EL AL AIRLINES STOCK RALLIES DESPITE ISRAEL’S TOURISM SLUMP

News / Airlines

At first sight, investors have good reasons to shun El Al Israel Airlines shares.

The national carrier is grappling with a slump in tourism fueled by political violence, as well as intensified competition after Prime Minister Benjamin Netanyahu’s government opened the market to low-cost operators in 2013. Yet the 1.46 billion-shekel ($374 million) company has a combination of factors in its favor: falling oil prices and the strength of the shekel.

The stock has increased four-fold in the past year to outperform every one of its global peers. For Psagot Investment House Ltd., Israel’s largest money manager, the shares may rise a further 53 percent as Israelis take advantage of their increased purchasing power. The number of people taking trips abroad has risen 15 percent so far this year, according to the Jerusalem-based Central Bureau of Statistics data.

El Al “finds itself in an excellent financial position,” Noam Pincu, a Psagot analyst with a buy rating on the “very cheap” stock, said in a note. “The company has an advantage in that it’s Israel’s leading airline, and in our assessment, the Israeli market is expected to grow faster relative to the world.”

El Al’s stock has risen as the price of Brent crude sank to an 11-year low this year, cutting the price of fuel needed to run the carrier’s fleet of about 50 aircraft.

El Al reported last month a nine-fold surge in third-quarter earnings to $93 million, the highest three-month profit since at least 2004. The company paid its shareholders in August the first dividend since 2008. The stock rose 2.2 percent as of 10:43 a.m. in Tel Aviv to 2.949 shekels, bringing its 12-month advance to 343 percent.

The share performance represents a dramatic turnaround for El Al. In 2013, airline officials and unions predicted the Open Skies agreement with the European Union, which gradually increased the number of airlines operating between Israel and Europe, would crush the local aviation industry.

It has since settled a labor dispute, upgraded its fleet with nine Boeing Co. Dreamliners and plans to fit jets with an anti-missile laser platform to bolster its reputation as one of the world’s safest airlines. Even with increased competition, the carrier has managed to maintain a 30 percent share of Ben Gurion airport’s passenger travel, according to El Al’s financial reports.

Order Cancellations

Incoming tourism to Israel may decline after a wave of Palestinian knife attacks in recent months. Last year, El Al said third-quarter profit slumped 83 percent after the Gaza war caused a “large number” of cancellations.

“If this keeps going, fear will take over and we’ll begin to see order cancellations and less tourists traveling to Israel,” said Tel Aviv-based Yossi Shvimer, chief executive officer at Migdal Capital Markets Alternative Investments Ltd. Its sister company, Migdal Asset Management, increased its El Al holdings more than seven-fold this year, data compiled by Bloomberg show.

‘Unexpected Gift’

With oil prices likely to remain depressed due to a global oversupply and the currency gaining 11 percent against the euro so far this year, the airline’s momentum should only continue, said Yaniv Pagot, the head of strategy at Ayalon Group Ltd.

“The company received an unexpected gift in the form of the collapse of world oil prices,” Pagot said from Ramat Gan. “Barring some significant geopolitical event, it looks like this level is the new normal. And a stronger currency just means places like Europe are cheaper for Israelis.”

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