

Spirit Airlines

Move to Underperform after JBLU deal blocked by judge

Rating Change: UNDERPERFORM | PO: 5.00 USD | Price: 7.92 USD

Move to Underperform after JBLU deal blocked

We move to Underperform (from No Rating) after a US District Court judge blocked the proposed merger with JBLU as it would “substantially lessen competition in violation of the Clayton Act.” In line with thoughts from our [Year Ahead last week](#), we believe tough domestic fundamentals will continue in 2024 on domestic supply and further cost pressures. SAVE’s costs will be amplified by its inability to grow given GTF engine repairs, and we forecast 2024 EBITDAR of approximately \$400M (45% of 2019). We believe SAVE has a difficult path ahead to return to its historical level of growth and profitability, which could create risk for the \$1.1B in debt due in September 2025.

GTF engine repairs causing growth and costs issues

We estimate modest 2024 capacity growth for SAVE (+2% vs consensus +4%) with up mid-single digit growth in 1Q24 turning into low-single digit declines by 4Q24. This compares to about 4% growth for the industry this year and historical SAVE capacity growth of high-teens from 2017-2019. We also expect growth limitations in 2025 (BofA +7.5% capacity in 2025 vs consensus +7.0%) as GTF repairs continue. This growth hurts the traditional ultra-low cost business model and results in our 2024 unit cost growth estimate of +5.3% compared to flattish growth during its growth cycle.

Balance sheet issues could appear in 2025

With SAVE’s earnings pressured into 2025 (we tweaked our estimates for recent sale-leaseback activity and \$70M break-up fee), we think balance sheet issues could remain an investor focus as \$1.1B of loyalty-backed bonds are due in September 2025. Today, these bonds yield 43% compared to loyalty-backed bonds of DAL and UAL that yield 5-6%. Unless operations improve meaningfully by next year, SAVE faces maturity risk.

Current enterprise value exceeds consensus revenues

SAVE shares fell -47% after the judge’s ruling was announced after trading in the \$16-18 range for most of 2023 compared to JBLU’s bid of \$33.50 (\$29.80 after pre-payments). At current levels, SAVE’s enterprise value of \$6.6B is 17x 2024E EBITDAR and 1.2x sales. These multiples are well above historical EBITDAR valuations (6.5x) and historical EV/sales multiples (0.6-1.0x). Our new \$5 price objective is based on approximately 1.0x our 2025E book value. SAVE and JBLU can appeal the ruling, which is an upside risk to our rating and price objective. A key downside risk to our price objective is the inability to refinance or address the 2025 maturities.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(4.19)	(1.70)	(3.38)	(3.13)	(2.47)
GAAP EPS	(4.49)	(5.10)	(3.97)	(3.19)	(2.50)
EPS Change (YoY)	50.7%	59.4%	-98.8%	7.4%	21.1%
Consensus EPS (Bloomberg)			(3.47)	(3.35)	(1.46)
DPS	0	0	0	0	0
Valuation (Dec)					
EV / EBITDA*	NM	38.2x	NM	NM	118.1x
Free Cash Flow Yield*	-16.5%	-40.9%	-48.7%	-58.8%	-46.8%

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

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Timestamp: 17 January 2024 06:00AM EST

17 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	-6-	C-3-9
Inv. Rating	NO RATING	UNDERPERFORM
Price Obj.	NA	5.00
2025E Rev (m)	5,751.9	5,923.6
2024E EPS	-2.91	-3.13
2025E EPS	-3.26	-2.47

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Stock Data

Price	7.92 USD
Price Objective	5.00 USD
Date Established	17-Jan-2024
Investment Opinion	C-3-9
52-Week Range	5.80 USD - 19.53 USD
Mrkt Val (mn) / Shares Out (mn)	865 USD / 109.2
Free Float	99.1%
Average Daily Value (mn)	35.35 USD
BofA Ticker / Exchange	SAVE / NYS
Bloomberg / Reuters	SAVE US / SAVE.N
ROE (2023E)	-27.7%
Net Dbt to Eqty (Dec-2022A)	308.3%
ESGMeter TM	Medium

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JBLU: JetBlue

DAL : Delta Air

UAL: United Airlines

SAVE: Spirit Airlines

GTF: Geared Turbofan

iQprofileSM Spirit Airlines

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-0.6%	-5.8%	-4.1%	-3.3%	-2.5%
Return on Equity	-20.1%	-10.3%	-27.7%	-34.7%	-38.1%
Operating Margin	-1.8%	-11.8%	-9.1%	-7.1%	-4.7%
Free Cash Flow	(143)	(353)	(421)	(508)	(405)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	1.2x	0.8x	0.9x	1.5x	1.5x
Tax Rate	9.2%	20.9%	21.7%	24.0%	24.0%
Net Debt-to-Equity Ratio	177.9%	308.3%	NM	NM	NM
Interest Cover	-0.4x	-5.1x	-3.8x	-3.0x	-2.2x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	3,231	5,068	5,337	5,458	5,924
% Change	78.5%	56.9%	5.3%	2.3%	8.5%
Gross Profit	(57)	(599)	(486)	(389)	(276)
% Change	88.8%	-956.6%	18.8%	19.9%	29.0%
EBITDA	(136)	181	(103)	(55)	59
% Change	74.5%	NM	NM	47.2%	NM
Net Interest & Other Income	(463)	(102)	(69)	(75)	(91)
Net Income (Adjusted)	(439)	(189)	(377)	(348)	(275)
% Change	38.9%	57.0%	-99.2%	7.5%	21.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(472)	(554)	(435)	(353)	(279)
Depreciation & Amortization	294	313	325	335	335
Change in Working Capital	72	(120)	14	10	40
Deferred Taxation Charge	(50)	(149)	(67)	0	0
Other Adjustments, Net	365	421	35	0	0
Capital Expenditure	(352)	(264)	(294)	(500)	(500)
Free Cash Flow	-143	-353	-421	-508	-405
% Change	81.7%	-147.6%	-19.2%	-20.7%	20.3%
Share / Issue Repurchase	374	(2)	(2)	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(660)	398	(334)	(143)	3

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,334	1,346	635	472	180
Trade Receivables	129	197	171	171	171
Other Current Assets	380	450	460	460	351
Property, Plant & Equipment	6,292	6,937	7,624	7,285	7,450
Other Non-Current Assets	406	254	279	279	279
Total Assets	8,540	9,185	9,169	8,667	8,431
Short-Term Debt	368	535	447	447	447
Other Current Liabilities	908	1,061	1,178	1,188	1,228
Long-Term Debt	4,727	5,656	6,105	5,877	5,880
Other Non-Current Liabilities	423	361	293	293	293
Total Liabilities	6,426	7,613	8,023	7,805	7,848
Total Equity	2,114	1,572	1,145	862	583
Total Equity & Liabilities	8,540	9,185	9,169	8,667	8,431

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

Company Sector

Airlines

Company Description

Spirit Airlines is an ultra low-cost carrier fundamentally focused on providing the lowest available fares to consumers on routes in which it serves. Spirit uses low fares to address underserved markets, which enables the carrier to stimulate traffic that otherwise would not have flown and capitalize on an ancillary service revenue model. Spirit operates a fleet of 180 Airbus single-aisle aircraft and serves 85 destinations in 16 countries throughout the U.S., Latin America and the Caribbean.

Investment Rationale

SAVE has a difficult path ahead to return to its historical level of growth and profitability, exacerbated by approaching debt maturities. Fundamentals are further pressured by a tough domestic capacity environment and GTF engine repairs which inhibit growth and cost plans, hurting SAVE's traditional ultra-low cost business model.

Stock Data

Average Daily Volume 7,711,647

Quarterly Earnings Estimates

	2022	2023
Q1	-1.56A	-0.80A
Q2	-0.29A	0.29A
Q3	0.03A	-1.34A
Q4	0.12A	-1.52E

Price objective basis & risk

Spirit Airlines (SAVE)

Our \$5 price objective is based on approximately 1.0x our 2025E book value.

Upside risks to our price objective include an appeal of the JBLU antitrust ruling, better than expected pricing, and a stronger macro backdrop.

Downside risks to our price objective are an inability to refinance or address 2025 maturities, higher fuel prices, general economic weakness, government regulation/taxes, safety concerns, and terrorism/geopolitical events.

Analyst Certification

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US - Airlines and Cruise Coverage Cluster

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	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
NEUTRAL				
	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
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
	Spirit Airlines	SAVE	SAVE 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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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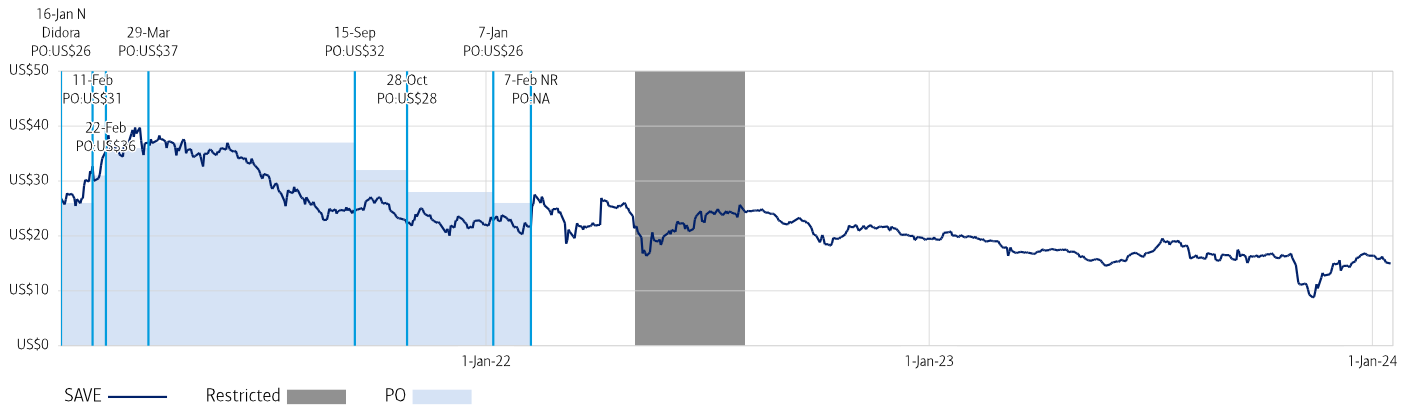
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Spirit Airlines (SAVE) Price Chart



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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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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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