

Airlines

What we know following ALK flight 1282

Industry Overview

What happened to ALK flight 1282?

On Friday evening, Alaska Airlines flight 1282 left Portland, OR, for Ontario, CA, and shortly after takeoff the cabin depressurized as a portion of the aircraft was blown out mid-air ([see our BA analyst Ron Epstein's take here](#)). There were no physical injuries, and the plane landed safely back in Portland about 30 minutes later. ALK took delivery of this 737 MAX 9 variant aircraft from Boeing on October 31, 2023. ALK proactively grounded its 65 737 MAX 9 aircraft for inspection, then the FAA ordered a temporary grounding of the global MAX 9 fleet for further inspection. We do not know how long this grounding will last, but ALK expects to complete inspections by the middle of this week.

Who is exposed? ALK and UAL

In our coverage, only ALK and UAL operate the 737 MAX 9. ALK currently has 65 of the aircraft (out of about 220 mainline plus 83 regional jets), which represented about 33% of its 1Q24 capacity based on current schedules. UAL currently has 78 737 MAX 9 aircraft (out of nearly 950 mainline plus over 400 regional jets), which represented about 7% of its 1Q24 capacity based on current schedules. In total, current 737 MAX 9 flying represents 4.6% of planned domestic capacity in 1Q24.

Initial MAX grounding most recent precedent

After an Ethiopian Airlines 737 MAX crashed on March 10, 2019, the FAA grounded the global fleet on March 13, 2019, and it did not return until the pandemic (December 2020). At the time of the grounding, AAL and LUV were the only airlines operating the aircraft in the US at the time, and it represented 2.0% and 6.5% of AAL and LUV's domestic capacity, respectively, and about 1% of domestic flights. In the 3 months following the grounding, AAL and LUV did underperform the group. From March 2019 to June 2019, LUV/AAL share prices returned -2%/+3% vs DAL/UAL/JBLU/ALK +10%/+10%/+13%/+14%.

LUV flight 1380 could be financial impact guide post

On April 17, 2018, LUV flight 1380 experienced uncontained engine failure that resulted in the death of one passenger. On its 1Q18 earnings call on April 26, 2018, LUV noted 1-2pts of RASM weakness was expected due to book away from the incident, later quantified at \$100m revenue hit on the July 26, 2018 earnings call (1.7% impact). Then on the LUV 3Q18 earnings call, management cited a 50bps RASM impact in the quarter from a summer fare sale which was part of the flight 1380 recovery plan. From April to June 2018, there was no meaningful deviation in LUV's share price versus the rest of the group: LUV shares fell -11% compared to major peers DAL/AAL/UAL -10%/-27%/flat.

Financial impact will depend on grounding time

The final financial impact will depend on how long the aircraft is grounded. If we were to apply a similar financial hit to ALK that LUV saw from the book away, we estimate ALK could potentially lose \$40-50M of revenues/profits from the incident. This would be in addition to the inspection costs and lost capacity. While the situation remains fluid, we currently see its impacts as manageable and maintain our Buy rating on ALK.

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Price objective basis & risk

Alaska Air Group (ALK, B-1-9, \$37.95)

Our \$42 price objective for ALK is based on approximately 5x our 2024E EBITDAR. Our target multiple is approximately at the middle of its historical 3-7x middle range. We believe this is reasonable given its balance sheet strength and cost focus.

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

Analyst Certification

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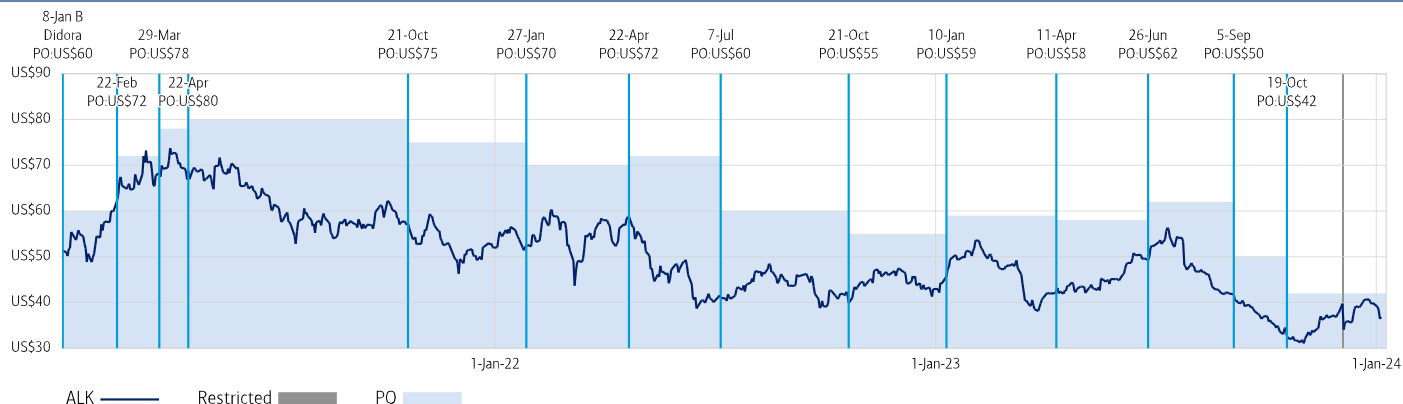
US - Airlines and Cruise Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	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
	Frontier Airlines	ULCC	ULCC US	Andrew G. Didora, CFA
NEUTRAL				
	JetBlue Airways	JBLU	JBLU 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
	United Airlines Holdings	UAL	UAL US	Andrew G. Didora, CFA
RSTR				
	Hawaiian Holdings	HA	HA US	Andrew G. Didora, CFA

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Alaska Air Group (ALK) Price Chart



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

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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%

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