

United Airlines (UAL)

\$36.32 (As of 08/24/20)

Price Target (6-12 Months): **\$38.00**

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

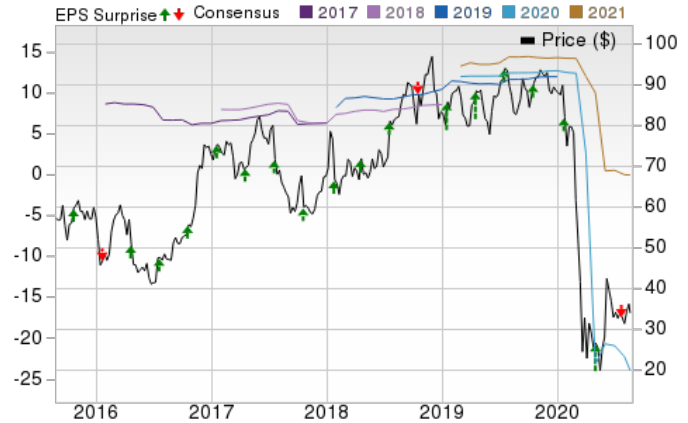
Growth: D

Momentum: D

Summary

Shares of United Airlines have declined 41.1% since the beginning of March, 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. System capacity for the September quarter is estimated to decline 65%. However, low fuel prices (down 16.6% in first-half 2020) are partly offsetting the adversities. The company is making consistent efforts to preserve cash through reduction in capital expenses and operating costs. Notably, total operating costs declined 36.6% in first-half 2020. The update on average daily cash burn (expected to be roughly \$25 million in the September quarter) is also encouraging.

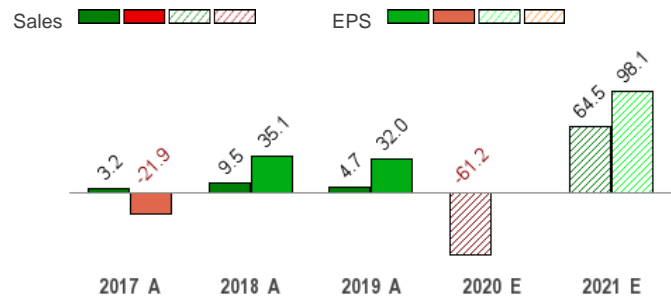
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$95.16 - \$17.80 |
| 20 Day Average Volume (sh) | 35,895,516 |
| Market Cap | \$10.6 B |
| YTD Price Change | -58.8% |
| Beta | 1.42 |
| Dividend / Div Yld | \$0.00 / 0.0% |
| Industry | Transportation - Airline |
| Zacks Industry Rank | Bottom 5% (240 out of 252) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | -2.0% |
| Last Sales Surprise | 21.2% |
| EPS F1 Est- 4 week change | 0.1% |
| Expected Report Date | 10/20/2020 |
| Earnings ESP | -0.8% |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|----------|----------|----------|----------|
| 2021 | 5,370 E | 7,114 E | 7,876 E | 8,234 E | 27,629 E |
| 2020 | 7,979 A | 1,475 A | 2,873 E | 4,508 E | 16,793 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 | -\$2.36 E | \$0.50 E | \$1.29 E | \$1.77 E | -\$0.46 E |
| 2020 | -\$2.57 A | -\$9.31 A | -\$7.45 E | -\$4.23 E | -\$23.99 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.

| | |
|---------|-----|
| P/E TTM | NA |
| P/E F1 | NA |
| PEG F1 | NA |
| P/S TTM | 0.3 |

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/24/2020. The reports text is as of 08/25/2020.

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.

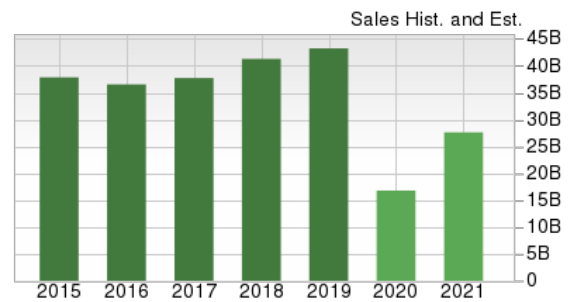
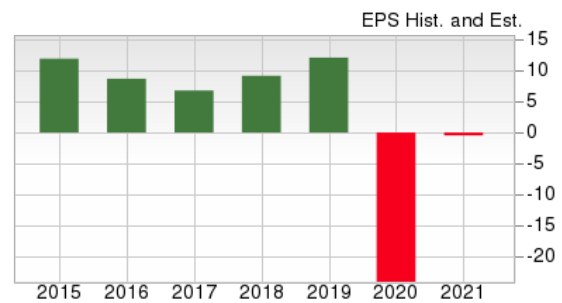
As of Dec 31, 2019, the carrier's total fleet size stood at 1,358, out of which 777 and 581 were mainline and regional aircraft respectively. United Airlines is a member of Star Alliance, the largest and most comprehensive airline alliance in the world.

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 16.6% in first-half 2020) are aiding the carrier's bottom line. Also, with most of the fleet remaining grounded/under-utilized in the April-June period, fuel gallons consumed were down 81.5% to 204 million in the June quarter, thereby aiding the bottom line.
- ▲ 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. Adjusted capital expenditures for the current year are anticipated to be approximately \$3.7 billion. Notably, total operating costs declined 36.6% in first-half 2020. The update on average daily cash burn is also encouraging. During the June quarter, cash burn averaged \$40 million a day including \$3 million of principal payments and severance expenses. The carrier expects average daily cash burn to be approximately \$25 million for the September quarter (including \$6 million of principal payments and severance expenses).
- ▲ The decision to increase the number of flights between United States and China is encouraging. Following the decision, United Airlines aims to increase service to Shanghai. The carrier will increase service between San Francisco and Shanghai to four weekly flights from two, effective Sep 4. United Airlines will utilize a Boeing 777-300ER aircraft to operate this route on Wednesdays, Fridays, Saturdays and Sundays. Additionally, the company's move to operate cargo-only flights in the face of declining passenger revenues paid off as revenues from the same surged 36.3% year over year in the June quarter.

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

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 each of the first two quarters of 2020 with passenger revenues declining 59.7% in first-half 2020. 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. The August schedule is expected to be down approximately 65%.

Due to coronavirus woes, passenger revenues declined 59.7% in first-half 2020.
 - ▼ United Airlines has received \$4.5 billion at the end of the second quarter via the payroll support program under the CARES Act. While a \$3.2-billion amount of the above is through grants (it doesn't have to pay back), \$1.3 billion is via 10-year loans. Additionally, the carrier has signed a letter of intent for federal loan under the CARES Act. 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 recorded \$231 million of settlement losses in the second quarter. Moreover, United Airlines is taking a hit from the Boeing 737 MAX groundings. They have remained non-operational since March 2019.
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Last Earnings Report

Wider-Than-Expected Loss in Q2

The company incurred a loss (excluding \$3.52 from non-recurring items) of \$9.31 per share, comparing unfavorably with the Zacks Consensus Estimate of a loss of \$9.13. Results were hurt by the coronavirus-induced weakness in air-travel demand.

Even though operating revenues of \$1,475 million slumped 87.1% year over year, the same beat the Zacks Consensus Estimate of \$1,217 million. This year-over-year plunge was due to the 93.5% drop in passenger revenues. However, the carrier's move to operate cargo-only flights in the face of declining passenger revenues paid off as revenues from the same surged 36.3% year over year. Meanwhile revenues from other sources declined 36.9% in the June quarter.

Quarter Ending 06/2020

| Report Date | Jul 21, 2020 |
|------------------|--------------|
| Sales Surprise | 21.20% |
| EPS Surprise | -1.97% |
| Quarterly EPS | -9.31 |
| Annual EPS (TTM) | -5.14 |

Operating Results

Consolidated passenger revenue per available seat mile (PRASM: a key measure of unit revenues) decreased 46.9% year over year to 7.6 cents. Total revenue per available seat mile, however, increased 5.7%. On a consolidated basis, average yield per revenue passenger mile jumped 37.8% from the year-ago quarter.

During the quarter under review, consolidated airline traffic, measured in revenue passenger miles, tumbled 95.3% year over year. Capacity (or available seat miles) contracted 87.8%. Consolidated load factor (percentage of seat occupancy) deteriorated 5290 percentage points to 33.1% as traffic decline was more than capacity contraction. Meanwhile, average fuel price per gallon fell 45.4% year over year to \$1.18. With most of the fleet remaining grounded/under-utilized, fuel gallons consumed were down 81.5% to 204 million.

Total adjusted operating expenses declined 41.4% year over year to \$4,263 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 escalated in excess of 100%.

United Airlines exited the second quarter with cash and cash equivalents of \$6,505 million compared with \$2,762 million at 2019 end. Long-term debt at the end of the reported quarter was \$14,318 million compared with \$13,145 million at 2019 end.

Other Details

During the June quarter, cash burn averaged \$40 million a day including \$3 million of principal payments and severance expenses. The carrier expects average daily cash burn to be approximately \$25 million for the September quarter (including \$6 million of principal payments and severance expenses). Liquidity at the end of the third quarter is forecast to be more than \$18 billion. Consolidated system capacity is expected to tank 65% year over year during the period. Adjusted capital expenditures for the current year are anticipated to be approximately \$3.7 billion.

Recent News

Expansion Update — Aug 12, 2020

United Airlines is planning to add up to 28 daily non-stop flights to Florida this winter as air-travel demand seems to be picking up, after months of slowdown. The airline intends to add flights from New York, NY, Boston, MA and Cleveland, OH to the Florida cities of Fort Lauderdale, Fort Myers, Orlando and Tampa, effective Nov 6. It expects to gradually increase services to up to 28 daily nonstop flights to Florida with additional flights connecting Columbus, OH; Indianapolis, IN; Milwaukee, WI; and Pittsburgh, PA with Fort Myers and Tampa. These flights are expected to begin operations from Dec 17 onwards.

Valuation

United Airlines shares are down 58.8% and 56.6% 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 42.9% and 0.2% in the year-to-date period respectively. Over the past year, the Zacks sub-industry is down 35.4% while the sector is up 9.8% .

The S&P 500 index is up 6.5% and 19.5% in the year-to-date period and in the past year respectively.

The stock is currently trading at 0.44X forward 12-month price to sales, which compares to 0.7X for the Zacks sub-industry, 1.37X for the Zacks sector and 3.76X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.66X and as low as 0.12X, with a 5-year median of 0.5X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$38 price target reflects 0.46X forward 12-month sales.

The table below shows summary valuation data for UAL

| Valuation Multiples - UAL | | | | | |
|---------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F 12M | Current | 0.44 | 0.7 | 1.37 | 3.76 |
| | 5-Year High | 0.66 | 0.94 | 1.41 | 3.76 |
| | 5-Year Low | 0.12 | 0.37 | 0.85 | 2.53 |
| | 5-Year Median | 0.5 | 0.74 | 1.2 | 2.05 |
| EV/EBITDA TTM | Current | 12.84 | 13.01 | 10.13 | 13.03 |
| | 5-Year High | 13 | 13.01 | 11.09 | 13.03 |
| | 5-Year Low | 3.07 | 3.22 | 5.38 | 8.25 |
| | 5-Year Median | 5.25 | 5.64 | 7.25 | 10.92 |

As of 08/24/2020

Industry Analysis Zacks Industry Rank: Bottom 5% (240 out of 252)



Top Peers

| Company (Ticker) | Rec | Rank |
|---|--------------|------|
| American Airlines Group Inc. (AAL) | Neutral | 3 |
| Delta Air Lines, Inc. (DAL) | Neutral | 4 |
| Hawaiian Holdings, Inc. (HA) | Neutral | 4 |
| JetBlue Airways Corporation (JBLU) | Neutral | 4 |
| Southwest Airlines Co. (LUV) | Neutral | 4 |
| Spirit Airlines, Inc. (SAVE) | Neutral | 4 |
| China Southern Airlines Company Limited (ZNH) | Neutral | NA |
| Air FranceKLM SA (AFLLY) | Underperform | 5 |

| 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 | 4 | 4 |
| VGM Score | C | - | - | C | B | C |
| Market Cap | 10.57 B | 2.20 B | 23.81 B | 6.84 B | 19.01 B | 21.77 B |
| # of Analysts | 15 | 4 | 14 | 11 | 10 | 12 |
| Dividend Yield | 0.00% | 0.00% | 1.64% | 0.00% | 0.00% | 0.00% |
| Value Score | B | - | - | A | A | B |
| Cash/Price | 0.78 | 0.60 | 0.07 | 1.67 | 0.90 | 0.71 |
| EV/EBITDA | 3.34 | 3.84 | 13.37 | 4.44 | 2.51 | 4.21 |
| PEG Ratio | NA | 0.41 | 3.02 | NA | NA | NA |
| Price/Book (P/B) | 1.24 | 0.75 | 3.17 | NA | 2.19 | 2.00 |
| Price/Cash Flow (P/CF) | 1.70 | 2.62 | 12.77 | 1.31 | 2.62 | 5.43 |
| P/E (F1) | NA | 36.54 | 21.72 | NA | NA | NA |
| Price/Sales (P/S) | 0.33 | 0.45 | 2.48 | 0.20 | 0.56 | 1.31 |
| Earnings Yield | -66.05% | -31.81% | 4.44% | -140.77% | -31.81% | -17.23% |
| Debt/Equity | 2.32 | 0.83 | 0.76 | -9.06 | 2.23 | 0.98 |
| Cash Flow (\$/share) | 21.42 | 4.09 | 6.93 | 10.27 | 11.37 | 6.80 |
| Growth Score | D | - | - | F | D | C |
| Hist. EPS Growth (3-5 yrs) | -1.10% | 2.82% | 10.41% | -20.54% | 6.97% | 3.78% |
| Proj. EPS Growth (F1/F0) | -299.09% | -254.21% | -5.05% | -486.20% | -229.63% | -248.96% |
| Curr. Cash Flow Growth | 15.52% | 11.77% | 5.20% | 5.17% | 17.74% | -3.22% |
| Hist. Cash Flow Growth (3-5 yrs) | 8.25% | 8.55% | 8.50% | -4.04% | 10.18% | 8.55% |
| Current Ratio | 0.61 | 0.80 | 1.33 | 0.77 | 0.94 | 1.70 |
| Debt/Capital | 69.87% | 52.86% | 44.50% | NA | 69.08% | 49.42% |
| Net Margin | -5.25% | -4.63% | 10.13% | -10.40% | -10.74% | 0.99% |
| Return on Equity | -15.01% | -4.11% | 14.66% | -124.31% | -4.02% | -4.11% |
| Sales/Assets | 0.60 | 0.49 | 0.51 | 0.55 | 0.51 | 0.58 |
| Proj. Sales Growth (F1/F0) | -61.18% | -46.66% | -1.45% | -60.85% | -61.40% | -56.92% |
| Momentum Score | D | - | - | D | B | F |
| Daily Price Chg | 9.93% | 1.65% | 1.32% | 10.53% | 9.28% | 6.40% |
| 1 Week Price Chg | -8.68% | -2.72% | -1.45% | -8.78% | -5.80% | -0.60% |
| 4 Week Price Chg | 12.03% | 8.44% | 3.38% | 18.00% | 16.86% | 17.06% |
| 12 Week Price Chg | 23.29% | 9.67% | 7.69% | 20.97% | 13.87% | 9.79% |
| 52 Week Price Chg | -56.55% | -38.97% | 3.85% | -46.65% | -47.05% | -27.19% |
| 20 Day Average Volume | 35,895,516 | 181,563 | 1,873,293 | 68,507,656 | 20,613,722 | 12,145,876 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | -0.14% |
| (F1) EPS Est 4 week change | 0.06% | -15.61% | 1.00% | -11.00% | 0.00% | -6.34% |
| (F1) EPS Est 12 week change | -15.75% | -43.80% | 3.40% | -22.55% | -32.75% | -33.26% |
| (Q1) EPS Est Mthly Chg | -1.53% | -45.32% | 0.00% | -16.02% | 0.00% | -6.48% |

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 | D |
| 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.

Disclosures

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