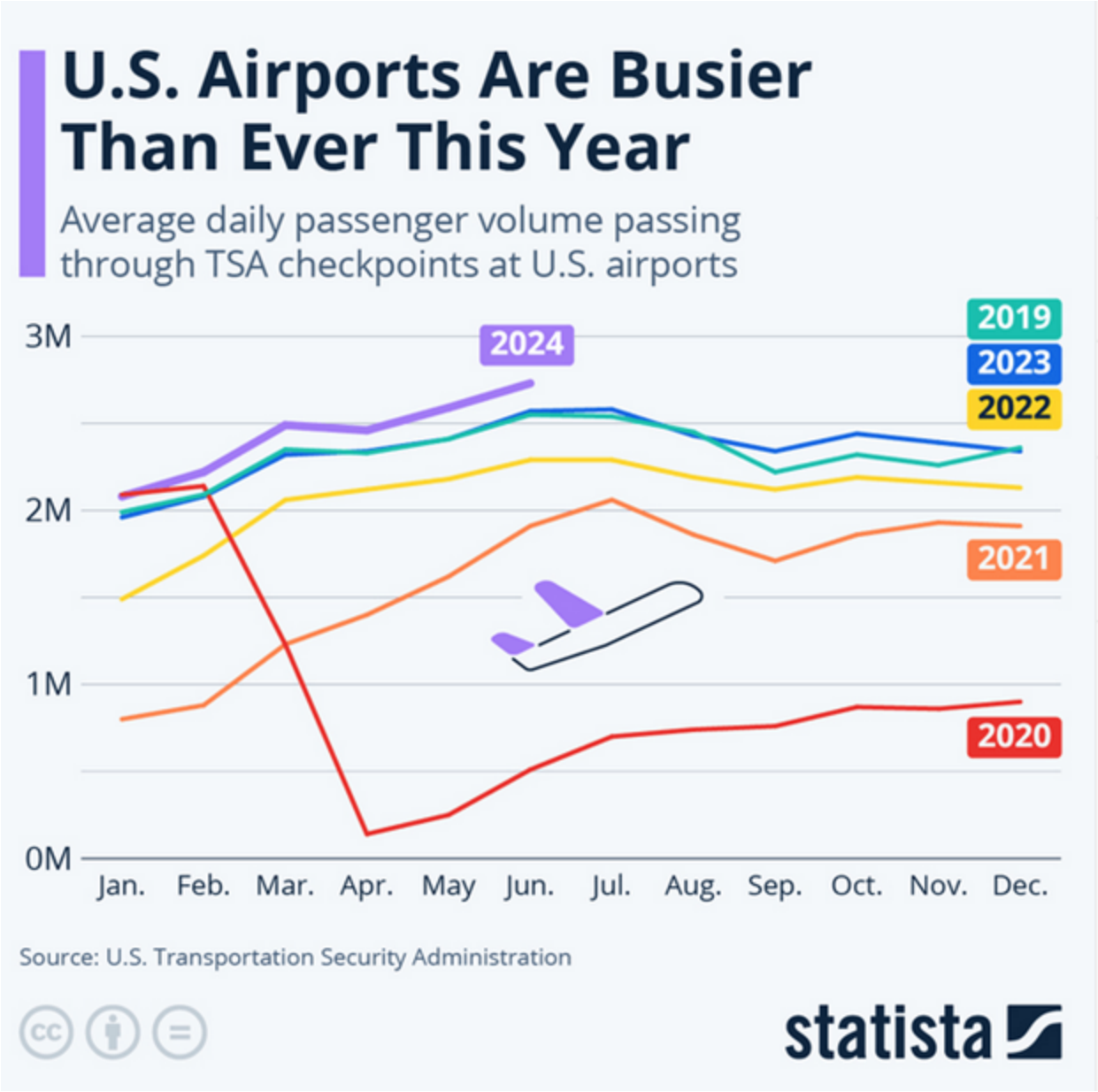
Friday Favorites- 'American Airlines

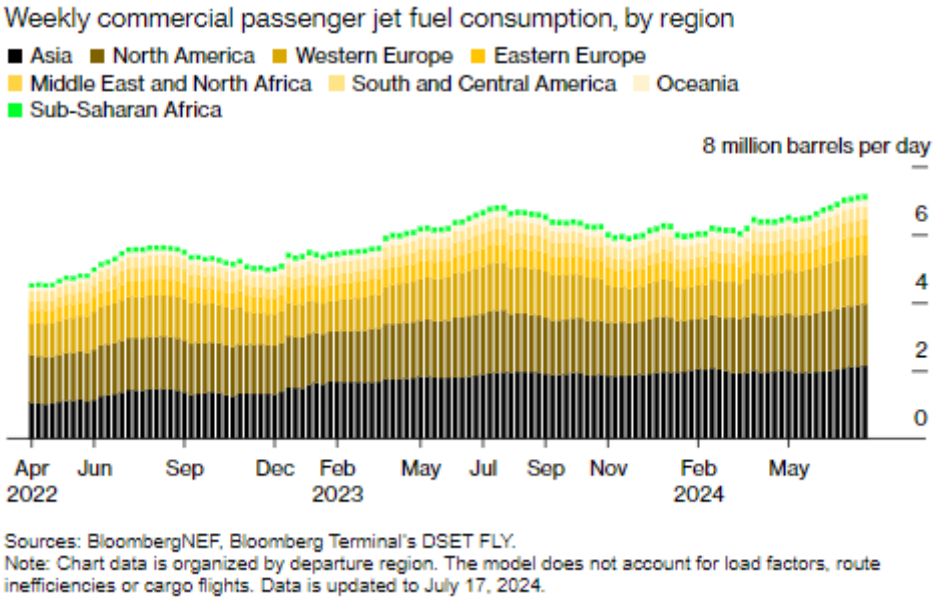
American Airlines (AAL)

Last Friday?s Daily Market Commentary included a section on airline stocks in which we highlighted their poor performance this year.

The large U.S. airlines are having a sale. Unfortunately, it's not on ticket prices but their share prices. Despite booming air travel, as shown below courtesy of Statista, U.S. airline stocks are trading near their pandemic lows. To stress that point, airline share prices are at similar levels as when air travel was all but shut down, and there was no clear timetable for when it would resume. The second graph shows American, United, and Southwest Airlines.

The two charts below show that airport foot traffic and jet fuel consumption have risen to record highs this year. This begs the question, if business is booming, then why have airline stocks performed so poorly? In this week?s Friday Favorites, we delve into the fundamental and technical attributes of the American Airlines (AAL) stock to better understand its performance and outlook.

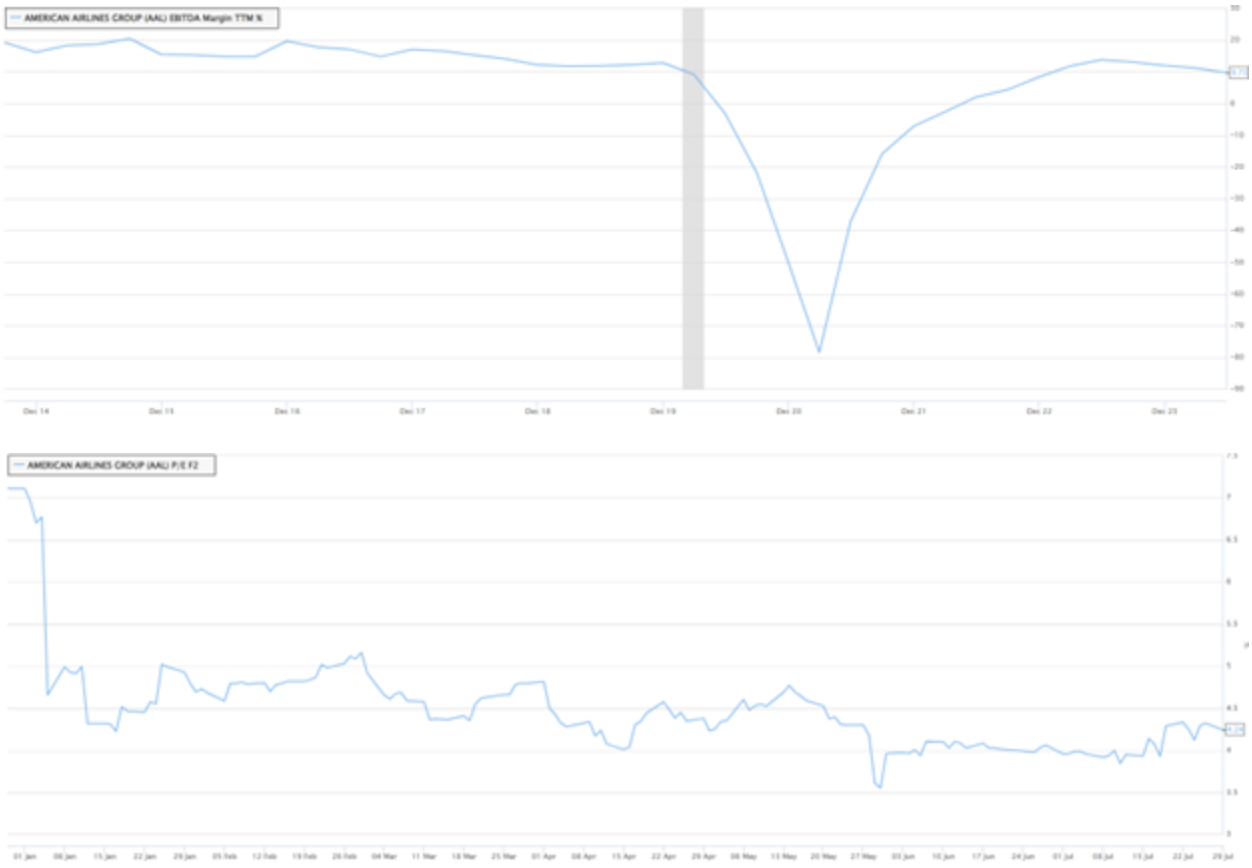




Fundamental

American Airlines? revenue is back at record highs, although its revenue growth has been sluggish over the past several quarters. As of the end of the second quarter, 5-year annualized revenue growth was 3.48%. EBITDA remains below record levels due to declining margins, as shown below. The COVID-related margin contraction distorts the scale, giving an illusion of a minimal decline in margins recently. However, American Airlines? EBITDA margin has decreased by 4% to 9.73% over the past year. &#2013266080;Higher costs, including employee wages and fuel, are eroding profitability despite record passenger volumes. Airlines have also been competing on fares lately, which is applying further pressure to margins.

Sluggish revenue growth and contracting margins are weighing on investor sentiment. As shown in the second chart below, AAL?s forward P/E of 4.24 has consistently drifted lower YTD. Price to sales follows a similar trend, declining from 0.17 to 0.13 YTD. Due to its weak stock price, slow growth, and profitability woes, the stock is well into value territory.



Technical

It should be no surprise that the stock is trading in a downtrend, given the commentary above. The price is in the process of testing the support line drawn in red. The series of lower lows in the stock price (blue) over the past few months contrasts with the pattern of higher lows in the RSI. Such suggests that the stock will likely hold support at the downtrend line and rebound from here. The gap down that happened in May remains unfilled, so the price will likely make a run at $13.50 if it can get some traction. MACD is on an upward trajectory but it remains in oversold territory, providing plenty of room for a rally from here.



Disclosure

This report is not a recommendation to buy or sell the named securities. We intend to elicit ideas about stocks meeting specific criteria and investment themes. Please read our disclosures carefully and do your own research before investing.