

JetBlue Airways

Downgrade to Underperform as domestic environment remains difficult

Rating Change: UNDERPERFORM | PO: 3.00 USD | Price: 5.76 USD

Downgrade to Underperform from Neutral; PO to \$3

After rallying 56% from the early November trough in share price, we downgrade JetBlue (JBLU) to Underperform from Neutral as we expect the tough domestic airline industry backdrop we outlined in our [Year Ahead report](#) this morning coupled with GTF engine issues that will pressure growth and costs in 2024 to continue to hurt the post-pandemic earnings recovery (2024 EBITDAR still 34% below 2019). In addition, we think there is further execution risk as the market awaits the judge's ruling in JBLU's lawsuit with the DOJ with regards to purchasing SAVE. We lower our price objective to \$3 from \$6.

2024 capacity to be down and drive unit costs +6%

We forecast -1.4% capacity growth in 2024 (Visible Alpha consensus is flat) as the number of aircraft out of service due to GTF maintenance nearly doubles from 6 in 4Q23 to over 10 by year end 2024 (approximately 3% of its current fleet). Historically, JBLU has needed to grow nearly mid- to high-single digits to get flattish unit costs (CASM), so our new capacity forecast results in CASM +6%. On the lower capacity, we do expect JBLU to outperform on unit revenues compared to the overall domestic industry, however, our current forecast of slightly up unit revenues produces one of the widest RASM-CASM gaps in the industry.

Waiting on judge's ruling in SAVE deal

The DOJ sued to block JBLU's acquisition of SAVE, and the parties are currently awaiting the judge's decision. If the deal is approved as is, JBLU would pay about \$29.70 per share (after pre-payments and ticking fees paid, implying a \$3.7B equity value and \$9.5B enterprise value) for an airline that we estimate will generate about \$400M of EBITDAR in 2024 (compared to \$927M in 2019). If the deal is not approved, there is likely near-term relief in JBLU's share price, but our Underperform rating is based on a stand-alone JBLU entity with SAVE acquisition and integration risk an incremental negative.

Fundamentals, deal risk drive valuation discount to history

Our new \$3 price objective is based on approximately 5.0x our 2024E EBITDAR. We believe a discount to its long-term historical valuation of over 6.0x is justified given the current domestic fundamental back drop and deal risks. We are returning our valuation methodology to EV/EBITDAR from EV/Sales previously as the domestic demand environment has somewhat stabilized from the period of stress which had justified our earlier methodology change.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(2.57)	(0.82)	(0.54)	(0.46)	(0.40)
GAAP EPS	(0.57)	(1.12)	(0.90)	(0.46)	(0.40)
EPS Change (YoY)	54.7%	68.1%	34.1%	14.8%	13.0%
Consensus EPS (Bloomberg)			(0.59)	(0.61)	0.02
DPS	0	0	0	0	0
Valuation (Dec)					
EV / EBITDA*	NM	16.8x	12.2x	8.2x	5.9x
Free Cash Flow Yield*	32.6%	-27.4%	-26.5%	-29.9%	-29.5%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 09 January 2024 06:00AM EST

09 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-2-9	C-3-9
Inv. Rating	NEUTRAL	UNDERPERFORM
Price Obj.	6.00	3.00
2024E Rev (m)	9878.4	9549.2
2025E Rev (m)	10566.8	10214.5
2024E EPS	-0.56	-0.46
2025E EPS	-0.58	-0.40

Andrew G. Didora, CFA

Research Analyst
BofAS
+1 646 855 2924
andrew.didora@bofa.com

Samuel Clough

Research Analyst
BofAS
+1 646 855 5193
samuel.clough@bofa.com

Stock Data

Price	5.76 USD
Price Objective	3.00 USD
Date Established	9-Jan-2024
Investment Opinion	C-3-9
52-Week Range	3.42 USD - 9.45 USD
Mrkt Val (mn) / Shares Out (mn)	1,985 USD / 344.6
Free Float	99.7%
Average Daily Value (mn)	88.67 USD
BofA Ticker / Exchange	JBLU / NAS
Bloomberg / Reuters	JBLU US / JBLU.OQ
ROE (2023E)	-5.2%
Net Dbt to Eqty (Dec-2022A)	93.8%
ESGMeter TM	Medium

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GTF - Geared Turbofan

CASM - cost per available seat mile

RASM - rev. per available seat mile

SAVE - Spirit Airlines

iQprofileSM JetBlue Airways

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-0.5%	-2.1%	-1.4%	0.5%	1.0%
Return on Equity	-21.2%	-7.2%	-5.2%	-4.7%	-4.3%
Operating Margin	-1.3%	-3.3%	-2.6%	0.2%	1.3%
Free Cash Flow	647	(544)	(526)	(593)	(586)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	1.8x	1.6x	1.9x	1.9x	1.7x
Tax Rate	30.8%	17.2%	15.3%	29.0%	29.0%
Net Debt-to-Equity Ratio	72.3%	93.8%	120.5%	142.1%	164.5%
Interest Cover	-0.4x	-1.8x	-1.2x	0.1x	0.4x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	6,038	9,158	9,571	9,549	10,214
% Change	104.3%	51.7%	4.5%	-0.2%	7.0%
Gross Profit	460	287	383	818	1,149
% Change	NM	-37.6%	33.4%	113.7%	40.5%
EBITDA	(373)	401	552	818	1,149
% Change	74.5%	NM	37.6%	48.3%	40.5%
Net Interest & Other Income	(183)	(139)	(105)	(232)	(319)
Net Income (Adjusted)	(827)	(267)	(179)	(153)	(133)
% Change	47.2%	67.7%	32.8%	14.8%	12.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(183)	(365)	(300)	(154)	(134)
Depreciation & Amortization	540	585	630	802	1,018
Change in Working Capital	1,345	146	362	299	264
Deferred Taxation Charge	(88)	(73)	(44)	(41)	(35)
Other Adjustments, Net	28	86	24	1	0
Capital Expenditure	(995)	(923)	(1,198)	(1,500)	(1,700)
Free Cash Flow	647	-544	-526	-593	-586
% Change	NM	NM	3.4%	-12.9%	1.2%
Share / Issue Repurchase	52	46	28	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(882)	(369)	136	857	622

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	2,018	1,042	1,013	1,377	1,513
Trade Receivables	207	317	329	329	329
Other Current Assets	1,022	557	668	568	468
Property, Plant & Equipment	9,543	9,807	10,300	10,998	11,680
Other Non-Current Assets	852	1,322	1,398	1,398	1,398
Total Assets	13,642	13,045	13,708	14,670	15,388
Short-Term Debt	461	651	387	387	387
Other Current Liabilities	2,956	3,097	3,468	3,767	4,031
Long-Term Debt	4,341	3,732	4,601	5,458	6,080
Other Non-Current Liabilities	2,035	2,002	1,956	1,915	1,880
Total Liabilities	9,793	9,482	10,412	11,527	12,378
Total Equity	3,849	3,563	3,297	3,144	3,010
Total Equity & Liabilities	13,642	13,045	13,708	14,670	15,388

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Airlines

Company Description

Headquartered in New York, JetBlue is a point-to-point airline that serves 100 destinations in the U.S., the Caribbean and Latin America, and between New York and London. The majority of its routes touch at least one of its six focus cities: New York, Boston, Fort Lauderdale-Hollywood, Orlando, Los Angeles, and San Juan, Puerto Rico. JBLU is not a member of any of the three major airline alliances but has commercial partnerships with 47 airlines, including American in New York and Boston.

Investment Rationale

JBLU is pressured by a tough domestic capacity environment and GTF engine issues impacting growth and cost plans. Execution risks related to the Spirit merger are a further challenge should the deal obtain the judge's approval after an antitrust lawsuit by the Department of Justice.

Stock Data

Average Daily Volume 15,393,986

Quarterly Earnings Estimates

	2022	2023
Q1	-0.79A	-0.34E
Q2	-0.47A	0.45E
Q3	0.21A	-0.39E
Q4	0.22A	-0.27E

Price objective basis & risk

JetBlue Airways (JBLU)

Our \$3 PO is based on approximately 5.0x our 2024E EBITDAR. We believe a discount to its long-term historical multiple of 6.0x is justified given the domestic fundamental backdrop and deal risks.

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.

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US - Airlines and Cruise Coverage Cluster

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BUY				
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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
	Frontier Airlines	ULCC	ULCC US	Andrew G. Didora, CFA
NEUTRAL				
	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
UNDERPERFORM				
	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
	United Airlines Holdings	UAL	UAL US	Andrew G. Didora, CFA
RSTR				
	Hawaiian Holdings	HA	HA US	Andrew G. Didora, CFA



IQmethodSM 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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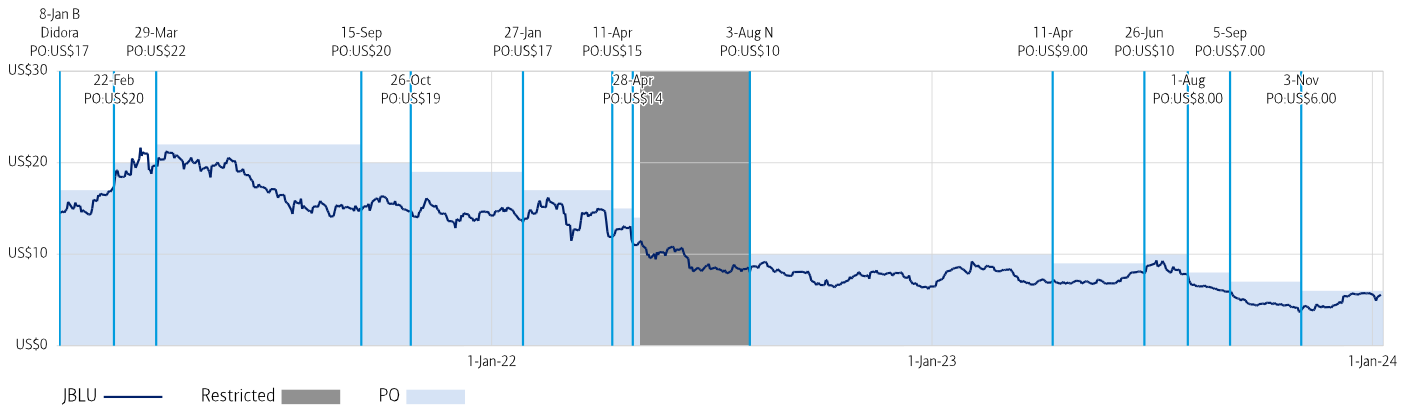
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JetBlue (JBLU) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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