

## Delta Air Lines

## 4Q23 earnings review: stock reaction creates opportunity

Reiterate Rating: BUY | PO: 50.00 USD | Price: 38.47 USD

## DAL -9% was not the stock reaction we expected

DAL shares fell -9% post-4Q23 earnings driven by the geopolitical backdrop (jet fuel +4%), modestly softer than expected 1Q24 revenue guidance (+3-6% vs our +5.4% estimate and expectations of +4-6%), and headline risk of the 2024 EPS outlook of \$6-7 vs DAL's prior target of \$7. We think there were pros/cons to the call, but our take was that all guidance metrics seemed reasonable and in line with expectations (the title of our [earnings preview](#) had "not quite \$7 in 2024 EPS"). We only tweak our estimates, maintain our \$50 PO, and view the weakness as an opportunity. Maintain Buy.

## Pros: no unexpected cost creep, consensus already \$6.50

We thought the key risk coming into earnings season was further cost creep. Even with DAL's 2024 capacity outlook of +3-5% slightly lower than expectations of +4.5-5%, unit costs were right in line. Specifically, 2024 unit costs ex-fuel are expected to be up low-single digits compared to our estimate and investor expectations of +2%. Further, 4Q23 results were better than we thought, with +11% revenue growth towards the high end of the 9-12% guide and our +10% estimate. Lastly, EPS guidance of \$6-7 bracketed the Street's \$6.50 (and our new \$6.38) despite DAL's dated \$7 EPS goal.

## Cons: 1Q revenues modestly light, expect acceleration

As mentioned above, 1Q24 revenue guidance was modestly light of expectations as we underestimated the benefit of LUV's operational problems last year (though DAL never quantified that) and the normalization of travel credit usage. These items along with a higher mix of international drove a "few" points of revenue headwinds and results in unit revenue guidance of flat to -3% (we were flattish). As a result, guidance implies unit revenues accelerate from 1Q to reach the full year goal of flat. While we forecast unit revenues -1%, we do see improvement throughout the year given easier domestic comps.

## We view the weakness as an opportunity

We only tweak our forecasts and continue to estimate strong free cash generation of \$3.5B in 2024 and \$4.0B in 2025 (15% yield). We view the weakness as an opportunity with the shares at 4.6x 2024E EBITDAR, in the bottom quartile of its historical range. Our \$50 price objective is 5.5x EBITDAR, right in line with DAL's long-term average.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026
EPS	3.20	6.25	6.38	7.34	NA
GAAP EPS	2.05	7.16	6.38	7.34	NA
EPS Change (YoY)	NM	95.3%	2.1%	15.0%	NA
Consensus EPS (Bloomberg)			6.50	7.57	8.33
DPS	0	0.20	0.40	0.40	NA
Valuation (Dec)					
P/E	12.0x	6.2x	6.0x	5.2x	NA
GAAP P/E	18.8x	5.4x	6.0x	5.2x	NA
Dividend Yield	0%	0.5%	1.0%	1.0%	NA
EV / EBITDA*	9.0x	5.9x	5.7x	5.5x	NA
Free Cash Flow Yield*	0%	4.6%	14.2%	16.3%	NA

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

16 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	56,404.9	56,638.2
2025E Rev (m)	59,264.4	59,351.9
2024E EPS	6.26	6.38
2025E EPS	7.35	7.34

Andrew G. Didora, CFA

Research Analyst

BofAS

+1 646 855 2924

[andrew.didora@bofa.com](mailto:andrew.didora@bofa.com)

Samuel Clough

Research Analyst

BofAS

+1 646 855 5193

[samuel.clough@bofa.com](mailto:samuel.clough@bofa.com)

## Stock Data

Price	38.47 USD
Price Objective	50.00 USD
Date Established	3-Oct-2023
Investment Opinion	B-1-9
52-Week Range	30.60 USD - 49.81 USD
Mrkt Val (mn) / Shares Out	24,754 USD / 643.5 (mn)
Free Float	99.6%
Average Daily Value (mn)	367.81 USD
BofA Ticker / Exchange	DAL / NYS
Bloomberg / Reuters	DAL US / DAL.N
ROE (2024E)	31.8%
Net Dbt to Eqty (Dec-2023A)	222.9%
ESGMeter™	High

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Refer to important disclosures on page 5 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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Timestamp: 16 January 2024 05:00AM EST

# iQprofile<sup>SM</sup> Delta Air Lines

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Return on Capital Employed	4.9%	9.1%	9.5%	9.3%	NA
Return on Equity	39.2%	45.8%	31.8%	27.6%	NA
Operating Margin	-2.9%	3.9%	8.8%	8.8%	NA
Free Cash Flow	(2)	1,141	3,514	4,024	NA

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Cash Realization Ratio	3.1x	1.6x	2.1x	1.9x	NA
Asset Replacement Ratio	3.0x	2.3x	2.0x	1.9x	NA
Tax Rate	31.2%	17.8%	24.0%	24.0%	NA
Net Debt-to-Equity Ratio	415.4%	222.9%	143.0%	90.5%	NA
Interest Cover	3.6x	6.6x	8.4x	11.2x	NA

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Sales	45,605	54,669	56,638	59,352	NA
% Change	71.0%	19.9%	3.6%	4.8%	NA
Gross Profit	45,605	54,669	56,638	59,352	NA
% Change	71.0%	19.9%	3.6%	4.8%	NA
EBITDA	5,675	8,674	8,955	9,330	NA
% Change	NM	52.8%	3.2%	4.2%	NA
Net Interest & Other Income	(1,747)	86	(1,075)	(521)	NA
<b>Net Income (Adjusted)</b>	<b>2,053</b>	<b>4,021</b>	<b>4,107</b>	<b>4,710</b>	<b>NA</b>
<b>% Change</b>	<b>NM</b>	<b>95.9%</b>	<b>2.1%</b>	<b>14.7%</b>	<b>NA</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Net Income from Cont Operations (GAAP)	1,318	4,609	4,107	4,710	NA
Depreciation & Amortization	2,108	2,341	2,476	2,612	NA
Change in Working Capital	2,505	128	633	215	NA
Deferred Taxation Charge	857	998	1,297	1,487	NA
Other Adjustments, Net	(424)	(1,612)	0	0	NA
Capital Expenditure	(6,366)	(5,323)	(5,000)	(5,000)	NA
<b>Free Cash Flow</b>	<b>-2</b>	<b>1,141</b>	<b>3,514</b>	<b>4,024</b>	<b>NA</b>
<b>% Change</b>	<b>NM</b>	<b>NM</b>	<b>207.9%</b>	<b>14.5%</b>	<b>NA</b>
Share / Issue Repurchase	0	0	0	0	NA
Cost of Dividends Paid	0	(128)	(258)	(257)	NA
Change in Debt	0	878	0	0	NA

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Cash & Equivalents	3,266	2,741	3,394	4,417	NA
Trade Receivables	3,176	3,130	3,031	3,175	NA
Other Current Assets	6,569	4,288	4,288	4,288	NA
Property, Plant & Equipment	40,145	42,412	44,936	47,324	NA
Other Non-Current Assets	19,132	20,927	20,927	20,927	NA
<b>Total Assets</b>	<b>72,288</b>	<b>73,498</b>	<b>76,576</b>	<b>80,130</b>	<b>NA</b>
Short-Term Debt	3,073	3,729	3,729	3,729	NA
Other Current Liabilities	22,867	22,748	23,282	23,641	NA
Long-Term Debt	27,537	23,475	20,872	18,127	NA
Other Non-Current Liabilities	12,229	12,570	13,867	15,354	NA
<b>Total Liabilities</b>	<b>65,706</b>	<b>62,522</b>	<b>61,751</b>	<b>60,852</b>	<b>NA</b>
<b>Total Equity</b>	<b>6,582</b>	<b>10,976</b>	<b>14,826</b>	<b>19,279</b>	<b>NA</b>
<b>Total Equity &amp; Liabilities</b>	<b>72,288</b>	<b>73,498</b>	<b>76,576</b>	<b>80,130</b>	<b>NA</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Airlines

## Company Description

Delta served approx. 200 million customers globally (pre-pandemic) and is part of the SkyTeam global alliance and participates in alliances with Aeroméxico, Air France-KLM, China Eastern, Korean Air and Virgin Atlantic. Delta's domestic hubs include Atlanta, Minneapolis-St Paul, Detroit and Salt Lake City, Boston, Los Angeles, New York-LaGuardia, New York-JFK, and Seattle, while its international hubs include Amsterdam, London-Heathrow, Mexico City, Paris-Charles de Gaulle and Seoul-Incheon.

## Investment Rationale

Delta is a well-run airline with industry leading operations, consistent pre-tax earnings pre-pandemic, and a focus on staying capacity disciplined. DAL's free cash flow potential the next few years (targets >\$2B in 2023 and >\$4B in 2024) is the most differentiating factor between DAL and other airlines (LUV and UAL). DAL expects to return to more normalized capex of \$5-5.5B per year. This spend is similar to 2018-2019 while other airlines are investing at least twice the levels as pre-pandemic.

## Stock Data

Average Daily Volume 9560933

## Quarterly Earnings Estimates

	2023	2024
Q1	0.25A	0.47E
Q2	2.68A	1.93E
Q3	2.03A	2.12E
Q4	1.28A	1.87E

## Price objective basis & risk

### Delta Air Lines (DAL)

Our \$50 PO is based on approximately 5.5x our 2024E EBITDAR. We believe the network carriers can trade towards the middle of their historical valuation ranges (4-6x).

Downside risks to our price objective are higher fuel prices, general economic weakness, a slower corporate travel recovery, government regulation/taxes, safety concerns, a prolonged government shutdown and terrorism/geopolitical events.

## Analyst Certification

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### US - Airlines and Cruise Coverage Cluster

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	Air Canada	ACDVF	ACDVF US	Andrew G. Didora, CFA
	Alaska Air Group	ALK	ALK US	Andrew G. Didora, CFA
	Carnival Corporation	CCL	CCL US	Andrew G. Didora, CFA
	Carnival Plc	CUKPF	CCL LN	Andrew G. Didora, CFA
	Delta Air Lines	DAL	DAL US	Andrew G. Didora, CFA
	United Airlines Holdings	UAL	UAL US	Andrew G. Didora, CFA
<b>NEUTRAL</b>				
	Frontier Airlines	ULCC	ULCC US	Andrew G. Didora, CFA
	Norwegian Cruise Line Holdings	NCLH	NCLH US	Andrew G. Didora, CFA
	Royal Caribbean Group	RCL	RCL US	Andrew G. Didora, CFA
	Southwest	LUV	LUV US	Andrew G. Didora, CFA
<b>UNDERPERFORM</b>				
	Allegiant Travel Company	ALGT	ALGT US	Andrew G. Didora, CFA
	American Airlines Group	AAL	AAL US	Andrew G. Didora, CFA
	JetBlue Airways	JBLU	JBLU US	Andrew G. Didora, CFA
<b>RSTR</b>				
	Hawaiian Holdings	HA	HA US	Andrew G. Didora, CFA



## **IQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### **Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### **Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

### **Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

### **Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### **Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### **Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### **Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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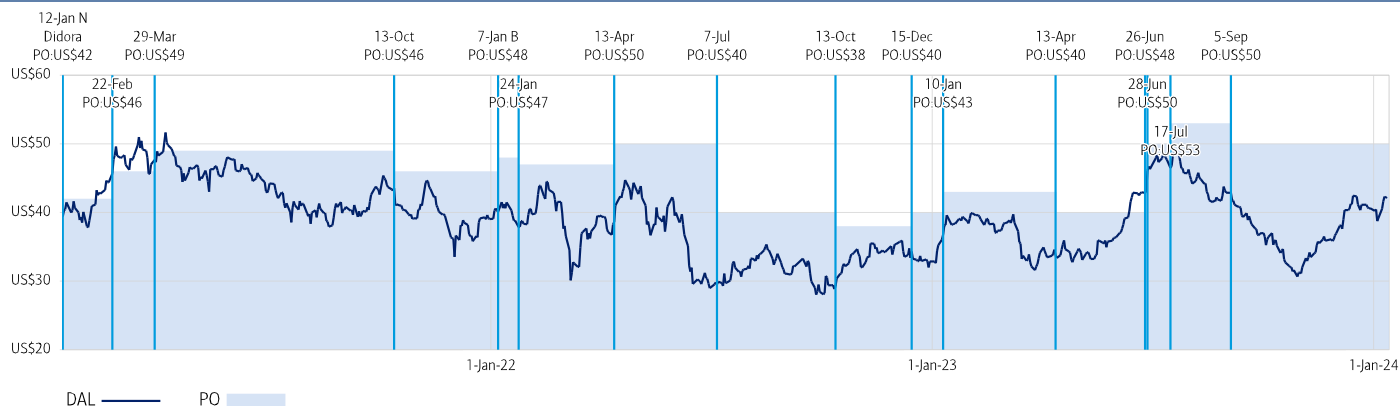
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### Delta Air (DAL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	67	50.38%	Buy	44	65.67%
Hold	31	23.31%	Hold	13	41.94%
Sell	35	26.32%	Sell	17	48.57%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
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