

## United Airlines (UAL)

**\$25.00** (As of 04/27/20)

Price Target (6-12 Months): **\$27.00**

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:B

Value: B

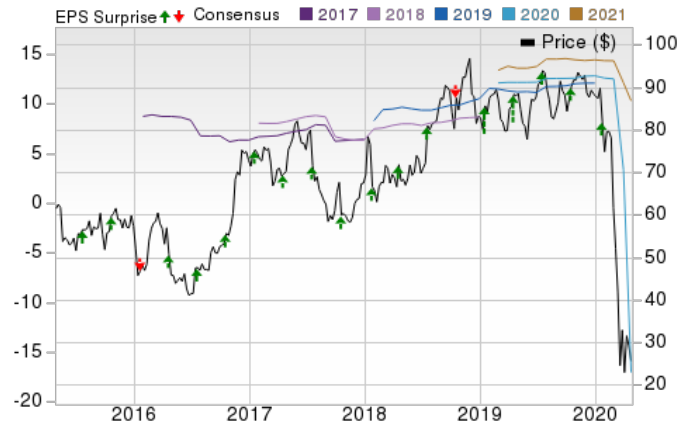
Growth: A

Momentum: F

### Summary

Shares of United Airlines have tanked more than 70% since the beginning of February due to nosediving air-travel demand in the wake of coronavirus. With demand plummeting and large-scale travel restrictions imposed, the airline resorted to significant capacity cuts. The carrier expects its March revenues to be hit by \$1.5 billion year over year. In fact, the company's preliminary first-quarter 2020 results were bleak with revenues declining 17% to \$8 billion. Detailed final results will be out on Apr 30. Amid this downturn, low fuel prices are expected to partly offset the prevalent adversity and aid the company's bottom line. The carrier is also making substantial cost-cutting moves, such as halting hiring (except for crucial posts) and curbing capital expenses. The deal with Bank of China Aviation to sell 22 planes is an added positive.

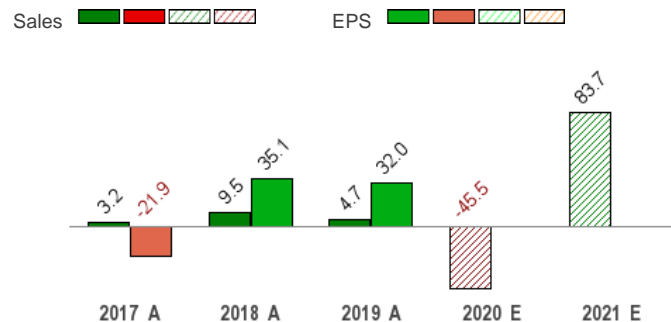
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$96.03 - \$17.80
20 Day Average Volume (sh)	35,344,348
Market Cap	\$6.2 B
YTD Price Change	-71.6%
Beta	1.82
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Transportation - Airline</a>
Zacks Industry Rank	Bottom 38% (158 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.1%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	-749.1%
Expected Report Date	04/30/2020
Earnings ESP	3.2%
P/E TTM	2.1
P/E F1	NA
PEG F1	NA
P/S TTM	0.1

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	10,099 E	12,013 E	12,096 E	11,645 E	43,290 E
2020	7,976 E	1,648 E	10,415 E	10,606 E	23,560 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	\$0.98 E	\$4.70 E	\$4.40 E	\$3.14 E	\$10.25 E
2020	-\$3.36 E	-\$10.19 E	\$1.84 E	\$2.31 E	-\$17.07 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 04/27/2020. The reports text is as of 04/28/2020.

## 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.

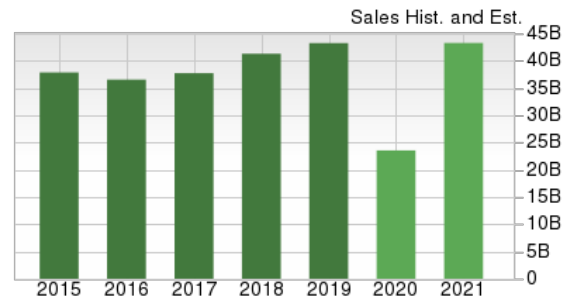
As of Dec 31, 2019, the carrier's total fleet size stood at 1,358, out of which 777 and 581 were mainline and regional aircraft respectively. United Airlines is a member of Star Alliance, the largest and most comprehensive airline alliance in the world.

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.



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## Reasons To Buy:

- ▲ 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 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 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 prior to the outbreak were impressive. The carrier's employee-friendly attitude is another boon. 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. The 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.
- ▲ 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.

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

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## Reasons To Sell:

- ▼ The coronavirus outbreak is taking a significant toll on United Airlines. With air-travel demand declining at an unprecedented level, the airline announced a 90% reduction in international services for April. The carrier also cut back its domestic capacity significantly. Evidently, it expects to trim its May capacity by 90% (similar cuts are expected in June). Due to the rapidly dwindling air-travel demand, management stated that first-quarter 2020 revenues (on a preliminary basis) declined 17% year over year to \$8 billion. Pre-tax loss (adjusted) was \$1 billion
- ▼ 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 for the company stands at 0.614 compared with 0.517 for its industry. Debt to equity ratio for the company exceeds 1. A high debt-to-equity ratio implies that the company is funding most of its ventures with debt. Also, United Airlines, which expects to get approximately \$5 billion via the payroll support program under the CARES Act, applied for up to \$4.5 billion in government loans. This is likely to worsen its debt profile. Moreover, in March, international credit Rating agency Fitch lowered its outlook for United Airlines to negative due to the plunge in demand amid the coronavirus pandemic.

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

## Last Earnings Report

### Earnings Beat at United Airlines in Q4

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%.

Quarter Ending **12/2019**

Report Date	Jan 21, 2020
Sales Surprise	<b>0.02%</b>
EPS Surprise	<b>1.14%</b>
Quarterly EPS	<b>2.67</b>
Annual EPS (TTM)	<b>12.10</b>

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## Recent News

### Preliminary Results – Apr 20, 2020

Due to the rapidly washed-out air-travel demand, management at United Airlines stated that first-quarter 2020 revenues (on a preliminary basis) declined 17% year over year to \$8 billion. Pre-tax loss (adjusted) was \$1 billion.

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## Valuation

United Airlines shares have been down 71.6% and 56.9% year to date and over the past year, respectively. Stocks in the Zacks sub-industry have shed 55.9% and 72.1% of value so far this year and in a year's time each. Stocks in the Zacks Transportation sector have declined 23.5% and 23.1% year to date and in the past year, respectively. The S&P 500 Index has lost 12% and 4.3% year to date and in the past 12 months, respectively.

The stock is currently trading at 2.07X trailing 12-month price to earnings, which compares to 4.31X for the Zacks sub-industry, 11.99X for the Zacks sector and 17.91X for the S&P 500 index.

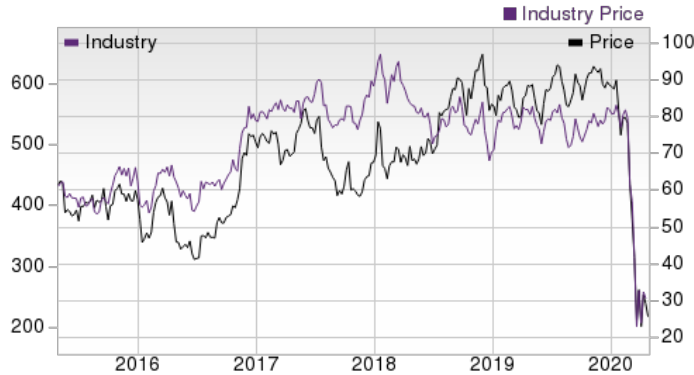
Over the past five years, the stock has traded as high as 12.29X and as low as 1.76X, with a 5-year median of 8X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$27 price target reflects 2.23X trailing 12-month earnings

The table below shows summary valuation data for UAL

Valuation Multiples - UAL					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	2.07	4.31	11.99	17.91
	5-Year High	12.29	13.2	19.58	22.17
	5-Year Low	1.76	4.31	11.63	15.91
	5-Year Median	8	10.79	15.66	18.9
EV/EBITDA TTM	Current	2.4	3.56	6.43	10.37
	5-Year High	7.27	7.03	11.16	12.87
	5-Year Low	2.28	3.4	5.61	8.28
	5-Year Median	5.13	5.98	7.38	10.78
P/S F12M	Current	0.21	0.47	1.05	4.81
	5-Year High	0.66	0.98	1.42	4.81
	5-Year Low	0.12	0.39	0.85	2.54
	5-Year Median	0.51	0.77	1.21	3.01

As of 04/27/2020

## Industry Analysis Zacks Industry Rank: Bottom 38% (158 out of 253)



## Top Peers

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

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	UAL	X Industry	S&P 500	AAL	DAL	LUV
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	D	F	C
Market Cap	6.20 B	2.12 B	19.77 B	4.27 B	14.13 B	15.06 B
# of Analysts	6	5	14	6	6	6
Dividend Yield	0.00%	0.00%	2.13%	3.99%	0.00%	2.47%
Value Score	B	-	-	C	B	B
Cash/Price	0.78	0.62	0.06	0.91	0.42	0.27
EV/EBITDA	2.86	3.06	12.09	3.83	2.87	3.28
PEG Ratio	NA	1.60	2.36	NA	NA	NA
Price/Book (P/B)	0.55	0.67	2.70	NA	0.99	1.53
Price/Cash Flow (P/CF)	1.17	2.09	10.70	0.98	1.95	4.28
P/E (F1)	NA	12.23	18.72	NA	NA	NA
Price/Sales (P/S)	0.14	0.27	2.12	0.09	0.31	0.67
Earnings Yield	-68.28%	-22.68%	5.19%	-125.65%	-30.60%	-7.08%
Debt/Equity	1.59	0.68	0.72	-181.81	1.25	0.30
Cash Flow (\$/share)	21.42	4.14	7.01	10.27	11.37	6.80
Growth Score	A	-	-	C	F	C
Hist. EPS Growth (3-5 yrs)	0.79%	4.00%	10.88%	-14.34%	8.27%	7.94%
Proj. EPS Growth (F1/F0)	-241.63%	-193.69%	-5.87%	-356.88%	-192.68%	-148.13%
Curr. Cash Flow Growth	15.52%	12.49%	5.92%	5.17%	17.74%	-3.22%
Hist. Cash Flow Growth (3-5 yrs)	8.25%	9.63%	8.55%	-4.04%	10.18%	8.55%
Current Ratio	0.55	0.68	1.23	0.45	0.53	0.67
Debt/Capital	61.36%	47.44%	43.90%	99.27%	55.53%	23.31%
Net Margin	6.96%	6.69%	11.32%	3.68%	7.76%	10.26%
Return on Equity	29.16%	12.61%	16.60%	-1,414.94%	25.95%	23.31%
Sales/Assets	0.83	0.64	0.55	0.75	0.70	0.85
Proj. Sales Growth (F1/F0)	-45.54%	-34.28%	-1.15%	-42.81%	-50.48%	-39.76%
Momentum Score	F	-	-	F	F	F
Daily Price Chg	-2.19%	0.71%	2.63%	-2.81%	-1.12%	-0.75%
1 Week Price Chg	-12.10%	-4.56%	-1.74%	-10.89%	-7.66%	-5.96%
4 Week Price Chg	-17.11%	-0.64%	8.71%	-18.20%	-22.71%	-17.07%
12 Week Price Chg	-66.63%	-49.73%	-17.57%	-63.11%	-60.46%	-47.28%
52 Week Price Chg	-72.10%	-52.91%	-11.60%	-70.33%	-61.61%	-45.92%
20 Day Average Volume	35,344,348	176,975	2,734,148	73,616,168	57,383,276	12,053,549
(F1) EPS Est 1 week change	-70.53%	-69.57%	0.00%	-30.65%	-68.62%	-2,075.96%
(F1) EPS Est 4 week change	-749.10%	-178.74%	-6.57%	-987.14%	-326.36%	-178.74%
(F1) EPS Est 12 week change	-235.58%	-166.62%	-12.64%	-349.94%	-193.19%	-144.89%
(Q1) EPS Est Mthly Chg	-1,643.94%	-386.43%	-10.33%	-139,099.30%	-567.91%	-473.60%

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## 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.

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### 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>B</b>
Growth Score	<b>A</b>
Momentum Score	<b>F</b>
VGM Score	<b>B</b>

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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