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Sun Country Airlines (NASDAQ:SNCY)

"Low Fares. Nonstop Flights."

Exchange: NASDAQ
GICS sector: Industrials
GICS Industry: Transportation

RECCOMENDATION: SELL ★★★ **PRICE: $16.18** **Report Currency:** USD

(as of market close Jan 10th, 2025)

Investment Type: Small Cap **12 MONTH TARGET PRICE: $13.39**

Figure 1: Financial Data

	23A	24E	25E	26E
Rev (M)	$949.89	$1,069	$1,016.20	$1,088.80
Rev. Growth	17%	2%	-5%	7%
Adj. EBITDA	$215.65	$191.80	$170.80	$195.98
Adj. EBITDA Margin	21%	18%	17%	18%

Source: Company Filings/Team 1 Analysis

Figure 2: SNCY Since IPO Stock Chart

Source: StockCharts

Figure 3: Company Data

Market Cap	$856M
Shares Outstanding	59.93M
52-Week High	$16.43
52- Week Low	$9.22

Source: Yahoo Finance/Team 1 Analysis

Executive Summary

We initiate coverage on Sun Country Airlines Holdings Inc. (NASDAQ: SNCY) with a sell recommendation based on our 12-month target price of $13.39, implying a downside of -17.25% to the last close of $16.18 as of the 10th of January 2025. This target price is reflected in our 3-source valuation method **(Appendix 11)**.

General Risks: The airline industry carries high risks due to the cyclical nature of the business, along with fixed costs associated with operating an airline. Airlines deal with commodity factors, swings in the economy, and changing consumer sentiment. Their earnings are price-sensitive to the cost of oil and can lead to unprofitable flights. SNCY mitigates part of this risk by having a more diverse revenue stream from their cargo and charter flights. However, the bulk of their revenue comes from highly cyclical passenger flying.

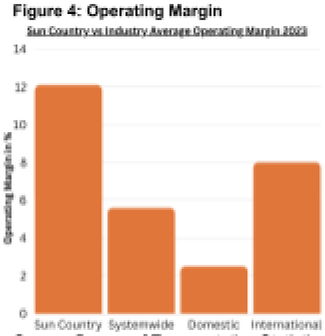
Investment Thesis: SNCY has a long and storied past of a quest for profitability. Their revenue-driving segments are passenger, charter, and cargo. While the business has reinvented itself under CEO Jude Bricker, the stock has not provided any value to shareholders. Furthermore, 21% of the company is still owned by Apollo Global Management (NYSE:APO), which is still waiting to liquidate the rest of its ownership. Our sell recommendation reflects upon the aspects of our analysis projecting 3% growth until 2029E—no planned dividend coupled with no planned share buybacks from company leadership. The company's primary source of revenue is highly exposed to macroeconomic volatility. Additionally, Apollo Global's pressure may further weigh on the share price. Therefore, we recommend selling SNCY at the current market price, given the anticipated weakness in the stock price projected in 2025.

Economic Moat: SNCY operates within a highly competitive industry, where sustaining a competitive economic advantage (moat) is challenging to achieve due to general industry risks and fluctuations. Despite these obstacles, SNCY has attempted to build a diverse business model that stabilizes earnings and develops the characteristics of a growing moat. SNCY employs a low-cost business model focusing on cost control and fleet utilization. However, despite these strengths, the company faces challenges, including limited expansion potential without triggering a fare war with Delta Airlines, concentration risk in its cargo business, long-term scalability limitations, and declining customer loyalty. Therefore, we assign SNCY a narrow competitive edge driven by its diversification. However, the risks associated with its business model, combined with a lack of strategic competitiveness for the future, will prevent SNCY from becoming a dominant airline.

Business Description

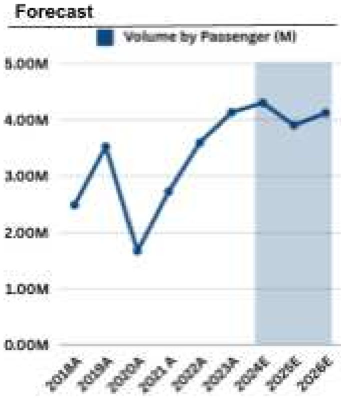
About: Founded in 1982 by members of the former Braniff International Airways, Sun Country Airlines (SNCY) is a "hybrid" low-cost air carrier based out of the Minneapolis-St. Paul Airport (MSP) Terminal Two. The airline operates an all-Boeing 737-NG fleet comprising 63 total aircraft. SNCY has 44 737-800s that are dedicated to serving customers through their scheduled service and charter segments. Twelve aircraft are Amazon's [(NASDAQ: AMZN)] 737-800s, which SNCY flies cargo flights for, and seven of the aircraft that SNCY owns are currently on lease to Oman Air and flydubai. **(Appendix 3)**. Sun Country's fleet travels 116 routes and services 102 airports **(Appendix 13)**. SNCY prides itself on serving leisure travel customers on scheduled service and charter flights while providing cargo service for AMZN through various destinations across North America, Central America, and the Caribbean. SNCY is piloted by CEO Jude Bricker, who has 20+ years of experience in the aviation industry and has grown through several roles in his tenure in the industry that have continuously built his knowledge.

Figure 4: Operating Margin



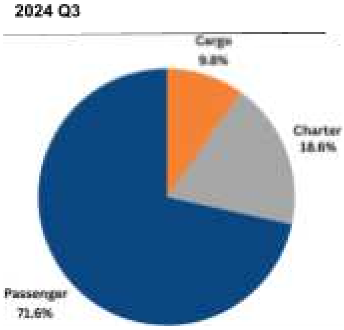
Source: Bureau of Transportation Statistics

Figure 5: Passenger Segment Forecast



Source: Company Filings/Team 1 Analysis

Figure 6: Revenue (%) by Segment 2024 Q3



Source: Company Filings

Strategy: SNCY managed to be one of the most profitable airlines by operating margin in 2023. This profitability was attained by optimizing peak flying times and factoring in market trends **(Figure 5)**. The airline's variable capacity model allows them to be most efficient when demand is high to fly scheduled service and charter flights. When demand diminishes, the airline relies on cargo operations to help mitigate the inherent volatility of leisure travelers. SNCY is subject to a high degree of seasonality, with the majority of revenue coming in the first quarter with midwest leisure travelers desiring to travel to the South in the colder months. While SNCY competes against other ULCCs, the airline differentiates itself by identifying itself as a "hybrid" low-cost leisure carrier and its recent implementation of multiple segments within the airline industry.

Grateful Turbulence Through the COVID-19 Pandemic: Since the COVID-19 pandemic, SNCY, like all airliners, has experienced hardships due to flight restrictions mandated by national, state, and local governments. One way that SNCY was set apart from competitors during the pandemic was the timing of its IPO, which came on March 17th, 2021 **(Figure 20)**. This fortunate timing allowed SNCY to grow faster, given that the company issued 10.5 million shares and raised $225 million in net proceeds. SNCY was also well-positioned to gain from a new membership deal with AMZN, which occurred right before the pandemic started in December 2019.

Key Operating Segments:

Scheduled Service: SNCY's most significant business segment is the passenger-scheduled service sector. Since their business model targets leisure travelers and individuals visiting friends and family, scheduled service comprises more than half of SNCY's annual revenue **(Figure 6)**. Structurally analyzing the travel demands to southern destinations during the cold Midwestern months puts SNCY at an advantage when choosing to fly during high demand and peak travel times.

Charter Service: Sun Country has 35+ years of experience flying charters for customers such as the NCAA, MLS, casinos, VIPs, and the US Military **(Appendix 16)**. The charter fleet consists of the same aircraft used in scheduled service flights, designed to store substantial belongings for passengers specifically to meet their needs. These Boeing 737-800 aircraft have 186 seats with a cargo capacity reaching 1,555 cubic feet of storage.

Cargo Segment: SNCY's cargo segment keeps operations constant year-round. This segment results from the partnership with AMZN in December of 2019. This beneficial partnership enables SNCY to generate revenue during the off-season/non-peak flying months when leisure travel is limited. The agreement in 2019 mentioned that AMZN would sublease 12 Boeing 737-800 aircraft to SNCY, which have been transformed from passenger aircraft to a cargo-specific layout (will receive eight additional aircraft from AMZN between 2025-26). Since AMZN owns the aircraft, they are responsible for the expenses incurred while the planes are in operation, making SNCY only responsible for labor, which absorbs and decreases SNCY's overhead **(Appendix 3)**.

Industry Overview

Brand Recognition Within MSP Airport

The MSP International Airport is SNCY's primary hub for transport. According to MSP International Airport statistics from FY 2023, SNCY was reported as having 11.30% market share out of MSP, positioning them in second place behind the industry-leading carrier Delta Air Lines, which commands 70.28% of MSP travel **(Appendix 14)**. SNCY's passenger segment competes against other major airlines, such as the big four (Delta, American, United, and Southwest). While aware of the competition, SNCY plans to shrink its passenger segment in FY 2025 to ensure pilot growth is dedicated towards its expanding cargo segment with AMZN. Shrinking SNCY's passenger segments will significantly disrupt the company's revenue, making it more difficult for customers to become familiar with the airline.

Struggles Competing in US & Global Markets

Although SNCY may have a comfortable presence at MSP, it is a small player compared to larger airlines in the U.S. and global markets. Major airlines, often referred to as the "big four," along with mid-sized carriers, enjoy greater brand recognition due to their extensive operations within the U.S. domestic market. This allows them to secure a majority of the gates at airports across the country and internationally. Collectively, the big four airlines hold a significant 68.3% market share in the domestic market. In contrast, Hawaiian Airlines, which has the smallest share among U.S. carriers, accounts for only 1.7%. For Sun Country, the lack of substantial market share in the U.S. limits its recognition as a viable airline **(Appendix 17)**. Given that SNCY does not currently rank among the top 10 U.S. airlines and does not report a specific percentage for its domestic market share, it is reasonable to conclude that its market share is below 1.7%. As a result, SNCY lacks the impact necessary to expand beyond MSP airport, unlike other airlines that operate more broadly across the U.S. and globally.

Airline Business & Distinct Business Model

At the core of both US and global airline markets, there tend to be four various business models that an airline may be categorized into: (i) full-service carrier; (ii) ULCC; (iii) charter carrier; or (iv) cargo carrier. While it is safe to assume some airliners may identify as one or two of the variations of airline businesses, SNCY asserts a presence in all three. SNCY claims to bring the aviation industry a new breed of hybrid low-cost carrier that strategically deploys its resources across the scheduled service, charter, and cargo businesses. SNCY targets leisure travelers as their business model suggests they fly only when flight demand is high and profitable, bringing customers the opportunity to fly at a discounted price compared to larger airlines.

Competitive Positioning

Seasonal and Leisurely Travel Dependance

While targeting the Minnesota traveler, SNCY banks heavily on customers traveling to leisure destinations during peak times, such as around holidays, to visit friends and family while escaping the colder weather that the Midwest region offers. SNCY's earnings in the scheduled service segment heavily depend on this type of seasonal and leisurely travel. When this area is lacking, it will clearly be shown by revenue fluctuation.

Reliance on Ancillary Costs

With SNCY competing against other airlines in the U.S. and global market, the airline stays competitive by offering passengers the lowest available seat price. By providing the lowest possible price per seat, SNCY relies on additional fees called ancillaries in an attempt to increase profit margins. The most common types of ancillary costs that airliners like SNCY and competitors charge for are (i) checked bags, (ii) seat selection, and (iii) onboard amenities such as Wi-Fi, food, and beverages. SNCY led the U.S. in FY 2023 by becoming one of the most profitable airlines by operating margin compared to the aviation industry. One way SNCY accomplished this was with the help of their added ancillary costs customers could pay to enhance their flight experience. Although other ULCCs also charge for ancillaries, doing so can raise concerns for price-sensitive customers. Due to SNCY's expected growth of -10% to -12% in FY 2025 within their passenger segment **(Appendix 3)**, they want to focus on growth in their AMZN partnership. With this in mind, it is clear to expect that SNCY will be ramping up its ancillary costs in its scheduled service sector to contribute towards revenue growth in the coming year **(Appendix 18)**.

Operational Scale & Vulnerability

Although SNCY has been in business for 43 years, compared to established airlines like the big four, SNCY lacks in fleet size and employee numbers. This makes SNCY more vulnerable to disruptions between operations among any of its three business segments. These disruptions can range from maintenance issues to crew shortages or a lack of pilots. Being a small regional airliner like SNCY has its downsides when attempting to compete with major airlines, which generally have control over the market domestically and internationally.

Amazon's Short-Term Alternative For Cargo

In December 2019, SNCY added a cargo segment to its business model, which resulted from a partnership deal with AMZN. The deal entailed SNCY flying cargo for AMZN Air using SNCY-employed pilots. The agreement was extended to October 2030 with the potential of further extension to 2037. In this process, AMZN will provide SNCY with eight additional aircraft to fly cargo in FY 2025, bringing the total AMZN aircraft count to 20 **(Appendix 3)**. Since AMZN has the option to discontinue the partnership in 2030, SNCY fears that AMZN will look elsewhere upon the expiration of the partnership. AMZN relies on SNCY to fly cargo for the company, although SNCY is not the only airline that flies cargo for AMZN. On the other hand, SNCY is highly dependent on AMZN to continue their business's cargo segment. Without AMZN as a partner, SNCY's cargo segment is nothing, which would lead them back to where they were pre-pandemic as strictly and solely a passenger and charter airline. If this were to be the case, SNCY would lose significant credibility and fall into the same category as other ULCCs.

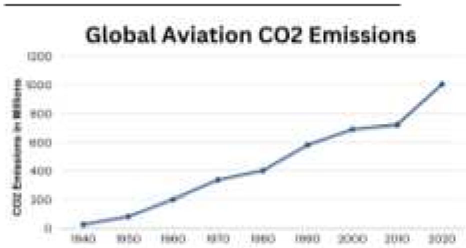
ESG

Figure 7: ESG Scorecard

	Score	Env.	Social	Gov.
Morningstar	34.22/ 40+			
Know ESG	21/100	3	17	47
MSCI	3.1/10	0	4.2	5.5

Source: Company Websites

Figure 9: Global Aviation Emissions



Source: Our World Data

Environmental

Industry Standards: Aviation-related CO2 emissions contribute 2.5% of global pollutants **(Appendix 8)**. Although this may seem like a small footprint for an industry this large, flying is extremely carbon-intensive, and as the number of flights increases, the environmental impact will increase drastically **(Figure 9)**. This is why the industry has committed to having net-zero emissions by 2050.

Sustainable Aviation Fuel (SAF): One of the main ways the airline industry is committed to decreasing its carbon footprint in the coming years is by implementing SAF. This fuel is remarkably similar to jet fuel but is created using renewable resources like forestry biomass. SAF is slated to reduce environmental impact by 80%. Although fuel has numerous environmental benefits, it has an average cost of $8.74 nationally per gallon. This is compared to the $6.49 average national cost of jet fuel per gallon. The price difference is why SNCY does not use SAF. Fuel is the airline's second-biggest operating expense after wages. It represented 26.75% of the total operating cost in FY 2023. If SNCY switched to SAF, this figure would have increased to 32.97% of the total operating cost and decreased operating income by 67.08% **(Appendix 7)**. With changes in industry regulations and consumer standards, SAF will be part of SNCY's future fuel management plans. This change may require a government subsidy or a change in the law that forces the airline to implement this fuel.

Figure 8: Morningstar EGG vs. Peers

Airline	Morningstar ESG Score
Sun Country	34.22
JetBlue	30.41
Spirit	34.19
Allegiant	34.06
Frontier	38.9

Source: Morningstar

Aging Fleet: SNCY operates a fleet of Boeing 737 Next-Generation (NG) planes. The models of the 737NGs are 737-800s apart from the five 737-900s that are on loan to Oman Air. These planes are typically used when purchased and then cannibalized or sold later. Many airlines are now transitioning to the 737 MAX, Boeing's newest model. With owning older aircraft comes efficiency problems. One problem is the fuel efficiency of the NGs. An NG is 15-20% less fuel efficient than the MAX. Over time, the compound effect of this leads to a higher fuel cost for SNCY and worsens its environmental impact.

Social

Worker Relations: There are over 2500 employees on SNCY's payroll. Many of these workers are in Minnesota. SNCY strives to provide adequate benefits that support its employees. These benefits include a 4% 401k company match and discounted travel packages. SNCY's pilots are represented by the Air Line Pilots Association (ALPA) and their flight attendants by the International Brotherhood of Teamsters (IBA) **(Figure 10)**. In 2021, SNCY and the ALPA agreed on a contract ratified by 93% of voting pilots. The contract made SNCY competitive in terms of pay and gave other benefits that were above other airlines at the time. However, this celebration was short-lived, as the ALPA noted that SNCY managers were struggling to implement and comply with the contract years after the initial agreement. Areas of special concern were captain upgrades, disability benefits, and quality-of-life improvements. Some of these contract issues are still pending and will be a subject of conversation next year when a new contract is to be created. The flight attendants are struggling to reach a contract with the airline. A position at SNCY pays $21/hour starting for a flight attendant. With the general cost of living increasing constantly, SNCY flight attendants also want to see their pay increase. Around the industry, entry-level flight attendants earn $24.95/hour at Alaska Airlines, $24.74 at Spirit, and $25.34/hour at Allegiant. Teamsters have held several events to protest current conditions, including a picket last January. Flight attendants even voted to authorize a strike this past August. A strike is unlikely, but the threat of one will weigh into SNCY's teamster contract. SNCY will have to settle these disputes soon, which will affect the airline's short-term profitability. Increasing wages by another $4 to align with industry standards in the next contract will further decrease the company's margin and impact the long-term profitability of the airline. These costs will be passed onto budget-conscious customers, who may seek a lower price elsewhere.

Figure 10: Employees Represented by Unions 2023

Employee Group	Number of Employees	Represent-ative
Pilots	616	ALPA
Flight Attendants	675	IBT
Dispatcher	33	TWU
Technician	206	AMFA
BTW Fleet Service	273	IBT

Source: Company Filings 2023

Customer Image: SNCY has a loyal customer base in the Twin Cities area and boasts many repeated flyers. This is due to their recognizable image at the MSP airport. This image was tarnished in 2018, though, as 250 passengers in Cabo San Lucas, Mexico, were left stranded with no further aid from SNCY when a severe snowstorm swept through Minnesota that caused MSP to ground all flights. SNCY was forced to cancel the Cabo flight, which would have otherwise delivered these passengers home from Mexico. This would not have usually been an issue since the airline regularly scheduled flights to foreign airports, but this was SNCY's last flight to Cabo during the spring season. Subsequently, passengers were only refunded their tickets and told to find their way home. Customers and news sources publicly shamed SNCY for this. The airline later agreed to cover other transportation costs incurred due to the cancellation, with CEO Jude Bricker stating that other alternatives should have been considered initially. This mistake has tainted some flyers' perception of the airline and caused a significant strain on the company's image.

Flight Safety: All airline employees are updated on training and safety procedures based on the Federal Aviation Administration guidelines. SNCY bolsters a good record of accidents, as no fatalities have ever occurred on board. However, some malfunctions have been reported in recent years. Notably, in June of this year, a plane headed from Seattle to Minneapolis was forced to land in Spokane after an engine failure. The incidents in recent years have been handled well by SNCY and are not unusual for an airline.

Governance:

Figure 11: Employee Reviews

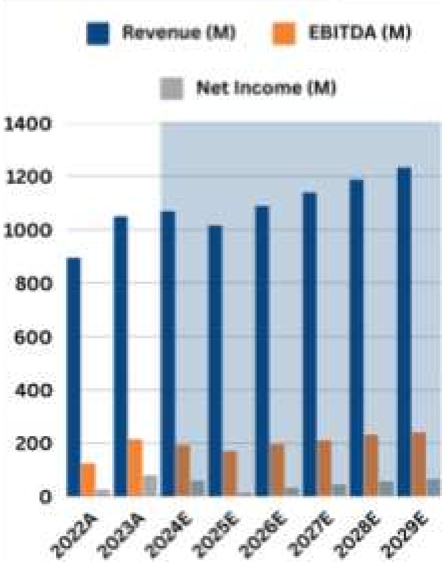
Shareholder Ownership: SNCY is owned by the majority of institutions. The largest shareholders are Apollo Global, Blackrock, and Vanguard **(Appendix 9)**. These firms are well-established and reputable. It is important to note that many of the shares these institutions own are placed in mutual funds and ETFs. In recent years, Apollo Global has been recognized as a significant force in the airline's path. They have helped finance SNCY to become the airline they are today. Although these firms influence SNCY's decisions, we do not see them exercising rights in a positive or negative way against the airline in their current positions.

Executive Management: The executive management consists of ten members. CEO Jude Bricker has been with the airline since 2017. Bricker has 20+ years of experience in the airline industry and was previously the COO of Allegiant. Bricker has an employee approval rating of 45%, the second lowest among competitors **(Figure 11)**. All executive teams have extensive experience in their respective areas and the company. The tenure of executives ranges from one to seven years, with the average being 4.5 years. Executive team compensation includes base salaries, bonuses, and stock compensation. The salaries of SNCY executives are comparable to those of peers with a similar market cap.

Board of Directors: SNCY's board has eight members. Two of these members come from the executive team (CEO Jude Bricker and CFO Dave Davis); the rest are marketing, aviation, and financial experts. Jennifer Vogel heads the board of directors and has been the board chair since March 2023. She has an extensive career managing board tasks from previous positions. The board's tenure ranges from two to six years, averaging approximately 3.5 years. Four of the eight directors are women, which puts SNCY above the average of 29% female representation. All board members own shares in the company, which helps them make decisions in the best interest of the company's shareholders.

Investment Summary

Figure 12: Projected Revenue, EBITDA and Net Income Forecast



Source: Company Filings/Team 1 Analysis

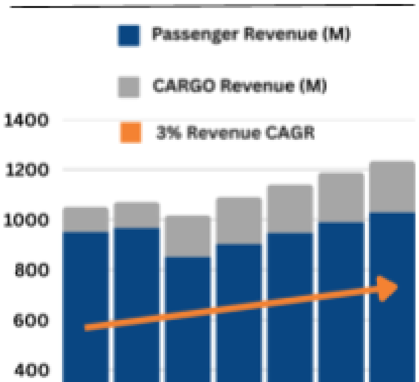
Sun Country Airlines is a low-utilization leisure carrier with no sustainable competitive advantage, projected single-digit revenue growth, and expected headwinds in 2025. The stock price could see further compression, especially with Apollo Global looking to sell off its remaining 21% stake.

Sun Country's narrow moat is due to its positioning in the ULCC market. Where customers seek tickets from A to B, Sun Country's strategy from the current CEO is to provide the lowest ticket entry cost possible and add on as many ancillary fees as possible, which does not help build customer loyalty.

While the business has reinvented itself under Bricker's leadership, the stock has yet to find its way to investors. Chris Allen, the head of investor relations for Sun Country Airlines, summarized it best: "We're just not going to grow that fast as a small cap, and so you lose that whole growth investor, and then we don't highlight the dividend investor ... if you're a value investor, you start showing up, and they go … it's an airline like nobody wants to deal with." According to Allen, Sun Country is interested in pursuing share buybacks in the future. This implies that the management team sees SNCY stock as currently overvalued, and management is waiting for further share price decline to initiate buybacks.

Also, according to Allen, "80% of our operations are in Minneapolis ... Minneapolis is also Delta's hub ... as we've been growing, we've been taking share out of Minneapolis. But what we don't want to do as an airline, especially as a low-cost airline, is provoke Delta into creating an all-out fare war ... So we can only grow so much without provoking them into competition. Then [Delta] will make us not exist." This implies that SNCY leadership is aware that they cannot grow quickly without increased competition from Delta.

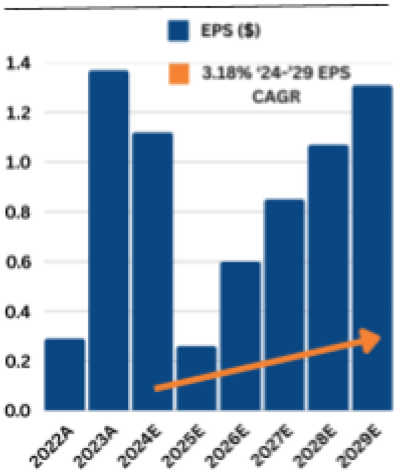
Figure 13: Segment Revenue Forecast



Following SNCY's Q3 2024 on October 30th, 2024, Apollo Global still holds a 21.1% stake. Historically, Apollo has sold significant stakes in Sun Country since the IPO. In October, Allen said about Apollo: "At the IPO, Apollo [owned] 94%; they sold quickly, which caught many investors by surprise. But then Apollo stuck around much longer than people thought. So, Apollo still owns 20%. Everyone knows they are getting out. So, every time Apollo sells, you go, 'I will just buy that weakness.' So, that is a component of [our share price decline]." With Apollo reducing their ownership further, we see further downsides and believe SNCY does not have growth aspects to support the stock's current price.

SNCY stock offers a slow growth small cap regional airline and operates in a cyclical industry with low margins. The business offers protection against travel market downturns, and its AMZN business provides consistent revenue. Their charter business is also sticky and operates with higher margins. However, their primary source of revenue is their passenger segment, which is exposed to macroeconomic swings. We see further compression in this segment, which we do not believe will recover until 2027E. Therefore, given the anticipated weakness in the stock price projected for 2025. We recommend selling SNCY at the current market price.

Figure 15: Earnings Per Share (EPS) Forecast



Source: Company Filings/Team 1 Analysis

We do not see SNCY outperforming the S&P 500 in the next 10 years. Their deal with AMZN will only provide nominal Yr/Yr revenue growth. Risks associated with the uncertainty in the passenger segment, as we mentioned, will take until 2027 to recover while the charter business is slowly growing. Further, Apollo Global will continue to drive downward pressure on the stock price, and the lack of enthusiasm from SNCY leadership for the stock and lack of dividends, coupled with no share buybacks, prove to be of no value to shareholders. As part of management's conservative growth plan, this stock will not provide any value to shareholders over the long term and will likely underperform the broader market.

Financial Analysis

Growth:

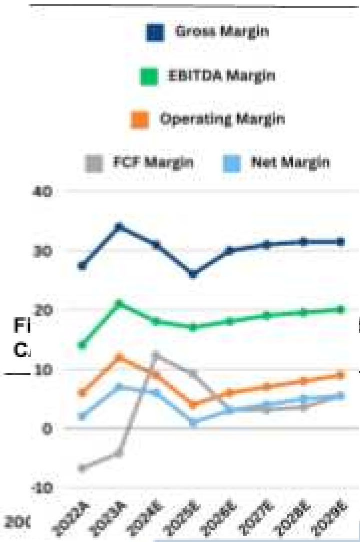
Figure 14: EBITDA Forecast

Source: Company Filings/Team 1 Analysis

Revenue is expected to grow at 3% CAGR from 2024E until 2029E. Driving this growth is the expansion in cargo in 2025E and 2026E. Top-line growth is driven by additional seat miles and expansion in TRASM and CASM. As well as ancillary revenue growth is also expected **(Appendix 11)**.

Adjusted EBITDA for 2024E is expected to be $191.80M, down $23.85M from the year prior. In 2025E, we project EBITDA to decline another $21M to $170.8M. In 2026E, led by the recovery in the passenger segment, we forecast EBITDA to rebound to $195.98M. The EBITDA drop is led by higher operating costs projected for 2025E and 2026E. These operating costs include higher overhead for the cargo segment 2025E, led by more cargo block flying hours for pilots—further costs associated with CAPEX for the aging fleet that will need to be replaced eventually. With the high expenses of onboarding the seven leased aircraft from Oman Air in 2026E. Through 2029E, we expect an EBITDA CAGR of 5%, down 4% from historical averages, which is in line with management expectations. A decrease in passenger schedule service drives the reduction in EBITDA in 2025E. Block hours for flying are expected to cool down by (12%), rebounding to 6% growth in 2026E. **(Appendix 11)**.

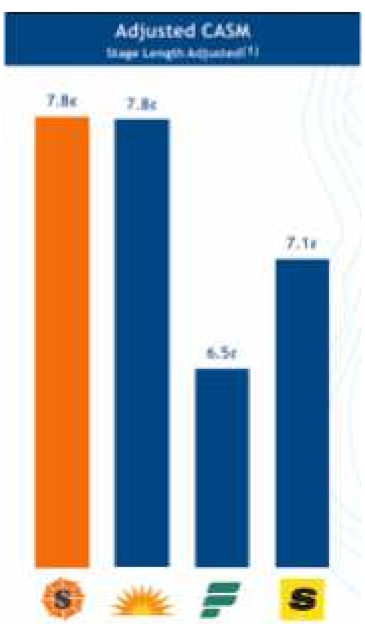
Figure 18: Margin Forecast



Source: Company Filings/Team 1 Analysis

Source: Company Filings/Team 1 Analysis

Figure 17: Q3 2024 CASM



Source: Company Filings

Net income is also expected to decrease along with EBITDA for 2024E. Investors can expect $59.79M in net income, down $20M from the year prior. In 2025E, we project even lower net income. Net income is expected to decrease further to $13.94M in 2025E. By 2026E, net income is expected to recover to $32.19M. We do not see net income recovering to pre-2024E levels until 2028E. **(Appendix 11)**.

Earnings per share (EPS) are expected to follow a similar trend, decreasing from $1.37 in 2023 to $1.12 in 2024E, then declining to $0.26 in 2025E. We also do not see EPS recovery to pre-2024E levels until 2029E. Driving factors for this decline are moderate debt, slower increased recovery in the passenger segment, and stalling cargo growth in 2027E, which will slow EPS due to the high CAPEX required to operate the aircraft. **(Appendix 12)**.

Free cash flow (FCF) for 2024E is expected to be $131.38M. Free cash flow is anticipated to retract to $93.49M in 2025E. FCF is not expected to recover to pre-2024E levels for the foreseeable future. This is led by higher CAPEX costs beginning in 2026E and higher NOWC costs throughout the next 5 years, along with slow-to-recover net income. **(Appendix 11)**.

Capital expenditures (CAPEX) are expected to be $50M in 2024E and grow by $7M, driven by increased costs for taking on new aircraft in 2025E. This is expected to grow to $74.7M in 2026E, led by seven new aircraft from lease in that year. CAPEX drivers have higher operating expenses, an aging fleet needing repair, additional aircraft, and higher airport costs. **(Appendix 11)**.

The cargo segment is expected to increase flying hours by 61% in 2025E and 12% in 2026E. Although flying is minimally profitable for the airline, it offers stability to the company, and it is locked in a contract till 2034 with an option clause to expand to 2039. **(Appendix 3)**.

Total revenue per available seat mile (TRASM) is expected to decrease with fewer flying hours for the passenger segment. Further dilution with this metric in 2026 with more aircraft will allow more seats with less demand to exacerbate. According to Chris Allen, SNCY TRASM is “artificially increased because we only fly during peak demand and do not offer flights in off-peak hours.” Therefore, we expect TRASM to decline with EBITDA from 13.1c to 11.8c by 2026E.
Cost per available seat mile (CASM) is expected to increase with the higher operating expenses. SNCY has the highest CASM in the ULCC industry at 7.8c. We see a further increase in CASM to reach 11.07c by 2026E. (Projections for TRASM are based on EBITDA and CASM on FCF, **Appendix 12**).

Margin:

We see the net margin decline by 1.28% to 5.59% in 2024E. We forecast an increasing net margin from 2025E until 2029E. Net margin is expected to decline to 2.95% in 2026E. Then, it will recover to 5.5% in 2029E. **(Appendix 4)**.

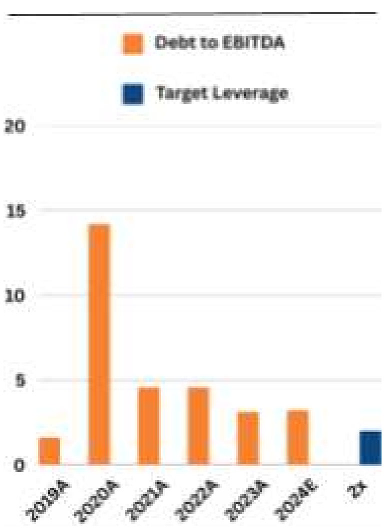
We expect the gross margin for 2024E to be 31%, down 3% from the year prior. We do not see a recovery in gross margin until 2027E. Furthermore, we can expect a gross margin of 26% in 2025E. Demand will cool (12%) in 2025E, leading to lower gross margin. **(Appendix 3 & 11)**.

The FCF margin is expected to be 12% in 2024E, led by increased net margin expansion. We forecast it to decline to 9.2% in 2025E. The cost increase is expected to decrease further to 3.1% in 2026E. The FCF margin is expected to stabilize at 3.14% until 2029E. **(Appendix 11)**.

ROIC is expected to decrease from 6.83% to 4.93% in 2024E. In 2025E, ROIC is expected to fall to 4.3%. ROIC is expected to increase starting in 2026E with higher CAPEX costs. Growing to 8% by 2029E. **(Appendix 10)**.

Debt & Liquidity:

Figure 19: Debt/EBITDA



Source: Company Filings/Team 1 Analysis

Sun Country's debt in FY 2023 was reported to be $327.47M, an increase of $33.25M from FY 2022. **(Appendix 4)**.

Cash and cash equivalents are $46.28M, down $45.81M from the year prior. Sun Country has $89.7M in short-term marketable securities, down by $50M Yr/Yr from the year prior. **(Appendix 4)**.

Figure 20: SNCY Liquidity

Source: Company Filings

The firm's debt-to-equity (D/E) ratio is 1.22x. SNCY's current ratio is 0.59x. SNCY has the lowest D/E ratio compared to its ULCC peers.

Liquidity/LTM revenue has declined from 54% to 30% since its IPO in 2021, which presents a long-term decreasing liquidity problem. With a further decline in FCF and higher CAPEX costs, SNCY is not well positioned for the future.

Valuation

SNCY trades at 19.81x P/E on the market close of Friday, January 10th, 2025. The firm's TTM P/S is 0.81x. The TTM ROE is 8.42%. The TTM ROA is 3.78%. Lastly, the TTM ROIC is 4.93%.

Sun Country is a conservative business that operates in an industry where sustaining a competitive advantage is challenging. SNCY stock offers a slow-growing small-cap regional airline that lacks high growth and operates in a cyclical industry with a low margin. Sun Country leadership has implied they cannot expand without risking a fare war with Delta. Along with no share buybacks, no dividend, and a 3% CAGR for revenue growth till 2029E. We recommend selling SNCY stock today. With further compression in the stock price projected in 2025 and Apollo Global looking to sell its remaining stake in the company, investors have no substantial return.

Figure 21: Target Price Ranges

Source: Team 1 Analysis

The WACC was calculated to be 10.28%. (**Appendix 12)**

Figure 22: Results of Valuation

Combined Average Vlauation Model	
DCF Model (70% weight)	$9.51
Benjamin Graham (20% weight)	$2.56
Multiples Valuation (10% weight)	$1.31
Combined Result:	$13.39
Impied Combined Return	-17.24%

Source: Team 1 Analysis

We forecast in-line revenue growth with Sun Country Airlines of 3% CAGR till 2029E. After 2029E, we expect terminal growth of 2% until 2034, driven by growth from the cargo segment. In our DCF model, we applied a growth stage of six years (including FY 2024) of 3% and a terminal stage of four years. Combined with our expectations for FCF, we applied a discount rate of 10.82% via the WACC. For the DCF model, we have a price target of $13.73. **(Appendix 11)**.

We also incorporated the Benjamin Graham calculation formula. Using our 2024E EPS of $1.12, this model projects a price target of $13.81. We also used a multiple valuation method, which returned a share price target of $13.14. Using these models, we allocated 70% of our weighting to the DCF model, 20% to the Benjamin Graham model, and 10% for multiple's valuation**.** Therefore, we project a $13.39 price target for Sun Country Airlines in 2025. This is an implied return of -17.25% as of Friday, January 10th, 2025. Therefore, we recommend a sell recommendation at the current price of $16.18. **(Appendix 11)**

Investment Risks

Risk One - Limited Market Share: SNCY held ~11% of all passenger travel through MSP Airport in FY 2023 **(Appendix 14)**. This makes them the second most frequented airliner behind Delta, with ~70% of MSP travelers. Although SNCY has a well-established base in MSP, Delta limits passenger growth. Delta favors having a ULCC like SNCY in MSP because they offer prices that do not significantly undercut that of their own and keep other ULCCs who may do so out of the market. This may sound positive for SNCY, but Delta also forces them to be a "price taker" when pricing their flights. Delta has the size and brand recognition to force SNCY's hand and would push it out of the MSP passenger market if needed. With MSP being SNCY's only central hub, it is hard to imagine the company seeing significant growth soon.

Risk Two—Name Recognition outside of MSP: The limited market share at MSP is coupled with a risk with the company's low rate of name recognition outside of the Twin Cities market. This means it is harder for SNCY to find market share in new airports. The airline has seen the effect of this firsthand as it has struggled to enter new markets. SNCY must find a way to expand its brand awareness significantly if it hopes to grow to new markets.

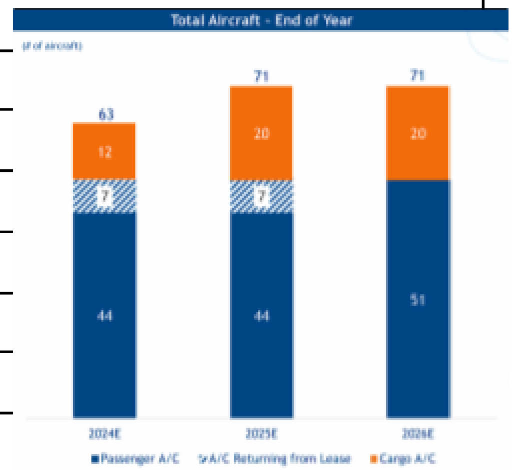
Risk Three - Cargo Sector Longevity: The obvious answer to the airline's limited potential market share in passenger travel and struggle to enter new markets is to expand into another sector of its business. Cargo transportation is a new part of SNCY's business. SNCY has partnered with AMZN to assist with their package delivery. The companies signed an amended and restated contract in June 2024, which extends until 2030 with terms optionable until 2037. This contract will see eight additional aircraft added to their cargo fleet as early as Q1 2025, which will now total twenty cargo planes operated under AMZN. Although growth in the cargo industry is a benefit for the airline, the longevity of the partnership with AMZN is uncertain. This is attributed to several reasons. One reason is that AMZN is committed to finding a solution to driverless transportation. They are already creating driverless cars and plan to target cargo jets soon. Another reason is AMZN's history with airlines. In 2016, AMZN signed a deal with Atlas Air. This deal was similar to the deal with SNCY, where AMZN purchased the planes and Atlas flew them. In May 2024, the companies announced that they would be ending the contract. This came after several unprofitable years of the contract for Atlas and decreased scheduling of cargo flights.

Risk Four - Apollo Global Divestment: Apollo Global Management is an alternative investment firm that took the majority stake in SNCY in 2017, which they purchased from the Davis Brothers. At the end of Q1 2021, when the airline had its IPO, Apollo owned 40.9m shares. This equated to 94% ownership. After the IPO, the alternative investment firm began selling shares. Since they are the majority owner, they move the market against themselves when they sell off shares in enormous quantities **(Appendix 5)**. This is why SNCY has seen its stock price fall in previous years and why it has taken Apollo years to shrink their ownership to its current 21.08%. It is anticipated that Apollo will continue to divest, and SNCY's stock price will continue to be driven down as they do.

Appendix

Appendix 1: Glossary

Acronym	Definition
ALPA	Air Line Pilots Association, US
AMFA	Aircraft Mechanics Fraternal Association
AMZN	Amazon.com, Inc.
IBA	International Brotherhood of Teamsters
MSP	Minneapolis-St. Paul Airport
SAF	Sustainable Aviation Fuel
SNCY	Sun Country Airlines Holding, Inc.
TWU	Transport Workers Union
ULCC	Ultra Low-Cost Carrier



Source: Company Filings

Appendix 2: Expert Interviews Conducted

Expert A	Head of Investor Relations at Sun Country Airlines
Expert B	Pilot in the ULCC industry with 12+ years, pilot in the airline industry for 25+ years
Expert C	Fuel supply manager for a ULCC with 8+ years
Expert D	CFO of a Fortune 500 company with 31+ years
Expert E	Marketing VP/Director of Mall of America, one of Sun Country Airlines clients
Expert F	Minnesota writer and business editor of 14+ years, priorly interviewed CEO of Sun Country
Expert G	VP of B2B of a marketing company in Minnesota
Expert H	CFA and consulting expert
Expert I	CFA and professor of finance for 20+ years
Expert J	Finance and accounting professor for 20+ years
Note 1	*Experts are not named to help preserve confidentiality and integrity of their employment*

Appendix 3: Breakdown of Business Segment

Passenger service: The primary driver of revenue, accounting for 90.5% of all revenue

generated in 2023A. Scheduled service revenues are expected to cool (10%)-(12%) in 2025E via company guidance. Rebounding 6%-8% in 2026E.
(A) Scheduled Service: Making up more than half of Sun Country's revenue entirely. Flights to seasonal destinations at the lowest entry price possible. The airline relies on ancillaries to make up for loss leaders. Sun Country is also expected to receive another seven aircraft from lease from Oman Airways in 2026E.
(B) Charter: Sticky revenue source for Sun Country, with ~80% of their charter revenue locked into long-term contracts with minimal ability to move pre-determined agreed-upon prices.
Cargo: The cargo segment for Sun Country is driven by investment from AMZN. AMZN provides the aircraft and covers all expenses, including fuel. The only expense for SNCY is labor. AMZN planes are expected to grow by 8% in 2024. Leading to a 61%-63% growth in flying block hours for 2025. Further growth of 13%-15% in 2026E led by an increase in AMZN demand. The deal also offers a Yr/Yr increase of 3.5% for SNCY from AMZN for base payment to sustain the relationship. This contract with AMZN will expire in 2030, with the option to expand till 2037.

Appendix 4: Financial Information

	YoY Growth Rate (Block Hours)		
	2024E	2025E	2026E
Passenger segment	9%	(12%) to (10%)	6% to 8%
Cargo segment	5%	61% to 63%	13% to 15%

Source: Company Filings

SNCY Income Statement
(in millions)

Income Statement ($USD)	2019A	2020A	2021A	2022A	2023A
Opperating Revenue	688.83	396.04	615.37	882.76	1,020
Other Revenue	*12.55*	*5.45*	*7.64*	*11.66*	*29.76*
Revenue	**701.38**	**401.49**	**623.02**	**894.02**	**1,050**
Cost of Revenue	477.72	335.29	432.77	649.06	692.3
Gross Profit	**223.67**	**66.2**	**190.24**	**245.38**	**357.32**
Selling, General & Admin	*35.39*	*16.57*	*22.06*	*31.05*	*34.11*
Other expenses	*68.19*	*48.72*	*71.58*	*90.98*	*107.57*
Operating Expenses	138.45	113.37	150.72	189.67	229.82
Operating Income	**85.21**	**-47.18**	**39.53**	**55.71**	**127.5**
Interest Expense	*-17.17*	*-22.07*	*-28.33*	*-31.02*	*-42.63*
Interest & Investment Income	*0.64*	*0.38*	*0.09*	*4.53*	*10.18*
Other Non Operating Income	*-1.73*	*-0.37*	*14.62*	*-5.24*	*-0.89*
EBT (Excluding Unusual Items)	**67.25**	**-69.25**	**27.91**	**23.98**	**94.16**
Other Items	*-7.09*	*64.56*	*72.42*	*NM*	*NM*
Pre Tax Income	**60.16**	**-4.68**	**100.33**	**23.98**	**94.16**
Income Tax Expense	14.09	-0.78	19.08	6.31	21.98
EFCO	46.07	-3.9	81.25	17.68	72.18
Net Income	**46.07**	**-3.9**	**81.25**	**17.68**	**72.68**
Shares Outstanding	**47**	**47**	**55**	**58**	**56**
EPS	**0.99**	**-0.08**	**1.47**	**0.31**	**1.3**
Free Cash Flow	*-6.54*	*-95.92*	*35.64*	*-60.48*	*-44.04*
Gross Margin	*31.89%*	*16.49%*	*30.54%*	*27.43%*	*34.04%*
Operating Margin	*12.15%*	*-11.75%*	*6.34%*	*6.23%*	*12.15%*
Profit Margin	*6.57%*	*-0.97%*	*13.04%*	*1.98%*	*6.88%*
Free Cash Flow Margin	*-0.93%*	*-23.89%*	*5.72%*	*-6.76%*	*5.72%*
EBITDA	**120.09**	**0.91**	**96.6**	**123.35**	**215.65**
EBITDA Margin	*17.12%*	*0.23%*	*15.51%*	*13.79%*	*20.55%*
EBIT	**85.21**	**-47.18**	**39.53**	**55.71**	**127.5**
EBIT Margin	*12.15%*	*-11.75%*	*6.34%*	*6.23%*	*12.15%*
Effective Tax Rate	**23.42%**	**NM**	**19.02%**	**26.29%**	**23.34%**

Source: Company Filings: 2023 10-k

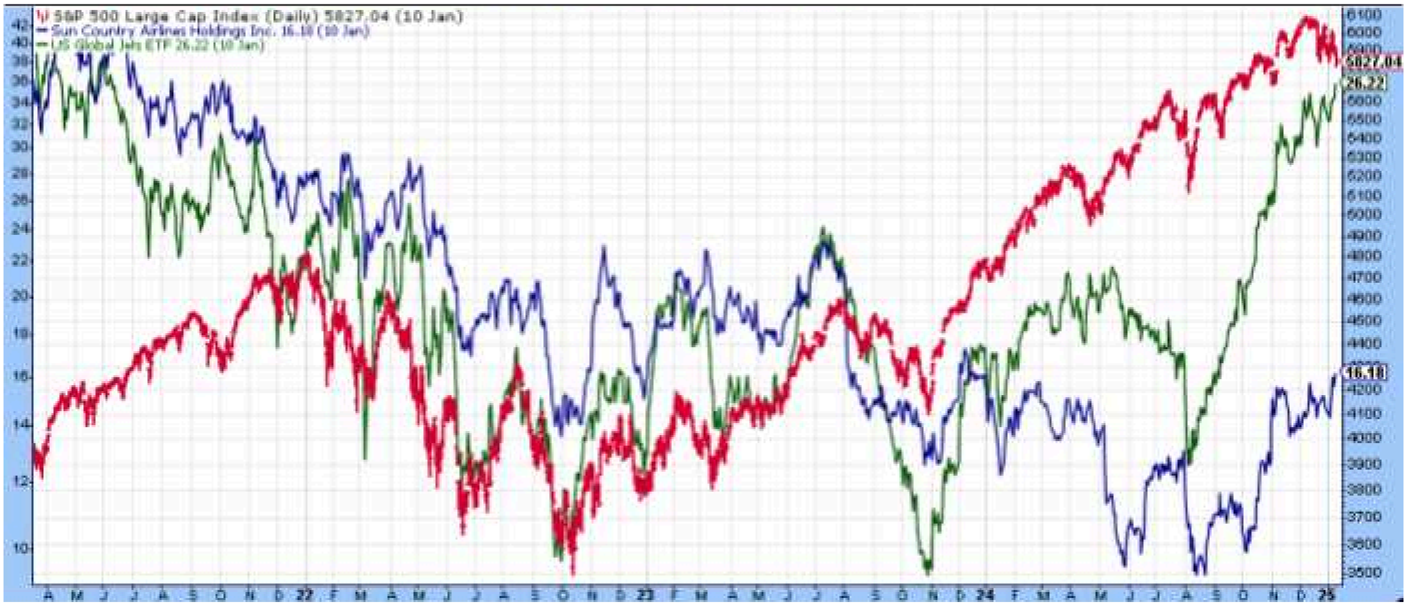
SNCY Balance Sheet
(in millions)

Balance Sheet ($USD)	2019A	2020A	2021A	2022A	2023A
Cash & Equivalents	51.01	62.03	309.34	92.09	46.28
Short-Term Investments	5.69	5.62	178.98	141.13	89.7
Cash & Short-Term Investments	**56.7**	**67.66**	**315.62**	**271.02**	**187.02**
Receivables	22.41	28.26	30.16	35.12	38.12
Inventory	5.27	5.41	5.41	7.66	7.79
Prepaid Expenses	7.72	8	8.51	11.42	15.82
Restricted Cash	13.47	6.34	6.45	10.84	17.4
Other Current Assets	6.96	6.65	7.3	9.42	4.76
Total Current Assets	**112.53**	**126.74**	**376.44**	**345.49**	**271.36**
Property, Plant & Equipment	492.23	533.79	640.18	807.85	983.8
Goodwill	222.22	222.22	222.22	222.22	222.22
Other Intangible Assets	97.11	93.11	89.11	85.11	83.55
Long-Term Deferred Tax Assets	35.43	36.22	17.61	12.96	NM
Other Long-Term Assets	46.43	39.18	35.86	50.78	62.6
Total Assets	**1,008**	**1,053**	**1,380**	**1,524**	**1,624**
Accounts Payable	43.9	34.04	39.81	62.37	59.01
Accrued Expenses	30.26	22.25	41.26	44.18	51.4
Current Portion of Long-Term Debt	13.2	26.12	29.41	57.55	74.18
Current Portion of Leases	122.93	45.95	28.94	24.29	46.98
Current Unearned Revenue	130.75	108.09	130.01	171.96	167.89
Other Current Liabilities	12.43	17.3	12.22	16.78	19.12
Total Current Liabilities	**353.55**	**253.74**	**281.65**	**377.13**	**418.58**
Long-Term Debt	73.72	256.35	248.01	294.69	327.47
Long-Term Leases	246.02	206.42	239.26	253.14	249.16
Long-Term Unearned Revenue	8.8	15.05	8.27	1.47	3.64
Long-Term Deferred Tax Liabilities	NM	NM	NM	NM	9.15
Other Long-Term Liabilities	41.17	35.89	112.64	105.27	101.03
Total Liabilities	**724.15**	**769.45**	**889.83**	**1,032**	**1,109**
Common Stock	239.14	0.47	0.58	0.58	0.59
Additional Paid-In Capital	5.86	248.53	485.64	488.64	513.99
Retained Earnings	42.23	35.32	4.37	22.06	94.23
Treasury Stock	NM	NM	NM	-17.61	-94.34
Comprehensive Income & Other	-3.5	-3.5	NM	-0.81	-0.08
Shareholders' Equity	**283.72**	**283.62**	**490.59**	**492.71**	**514.4**

Source: Company Filings: 2023 10-k

Appendix 5: Competitive Positioning

Key: S&P 500 Index (SPX), Sun Country Airlines (SNCY), US Global Jets ETF (JETS)



Source: StockCharts

Since Sun Country Airlines IPO in 2021, it has closely followed the US Global Jets ETF [(ARC: JETS)] performance. This ETF is a good market indicator for airline stock performance as it is broadly exposed to various sectors of the airline industry globally. The stock price of SNCY has felt severe compression from Apollo Global, which has liquidated shares yearly since. This compression can easily be seen above as SNCY shares deviate further in the wrong direction from the S&P 500 and Jets ETFs as Apollo continues to sell shares.

Appendix 6: Fleet Assessment

SNCY currently operates a fleet of 63 aircraft that cater to different segments of their diversified business model. The airline exclusively uses next-generation (NG) aircraft in its fleet, with 44 belonging to the passenger segment, including scheduled service and charter flights. SNCY flies the Boeing 737-800 NG in the passenger segments of their business, such as scheduled service and charter flights. SNCY primarily operates the Boeing 737-800 NG in these passenger segments, known for its excellent fuel efficiency, reliable performance, and substantial passenger capacity. In addition to its passenger segments, SNCY has a cargo segment partnered with AMZN. This segment utilizes 12 Boeing 737-800 converted freighters, which AMZN owns. SNCY launched its first cargo flight for AMZN in 2020 and recently secured a contract extension in June 2024 to operate eight additional aircraft, which will be delivered and in operation by Q3 of 2025, bringing the total number of cargo aircraft to 20. SNCY has seven aircraft on lease to Oman Air and flydubai, which will be returned to the SNCY fleet in 2026. The average age of SNCY's fleet is 17.5 years, slightly older than the global average of 13 years for the Boeing 737-800 model. Overall, SNCY is complacent with its current fleet and remains optimistic about its prospects.

Appendix 7: Financial Performance with Potential SAF Implementation 2023

Historical Performance FY 2023 vs. Potential Performance with SAF FY 2023

Without SAF (Current)

Figure	Dollar Value (m)	Percentage of Operating Expense
Fuel Expense	**246,649**	**26.75%**

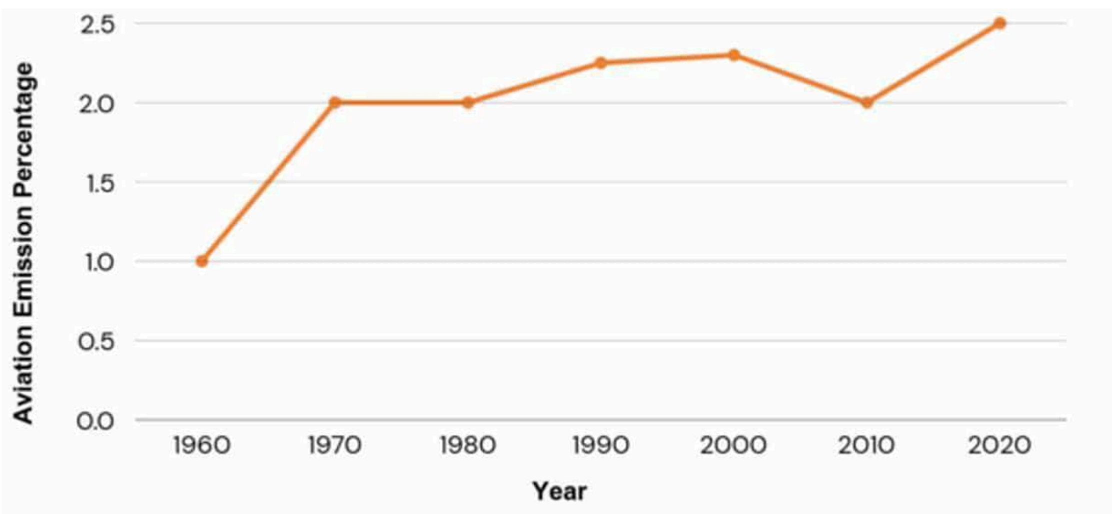
Figure	Dollar Value (m)	Percentage of Operating Expense
Total Operating Expense	**922,120**	**~**
Operating Income	**127,500**	**~**

With SAF (Potential)

Figure	Dollar Value (m)	Percentage of Operating Expense	Percentage Change From Original
Fuel Expense SAF	**332,185**	**32.97%**	**+34.68%**
Total Operating Expense	**1,007,646**	**~**	**+9.27**
Operating Income	**41,974**	**~**	**-67.08%**

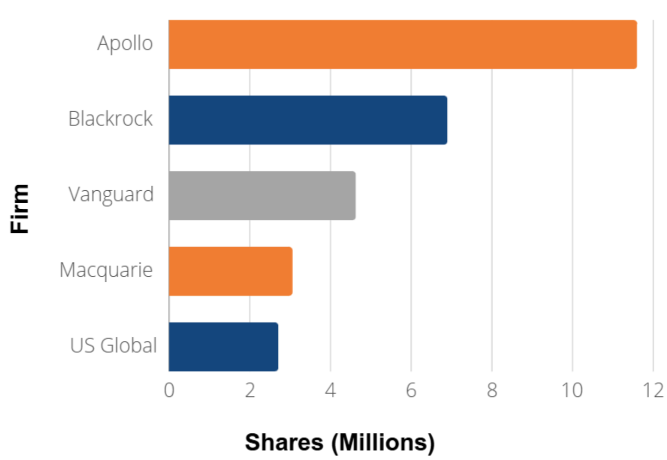
Source: Company Filings and Simple Flying

Appendix 8: Aviation as a Percentage of Global Emissions



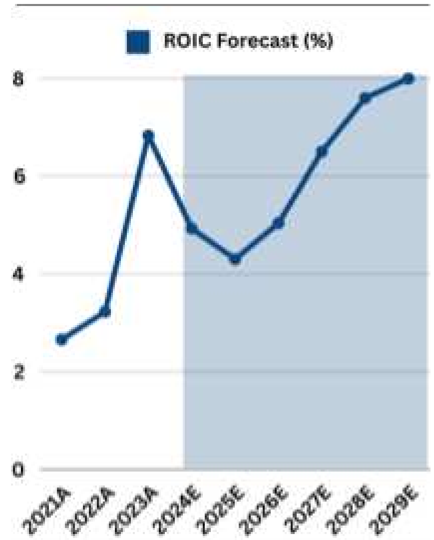
Source: Our World in Data

Appendix 9: Largest Institutional Holders 9/30/2024



Source: Yahoo! Finance

Appendix 10: Historical ROIC



Source: Company Filings/Team 1 Analysis

Historical	2020A	2021A	2022A	2023A
NOPAT Margin	-12%	2.66%	3.23%	6.83%
IC Turnover	0.38x	0.45x	0.58x	0.66x
ROIC	-3.78%	2.66%	3.23%	6.83%

Source: Company Filings

The relationship between SNCY's NOPAT (net operating profit after tax) and invested capital turnover (sales / average invested capital) helps clarify Sun Country's historical ROIC. Historically, before the IPO, Sun Country struggled to remain profitable. Exempting 2020A (COVID-19 year), SNCY has been growing its ROIC. This is due to their conservative growth model and less debt than competitors. However, we forecast ROIC to decrease slightly in 2024E and 2025E with low CAPEX costs. Once SNCY spends more on CAPEX and their aircraft arriving from lease, we can expect ROIC to increase over time. With stable margins, stable operating leverage, and increased CAPEX, we can expect ROIC to increase over time.

Appendix 11: 3 Source Valuation Support

Valuation Support Table

EBITDA CAGR '20-'23 is adj. to '21-'23. '20 is NM	Historical				Forecast						CAGR	CAGR
**all figures in millions unless stated otherwise*	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	20-'23	24-'29
Schedule Service Revenue	$364.68	$531.59	$804.09	$ 949.89	$ 965.76	$ 849.99	$ 900.99	$ 946.02	$ 988.59	$1,028.13	11%	1%
Cargo Revenue	$ 36.81	$ 91.43	$ 90.35	$ 99.74	$ 103.24	$ 166.21	$ 187.81	$ 193.44	$ 199.24	$ 205.21	12%	15%
Revenue	**$401.49**	**$623.02**	**$894.44**	**$ 1,049.63**	**$ 1,069.00**	**$1,016.20**	**$1,088.80**	**$1,139.46**	**$1,187.83**	**$1,233.34**	11%	3%
% growth		*55%*	*44%*	*17%*	*2%*	*-5%*	*7%*	*5%*	*4%*	*4%*		
Gross Profit	**$ 66.20**	**$190.24**	**$245.38**	**$ 357.32**	**$ 330.11**	**$ 265.90**	**$ 330.83**	**$ 349.46**	**$ 364.02**	**$ 378.34**		
Gross Margin %	16%	31%	27%	34%	31%	26%	30%	31%	31%	31%		
Adjusted EBITDA	**$ 0.91**	**$ 96.60**	**$123.35**	**$ 215.65**	**$ 191.80**	**$ 170.80**	**$ 195.98**	**$ 210.80**	**$ 231.62**	**$ 240.50**	9%	5%
Adjusted EBITDA Margin %	*0%*	*16%*	*14%*	*21%*	*18%*	*17%*	*18%*	*18%*	*19%*	*19%*		
EBIT	**$ (47.18)**	**$ 39.53**	**$ 55.71**	**$ 127.50**	**$ 98.45**	**$ 39.29**	**$ 62.83**	**$ 79.76**	**$ 95.02**	**$ 111.00**		
Operating Margin %	-12%	6%	6%	12%	9%	4%	6%	7%	8%	9%		
NOPAT (Net Operating Profit After Taxes, 22.5%)	**$ (36.56)**	**$ 30.64**	**$43.18**	**$ 98.81**	**$ 76.30**	**$ 30.45**	**$ 48.69**	**$ 61.81**	**$ 73.64**	**$ 86.03**		
(+) D&A	$ 48.09	$ 57.08	$ 67.64	$ 89.50	$ 96.10	$ 106.00	$ 115.00	$ 127.00	$ 140.00	$ 157.00		
(-) Capex	$ 96.30	$123.33	$187.92	$ 219.20	$ 50.13	$ 57.90	$ 74.70	$ 92.90	$ 115.50	$ 122.00		
(-) Change in NWC	$ (39.02)	$ 40.90	$ 57.35	$ 7.34	$ 6.80	$ 20.90	$ 28.00	$ 35.00	$ 31.00	$ 26.00		
Unlevered Free Cash Flow	$ (95.92)	$ 35.64	$(60.48)	$ (44.04)	$ 131.38	$ 93.49	$ 33.74	$ 35.79	$ 42.31	$ 67.53		
Discount Rate					9.90%	9.90%	9.90%	9.90%	9.90%	9.90%		
Discount Period						1	2	3	4	5	TV:	
Present Value of Unlevered Free Cash Flow					131.38	77.4	25.4	24.5	28.2	42.1	404.54	
Net Income	-3.9	81.25	17.68	72.18	59.79	13.94	32.19	45.13	57.13	65.23		
Net Margin	-1%	13%	2%	7%	6%	1%	3%	4%	5%	5%		

Source: Team 1 Analysis

Valuation Takeaway: SNCY disclosed minor details regarding projections for the firm. This made building models difficult without proper guidance. With the nature of this disclosure, it was in our best interest to be conservative with our assumptions. Our analysts used the company's conservative growth guidelines outlined in their 2024 Investor Presentation. Therefore, we have chosen to forecast revenue by segment using a percentage growth model to reflect our company's and our guidance for growth. Costs have been forecasted by category based on variable or fixed nature and a percentage approach. **More information regarding the calculation of metrics such as WACC and COE can be found in Appendix 12.*

DCF Method		
WACC		10.82%
Growth Rate		3%
Terminal Rate		2%
Implied Exit Multiple	5.5x	
PV of UFCF	$ 404.54	
Terminal Year UFCF	$990.54	
PV of Terminal	$586.00	

EV	
PV of Terminal	586
(+) Debt	276
(-) Cash	57
Enterprise Value	805
S.O	52.93
Implied price:	**$15.21**
1yr Target Price:	**$13.73**
Current Price:	$16.18
Implied Return	-15.18%

Source: Team 1 DCF Model

DCF Model: The DCF takes into effect the company's cash flow pattern for the present and future. With SNCY being an airline, margins are typically thin. By using a DCF model, we were able to analyze their future costs with the business. The business's highly cyclical nature and the industry's capital-intensive nature make projections difficult. This DCF attempts to build an answer by considering the cost structures of the business, future earnings, and growth aspects. For this model, we applied a growth rate of 3% and a terminal rate of 2%. For the growth stage, we used a term of 6 years (including 2024E) and a terminal stage of 7 years of 2% growth (7 years based on the potential extension of the AMZN contract till 2037). Below are the results of this model, which demonstrate a price of $15.21. We then discounted this figure by the WACC to attain a target price of $13.73. Given the value and data-driven approach of the DCF model, we weighted the model at 70%. This 70% weighting is based on three key points: (i) more extended term, allowing us to see further into the future than the other two models. (ii) It focuses on the fundamentals of the business and considerations for all segments of the business. (iii) the terminal value is significant, as the airline industry is cyclical; this model allows us to compute this factor with our exit multiple.

Benjamin Graham Valuation Model	
Projected 2024E EPS:	$1.12
P/E No Growth (Fixed)	8x
Growth Rate of Firm:	3%
2g Growth Multiplier (Fixed)	2x
Average Bond Yield (Fixed)	4.40%
Current Bond Yield (AAA)	5.20%
1year Price Target	$13.27
Implied Return	-17.99%

Source: Benjamin Graham/Team 1 Analysis

Benjamin Graham Valuation Model: Due to SNCY being a low-growth company offering no dividend, a dividend-discounted approach is not applicable. Due to this, we used the Benjamin Graham Model to help find the firm's actual value using the projected EPS for 2024E along with the revenue CAGR till 2029E. This model is essential, as it factors the cost of debt with current interest rates. This is valuable; if SNCY plans to expand, it must take on debt. Furthermore, we also used this model due to the conservative valuation approach. This model is better suited as a tool for our analysis team and was not to be considered the primary valuation model. Therefore, we gave this model 20% weighting.

Multiples Valuation	
(P/E) ALGT x (EPS) 2024E SNCY	$11.91
(MV/BV) ALGT x (BVPS) SNCY	$14.37
Implied Average Price	$13.14
Implied Return	-18.59%

Source: Team 1 Analysis

Multiples Valuation Model: This model provides a quick and effective way to benchmark SNCY against a near-peer. The first calculation, P/ExEPS, is essential as the P/E ratio is the baseline for valuation in the market. By using ALGT's P/E, we can compare the valuation of ALGT to SNCY. Therefore, helping our analysis team better understand the market value compared to SNCY. Our following calculation, MV/BVxBVPS, helps us compare the market capitalization to the net asset value. It is essential to use in asset-heavy industries like airlines. Due to this, we gave this model a 10% weighting, as this model helps cement our other two models with a ballpark estimate that is still effective in determining price.

Combined Average Vlauation Model	
DCF Model (70% weight)	$9.51
Benjamin Graham (20% weight)	$2.56
Multiples Valuation (10% weight)	$1.31
Combined Result:	$13.39
Impied Combined Return	-17.24%

Combined Average Result: By combining our three models, our combined average was a comprehensive, balanced, and valued approach to analyzing SNCY. This approach ensured that none of our models ran astray and that our models were robust.

Appendix 12: Metric Calculations: Respective metric calculations are located below. Based on Appendix 14 analysis.

CASM & TRASM Projection	2024E	2025E	2026E	2027E	2028E	2029E
CASM	**8c**	**8.4c**	**8.8c**	**9.2c**	**9.7c**	**10.2c**
EBTIDA CAGR	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
TRASM	**13.1c**	**11.7c**	**10.4c**	**9.3c**	**8.4c**	**7.5c**
FCF CAGR	*-10.49%*	*-10.49%*	*-10.49%*	*-10.49%*	*-10.49%*	*-10.49%*

Source: Team 1 Analysis

Weighted Avg Cost of Cap (WACC)	
Total Debt (D)	275.86M
Total Equity (E)	856.75M
Cost of Debt (Rd)	8.80%
Cost of Equity (Re)	10.95%
Corporate Tax Rate (Tc)	25.20%
WACC	10.82%

Source: Team 1 Analysis

EPS Projection	2024E	2025E	2026E	2027E	2028E	2029E
EBIT	$ 98.45	$ 39.29	$ 62.83	$ 79.76	$ 95.02	$ 111.00
Interest Expense	$21.29	$21.29	$21.29	$21.29	$21.29	$21.29
EBT	77.15	17.99	41.53	58.46	73.72	89.7
Tax (22.5%)	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%
Net Income	**59.79**	**13.94**	**32.19**	**45.13**	**57.13**	**65.23**
SO	52.93	52.93	52.93	52.93	52.93	52.93
EPS	1.12	0.26	0.6	0.85	1.07	1.31

Source: Team 1 Analysis

Cost of Equity (CAPM)	
Risk-free rate	4.56
Market risk premium	9
Levered beta	1.44
Cost of Equity	**10.95%**

Source: Team 1 Analysis

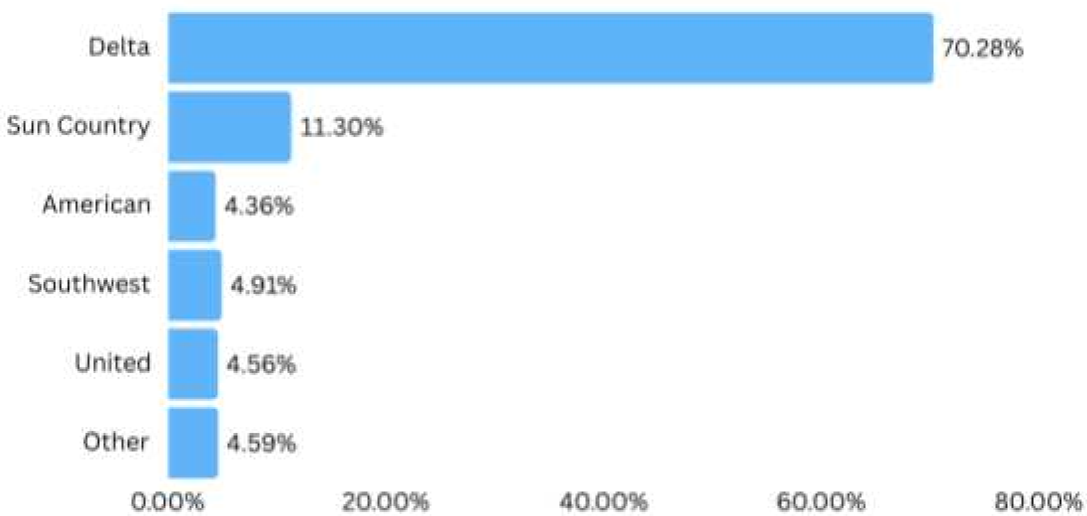
Appendix 13A: Scheduled Service Route Network

Appendix 13B: Scheduled Service Route Network

SNCY's 116 operating flights and service to 102 airports among passenger travel show their dependence on leisure travel. The heavy flow of aircraft and flights leaving MSP airport suggests a visual diagram of how significantly SNCY relies on its presence at MSP International Airport.

Source: Company Filings

Appendix 14A: Market Share at MSP Airport



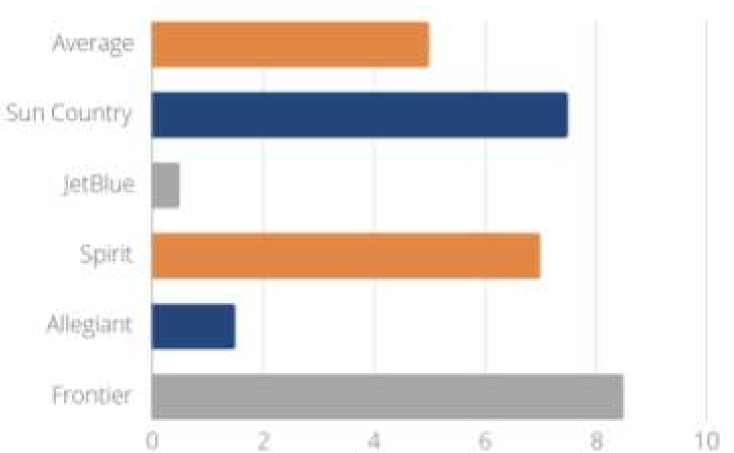
Source: Metropolitan Airports Commission

Appendix 14B: MSP International Airport - Sun Country and Industry Growth

Sun Country: Minnesota's most popular airport (MSP) is the home hub that SNCY has established as its most prominent location. SNCY has grown a customer base around the midwest leisure travelers which has compounded to attaining 11.30% of the market share out of the airport. Delta has a demanding position at this airport similar to their dominant presence at most other airports domestically and internationally. With Delta holding 70.28% of the market share out of MSP, this makes them SNCY's largest competitor, while SNCY still has a significant advantage over the other big four airlines regarding market share at the airport. **Industry Growth at MSP:** Domestic passengers have grown every year since 2018 at 4.3% Yr/Yr at MSP. Furthermore, the international market has grown slightly since 2018 averaging .04% Yr/Yr. However, the international market represents 12.64% of their total passenger volume. Blended since 2018, total travel volume for SNCY has grown at a rate of 3.82% Yr/Yr. Also, travel volume has been growing steadily since COVID-19 (2020); however, travel volume is expected to stall in 2025E and rebound slightly in 2026E. The decrease in travel volume will make it more expensive for the consumer to fly, especially if SNCY plans to maintain current projections for growth via their guidance.

Source: Metropolitan Airports Commission

Appendix 15: SNCY CEO Tenure vs Peers

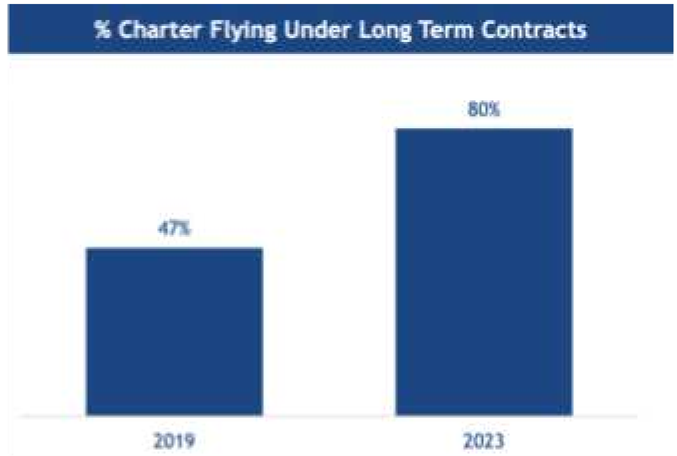


Source: Company Websites

Appendix 16: Charter Contracts and Customers

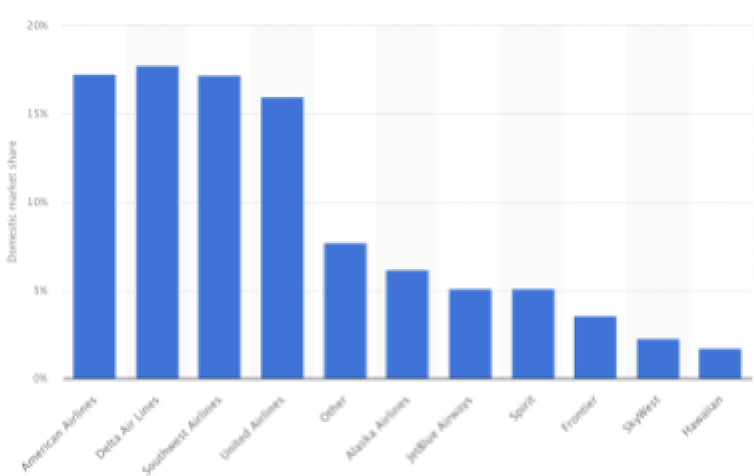
Select Charter Customers

Source: Company Filings



Source: Company Filings

Appendix 17A: US Market Share



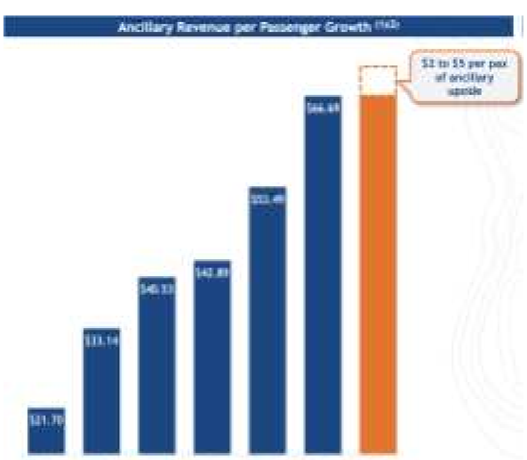
Source: Statista

Appendix 17B: US Market Share

Shown in the above graph are the top 10 airlines in the US domestic market that are competitors to SNCY. These airlines consist of the big four (Delta, American, Southwest, and United), mid-sized carriers (Alaska, JetBlue, SkyWest, and Hawaiian), as well as ULCCs (Spirit and Frontier). While SNCY competes in the ULCC business, not being mentioned within the top 10 airlines in the US assures that SNCY's domestic market share is below Hawaiian Airlines, which currently holds the number 10 position with a 1.7% domestic market share in the US.

Source: Statista

Appendix 18A: Ancillary Costs Increase



Source: Company Filings

Appendix 18B: Increase in Ancillary Costs

The graph above displays the average ancillary revenue per passenger from 2018 to the company's projected 2024 numbers. Clearly, SNCY is in desperate need of ancillary growth, as it's shown in their past years, which generated a greater average in revenue per passenger since 2018, making the trend towards increasing and charging for ancillaries more significant. A leading indicator of why SNCY would continue this approach towards maximizing their ancillary costs would be due to their decrease in their scheduled service passenger segment in 2025 to grow and develop the Amazon deal further.

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