United Airlines Holdings Inc (NASDAQ: UAL)

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Introduction:

Many investors are hesitant to invest in the passenger aviation space due to the cyclicality and commodity-dependent nature of the business. While this is true to an extent for many airlines, United has proven otherwise, particularly under the leadership of Scott Kirby, who stepped in as CEO in 2020. United has leveraged its extensive network and invested in innovative technologies that are changing the travel landscape. I began covering United in late 2023 when the market was ignoring the sector. Since then, the firm has delivered on its promises and has continued to grow substantially. In 2024 alone, United was the number 4 highest appreciating stock traded within the S&P 500. This report will go into detail about why United still represents a compelling investment opportunity.

Business Overview:

United Airlines, the fourth largest U.S. airline with a 15.9% market share, uses a hub-and-spoke system across seven major hubs (Chicago, Denver, Houston, Los Angeles, Newark, San Francisco, and Washington, DC) to serve numerous destinations via its extensive network and "United Express' partnerships. Operating in a high-entry barrier, four-airline market, United leverages network effects and competes with budget carriers by offering basic economy fares, outsourcing ground handling and maintenance, and focusing on customer service and cost control. It earns high-margin revenue through ancillary fees for baggage, seat selection, and priority boarding, along with Star Alliance international codeshares, enabling competitive fares and profitability through efficient costs and strategic alliances.

Strategic Initiatives & Financial Impact:

United Airlines is positioning itself for substantial long-term growth through a comprehensive strategy focused on fleet modernization, digital transformation, and premium service expansion that directly translates to enhanced shareholder value. The airline's investment in fuel-efficient aircraft like the Boeing 737 MAX and Airbus A321neo, combined with leadership in sustainable aviation fuel initiatives, reduces operational costs while attracting environmentally conscious corporate clients willing to pay premium prices. Their aggressive international expansion—launching service to eight new destinations and announcing three more—captures high-yield markets while their enhanced premium offerings, including the new United Polaris Studio suites that are 25% larger with privacy doors, command significantly higher ticket prices from business travelers.

These strategic initiatives are already delivering measurable results that should drive stock price appreciation, as evidenced by record-high premium seat offerings (6.9 million in the quarter), industry-leading customer satisfaction scores, and operational excellence with the best on-time departure rates since 2021. The revenue diversification through enhanced MileagePlus loyalty

programs, strategic partnerships like the Blue Sky collaboration with JetBlue, and focus on high-margin ancillary services creates multiple income streams beyond traditional ticket sales. Combined with their digital transformation efforts—including 83% digital check-in rates and AI-driven operational efficiency—United is building a more profitable, resilient business model that can generate higher margins, reduce costs, and capture greater market share, ultimately delivering superior returns to shareholders through both earnings growth and operational cash flow expansion.

Risks:

United could face some significant challenges that investors should closely monitor. Economic downturns and volatile fuel prices can quickly hurt travel demand and eat into profits, while fierce competition and rising labor costs constantly pressure margins. The airline's heavy investments in new aircraft and technology, though promising, also create risks if supply chains stumble or systems fail at critical moments. Beyond that, regulatory changes and global political tensions can disrupt international routes, and the company's aggressive expansion into sustainability and premium services demands flawless execution—any stumbles could drain cash flow and disappoint shareholders who are counting on these bold moves to pay off.

Potential for Mispricing & Price Target:

United Airlines trades at $105.87 versus an intrinsic value of $159.81, indicating 51% upside potential. The mispricing reflects market inefficiency in recognizing United's network optimization benefits, operational leverage improvements, and sustainable competitive advantages through hub dominance. Current valuation fails to capture enhanced pricing power and margin expansion opportunities post-consolidation.

The undervaluation stems from systematic airline sector discount and insufficient recognition of United's strategic positioning. Market concerns over cyclical exposure and capital intensity mask the company's strengthened balance sheet, improved operational metrics, and network effect monetization. The discount represents classic value opportunity where operational improvements exceed market expectations.

Valuation Metrics	Value
Current Price	$105.87
Intrinsic Value	$159.81
Upside Potential	51%
WACC	7.2%
Price Target Range	$138-182
Market Cap	$33.8B
Enterprise Value	$58.3B

UAL Valuation Framework

Valuation Method	Model Type	Key Inputs	Result	Weight
DCF Analysis	Growth Exit Multiple	FCF projections, 7.2% WACC, Terminal growth	$159.81	40%
P/E Multiple	Relative Valuation	Industry P/E 11-14x, Normalized EPS	$141.67	25%
EV/EBITDA	Comparable Analysis	Peer multiples 4.5-6.5x, 2024E EBITDA	$156.43	20%
Sum-of-Parts	Asset-Based	Hub valuations, Route rights, Fleet assessment	$164.25	15%

Model Components & Methodology

DCF Assumptions	Value	Peer Comparison	Multiple Range
Terminal Growth	2.5%	**American Airlines**	4.2x EV/EBITDA
WACC	7.2%	**Delta Air Lines**	5.8x EV/EBITDA
FCF CAGR	12%	**Southwest Airlines**	6.1x EV/EBITDA
Margin Expansion	180bps	**Industry Median**	5.2x EV/EBITDA

Sensitivity Analysis

WACC Scenario	6.5%	7.2%	8.0%
Bull Case	$182.45	$159.81	$142.33
Base Case	$171.22	$149.67	$133.89
Bear Case	$158.91	$138.42	$124.78

