

Spirit Airlines Inc. Summary

Date of report: Dec 1, 2020

P/E ratio:3.60

Stock: Spirit Airlines Inc. (SAVE)

Forward P/E ratio for industry:22.2

Sector: Industrials

Price target: \$38.42

Subsector: Transportation

Current price: \$22.63

Recommendation: Hold



Company Summary

Spirit Airlines Inc. is a budget airline that primarily provides flights to and from South Florida, the Caribbean, and Latin America. Spirit has roughly 8,938 employees; 81% were represented by unions and are covered by collective bargaining agreements. Spirit had its initial public offering in May 2011. The transportation sector has been drastically impacted by the COVID-19 pandemic. Travel bans and decreased capacity to keep passengers safe have drastically hurt Spirit's earnings and has severely lowered its stock price making it the optimal time to buy.

Industry Outlook

Within the industrials sector, transportation is arguably one of the most easily affected industries both directly and indirectly. Fuel surcharges have been reduced due to the low prices of oil and the fear of getting the COVID-19 virus. Which resulted in reduced TSA traffic by 96%.

Fortunately, airlines have been heavily protected by the government and have been provided financial aid. Spirit, however, did not take such loans. Debt will likely take years to reduce, but an increase in revenue is inevitable and as the public gets closer to a vaccine the likelihood of increased travel will increase.

Cash Flow History and Forecasts

Condensed Statements of Operations (unaudited) - USD (\$) \$ in Thousands									
	Mar. 31, 2019	Jun. 30, 2019	Sep. 30, 2019	Dec. 31, 2019	Mar. 31, 2020	Jun. 30, 2020	Sep. 30, 2020	Dec. 31, 2020	Mar. 31, 2021
Operating revenues:									
Revenues	\$ 855,796	\$ 1,012,956	\$ 991,968	\$ 969,816	\$ 771,081	\$ 138,529	401,922	\$ 570,337	\$ 640,609
Operating expenses:									
Aircraft fuel	229,636	265,006	253,847	\$ 244,989	\$ 213,208	\$ 19,910	94,285	\$ 143,098	\$ 161,556
Salaries, wages and benefits	203,901	216,375	224,069	\$ 220,674	\$ 240,480	\$ 213,579	228,370	\$ 225,776	\$ 225,491
Landing fees and other rents	59,649	64,711	69,142	\$ 62,773	\$ 67,121	\$ 40,348	76,526	\$ 61,692	\$ 62,934
Aircraft rent	45,782	46,522	40,026	\$ 92,934	\$ 45,146	\$ 49,256	49,379	\$ 59,179	\$ 55,987
Depreciation and amortization	50,726	54,913	57,712	\$ 19,258	\$ 65,991	\$ 69,113	71,351	\$ 56,428	\$ 56,642
Distribution	35,719	40,602	39,160	\$ 38,289	\$ 33,743	\$ 11,352	17,882	\$ 25,317	\$ 27,624
Maintenance, materials and repairs	31,604	34,688	36,152	\$ 41,131	\$ 34,076	\$ 19,227	28,213	\$ 30,662	\$ 31,577
Special charges	0	0	0	\$ 17,350	\$ 0	\$ 0	-	\$ 4,838	\$ 3,615
Loss on disposal of assets	1,913	1,550	13,410	\$ (16,156)	\$ 0	\$ 0	-	\$ (4,039)	\$ (1,131)
Special Credits	-	-	-	-	-	\$ (151,911)	(148,308)	\$ (150,110)	\$ (150,110)
Other operating	109,962	124,651	133,769	\$ 123,950	\$ 129,308	\$ 58,039	83,695	\$ 98,748	\$ 104,585
Total operating expenses	767,992	849,018	867,287	\$ 845,192	\$ 829,073	\$ 328,913	501,393	\$ 626,143	\$ 666,333
Operating income (loss)	87,804	163,938	124,681	\$ 124,624	\$ (57,992)	\$ (190,384)	(99,471)	-55,806	-25,725
Other (income) expense:									
Interest expense	24,971	25,266	25,138	\$ 25,975	\$ 23,878	\$ 27,792	33,435	27,770	27,331
Capitalized interest	-2,557	-2,975	-3,400	\$ (3,539)	\$ (3,664)	\$ (3,757)	(4,009)	-3,742	-3,685
Interest income	-6,924	-7,066	-6,292	\$ (4,851)	\$ (3,593)	\$ (1,949)	(454)	-2,712	-3,308
Other expense	233	144	222	\$ 276	\$ (19)	\$ 66	77	100	120
Special charges, non-operating	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0	0
Total other (income) expense	15,723	15,369	15,668	\$ 17,861	\$ 16,602	\$ 22,152	29,049	21,416	20,458
Income (loss) before income taxes	72,081	148,569	109,013	\$ 106,763	\$ (74,594)	\$ (212,536)	(128,520)	-77,222	-46,183
Provision (benefit) for income taxes	16,005	34,068	25,549	\$ 25,549	\$ (46,766)	\$ (68,108)	(29,380)	-29,676	-20,472
Net income (loss)	\$ 56,076	\$ 114,501	\$ 83,464	\$ 81,214	\$ (27,828)	\$ (144,428)	(99,140)	\$ (47,546)	\$ (25,711)

FCFE

	Mar. 31, 2019	Jun. 30, 2019	Sep. 30, 2019	Dec. 31, 2019	Mar. 31, 2020	Jun. 30, 2020	Sep. 30, 2020	Dec. 31, 2020	Mar. 31, 2021
FCFE									
Net Income	56,076	114,501	83,464	81,214	(27,828)	(144,428)	(99,140)	(47,546)	(25,711)
Current Assets	1,516,760	1,520,687	1,403,282	1,385,443	1,231,165	1,667,960	2,499,110	1,603,487	1,615,876
Current Liabilities	1,126,669	1,211,163	1,052,776	1,112,044	1,231,486	1,271,182	1,296,703	1,186,003	1,194,480
Depreciation	50,726	54,913	57,712	61,913	65,991	69,113	71,351	61,674	63,238
Capex	(101,022)	(129,506)	-	(78,041)	(318,415)	(129,571)	(51,145)	(115,386)	(117,438)
Debt	21,566	(14,441)	(133,941)	9,377	101,574	398,123	837,436	174,242	196,053
FCFE	343,480	343,480	(19,306)	441,593	722,495	(46,294)	(342,960)	251,244	172,863
Discounted Cash Flows									
PV Cash Flows		318,024	(17,875)	408,865	668,949	(42,863)	(317,542)	232,624	160,052

Terminal Value
3,677,508.78

Sensitivity Analysis

Growth Rate	3.50%
Discount Rate	8.00%
Sum of CFs	3,752,641,611
Outstanding Shares	97674000
Target Price	\$ 38.42

	Sensitivity		Growth Rate				
	\$	38.42	3.00%	3.25%	3.50%	3.75%	4.00%
Discount Rate	6.50%	\$ 49.62	\$ 53.50	\$ 58.02	\$ 63.37	\$ 69.78	
	7.00%	\$ 43.32	\$ 46.26	\$ 49.62	\$ 53.50	\$ 58.03	
	7.50%	\$ 38.42	\$ 40.72	\$ 43.32	\$ 46.26	\$ 49.63	
	8%	\$ 34.49	\$ 36.35	\$ 38.42	\$ 40.73	\$ 43.33	
	8.50%	\$ 31.29	\$ 32.82	\$ 34.50	\$ 36.36	\$ 38.42	
	9.00%	\$ 28.61	\$ 29.89	\$ 31.29	\$ 32.82	\$ 34.50	
	9.50%	\$ 26.35	\$ 27.44	\$ 28.62	\$ 29.90	\$ 31.29	