Airline Analysts on AAL: “Disappointing,” “Discouraging,” and “Uninspiring”

J.P. Morgan, Jamie Baker

- American’s guidance metrics, while obviously taking a toll on our model, don’t strike us as all that alarming. Rather, our alarm is reserved for the absence of any meaningful course corrections aside from American’s efforts at corporate reconciliation … which everyone already knew about. In fact, we’d have to go back to the Arpey era (pre-dating both its merger and its bankruptcy filing) to identify an American earnings call as discouraging as Thursday’s, in our view. *(He references an earnings call when then-CEO Gerald Arpey, after presenting his business recovery plan, was asked by Mr. Baker, “Is that all you’ve got?”)*
- To paraphrase one investor, American’s call sounded disappointingly like “the old America West script but with meaningfully elevated costs,” sentiment we can’t really push back on.
- We weren’t expecting huge course corrections from American, though we thought they’d at least throw us a bone. Management’s lack of vigor, absence of really anything that could be characterized as ‘new,’ and implied embrace of the status quo are troubling for us.
- Not surprisingly, several analyst questions focused on the lack of any incremental capacity cut, revisions to the order book, or network rebalancing that one might reasonably expect in response to uninspiring returns … so we doubt our disappointment will prove unique.

TD Cowen, Thomas Fitzgerald

- We rate the shares of American Hold. We expect the airline’s commercial challenges (overexposure to domestic and LatAm, challenges with corporate travel, **underexposure to long-haul international**) to weigh on margins. Driving significant changes in strategy will require years of elevated CAPEX investments and diminish the company’s prospects for generating consistent free cash flow. Management will also need to balance CAPEX needs with increasing debt maturities later in the decade.

- We lower our estimates for AAL following disappointing 2H24 guidance. Maintain Hold rating, but lower price target to $7 (or ~6x 2025E EV/EBITDAR). Flight attendant deal, commercial strategy pivot, and slower growth will all be headwinds for CASMex. New credit card deal will eventually provide some offset, but need to see major improvements in domestic supply/demand to regain top line confidence.

Melius, Conor Cunningham

- American expects to start to close the margin gap to peers, but without a wholesome review of the product and network, it's hard to get there.
- Bottom line – American has been crystal clear that adjustments to the distribution strategy that cost them $750 mm in 1H are underway. But a further review of the business is needed as they lag Delta and United on margins. Investor patience is very thin at this point and additional adjustments are needed for a credible margin recovery story to return. The overarching theme so far from the US airline industry is domestic oversupply and margin compression ... so far we've only heard small tweaks to capacity which probably isn't enough to instill confidence in a turnaround.

Bank of America, Andrew DiDora

- We expect the rebuild of AAL's corporate share will take time, which will limit the ability to reduce debt opportunistically and lowers free cash flow expectations through 2025.
- We think market share and revenue enhancements will take several quarters to improve and expect a meaningful cost impact as AAL restaffs its salesforce and distribution costs increase.
- On our earnings forecasts, we now expect nearly $450M of free cash flow in 2024 with around $1B in 2025 as capex remains low at $3B. This is meaningfully below the over $2B in free cash flow per year expected at AAL's March investor day and likely limits the airline's ability to opportunistically reduce debt, in our view. We now estimate leverage will increase to 5.3x by the end of 2024, a full turn higher than in 2023, and expect management's focus to remain on the challenges at hand with balance sheet improvement put on temporary hold.

Barclays, Brandon Oglenski

- American's short-lived material shift in commercial strategy to drive business travel bookings through company owned channels significantly and negatively impacted the airline's relative revenue performance and market share this summer.
- American's shares have languished since the company provided a relatively uninspiring commercial outlook earlier this year at its analyst meeting, the market missteps created by that strategy and lingering negative revenue and market share losses keep us Underweight on American.