

March 2, 2018

## Sabre Corporation: SABR

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**Sector: Information Technology**

**Industry: Data Processing/Infrastructure Software**

**Current Price: \$22.07**

**Target Price: \$28.48**

Sabre Corporation is a global technology company that provides travel software and airline and hospitality solutions for the tourism industry. The company provides products and services that revolve around business-to-business travel solutions such as inventory management, pricing, reservation planning, and operations management for all forms of travel. On the IT solutions side, the company provides data solutions that are evolving into cloud based databases for airline companies and hotels.

### BUY

Current Price:	\$23.26
Target Price:	\$28.07
Market Cap:	6.367B
Beta:	0.75
Debt Rating:	
D/E:	494.76%
WACC:	5.9%
ROIC:	9.0%
TTM EBITDA margin:	24.85%



### Thesis:

Sabre Corporation is currently undervalued due to their potential for growth through their cloud software along with a dip in price from a fallout with Southwest Airlines. After slightly rebounding recently, Sabre Corporation is poised for a strong rebound from the loss of the Southwest Airlines deal through a low WACC and strong growth estimates in the travel industry moving forward.

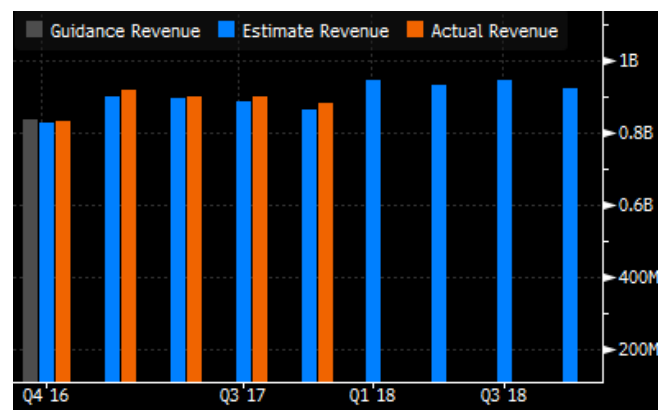
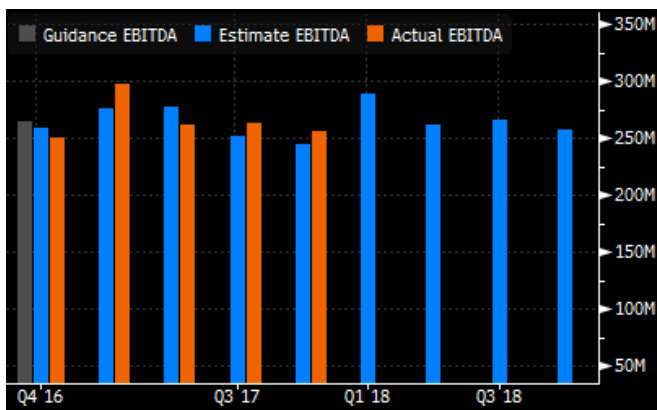
### Catalysts:

- **Short Term:** 'Investor Day' on March 6, 2018, bounce back after mid 2017 loss of Southwest Airlines deal. Increased cloud development and rollout. Strong 1 year outlook for travel and tourism industry. Low airfare becoming popular amongst airlines.
- **Mid Term:** CFO retirement in the next year, will stay on as advisor. IT industry moving to a cloud based industry as a whole.
- **Long Term:** High level of debt – many term loans mature in 2021-2024.

### Earnings Performance:

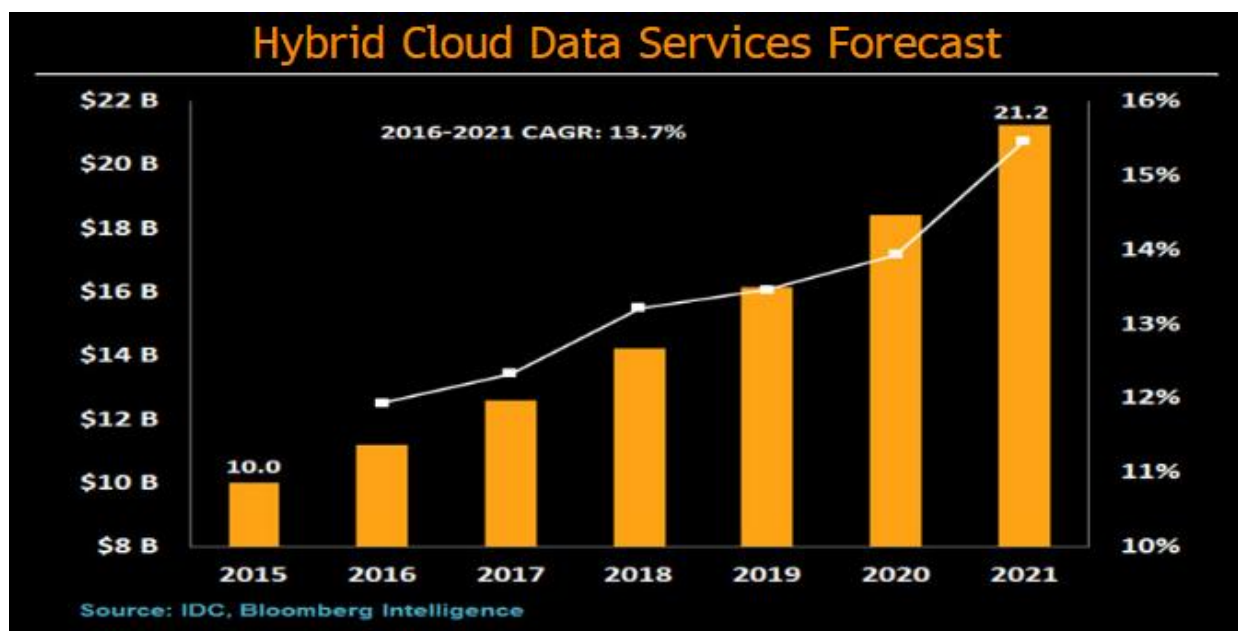
Sabre Corporation has slightly seasonal earning trends where they slightly decline in EBITDA as the year progresses. Looking at quarterly data for EBITDA below, it's evident the company maintains consistency in beating analysts estimates. There was a -4% dip in the second quarter due to the loss of Southwest Airlines, which will be analyzed further in later sections. Overall, for the trailing twelve months, EBITDA grew at a 3% YoY value due to a strong quarter three to help offset quarter two. Strong earnings growth can be attributed to

increased cloud development and rollout to global customers who will benefit through closer software and solutions to their company for increased shopping speed and efficiency. Revenue grew YoY 7% with an average of 6.5% of growth YoY for each quarter.



Revenue growth in 2017 quarter four was driven by strong growth in the travel network and hospitality solutions with a slight decline in airline solutions due to the impact of Southwest. Strong revenue growth of 9% in quarter four is due to strong bookings growth in the APAC region, a high value region for the company.

With further investment in cloud technology planned for Sabre, we can expect to see a slight short term dip in margins in 2018 while they allocate these expenses to both operating expenditures and capital expenditures (Q4 Earnings Call). While margins will take a small hit, shifting towards cloud use is part of adapting with the industry; FY 2018 guidance suggests EBITDA will still slightly increase YoY. Cloud use will allow customers to move their workloads from their own premises to the cloud, which provides flexibility that leads to decreased hardware and labor costs for the client.

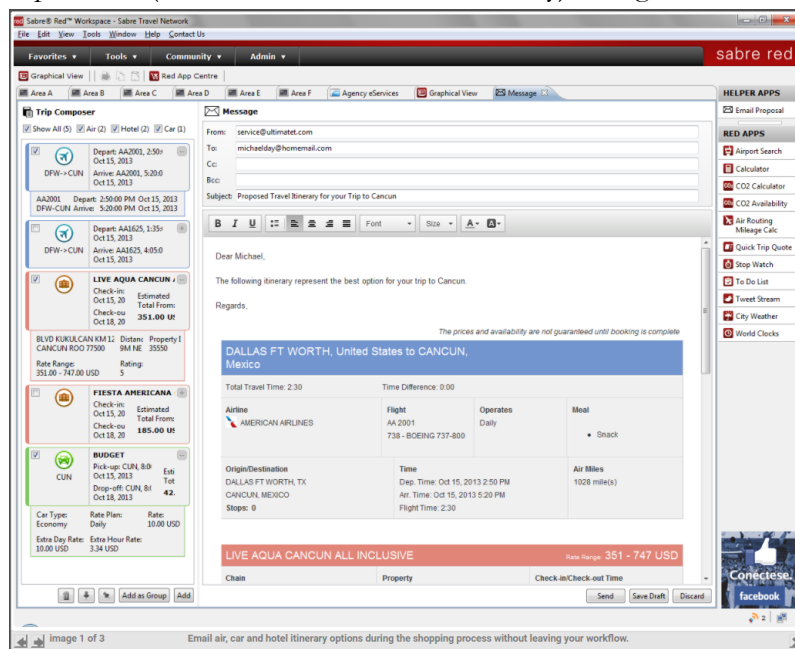


## Segment Analysis:

Sabre currently operates through two main segments, soon to be broken out into three. Travel Network and Hospitality and Airline solutions are the two current segments, the latter of which being broken up. With

the breakout into three segments over two is the managers push to increase transparency and performance review for investors. Travel Network accounts for 70.4% of revenue while Airline and Hospitality Solutions accounts for the other 29.6%; this has remained relatively constant since their IPO in 2014.

Travel Network was driven by Sabre Corporations new software application, Sabre Red Workspace. This new technology provides agents with a streamlined and easy to use travel reservation and management workflow station. These workstations were rolled out towards the end of 2017 to major customers like American Express, with management plans to rollout the workspaces to all customers throughout 2018. Sabre Red Workstations helps agents become far more productive – an agent with less than one year of experience can become as productive as an agent with two to four years of experience within 6 to 8 months of training on Sabre's new tech. Below is a sample screenshot of Sabre Red Workspace, exhibiting the efficiency and alignment it provides (air, car rental, and hotel itinerary) for agents all on one screen (source: company website).



Travel Network had strong growth in bookings for quarter four. In terms of segments, APAC grew 12.5%, LAC grew 5.3%, EMEA grew 3.9% and North America grew 0.3%. With strong growth in APAC, Sabre grew to 36% of all global air bookings in quarter four.







Hospitality Solutions is being split off from Airline solutions starting in 2018 reporting. This segment was a startup and is now bringing in \$250M in revenue for FY 2017 with a CAGR from 2012-2017 of 21%. Currently, Hospitality Solutions is the largest central reservations provider with 39,000 properties live globally (Q4 Earnings Call). Hospitality Solutions strength in economies

of scale will help offset the decrease in EBITDA margins for Airline Solutions due to the negative tax impact of ASC 606. In terms of revenue, Airline Solutions is estimated to take a hit of about \$45M, which will be slightly offset by \$5M from revenue timing of new sales and renewals.

Adjusted EBITDA for Airline and Hospitality Solutions grew 14.5% in quart four for 2017 and 5.4% in FY 2017. However, the loss of Southwest Airlines caused total passengers boarded to decrease 2.2% from 789M to 772M YoY. Taking Southwest Airlines completely out of the equation, Sabre reported strong YoY growth in total passengers boarded of 9.1% growth.

## Capital Structure:

Sabre Corporation has a total debt to equity ratio of 4.95. In the short term, there is less than \$60M in term loans maturing per year through 2021. In the long-term there is \$1.81B in term loans maturing in 2024.

In Millions of USD except Per Share		2015 Y	2016 Y	2017 Y	Current
12 Months Ending		12/31/2015	12/31/2016	12/31/2017	02/28/2018
	Market Capitalization	7,690.5	6,909.9	5,624.0	6,304.0
	- Cash & Equivalents	321.1	364.1	361.4	361.4
	+ Preferred Equity	0.0	0.0	0.0	0.0
	+ Minority Interest	1.4	2.6	5.2	5.2
	+ Total Debt	3,359.7	3,445.5	3,455.9	3,455.9
	Enterprise Value	10,730.5	9,993.9	8,723.7	9,403.7

At a short-term long position recommendation, the maturing debt in 2024 is less of a concern but noteworthy to contribute to Sabre's low WACC.

The declining market capitalization is due to a decreasing price over the last twelve months, which is a result of the loss of Southwest Airlines as a client. This dip dropped the stock price substantially from \$22.13 at the end of July 2017 to \$17.40 in the middle of August. Since then, Sabre has been slowly increasing in market cap minus the overall market dip in early February of 2018, which they have since bounced back from; market cap is now the highest it has been since May of 2017.

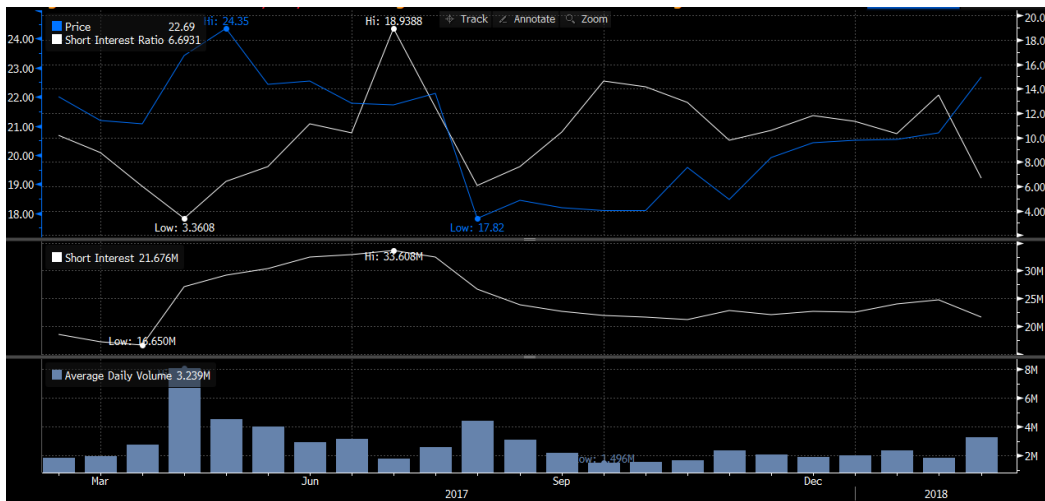
## Ownership:

54) Ownership Type	02/25/18	Curr	Change
41) Investment Advisor	69.17	69.05	-0.12
42) Private Equity	12.60	12.66	+0.06
43) Hedge Fund Manager	12.10	12.16	+0.06
44) Unclassified	1.72	1.73	+0.01
45) Bank	1.15	1.15	0.00
46) Pension Fund	1.05	1.06	+0.01
47) Government	0.63	0.63	0.00
48) Individual	0.52	0.52	0.00
49) Insurance Company	0.51	0.52	+0.01

Ownership has recently increased after 2017 Q4 and FY earnings were reported in mid-February. Although volatile where hedge fund managers sold for profit at the end of January where the price was the highest it has been since last August's announcement of the loss of Southwest. Afterwards, the entire market dipped and hedge fund managers capitalized on the mispricing of Sabre and increased

their ownership percentage.

Short interest in the company has been volatile but ultimately decreased over the last year and continues to decrease most recently. Over the last 2 weeks, short interest has decreased from 13.505 to 6.693 after the 2017 quarter four and FY earnings call. Two major aspects that helped decrease the short interest ratio were 1) meeting the company's guidance set out for moving the shopping complex onto a private cloud to promote growth and support distribution that will lead to increases in cost efficiency to fund further investments and 2) the breakout of the hospitality solutions due to strong growth in that segment.



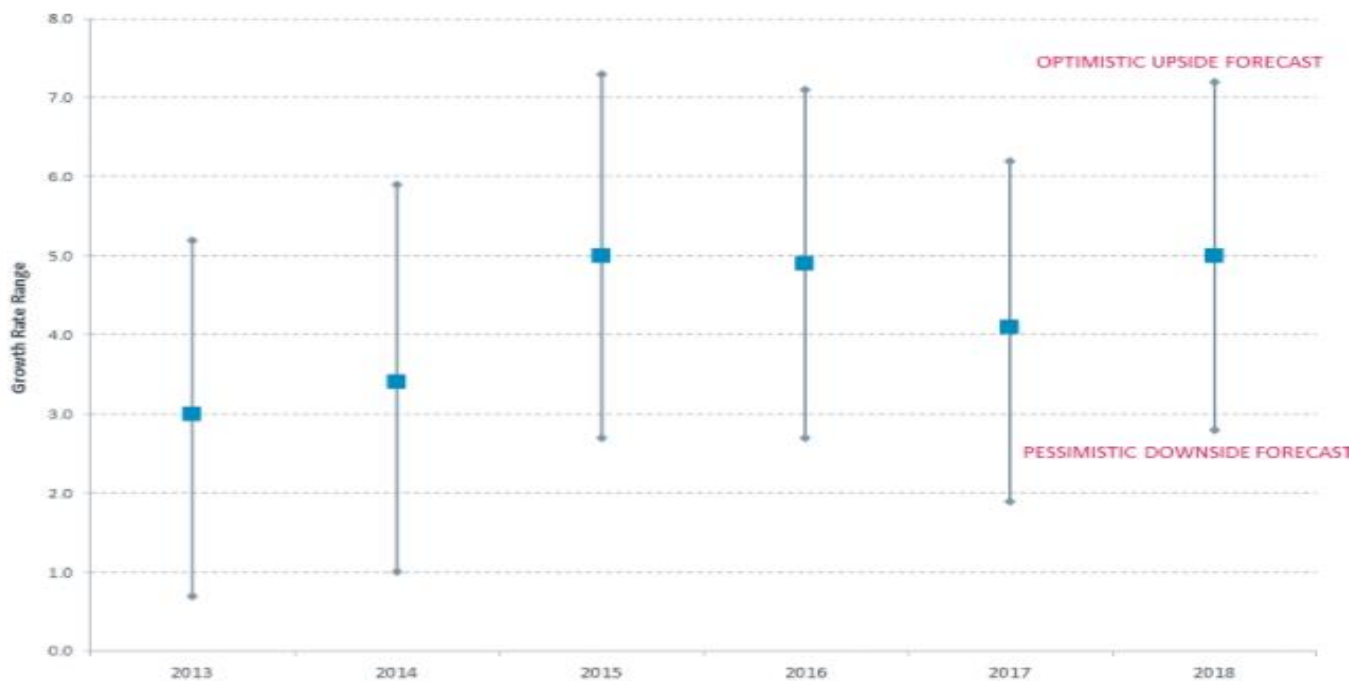
The chart on the left indicates a volatile short interest ratio over the past year where the market tried to capitalize on the fallout of Southwest Airlines. As mentioned above, the short interest ratio recently took a large dip favorably. Sabre's 'Investor Day' will also

affect this on March 6, 2018 where the company will provide more of an inside look on their initiatives for 2018. Overall, confidence in Sabre's stock is restoring.

## Industry Outlook:

The industry outlook for 2018 is an optimistic 7.2% with a floor of 2.8% for information technology. Below is a snapshot of that forecast sourced my CompTIA.

### CompTIA Projects an Uptick in Industry Growth



This outlook is based on large IT firms as well as small IT firms resulting in a best-fit forecast. This forecast is based on growing need for efficiency in IT solutions and software that is more reliable. As mentioned before, the incorporation of private and public cloud space contributes to a positive outlook where clients will look for cloud resources as a means for increasing flexibility and cost efficiencies.



The industry outlook revolving around Sabre Corporation is two-fold – the IT industry growth forecast above plus the industry outlook for the travel and tourism industry. 2018 drivers for the airline industry include downward pricing due to lower fuel prices and low-cost entrants. Lower pricing will hurt airline companies but consumer spending will increase substantially, meaning IT companies working on the back end of the travel industry will profit from this.

The low-cost airfare driver is a growing phenomenon in the airline industry that will bring backing IT companies to the forefront of their business. With low pricing on the horizon, bulk selling of plane tickets will be airlines major goal to offset decreasing margins. To do so, they will have to rely on their backing IT solutions to provide the most efficient array of pricing to compete at the highest level among peers.

## Competition:

Sabre Corporation performs well in terms of the median of their peers. Most notably, the company performs well in paying their shareholders with the highest twelve month dividend yield. Along with dividends, the company has an outstanding TTM EBITDA margin above the competition, which bodes well for them in the future.

	Name	Mkt Cap	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y	P/E	ROE	Dvd 12M Yld	T12M EBITDA Mrgn:Y	ROIC:Y
	Median	5.24B	11.88%	5.26%	29.98	12.91%	1.40%	15.99%	4.98%
100)	SABRE CORP	6.23B	6.67%	6.83%	22.86	42.06%	2.47%	26.79%	8.66%
101)	EXPEDIA INC	15.75B	14.66%	14.83%	39.21	9.72%	1.12%	15.48%	5.88%
102)	TRIPADVISOR INC	5.54B	5.14%	-52.28%	106.00	3.73%	--	15.10%	3.80%
103)	CSG SYSTEMS INTL INC	1.54B	3.76%	3.38%	25.26	18.98%	1.72%	20.33%	11.74%
104)	DST SYSTEMS INC	4.94B	42.49%	4.93%	27.14	16.10%	0.86%	16.51%	0.67%
105)	WAGeworks INC	1.73B	9.09%	-17.80%	36.67	9.45%	--	11.69%	4.08%
106)	BROADRIDGE FINANCIAL ...	11.60B	43.00%	5.59%	29.98	38.48%	1.40%	17.47%	16.30%
107)	VARONIS SYSTEMS INC	1.59B	32.17%	25.38%	--	-14.87%	--	-4.73%	-16.47%

The most comparable firm based on market cap is TripAdvisor, Inc.; Sabre outperforms in every area above except for their P/E ratio. ROE is significantly higher due to Sabre's leveraging resulting in their low WACC of 5.9% while having an ROIC of 8.66%, indicating value creation. The higher EBITDA margin provides a nice cushion for Sabre's anticipated OpEx and CapEx spending in 2018 on their new cloud software.

## Conclusion:

The information technology industry is poised for strong growth in 2018 mixed with high confidence in the airline industry. The mix of these two segments, where IT companies will see an increase in reliance on them along with downward pricing in the airline industry, will drive demand for IT solutions and software. At the forefront of travel solutions, Sabre Corporation provides value to their shareholders through growth in their cloud space, better transparency and reporting among their segments per 2018 guidance, and a competitive advantage through their new software rollout of Sabre Red Workspace. Sabre Corporation is currently undervalued in the market based on their current trends and synergies between solutions and software businesses. I recommend Sabre Corporation as a buy.

## Sabre Corporation (SABR)

## CENTER FOR GLOBAL FINANCIAL STUDIES

**BULLISH**

Analysis by Zachary DeLeonardo  
3/1/2018

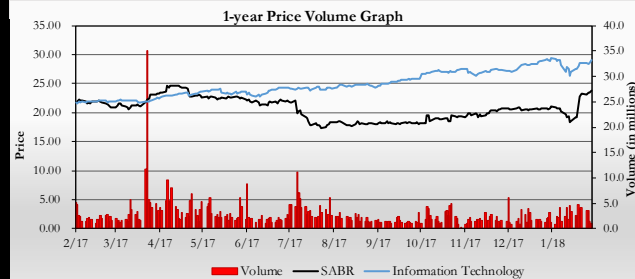
Current Price:  
Divident Yield:

\$23.26  
2.4%

Intrinsic Value  
Target Price:

\$26.23  
\$28.48

Target 1 year Return: 24.79%  
Probability of Price Increase: 100%



Description	
Sabre Corporation, through its subsidiary, Sabre Holdings Corporation, provides technology solutions to the travel and tourism industry worldwide.	
General Information	
Sector	Information Technology
Industry	IT Services
Last Guidance	February 12, 2018
Next earnings date	April 27, 2018
Market Assumptions	
Estimated Equity Risk Premium	6.10%
Effective Tax rate	22%

Market Data	
Market Capitalization	\$6,383.62
Daily volume (mil)	2.33
Shares outstanding (mil)	274.45
Diluted shares outstanding (mil)	278.32
% shares held by institutions	109%
% shares held by investments Managers	66%
% shares held by hedge funds	6%
% shares held by insiders	0.37%
Short interest	7.90%
Days to cover short interest	11.03
52 week high	\$25.01
52-week low	\$17.30
Volatility	0.00%

Past Earning Surprises	
Quarter ending	Revenue
12/31/2016	0.52%
3/31/2017	2.26%
6/30/2017	0.42%
9/30/2017	1.88%
12/31/2017	2.24%
Mean	1.47%
Standard error	1.0%

Market and Credit Scores	
Recommendation (STARS) Value--3	
Recommendation (STARS) Description--Hold	
Quality Ranking Value--NR	
Quality Ranking Description--Not Ranked	
Short Score--2	
Market Signal Probability of Default % (Non-Ratings)	--
-0.293%	
CreditModel Score (Non-Ratings)--bb	

Industry and Segment Information	
LTN Revenues by Geographic Segments	LTM Revenues by Business Segments
United States--37%	Travel Network--71%
Europe--22%	Airline and Hospitality Solutions--30%
Asia Pacific (APAC)--20%	Eliminations--1%
All Other--21%	--
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Management	Position
Kellner, Lawrence	Executive Chairman
Menke, Sean	President, CEO & Director
Simonson, Richard	Executive VP & CFO
Gonzalez, Rachel	Executive VP & Chief Administrative Officer
Klein, Thomas	Special Advisor to the Chairman of the Board
Gilliland, Michael	Chairman Emeritus and Adviser

Total Compensations Growth	Stock Price Growth During Tenure
-6.72% per annum over 3y	
43.46% per annum over 1y	-8.94% per annum over 1y
1.57% per annum over 3y	
36.77% per annum over 2y	12.81% per annum over 2y
10.52% per annum over 3y	
-100% per annum over 1y	-8.94% per annum over 1y

Peers	
Travelport Worldwide Limited	Jack Henry & Associates, Inc.
--	Black Knight, Inc.
DST Systems, Inc.	--
--	--
TripAdvisor, Inc.	--

Profitability	SABR (LTM)	SABR Historical
Return on Capital (GAAP)	16.6%	11.96%
Operating Margin	24%	16.61%
Revenue/ Capital (GAAP)	0.69	0.72
ROE (GAAP)	29.0%	-47.5%
Net margin	7.5%	11.0%
Revenue/Book Value (GAAP)	3.85	-4.32

Peers' Median (LTM)
11.42%
19.94%
0.57
16.3%
11.1%
1.47



Invested Funds	SABR (LTM)	SABR Historical
Cash/Capital	7.8%	5.8%
NWC/Capital	-6.5%	-22.7%
Operating Assets/Capital	43.5%	54.4%
Goodwill/Capital	55.2%	62.5%

Peers' Median (LTM)
13.1%
-2.0%
38.4%
50.5%

Capital Structure	SABR (LTM)	SABR Historical
Total Debt/Market Capitalization	0.78	0.96
Cost of Debt	4.8%	6.1%
CGFS Rating (F-score, Z-score, and default Probability)	B	
WACC	5.9%	9.5%

