



UNITED

EQUITY RESEARCH REPORT

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PRICE TARGET

\$56.52 (HOLD)

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SUMMARY

This report assess the target stock price of United Airlines and its valuation based on three methodologies.

The first method uses the market value and stock price to determine the enterprise value. The second method uses comparable EBITDA trading multiples. The third method uses discount cash flow (DCF) valuation.

This report also contains commentary on general industry/sector trends, an assessment of the current competitive landscape, and technical analysis & comparison with competitors and the broader US market.

#1

- Stock Price
- \$55.87

#2

- Trading Multiple
- \$63.50

#3

- Discount Cash Flow
- \$49.55



COMPANY PROFILE

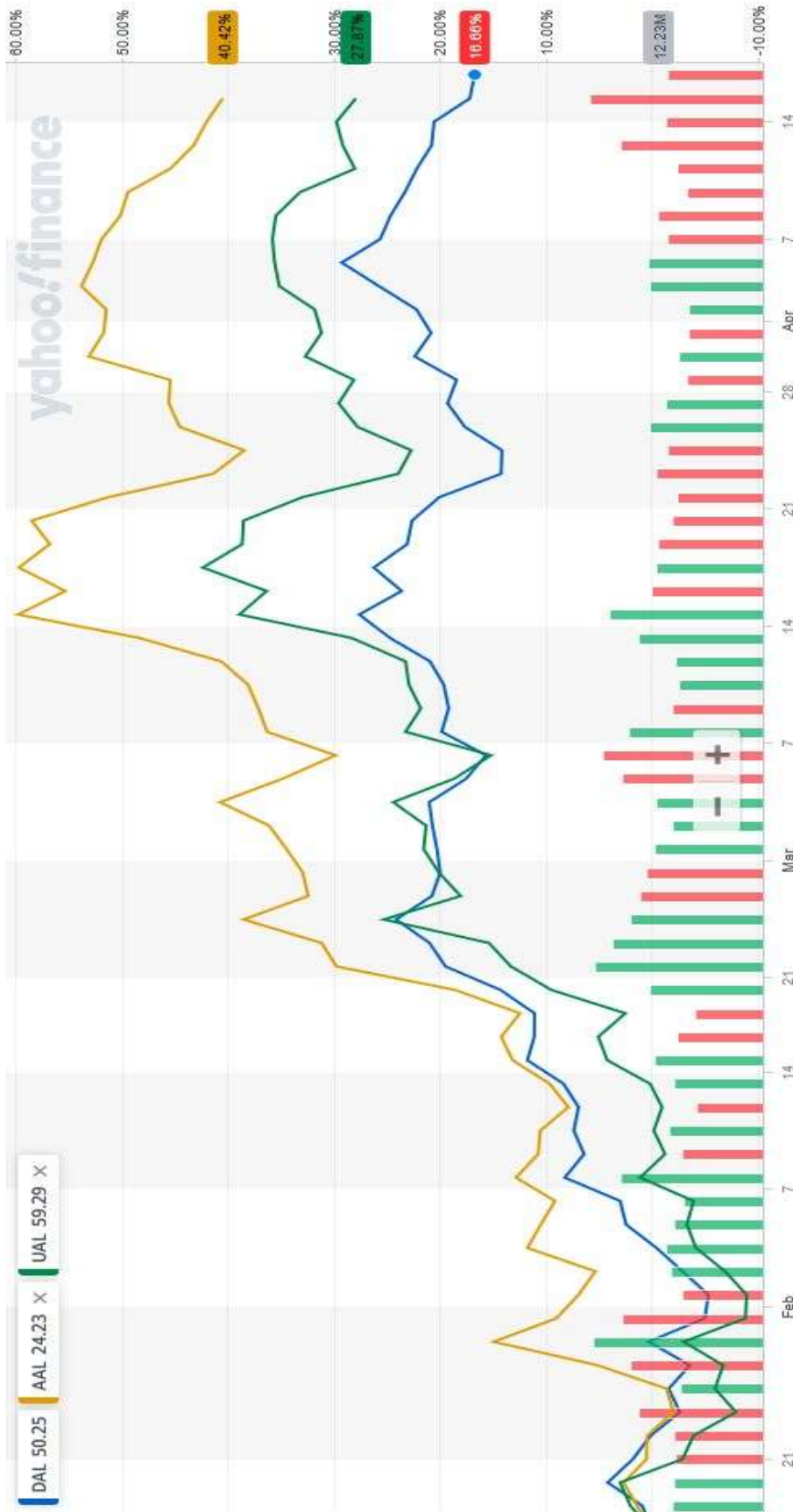
United Airlines, Inc. is a major American airline headquartered at Willis Tower in Chicago, Illinois, with 86,852 employees (which includes the entire holding company United Airlines Holdings) and 721 aircraft. It was the brainchild of William Boeing and emerged from his consolidation of numerous carriers and equipment manufacturers from 1928 to 1930, the oldest of these being Varney Air Lines, originally founded in 1926.

United operates a large route network spanning 238 domestic destinations and 118 international destinations in 48 countries or regions across five continents. By spring 2021, United will once again fly regularly to all 6 inhabited continents following the reinstatement of scheduled year-round flights to Africa.

United has eight hubs, with Chicago–O'Hare being its largest in terms of passengers carried and the number of departures. It is a founding member of the Star Alliance, the world's largest airline alliance with a total of 28 member airlines. Regional service is operated by independent carriers under the brand name United Express. Measured by fleet size and the number of routes, it is the third largest airline in the world.



QUARTERLY PERFORMANCE COMPARISON



COMPETITIVE LANDSCAPE

Delta Airlines (DAL) has a market cap of \$29.834B and over 74,000 employees.

TTM profit margin of -102%, operating margin of 89.93, ROA of -10.03%, and ROE of -176.16%.

TTM revenue, EBITDA, and operating cash flow were \$17.34B, -\$9.58B and -\$3.46B respectively.

As of 2021-04-12 DAL traded at \$48.82 per share.

American Airlines (AAL) has a market cap of \$14.129B and over 102,700 employees.

TTM profit margin of -51.25%, operating margin of -63.78%, ROA of -11.3%, and ROE of -195.27%.

TTM revenue, EBITDA, and operating cash flow were \$17.34B, -\$8.75B, and -\$6.54B.

As of 2021-04-12 AAL traded at \$22.91 per share



Revenue decreased between FY19 – 20 by over -64% due to the disruptions to ticket sales from COVID-19 travel bans. This downturn broke a 2 year trend of revenue growth from FY17 – 2018 (9.5%) and FY18 – 2019 (4.7%).

Gross profit decreased by -32.8% in FY20 in comparison to 28.8% pre-COVID in FY19 for a total of \$-17.5B. In comparison, between FY18 and FY19 gross profit increased by 1.8%, for a total of \$1.33B.

Operating expenses decreased heavily from FY19 to FY20 following severe layoffs & cost cutting measures, dropping from 18.32% to just 2.66%. Prior, operating expenses remained controlled at 17.82% & 18.56% in FY18 and FY 17 respectively.

Net income experienced a severe loss of \$10B from FY19 to FY20, a -335% decrease, primarily due to drastically reduced revenue.



FINANCIAL ANALYSIS

Total debt increased between FY19 and FY20 by \$14.73B, which raised the cap ratio from 66.58% to 86.35%. Much of this was attributed to \$504mm added in short-term debt to help weather the drop in revenue from the COVID-19 crisis.

Operating activities net cash decreased by \$14.73B from FY19 to FY20m compared to the previous year, which saw an increase of \$1.08b. Working capital changed by -\$296mm from FY19 to FY20.

Investing activities cash flow decreased by \$3.625B between FY19 and FY20, reversing a steady increase since FY17. Much of this is derived from a decrease in capital expenditure.

Financing activities net cash flow grew significantly in FY20, mostly driven by \$10.7B & \$327mm increase in long / short term debt, a 304% / 185% increase from FY19.

FINANCIAL RATIO ANALYSIS (000's)

| | Dec 31 | Dec 31 | Dec 31 | Dec 31 | 4 Year Average |
|-----------------------------------|-------------------|------------------|------------------|------------------|----------------|
| | 2020 | 2019 | 2018 | 2017 | Avg |
| EBITDA (\$ 000's) | -2,951,000 | 6,835,000 | 6,019,000 | 5,823,000 | 3,931,500 |
| | COVID-19 | | | | |
| <u>TREND ANALYSIS</u> | | | | | |
| Revenue Growth | -64.5% | 4.7% | 9.5% | N/A | -16.8% |
| <u>LIQUIDITY RATIOS</u> | | | | | |
| Current Ratio | 1.1x | 0.5x | 0.5x | 0.5x | 0.6x |
| Quick Ratio | 1.0x | 0.4x | 0.4x | 0.4x | 0.6x |
| Accounts Receivable Turnover | 11.5x | 31.9x | 30.8x | 56.3x | 32.6x |
| Accounts Receivable Days | 31.60 | 11.43 | 11.87 | 06.48 | 15.3x |
| <u>SOLVENCY RATIOS</u> | | | | | |
| Total Debt / Total Capitalization | 86.4% | 66.6% | 65.9% | 69.0% | 72% |
| EBITDA/ Interest (Coverage Rat | -3.0x | 10.6x | 9.1x | 10.4x | 6.8x |
| Total Debt / EBITDA (Leverage f | -0.1x | 0.3x | 0.3x | 0.3x | 0.2x |
| <u>PROFITABILITY RATIO</u> | | | | | |
| Gross Profit | -32.8% | 28.8% | 27.0% | 28.3% | 13% |
| EBITDA Margin | -19.2% | 15.8% | 14.6% | 15.4% | 7% |
| ROA | -12.6% | 6.2% | 4.9% | 10.1% | 2% |
| ROE | -20.2% | 7.0% | 5.7% | 12.1% | 1% |

INCOME STATEMENT (000's)

| | Dec 31 | Dec 31 | Dec 31 | Dec 31 |
|--|-------------------|-------------------|-------------------|-------------------|
| (\$000's) | 2020 | 2019 | 2018 | 2017 |
| Total Revenue | 15,355,000 | 43,259,000 | 41,303,000 | 37,736,000 |
| Cost of Revenue | 20,385,000 | 30,786,000 | 30,165,000 | 27,056,000 |
| Gross Profit | -5,030,000 | 12,473,000 | 11,138,000 | 10,680,000 |
| Total Operating Expenses | 409,000 | 7,926,000 | 7,359,000 | 7,006,000 |
| EBIT (Operating Income or Loss) | -5,439,000 | 4,547,000 | 3,779,000 | 3,674,000 |
| Interest Expense | 992,000 | 646,000 | 659,000 | 559,000 |
| EBT & other Income/Expenses | -6,431,000 | 3,901,000 | 3,120,000 | 3,115,000 |
| Other Income/Expenses Net | 2,391,000 | -13,000 | 462,000 | 116,000 |
| EBT | -8,822,000 | 3,914,000 | 2,658,000 | 2,999,000 |
| Income Tax Expense | -1,753,000 | 905,000 | 529,000 | 868,000 |
| Net Income | -7,069,000 | 3,009,000 | 2,129,000 | 2,131,000 |

BALANCE SHEET STATEMENT (000's)

| | Dec 31 | Dec 31 | Dec 31 | Dec 31 |
|--|-------------------|-------------------|-------------------|-------------------|
| (\$000's) | 2020 | 2019 | 2018 | 2017 |
| Assets | | | | |
| <u>Current Assets</u> | | | | |
| Cash And Cash Equivalents | 11,269,000 | 2,762,000 | 1,694,000 | 1,482,000 |
| Other Short Term Investments | 414,000 | 2,182,000 | 2,256,000 | 2,316,000 |
| Total Cash | 11,683,000 | 4,944,000 | 3,950,000 | 3,798,000 |
| Net Receivables | 1,295,000 | 1,364,000 | 1,346,000 | 1,340,000 |
| Inventory | 932,000 | 1,072,000 | 985,000 | 924,000 |
| Total Current Assets | 13,910,000 | 7,380,000 | 6,281,000 | 6,062,000 |
| | | | | |
| <u>Non-current assets</u> | | | | |
| Gross property, plant and equipment | 52,432,000 | 49,465,000 | 41,743,000 | 38,144,000 |
| Accumulated Depreciation | -16,429,000 | -14,537,000 | -13,414,000 | -11,936,000 |
| Net property, plant and equipment | 36,003,000 | 34,928,000 | 28,329,000 | 26,208,000 |
| Long Term Investments | 1,000,000 | 1,180,000 | 966,000 | 852,000 |
| Goodwill | 5,087,000 | 5,069,000 | 5,069,000 | 5,059,000 |
| Intangible Assets | 2,278,000 | 2,463,000 | 2,613,000 | 3,003,000 |
| Other long-term assets | 1,270,000 | 1,591,000 | 1,534,000 | 1,142,000 |
| Total non-current assets | 45,638,000 | 45,231,000 | 38,511,000 | 36,264,000 |
| Total Assets | 59,548,000 | 52,611,000 | 44,792,000 | 42,326,000 |
| | | | | |
| <u>Liabilities</u> | | | | |
| Accounts Payable | 1,595,000 | 2,703,000 | 2,363,000 | 2,196,000 |
| Accrued liabilities | 1,960,000 | 2,271,000 | 2,184,000 | 2,166,000 |
| Deferred revenues | 5,741,000 | 7,259,000 | 6,667,000 | 6,052,000 |
| Current Portion of Long Term Debt | 1,911,000 | 1,407,000 | 1,230,000 | 1,565,000 |
| Total Current Liabilities | 12,725,000 | 14,938,000 | 13,212,000 | 12,676,000 |
| | | | | |
| <u>Non-Current Liabilities</u> | | | | |
| Long Term Debt | 35,796,000 | 21,570,000 | 18,052,000 | 18,054,000 |
| Deferred taxes liabilities | 00 | 1,736,000 | 814,000 | 225,000 |
| Deferred revenues | 5,067,000 | 2,836,000 | 2,719,000 | 2,565,000 |
| Total non-current liabilities | 40,863,000 | 26,142,000 | 21,585,000 | 20,844,000 |
| Total Liabilities | 53,588,000 | 41,080,000 | 34,797,000 | 33,520,000 |
| | | | | |
| <u>Stockholders' Equity</u> | | | | |
| Common Stock | 1,000 | 1,000 | 1,000 | 1,000 |
| Retained Earnings | 5,959,000 | 11,530,000 | 9,994,000 | 8,805,000 |
| Total stockholders' equity | 5,960,000 | 11,531,000 | 9,995,000 | 8,806,000 |
| | | | | |
| Liabilities & Stockholders Equity | 59,548,000 | 52,611,000 | 44,792,000 | 42,326,000 |
| <i>Error</i> | <i>00</i> | <i>00</i> | <i>00</i> | <i>00</i> |

| SUMMARY CASH FLOW ANALYSIS (000's) | | | | |
|------------------------------------|-------------------|-------------------|-------------------|--------------------|
| | Dec 31 | Dec 31 | Dec 31 | Dec 31 |
| (\$000's) | 2020 | 2019 | 2018 | 2017 |
| Net Income | -7,069,000 | 3,009,000 | 2,129,000 | 2,131,000 |
| Depreciation | 1,892,000 | 1,123,000 | 1,478,000 | 11,936,000 |
| Amortization (Intangibles) | -185,000 | -150,000 | -390,000 | 3,003,000 |
| Deferred Taxes | -1,736,000 | 922,000 | 589,000 | 225,000 |
| ST Deferred Revenue | -1,518,000 | 592,000 | 615,000 | 6,052,000 |
| Cash Income | -8,616,000 | 5,496,000 | 4,421,000 | 23,347,000 |
| | | | | |
| Working Capital Activity | | | | |
| Net Receivables | 69,000 | -18,000 | -6,000 | -1,340,000 |
| Inventory | 140,000 | -87,000 | -61,000 | -924,000 |
| Accounts Payable | -1,108,000 | 340,000 | 167,000 | 2,196,000 |
| Accrued liabilities | -311,000 | 87,000 | 18,000 | N/A |
| Total Working Capital | 227,000 | 523,000 | 711,000 | -1,989,000 |
| Depreciation | 2,488,000 | 2,288,000 | 2,240,000 | 2,149,000 |
| Operating Cash Flow | 50,000 | -4,560,000 | -4,563,000 | -3,930,000 |
| | | | | |
| Investment Activities | | | | |
| Capital Expenditure | (1,727,000) | (4,528,000) | (4,177,000) | (3,998,000) |
| Long-Term Investment | 180,000 | -214,000 | -114,000 | -852,000 |
| Other Long-Term Assets | 673,000 | 243,000 | 378,000 | -12,207,000 |
| Total Investment Activities | -874,000 | -4,499,000 | -3,913,000 | -17,057,000 |
| Financing Activity | | | | |
| ST Debt | 504,000 | 177,000 | -335,000 | 1,565,000 |
| LT Debt | 14,226,000 | 3,518,000 | -2,000 | 18,054,000 |
| LT Deferred Revenue | 2,231,000 | 117,000 | 154,000 | 2,565,000 |
| Other Long-Term Liabilities | 00 | 00 | 00 | 00 |
| Total Financing Activities | 16,961,000 | 3,812,000 | -183,000 | 22,184,000 |
| | | | | |
| Free Cash Flow | -5,860,000 | 2,381,000 | 2,004,000 | -585,000 |
| Cash and Cash Equivalents | 8,507,000 | 1,068,000 | 212,000 | 1,482,000 |
| Other Short-Term Investments | -1,768,000 | -74,000 | -60,000 | 2,316,000 |
| | | | | |
| Beginning Cash | 4,944,000 | 3,950,000 | 3,798,000 | 00 |
| Cash and Cash Equivalents | 2,762,000 | 1,694,000 | 1,482,000 | 00 |
| Other Short-Term Investments | 2,182,000 | 2,256,000 | 2,316,000 | 00 |
| | | | | |
| Ending Cash | -916,000 | 6,331,000 | 5,802,000 | -585,000 |
| Cash and Cash Equivalents | 11,269,000 | 2,762,000 | 1,694,000 | 1,482,000 |
| Other Short-Term Investments | 414,000 | 2,182,000 | 2,256,000 | 2,316,000 |

PROJECTION ANALYSIS

With the US entering the recovery phase, coupled with a strong economic stimulus package from the Biden administration and the mass roll-out of vaccinations, a recovery in the broad airline and travel industry is anticipated as Americans make up for lost travel and vacation time during the last year of the pandemic.

Projected revenue & EBITDA growth assumptions were extrapolated from the historical FY17 – FY19 average annual rate of 7.09%. The average 7.09% growth rate has been set as the default for FY21, in anticipation of a 5th consecutive quarter of losses for United, but accounting for likely slow, steady recovery over the next 3 quarters.

By FY22, the growth rate is projected to double to 14.19%, again to 28.38% in FY23, and finally 56.75% in FY24, before halving to 28.38% in FY25 and again to 14.10% in FY26, eventually reaching 2019 growth rates.

These projections are intended to be conservative in the case of an extended and slow recovery, and are gauged to bring 2025 EBITDA to \$6.7B, close to the 2019 EBITDA of \$6.8B.



| (\$000's) | HISTORICAL | | | | | PROJECTED | | | | |
|--|-------------------|-------------------|-------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Dec 31 | Dec 31 | Dec 31 | Dec 31 | Dec 31 | Dec 31 | Dec 31 | Dec 31 | Dec 31 | Dec 31 |
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Total Revenue | 37,736,000 | 41,303,000 | 43,259,000 | 15,355,000 | 16,444,303 | 18,777,461 | 24,105,845 | 37,786,631 | 48,509,151 | 55,391,749 |
| Revenue Growth | | 9.5% | 4.7% | -64.5% | 7.1% | 14.2% | 28.4% | 56.8% | 28.4% | 14.2% |
| Cost of Revenue | 27,056,000 | 30,165,000 | 30,786,000 | 20,385,000 | 11,834,320 | 13,513,402 | 17,348,032 | 27,193,558 | 34,910,135 | 39,863,271 |
| Gross Profit | 10,680,000 | 11,138,000 | 12,473,000 | (5,030,000) | 4,609,982 | 5,264,058 | 6,757,813 | 10,593,074 | 13,599,016 | 15,528,478 |
| Gross profit | 28.3% | 27.0% | 28.8% | -32.8% | 28.0% | 28.0% | 28.0% | 28.0% | 28.0% | 28.0% |
| Total Operating Expenses | 7,006,000 | 7,359,000 | 7,926,000 | 409,000 | 3,237,933 | 3,697,339 | 4,746,514 | 7,440,303 | 9,551,600 | 10,906,804 |
| EBIT (Operating Income or Loss) | 3,674,000 | 3,779,000 | 4,547,000 | (5,439,000) | 1,372,049 | 1,566,719 | 2,011,299 | 3,152,771 | 4,047,417 | 4,621,674 |
| Interest Expense | 559,000 | 659,000 | 646,000 | 992,000 | | | | | | |
| EBT & other Income/Expenses | 3,115,000 | 3,120,000 | 3,901,000 | (6,431,000) | | | | | | |
| Other Income/Expenses Net | 116,000 | 462,000 | (13,000) | 2,391,000 | | | | | | |
| EBT | 2,999,000 | 2,658,000 | 3,914,000 | (8,822,000) | | | | | | |
| Income Tax Expense | 868,000 | 529,000 | 905,000 | (1,753,000) | | | | | | |
| Net Income | 2,131,000 | 2,129,000 | 3,009,000 | (7,069,000) | | | | | | |
| Depreciation | 2,149,000 | 2,240,000 | 2,288,000 | 2,488,000 | 899,351.78 | 1,026,954 | 1,318,368 | 2,066,580 | 2,653,003 | 3,029,418 |
| Working Capital | (1,989,000) | 711,000 | 523,000 | 227,000 | - 128,287.89 | (146,490) | (188,058) | (294,787) | (378,437) | (432,131) |
| Capital Expenditure | (3,998,000) | (4,177,000) | (4,528,000) | (1,727,000) | -1,708,832.20 | (1,951,286) | (2,504,992) | (3,926,649) | (5,040,895) | (5,756,109) |
| Current Portion of Long Term Debt | 1,565,000 | 1,230,000 | 1,407,000 | 1,911,000 | | | | | | |
| Long Term Debt | 18,054,000 | 18,052,000 | 21,570,000 | 35,796,000 | | | | | | |
| Total Debt | 19,619,000 | 19,282,000 | 22,977,000 | 37,707,000 | 35,821,650 | 33,936,300 | 32,050,950 | 30,165,600 | 28,280,250 | 26,394,900 |
| OPERATING ASSUMPTIONS | Dec 31 | Dec 31 | Dec 31 | Dec 31 | Dec 31 | Dec 31 | Dec 31 | Dec 31 | Dec 31 | Dec 31 |
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| EBITDA (\$ 000's) | 5,823,000 | 6,019,000 | 6,835,000 | -2,951,000 | 2,271,401 | 2,593,673 | 3,329,666 | 5,219,351 | 6,700,420 | 7,651,092 |
| Revenue Growth | | 9.5% | 4.7% | -64.5% | 7.09% | 14.19% | 28.38% | 56.75% | 28.38% | 14.19% |
| Cost of Revenue as % of Revenue | 71.7% | 73.0% | 71.2% | 132.8% | 72.0% | 72.0% | 72.0% | 72.0% | 72.0% | 72.0% |
| Operating Expense as % of Revenues | 18.6% | 19.5% | 21.0% | 1.1% | 19.7% | 19.7% | 19.7% | 19.7% | 19.7% | 19.7% |
| Working Capital as % of Revenues | 5.3% | -1.7% | -1.2% | -1.5% | 0.8% | 0.8% | 0.8% | 0.8% | 0.8% | 0.8% |
| Capex % Revenue | 10.6% | 10.1% | 10.5% | 11.2% | 10.4% | 10.4% | 10.4% | 10.4% | 10.4% | 10.4% |
| Depreciation % Revenue | 5.7% | 5.4% | 5.3% | 16.2% | 5.5% | 5.5% | 5.5% | 5.5% | 5.5% | 5.5% |
| Total Debt | 19,619,000 | 19,282,000 | 22,977,000 | 37,707,000 | 35,821,650 | 33,936,300 | 32,050,950 | 30,165,600 | 28,280,250 | 26,394,900 |
| Debt Reapayment \$ | | | | | 1,885,350 | 1,885,350 | 1,885,350 | 1,885,350 | 1,885,350 | 1,885,350 |
| Estimated Debt Repayment % of 12/2020 | | | | 5.0% | | | | | | |



[illegible]

TECHNICAL ANALYSIS

The following charts compare the back tested growth of \$10,000 invested over 5 years from 2016 - 2021 in each airline, assuming dividends reinvested, and UAL performance against the most liquid S&P 500 ETF (NYSE:SPY):



| Portfolio | Initial Balance | Final Balance | CAGR | Stdev | Best Year | Worst Year | Max. Drawdown | Sharpe Ratio | Sortino Ratio | US Mkt Correlation |
|-------------------|-----------------|---------------|--------|--------|-----------|------------|---------------|--------------|---------------|--------------------|
| United Airlines | \$10,000 | \$10,042 | 0.08% | 44.36% | 33.04% | -50.90% | -71.00% | 0.22 | 0.31 | 0.58 |
| Delta Airlines | \$10,000 | \$10,479 | 0.90% | 37.46% | 20.40% | -30.77% | -58.50% | 0.19 | 0.27 | 0.6 |
| American Airlines | \$10,000 | \$5,906 | -9.54% | 44.05% | 51.55% | -44.82% | -80.18% | -0.03 | -0.04 | 0.63 |

| Name | Annualized Return | | | | | | Annualized Volatility | |
|-------------------|-------------------|--------|--------|---------|--------|--------|-----------------------|--------|
| | 3 Month | YTD | 1 year | 3 year | 5 year | Full | 3 year | 5 year |
| United Airlines | 33.04% | 33.04% | 82.38% | -6.09% | -0.79% | 0.08% | 50.72% | 44.11% |
| Delta Airlines | 20.07% | 20.07% | 69.23% | -2.44% | 1.70% | 0.90% | 43.99% | 37.73% |
| American Airlines | 51.55% | 51.55% | 96.06% | -22.20% | -9.47% | -9.54% | 51.97% | 44.94% |



5-Year Beta: 1.9020 (UAL) vs 1.00 (SPY)



StdDev: 7.90

52 Week Range: \$18.18 - \$63.70



StdDev: 2.50

52 Week Range: \$272.02 - \$417.91



DISCUSSION & RECOMMENDATIONS

Using the stock price and market value gives us an enterprise value for UAL of \$41.611B. UAL exhibits higher than average volatility, with a beta of 1.90 compared to the industry average of 1.70 and median of 1.81.

The comparable EBITDA trading multiples methodology puts the enterprise value of UAL at \$43.741B, and the theoretical value of the stock at **\$63.50, a +13.66% upside** from its current market price of \$55.87. When compared to its competitors, UAL's EBITDA multiple of 6.09x is slightly below the average of 6.40x and is close to the median of 6.29x, with good room for growth and further expansion following sector recovery from the effects of COVID-19.

The DCF methodology puts the enterprise value of UAL at \$39.847B, and the theoretical value of the stock at **\$49.55, a -11.32 downside from** its current market price of \$55.87. This methodology assumes conservative, but steady revenue/EBITDA growth projections over the next 4 years, with a target of 2019 EBITDA levels reached by 2025. However, if low interest rates prevail, stimulus packages continue, and vaccine rollouts ramp up and remain consistent, it is entirely possible that actual growth rates will exceed the ones built into this analysis, which are inherently weighted to be more risk averse in the event that the COVID-19 recovery is prolonged or hindered in any way.

Averaging the results of both methods gives a theoretical stock price of **\$56.52, a +\$1.17 upside** from its current market price of \$55.87 as of April 16th, 2021. As such, the stock appears to be fairly valued, and it is recommended that investors **HOLD** the stock in anticipation of a gradual recovery in the travel sector and the broader US economy.

