

BRIEFING SOUTHWEST AIRLINES

THE ISSUE FLIGHT 1380 REPERCUSSIONS

Southwest Airlines issued an update where it lowered both its revenue per available seat mile for its second quarter and its capacity growth for 2018. It now expects revenue to decrease by 3% since last year, having previously guided a 1% to 3% drop.

Management attributed this fall in performance to lower bookings as a result of the flight 1380 accident. On April 17, Southwest Airlines flight 1380 experienced an engine failure resulting in an emergency landing. One passenger was fatally injured.

Lower bookings ensued after Southwest turned off its marketing channels following the accident. Given Southwest doesn't sell its flight information to third parties, this was particularly harmful.

In the update, Southwest's 2018 capacity growth was revised down from 5% to 4%, because of both current revenue trends and higher oil prices.

THE BOSS GARY KELLY

Gary Kelly took over the top position in 2004 having spent three years as executive vice-president. Kelly joined Southwest in 1986 as a financial controller. The airline's third boss after co-founder Herb Kelleher and James Parker, Kelly has been named one of the best chief executives in America by Institutional Investor on numerous occasions. He helped transform the airline through several initiatives, including the acquisition of AirTran

and the launch of Southwest's first international service. He has a BBA in accounting from Texas University and is a certified public accountant.

THE ANALYST DAVID FAHY, CANTOR

The stock fell 2% in the aftermath of the earnings release and is down over 6% since the April accident. Higher oil prices have hit airline stocks globally, with fears that capacity growth will make it difficult to pass cost inflation on to customers. Southwest is guiding its fuel bill to rise 10% in the second quarter on the prior year. Its low-cost, ultra-efficient business model should make it more resilient than most.

The shares are down 24% this year and trade at an attractive-looking 11.5-times forecast 2018 earnings with a prospective dividend yield of 1.16%.

◆ Southwest Airlines



Source: Bloomberg

Market cap: \$29.3bn (€24.8bn);
Share price: \$50.48; **DPS:** \$0.58;
EPS: \$4.38; **Top five shareholders:**
 Primecap Management Co, 12.05%;
 Berkshire Hathaway, 8.22%; Vanguard
 Group Inc/The, 6.39%; Blackrock Inc,
 5.16%; FMR LLC, 4.24%