Allegiant Travel Company (ALGT)

March 8, 2009

Group 4: C.Carr, V.Hayes, D. Kohtz, R.Sanner

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Allegiant Travel Company		
Recommendation: BUY		
APM Recommendation: HOLD		
Ticker	ALGT	
Current Price (USD)	$33.44	
Target Price	**$40.93**	
Total enterprise value (M)	$678.06	
Market Cap (M)	$803.20	

Relative Ratios

	ALGT	**Comps**
2009 Forward P/E	12.94	4.64
2009 TEV/EBITDAR	7.10	4.10
Gross Margin (%)	53.03	42.10
Profit Margin (%)	14.87	-12.68
EBITDAR Margin (%)	37.77	16.11
ROE (%)	7.78	-15.78
ROA (%)	4.29	-2.46
RASM (in cents)	4.37	11.47

Note: All figures calculated using price as of market close on March 6, 2009. Information for forward mean estimates for comparables accessed from Thomson One Analytics for fiscal year ending December 2009. All margins are based on quarter ending Decembe

We recommend a **BUY** on Allegiant Travel for the following reasons:

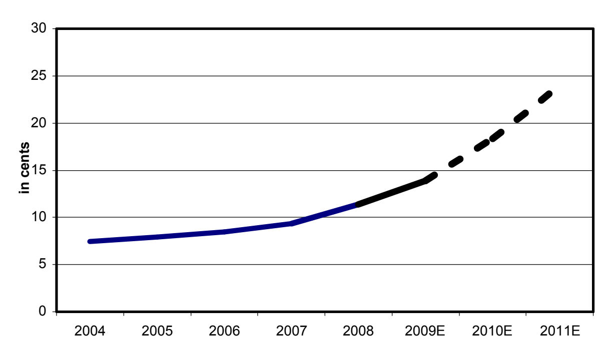
Investment Thesis:

- Allegiant Travel's short booking window allows it flexibility to shut down unprofitable routes as reflected in its industry-leading fourth quarter profit margin of 14.87%[1].
- The company faces direct-flight competition at only 3 of its 57 small-market airports, giving it a significant competitive advantage.
- Allegiant owns all but 4 of its 43 aircraft, reducing rent expense as a percent of revenue to 0.3% versus 6.5% for its comparables[2].
- Based on our forward TEV/EBITDAR model we have arrived at a target price of $40.93, indicating the stock is undervalued by 22.3%.

Company Overview:

Allegiant Travel is a small Las Vegas-based airline focused on the leisure traveler. The company distinguishes itself from its larger competitors by pioneering a business model based on low fares and in-flight sales. The company operates direct flights from underserved markets to select vacation destinations including Orlando and Ft. Lauderdale, Florida, Phoenix, Arizona, and Las Vegas, Nevada. Allegiant un-bundles air service to provide low initial ticket prices and recoups costs by charging fees for seat assignments and refreshments on its aircraft. Customers are also encouraged to book their hotel and car rental accommodations through Allegiant, which contracts with several well-known national chains to provide booking services. Income from these ancillary services provides an increasing share of overall revenues. To further cut costs, Allegiant flies only the discontinued McDonnell-Douglas MD-80 aircraft family, which may be purchased for little more than residual value from legacy carriers[3]. This strategy has produced sustained profitability and growth opportunities for Allegiant. This is seen in the company's increasing revenue per available seat mile over time.

Figure 1: Allegiant Revenue per Available Seat Mile



[1] Allegiant 10-K filed 3/3/09 p.51

[2] Allegiant 10-K filed 3/3/09 p.66

[3] Lindenberg, Michael, Allegiant Update, 1/28/09. Analyst report from Bank of America Research. Accessed from Thomson One.

Cost Structure:

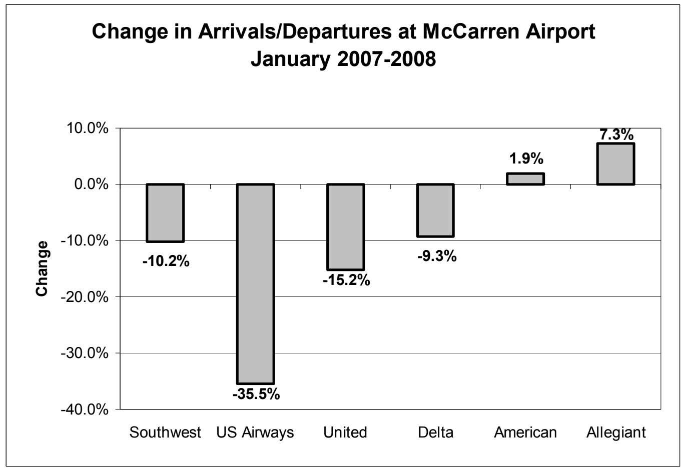
Aircraft fuel is Allegiant's largest single expense. Total expenditures on fuel were $229 million in 2008, comprising 51.2% of operating expenses[4]. In addition, the company's aging fleet of MD-80 aircraft is less fuel efficient than comparable Boeing and Airbus products, leading to higher costs per mile. The company ceased hedging activities in 2007, and now buys jet fuel at market prices[5]. While this strategy increases risk, it also allows Allegiant to immediately benefit from lower fuel prices while its competitors remain locked in to higher prices. The company's short booking window allows it to quickly adapt to changing fuel prices by cutting less profitable routes. In addition, the company has made efforts to reduce costs by becoming involved in fuel distribution channels. It has purchased fuel storage units and fuel transportation along with forming a subsidiary to negotiate fueling contracts with Orlando Sanford International Airport[6]. For our projections, we anticipated average jet fuel prices dropping to $2.30 per gallon in 2009 and increasing to $2.90 by 2011.

Macroeconomic Factors:

America's deepening economic recession is impacting discretionary items such as travel more than other industries. Since Allegiant concentrates on the leisure segment of the travel market, the company may face exposure to the unfavorable economic conditions. However, it appears Allegiant is benefiting from increased price awareness on the part of consumers who are trading down to Allegiant from higher-priced carriers. The low ticket price of Allegiant is enticing to customers who otherwise would consider bundled services offered by larger airlines.

Data from Allegiant's primary destination of Las Vegas supports this analysis. As seen in Figure 1.1, Las Vegas' McCarran International Airport suffered a 15.7% drop in January traffic from 2007 to 2008. However, Allegiant reported an increase of 7.3%[7]. This indicates Allegiant will be able to weather the recession while maintaining modest growth. Besides the low fares, Allegiant's primary markets also suffer less relative to larger cities from an economic downturn.

Figure 2:



Valuation:

We compared Allegiant to four comparable airlines: Ryaanair, JetBlue, AirTran, and Hawaiian. In the valuation we forecasted the next three years' financial performance based on historical performance. See Figure 3 for details on key assumptions.

Figure 3: Key Forecast Assumptions

	2008	*E2009*	*E2010*	*E2011*
Revenues	$504.01	*$695.54*	*$952.89*	*$1,295.92*
Growth	39.78%	*38.00%*	*37.00%*	*36.00%*
Gross Profit	189.43	*285.17*	*362.10*	*453.57*
Margin	37.58%	*41.00%*	*38.00%*	*35.00%*
Operating Profit	55.85	*79.99*	*109.58*	*149.03*
Margin	11.08%	*11.50%*	*11.50%*	*11.50%*
Net Income	35.41	*52.97*	*72.57*	*98.70*
EPS	$1.73	*$2.58*	*$3.54*	*$4.81*
Growth	12.53%	*49.61%*	*37.00%*	*36.00%*
Free Cash Flow per Share	1.44	*3.84*	*0.10*	*0.31*

Note: All figures are in millions of USD with the exception of per share data.

Revenue growth is continued but at a decreasing rate. The main driver for growth is the opening of new small-city origination sites. The company currently has 57 and management has stated it would like to have 100. We have forecasted 64 cities being open by the end of 2011. The free cash flow incorporates our belief that the aging aircraft fleet will have to be replaced at some point. This will increase capital expenditures and decrease free cash flow.

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4 Allegiant 10-K filed 3/3/09 p.29

5 Allegiant 10-K filed 3/3/09 p.55-56

6 Allegiant 10-K filed 3/3/09 p.56

7 Key statistics were obtained on March 8, 2009 from Clark County Department of Aviation Statistics

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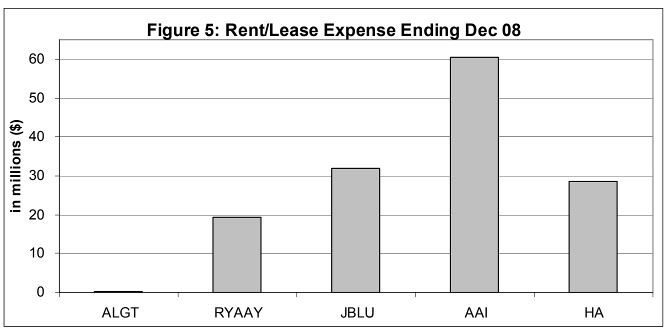
Figure 4: Forcasted EBITDAR	2008	E2009	E2010	E2011
Operating Profit	55.85	*79.99*	*109.58*	*149.03*
Add: Depreciation	23.49	*32.13*	*53.27*	*75.81*
EBITDA	79.34	*112.12*	*162.85*	*224.84*
Add: Aircraft Lease Ex	2.82	*2.09*	*2.86*	*3.89*
EBITDAR	**82.15**	***114.21***	***165.71***	***228.73***

Note: All figures are in millions of USD. Forecasts are based on our own key assumptions outlined in Figure 3.

Figure 4 shows our forecast for EBITDA and lease expense. Because the company only leases two aircrafts in its fleet the difference between EBITDA and EBTIDAR is negligible. This is not the case with comparable companies (see Figure 5) who have large lease expenses. Allegiant has an advantage based on this by having low operating leverage as a result and decreasing the cyclicality of profits for the company.



According to our relative valuation, Allegiant's shares are undervalued by 22.3%. Using the average 2009 TEV/EBITDAR multiple for comparable companies revealed a target price of $40.93 compared to the current market price of $33.44.

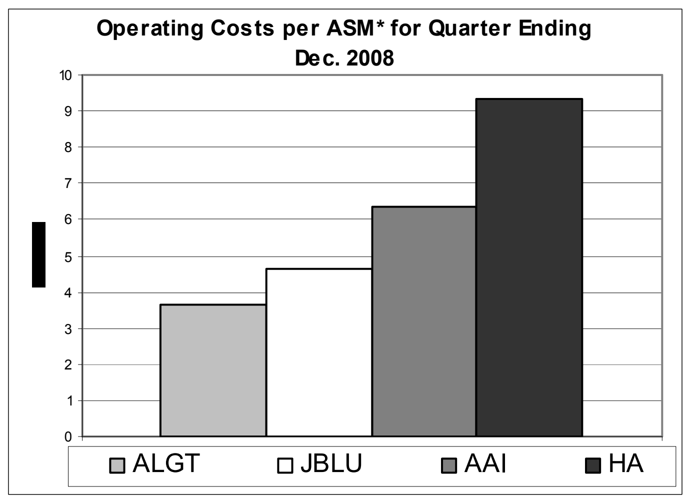
Figure : Target Price Calculation (Using TEV/EBITDAR Multiple)	
Average 2009 TEV/EBITDAR	4.10
x ALGT's 2011 EBITDAR	$228.73
P*	**$40.93**
% Undervalued	-22.39%

Note: EBITDAR is from our own forecast. This number is in millions of USD.

We used a weighted average cost of capital of 10.58% to discount future cash flows and assumed an effective tax rate of 36% going forward.

	2009 P/E	2009 TEV/EBITDAR	Gross Margin (%)	EBITDAR Margin (%)	ROA (%)	ROE (%)	RASM (cents)	Cash/ Long-Term Debt
ALGT	**12.94**	**7.10**	**53.03**	**37.77**	**7.78**	**4.29**	**4.37**	**2.47**
MEDIAN	*4.64*	*4.10*	*42.10*	*16.11*	-	-	*11.47*	*1.01*
RYAAY	8.62	-	87.61	-4.82	-4.29	-1.88	-	1.06
JBLU	5.10	5.69	8.38	15.17	-4.52	-0.95	10.80	0.23
AAI*	2.78	3.95	24.86	-2.85	-48.13	-5.74	11.00	1.64
HA*	2.06	2.66	47.55	17.05	-6.18	-1.26	12.62	1.12

Allegiant has a higher forward P/E and TEV/EBITDAR multiple than the average of comparables but this premium is justified by Allegiant's superior performance. Allegiant was the only company to achieve positive earnings in 2008 and has stronger Gross and EBITDAR margins, 53% and 37% respectively, compared to comparable average of 42% and 16%. It is also important to note Allegiant's cash to long-term debt coverage of 2.47. This is more than twice the average of 1.01 of the company's competitors. Although Allegiant's RASM of 4.37 is lower than the average of 11.47 cents, the company's cost control is stronger than comparable companies despite higher fuel costs per mile.



Conclusion:

Our analysis of Allegiant Travel using TEV/EBITDAR relative to three comparable indicates the company is undervalued by 22%. Allegiant has pioneered a successful business model which emphasizes low costs and reliance on ancillary purchases which we expect to continue to produce industry-leading margins and growth. The company is successfully positioned to weather the current crisis and maintain profitability due to its low-cost brand image, niche market focus, and low operating and financial leverage. However, due to the APM portfolio's current exposure to the airline industry, we believe adding another aviation holding would overweight our portfolio to aviation securities.