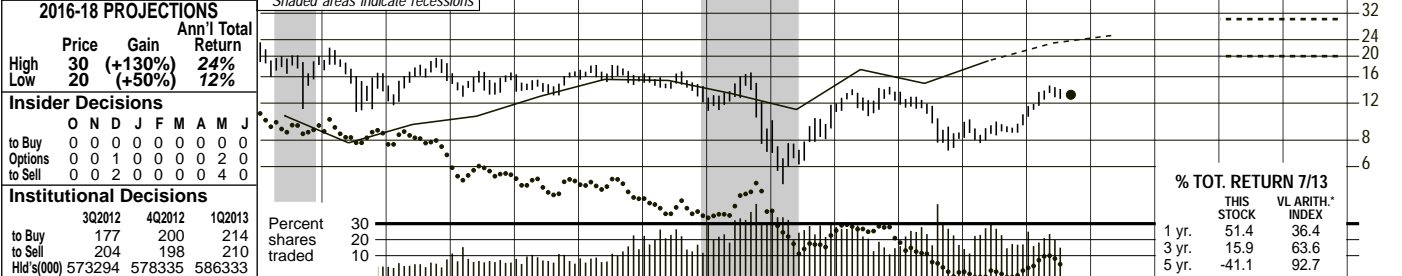


# SOUTHWEST AIRLINES NYSE-LUV

**RECENT PRICE** 13.15 **P/E RATIO** 15.1 (Trailing: 25.8 Median: 26.0) **RELATIVE P/E RATIO** 0.88 **DIV'D YLD** 1.2% **VALUE LINE**

<b>TIMELINESS</b> 2 Lowered 8/16/13 <b>SAFETY</b> 3 New 7/27/90 <b>TECHNICAL</b> 3 Raised 4/19/13 <b>BETA</b> 1.00 (1.00 = Market)	High: 22.0 19.7 17.1 17.0 18.2 17.0 16.8 11.8 14.3 Low: 10.9 11.7 12.9 13.0 14.6 12.1 7.1 4.9 10.4	<b>LEGENDS</b> — 11.0 x "Cash Flow" p sh ... Relative Price Strength 3-for-2 split 2/01 Options: Yes Shaded areas indicate recessions	<b>Target Price Range</b> 2016 2017 2018 64 48 40 32 24 20 16 12 8 6
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2016-18 PROJECTIONS																	© VALUE LINE PUB. LLC 16-18																																																																																																																																																																																																																										
Price		Gain		Ann'l Total													Target Price Range																																																																																																																																																																																																																										
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<b>CAPITAL STRUCTURE as of 6/30/13</b> Total Debt \$2934 mill. Due in 5 Yrs \$2100 mill. LT Debt \$2671 mill. LT Interest \$120 mill.				5937.0	6530.0	7584.0	9086.0	9861.0	11023	10350	12104	15658	17088	17500	18100	19600	Revenues (\$mill)
(28% of Cap'l)				66.8%	69.5%	70.7%	66.8%	72.6%	71.2%	76.0%	79.3%	80.9%	80.3%	80.5%	80.5%	Load Factor	
				14.6%	15.1%	17.0%	15.9%	10.4%	11.2%	8.9%	14.6%	9.9%	8.6%	11.0%	12.0%	Operating Margin	
				384.0	431.0	469.0	515.0	555.0	599.0	616.0	628.0	715.0	844.0	850	855	Depreciation (\$mill)	
				298.0	313.0	469.0	592.0	471.0	294.0	140.0	550.0	330.0	421.0	615	750	Net Profit (\$mill)	
				37.5%	36.0%	40.2%	36.8%	38.2%	39.3%	31.7%	38.3%	40.9%	38.5%	39.0%	39.0%	Income Tax Rate	
Leases, Uncapitalized Annual rentals \$688.0 mill.				5.0%	4.8%	6.2%	6.5%	4.8%	2.7%	1.4%	4.5%	2.1%	2.5%	3.5%	4.1%	Net Profit Margin	
No Defined Benefit Pension Plan				1332.0	1700.0	1394.0	1567.0	2050.0	3541.0	3325.0	2875.0	3107.0	2883.0	2700	2700	Long-Term Debt (\$mill)	
Pfd Stock None				5052.0	5524.0	6675.0	6449.0	6941.0	4953.0	5466.0	6237.0	6877.0	6992.0	7000	7500	Shr. Equity (\$mill)	
Common Stock 706,213,905 shs. as of 7/29/13				5.3%	4.9%	6.5%	8.1%	5.9%	4.1%	2.5%	6.7%	4.1%	5.0%	7.0%	8.0%	Return on Total Cap'l	
MARKET CAP: \$9.3 billion (Large Cap)				5.9%	5.7%	7.0%	9.2%	6.8%	5.9%	2.6%	8.8%	4.8%	6.0%	9.0%	10.0%	Return on Shr. Equity	
CURRENT POSITION				5.6%	5.4%	6.8%	9.0%	6.6%	5.7%	2.3%	8.6%	4.6%	5.7%	8.0%	8.5%	Retained to Com Eq	
				5%	4%	3%	2%	3%	4%	9%	2%	4%	5%	11%	15%	All Div'ds to Net Prof	

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2010	2630	3168	3192	3114	12104
2011	3103	4136	4311	4108	16568
2012	3991	4616	4309	4172	17088
2013	4084	4643	4450	4323	17500
2014	4200	4800	4600	4500	18100

Cal-endar	EARNINGS PER SHARE A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2010	.03	.29	.26	.15	.73
2011	.03	.15	.15	.09	.43
2012	.13	.30	.02	.11	.56
2013	.08	.31	.30	.16	.85
2014	.10	.45	.30	.20	1.05

Cal-endar	QUARTERLY DIVIDENDS PAID B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	.009	.005	.005	--	.02
2010	.009	.005	.005	--	.02
2011	.009	.005	.005	--	.02
2012	.009	.010	.010	--	.03
2013	.020	.040	.040	--	.08

**BUSINESS:** Southwest Airlines is one of the largest carriers in the United States by revenues and the largest by passengers flown. Specializes in low fares & short-hauls. Uses point-to-point, versus common hub-and-spoke model. Acquired AirTran 5/11. At 12/31/12, served 97 cities; operated fleet of 694 aircraft (189 leased); On order: 321 additional aircraft, w/ option for 242 more.

**Southwest Airlines posted decent results in the second quarter.** Although the top and bottom lines only inched up marginally year over year, they nonetheless bested strong year-earlier comparisons. In fact, passenger traffic hit an all-time high. Furthermore, profits were aided by lower fuel prices. Meanwhile, share net was boosted by a lower share count.

**We continue to anticipate a healthy showing in the second half, as well in 2014.** Although top-line growth will likely be modest, the company should nonetheless benefit from gradual economic improvement, lower oil prices, the ongoing integration of AirTran, and a significant capital deployment program. All in all, we look for the bottom line to grow more than 50% in 2013 and advance another 20%-25% next year.

**The company is implementing a considerable capital deployment program.** The board increased the repurchase authorization from \$1 billion to \$1.5 billion, as well as accelerated the initial \$250 million of buybacks. In fact, the company has retired nearly 25 million shares so far this year. Meanwhile, Southwest restruc-

ured its aircraft delivery schedule, opting to reduce firm orders by more than \$500 million through 2018, as well as defer nearly \$2 billion in option purchases thereafter. Furthermore, it regeared certain upcoming purchases toward newer, more cost-efficient models. Management expects this reallocation of spending will serve to enhance return on capital as well as align capacity more closely with demand. Finally, Southwest has quadrupled its quarterly dividend payout.

**The AirTran integration is going well.** In fact, the company realized \$95 million in net cost synergies in the second quarter, and expects to achieve up to \$400 million this year. The companies' conjoined flight network has been producing notable incremental booking gains, and results should further benefit from the co-location of operational hubs and combined customer rewards programs.

**These shares are ranked to outperform the broader market over the next six to 12 months.** Furthermore, the stock has strong 3- to 5-year capital appreciation potential.

*Simon E. Shnyder*  
August 30, 2013

(A) Diluted earnings. Includes profits and losses from sale of operating equipment. Excludes nonrecurring gains/(losses): '01, 12c; '05, 7c; '06, (11c); '07, 23c; '08, (16c); '09, (6c); '10, (12c); '11, (20c). Quarterly totals may not sum to yearend figures due to changes in outstanding shares. Next earnings report due late October.

(B) Dividends historically paid in early January and late March, June, and September.

(C) In millions, adjusted for stock split.

Company's Financial Strength B+  
 Stock's Price Stability 65  
 Price Growth Persistence 10  
 Earnings Predictability 45