



Rating  
**Buy**

North America  
United States

Industrials  
Airlines

Company  
**Delta Air Lines, Inc.**

Reuters DAL N      Bloomberg DAL US      Exchange NYS      Ticker DAL

Date  
9 June 2014

Forecast Change

Price at 6 Jun 2014 (USD)	42.23
Price Target	48.00
52-week range	42.23 - 17.36

## EPS momentum carrying into 2H 2014/2015; Raising estimates/PT

EPS momentum driven by better revenue expected to continue

Since the start of the quarter, revenue trends have been stronger-than-expected. In May, Delta unit revenues increased 7%, at the high end of the company's +6% to 7% range (tightened higher from +5% to 7% in the beginning of May). That PRASM came in at the high end of the tightened range could reflect better close in (i.e. business) bookings, in our view. Given that we are seeing similar trends across our US airline coverage universe, we believe that we are not only seeing the benefits of consolidation, but that the macroeconomic backdrop is also improving. As such we are raising our June Q and FY 2014/2015 estimates and raising our PT; Buy.

Jet fuel should also provide a tailwind

In addition to the aforementioned strength in revenue trends, we have also seen jet fuel crack spreads narrow markedly over the past month and a half, providing a further boost to June Q earnings. Jet fuel spreads to Brent and WTI have decreased 34% and 20% since mid-April, so while Brent and WTI are trading at similar levels the price of jet fuel per gallon has fallen 4%.

Raising June Q, 2014, and 2015 earnings

We are raising our June Q 2014 EPS estimate to \$1.05 (vs. consensus of \$1.02) from \$1.00 as strong revenue and lower fuel prices are better-than-expected. We expect the revenue strength seen in the June Q to continue in the second half of 2014 and into 2015 as the benefits of the last round of consolidation provide better pricing power and the macro backdrop improves. As such, we are raising our 2014 and 2015 EPS estimate to \$3.05 (vs. consensus of \$3.04) from \$2.85 and \$3.55 (vs. consensus of \$3.51) from \$3.10, respectively.

Valuation and risks

Given our improved earnings outlook and our belief that Delta merits a multiple slightly above the group's historical range given its continued efforts to de-risk the business and reward shareholders (plans to pay down an additional \$2 billion in net debt, increased dividend by 50%, and announced new \$2 billion share repurchase program during the June Q), we are raising our price target to \$48 from \$40. Our price target is derived by the application of a 13.5 P/E multiple to our 2015 forecast, slightly above the group's historical 10x - 12x range. Turning to risks, fuel price volatility is a key risk for Delta—we estimate every 10% move in jet fuel (ceteris paribus) impacts our 2014 EPS forecast of \$3.05 by \$0.70. Other risks include economic weakness, government regulation, labor issues, the threat of terrorism and war, and the revaluation of the stock market resulting in higher equity risk premiums for airline stocks.

### Forecasts And Ratios

Year End Dec 31	2013A	2014E	2015E
FY EPS (USD)	3.14	3.05	3.55
P/E (x)	6.4	13.9	11.9
Revenue (USDm)	37,773.0	40,368.3	43,069.5

Source: Deutsche Bank estimates, company data

### Equity

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### Fixed Income

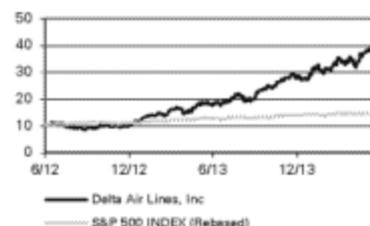
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### Key changes

Price Target	40.00 to 48.00	↑	20.0%
EPS (USD)	2.85 to 3.05	↑	7.0%
Revenue (USDm)	40,026 to 40,368	↑	0.9%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	12.0	19.4	141.5
S&P 500 INDEX	4.4	3.9	20.1

Source: Deutsche Bank

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