

## Spirit Airlines

# 4Q23 revenues, operations beat; an appeal of the JBLU ruling has been filed

Reiterate Rating: UNDERPERFORM | PO: 5.00 USD | Price: 6.68 USD

## 4Q23 revenues, operations beat; appeal has been filed

On Friday, Spirit Airlines (SAVE) released an update describing peak holiday bookings as strong, with 4Q23 revenues at the high-end of guidance. The revenue beat was not a surprise as other domestic airlines spoke to better 4Q results back in December. However, much better cost controls resulted and drove a 4% point improvement in operating margin. In addition, SAVE announced it is evaluating balance sheet options while JBLU/SAVE announced they are appealing the [judge's ruling](#), a timeline that is unclear.

## Evaluating options with 2025 maturities on the horizon

With SAVE's earnings pressured into 2025, we expect balance sheet issues to remain a key investor concern. While SAVE noted that it is assessing options for its \$1.1B loyalty bond maturity in September 2025, we note that these bonds yield 39.7%, well in excess of loyalty bonds issued by network carriers which yield 5-6%. Without significant operational improvement in the next year, we see risk to SAVE's ability to refinance.

## Liquidity is the priority; expecting GTF compensation

SAVE has taken steps to improve its liquidity in recent months, including the December/January sale-leaseback transaction of 25 aircraft, a \$419M net cash inflow, and could benefit from the \$70M breakup fee should an appeal fail. Negotiations with Pratt & Whitney on compensation for GTF engine availability issues remain ongoing, while SAVE describes the eventual agreement as a significant source of liquidity. Based on RTX's guidance on the cash impact from the recall (\$3B) and SAVE's 85 impacted aircraft (~43% of fleet), we estimate compensation in the \$200-225M range.

## Adjusting our estimates; reiterate Underperform

Based on SAVE's update, our 4Q23 unit revenue estimate moves to -17.3% from -18.3% previously, with our unit cost forecast now +3.7% from +5.3% on strong completion factor and lower airport costs. Our 4Q23E EPS improve to \$(1.37) from \$(1.55) while 2024E EPS increases to \$(2.79) from \$(3.19) due to the 4Q23 flowthrough. We reiterate our \$5 PO and Underperform rating, based on approximately 1.0x our 2025E book value.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(4.19)	(1.70)	(3.19)	(2.73)	(2.04)
GAAP EPS	(4.49)	(5.10)	(3.78)	(2.79)	(2.07)
EPS Change (YoY)	50.7%	59.4%	-87.6%	14.4%	25.3%
Consensus EPS (Bloomberg)			(3.36)	(3.51)	(1.95)
DPS	0	0	0	0	0
Valuation (Dec)					
EV / EBITDA*	NM	37.3x	NM	NM	55.6x
Free Cash Flow Yield*	-19.6%	-48.4%	-54.6%	-64.0%	-48.9%

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

22 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
2023E Rev (m)	5,336.7	5,361.7
2024E Rev (m)	5,457.7	5,445.9
2025E Rev (m)	5,923.6	5,911.9
2023E EPS	-3.38	-3.19
2024E EPS	-3.13	-2.73
2025E EPS	-2.47	-2.04

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### Stock Data

Price	6.68 USD
Price Objective	5.00 USD
Date Established	17-Jan-2024
Investment Opinion	C-3-9
52-Week Range	4.04 USD - 18.97 USD
Mkrt Val (mn) / Shares Out (mn)	729 USD / 109.2
Free Float	99.1%
Average Daily Value (mn)	116.18 USD
BofA Ticker / Exchange	SAVE / NYS
Bloomberg / Reuters	SAVE US / SAVE.N
ROE (2023E)	-26.0%
Net Dbt to Eqty (Dec-2022A)	308.3%
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"](#).

JBLU - Jetblue

RTX- Raytheon technologies

GTF- Geared turbofan

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Timestamp: 22 January 2024 05:00AM EST

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

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-0.6%	-5.8%	-3.8%	-2.7%	-1.8%
Return on Equity	-20.1%	-10.3%	-26.0%	-29.1%	-28.0%
Operating Margin	-1.8%	-11.8%	-8.3%	-6.1%	-3.6%
Free Cash Flow	(143)	(353)	(398)	(467)	(357)

## iQmethod<sup>SM</sup> – 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%	21.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	177.9%	308.3%	NM	NM	NM
Interest Cover	-0.4x	-5.1x	-3.4x	-2.5x	-1.7x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	3,231	5,068	5,362	5,446	5,912
% Change	78.5%	56.9%	5.8%	1.6%	8.6%
Gross Profit	(57)	(599)	(446)	(331)	(213)
% Change	88.8%	-956.6%	25.5%	25.8%	35.6%
EBITDA	(136)	181	(63)	4	121
% Change	74.5%	NM	NM	NM	NM
Net Interest & Other Income	(463)	(102)	(79)	(75)	(91)
<b>Net Income (Adjusted)</b>	<b>(439)</b>	<b>(189)</b>	<b>(356)</b>	<b>(304)</b>	<b>(227)</b>
<b>% Change</b>	<b>38.9%</b>	<b>57.0%</b>	<b>-88.4%</b>	<b>14.5%</b>	<b>25.3%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(472)	(554)	(414)	(309)	(231)
Depreciation & Amortization	294	313	325	335	335
Change in Working Capital	72	(120)	16	7	40
Deferred Taxation Charge	(50)	(149)	(67)	0	0
Other Adjustments, Net	365	421	35	0	0
Capital Expenditure	(352)	(264)	(294)	(500)	(500)
<b>Free Cash Flow</b>	<b>-143</b>	<b>-353</b>	<b>-398</b>	<b>-467</b>	<b>-357</b>
<b>% Change</b>	<b>81.7%</b>	<b>-147.6%</b>	<b>-12.8%</b>	<b>-17.2%</b>	<b>23.6%</b>
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	658	536	292
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
<b>Total Assets</b>	<b>8,540</b>	<b>9,185</b>	<b>9,191</b>	<b>8,731</b>	<b>8,542</b>
Short-Term Debt	368	535	447	447	447
Other Current Liabilities	908	1,061	1,180	1,187	1,227
Long-Term Debt	4,727	5,656	6,105	5,877	5,880
Other Non-Current Liabilities	423	361	293	293	293
<b>Total Liabilities</b>	<b>6,426</b>	<b>7,613</b>	<b>8,025</b>	<b>7,804</b>	<b>7,847</b>
<b>Total Equity</b>	<b>2,114</b>	<b>1,572</b>	<b>1,166</b>	<b>927</b>	<b>696</b>
<b>Total Equity &amp; Liabilities</b>	<b>8,540</b>	<b>9,185</b>	<b>9,191</b>	<b>8,731</b>	<b>8,542</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 17,392,268

## Quarterly Earnings Estimates

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

## 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.

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### US - Airlines and Cruise Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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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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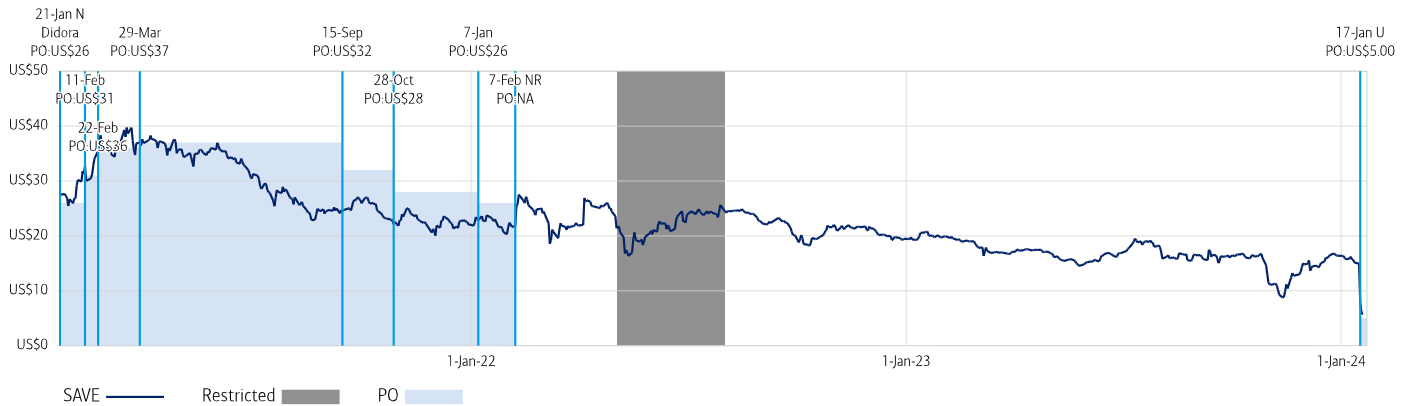
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### Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Dec 2023)

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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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