

# Cathay Pacific (293.HK)

## 2018H result review: Maintain the TP and Rating

Hong Kong | Air | Update Report

24 AUG 2018

### Investment Summary

Sound demand rebound and mild cost growth make Cathay's 2018H1 loss shrinking by near 90% yoy. We believe that the Company's H2 result prospects are mixed with recovery of demand continually and the moderate cost growth. The positive factor is the gradually fading fuel hedging losses, and the negative factor is the shrink of share of profit from Air China due to the exchange losses. We temporarily maintain the financial forecast and target price unchanged at HK\$14.3 for the Company, reaffirming the accumulate rating. (Closing price as at 22 August 2018)

### Nearly 90% reduction of Losses in 2018H, Recovering Distributing the Interim Dividends

Cathay recently announced interim results, and the total revenue rose 15.7% to HK\$53.08 billion yoy in the first half of 2018, recording a loss of HK\$263 million, HK\$1.788 billion less yoy, a loss of 6.7 cents EPS, and an interim dividend of 10 cents.

### Fuel Costs Increased, But Fuel Hedging Losses Decreased Sharply

Fuel costs increased by 7.4% during the period as the gasoline price went up by 28% and the fuel consumption by 2.1%. But some of the increase was offset by an 80% reduction in fuel hedging losses. In addition, the Company invested more and more fuel-efficient new models to reduce fuel consumption per revenue ton kilometre by 2.5%.

### Operating Profits Turn Positive

Since 2016H2, the Company has recorded three consecutive six-month operating losses. In 2018H1, driven by a 15.7% yoy increase in total revenue and an 8% increase in operating expenses, the operating profit turned from negative to positive again, reaching HK\$697 million. However, the net financial expenditure overspent nearly HK\$200 million or 24% yoy to HK\$1 billion, and profit that should account for the affiliated company decreased by HK\$0.84 billion. Finally, profit of the shareholders still recorded a small loss.

### Passenger Yield Improves

During the period, the increase of passenger capacity (+3.2%) was faster than that of the number of passengers (+1.9%). The P L/F decreased gently by 0.5ppts to 84.2% yoy. However, due to the improvement of revenue management, the increase of fuel surcharges, and strong demand for first class and business class, the yield of passenger transport rose 7.6% to 55.4 cents yoy, and overall revenue of passenger increased by 10.4% to HK\$35.45 billion.

### Freight Keeps a Strong Momentum

Increased demand for specific cargo shipment and the movement of higher value goods to and from Asia led to a sharp rise in freight yields of 16.3% yoy to HK\$1.93. And overall freight revenue increased sharply by 23.4% yoy to HK\$12.97billion. The growth of cargo tonnage (+7.5%) continued to be stronger than cargo capacity investment (+4.1%) and the cargo L/F increased by 2.1 ppts yoy to 68.3%.

### The Three-year Transformation Program Has Passed a Half

The three-year enterprise transformation plan has passed a half. During the period, the Company restructured the team structure of its headquarters, appointed a new management and leadership team to implement a series of cost control measures, and achieved some results. The basic cost per ton kilometre (except fuel) increased by only 3.3%, from HK\$2.13 to HK\$2.20. The management said the Company also plans to move toward simpler, more efficient and other directions, but it will also make investment expenditure for future development, such as hiring more staff and enhancing cabin services to improve customer experience.

### Accumulate (Maintain)

CMP HKD 12.32

(Closing price as at 22 August 2018)

TARGET HKD 14.30 (+16%)

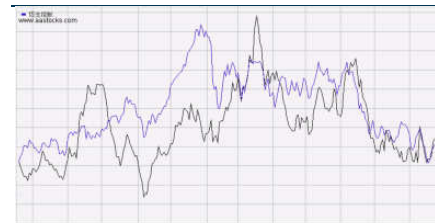
#### COMPANY DATA

O/S SHARES (MN):	3934
MARKET CAP (HKD MN):	48465
52 - WK HI/LO (HKD):	14.82/ 11.18

#### SHARE HOLDING PATTERN, %

Swire Pacific Limited	45
AC	29.99
QATAR	9.94

#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

HKD mn	FY16	FY17	FY18E	FY19E
Net Sales	92,751	97,284	103,853	108,290
Net Profit	-575	-1,259	1,069	3,805
EPS, HKD	-0.15	-0.32	0.27	0.97
P/E, x	(84.3)	(38.5)	45.3	12.7
BVPS, HKD	14.07	15.53	15.89	16.73
P/BV, x	0.9	0.8	0.8	0.7
DPS (HKD)	0.05	0.05	0.05	0.15
Div. Yield (%)	0.4%	0.4%	0.4%	1.2%

Source: Company reports, Phillip Securities Est.

Research Analyst  
**ZhangJing**  
 (+ 86 51699400-103)  
 zhangjing@phillip.com.cn

### Operating Data Maintain Good, Keeping the Target Price Unchanged

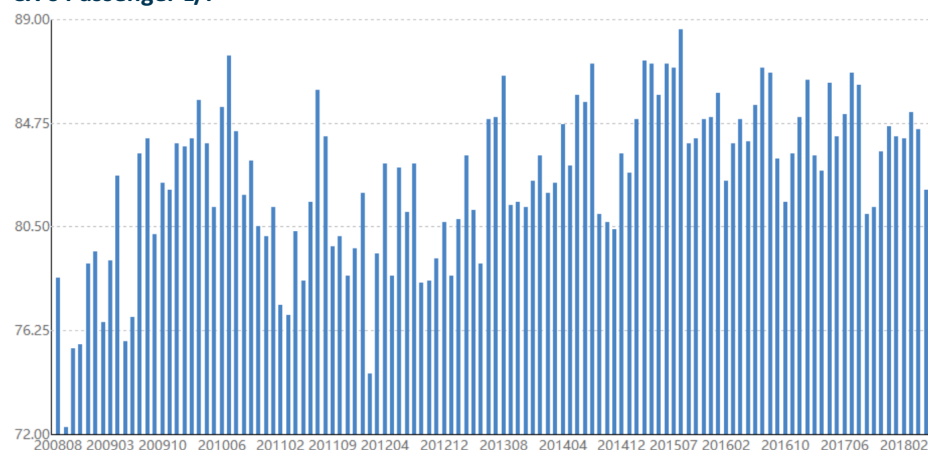
Cathay's operating data for the first seven months of 2018 showed that the P L /F of Chinese mainland and North American routes still kept increasing, improving by 1.4 and 2.7 ppts, respectively. The P L /F of other routines decreased by 1.0-3.1 ppts. The Company is adding more capacity to Europe, to grasp the revival of demand of Europe. Freight business has maintained a relatively high boom, and P L /F has increased by 2 ppts to 68.6%.

We believe that the Company's H2 result prospects are mixed with recovery of demand continually and the moderate cost growth. The positive factor is the gradually fading fuel hedging losses, and the negative factor is the shrink of share of profit from Air China due to the exchange losses. We temporarily maintain the financial forecast and target price unchanged at HK\$14.3 for the Company, reaffirming the accumulate rating.

### Risk

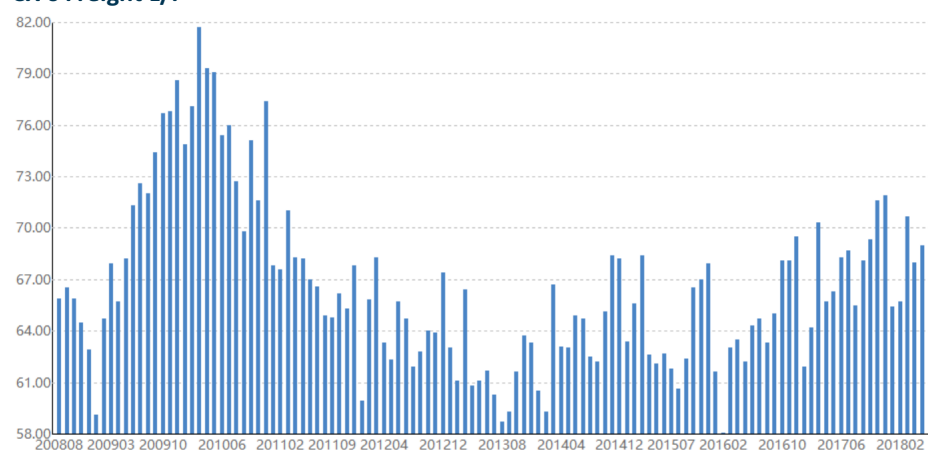
Surging oil price  
RMB depreciation  
Demand affected by economy  
Transformation program failed

### CX's Passenger L/F



Source: Wind, Phillip Securities Hong Kong Research

### CX's Freight L/F



Source: Company, Bloomberg, Phillip Securities Hong Kong Research

### CX's P/B Band



Source: Company, Wind, Phillip Securities Hong Kong Research

### Peer Comparison

Ticker	Name	Market Cap USD Million	BEst P/E:1FY	BEst P/E:2FY	P/B	P/TBVPS	FCF yield
AUD							
QAN AU Equity	QANTAS AIRWAYS LTD	8313	10.4	10.4	3.1	4.4	14.7
VAH AU Equity	VIRGIN AUSTRALIA	1542	41.7	27.8	1.3	2.0	-4.0
CNY							
601111 CH Equity	AIR CHINA LTD-A	14469	13.6	9.2	1.2	1.3	8.7
HKD							
293 HK Equity	CATHAY PACIFIC AIRWAYS	6014	41.5	12.7	0.7	0.9	-25.9
670 HK Equity	CHINA EASTERN AIRLINES	10401	11.6	8.4	1.1	1.3	-14.7
1055 HK Equity	CHINA SOUTHERNAIRLINES	8755	8.9	6.3	0.9	0.9	9.3
200152 CH Equity	SHANDONG AIRLINES	646	#N/A N/A	#N/A N/A	1.0	1.0	-11.7
IDR							
GIAA IJ Equity	GARUDA INDONESIA	397	#N/A N/A	#N/A N/A	0.5	0.5	20.7
INR							
JETIN IN Equity	JET AIRWAYS INDIA LTD	494	#N/A N/A	9.0	N/A	#N/A N/A	1.3
JPY							
9202 JP Equity	ANA HOLDINGS INC	12104	11.7	10.9	1.3	1.5	#N/A N/A
9201 JP Equity	JAPAN AIRLINES CO LTD	12535	11.2	11.6	1.3	1.4	#N/A N/A
KRW							
003490 KS Equity	KOREAN AIR LINES CO LTD	2307	17.2	6.0	0.8	0.9	27.2
020560 KS Equity	ASIANA AIRLINES	768	6.5	6.4	0.8	1.0	36.8
NZD							
AIR NZ Equity	AIR NEW ZEALAND LTD	2510	9.6	10.7	1.8	1.9	7.7
SGD							
SIA SP Equity	SINGAPORE AIRLINES LTD	8269	13.7	13.3	0.8	0.9	-23.3
THB							
THAI TB Equity	THAI AIRWAYS	864	9.5	10.7	0.9	0.9	45.9
TWD							
2618 TT Equity	EVA AIRWAYS CORP	2035	10.5	13.9	1.0	1.1	12.5
2610 TT Equity	CHINA AIRLINES LTD	1624	10.4	#N/A N/A	0.9	0.9	46.7
900945 CH Equity	HAINAN AIRLINES HOLDING	5276	#N/A N/A	#N/A N/A	0.8	0.8	-22.4

Source: Bloomberg, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY14	FY15	FY16	FY17	FY18F	FY19F
<b>Valuation Ratios</b>						
P/E (X), adj.	15.4	8.1	(84.3)	(38.5)	45.3	12.7
P/B (X)	0.937	1.011	0.875	0.793	0.775	0.737
Dividend Yield (%)	2.9%	4.3%	0.4%	0.4%	0.4%	1.2%
<b>Per share data (HK\$)</b>						
EPS, reported	0.801	1.525	(0.146)	(0.320)	0.272	0.967
EPS, adj.	0.801	1.525	(0.146)	(0.320)	0.272	0.967
DPS	0.36	0.53	0.05	0.05	0.05	0.15
BVPS	13.15	12.18	14.07	15.53	15.89	16.73
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	5.5%	-3.4%	-9.4%	4.9%	6.8%	4.3%
EBIT	13.2%	65.7%	-82.3%	-77.0%	1028.1%	89.1%
Net Income, adj.	20.2%	90.5%	-109.6%	NA	NA	256.0%
<b>Margins</b>						
EBIT margin	4.9%	8.4%	1.6%	0.4%	3.8%	6.9%
Net Profit Margin	3.0%	5.9%	-0.6%	-1.3%	1.0%	3.5%
<b>Key ratios</b>						
ROE	5.5%	12.0%	-1.1%	-2.2%	1.7%	5.9%
Dividend payout ratio	45.0%	34.8%	-34.2%	-15.6%	18.4%	15.5%
<b>Income Statement (HK\$ mn)</b>						
Revenue	105,991	102,342	92,751	97,284	103,853	108,290
Operating expenses	(101,556)	(95,678)	(93,276)	(99,563)	(102,700)	(103,742)
-Jet fuel cost	(40,299)	(32,968)	(27,953)	(31,112)	(33,233)	(33,786)
Profit from operations	4,435	6,664	-525	-2,279	1,153	4,548
Financial costs	(1,158)	(1,164)	(1,301)	(1,761)	(2,155)	(2,401)
Share of profits and losses of associates	772	1,965	2,049	2,630	2,807	2,940
Profit before tax	4,049	7,465	223	(580)	1,805	5,087
Tax	(599)	(1,157)	(497)	(308)	(278)	(763)
Profit for the period	3,450	6,308	(274)	(888)	1,527	4,324
Minority interests	(300)	(308)	(301)	(371)	(458)	(519)
Net profit	3,150	6,000	(575)	(1,259)	1,069	3,805

Source: PSR

(Financial figures as at 22 Aug 2018)

### PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

### GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

### Disclosure of Interest

**Analyst Disclosure:** Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

**Firm's Disclosure:** Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

### Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2018 Phillip Securities (Hong Kong) Limited

**Contact Information (Regional Member Companies)**
**SINGAPORE**
**Phillip Securities Pte Ltd**

250 North Bridge Road, #06-00 Raffles City Tower,  
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

[www.phillip.com.sg](http://www.phillip.com.sg)

**INDONESIA**
**PT Phillip Securities Indonesia**

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,  
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

[www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**
**Phillip Securities (Thailand) Public Co. Ltd.**

15th Floor, Vorawat Building, 849 Silom Road,  
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

[www.phillip.co.th](http://www.phillip.co.th)

**UNITED STATES**
**Phillip Futures Inc.**

141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

**MALAYSIA**
**Phillip Capital Management Sdn Bhd**

B-3-6 Block B Level 3, Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

[www.poems.com.my](http://www.poems.com.my)

**CHINA**
**Phillip Financial Advisory (Shanghai) Co. Ltd.**

No 436 Heng Feng Road, Green Tech Tower Unit 604  
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

[www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**
**King & Shaxson Capital Ltd.**

3rd Floor, 35 Rue de la Bienfaisance  
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

[www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**
**PhillipCapital Australia**

Level 10, 330 Collins Street  
Melbourne VIC 3000

Tel (+61) 3 8633 9803 Fax (+61) 3 8633 9899

[www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**HONG KONG**
**Phillip Securities (HK) Ltd**

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

[www.phillip.com.hk](http://www.phillip.com.hk)

**JAPAN**
**Phillip Securities Japan, Ltd**

4-2 Nihonbashi Kabutocho, Chuo-ku  
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

[www.phillip.co.jp](http://www.phillip.co.jp)

**INDIA**
**PhillipCapital (India) Private Limited**

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,  
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

[www.phillipcapital.in](http://www.phillipcapital.in)

**UNITED KINGDOM**
**King & Shaxson Ltd.**

6th Floor, Candlewick House, 120 Cannon Street  
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

[www.kingandshaxson.com](http://www.kingandshaxson.com)

**SRI LANKA**
**Asha Phillip Securities Limited**

Level 4, Millennium House, 46/58 Navam Mawatha,  
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

[www.ashaphillip.net/home.htm](http://www.ashaphillip.net/home.htm)