

## Delta Air Lines

## 4Q23 preview: not quite \$7 in 2024 EPS

Reiterate Rating: BUY | PO: 50.00 USD | Price: 40.54 USD

## Costs a headwind to meet 2024 EPS target

DAL kicks off airline earnings on Friday, January 12. Since DAL did not reiterate on the [October call](#) (see report) its 2024 capacity and cost targets from the [June investor day](#) (see report), the key focus will be on the updated outlook. With cost creep within labor and maintenance vs its June outlook well known, we forecast DAL could guide to \$6-7 in 2024 EPS, just below the company's \$7 goal. We maintain Buy and \$50 price objective.

## 2024 revenue forecasts: capacity +4.8%, unit revs -1.3%

We are maintaining our 2024 total revenue forecast of +3.5%, which is in line with consensus nominal GDP forecasts (DAL expects to grow at GDP+) as we see normalizing international demand coupled with steady domestic demand. We forecast capacity growth of nearly 5% (domestic +3%, international +8%) with unit revenues down -1.3% year-over-year. Our 2024 unit revenue forecast implies a 3.1% CAGR from 2017, which is in line with DAL's expectations from investor day.

## 2024 unit costs +2.0%; EPS \$6.26

For unit costs, we now expect 2% growth compared to our prior estimate of slightly down as maintenance remains a headwind. Our cost estimate assumes 3% core inflation offset by 1% of efficiency gains (2023 underlying inflation less efficiency was +3%). Given lower fuel costs over the last 6 weeks of 2023, our 2024 fuel cost per gallon estimate is now \$2.61, driving our 2024E EPS forecast higher to \$6.26 vs \$6.09 prior.

## 4Q23 mostly in line; 1Q24 BofA ahead of consensus

We forecast 4Q23 EPS of \$1.16, near the midpoint of DAL's \$1.05-1.30 guided range and Visible Alpha consensus of \$1.14. For revenues, we expect 9.7% growth, in the lower half of guidance of 9-11% as international has softened since DAL guided in early October. We are also at the midpoint of DAL's 4Q23 unit cost guide of flat to +2% given solid holiday operations. For 1Q24, we forecast revenue growth of up 5.4%, a bit ahead of consensus of up 4.0%, but unit cost growth of up 2.0% vs consensus up 0.8%. Based on current fuel, we estimate 1Q24 EPS of \$0.57 vs consensus of \$0.33.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(4.06)	3.20	6.10	6.26	7.35
GAAP EPS	0.44	2.05	5.14	6.26	7.35
EPS Change (YoY)	62.3%	NM	90.6%	2.6%	17.4%
Consensus EPS (Bloomberg)			6.13	6.52	7.73
DPS	0	0	0.20	0.40	0.40
Valuation (Dec)					
P/E	NM	12.7x	6.6x	6.5x	5.5x
GAAP P/E	92.1x	19.8x	7.9x	6.5x	5.5x
Dividend Yield	0%	0%	0.5%	1.0%	1.0%
EV / EBITDA*	NM	9.4x	6.2x	6.1x	5.7x
Free Cash Flow Yield*	0.1%	0%	7.3%	16.5%	15.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

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Timestamp: 08 January 2024 05:00AM EST

08 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	56,396.9	56,404.9
2025E Rev (m)	59,298.1	59,264.4
2024E EPS	6.09	6.26
2025E EPS	7.10	7.35

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## Stock Data

Price	40.54 USD
Price Objective	50.00 USD
Date Established	3-Oct-2023
Investment Opinion	B-1-9
52-Week Range	30.60 USD - 49.81 USD
Mrkt Val (mn) / Shares Out (mn)	26,086 USD / 643.5
Free Float	99.6%
Average Daily Value (mn)	370.20 USD
BofA Ticker / Exchange	DAL / NYS
Bloomberg / Reuters	DAL US / DAL.N
ROE (2023E)	47.8%
Net Dbt to Eqty (Dec-2022A)	415.4%
ESGMeter™	High

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"](#).



# iQprofile<sup>SM</sup> Delta Air Lines

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	2.4%	4.9%	8.5%	9.6%	9.6%
Return on Equity	-95.8%	39.2%	47.8%	34.1%	29.7%
Operating Margin	-5.0%	-2.9%	4.9%	8.5%	8.7%
Free Cash Flow	16	(2)	1,909	4,300	4,157

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	3.1x	1.9x	2.3x	1.9x
Asset Replacement Ratio	1.6x	3.0x	2.3x	2.0x	1.9x
Tax Rate	29.8%	31.2%	23.8%	24.0%	24.0%
Net Debt-to-Equity Ratio	NM	415.4%	245.4%	148.3%	90.3%
Interest Cover	1.5x	3.6x	6.7x	8.7x	12.2x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	26,671	45,605	54,492	56,405	59,264
% Change	67.3%	71.0%	19.5%	3.5%	5.1%
Gross Profit	26,671	45,605	54,492	56,405	59,264
% Change	67.3%	71.0%	19.5%	3.5%	5.1%
EBITDA	(638)	5,675	8,625	8,782	9,283
% Change	89.1%	NM	52.0%	1.8%	5.7%
Net Interest & Other Income	(1,487)	(1,747)	(1,131)	(1,026)	(468)
<b>Net Income (Adjusted)</b>	<b>(2,597)</b>	<b>2,053</b>	<b>3,941</b>	<b>4,019</b>	<b>4,721</b>
<b>% Change</b>	<b>62.1%</b>	<b>NM</b>	<b>92.0%</b>	<b>2.0%</b>	<b>17.5%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	280	1,318	3,318	4,019	4,721
Depreciation & Amortization	1,998	2,108	2,333	2,468	2,604
Change in Working Capital	3,622	2,505	913	1,544	342
Deferred Taxation Charge	119	857	1,038	1,269	1,491
Other Adjustments, Net	(2,756)	(424)	(222)	0	0
Capital Expenditure	(3,247)	(6,366)	(5,471)	(5,000)	(5,000)
<b>Free Cash Flow</b>	<b>16</b>	<b>-2</b>	<b>1,909</b>	<b>4,300</b>	<b>4,157</b>
<b>% Change</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>125.3%</b>	<b>-3.3%</b>
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	(128)	(257)	(257)
Change in Debt	1,901	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	7,933	3,266	1,953	3,393	4,412
Trade Receivables	2,404	3,176	3,285	3,514	3,692
Other Current Assets	5,603	6,569	6,206	6,206	6,206
Property, Plant & Equipment	35,986	40,145	42,703	45,235	47,631
Other Non-Current Assets	20,533	19,132	19,437	19,437	19,437
<b>Total Assets</b>	<b>72,459</b>	<b>72,288</b>	<b>73,584</b>	<b>77,785</b>	<b>81,378</b>
Short-Term Debt	2,485	3,073	2,709	2,709	2,709
Other Current Liabilities	18,481	22,867	24,628	26,400	26,920
Long-Term Debt	32,194	27,537	23,561	20,959	18,077
Other Non-Current Liabilities	15,412	12,229	12,778	14,047	15,538
<b>Total Liabilities</b>	<b>68,572</b>	<b>65,706</b>	<b>63,677</b>	<b>64,115</b>	<b>63,244</b>
<b>Total Equity</b>	<b>3,887</b>	<b>6,582</b>	<b>9,908</b>	<b>13,670</b>	<b>18,134</b>
<b>Total Equity &amp; Liabilities</b>	<b>72,459</b>	<b>72,288</b>	<b>73,584</b>	<b>77,785</b>	<b>81,378</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Airlines

## Company Description

Delta served approx. 200 million customers globally (pre-pandemic) and is part of the SkyTeam global alliance and participates in alliances with Aeroméxico, Air France-KLM, China Eastern, Korean Air and Virgin Atlantic. Delta's domestic hubs include Atlanta, Minneapolis-St Paul, Detroit and Salt Lake City, Boston, Los Angeles, New York-LaGuardia, New York-JFK, and Seattle, while its international hubs include Amsterdam, London-Heathrow, Mexico City, Paris-Charles de Gaulle and Seoul-Incheon.

## Investment Rationale

Delta is a well-run airline with industry leading operations, consistent pre-tax earnings pre-pandemic, and a focus on staying capacity disciplined. DAL's free cash flow potential the next few years (targets >\$2B in 2023 and >\$4B in 2024) is the most differentiating factor between DAL and other airlines (LUV and UAL). DAL expects to return to more normalized capex of \$5-5.5B per year. This spend is similar to 2018-2019 while other airlines are investing at least twice the levels as pre-pandemic.

## Stock Data

Average Daily Volume 9,131,809

## Quarterly Earnings Estimates

	2022	2023
Q1	-1.22A	0.25A
Q2	1.44A	2.68E
Q3	1.51A	2.03E
Q4	1.48A	1.16E



# Comparing our estimates to the Street

## Exhibit 1: BofA estimates versus Visible Alpha consensus

We forecast 2024 EPS of \$6.26, below the Street at \$6.44

	4Q23			1Q24			FY-24		
	BofA	Street	Variance	BofA	Street	Variance	BofA	Street	Variance
Capacity	68,224	68,139	0.1%	64,768	64,256	0.8%	284,903	284,207	0.2%
Capacity Y/Y	14.6%	14.5%	0.1%	5.6%	4.7%	0.8%	4.8%	4.6%	0.2%
Revenue (ex refinery)	13,483	13,553	-0.5%	12,483	12,323	1.3%	56,405	56,604	-0.4%
Revenue Y/Y	9.7%	10.3%	-0.6%	5.4%	4.0%	1.4%	3.5%	3.7%	-0.2%
CASM-ex	13.31¢	13.28¢	0.2%	14.22¢	14.04¢	1.3%	13.45¢	13.14¢	2.3%
CASM-ex Y/Y	1.3%	1.0%	0.2%	2.0%	0.8%	1.3%	2.0%	-0.3%	2.2%
RASM	19.76¢	19.88¢	-0.6%	19.27¢	19.19¢	0.4%	19.80¢	19.84¢	-0.2%
RASM Y/Y	-4.3%	-3.8%	-0.6%	-0.2%	-0.6%	0.4%	-1.3%	-1.2%	-0.1%
Pre-tax Income	1,024	980	4.5%	482	280	71.9%	5,288	5,455	-3.1%
Pre-tax Margin	7.6%	7.2%	0.4%	3.9%	2.3%	1.6%	9.4%	9.6%	-0.3%
EPS	\$1.16	\$1.14	1.4%	\$0.57	\$0.33	72.3%	\$6.26	\$6.44	-2.8%
EBITDAR	\$2,026	\$1,971	2.8%	\$1,479	\$1,265	16.9%	\$9,351	\$9,343	0.1%
Fuel Gallons	982	987	-0.6%	924	921	0.3%	4,058	4,063	-0.1%
ASMs per gallon	69.5	69.0	0.7%	70.1	69.8	0.5%	70.2	70.0	0.4%
Fuel Price (\$/gal)	\$3.05	\$3.05	0.1%	\$2.62	\$2.92	-10.0%	\$2.61	\$2.80	-6.7%

Source: BofA Global Research, Visible Alpha

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## Price objective basis & risk

### Delta Air Lines (DAL)

Our \$50 PO is based on approximately 5x our 2024E EBITDAR. We believe the network carriers can trade towards the middle of their historical valuation ranges (4-6x).

Downside risks to our price objective are higher fuel prices, general economic weakness, a slower corporate travel recovery, government regulation/taxes, safety concerns, a prolonged government shutdown and terrorism/geopolitical events.

## Analyst Certification

I, Andrew G. Didora, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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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
	Frontier Airlines	ULCC	ULCC US	Andrew G. Didora, CFA
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
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	American Airlines Group	AAL	AAL US	Andrew G. Didora, CFA
	United Airlines Holdings	UAL	UAL 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**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + 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  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
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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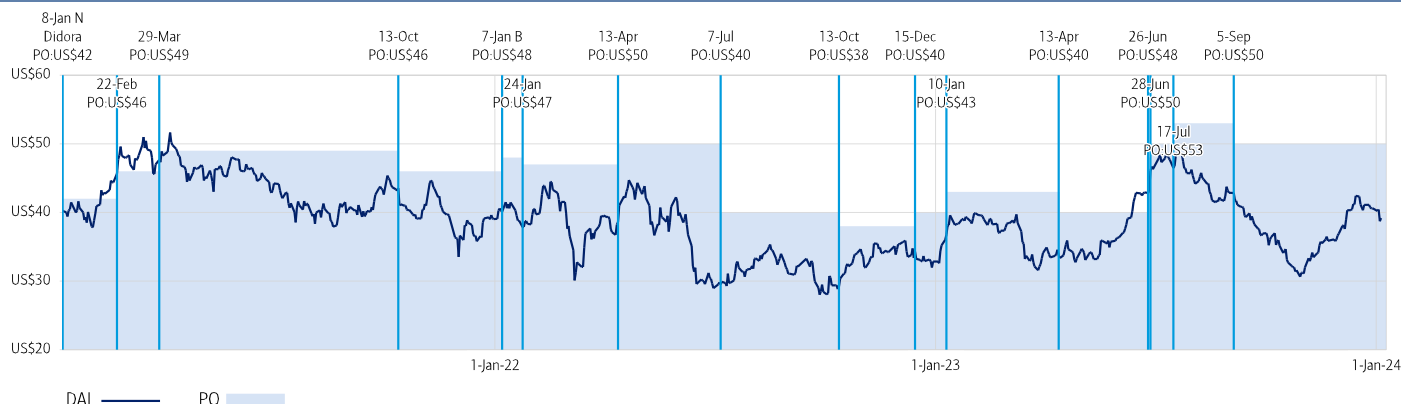
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### Delta Air (DAL) Price Chart



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

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