

ModernGraham Valuation

Company Name:

Southwest Airlines Co

Company Ticker

LUV

Date of Analysis

10/15/2015



Stage 1: Is this company suitable for the Defensive Investor or the Enterprising Investor?

Defensive Investor; must pass 6 out of the following 7 tests.

1. Adequate Size of the Enterprise	Market Cap > \$2Bil	\$27,132,980,307	Pass
2. Sufficiently Strong Financial Condition	Current Ratio > 2	0.67	Fail
3. Earnings Stability	Positive EPS for 10 years prior		Pass
4. Dividend Record	Dividend Payments for 10 years prior		Pass
5. Earnings Growth	Increase of 33% in EPS in past 10 years using 3 year averages at beginning and end	250.30%	Pass
6. Moderate PEmg Ratio	PEmg < 20	22.63	Fail
7. Moderate Price to Assets	PB Ratio < 2.5 OR PB*PEmg < 50	3.86	Fail

Enterprising Investor; must pass 4 out of the following 5 tests, or be suitable for the Defensive Investor.

1. Sufficiently Strong Financial Condition	Current Ratio > 1.5	0.67	Fail
2. Sufficiently Strong Financial Condition	Debt to NCA < 1.1	-1.06	Fail
3. Earnings Stability	Positive EPS for 5 years prior		Pass
4. Dividend Record	Currently Pays Dividend		Pass
5. Earnings Growth	EPSmg greater than 5 years ago		Pass

Suitability

Defensive	No
Enterprising	No

Stage 2: Determination of Intrinsic Value

EPSmg	\$1.81
MG Growth Estimate	15.00%
MG Value	\$69.84
MG Value based on 3% Growth	\$26.30
MG Value based on 0% Growth	\$15.42
Market Implied Growth Rate	7.06%

MG Opinion

Current Price	\$41.05
% of Intrinsic Value	58.78%
Opinion	Undervalued

Stage 3: Information for Further Research

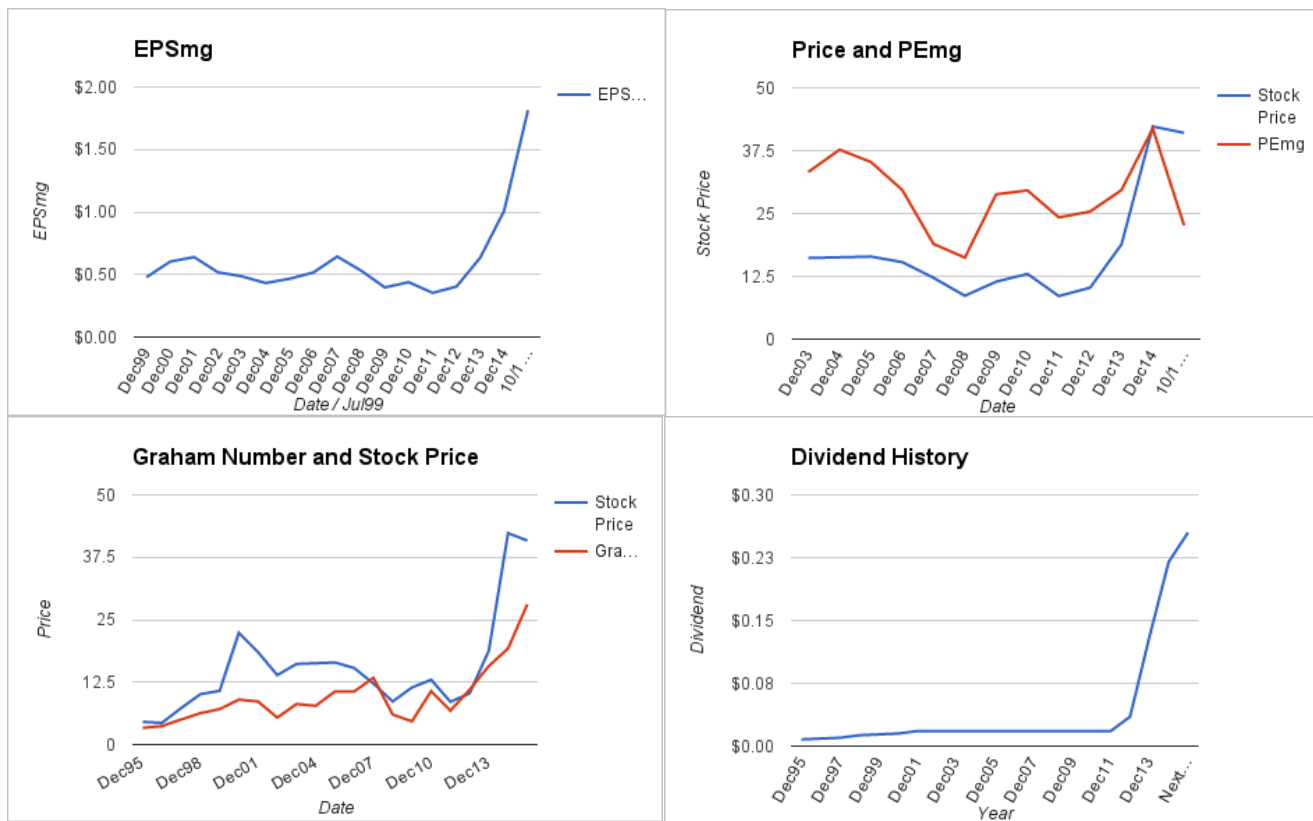
Net Current Asset Value (NCAV)	-\$13.85
Graham Number	\$28.09
PEmg	22.63
Current Ratio	0.67
PB Ratio	3.86
Dividend Yield	0.62%
Number of Consecutive Years of Dividend Growth	4

Useful Links:

ModernGraham tagged articles	Morningstar
Google Finance	MSN Money
Yahoo Finance	Seeking Alpha
GuruFocus	SEC Filings

EPS History		EPSmg History	
Next Fiscal Year Estimate	\$3.23	Next Fiscal Year Estimate	\$1.81
Dec14	\$1.64	Dec14	\$1.01
Dec13	\$1.05	Dec13	\$0.64
Dec12	\$0.56	Dec12	\$0.40
Dec11	\$0.23	Dec11	\$0.35
Dec10	\$0.61	Dec10	\$0.44
Dec09	\$0.13	Dec09	\$0.40
Dec08	\$0.24	Dec08	\$0.53
Dec07	\$0.84	Dec07	\$0.64
Dec06	\$0.61	Dec06	\$0.52
Dec05	\$0.60	Dec05	\$0.47
Dec04	\$0.38	Dec04	\$0.43
Dec03	\$0.46	Dec03	\$0.49
Dec02	\$0.23	Dec02	\$0.52
Dec01	\$0.63	Dec01	\$0.64
Dec00	\$0.79	Dec00	\$0.60
Dec99	\$0.59	Dec99	\$0.48
Dec98	\$0.55	Balance Sheet Information Jun15	
Dec97	\$0.42	Total Current Assets	\$4,596,000,000
Dec96	\$0.27	Total Current Liabilities	\$6,876,000,000
Dec95	\$0.25	Long-Term Debt	\$2,411,000,000
		Total Assets	\$21,075,000,000
		Intangible Assets	\$970,000,000
		Total Liabilities	\$13,917,000,000
		Shares Outstanding (Diluted Average)	673,000,000





Disclaimer:

This valuation is not investment advice. Anyone who is considering making an investment decision should speak to a registered investment advisor.

The author did not hold a position in any company mentioned in this article at the time of publication and had no intention of changing those holdings within the next 72 hours.

Recommended Reading:

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ModernGraham
posts about the
company

[18 Companies in the Spotlight This Week – 10/25/14](#)
[Southwest Airlines Company Annual Valuation – 2014 \\$LUV](#)
[Overvalued Company of the Week – Southwest Airlines \(LUV\)](#)

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[Alaska Air Group Inc. Analysis – Initial Coverage \\$ALK](#)
[American Airlines Group Analysis – 2015 Initial Coverage \\$AAL](#)
[Delta Air Lines Inc. Annual Valuation – 2015 \\$DAL](#)
[Southwest Airlines Company Annual Valuation – 2014 \\$LUV](#)