

ModernGraham Valuation

Company Name:

Southwest Airlines Co

Company Ticker LUV

Date of Analysis

3/8/2019



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	\$28,679,031,872	Pass
2. Sufficiently Strong Financial Condition	Current Ratio > 2	0.64	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	922.14%	Pass
5. Earnings Growth	PEmg < 20	11.74	Pass
6. Moderate PEmg Ratio	PB Ratio < 2.5 OR PB*PEmg < 50	2.94	Pass
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	0.64	Fail
2. Sufficiently Strong Financial Condition	Debt to NCA < 1.1	-0.96	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	\$4.42
MG Growth Estimate	15.00%
MG Value	\$170.14
MG Value based on 3% Growth	\$64.08
MG Value based on 0% Growth	\$37.56
Market Implied Growth Rate	1.62%

MG Opinion

Current Price	\$51.88
% of Intrinsic Value	30.49%
Opinion	Undervalued
MG Grade	B-

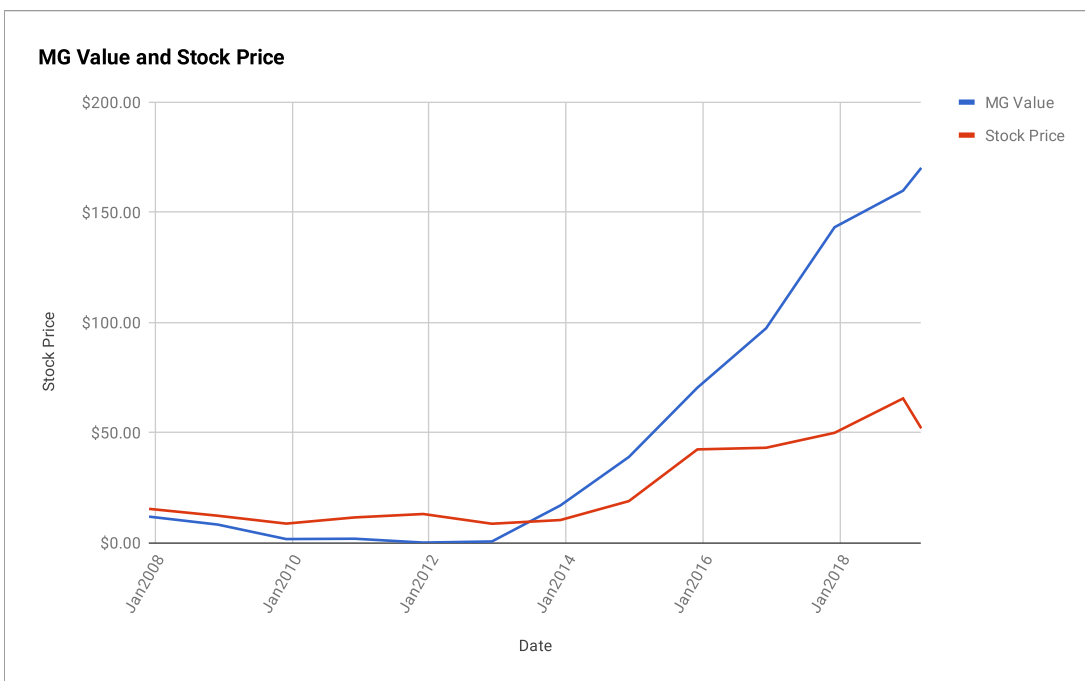
Stage 3: Information for Further Research

Net Current Asset Value (NCAV)	-\$20.33
Graham Number	\$41.89
PEmg	11.74
Current Ratio	0.64
PB Ratio	2.94
Current Dividend	\$0.61
Dividend Yield	1.17%
Number of Consecutive Years of Dividend Growth	7

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	
Dec2018	\$4.45	Dec2018	\$4.42
Dec2017	\$4.29	Dec2017	\$4.15
Dec2016	\$5.57	Dec2016	\$3.72
Dec2015	\$3.45	Dec2015	\$2.53
Dec2014	\$3.27	Dec2014	\$1.83
Dec2013	\$1.64	Dec2013	\$1.01
Dec2012	\$1.05	Dec2012	\$0.64
Dec2011	\$0.56	Dec2011	\$0.40
Dec2010	\$0.23	Dec2010	\$0.35
Dec2009	\$0.61	Dec2009	\$0.44
Dec2008	\$0.13	Dec2008	\$0.40
Dec2007	\$0.24	Dec2007	\$0.53
Dec2006	\$0.84	Dec2006	\$0.64
Dec2005	\$0.61	Dec2005	\$0.52
Dec2004	\$0.60	Dec2004	\$0.47
Dec2003	\$0.38	Dec2003	\$0.43
Dec2002	\$0.46	Dec2003	\$0.49
Dec2001	\$0.23	Balance Sheet Information	
Dec2000	\$0.63	12/1/2018	
Dec2000	\$0.79	Total Current Assets	\$5,028,000,000
Dec1999	\$0.59	Total Current Liabilities	\$7,905,000,000
		Long-Term Debt	\$2,771,000,000
		Total Assets	\$26,243,000,000
		Intangible Assets	\$1,369,000,000
		Total Liabilities	\$16,390,000,000
		Shares Outstanding (Diluted Average)	559,000,000





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

- [10 Undervalued Companies for the Defensive Investor – June 2018](#)
- [Southwest Airlines Co Valuation – May 2018 \\$LUV](#)
- [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](#)

Other ModernGraham posts about related companies

- [Alaska Air Group Inc Valuation – February 2019 \\$ALK](#)
- [Delta Air Lines Inc Valuation – January 2019 \\$DAL](#)
- [United Continental Holdings Inc Valuation – January 2019 \\$UAL](#)
- [JetBlue Airways Corp Valuation – August 2018 \\$JBLU](#)
- [SkyWest Inc Valuation – July 2018 \\$SKYW](#)
- [American Airlines Group Inc Valuation – May 2018 \\$AAL](#)
- [Southwest Airlines Co Valuation – May 2018 \\$LUV](#)
- [Alaska Air Group Inc Valuation – May 2018 \\$ALK](#)
- [Delta Air Lines Inc Valuation – March 2018 \\$DAL](#)
- [United Continental Holdings Inc Valuation – Initial Coverage \\$UAL](#)