"HAWAIIAN HOLDINGS"

COMPANY REPORT

"AIRLINES INDUSTRY"

6 JANUARY 2017

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U.S. Airlines with outstanding results

Low oil prices are driving the success

North American airlines have not presented exceptional results in past years, and given the high volatility of the sector, these companies did not integrate most investors' portfolio. With the sharp drop in oil prices, airlines were able to increase margins and profits. Several American companies are announcing share buyback programs in order to bolster investor confidence in the industry and return money to shareholders. This improved result allows many firms to have an organic growth, acquiring new aircrafts and opening new routes, without having to resort in high debt levels.

Hawaiian airlines has seen a strong growth in recent years, taking advantage of the favourable market conditions and growth in the tourism sector. Despite its lower installed capacity and brand recognition, the company presents high growth opportunities. The acquisition of 22 new aircraft will allow the operations expansion to unexplored and less competitive regions. This will let the company reinforce its positive results, and maintain a steady and moderate growth in the future.

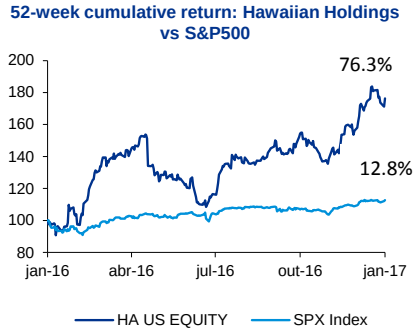
Company description

Hawaiian Holdings, Inc. (HA) is a holding company, parent of Hawaiian Airlines, Inc. since 2002. The company is based in Honolulu as the largest Hawaiian airline and the 10th largest domestic airline in the U.S. It is engaged in the scheduled air transportation of passengers and cargo services, and carried more than 10 million passengers in 2015. The company offers flights amongst the Hawaiian Islands, to cities in the United States and to the South Pacific, Australia and New Zealand. The firm's fleet includes currently 55 aircraft, which will be reinforced in the next years with the new A330-800neo and the A-321neo. This expansion will allow the firm to mature the existing routes and open new ones.

Recommendation:	**HOLD**
Vs Previous Recommendation	-
Price Target FY17:	**$60.37**
Vs Previous Price Target	-
Price (as of 6-Jan-17)	**$56.95**

52-week range ($)	28.40-60.90
Market Cap ($M)	3043
Outstanding Shares (m)	53.43

Source: Bloomberg



Source:Bloomberg

(Values in $ millions)	2015	2016E	2017F
Revenues	2317.5	2409.6	2636.1
EBITDAR	587.4	716.1	709.5
EBITDAR margin	*25.3%*	*29.7%*	*26.9%*
Net Profit	182.7	260.9	264.4
EPS ($)	3.38	4.88	4.61
P/E	9.6x	11.7x	13.1x
Net Debt	490.6	255.7	223.9
ROIC	17.3%	23.5%	20.5%
ROE	41%	38.3%	31.1%
ROA	7.3%	10.1%	8.8%

Source: Company's annual reports and individual analysis

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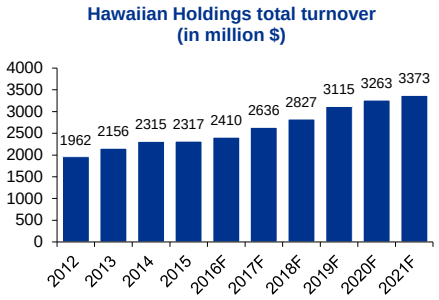
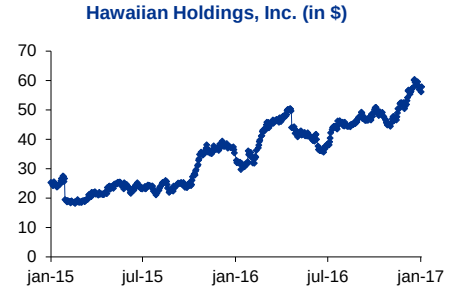
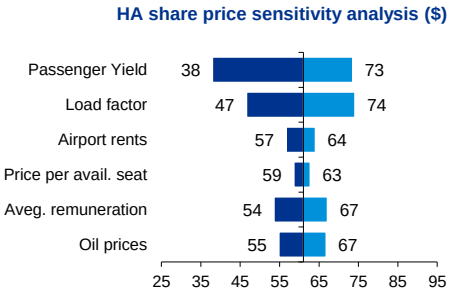
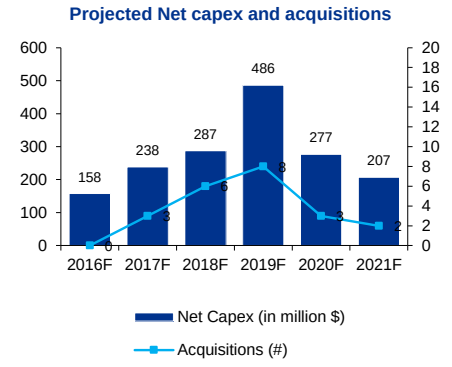
Executive summary









Despite the recent slowdown of the global economy, airlines' industry is one of the fastest growing industries, contributing directly for more than 1% of the global G.D.P. Hawaiian Holdings is a holding company parent of Hawaiian Airlines, the largest airline in Hawaii and the 10th largest in the U.S. In the last years, the company has been able to increase its market position in both domestic and international markets through an organic growth, achieving a market share of 2%. Favorable economic conditions and the increased demand for the Hawaiian Islands, also contributed for a turnover increase of 18% over the last 3 years. The company's market value has also risen sharply (an increase of almost 80% in the last year), probably due the increased investor's awareness of the company's growth potential. Hawaiian Airlines is still a relatively small company, but with its expansion to other regions and its marketing alliances with other airlines, the company can grow considerably. Return on invested capital (ROIC) reached a remarkable value of 17.34% in 2015, with the company's earnings registering a growth of 80% from 2014 to 2015, which is mainly related to the reduction in fuel expenses. Given the company's current investments, ROIC is expected to remain slightly above the cost of capital in the future, with a revenue growth between 5 to 10% until 2021, and EBITDAR margins between 20 and 25%.

Hawaiian Airlines' services are focused on the tourist segment, becoming more vulnerable to tourism fluctuations and demand shocks. In order to mitigate this risk the company adjust prices, ensuring the maximum possible load factor and diluting the costs associated with each trip. To evaluate the consequences of the occurrence of an extreme event, it was performed a sensitivity analysis where it is possible to perceive the impact of a permanent demand contraction -stock price would decrease to $47.

The company has financial derivative instruments to manage the exposure to changes in jet fuel prices. However, there is no guarantee that this hedging strategy would smooth any oil price fluctuations, which constitutes an important market risk. According to the performed sensitivity analysis, ± 25% changes would lead to a stock price between $54 and $57, since part of the cost increase would probably be reflected in the fares growth. Other risks such as additional airport fees or changes in wages were also analyzed and would lead to a minimum price of $54.

In order to expand its operations, the company will acquire 22 aircraft in the coming years. These purchases constitute large capital expenditures and will increase the company's debt needs.

Taking into account that cash flows are expected to grow at a nominal rate of 2.5% in perpetuity, and the company's cost of capital of 9.44%, Hawaiian Holdings' share price is expected to be $60.4 within a year, representing a 6% return. The recent increase in the company's price seems to show that Hawaiian Holdings was being undervalued in the past. My recommendation is to hold this stock, because despite the company's growth potential, Hawaiian Airlines operates in an extremely volatile sector. Besides, the recent sharp rise in share prices it will hardly be sustained for a long time, and will probably begin to stabilize.

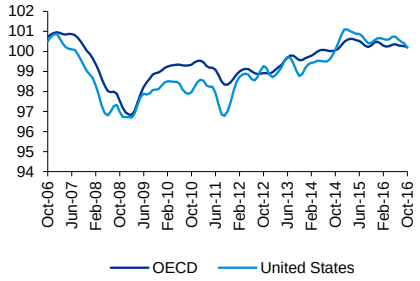
Market and Industry Overview

The world economy presented a slight slowdown in 2015, mainly due to political and financial instability and the deceleration of China's economic activity. The slow growth in the mature markets, low oil prices and weak global trade lead to a modest economic outlook. World GDP is expected to grow at 2.9%, in an annual basis, over the next 20 years.[1]

The U.S. economy represents 20% of total global output, has the sixth highest nominal per capita GDP[2] and is considered a "Goldilocks economy", with moderate inflation rates and a 2-3% growth. This economy is recovering from a period of considerable turmoil, presenting now a solid labor market with low unemployment rates (4.6%, the lowest result since 2007) and rising real wages, which is boosting consumer confidence. Despite the increased pressure on business investment coming from the uncertainty of recent elections and low oil prices, the level of consumer confidence recently achieved its largest value since 2007, leading to an increased household spending. These improved consumption opportunities and strong monetary support will be translated in an average 2.3% GDP growth[4] over the next 20 years, with citizens willing to increase spending on services such as travel and tourism.

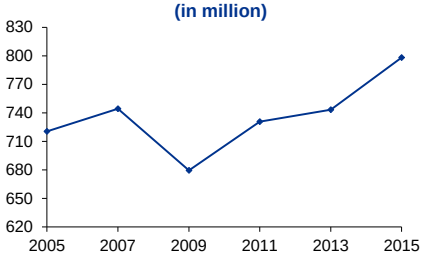
Air transportation business contributes directly to 1.2% of the global GDP, and indirectly (including the contribution to employment and tourism) by 3%, with the major absolute contribution coming from the United States. This industry has an important impact on the economy by creating jobs, contributing to local economies or by connecting economies across the globe, favoring the international trade by enabling the flow of goods, people and technology. It is characterized by large costs, reduced profit margins, intense competition, considerable operating leverage, and has experienced some changes in the last decades. With the Airline Deregulation Act in 1978, air travel control partially shifted from the political to the market sphere. Before the deregulation, the investment and operating decisions were highly constrained under the Civil Aeronautics Board, imposing limits to routes and prices, and restraining the competition. As a consequence, prices were higher and load factors in the early 1970s were around 50%. Despite the boom-to-bust cycles felt since the deregulation, air travel has proved to be resilient to external shocks. Air carriers were able to develop new business models to minimize losses and increase operating revenues, attaining sustainable profits and creating a considerably different and renewed market. Now, companies compete in price and fares are much lower, flights are more frequent and present load factors around 80%.

Graph I:
Consumer confidence index



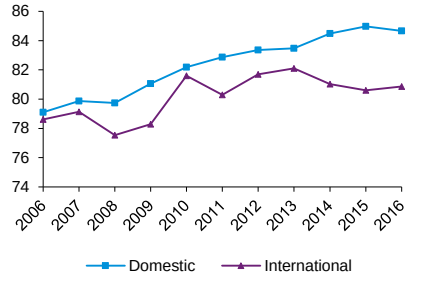
Source: OECD

Graph II:
U.S. Air Transport, passengers carried (in million)



Source: World Bank

Graph III:
U.S. Carriers Load Factor - Domestic and International flights



Source: Bureau of Transportation Statistics

1,3 Source: Boeing – Current Market Outlook 2016-2035; 2 Source: International Monetary Fund (2015)

Airline companies are also taking advantage of ancillary revenues, charging additional fees for baggage, food and other in-flight amenities as they differentiate themselves with new technological preflight or in-flight services. Air cargo services are also recovering as the global trade is expected to grow at rates of about 5% on average in the next years.

With low oil prices leading to a favorable cost environment, industry consolidation and strengthening demand, current circumstances are extremely positive for domestic U.S. airlines and net margins are improving globally. Airlines are taking advantage of this improved financial position to undertake investments that will allow future sustainable growth, such as acquisition of efficient aircraft, interior upgrades or operational improvements. This is expected to lead to a 4.5%[4] global annual air traffic growth over the next 20 years,

Company Overview

Hawaiian Holdings, Inc. (HA) is a holding company that became the parent of Hawaiian Airlines, Inc. in 2002 when the company filed for Chapter 11 bankruptcy protection. Hawaiian Airlines Inc. was founded in 1929 and originally integrated under the name of Inter-Island Airways Ltd., changing its name to Hawaiian Airlines in 1941. It is engaged in the scheduled air transportation of passengers and cargo services. This is the largest airline in Hawaii and the 10th largest domestic airline in the U.S., based in Honolulu, Hawaii. The company offers different types of routes: flights amongst the Hawaiian Islands (the Neighbor Island routes); between the Hawaiian Islands and cities in the United States (the North America routes); and between the Hawaiian Islands and the South Pacific, Asia, Australia and New Zealand (the International routes). The company provides non-stop flights from the Hawaiian Islands to the main U.S. cities, offering approximately 160 daily flights between the Hawaiian Islands and a total of 212 flights per day to its 28 destinations.

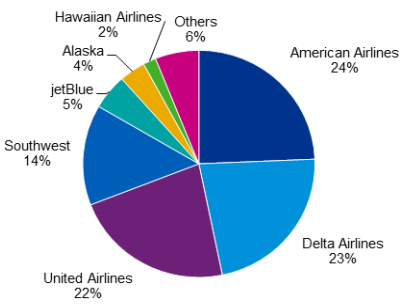
Hawaiian Airlines emerged from bankruptcy ten years ago and is now presenting four times higher revenues, a doubled-size fleet still in expansion, an increased work force and consistently better results. In 2015 the company transported 10.67 million passengers, a 4.7% increase over the previous year, and registered 2,317 million in revenues, of which 1,775 million respect domestic flights.

Revenue from domestic flights increased 19% in last 2 years as a result of existing routes' reinforcement (more frequent schedules between the islands and to the mainland). This improvement offsets the revenue decrease coming from poor international results, and led to a total revenue increase of 8% since 2013.

Despite this good overall evolution, Hawaiian Airlines is responsible for only 2%

Graph IV:

North American companies market share (2015)



Source: Companies' annual reports

4 Source: Boeing – Current Market Outlook 2016-2035

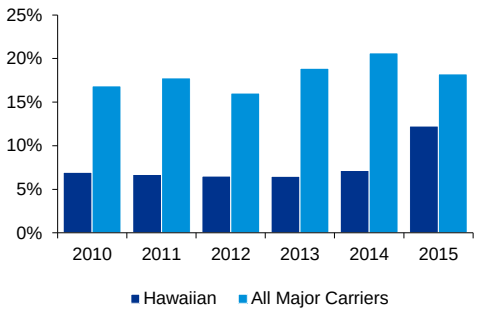
of all U.S. Airlines' traffic share. The company is deeply dependent on tourism fluctuations, since its services are focused on the leisure passengers' segment – the largest but least profitable sector. New routes to international destinations will be launched in the next few years, taking advantage of the favorable international business' conditions and new market opportunities, as will be clarified later.

As of December 31, 2015, the company's fleet consisted of 18 Boeing 717-200 aircraft for the Neighbor Island routes, 8 Boeing 767-300 aircraft and 22 Airbus A330-200 aircraft for the North America, International and charter routes. It was also composed of 3 ATR42 turboprop aircraft for the ''Ohana by Hawaiian'' Neighbor Island service and 3 ATR72 turboprop aircraft for the expansion of the cargo service.

The firm aims to offer a unique travel experience, providing personalized services and diverse inflight amenities. It is oftentimes cited as a top quality airline, presenting over the last 5 years an average cancellation rate of 0.15% (versus an average rate from all major carriers of 1.75%), a delayed rate of 7.7%[5] (versus an average rate from all major carriers of 18.1%), and zero fatality record.

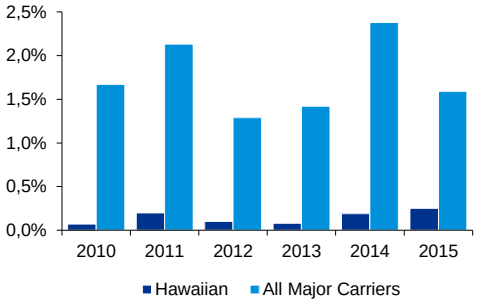
Graph V:

% of delayed flights per year



Graph VI:

% of cancelled flights per year



Source: Information based on data submitted by reporting carriers.

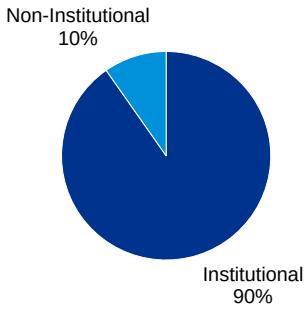
[5]"A flight is considered delayed if it departed the gate 15 minutes or more after the scheduled d time as reflected in the Computerized Reservation System."

In order to maintain and improve these marks, the company is focused on operational excellence (rendering an irreproachable and unforgettable service to its customers), as well as on new contracts and agreements that will allow to a revenue increase. The fleet redesign and next years' expansion will allow to the reinforcement of existing routes and creation of new ones, which are determinant factors in the strengthening of its business revenues that are expected to grow at a 5-10% rate in the coming years.

Corporate Governance and Shareholder structure

Hawaiian Airlines follows an Anglo-US model of corporate governance, characterized by a well-developed legal framework defining the rights and responsibilities of three key players - management, directors and shareholders. It includes a Board of directors, four different committees - Audit, Compensation, Executive and Governance and Nominating - and an independent auditor (Ernst & Young LLP). The Board of Directors ("The Board") is elected by the stockholders to oversee the management activity and guarantee the long term interests of the stockholders, appointing the several regulatory Committees under the direction of the Company's Chief Executive Officer (the "CEO"), Mark B. Dunkerley. The Governance and Nominating Committee has the purpose of monitoring and overseeing matters of corporate governance, the Audit Committee is responsible for assisting the Board to ensure integrity of the company's financial statements and other financial information and the Compensation Committee is responsible for evaluating the company's compensation policies, plans and programs. Given that this is a large-scale business with several shareholders, it is of the utmost importance to ensure that management is acting in the best interests of the shareholders, as well as the company itself. The structure presented, with the existence of several regulatory committees, optimizes the control and success of the company's decisions.

Graph VII
Shareholder structure:



Source: Nasdaq companies' information

Table I:

Institutional investors	
Owner name	**Ownership**
VANGUARD GROUP, INC.	11%
AJO, LP	6%
BLACKROCK FUND ADVISORS	6%
DIMENSIONAL FUND ADVISORS LP	5%
RENAISSANCE TECHNOLOGIES LLC	4%
Others	68%

Source: Nasdaq companies' information

As of 5th December 2016, Hawaiian Airlines has 53.43 million shares outstanding. In the last 5 years, the number of shares ranged from 50.73M in Dec. 2011, to the maximum of 54.87M in June 2015. The company's aggregate intrinsic value of stock options outstanding as of December 2015 was $3.1 M. The insiders hold 3.4% of the company's outstanding shares of which 1% belongs to the CEO. Institutional investors and hedge funds, comprised of 314 different holders, own 89.95% of the company's stock. The Hawaiian Holdings stock is currently traded at the Nasdaq Stock Exchange. The terms of some financing agreements restrict the company's ability to incur in additional debt or issue preferred stock. Additionally, due to financing and aircraft lease agreements' provisions, the company is not able to pay dividends on its common stock and does not anticipate the payment of periodic cash dividends in the foreseeable future. Nevertheless, the company is returning money back to shareholders through a share repurchase program, using part of its cash flow to buy back shares, yet still keeping an abundant amount of excess cash. This makes some investors believe that the company is renegotiating some of the lease agreements, and will start to return cash to shareholders through the distribution of steady dividend offering a 1% to 2% yield.

Operational Analysis

- Revenues

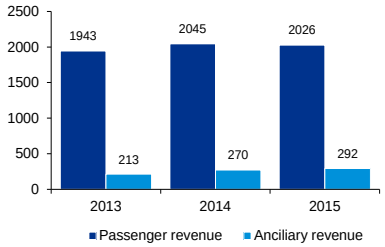
Company's revenues come from the scheduled passenger traffic and the ancillary revenues that include the cargo business and value added products. In the last few years, these additional revenues have been gaining more relevance, accounting for 12.5% of the total revenue in 2015, which represents an increase of 2.6% over the last 2 years. International revenues have been losing weight, with a decrease of almost 7% since 2013. Since Japan is the most relevant international market for the company and the Japanese demand for the Hawaiian Islands dropped 2% last year, this contributed to the loss in international revenues. Hawaiian Airlines carried 10 million passengers during 2014, raised this number to 10.7 million in 2015, and will probably surpass 11 million in 2016, which represents a considerable operational growth. Company's revenues are expected to follow this positive trend, driven by the increase on consumer's confidence, and the willingness to spend more on travel and tourism. The demand for the Hawaiian Islands is increasing overall (5% in 2015)[6], and the market is adjusting to receive new visitors, with a capacity increase of the accommodation units of 5% in 2015[7].

The passenger yield (average fare paid per mile, per passenger) suffered slight variations in last years, ranging from $0.142 in 2013 to $0.14 in 2015, after an increase to $0,147 in 2014. This parameter is partly related to the fuel costs variation, demand for air travel, inflation rate and competitive pressures. It is adjusted in order to fill the maximum amount of seats (load factor) and dilute fixed costs. The load factor was kept approximately constant, changing from 81.5% in 2013 to 81.6% in 2015. Prices are expected to suffer a decrease caused by the competitive pressure mainly from the Low Cost Carriers (LCC), which despite not being a direct competitor, cause a domino effect in every airline. This affects positively the demand for air travel and more specifically for Hawaiian Islands, resulting in a slight higher load factor in the following years.

- Operating expenses

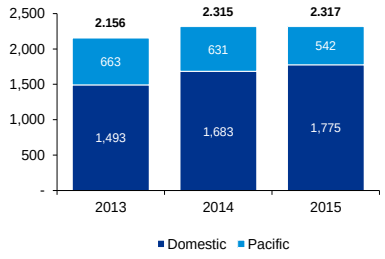
Hawaiian Airlines is subject to two main operational expenses, fuel and labor costs. Aircraft fuel expenses are highly dependent on oil cost fluctuations, which affect jet fuel prices. In the last few years, these expenditures constituted the main cost driver, but with the fuel price decrease of almost 50%, they accounted for only 23% of total expenses in 2015 (not considering losses on fuel derivatives), leading to a positive impact on the firm's results with a cost saving of $281 million.

Graph VIII:



Source: Company's annual reports

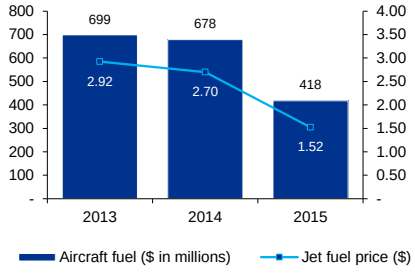
Graph IX:



Source: Company's annual reports

Graph X:

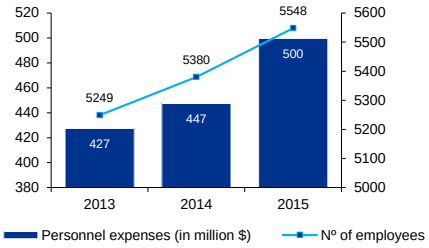
Aircraft fuel expenses and jet fuel price



Source: Company's annual reports and "eia" information

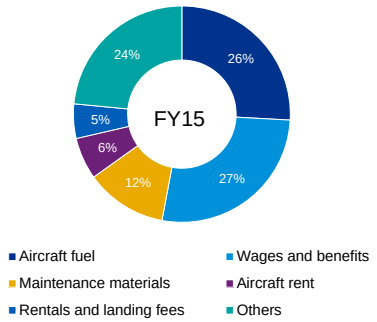
6,7 Source: Hawaii Tourism Authority – 2015 Annual Visitor Research Report

Graph XI:
Personnel expenses and nº of employees



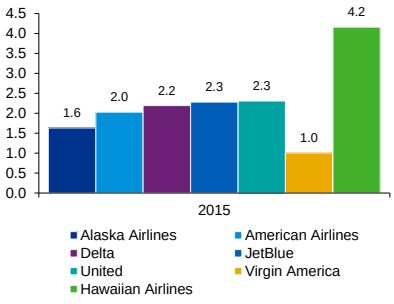
Source: Company's annual reports

Graph XII:
Breakdown of operating expenses



Source: Company's annual report

Graph XIII:
Cost per aircraft (in million $)



Source: Companies' annual reports

EBITDAR margins also suffered a considerable increase, 2015 presented a margin of 25%, and this value is expected to range from 20-30% over next periods. In 2016, the expectation of an even greater drop in fuel prices will result in a fuel expense reduction of more than $60 million. Since the prices are not fully adjusted to this cost reduction, unlike what happens in the LCC segment, this represents an opportunity for higher margins and profitability (the slight price reduction was historically more than compensated by a higher demand and consequent load factor growth).

The costs related with wages and benefits represented 27% of the total expenses in 2015. The number of employees increased 6% in the last 2 years, but there was an increase of 17% in the labor expenses due to salaries increases. Hawaiian Airlines has a cost per employee of $90,034, which is below the competitors' average of $94,329. Given this, the normal wages growth, annual inflation and the company's expansion, it is expected that this expense will increase over the next periods. Consequently, wages and benefits' expense will constitute the main cost in the following years, as already shown by the results of several other airlines.

Maintenance materials and repairs also constitute an important source of expense, accounting for 12% of total costs in 2015. Since 2013 these costs experienced an increase of 10% due to fleet expansion, and are predicted to continue growing in absolute terms over the next few years as the number of aircraft in the fleet increases. Hawaiian Airlines has a cost per aircraft and per available seat that is twice the competitors' average cost, which may be partly related to the fleet's average age of 10.2 years, slightly higher the competitors' average of 9.7 years. This cost is expected to decrease every year, as the company acquire new aircraft that do not need so much maintenance, and due the centralization and reduction of some costs.

Aircraft rent related to the company's operating leases increased 7% since 2013 due the new A330-200 agreement. These rents don't have a material impact as the company owns most of its aircraft (only 25% of the fleet is under operating leases), and plans to increase the fleet mainly through purchases and capital lease agreements. As a result, this expense should not be significantly increased over the next few years, maintaining the proportion in relation to total costs.

Airport expenses, including rentals and landing fees, increased 17% from 2013 to 2015 due to modernization of Hawaiian airports, and are expected to follow this trend. Expenses related to the modernization are specific to companies operating in Hawaiian Islands, and since Hawaiian Airlines has its operations centralized at these airports is more vulnerable to these increases, which constitute a competitive disadvantage.

Other expenses include aircraft and passenger servicing of $117.45M in 2015, commissions and other selling of $119.75M, purchased services of $81.84M and other costs accounting for $114.16M. These expenses are expected to increase in line with operations.

- Properties

Hawaiian airlines owns most aircraft, but also has assets under operating (14 aircraft) and capital (3 aircraft) lease agreements. The company's fleet increased from 47 aircraft in 2013 to 54 in 2015. This growth is the realization of the expansion plan aiming to provide new routes and an increase in the number of scheduled flights. The company has purchase rights to buy new aircraft in the next years, which will introduce two new models in the fleet, the A330-800 neo and the A-321neo. These commitments will have a positive effect on operational results, but will also impact the contractual obligations and the company's leverage.

Properties owned and under leasing agreements

	2013		2014		2015	
Aircraft	**Leased**	**Owned**	**Leased**	**Owned**	**Leased**	**Owned**
A330-200	7	7	7	12	10	12
767-300	6	6	6	4	4	4
717-200	3	15	3	15	3	15
ATR turboprop	0	3	0	3	0	6
	16	31	16	34	17	37
Total	**47**		**50**		**54**	

Drivers and Risks

As any global industry, the aviation sector is subject to several internal and external factors that may jeopardize business growth, good operational performance and financial condition. Hawaiian Airlines is not an exception and needs to manage these features in order to ensure the business's viability.

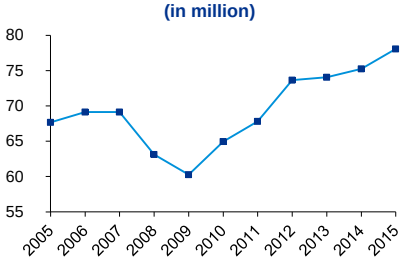
- Demand and Tourism

Hawaiian Airlines has its main base of operations in Hawaii, which is essentially a tourist and holiday destination. This makes the company's operational results highly dependent on the number of travelers to Hawaiian Islands. Tourism is the largest single source of private capital into the Hawaii economy and comes essentially from the U.S. East and West coasts (21% and 41%, respectively), Canada (6%), Japan (17%), Oceania (5%) and Other Asia (5%). Demand from each one of these markets increased last year between 4-8%, with exception to the Japanese and Canadian markets that showed a contraction of approximately 2%. This negatively impacted Hawaiian Airlines' international operations since Japan is one of the company's most significant international markets.

99% of visitors arrive by air, and the most choose the Islands as a holiday destination, constituting the main segment of company's operations, with only 6%

Graph XIV:

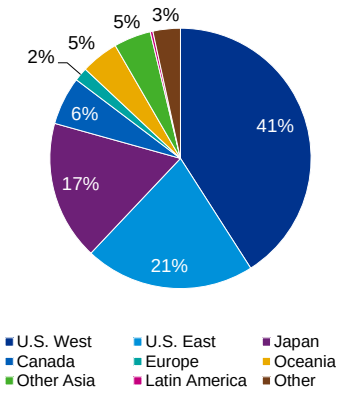
Hawaii Visitors - Arrivals by Air (in million)



Source: Hawaii Tourism Authority

Graph XV:

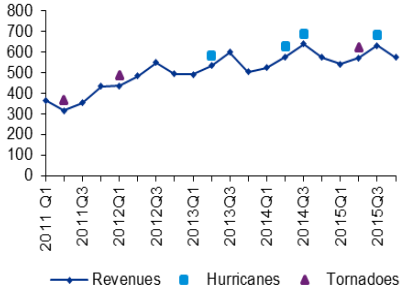
Visitor Arrrivals by air



Source: Hawaii Tourism Authority

Graph XVI:

Revenues per quarter (in million) and natural disasters



Source: Hawaii Tourism Authority

of visitors coming for business purposes such as meetings or conventions. This type of traffic flow is more elastic than the business passengers' segment, and essentially depends on the economic activity (employment conditions, disposable income and other macroeconomic indicators). Due the global financial crisis in 2007-2008, families' disposable income decreased leading to a reduction in travel expenses, negatively affecting islands' tourism level (see graph XIV). Besides, high fuel prices at those times forced up airfares, making a vacation in hawaii out of reach for many Americans. Open air services and local market conditions also constitute important demand drivers. These conditions may be related to political and economic climate, availability of accommodation units, local events, and other factors such as natural disasters, safety, security or seasonality patterns. The availability of accommodation units is increasing every year, and although most visitors opt to stay in hotels[8] (more than 50%), new forms of accommodation are appearing to answer this growing demand, such as vacation rental units, condominiums or timeshare places. With these new accomodation options it is possible to mitigate some negative effects coming from adverse events, such as natural disasters that may affect the hotel units normal functioning and lead to temporary interruptions.Hawaii is considered a safe place but given its location and geological conditions, it is sometimes affected by natural disasters such as flooding, hurricanes, tsunamis, lava flows and earthquakes. Some of these events are frequent but happen in remote locations and do not have material effects, as happens with some hurricanes that are dissipated upon approaching the islands. These are some of the most frequent and devastating disasters, as the Hurricane Iselle in 2014, that led to the cancellation of several flights and closure of services, but fortunately had no significant consequences on the Island's tourism and economic levels. In fact, 84% of tropical cyclones occur in the third quarter of the year, when the Island receive more tourists and Hawaiian Airlines' revenue levels are higher. Tornadoes are very frequent but are often dissipated, and large earthquakes or tsunamis are quite rare. All of these events are part of the Island's normal conditions, and are easily mitigated to avoid effects on local economy and tourism levels. Hawaiian Airlines has been able to maintain its operations, as it is possible to observe on the graph XVI, where last years' disasters are represented. It is true that an exceptional large-scale event affecting directly the company could negatively impact short and long term results, however the probability of such event is considered to be very small, and the company's results are not expected to be affected by these type of occurrences. Besides, Hawaiian Airlines is considered one of the world's safest airlines[9], which contributes directly for the

8 The statewide hotel occupancy rate for 2015 was 78.8%;

9 The company has the maximum safety rating according to "AirlineRatings"

company recognition. This has a positive impact on the demand for this destination, and contributes to a satisfactory experience, with more than 80% of visitors considering the island experience as excellent, and more than 90% recommending this holiday destination. Tourism is also subject to seasonal and cyclical volatility mainly due to passenger leisure and holiday travel patterns. Demand usually decreases in the first quarter of the year and has a considerable increase between June and August. To overcome these fluctuations, airlines adjust prices and schedules to achieve optimal load factors, and maintain its operations levels.

- Oil price fluctuations

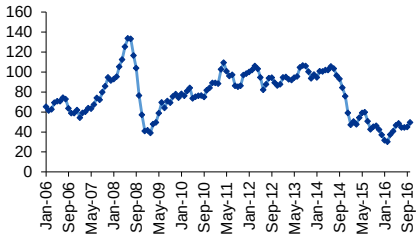
Oil price expenses greatly impact the company's operating performance with the fuel expenses accounting for 23% of operating costs, in 2015. Jet fuel is a type of aviation fuel designed for use in aircraft powered by gas-turbine engines and is used in Hawaiian Airlines' aircrafts. In 2015, the price dropped abruptly due to many factors, including the strong U.S. dollar; the overproduction of the OPEC oil Cartel, which is unwilling to stabilize the oil market; the Iran nuclear deal which allowed Iran to return to the oil market; and the oversupply of and decline in demand for crude oil, which is directly related to the deceleration of China's economy (the world's largest oil importer). This is probably the most volatile expense, and the one that most influences aviation companies' results. Oil prices' decrease positively affected the whole sector in 2015, with Hawaiian Airlines' recording a return on invested capital (ROIC) of 18% (an increase of 100% over 2014), a return on equity (ROE) of 41% (an increase of 118% when compared to 2014) and an EBITDAR margin of 25% (an increase of more than 50% over 2014). Other aviation companies also reached record levels in terms of profitability, as is the case of Alaska Airlines that registered a ROE of 35.2%, Delta Airlines of 41.7%, JetBlue had a more modest growth and achieved a value of 21.1%, and United Airlines had a growth of more than 70% with a return on equity of 82% in 2015. On average, these companies were able to reduce fuel costs by 36% - Hawaiian Airlines was able to do a bit better and record a reduction of 38%.

The company purchases aircraft fuel at prevailing market prices and manages the risk of fluctuations through implementation of a hedging strategy – entering into derivative financial instruments, such as heating oil puts and swaps, crude oil call and put options and collars. However, fuel derivatives' effect should be insignificant in the long run, making important for the company to be able to react to oil prices' changes by adjusting fares and costs, for example.

It is difficult to predict oil price evolution, but prices are expected to remain low in the short term and start rising slightly thereafter, leading to a margin reduction in the long run (EBITDAR margin is expected to be around 20% in 2021).

Graph XVII:

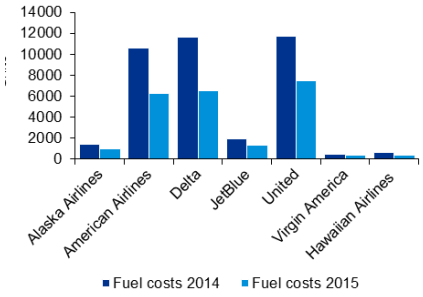
WTI curde oil - price p/ barrel ($)



Source: FRED Economic Data

Graph XVIII:

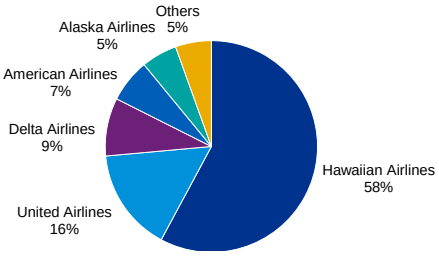
Fuel expenses in 2014 and 2015 (in million)



Source: Companies' annual reports

Graph XIX:

Largest Airlines at HNL Airport in 2015



Source: Honolulu International Airport database

Table II:

Airports Serviced by Hawaiian Airlines	
Airport Code	**Airport Name**
Neighbor Islands	
HNL	Honolulu
OGG	Kahului
ITO	Hilo
JHM	West Maui
KOA	Kailua-Kona
LAS	Lanai
LNY	Molokai
North America	
LAS	Las Vegas
LAX	Los Angeles
JFK	New York
OAK	Oakland
PHX	Phoenix
PWM	Portland
SMF	Sacramento
SAN	San Diego
SFO	San Francisco
SJC	San Jose
SEA	Seattle
Asia and South Pacific	
PPG	Pago Pago
PPT	Papeete
AKL	Auckland
SYD	Sydney
BNE	Brisbane
HND, NRT	Tokyo
KIX, ITM	Osaka
CTS, OKD	Sapporo
ICN, GMP	Seoul
PEK	Beijing

Source: Company's website

- Airports

Hawaiian Airlines has a considerable part of its operations dependent on the availability and conditions of the Honolulu airport, which serves as a crossing point for almost every flight (the company has 58% of the airport market share). Hawaiian airports are going through a renovation and modernization plan that implies increased landing fees and airport rent rates. These fees increased more than 30% over the last 5 years, and although they only contribute to 5% of total expenditures, this constitutes an additional expense that may affects the company's performance because of the concentration of neighbor island operations. These renovations may also create congestions and flight delays, which may disturb the company's regular flights and schedules. So far this has not been a problem, and the company continues to have the lowest cancellation and delayed flights rate.

In the North American routes, Hawaiian Airlines has flights to some of the world's most crowded airports such as "LAX" in Los Angeles, "SFO" in San Francisco or the "LAS" in Las Vegas. The same happens with some of the company's international flights for the "PEK" in Beijing, "HND" in Tokyo or the "ICN, GMP" in Seoul. Congestion in these airports may cause barriers to the company's operational growth, but given the low number of daily flights operated to these destinations, and the creation of new routes to more remote locations, Hawaiian Airlines' results don't should be harmed by these congestions. However, to prevent these airport complications and efficiently operate and grow the proposed flight schedules, the firm should maintain adequate gates/facilities at the airports and reinforce its strategy of new routes' creation to destinations with lower competition and more availability.

- Adverse publicity

Adverse news and events such as accidents or shortcomings in customer service or bad business conduct may negatively affect the company's operations and the willingness of customers to purchase their products. An egregious incident may result in a temporary or permanent loss of revenue, as happened to Malaysia airlines after the incidents in 2014, or to AirAsia after the incident in the same year. Hawaiian Airlines never faced an event like this, however due its relatively small size, an accident could have short and medium-term consequences and even affect tourism levels in some places served by the company.

There are additional risks that may affect company's results. Labor costs are a significant part of the total expenses and are dependent on labor unions requests, which makes important to maintain a good relationship with these unions to avoid work disruptions or labor costs' increases.

Government regulations may impose additional laws and charges, and with the business expansion to non-U.S. jurisdictions, the scope of laws that the company is subject to increases, and may result in additional expenses.

Airline companies are dependent on a limited number of suppliers for aircraft, which increases the company's vulnerability to problems associated with the supply of these materials.

Since this business requires access to financial markets in order to finance equipment purchases and to provide liquidity in periods of weaker sales performance, the uncertainty of the global credit market may result in availability constraints or unfavorable terms and conditions, which may limit the company's flexibility to react to business and industry changes. The significant company's amount of debt may include covenants that impose restrictions the regular operations and may restrict the issue of common stock or dividend payments.

With the international expansion of the company's routes, fluctuations in foreign currencies can have a material impact on operations and financial results. To manage this risk the company enters into foreign currency forward contracts.

Overall, Hawaiian Airlines has been able to mitigate its risks. However, there are some factors that are difficult to predict or control such as the possibility of a global economic crisis, an aviation accident, a large-scale natural disaster or even sharper fluctuations on oil price. The occurrence of one of these factors would have a great impact on company's results, by directly affecting revenues or operational expenses. These fluctuations have a low probability of occurrence and for that reason are not incorporated in our valuation, but will be reflected in the sensitivity analysis.

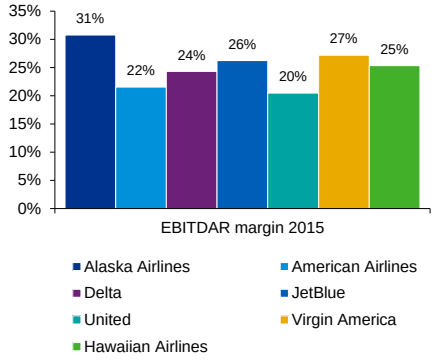
Strategy and Competitive Environment

Strategy

The company is engaged in a route and network maturation strategy which includes the reinforcement of existent routes (with additional schedules and/or the inclusion of new or bigger aircraft) and creation of new ones to unexplored destinations. Capacity expansion should improve operational results and dilute some costs. However, this second effect is reduced since the major part of expenses are variable, depending on the schedules operated, and the margins are usually kept approximately constant. Larger companies don't present higher EBITDAR margins, as is the case of American Airlines, Delta or United Airlines, that present the lowest margins of the sample, 22% 24% and 20%, respectively. This may indicate that the advantage of capacity increase lies on the revenues

Graph XX:

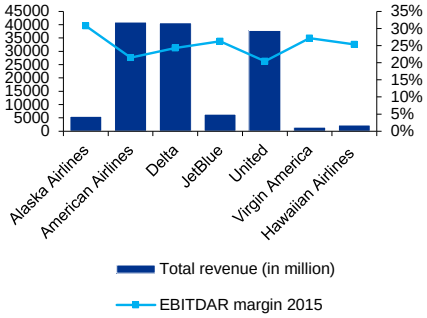
EBITDAR margin by company in 2015



Source: Companies' annual reports

Graph XXI:

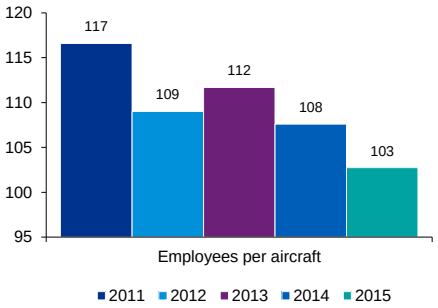
Revenues and EBITDAR margin per company



Source: Companies' annual reports

Graph XXII:

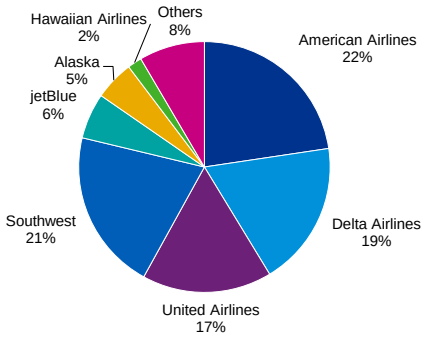
Nº of employees per aircraft over the last 5 years



Source: Company's annual reports

Graph XXIII:

Companies' market share in the domestic region (2015)



Source: Companies' annual reports

growth and improved market power rather than in the creation of economies of scale and increased margins.

More than this, to be successful it is important to understand how to use and take advantage of the increased capacity provided by the new aircraft, hire and retain skilled personnel and manage new assets in an efficient manner.

Hawaiian airlines is driven by operational excellence, receiving yearly recognitions and awards, such as "Best U.S. Airline", "Best Food", "Best customer service, "Best leisure airline" and even the "World's most punctual airline". The company will strive to maintain these recognitions, focusing on this operational quality and developing new services focused on the tourism segment. These additional services will result in ancillary revenues, which are also an important part of the recent strategy and constitute 13% of total revenues in 2015 (an increase of almost 30% in the last 3 years). With the creation and improvement of pre-flight and in-flight services, the company can stand out, provide better quality services and take advantage of these additional revenues.

Cost control is also an important matter, since it allows the company to offer competitive fares to passengers while maintaining reasonable profit margins and to take advantage of market opportunities. To do this, Hawaiian Airlines is replacing old aircraft by new and more efficient ones, and centralizing some operations, reducing the number of employees per aircraft (#102 in 2015, representing a decrease of 8% through the last 2 years).

Competitive environment

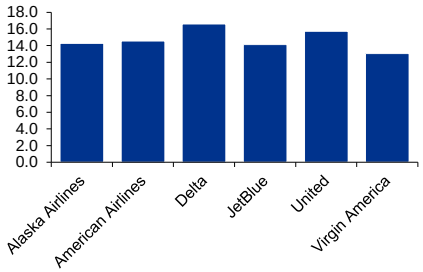
Despite the competitive environment where Hawaiian Airlines operates, it is difficult to assess the company's direct competitors. This firm operates in a very specific niche, since do not exists other airline company offering so focused services in the Hawaiian Islands. However, it is possible to identify competing companies offering similar flights in each one of the regions operated, as well as identify their main features, strategies and business advantages.

- North America

On the North America routes, it is possible to highlight as main competitors companies such as Alaska Airlines, American Airlines, Delta, JetBlue, United and Virgin American. The majority of these competitors have a larger and constant market share, more financial resources and brand recognition, making the company vulnerable to their decisions and strategies. These companies can exercise its market power to influence prices, which do not vary much from company to company (see graph XXIII). Additionally, Hawaiian Airlines presents a low geographic diversification in comparison to its North America competitors, which increases company's vulnerability to external shocks.

Graph XXIV:

Passenger Yield (in cents) per company in 2015



Source: Companies' annual reports

Large network carriers are adjusting their routes in order to compete with the low-cost carriers (LCC) by diverting resources to Hawaii, where the LCC competition is less evident. The West Coast market is ultra-competitive, and the flights connecting the Hawaiian Islands with this coast account for about half of Hawaiian Airlines' revenue. Companies such as Alaska Airlines are contributing to the increase in the industry capacity, expanding their operations to the Hawaiian Islands. This rapid supply growth drove down fares, but is now starting to stabilize. The acquisition of Virgin America by Alaska Airlines will improve its position in Hawaii, as Virgin America offers flights from different cities to the Hawaiian Islands. All of these companies regularly fly to Hawaii, providing an alternative to Hawaiian Airlines flights, and sometimes offering flights from cities where the company does not operate. In these cases, Hawaiian Airlines needs to rely on code-share partners to provide customers access to these destinations. The new routes created by these competitors to meet the growing demand for the Hawaiian market, constitute an additional challenge, which has led Hawaiian Airlines to increase the investment in this market through expansion in the fleet and scheduled flights. The company has been successful in this allocation, presenting a domestic market growth of 4% from 2014 to 2015.

- Neighbor Islands

"In Hawaii, flying is king and competition is fierce."[10] With its population spread across the different islands, the state of Hawaii is solely dependent on air travel, and Hawaiian Airlines is the original airline in this market. The company has been flying amongst the islands since 1929 and to the mainland and other international destinations since the mid-1980s. The firm has such frequent services that some routes, such as Honolulu (HNL) to Kahului (OGG), have more than 20 flights per day, providing the company with a dominant market share (90%) on these inter-island routes. Neighbor Island routes represent approximately 25% of the passenger revenue, and despite the strong competitive position in this area, other companies are introducing new routes, decreasing Hawaiian Airlines' traffic share. Hawaiian airlines main competition comes from two airlines, Island Air and Mokulele Airlines. The first one maintains a hub in the commuter terminal at Honolulu International Airport with flights to Lihue and Kahului, two other major airports, and it is also able to serve smaller runways in Lanai. Island Air provide the cheapest inter-island flights, operating with older and less modern aircraft than Hawaiian Airlines. The second one essentially connects the main airports (Honolulu, Kahului and Kona) with the smaller ones- the islands of Lanai and Molokai and the Kapalua and Hana airports.

Table III:

Seats capacity by company

Company	Total	Passenger per aircraft	Total capacity
Mokulele Airlines			
Cessna 208B Grand Car.	4	9	36
Cessna 208EX Grand Car.	11	9	99
	15		**135**
Island Air			
ATR 72-212	5	64	320
	5		**320**
Hawaiian Airlines			
Boeing B-717	18	128	2304
ATR 42-500	3	48	144
	21		**2448**

Source: Companies' websites and public information

10 Source: Airline Reporter – The fascinating and turbulent state of Hawaii's airlines

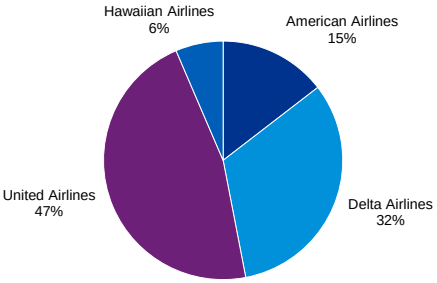
Mokulele's has the smallest fleet, which allows for an exceptional position in the inter-island marketplace, having access to small airfields that cannot handle larger airplanes. Despite the different features of each company, Hawaiian Airlines still has a competitive advantage and a much bigger capacity to operate these routes. With the recent ATR turboprop acquisitions, the firm is able to operate in smaller airfields, capture new routes and keep its competitive position.

- International

Hawaiian Airlines' international routes are all located in the Pacific and constituted an obstacle for the company's results during last years, because of the falling fuel surcharges, which impacted the price negatively (yield on international routes decreased from 12.5 cents in 2014 to 10.9 cents in 2015), the strong dollar and contraction of Japanese demand. In 2015, the international revenue decreased 14%, with only 23% of the company's revenues coming from the international market. Nevertheless, Hawaiian Airlines has been able to keep its market share on these regions, having 6% of the pacific market operated by domestic companies. The main competitors on these routes include domestic (American Airlines, Delta and United Airlines) and foreign carriers (Qantas, China Airlines, China Eastern, Korean Air, etc.) that have joined airline alliances. Considering that the company does not integrate any of these global alliances, it needs to rely on code-share agreements to provide customers access to additional international destinations unserved by the company. Despite the recent Japanese demand contraction, the company is expanding to this destination and is planning to open new flights to Narita Airport, as well as reinforce flights to Tokyo's Haneda Airport, which should lead to a revenue recovery in this market. Hawaiian's most important U.S.-based competitor on international routes is Delta Airlines, which also operates the Hawaii-Tokyo and Hawaii-Osaka routes and was also affected by adverse macroeconomic conditions. Delta is dramatically cutting the capacity on these courses, which should be materialized in higher fares for all the competitors on this route. In the Australian market, airlines were increasing capacity to meet rising demand from tourists taking advantage of the strong Australian dollar. However, this demand is now falling due the weaker currency, and some companies, such as Jetstar, have already announced the suspension of some Hawaii-Australia routes. With the retirement of Jetstar capacity, Hawaiian Airlines may recover its monopoly position on flights from Brisbane to Hawaii and increase this route's fares (international yields are currently 28% lower than domestic yields). Considering this, the opening of new routes and emergence in new markets, the company is expected to recover its international revenues and capture additional market share.

Graph XXV:

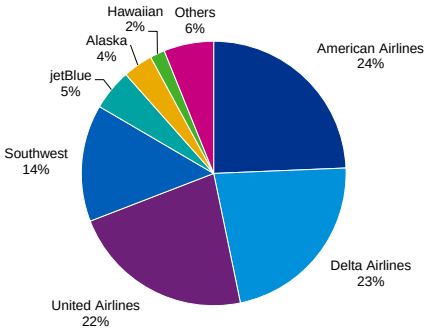
Market share of domestic companies in the pacific region



Source: Companies' annual reports

Graph XXVI:

Market share of domestic companies on international routes (2015)



Source: Companies' annual reports

Valuation

In order to find the "HA" price per share, it was necessary to forecast an income statement and balance sheet for every fiscal year through 2021. This is the last year considered since it is expected that the expansion program stops by then with a consequent steadying in the revenue's growth rate. The operational margins and the CAPEX levels are also expected to be stabilized at that time.

The company's operational cash flows were estimated for the next 5 years, after that (2022 onwards), a perpetuity formula of cash flows was applied and everything was discounted for the present.

Income Statement

Revenues

The company's revenues have two main sources, passenger revenues (scheduled operations) and other operating revenues (ancillary revenues).

- **Passenger Revenues**

Passenger revenue was estimated and forecasted using the following approach:

Passenger Revenue = RPM × Passenger Yield

Where,

RPM (Revenue Passenger Miles) = Available Seat Miles (ASM) × Passenger Load Factor

ASM = Number of available seats × Average miles flown per seat

Passenger Load Factor - Represents the proportion of airline output that is actually consumed;

Passenger Yield - Measure of average fare paid per mile, per passenger.

- Available Seat Miles

In order to estimate the number of seats available, it was necessary to analyze the fleet for the next 5 years, considering the delivery of new aircraft and the disposal of aircraft in use. In 2015, Hawaiian Airlines' fleet was composed of 54 aircraft, and this number is expected to grow approximately 37% through 2021. The company ordered 16 Airbus 321neo aircraft to be delivered between 2017 and 2020, and has orders to purchase 6 Airbus 330-800neo with expected delivery dates between 2019 and 2021. Furthermore, the firm will receive aircraft under capital and operational lease agreements in the period under analysis. Hawaiian Airlines is not planning to order additional aircrafts after 2021, at least in a short term horizon. During the next 5 years, the company will retire 1 Boeing 717-200 per year - the oldest aircraft in the fleet, used in the Neighbor Island service. The

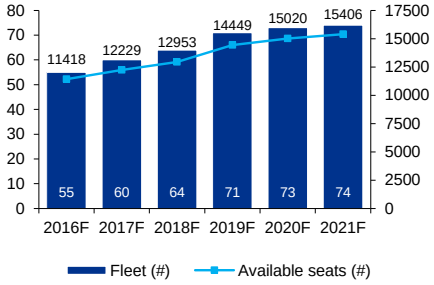
Table IV:

New aircraft delivery schedule					
Aircraft	**2017**	**2018**	**2019**	**2020**	**2021**
A321neo	3	6	6	1	
A330-800neo			2	2	2
Total	**3**	**6**	**8**	**3**	**2**

Source: Company's annual report

Graph XXVII:

Projected fleet and available seats



Source: Company's annual report and individual analysis

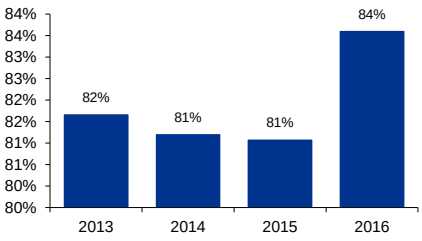
Table V:

Available seats per aircraft	
A330-200	294
767-300	258
717-200	128
ATR turboprop	48
A330-800 neo aircraft	257
A 321neo aircraft	185

Source: Aviation companies websites

Graph XXVIII:

Last year's average load factor for the first 3 quarters



Source: Company's quarterly reports

Airbus 321neo will strengthen routes to the busiest airports in North America, as well as provide direct flights to the Neighbor Islands from popular gateways on the U.S. West Coast. The Airbus 330-800neo is a fuel efficient and long-range aircraft that will complement the wide-body existing fleet - twin aisle aircraft used for long-haul flying on the North America and International routes. These acquisitions will allow the company to operate more efficiently (with a fuel saving per seat), reinforce existing routes (essentially for North America and Neighbor Islands), expand the international ones and reach new markets with lower competition, allowing the company to charge higher tariffs (mainly on the international routes) and have higher margins (EBITDAR margins are expected to remain above 20% in the next few years).

Regarding the aircraft capacity, each Airbus 330-800neo can carry 257 passengers, while the 321neo has capacity to transport 185 passengers. The Airbus 330-200 is the aircraft with the highest capacity in the fleet, with 294 seats, and the ATR turboprop is the smallest one with only 48 seats, used principally for the cargo service between Islands. The number of available seats is expected to grow from 11,418 in 2016, to 15,406 in 2021, representing a growth of 32%.

The average number of miles flown by each seat was evaluated based on the last years of operations, considering that this value is quite stable, an average with slight adjustments was computed. These adjustments were only applicable to years of elevated growth on available seats (from the introduction of new aircraft in the fleet) since the company may not be able to put the aircraft in operation immediately. Overall, each seat flies an average of 1.61 million miles.

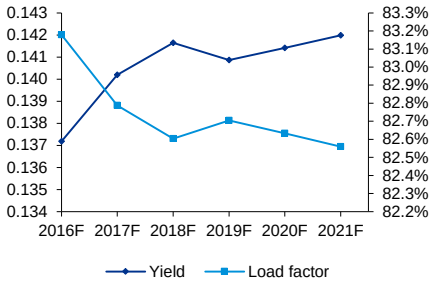
Based on these conclusions, the available seat miles are expected to increase from 18,382M in 2016 to 24,494M in 2021.

- Passenger Load Factor

The airline industry is characterized by high costs and low margins, granting great importance and impact to the load factor. This factor depends on the seats available, the demand for those seats and average rates charged. In order to dilute the costs associated with each flight, companies always try to fill as many seats as possible, adjusting prices in order to adapt for demand and supply shocks. In this sense, the load factor would always present a constant and highest possible value. However, there are other factors that may influence price level, as is the case of inflation or the cost per available seat. In these cases, price fluctuations may influence the load factor constant level, as has happened recently due the accentuated drop in oil prices. In 2016, companies greatly reduced their prices, leading to a growth on demand and tourism levels, which was reflected in significantly higher load factors. Hawaiian Airlines reported an

Graph XXIX:

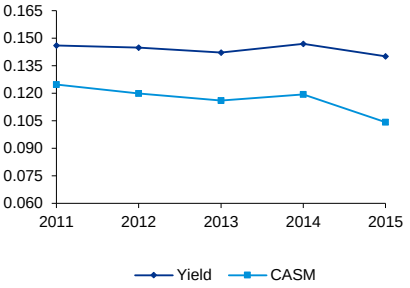
Forecasted yield and load factor



Source: Individual analysis

Graph XXX:

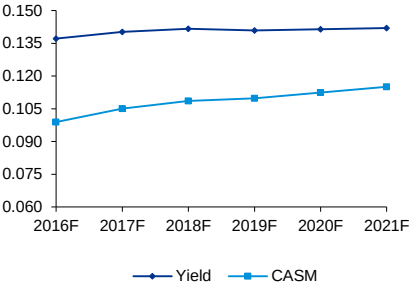
Yield and CASM evolution



Source: Company's annual report

Graph XXXI:

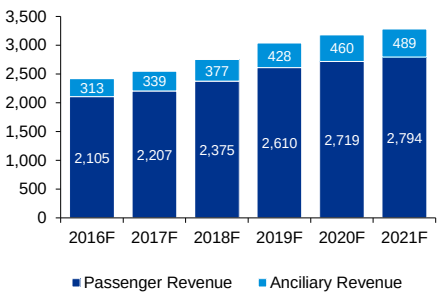
Projected Yield and CASM



Source: Individual analysis

Graph XXXII:

Breakdown of total revenues (in million $)



Source: Individual analysis

average load factor for the 3 first quarters of the year of 83.6%, considerably higher than the 81% registered last year, for the same period under analysis.

Analyzing these variables' historically impact, it was possible to adjust and forecast their effect in the future, and estimate load factor's for the next few years.

It is expected load factor increase in 2016 (related to the lower fare prices) and a stabilization in the long run, converging to a value approximately constant (82.5%) and above the breakeven point. This will allow to an increase in the number of passengers carried (a growth of approximately 37% until 2021) and a consistent revenue growth (between 4-9%).

- Passenger Yield

As already mentioned, passenger yield depends on several factors, and is constantly adjusted to answer external shocks without "damaging" the load factor. Besides being dependent on the demand and supply of seats, it is also influenced by the operating costs However, it is not completely elastic - the LCC tend to be more flexible on this adjustment. Usually the shocks affecting operational expenses are common for most competing airlines – all companies are dependent on crude oil prices for jet fuel, operate in the same airports and rely on a restricted number of suppliers. Due to this, when an external shock reduces airlines' expenses (as is the case of oil prices' decrease), companies have a greater margin to reduce fares and the competitive pressure generates a collective decrease on prices. Since Hawaiian Airlines has a low number of direct competitors on its routes, the competitive pressure is not so significant and the company may charge higher prices with lower fluctuations. In fact, in the last few years it was possible to observe a bigger gap between the cost per available seat mile (CASM) and the passenger yield. The inflation rate reflects the overall price increase in the economy and also impacts fare prices, even though sometimes this effect is not so evident in this industry.

Analyzing the past relationship between these variables, and considering the new "trends" on fares charged, it was possible to estimate a passenger yield for the next 5 years, which is expected to vary between 13.7 cents in 2016 and 14.2 cents in 2021.

- **Other operating revenues**

Ancillary revenues are mainly generated by sales of frequent flyer miles under co-branded credit agreements and the cargo business. It also includes checked baggage revenue, commissions and fees or inflight revenues. Since much of this revenue is directly related to passenger revenue and passengers carried, the other operating revenues were estimated as a growing proportion of the passenger revenue. With the new ATR freighter aircraft in the fleet, it is possible to

carry larger bulk items between the Hawaiian Islands, increasing the capacity of the cargo business and the generated revenues. Inflight sales are becoming a trend, granting a bigger variety of services offered, accompanied by growth in premium seats sales. Overall, ancillary revenues are expected to grow more than 70% until 2021, constituting at that time 15% of total revenues.

Fuel Expenses

Fuel expenses include taxes and delivery costs, and are one of the most important expenses for any airliner, accounting historically for more than 30% of the Hawaiian Holdings' total expenses and for 23% in 2015. This decrease is related with the abrupt fall in oil and jet fuel prices, but if losses in the fuel derivative contracts are taken into account, this proportion rises to 26% in 2015.

Fuel expenses were calculated as follows:

Aircraft fuel expenses = Gallons consumed × Average jet fuel price

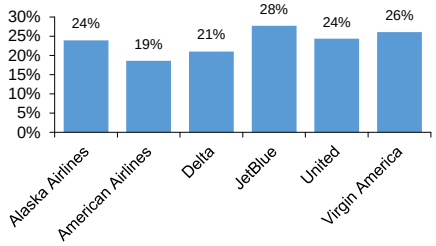
W

Where,

Gallons consumed = ASM × Average consumption per seat mile

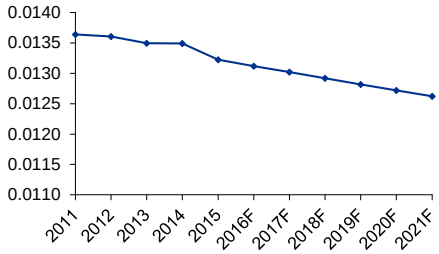
The average consumption per seat mile has presented a slight decrease recently. This trend is expected to continue in the future with the introduction of more fuel efficient aircraft, such as the Airbus 330-800neo, that promises a 14% better fuel economy per seat. Therefore, it is expected that last year's value of 0.0132 gallons per ASM, will have a slight and steady decrease in the future to 0.0126 gallons in 2021. In 2015, 71% of the company's fuel was based on Singapore jet fuel prices, and 29% was based on U.S. West Coast jet fuel prices. Usually, jet kerosene is not broadly covered by analysts, but its fluctuations are highly correlated with oil price changes. For this reason, the WTI crude oil price was used as a basis analysis for the jet fuel price estimation. Taking all of this into account and using World Bank forecasts, jet fuel price was considered as a fixed proportion of the WTI crude oil based on last years' relation. In order to consider the taxes and delivery costs, an "extra-cost" was incorporated in the average cost per gallon - an almost fixed component, slightly dependent on the gallons consumed (order size). The average cost per gallon (the jet fuel price including taxes and delivery expenses) is expected to increase from $1.5 per gallon in 2016 to 2.34$ in 2021. This price increase, combined with the fleet and fuel consumed growth, represents an increase of approximately 86% in fuel expenses over the next 5 years, and leads to an EBITDAR margin reduction (that is now higher than ever) of 30% in 2016 to 20% in 2021. This margin is expected to be kept in perpetuity, corresponding to competitors' average margin, and allowing for a steady and moderate growth in operational results. Besides, this price increase

Graph XXXIII:
Weight of fuel expenses by company (2015)



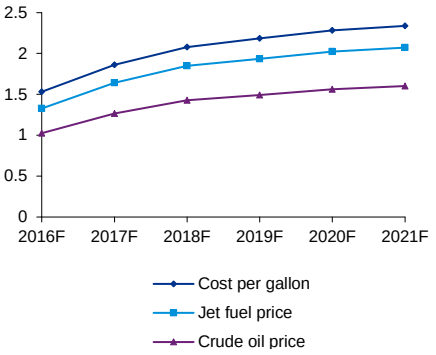
Source: Companies' annual reports

Graph XXXIV:
Average consumption per ASM



Source: Company's annual report and individual analysis

Graph XXXV:
Projected crude oil and jet fuel prices (in $)



Source: World Bank forecasts and individual analysis

should drive fares up and slightly reduce demand for air travel, essentially in the tourist segment. These fluctuations are part of the company's normal operations, and their effects should be reduced and transitory, without affecting Hawaiian Airlines' long term performance.

The Company's operations are intrinsically dependent on the price and availability of aircraft fuel, and in order to manage the exposure to changes in jet fuel price, Hawaiian Airlines enter into derivative financial instruments. For 2016, the company has fuel derivative contracts to hedge approximately 50% of the fuel requirements, comprising heating oil swaps and crude oil call options. These instruments are changed periodically and adjusted according to the market conditions. The company does not hold or issue derivative financial instruments for trading purposes, and expects to continue to manage this exposure to changes in the price of jet fuel with a combination of fixed forward pricing contracts, swaps, calls, collars and other option-based structures. However, there is no guarantees that this hedging strategy will actually be able to smooth price fluctuations. The effect of these contracts should be insignificant in the long-run, and for that reason they are disregarded for the future analysis

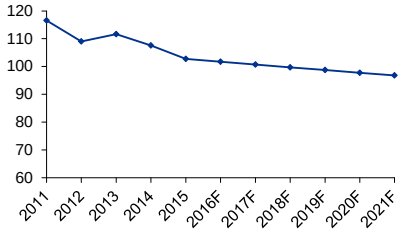
Graph XXXVI:

Weight of labor expenses by company (2015)

Source: Companies' annual reports

Graph XXXVII:

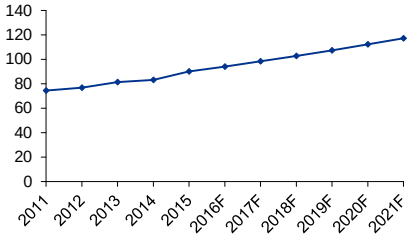
Number of employees per aircraft



Source: Company's annual reports and individual analysis

Graph XXXVIII:

Average cost per employee (in thousands)



Source: Company's annual reports and individual analysis

Wages and Benefits

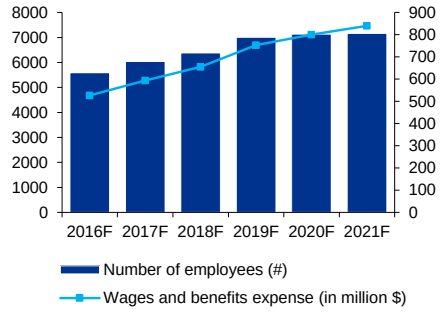
Personnel costs are an important component of every airline, always constituting one of the major expenses. In 2015, wages and benefits accounted for 27% of the operating costs with a relative increase of 5 p.p. compared to the previous year. This caption was calculated as follows:

Wages and Benefits expense = Nº of employees × Average cost per employee

In 2015, Hawaiian Holdings' professional team was composed by 5,548 active employees, 84% of which were covered by labor agreements and organized into different groups. Given that most of the employees are flight deck/cabin crew members, or perform aircraft maintenance and support functions, the number of employees is closely related to the company's operational activity and with the fleet expansion. This relationship was proven in the past years, with a direct relation between the number of aircraft in operation and the number of employees in the company. With the centralization of some services and cost control policies, the proportion of employees per aircraft is likely to decrease from 103 employees per aircraft to 97 in 2021, which approaches competitors' average of 99 employees (if low costs carriers – JetBlue and Virgin America - are disregarded). A total increase of 33% is expected by 2021 with a total of 7,356 employees. The average cost per employee has been increasing in the last years, and this trend is expected to continue in the future because of the newly executed labor

Graph XXXIX:

Projected nº of employees and labor expenses

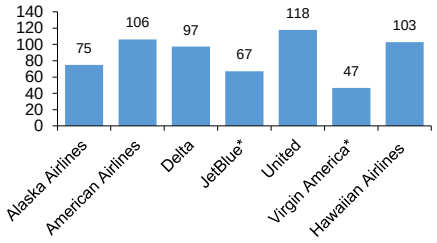


Source: Individual analysis

agreements and increased profit sharing expense resulting from the improved financial performance. This expense is expected to grow at a 4.5% growth rate in the future, reflecting the overall price increase in the economy and the pressures of higher wages and conceded benefits (competitors pay currently an average remuneration of $107,000). In 2021, the average cost per employee is expected to be approximately $111,725, an increase of 30% when compared to the $82,545 in 2015. This may be translated to a wages and benefits cost of $839,746 in 2016, representing approximately 30% of total expenses, and contributing to the margins reduction (EBITDAR margin: 20% in 2021; EBITDA margin: 16% in 2021).

Graph XL:

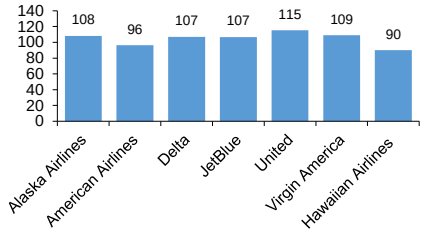
Average number of employees per aircraft by company (2015)



Source: Companies' annual reports

Graph XLI:

Average cost per employee by company in thousands (2015)

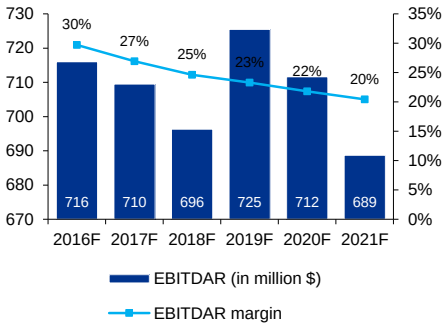


Source: Companies' annual reports

EBITDAR

Graph XLII:

Projected EBITDAR and EBITDAR margin



Source: Individual analysis

In 2016, the company is expected to achieve a remarkable EBITDAR margin of 30%, driven by low oil prices (that reached lowest value since 2002) and growing revenues. This mark is expected to decline in the following years due to the rise in oil and jet fuel prices, increase in wages, and higher landing fees and airport rent rates related to the State of Hawai'i's airport modernization plan. Due to the concentration of Hawaiian Airlines' operations, this extra cost may put the company at a disadvantage compared to its competition, which don't have this additional expense. The other operational captions are expected to maintain a constant weight, with the exception of the maintenance costs, which are expected to decrease by an approximate rate of 2% per year. Considering that the rents' value should not change significantly in the following years (since the company is planning its fleet increase through purchase agreements), EBITDAR and EBITDA are expected to have a similar evolution, reaching values of $688.73M (20% margin) and $554.81M (16% margin), respectively in 2021.

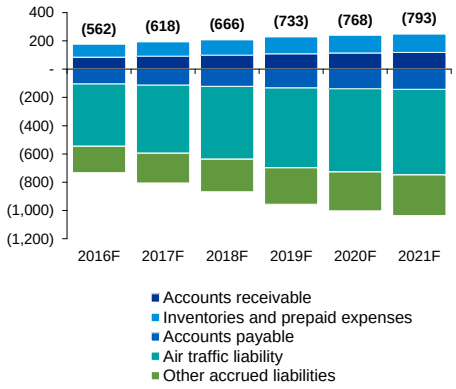
Balance Sheet

Working Capital

The working capital is a dynamic measure that suffers constant changes and adjustments throughout the year. For valuation purposes, the operating working

Graph XLIII:

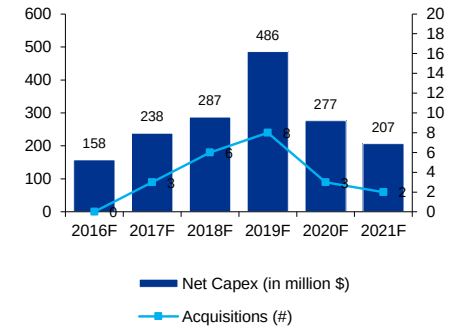
Breakdown of projected working capital (in million $)



Source: Individual analysis

Graph XLIV:

Projected Net capex and acquisitions



Source: Company's annual report and individual analysis

capital at the end of the year was considered a good proxy, excluding non-operating assets such as cash and marketable securities. Because of the industry's specificities and current expansion program, it is common to have a negative net working capital. The air traffic liability and other accrued expenses are the main components and are expected to grow with the passenger revenues since they respect the value of passenger tickets for future travel. Assuming a cash conversion cycle of, on average, 10 days (with a slight decrease in the short run and a minor increase and stabilization in the future), the company is expected to have a negative and decreasing net working capital for the next 5 years.

Capex

As already mentioned, Hawaiian Airlines will increase the fleet by 19 aircraft (absolute increase, after disposals) until 2021. The firm has orders for 16 A321neo aircraft and 6 A330-800neo, and purchase rights for the respective spare engines to be delivered between 2017 and 2026. These aircrafts have a catalog price of $125.7M and $252.3M, respectively; however these prices are subject to discounts and negotiations, which are unknown but may vary from 20% to 60% depending on the order size and the client type. Furthermore, catalog prices increase every year due to inflation. Without any information regarding discounts conceded to the company, it was considered an average price per seat based on the historical data and adjusted for the forecasted inflation. Other property and equipment are directly related to the aircrafts in operation and will increase in the same proportion to accommodate the fleet's expansion.

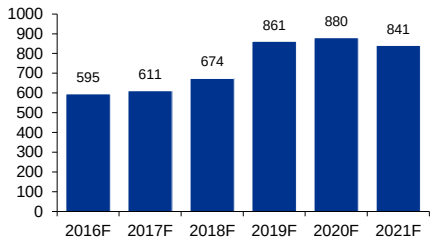
Debt

The company has been financed through aircraft capital lease obligations, convertible notes, facility agreements for aircraft purchases and EETC financing. Given the existing purchase agreements involving a high amount of pre-delivery payments, Hawaiian Airlines presents a high amount of contractual obligations, which may require a debt increase in the future. To guarantee access to future financing with favorable terms, the company is extinguishing the debt in advance, which results in losses reflected as non-operating income (expense).

To forecast the future debt levels, aircraft purchases and capital lease agreements were taken into consideration, and the following relation was used to estimate the debt evolution:

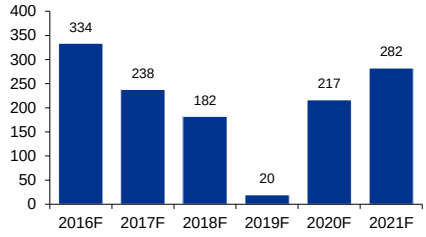
$$\text{Debt}_t = \text{Debt}_{t-1} + P \times (\Delta \text{ available seats}) - \text{Debt Repayments}_t$$

Graph XLV:
Financial debt outstanding (in million $)



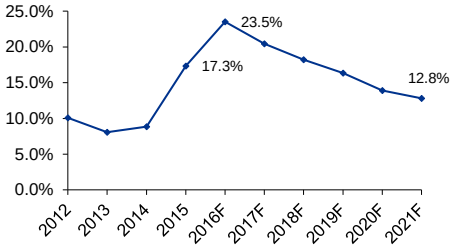
Source: Individual analysis

Graph XLVI:
Projected Operating FCF (in million $)



Source: Individual analysis

Graph XLVII:
Hawaiian Airlines ROIC



Source: Individual analysis

Where,

P is the extra debt necessary per new available seat, and is adjusted for inflation.

The debt level depends on the previous year outstanding debt and the additional necessary debt minus debt repayments, which depend on the company cash needs. It is expected a debt decrease in the short run due to early debt extinguishment, and an increase in the long run due to additional capital commitments, constituting and increase of 10% between 2015 and 2021. This level of debt should imply a debt to equity ratio[11] of approximately 7% in the coming years.

Unlevered Free Cash Flow

The airline industry requires a large amount of capital to continue operating and growing, and is characterized by high CAPEX (caption that most affects the firm unlevered cash flow) and negative net working capital. Even though, the company presents a positive cash flow every year under analysis, since these investments are usually accompanied by a strong increase in revenues and EBITDAR. This is a good time for airline companies make new investments. Companies should take advantage of the lower fuel prices and the increased generated cash to expand their fleet without increasing significantly the debt level. In 2015, Hawaiian Holdings had a return on invested capital (ROIC) of 17.34%, considerably above its weighted average cost of capital (WACC) of 9.4%, meaning that firm's investment is earning more than what it is paying out. In the long term, ROIC value is expected to converge to the company's WACC, but for Hawaiian Airlines this metric is likely to remain slightly higher, at least for the next few years (12.8% in 2021). Airlines sector has recently shown good profitability levels, which was not verified in the past due the large capital needs that also constitute a barrier to entry of new competitors. After 2021 onwards, the company is planning to reduce their aircraft acquisitions in the short run, but it will be probably necessary to incur in new capital or operational lease agreements – essential to expand the business and replace older or less efficient aircraft. This will maintain the operations with a constant growth that is expected to be approximately 2.5%. This estimation also takes into account the industry evolution in the markets where the company operates (the North American traffic is expected to be annually growing 3.3% by 2020, and the Asia-Pacific traffic approximately 4.9%) and the expected inflation rate for the United States that will be approximately 2%. Taking into account the current accentuated expansion of the company, a maturation of the business operations is predicted in the future with a consequent growth slowdown leading to a long term nominal growth of 2.5%.

11 Debt to Equity ratio refers to Net Debt (Debt and Capital Lease Obligations- Cash and Cash Equivalents)/ Market value of equity

Weighted Average Cost of Capital and Equity Value

The company shows an unlevered cost of capital higher than the industry average. If 6 North American companies are considered (ALK, AAL, DAL, JBLU, UAL and VA) as a proxy for the sector, an unlevered beta of 1.1 is reached, which would imply a levered beta of 1.16. Considering 20 companies, Damodaran points out an industry average beta of 1.27. Airline companies are part of a cyclical industry: when economy contracts, demand for air travel and other luxuries tend to decrease sharply, and vice-versa. These firms that may be used as comparables act on a much larger scale, have greater brand recognition, more stable operations and part of their turnover comes from the business segment. Hawaiian Airlines presents higher operational leverage, is focused on the tourist segment and essentially operates in tourism destinations, which are extremely vulnerable to market fluctuations. Because of this, Hawaiian Airlines levered beta is expected to decline in the long-run but always remain above the industry average. Consequently, an adjusted levered beta of 1.497[12] was used, which takes into account this long run effect and the convergence to the market value. Considering the 10yr U.S. government bond as the risk free rate, a target debt to equity ratio of 7%[2], a debt beta of 0.30, and the S&P 500 as a proxy for the market risk (assuming 0 as the country risk premium since the United States is often considered the benchmark country), a value of 1.41 for the unlevered beta and 9.50% for the unlevered cost of capital was determined.

Table VI:

Unlevered cost of capital	
Rf	2.4%
MRP	5%
Target D/E	7%
Bl	1.497
Bd	0.30
Bu	**1.413**
Ru	**9.50%**

Source: Individual analysis

The company's cost of equity was calculated using the CAPM equation:

$$R_e = R_f + B_l * MRP$$

For a market risk premium of 5%, the correspondent cost of equity is equal to 9.85% using the adjusted levered beta.

Table VII:

Cost of Equity	
Bl	1.497
Rf	2.4%
MRP	5%
Re	**9.92%**

Source: Individual analysis

The cost of debt was calculated using the following relation:

$$R_d = Yield – Prob.\ Default * Loss\ given\ default$$

Table VIII:

Cost of Debt	
Yield	0.041
Prob. Default	0.48%
Recovery rate	0.535
Rd	**3.92%**
Bd	**0.30**

Source: Individual analysis

These parameters were based on the Hawaiian Airlines' secured debt financing, Class A EETC, that matures in January 2026. These type of corporate debt securities rely on the credit of a corporate issuer and are secured by collateral (aircraft). A before tax cost of debt of 3.92% was achieved. Moody's attributes to the Hawaiian Holdings' debt financing a credit rate of B1, which corresponds to an industry average debt beta of 0.26, and implies a slightly lower cost of debt. Since this difference does not have a material impact on the final cost of capital (0.01 p.p.), this average was not taken into consideration. The target Net Debt to

12 Source: Bloomberg

Table IX:

Target Debt to Equity estimation			
	2015	2016E	2017F
Net Debt	491	256	224
Mkt Value of Equity	1887	3046	3226
Debt to Equity	**26%**	**8%**	**7%**

Source: Individual analysis

Table X:

Weighted Average Cost of Capital	
D/EV	6%
E/EV	94%
Re	9.92%
Rd	3.92%
t	35.0%
WACC	**9.44%**

Source: Individual analysis

Equity ratio includes financial debt and capital lease agreements[13] minus the company's cash and equivalents over the market value of equity. It was based on the company's policies and efforts to reduce debt, which should quickly converge to a ratio of 7% that will be kept in perpetuity. Taking everything into consideration, a WACC value of 9.44% was reached, to which all cash flows were discounted.

Table XI:

Equity value calculation	
(in million $)	**2017**
Cash flow from next periods	545
+ Terminal value	2906
= Enterprise Value	2906
+ Cash and marketable securities	697
+ Non-operating assets	(311)
- Financial Debt	611
= Market Cap	**3303**
Shares outstanding	53.43
Share price	**61.82**

Source: Individual analysis

At Dec-2017, Hawaiian Holdings is expected to have an equity market value of $3,225M, corresponding to a price per share of $60.37.

Multiples Analysis

Table XII:

Multiples analysis - EV to EBITDAR				
(in million $)	EV to EBITDAR	EV	Equity Value	Price p/ share
Alaska Air	5.4	3808	3582	67
American Airlines	4.8	3394	3168	59
Delta Airlines	4.1	2942	2716	51
United Cont. Hold.	4.2	2988	2762	52
Virgin America	5.8	4092	3866	72
JetBlue	4.1	2886	2660	50
Average	EV to EBITDAR	EV	Equity Value	Price p/ share
	4.7	**3351.6**	**3125.6**	**58**

Source: Bloomberg and Individual analysis

Table XIII:

Multiples analysis - P/E ratio			
(in million $)	P/E ratio	Equity Value	Price p/ share
Alaska Air	12.3	3,019	57
American Airlines	5.3	1,298	24
Delta Airlines	8.7	2,139	40
United Cont. Hold.	7.7	1,901	36
Virgin America	15.3	3,765	70
JetBlue	9.9	2,444	46
Average	P/E ratio	Equity Value	Price p/ share
	9.9	**2427.5**	**45**

Source: Bloomberg and Individual analysis

In order to complete our valuation analysis and understand how the market evaluates the airline sector, a multiples valuation was performed. Alaska Airlines, American Airlines, Delta Airlines, United Continental Holdings, Virgin America and JetBlue were considered as comparable firms, because although their different dimension, these companies provide the same type of services (even if JetBlue and Virgin America are low cost carriers), fly on the same routes and have similar operational margins.

EV to EBITDAR is the most reliable enterprise value multiple to compare companies in this sector, given the companies' obligations under operating lease agreements, which provide operational differences. The average EV/EBITDAR is 4.7, which would imply a price per share at the end of 2017 of $58. The current price earnings ratio was used as the equity price based multiple, and showed an even lower result, with an average of 9.9 that implies a price per share of $45. The Down Jones transportation index has an average P/E of 16.5, and the S&P of 26.1, both well above these companies' results, which may indicate that the airline sector is being undervalued. Usually a ratio between 10 and 17 is considered to be a "fair trade" (this range would imply a price p/ share between $46 and $78) and anything below this range may suggest that the stock is underestimated. Additionally, current P/E ratio does not take into account the companies different

13 Operational lease agréments are already considered in the income statement as an operational cost

capital structures that vary significantly under our sample, and may not be a good measure to forecast what is going to happen in the future.

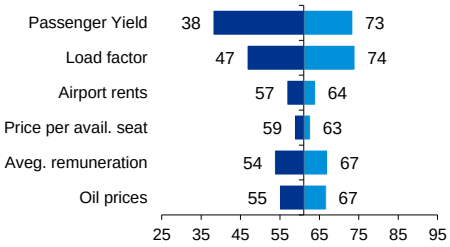
Despite the uncertain conclusions in terms of price, this valuation shows that the market has probably been undervaluing companies in this sector. Airlines showed recently a great growth that seems to be only now perceived by the market

Sensitivity Analysis

As already explained, the company is subject to several external risks that are difficult to predict in our valuation model but may affect Hawaiian Airlines' results.

Graph XLVIII:

HA share price sensitivity analysis ($)



Source: Individual analysis

Oil production is affected by many external shocks, which makes its price vary and affects airline companies' operational results. Since the passenger yield tends to slightly adjust according to these fluctuations, this impact is not so significant and therefore changes in oil price of ± 25% lead to a stock price variation between $55 and $67. Extreme events such as natural disasters with serious damage to the island's tourist accommodations or severe economic crisis, may not be adjusted through price variations and cause a permanent change in the load factor. This is extremely unlikely, as it would imply an impact in all years under analysis and in the perpetuity. Changes in the load factor of ±2% (absolute change), would make the share price vary between $47 and 74. Permanent changes in the passenger yield, ceteris paribus, have an even higher impact in the company's results, by considerably affecting its operational margins. A variation of ± 5% would lead to a stock price range between $38 and $73. Labor costs are dependent on the average remuneration paid, which may be dependent on new labor policies, labor unions pressure, etc. For fluctuations of ± 5% the share price varies between $54 and $67. Combining with oil prices changes, a worst case scenario of $48.1 would be achieved. Given the current modernization plan of Hawaiian airports, the company may be subject to fluctuations in airport rents and landing fees. For a cost variation of ±15%, the share price should vary between $54 and $67. Capital expenditures have a considerable impact on the firm's free cash flow, and are subject to negotiations in the newly acquired aircraft. Discounts conceded in these purchases may vary between 20% and 60%, but when it comes to the same customer the variations are not so large. For this reason, a ± change of 10% was computed, and a share price between $59 and $63 was reached. Finally, a sensitivity analysis for the changes in the perpetuity WACC and growth rate was performed. For ± 1% changes in these parameters, a price range between $46.3 and $86 was estimate (see table XIV in appendix).

In general, only an event of extreme impact would have a great effect on the company's price. Small operating fluctuations are part of the normal business's features and risks, and are easily adjusted by the company.

Financial Statements and Valuation KPIs

Consolidated Income Statement											
(in million $)	**2011**	**2012**	**2013**	**2014**	**2015**	**2016F**	**2017F**	**2018F**	**2019F**	**2020F**	**2021F**
Operating revenue											
Passenger	1481	1767	1943	2045	2026	2097	2285	2440	2676	2791	2871
Other	170	195	213	270	292	312	351	387	439	472	502
Total	1650	1962	2156	2315	2317	2410	2636	2827	3115	3263	3373
Operating expense											
Aircraft fuel, including taxes, delivery and losses on fuel derivatives	(520)	(643)	(704)	(742)	(478)	(370)	(477)	(560)	(644)	(693)	(722)
Wages and benefits	(321)	(377)	(427)	(447)	(500)	(526)	(594)	(656)	(753)	(801)	(840)
Aircraft rent	(113)	(99)	(109)	(106)	(116)	(126)	(142)	(134)	(134)	(134)	(134)
Other operating expenses	(374)	(371)	(420)	(428)	(433)	(468)	(505)	(546)	(589)	(637)	(687)
Other rentals and landing fees	(72)	(86)	(81)	(88)	(95)	(103)	(111)	(120)	(130)	(140)	(152)
Maintenance materials and repairs	(170)	(184)	(203)	(226)	(225)	(227)	(239)	(250)	(274)	(280)	(283)
Total operating costs	(1,571)	(1,759)	(1,944)	(2,037)	(1,846)	(1,819)	(2,069)	(2,265)	(2,523)	(2,685)	(2,818)
EBITDAR	193	302	320	384	587	716	710	696	725	712	689
EBITDAR margin	0	0	0	0	0	0	0	0	0	0	0
Aircraft rent	(113)	(99)	(109)	(106)	(116)	(126)	(142)	(134)	(134)	(134)	(134)
EBITDA	80	204	211	278	472	591	567	562	592	578	555
EBITDA margin	0	0	0	0	0	0	0	0	0	0	0
Depreciation and amortization	(66)	(86)	(83)	(96)	(106)	(114)	(122)	(129)	(144)	(150)	(153)
Operating Income (EBIT)	13	118	128	182	366	477	445	433	448	428	401
EBIT margin	0	0	0	0	0	0	0	0	0	0	0
Nonoperating Income (Expense)											
Interest	(15)	(32)	(37)	(55)	(50)	(31)	(31)	(33)	(42)	(36)	(34)
Other losses	1	0	(5)	(14)	(21)	(19)	(12)	(12)	(12)	(12)	(12)
Total	(15)	(32)	(42)	(68)	(70)	(50)	(43)	(45)	(54)	(48)	(46)
Income before income taxes (EBT)	(1)	86	86	113	296	427	403	389	393	380	356
Income tax expense	(2)	(33)	(35)	(45)	(113)	(166)	(157)	(151)	(153)	(148)	(138)
Net Income	**(3)**	**53**	**52**	**69**	**183**	**261**	**246**	**238**	**241**	**232**	**218**

KPIs											
RPM (in million $)	10,140	12,196	13,658	13,911	14,451	15,290	16,299	17,225	18,999	19,733	20,222
ASM (in million)	12,022	14,660	16,762	17,062	17,710	18,382	19,687	20,853	22,972	23,880	24,494
Load Factor	84.3%	83.2%	81.5%	81.5%	81.6%	83.2%	82.8%	82.6%	82.7%	82.6%	82.6%
Yield (in $)	0.15	0.14	0.14	0.15	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Cost per gallon (in $)	3.1	3.2	3.1	2.9	1.8	1.5	1.9	2.1	2.2	2.3	2.3
Average consumption per ASM (in gallons)	0.014	0.014	0.013	0.013	0.013	0.013	0.013	0.013	0.013	0.013	0.013
Staff per aircraft	117	109	112	108	103	102	101	100	99	98	97
Average cost per employee (in million $)	0.07	0.08	0.08	0.08	0.09	0.09	0.10	0.10	0.11	0.11	0.12
Maintenance, materials and repair per available seat (in milli	0.023	0.020	0.021	0.022	0.020	0.020	0.020	0.019	0.019	0.019	0.018
Cost per available seat mile (in million $)	0.13	0.12	0.12	0.12	0.10	0.10	0.11	0.11	0.11	0.11	0.12

Consolidated Balance Sheet											
(in million $)	2011	2012	2013	2014	2015	2016F	2017F	2018F	2019F	2020F	2021F
ASSETS											
Current Assets											
Cash and cash equivalents	304	406	423	264	282	339	387	388	431	436	430
Restricted cash	31	5	19	7	5	5	5	5	5	5	5
Short-term investments	0	0	0	260	279	292	304	313	320	326	332
Accounts receivable, net	94	81	74	81	82	84	92	99	109	114	118
Inventories and prepaid expenses	70	80	89	71	94	96	105	113	124	130	135
Total Current Assets	500	572	606	683	741	817	894	918	988	1011	1020
Property and equipment, net											
Total (net tangibles)	729	1069	1334	1673	1553	1597	1713	1872	2214	2341	2394
Other Assets											
Long term prepayments and other	47	56	92	96	91	64	66	73	93	95	91
Intangible assets, net	45	27	24	21	19	18	17	16	15	14	14
Goodwill	107	107	107	107	107	107	107	107	107	107	107
Other assets	60	36	2	0	0	0	0	0	0	0	0
Total Other Assets	259	225	224	224	216	188	189	195	215	216	211
Total Assets	**1488**	**1866**	**2164**	**2581**	**2510**	**2597**	**2792**	**2980**	**3412**	**3563**	**3620**
LIABILITIES AND SHAREHOLDERS EQUITY											
Current Liabilities											
Accounts payable	81	82	90	97	101	105	114	122	134	140	144
Air traffic liability	303	389	409	424	431	441	480	515	563	588	605
Other accrued liabilities	67	75	98	142	160	186	211	231	259	275	287
Current maturities of long term debt, less discount and capital lease obligations	38	108	62	156	77	68	53	77	74	101	73
Total current liabilities	489	654	659	820	770	800	858	945	1031	1102	1108
Long term debt and capital lease obligations	424	553	744	893	695	527	559	597	787	779	768
Other liabilities and deferred credits											
Accumulated pension and other postretirement benefit obligations	321	352	264	408	373	341	311	284	260	237	217
Other liabilities and deferred credits	31	38	59	73	90	110	136	167	205	253	311
Deferred tax liability, net	0	0	41	20	137	137	137	137	137	137	137
Total Other Liabilities	351	390	364	500	599	588	584	588	602	627	664
Total Liabilities	1265	1597	1767	2213	2064	1915	2000	2130	2419	2508	2541
Shareholders Equity	978	1213	1334	1702	1547	682	791	850	992	1055	1079
Total Liabilities and Shareholders' equity	**1488**	**1866**	**2164**	**2581**	**2510**	**2597**	**2792**	**2980**	**3412**	**3563**	**3620**

KPIs											
Working Capital											
Days sales outstanding	21	15	13	13	13	13	13	13	13	13	13
Working capital (assets)/Sales	0.10	0.08	0.08	0.07	0.08	0.07	0.07	0.07	0.07	0.07	0.07
Accounts payable/ Sales	0.05	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Air traffic liabilty/ Passenger Revenues	0.20	0.22	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21
Working capital (liabilities)/ Sales	0.27	0.28	0.28	0.29	0.30	0.30	0.31	0.31	0.31	0.31	0.31

KPIS											
Debt and PPE											
Price per new available seat	0.15	0.18	0.21	0.24	0.24	0.23	0.23	0.24	0.24	0.25	0.26
Change in available seats		1234	672	954	144	0	555	797	1496	571	242
Debt repayment	0	0	0	54	124	185	89	89	93	92	88
Debt per new available seat						0.18	0.18	0.18	0.18	0.18	0.18
Total fleet at the end of the year	37	45	47	50	54	55	60	64	71	73	74
Aircraft under operating leases	13	14	13	13	14	15	17	16	16	16	16

Consolidated Cash Flow Statement											
(in million $)	2011	2012	2013	2014	2015	2016F	2017F	2018F	2019F	2020F	2021F
EBIT	13	118	128	182	366	477	445	433	448	428	401
Notional Income Taxes	(5)	(41)	(45)	(64)	(128)	(167)	(156)	(152)	(157)	(150)	(140)
Tax Adjustments	(2)	(3)	(4)	(5)	(10)	(16)	(16)	(15)	(15)	(15)	(14)
NOPLAT (or NOPAT)	7	74	79	113	228	293	274	267	276	264	247
Depreciation	66	86	83	96	106	114	122	129	144	150	153
Gross Free Cash Flow	73	160	162	210	334	407	396	396	420	413	401
Net Capex		(425)	(349)	(436)	15	(158)	(238)	(287)	(486)	(277)	(207)
Change in NWC		98	49	78	5	36	56	48	67	34	26
Change in other assets (in cash)		34	1	(0)	8	28	(1)	(6)	(19)	(1)	5
Change in other liabilities (in cash)		7	72	(4)	126	21	25	31	38	47	58
Operating FCF	**-**	**(127)**	**(65)**	**(152)**	**489**	**334**	**238**	**182**	**20**	**217**	**282**
Investments and cash and cash equivalents		(76)	(32)	(88)	(34)	(72)	(60)	(10)	(49)	(11)	(1)
Pension Funds		20	(26)	60	(4)	(32)	(29)	(27)	(25)	(22)	(20)
Total Free Cash Flow Available to Investors		**(182)**	**(123)**	**(180)**	**451**	**230**	**149**	**145**	**(53)**	**183**	**261**
Interest		(32)	(37)	(55)	(50)	(31)	(31)	(33)	(42)	(36)	(34)
Tax Shields		11	13	19	17	11	11	12	15	13	12
Other losses		0	(5)	(14)	(21)	(19)	(12)	(12)	(12)	(12)	(12)
Other losses "tax shield"		(0)	2	5	7	7	4	4	4	4	4
Change in Financial Debt		199	145	243	(277)	(177)	16	63	187	19	(39)
Net Change in Equity (in Cash)		4	5	(18)	(127)	(20)	(137)	(179)	(99)	(170)	(193)
Total Cash Flows From Investors		**182**	**123**	**180**	**(451)**	**(230)**	**(149)**	**(145)**	**53**	**(183)**	**(261)**

Table XIV:

Sensitivity analysis - WACC and g											
60.4	**8.4%**	**8.6%**	**8.8%**	**9.0%**	**9.2%**	**9.4%**	**9.64%**	**9.8%**	**10.0%**	**10.2%**	**10.4%**
1.5%	61.9	59.9	58.0	56.3	54.6	53.1	51.6	50.2	48.8	47.5	46.3
1.7%	63.6	61.6	59.6	57.8	56.0	54.4	52.8	51.3	49.9	48.6	47.3
1.9%	65.5	63.3	61.3	59.3	57.5	55.8	54.1	52.6	51.1	49.7	48.4
2.1%	67.5	65.2	63.0	61.0	59.0	57.2	55.5	53.9	52.3	50.9	49.5
2.3%	69.6	67.2	64.9	62.7	60.7	58.8	56.9	55.2	53.6	52.1	50.6
2.5%	71.9	69.3	66.9	64.6	62.4	60.4	58.5	56.7	55.0	53.4	51.8
2.7%	74.3	71.6	69.0	66.5	64.2	62.1	60.1	58.2	56.4	54.7	53.1
2.9%	77.0	74.0	71.2	68.6	66.2	63.9	61.8	59.8	57.9	56.1	54.4
3.1%	79.8	76.6	73.6	70.9	68.3	65.9	63.6	61.5	59.5	57.6	55.9
3.3%	82.8	79.4	76.2	73.2	70.5	67.9	65.6	63.3	61.2	59.2	57.4
3.5%	86.0	82.4	79.0	75.8	72.9	70.2	67.6	65.2	63.0	60.9	58.9

Disclosures and Disclaimer

Research Recommendations

Buy	Expected total return (including dividends) of more than 15% over a 12-month period.
Hold	Expected total return (including dividends) between 0% and 15% over a 12-month period.
Sell	Expected negative total return (including dividends) over a 12-month period.

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