

Allegiant Travel Company

Lowering estimates as fleet and cost risks remain

Reiterate Rating: UNDERPERFORM | PO: 70.00 USD | Price: 76.26 USD

Lowering estimates as risks remain

Following ALGT's 4Q23 earnings results, we are lowering our 2024E EPS to \$7.20 from \$7.67 following a more difficult start to the year than we anticipated given meaningfully higher costs and a return to historical leisure revenue seasonality. ALGT still faces uncertainty in terms of its 737 MAX deliveries, the risks that come with operating an additional fleet type, and cost risk from open labor contracts. We maintain our Underperform rating on these risks and maintain our \$70 Price Objective as we incorporate a full Sunseeker ramp into our estimates.

1Q24 unit costs start the year much higher than expected

ALGT provided less guidance than usual given its 737 MAX delivery schedule remains fluid. However, we are raising our 1Q24 unit cost ex-fuel forecast to +20% from +10% while lowering our unit revenue forecast to -2.7% from flattish to account for 1) continued pilot pay rate accruals, 2) a return to normal leisure seasonality that implies a 2.5% pt sequential unit revenue increase vs our prior estimate of a mid-single digit increase, and 3) an earlier Easter that compresses spring break travel this year.

Cost risks from pilots; flight attendant contract up next

We now forecast 2024 unit cost ex-fuel growth of +9% vs our prior +5.2% estimate. This is driven largely by the 1Q24 increase as well as further inflationary pressures. Upside risk to costs remain as ALGT's final pilot deal looms, risking higher expenses from both work rule changes and benefits adjustments. ALGT is also negotiating with its flight attendants which we estimate could add an incremental 100-200bps to unit costs.

Fully incorporating Sunseeker into our model

Our model now includes a full build out of ALGT's recently opened Florida hotel project, Sunseeker. We project \$14M of EBITDA in 2024 (ALGT guided to "up to \$15M") at a 12% EBITDA margin. In 2025/2026, we estimate \$27M/\$38M of EBITDA at an EBITDA margin of 21%/28%. These estimates are below hotel level margins for full-service lodging REITs in the high 20% range in 2023 as we expect Sunseeker will take several years to ramp towards normalized margins. Our analysis now includes ALGT's \$2.40/shr annual dividend (move dividend rating to 8 [same or lower] from a 9 [no cash dividend paid]), with our \$70 PO now based on a sum of the parts analysis valuing the airline at 5.5-6x 2024E EBITDAR (vs 5x prior) and the hotel at 12x EBITDA.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.67	7.56	7.20	10.15	11.09
GAAP EPS	0.08	6.29	7.20	10.15	11.09
EPS Change (YoY)	34.2%	183.1%	-4.8%	41.0%	9.3%
Consensus EPS (Bloomberg)			6.69	10.17	11.21
DPS	0	1.20	2.40	2.40	2.40
Valuation (Dec)					
P/E	28.6x	10.1x	10.6x	7.5x	6.9x
GAAP P/E	953.3x	12.1x	10.6x	7.5x	6.9x
Dividend Yield	0%	1.6%	3.1%	3.1%	3.1%
EV / EBITDA*	4.3x	2.8x	2.5x	2.1x	2.0x
Free Cash Flow Yield*	-9.8%	-29.3%	-16.8%	-4.3%	-2.6%

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

09 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-3-9	C-3-8
2024E Rev (m)	2,564.1	2,740.4
2025E Rev (m)	2,796.1	3,037.8
2026E Rev (m)	NA	3,194.3
2024E EPS	7.67	7.20
2025E EPS	10.25	10.15
2026E EPS	NA	11.09
2024E DPS	0	2.40

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Stock Data

Price	76.26 USD
Price Objective	70.00 USD
Date Established	9-Jan-2024
Investment Opinion	C-3-8
52-Week Range	54.87 USD - 130.93 USD
Mkt Val (mn) / Shares Out (mn)	1,342 USD / 17.6
Free Float	83.9%
Average Daily Value (mn)	18.23 USD
BoFA Ticker / Exchange	ALGT / NAS
Bloomberg / Reuters	ALGT US / ALGT.OQ
ROE (2024E)	9.4%
Net Dbt to Eqty (Dec-2023A)	159.3%
ESGMeter TM	Low

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iQprofileSM Allegiant Travel Company

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	1.5%	5.0%	5.3%	6.6%	6.7%
Return on Equity	3.9%	10.5%	9.4%	12.3%	12.2%
Operating Margin	4.0%	8.8%	9.1%	11.3%	11.7%
Free Cash Flow	(132)	(393)	(226)	(57)	(35)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	6.3x	3.1x	3.7x	3.0x	2.8x
Asset Replacement Ratio	2.2x	3.6x	2.8x	2.4x	2.4x
Tax Rate	49.7%	26.1%	22.9%	22.9%	22.9%
Net Debt-to-Equity Ratio	152.9%	159.3%	150.9%	137.4%	123.7%
Interest Cover	0.9x	2.0x	2.2x	2.7x	2.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,302	2,510	2,740	3,038	3,194
% Change	34.8%	9.0%	9.2%	10.9%	5.2%
Gross Profit	92	221	249	344	372
% Change	-65.2%	141.1%	12.6%	38.3%	8.2%
EBITDA	289	444	501	596	624
% Change	-34.9%	53.6%	12.7%	19.0%	4.7%
Net Interest & Other Income	(87)	(62)	(81)	(108)	(114)
Net Income (Adjusted)	48	134	129	182	199
% Change	40.5%	180.0%	-4.0%	40.9%	9.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1	112	129	182	199
Depreciation & Amortization	198	223	252	252	252
Change in Working Capital	(2)	175	55	55	55
Deferred Taxation Charge	2	41	38	54	59
Other Adjustments, Net	103	(139)	0	0	0
Capital Expenditure	(435)	(806)	(700)	(600)	(600)
Free Cash Flow	-132	-393	-226	-57	-35
% Change	NM	-198.9%	42.6%	74.7%	38.2%
Share / Issue Repurchase	0	(17)	0	0	0
Cost of Dividends Paid	0	(22)	(43)	(43)	(43)
Change in Debt	148	(111)	(100)	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	230	143	25	24	46
Trade Receivables	107	44	44	44	44
Other Current Assets	938	836	586	486	386
Property, Plant & Equipment	2,922	3,518	3,966	4,315	4,663
Other Non-Current Assets	315	335	335	335	335
Total Assets	4,511	4,876	4,956	5,204	5,473
Short-Term Debt	153	440	440	440	440
Other Current Liabilities	717	774	829	884	939
Long-Term Debt	1,944	1,820	1,720	1,720	1,720
Other Non-Current Liabilities	477	514	553	607	666
Total Liabilities	3,291	3,547	3,541	3,650	3,764
Total Equity	1,221	1,329	1,415	1,554	1,709
Total Equity & Liabilities	4,511	4,876	4,956	5,204	5,473

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

Company Sector

Airlines

Company Description

ALGT is a low fare, low utilization carrier with a unique business strategy, flying where others do not. ALGT primarily serves leisure travelers in small and medium-sized cities, flying 615 routes to 132 cities. ALGT actively manages capacity to match demand patterns by flying each route only a few times a week and uses older planes with low capital costs. An early unbundler, ALGT generates more fees per passenger than any U.S. airline. ALGT's largest markets are Orlando, Las Vegas and Tampa.

Investment Rationale

Allegiant's pure leisure model has performed well during the pandemic. However, its recent 737 MAX announcement likely comes with higher purchase costs than its typical used Airbus orders and will also add start-up costs to the business model as new Boeing pilots are hired and trained. This strategy change could put pressure on ALGT's multiple in the near term.

Stock Data

Average Daily Volume 239,034

Quarterly Earnings Estimates

	2023	2024
Q1	3.04A	1.18E
Q2	4.35A	2.79E
Q3	0.09A	0.97E
Q4	0.11A	2.27E



Price objective basis & risk

Allegiant Travel Company (ALGT)

For ALGT, our \$70 PO is based on a sum of the parts analysis valuing the airline at 5.5-6.0x 2024E EBITDAR, at the middle of its historical 4-7x range, and the hotel at 12.0x which we believe is reasonable given ALGT's leisure exposure, monopolistic network, and solid balance sheet (net debt back below pre-pandemic levels). However, we do see heightened cost risks for ALGT given its recent 737 MAX order.

Upside risks to our price objective are a faster than anticipated travel recovery, better operations that drive lower unit costs, and the ability to drive pricing despite increasing industry supply.

Downside risks to our price objective are 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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	Carnival Corporation	CCL	CCL US	Andrew G. Didora, CFA
	Carnival Plc	CUKPF	CCL LN	Andrew G. Didora, CFA
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	United Airlines Holdings	UAL	UAL US	Andrew G. Didora, CFA
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	Southwest	LUV	LUV US	Andrew G. Didora, CFA
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	Allegiant Travel Company	ALGT	ALGT US	Andrew G. Didora, CFA
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	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
 $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$
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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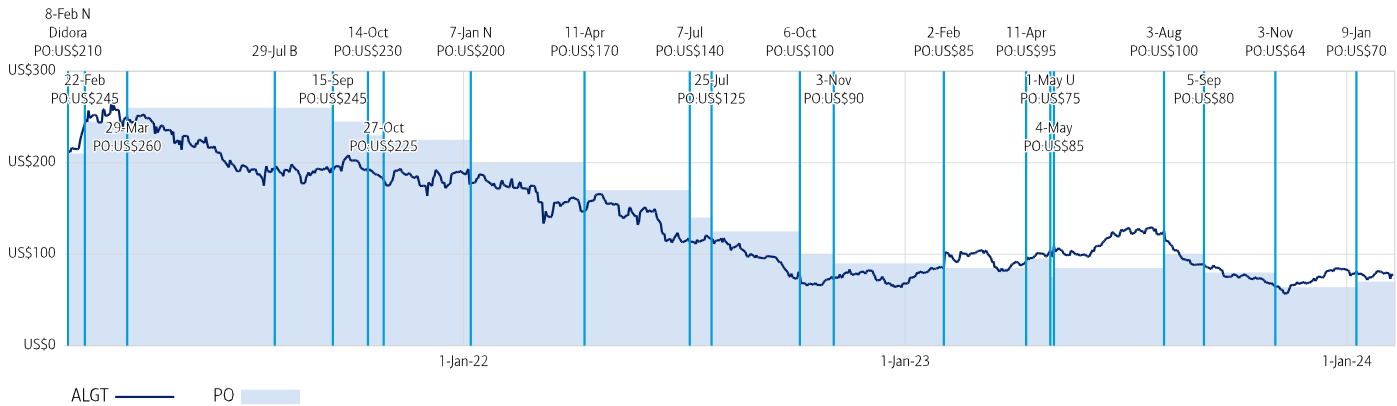
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Important Disclosures

Allegiant (ALGT) 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 ^{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%
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