	0.00%	0.00%	1.82%	0.00%	0.00%	2.10%
Value Score	B	-	-	A	B	C
Cash/Price	0.64	0.51	0.07	0.62	0.35	0.33
EV/EBITDA	3.21	3.72	13.00	4.26	3.99	3.59
PEG Ratio	NA	4.90	2.97	NA	NA	NA
Price/Book (P/B)	0.91	0.69	3.13	NA	2.00	1.92
Price/Cash Flow (P/CF)	1.61	2.35	12.13	1.21	2.40	5.03
P/E (F1)	NA	23.82	21.97	NA	NA	NA
Price/Sales (P/S)	0.21	0.39	2.38	0.14	0.51	0.81
Earnings Yield	-59.67%	-26.83%	4.35%	-119.36%	-31.14%	-13.01%
Debt/Equity	1.98	0.83	0.75	-8.18	2.85	0.38
Cash Flow (\$/share)	21.42	4.15	6.94	10.27	11.37	6.80
Growth Score	D	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	-0.69%	2.29%	10.85%	-19.39%	8.27%	4.95%
Proj. EPS Growth (F1/F0)	-270.82%	-253.95%	-9.37%	-403.24%	-216.17%	-204.13%
Curr. Cash Flow Growth	15.52%	12.07%	5.51%	5.17%	17.74%	-3.22%
Hist. Cash Flow Growth (3-5 yrs)	8.25%	8.55%	8.55%	-4.04%	10.18%	8.55%
Current Ratio	0.49	0.69	1.30	0.37	0.94	0.69
Debt/Capital	66.42%	56.38%	44.33%	NA	74.04%	27.38%
Net Margin	2.43%	1.05%	10.59%	-1.69%	-10.74%	8.46%
Return on Equity	20.51%	9.01%	15.74%	-124.31%	-4.02%	18.92%
Sales/Assets	0.79	0.61	0.54	0.72	0.51	0.81
Proj. Sales Growth (F1/F0)	-56.82%	-45.36%	-2.44%	-55.53%	-59.86%	-52.03%
Momentum Score	B	-	-	A	F	B
Daily Price Chg	-5.17%	-1.88%	-0.06%	-7.37%	-4.69%	-4.31%
1 Week Price Chg	-4.31%	-1.29%	-0.41%	-4.48%	-2.27%	-2.64%
4 Week Price Chg	-12.33%	-4.06%	1.63%	-24.50%	-11.47%	-4.57%
12 Week Price Chg	34.10%	18.67%	15.55%	21.46%	21.26%	13.50%
52 Week Price Chg	-63.80%	-48.64%	-4.26%	-63.10%	-56.50%	-34.76%
20 Day Average Volume	60,470,868	149,178	2,236,294	95,620,464	33,897,832	15,973,280
(F1) EPS Est 1 week change	0.86%	0.00%	0.00%	1.98%	-8.44%	4.86%
(F1) EPS Est 4 week change	2.22%	0.00%	0.01%	4.57%	-6.49%	7.58%
(F1) EPS Est 12 week change	-106.24%	-112.49%	-5.24%	-54.24%	-104.90%	-4,375.35%
(Q1) EPS Est Mthly Chg	-7.17%	0.00%	0.00%	4.84%	-19.51%	6.18%

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	B
Growth Score	D
Momentum Score	B
VGM Score	C

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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