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Stock Selection Guide

Company	Southwest Airlines		Date	03/27/19	
Prepared by	SAUER		Data taken from	BI Stock Data	
Where traded	NYS	Industry	Airlines		
Capitalization --- Outstanding Amounts			Reference		
Preferred ($M)		0.0	% Insiders	% Institution	
Common (M Shares)		559.0	1.0	121.6	
Debt ($M)	3,377.0	% to Tot Cap	25.5	% Pot Dil	0.2

Symbol: LUV

1 VISUAL ANALYSIS of Sales, Earnings, and Price

29,118

21,965

6.33

4.29

FY 2018 Q4	Sales ($M)	Earnings Per Share
Latest Quarter	5,704	1.16
Year Ago Quarter	5,274	3.15
Percentage Change	8.2%	-63.2%

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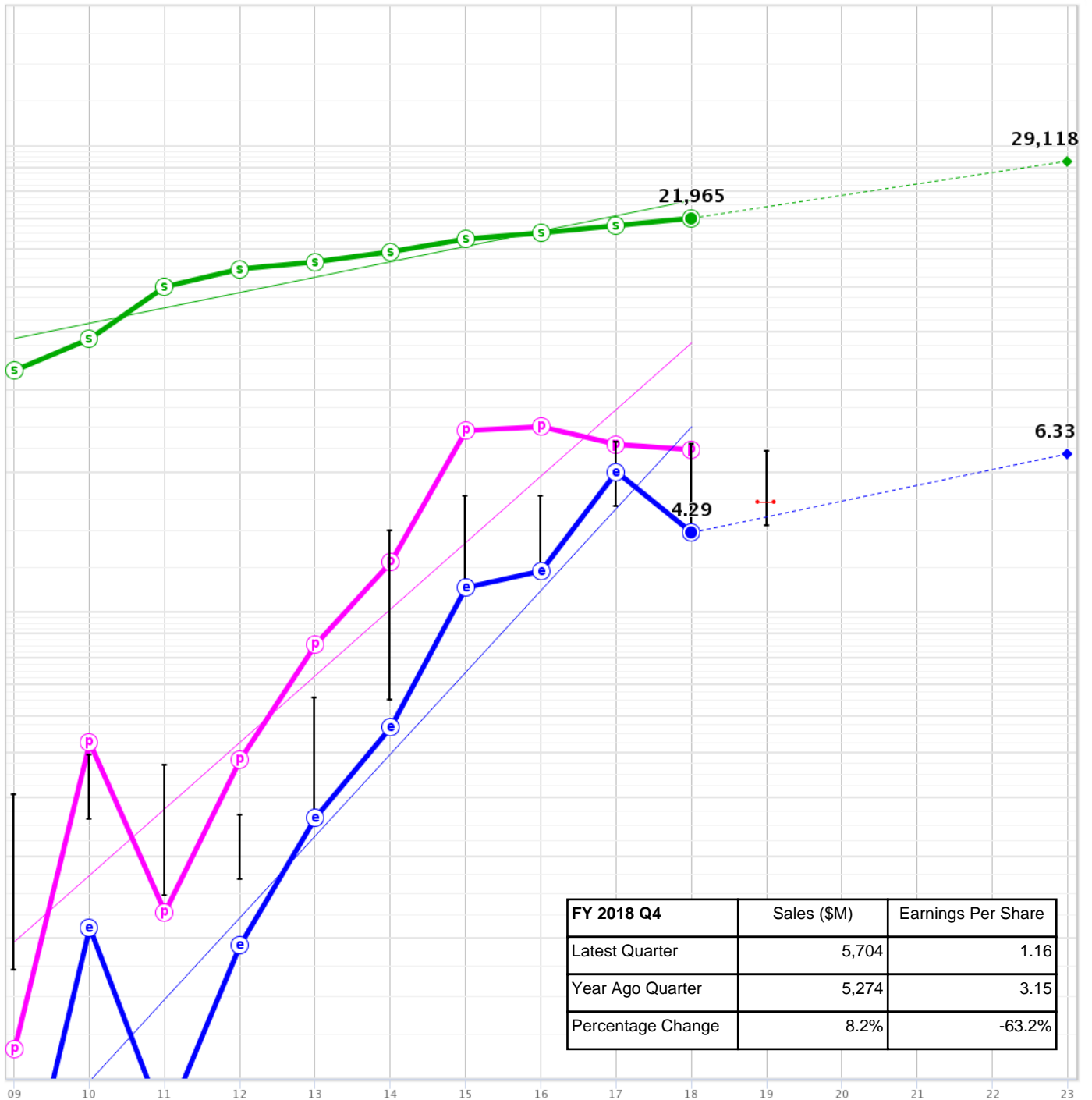
(1) Historical Sales Growth	7.9%	(3) Historical Earnings Per Share Growth	49.8%
(2) Estimated Future Sales Growth	5.8%	(4) Estimated Future Earnings Per Share Growth	8.1%

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Last 5 Year Avg.
Pre-tax Profit on Sales	1.6%	6.2%	2.1%	4.0%	6.8%	9.8%	17.6%	17.4%	15.4%	14.4%	14.9%
% Earned on Equity	1.8%	7.3%	2.7%	5.9%	10.5%	14.9%	30.4%	27.1%	38.7%	23.4%	26.9%
% Debt To Capital	39.1%	35.1%	35.3%	31.1%	27.8%	28.4%	30.2%	28.6%	26.0%	25.5%	27.7%

3   PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

CLOSING PRICE 49.83 (03/27/19)   **HIGH THIS YEAR** 64.02   **LOW THIS YEAR** 44.28

	A	B	C	D	E	F	G	H
Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
2014	43.2	18.8	1.64	26.3	11.5	0.22	13.4	1.2
2015	51.3	32.3	3.27	15.7	9.9	0.29	8.7	0.9
2016	51.3	34.0	3.55	14.5	9.6	0.38	10.6	1.1
2017	67.0	48.7	5.79	11.6	8.4	0.45	7.8	0.9
2018	66.5	44.3	4.29	15.5	10.3	0.61	14.1	1.4
AVERAGE		35.6		16.7	9.9		10.9	
CURRENT/TTM			4.30			0.64	14.9	
AVERAGE PRICE EARNINGS RATIO: 13.3				CURRENT PRICE EARNINGS RATIO: 11.6				

4   EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE - NEXT 5 YEARS

Avg. High P/E   13.3   X Estimate High Earnings/Share   6.33   =   Forecasted High Price $ 84.2

B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E   9.9   X Estimate Low Earnings/Share   4.30   =   Forecasted Low Price $ 42.6

(b) Avg. Low Price of Last 5 Years   35.6

(c) Recent Market Low Price   44.3

(d) Price Dividend Will Support $\dfrac{\text{Indicated Dividend}}{\text{High Yield}}$ = $\dfrac{0.64}{1.37\%}$ =   46.8

Selected Forecasted Low Price $ 42.6

C ZONING   using 25%-50%-25%

Forecasted High Price   84.2   Minus Forecasted Low Price   42.6   =   41.6   Range.   25% of Range   10.4

Buy Zone   42.6   to   53.0

Hold Zone   53.0   to   73.8

Sell Zone   73.8   to   84.2

Present Market Price of   49.83   is in the   **BUY**   Zone

D UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

$\dfrac{\text{High Price} \quad 84.2 \quad \text{Minus Present Price} \quad 49.83}{\text{Present Price} \quad 49.83 \quad \text{Minus Low Price} \quad 42.6}$ = $\dfrac{34.39}{7.23}$ =   4.8   To 1

E PRICE TARGET   (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

$\dfrac{\text{High Price} \quad 84.2}{\text{Closing Price} \quad 49.83}$ =   1.6902   X 100   =   169.02   - 100   =   69.0   % Appreciation

5   5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

A $\dfrac{\text{Indicated Annual Dividend} \quad 0.61}{\text{Closing Price} \quad 49.83}$ =   0.0128   =   1.3 %   Current Yield

B AVERAGE YIELD - USING FORECAST HIGH P/E   **AVERAGE YIELD - USING FORECAST AVERAGE P/E**

$\dfrac{\text{Avg. \% Payout}}{\text{Forecast High PE}}$ = $\dfrac{10.9\ \%}{13.30}$ = 0.8 % $\dfrac{\text{Avg. \% Payout}}{\text{Forecast Average PE}}$ = $\dfrac{10.9\ \%}{11.60}$ = 0.9 %

C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E   **COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E**

Annualized Appreciation	11.1 %	Annualized Appreciation	8.1 %
Average Yield	0.8 %	Average Yield	0.9 %
Annualized Rate of Return	11.9 %	Annualized Rate of Return	9.0 %