

United Airlines (UAL)

\$89.70 (As of 01/17/20)

Price Target (6-12 Months): **\$95.00**

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:A

Value: A

Growth: A

Momentum: F

Summary

United Airlines is being aided by a healthy uptick in passenger revenues on the back of strong demand for air travel. Reduction in fuel prices is an added positive. We are also upbeat about United Airlines' efforts to reward its shareholders through buybacks. However, the prolonged grounding of Boeing 737 MAX jets is worrisome. It is causing numerous flight cancellations and hurting revenues as United Airlines has 14 such jets in its fleet. It expects the jets to remain grounded through Jun 4, 2020. Loss of revenues due to the issue is likely to have dented the fourth-quarter performance. Results will be out on Jan 21. High-debt levels further add to the carrier's woes. Moreover, weather-related disruptions are affecting operations. Mainly due to these headwinds, shares of United Airlines underperformed its industry in a year's time.

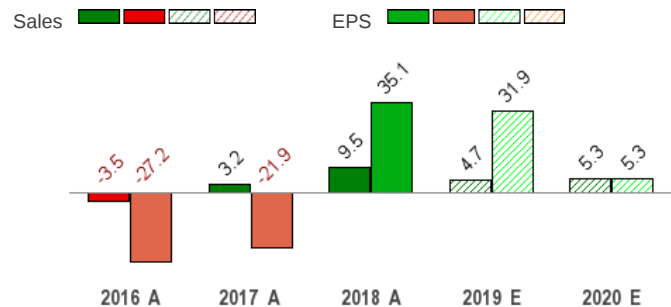
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$96.03 - \$77.02
20 Day Average Volume (sh)	2,110,079
Market Cap	\$22.7 B
YTD Price Change	1.8%
Beta	1.13
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Airline
Zacks Industry Rank	Top 27% (68 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.3%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	01/21/2020
Earnings ESP	-1.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	10,022 E	20,912 E	12,061 E	11,491 E	45,555 E
2019	9,589 A	11,402 A	11,380 A	10,879 E	43,250 E
2018	9,032 A	10,777 A	11,003 A	10,491 A	41,303 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.83 E	\$4.53 E	\$4.35 E	\$2.93 E	\$12.68 E
2019	\$1.15 A	\$4.21 A	\$4.07 A	\$2.64 E	\$12.04 E
2018	\$0.50 A	\$3.23 A	\$3.06 A	\$2.41 A	\$9.13 A

*Quarterly figures may not add up to annual.

P/E TTM	7.6
P/E F1	7.1
PEG F1	0.3
P/S TTM	0.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/17/2020. The reports text is as of 01/20/2020.

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.

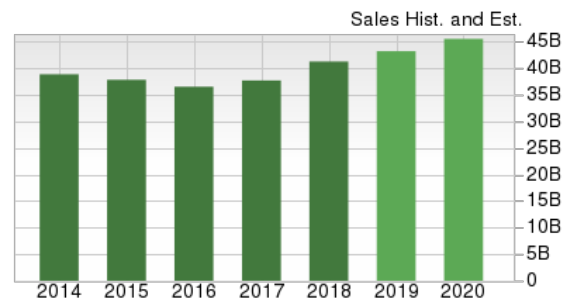
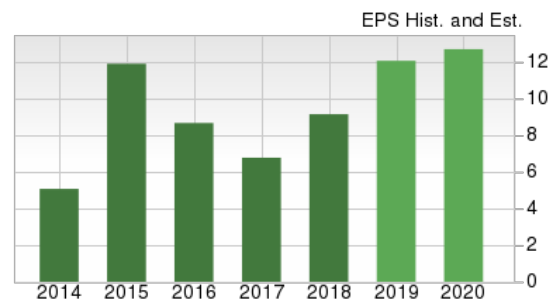
As of Dec 31, 2018, the carrier's total fleet size stood at 1,329, out of which 770 and 559 were mainline and regional aircraft respectively. United Airlines is a member of Star Alliance, the largest and most comprehensive airline alliance in the world.

As of January 1, 2019, Star Alliance carriers served more than 1,300 airports in 193 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 7.1% of the company's total revenue passenger miles in 2018. In August 2019, the carrier removed expiration dates on its frequent flyer miles.

Passenger revenues account for the bulk of its top line. In 2018, 91.3% of the top line came from passenger revenues. Cargo revenues accounted for approximately 3% and the remaining came from "others."

Domestic revenues (United States and Canada) accounted for 61.9% of the total revenues in 2018. Atlantic, Latin America and the Pacific regions accounted for 17.2%, 8.4% and 12.6% respectively in 2018.



Reasons To Buy:

- ▲ Strong demand for air travel is providing a boost to United Airlines' passenger revenues, which account for bulk of the company's top line. Evidently, passenger revenues increased 9.4% year over year in 2018. Additionally, the metric increased 5.5% in the first nine months of 2019. Passenger revenues are likely to have been impressive in fourth-quarter 2019 as well.
- ▲ United Airlines' bottom-line growth is being supported by the decrease in fuel costs as oil prices are low (down 8.5% in the July-September period). On the back of modest fuel costs and increased revenues, the company raised its 2019 adjusted earnings per share guidance to the \$11.25- \$12.25 range from \$10.5-\$12 expected previously. In fact, CEO Oscar Munoz stated in October 2019 that the company was "ahead of pace" to achieve its earnings per share target (between \$11 and \$13) by 2020 end. 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.
- ▲ We appreciate United Airlines' efforts to reward its shareholders through buybacks. During 2018, the company repurchased shares worth \$1.25 billion. In the first nine months of 2019, it has bought back shares worth \$1.4 billion. United Airlines' employee-friendly attitude is an added positive. In 2018, employees earned \$334 million in profit sharing. We are also impressed by the carrier's efforts to expand its operations.

The carrier is being aided by robust growth in passenger revenues due to strong demand for air travel. Reduction in fuel prices also represent a positive.

Reasons To Sell:

- ▼ In December 2019, United Airlines extended the grounding period of its Boeing 737 MAX jets, which have remained non-operational since March 2019. The company now expects the jets to remain grounded until Jun 4, 2020 as opposed to the earlier estimated date of Mar 4. Loss of revenues due to the issue is likely to have dented the fourth-quarter performance, results of which will be out on Jan 21. In fact, the carrier is expected to have cancelled roughly 5,100 flights in November and December. In 2020, the carrier expects to cancel nearly 3,468 flights.
- ▼ The company's high debt levels add to its woes. The long-term debt to capitalization ratio (in percentage) for the company stands at 61.5 compared with 46.1 for its industry. Debt to equity ratio for the company exceeds 100%. A high debt-to-equity ratio implies that the company is funding most of its ventures with debt.
- ▼ Weather-related disturbances hurt United Airlines' operations frequently of late. Evidently, the company was forced to cancel multiple flights apart from offering travel waivers following Hurricane Dorian. We also remain bothered about the various setbacks pertaining to customer service at United Airlines over the past year. In 2018, a dog's death in one of its flights resulted in severe criticism from all quarters. In fact, United Airlines had the dubious distinction of recording the maximum number of animal deaths on its flights in 2017.

With United Airlines having 14 Boeing 737 MAX jets in its fleet, the prolonged grounding of the aircraft is concerning.

Last Earnings Report

Earnings Beat at United Airlines in Q3

United Airlines' third-quarter 2019 earnings (excluding 8 cents from non-recurring items) of \$4.07 per share surpassed the Zacks Consensus Estimate of \$3.94. Moreover, the bottom line improved 33% year over year, mainly on lower fuel costs.

Operating revenues of \$11,380 million increased 3.4% year over year, it missed the Zacks Consensus Estimate of \$11,428.2 million. Higher passenger revenues contributed to the year over year improvement in top line.

Passenger revenues, accounting for bulk (92.1%) of the top line, rose 3.6% year over year. However, cargo revenues representing 2.5% of the top line declined 4.7%. Revenues from other sources contributed to the remainder.

Quarter Ending **09/2019**

Report Date	Oct 15, 2019
Sales Surprise	-0.42%
EPS Surprise	3.30%
Quarterly EPS	4.07
Annual EPS (TTM)	11.84

Operating Results

Consolidated passenger revenue per available seat mile (PRASM: a key measure of unit revenues) inched up 1.7% year over year to 13.96 cents. Total revenue per available seat mile increased 1.5% year over year to 15.16 cents. On a consolidated basis, average yield per revenue passenger mile ascended 1.6% from the year-ago quarter.

Consolidated airline traffic — measured in revenue passenger miles — climbed 1.9% year over year. Capacity (or available seat miles) also expanded 1.9%. Consolidated load factor (percentage of seat occupancy) improved 10 basis points to 86.1% as traffic growth outweighed capacity expansion. Meanwhile, average fuel price per gallon (on a consolidated basis) decreased 12.9% year over year to \$2.02.

Total adjusted operating expenses increased 4.1% year over year to \$7,361 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 2.1% year over year. However, total unit costs slipped 0.9% year over year.

United Airlines exited the third quarter with cash and cash equivalents of \$2,959 million compared with \$1,694 million at 2018 end. Long-term debt at the end of the reported quarter was \$12,900 million compared with \$12,215 million at the end of last year. Furthermore, the carrier bought back \$363 million shares in the July-September period on average price of \$88.22 per share.

Q4 Outlook

Capacity is estimated to expand approximately 3% year over year. Adjusted pre-tax margin is predicted in the range of 7-9%. Meanwhile, PRASM is forecast to either remain flat year over year or increase up to 2%. Adjusted non-fuel unit costs are predicted to rise nearly 3.5%. Average fuel price per gallon is estimated in the band of \$1.99-\$ 2.09. Additionally, effective income tax rate is anticipated between 22% and 24%.

Full-Year Outlook

The carrier now anticipates 2019 adjusted earnings between \$11.25 and \$12.25 compared with \$10.5-\$12 expected previously. Capacity is estimated to increase approximately 3.5% year over year in 2019. Adjusted non-fuel unit costs are envisioned to inch up nearly 1.2%. Additionally, effective income tax rate is anticipated between 22% and 24%. Adjusted capital expenditures are expected to be approximately \$4.9 billion in the current year.

Recent News

Scott Kirby to Take Over as CEO in 2020 - Dec 05, 2019

United Airlines announced that Scott Kirby, its current president, will be replacing Oscar Munoz as the new CEO of the company. The transfer of power will take place following the company's Annual Meeting of Shareholders to be held on May 20, 2020.

Following this change, Munoz will serve as the executive chairman of its board of directors for a year. As part of the management change, the company's chairman, Jane Garvey, will retire in May, 2020. Additionally, Ted Philip, who currently chairs the Nominating/Governance Committee, will take charge as the Lead Independent Director on May 20, 2020.

Valuation

United Airlines shares are up 4.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 10.6% and 11.2% over the past year, respectively. The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 7.03X forward 12-month price-to earnings, which compares to 9.06X for the Zacks sub-industry, 13.35X for the Zacks sector and 19.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.18X and as low as 4.59X, with a 5-year median of 7.56X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$95 price target reflects 7.45X forward 12-month earnings.

The table below shows summary valuation data for UAL

Valuation Multiples - UAL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.03	9.06	13.35	19.2
	5-Year High	12.18	12.3	16.98	19.34
	5-Year Low	4.59	6.85	10.46	15.17
	5-Year Median	7.56	9.06	13.11	17.44
EV/EBITDA TTM	Current	5.53	6.76	8.07	12.38
	5-Year High	7.27	7.36	11.11	12.86
	5-Year Low	3.19	4.31	5.97	8.48
	5-Year Median	5.19	6.05	7.41	10.67
P/S F12M	Current	0.46	0.73	1.16	3.57
	5-Year High	0.69	0.98	1.44	3.57
	5-Year Low	0.34	0.63	1.03	2.54
	5-Year Median	0.52	0.78	1.23	3

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 27% (68 out of 254)



Top Peers

Air France-KLM SA (AFLYY)	Outperform
Delta Air Lines, Inc. (DAL)	Outperform
American Airlines Group Inc. (AAL)	Neutral
Hawaiian Holdings, Inc. (HA)	Neutral
JetBlue Airways Corporation (JBLU)	Neutral
Southwest Airlines Co. (LUV)	Neutral
Spirit Airlines, Inc. (SAVE)	Neutral
China Southern Airlines Company Limited (ZNH)	Neutral

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	UAL Neutral	X Industry	S&P 500	AAL Neutral	DAL Outperform	LUV Neutral
VGM Score	A	-	-	B	A	B
Market Cap	22.70 B	5.10 B	24.65 B	12.44 B	40.12 B	28.95 B
# of Analysts	17	4	13	12	11	13
Dividend Yield	0.00%	0.00%	1.73%	1.41%	2.60%	1.31%
Value Score	A	-	-	A	A	A
Cash/Price	0.23	0.26	0.04	0.45	0.05	0.14
EV/EBITDA	6.41	6.54	14.11	5.74	6.72	6.40
PEG Ratio	0.34	0.61	2.08	1.63	0.61	1.31
Price/Book (P/B)	2.01	1.41	3.39	77.75	2.60	2.98
Price/Cash Flow (P/CF)	5.13	5.52	13.81	3.13	5.46	8.51
P/E (F1)	7.05	9.38	19.19	5.67	8.53	11.46
Price/Sales (P/S)	0.53	0.69	2.69	0.27	0.85	1.29
Earnings Yield	14.19%	10.66%	5.21%	17.64%	11.74%	8.73%
Debt/Equity	1.60	0.78	0.72	135.16	0.92	0.36
Cash Flow (\$/share)	17.49	3.88	6.94	9.08	11.37	6.47
Growth Score	A	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	2.52%	3.40%	10.56%	-13.11%	10.53%	10.60%
Proj. EPS Growth (F1/F0)	5.85%	12.62%	7.57%	1.40%	-0.47%	9.05%
Curr. Cash Flow Growth	13.45%	4.80%	14.73%	-2.74%	17.74%	9.35%
Hist. Cash Flow Growth (3-5 yrs)	11.04%	9.69%	9.00%	13.07%	7.27%	16.81%
Current Ratio	0.54	0.70	1.24	0.49	0.41	0.65
Debt/Capital	61.47%	47.20%	42.99%	99.27%	47.85%	26.52%
Net Margin	6.60%	5.81%	11.14%	3.50%	10.14%	10.90%
Return on Equity	30.06%	14.71%	17.16%	-1,294.15%	33.28%	24.71%
Sales/Assets	0.86	0.67	0.55	0.74	0.75	0.85
Proj. Sales Growth (F1/F0)	5.33%	4.90%	4.16%	4.39%	4.57%	5.20%
Momentum Score	F	-	-	F	C	F
Daily Price Chg	0.18%	0.00%	0.27%	0.60%	0.24%	-0.52%
1 Week Price Chg	-0.67%	0.00%	0.39%	-1.19%	2.03%	-0.75%
4 Week Price Chg	0.54%	0.27%	2.95%	-0.53%	4.89%	1.72%
12 Week Price Chg	-0.12%	2.12%	7.76%	-3.43%	15.32%	-2.27%
52 Week Price Chg	3.41%	0.00%	22.29%	-15.43%	28.64%	8.74%
20 Day Average Volume	2,110,079	90,592	1,536,375	6,572,403	5,404,245	3,505,622
(F1) EPS Est 1 week change	0.31%	0.00%	0.00%	-0.67%	1.28%	-0.03%
(F1) EPS Est 4 week change	0.51%	0.00%	0.00%	-1.66%	1.47%	-1.46%
(F1) EPS Est 12 week change	1.36%	1.11%	-0.40%	-3.49%	3.24%	-5.45%
(Q1) EPS Est Mthly Chg	4.61%	1.29%	0.00%	3.67%	4.70%	-1.06%

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	A
Momentum Score	F
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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