

Cathay Pacific (293 HK)

FY25 result beat, while soaring oil prices would weight on short-term bottom-line

Hong Kong | Air | Update Report

Investment Summary

Strong Recovery Momentum Continued in H2 Last Year, Profit Reached HK\$7.2 Billion and Nearly Doubled HoH

Cathay Pacific reported its 2025 results, with the Group recording total revenue of HK\$116,766 million (HK\$, the same below) for the full year, up 11.88% yoy; profit attributable to shareholders reached HK\$10,828 million, up 9.5% yoy, marking the third consecutive year of robust profit at around HK\$10 billion and validating its operating resilience. Basic EPS was HK165.5 cents, up 10.9% yoy. The result was mainly driven by increased capacity, stable passenger volumes and strong cargo demand, which supported financial growth, although part of the increase was offset by yield normalisation and losses at HK Express.

The Group announced a final dividend of HK\$0.64 per share. Together with the interim dividend of HK\$0.20 per share, the full-year dividend totalled HK\$0.84 per share, up 21.74% yoy.

The strong momentum in H2 continued, with revenue rising 14.04% yoy to HK\$62,457 million and profit attributable to shareholders increasing 15.11% yoy to HK\$7,177 million, almost doubling from H1. In addition to the factors mentioned above, this was also supported by a one-off gain of HK\$880 million from HAECO and a larger contribution from associates, mainly Air China and Air China Cargo. If excluding these factors, core profit attributable to shareholders in H2 would have been approximately HK\$5,914 million, up 4.99% yoy and 61.98% hoh, indicating a steadily improving performance.

Fare Tailwinds Continued to Fade, Network Expansion Became the Core Driver

The Group's passenger services revenue reached HK\$78,848 million, up 15.0% yoy, with growth lagging behind the increase in passenger traffic. The Group continued to progressively expand its route network, adding 20 new destinations in 2025, bringing its passenger network to over 100 cities worldwide. During the reporting period, Cathay Pacific's passenger capacity (available seat kilometres, ASK) increased by 25.8% yoy, passenger traffic (revenue passenger kilometres, RPK) rose by 28.9%, and total passengers carried reached 28.87 million, up 26.5% yoy, with passenger load factor improving by 2.0 percentage points to 85.2%.

HK Express, the Group's wholly owned low-cost carrier, recorded more pronounced capacity expansion during the period, contributing 12 new destinations. Its ASK increased by 31.9% yoy, RPK rose by 25.8%, and passengers carried reached 7.91 million, up 29.7% yoy, while passenger load factor declined by 3.8 percentage points yoy to 79.6%.

As global capacity supply continued to recover and market competition intensified, fare tailwinds further faded. Cathay Pacific's yield (revenue per passenger kilometre) declined significantly by 10.3% yoy to HK60.4 cents, while HK Express' passenger yield decreased by 15.3% yoy to HK44.2 cents.

Affected by changes in customer travel destination preferences, the launch of multiple new routes (which require time to mature), and the continued grounding of part of its fleet due to the industry-wide unresolved Pratt & Whitney engine issues, HK Express' EBIT loss widened from HK\$204 million in the same period last year to HK\$996 million.

30 March 2026

Accumulate (Maintain)

CMP HKD 12.31

(Closing price as at 26 March)

TARGET HKD 13.6 (+10.5%)

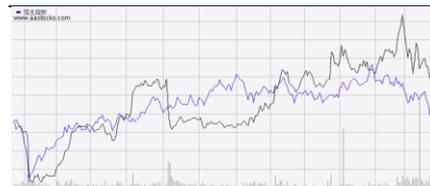
COMPANY DATA

O/S SHARES (MN):	6724
MARKET CAP (HKD MN):	74859
52 - WK HI/LO (HKD):	14.15/8.34

SHARE HOLDING PATTERN, %

Swire Pacific Limited	43.08
AC	27.1

PRICE VS. HSI



Source: Aastocks, Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY25	FY26E	FY27E	FY28E
Net Sales	116,766	127,126	135,004	144,646
Net Profit	10,828	8,423	11,150	11,458
EPS, HKD	1.65	1.25	1.66	1.70
P/E, x	7.4	9.8	7.4	7.2
BVPS, HKD	9.19	9.57	10.39	11.33
P/BV, x	1.3	1.3	1.2	1.1
DPS (HKD)	0.84	0.62	0.83	0.85
Div. Yield (%)	6.8%	5.0%	6.7%	6.9%

Source: Company reports, Phillip Securities Est.

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In the cargo segment, impacted by additional tariffs and changes in de minimis policies, although available cargo tonne kilometres increased by 8.3% yoy, yield declined slightly by 4.6% to HK\$2.69, and cargo load factor decreased by 1.1 percentage points yoy to 58.8%. The Group responded by diversifying its layout and adjusting its global network, with cargo services revenue remaining stable, up 0.6% yoy to HK\$27,572 million.

Unit Costs Further Diluted, Financial Structure Continued to Improve

In terms of cost components, non-fuel costs increased by 13.4% yoy to HK\$71,349 million, driven by capacity expansion. Among these, staff costs, inflight service costs and ground handling costs increased by 19.2%, 35.8%, and 22.7%, respectively, reflecting higher manpower input as well as increased route and maintenance expenses associated with capacity growth. Total fuel costs rose by only 8.3% yoy, benefiting from a 9% decline in fuel prices and remaining significantly below the increase in capacity, which led to a 2.4% yoy decrease in fuel cost per ATK and a 1.7% yoy decrease in non-fuel unit costs. The expansion of available capacity helped dilute unit costs.

Among other expenses, net finance charges decreased by 12.4% yoy, while aircraft depreciation and leasing costs declined by 4.1% yoy, reflecting the effectiveness of fleet optimisation.

The Company's financial structure further improved. Net borrowings decreased to HK\$46,812 million during the year, down 19.2% yoy; net debt-to-equity ratio declined from 1.10x to 0.78x, indicating that the high leverage accumulated during the pandemic is being gradually digested.

As at the end of 2025, Cathay Group operated a total of 237 aircraft, including 152 owned and 85 leased. In 2026, eight new-generation narrow-body aircraft will be delivered, with passenger capacity expected to increase by approximately 10%, which will also support growth in cargo capacity.

Investment thesis

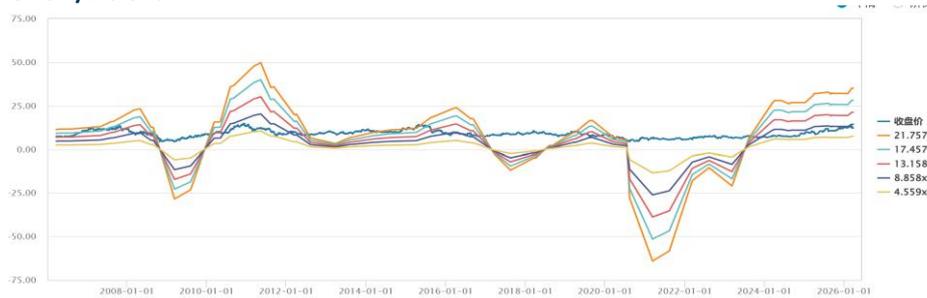
As fuel costs typically account for one-third of total airline costs, the recent surge in international oil prices driven by geopolitical factors in the Middle East has raised market concerns over margin pressure on airlines. However, the International Air Transport Association (IATA) noted that global aviation demand has not weakened, with many itineraries originally destined for the Middle East being redirected to Europe or Asia. IATA continues to forecast a 4.4% increase in global passenger traffic this year.

In our view, the key takeaway from Cathay Group's 2025 results is that, at a time when the industry is generally under pressure, strategic discipline can be translated into financial resilience. While the challenges in 2026 will be more complex, with volatility in oil prices, trade tensions, and fare competition posing significant tests not only of strategic direction but also of execution capability.

We revised the EPS forecast of Cathay to be HK\$1.253/1.658 in 2026/2027/2028. Based on the revised financial forecast, we lift target price to HK\$13.6 for the Company, equivalent to 2026/2027/2028E 10.9/8.2/8.0 x P/E, 1.42/1.31/1.20x P/B, the Accumulate rating. (Closing price as at 26 March)

Risk

- Surging oil price
- Unfavorable Exchange fluctuations
- Weaker Demand affected by economy
- Fiercer ticket competition
- War, Epidemic, etc

CX's P/E trend


Source: Wind, Phillip Securities Hong Kong Research

CX's P/B trend


Source: Wind, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY24	FY25	FY26F	FY27F	FY28F
Valuation Ratios					
P/E (X), adj.	8.3	7.4	9.8	7.4	7.2
P/B (X)	1.510	1.340	1.287	1.184	1.087
Dividend Yield (%)	5.6%	6.8%	5.0%	6.7%	6.9%
Per share data (HK\$)					
EPS, reported	1.492	1.655	1.253	1.658	1.704
EPS, adj.	1.464	1.618	1.241	1.642	1.688
DPS	0.69	0.84	0.62	0.83	0.85
BVPS	8.15	9.19	9.57	10.39	11.33
Growth & Margins (%)					
Growth					
Revenue	10.5%	11.9%	8.9%	6.2%	7.1%
EBIT	4.9%	5.1%	-18.2%	25.4%	3.1%
Net Income, adj.	6.0%	12.7%	-22.2%	32.4%	2.8%
Margins					
EBIT margin	13.7%	12.8%	9.6%	11.4%	11.0%
Net Profit Margin	9.2%	9.3%	6.6%	8.3%	7.9%
Key ratios					
ROE	17.1%	19.1%	13.4%	16.6%	15.7%
Dividend payout ratio	46.2%	50.8%	49.5%	50.1%	49.9%
Income Statement (HK\$ mn)					
Revenue	104,371	116,766	127,126	135,004	144,646
Operating expenses	(91,194)	(102,693)	(115,355)	(120,159)	(129,460)
-Jet fuel cost	(28,260)	(31,344)	(37,756)	(36,362)	(38,955)
Profit from operations	13,928	14,458	11,771	14,845	15,186
Financial costs	(3056)	(2677)	(2655)	(2698)	(2673)
Share of profits and losses of associates	331	529	489	523	657
Profit before tax	11,203	12,310	9,605	12,670	13,170
Tax	(1,315)	(1,482)	(1,181)	(1,520)	(1,712)
Profit for the period	9,888	10,828	8,423	11,150	11,458
Minority interests	(281)	0	0	0	0
Net profit	9,607	10,828	8,423	11,150	11,458

Source: PSR

(Closing price as at 26 March)

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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