

Southwest Airlines Co. Ticker: LUV Sector: Consumer Discretionary Industry: Passenger Transportations	Intrinsic Value: \$ 57.7 Current Price: \$43.26 Stop Loss: \$ 35.50 Upside Review: \$ 47.17	TTM P/E: 25.05 Forward P/E: 12.72 Beta: 1.1	Market Cap: \$ 29.88B Dividend Yield: \$.24 (.50%) 52 Week Range: \$20.88 - \$47.17
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Business Summary: Southwest Airlines Co. is a major U.S. airline and the world's largest low-cost carrier, headquartered in Dallas, Texas. It specializes in low-fare, point-to-point, short-haul, high-frequency service. The airline has nearly 46,000 employees as of December 2014 and operates more than 3,400 flights per day. Most of its flights are domestic. As of November 2014, Southwest Airlines has scheduled service to 93 destinations in 41 states, Puerto Rico and abroad.

Industry Trends: U.S. airlines will likely to improve profits during 2015. Airlines outperformed the S&P 500 Index during 2014 as profitability has risen strongly on higher domestic yields. Airline profits may still be driven by U.S. domestic markets in 2015, as restrained capacity additions support pricing power and falling fuel prices help.

Investment Thesis: Southwest Airline has a strong operating performance last year. Its operating revenues increased rapidly with the operating cost declining. The company expects a 6% growth in 2015 1Q passenger revenues as well as 1Q and full year 2015's unit costs to decline in the 1 to 2 percent range, driven largely by capacity growth and ongoing fleet modernization initiatives.

Competitive Analysis: Southwest Airline is the country leading Low-cost airline company. The last year performance indicates that the company has great earning potential. Its net income exceeds 1.4 billion and ROIC reached 21%. It is now expecting a six percent growth in revenue and one to two percent decrease in cost in 2015.

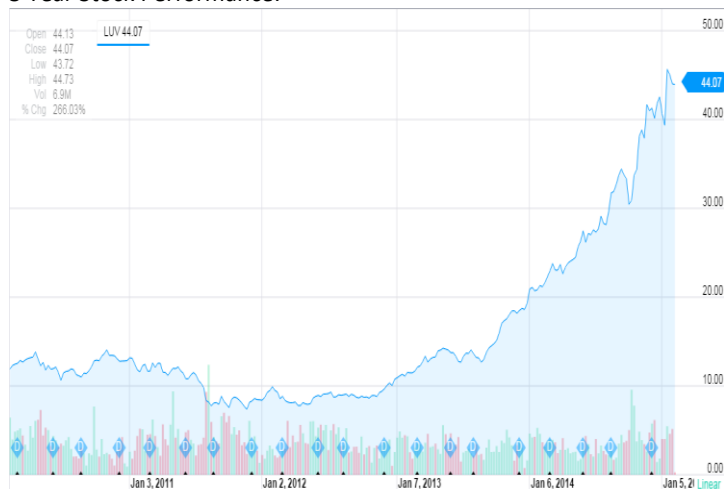
Pros:

- Economic Recovery in US will help the domestic market to grow and increase the company's profit
- Modernization of the fleet will attract new passengers and improve fuel efficiency
- The company has stable and strong cash flow and good financial statement

Risk Factors:

- International market is weak for now and might hurt the company's international expansion plan
- Volatility in oil price would cause the fuel cost to change
- If an airplane accident happens, stock price will be affected.

5 Year Stock Performance:



(Yahoo!)

Total Return Estimates

3 Yr FV Reversion: 6%
5 Yr FV Reversion: 5%

Key Valuation Assumptions

Est Revenue Growth: 6.00%
WACC: 9.04%
Expected Inflation: 1.7%
Terminal Growth Rate: 3.5%
10 Yr Risk Free Rate: 4%
Equity Risk Premium: 5%
Tax Rate: 38.00%

Key Financial Data

Est 2014 EPS: \$1.64
Est 2015 EPS: \$2.20
3-5 Yr Est EPS Growth: 13.88%
PEG (TTM): 0.72
Credit Quality: BBB (S&P)
ROE: 16.1%

ROA: 5.8%
Price/Book: 4.42
Price/Cash Flow: 10.5
Debt/Equity: 39.7%
Current Ratio: 0.7
Quick Ratio: 0.6

CSR Characteristics (Southwest/Industry)

Human Rights: 1/ 1
Business Ethics Policy: 1/1
ESG Disclosure: 44.63/25.87
Equal Opportunity: 1/1
Emission Reduction: 1/1
Environment Disclosure: 40.31/27.33

Competitor Comparison:

Direct Competitor Comparison					
	LUV	AAL	DAL	JBLU	Industry
Market Cap:	29.88B	34.00B	37.55B	4.96B	3.07B
Employees:	46,278	N/A	79,655	13,280	13,00K
Ctrly Rev Growth (yoy):	0.05	0.38	0.06	0.06	0.20
Revenue (ttm):	18.60B	42.65B	40.36B	5.82B	3.23B
Gross Margin (ttm):	0.30	0.28	0.20	0.30	0.30
EBITDA (ttm):	3.29B	6.33B	4.70B	835.00M	407.30M
Operating Margin (ttm):	0.13	0.12	0.07	0.09	0.13
Net Income (ttm):	1.14B	2.88B	659.00M	401.00M	N/A
EPS (ttm):	1.64	3.93	0.78	1.19	1.31
P/E (ttm):	26.91	12.25	58.35	14.29	14.91
PEG (5 yr expected):	0.38	0.22	0.40	0.20	0.20
P/S (ttm):	1.62	0.81	0.94	0.85	0.85

Information from: Bloomberg, Value Line, Yahoo

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