NUS INVESTMENT SOCIETY

Alaska Air Group, Inc. ("ALK")

BUY: US$85.58 (+61.9%)

Equity Research Department - Industrials

Date: 28th October 2021

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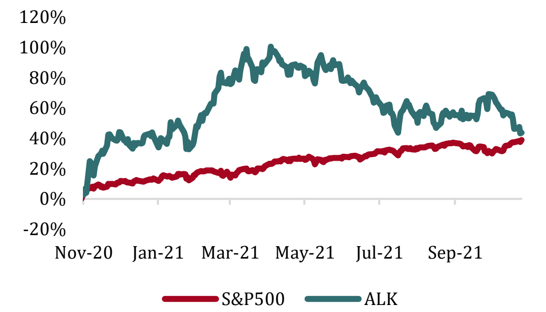
Basic Information

Last Closed Price:	US$52.86
12M Target Price:	US$85.58
+/- Potential:	+61.9%
Bloomberg Ticker:	ALK:US
GICS Sector:	Industrials
GICS Sub-Industry:	Airlines

1Y Price v S&P500



Company Description

Alaska Air Group (ALK) owns two certified airlines, Alaska Airlines, a mainline carrier, and Horizon Air, a regional carrier. Alaska Airlines transports passengers, air cargo and freight throughout the United States and North America.

Key Financials

Market Cap	U$6.62bn
Basic Shares O/S	125.3m
Free Float	99.6%
52-Wk High-Low	US$36.26 - US$74.25
Fiscal Year End	31-Dec-2021

(US$m)	2019A	2020A	2021E	2022E
Revenue	8,781	3,566	5,414	6,611
Net Income	769	-1324	96	136
Net Income Margin	8.8%	-37%	1.8%	2.1%
EBITDA Margin	17.1%	-37.4%	13.9%	12.0%
EBIT Margin	12.3%	-49.2%	5.5%	4.5%
ROA	5.9%	-9.4%	0.8%	1.1%
ROE	17.8%	-44.3%	3.1%	4.3%

We are initiating coverage of **Alaska Air Group, Inc. ("ALK")** with a BUY rating and a **US$85.58** 12M price target.

2Q21 Earnings Highlights

2Q21 marks the first quarter that ALK becomes profit-making since the pandemic, reporting a net income of US$397m. ALK held US$4.0bn in cash and cash equivalents as of the end of 2Q21, which we expect to decrease in view of the recovery of the airline industry and ALK's expansion plans.

Investment Thesis

- **ALK operates in geographic bright spots**– ALK not only benefits from operating in the less badly hit US domestic air travel market, but its concentration on West Coast routes also gives it access to the US's most promising post-pandemic air travel market
- **ALK's value product is a strong differentiator** – ALK offers a high-value product at Low-cost carrier ("LCC") prices. This unique market position is unlikely to be replicated by LCC and legacy competitors
- **ALK's nimble fleet plans enable outperformance** – In the short term, ALK's pivot to regional jets will increase load factor. In the long term, fleet renewal with the 737MAX will boost capacity and fleet fuel efficiency

Catalysts

- **Rising Vaccination Rates** – An increasing number of fully and partially vaccinated citizens in the US, accelerated by President Joe Biden's vaccine mandate will be beneficial to domestic US flight companies that can capitalise on this by increasing revenue passengers that will feel more at ease with air travel.
- **Rising US Consumer Confidence** – The US CCI has been recovering steadily through 2021 as the economy reopens and consumers become increasingly optimistic about their financial situation. This increases the likelihood of spending on non-essential goods like airplane tickets, boosting airlines sales.

Valuation

Our 12M target price at the date of coverage is US$85.58, presenting a +61.9% upside. The valuation was obtained through a weighted average price blend from intrinsic (DCF) and relative valuations.

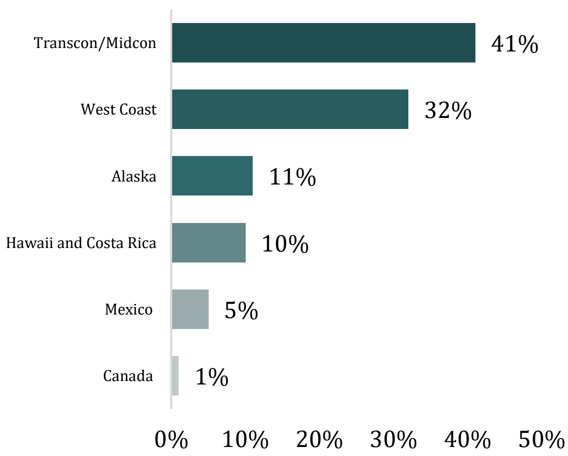
Investment Risks

- **Surging fuel prices** – Fuel price volatility will surge in the future, but impact mitigated by ALK's fleet and fuel hedges
- **New COVID-19 variant** – New strain would dent economic rebound, but mitigated by high vaccination rates in the US
- **Increased competition in value space** – ALK might face stiffer competition from legacy/LCC carriers entering value space, but unlikely given pandemic-induced volatility

Figure 1: ALK's Organisation Structure

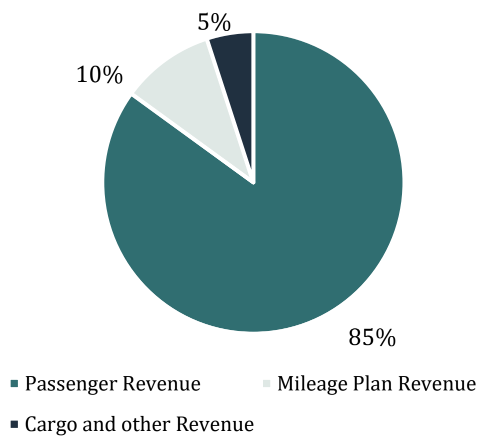
Source: ALK 10-K

Figure 2: ALK's Capacity by Region



Source: ALK 10-K

Figure 3: ALK Revenue FY 20 Breakdown



Source: ALK 10-K

Figure 4: Oneworld Alliance Constituents

Source: Oneworld Website

Company Overview

Alaska Air Group, Inc. ("ALK") is the fifth-largest U.S. airline based on passenger traffic and is one of the most popular U.S. West Coast air carriers. The company was founded in 1932 and is based in Seattle, Washington. Alaska Airlines has expanded significantly to serve several transcontinental U.S. East Coast routes, following the merger with Virgin America. The airline has also expanded internationally, with service to Costa Rica, Canada and Mexico. ALK consists of Alaska Airlines and Horizon Air. Alaska Airlines flies the Boeing 737 and the airbus A320s that have a passenger capacity of up to 180 while Horizon Air flies the Q400 and E175s that has a passenger capacity of 80.

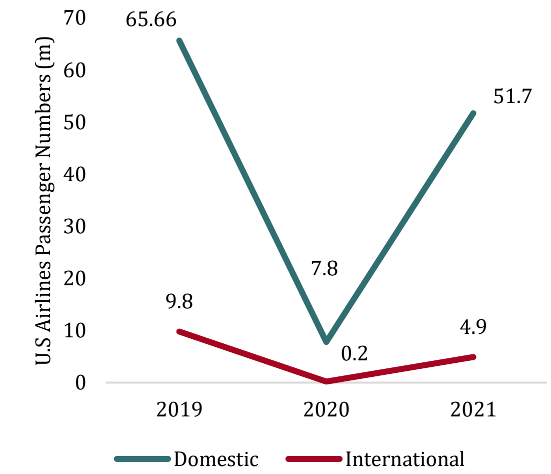
ALK, through its subsidiaries, provides passenger and cargo air transportation services. The company operates through three segments: Mainline, Regional and Horizon. It flies to approximately 115 destinations throughout the United States and North America. Approximately 1200 daily flights are flown with 291 aircrafts operated. Alaska Air carried around 36 m passengers in 2019 which reduced drastically in 2020 due to the travel restrictions implemented due to COVID-19. Majority of Alaska Air Group's flights were flown via a transcontinental route and flights within the west coast, but there has also been recent growth in flights to parts like Mexico and Costa Rica.

The Mainline segment includes scheduled air transportation on Alaska's Boeing and Airbus jet aircraft for passengers and cargo throughout the US, and in parts of Mexico, and Costa Rica. The Regional segment includes Horizon's and other third-party carriers' scheduled air transportation for passengers across a shorter distance network within the U.S. and Canada under capacity purchase agreements (CPA). The Horizon segment includes the capacity sold to Alaska under a CPA. The expenses include those typically borne by regional airlines such as crew costs, ownership costs and maintenance costs. Alaska Air's revenue is broken down into 3 different revenue segments, Passenger revenue (85%), Mileage Plan revenue (10%) and Cargo and other revenue (5%). In 2020, there was a Passenger revenue of US$3.02bn, a Mileage Plan revenue of US$374m and Cargo revenue of US$173m.

In February 2020, Alaska Airlines announced its intention to join the Oneworld airline alliance. On March 31, 2021, Alaska Airlines officially joined the Oneworld alliance, adding seven new airline partners, including Iberia, Malaysia Airlines, Qatar Airways, Royal Air Maroc, Royal Jordanian, S7 Airlines, and Sri Lankan Airlines.

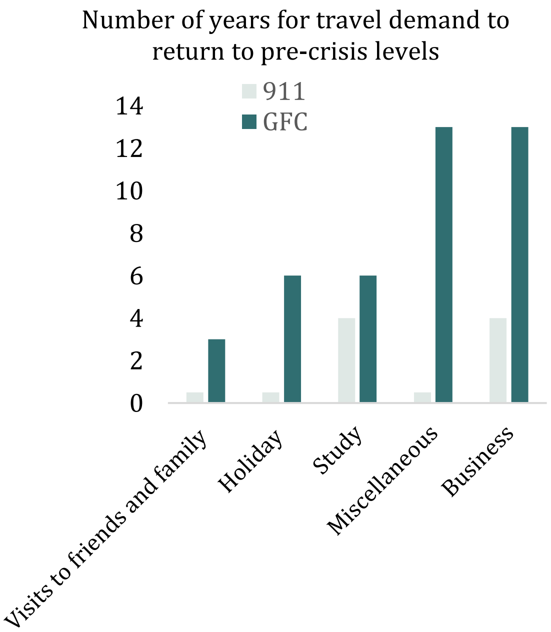
Alaska Mileage Plan members will have significantly expanded benefits in the Oneworld program, including reciprocal tier status in Oneworld, as well as the ability to earn and use miles to reach above 1,000 destinations worldwide. Oneworld enhances Alaska's presence globally and will position them to capture an incremental share of global travellers and corporate accounts as recovery begins to take shape. It creates a global network that can allow passengers to earn and redeem points from member flights, access to airport lounges, exclusive priority check-ins and boarding and lastly having access to a more well-connected traffic from other airlines.

Figure 5: Domestic Travel will Outpace International Travel Recovery



Source: Airports Council International

Figure 6: Leisure Travel Demand Rebounds Faster than Business Travel



Source: McKinsey & Company

FY20 (y-o-y) Earnings Review:

- Revenues experienced a steep 59% drop from US$8.78bn to US$3.56bn in FY20
- Passenger revenues were most adversely affected by the pandemic, dropping 62.7% to US$3.02bn in FY20, while mileage plan and cargo revenues had less severe reductions of 19.6% and 21.7% respectively
- EBITDA decreased sharply from US$1.50bn in FY19 to -US$1.33bn in FY20
- Despite a strong reduction in operations, ALK's wages and benefits expense remains high at US$2.05bn, leading to a net loss of US$1.32bn in FY20
- ALK's response to COVID-19 by issuing US$2.56bn of LT debt resulted in it being able to have a net increase in cash of US$1.15bn

Industry Outlook

Domestic passenger traffic will recover quickly
US domestic air travel is in the best position for full recovery as compared to international recovery. It is expected to recover quicker as domestic travel is not heavily dependent on the COVID-19 situation in other countries, minimizing the influence of how the progress of tackling the virus in other countries will affect the rate of travel. With the absence of uncertainty of border closures and countrywide lockdowns, domestic travel is able to thrive and recover to close to pre-COVID levels. With many afraid of the uncertainties of international travel coupled with the changing travel rules and regulations, travellers opt for domestic travel instead. According to the Bureau of Transportation Statistics, domestic air travel in the US has recovered to 51.7m passengers, which is 78% of pre-COVID levels, as compared to international travel which has only recovered to 4.9m passengers amounting to 50% of pre-COVID levels. Additionally, according to the International Air Transport Association (IATA), North American flights will have the fastest recovery and will be the first region to end the loss-making streak in 2022.

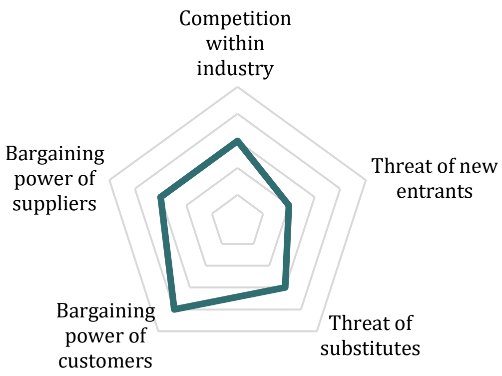
Domestic passenger traffic volume was also helped by the early recovery of major domestic markets like China and Russia. This can be seen from the recovering GDP growth rate of China achieving 8% and 4.69% in Russia in 2021, outperforming previous years.

Post-COVID, air travel will be leisure-led
Air travel has begun to shift its focus from high-yielding business travels to leisure travels with the pandemic restricting the possibility of business travel. Over the years, referring to the history of air travel recovery post-crisis such as the Global Financial Crisis and 911 it can be seen that post-crisis recovery for business travel has taken at least 4 years or more to rebound back to pre-crisis levels and sometimes may never even recover to these levels. This emphasises how post-COVID, air travel will be leisure-led, recovering at a much faster rate.

This change in circumstances has led to the future of work altering such that business might never rebound with fundamental changes to how businesses are run. Businesses will begin to reduce the need and reliance on international business travel with the fear of a similar crisis in the future and with newfound convenience of other communication alternatives. Working professionals increasingly prefer work from home arrangements as some may find it more time-efficient and productive. Businesses begin to implement austerity measures to preserve cash as they navigate through uncertain times that have left many businesses burning through their cash reserves. Additionally, teleconferencing such as the use of Zoom and Microsoft Teams have become increasingly adopted, acting as an alternative to in-person meetings.

Porter's Five Forces

Figure 7: Porter's 5 Forces



Source: NUS Investment Society Estimates

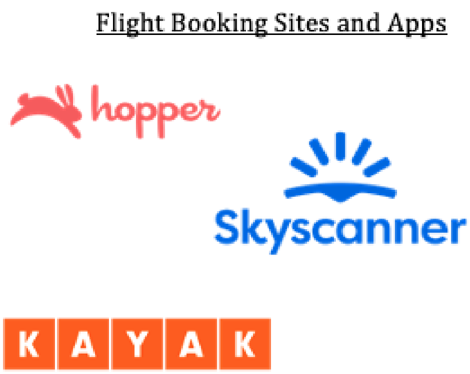
Competition within industry – Moderate
ALK is relatively small amongst large players such as American, Southwest and Delta Airlines. The Airline industry is highly price-sensitive with business being largely reliant on ticket prices.

However, the mitigating factor is Alaska Air's low cost relative to legacy carriers (when compared to the top 6 domestic players), ALK is in a strong competitive position to remain more affordable to consumers.

Threat of new entrants - Low
The aviation business is extremely capital-intensive with a great amount of financing required to purchase and service property, plant and equipment. The uncertainty brought about by COVID-19 will also further deter new entrants to enter the market such as the high risk and possibility of easily going out of business with lockdowns and travel restrictions. The airline industry is also a mature market thus making it unlikely for new entrants to enter to compete with the current players.

Threat of substitutes - Moderate
Leisure travel domestically is unlikely to be significantly substituted with other forms of travel such as travelling by car or by ship which are both not as time-efficient in comparison. However, there may be a threat in the possibility of business travel being substituted with virtual meetings and teleconferencing that can be an alternative to in-person meetings.

Figure 8: Flight Booking Sites and Apps



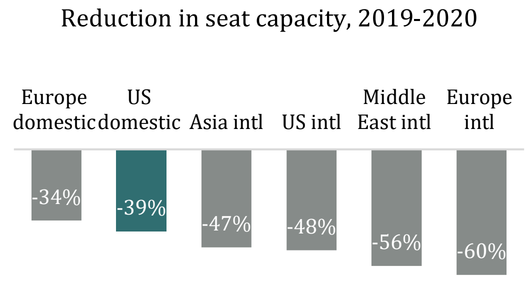
Source: Google

Bargaining power of customers - High
With the increasing ease of internet accessibility, customers can conveniently compare tickets online with other carriers. They can not only compare ticket prices but aspects such as airplane features and different perks other airline provides. Many consumers rely on third-party trip-booking websites and applications that help sieve the best airline deals.

The mitigating factor is that ALK can stand out with their miles and loyalty programme that would incentivise customers to select their airline carrier instead.

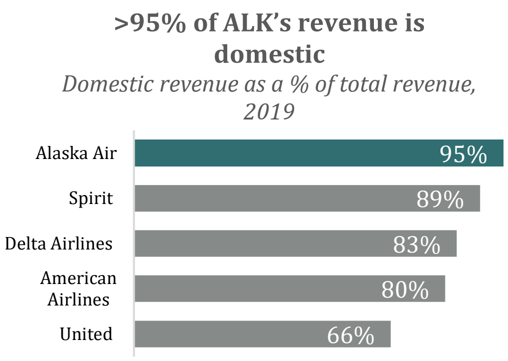
Bargaining power of suppliers - Moderate
Alaska Air is solely dependent on Boeing and Airbus for aircrafts and their respective parts while Horizon (subsidiary) is dependent on De Havilland and Embraer. However, this duopoly is not unique to ALK as peers experience similar situation. The high dependence may mean that there is an inability of timely

Figure 9: Intra US Air Travel was Less Impacted by the Pandemic



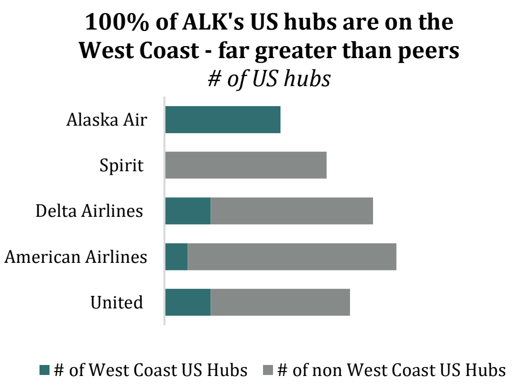
Source: Oliver Wyman

Figure 10: ALK's Domestic Revenue (%) Relative to Peers



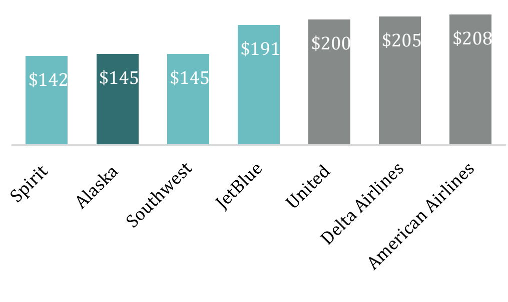
Source: Oliver Wyman

Figure 11: US Air Hubs Comparison



Source: NUS Investment Society Estimates

Figure 12: Air Fares Comparison



Source: NUS Investment Society Estimates

delivery of aircrafts and parts thus slowing down the growth of the fleet.

However, the significance of this issue is partially offset by the strong commitment from Boeing that provides ALK warranties, service life policies and interface commitments.

Investment Thesis

Thesis 1: ALK is operationally best-positioned to capture US post-pandemic rebound

US domestic travel was less badly hit as compared to international travel. Measured in a reduction in seat capacity between 2019-2020, the US domestic air travel market suffered a contraction of only 39% that was less severe than the other international markets that shrunk >40% (Figure 9). Hence, US air travel demand is slated to rebound to 2019 levels sooner, by 2024 as compared to 2026 for international travel.

This benefits ALK uniquely because its business is heavily concentrated in the US. 95% of its total group revenues come from intra-US routes, significantly higher than the legacy and low-cost carriers that it competes against (Figure 10).

Most analysts know that, but what is commonly glossed over is the fact that even within the US, ALK's cash cow routes are concentrated in the brightest spots. 100% of its air hubs are in West Coast states - California, Oregon, Washington, and Alaska. In contrast, only about 10-20% of competitors' hubs are in the West Coast (Figure 11). Because of this concentration of air hubs, 60% of ALKs daily flights depart from airports within the West Coast.

This West Coast concentration is significant because those states have higher vaccination rates and lower vaccine hesitancy. In California, Oregon, Washington and Alaska, ~60% of residents are vaccinated. This is significantly higher than the US average of 55%. In addition, these states are deep blue states – meaning that its resident population is overwhelmingly Democrats. Given that Democrats are 2x more likely to get vaccinated than Republicans, this means that West Coast states benefit from lower vaccine hesitancy, higher vaccination rates and will likely reach herd immunity sooner. This is significant because vaccination rates are the limiting factor for US air travel rebound: 40% of US consumers indicated that they would travel only if vaccination rates rise.

Hence, we see that ALK is in pole position on 2 counts – (a) It operates in the US, a promising market for post-pandemic air travel and (2) within the US, its operationally concentrated on the brightest spots for air travel on the west coast

Thesis 2: High-value product will be a strong differentiator for ALK

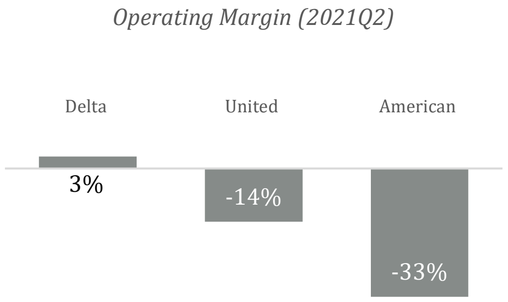
ALK essentially offers a product on par with legacy carriers but at fares comparable to LCCs. ALK offers average fares of US$145. This is on par with ultra LCCs like Spirit and Southwest but is lower than value LCCs like JetBlue. Furthermore, it is significantly lower than the average fare from by legacy carriers like United, American and Delta, who charge >US$200 per ticket

Figure 13: Analysis of Airlines Offerings

	United	Alaska	Southwest	Frontier	Spirit	JetBlue
Premium Cabins	Y	Y	N	N	Y	Y
Complementary F&B	Y	Y	Y	N	N	==
Airport lounges	Y	Y	N	N	N	Y
Free inflight entertainment	Y	Y	N	N	N	Y
Intl' frequent flyer alliance	Y	Y	N	N	N	N

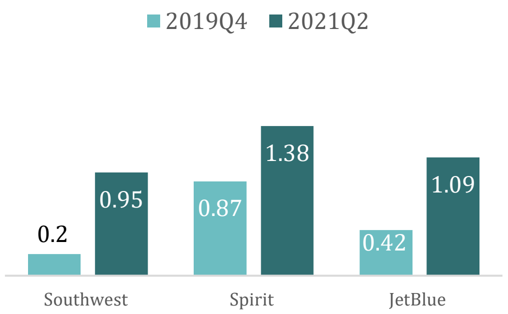
Source: NUS Investment Society Estimates

Figure 14: Legacy Carriers Mostly Operating on Negative Margins



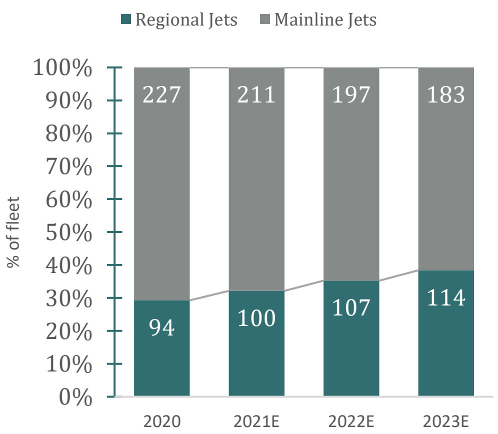
Source: Delta, United and American Airlines 10-Q

Figure 15: LCC D/E has Increased ~2x on Average Since 2019



Source: Southwest, Spirit and Jetblue 10-Q

Figure 16: Regional Jets will Comprise 40% of ALK's Fleet by 2023



Source: NUS Investment Society Estimates

(Figure 12). Hence, we see that as a value LCC, ALK operates on a significant price advantage against its peers.

At the same time, it offers a premium product that is far better than LCCs and on par with the legacy carriers. It offers frills like premium cabins, complimentary F&B, airport lounges, inflight entertainment and even an international frequent flyer alliance with OneWorld. This comprehensive service offering places it on par with legacy carriers like United and miles ahead of its LCC peers – who typically offer no frills (Figure 13).

Crucially, this product advantage is unlikely to be copied by competitors. The first analyst concern is that legacy carriers will increasingly move into low-cost space especially as their traditional target market of business travellers dries up. This concern is exaggerated because legacy carriers now operate on negative operating margins (Figure 14). Thus, they are unlikely to engage in a price war. Reducing cost structure to sustainably compete against LCCs like ALK also requires a long lead time – they need to redesign cabin products, renegotiate airport contracts, re-angle marketing pitches, etc which are time and CAPEX intensive workstreams.

The second analyst concern is that LCCs will move up into value space by mimicking ALK's product offering. Again, this concern is exaggerated moving into value space (e.g. developing new cabin products, installing seatback TVs, renovating airport lounges) require significant CAPEX and time. Meanwhile, ALK's LCC competitors are now heavily levered and much of the cash on hand is to be used to ride out pandemic volatility (Figure 15). Hence, given the existing sector volatility, most airlines are scaling back offerings and preserving cash. It is unlikely that LCCs will redesign themselves in this time of crisis.

Hence, we see that ALK's uniquely high-value product will continue to help the airline capture leisure travellers; competing legacy carriers and LCCs are in no position to contest this market segment.

Thesis 3: A nimble fleet fit for the times will lead to efficiency gains for ALK

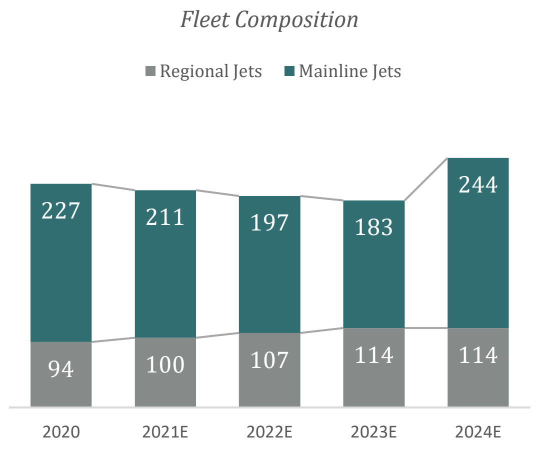
In the short term, air travel demand is likely to remain depressed and volatility will persist. Amidst such uncertain market conditions, ALK's pivot to smaller regional jets will help it increase its load factor.

By 2023, we expect ~40% of ALK's fleet to be comprised of regional jets like the 78 seat Bombardier Q400. These planes are smaller, and have ~50% less seatcount than the mainline A320s and B737s that form the bulk of ALK's fleet (Figure 16).

Based on conservative estimates, this will help boost the projected load factor to 88% in 2023. This is a significant increase from the current 55% and 10% higher than if these regional jets had not been procured.

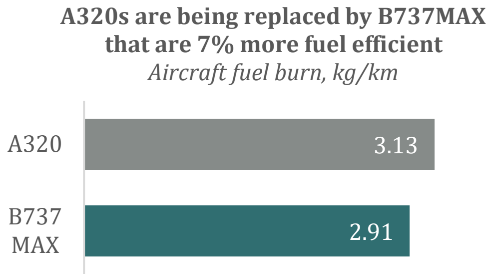
However, in the longer term we expect air travel to rebound to 2019 levels and even beyond. Amidst these bullish market conditions, ALK's acquisition of large mainline jets will help it increase capacity and fuel efficiency.

Figure 17: Huge Order of B737MAX due in 2024



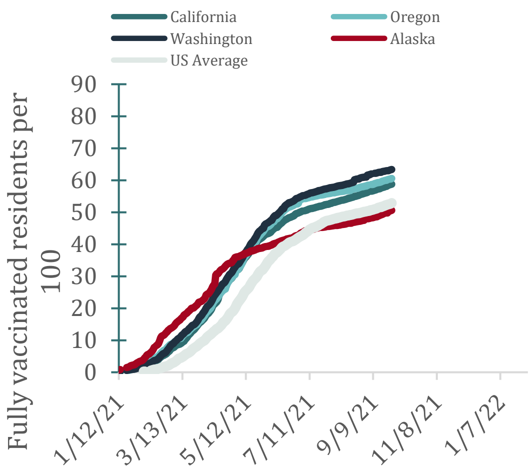
Source: NUS Investment Society Estimates

Figure 18: A320s vs B737MAX Fuel Burn



Source: Airbus and Boeing

Figure 19: West Coast Vaccination Rates



Source: NYTimes

By 2024, ALK will acquire 61 state-of-the-art Boeing 737MAX aircraft (Figure 17). We expect that his will increase all ALK's available seat miles by 10% and provide 7% better overall fuel efficiency than the existing A320s that it replaces (Figure 18).

These nimble fleet renewal plans ensure ALK can efficiently switch between increasing load factor to thrive amidst the uncertain short-medium term as well as gear up to serve the impending increase in airtravel demand in the longer term. We expect these long term strategies will help ALK maintain high operational efficiency.

Catalysts

Rising vaccination rates

In the US, 402 million doses of vaccination have been given out with an average of 1.03 million doses given per day. 55.67% of the population have been fully vaccinated and 8.82% have been partly vaccinated coming to a total of 64.69% of the US population having received at least one dose of the vaccination (Figure 19). Additionally, the rise in vaccination has been fuelled by the vaccine mandate established by President Joe Biden that is directed at the 80 m citizens that are not vaccinated.

Biden has also announced that he ordered the Department of Labour to issue an emergency rule requiring all employers with 100 or more employees to ensure their workforce is fully vaccinated or require any unvaccinated workers to produce a negative COVID test at least once a week. This could possibly carry a $14,000 fine per violation. This would drive vaccination rates to an accelerated pace.

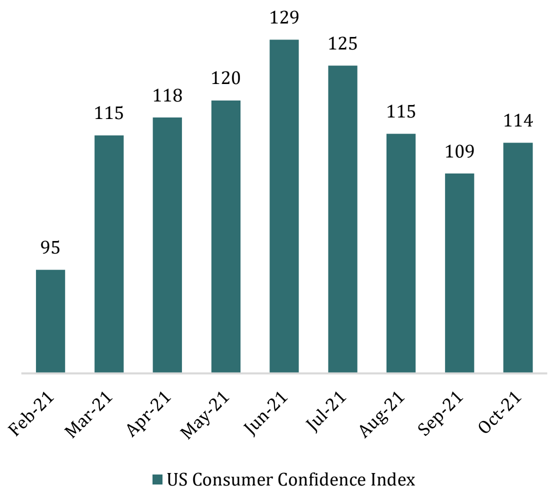
Positioned as a domestic US airline, this will propel the number of flyers as more US citizens would be more confident and at ease with travelling with an increase in vaccination rates.

Rising US consumer confidence

There has been a fast-paced recovery of US Consumer Confidence Index in 2021 with consumers becoming more optimistic of their expected financial situation as the economy recovers and employment picks up. With higher consumer confidence, consumers tend to spend more than they do at other times, especially for bigger-ticket items and luxury purchases such as flight tickets for leisure travel, contributing to the growth in revenue passengers for Alaska Air.

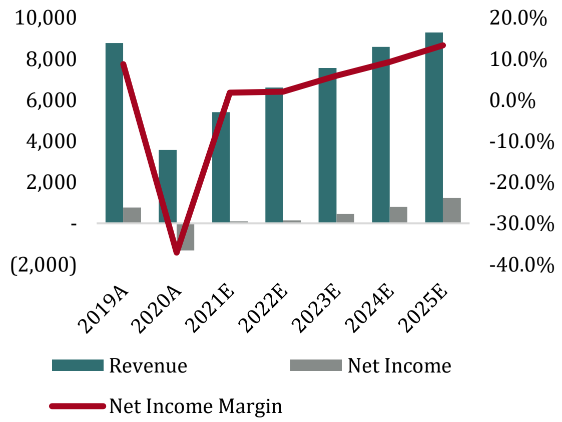
Despite the recent dip due to the Delta variant, the consumer confidence index levels are still above pre-covid levels and recovery already being seen from the month of October with the situation being more controlled in the US in dealing with the variant coupled with widespread vaccination (Figure 20).

Figure 20: US Consumer Confidence Index Chart (Last 9 months)



Source: CEIC Data

Figure 21: Revenue and Net Income Margins



Source: NUS Investment Society Estimates

Financial Analysis

	Historical		Forecasted				
Financial Ratios	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Revenue	8,781	3,566	5,414	6,611	7,554	8,593	9,281
Net Income	769	-1324	96	136	450	794	1,235
Net Income Margin	8.8%	-37%	1.8%	2.1%	6.0%	9.2%	13.3%
EBITDA Margin	17.1%	-37.4%	13.9%	12.0%	16.1%	19.8%	25.1%
EBIT Margin	12.3%	-49.2%	5.5%	4.5%	8.9%	12.9%	18.0%
ROA	5.9%	-9.4%	0.8%	1.1%	3.3%	5.3%	7.4%
ROE	17.8%	-44.3%	3.1%	4.3%	12.6%	18.8%	23.6%
Debt/Equity Ratio	2.00	3.70	2.81	2.86	2.79	2.58	2.19
Interest Coverage Ratio	17.13	-20.15	1.69	2.38	6.48	11.06	15.77
Dividend Payout	173	45	0	24	79	139	217

Overview

The table above reveals ALK's financial condition prospects for the next five years, highlighting our assumptions.

Rising Margins

Due to the adverse impact of the pandemic on airline companies, ALK experienced a loss-making FY20. In line with the expected recovery of the airline industry and ALK's recent 2Q21 financial results, we expect ALK to be profit-making from FY21 onwards. Additionally, considering the anticipated fuel efficiency and cost savings, ALK will likely benefit from rising margins (Figure 21).

Improving Returns

ROA and ROE are expected to increase back to FY19 levels by FY24 and surpass beyond as higher revenues and operational efficiencies take effect. We expect dividend payout to only resume FY22 onwards given COVID-19's impact on ALK which encourages ALK to conserve cash.

Solvency Ratios Expected to Return to Pre-pandemic Levels

In FY20, similar to peer airline companies, ALK had heavy financing activities, issuing US$2.6bn debt. This is likely done to sustain the COVID-induced cash burns anticipated and caused Debt/Equity (D/E) ratios to increase drastically by 1.70x to 3.70x. In line with the recovery of the airline industry, we expect ALK to hoard less cash (possibly reducing debt positions), causing D/E to decrease steadily to 2.19x in FY25 (close to FY19's). Furthermore, with an expected deleveraging and increasing profitability, Interest Coverage Ratio (EBIT/Interest Expense) will increase from -20.15x in FY20 to 15.77x in FY25.

Valuation

12M Price Target: US$85.58

The target price was calculated using a blended average of 3 derived valuations: (1) Discounted cash flow (DCF) valuation using the exit multiple approach, (2) +2FY EV/Revenue relative valuation and (3) +2FY EV/EBITDA relative valuation.

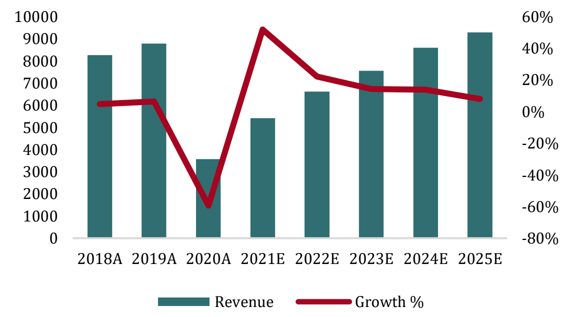
Intrinsic Valuation

A DCF model, projected over the next 5 years, was used to derive the intrinsic value of ALK. The DCF model is most sensitive to the factors discussed which are explained below.

<u>Revenue Model</u>

As stated above, ALK's revenues come from three streams: (1) Passenger revenue, (2) Mileage plan revenue and (3) Cargo revenue. A bottom-up approach was utilised to project

Figure 22: Revenue Growth Projection



Source: NUS Investment Society Estimates

Figure 23: WACC Build-up

WACC Calculation	
Total Debt (USD '000,000)	2,372
Market Capitalisation (USD '000,000)	6,623.4
Debt as proportion of current capital structure	26.4%
Equity as proportion of current capital structure	73.6%
WACC	7.62%
Cost of Equity	
Risk Free Rate	1.25%
Equity Risk Premium	4.72%
Beta	1.70
Cost of Equity	9.27%
Cost of Debt	
Pre-Tax Cost of Debt	3.80%
Tax Rate	21%
After-Tax Cost of Debt	3.00%

Source: NUS Investment Society Estimates

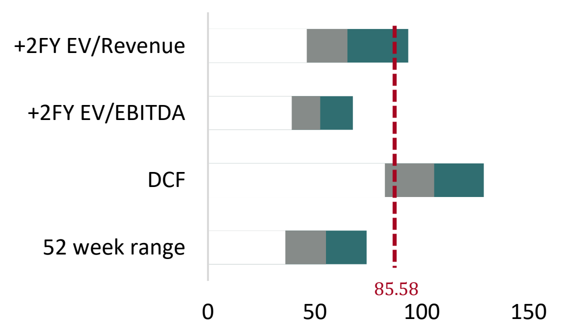
Figure 24: Sensitivity Table

Sensitivity Analysis

	Implied Share Price						
		Exit EV/EBITDA Multiple					
		3.47x	3.97x	4.47x	4.97x	5.47x	5.97x
WACC	6.1%	84.75	93.61	102.47	111.32	120.18	129.04
	6.6%	84.34	93.17	102.01	110.84	119.67	128.51
	7.1%	83.94	92.75	101.56	110.37	119.18	128.00
	7.6%	83.55	92.34	101.13	109.92	118.71	127.50
	8.1%	83.18	91.95	100.72	109.49	118.26	127.03
	8.6%	82.82	91.57	100.32	109.07	117.82	126.57

Source: NUS Investment Society Estimates

Figure 25: Football Field Chart



Source: NUS Investment Society Estimates

Passenger revenue moving forward, while pre-COVID historical average growth rates were applied to Mileage plan and Cargo revenues.

In line with Federal Aviation Administration (FAA) Aerospace Forecasts, US domestic enplanements are expected to reach pre-COVID level by early 2024, we decided to hold a more conservative stance and projected ALK's ASM to reach FY19 level by FY25. ASM growth is gradually stepped down to the historical average growth of FY17 and 19. FAA also predicts that US domestic load factor recovers by 2025 linearly (by percentage points). Given ALK's pivot into regional jets, we are expecting hastened load factor growth for ALK in the short term, reaching the FY19 level by FY25. ALK's yield is projected to reach US$0.1506 by FY25 based on historical average growth.

<u>Cost Build</u>

Wages and benefits expenses as a % of revenues are projected to return to pre-COVID baseline by FY25, in tandem with our estimates for ALK's ASM and load factor. In view of ALK's pivot into a more fuel-efficient fleet, we expect a 7.0% decrease in aircraft fuel costs as a % of revenue to 13.0% by FY25. For the remaining operating expenses, we project them to return to pre-COVID averages by FY22, as these line items were not heavily impacted by the pandemic.

<u>Weighted Average Cost of Capital (WACC)</u>

CAPM was used to estimate cost of equity. 5Y Beta of 1.70x (from CapitalIQ), equity risk premium of 5.5% (from Professor Damodaran's website) and risk-free rate of 1.3% (10Y Treasury Bond) yield a cost of equity of 9.27%. After-tax cost of debt of 3.00% was derived using the weighted-average pre-tax cost of debt of FY19 and FY20 and a tax rate of 21.0%. a WACC of 7.62% is then calculated with derived cost of equity and debt (Figure 23).

<u>Terminal Value</u>

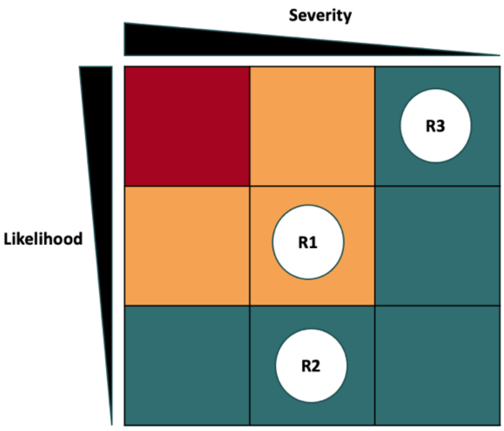
The Exit Multiple method was solely used in consideration of the COVID-19's strong (and uncertain) influence over ALK's and other airline companies' performance. The minimum +2FY EV/EBITDA multiple (from comps) was selected as the exit multiple given airline companies' anticipated significantly strong growth in FY22 relative to FY25—when growth returns to normalcy.

Relative Valuation

Trading comparable analysis was used to determine the relative valuation of ALK. Airline companies with international routes were also included in the comparables set as there are limited listed sole domestic airlines relative to ALK. +2FY metrics are selected because many airlines are still suffering from dented revenues and profitability (to the extent of loss-making), which will result in skewed +1FY multiples. The 75th percentile multiples were used to assign ALK's relative valuation to reflect ALK's prime position (domestic-flight heavy) to ride the rebound.

Final Valuation

Figure 26: Risk Matrix



Source: NUS Investment Society Estimates

Assigning equal weightage to both intrinsic and relative valuation, a blended target price of US$85.58 is derived, presenting an attractive +61.9% upside (Figure 25).

Investment Risks

R1 - Market Risk: Sudden increase in fuel prices
Emphasis on ESG has led to systematic underinvestment in the oil & gas industry since 2015. In the future, supply shortages will become more frequent and dramatic, which could diminish airline companies' profitability.

However, ALK's business mitigates this risk in two ways. First, its exceptionally young and fuel-efficient fleet reduces its reliance on aviation fuel and mitigates adverse impacts from oil price surges. Second, ALK has extensive forward fuel contracts that help it hedge against any increase in fuel prices.

R2 - Investment Risk: Resurgence of a more transmissible / deadly strain of COVID-19
Emergence of a more transmissible or deadly strain could lead to tighter border control measures. Furthermore, it could diminish consumer confidence and deter leisure travel. Such a scenario would set back the rebound in global air travel demand.

ALK's operational focus on serving West Coast states mitigates this risk because high vaccination rates and low vaccine hesitancy ensure that consumer confidence in these states remains high and lockdowns remain unlikely.

R3 - Business Risk: Other carriers moving into ALK's value niche
The future of air travel is leisure. Amidst the fall in business travel, legacy carriers have to compete for leisure travel market share, which could lead to increased competition and reduced market share for ALK.

This scenario is mitigated because LCCs are already heavily levered and unlikely to commit significant CAPEX at this point. Furthermore, legacy carriers are currently operating on negative margins, making them unlikely to cut prices and compete on price competitiveness.

Disclaimer

Appendix:

Pro-Forma Financial Statements

Alaska Air
Financial Statements

	Historical						Forecasted				
Figures in '000,000 USD	2016A	2017A	2018A	2019A	2020A	1H21	2021E	2022E	2023E	2024E	2025E
Income Statement											
Revenues	5,925	7,894	8,264	8,781	3,566	2,324	5,414	6,611	7,554	8,593	9,281
Operating Expenses											
Wages & Benefits	1,394	1,931	2,190	2,370	2,053	1,003	2,166	2,314	2,455	2,578	2,505
Depreciation & Amortisation	363	372	398	423	420	195	454	496	543	597	655
Aircraft Fuel, incl. hedging	831	1,447	1,936	1,878	723	477	1,083	1,157	1,209	1,289	1,206
Aircraft Maintenance	270	391	435	437	321	183	379	326	373	424	458
Aircraft Rent	114	274	315	331	299	124	271	214	245	279	301
Landing Fees and Other Rentals	320	460	499	531	417	273	541	385	440	501	541
Other Operating Expenses	1,327	1,811	1,848	1,748	1,108	(319)	272	1,448	1,654	1,882	2,033
Total Operating Expenses	(4,619)	(6,686)	(7,621)	(7,718)	(5,341)	(1,936)	(5,165)	(6,340)	(6,920)	(7,550)	(7,700)
Operating Income	**1,306**	**1,208**	**643**	**1,063**	**(1,775)**	**388**	**249**	**271**	**634**	**1,043**	**1,581**
Interest Income	27	34	38	42	31	13	50	27	40	62	89
Interest Expense	(30)	(86)	(73)	(63)	(87)	(65)	(177)	(125)	(104)	(100)	(106)
Other Non-Operating Income (Loss)	13	3	(23)	(26)	(9)	19					
Total Non-Operating Income (Loss)	10	(49)	(58)	(47)	(65)	(33)	(127)	(98)	(65)	(38)	(17)
Pretax Income (Loss)	**1,316**	**1,159**	**585**	**1,016**	**(1,840)**	**355**	**122**	**172**	**570**	**1,006**	**1,564**
Income Tax Benefit (Expense)	(519)	(199)	(148)	(247)	516	(89)	(26)	(36)	(120)	(211)	(328)
Net Income	**797**	**960**	**437**	**769**	**(1,324)**	**266**	**96**	**136**	**450**	**794**	**1,235**
Balance Sheet											
Assets											
Cash, Cash Equivalents & STI	1,580	1,621	1,236	1,521	3,346	3,951	1,076	1,314	2,158	3,316	4,467
Accounts Receivable	302	341	366	323	480	567	336	410	468	533	575
Inventory	47	57	60	72	57	52	57	57	57	57	57
Prepaid Expenses & Other ST Assets	121	133	125	121	123	201	109	133	152	173	187
Total Current Assets	**2,050**	**2,152**	**1,787**	**2,037**	**4,006**	**4,771**	**1,577**	**1,913**	**2,835**	**4,079**	**5,286**
Net PPE	5,666	6,284	6,781	5,063	6,211	6,128	6,352	6,584	6,871	7,219	7,584
Operating Lease Assets	-	-	-	1,711	1,400	1,375	1,400	1,400	1,400	1,400	1,400
Goodwill	1,934	1,943	1,943	1,943	1,943	1,943	1,943	1,943	1,943	1,943	1,943
Other LT Assets	312	367	401	2,239	486	439	486	486	486	486	486
Total Non-Current Assets	**7,912**	**8,594**	**9,125**	**10,956**	**10,040**	**9,885**	**10,181**	**10,413**	**10,700**	**11,048**	**11,413**
TOTAL ASSETS	**9,962**	**10,746**	**10,912**	**12,993**	**14,046**	**14,656**	**11,759**	**12,326**	**13,535**	**15,127**	**16,699**
Liabilities											
Revolver Facility / ST Debt	324	310	489	240	1,138	869	537	14	-	-	-
Account Payables	92	120	132	146	108	159	122	121	130	139	138
Accrued Expenses	786	815	828	896	887	1,078	886	877	942	1,012	1,000
Unearned Revenue, ST	1,333	1,441	1,493	1,650	1,806	2,455	1,389	1,696	1,938	2,204	2,381
Current Portion of Operating Lease Liabilities	-	-	-	269	290	263	290	290	290	290	290
Other ST Liabilities	-	-	-	-	64	22					
Total Current Liabilities	**2,535**	**2,686**	**2,942**	**3,201**	**4,293**	**4,846**	**3,223**	**2,998**	**3,299**	**3,645**	**3,808**
LT Debt	2,645	2,267	1,621	1,269	2,372	2,319	2,372	2,372	2,372	2,372	2,372
LT Operating Lease Liabilities, Net	-	-	-	1,439	1,268	1,222	1,406	1,717	1,962	2,232	2,410
Unearned Revenue, LT	661	1,090	1,169	1,240	1,544	1,424	720	880	1,005	1,144	1,235
Other LT Liabilities	1,190	1,243	1,429	1,513	1,581	1,521	952	1,163	1,329	1,511	1,632
Total Non-Current Liabilities	**4,496**	**4,600**	**4,219**	**5,461**	**6,765**	**6,486**	**5,451**	**6,132**	**6,668**	**7,259**	**7,650**
Total Liabilities	**7,031**	**7,286**	**7,161**	**8,662**	**11,058**	**11,332**	**8,674**	**9,130**	**9,967**	**10,904**	**11,458**
Shareholder's Equity											
Common Stock	1	1	1	1	1	1	1	1	1	1	1
Additional Paid In Capital	110	164	232	305	391	454	391	391	391	391	391
Retained Earnings	3,568	4,193	4,534	5,133	3,764	4,030	3,860	3,972	4,344	4,999	6,017
Treasury Stock	(443)	(518)	(568)	(643)	(674)	(674)	(674)	(674)	(674)	(674)	(674)
Comprehensive Income / (Loss)	(305)	(380)	(448)	(465)	(494)	(487)	(494)	(494)	(494)	(494)	(494)
Total Equity	**2,931**	**3,460**	**3,751**	**4,331**	**2,988**	**3,324**	**3,084**	**3,196**	**3,568**	**4,223**	**5,241**
TOTAL LIABILITIES AND EQUITY	9,962	10,746	10,912	12,993	14,046	14,656	11,759	12,326	13,535	15,127	16,699
Balance Check	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*
Statement of Cashflows											
Operating Activities											
Net Income	797	960	437	769	(1,324)	266	96	136	450	794	1,235
Add: Changes in Working Capital	200	203	313	501	(201)	520	(246)	199	238	260	106
Add: Depreciation & Amortization	363	372	398	423	420	195	454	496	543	597	655
Stock-Based Compensation	26	55	47	29	24	24	-	-	-	-	-
Asset Writedown & Restructuring Costs	-	-	-	-	847	2	-	-	-	-	-
Change in Other ST Liabilities							(64)	-	-	-	-
Cash from Operating Activities	**1,386**	**1,590**	**1,195**	**1,722**	**(234)**	**1,007**	**240**	**831**	**1,232**	**1,652**	**1,997**
Investing Activities											
Invest. in Marketable & Equity Securt.	2	(181)	282	(136)	(644)	(963)	-	-	-	-	-
CAPEX	(678)	(1,026)	(960)	(696)	(206)	(102)	(595)	(727)	(831)	(945)	(1,020)
Sale of PPE	5	78	16	28	279	-	-	-	-	-	-
Cash Acquisitions	(1,951)	-	-	-	-	-	-	-	-	-	-
Other Investing Activities	-	-	31	13	(22)	(5)	-	-	-	-	-
Change in Other LT Liabilities							(1,314)	681	536	591	391
Cash from Investing Activities	**(2,622)**	**(1,129)**	**(631)**	**(791)**	**(593)**	**(1,070)**	**(1,909)**	**(46)**	**(294)**	**(354)**	**(630)**

Financing Activities											
LT Debt Issued	2,044	-	339	450	2,564	363	-	371	334	240	396
LT Debt Repaid	(249)	(397)	(807)	(1,058)	(565)	(681)	-	(371)	(334)	(240)	(396)
Repurchase of Common Stock	(193)	(75)	(50)	(75)	(31)	-	-	-	-	-	-
Common Dividends Paid	(136)	(148)	(158)	(173)	(45)	-	-	(24)	(79)	(139)	(217)
Other Financing Activities	25	28	29	43	58	37	-	-	-	-	-
Revolver Payments	-	-	-	-	-	-	(1,138)	(537)	(14)	-	-
Revolver Proceeds	-	-	-	-	-	-	537	14	-	-	-
Cash from Financing Activities	**1,491**	**(592)**	**(647)**	**(813)**	**1,981**	**(281)**	**(601)**	**(547)**	**(93)**	**(139)**	**(217)**
Net Change in Cash	255	(131)	(83)	118	1,154	(344)	(2,270)	238	844	1,159	1,151

Revenue Model

Alaska Air
Revenue Model

	Historical					Forecasted				
Figures in '000,000 USD	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Operating Revenue	5392	7894	8264	8781	3566	**5414**	**6611**	**7554**	**8593**	**9281**
YOY growth		46%	5%	6%	-59%	52%	22%	14%	14%	8%
Available Seat Miles	44135	62072	65335	66654	37114	46,393	53,351	58,687	64,314	66,654
YOY growth		40.6%	5.3%	2.0%	-44.3%	25.0%	15.0%	10.0%	9.6%	3.6%
Load Factor	84.3%	84.3%	83.7%	84.1%	55.2%	70.2%	75.2%	78.2%	81.1%	84.1%
% growth		0.0%	-0.7%	0.5%	-34.4%	15.0%	5.0%	3.0%	3.0%	3.0%
Revenue Passenger Miles	37209	52338	54,673	56,040	20,493	32,568	40,120	45,873	52,180	56,056
YOY growth		40.7%	4.5%	2.5%	-63.4%	58.9%	23.2%	14.3%	13.7%	7.4%
Yield (USD)	0.1449	0.1395	0.1396	0.1445	0.1473	0.1480	0.1486	0.1493	0.1500	0.1506
YOY growth		-3.7%	0.1%	3.5%	1.9%	0.4%	0.4%	0.4%	0.4%	0.4%
Passenger Revenue	5392	7301	7,631	8,095	3,019	4819	5963	6848	7825	8444
YOY growth		35.4%	4.5%	6.1%	-62.7%	59.6%	23.7%	14.9%	14.3%	7.9%
Mileage Plan Revenue	370	418	434	465	374	404	436	471	508	549
YOY growth		13.0%	3.8%	7.1%	-19.6%	8.0%	8.0%	8.0%	8.0%	8.0%
Cargo Revenue	163	175	199	221	173	192	212	235	260	288
YOY growth		7.4%	13.7%	11.1%	-21.7%	10.7%	10.7%	10.7%	10.7%	10.7%

Financial Projections

Alaska Air
Financial Projections

	Historical						Forecasted				
Figures in '000,000 USD	2016A	2017A	2018A	2019A	2020A	1H21	2021E	2022E	2023E	2024E	2025E
Revenue	5,925	7,894	8,264	8,781	3,566	2,324	5,414	6,611	7,554	8,593	9,281
Revenue Growth		33.2%	4.7%	6.3%	-59.4%		51.8%	22.1%	14.3%	13.8%	8.0%
Operating Income	1,306	1,208	643	1,063	-1,775	388	249	271	634	1,043	1,581
Pretax Income	1,316	1,159	585	1,016	-1,840	355	122	172	570	1,006	1,564
Net Income	797	960	437	769	-1,324	266	96	136	450	794	1,235
Cost Build											
Wages & Benefits	1,394	1,931	2,190	2,370	2,053	1,003	2166	2314	2455	2578	2505
As % of Revenue	23.5%	24.5%	26.5%	27.0%	57.6%	43.2%	40.0%	35.0%	32.5%	30.0%	27.0%
Aircraft Fuel, incl. hedging	831	1,447	1,936	1,878	723	477	1083	1157	1209	1289	1206
As % of Revenue	14.0%	18.3%	23.4%	21.4%	20.3%	20.5%	20.0%	17.5%	16.0%	15.0%	13.0%
Aircraft Maintenance	270	391	435	437	321	183	379	326	373	424	458
As % of Revenue	4.6%	5.0%	5.3%	5.0%	9.0%	7.9%	7.0%	4.9%	4.9%	4.9%	4.9%
Aircraft Rent	114	274	315	331	299	124	271	214	245	279	301
As % of Revenue	1.9%	3.5%	3.8%	3.8%	8.4%	5.3%	5.0%	3.2%	3.2%	3.2%	3.2%
Landing Fees and Other Rentals	320	460	499	531	417	273	541	385	440	501	541
As % of Revenue	5.4%	5.8%	6.0%	6.0%	11.7%	11.7%	10.0%	5.8%	5.8%	5.8%	5.8%
Other Operating Expenses	1,327	1,811	1,848	1,748	1,108	(319)	272	1448	1654	1882	2033
As % of Revenue	22.4%	22.9%	22.4%	19.9%	31.1%	-13.7%	21.9%	21.9%	21.9%	21.9%	21.9%
Income Tax Expense	519	199	148	247	(516)	89	(26)	(36)	(120)	(211)	(328)
Effective Tax Rate	39.4%	17.2%	25.3%	24.3%	28.0%	25.1%	21.0%	21.0%	21.0%	21.0%	21.0%
Dividend Payout	(136)	(148)	(158)	(173)	(45)	-	-	(24)	(79)	(139)	(217)
As % of Net Income	17.1%	15.4%	36.2%	22.5%	-3.4%	0.0%	0.0%	17.5%	17.5%	17.5%	17.5%
Net Working Capital											
Account Receivable	302	341	366	323	480	567	336	410	468	533	575
As % of Revenue	5.1%	4.3%	4.4%	3.7%	13.5%	24.4%	6.2%	6.2%	6.2%	6.2%	6.2%
Inventory	47	57	60	72	57	52	57	57	57	57	57
Prepaid Expenses & Other ST Assets	121	133	125	121	123	201	109	133	152	173	187
As % of Revenue	2.0%	1.7%	1.5%	1.4%	3.4%	8.6%	2.0%	2.0%	2.0%	2.0%	2.0%
Accounts Payable	92	120	132	146	108	159	122	121	130	139	138
As % of Aircraft Costs	3.1%	2.7%	2.5%	2.6%	2.8%	7.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Accrued Expenses	786	815	828	896	887	1,078	886	877	942	1,012	1,000
As % of Aircraft Costs	26.8%	18.1%	15.4%	16.2%	23.3%	52.3%	20.0%	20.0%	20.0%	20.0%	20.0%
Unearned Revenue, ST	1,333	1,441	1,493	1,650	1,806	2,455	1389	1696	1938	2204	2381
As % of Revenue	22.5%	18.3%	18.1%	18.8%	50.6%	105.6%	25.7%	25.7%	25.7%	25.7%	25.7%
Net Working Capital	(1,741)	(1,845)	(1,902)	(2,176)	(2,141)	(2,872)	(1,895)	(2,094)	(2,332)	(2,593)	(2,699)
Increase in NWC							246	(199)	(238)	(260)	(106)
Non-Current Accounts											
LT Operating Lease Liabilities, Net	-	-	-	1,439	1,268	1,222	1406	1717	1962	2232	2410
As % of Revenue	0.0%	0.0%	0.0%	16.4%	35.6%	52.6%	26.0%	26.0%	26.0%	26.0%	26.0%
Unearned Revenue, LT	661	1,090	1,169	1,240	1,544	1,424	720	880	1005	1144	1235
As % of Revenue	11.2%	13.8%	14.1%	14.1%	43.3%	61.3%	13.3%	13.3%	13.3%	13.3%	13.3%
Other LT Liabilities	1,190	1,243	1,429	1,513	1,581	1,521	952	1163	1329	1511	1632
As % of Revenue	20.1%	15.7%	17.3%	17.2%	44.3%	65.4%	17.6%	17.6%	17.6%	17.6%	17.6%

PPE Build

	2016A	2017A	2018A	2019A	2020A	1H21	2021E	2022E	2023E	2024E	2025E
Depreciation Schedule											
CAPEX	678	1,026	960	696	206	102	595	727	831	945	1,020
CAPEX as % of Revenue	11.4%	13.0%	11.6%	7.9%	5.8%	4.4%	11.0%	11.0%	11.0%	11.0%	11.0%
Accumulated Depreciation	(2,929)	(2,991)	(3,242)	(3,486)	(3,531)	(3,703)	(3,985)	(4,481)	(5,024)	(5,621)	(6,276)
PPE											
Aircraft & Flight Equipment	7,492	8,053	8,660	9,082	8,344	8,398	8,809	9,376	10,025	10,762	11,559
Other Property and Equipment	1,103	1,222	1,363	1,306	1,398	1,433	1,529	1,688	1,870	2,078	2,302
Total PPE	**8,595**	**9,275**	**10,023**	**10,388**	**9,742**	**9,831**	**10,337**	**11,064**	**11,895**	**12,840**	**13,860**
Acquisition											
Aircraft & Flight Equipment	581	900	791	534	119	68	465	567	648	738	797
Other Property and Equipment	97	126	169	162	87	34	131	159	182	207	224
Total CAPEX	**678**	**1,026**	**960**	**696**	**206**	**102**	**595**	**727**	**831**	**945**	**1,020**
Acquisitions as % of CAPEX							Average CAPEX into PPE				
Aircraft & Flight Equipment	85.7%	87.7%	82.4%	76.7%	57.8%	66.7%	78.1%				
Other Property and Equipment	14.3%	12.3%	17.6%	23.3%	42.2%	33.3%	21.9%				
Additional Depreciation Expense (from CAPEX)											
Aircraft & Flight Equipment							25	30	35	39	42
Other Property and Equipment							9	11	13	15	16
Sum							34	42	47	54	58
Total Depreciation Expense	(363)	(372)	(398)	(423)	(420)	(195)	(454)	(496)	(543)	(597)	(655)

Useful Lives (Years)	
Aircraft & Flight Equipment	18.75
Other Property and Equipment	14.125

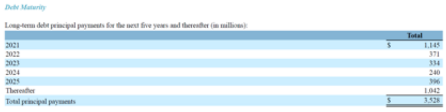
	2016A	2017A	2018A	2019A	2020A	1H21	2021E	2022E	2023E	2024E	2025E
Total Depreciation and Amortization Expense							(454)	(496)	(543)	(597)	(655)

Cash Holdings

	2016A	2017A	2018A	2019A	2020A	1H21	2021E	2022E	2023E	2024E	2025E
Cash at Year End	1,580	1,621	1,236	1,521	3,346	3,951	1,076	1,314	2,158	3,316	4,467
Mean Cash Balance		1,601	1,429	1,379	2,434		2,211	1,195	1,736	2,737	3,892
Interest Income		34	38	42	31		50	27	40	62	89
% Interest on Cash Holdings		2.1%	2.7%	3.0%	1.3%		2.3%	2.3%	2.3%	2.3%	2.3%

Debt Schedule

Long Term Debt Principal Payments	**Principal**
2021	1,138
2022	371
2023	334
2024	240
2025	396
Thereafter	1,049
Total Long Term Debt	3,528
Less: Current Portion	(1,138)
LT Debt, Less Current Portion	2,390
Weighted Cost of Debt	**3.80%**


Debt Maturity

Long-term debt principal payments for the next five years and thereafter (in millions):

	Total
2021	$ 1,145
2022	371
2023	334
2024	240
2025	396
Thereafter	1,042
Total principal payments	$ 3,528


NOTE 6. LONG-TERM DEBT

Long-term debt obligations (in millions):

	2020	**2019**
Fixed-rate notes payable due through 2029	$ 198	$ 475
Fixed-rate PSP note payable due through 2030	290	—
Fixed-rate EETC payable due through 2025 & 2027	1,174	—
Variable-rate notes payable due through 2029	1,866	1,032
Less debt issuance costs and unamortized debt discount	(33)	[illegible]
Total debt	3,495	1,499
Less current portion	1,138	235
Long-term debt, less current portion	$ 2,357	$ 1,264
Weighted-average fixed-interest rate	4.3 %	[illegible]
Weighted-average variable-interest rate	1.9 %	[illegible]

	Historical						Forecasted				
Figures in '000,000 USD	2016A	2017A	2018A	2019A	2020A	1H21	2021E	2022E	2023E	2024E	2025E

Interest Repayment Schedule

	2016A	2017A	2018A	2019A	2020A	1H21	2021E	2022E	2023E	2024E	2025E
Interest Paid							(134)	(91)	(77)	(64)	(55)
Principal Repayment								(371)	(334)	(240)	(396)

ST & LT Debt

	2016A	2017A	2018A	2019A	2020A	1H21	2021E	2022E	2023E	2024E	2025E
Short Term Debt											
Beginning Balance				324	240		1,138	537	14	-	-
Additions							537	14	-	-	-
Repayment				324	240		(1,138)	(537)	(14)	-	-
Ending Balance	324	310	489	240	1,138		537	14	-	-	-
Interest Rate on ST Debt							3.8%	3.8%	3.8%	3.8%	3.8%
Interest Paid							(43)	(20)	(1)	-	-
Long Term Debt											
Beginning Balance				2,645	1,269		2,372	2,372	2,372	2,372	2,372
Additions							-	371	334	240	396
Repayments					-		-	(371)	(334)	(240)	(396)
Ending Balance	2,645			1,269	2,372		2,372	2,372	2,372	2,372	2,372
New LT Debt Additions											
Balance					-		-	371	705	945	1,341
Interest Expense on New Debt					-		-	(14)	(27)	(36)	(51)
Total Interest Expense							(177)	(125)	(104)	(100)	(106)
Cash & Cash Equivalents	1,580	1,621	1,236	1,521	3,346	3,951	1,076	1,314	2,158	3,316	4,467
Cash as % of Revenue	26.7%	20.5%	15.0%	17.3%	93.8%						
Minimum Target Cash Balance							1,076	1,314	1,501	1,707	1,844
Minimum Target Cash Balance as % of Revenue							19.9%	19.9%	19.9%	19.9%	19.9%
Revolver											
Cash available at beginning of period							3,346	1,076	1,314	2,158	3,316
Cash generated during current year							(1,669)	761	858	1,159	1,151
Minimum cash desired							1,076	1,314	1,501	1,707	1,844
Cash Surplus (Deficit)							601	523	671	1,609	2,623

DCF

Free Cash Flow Calculation

Figures in '000,000 USD	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
	Historical					Forecasted				
Revenue	5,925	7,894	8,264	8,781	3,566	5,414	6,611	7,554	8,593	9,281
% Growth		33.2%	4.7%	6.3%	-59.4%	51.8%	22.1%	14.3%	13.8%	8.0%
EBIT	1,346	1,245	658	1,079	-1,753	299	298	674	1,106	1,670
% Growth		-7.5%	-47.1%	64.0%			-0.5%	126.4%	64.0%	51.0%
Margin %	22.7%	15.8%		12.3%	-49.2%	5.5%	4.5%	8.9%	12.9%	18.0%
Tax	(519)	(199)	(148)	(247)	516	(26)	(36)	(120)	(211)	(328)
Tax Rate %	39.4%	17.2%	25.3%	24.3%	28.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Tax-Adjusted EBIT	815	1,031	492	817	-1,261	236	235	532	873	1,319
Add: Depreciation and Amortisatic	363	372	398	423	420	454	496	543	597	655
% of Revenue	6.1%	4.7%	4.8%	4.8%	11.8%	8.4%	7.5%	7.2%	6.9%	7.1%
EBITDA	1,709	1,617	1,056	1,502	-1,333	753	793	1,217	1,703	2,325
Less: CAPEX	(678)	(1,026)	(960)	(696)	(206)	(595)	(727)	(831)	(945)	(1,020)
% of Revenue	11.4%	13.0%	11.6%	7.9%	5.8%	11.0%	11.0%	11.0%	11.0%	11.0%
Less: Change in Net Working Capi	(200)	(203)	(313)	(501)	201	(246)	199	238	260	106
% of Revenue	-3.4%	-2.6%	-3.8%	-5.7%	5.6%	-4.5%	3.0%	3.2%	3.0%	1.1%
Unlevered FCFF	300	174	-383	43	-846	-151	203	483	786	1,060
% Growth		-42.0%	-320.1%	-111.1%	#######	-82.1%	-234.2%	138.1%	62.7%	34.9%
Period						2021	2022	2023	2024	2025
Year Frac						0.18	1.18	2.18	3.18	4.18
Discount Factor						0.99	0.92	0.85	0.79	0.74
Present Value of Unlevered FCFF						-149	186	412	623	780

Trading Comparables

Alaska Air

Relative Valuation (Comparable Company Analysis)

Company Name	MC USDm	+2FY EV/EBITDA	+2FY EV/Revenue	+2FY P/E
Alaska Air Group, Inc. (NYSE:ALK)	6,623.60	4.57	0.88	11.23
Southwest Airlines Co. (NYSE:LUV)	27,962.30	6.94	1.15	20.63
Delta Air Lines, Inc. (NYSE:DAL)	24,969.80	7.37	1.14	11.22
United Airlines Holdings, Inc. (NasdaqGS:UAL)	14,898.30	7.19	0.89	18.84
American Airlines Group Inc. (NasdaqGS:AAL)	12,425.10	9.49	1.04	182.12
JetBlue Airways Corporation (NasdaqGS:JBLU)	4,500.00	4.97	0.73	20.44
Frontier Group Holdings, Inc. (NasdaqGS:ULCC)	3,384.70	5.89	1.63	19.89

	+2FY EV/EBITDA	+2FY EV/Revenue	+2FY P/E
Min	4.97	0.73	11.22
25th Percentile	6.15	0.93	19.10
Median	7.07	1.09	20.17
75th Percentile	7.33	1.15	20.58
Max	9.49	1.63	182.12

Relative Valuation (EV/EBITDA)	
75th Percentile 2022 EV/EBITDA	7.33
2022 EBITDA	793.28
Implied Enterprise Value	5,810.81
Less: Debt	(2,372.00)
Add: Cash	3,346.00
Implied Equity Value	6,784.81
Share Count	125.30
Implied Share Value	**54.15**

Relative Valuation (EV/Revenue)	
75th Percentile 2022 EV/EBITDA	1.15
2022 Revenue	6,610.93
Implied Enterprise Value	7,586.04
Less: Debt	(2,372.00)
Add: Cash	3,346.00
Implied Equity Value	8,560.04
Share Count	125.30
Implied Share Value	**68.32**