

## United Airlines Holdings

Upgrade to Buy from Underperform:  
valuation now a disconnect with execution

Rating Change: BUY | PO: 56.00 USD | Price: 42.92 USD

## Upgrade to Buy from Underperform; raise PO to \$56

We upgrade UAL to Buy from Underperform and raise our PO to \$56 from \$40. Our last Buy rating on UAL was March 2020 as relatively high valuation, robust capex and leverage concerns left us more cautious. Today, we see a valuation disconnect vs UAL's execution and its more favorable leverage outlook than expected. While industry risks remain ([see our Year Ahead report](#)) and capex is above historical norms, UAL has outperformed the industry on revenues, can maintain about 2.5x leverage through this capex cycle, and trades at just 4.5x our 2024E EBITDAR, towards the low end of historical valuations.

## Network focus driving outsized revenues

UAL has been opportunistic post-pandemic by being first mover in the transatlantic (2Q23/3Q23 capacity +16% vs rest of market +13%) and focusing on premium products (business class seat share up 200bps), helping to drive 2023E revenues 24% ahead of 2019 vs peers 16% ahead. Similarly, gauge has been a strategic focus with average seats per departure up +19% vs 2019. While we expect international trends to normalize this year, we forecast UAL will continue to drive outsized revenue growth vs its peers.

## Over \$8B of 2023 capex yet leverage nearly back to 2019

UAL expects \$8.5B of capex in 2023 on top of \$4.8B in 2022 and well above the 2015-2019 average of \$3.7B. Based on our forecasts, capex will remain over \$8B in 2024/2025 as UAL takes delivery of approximately 200 narrowbodies and nearly 20 787's the next two years. Despite this spend, the balance sheet impact has not been as harsh as we expected. We forecast net leverage at 2.4x today vs. 2.2x in 2017-19 and can hold around 2.5x through its investment cycle, below the industry average of >4.0x.

## Risks remain but reflected in valuation

The risk to UAL is that transatlantic over-earned in 2023. However, in our new 2024 EPS forecast of \$8.42 (\$7.61 prior), we assume transatlantic revenues are -2% (vs total revenues +3.7%) as the market calibrates additional capacity. We have also captured higher unit costs (+2.2%) this year as maintenance and inflation remain high. However, UAL trades at just 4.5x our 2024E EBITDAR, which is the 25<sup>th</sup> percentile of historical valuation. As a comparison, UAL traded at 6.4x at the end of 2022 and 5.4x at the end of 2019. Our new \$56 PO is based on 5x our 2024E EBITDAR, in line with historical levels.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(13.82)	2.52	9.65	8.42	8.43
GAAP EPS	(6.10)	2.23	7.67	8.42	8.43
EPS Change (YoY)	49.9%	NM	282.9%	-12.7%	0.1%
Consensus EPS (Bloomberg)			9.76	9.70	11.57
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	17.0x	4.4x	5.1x	5.1x
GAAP P/E	NM	19.2x	5.6x	5.1x	5.1x
EV / EBITDA*	NM	6.3x	4.0x	4.1x	4.0x
Free Cash Flow Yield*	-0.2%	7.7%	5.7%	-11.0%	-4.4%

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

09 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-3-9	C-1-9
Inv. Rating	UNDERPERFORM	BUY
Price Obj.	40.00	56.00
2024E Rev (m)	55,451.8	55,583.0
2025E Rev (m)	58,588.9	58,776.1
2024E EPS	7.61	8.42
2025E EPS	7.80	8.43

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## Stock Data

Price	42.92 USD
Price Objective	56.00 USD
Date Established	9-Jan-2024
Investment Opinion	C-1-9
52-Week Range	33.68 USD - 58.23 USD
Mrkt Val (mn) / Shares Out (mn)	16,174 USD / 376.9
Free Float	99.5%
Average Daily Value (mn)	315.81 USD
BofA Ticker / Exchange	UAL / NAS
Bloomberg / Reuters	UAL US / UAL.OQ
ROE (2023E)	39.3%
Net Dbt to Eqty (Dec-2022A)	424.4%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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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: 09 January 2024 06:00AM EST

# iQprofile<sup>SM</sup> United Airlines Holdings

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-6.5%	4.0%	8.7%	7.6%	7.3%
Return on Equity	-81.7%	13.9%	39.3%	26.0%	20.6%
Operating Margin	-4.1%	5.2%	7.7%	8.4%	8.0%
Free Cash Flow	(40)	1,247	920	(1,781)	(714)

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	7.3x	2.9x	2.4x	2.6x
Asset Replacement Ratio	0.8x	2.0x	3.2x	3.0x	2.6x
Tax Rate	23.2%	25.6%	23.1%	24.0%	24.0%
Net Debt-to-Equity Ratio	419.2%	424.4%	309.5%	253.0%	183.7%
Interest Cover	-2.8x	1.5x	2.8x	2.8x	3.1x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	24,634	44,955	53,610	55,583	58,776
% Change	60.4%	82.5%	19.3%	3.7%	5.7%
Gross Profit	7,889	23,193	30,968	30,941	32,804
% Change	305.2%	194.0%	33.5%	-0.1%	6.0%
EBITDA	(1,904)	4,933	7,742	7,541	7,779
% Change	70.6%	NM	57.0%	-2.6%	3.2%
Net Interest & Other Income	1,832	(1,487)	(1,734)	(971)	(1,038)
<b>Net Income (Adjusted)</b>	<b>(4,488)</b>	<b>832</b>	<b>3,200</b>	<b>2,799</b>	<b>2,803</b>
<b>% Change</b>	<b>41.7%</b>	<b>NM</b>	<b>284.8%</b>	<b>-12.5%</b>	<b>0.1%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(1,980)	736	2,544	2,799	2,802
Depreciation & Amortization	2,485	2,456	2,699	2,886	3,053
Change in Working Capital	4,121	1,538	3,186	249	545
Deferred Taxation Charge	(593)	253	764	884	885
Other Adjustments, Net	(1,966)	1,083	232	1	1
Capital Expenditure	(2,107)	(4,819)	(8,505)	(8,600)	(8,000)
<b>Free Cash Flow</b>	<b>-40</b>	<b>1,247</b>	<b>920</b>	<b>-1,781</b>	<b>-714</b>
<b>% Change</b>	<b>99.3%</b>	<b>NM</b>	<b>-26.2%</b>	<b>NM</b>	<b>59.9%</b>
Share / Issue Repurchase	532	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	5,891	(3,275)	(2,456)	(2,391)	(3,345)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	18,283	7,166	5,264	1,092	1,034
Trade Receivables	1,663	1,801	2,193	2,193	2,193
Other Current Assets	1,888	11,091	11,971	11,971	7,971
Property, Plant & Equipment	36,719	38,337	45,023	50,737	55,684
Other Non-Current Assets	9,622	8,963	8,876	8,876	8,876
<b>Total Assets</b>	<b>68,175</b>	<b>67,358</b>	<b>73,327</b>	<b>74,869</b>	<b>75,758</b>
Short-Term Debt	3,634	3,576	4,518	4,518	4,518
Other Current Liabilities	14,670	16,416	20,437	20,686	21,232
Long-Term Debt	35,732	32,857	29,778	27,387	24,043
Other Non-Current Liabilities	9,110	7,613	9,214	10,098	10,984
<b>Total Liabilities</b>	<b>63,146</b>	<b>60,462</b>	<b>63,947</b>	<b>62,690</b>	<b>60,776</b>
<b>Total Equity</b>	<b>5,029</b>	<b>6,896</b>	<b>9,380</b>	<b>12,179</b>	<b>14,982</b>
<b>Total Equity &amp; Liabilities</b>	<b>68,175</b>	<b>67,358</b>	<b>73,327</b>	<b>74,869</b>	<b>75,758</b>

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

## Company Sector

Airlines

## Company Description

United Airlines and its regional carrier, United Express, operate a hub and spoke system across six continents. United's key U.S. hubs include Chicago, New York-Newark, Denver, Houston, Los Angeles, San Francisco and Washington, D.C-Dulles. The airline is a founding member of Star Alliance, which despite global challenges posed by the COVID-19 pandemic, continued to serve more than 1,000 airports in 186 countries with close to 15,000 daily departures as of January 2022.

## Investment Rationale

UAL's steady demand trends, strong balance sheet execution despite high capex, and attractive valuation are the reasons for our Buy rating. UAL has been opportunistic post-pandemic, focusing on international service, premium products, and gauge. Despite capex well ahead of historical norms, we expect net leverage to hold near 2.5x through the investment cycle, below an industry average of >4.0x.

## Stock Data

Average Daily Volume 7,358,079

## Quarterly Earnings Estimates

	2022	2023
Q1	-4.17A	-0.63E
Q2	1.43A	5.03E
Q3	2.81A	3.65E
Q4	2.46A	1.58E

## Price objective basis & risk

### United Airlines Holdings (UAL)

Our \$56 PO is based on approximately 4.5x our 2024E EBITDAR. Our target multiple is in line with UAL's legacy peers. We believe the network carriers can trade towards the middle of their historical valuation ranges (4-6x).

Upside risks to our price objective are better than expected pricing, a faster than expected resolution of labor contracts, and a stronger macro backdrop.

Downside risks to our price objective are higher fuel prices, general economic weakness, government regulation/taxes, safety concerns, and terrorism/geopolitical events.

## Analyst Certification

I, Andrew G. Didora, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Airlines and Cruise Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Air Canada	YAC	AC CN	Andrew G. Didora, CFA
	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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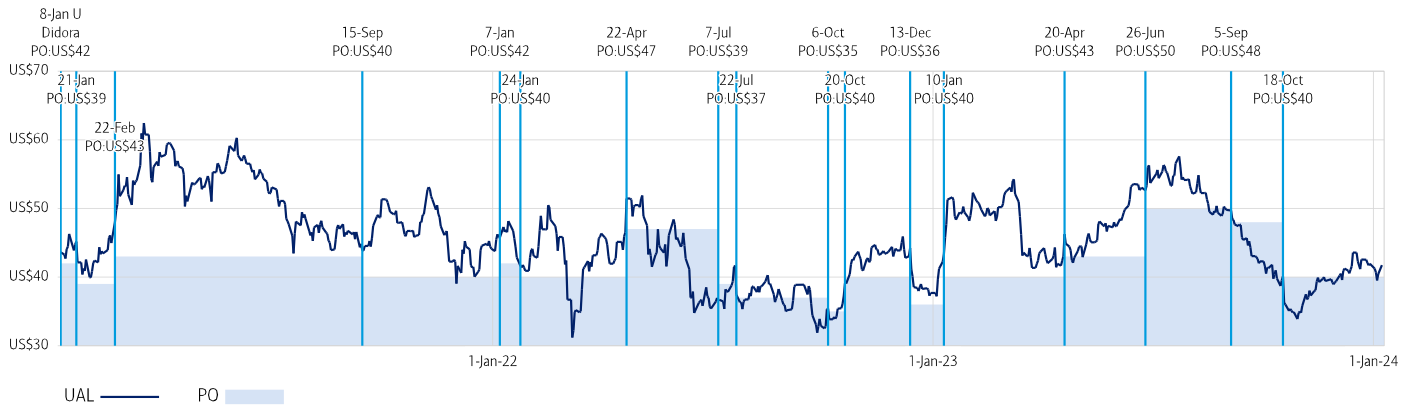
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### United Airlines (UAL) Price Chart



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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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