

Cathay Pacific (293.HK)

2018 result review: Turned from Loss to Profit

Hong Kong | Air | Update Report

26 March 2019

Investment Summary

The Year-round Result Turned from Loss to Profit and Earned HK\$2.3 Billion Which Is Better Than Expected: Cathay Pacific recently reported its result. In 2018, it recorded a profit of HK\$2.345 billion, compared with a loss of HK\$1.259 billion in previous years, equivalent to a profit of about HK\$0.596 per share, which was better than expected. The proposed second interim dividend is HK\$0.2 per share and the total annual dividend is HK\$0.3, a five-fold increase with a 50% dividend rate.

Fuel Costs Have Increased Rapidly, But Losses Have Been Greatly Reduced Due to Fuel Hedging: The fuel cost increased by 8.9% in the period due to a 28% increase in fuel price and a 1.6% increase in fuel consumption. The losses reduced by 77.3% due to fuel hedging and the increase was partly offset. In addition, the Company invested more fuel-efficient new models, which reduced fuel consumption by 1.9% per ton of revenue per kilometre.

Business Profits Expanded in H2: Since the second half of 2016, the Company has recorded three consecutive six-month operating losses. In H1, driven by a 15.7% yoy increase in total revenue and an 8.24% increase in operating expenses, the operating profit turned from negative to positive again, reaching HK\$697 million. In H2, Cathay Pacific's total revenue and operating expenditure increased by 12.7% and 7.65%, respectively, while its operating profit increased to HK\$2.898 billion, up by 316% compared with H1.

The Growth Rate of Financial Expenditure Has Shrunk, But the Contribution of Joint Ventures Has Declined Significantly: Compared with H1, the financial expenditure in H2 was basically flat, up by 16.6% or HK\$1.57 billion yoy, reaching HK\$1.104 billion, a sharp decrease from 24% in H1. However, the profits contributed by the joint ventures decreased by 37% or HK\$784 million, reaching HK\$1.313 billion, reflecting the decline of the results of Air China and Air China Cargo. In H2, the shareholders' share of the Company's profits soared by 229% yoy or HK\$1.8 billion, reaching HK\$2.61 billion.

The Continuous Improvement of Yield of Passenger Transport and Vigorous Cargo Demand Sustained in H2: The increase of passenger capacity of the Company (+3.78%) was faster than that of the number of passengers (+1.85%). The P L/F decreased slightly by 0.3 ppts to 84.1% yoy. Due to the improvement of revenue management, the increase of fuel surcharges, and the continuing strong demand for first class and business class, the increasing trend of yield of passenger continued in H2, and the yield of passenger rose 6.7% to HK\$0.558 yoy. And overall yield of passenger transport increased by 10.1% to HK\$73.12 billion.

The strong momentum of freight transport business was also continuing. The increased demand for special freight transport and transport of imports and exports of higher value goods of Asian routes drove the Company's freight transport yield from HK\$1.93 in the middle of the year to HK\$2.03 in the whole year and carriage rate from 68.3% to 68.8%. The growth rate of overall freight transport revenue accelerated from 16.3% in H1 to 18.5% in the whole year, reaching HK\$28.316 billion.

Accumulate (Maintain)

CMP HKD 13.7

(Closing price as at 22 March 2019)

TARGET HKD 15.7 (+14.6%)

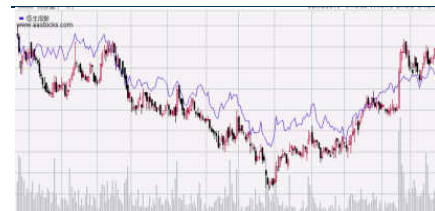
COMPANY DATA

O/S SHARES (MN):	3934
MARKET CAP (HKD MN):	53894
52 - WK HI/LO (HKD):	14.12/ 9.81

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	FY17	FY18	FY19E	FY20E
Net Sales	97,284	111,060	117,020	120,674
Net Profit	-1,259	2,345	4,403	4,840
EPS, HKD	-0.32	0.60	1.12	1.23
P/E, x	(42.8)	23.0	12.2	11.1
BVPS, HKD	15.53	16.25	16.98	17.62
P/BV, x	0.9	0.8	0.8	0.8
DPS (HKD)	0.05	0.30	0.50	0.60
Div. Yield (%)	0.4%	2.2%	3.6%	4.4%

Source: Company reports, Phillip Securities Est.

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Initial Results of the Transformation Plan: Management team said that the transformation plan was progressing satisfactorily. During this period, the Company restructured the head office’s team structure and appointed a new management and leadership team to carry out a series of cost control measures, and achieved certain result. The basic cost per ton kilometre (except fuel) increased by only 1.9%, from HK\$2.14 to HK\$2.25. There is one year left for the three-year transformation plan. In order to enhance competitiveness, the Company will continue to expand its airline network to places where airlines in Hong Kong never arrived, add popular airline flights, and operate more fuel-efficient aircraft. It is reported that the Company plans to employ at least 2,000 additional staff this year, including crew, pilots and ground crew. We believe that this reflects the optimistic expectations of management for the future. By the end of last year, Cathay Pacific had employed more than 32,400 employees worldwide.

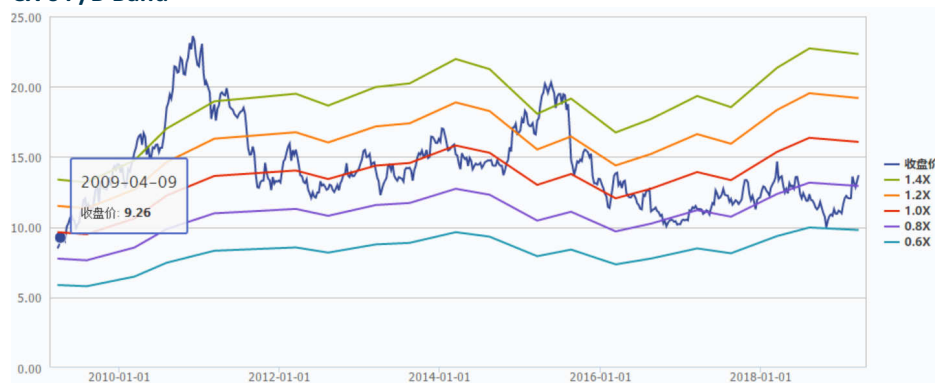
Investment thesis

Operational data in the first month of 2019 showed that passenger transport demand was satisfactory, but freight transport demand is lower than that in previous years. The prospect of global freight transport business is uncertain due to the impact of the progress of Sino-US trade negotiations. However, the Company’s high value-added air freight will benefit from the prosperity of e-commerce and cross-border trade, as well as the upgrading of consumption of domestic middle class. Based on the revised financial forecast, we lift target price to HK\$15.7 for the Company, equivalent to 2019/2020E 0.93/0.89x P/B, reaffirming the accumulate rating. (Closing price as at 22 March 2019)

Risk

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

CX’s P/B Band



Source: Company, Wind, Phillip Securities Hong Kong Research

Peer Comparison

排名	代码	证券简称	总市值(百万元)	流通市值(百万元)	市盈率PE			市净率PB(MRQ)
					TTM	19E	20E	
4	0293.HK	国泰航空	6,868.6	6,868.6	23.0	13.1	9.6	0.8
港股(4)								
		中位值	9,856.7	4,012.2	22.7	9.8	8.1	1.1
1	0753.HK	中国国航	15,753.2	4,948.6	18.4	10.1	7.5	1.2
2	1055.HK	中国南方航空股份 ...	10,162.2	3,037.3	22.7	9.6	8.7	1.1
3	0670.HK	中国东方航空股份 ...	9,551.1	3,075.8	22.6	7.7	6.9	1.1
美股(10)								
		中位值	15,654.8	12,206.8	10.8	8.6	7.8	1.7
1	GOLN	勒莫国航	44,058.5	4,116.2	7,605.2	--	--	-41.9
2	DALN	达美航空(DELTA) ...	34,162.9	34,162.9	8.7	8.6	7.6	2.5
3	LUV.N	西南航空	28,053.0	28,053.0	11.4	9.8	9.7	2.8
4	UALO	联合大陆航空	21,612.3	21,612.3	10.1	8.7	8.0	2.2
5	RYAAY.O	RYANAIR HLDG-A...	17,181.9	17,181.9	9.6	--	--	3.1
6	AALO	美国航空	14,127.6	14,127.6	10.0	5.8	5.1	-83.6

Source: Company, Wind, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY15	FY16	FY17	FY18	FY19F	FY20F
Valuation Ratios						
P/E (X), adj.	9.0	(93.7)	(42.8)	23.0	12.2	11.1
P/B (X)	1.125	0.973	0.882	0.843	0.807	0.778
Dividend Yield (%)	3.9%	0.4%	0.4%	2.2%	3.6%	4.4%
Per share data (HK\$)						
EPS, reported	1.525	(0.146)	(0.320)	0.596	1.119	1.230
EPS, adj.	1.525	(0.146)	(0.320)	0.596	1.119	1.230
DPS	0.53	0.05	0.05	0.30	0.50	0.60
BVPS	12.18	14.07	15.53	16.25	16.98	17.62
Growth & Margins (%)						
Growth						
Revenue	-3.4%	-9.4%	4.9%	14.2%	5.4%	3.1%
EBIT	65.7%	-82.3%	-77.0%	1426.2%	36.1%	4.6%
Net Income, adj.	90.5%	-109.6%	NA	NA	87.7%	9.9%
Margins						
EBIT margin	8.4%	1.6%	0.4%	4.8%	6.2%	6.3%
Net Profit Margin	5.9%	-0.6%	-1.3%	2.1%	3.8%	4.0%
Key ratios						
ROE	12.0%	-1.1%	-2.2%	3.8%	6.7%	7.1%
Dividend payout ratio	34.8%	-34.2%	-15.6%	50.3%	44.7%	48.8%

Income Statement (HK\$ mn)

Revenue	102,342	92,751	97,284	111,060	117,020	120,674
Operating expenses	(95,678)	(93,276)	(99,563)	(107,465)	(111,871)	(115,485)
-Jet fuel cost	(32,968)	(27,953)	(31,112)	(33,869)	(34,872)	(36,323)
Profit from operations	6,664	-525	-2,279	3,595	5,149	5,189
Financial costs	(1,164)	(1,301)	(1,761)	(2,114)	(1,403)	(1,152)
Share of profits and losses of associates	1,965	2,049	2,630	1,762	2,140	2,433
Profit before tax	7,465	223	(580)	3,243	5,886	6,470
Tax	(1,157)	(497)	(308)	(466)	(883)	(970)
Profit for the period	6,308	(274)	(888)	2,777	5,003	5,499
Minority interests	(308)	(301)	(371)	(432)	(600)	(660)
Net profit	6,000	(575)	(1,259)	2,345	4,403	4,840

Source: PSR

(Financial figures as at 22 March 2019)

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

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