

ModernGraham Valuation

Company Name:

Southwest Airlines Co

Company Ticker LUV

Date of Analysis

2/9/2017



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	\$32,503,724,300	Pass
2. Sufficiently Strong Financial Condition	Current Ratio > 2	0.66	Fail
3. Earnings Stability	Positive EPS for 10 years prior		Pass
4. Dividend Record	Dividend Payments for 10 years prior		Pass
	Increase of 33% in EPS in past 10 years using 3 year averages at beginning and end	968.37%	Pass
5. Earnings Growth	PEmg < 20	17.04	Pass
6. Moderate PEmg Ratio	PB Ratio < 2.5 OR PB*PEmg < 50	3.97	Fail
7. Moderate Price to Assets			

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	0.66	Fail
2. Sufficiently Strong Financial Condition	Debt to NCA < 1.1	-1.20	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
	Score		

Suitability

Defensive	No
Enterprising	No

Stage 2: Determination of Intrinsic Value

EPSmg	\$3.11
MG Growth Estimate	15.00%
MG Value	\$119.58
MG Value based on 3% Growth	\$45.04
MG Value based on 0% Growth	\$26.40
Market Implied Growth Rate	4.27%

MG Opinion

Current Price	\$52.92
% of Intrinsic Value	44.25%
Opinion	Undervalued
MG Grade	C-

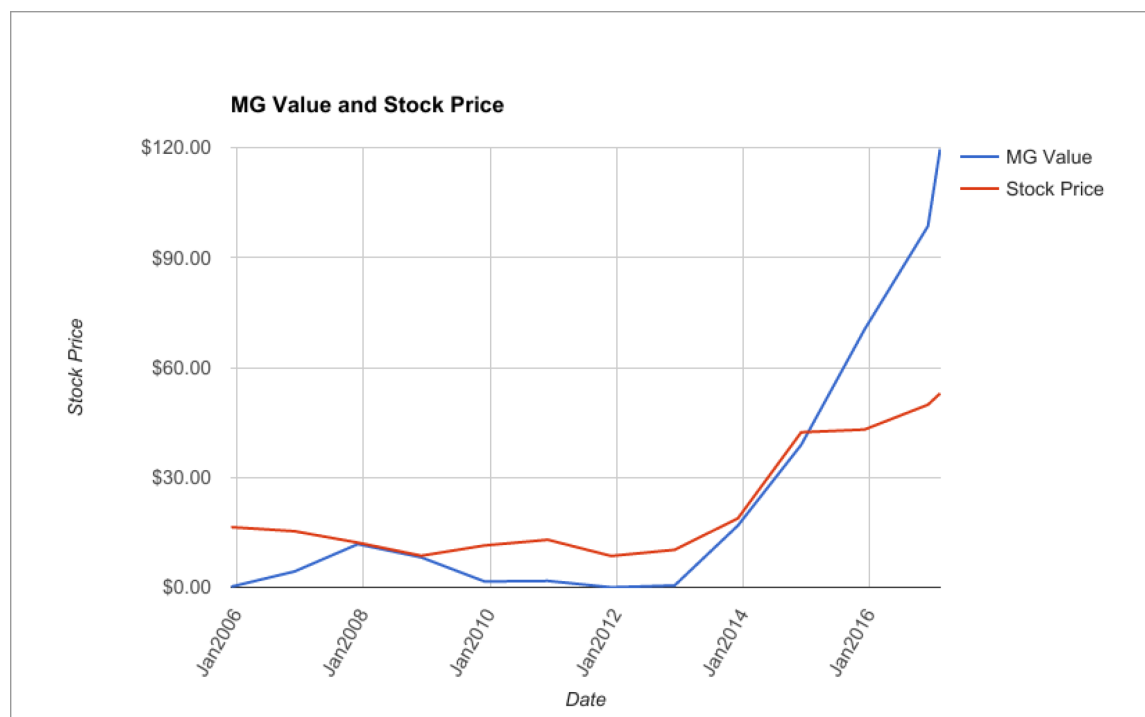
Stage 3: Information for Further Research

Net Current Asset Value (NCAV)	-\$16.35
Graham Number	\$33.56
PEmg	17.04
Current Ratio	0.66
PB Ratio	3.97
Current Dividend	\$0.38
Dividend Yield	0.71%
Number of Consecutive Years of Dividend Growth	6

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		Next Fiscal Year Estimate	
	\$3.65		\$3.11
Dec2016	\$3.55	Dec2016	\$2.56
Dec2015	\$3.27	Dec2015	\$1.83
Dec2014	\$1.64	Dec2014	\$1.01
Dec2013	\$1.05	Dec2013	\$0.64
Dec2012	\$0.56	Dec2012	\$0.40
Dec2011	\$0.23	Dec2011	\$0.35
Dec2010	\$0.61	Dec2010	\$0.44
Dec2009	\$0.13	Dec2009	\$0.40
Dec2008	\$0.24	Dec2008	\$0.53
Dec2007	\$0.84	Dec2007	\$0.64
Dec2006	\$0.61	Dec2006	\$0.52
Dec2005	\$0.60	Dec2005	\$0.47
Dec2004	\$0.38	Dec2004	\$0.43
Dec2003	\$0.46	Dec2003	\$0.49
Dec2002	\$0.23	Dec2002	\$0.52
Dec2001	\$0.63	Dec2001	\$0.64
Dec2000	\$0.79	Balance Sheet Information 12/1/2016	
Dec1999	\$0.59	Total Current Assets	\$4,498,000,000
Dec1998	\$0.55	Total Current Liabilities	\$6,844,000,000
Dec1997	\$0.42	Long-Term Debt	\$2,821,000,000
		Total Assets	\$23,286,000,000
		Intangible Assets	\$1,396,000,000
		Total Liabilities	\$14,845,000,000
		Shares Outstanding (Diluted Average)	633,000,000





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

[Southwest Airlines Company Valuation – October 2015 Update \\$LUV](#)

[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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[Southwest Airlines Company Valuation – October 2015 Update \\$LUV](#)

[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](#)