



THE OHIO STATE UNIVERSITY

Stock Analysis-Industrials

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Student Investment Management - BUSFIN 4228

Spring 2017



Agenda

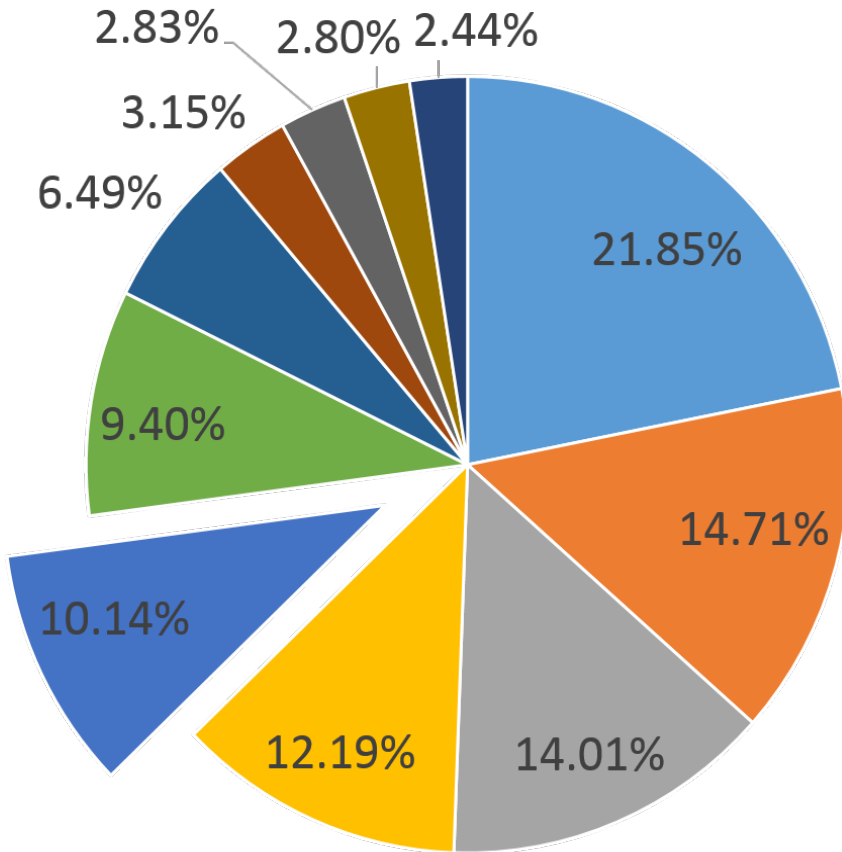
- Overview
- Stock Analysis
- Recommendation



Overview



S&P 500 Sector Weightings



| Name | Weight |
|--------------------|---------------|
| INFO TECH | 21.85% |
| FINANCIALS | 14.71% |
| HEALTH CARE | 14.01% |
| CONS DISCRET | 12.19% |
| INDUSTRIALS | 10.14% |
| CONS STAPLES | 9.40% |
| ENERGY | 6.49% |
| UTILITIES | 3.15% |
| MATERIALS | 2.83% |
| REAL ESTATE | 2.80% |
| TELECOM SERV | 2.44% |

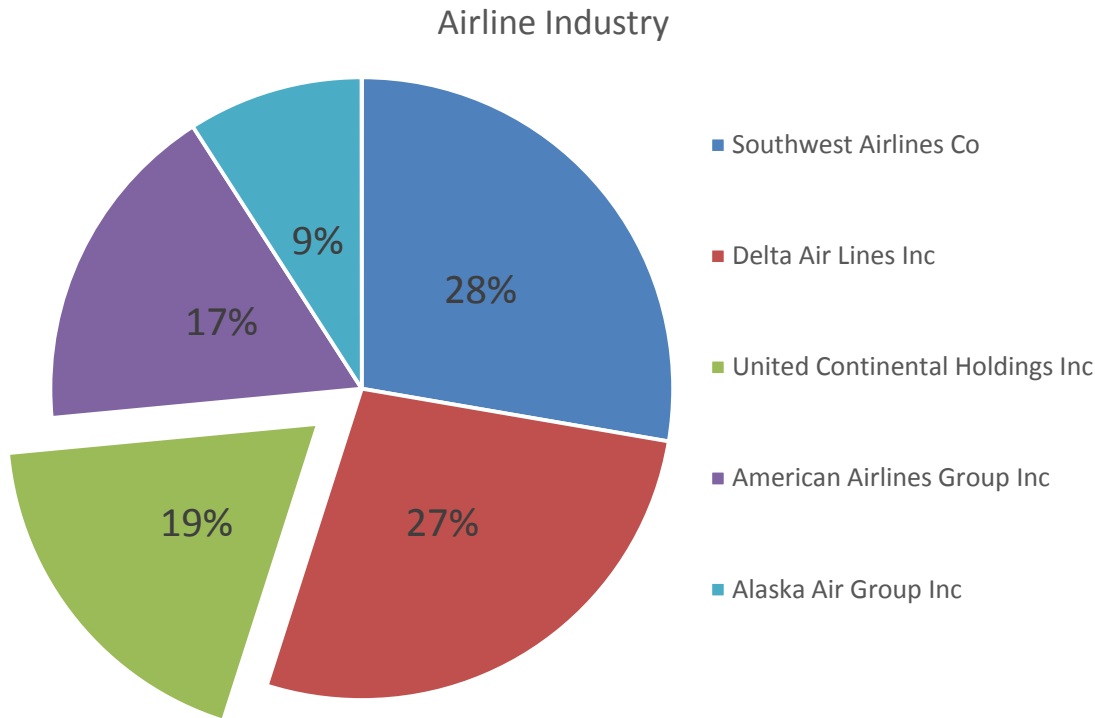
03/19/2017

Industrials 10.14% of S&P 500

Industrials 10.81% of SIM Porfolio (03/07/2017)



Airline Industry (In Billion)



5 Companies

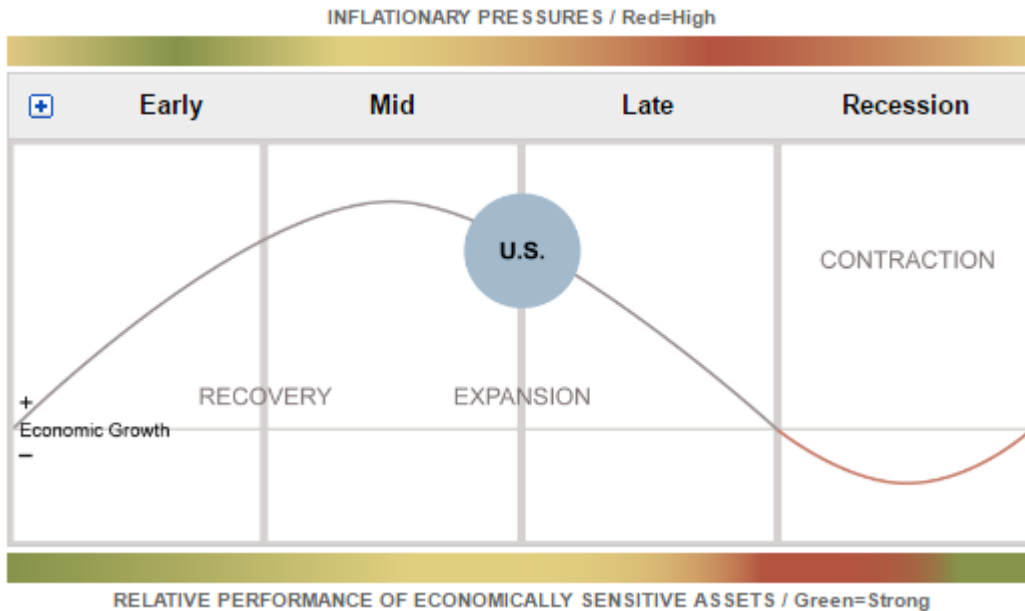
**Total Mkt Cap of
121.16 Billion**

Source: Bloomberg Finance L.P

04/10/2017



Business Life Cycle



- Cyclical
- Outperforms market: expansion/ recovery
- Underperforms market: recession

Sector Performance by Business Cycle Phase

| Sector | Early | Mid | Late | Recession |
|-------------|-------|-----|------|-----------|
| Industrials | ++ | + | | -- |

++ Consistently Overperform -- Consistently Underperform □ No Clear Pattern
 + Overperform - Underperform

Source: Fidelity



Industrials vs S&P 500

Correlation: 0.8845





| Stock | Unit Cost | Current Price | SIM Weight | Recommendation |
|--------|-----------|---------------|------------|----------------|
| United | 73.21 | 71.52 | 1.54% | Equal Weight |



Stock Analysis

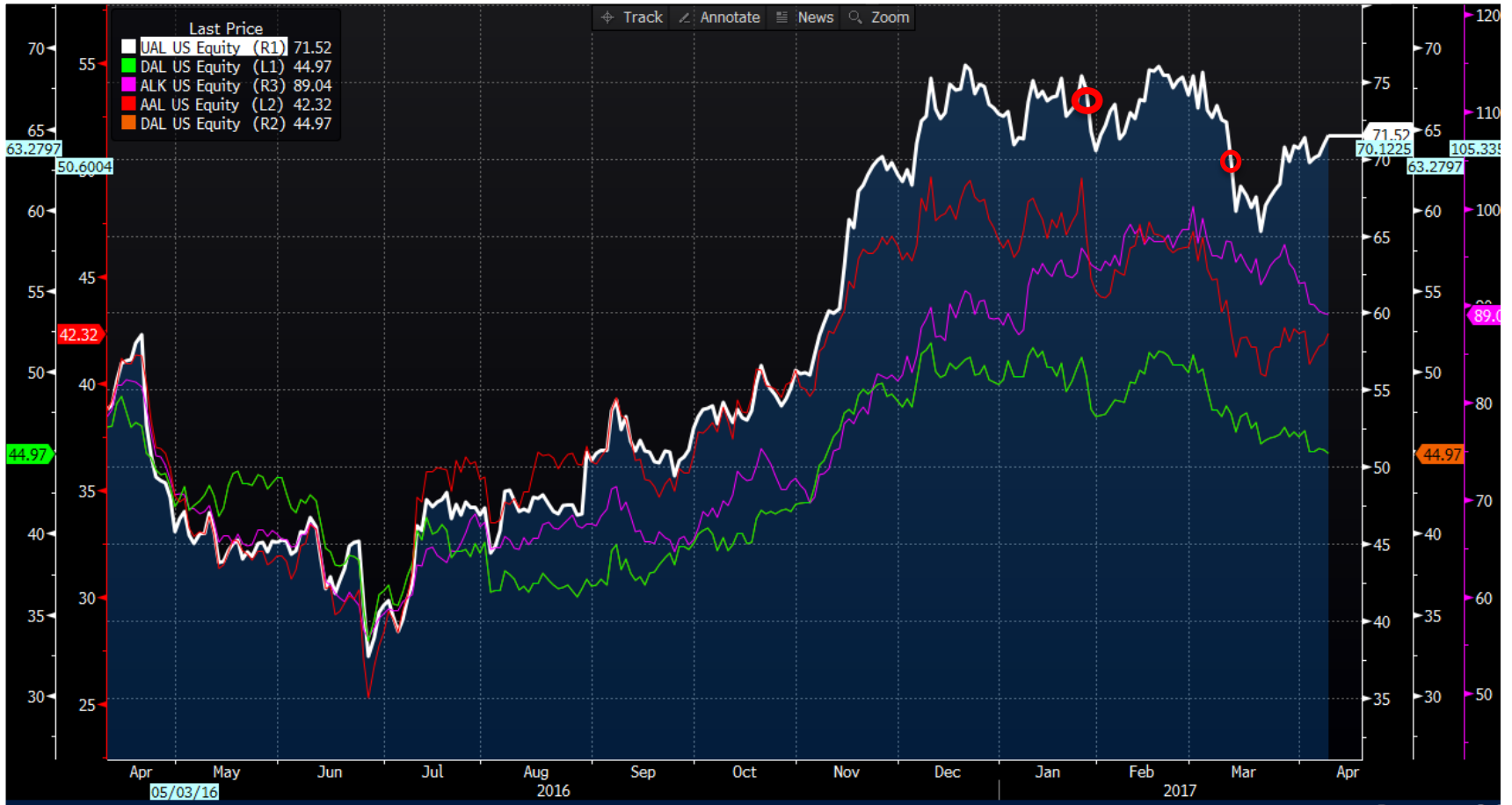


United Continental Holdings Inc

United Continental Holdings Inc. is an airline holding company. The Company owns and operates airlines that transports persons, property, and mail throughout the United States and abroad.

| | | | |
|----------------|---------------|------------------|--------------|
| Previous Close | 70.88 | Market Cap | 22.5B |
| Open | 70.55 | Beta | 0.99 |
| Bid | 0.00 x | PE Ratio (TTM) | 10.44 |
| Ask | 0.00 x | EPS (TTM) | N/A |
| Day's Range | 70.25 - 72.10 | Earnings Date | N/A |
| 52 Week Range | 37.41 - 76.80 | Dividend & Yield | 0.00 (0.00%) |
| Volume | 3,460,363 | Ex-Dividend Date | N/A |
| Avg. Volume | 3,877,920 | 1y Target Est | N/A |





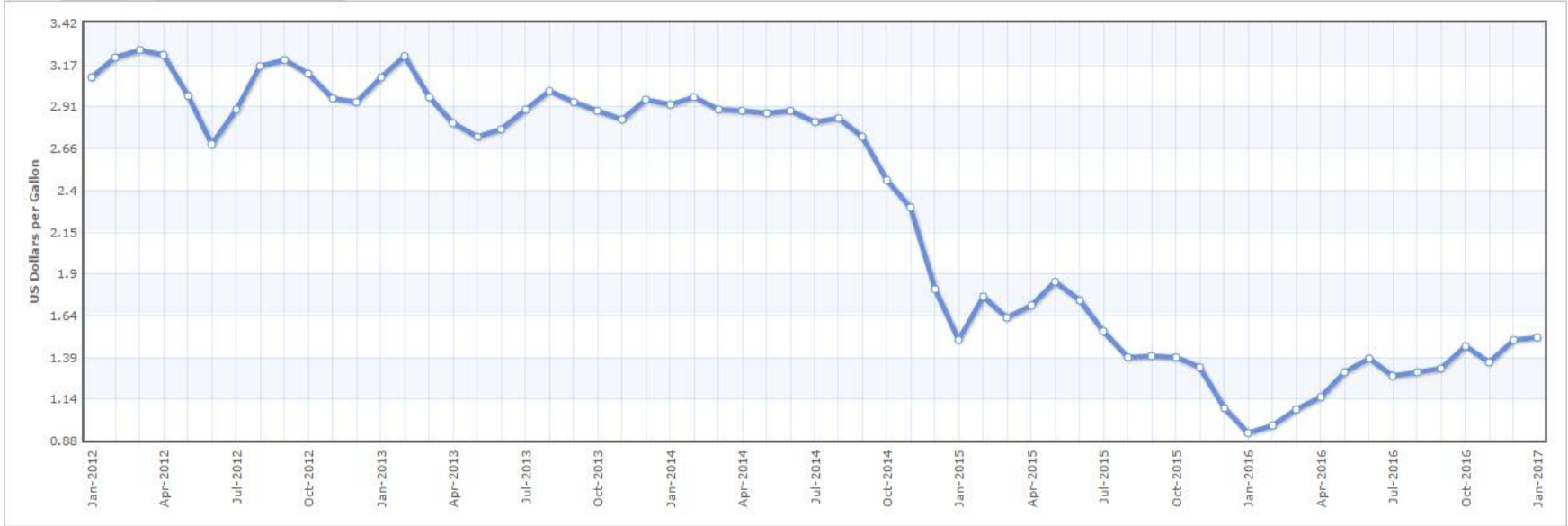


Jet Fuel Price

Jet Fuel Monthly Price - US Dollars per Gallon

Range 6m 1y 5y 10y 15y 20y 25y 30y

Jan 2012 - Jan 2017: -1.576 (-51.05 %)



2014-2016 United Aircraft Fuel Cost

| Year | Gallons Consumed (in millions) | Fuel Expense (in millions) | Average Price Per Gallon | Percentage of Total Operating Expense |
|------|--------------------------------|----------------------------|--------------------------|---------------------------------------|
| 2016 | 3,904 | \$ 5,813 | \$ 1.49 | 18% |
| 2015 | 3,886 | \$ 7,522 | \$ 1.94 | 23% |
| 2014 | 3,905 | \$ 11,675 | \$ 2.99 | 32% |



UNITED CONTINENTAL HOLDINGS, INC.

Analyst: Tongren Yan
Date: 2/10/17

Terminal Discount Rate = 11.0%
Terminal FCF Growth = 4.0%

| Year | 2017E | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E |
|-----------------------------------|----------|-------|-------|-------|--------|-------|-------|-------|---------------------------|-------|--------|
| Revenue | 38,018 | ##### | ##### | ##### | 44,255 | ##### | ##### | ##### | ##### | ##### | 54,401 |
| % Growth | | 5.5% | 3.5% | 3.0% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |
| Operating Income | 4,513 | 4,813 | 4,982 | 5,131 | 5,311 | 5,496 | 5,689 | 5,888 | 6,094 | 6,307 | 6,528 |
| Operating Margin | 11.9% | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% |
| Interest | (513) | (521) | (540) | (556) | (575) | (595) | (616) | (638) | (660) | (683) | (707) |
| Interest % of Sales | -1.4% | -1.3% | -1.3% | -1.3% | -1.3% | -1.3% | -1.3% | -1.3% | -1.3% | -1.3% | -1.3% |
| Taxes | 1,460 | 1,566 | 1,621 | 1,670 | 1,728 | 1,789 | 1,851 | 1,916 | 1,983 | 2,053 | 2,125 |
| Tax Rate | 38.5% | 36.5% | 36.5% | 36.5% | 36.5% | 36.5% | 36.5% | 36.5% | 36.5% | 36.5% | 36.5% |
| Net Income | 2,540 | 2,725 | 2,821 | 2,905 | 3,007 | 3,112 | 3,221 | 3,334 | 3,450 | 3,571 | 3,696 |
| % Growth | | 7.3% | 3.5% | 3.0% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |
| Add Depreciation/Amort | 1,958 | 2,098 | 2,146 | 2,211 | 2,288 | 2,368 | 2,451 | 2,537 | 2,626 | 2,717 | 2,813 |
| % of Sales | 5.2% | 5.2% | 5.2% | 5.2% | 5.2% | 5.2% | 5.2% | 5.2% | 5.2% | 5.2% | 5.2% |
| Plus/(minus) Changes WC | -210 | -8 | 147 | 151 | 156 | 162 | 167 | 173 | 179 | 186 | 192 |
| % of Sales | -0.6% | 0.0% | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% |
| Subtract Cap Ex | 3,460 | 3,566 | 3,030 | 3,121 | 3,231 | 3,344 | 3,461 | 3,582 | 3,707 | 3,837 | 3,971 |
| Capex % of sales | 9.1% | 8.9% | 7.3% | 7.3% | 7.3% | 7.3% | 7.3% | 7.3% | 7.3% | 7.3% | 7.3% |
| Free Cash Flow | 828 | 1,250 | 2,083 | 2,146 | 2,221 | 2,298 | 2,379 | 2,462 | 2,548 | 2,637 | 2,730 |
| % Growth | | 50.9% | 66.7% | 3.0% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |
| NPV of Cash Flows | 12,768 | 47% | | | | | | | | | |
| NPV of terminal value | 14,283 | 53% | | | | | | | | | |
| Projected Equity Value | 27,051 | 100% | | | | | | | | | |
| Free Cash Flow Yield | 3.48% | | | | | | | | | | |
| | | | | | | | | | Terminal Value | | 40,555 |
| | | | | | | | | | Free Cash Yield | | 6.73% |
| Current P/E | 9.4 | 8.7 | 8.4 | | | | | | | | |
| Projected P/E | 10.7 | 9.9 | 9.6 | | | | | | | | |
| Current EV/EBITDA | 4.7 | 4.4 | 4.3 | | | | | | | | |
| Projected EV/EBITDA | 5.2 | 4.9 | 4.7 | | | | | | | | |
| | | | | | | | | | Terminal P/E | | 11.0 |
| | | | | | | | | | Terminal EV/EBITDA | | 5.0 |
| Shares Outstanding | 317.3 | | | | | | | | | | |
| Current Price | \$ 75.08 | | | | | | | | | | |
| Implied equity value/share | \$ 85.25 | | | | | | | | | | |
| Upside/(Downside) to DCF | 13.6% | | | | | | | | | | |
| Debt | 11,460 | | | | | | | | | | |
| Cash | 4,860 | | | | | | | | | | |
| Cash/share | 15.32 | | | | | | | | | | |



Industry Comparisons

| Valuation Ratios (trailing 12 months) | UAL | Industry |
|--|------------|-----------------|
| Price / Earnings | 10.3 | 10.1 |
| PEG Ratio | -1.6 | -4.6 |
| Enterprise Value | \$0.00 | \$0.00 |
| Price / Sales | 0.6 | 1.2 |
| Price / Book | 2.8 | 3.3 |
| Price / Cash Flow | 5.5 | 7.0 |

| Company Quality Ratios | UAL | Industry |
|--|------------|-----------------|
| Gross Profit Margin (Trailing 12 Months) | 33.8% | 32.3 |
| Operating Margin (Trailing 12 Months) | 13.6% | 16.2 |
| Return on Sales (Trailing 12 Months) | 6.2% | 10.2 |
| Inventory Turnover (Most Recent Fiscal Year) | 29.6x | 185.7 |
| Return on Assets (Trailing 12 Months) | 5.6% | 7.8 |
| Return on Equity (Trailing 12 Months) | 27.7% | 27.3 |



Valuation Basis of UAL

| Absolute Basis | High | Low | Median | Current |
|----------------|--------|------|--------|---------|
| P/E | 30.21 | 3.53 | 8.43 | 8.21 |
| P/B | 123.42 | 1.72 | 5.17 | 2.59 |
| P/S | 0.7 | 0.16 | 0.44 | 0.64 |
| P/EBITDA | 7.21 | 2.09 | 3.93 | 3.71 |

| Ticker | Name | P/E | ROE | P/B | P/S | P/EBITDA |
|---------------|-----------------------------|-------|-------|------|------|----------|
| Median | Median | 8.48 | 34.72 | 3.75 | 0.85 | 4.01 |
| UAL US Equity | UNITED CONTINENTAL HOLDINGS | 8.21 | 32.41 | 2.60 | 0.64 | 3.38 |
| AAL US Equity | AMERICAN AIRLINES GROUP INC | 7.41 | 67.47 | 5.67 | 0.58 | #N/A N/A |
| DAL US Equity | DELTA AIR LINES INC | 8.48 | 34.72 | 2.67 | 0.85 | 3.82 |
| ALK US Equity | ALASKA AIR GROUP INC | 12.46 | 33.26 | 3.75 | 1.85 | 6.17 |
| HA US Equity | HAWAIIAN HOLDINGS INC | 9.25 | 49.73 | 3.78 | 1.05 | 4.20 |



Recommendation



United Continental Holdings Inc

Equal Weight

| | Current Price | Target Price | Unit Cost |
|-----|---------------|--------------|-----------|
| UAL | 70.01 | 85.25 | 73.21 |

Major Positives

- Late expansion stage of business cycle
- New Airplane Model introduced
- Potential Trump's policy of tax reduction
- Higher demand in airline industry
- Increasing capacity and decreasing CASM estimate

Major Negatives

- Appreciation of USD hurts international transportation
- Political Policy
- Risk in oil price
- Weather Condition
- Public Relation management team