

## Spirit Airlines

## Revenue acceleration may help solve debt issues; maintain Underperform

Reiterate Rating: UNDERPERFORM | PO: 6.00 USD | Price: 6.95 USD

## Revenue acceleration may help solve debt issues

SAVE's implied 1Q24 unit revenue guidance of (9)% to (7)% was better than our -13.2% estimate, indicating a nearly 10pt sequential improvement, in-line with low-cost carrier peer ULCC. We forecast continued unit revenue acceleration through 2024, especially in 2H24 given the weaker comps vs 2H23, with SAVE's unit revenue/unit cost spread turning positive in 3Q24. This improvement could help SAVE address its 2025/2026 maturities, but we still forecast negative operating income into 2025 with net leverage at 9.0x. We maintain our Underperform but raise our Price Objective to \$6 from \$5.

## Growth plans constrained; GTF compensation to offset

SAVE guided to 1Q24 capacity growth of 1.5%, with full-year growth of flat to up mid-single digits as GTF engine issues continue to limit growth. SAVE expects an average of 25 neo aircraft grounded throughout the year, up from current levels at 13, and reaching a peak at 40 in December. While lower capacity presents a challenge to unit costs, the pressure is somewhat offset by SAVE's expected compensation from Pratt & Whitney that will likely occur throughout 2024 (actual compensation will not be disclosed). We raise our 2024 capacity forecast to +2.8% from +1.3% based on the updated cadence of engine repairs, while our 2024 unit cost forecast remains at approximately +5%.

## Positive operating cash flow sets up liquidity runway

Based on SAVE's improving revenue trends, we forecast a positive cash from operations inflection in 2Q24. We think this trajectory positions SAVE to maintain its liquidity position in future quarters, a key priority of management ahead of a \$1.1B loyalty bond maturity in September 2025 and \$500M in converts due May 2026. We expect the vast majority of 2024's \$235M capex plans to be financed, further supporting liquidity. We now forecast \$5M in cash flow from operations in 2024 with \$200M in 2025, keeping total liquidity near today's \$1.3B into next year.

## Raising estimates on improving revenues; PO to \$6

We are raising our 1Q24/2024 EPS estimates to \$(1.33)/\$(2.44) from our previous \$(1.71)/\$(2.79) based on SAVE's 1Q24 guidance. Our 1Q24/2024 EBITDAR estimates also move higher to \$45M/\$567M from \$(32M)/\$455M previously. Our price objective moves higher to \$6 from \$5, still based on approximately 1.0x our 2025E price/book as the shares currently trade at over 12x 2024E EBITDAR.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(1.74)	(3.26)	(2.44)	(1.47)	(0.50)
GAAP EPS	(5.10)	(4.10)	(2.44)	(1.48)	(0.53)
EPS Change (YoY)	58.5%	-87.4%	25.2%	39.8%	66.0%
Consensus EPS (Bloomberg)			(3.07)	(2.06)	(0.97)
DPS	0	0	0	0	0
Valuation (Dec)					
EV / EBITDA*	38.6x	NM	88.4x	32.9x	19.4x
Free Cash Flow Yield*	-46.6%	-56.6%	-30.3%	-39.3%	-22.1%

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

09 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	5.00	6.00
2024E Rev (m)	5,445.9	5,614.3
2025E Rev (m)	5,911.9	6,228.8
2026E Rev (m)	NA	7,136.3
2024E EPS	-2.73	-2.44
2025E EPS	-2.04	-1.47
2026E EPS	NA	-0.50

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## Stock Data

Price	6.95 USD
Price Objective	6.00 USD
Date Established	8-Feb-2024
Investment Opinion	C-3-9
52-Week Range	3.99 USD - 18.73 USD
Mkt Val (mn) / Shares Out	759 USD / 109.2 (mn)
Free Float	99.0%
Average Daily Value (mn)	184.73 USD
BofA Ticker / Exchange	SAVE / NYS
Bloomberg / Reuters	SAVE US / SAVE.N
ROE (2024E)	-26.4%
Net Dbt to Eqty (Dec-2023A)	NA
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"](#).

GTF: geared turbofan

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Timestamp: 09 February 2024 05:00AM EST

# iQprofile<sup>SM</sup> Spirit Airlines

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-5.8%	-4.2%	-1.8%	-0.5%	0.8%
Return on Equity	-10.5%	-26.9%	-26.4%	-19.4%	-7.6%
Operating Margin	-11.8%	-9.2%	-4.3%	-1.7%	0.6%
Free Cash Flow	(353)	(430)	(230)	(298)	(168)

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	0.8x	0.7x	0.7x	1.6x	1.6x
Tax Rate	20.9%	19.9%	22.6%	24.0%	24.0%
Net Debt-to-Equity Ratio	308.3%	NM	NM	NM	NM
Interest Cover	-5.1x	-3.6x	-1.6x	-0.7x	0.2x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	5,068	5,363	5,614	6,229	7,136
% Change	56.9%	5.8%	4.7%	10.9%	14.6%
Gross Profit	(599)	(496)	(239)	(106)	41
% Change	-956.6%	17.2%	51.7%	55.8%	NM
EBITDA	181	(65)	79	212	359
% Change	NM	NM	NM	169.1%	69.0%
Net Interest & Other Income	(102)	(63)	(112)	(112)	(118)
<b>Net Income (Adjusted)</b>	<b>(194)</b>	<b>(363)</b>	<b>(273)</b>	<b>(164)</b>	<b>(56)</b>
<b>% Change</b>	<b>55.9%</b>	<b>-87.6%</b>	<b>25.0%</b>	<b>39.8%</b>	<b>66.0%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(554)	(447)	(272)	(165)	(59)
Depreciation & Amortization	313	321	318	318	318
Change in Working Capital	(120)	(39)	(41)	49	73
Deferred Taxation Charge	(149)	(67)	0	0	0
Other Adjustments, Net	421	35	0	0	0
Capital Expenditure	(264)	(232)	(235)	(500)	(500)
<b>Free Cash Flow</b>	<b>-353</b>	<b>-430</b>	<b>-230</b>	<b>-298</b>	<b>-168</b>
<b>% Change</b>	<b>-147.6%</b>	<b>-21.7%</b>	<b>46.6%</b>	<b>-29.7%</b>	<b>43.6%</b>
Share / Issue Repurchase	(2)	(2)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	398	(196)	92	292	317

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,346	865	896	890	1,039
Trade Receivables	197	171	221	221	221
Other Current Assets	450	461	461	461	461
Property, Plant & Equipment	6,937	7,566	7,411	7,592	7,774
Other Non-Current Assets	254	354	354	354	354
<b>Total Assets</b>	<b>9,185</b>	<b>9,417</b>	<b>9,343</b>	<b>9,519</b>	<b>9,849</b>
Short-Term Debt	535	540	540	540	540
Other Current Liabilities	1,061	1,125	1,134	1,183	1,255
Long-Term Debt	5,656	6,354	6,472	6,764	7,081
Other Non-Current Liabilities	361	266	266	266	266
<b>Total Liabilities</b>	<b>7,613</b>	<b>8,285</b>	<b>8,412</b>	<b>8,753</b>	<b>9,143</b>
<b>Total Equity</b>	<b>1,572</b>	<b>1,132</b>	<b>931</b>	<b>765</b>	<b>707</b>
<b>Total Equity &amp; Liabilities</b>	<b>9,185</b>	<b>9,417</b>	<b>9,343</b>	<b>9,519</b>	<b>9,849</b>

\* For full definitions of iQmethod<sup>SM</sup> 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 26,579,500

## Quarterly Earnings Estimates

	2023	2024
Q1	-0.80A	-1.30E
Q2	0.29A	-0.44E
Q3	-1.34A	-0.48E
Q4	-1.33A	-0.16E

## Price objective basis & risk

### Spirit Airlines (SAVE)

Our \$6 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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<b>BUY</b>				
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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
	Spirit Airlines	SAVE	SAVE 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

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

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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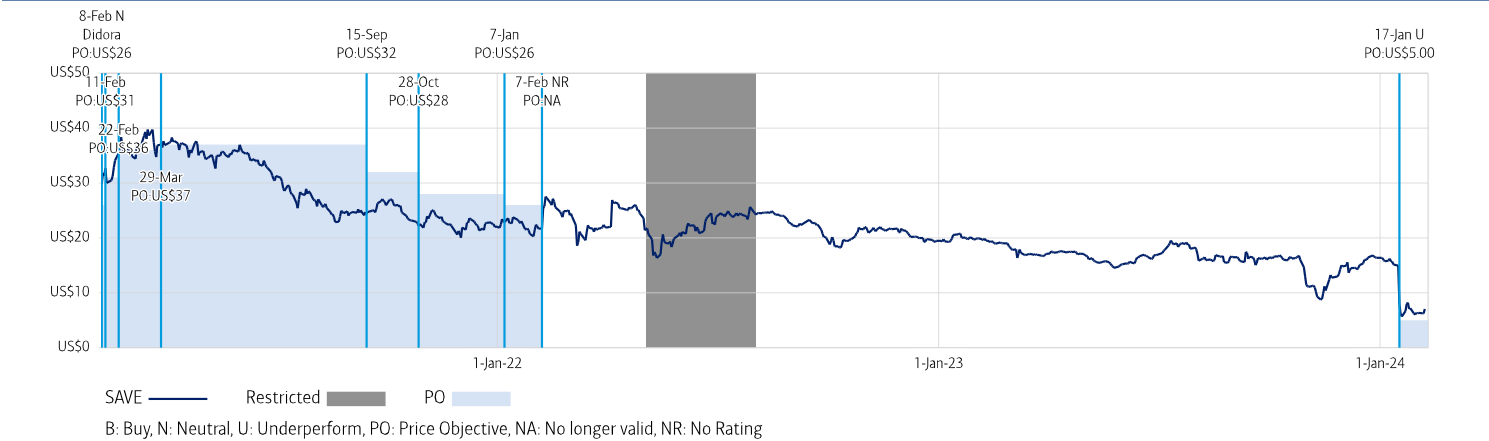
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Spirit Airlines (SAVE) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships <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>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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