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| **Company: Delta Air Lines, Inc.** | Ticker: DAL Current Price: $43.94 | Sector: Industrials | Sub Industry: Airlines |
| Target Price: $66.00Stop Loss: $35,1552 Week High/ Low: $52.77 / $34.61 | TTM P/E: 10.99Forward P/E (2016E): 6.37TTM EPS: 6.86 | Beta: 1.13Credit Rating: Ba2 (LT Moody’s)Rating Outlook: Positive | Market Cap: $34.46BAvg. Vol (30 Day): 7,487,317Dividend Yield: 1.03% |

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| **Company Background:**  |
| Delta Air Lines (DAL) became the largest passenger airline in the world following its 2008 merger with Northwest Airlines, but was bumped to number two by the October 2010 merger of UAL Corp. and Continental Airlines and to number three by the merger of American with US Air in 2013. On October 29, 2008, Delta completed a merger with Northwest in a transaction whereby each NWA share was exchanged for 1.25 DAL shares. The combined operation kept the Delta name and started with about $32 billion in annual revenues, which rose to $41 billion by the end of 2015. As of January 19, 2016, Delta served 328 destinations worldwide in 57 countries. Hubs are in Atlanta, Cincinnati, New York (JFK) and Salt Lake City. Revenues in North America accounted for 67% of the 2013 total, Transatlantic 17%, Latin America 6% and Pacific 10%. |
| **Industry Outlook:**  |
| According to S&P Capital IQ, there is a positive fundamental outlook for the airline sub-industry for the next 12 months. Traffic statistics showed improving demand and revenues in 2014, and we see that strength carrying on through 2015. We believe the U.S. airline industry is seeing good demand, despite the tepid U.S. economy. The industry has reduced capacity levels, it should be able to raise fares as passenger travel demand improves, and hold the line on fares if demand weakens. Oil and jet fuel prices have dropped sharply and should help drive strong profit improvement in 2015. Airlines are likely to see tougher comparisons in 2015 after rising unit revenues in 2014 and 2013, but demand for air travel is expected to remain strong. Investor sentiment on airline stocks has improved, and further improvement is expected on signs that the U.S. economy is recovering and if oil prices continue to stay low. |
| **Investment Thesis:**  |
| According to S&P Capital IQ, cuts to domestic and international supply over the past three years have improved airlines' pricing power. Total revenue passenger miles (RPMs) rose 2.3% in 2014, versus a 1.8% increase in 2013. Yields rose 1.8%, after a 2.0% advance in 2013. Available seat miles rose 2.0%, after a 1.3% increase in 2013. The passenger load factor rose by 0.3 percentage points to 83.4, after a 0.3percentage point increase in 2013 Year to date through August 14, the S&P Airlines Index fell 4.2% versus a 1.7%rise for the S&P 1500. In 2014, the S&P Airlines Index increased 88.0%, versus a 10.9% rise in the 1500. The 5-year compound annual growth rate for the S&P Airlines index through July 10, was 27.9%, versus 15.0% for the S&P 1500. |
| **Investment Risks:**  |
| Delta has yet to prove that less debt, better capacity management, and a fleshed out route map, can insulate earnings from the negative demand shocks that come during tough economic times. This is why the shares trade at a discount to other large industrials. Near term, we think Delta will benefit from low fuel prices. Additional threats, such as the effects of terrorism on demand, a highly regulated environment, high labor costs due to unionization, a highly commoditized product, and volatile fuel prices are risks that must be taken into account when investing in the airline sub-industry. |
| **3-5 Takeaways From Last Quarter’s Investor Call Transcripts:**  |
| * Return on invested capital was 28.3% for 2015. The company generated $3.8 billion in free cash flow and returned $2.6 billion of that back to its shareholders. The company’s 2015 financial performance ranked in the top 10% of S&P industrials.
* Capacity actions and commercial initiatives allowed the company to offset $700 million in forex pressures and held their topline revenues intact year-over-year. This performance allowed the company to capture more than 75% of the fuel savings in 2015 which drove strong margin improvements.
* Operational excellence has helped with increases to customer satisfaction, with year-to-date net promoter scores increasing more than four points to 38% when compared to 2014. The company is consistently generating 108% of industry average revenues and north of 114% domestically.
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| **Financial Performance:** | **Discounted Cash Flow**  |
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|  | 2013 | 2014 | Q1-2015 | Q2-2015 | Q3-2015 | Q4-2015 |
| Revenue  | $37,773.0 | $40,362.0 | $9,388.0 | $10,707.0 | $11,107.0 | $9,502.0 |
| Operating Profit | 3,548.0 | 5,222.0 | 806.0 | 1,748.0 | 2,325.0 | 1,631.0 |
| Net Income  | 10,540 | 2,759.0 | 746.0 | 1,485.0 | 1,315.0 | 980.0 |
| Revenue Growth % | 3.01% | 6.85% | -2.68% | 14.05% | 3.74% | -14.45% |
| EBITDA% | 13.39% | 9.85% | 13.59% | 20.51% | 25.13% | 21.91% |
| Operating Profit % | 9.00% | 5.47% | 8.59% | 16.33% | 20.93% | 17.16% |
| Net Income Margin | 27.90% | 1.63% | 3.96% | 9.59% | 12.46% | 9.75% |
| D/E | 97.41% | 110.94% | 105.75% | 96.80% | 85.07% | 76.76% |
| Interest Coverage  | 5.08 | 8.03 | 9.74 | 17.29 | 23.07 | 20.41 |
| EPS | 12.41 | 0.79 | 0.91 | 1.85 | 1.67 | 1,26 |
| PE Ratio  | 8.87 | 15.06 | 12.93 | 11.11 | 10.59 | 10.95 |
| Current Ratio | 0.68 | 0.74 | 0.71 | 0.67 | 0.68 | 0.52 |
| ROE | N/A | 6.44 | 11.52 | 17.24 | 25.03 | 46.04 |
| ROA | 21.78 | 1.24 | 2.25 | 3.57 | 5.37 | 8.44 |
| Dividend Per share  | 0.12 | 0.30 | 0.09 | 0.09 | 0.14 | 0.14 |

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|  | 2011-14 | 2016-21 |
| Avg. Revenue Growth  | 5% | 0% |
| Avg. EBITDA Margin  | 15% | 21% |
| Avg. NOPAT Margin | 8% | 13% |
| Cost of Debt | 1.59% |
| Tax Rate | 36.76% |
| Cost of Equity  | 11.09% |
| WACC | 9.40% |
| Perpetuity Growth Rate (Terminal) | 2.00% |

**Analyst Opinion**

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| Buy: 14 | Hold: 0 | Sell: 0 |

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|  | Rating  | Target |
| S&P NetAdvantage  | Strong Buy | $70.00 (12-month) |
| Morningstar | No Coverage |  |
| Value Line  | Timeliness – 2 | $55.00 - $80.00 |

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| **Relative Valuation** | **Total Return** |
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|  | AAL US | UAL US | ALK US | CPA US | Ind. Average  | **DAL US** |
| P/E | 4.64 | 4.81 | 12.36 | 6.03 | 10.97 | **10.95** |
| P/B | 4.74 | 2.32 | 4.18 | 0.86 | 2.51 | **3.67** |
| Dividend Yield  | 1.05% | N/A | 1.18% | 7.26% | 1.69% | **1.03%** |
| PEG Ratio  | 0.63 | 0.23 | 0.39 | N/A | 0.62 | **0.27** |
| EPS (Last FY) | $11.39 | $19.52 | $6.61 | $8.15 | $4.49 | **$5.68** |
| Rev Growth (Last FY) | -3.89% | -2.67% | 4.28% | 3.70% | 4.59% | **0.85%** |
| NI Growth (Last FY)  | 164.05% | 548.41% | 40.17% | -15.39% | 370.25% | **586.79%** |
| Operating Margin  | 20.84% | 14.50% | 23.76% | 19.64% | 13.28% | **15.99%** |
| Debt / Equity  | 364.88% | 505.63% | 28.45% | 53.81% | 107.27% | **76.76%** |
| Market Cap | $23.97B | $18.37B | $8.57B | $2.08B | $2.82B | **34.46B** |

**Prepared By:****Sources: Bloomberg, S&P NetAdvantage, VLIS, Morningstar** |

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|  | DAL US  | Sector  | S&P 500 |
| YTD | -13.59% | -12.68% | -6.28% |
| Last 3 Years  | 47.85% | 19.87% | 10.41% |
| Last 5 Years  | 31.11% | 13.46% | 10.23% |

**CSR Characteristics**

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|  | Company  | Industry  |
| ESG Disclosure | 47.93 | 27.92 |
| Governance Disclosure Score | 62.50 | 47.62 |
| Social Disclosure Score | 33.33 | 27.32 |
| Environmental Disclosure Score | 48.06 | 28.68 |

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