

Cathay Pacific Airways

293 HK

Share price (13 Mar): **HKD16.6**

12-mth rating: **Hold (3)**

Target price: **HKD16.9**

February 2015 – In line passenger traffic, but mainland China routes underperformed

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■ What's new

CX reported overall RPK growth of 11.7% for February, up from the 6.3% YoY growth in January, leading to passenger traffic growth of 8.8% YTD. Passenger load factor was up 3 ppt to 84.9% for February on 7.8% passenger capacity ASK growth. Overall traffic was largely in line with our expectations, and we maintain our Hold rating and TP of HKD16.9.

■ Analysis

The traffic growth was mainly driven by the Chinese New Year (which fell in January in 2014). The key routes that drove the growth were North Asia (+16.3%), Japan in particular, and the major holiday destinations in Southeast Asia (+18.3%). Demand on the Southwest Pacific routes, to Australia and New Zealand, was robust throughout the month recording 9.9% YoY growth. North America saw RPK growth of 12.7% on 11.9% capacity expansion.

Mainland China routes underperformed the region as the company recorded 0.1% decline in passenger traffic YTD. We attribute the decline to 2% capacity reduction on the routes and also slight overcapacity existing in the region.

Cargo RFTK recorded a strong growth of 38.7% YoY for February and (+24.5% YTD). CLF was up 6.2ppt to 65.5% in February, mainly driven by surge in exports prior to Mainland factories shutting down for the Chinese New Year. YTD cargo traffic showed 24.5% YoY growth, on 16% cargo capacity increase, suggesting the overall improvement in the world's air cargo markets.

■ Recommendation

CX's overall YTD traffic was largely in line with our expectations, but passenger yields remained under pressure due to weakness in certain currencies, including the Euro, Yen and AUD, in our view. We have a Hold (3) rating on the stock and a 12-month TP of HKD16.9, based on a 2016E PBR of 0.9x. Risks to our call include lower- (or higher) than-expected traffic and yield growth.

■ CX Operating data- YoY%

CX Operating data- YoY%	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	YTD
Revenue Passenger Kilometres - RPK	9.8%	4.4%	4.3%	11.5%	11.2%	8.2%	6.6%	7.7%	7.6%	5.7%	3.8%	7.5%	6.3%	11.7%	8.8%
North America	16.3%	13.6%	16.7%	16.1%	16.1%	19.2%	20.5%	24.4%	14.5%	9.9%	5.3%	13.0%	11.3%	12.7%	11.9%
Europe	7.4%	2.3%	(5.0%)	4.4%	1.5%	0.3%	(7.0%)	(4.1%)	(0.6%)	(4.7%)	(7.7%)	(2.5%)	3.3%	8.2%	5.5%
SE Asia & Mid East	7.1%	(1.4%)	0.1%	7.4%	4.7%	(0.5%)	3.1%	1.2%	8.2%	8.9%	4.5%	8.2%	11.5%	11.5%	8.6%
SW Pacific & S Africa	3.1%	3.0%	1.9%	17.4%	19.3%	11.8%	8.5%	9.9%	10.0%	6.7%	7.9%	7.5%	8.3%	9.9%	9.1%
North East Asia	12.4%	7.2%	4.8%	16.5%	19.2%	11.4%	11.3%	8.4%	7.1%	7.1%	8.6%	10.1%	8.5%	16.3%	12.4%
China	11.5%	(2.9%)	0.7%	5.8%	9.9%	2.7%	(3.8%)	(4.5%)	0.4%	2.5%	5.8%	1.7%	(10.7%)	11.2%	(0.1%)
Revenue Freight Tonne Kilometres - RFTK	4.0%	(4.4%)	19.3%	17.0%	17.5%	16.0%	20.9%	20.6%	16.3%	18.7%	13.1%	15.0%	14.1%	38.7%	24.5%
Revenue Tonne Kilometres RTK	7.0%	0.5%	11.7%	14.1%	14.2%	11.9%	13.2%	13.5%	11.8%	12.2%	8.7%	11.2%	10.0%	23.2%	15.9%
Available Seat Kilometres ASK	3.3%	3.0%	5.7%	6.8%	5.8%	6.9%	5.9%	7.1%	8.0%	6.8%	5.0%	5.9%	7.3%	7.8%	7.5%
Available Freight Tonne Kilometres - AFTK	8.3%	(1.5%)	18.8%	12.8%	14.0%	10.2%	12.7%	13.3%	10.8%	12.3%	5.3%	6.6%	8.9%	25.6%	16.0%
Available Tonne Kilometres - ATK	6.0%	0.8%	12.7%	10.0%	10.1%	8.7%	9.5%	10.4%	9.5%	9.8%	5.2%	6.3%	8.2%	16.5%	11.9%
Passenger Load Factor (%)	83.4	81.9	82.3	84.7	83.0	85.9	85.6	87.2	81.0	80.7	80.4	83.5	82.7	84.9	83.7
Cargo Load Factor (%)	60.5	59.3	66.7	63.1	63.0	64.9	64.7	62.5	62.2	65.1	68.4	68.2	63.4	65.5	64.4
Overall (ATK) Load Factor (%)	69.0	68.6	71.6	70.9	70.1	72.4	72.1	71.5	68.6	70.0	71.6	73.1	70.2	72.5	71.2
Passenger Load Factor ppt	4.9%	1.1%	(1.1%)	3.6%	4.0%	1.0%	0.6%	0.5%	(0.4%)	(0.8%)	(1.0%)	1.2%	(0.7%)	3.0%	1.0%
Passenger carried ('000)	9.3%	1.8%	2.0%	10.1%	10.9%	5.1%	4.2%	3.6%	4.6%	5.0%	3.7%	6.5%	2.7%	12.4%	7.4%
Cargo and mail carried ('000 ton)	(1.4%)	(2.4%)	13.8%	11.0%	13.9%	15.0%	19.4%	19.7%	14.5%	14.0%	12.0%	12.2%	12.5%	28.8%	19.6%

Source: Company

In the interests of timeliness, this document has not been edited.

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