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Airbus

Aerospace & defence

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Flying with increased confidence

There was an air of confidence with Airbus's FY17 results call this morning. It is refreshing its leadership team, addressing key programme issues and delivering better than expected cash performance. Guidance for FY18 indicates a 20% improvement in adjusted EBITA as the ramp-up in production continues, with required investment starting to fall away. Dividend uplift of 11% reflects confidence despite operational challenges.

FY17 results

FY17 order intake of €157.7bn (FY16: €134.5bn) exceeded initial expectations, with a civil book to bill of 1.5x being the main driver. Reported FY17 revenues of €66.8bn (FY16: €66.6bn) were in line with consensus, and there was an underlying increase of 7% allowing for disposals. Reported FY17 adjusted EBIT was €4.25bn (FY16: €3.96bn) against consensus of €3.99bn. Positive progression with the dividend up 11% to €1.50 (FY16: €1.35) against consensus of €1.40 was at the top of the payout range (30-40%), reflecting management optimism. FCF before M&A and customer financing was €2.95bn (FY16: €1.41bn), also exceeding guidance, leaving year-end net cash at €13.4bn.

Looking forward

FY18 guidance is based on civil aircraft deliveries up c 10% to c 800, supporting a 20% rise in adjusted EBIT before a €0.1bn expected benefit from IFRS 15 adoption, which would have reduced reported FY17 sales by c €7bn largely due to the elimination of the pass through of civil engine concessions. Market demand remains encouraging. The civil backlog supports increasing production and a move for A320 production to rate 70/month (from rate 60 targeted in 2019) is now being studied. In defence, the procurement outlook is also improving. Eurofighter is also back in focus with further orders possible soon, adding to recent successes. Challenges on key programmes remain including production ramp-ups, the A380 ramp-down and the A400M, where another €1.3bn was provided in 2017 ahead of contract talks to help ring-fence exposure. Overall we feel Airbus is moving in the right direction. With regard to recent revelations of new problems with GTF engines for the A320neo, management is confident the supplier will correct the problem quickly and expects to restart deliveries of new GTF-powered aircraft in April.

Valuation: Starting to climb

On a consistent accounting basis we continue to believe that cash performance should improve, and earnings growth should accelerate in FY18. The anticipated resumption of strong, sustainable EPS growth warrants the premium to the sector.

Consensus estimates (pre-IFRS 15 implementation)

Year end	Revenue (€bn)	EBIT* (€bn)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/16	66.6	3.96	3.31	1.35	28.9	1.4
12/17	66.8	4.25	3.67	1.50	26.0	1.6
12/18e	71.4	5.17	4.28	1.74	22.3	1.8
12/19e	77.2	6.23	5.42	2.14	17.6	2.2

Source: Bloomberg consensus. Note: *Historic figures are EBIT adjusted (Airbus's calculation).

Price	€95.5
Market cap	€74bn

US$1.24/€

Share price graph

Share details

Code	AIR
Listing	Euronext
Shares in issue	774.5m

Business description

Airbus is the European manufacturer of large civil passenger jets, which competes directly with Boeing of the US. The group also produces and supports helicopters, space equipment, military aircraft and other defence equipment.

Bull

- Huge civil aircraft backlog representing over 10 years (at 2017 delivery levels).
- Production rates should now start to rise from the recent plateau as neo transitions develop and A350 ramp-up kicks in.
- Cash conversion should improve as the new product investment phase in Civil wanes.

Bear

- Continuing issues in military aircraft, although A400M contractual resolution appears closer.
- A320 neo engine delivery delays continue to affect production.
- Ongoing SFO and PNF investigations hold the potential for imposition of monetary penalties.

Analysts

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