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US Airlines: The Pill Won't Fly

Half a Cent a Gallon: Initiating on US Airlines with Delta at Overweight

Novo Nordisk launched the first GLP-1 weight-loss pill in the US on 5 January, at \$149 a month, with one in eight US adults already taking a GLP-1. An old airline argument is back: lighter passengers mean smaller fuel bills. The physics is right; the scale is not. We estimate GLP-1s will have cut US airlines' fuel burn by about half a cent a gallon by 2028, while EIA's 2026 jet fuel forecast alone is 19 cents lower than 2025. On a typical 737 MAX 8 flight, passengers' body weight is ~18% of take-off weight, so each 1% of body weight moves fuel burn by ~0.14%. We put the average passenger ~1.1% lighter today and ~2.1% lighter by 2028E; the increment from here is worth ~\$45M a year to the big four, on a \$35bn fuel bill. That is an iPad-sized saving, not a fuel-price-sized one. We would buy airlines for fuel, premium demand and balance sheets, not for the pill. We initiate on four US airlines; Delta is our top pick at Overweight with a Dec-26 price target of \$84.

- **Initiating: Delta Overweight, Dec-26 PT \$84.** Our PT blends three Dec-26 scenarios (Table 1). Base (50%): 6.75x FY27E Adj. EBITDA of \$10.2bn less YE26E net debt of \$7.2bn and \$3.1bn of pension, or \$89/share. Bull (25%): 7.5x on \$11.2bn, or \$114. Bear (25%): 5.5x on \$7.6bn, or \$45. **We see +57% to the bull case against -37% to the bear; the PT implies +16%.** Consensus (18 Dec) was 20 Strong Buy, 1 Moderate Buy and 1 Hold with a mean PT of \$75 and a Street high of \$90; our FY26E EPS of \$7.47 is 5% above the \$7.09 consensus, mostly on EIA's fuel deck. We also initiate on United at Overweight (\$136), Southwest at Neutral (\$46) and American at Underweight (\$15).
- **The pill is a rounding error; fuel is not.** Using CDC adult weights, the FAA's weight methodology and a 737 MAX 8 at an 85% load factor (Figure 4), and an adoption funnel built from KFF, Gallup and real-world efficacy data (Figure 6), GLP-1s save the big four ~\$97M a year by 2028E, or 0.6c/gal. Even our bull case, a quarter of adults on a GLP-1 by 2030E, is worth ~1c/gal. **To save as much fuel as a 10c/gal fall in jet fuel, the average passenger would have to lose about a third of their body weight.**
- **The gearing story, corrected.** What holds: fuel is 15-17% of revenue and margins are thin, so a cost saving is magnified in EPS, most at American (a 1% fuel saving is worth ~6% of FY26E EPS against ~1% at Delta). What does not: a 10% lighter passenger cuts take-off weight ~1.8%, fuel ~1.4% and total costs ~0.25%, not 2% of costs, real-world users lose 4-12% (Figure 6) and 56% of users say the drugs are hard to afford (KFF). Gearing cuts both ways, which is why the most GLP-1-sensitive stock is the one we like least.

Overweight

DAL, DAL US

Price (9 Jan 26): \$72.31

Price Target (Dec-26): \$84.00

Initiation of coverage

Airlines

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Coverage Initiated (Dec-26 PT)

Ticker	Rating	Price	PT	Upside
DAL	OW	72.31	84	+16%
UAL	OW	117.32	136	+16%
LUV	N	44.52	46	+3%
AAL	UW	15.99	15	-6%

Quarterly Forecasts (FYE Dec)

Delta Adj. EPS (\$)	2024A	2025E	2026E
Q1	0.45	0.46	0.55
Q2	2.36	2.10	2.86
Q3	1.50	1.71	1.82
Q4	1.85	1.55	2.24
FY	6.16	5.82	7.47

Fuel vs. the Pill

Metric	Latest	Prior	Chg
US adults on a GLP-1 (%)	12	6	+6pp
US obesity rate (%)*	37.0	39.9	-2.9pp
USGC jet fuel (\$/gal)	1.91	2.19	-13%
EIA jet fuel, 2026E (\$/gal)	2.00	2.19	-9%
Brent (\$/bbl)	63.3	68.9	-8%

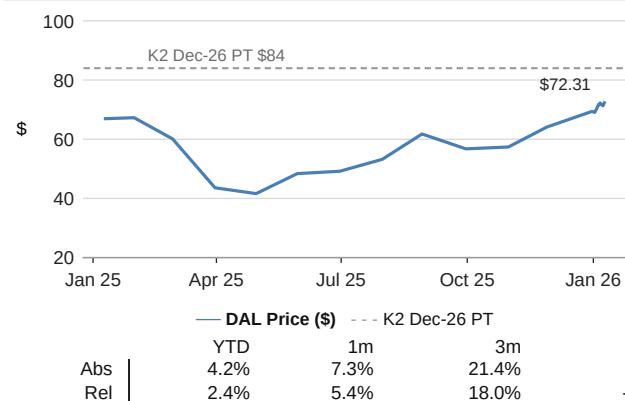
Prior: May-24 (KFF), 2022 (Gallup), 2025 averages (EIA). Big-four saving: GLP-1s 2025E-28E ~\$45M a year; EIA 2026 fuel deck ~\$3.0bn. *Self-reported, Gallup.

Sources for: Fuel vs. the Pill: KFF (14 Nov 2025), Gallup (28 Oct 2025), EIA (Short-Term Energy Outlook, Dec 2025; daily spot prices), Reuters; K2 Capital calculations. Coverage prices are closes on 9 Jan 2026. All other tables are company data and K2 Capital estimates.

See page 9 for analyst certification and important disclosures.

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Price Performance



Company Data

Diluted shares, 3Q25 (mn)	654.0
52-week range (\$)	73.16-34.74
Market cap (\$ mn)	47,291
Exchange rate	1.00
Debt and finance leases, 30-Sep-25 (\$ mn)	14,879
Operating lease liabilities, 30-Sep-25 (\$ mn)	6,099
Cash, 30-Sep-25 (\$ mn)	3,791
Adj. net debt (company), 30-Sep-25 (\$ mn)	15,586
Volume, 9-Jan-26 (mn)	8.0
Next results	13 Jan 2026 (4Q25)
Consensus (SB MB Hold), 18-Dec-25	20 1 1
Consensus PT (\$)	75.44
Consensus FY26E EPS (\$)	7.09

Key Metrics (FYE Dec)

\$ in millions	FY24A	FY25E	FY26E
Financial Estimates			
Adj. operating revenue	57,001	58,336	61,588
Adj. EBITDA	8,529	8,319	9,683
Adj. operating income	6,016	5,876	7,163
Adj. pre-tax income	5,201	4,997	6,403
Adj. net income	3,990	3,803	4,898
Adj. EPS (\$)	6.16	5.82	7.47
Cash flow from operations	8,025	8,200	8,518
FCF (OCF less capex)	2,885	3,545	3,518
Margins and Growth			
Revenue growth Y/Y	4.3%	2.3%	5.6%
Adj. operating margin	10.6%	10.1%	11.6%
Adj. EBITDA margin	15.0%	14.3%	15.7%
Adj. EPS growth Y/Y	(1.4%)	(5.5%)	28.3%
Fuel / revenue	18.5%	17.0%	15.1%
Ratios			
Fuel price, adj. (\$/gal)	2.56	2.32	2.13
Interest cover (Adj. EBIT / net int.)	8.1x	8.5x	11.6x
Net debt / Adj. EBITDA	1.5x	1.2x	0.7x
Capex / revenue	9.0%	8.0%	8.1%
Valuation			
Adj. P/E	11.7x	12.4x	9.7x
EV/Adj. EBITDA	7.4x	7.3x	5.9x
FCF yield	6.1%	7.5%	7.4%
Dividend yield	0.7%	0.9%	1.0%

Summary Investment Thesis and Valuation

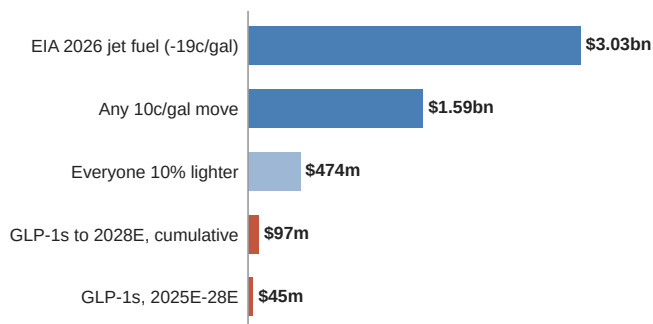
Investment Thesis

US airlines enter 2026 with their best fuel set-up in years and a new talking point. Novo's Wegovy pill and, if approved, Lilly's orforglipron will widen GLP-1 use beyond the 12% of adults already on one. The physics of a lighter passenger is real but small: we estimate GLP-1s save the big four ~0.6c/gal by 2028E, against a 19c/gal fall in EIA's 2026 jet fuel forecast and 10c moves that happen inside a month. What drives 2026 earnings is fuel, premium and loyalty revenue, capacity discipline and balance sheets. Delta scores best on all four: the group's highest margins (11.2% adjusted operating margin in 3Q25), premium revenue up 9% y/y while main cabin fell 4%, a refinery that hedges the jet crack, and adjusted net debt down to \$15.6bn. We rate shares Overweight.

Valuation

Our \$84 Dec-26 PT is a probability-weighted blend of three scenarios. Base (50%): 6.75x FY27E Adj. EBITDA of \$10.2bn, a modest premium to the ~6.3x NTM the shares trade on as net debt falls, less YE26E net debt of \$7.2bn and \$3.1bn of pension, on 654M diluted shares, for \$89. Bull (25%): 7.5x on \$11.2bn for \$114. Bear (25%): 5.5x on \$7.6bn for \$45. The PT equals 10.5x our FY27E EPS of \$8.00. We rate shares Overweight.

Fuel vs. the Pill: Big-Four Pre-Tax Impact



Ticker	Rating	PT (\$)	Upside	P/E 26E	EV/EBITDAR	ND/EBITDAR
DAL	OW	84	+16%	9.7x	6.6x	2.0x
UAL	OW	136	+16%	8.6x	5.8x	1.9x
LUV	N	46	+3%	13.6x	6.3x	0.6x
AAL	UW	15	-6%	8.9x	6.5x	4.8x

Ratings relative to the S&P 500. PT basis: DAL, scenario EV/EBITDA (Table 1); UAL 9.0x, LUV 11.0x and AAL 6.0x FY27E EPS. GLP-1 bars use our adoption funnel (Figure 6).

- **Fuel and Capacity Update. (1)** EIA's December outlook has Brent averaging \$55/bbl and wholesale jet fuel \$2.00/gal in 2026, from \$69 and \$2.19 in 2025; US Gulf Coast jet fuel was \$1.91 on 9 January. IATA expects the industry fuel bill to fall to \$252bn in 2026, with jet fuel at \$88/bbl. **(2)** For the big four (15.9bn gallons in 2026E), every 10c/gal is worth ~\$1.6bn of pre-tax profit and the EIA deck ~\$3.0bn. **(3)** Demand is strongest at the front of the cabin: in 3Q25 Delta's premium revenue rose 9% while main cabin fell 4%, and United's premium revenue rose 6%; TSA screened a record 3.13M people on 30 November. **(4)** The 43-day federal shutdown and FAA-ordered cuts, which peaked at 6% of flights at 40 airports in November, cost Delta ~\$200M of 4Q pre-tax profit (~25c/share) and pushed Southwest's FY25 EBIT guide to ~\$500M from \$600-800M. **(5)** The pill: oral Wegovy launched on 5 January at \$149 a month for starting doses; an FDA decision on orforglipron is expected around March; Medicare's \$50-a-month GLP-1 demonstration starts in July. **All told, we expect the 2026 fuel deck to add ~\$3.0bn to big-four pre-tax profit; GLP-1s add ~\$45M by 2028E.**
- **3Q25 Summary (Delta).** Adjusted operating revenue rose 4% y/y to \$15.20bn (record September-quarter revenue of \$16.7bn on a GAAP basis); adjusted operating margin was 11.2% and adjusted EPS \$1.71, against \$1.52 consensus. Fuel cost \$2.25/gal (-11% y/y) and CASM-ex was 13.35c (+0.4%). Free cash flow was \$833M and adjusted net debt fell to \$15.6bn. Guidance: 4Q25 EPS of \$1.60-1.90 and FY25 of ~\$6 with \$3.5-4bn of FCF; in December Delta put the shutdown cost at ~25c of 4Q EPS. We model 4Q25 EPS of \$1.55, in line with consensus. 4Q25 results and 2026 guidance are due on 13 January. See Figure 1.

Table 1: Delta Air Lines Dec-26 PT Methodology

\$ in millions, except per share

	Bull	Base	Bear
FY27E Adj. operating revenue	65,998	64,704	60,822
Adj. EBITDA margin	17.0%	15.7%	12.5%
FY27E Adj. EBITDA (NTM at Dec-26)	11,220	10,158	7,603
x EV / NTM Adj. EBITDA	7.50x	6.75x	5.50x
Implied Enterprise Value	84,150	68,566	41,816
Less: YE26E Net Debt (ex. operating leases)	(6,630)	(7,230)	(9,030)
Less: Pension and related benefits	(3,051)	(3,051)	(3,051)
Target Equity Value	74,469	58,285	29,735
Basic Shares, 3Q25 weighted (M)	649.0	649.0	649.0
Dilutive Securities (M)	5.0	5.0	5.0
Total Diluted Shares (M)	654.0	654.0	654.0
Value per Share	\$113.87	\$89.12	\$45.47
Scenario Probability	25%	50%	25%
Dec-26 Price Target (probability-weighted)		\$84.00	
Return Potential		16%	

Source: Company reports, K2 Capital estimates. Net debt excludes operating lease liabilities, whose cost is captured in Adj. EBITDA; pension held at the 30-Sep-25 balance. Bull net debt reflects ~\$0.6bn of extra free cash flow, bear ~\$1.8bn less. Base EBITDA margin is our FY27E estimate. The PT equals 10.5x FY27E EPS of \$8.00.

Figure 1: Delta Air Lines Earnings Trends

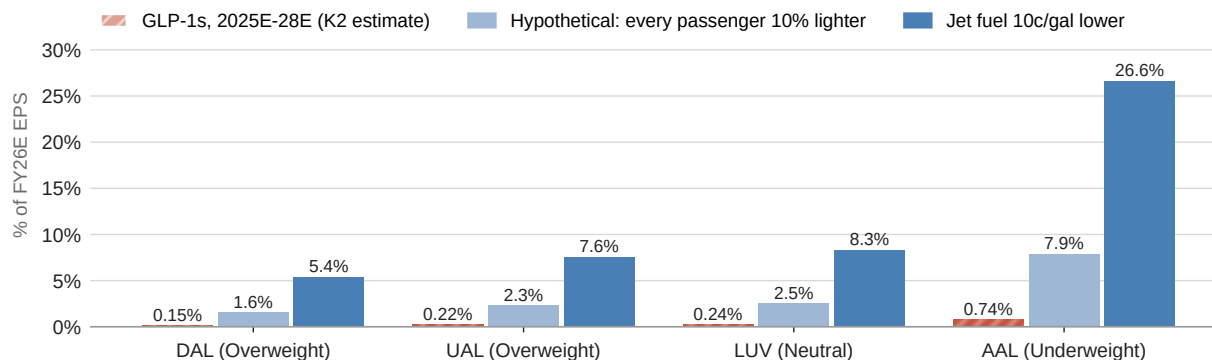
\$ in millions; adjusted basis (excludes third-party refinery sales and special items)

	3Q24	4Q24	1Q25	2Q25	3Q25
Available seat miles (bn)	76.2	72.0	68.4	77.6	79.1
TRASM, adjusted (c)	19.16	20.04	18.97	19.97	19.22
CASM-ex (c)	13.30	13.72	14.44	13.49	13.35
Adj. operating revenue	14,594	14,437	12,978	15,507	15,197
Adj. fuel expense	2,773	2,391	2,388	2,512	2,561
Fuel price, adjusted (\$/gal)	2.53	2.34	2.45	2.26	2.25
Fuel / revenue	19.0%	16.6%	18.4%	16.2%	16.9%
Adj. operating income	1,373	1,735	591	2,048	1,695
Adj. operating margin	9.4%	12.0%	4.6%	13.2%	11.2%
Adj. pre-tax income	1,254	1,566	382	1,805	1,483
Adj. EPS (\$)	1.50	1.85	0.46	2.10	1.71
Capex (gross)	(1,270)	(1,238)	(1,174)	(1,168)	(1,113)
Free cash flow (company)	95	678	1,280	733	833

Source: Company reports (8-K earnings releases), K2 Capital calculations. 3Q24 and 3Q25 adjusted fuel expense derived from gallons and adjusted price; free cash flow as defined by the company.

Figure 2: Fuel Beats Physiology: EPS Impact of Three Shocks, by Carrier

% of K2 FY26E EPS, after tax and profit sharing; GLP-1 effect is the 2025E-28E increment in our base case (Figure 6)



Source: K2 Capital estimates. A 1% fuel saving is worth 1.1% of FY26E EPS at Delta, 1.7% at United, 1.8% at Southwest and 5.8% at American.

Figure 3: Delta Dec-26 Equity Value per Share: Multiple vs. FY27E Adj. EBITDA

YE26E net debt (\$7.2bn), pension (\$3.1bn) and 654M diluted shares; red: below 75% of current price, amber: below current price

EV / NTM Adj. EBITDA	\$8.0bn	\$9.0bn	\$10.2bn	\$11.0bn	\$12.0bn
5.50x	\$52	\$60	\$70	\$77	\$85
6.00x	\$58	\$67	\$77	\$85	\$94
6.50x	\$64	\$74	\$85	\$94	\$104
6.75x	\$67	\$77	\$89	\$98	\$108
7.00x	\$70	\$81	\$93	\$102	\$113
7.50x	\$76	\$87	\$101	\$110	\$122
8.00x	\$82	\$94	\$109	\$119	\$131

Source: K2 Capital estimates. Each 0.5x turn of multiple moves equity value by ~\$8/share, or ~11% of the current price.

The Arithmetic of a Lighter Passenger

Airlines have chased weight for decades: American saved ~\$40,000 a year in 1987 by dropping one olive from first-class salads, ~\$1.2M a year by replacing 35lb pilot flight bags with iPads (2013), and United 170,000 gallons a year with a lighter in-flight magazine (2018). GLP-1s offer something new: lighter passengers. The useful question is not whether that saves fuel (it does) but how much. Three numbers decide it: **how much of a flight's take-off weight is passenger body mass (~18%), how much fuel each 1% of weight costs (~0.75%), and how much lighter the average passenger really gets (~1.1% today and ~2.1% by 2028E on our estimates)**. Multiplied together, each 1% of body weight is worth ~0.14% of fuel, and the realistic prize is a few tenths of a percent.

Figure 4: Weight Stack, Boeing 737 MAX 8

A full aircraft at maximum take-off weight vs a typical US domestic flight

lb, unless stated	Full aircraft at MTOW	K2 typical flight
Operating empty weight	99,360	98,500
Fuel at take-off	46,000	17,500
Passengers (number)	178	146
Weight per passenger	180	206.4
Passenger weight	32,040	30,134
Checked bags and cargo	3,800	3,628
Take-off weight	181,200	149,762
% of 182,200lb maximum take-off weight	99.5%	82.2%
Body weight share of take-off weight	17.7%	18.1%
Every passenger 10% lighter (lb)	3,204	2,707
Change in take-off weight	(1.77%)	(1.81%)
Change in fuel burn (0.75x weight)	(1.33%)	(1.36%)

Source: Boeing (737 MAX airport planning), FAA (AC 120-27F/E), CDC/NCHS (adults 2021-23: men 199.0lb, women 171.8lb), Aircraft Commerce, American Airlines 10-K (172 seats, 84.9% load factor), K2 Capital. K2 passenger: 185.4lb body, 5lb clothing, 16lb carry-on, 0.6 bags of 30lb; ~17,500lb of fuel for a ~1,000-mile sector with reserves. Full-aircraft column: illustrative case with 180lb passengers, full tanks and 3,800lb of cargo.

Figure 6: From Prescription to Payload

K2 adoption funnel; change vs a pre-GLP-1 baseline

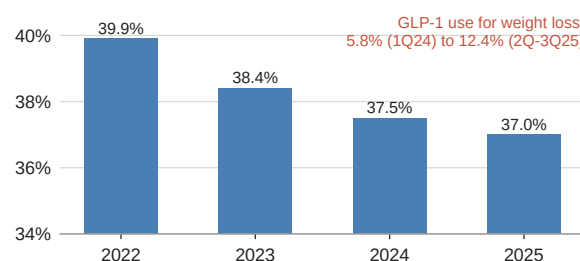
	Today (2025E)	K2 base (2028E)	Bull (2030E)	Everyone 10% lighter
US adults on a GLP-1	12%	18%	25%	100%
Average loss, current users	8%	10%	12%	10%
Former users / weight kept off	6% / 3%	10% / 3%	12% / 4%	-
Adult population weight	(1.3%)	(2.4%)	(4.0%)	(10.0%)
Average passenger weight	(1.1%)	(2.1%)	(3.4%)	(10.0%)
Take-off weight	(0.20%)	(0.37%)	(0.61%)	(1.81%)
Fuel burn	(0.15%)	(0.28%)	(0.46%)	(1.36%)
Big-four saving at FY26E fuel (\$M)	53	97	161	474
Equivalent jet fuel price (c/gal)	0.33	0.61	1.01	2.98

Source: KFF (12% of adults currently taking a GLP-1, Nov 2025), Gallup, Cleveland Clinic (real-world 1-year loss 3.6-11.9%), Prime Therapeutics (1-year persistence 32-63%), STEP-1 extension (regain after stopping), K2 Capital estimates. Users weigh ~15% more than the average adult; children and non-US travellers (~15% of passengers) excluded.

Evidence check. Trials show 12-21% weight loss (STEP-1 14.9%, SURMOUNT-1 20.9%, OASIS 4 13.6%, ATTAIN-1 12.4%); real-world results are lower, and most weight returns after stopping. Population data move slowly (Figure 5), so our ~1.1% for today is, if anything, generous. **Cross-check:** in September 2023 Jefferies estimated that a 10lb lighter passenger would save United 27.6M gallons a year (0.66% of its 2023 fuel); our framework gives 0.73%.

Figure 5: US Adult Obesity Rate (Self-Reported)

% of adults, Gallup National Health and Well-Being Index



Source: Gallup (28 Oct 2025). CDC's measured rate (NHANES, Aug 2021-Aug 2023) is 40.3%, not significantly changed from 2017-20; mean BMI fell 0.03 points in 2023 in Truvena's 16.7M-patient sample.

Both columns agree on the 10% case. Whether the aircraft is full at maximum take-off weight or flying a typical sector, a 10% lighter passenger takes ~1.8% off the aircraft and ~1.3-1.4% off fuel burn. The error is not the physics; it is the 10%.

Fuel Is the Heavyweight: Who Is Geared to What

Fuel is 15-17% of revenue for every carrier in our coverage in 2026E, and margins are thin enough that a small cost change is magnified in earnings. That gearing is real, and it is the honest part of the GLP-1 trade: **American, with a 2.8% FY26E pre-tax margin, turns a 1% fuel saving into ~6% of EPS, five times Delta's ~1%.** But gearing applies to every fuel driver at once. A 10c/gal move in jet fuel, smaller than December's 15c range on the US Gulf Coast, is worth 5-8% of FY26E EPS at Delta, United and Southwest and over 25% at American; GLP-1s, at our 2025E-28E increment, are worth 0.1-0.7%. Averaging the four, the hypothetical "every passenger 10% lighter" case is worth ~4% of EPS: that is where a mid-single-digit EPS uplift comes from, and why it needs a 10% lighter passenger to get there.

Figure 7: Gearing by Carrier

K2 FY26E; EPS impacts after tax and profit sharing

FY26E	DAL	UAL	LUV	AAL
Fuel expense (\$M)	9,312	10,791	4,891	10,006
Fuel gallons (M)	4,372	4,796	2,203	4,569
Fuel / revenue	15.1%	17.2%	16.1%	17.4%
Pre-tax margin	10.4%	9.1%	7.4%	2.8%
EPS impact of a 1% fuel saving	1.1%	1.7%	1.8%	5.8%
GLP-1s, 2025E-28E: saving (\$M)	12	14	6	13
EPS impact	0.15%	0.22%	0.24%	0.74%
Every passenger 10% lighter (\$M)	126	146	66	136
EPS impact	1.6%	2.3%	2.5%	7.9%
Jet fuel 10c/gal lower (\$M)	437	480	220	457
EPS impact	5.4%	7.6%	8.3%	26.6%

Source: Company reports, K2 Capital estimates. GLP-1 saving is the change in fuel burn between our 2025E and 2028E funnel (Figure 6) applied to FY26E fuel. Profit-sharing pass-through: Delta 79%, United 90%, American 93%, Southwest 85% (K2).

Figure 8: What It Would Take

Average passenger weight loss needed to save as much fuel as a fall in jet fuel

Jet fuel move	Body weight to match
1c/gal	3%
5c/gal	17%
10c/gal	34%
25c/gal	84%

Source: K2 Capital estimates at the FY26E big-four average fuel price of \$2.20/gal and 0.14% of fuel per 1% of body weight.

Gearing cuts both ways. The stock most levered to a lighter passenger is also the most levered to a fuel spike, a demand wobble or a refinancing. American carries 4.8x net debt to FY26E EBITDAR (including leases and pension) and has guided FY25 EPS to just \$0.65-0.95. Delta, at 2.0x and with a refinery that hedges the jet crack, can afford to treat GLP-1s as noise.

Figure 9: Coverage Summary and Valuation

Prices at the 9 Jan 2026 close; Dec-26 price targets; K2 estimates

Ticker	Rating	Price	PT	Upside	EPS 25E	EPS 26E	EPS 27E	P/E 26E	EV/EBITDAR	ND/EBITDAR	PT basis
DAL	Overweight	72.31	84	+16%	5.82	7.47	8.00	9.7x	6.6x	2.0x	Scenario EV/EBITDA (Table 1)
UAL	Overweight	117.32	136	+16%	10.61	13.62	15.07	8.6x	5.8x	1.9x	9.0x FY27E EPS
LUV	Neutral	44.52	46	+3%	0.95	3.28	4.18	13.6x	6.3x	0.6x	11.0x FY27E EPS
AAL	Underweight	15.99	15	-6%	0.69	1.81	2.45	8.9x	6.5x	4.8x	6.0x FY27E EPS

Source: Company reports, Yahoo Finance, K2 Capital estimates. EPS is adjusted (excluding special items). EV/EBITDAR and net debt/EBITDAR use FY26E EBITDAR and 30-Sep-25 balance sheets; net debt includes operating leases, and pension for Delta and American; Southwest includes its \$1.5bn November note issue. Ratings are relative to the S&P 500.

Figure 10: K2 Fuel Deck

All-in jet fuel price, \$/gal

	FY24A	9M25A	FY26E	FY27E
EIA wholesale jet fuel	-	2.18	2.00	2.06
DAL	2.56	2.31	2.13	2.19
UAL	2.65	2.43	2.25	2.31
LUV	2.66	2.40	2.22	2.28
AAL	2.60	2.38	2.19	2.25

Source: EIA (STEO, Dec 2025), company reports, K2 Capital estimates. EIA wholesale plus each carrier's 9M25 premium; 2027E assumes +3%.

Our ratings follow fuel, premium mix and leverage, not the pill. United (Overweight) has the most fuel upside in dollars and the fastest premium growth after Delta; Southwest (Neutral) has a credible but binary self-help story, with assigned and premium seating live from 27 January and the shares already above the \$38 mean target; American (Underweight) has the highest earnings gearing and the weakest balance sheet.

Investment Thesis, Valuation and Risks

Delta Air Lines (*Overweight; Price Target: \$84.00*)

Investment Thesis

Delta is the highest-margin US network carrier, with premium cabins, a loyalty and co-brand card engine, and a refinery that hedges the jet crack. In 3Q25 premium revenue rose 9% while main cabin fell 4%, adjusted operating margin was 11.2% and adjusted net debt fell to \$15.6bn. EIA's 2026 jet fuel forecast is 19c/gal below 2025, worth ~\$0.8bn to Delta before profit sharing; GLP-1s are worth ~\$12M. We model FY26E EPS of \$7.47 (+28%) and ~\$3.5bn of free cash flow. We rate shares Overweight.

Valuation

Our \$84 Dec-26 PT is a probability-weighted blend of a base case (50%) at 6.75x FY27E Adj. EBITDA of \$10.2bn less YE26E net debt of \$7.2bn and pension of \$3.1bn (\$89/share), a bull case (25%) at 7.5x on \$11.2bn (\$114) and a bear case (25%) at 5.5x on \$7.6bn (\$45). We rate shares Overweight.

Risks to Rating and Price Target

Downside Risks: a jet fuel spike (Middle East supply, refinery outages) that Delta's refinery only partly offsets; a US slowdown that hits corporate and premium demand; a return of industry capacity growth; labour cost resets; another government shutdown or air traffic control disruption; or an operational event such as the July 2024 IT outage.

What Would Make Us Wrong?

We would revisit the rating if two or more of the following occur:

1. Delta guides 2026 EPS below \$6.75 or free cash flow below \$3bn on 13 January (we model \$7.47 and \$3.5bn).
2. US Gulf Coast jet fuel averages above \$2.40/gal for a full quarter (EIA: \$1.89-2.11 by quarter in 2026).
3. Premium revenue grows slower than main cabin for two consecutive quarters.
4. Adjusted net debt is not below \$14bn by YE26 (company basis; \$15.6bn at 3Q25).
5. For the GLP-1 thesis: CDC or airline weighing surveys show average adult weight down more than 3% by end-2027, above our 2.4% for 2028E.

Signposts

13 Jan: Delta 4Q25 results and 2026 guidance. 20 Jan: United 4Q25. 27 Jan: Southwest assigned and premium seating goes live. 27-28 Jan: FOMC. Late Jan: American and Southwest 4Q25. ~Mar: FDA decision on orforglipron. Jul: Medicare GLP-1 demonstration begins.

Other Coverage

United Airlines (Overweight; PT \$136). The most fuel upside in dollars (~480M per 10c/gal) and premium capacity growing 2-3 points ahead of the total; FY26E EPS \$13.62. PT at 9.0x FY27E EPS of \$15.07. Downside risks: fuel, a weaker transatlantic, delivery delays.

Southwest Airlines (Neutral; PT \$46). Assigned and premium seating alone are worth >\$1bn of incremental 2026 EBIT per management, on top of a full year of bag fees, but the shares are up 41% in three months and above the \$38 mean target. PT at 11.0x FY27E EPS of \$4.18. Risks both ways: seating uptake from 27 Jan.

American Airlines (Underweight; PT \$15). The most earnings gearing in the group and 4.8x net debt/EBITDAR; FY26E EPS \$1.81. PT at 6.0x FY27E EPS of \$2.45. Upside risks: corporate share recovery, the new Citi co-brand deal, lower fuel.

Delta Air Lines: Summary of Financials

Income Statement - Annual						Income Statement - Quarterly					
	FY23A	FY24A	FY25E	FY26E	FY27E		1Q25	2Q25	3Q25	4Q25E	
Adj. operating revenue	54,669	57,001	58,336	61,588	64,704	Adj. operating revenue	12,978	15,507	15,197	14,654	
Fuel expense (adj.)	(11,121)	(10,544)	(9,946)	(9,312)	(9,763)	Fuel expense (adj.)	(2,388)	(2,512)	(2,561)	(2,485)	
Other operating costs (ex. D&A)	(33,490)	(36,539)	(38,732)	(40,891)	(42,960)	Other operating costs (ex. D&A)	(9,268)	(9,875)	(9,935)	(9,654)	
Profit sharing	(1,383)	(1,389)	(1,339)	(1,702)	(1,823)	Profit sharing	(124)	(470)	(392)	(353)	
Adj. EBITDA	8,675	8,529	8,319	9,683	10,158	Adj. EBITDA	1,198	2,650	2,309	2,162	
D&A	(2,341)	(2,513)	(2,443)	(2,520)	(2,600)	D&A	(607)	(602)	(614)	(620)	
Adj. operating income	6,334	6,016	5,876	7,163	7,558	Adj. operating income	591	2,048	1,695	1,542	
Net interest	(834)	(747)	(692)	(620)	(560)	Net interest	(179)	(172)	(171)	(170)	
Other non-operating (adj.)	(280)	(68)	(187)	(140)	(140)	Other non-operating (adj.)	(30)	(71)	(41)	(45)	
Adj. pre-tax income	5,220	5,201	4,997	6,403	6,858	Adj. pre-tax income	382	1,805	1,483	1,327	
Tax (adj.)	(1,200)	(1,211)	(1,194)	(1,505)	(1,612)	Tax (adj.)	(84)	(435)	(363)	(312)	
Adj. net income	4,020	3,990	3,803	4,898	5,246	Adj. net income	298	1,370	1,120	1,015	
Non-GAAP items, net of tax	589	(533)	999	-	-	Non-GAAP items, net of tax	(58)	760	297	-	
Net income (GAAP)	4,609	3,457	4,802	4,898	5,246	Net income (GAAP)	240	2,130	1,417	1,015	
Reported EPS	7.17	5.33	7.36	7.47	8.00	Reported EPS	0.37	3.27	2.17	1.55	
Adj. EPS	6.25	6.16	5.82	7.47	8.00	Adj. EPS	0.46	2.10	1.71	1.55	
DPS	0.20	0.50	0.68	0.75	0.75	Shares outstanding (wtd, diluted)	651	652	654	655	
Shares outstanding (wtd, diluted)	643	648	653	656	656						
Balance Sheet & Cash Flow Statement						Ratio Analysis					
	FY23A	FY24A	FY25E	FY26E	FY27E		FY23A	FY24A	FY25E	FY26E	FY27E
Cash and cash equivalents	2,741	3,069	3,600	3,600	3,600	Fuel / revenue	20.3%	18.5%	17.0%	15.1%	15.1%
Accounts receivable	3,130	3,224	3,612	3,813	4,006	Adj. EBITDA margin	15.9%	15.0%	14.3%	15.7%	15.7%
Other current assets	4,398	3,563	3,827	4,040	4,244	Adj. operating margin	11.6%	10.6%	10.1%	11.6%	11.7%
Current assets	10,269	9,856	11,039	11,453	11,850	Adj. pre-tax margin	9.5%	9.1%	8.6%	10.4%	10.6%
PP&E (net)	35,486	37,595	39,952	42,432	45,032	ROE (adj., avg. equity)	-	30.3%	21.7%	22.3%	19.8%
Goodwill and intangibles	15,736	15,728	15,721	15,721	15,721	ROA (adj.)	-	5.4%	4.9%	6.0%	6.2%
Lease ROU and other non-current	12,153	12,093	13,300	13,300	13,300	ROCE (Adj. EBIT / debt + equity)	20.3%	19.1%	17.5%	20.5%	20.7%
Total assets	73,644	75,272	80,012	82,906	85,903	Net debt / equity	1.6x	0.9x	0.5x	0.3x	0.1x
Current debt and finance leases	2,983	2,175	1,940	1,516	1,060	Net debt / Adj. EBITDA	2.0x	1.5x	1.2x	0.7x	0.4x
Air traffic liability	7,044	7,094	8,165	8,620	9,056	Adj. P/E (x)	11.6x	11.7x	12.4x	9.7x	9.0x
Accounts payable	4,446	4,650	5,022	5,302	5,570	P/BV (x)	4.2x	3.1x	2.4x	2.0x	1.6x
Other current liabilities	11,945	12,712	13,471	14,250	15,043	EV/Revenue (x)	1.2x	1.1x	1.0x	0.9x	0.8x
Current liabilities	26,418	26,631	28,598	29,688	30,729	EV/Adj. EBITDA (x)	7.8x	7.4x	7.3x	5.9x	5.3x
Long-term debt and finance leases	17,071	14,019	11,920	9,314	6,512	FCF yield	2.4%	6.1%	7.5%	7.4%	7.9%
Other LT liabilities (incl. leases)	19,050	19,355	19,779	19,779	19,779	Interest cover (x)	7.6x	8.1x	8.5x	11.6x	13.5x
Total liabilities	62,539	60,005	60,297	58,781	57,020	Capex / revenue	9.7%	9.0%	8.0%	8.1%	8.0%
Shareholders' equity	11,105	15,267	19,715	24,125	28,883	Fuel price, adj. (\$/gal)	2.83	2.56	2.32	2.13	2.19
Total liabilities & equity	73,644	75,272	80,012	82,906	85,903	Fuel gallons (M)	3,926	4,114	4,288	4,372	4,458
BVPS	17.27	23.56	30.19	36.78	44.03	Revenue y/y growth	-	4.3%	2.3%	5.6%	5.1%
Net debt (ex. leases)	17,313	13,125	10,260	7,230	3,972	Adj. EBITDA y/y growth	-	(1.7%)	(2.5%)	16.4%	4.9%
Cash flow from operating activities	6,464	8,025	8,200	8,518	8,946	Adj. EPS y/y growth	-	(1.4%)	(5.5%)	28.3%	7.1%
o/w D&A	2,341	2,513	2,443	2,520	2,600						
Cash flow from investing activities	(3,148)	(3,739)	(4,655)	(5,000)	(5,200)						
o/w Capital expenditure	(5,323)	(5,140)	(4,655)	(5,000)	(5,200)						
as % of revenue	9.7%	9.0%	8.0%	8.1%	8.0%						
Cash flow from financing activities	(3,394)	(4,260)	(3,014)	(3,518)	(3,746)						
Net change in cash	(78)	26	531	-	-						
Free cash flow (OCF less capex)	1,141	2,885	3,545	3,518	3,746						

Source: Company reports (8-K earnings releases, FY24 10-K), K2 Capital estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec. o/w - out of which, FY23A-FY24A and 1Q-3Q25 are actuals. Income statement on Delta's adjusted basis (excludes third-party refinery sales); cash flow, balance sheet and reported EPS are GAAP. FY25E-FY27E roll forward from the 30-Sep-25 balance sheet with no non-GAAP items or buybacks. Debt excludes operating leases (in other LT liabilities). EV: current market cap plus period-end net debt and pension. FY23A-FY24A DPS from dividends paid.

Analyst Certification: The research analysts of K2 Capital Limited responsible for this report certify that (1) the views expressed in this report accurately reflect their personal views about the subject company and its securities, and (2) no part of their compensation was, is or will be directly or indirectly related to the specific rating or views expressed in this report.

Important Disclosures

Ratings: Overweight: over the duration of the price target, we expect the stock to outperform the total return of the S&P 500. Neutral: we expect the stock to perform in line with it. Underweight: we expect the stock to underperform it. Price targets are set for the period stated and are based on the methodology and risks described in this report.

Date	Company	Rating	Price (\$)	Price Target (\$)
11-Jan-26	DAL	OW (initiation)	72.31	84.00
11-Jan-26	UAL	OW (initiation)	117.32	136.00
11-Jan-26	LUV	N (initiation)	44.52	46.00
11-Jan-26	AAL	UW (initiation)	15.99	15.00

Positions and conflicts: K2 Capital Limited, its principals and employees may hold positions in, and may trade, the securities of the company discussed in this report or related instruments, including positions inconsistent with its rating.

Sources and methodology: Prices are as of the close on 9 January 2026 unless stated. Company data are from the SEC filings of Delta Air Lines, United Airlines Holdings, American Airlines Group and Southwest Airlines: Forms 8-K with earnings releases (4Q24 to 3Q25), FY2024 Forms 10-K, 3Q25 Forms 10-Q and Southwest's 5 December 2025 Form 8-K. Price history is from Yahoo Finance and consensus data from Barchart and Zacks as reported. Other sources include the US Energy Information Administration (Short-Term Energy Outlook, December 2025; daily spot prices); IATA (industry outlook, 9 December 2025); KFF Health Tracking Poll (November 2025); Gallup (October 2025); RAND (August 2025); CDC/NCHS (adult body measurements and obesity prevalence); FAA Advisory Circulars 120-27F and 120-27E; Boeing (737 MAX airport planning document); Aircraft Commerce; Cleveland Clinic; Prime Therapeutics; published trial results for semaglutide, tirzepatide and orforglipron; Novo Nordisk and Eli Lilly; Airlines for America; the FAA; and reporting by Reuters, Bloomberg and Investing.com. The passenger-weight and fuel-burn framework, the GLP-1 adoption funnel and all EPS sensitivities are K2 calculations, using a fuel elasticity of 0.75% per 1% of aircraft weight. Estimates are K2 Capital's and are subject to change without notice.

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