



Delta Airlines

11/01/20



Summary



Business Overview



Industry Overview



Ratio Analysis



Valuation



Investment Risks



Conclusion



Investment Summary

Recommendation:

Valuation Price: \$30.23

Target Price: \$50.24

Buy

DAL 1 Year Stock Price

Thesis:

- Airlines are trading at bearish multiples due to lack of demand.
- Delta's liquidity is sufficient to endure the pandemic.

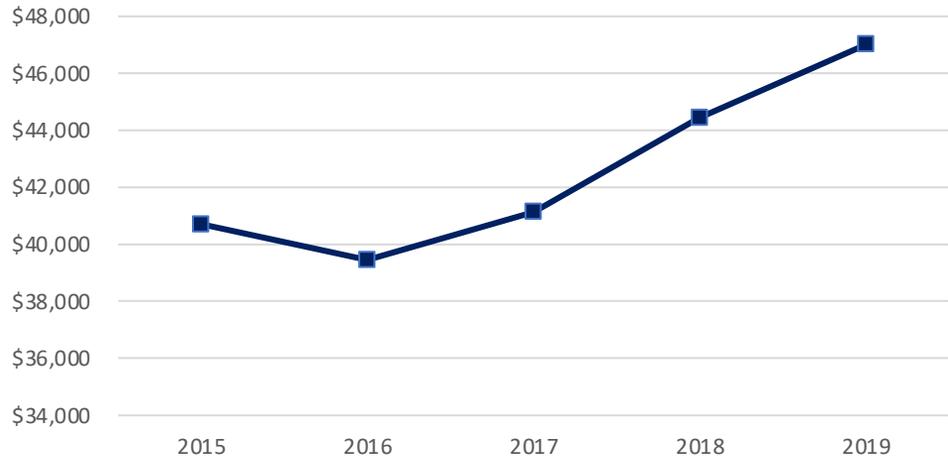


DAL Market Data

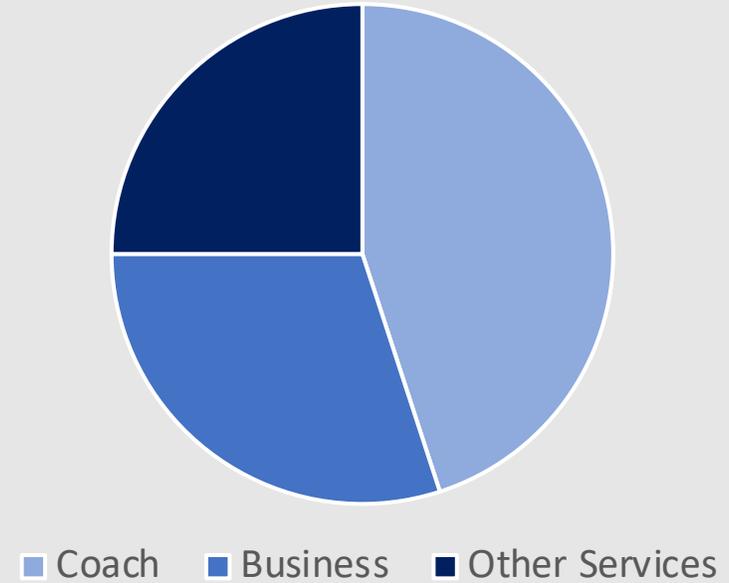
Price	30.2
Shares Outstanding	632.7
Market Cap.	37,589.0

Business Overview

Revenue Growth



Airlines Revenue Breakup



Atlanta, GA



Airlines



90%

Refinery



10%

Business Strategy

- Expand dominance through global partnerships.
- SkyTeam utilized for international travel.
-

International
Destinations



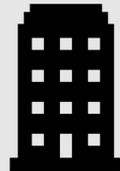
>900

Aircraft



>1,000

Global Hubs



16

SkyTeam Partners

AIRFRANCE

KLM

中國東方航空
CHINA EASTERN

virgin atlantic

KOREAN AIR

Industry Overview

Industry Drivers

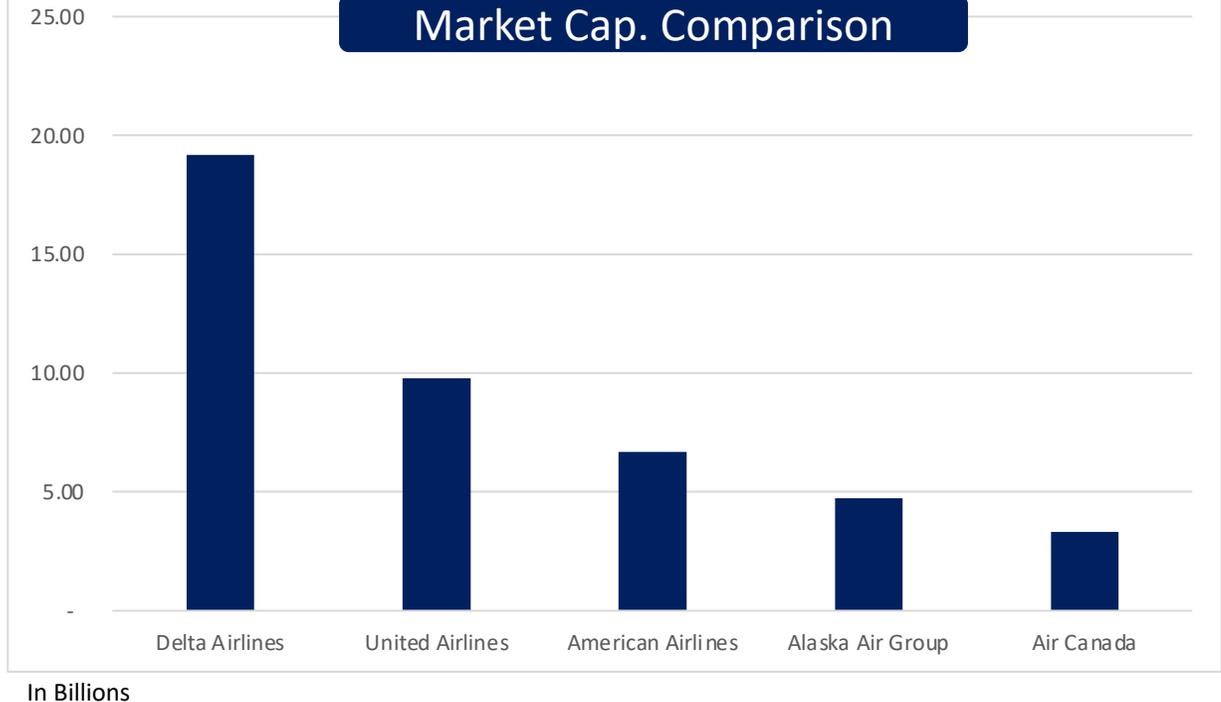
Oil prices

Discretionary income

Corporate Profit

- Industry dominated by large-scale operators.
- Jet fuel represents largest operating expense.
- Highly cyclical with market cycles.

Market Cap. Comparison

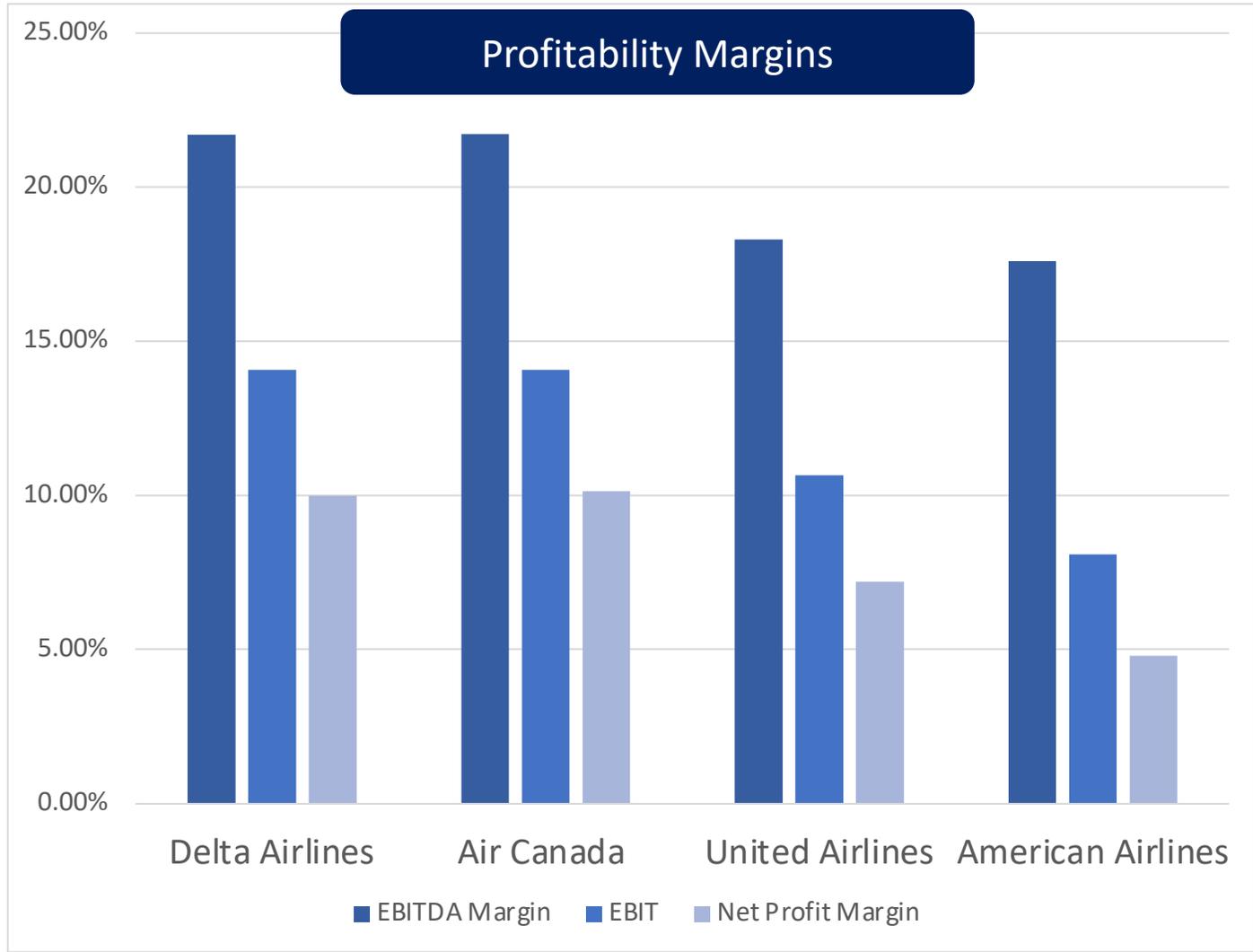


Five Year Industry Outlook

- 13.6% annual growth.
- Growth through partnerships and M&A.
- Fuel efficiency improvements expanding operating margins.

Ratio Analysis

Profitability Margins



Source: Bloomberg

Company	EBITDA
Delta Airlines	\$ 10,212
American Airlines	8,051
United Airlines	7,905
Air Canada	2,740

Delta and Air Canada lead the industry in profitability

Delta's EBITA

Source: MacroTrends

Ratio Analysis



Liquidity	Air Canada	United Airlines	American Airlines	Delta Airlines	Average
Current Ratio	0.97	0.55	0.45	0.41	0.66
Quick Ratio	0.88	0.42	0.30	0.28	0.53
EBIT/Interest	5.70	6.66	2.80	13.76	5.05
Leverage Ratio	6.31	4.56	(508.43)	4.20	5.44

Earnings Multiples	Air Canada	United Airlines	American Airlines	Delta Airlines	Average
EPS	5.74	12.05	4.86	7.17	7.55
P/E	9.09	7.31	5.87	8.16	7.42
P/B	2.91	1.92	-	2.45	2.42
EV/EBITDA	4.44	4.95	5.65	5.09	5.01

Valuation- DCF

	2020	2021	2022	2023	2024
NOPAT	(8,036)	5,264	6,272	7,352	8,511
Net Capex	(2,355)	-	-	(1,683)	(1,767)
NWC Change	(2,223)	2,377	212	223	235
Free Cash Flow	(12,614)	7,641	6,484	9,259	10,513
Discounted FCF	(11,816)	6,705	5,330	7,129	7,583
				Smoothed TV	12,281

	WACC					
	6%	6.25%	6.50%	6.75%	7.00%	7.25%
0.05%	257.84	244.94	233.06	222.08	211.91	202.45
0.10%	260.03	246.94	234.89	223.76	213.45	203.88
0.15%	262.25	248.97	236.74	225.46	215.02	205.32
0.20%	264.52	251.03	238.63	227.19	216.61	206.79
0.25%	266.82	253.13	240.55	228.95	218.22	208.28

- NOPAT calculated using tax rate from **2019 fiscal year.**
- Amongst recovery capital remain expenditures flat through 2022.
- **WACC of 6.75%** calculated using:
 - Weighted average debt: **3.65%**
 - Cost of Equity: **7.44% (CAPM)**
 - Beta of **1.16**
 - Risk free rate: **1.65%**
 - Market Risk Premium: **5.0%**
- **Long term growth rate: 0.11%**
 - Net reinvestment rate: **.82%**
 - ROIC: **12.36%**

Rejected

Implied Valuation: \$223.81/Per Share

Suggested: 285% over Valued



Valuation: EBITDA Multiple

	Market Cap.	Net Debt	Cash	Enterprise Value	EBITDA	Multiple
Air Canada	12,797	9,242	5,889	16,150	3,636	4.44
American Airlines	12,280	33,444	3,826	41,898	8,051	5.20
United Airlines	22,129	20,450	4,944	37,562	7,905	4.75
					Average:	4.80

DAL	
EBITDA	10,212.00
Enterprise Value	49,008.90
Less Net Debt	17,255.00
Equity Value	31,753.90
Shares Out	632.00
Price Per share	50.24
Current	30.23
Under Valued	66%

Accepted

- **4.80X EBITDA**
- **Implied Valuation: \$50.24**
- **Suggested: 66.0% Undervalued**

Conclusion

Current Price: \$30.23

Target Price: \$50.24

- **Consistent demand.**
- **Potential government bailout/stimulus.**
- **66% potential upside.**



- **Strong anticipated growth with recovery.**
- **More liquid than major competitors.**
- **Most dominate company in the industry.**

Investment Recommendation

Buy \$50,000 of DAL