Alaska Air Group, Inc.

Recommendation	Price	12-Mo. Target Price	Report Currency	Investment Style
HOLD ★★★★★	USD 43.76 (as of market close May 10, 2024)	USD 47.00	USD	Mid-Cap Value

Equity Analyst Jonnathan Handshoe

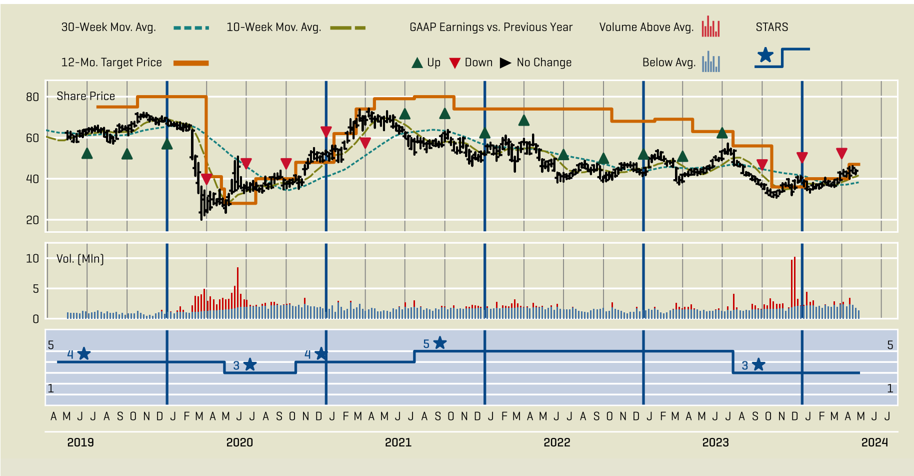
GICS Sector Industrials
Sub-Industry Passenger Airlines

Summary Alaska Air is the fifth largest U.S. airline in terms of annual revenue and seat-miles flown, with a focus on serving markets in the western U.S.

Key Stock Statistics (Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports)

52-Wk Range	**USD 57.18 - 30.75**	Oper.EPS2024**E**	**USD 4.01**	Market Capitalization[B]	**USD 5.49**	Beta	**1.61**
Trailing 12-Month EPS	**USD 4.21**	Oper.EPS2025**E**	**USD 4.72**	Yield [%]	**N/A**	3-yr Proj. EPS CAGR[%]	**17**
Trailing 12-Month P/E	**10.39**	P/E on Oper.EPS2024**E**	**10.91**	Dividend Rate/Share	**N/A**	SPGMI's Quality Ranking	**B-**
USD 10K Invested 5 Yrs Ago	**7,419.0**	Common Shares Outstg.[M]	**126.00**	Trailing 12-Month Dividend	**N/A**	Institutional Ownership [%]	**83.0**

Price Performance



Source: CFRA, S&P Global Market Intelligence
Past performance is not an indication of future performance and should not be relied upon as such.
Analysis prepared by **Jonnathan Handshoe** on May 02, 2024 08:50 AM ET, when the stock traded at **USD 42.18**.

Highlights

- Q1 2024 passenger revenues were up 1% Y/Y, while capacity fell 2%. We note that ALK did not provide revenue guidance during its Q1 earnings as it assesses the impact of its 2024 guidance due to the recent grounding of its 737 Max-9 variety aircraft after one of its operated aircraft had a door panel blow off mid-flight in early January. While we expect 2024 guidance to be revealed in 1H 2024, S&P Capital IQ consensus estimates predict ALK's revenues to rise by 4.6% in 2024 vs. 2023.
- In Q4 2023, ALK announced that it agreed to acquire Hawaiian Holdings, Inc. (HA 13 NR) for $1.9 billion ($1 billion in cash plus $900 million in assumed debt). We believe the deal could grow ALK's fleet by 20% while adding over 400 unique routes departing from the West Coast and improving connectivity for Hawaiian travelers with 87 outbound destinations. We don't believe the pending deal will face regulatory scrutiny, given that both operational networks complement one another.
- We forecast 2024 EPS at $4.01 and $4.72 in 2025, down 38% and 26% from 2019, respectively.

Investment Rationale/Risk

- Our Hold recommendation reflects a more neutral view as we believe demand could start normalizing in 2024-2025. We think ALK could experience significant headwinds due to the recent grounding of its 737 Max-9 series aircraft after a door panel blew off one of its operated aircraft mid-flight, which could hinder ALK's capacity growth plan and increase unit costs given that 85% of its future orders are 737 Max variety aircraft, in our view. In addition, we think ALK's primary domestic leisure travel model could soften as pent-up demand for international travel could most likely surpass domestic travel in 2024.
- ALK mostly serves domestic non-corporate travelers, reducing its risk from potential less-than-full recoveries in corporate or international travel. However, ALK still faces the risk of a broad downturn in air travel from a recession, but we think global air travel volumes are still so depressed on capacity constraints that ALK will see counter-cyclical growth even through a mild recession.
- Our $47 target price is 10.0x our 2025 EPS estimate, lower than ALK's five-year historical forward P/E average of 12x.

Analyst's Risk Assessment

LOW | MEDIUM | **HIGH**

ALK carries high risk due to a combination of large fixed equipment costs (airplanes and gates are expensive to own and operate) with cyclical demand and a commodity-like product. Long lives and lead times for aircraft make capacity difficult to adjust to abrupt demand fluctuations, and price competition is usually intense as most routes are serviced by myriad competitors. This can result in overcapacity periodically sparking price wars, leading to severe earnings drops. ALK mitigates risk with a conservative balance sheet, in our view, giving it greater capacity flexibility and liquidity in cyclical downturns than most peers.

Revenue/Earnings Data

Revenue (Million USD)

	1Q	2Q	3Q	4Q	Year
2025	**E** 2,390	**E** 2,950	**E** 3,102	**E** 2,799	**E** 11,241
2024	2,232	**E** 2,948	**E** 3,012	**E** 2,604	**E** 10,796
2023	2,196	2,838	2,839	2,553	10,426
2022	1,681	2,658	2,828	2,479	9,646
2021	797	1,527	1,953	1,899	6,176
2020	1,636	421	701	808	3,566

Earnings Per Share (USD)

	1Q	2Q	3Q	4Q	Year
2025	**E** -0.80	**E** 1.72	**E** 2.56	**E** 1.24	**E** 4.72
2024	-0.92	**E** 2.09	**E** 1.80	**E** 1.03	**E** 4.01
2023	-0.62	3.00	1.83	0.30	4.53
2022	-1.33	2.19	2.53	0.92	4.35
2021	-3.51	-0.30	1.47	0.24	-2.03
2020	-0.82	-3.54	-3.23	-2.55	-10.17

Fiscal Year ended Dec 31. EPS Estimates based on CFRA's Operating Earnings; historical earnings are adjusted. In periods where a different currency has been reported, this has been adjusted to match the current quoted currency.

Dividend Data

Amount (USD)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.3750	Jan 28	Feb 14	Feb 18	Mar 05 '20
0.3500	Nov 07	Nov 18	Nov 19	Dec 05 '19
0.3500	Aug 06	Aug 19	Aug 20	Sep 05 '19
0.3500	May 09	May 20	May 21	Jun 06 '19

Dividends have been paid since 1978 . Source: Company reports
Past performance is not an indication of future performance and should not be relied as such.
Forecasts are not a reliable indicator of future performance.
Dividends paid in currencies other than the Trading currency have been accordingly converted for display purposes.

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Alaska Air Group, Inc.

Business Summary May 02, 2024

CORPORATE OVERVIEW. Alaska Air Group (ALK) is a U.S. airline serving 120 destinations in the U.S., Mexico, Canada, and Costa Rica. ALK focuses on serving passengers based on the West Coast, and it operates a hub and spoke model. ALK hubs are located in Seattle, Los Angeles, and San Francisco. The company is the fifth largest U.S. airline in terms of annual seat-miles flown and revenue, behind American, United, Delta, and Southwest.

Virtually all ALK flights originate or terminate at one of its West Coast hubs, and it labels its capacity regions based on where the non-hub side of the flight is located. In 2022, ALK's capacity by region was West Coast, 27%, meaning flights originate and terminate on the West Coast; non-West Coast lower 48 states, 43%; Hawaii, Costa Rica, and Belize, 13%; Alaska, 11%; and Mexico, 6%.

INDUSTRY LANDSCAPE. Prior to the pandemic downturn, we estimate the U.S. airline industry produced roughly $248 billion of revenue in 2019, based on Bureau of Transportation Statistics data, giving ALK's 2019 revenues of $8.8 billion about 4% market share. ALK is fifth in market share, behind the major U.S. carriers, Delta, American, and United, with 17%-19% share each, and also behind Southwest at 9%.

The U.S. airline industry is fragmented and highly competitive. As of December 2022, there were at least eight other domestic airlines besides ALK offering long-distance U.S. flights, and at least eight smaller carriers offering regional service. Additionally, ALK competes with dozens of international carriers on international flights. ALK also contracts with its subsidiary, Horizon, and third-party regional airline SkyWest, to connect smaller destinations with its hubs, thereby allowing it to provide service that otherwise could not be provided economically with its mainline aircraft (120 seats or more).

Barriers to entry in the airline industry are low, with small new players periodically popping up with only a few planes and a handful of routes. However, gates in major cities are limited in number and in high demand, driving up the cost of gate rents and landing fees over time, particularly for airlines seeking to operate at high demand airports, as ALK does at its West Coast hubs. Business travel is particularly high barrier, in our view, as we believe frequent business flyers prefer to accumulate rewards points with a single airline to gain status perks, and typically choose one of the Big 3 carriers (American, United, and Delta) due to their more expansive network of direct flights throughout the U.S. seven days a week, as well as abundant international flight offerings. Rewards programs produce high switching costs for business travelers, in our view, as they generate powerful incentives for customers to continue choosing their existing carrier to enjoy their earned status perks, like upgrades to First Class, free flights, and access to airport lounges.

Leisure fare pricing in the airline industry is extremely competitive, as customers can typically choose between numerous airlines for the specific route and dates they wish to fly. The incremental cost of adding one more passenger to a flight is also virtually zero, as the plane and crew cost will be the same regardless. This makes the industry prone to intense price competition, particularly on routes seeing capacity increases. Price competition is especially strong for leisure travel because these flights are personal purchases, making them more price sensitive than business travel covered by an employer.

The largest expense for airlines is employee compensation, which typically consumes about 30% of ALK's annual revenue. The next largest is usually fuel, which typically consumes 27% of revenue. Fuel prices came down substantially during the latter 2010s as the U.S. fracking boom increased global oil supply, with ALK's fuel expense ratio well below the 30% levels it saw in the early 2010s when oil prices were still more than $90 per barrel. However, oil prices shot back up to well over $120 per barrel in 2022, and while not as frothy as 2022 levels, dropped to $82 per barrel in Q3 2023. Given that the U.S. Energy Information Administration forecasts West Texas Intermediate to average $80 per barrel in 2023 (vs. $95 per barrel in 2022) and $91 per barrel in 2024, we believe that ALK and other airlines should see margin compression through 2024.

The airline industry is subject to highly volatile earnings not only due to oil price swings, but also due to frequent bouts of over/under capacity and a high degree of fixed costs, in our view. Multi-year lead times for aircraft orders and high fixed costs make industry capacity relatively unresponsive to short-term demand fluctuations, which can occur abruptly when a recession or contagious disease outbreak occurs. Further, unlike a store or factory where costs can be brought down, to an extent, by cutting plant shifts or operating the store with fewer staff, airline operations are highly distributed. Planes and their accompanying gates generally require the same operating costs whether a flight is sold out or flown with just a handful of passengers. Also, most aircraft are financed or leased, meaning loan and lease payments remain even if aircraft are grounded due to low demand.

High fixed costs that generally take much longer to reduce than industry demand, as well as intense price competition, can lead to large losses even when revenue only drops 10%-20%. For example, U.S. airlines ran up roughly $26 billion in aggregate losses during 2008-2009, even though revenues only fell about 11% from 2007 levels.

FINANCIAL TRENDS. ALK's total revenue hit a record high of $10 billion in 2023, surpassing 2019's cyclical peak by 19% while exceeding 2022 levels by 8% as air travel demand has significantly recovered from the Covid-19 pandemic. Adjusted earnings per share rose from an operating loss per share of $2.03 to $4.53 in 2023; however, it was 29% below 2019 earnings per share of $6.42.

As of Q1 2024, ALK forecasts capital expenditures to be in range of $1.2-$1.3 billion in 2024 (vs. $1.5 billion in 2023).

Corporate information

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K. B. Levine

President, CEO & Director
B. Minicucci

VP of Finance, Controller & Principal Accounting Officer
E. Halverson

Independent Non-Executive Chair
P. M. Bedient

CFO & Executive VP of Finance
S. R. Tackett

Board Members

A. R. Lofton	J. A. Beer
B. Minicucci	J. K. Thompson
D. K. Elwell	K. T. Hogan
D. R. Fonseca	P. M. Bedient
E. K. Yeaman	R. L. Conner
H. K. Sandvik	

Domicile
Delaware

Founded
1932

Employees
23,013

Stockholders
N/A

Auditor
KPMG LLP - Klynveld Peat Marwick Goerdeler

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Alaska Air Group, Inc.

Quantitative Evaluations

Fair Value Rank

1	2	3	4	5
LOWEST				HIGHEST

Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

Fair Value Calculation **USD 43.13** Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that ALK is overvalued by USD 0.63 or 1.44%

Volatility LOW | AVERAGE | HIGH

Technical Evaluation **BULLISH** Since January, 2024, the technical indicators for ALK have been BULLISH"

Insider Activity UNFAVORABLE | NEUTRAL | FAVORABLE

Expanded Ratio Analysis

	2023	2022	2021	2020
Price/Sales	0.48	0.57	1.07	1.80
Price/EBITDA	3.96	4.59	48.21	NM
Price/Pretax Income	15.57	69.52	10.50	NM
P/E Ratio	8.62	9.87	NM	NM
Avg. Diluted Shares Outstg. (M)	128.71	127.90	126.78	123.45

Figures based on fiscal year-end price

Key Growth Rates and Averages

Past Growth Rate (%)	**1 Year**	**3 Years**	**5 Years**
Net Income	305.17	NM	NM
Sales	8.09	42.99	4.76
Ratio Analysis (Annual Avg.)			
Net Margin (%)	2.25	3.53	NM
% LT Debt to Capitalization	27.51	26.62	25.22
Return on Equity (%)	5.93	7.18	0.88

Company Financials Fiscal year ending Dec 31

Per Share Data (USD)	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Tangible Book Value	16.50	13.94	13.95	7.55	18.42	13.65	11.25	6.92	19.26	16.18
Free Cash Flow	-3.49	-2.00	5.90	-3.69	8.32	1.91	4.58	5.73	5.87	2.48
Earnings	1.83	0.45	3.77	-10.72	6.19	3.52	7.75	6.41	6.56	4.42
Earnings (Normalized)	4.53	4.35	-2.03	-10.17	6.42	4.46	6.64	7.32	6.51	4.18
Dividends	N/A	N/A	N/A	0.38	1.40	1.28	1.20	1.10	0.80	0.50
Payout Ratio (%)	NM	NM	NM	NM	22.50	36.16	15.42	17.06	12.03	11.24
Prices: High	57.18	61.55	74.25	68.79	72.22	75.46	101.43	91.89	87.17	60.94
Prices: Low	30.75	38.18	46.26	20.02	53.39	57.42	61.10	54.51	57.71	36.14
P/E Ratio: High	12.60	14.10	NM	NM	11.20	16.90	15.30	12.60	13.40	14.60
P/E Ratio: Low	6.80	8.80	NM	NM	8.30	12.90	9.20	7.40	8.90	8.60
Income Statement Analysis (Million USD)										
Revenue	10,426	9,646	6,176	3,566	8,781	8,264	7,894	5,925	5,598	5,368
Operating Income	818.00	782.00	-257.00	-2,338	1,071	793.00	1,324	1,410	1,330	909.00
Depreciation + Amortization	451.00	415.00	394.00	420.00	423.00	398.00	372.00	363.00	320.00	294.00
Interest Expense	94.00	94.00	117.00	87.00	63.00	73.00	86.00	30.00	8.00	28.00
Pretax Income	323.00	79.00	629.00	-1,840	1,016	585.00	1,159	1,316	1,312	975.00
Effective Tax Rate	27.20	26.60	24.00	28.00	24.30	25.30	17.20	39.40	35.40	37.90
Net Income	235.00	58.00	478.00	NM	769.00	437.00	960.00	797.00	848.00	605.00
Net Income (Normalized)	488.80	459.40	NM	NM	655.60	466.90	793.10	886.90	840.60	575.00
Balance Sheet and Other Financial Data (Million USD)										
Cash	1,797	2,425	3,116	3,346	1,522	1,239	1,622	1,580	1,328	1,217
Current Assets	2,705	3,040	3,920	4,006	2,037	1,787	2,152	2,050	1,663	1,639
Total Assets	14,613	14,186	13,951	14,046	12,993	10,912	10,746	9,962	6,530	6,064
Current Liabilities	4,459	4,493	3,991	4,293	3,201	2,942	2,686	2,535	1,805	1,671
Long Term Debt	2,182	1,883	2,176	2,372	1,269	1,621	2,267	2,645	582.00	699.00
Total Capital	7,931	7,596	7,896	8,066	7,548	5,861	6,037	5,900	3,112	2,949
Capital Expenditures	1,494	1,671	292.00	222.00	696.00	960.00	1,026	678.00	831.00	694.00
Cash from Operations	1,050	1,418	1,030	-234.00	1,722	1,195	1,590	1,386	1,584	1,030
Current Ratio	0.61	0.68	0.98	0.93	0.64	0.61	0.80	0.81	0.92	0.98
% Long Term Debt of Capitalization	27.50	24.80	27.60	29.40	16.80	27.70	37.60	44.80	18.70	23.70
% Net Income of Revenue	2.30	0.60	7.70	-37.10	8.80	5.30	12.20	13.50	15.10	11.30
% Return on Assets	3.55	3.47	-1.15	-10.81	5.60	4.58	7.99	10.69	13.20	9.55
% Return on Equity	5.90	1.50	14.10	-36.20	19.00	12.10	30.00	29.80	37.40	29.10

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

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Alaska Air Group, Inc.

Sub-Industry Outlook

Our fundamental outlook for Airlines over the next year is negative. We forecast modest revenue growth of 4% in 2024 vs. 2023 as we think international travel is in the early stages of demand normalization. In addition, we believe that corporate travel could likely take longer to recover to pre-pandemic levels as remote work and online meetings have reduced the need for business travel. For 2024, we think that sub-industry profits will be 26% below peak levels seen in 2019 due to rising unit costs (fuel, labor, and maintenance).

As of July 2023, U.S. passenger volumes have remained flat vs. the same period in 2019, but have surpassed the prior-year period in 2022 by 9% per the most recent Bureau of Transportation Statistics (BTS). We estimate that international travel volumes have lagged 2019 levels by 5%; however, international travel demand has exceeded 2022 levels by 19% due to the reopening of Asia. We see international demand rising by mid-single digits in 2024, while domestic demand remains flat.

On the supply side, equipment shortages have prolonged the capacity recovery for major airlines due to delays in new aircraft deliveries, causing airlines to fly much older planes that are more expensive to maintain due to age and are the least fuel efficient. We estimate that sub-industry capacity, or seat-miles flown, for Q3 2023 will be 5% below Q3 2019. For 2024, we see capacity rising by 4% vs. 2019. This modest growth in capacity levels, while passenger volumes are flat with 2019 levels, means that airlines could see airfares drop, which could impact earnings as the demand picture starts to normalize. Airlines have made significant progress in restoring staff levels (up 10% vs. 2019 levels); however, we think the pending labor contract negotiations in the sub-industry could place upward pressure on unit costs as airlines continue to see their employee counts rise.

We estimate that U.S. aggregate revenues will increase by 13% in 2023 (vs. 2022); however, we see modest growth of 4% in 2024 due to travel demand beginning to normalize. We estimate unit costs will grow by 14% due to higher fuel, labor, and maintenance costs, which means that airlines will be unable to pass along all of the higher costs.

While revenues have exceeded pre-pandemic levels, we don't expect profits to do the same this year or next, as we estimate profits to remain below 2019 levels by 30% in 2023 and 26% in 2024, mainly due to higher fuel prices. Before the pandemic, oil was under $60 per barrel and U.S. airlines spent around 20% of revenue on fuel. But with oil expected to average $80/barrel in 2023 (vs. $95/barrel in 2022) and $91/barrel in 2024, we expect airlines to spend around 25% of revenue on fuel in 2023 and 2024.

Much higher interest expense will also reduce airline profits over the next few years due to the sub-industry's pandemic debt surge, followed by a rising interest rate environment. From the end of 2019 to Q2 2023, the aggregate debt of U.S. airlines rose roughly $32 billion (+32%), and, by our estimation, over 40% of U.S. airline debt is floating-rate debt. We believe airlines will need several more years of revenue growth past the 2019 peak just to achieve the same levels of net income, as net margins could be materially lower.

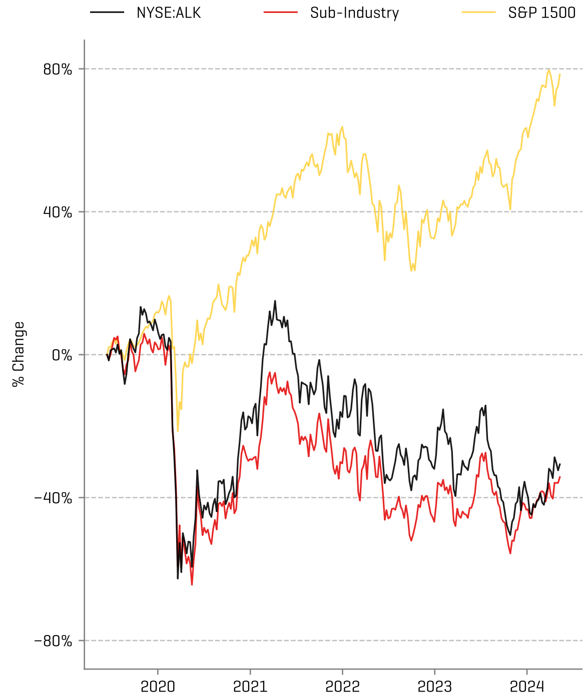
Year to date through October 27, the S&P Airlines Index was down 17% vs. a 6.2% increase for the S&P Composite 1500. In 2022, the sub-industry was down ~24%, while S&P fell 19%.

/ Jonnathan Handshoe

Industry Performance

GICS Sector: Industrials
Sub-Industry: Passenger Airlines

Based on S&P 1500 Indexes
Five-Year market price performance through May 11, 2024



NOTE: A sector chart appears when the sub-industry does not have sufficient historical index data.
All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS).
Past performance is not an indication of future performance and should not be relied upon as such.
Source: CFRA, S&P Global Market Intelligence

Sub-Industry: Passenger Airlines Peer Group*: Passenger Airlines

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price	Stk. Mkt. Cap. (M)	30-Day Price Chg. (%)	1-Year Price Chg. (%)	P/E Ratio	Fair Value Calc.	Yield (%)	Return on Equity (%)	LTD to Cap (%)
Alaska Air Group, Inc.	**ALK**	**NYSE**	**USD**	**43.86**	**5,493.0**	**2.0**	**1.7**	**10.0**	**43.13**	**N/A**	**6.4**	**29.0**
Air Canada	ACDV.F	OTCPK	USD	13.66	6,625.0	-5.9	-12.8	3.0	N/A	N/A	-541.7	70.6
Allegiant Travel Company	ALGT	NasdaqGS	USD	53.78	967.0	-18.6	-48.1	11.0	59.01	4.5	N/A	N/A
American Airlines Group Inc.	AAL	NasdaqGS	USD	14.48	9,461.0	3.8	1.0	6.0	8.42	N/A	-8.9	80.6
Copa Holdings, S.A.	CPA	NYSE	USD	103.00	4,289.0	-1.1	7.7	8.0	N/A	6.3	28.6	32.0
Exchange Income Corporation	EIFZ.F	OTCPK	USD	34.08	2,196.0	-4.8	-12.8	19.0	N/A	5.6	10.7	56.9
Frontier Group Holdings, Inc.	ULCC	NasdaqGS	USD	5.93	1,348.0	-19.3	-25.9	NM	N/A	N/A	-4.9	4.9
JetBlue Airways Corporation	JBLU	NasdaqGS	USD	5.75	1,935.0	-18.9	-17.2	NM	N/A	N/A	-27.8	32.8
Joby Aviation, Inc.	JOBY	NYSE	USD	5.19	3,464.0	5.1	15.8	NM	N/A	N/A	-48.3	N/A
SkyWest, Inc.	SKYW	NasdaqGS	USD	77.55	3,102.0	11.6	193.3	28.0	N/A	N/A	5.3	46.4
Wheels Up Experience Inc.	UP	NYSE	USD	2.16	1,555.0	-26.3	-31.6	NM	N/A	N/A	-589.7	70.1

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.
NA-Not Available; NM-Not Meaningful.
Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

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Alaska Air Group, Inc.

Analyst Research Notes and other Company News

April 18, 2024
03:36 PM ET... CFRA Keeps Hold Opinion on Shares of Alaska Air Group, Inc. (ALK 44.59***):
Our 12-month target of $47, up $7, is 10x our 2025 EPS view (up to $4.72 from $4.06, 2024 lifted to $4.01 from $3.43), below ALK's historical average. We think a discount is merited due to persistent issues with Boeing (BA 170 **), which is causing further delays in new aircraft deliveries (86% of ALK's future orders are the 737 MAX variety aircraft), which could boost unit costs, in our view. Q1 loss per share (LPS) of -$0.92 vs. LPS of -$0.62, beat consensus by $0.13. Q1 revenue rose 2% Y/Y, while capacity fell 2% Y/Y due to the grounding of ALK's 737 MAX-9 aircraft. ALK revised its 2024 guide, with EPS expected in range of $3.25-$5.25/share (vs. prior $3-$5/share), and capex in range of $1.2B-$1.3B (vs. prior $1.4B-$1.5B). In Q1, ALK received a second request for information from the DOJ about its acquisition of Hawaiian Airlines (HA 13 NR); however, given that ALK and HA only have 12 overlapping routes, we don't believe the deal will face the same level of regulatory scrutiny that JBLU and SAVE faced. / Jonnathan Handshoe

January 26, 2024
01:14 PM ET... CFRA Keeps Hold Opinion on Shares of Alaska Air Group, Inc. (ALK 36.87***):
Our 12-month target remains $40, 9.9x our 2025 EPS view (started at $4.06; 2024 lowered to $3.43 from $4.59), a discount to ALK's historical average. We think a discount is merited due to the FAA recently halting Boeing's production expansion on the 737 MAX variety aircraft after a door panel blew off a MAX-9 aircraft operated by ALK mid flight, which could hinder ALK's capacity growth plan and increase unit costs given that 85% of its future orders are 737 MAX variety aircraft, in our view. Q4 EPS of $0.30 vs. $0.92, beat consensus by $0.12. Q4 revenues grew 3% Y/Y on 14% capacity growth. ALK provided soft guidance for 2024 and expects earnings to be in range of $3-$5/share. We anticipate further guidance in H1 2024 as ALK assesses the impact of the recent groundings. In Q4, ALK announced its plans to acquire Hawaiian Airlines (HA 15 NR) for $1.9B. We don't believe the pending deal will face regulatory scrutiny given that both operational networks complement one another and only have 12 overlapping routes. / Jonnathan Handshoe

January 10, 2024
02:46 PM ET... CFRA Keeps Hold Opinion on Shares of Alaska Air Group, Inc. (ALK 36.79***):
Our 12-month target of $40, up $4, is 8.7x our unchanged '24 EPS view ('23 remains at $4.72), below ALK's '18-'19 forward average of 11.0x. We think a discount is merited because a Boeing 737 Max-9 series aircraft operated by ALK had a plug-type door blow-out in-flight last Friday, causing the Federal Aviation Administration to ground 171 737 Max-9 aircraft. As of December '23, the 737 Max-9 series currently accounts for ~21% of ALK's total fleet (65 aircraft out of its total fleet of 314 aircraft), per ALK. In addition, ALK reported in Q3 that it expects to take an additional 17 737 Max-9 series in FY 24, which accounts for ~61% of its expected new aircraft deliveries. In Q4 23, ALK reported that it agreed to acquire Hawaiian Holdings (HA 14 NR) for $1.9B. While HA's fleet currently doesn't have any 737 Max-9 series, it does have 12 737 Max-9 series on order between '24 and '27, with three aircraft deliveries expected in '24, which leaves ALK little room to switch aircraft to avoid potential cancellations. / Jonnathan Handshoe

December 04, 2023
04:26 PM ET... CFRA Reiterates Hold Opinion on Shares of Alaska Air Group, Inc. (ALK 34.08***):
On December 3, ALK announced that it agreed to acquire Hawaiian Holdings, Inc. (HA 14 NR) for $1.9B ($1B in cash plus $900M in assumed debt), reflecting a transaction multiple of 0.7x revenue, slightly above HA's five-year historical average of 0.6x. Each share of HA is to be exchanged for $18 in cash, over a 270% premium for HA shareholders based on Friday's close. We keep our 12-month target at $36, which is based on our standalone valuation of 7.8x our '24 EPS estimate ($4.59; '23's at $4.72). The deal would grow ALK's fleet by 20%, while adding over 400 unique routes departing from the West Coast and improving connectivity for Hawaiian travelers with 87 outbound destinations. However, ALK's shares are down 14% today on the announcement, which we think is due to uncertainty about the deal receiving approval given the pending JBLU/SAVE trial. We believe the deal could come under intense scrutiny from the Biden administration's antitrust stance, as it could give ALK control of over 50% of the Hawaii market. / Jonnathan Handshoe

October 23, 2023
12:33 PM ET... CFRA Keeps Hold Opinion on Shares of Alaska Air Group, Inc. (ALK 33.05***):
Our 12-month target of $36, down $20, is 7.8x our '24 EPS view (cut to $4.59 from $7.17; '23's cut to $4.72 from $6.46), below ALK's '18-'19 forward average of 11x. We think a discount is merited based on rising unit costs. Q3 EPS of $1.83 vs. $2.53, missed consensus by $0.04. Q3 revenues were flat Y/Y, while capacity rose 14% Y/Y. ALK revised its '23 earnings guidance, reducing its '23 EPS expectations by 44% (midpoint of $4.50/share vs. the prior midpoint of $6.50/share), which we believe is due to recent fires in Hawaii (13% of total capacity in '22) and the continued lag in recovery with business travel demand. We think ALK faces headwinds with rising fuel costs, which rose sequentially to $3.26/g (vs. $2.76/g) due to the rise in crude oil pricing during Q3 vs. Q2 (+29%). Despite seeing ALK with lower fuel costs in '23 ($3.18/g vs. $3.40/g in '22), we estimate that it could see its fuel costs rise by 3% in '24 ($3.29/g). As a result, we estimate operating margins to remain relatively flat in '24 vs. '23. / Jonnathan Handshoe

July 26, 2023
12:14 AM ET... CFRA Cuts View on Shares of Alaska Air Group to Hold from Strong Buy (ALK 48.18***):
We cut our 12-month target by $7 to $56, 7.8x our 2024 EPS estimate (cut to $7.17 from $7.21; 2023's raised to $6.46 from $6.24), below ALK's 2018-2019 forward P/E average of 11x on higher-than-usual uncertainty for staffing shortages and the elevated risk of a possible steep recession (not our base case, but a risk factor nonetheless). As a result, we downgrade based on a more neutral outlook for 2023-2024 for ALK. Q2 EPS of $3.00 vs. an operating loss/share of $1.33, beat consensus by $0.30. Q2 passenger revenues grew 7% Y/Y, while capacity rose 10% Y/Y. We see ALK growing its revenue by 8% in 2023 and ~6% in 2023. ALK noted that demand continues to remain strong; however, we think that ALK's domestic leisure model could see some softening due to rising recessionary risks, which could slow revenue growth. The stock was down 10% after earnings were released due to a more muted Q3 guidance, with revenues expected to see low single-digit growth, well below the prior consensus of ~11%. / Jonnathan Handshoe

April 24, 2023
12:54 PM ET... CFRA Maintains Strong Buy Opinion on Alaska Air Group, Inc. Shares (ALK 43.75*****):
We cut our 12-month target by $6 to $63, 8.7x our 2024 EPS estimate (cut to $7.21 from $7.68; 2023's cut to $6.24 from $6.29), below ALK's 2018-2019 forward P/E average of 11x on higher-than-usual uncertainty for staffing shortages. Q1 loss/share of $0.62 versus $1.33, missed consensus by $0.14. Q1 revenue grew 31% Y/Y, and we expect ALK to boost revenue by 9% in 2023 and another 4% in 2024, even through a modest recession. Despite the recent market turmoil within the banking sector and rising economic uncertainty, leisure revenues continue to surprise towards the upside, coming in at 130% above 2019 levels. ALK did note that business travel demand has recovered towards 85%-90% of pre-pandemic revenue. Nonetheless, the company did mention that business travelers are starting to book further out than they have historically and has not priced in business recovery in its revenue guidance, most notably in West Coast business travel, which we believe could have substantial upside potential towards earnings. / Jonnathan Handshoe

Note: Research notes reflect CFRA's published opinions and analysis on the stock at the time the note was published. The note reflects the views of the equity analyst as of the date and time indicated in the note, and may not reflect CFRA's current view on the company.

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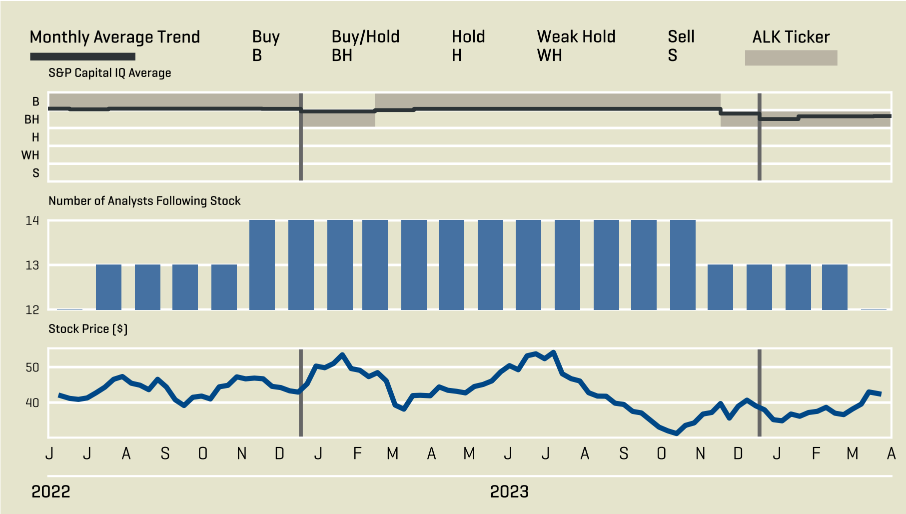
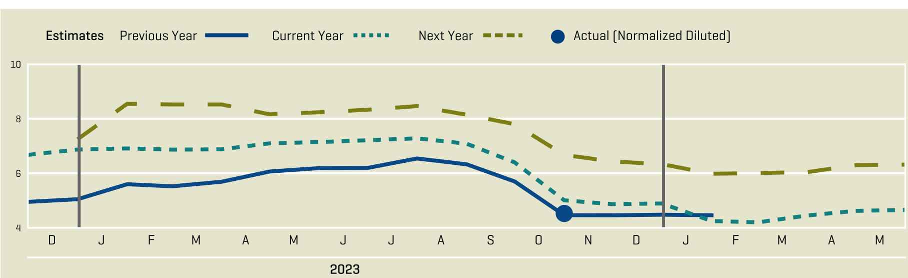
Alaska Air Group, Inc.

Analysts Recommendations



	No. of Recommendations	% of Total	1 Mo.Prior	3 Mos.Prior
Buy	6	50	6	6
Buy/Hold	2	17	2	3
Hold	4	33	4	4
Weak hold	0	0	0	0
Sell	0	0	0	0
No Opinion	0	0	0	0
Total	12	100	12	13

Wall Street Consensus Estimates



Fiscal Year	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2025	6.32	7.34	5.46	11	6.94
2024	4.66	5.38	4.07	11	9.41
2025 vs. 2024	**▲ 36%**	**▲ 36%**	**▲ 34%**	**N/A%**	**▼ -26%**
Q2'25	2.84	2.84	2.84	1	15.44
Q2'24	2.34	2.66	2.10	11	18.71
Q2'25 vs. Q2'24	**▲ 21%**	**▲ 7%**	**▲ 35%**	**▼ -91%**	**▼ -17%**

Forecasts are not reliable indicator of future performance.
Note: A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.
Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.

Wall Street Consensus Opinion

Buy/Hold

Wall Street Consensus vs. Performance

For fiscal year 2024, analysts estimate that ALK will earn USD 4.66. For fiscal year 2025, analysts estimate that ALK's earnings per share will grow by 35.66% to USD 6.32.

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Alaska Air Group, Inc.

Glossary

STARS
Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (MSCI AC Asia Pacific Index, MSCI AC Europe Index or S&P 500® Index)], based on a 12-month time horizon. STARS was designed to help investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Global Market Intelligence's Quality Ranking
(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and S&P Capital IQ Earnings & Dividend Rankings stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence's earnings and dividend rankings for common stocks, which are designed to capsulize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B	Below Average
A	High	B-	Lower
A	Above	C	Lowest
B+	Average	D	In Reorganization
NC	Not Ranked		

EPS Estimates
CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

12-Month Target Price
The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

Abbreviations Used in Equity Research Reports
CAGR - Compound Annual Growth Rate
CAPEX - Capital Expenditures
CY - Calendar Year
DCF - Discounted Cash Flow
DDM - Dividend Discount Model
EBIT - Earnings Before Interest and Taxes
EBITDA - Earnings Before Interest, Taxes, Depreciation & Amortization
EPS - Earnings Per Share
EV - Enterprise Value
FCF - Free Cash Flow
FFO - Funds From Operations
FY - Fiscal Year
P/E - Price/Earnings
P/NAV - Price to Net Asset Value
PEG Ratio - P/E-to-Growth Ratio
PV - Present Value
R&D - Research & Development
ROCE - Return on Capital Employed
ROE Return on Equity
ROI - Return on Investment
ROIC - Return on Invested Capital
ROA - Return on Assets
SG&A - Selling, General & Administrative Expenses
SOTP - Sum-of-The-Parts
WACC - Weighted Average Cost of Capital

Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).

Qualitative Risk Assessment
Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:

★★★★★ **5-STARS (Strong Buy):**
Total return is expected to outperform the total return of a relevant benchmark, by a notable margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ **4-STARS (Buy):**
Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months.

★★★☆☆ **3-STARS (Hold):**
Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months.

★★☆☆☆ **2-STARS (Sell):**
Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months.

★☆☆☆☆ **1-STAR (Strong Sell):**
Total return is expected to underperform the total return of a relevant benchmark by a notable margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:
In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the MSCI AC Europe Index and the MSCI AC Asia Pacific Index, respectively.

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Quantitative Stock Reports:
Quantitative rankings are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative rankings refer to the Glossary section seof the report for detailed methodology and the definition of Quantitative rankings.

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STARS Stock Reports:

Global STARS Distribution as of March 31, 2024

Ranking	North America	Europe	Asia	Global
Buy	37.6%	34.7%	44.1%	38.5%
Hold	52.6%	52.5%	50.6%	52.1%
Sell	9.7%	12.8%	5.4%	9.4%
Total	100.0%	100.0%	100.0%	100.0%

Analyst Certification:

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