

Reuters

## Delta, Northwest shares poised to be at head of pack

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By Chris Reiter

NEW YORK (Reuters) - Delta Air Lines Inc. (Other OTC:[DALRQ.PK](#) - [News](#)) and Northwest Airlines Corp. (Other OTC:[NWACQ.PK](#) - [News](#)) are set to emerge from bankruptcy as two of the highest valued airlines in the United States, but softening travel demand and rampant competition could send them crashing down again.

After a year and a half in Chapter 11, Delta and Northwest will issue new shares within weeks of each other and test Wall Street's appetite for airline stocks. The timing is good with resurgent demand fueling profits in the industry for the first time in years.

The Amex airline index (AMEX:[^XAL](#) - [News](#)) shot up about 36 percent between August and January, but in the last three months, the sector has given back some of those gains, falling 14 percent.

Despite the recent solid performance, airline stocks often end up worthless -- there have been more than 160 bankruptcies since the U.S. airline industry was deregulated in 1978 -- and skepticism is high.

"These are not buy-and-hold stocks," said Brian Nelson, an airline analyst with Morningstar. "Unless you're a speculator, trader, or a technician, you shouldn't be involved in these stocks."

Northwest has said it expects to be valued at about \$7.8 billion when it emerges from Chapter 11 by the end of June.

Delta, which wrapped up creditor voting on its reorganization plan on Monday, expects to top that. The No. 3 U.S. carrier in terms of passenger traffic has said it anticipates having a market value of around \$10 billion when it relists on the New York Stock Exchange in early May.

Those valuations would make Delta the second-biggest U.S. airline by market value after discount carrier Southwest Airlines Co. (NYSE:[LUV](#) - [News](#)), while Northwest would vie with AMR Corp. (NYSE:[AMR](#) - [News](#)), the parent of American Airlines, for the No. 3 spot.

"Both of them are going to come out very strong carriers," airline consultant Michael Boyd said.

In addition to cutting labor and other costs, Delta and Northwest revamped their routes to focus on growth markets and more lucrative international traffic. Delta has expanded service to Europe and plans to bulk up its New York presence, while Northwest operates sought-after China routes.

"Northwest has probably the strongest fundamental route system in terms of growth markets of any U.S. carrier," Boyd said. "They both recognized that the real future is on the revenue side."

But Delta may get the first-mover advantage. The No. 3 U.S. carrier by passenger traffic plans to list its new stock -- old shares in both airlines will be canceled and therefore worthless -- in the run-up to the heavy summer travel season.

"At this point from a timing perspective, Delta's a little bit better positioned," said Ray Neidl, an analyst with Calyon Securities. "June may be a little bit too late" for Northwest to tap into seasonal investor optimism about the airline sector, he said.

Investors also may be cautious given the lackluster performance of UAL Corp. (NasdaqGS:[UAUA](#) - [News](#)), the parent of United Airlines. Since it exited bankruptcy in February 2006, its shares have fallen about 4 percent.

"United was almost a failure in bankruptcy," airline consultant Boyd said. "It took them three years, and they have no competitive advantage over their main competition American Airlines, which didn't go into bankruptcy."

By contrast, the changes made by Delta and Northwest are "fundamental," he said.

US Airways Group Inc. (NYSE:[LCC](#) - [News](#)) fared much better, more than doubling since emerging from bankruptcy through its merger with America West in September 2005.

But the strong demand that has fueled the industry's recovery may be showing signs of softening amid steady fare increases and a slowing U.S. economy.

"This summer people are more likely to take slightly shorter trips in order to keep their budgets in line," Amy Ziff, editor-at-large at travel Web site Travelocity, said. "That means more time at home this summer."

Based on information from company filings, including share count, Delta shares are likely to be priced at around \$25 each, while Northwest shares could be priced at about \$27.

While the share prices may be nominally lower than most peers, that may still not be enough to tempt a rush of investors into the perennially risky sector.

"You're levitating big pieces of metal," Boyd said. "It just ain't right."