

ModernGraham Valuation

Company Name:

Southwest Airlines Co

Company Ticker LUV

Date of Analysis

5/17/2018



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	\$29,670,474,203	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
	Increase of 33% in EPS in past 10 years using 3 year averages at beginning and end	1308.25%	Pass
5. Earnings Growth			
6. Moderate PEmg Ratio	PEmg < 20	12.38	Pass
7. Moderate Price to Assets	PB Ratio < 2.5 OR PB*PEmg < 50	3.21	Pass

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	-1.37	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 Score		Pass

Suitability

Defensive	Yes
Enterprising	Yes

Stage 2: Determination of Intrinsic Value

EPSmg	\$4.24
MG Growth Estimate	15.00%
MG Value	\$163.21
MG Value based on 3% Growth	\$61.47
MG Value based on 0% Growth	\$36.03
Market Implied Growth Rate	1.94%

MG Opinion

Current Price	\$52.47
% of Intrinsic Value	32.15%
Opinion	Undervalued
MG Grade	B

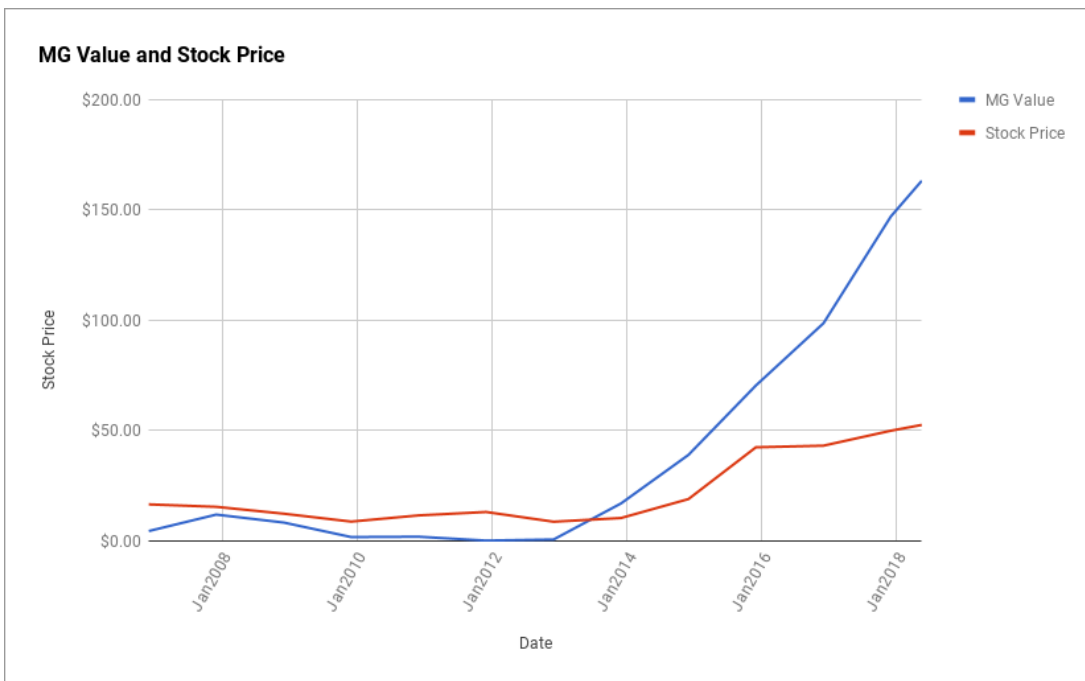
Stage 3: Information for Further Research

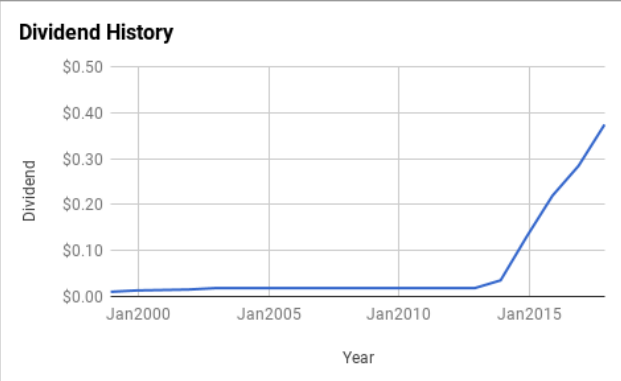
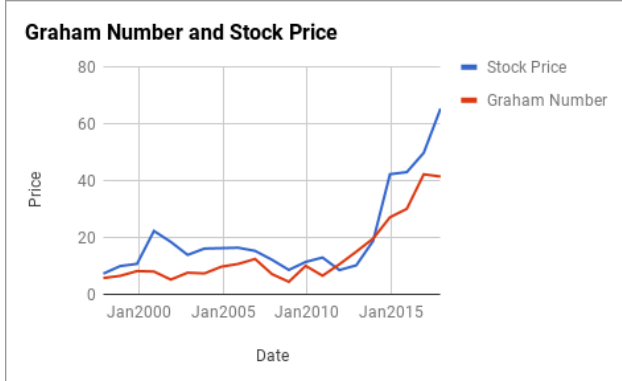
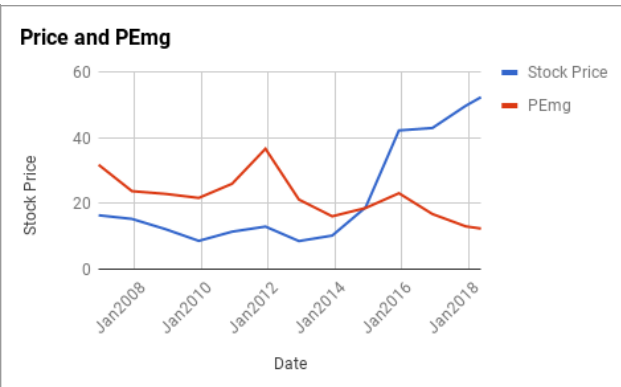
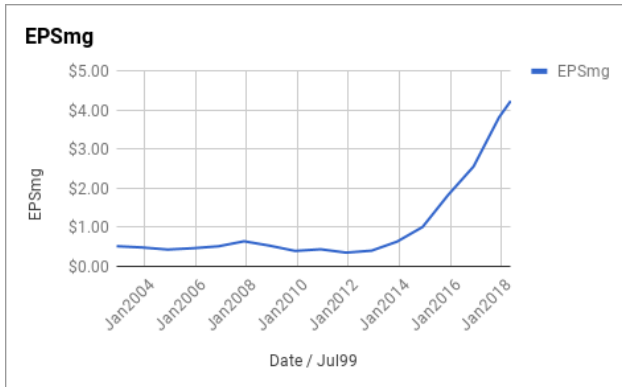
Net Current Asset Value (NCAV)	-\$18.85
Graham Number	\$41.50
PEmg	12.38
Current Ratio	0.67
PB Ratio	3.21
Current Dividend	\$0.45
Dividend Yield	0.86%
Number of Consecutive Years of Dividend Growth	6

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	\$4.32	Next Fiscal Year Estimate	\$4.24
Dec2017	\$5.79	Dec2017	\$3.82
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	Balance Sheet Information 3/1/2018	
Dec2000	\$0.79	Total Current Assets	\$4,801,000,000
Dec1999	\$0.59	Total Current Liabilities	\$7,162,000,000
Dec1998	\$0.55	Long-Term Debt	\$3,227,000,000
		Total Assets	\$25,503,000,000
		Intangible Assets	\$1,380,000,000
		Total Liabilities	\$15,884,000,000
		Shares Outstanding (Diluted Average)	588,000,000





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:

Other ModernGraham posts about the company

- [Southwest Airlines Co Valuation – February 2017 \\$LUV](#)
- [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 \(LUV\)](#)

Other ModernGraham posts about related companies

- [Alaska Air Group Inc Valuation – May 2018 \\$ALK](#)
- [Delta Air Lines Inc Valuation – March 2018 \\$DAL](#)
- [United Continental Holdings Inc Valuation – Initial Coverage \\$UAL](#)
- [American Airlines Group Inc Valuation – February 2017 \\$AAL](#)
- [Southwest Airlines Co Valuation – February 2017 \\$LUV](#)
- [JetBlue Airways Corporation Valuation – Initial Coverage \\$JBLU](#)
- [SkyWest Inc Valuation – Initial Coverage \\$SKYW](#)
- [Alaska Air Group Inc Valuation – December 2016 \\$ALK](#)
- [American Airlines Group Inc Valuation – August 2016 \\$AAL](#)
- [Delta Air Lines Inc Valuation – July 2016 \\$DAL](#)