Deutsche Bank
Research

Rating
Buy

North America
United States

Industrials
Airlines

Company
Spirit Airlines, Inc.

Reuters	Bloomberg	Exchange	Ticker
SAVE.N	SAVE US	NYS	SAVE

Date
25 July 2018

Company Update

Price at 25 Jul 2018 (USD)	41.41
Price Target	51.00
52-week range	48.85 - 32.09

Solid June Q; Sep Q outlook implies upside earnings risk to consensus

Spirit reported June Q diluted EPS (ex-specials) of $1.11, slightly ahead of our $1.10 EPS estimate and consensus of $1.09. Top-line increased 21.6% (versus +19.4% in the prior Q) to $852 million matching our forecast. The sizeable increase in sales was entirely driven by 30.5% more seat miles partially offset by a 6.8% decline in unit revenue (TRASM). The company's unit revenue performance reflected both a load factor decline of 1.6 points to 83.7% and yield compression of 5%. If one were to adjust for the 7% increase in the company's stage length and calendar shift of Easter, we estimate that Spirit's yield and TRASM would have been flattish. Spirit's average non-ticket revenue per passenger flight segment grew by 3.0% (versus +5.7% in the Mar Q) to $54.57 and fare revenue per passenger flight segment contracted 2.8% to $58.19 (the all-in total was $112.76 or flat vs. a year ago).

Operating unit costs (CASM) ex-fuel and special items decreased 11.3% (slightly better than our forecast of down 11.1%), following down 5.0% in the Mar Q. Overall, the company reported a pretax margin (ex-specials) of 11.7% compared to 17.7% a year ago. Spirit reported an operating margin (ex-specials) of 13.3%, down from 19.0% a year ago.

Unlike previous quarterly releases, Spirit did provide an investor update which increased our comfort level around our above consensus full year 2018 EPS estimate of $3.40 (the Street is currently projecting EPS of $3.23). For the Sep Q, the company is guiding to a TRASM increase of 2% - 3% which is well ahead of the 1% - 1.5% mean/median of our sales force specialist survey. Furthermore, the company is also guiding to a Sep Q CASM-ex fuel decline of 3% - 4% and full year CASM ex-fuel decline of 3.5% to 4.0%. Capacity growth is expected to moderate to 24.5% in the Sep Q and 14% in the Dec Q. The one input that represented a headwind was not surprisingly fuel expense; the company is guiding to $2.33/ gallon for Sep Q vs. reported $2.32/gallon for June Q.

Spirit's last twelve month after-tax return on invested capital (LTM ROIC) of 9.5% was just below the prior Q result of 9.9%. On a pretax basis, its LTM ROIC was 13.8% (vs. 15.3% in the prior Q).

Unrestricted cash and cash equivalents at quarter end amounted to $914 million, approximately $86 million lower than prior Q end.

Valuation & Risks

Michael Linenberg
Research Analyst
+1-212-250-9254

Koosh Patel
Research Associate
+1-212-250-8356

Matt Fallon
Research Associate
+1-212-250-7161

Price/price relative

Performance (%)	1m	3m	12m
Absolute	14.0	10.0	-14.9
S&P 500 INDEX	4.7	7.8	14.9

Source: Deutsche Bank

We will have more information following the company's 9:30 AM (ET) conference call.

Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Spirit Airlines, Inc.	SAVE.N	41.41 (USD) 25 Jul 2018	2, 8

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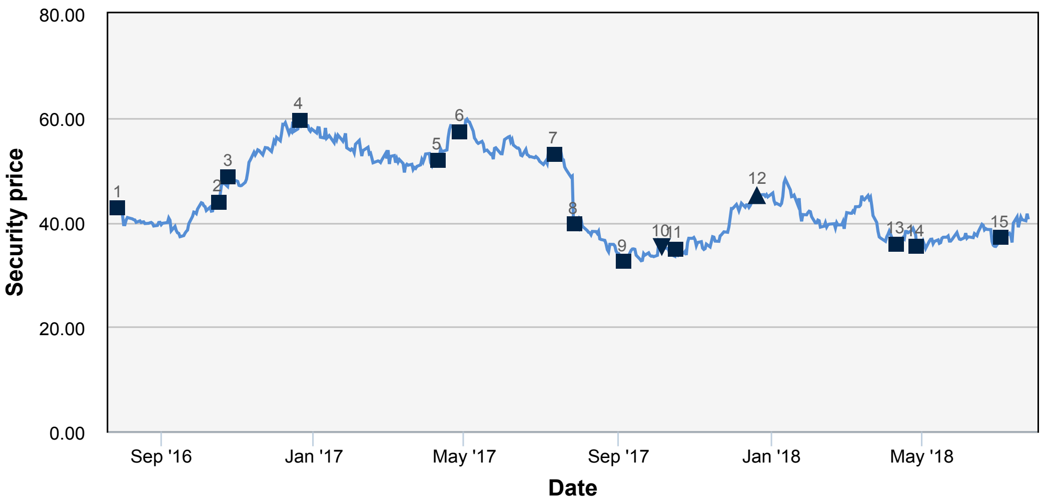
Historical recommendations and target price. Spirit Airlines, Inc. (SAVE.N)

(as of 07/25/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	07/29/2016	Buy, Target Price Change USD 52.00 Michael Linenberg
2.	10/17/2016	Buy, Target Price Change USD 53.00 Richa Talwar, CFA**
3.	10/25/2016	Buy, Target Price Change USD 56.00 Michael Linenberg
4.	12/21/2016	Buy, Target Price Change USD 70.00 Michael Linenberg
5.	04/10/2017	Buy, Target Price Change USD 68.00 Michael Linenberg
6.	04/28/2017	Buy, Target Price Change USD 71.00 Michael Linenberg
7.	07/12/2017	Buy, Target Price Change USD 69.00 Michael Linenberg
8.	07/28/2017	Buy, Target Price Change USD 54.00 Michael Linenberg
9.	09/05/2017	Buy, Target Price Change USD 42.00 Michael Linenberg
10.	10/06/2017	Downgraded to Hold, Target Price Change USD 38.00 Michael Linenberg
11.	10/17/2017	Hold, Target Price Change USD 40.00 Michael Linenberg
12.	12/21/2017	Upgraded to Buy, Target Price Change USD 58.00 Michael Linenberg
13.	04/11/2018	Buy, Target Price Change USD 60.00 Michael Linenberg
14.	04/27/2018	Buy, Target Price Change USD 54.00 Michael Linenberg
15.	07/03/2018	Buy, Target Price Change USD 51.00 Michael Linenberg

Equity Rating Key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.
Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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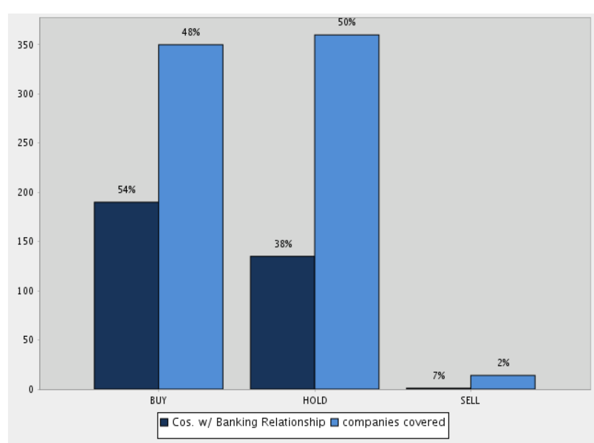
Equity rating dispersion and banking relationships



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Tel: (61) 2 8258 1234

Deutsche Bank AG
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Germany
Tel: (49) 69 910 00

Deutsche Bank AG
Filiale Hongkong
International Commerce Centre,
1 Austin Road West,Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.
2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

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United Kingdom
Tel: (44) 20 7545 8000

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