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Mar 27, 2020

United Airlines (UAL)

$35.55 (As of 03/26/20)

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

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/14/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: A	Momentum: F

Summary

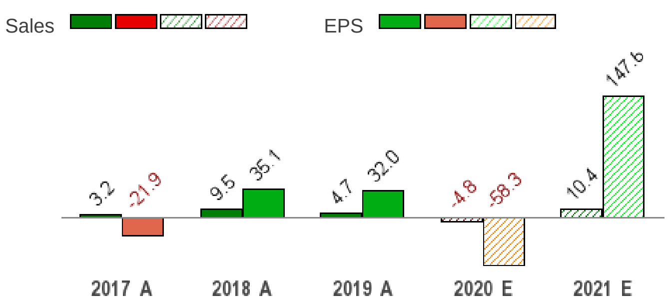
Shares of United Airlines have plunged more than 55% since the beginning of February due to the significant drop in demand in the wake of coronavirus. With demand plummeting and large-scale travel restrictions imposed, the airline has planned a 90% reduction in international capacity for April. The carrier expects its March revenues to be hit by $1.5 billion year over year. In fact, the company may even incur a loss in the first quarter of 2020. Amid this downturn, low fuel prices are expected to partly offset the adversity and aid the bottom line. The carrier is also taking substantial cost-cutting measures, such as freezing hiring (except for crucial roles), delaying salary hikes and cutting down on capital expenses. Additionally, we are optimistic about the carrier's extended partnership with Chase Credit Card Services and Visa.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$96.03 - $17.80**
20 Day Average Volume (sh)	**21,459,664**
Market Cap	**$8.8 B**
YTD Price Change	**-59.6%**
Beta	**1.36**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Transportation - Airline**
Zacks Industry Rank	**Bottom 18% (208 out of 253)**
Last EPS Surprise	**1.1%**
Last Sales Surprise	**0.0%**
EPS F1 Est- 4 week change	**-59.6%**
Expected Report Date	**04/21/2020**
Earnings ESP	**-569.7%**
P/E TTM	**2.9**
P/E F1	**7.1**
PEG F1	**0.3**
P/S TTM	**0.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	10,128 E	12,200 E	12,323 E	11,858 E	45,459 E
2020	9,680 E	10,361 E	10,974 E	10,888 E	41,170 E
2019	9,589 A	11,402 A	11,380 A	10,888 A	43,259 A

EPS Estimates

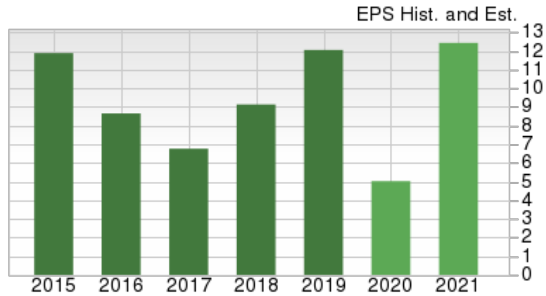
	Q1	Q2	Q3	Q4	Annual*
2021	$0.68 E	$4.79 E	$4.73 E	$3.45 E	$12.43 E
2020	-$0.18 E	$1.36 E	$3.23 E	$2.77 E	$5.02 E
2019	$1.15 A	$4.21 A	$4.07 A	$2.67 A	$12.05 A

*Quarterly figures may not add up to annual.

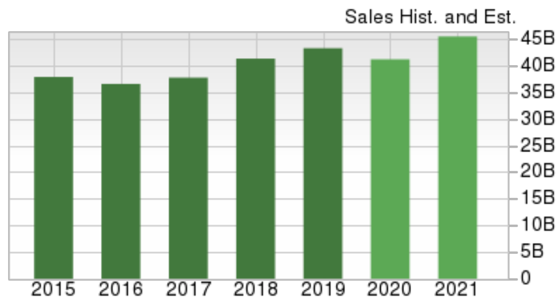
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

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:

Low fuel prices should help the company partly offset the decline in demand due to coronavirus.

- Amid declining air travel demand due to the rapidly-spreading coronavirus, 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) 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. To counteract the enormous slump in demand due to coronavirus, the company has taken several cost-reduction measures like freezing hiring (except for crucial roles), delaying salary increases as well as giving employees the option to apply for unpaid leave of absence voluntarily. The carrier is also trying to preserve cash by cutting down on capital expenditures and operating expenses.

- Although share buybacks have been suspended temporarily to address the coronavirus-induced demand woes, United Airlines' efforts to reward its shareholders through buybacks are otherwise impressive. The carrier's employee-friendly attitude is an added positive. We are also impressed by the carrier's efforts to expand its operations. 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.

- United Airlines' deal with the major credit card companies, namely Chase Credit Card Services and Visa, should drive the top line going forward. Management stated that the new pact via which the carrier's MileagePlus credit card program is extended through 2029, will provide it with an additional $400 million in the ongoing year.

Reasons To Sell:

- The coronavirus outbreak is taking a significant toll on United Airlines. With air travel demand is declining at an unprecedented level, the airline has planned a 90% reduction in international services for April. The carrier has also cut back its domestic capacity significantly. Despite March being the airline's busiest month, the carrier transported more than one million fewer customers in just the first two weeks of the month compared with the year-ago period. As a result, the airline expects March revenues to be down $1.5 billion year over year. In fact, the carrier anticipates the number of customers and revenues to drop sharply going forward. Even worse, the company expects to incur a loss in the first quarter of 2020. United Airlines suspended its 2020 guidance.

> Tumbling demand due to coronavirus is likely to significantly impact the company's first-quarter results.

- United Airlines is also 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. The company now expects the jets through Sep 4, 2020. As a result, it will have to cancel 80 flights a day over the busy summer season. Additionally, 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.

- The company's high debt levels add to its woes. The long-term debt to capitalization ratio (in percentage) for the company stands at 61.4 compared with 48.6 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.

Last Earnings Report

Earnings Beat at United Airlines in Q4

Quarter Ending	12/2019
Report Date	Jan 21, 2020
Sales Surprise	0.02%
EPS Surprise	1.14%
Quarterly EPS	2.67
Annual EPS (TTM)	12.10

United Airlines' fourth-quarter 2019 earnings earnings (excluding 14 cents from non-recurring items) of $2.67 per share surpassed the Zacks Consensus Estimate of $2.64. Moreover, the bottom line improved 10.8% year over year, mainly on lower fuel costs.

Operating revenues of $10,888 million increased 3.8% year over year and also marginally beat the Zacks Consensus Estimate of $10,886.2 million. Higher passenger revenues drove the top line.

Passenger revenues, accounting for bulk (91.2%) of the top line, rose 3.9% year over year. However, cargo revenues representing 2.9% of the top line declined 5.4%. Revenues from other sources contributed to the remainder.

Operating Results

Consolidated passenger revenue per available seat mile (PRASM: a key measure of unit revenues) inched up 0.8% year over year to 13.98 cents. Total revenue per available seat mile increased 0.7% year over year to 15.33 cents. On a consolidated basis, average yield per revenue passenger mile ascended 1% from the year-ago quarter.

During the quarter under review, consolidated airline traffic, measured in revenue passenger miles, climbed 2.9% year over year. Capacity (or available seat miles) also expanded 3.1%. Consolidated load factor (percentage of seat occupancy) deteriorated 20 basis points to 82.5% as capacity expansion outweighed traffic growth. Meanwhile, average fuel price per gallon (on a consolidated basis) decreased 8.7% year over year to $2.1.

Total adjusted operating expenses increased 5.9% year over year to $7,477 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 2.7% year over year. However, total unit costs slipped 1.3% year over year.

United Airlines exited the fourth quarter with cash and cash equivalents of $2,762 million compared with $1,694 million at 2018 end. Long-term debt at the end of the reported quarter was $13,145 million compared with $12,215 million at December 2018 end. Furthermore, the carrier bought back shares worth $216 million in the October-December period at an average price of $88.95 per share. During 2019 it repurchased shares worth $1.6 billion.

Annual Results

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. For 2019, the company’s earnings of $12.05 per share beat the Zacks Consensus Estimate of $12.04. Total revenues of $43.26 billion also marginally outpaced the Zacks Consensus Estimate of $43.25 billion. While the bottom line surged 32% year over year, the top line improved 4.7%.

Q1 Outlook

For the first quarter of 2020, United Airlines anticipates PRASM to either remain flat year over year or increase up to 2%. Average fuel price per gallon is estimated in the range of $2.04-$2.14. Additionally, effective income tax rate is projected between 22% and 24%. The company’s earnings per share guidance for the first quarter is encouraging. Adjusted earnings per share are expected between 75 cents and $1.25.

2020 Outlook

Adjusted earnings per share are reiterated between $11 and $13. The mid-point, $12, of the guided range falls below the Zacks Consensus Estimate of $12.04. Capital expenditures are predicted to be $7 billion in 2020. Moreover, effective income tax rate is estimated in the range of 22-24%.

Recent News

Some International Services Reinstated – Mar 21, 2020

United Airlines has reinstated some of its international flights to help worried customers return home. To this end, the airline's international schedule will now be reduced by approximately 90% in April compared with its previous announcement to slash capacity by 95% for the month.

Flights connecting Newark/New York with Frankfurt, London and Tel Aviv will remain operational through May. Additionally, Houston–Sao Paulo services and flights connecting San Francisco with Tokyo-Narita and Sydney will remain operational through the month. From Newark/New York, outbound flights to Amsterdam, Munich, Brussels and Sao Paulo will continue through Mar 27. Outbound service between Washington-Dulles and London as well as that between San Francisco and Frankfurt will also be operational through the same date. Moreover, through Mar 29, the airline will continue to operate the San Francisco–Seoul outbound flights.

Valuation

United Airlines shares are down 58.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 41.2% and 22.9% over the past year, respectively. The S&P 500 index is down 7.5% in the past year.

The stock is currently trading at 3.86X forward 12-month Price-to-Earnings, which compares to 9.61X for the Zacks sub-industry, 12.14X for the Zacks sector and 15.91X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.18X and as low as 1.76X, with a 5-year median of 7.55X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $38 price target reflects 4.13X forward 12-month earnings.

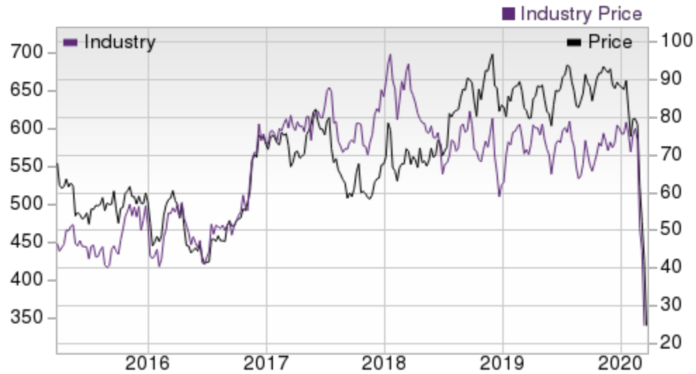
The table below shows summary valuation data for UAL

Valuation Multiples - UAL

		Stock	Sub-Industry	Sector	S&P 500
P/E F12 M	Current	3.86	9.61	12.14	15.91
	5-Year High	12.18	12.3	17.02	19.34
	5-Year Low	1.76	6.61	10.47	15.18
	5-Year Median	7.55	9.06	13.1	17.42
EV/EBITDA TTM	Current	2.81	3.98	6.38	9.74
	5-Year High	7.27	7.12	11.12	12.88
	5-Year Low	2.28	3.32	5.72	8.27
	5-Year Median	5.14	5.98	7.4	10.78
P/S F 12M	Current	0.2	0.44	0.87	2.85
	5-Year High	0.67	0.98	1.41	3.43
	5-Year Low	0.12	0.44	0.87	2.54
	5-Year Median	0.52	0.77	1.21	3

As of 03/26/2020

Industry Analysis **Zacks Industry Rank:** Bottom 18% (208 out of 253)



Top Peers

American Airlines Group Inc. **(AAL)**	Neutral
Air France-KLM SA **(AFLYY)**	Neutral
Delta Air Lines, Inc. **(DAL)**	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 Neutral	LUV Neutral
VGM Score	A	-	-	C	B	C
Market Cap	8.81 B	2.14 B	18.50 B	6.67 B	20.29 B	21.33 B
# of Analysts	15	4.5	13	10	10	10
Dividend Yield	0.00%	0.00%	2.35%	2.55%	0.00%	1.75%
Value Score	A	-	-	B	B	B
Cash/Price	0.81	0.65	0.07	0.90	0.21	0.25
EV/EBITDA	3.24	3.61	11.16	4.26	3.48	4.75
PEG Ratio	0.31	0.81	1.74	4.11	1.11	3.32
Price/Book (P/B)	0.78	0.66	2.44	NA	1.33	2.17
Price/Cash Flow (P/CF)	1.66	2.70	9.87	1.53	2.79	6.06
P/E (F1)	6.55	10.39	15.29	23.62	7.51	12.10
Price/Sales (P/S)	0.20	0.31	1.93	0.15	0.43	0.95
Earnings Yield	14.12%	8.51%	6.47%	4.21%	13.31%	8.27%
Debt/Equity	1.59	0.64	0.70	-181.81	0.92	0.30
Cash Flow ($/share)	21.42	4.14	7.01	10.27	11.37	6.80
Growth Score	A	-	-	C	B	D
Hist. EPS Growth (3-5 yrs)	0.79%	3.75%	10.85%	-14.34%	10.23%	7.94%
Proj. EPS Growth (F1/F0)	-58.33%	-49.07%	2.89%	-86.47%	-42.23%	-20.21%
Curr. Cash Flow Growth	15.52%	5.74%	5.93%	5.17%	17.74%	-3.22%
Hist. Cash Flow Growth (3-5 yrs)	8.25%	8.40%	8.55%	-4.04%	10.18%	8.55%
Current Ratio	0.55	0.69	1.23	0.45	0.41	0.67
Debt/Capital	61.36%	47.20%	42.57%	99.27%	47.98%	23.31%
Net Margin	6.96%	6.96%	11.64%	3.68%	10.14%	10.26%
Return on Equity	29.16%	12.15%	16.74%	-1,414.94%	33.32%	23.31%
Sales/Assets	0.83	0.64	0.54	0.75	0.75	0.85
Proj. Sales Growth (F1/F0)	-4.83%	-4.29%	2.37%	-5.68%	-5.29%	-4.09%
Momentum Score	F	-	-	F	F	F
Daily Price Chg	-2.87%	1.93%	6.21%	1.75%	1.93%	4.64%
1 Week Price Chg	-41.16%	-26.17%	-16.96%	-27.46%	-44.34%	-22.63%
4 Week Price Chg	-45.26%	-30.97%	-15.70%	-23.98%	-34.22%	-11.58%
12 Week Price Chg	-60.39%	-46.17%	-23.67%	-46.17%	-46.31%	-24.82%
52 Week Price Chg	-54.77%	-46.73%	-13.99%	-49.32%	-37.00%	-18.28%
20 Day Average Volume	21,459,664	184,976	4,286,768	59,776,200	37,710,056	11,774,142
(F1) EPS Est 1 week change	-36.53%	-15.64%	-0.15%	-78.80%	-29.35%	-17.33%
(F1) EPS Est 4 week change	-59.64%	-53.37%	-2.28%	-87.16%	-42.69%	-25.85%
(F1) EPS Est 12 week change	-60.64%	-48.39%	-3.22%	-87.05%	-41.06%	-29.98%
(Q1) EPS Est Mthly Chg	-124.89%	-104.83%	-1.60%	-186.65%	-52.83%	-43.55%

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.

Value Score	A
Growth Score	A
Momentum Score	F
VGM Score	A

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.

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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