

Airbus

Positive progress

Airbus has demonstrated positive progress in Q318 both on a year-on-year and sequential basis. Strong profitability reflected the progress on the A350 programme as the production schedule ramps up. Guidance has been adjusted, reducing the number of expected aircraft deliveries and FY18 FCF performance. Overall, with supportive end-markets, Airbus continues to address its current production challenges. We believe that the improving financial performance from the A320 and A350 ramp-ups underpins growth in group cash and earnings from 2019.

Q318 shows strong progress

Q318 revenues rose 20.4% to €15.5bn (Q317 €12.8bn), and up 6.4% on a nine-month year-to-date basis at €40.4bn (9M17: €38.01bn). Adjusted 9M18 EBIT more than doubled to €2.7bn, from €1.2bn in 9M17, driven by visible strength of the A350 programme and the positive impact from delivering more aircraft, with the reducing costs and more favourable price mix. From a cash flow perspective, commercial delays to a few A330ceo and A380 deliveries, which should resolve in Q418, burdened Q318. So have some industrial challenges due to efficiency investments in the A320 final assembly line ramp-up which, together with recently announced engine delays for the A330neo, reduce full-year net cash expectations.

Guidance adjusted

While the market backdrop remains supportive, Airbus has adjusted FY18 guidance to reflect these issues. The company is now looking for total FY deliveries of around 800 civil aircraft (down from around 818 at H118, both including 18 A220s). Production schedules have been adjusted to reflect Rolls-Royce's outlook on the A330neo ramp-up. On the military side, the A400M is delivering against objectives set in February and, while slower than expected, conclusion of the contract amendment negotiation is progressing, with commercial terms to be agreed. The selection of Guillaume Faury to succeed Tom Enders as CEO after next year's AGM provides a degree of management continuity. Group guidance for adjusted EBIT remains €5.0bn for FY18 with lower deliveries and dilution from the A220. FCF before M&A and Customer Financing, now including a €0.3bn outflow from the A220 integration, is expected to be c €1bn below the FY17 level of €2.95bn.

Valuation: Rated for growth

It is clear that the company has a lot to do in Q418. However, the clear progress that the company has made year-to-date supports both EPS and cash flow growth in FY19, making a 17.3x FY19e P/E somewhat undemanding.

Consensus estimates

| Year end | Revenue (€bn) | Adj EBIT (€bn) | EPS (€) | DPS (€) | P/E (x) | Yield (%) |
|----------|---------------|----------------|---------|---------|---------|-----------|
| 12/16 | 66.6 | 3.96 | 3.31 | 1.35 | 29.5 | 1.4 |
| 12/17 | 59.0 | 3.19 | 3.67 | 1.50 | 26.7 | 1.5 |
| 12/18e | 63.7 | 5.17 | 4.35 | 1.77 | 22.5 | 1.8 |
| 12/19e | 69.6 | 6.24 | 5.65 | 2.17 | 17.3 | 2.2 |

Source: Thomson Reuters

Aerospace & defence

1 November 2018

Price €97.71

Market cap €76bn

US\$1.14/€

Share price graph



Share details

| | |
|-----------------|----------|
| Code | AIR |
| Listing | Euronext |
| Shares in issue | 775.8m |

Business description

Airbus is the European manufacturer of large civil passenger jets that 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 are set to rise from the recent plateau as A320neo transitions to 60 per month by mid-FY19 and A350 moves to rate 10 per month.
- 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.
- Although improving, A320neo engine delays mean a heavy H2 skew of the delivery schedule to achieve guidance.
- Ongoing SFO and PNF investigations hold the potential for imposition of monetary penalties.

Analysts

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