

Cathay Pacific

Key takeaways from management briefing

- Operating outlook improving -> re-rating catalyst:** The overall travel demand outlook is positive, with unearned transport revenue up 9% y/y as at Dec-14. Cargo business has picked up and is benefitting from some cargo diversion from sea to air due to the US West Coast port congestion. We believe that new product launches (e.g. AppleWatch) will help support cargo growth this year. Cathay is well-positioned to benefit from the stronger N American air cargo market and plans to grow its system-wide dedicated freighter capacity (AFTK) by c.9.2% in 2015. Meanwhile, CX's ongoing fleet renewal program will drive unit costs lower (less fuel burn, lower MRO costs, higher aircraft utilisation) as they are c.10-20% more cost efficient than the planes they replace.
- Well-protected against the rebound in fuel prices; blended average fuel price net of hedging will still be lower y/y from 2015:** Cathay continues to build out its fuel hedging position to manage the volatile fuel price risk. It has hedged c.61% of 2015 fuel consumption at c.US\$95/bbl (Brent crude oil), c.60% at c.US\$85/bbl for 2016, c.50% at c.US\$89/bbl for 2017 and c.37% at c.US\$82/bbl for 2018. Current spot Brent crude oil price is \$53/bbl and ytd average level is \$55/bbl. Cathay has already recognized HK\$12.5B of unrealized mark-to-market fuel hedging loss in the cash flow hedge reserve on the balance sheet in 2014 should fuel prices remain low throughout 2015-2018. Even with fuel hedging loss realized in 2015, Cathay's blended average fuel price is expected to be lower y/y from 2015 given the lower spot fuel price paid. With an improving industry demand-supply balance, it is unlikely that Cathay will pass on all of the fuel cost savings back to customers, in our view, which should help boost its profitability going forward.
- Key concern is whether CX can fill its larger capacity expansion this year without a sharp fall in yields:** Cathay plans to grow its passenger capacity (ASK) by 8.4% (vs 5.9% in 2014), partly to leverage on the rising demand as well as a defensive strategy to secure HK Airport's slots as it is expected to reach full capacity in the next 18-24 months.

Overweight

0293.HK, 293 HK

Price: HK\$16.94

Price Target: HK\$20.00

Hong Kong Airlines

Corrine Png^{AC}

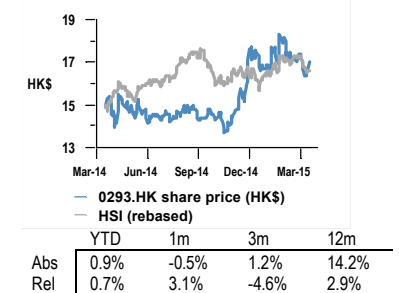
(65) 6882-1514

corrine.ht.png@jpmorgan.com

Bloomberg JPMA PNG <GO>

J.P. Morgan Securities (Asia Pacific) Limited

Price Performance



Cathay Pacific (Reuters: 0293.HK, Bloomberg: 293 HK)

HK\$ in mn, year-end Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue (HK\$ mn)	100,484	105,991	107,150	113,528	120,286
Net Profit (HK\$ mn)	2,620	3,150	6,258	7,779	8,518
EPS (HK\$)	0.67	0.80	1.59	1.98	2.17
DPS (HK\$)	0.22	0.36	0.72	0.89	0.97
Revenue growth (%)	1.1%	5.5%	1.1%	6.0%	6.0%
EPS growth (%)	203.9%	20.2%	98.7%	24.3%	9.5%
ROCE	2.5%	3.1%	5.8%	6.6%	6.6%
ROE	4.4%	5.5%	11.7%	13.6%	13.8%
P/E (x)	25.4	21.2	10.6	8.6	7.8
P/BV (x)	1.1	1.3	1.2	1.1	1.0
EV/EBITDA (x)	9.4	8.5	6.7	6.0	5.7
Dividend Yield	1.3%	2.1%	4.2%	5.2%	5.7%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	3,934
Market Cap (HK\$ mn)	66,642
Market Cap (\$ mn)	8,585
Price (HK\$)	16.94
Date Of Price	18 Mar 15
Free Float(%)	34.7%
3M - Avg daily vol (mn)	4.04
3M - Avg daily val (HK\$ mn)	69.50
3M - Avg daily val (\$ mn)	9.0
HSI	23,901.49
Exchange Rate	7.76
Price Target End Date	31-Dec-15

See page 20 for analyst certification and important disclosures, including non-US analyst disclosures.

J.P. Morgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Key catalysts for the stock price:

Improving premium traffic, which drives c.45% of Cathay's passenger revenue, versus c.25% sector average, Cathay has one of the highest exposures among the Asian airlines to long-haul routes where travel demand is recovering, gradual recovery in air cargo market, airline sector demand-supply growth balance is expected to improve from 2015 as new aircraft deliveries moderate which will alleviate fare pressure, increased profit contribution from 20.13%-owned Air China from 2014, HK Airport's rising congestion and limited slot availability provides barriers to entry during peak hours, delay in the launch of low cost carrier Jetstar Hong Kong.

Upside risks to our view:

Better-than-expected traffic growth, particularly long-haul and premium traffic, fall in jet fuel prices, better-than-expected profits from Air China, reduced competition from airlines with ambitious expansion plans (e.g. Middle Eastern carriers, low cost carriers), potential Cathay-Air China merger in the long term.

Downside risks to our view:

Spike in jet fuel prices due to geopolitical issues, Air China's earnings disappoint, intensive competition from Middle Eastern carriers, budget airlines, substantial capex and potential rise in funding costs.

Key financial metrics	FY14A	FY15E	FY16E	FY17E
Revenues (HK\$ MM)	105,991	107,150	113,528	120,286
Revenue growth (%)	5.5%	1.1%	6.0%	6.0%
EBITDA (HK\$ MM)	13,097	17,685	20,617	22,474
EBITDA margin (%)	12.4%	16.5%	18.2%	18.7%
Tax rate (%)	15%	15%	15%	15%
Net profit (HK\$ MM)	3,150	6,258	7,779	8,518
EPS (HK\$)	0.801	1.591	1.977	2.165
EPS growth (%)	20.2%	98.7%	24.3%	9.5%
DPS (HK\$)	0.36	0.72	0.89	0.97
BVPS (HK\$)	13.15	14.02	15.11	16.30
Operating cash flow (HK\$ MM)	16,758	14,961	19,112	20,820
Free cash flow (HK\$ MM)	(3,242)	(5,039)	(888)	820
Interest cover (x)	11.3	14.0	14.7	15.0
Net margin (%)	3.0%	5.8%	6.9%	7.1%
Sales/assets (X)	0.6	0.6	0.6	0.6
Debt/equity (%)	125.5%	130.4%	127.5%	122.7%
Net debt/equity (%)	85.1%	94.0%	94.6%	92.4%
ROE (%)	5.5%	11.7%	13.6%	13.8%

Key model assumptions	FY14A	FY15E	FY16E	FY17E
Passenger traffic growth	7%	8%	6%	6%
Cargo traffic growth	15%	9%	6%	6%
Jet fuel price (US\$/bbl)	112.3	93.6	88.8	88.8

Source: Company and J.P. Morgan estimates.

Sensitivity analysis	EBITDA	EPS
Sensitivity to	FY15E	FY15E
1ppt chg in pax traffic growth	+/-4%	+/-8%
1ppt chg in cargo traffic growth	+/-1%	+/-3%
1% chg in jet fuel price	-/+0.3%	-/+ 1%

Source: J.P. Morgan estimates. *Large earnings sensitivity due to small profit base

Comparative metrics

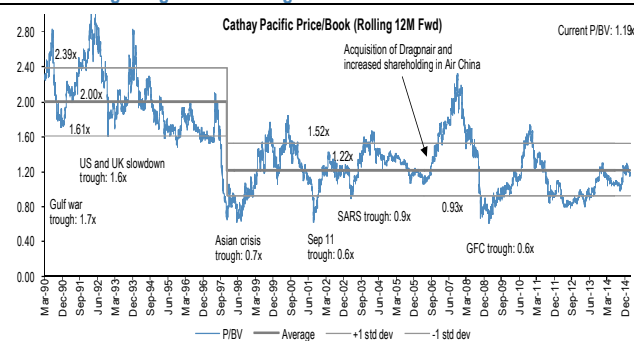
	CMP	Mkt Cap	P/E (x)		P/BV (x)		ROE (%)		YTD
	LC	\$Mn	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	Stock perf.
Singapore Airlines	12.04	10,101	18.2	10.1	1.0	1.0	5.8%	10.1%	3.8%
Cathay Pacific	16.94	8,585	10.6	8.6	1.2	1.1	11.7%	13.6%	0.9%
Sector average			13.9	11.2	1.5	1.3	9.2%	10.7%	11.3%

Source: Bloomberg, J.P. Morgan estimates. Forecasts for non-covered (NC) stocks are based on consensus estimates to calculate sector average. Note: SIA valuations are for FY16E and FY17E given its March year end. Prices are as of 18 March, 2015.

Valuation and price target basis

Our Dec-15 PT of HK\$20 is based on 1.4x P/B, a 15% premium to Cathay's historical average valuation since 1998 as we expect its earnings outlook to improve (2015E ROE 12% vs historical average of 8%). This is well-supported by our Gordon Growth valuation of 1.5x P/B, assuming 12% ROE, 8% cost of equity and zero long-term growth.

P/BV Trading Range Since Listing



Source: Bloomberg, Company and J.P. Morgan estimates.

JPMe change in estimates and vs consensus

EPS (HK\$)	FY15E	FY16E
JPMe old	1.69	2.11
JPMe new	1.59	1.98
% chg	-6%	-6%
Consensus	1.55	1.83

Source: Bloomberg, J.P. Morgan estimates.

2H14 Results Review

Results were in line with our expectations, but below consensus and slightly below SIA; 2015 outlook positive

Cathay's profitability improved 708% h/h and 8% y/y with a net profit of HK\$2.8B vs HK\$347MM in 1H14 and HK\$2.6B net profit achieved in 2H13. The headline results were hurt by HK\$1.9B fuel hedging loss in 2H14, which was already well anticipated by us given Cathay's fuel hedging level. Core results showed improving profitability, mainly driven by continued cost efficiency improvements (unit cost ex-fuel down 2% y/y) as well as higher passenger (+6% y/y) and cargo traffic (+17% y/y). Passenger yields held up well, steady y/y (and up 2% h/h) which offset the lower cargo yields, down 5% y/y (but up 2% h/h). Stay OW – Cathay Pacific is trading at 1.2x P/B, in line with its historical average valuation and provides 80% potential upside to its peak valuation.

2H14 key highlights

- **Top line rose 6% y/y, 8% h/h during this seasonally stronger half:** Revenue rose 6% y/y as passenger revenue rose 6% while cargo revenue rose 11%. Specifically, passenger and cargo traffic rose 6% and 17% y/y, respectively, but this was partially offset by flat growth in passenger yields and a 5% decline in cargo yields. Catering, recoveries and other services revenue fell 18% y/y.
- **2H14 results improved from 1H14, partly due to seasonality:** On a h/h basis, revenue rose 8% in this seasonally stronger period, driven by the 7% and 18% h/h rise in passenger and cargo revenue, respectively. Passenger and cargo traffic rose 5% and 17% h/h, respectively. Passenger and cargo yields also improved 2% h/h. However, catering, recoveries and other services revenue fell 17% h/h.
- **Operating efficiency improved, helped by lower unit costs from Cathay's ongoing fleet renewal programme:** Operating costs rose 6% y/y, h/h, mainly driven by higher fuel costs (+10% y/y, +13% h/h impacted by fuel hedging losses), higher aircraft depreciation and operating lease expenses (+8% y/y and +6% h/h), higher staff costs (+7% y/y and +3% h/h), higher in-flight and passenger expenses (+6% y/y and +5% h/h) and higher landing, parking & route expenses (+6% y/y and +4% h/h). Operating costs ex-fuel rose 4% y/y and 2% h/h. Cathay realized fuel hedging losses of HK\$1,935MM in 2H14 versus fuel hedging gains of HK\$685MM in 2H13 as spot fuel prices fell. 2014 full year fuel hedging losses amounted to HK\$911MM vs fuel hedging gains of HK\$985MM in 2013. Unit cost per ATK fell 1% y/y while unit cost ex-fuel fell 2% y/y in 2H14.
- **Profitability improved:** Operating profit was HK\$2.86B, +5% y/y and +81% h/h in 2H14. Operating profit margin was steady y/y, but rose 2ppts h/h to 5.2%. Notably, share of profits from associates rose 4% y/y to HK\$1,037MM, compared to losses of HK\$265MM in 1H14. For the full year 2014, share of profits from associates fell 8% y/y to HK\$772MM, mainly driven by Air China for the accounting period from Oct 2013 to Sep 2014, at a three-month lag, due to F/X losses with the weaker Rmb (although Air China's results improved as the year progressed). ROE was 5.5% in full year 2014 vs 4.4% in 2013 and 10-year average of 7.7%.

- **Dividend payout ratio rose despite higher financial leverage; book value shrank due to mark-to-market fuel hedging loss on balance sheet:** 2H14 DPS rose 63% y/y and 160% h/h to HK\$0.26, implying a 45% full year dividend payout, higher than Cathay Pacific's historical average payout ratio of c.35%. Net borrowings rose 12% y/y and net debt-equity rose 17ppts h/h to 85%. 55% of borrowings are at fixed rates (down from 63%) after taking into account derivative transactions. Dec-14 BV/shr fell 15% h/h to HK\$13.1, mainly because of unrealized mark-to-market fuel hedging losses of HK\$12,468MM (for the next four years) being charged to the balance sheet should fuel prices remain low throughout.
- **Overall profitability was slightly lower than SIA's on an EBITDAR margin basis:** Full year 2014 net profit margin was 3.0%, EBITDAR margin was 15.0% and ROE was 5.5%. In comparison, SIA's Jan-Dec 2014 net profit margin was 2.3%, EBITDAR margin was 16.6% and ROE was 2.8% (due to SIA's inefficient capital structure) during the same period. Cathay's net debt-equity was 85% while SIA has a large net cash position. Both airlines are trading close to their historical trough valuations.
- **Key positives in full year 2014 results:** **1)** Improved aircraft utilization, +3.4% y/y to 12.2 hours per day. **2)** Passenger and cargo load factors both improved, +1.1ppts y/y to 83.3% and +2.5ppts y/y to 64.3%. India, Middle East, Pakistan and Sri Lanka markets saw the strongest improvement in passenger load factors, rising 5ppts y/y to 80.1%, closely followed by the Southwest Pacific & South Africa markets where loads rose 4ppts y/y to 85.1%. **3)** European routes' passenger yields improved markedly, rising 4.6% y/y in 2014. **4)** Unit cost ex-fuel fell 1.9% y/y and unit cost fell 2.2% y/y, helped by Cathay's ongoing fleet renewal program.
- **Key negatives in full year 2014 results:** **1)** Weaker passenger yields (down 1.8% y/y although this has moderated from a decline of 3.5% y/y in 1H14) which fell across all major route regions except for European flights (+4.6% y/y) due to fare pressure and weaker revenue currencies in some markets, **2)** industry overcapacity in the air cargo market and lower fuel surcharges which resulted in lower cargo yields (down 5.6% although this has moderated from a decline of 7% y/y in 1H14), **3)** higher fuel costs (+6% y/y despite the lower spot fuel prices due to fuel hedging loss), **4)** rise in net finance charges (+14% y/y) and **5)** lower profits from associates (down 8% y/y to HK\$772MM, mainly driven by Air China for the accounting period from Oct 2013 to Sep 2014, at a three-month lag, due to F/X losses with the weaker Rmb although Air China's results improved as the year progressed). **6)** Cathay Pacific's deteriorating on-time performance, down 5ppts y/y to 70.1% is a concern, in our view.
- **Management positive on the operating outlook:** Management commented that *"the improvement has continued in 1Q15 and (they) are positive about the overall prospects for 2015. Demand in Cathay's cargo business continues to improve and is currently being helped by congestion in sea ports on the West Coast of the United States. (Cathay) continues to benefit from the lower net fuel prices. (Cathay)'s associates are also benefiting from these positive factors. While (Cathay) faces growing competition in (its) passenger business, which makes it harder to maintain yield, overall demand remains strong and the outlook is positive"*.

- **Europe demand remained strong while demand in N America failed to meet capacity growth, Japan/Korea/Taiwan demand was strong, mainland China faced strong competition, political unrest and strong competition impacted performance of Southeast Asia, Australia market performance was satisfactory, alliance with Air NZ helped the NZ market:** Passenger demand was reasonably firm, with high demand during the peak summer and Christmas periods. The demand was also strong in all classes of travel on long-haul routes. London flights' travel demand was strong in all classes while demand growth in N American routes failed to match capacity growth. Strong competition on Canada routes affected yields. Mainland China routes' demand was weak due to imposition of travel restrictions in 2013 but there were more individual travelers which led to better yields. Mainland China's premium travel demand was also weak due to restrictions on public spending. Japan (benefitting from weaker yen but increased capacity led to lower yields), Korea (benefitting from the popularity of a Korean TV drama series) and Taiwan (partly helped by political unrest in some SE Asian countries) flights are performing well. Political unrest affected demand on Southeast Asian routes while yields continue to remain under pressure due to low cost carrier competition. Strategic agreement with Air NZ helped the traffic on NZ routes while the Australian market was satisfactory. Demand on South Asia routes remained robust. The weaker South African currency and Ebola outbreak in West Africa dampened travel demand on these routes. Competition has intensified on Middle East routes as more airlines are flying directly between the Middle East and SE Asia.
- **Cargo yields improved in 2H14 on the back of higher shipments to N America partly helped by severe West Coast ports congestion which diverted traffic to air cargo:** Cargo yields remained weak in 1H14 on the back of overcapacity in the industry but improved in 2H14 driven by improved demand for shipments from Hong Kong and Mainland China and strong demand for cargo shipments to N America helped by severe congestion in the major shipping ports on the west coast of the United States, which resulted in more freight needing to be moved by air. Cathay continues to manage capacity in line with demand.
- **Fleet renewal continued:** Cathay took delivery of nine B777-300ERs, five A330-300s and two A321-200 (for Dragonair) and retired six B747-400 passenger aircraft in 2014. Five B747-400F freighters will leave the fleet by 2016. Cathay has also planned the accelerated retirement of 11 A340-300s with 4 of these aircraft to be retired by the end of 2015 (one already retired this month) and the remaining 7 will be retired by the end of 2017.
- **Fleet update:** Cathay Pacific Group (including Dragonair and Air Hong Kong)'s fleet comprises 200 aircraft (up from 192 aircraft in end Dec 2013), including 85 owned, 56 on finance leases and 59 on operating leases as at Dec 2014. The average aircraft utilization rose 3% y/y to 12.2 hours per day which is positive but the on-time performance fell 5ppts y/y to 70.1% in 2014. Cathay is scheduled to take delivery of 9 planes in 2015, 13 in 2016 and 57 from 2017 onwards. 2, 3, 12 aircraft on operating leases will expire in 2015, 2016, 2017 and 42 from 2018 onwards.

Key takeaways from management briefing

- **Operating outlook improving:** The overall travel demand outlook is positive, with unearned transport revenue up 9% y/y as at Dec-14. Cargo business has picked up and is benefitting from some cargo diversion from sea to air due to the US West Coast port congestion. We believe new product launches (e.g. AppleWatch) will help support cargo growth this year. Cathay is well-positioned to benefit from the stronger N American air cargo market and plans to grow its system-wide dedicated freighter capacity (AFTK) by c.9.2% in 2015. Meanwhile, CX's ongoing fleet renewal program will drive unit costs lower (less fuel burn, lower MRO costs, higher aircraft utilisation) as they are c.10-20% more cost efficient than the planes they replace.
- **Well-protected against the rebound in fuel prices; blended average fuel price net of hedging will still be lower y/y from 2015:** Cathay continues to build out its fuel hedging position to manage the volatile fuel price risk. It has hedged c.61% of 2015 fuel consumption at c.US\$95/bbl (Brent crude oil), c.60% at c.US\$85/bbl for 2016, c.50% at c.US\$89/bbl for 2017 and c.37% at c.US\$82/bbl for 2018. Current spot Brent crude oil price is \$53/bbl and ytd average level is \$55/bbl. Cathay has already recognized HK\$12.5B unrealized mark-to-market fuel hedging loss in the cash flow hedge reserve on balance sheet in 2014 should fuel prices remain low throughout 2015-2018. Even with fuel hedging loss realized in 2015, Cathay's blended average fuel price is expected to be lower y/y from 2015 given the lower spot fuel price paid. With improving industry demand-supply balance, it is unlikely that Cathay will pass on all of the fuel cost savings back to customers in our view which should help boost its profitability going forward.
- **Key concern is whether CX can fill its larger capacity expansion this year without a sharp fall in yields:** Cathay plans to grow its passenger capacity (ASK) by 8.4% (vs 5.9% in 2014), partly to leverage on the rising demand as well as a defensive strategy to secure HK Airport's slots as it is expected to reach full capacity in the next 18-24 months.

Stay OW, PT HK\$18.0

We have trimmed our FY15-16E net profit forecasts slightly, mainly to factor in slightly higher fuel prices. Our Dec-15 PT of HK\$20 is based on 1.4x P/B, a 15% premium to Cathay's historical average valuation since 1998 as we expect its earnings outlook to improve (2015E ROE 12% vs historical average of 8%). This is well-supported by our Gordon Growth valuation of 1.5x P/B, assuming 12% ROE, 8% cost of equity and zero long-term growth.

We maintain our Overweight rating on Cathay Pacific. The stock is attractively valued at 1.19x P/B, in line with its historical average valuation and providing 95% upside to peak valuation. We believe Cathay's improving profitability will drive its re-rating.

Key positive drivers:

- 1) Premium traffic, which drives c.45% of Cathay's passenger revenue, versus c.25% sector average, is improving.
- 2) Cathay has one of the highest exposures among the Asian airlines to long-haul routes where travel demand is recovering. N America/Europe flights drive 28%/17% of its passenger traffic.
- 3) Air cargo market (which drives 24% of Cathay's total revenue) has finally bottomed out and will gradually recover.
- 4) Airline sector demand-supply growth balance is expected to improve from 2015 as new aircraft deliveries moderate which will alleviate fare pressure.
- 5) Increased profit contribution from 20.13%-owned Air China from 2015.
- 6) HK airport's rising congestion and limited slot availability provides barriers to entry during peak hours.
- 7) Delay in the launch of low cost carrier Jetstar Hong Kong.

We remain concerned about increased competition risks from low cost carriers in the North Asian markets longer term which may cap Cathay Pacific's valuations in a cyclical recovery, like what happened to Singapore Airlines in 2004-06.

Our top picks among the Asian airlines are Air China, Cathay Pacific and ANA Holdings (covered by Dan Lu). Our top pick among the low cost carriers is Tigerair.

Key downside risks: 1) spike in jet fuel prices due to geopolitical issues, 2) Air China's earnings disappoint, 3) intensive competition from Middle Eastern carriers, budget airlines, and 4) substantial capex and a potential rise in funding costs.

Table 1: Cathay Pacific: 2H14 & 2014 Results At A Glance

HK\$m	2H14	2H13	Y/Y Chg	1H14	H/H Chg	2014	2013	Y/Y Chg
Passenger	39,214	36,848	6%	36,520	7%	75,734	71,826	5%
Cargo	13,737	12,385	11%	11,663	18%	25,400	23,663	7%
Catering, recoveries and other services	2,200	2,667	-18%	2,657	-17%	4,857	4,995	-3%
Total revenue	55,151	51,900	6%	50,840	8%	105,991	100,484	5%
Staff	9,202	8,595	7%	8,899	3%	18,101	17,027	6%
Inflight service and passenger expenses	2,276	2,152	6%	2,162	5%	4,438	4,138	7%
Landing, parking and route expenses	7,252	6,863	6%	6,944	4%	14,196	13,531	5%
Fuel	21,369	19,458	10%	18,930	13%	40,299	38,132	6%
Aircraft maintenance	3,413	3,681	-7%	3,664	-7%	7,077	7,542	-6%
Aircraft depreciation and operating leases	5,362	4,972	8%	5,049	6%	10,411	9,537	9%
Other depreciation and operating leases	1,077	1,037	4%	1,039	4%	2,116	1,926	10%
Commissions	398	389	2%	401	-1%	799	775	3%
Others	1,943	2,028	-4%	2,176	-11%	4,119	4,116	0%
Total operating costs	52,292	49,175	6%	49,264	6%	101,556	96,724	5%
<i>Operating costs ex-fuel</i>	<i>30,923</i>	<i>29,717</i>	<i>4%</i>	<i>30,334</i>	<i>2%</i>	<i>61,257</i>	<i>58,592</i>	<i>5%</i>
Operating profit (loss)	2,859	2,725	5%	1,576	81%	4,435	3,760	18%
Operating profit margin	5.2%	5.3%	-0.1ppt	3.1%	2.1ppt	4.2%	3.7%	0.4ppt
EBITDAR	9,298	8,734	6%	7,664	21%	16,962	15,223	11%
EBITDAR margin	16.9%	16.8%	0.0ppt	15.1%	1.8ppt	16.0%	15.1%	0.9ppt
Finance charges	(564)	(712)	-21%	(896)	-37%	(1,460)	(1,370)	7%
Finance income	27	235	-89%	275	-90%	302	351	-14%
Share of profits of associates	1,037	993	4%	(265)	nm	772	838	-8%
Profit (loss) before tax	3,359	3,241	4%	690	387%	4,049	3,579	13%
Taxation	(403)	(502)	-20%	(196)	106%	(599)	(675)	-11%
Effective tax rate	-12.0%	-15.5%	3.5ppt	-28.4%	16.4ppt	-14.8%	-18.9%	4.1ppt
Minority interests	153	143	7%	147	4%	300	284	6%
Net profit (loss)	2,803	2,596	8%	347	708%	3,150	2,620	20%
Net profit (loss) margin	5.1%	5.0%	0.1ppt	0.7%	4.4ppt	3.0%	2.6%	0.4ppt
DPS (cents)	26.0	16.0	63%	10.0	160%	36.0	22.0	64%
Basic EPS (cents)	71.3	66.0	8%	8.8	710%	80.1	66.6	20%
Diluted EPS (cents)	71.3	66.0	8%	8.8	710%	80.1	66.6	20%

Source: Company reports.

Table 2: Cathay Pacific and Singapore Airlines: Jul-Dec 2014 Results Comparison

HK\$m	Cathay Pacific					SIA (translated to HK\$)				
	Jul-Dec 2014	Jul-Dec 2013	Y/Y Chg	Jan-Jun 2014	H/H Chg	Jul-Dec 2014	Jul-Dec 2013	Y/Y Chg	Jan-Jun 2014	H/H Chg
Passenger	39,214	36,848	6%	36,520	7%	33,095	33,546	-1%	31,193	6%
Cargo	13,737	12,385	11%	11,663	18%	6,477	6,613	-2%	6,226	4%
Other	2,200	2,667	-18%	2,657	-17%	9,164	7,739	18%	7,561	21%
Total revenue	55,151	51,900	6%	50,840	8%	48,736	47,898	2%	44,979	8%
Staff costs	9,202	8,595	7%	8,899	3%	7,101	7,203	-1%	7,107	0%
Fuel costs	21,369	19,458	10%	18,930	13%	17,792	17,726	0%	16,960	5%
Depreciation	4,274	3,811	12%	4,065	5%	4,619	5,032	-8%	4,727	-2%
Maintenance	3,413	3,681	-7%	3,664	-7%	1,942	1,944	0%	1,971	-1%
Commissions	398	389	2%	401	-1%	1,211	1,104	10%	1,004	21%
Landing & parking	7,252	6,863	6%	6,944	4%	2,288	2,226	3%	2,216	3%
Handling	-	-	-	-	-	3,255	3,271	0%	3,167	3%
Aircraft lease rentals	1,658	1,668	-1%	1,509	10%	2,487	2,005	24%	2,173	14%
Materials	-	-	-	-	-	507	659	-23%	685	-26%
Inflight meals	2,276	2,152	6%	2,162	5%	1,709	1,711	0%	1,688	1%
Advertising & sales	-	-	-	-	-	790	744	6%	787	0%
Other costs	2,450	2,558	-4%	2,690	-9%	3,341	2,810	19%	2,622	27%
Total operating costs	52,292	49,175	6%	49,264	6%	47,043	46,433	1%	45,107	4%
<i>Operating costs ex-fuel</i>	30,923	29,717	4%	30,334	2%	29,252	28,707	2%	28,147	4%
EBIT	2,859	2,725	5%	1,576	81%	1,693	1,466	16%	(128)	nm
EBIT margin	5.2%	5.3%	-0.1ppt	3.1%	2.1ppt	3.5%	3.1%	0.4ppt	-0.3%	3.8ppt
EBITDAR	8,791	8,204	7%	7,150	23%	8,798	8,502	3%	6,772	30%
EBITDAR margin	15.9%	15.8%	0.1ppt	14.1%	1.9ppt	18.1%	17.7%	0.3ppt	15.1%	3.0ppt
Net interest income (expense)	(537)	(477)	13%	(621)	-14%	79	75	5%	70	13%
Associates/JVs	1,037	993	4%	(265)	nm	(384)	254	nm	(88)	337%
Gains from disposal	-	-	-	-	-	253	136	86%	153	65%
Other	-	-	-	-	-	64	82	-22%	71	-10%
Profit before tax & exceptionals	3,359	3,241	4%	690	387%	1,705	2,013	-15%	79	2065%
Exceptional items	-	-	-	-	-	279	(471)	nm	124	126%
Profit before tax	3,359	3,241	4%	690	387%	1,984	1,541	29%	202	880%
Taxation	(403)	(502)	-20%	(196)	106%	(62)	(46)	33%	362	nm
Effective tax rate	-12.0%	-15.5%	3.5ppt	-28.4%	16.4ppt	-3.1%	-3.0%	-0.1ppt	179.0%	-182.1ppt
Minority interests	(153)	(143)	7%	(147)	4%	(135)	(197)	-31%	(185)	-27%
Net profit	2,803	2,596	8%	347	708%	1,787	1,298	38%	380	370%
Net profit margin	5.1%	5.0%	0.1ppt	0.7%	4.4ppt	3.7%	2.7%	1.0ppt	0.8%	2.8ppt

Source: Company reports.

Table 3: Cathay Pacific and Singapore Airlines: Jan-Dec 2014 Results Comparison

HK\$m	Cathay Pacific			SIA (translated to HK\$)		
	Jan-Dec 2014	Jan-Dec 2013	Y/Y Chg	Jan-Dec 2014	Jan-Dec 2013	Y/Y Chg
Passenger	75,734	71,826	5%	64,288	65,839	-2%
Cargo	25,400	23,663	7%	12,702	13,190	-4%
Other	4,857	4,995	-3%	16,725	15,727	6%
Total revenue	105,991	100,484	5%	93,716	94,756	-1%
Staff costs	18,101	17,027	6%	14,208	14,657	-3%
Fuel costs	40,299	38,132	6%	34,752	35,714	-3%
Depreciation	8,339	7,352	13%	9,346	10,211	-8%
Maintenance	7,077	7,542	-6%	3,913	3,868	1%
Commissions	799	775	3%	2,215	2,181	2%
Landing & parking	14,196	13,531	5%	4,505	4,379	3%
Handling	-	-	-	6,423	6,362	1%
Aircraft lease rentals	3,167	3,139	1%	4,660	3,802	23%
Materials	-	-	-	1,192	1,332	-11%
Inflight meals	4,438	4,138	7%	3,397	3,407	0%
Advertising & sales	-	-	-	1,577	1,480	7%
Other costs	5,140	5,088	1%	5,963	5,664	5%
Total operating costs	101,556	96,724	5%	92,151	93,057	-1%
<i>Operating costs ex-fuel</i>	61,257	58,592	5%	57,399	57,342	0%
EBIT	4,435	3,760	18%	1,565	1,700	-8%
EBIT margin	4.2%	3.7%	0.4ppt	1.7%	1.8%	-0.1ppt
EBITDAR	15,941	14,251	12%	15,571	15,713	-1%
EBITDAR margin	15.0%	14.2%	0.9ppt	16.6%	16.6%	0.0ppt
Net interest income (expense)	(1,158)	(1,019)	14%	149	141	6%
Associates/JVs	772	838	-8%	(472)	689	nm
Gains from disposal	-	-	-	407	564	-28%
Other	-	-	-	135	137	-1%
Profit before tax & exceptionals	4,049	3,579	13%	1,784	3,232	-45%
Exceptional items	-	-	-	403	(356)	nm
Profit before tax	4,049	3,579	13%	2,186	2,875	-24%
Taxation	(599)	(675)	-11%	301	11	2739%
Effective tax rate	-14.8%	-18.9%	4.1ppt	13.8%	0.4%	13.4ppt
Minority interests	(300)	(284)	6%	(320)	(401)	-20%
Net profit	3,150	2,620	20%	2,167	2,485	-13%
Net profit margin	3.0%	2.6%	0.4ppt	2.3%	2.6%	-0.3ppt

Source: Company reports.

Table 4: Cathay Pacific: 2H14 & 2014 Operating Statistics Summary

	2H14	2H13	Y/Y Chg	1H14	H/H Chg	2014	2013	Y/Y Chg
Traffic								
Passenger (RPK)	57,478	54,012	6%	54,736	5%	112,214	104,570	7%
Cargo (FTK)	5,425	4,627	17%	4,625	17%	10,050	8,750	15%
Capacity								
Passenger (ASK)	69,237	65,028	6%	65,474	6%	134,711	127,215	6%
Cargo (AFTK)	8,312	7,555	10%	7,318	14%	15,630	14,162	10%
Overall (ATK)	14,895	13,739	8%	13,545	10%	28,440	26,259	8%
Load factor								
Passenger (%)	83.0%	83.1%	0.0ppt	83.6%	-0.6ppt	83.3%	82.2%	1.1ppt
Cargo (%)	65.3%	61.2%	4.0ppt	63.2%	2.1ppt	64.3%	61.8%	2.5ppt
Yields								
Passenger (HK\$/RPK)	0.68	0.68	0%	0.67	2%	0.67	0.69	-2%
Cargo (HK\$/FTK)	2.21	2.31	-5%	2.17	2%	2.19	2.32	-6%
Costs								
Unit cost (HK\$/ATK)	3.44	3.48	-1%	3.57	-4%	3.50	3.58	-2%
Unit cost ex-fuel (HK\$/ATK)	2.05	2.10	-2%	2.20	-7%	2.12	2.16	-2%
Breakeven overall load factor	73.3%	71.6%	1.7ppt	75.4%	-2.2ppt	74.3%	72.8%	1.6ppt
Actual vs Breakeven load factor	-0.2ppt	-0.6ppt	0.3ppt	-2.9ppt	2.7ppt	-1.5ppt	-1.6ppt	0.1ppt

Source: Company reports.

Table 5: Cathay Pacific & Singapore Airlines: Jul-Dec 2014 Operating Statistics Comparison

	Cathay Pacific					SIA				
	Jul-Dec 2014	Jul-Dec 2013	Y/Y Chg	Jan-Jun 2014	H/H Chg	Jul-Dec 2014	Jul-Dec 2013	Y/Y Chg	Jan-Jun 2014	H/H Chg
Traffic										
Passenger (RPKm)	57,478	54,012	6%	54,736	5%	48,566	49,068	-1%	46,098	5%
Cargo (FTKm)	5,425	4,627	17%	4,625	17%	3,208	3,278	-2%	3,085	4%
Overall (RTKm)	10,886	9,758	12%	9,825	11%	7,938	8,087	-2%	7,620	4%
Capacity										
Passenger (ASKm)	69,237	65,028	6%	65,474	6%	60,647	61,138	-1%	59,619	2%
Cargo (AFTKm)	8,312	7,555	10%	7,318	14%	5,051	5,245	-4%	4,939	2%
Overall (ATKm)	14,895	13,739	8%	13,545	10%	11,411	11,654	-2%	11,163	2%
Load factor										
Passenger (%)	83.0%	83.1%	0.0ppt	83.6%	-0.6ppt	80.1%	80.3%	-0.2ppt	77.3%	2.8ppt
Cargo (%)	65.3%	61.2%	4.0ppt	63.2%	2.1ppt	63.5%	62.5%	1.0ppt	62.5%	1.1ppt
Overall (%)	73.1%	71.0%	2.1ppt	72.5%	0.5ppt	69.6%	69.4%	0.2ppt	68.3%	1.3ppt
Yields										
Passenger (HK\$/RPK)	0.68	0.68	0%	0.67	2%	0.68	0.68	0%	0.68	1%
Cargo (HK\$/FTK)	2.21	2.31	-5%	2.17	2%	2.02	2.02	0%	2.02	0%
Overall (HK\$/RTK)	4.69	4.86	-4%	4.73	-1%	6.14	5.92	4%	5.90	4%
Unit Costs										
Passenger (HK\$/ASK)	-	-	-	-	-	0.55	0.55	-1%	0.55	0%
Cargo (HK\$/AFTK)	-	-	-	-	-	1.30	1.32	-2%	1.34	-3%
Overall (HK\$/ATK)	3.44	3.48	-1%	3.57	-4%	4.12	3.98	3%	4.04	2%
Breakeven load factors										
Passenger (%)	-	-	-	-	-	80.9%	81.1%	-0.2ppt	81.3%	-0.5ppt
Cargo (%)	-	-	-	-	-	64.5%	65.6%	-1.1ppt	66.3%	-1.8ppt
Overall (%)	73.3%	71.6%	1.7ppt	75.4%	-2.2ppt	67.1%	67.3%	-0.1ppt	68.5%	-1.3ppt
Actual vs Breakeven load factor spread										
Passenger	-	-	-	-	-	-0.8ppt	-0.8ppt	0.1ppt	-4.0ppt	3.2ppt
Cargo	-	-	-	-	-	-1.0ppt	-3.1ppt	2.1ppt	-3.8ppt	2.8ppt
Overall	-0.2ppt	-0.6ppt	0.3ppt	-2.9ppt	2.7ppt	2.4ppt	2.1ppt	0.3ppt	-0.2ppt	2.6ppt

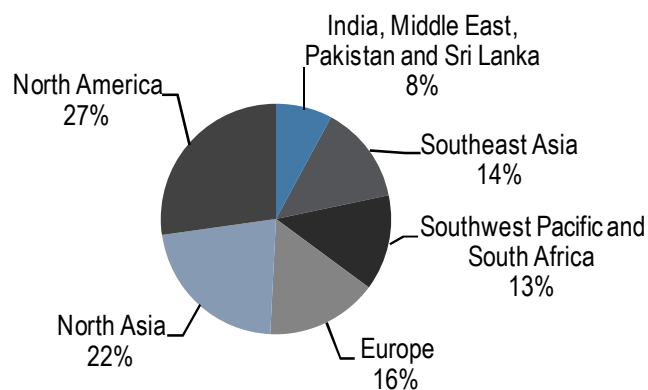
Source: Company reports.

Table 6: Cathay Pacific & Singapore Airlines: Jan-Dec 2014 Operating Statistics Comparison

	Cathay Pacific			SIA		
	Jan-Dec 2014	Jan-Dec 2013	Y/Y Chg	Jan-Dec 2014	Jan-Dec 2013	Y/Y Chg
Traffic						
Passenger (RPKm)	112,214	104,570	7%	94,664	95,470	-1%
Cargo (FTKm)	10,050	8,750	15%	6,293	6,485	-3%
Overall (RTKm)	20,710	18,684	11%	15,558	15,903	-2%
Capacity						
Passenger (ASKm)	134,711	127,215	6%	120,266	120,408	0%
Cargo (AFTKm)	15,630	14,162	10%	9,989	10,332	-3%
Overall (ATKm)	28,440	26,259	8%	22,574	22,952	-2%
Load factor						
Passenger (%)	83.3%	82.2%	1.1ppt	78.7%	79.3%	-0.6ppt
Cargo (%)	64.3%	61.8%	2.5ppt	63.0%	62.8%	0.2ppt
Overall (%)	72.8%	71.2%	1.7ppt	68.9%	69.3%	-0.4ppt
Yields						
Passenger (HK\$/RPK)	0.67	0.69	-2%	0.68	0.69	-2%
Cargo (HK\$/FTK)	2.19	2.32	-6%	2.02	2.03	-1%
Overall (HK\$/RTK)	4.71	4.92	-4%	6.02	5.96	1%
Unit Costs						
Passenger (HK\$/ASK)	-	-	-	0.55	0.57	-3%
Cargo (HK\$/AFTK)	-	-	-	1.32	1.37	-4%
Overall (HK\$/ATK)	3.50	3.58	-2%	4.08	4.05	1%
Breakeven load factors						
Passenger (%)	-	-	-	81.1%	82.0%	-0.9ppt
Cargo (%)	-	-	-	65.4%	67.3%	-1.9ppt
Overall (%)	74.3%	72.8%	1.6ppt	67.8%	68.0%	-0.3ppt
Actual vs Breakeven load factor spread						
Passenger	-	-	-	-2.4ppt	-2.7ppt	0.4ppt
Cargo	-	-	-	-2.4ppt	-4.6ppt	2.2ppt
Overall	-1.5ppt	-1.6ppt	0.1ppt	1.2ppt	1.2ppt	-0.1ppt

Source: Company reports.

Figure 1: 2014 Passenger Capacity Breakdown By Route Region



Source: Company reports.

Table 7: Revenue Breakdown by Geography

Based on Origin of Sale	2014 (HK\$m)	Y/Y Chg	% Contribution
North Asia	62,458	5.1%	59%
Hong Kong and Mainland China	51,526	6.7%	49%
Japan, Korea and Taiwan	10,932	-1.9%	10%
India, Middle East, Pakistan and Sri Lanka	4,686	-1.9%	4%
Southeast Asia	8,486	6.5%	8%
Southwest Pacific and South Africa	7,043	9.1%	7%
Europe	9,096	3.5%	9%
North America	14,222	8.9%	13%
Total	105,991	5.5%	100%

Source: Company reports.

Table 8: Cathay Pacific & Dragonair Operating Data Breakdown By Region

	Capacity (ASK/ATK* in mn)			Load Factor			Yield
	2014	2013	Y/Y Chg	2014	2013	Y/Y Chg	Y/Y Chg
Passenger Services							
India, Middle East, Pakistan and Sri Lanka	10,685	10,697	-0.1%	80.1%	75.5%	4.6ppt	-1.7%
Southeast Asia	18,625	18,246	2.1%	81.3%	80.3%	1.0ppt	-1.9%
Southwest Pacific and South Africa	18,032	17,490	3.1%	85.1%	80.7%	4.4ppt	-1.7%
Europe	21,056	21,536	-2.2%	88.0%	87.3%	0.7ppt	4.6%
North Asia	29,649	28,450	4.2%	77.9%	75.8%	2.1ppt	-3.0%
North America	36,664	30,796	19.1%	86.1%	88.8%	-2.7ppt	-3.9%
Overall	134,711	127,215	5.9%	83.3%	82.2%	1.1ppt	-1.8%
Cargo Services	15,630	14,162	10.4%	64.3%	61.8%	2.5ppt	-5.6%

Source: Company reports. *Capacity is measured in Available Seat Kilometers (ASK) for passenger services and Available Tonne Kilometers (ATK) for cargo services.

Table 9: Cathay Pacific Fleet Profile

End of Dec, 2014

	Owned	Leased		Total
		Finance	Operating	
Cathay Pacific				
A330-300	19	15	6	40
A340-300	8	3	-	11
747-400	6	-	1	7
747-400F	5	-	-	5
747-400BCF	-	-	1	1
747-400ERF	-	6	-	6
747-8F	2	11	-	13
777-200	5	-	-	5
777-300	8	4	-	12
777-300ER	13	11	23	47
Total	66	50	31	147
Dragonair				
A320-200	5	-	10	15
A321-200	2	-	6	8
A330-300	10	-	8	18
Total	17	-	24	41
Air Hong Kong				
A300-600F	2	6	1	9
747-400BCF	-	-	3	3
Total	2	6	4	12
Grand Total	85	56	59	200

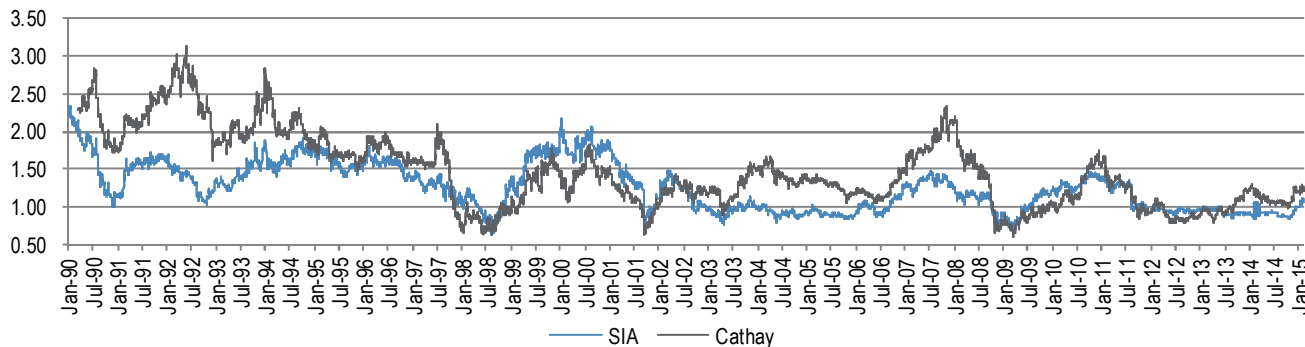
Source: Company reports and J.P. Morgan.

Table 10: Cathay Pacific: 2015-17E Earnings Estimates Revision

	Old			New			% chg		
	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
Net profit (HK\$m)	6,634	8,285	-	6,258	7,779	8,518	-5.7%	-6.1%	-
EPS (HK\$)	1.69	2.11	-	1.59	1.98	2.17	-5.7%	-6.1%	-

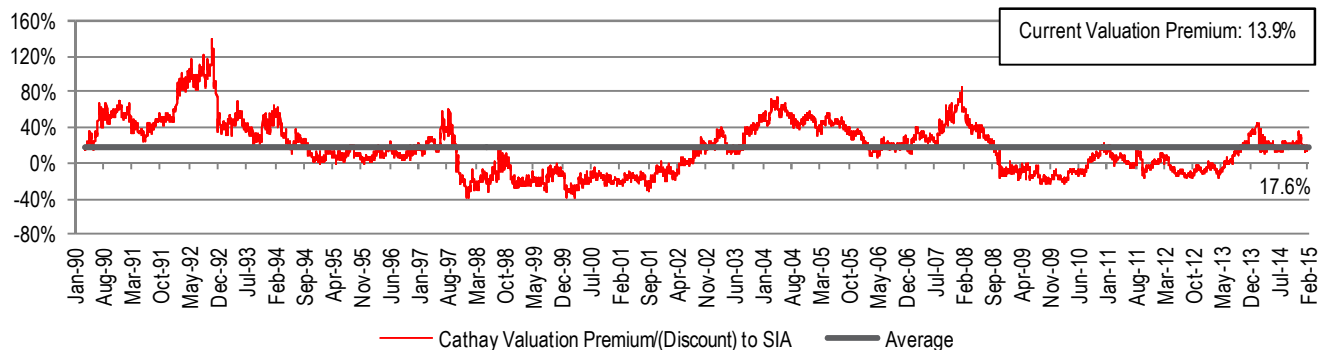
Source: J.P. Morgan estimates.

Figure 2: Cathay vs SIA PB Valuation Comparison



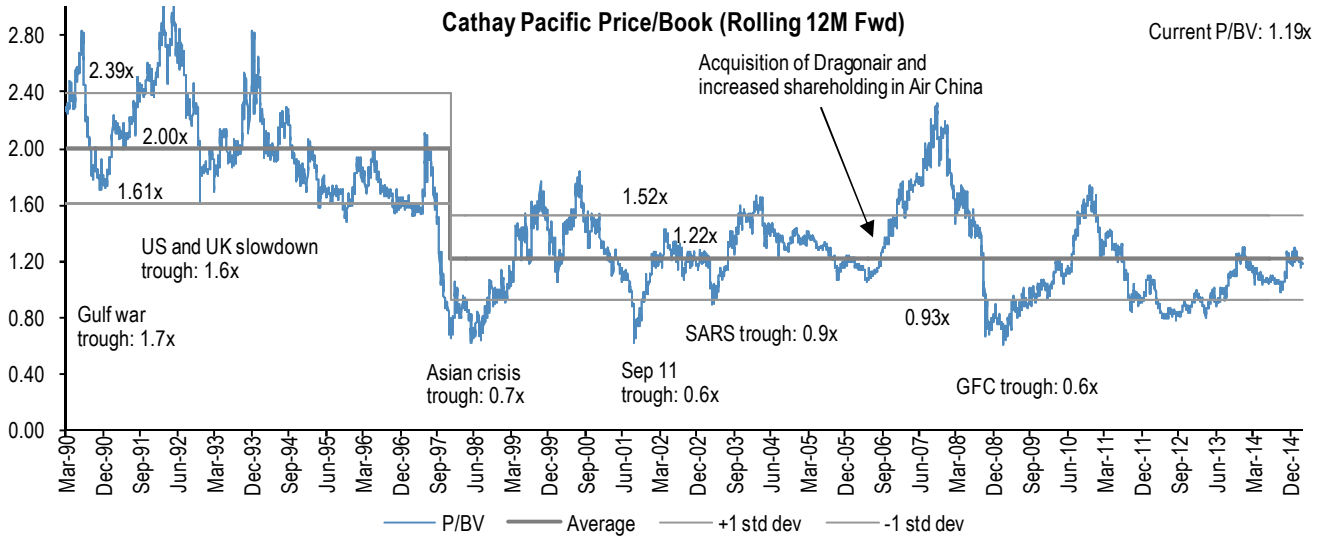
Source: Bloomberg, Company reports, J.P. Morgan estimates.

Figure 3: Cathay P/B Valuation Premium/(Discount) to SIA



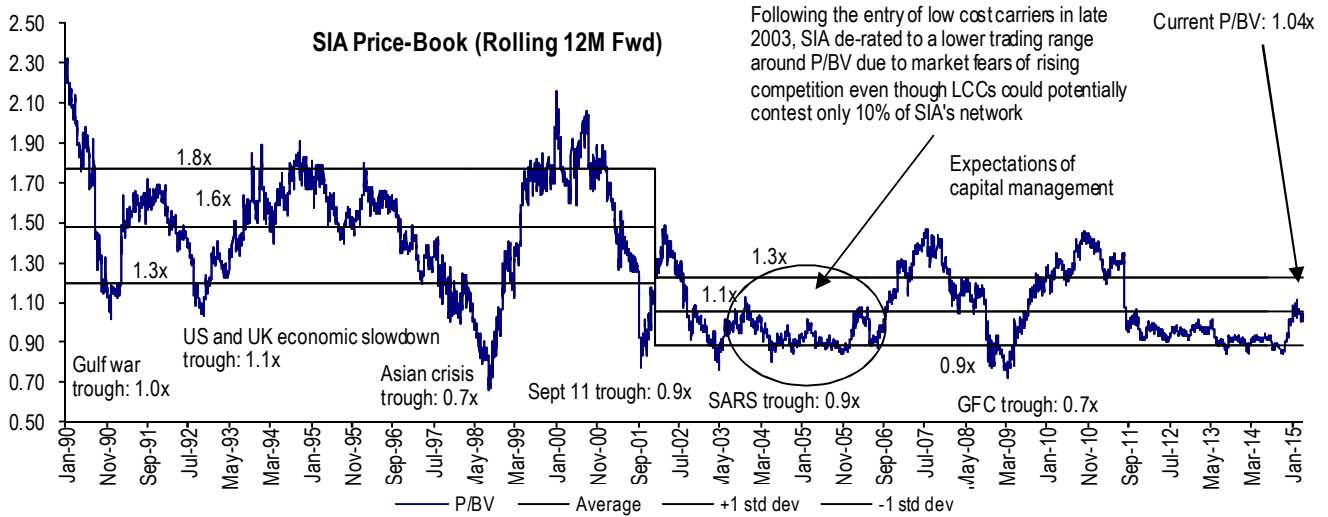
Source: Bloomberg, Company reports, J.P. Morgan estimates.

Figure 4: Cathay Pacific: P/BV Trading Range Since 1990



Source: Bloomberg, Company reports, J.P. Morgan estimates.

Figure 5: SIA: P/BV Trading Range Since 1990



Source: Company data, Bloomberg, JPMorgan estimates.

Table 11: Asia Pacific Airlines Calendarized Valuation Comparison

	Ticker	Price 18-Mar-15	P/E (x)		P/BV (x)		EV/EBITDAR (x)	
			2015E	2016E	2015E	2016E	2015E	2016E
Air Arabia	AIRARABI UH	1.49	10.3	9.6	1.2	1.2	8.7	8.0
AirAsia*	AIRA MK	2.26	7.8	6.8	1.3	1.1	8.3	7.7
AirAsia X	AAX MK	0.49	nm	16.7	1.3	1.1	8.7	8.1
Air China – H*	753 HK	6.94	11.4	9.6	1.2	1.1	9.3	8.5
Air New Zealand	AIR NZ	2.80	7.2	8.0	1.4	1.3	4.1	4.1
All Nippon Airways*	9202 JP	338.00	19.2	15.6	1.4	1.4	4.3	3.9
Asia Aviation	AAV TB	5.40	14.4	12.7	1.2	1.1	7.3	6.7
Asiana	020560 KS	8900	8.6	9.2	1.6	1.4	7.0	6.9
Bangkok Airways	BA TB	20	20.1	14.7	1.5	1.4	10.5	8.4
CAL*	2610 TT	16.10	17.5	18.9	1.6	1.4	6.7	6.2
Cathay*	293 HK	16.94	10.6	8.6	1.2	1.1	6.2	5.3
Cebu Air*	CEB PM	86.00	12.2	10.7	1.8	1.6	7.6	7.0
China East – H*	670 HK	4.09	10.3	9.1	1.2	1.0	9.3	8.6
China Sthn – H*	1055 HK	4.62	10.6	9.3	1.0	0.9	8.8	8.1
EVA*	2618 TT	22.70	22.5	24.4	1.7	1.6	5.2	4.9
Garuda Indonesia	GIAA IJ	515.00	9.8	5.6	0.9	0.8	6.4	6.0
Hainan Airlines	600221 CH	4.33	NA	NA	NA	NA	NA	NA
Japan Airlines*	9201 JP	4000.00	8.9	8.5	1.6	1.4	3.5	3.0
Jet*	JETIN IN	499.70	35.7	6.4	nm	nm	11.5	9.2
Korean Air*	003490 KS	47400	13.6	9.6	1.2	1.1	6.1	5.8
Qantas*	QAN AU	3.05	6.8	6.2	1.7	1.4	3.2	3.2
Shandong Airlines	200152 CH	13.48	NA	NA	NA	NA	NA	NA
SIA*	SIA SP	12.04	18.2	10.1	1.0	1.0	4.4	3.6
Spice Jet	SJET IN	22.75	nm	nm	nm	nm	11.3	11.2
THAI	THAI TB	11.60	nm	9.1	0.6	0.6	8.3	7.1
Tigerair*	TGR SP	0.33	nm	16.3	4.6	3.6	16.3	7.7
Virgin Australia*	VAH AU	0.52	16.1	12.9	1.5	1.4	6.1	5.4
Sector Average			13.9	11.2	1.5	1.3	7.6	6.6
Asia Pacific incumbent airlines			15.0	11.2	1.3	1.2	6.7	6.0
Asia Pacific LCCs			11.2	12.1	1.9	1.6	9.7	8.1
Global LCCs			12.3	13.3	3.2	2.5	8.5	7.4

Source: Bloomberg, J.P. Morgan estimates. Sector average includes consensus estimates for non-covered stocks. nm: not meaningful. *Companies covered by J.P. Morgan. FY2016 and FY2017 March year end for All Nippon, Japan Airlines, Jet, SIA, SpiceJet and Tigerair and June year end for Air New Zealand, Qantas and Virgin Australia.

Investment Thesis, Valuation and Risks

Cathay Pacific (*Overweight; Price Target: HK\$20.00*)

Investment Thesis

We believe Cathay's improving profitability will drive its re-rating. Key positive drivers: 1) Premium traffic, which drives c.45% of Cathay's passenger revenue vs the c.25% sector average, is improving; 2) Cathay has one of the highest exposures among Asian airlines to long-haul routes, where travel demand is recovering. N America/ Europe flights drive 28%/17% of its passenger traffic; 3) the air cargo market (which drives 24% of Cathay's total revenue) has finally bottomed out and should gradually recover, in our view; 4) the airline sector's demand-supply growth balance is expected to improve from 2015 as new aircraft deliveries moderate, which should alleviate fare pressure; 5) increased profit contribution from 20.13%-owned Air China from 2015; 6) HK Airport's rising congestion and limited slot availability provide barriers to entry during peak hours; and 7) the delay in the launch of low-cost carrier Jetstar Hong Kong.

We remain concerned about increased competition risks from low-cost carriers in the North Asian markets longer term, which may cap Cathay Pacific's valuations in a cyclical recovery, similar to what happened to Singapore Airlines in 2004-06.

Valuation

Our Dec-15 PT of HK\$20 is based on 1.4x P/B, a 15% premium to Cathay's historical average valuation since 1998 as we expect its earnings outlook to improve (2015E ROE 12% vs historical average of 8%). This is well-supported by our Gordon Growth valuation of 1.5x P/B, assuming 12% ROE, 8% cost of equity and zero long-term growth.

Risks to Rating and Price Target

Key downside risks to our rating and price target include: 1) a spike in jet fuel prices due to geopolitical issues; 2) Air China's earnings disappoint; 3) intensive competition from Middle Eastern carriers and budget airlines; and 4) substantial capex and a potential rise in funding costs.

Cathay Pacific: Summary of Financials

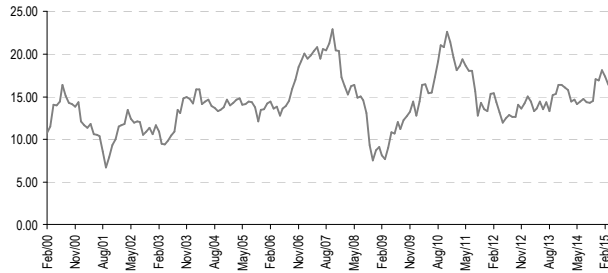
Income Statement						Cash flow statement					
HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Revenues	100,484	105,991	107,150	113,528	120,286	EBIT	3,760	4,435	8,324	10,225	11,051
% change Y/Y	1.1%	5.5%	1.1%	6.0%	6.0%	Depr. & amortization	7,562	8,662	9,361	10,392	11,424
EBITDA	11,322	13,097	17,685	20,617	22,474	Change in working capital	3,723	5,418	(244)	1,409	1,493
% change Y/Y	33.6%	15.7%	35.0%	16.6%	9.0%	Taxes	-	-	-	-	-
EBIT	3,760	4,435	8,324	10,225	11,051	Cash flow from operations	12,676	16,758	14,961	19,112	20,820
% change Y/Y	133.1%	18.0%	87.7%	22.8%	8.1%	Capex	(20,534)	(20,000)	(20,000)	(20,000)	(20,000)
EBIT Margin	3.7%	4.2%	7.8%	9.0%	9.2%	Disposal/(purchase)	2,030	0	0	0	0
Net Interest	(1,019)	(1,158)	(1,265)	(1,404)	(1,493)	Net Interest	(1,019)	(1,158)	(1,265)	(1,404)	(1,493)
Earnings before tax	3,579	4,049	8,212	10,208	11,177	Other	(3,366)	0	0	0	0
% change Y/Y	141.3%	13.1%	102.8%	24.3%	9.5%	Free cash flow	(9,194)	(3,242)	(5,039)	(888)	820
Tax	(675)	(599)	(1,215)	(1,510)	(1,653)	Equity raised/(repaid)	-	-	-	-	-
as % of EBT	18.9%	14.8%	14.8%	14.8%	14.8%	Debt raised/(repaid)	7,506	(1,956)	8,000	5,000	4,000
Net income (reported)	2,620	3,150	6,258	7,779	8,518	Other	5,520	(24)	0	0	0
% change Y/Y	203.9%	20.2%	98.7%	24.3%	9.5%	Dividends paid	(278)	(1,416)	(2,814)	(3,497)	(3,829)
Shares outstanding	3,934	3,934	3,934	3,934	3,934	Beginning cash	24,182	27,736	21,098	21,245	21,860
EPS (reported)	0.67	0.80	1.59	1.98	2.17	Ending cash	27,736	21,098	21,245	21,860	22,851
% change Y/Y	203.9%	20.2%	98.7%	24.3%	9.5%	DPS	0.22	0.36	0.72	0.89	0.97
Balance sheet						Ratio Analysis					
HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	27,736	21,098	21,245	21,860	22,851	EBITDA margin	11.3%	12.4%	16.5%	18.2%	18.7%
Accounts receivable	9,938	10,780	10,898	11,547	12,234	Operating margin	3.7%	4.2%	7.8%	9.0%	9.2%
Inventories	1,511	1,589	1,606	1,702	1,803	Net margin	2.6%	3.0%	5.8%	6.9%	7.1%
Others	-	-	-	-	-	Sales per share growth	1.1%	5.5%	1.1%	6.0%	6.0%
Current assets	39,185	33,467	33,749	35,109	36,888	Sales growth	1.1%	5.5%	1.1%	6.0%	6.0%
LT investments	-	-	-	-	-	Net profit growth	203.9%	20.2%	98.7%	24.3%	9.5%
Net fixed assets	94,935	98,471	109,341	119,179	127,986	EPS growth	203.9%	20.2%	98.7%	24.3%	9.5%
Total Assets	171,575	171,974	184,049	196,402	208,377	Interest coverage (x)	11.1	11.3	14.0	14.7	15.0
Liabilities	-	-	-	-	-	Net debt to equity	62.5%	85.1%	94.0%	94.6%	92.4%
Short-term loans	10,218	9,781	9,781	9,781	9,781	Sales/assets	0.6	0.6	0.6	0.6	0.6
Payables	18,206	23,543	23,300	24,717	26,218	Assets/equity	274.5%	299.8%	333.1%	331.9%	327.5%
Others	12,353	12,437	12,571	13,307	14,087	ROE	4.4%	5.5%	11.7%	13.6%	13.8%
Total current liabilities	40,777	45,761	45,652	47,805	50,087	ROCE	2.5%	3.1%	5.8%	6.6%	6.6%
Long-term debt	56,834	55,315	63,315	68,315	72,315						
Other liabilities	10,951	19,045	19,045	19,045	19,045						
Total Liabilities	108,562	120,121	128,012	135,165	141,447						
Shareholder's equity	63,013	51,853	56,036	61,237	66,931						
BVPS (HK\$)	15.99	13.15	14.02	15.11	16.30						

Source: Company reports and J.P. Morgan estimates.

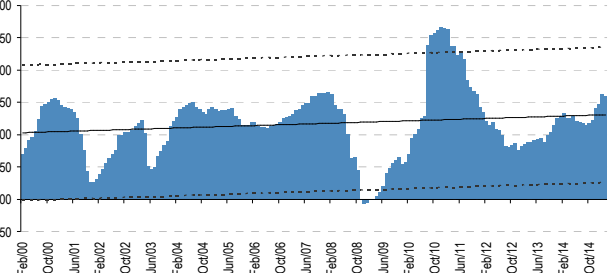
JPM Q-Profile
Cathay Pacific Airways Limited (HONG KONG / Industrials)
 As Of: 13-Mar-2015



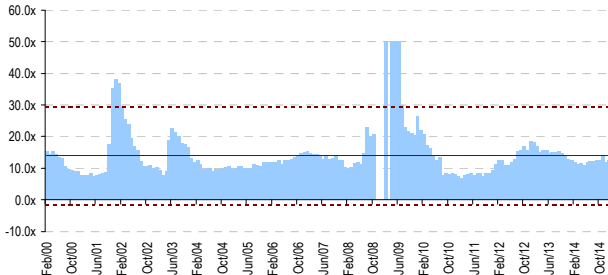
Local Share Price **Current: 16.38**



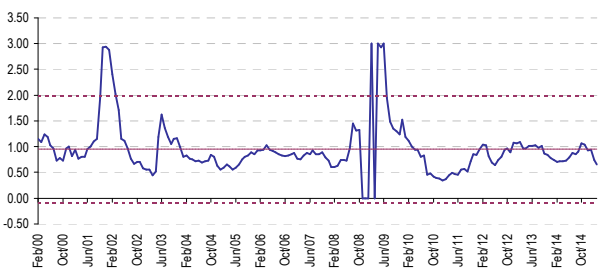
12 Mth Forward EPS **Current: 1.60**



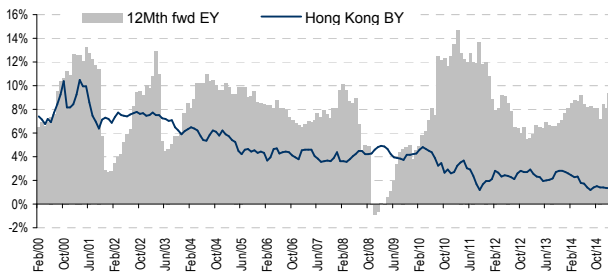
PE (1Yr Forward) **Current: 10.2x**



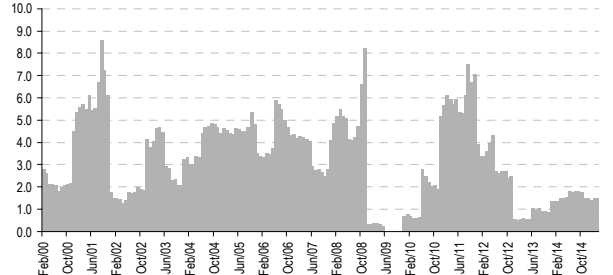
P/E Relative to Hong Kong Index **Current: 0.65**



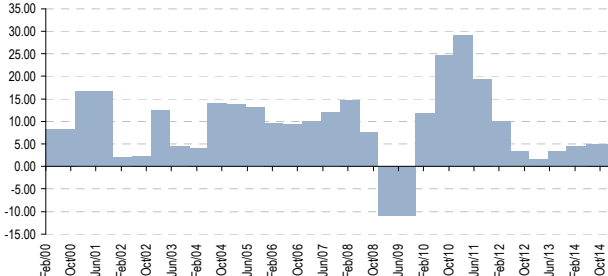
Earnings Yield (& Local Bond Yield) **Current: 10%**



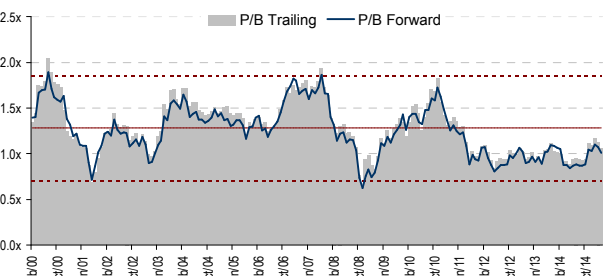
Dividend Yield (Trailing) **Current: 1.49**



ROE (Trailing) **Current: 4.96**



Price/Book (Value) **Current: 1.1x**



Summary

Cathay Pacific Airways Limited		TICKER 293 HK		As Of: 13-Mar-15							
HONG KONG				Local Price: 16.38							
Industrials				EPS: 1.60							
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	10.24x	0.00	50.00	12.29	14.00	29.59	-1.58	-100%	388%	20%	37%
P/BV (Trailing)	1.06	0.62	2.04	1.27	1.28	1.86	0.70	-42%	93%	20%	21%
Dividend Yield (Trailing)	1.49x	0.00	8.58	2.94	3.18	7.04	-0.68	-100%	474%	97%	113%
ROE (Trailing)	4.96	-10.93	29.11	9.39	8.95	25.71	-7.80	-321%	487%	90%	81%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

Other Companies Discussed in This Report (all prices in this report as of market close on 18 March 2015)

ANA Holdings (9202) (9202.T/¥338/Overweight), Air China - H (0753.HK/HK\$6.94/Overweight), Singapore Airlines (SIAL.SI/\$12.04/Overweight), Tigerair (TAHL.SI/\$0.33/Overweight)

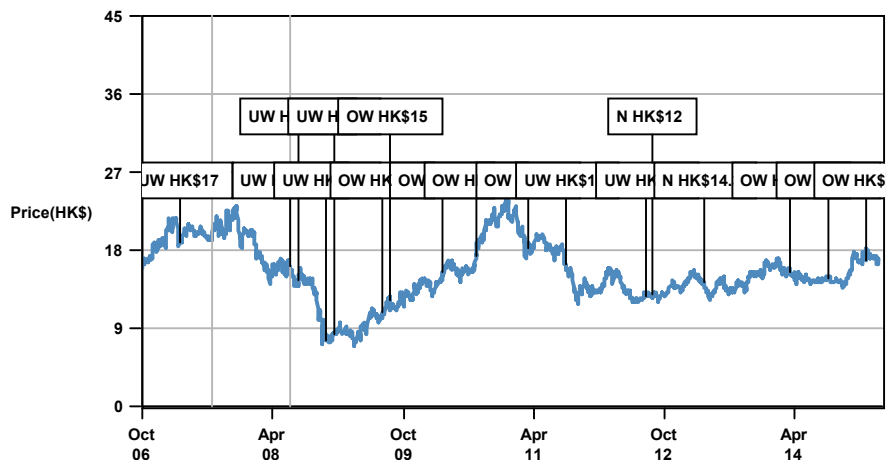
Analyst Certification: The research analyst(s) denoted by an “AC” on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an “AC” on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. For all Korea-based research analysts listed on the front cover, they also certify, as per KOFIA requirements, that their analysis was made in good faith and that the views reflect their own opinion, without undue influence or intervention.

Important Disclosures

- **Client:** J.P. Morgan currently has, or had within the past 12 months, the following company(ies) as clients: Cathay Pacific, Air China - H, ANA Holdings (9202), Singapore Airlines.
- **Client/Investment Banking:** J.P. Morgan currently has, or had within the past 12 months, the following company(ies) as investment banking clients: Singapore Airlines.
- **Client/Non-Investment Banking, Securities-Related:** J.P. Morgan currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, securities-related: Cathay Pacific, Air China - H, ANA Holdings (9202), Singapore Airlines.
- **Client/Non-Securities-Related:** J.P. Morgan currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-securities-related: Air China - H, Singapore Airlines.
- **Investment Banking (past 12 months):** J.P. Morgan received in the past 12 months compensation from investment banking Singapore Airlines.
- **Investment Banking (next 3 months):** J.P. Morgan expects to receive, or intends to seek, compensation for investment banking services in the next three months from ANA Holdings (9202), Singapore Airlines.
- **Non-Investment Banking Compensation:** J.P. Morgan has received compensation in the past 12 months for products or services other than investment banking from Cathay Pacific, Air China - H, ANA Holdings (9202), Singapore Airlines.

Company-Specific Disclosures: Important disclosures, including price charts and credit opinion history tables, are available for compendium reports and all J.P. Morgan-covered companies by visiting <https://jpm.com/research/disclosures>, calling 1-800-477-0406, or e-mailing research.disclosure.inquiries@jpmorgan.com with your request. J.P. Morgan's Strategy, Technical, and Quantitative Research teams may screen companies not covered by J.P. Morgan. For important disclosures for these companies, please call 1-800-477-0406 or e-mail research.disclosure.inquiries@jpmorgan.com.

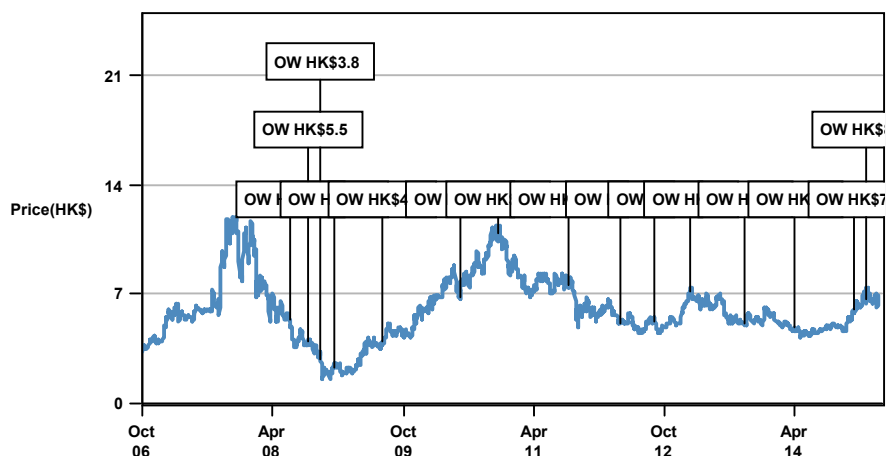
Cathay Pacific (0293.HK, 293 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Mar 07, 2007.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
07-Mar-07	UW	18.86	17.00
09-Jun-08	UW	16.26	13.70
14-Jul-08	UW	14.50	11.70
13-Nov-08	UW	7.73	7.30
12-Dec-08	UW	8.20	7.00
07-Jul-09	OW	10.90	13.00
05-Aug-09	OW	12.18	15.00
11-Mar-10	OW	15.48	18.00
04-Aug-10	OW	17.40	22.00
09-Mar-11	OW	18.12	23.00
10-Aug-11	UW	16.34	14.00
16-Jul-12	UW	12.80	12.00
08-Aug-12	N	12.92	12.00
13-Mar-13	N	14.20	14.30
12-Mar-14	OW	15.40	18.30
13-Aug-14	OW	14.68	18.00
22-Jan-15	OW	16.96	20.00

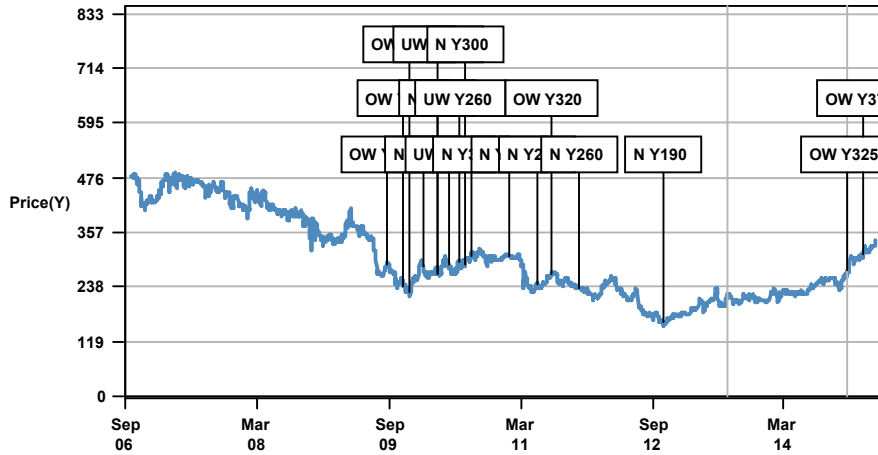
Air China - H (0753.HK, 753 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Jun 09, 2008.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
09-Jun-08	OW	5.36	6.60
27-Aug-08	OW	4.02	5.50
16-Oct-08	OW	2.79	3.80
12-Dec-08	OW	2.31	3.50
07-Jul-09	OW	3.92	4.50
23-May-10	OW	6.85	7.80
29-Oct-10	OW	10.90	12.00
26-Aug-11	OW	7.58	10.50
28-Mar-12	OW	5.08	8.50
21-Aug-12	OW	5.25	7.00
15-Jan-13	OW	7.21	8.00
28-Aug-13	OW	5.14	7.00
26-Mar-14	OW	4.82	6.00
02-Dec-14	OW	5.98	7.00
22-Jan-15	OW	6.66	8.30

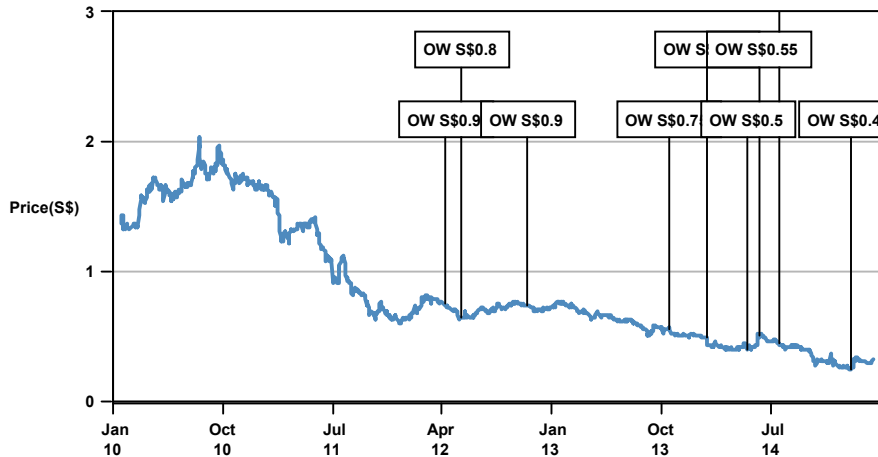
ANA Holdings (9202) (9202.T, 9202 JT) Price Chart



Date	Rating	Share Price (Y)	Price Target (Y)
24-Aug-09	OW	288	340
02-Nov-09	OW	241	320
20-Nov-09	OW	228	300
19-Jan-10	N	285	300
22-Mar-10	N	267	220
23-Mar-10	UW	267	220
06-May-10	UW	289	250
16-Jun-10	UW	290	260
14-Jul-10	N	287	300
10-Aug-10	N	306	320
17-Jan-11	N	305	340
11-May-11	N	244	270
05-Jul-11	OW	265	320
02-Nov-11	N	237	260
18-Oct-12	N	159	190
20-Nov-14	OW	274	325
24-Jan-15	OW	308	370

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Aug 24, 2009.

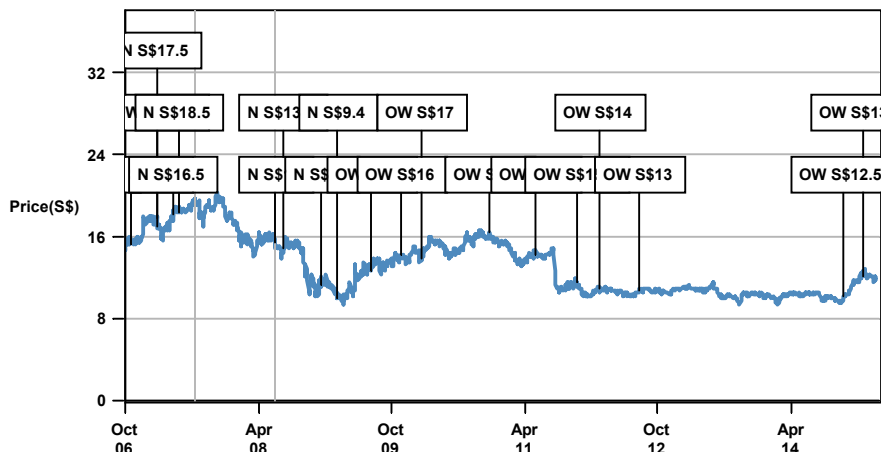
Tigerair (TAHL.SI, TGR SP) Price Chart



Date	Rating	Share Price (S\$)	Price Target (S\$)
10-Apr-12	OW	0.76	0.90
18-May-12	OW	0.64	0.80
30-Oct-12	OW	0.74	0.90
24-Oct-13	OW	0.56	0.75
23-Jan-14	OW	0.49	0.62
05-May-14	OW	0.40	0.50
04-Jun-14	OW	0.51	0.55
23-Jul-14	OW	0.44	0.50
22-Jan-15	OW	0.25	0.41

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Apr 10, 2012.

Singapore Airlines (SIAL.SI, SIA SP) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Oct 29, 2006.

Date	Rating	Share Price (S\$)	Price Target (S\$)
29-Oct-06	OW	15.12	16.50
09-Feb-07	OW	17.72	17.50
11-Feb-07	N	17.02	17.50
16-Apr-07	N	18.12	16.50
11-May-07	N	18.32	18.50
09-Jun-08	N	15.40	15.00
15-Jul-08	N	14.78	13.10
12-Dec-08	N	11.36	10.00
17-Feb-09	N	9.97	9.40
07-Jul-09	OW	12.68	14.00
11-Nov-09	OW	14.26	16.00
02-Feb-10	OW	13.86	17.00
10-Nov-10	OW	16.32	20.00
13-May-11	OW	14.26	19.00
04-Nov-11	OW	11.48	15.50
02-Feb-12	OW	11.00	14.00
16-Jul-12	OW	10.63	13.00
06-Nov-14	OW	10.15	12.50
22-Jan-15	OW	12.05	13.50

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

Explanation of Equity Research Ratings, Designations and Analyst(s) Coverage Universe:

J.P. Morgan uses the following rating system: Overweight [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Neutral [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Underweight [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Not Rated (NR): J.P. Morgan has removed the rating and, if applicable, the price target, for this stock because of either a lack of a sufficient fundamental basis or for legal, regulatory or policy reasons. The previous rating and, if applicable, the price target, no longer should be relied upon. An NR designation is not a recommendation or a rating. In our Asia (ex-Australia) and U.K. small- and mid-cap equity research, each stock's expected total return is compared to the expected total return of a benchmark country market index, not to those analysts' coverage universe. If it does not appear in the Important Disclosures section of this report, the certifying analyst's coverage universe can be found on J.P. Morgan's research website, www.jpmorganmarkets.com.

Coverage Universe: Png, Corrine: Air China - A (601111.SS), Air China - H (0753.HK), AirAsia BHD (AIRA.KL), Cathay Pacific (0293.HK), Cebu Air, Inc. (CEB.PS), China Airlines (2610.TW), China Cosco Holdings - A (601919.SS), China Cosco Holdings - H (1919.HK), China Eastern Airlines - A (600115.SS), China Eastern Airlines - H (0670.HK), China Shipping Container Lines - A (601866.SS), China Shipping Container Lines - H (2866.HK), China Southern Airlines - A (600029.SS), China Southern Airlines - H (1055.HK), EVA Airways (2618.TW), Evergreen Marine Corp Taiwan Ltd (2603.TW), Hanjin Shipping Co Ltd (117930.KS), Korean Air (003490.KS), Neptune Orient Lines (NOL) (NEPS.SI), Orient Overseas Int'l Ltd (0316.HK), Pacific Basin Shipping (2343.HK), Precious Shipping (PSL.BK), SIA Engineering Company (SIAE.SI), ST Engineering (STEG.SI), Singapore Airlines (SIAL.SI), Tigerair (TAHL.SI), U-Ming Marine Transport Corporation (2606.TW), Wan Hai Lines (2615.TW), Yang Ming Marine (2609.TW)

J.P. Morgan Equity Research Ratings Distribution, as of January 1, 2015

	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	45%	43%	12%
IB clients*	56%	49%	33%
JPMS Equity Research Coverage	45%	48%	7%
IB clients*	75%	67%	52%

*Percentage of investment banking clients in each rating category.

For purposes only of FINRA/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category. Please note that stocks with an NR designation are not included in the table above.

Equity Valuation and Risks: For valuation methodology and risks associated with covered companies or price targets for covered companies, please see the most recent company-specific research report at <http://www.jpmorganmarkets.com>, contact the primary analyst or your J.P. Morgan representative, or email research.disclosure.inquiries@jpmorgan.com.

Equity Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues.

Registration of non-US Analysts: Unless otherwise noted, the non-US analysts listed on the front of this report are employees of non-US affiliates of JPMS, are not registered/qualified as research analysts under NASD/NYSE rules, may not be associated persons of JPMS, and may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Other Disclosures

J.P. Morgan ("JPM") is the global brand name for J.P. Morgan Securities LLC ("JPMS") and its affiliates worldwide. J.P. Morgan Cazenove is a marketing name for the U.K. investment banking businesses and EMEA cash equities and equity research businesses of JPMorgan Chase & Co. and its subsidiaries.

All research reports made available to clients are simultaneously available on our client website, J.P. Morgan Markets. Not all research content is redistributed, e-mailed or made available to third-party aggregators. For all research reports available on a particular stock, please contact your sales representative.

Options related research: If the information contained herein regards options related research, such information is available only to persons who have received the proper option risk disclosure documents. For a copy of the Option Clearing Corporation's Characteristics and Risks of Standardized Options, please contact your J.P. Morgan Representative or visit the OCC's website at <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>

Legal Entities Disclosures

U.S.: JPMS is a member of NYSE, FINRA, SIPC and the NFA. JPMorgan Chase Bank, N.A. is a member of FDIC. **U.K.:** JPMorgan Chase N.A., London Branch, is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and to limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from J.P. Morgan on request. J.P. Morgan Securities plc (JPMS plc) is a member of the London Stock Exchange and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered in England & Wales No. 2711006. Registered Office 25 Bank Street, London, E14 5JP. **South Africa:** J.P. Morgan Equities South Africa Proprietary Limited is a member of the Johannesburg Securities Exchange and is regulated by the Financial Services Board. **Hong Kong:** J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong and/or J.P. Morgan Broking (Hong Kong) Limited (CE number AAB027) is regulated by the Securities and Futures Commission in Hong Kong. **Korea:** J.P. Morgan Securities (Far East) Ltd, Seoul Branch, is regulated by the Korea Financial Supervisory Service. **Australia:** J.P. Morgan Australia Limited (JPMAL) (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (JPMSAL) (ABN 61 003 245 234/AFS Licence No: 238066) is regulated by ASIC and is a Market, Clearing and Settlement Participant of ASX Limited and CHI-X. **Taiwan:** J.P.Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Bureau. **India:** J.P. Morgan India Private Limited (Corporate Identity Number - U67120MH1992FTC068724), having its registered office at J.P. Morgan Tower, Off. C.S.T. Road, Kalina, Santacruz - East, Mumbai - 400098, is a member of the National Stock Exchange of India Limited (SEBI Registration Number - INB 230675231/INF 230675231/INE 230675231) and Bombay Stock Exchange Limited (SEBI Registration Number - INB 010675237/INF 010675237) and is regulated by Securities and Exchange Board of India. Telephone: 91-22-6157 3000, Facsimile: 91-22-6157 3990 and Website: www.jpmpil.com. For non local research reports, this material is not distributed in India by J.P. Morgan India Private Limited. **Thailand:** This material is issued and distributed in Thailand by JPMorgan Securities (Thailand) Ltd., which is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission and its registered address is 3rd Floor, 20 North Sathorn Road, Silom, Bangrak, Bangkok 10500. **Indonesia:** PT J.P. Morgan Securities Indonesia is a member of the Indonesia Stock Exchange and is regulated by the OJK a.k.a. BAPEPAM LK. **Philippines:** J.P. Morgan Securities Philippines Inc. is a Trading Participant of the Philippine Stock Exchange and a member of the Securities Clearing Corporation of the Philippines and the Securities Investor Protection Fund. It is regulated by the Securities and Exchange Commission. **Brazil:** Banco J.P. Morgan S.A. is regulated by the Comissao de Valores Mobiliarios (CVM) and by the Central Bank of Brazil. **Mexico:** J.P. Morgan Casa de Bolsa, S.A. de C.V., J.P. Morgan Grupo Financiero is a member of the Mexican Stock Exchange and authorized to act as a broker dealer by the National Banking and Securities Exchange Commission. **Singapore:** This material is issued and distributed in Singapore by or through J.P. Morgan Securities Singapore Private Limited (JPMSS) [MCI (P) 199/03/2014 and Co. Reg. No.: 199405335R] which is a member of the Singapore Exchange Securities Trading Limited and is regulated by the

Monetary Authority of Singapore (MAS) and/or JPMorgan Chase Bank, N.A., Singapore branch (JPMCB Singapore) which is regulated by the MAS. This material is provided in Singapore only to accredited investors, expert investors and institutional investors, as defined in Section 4A of the Securities and Futures Act, Cap. 289. Recipients of this document are to contact JPMSS or JPMCB Singapore in respect of any matters arising from, or in connection with, the document. **Japan:** JPMorgan Securities Japan Co., Ltd. is regulated by the Financial Services Agency in Japan. **Malaysia:** This material is issued and distributed in Malaysia by JPMorgan Securities (Malaysia) Sdn Bhd (18146-X) which is a Participating Organization of Bursa Malaysia Berhad and a holder of Capital Markets Services License issued by the Securities Commission in Malaysia. **Pakistan:** J. P. Morgan Pakistan Broking (Pvt.) Ltd is a member of the Karachi Stock Exchange and regulated by the Securities and Exchange Commission of Pakistan. **Saudi Arabia:** J.P. Morgan Saudi Arabia Ltd. is authorized by the Capital Market Authority of the Kingdom of Saudi Arabia (CMA) to carry out dealing as an agent, arranging, advising and custody, with respect to securities business under licence number 35-07079 and its registered address is at 8th Floor, Al-Faisaliyah Tower, King Fahad Road, P.O. Box 51907, Riyadh 11553, Kingdom of Saudi Arabia. **Dubai:** JPMorgan Chase Bank, N.A., Dubai Branch is regulated by the Dubai Financial Services Authority (DFSA) and its registered address is Dubai International Financial Centre - Building 3, Level 7, PO Box 506551, Dubai, UAE.

Country and Region Specific Disclosures

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by JPMS plc. Investment research issued by JPMS plc has been prepared in accordance with JPMS plc's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. This material does not take into account the specific investment objectives, financial situation or particular needs of the recipient. The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the term "wholesale client" has the meaning given in section 761G of the Corporations Act 2001. **Germany:** This material is distributed in Germany by J.P. Morgan Securities plc, Frankfurt Branch and J.P.Morgan Chase Bank, N.A., Frankfurt Branch which are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months prior.) J.P. Morgan Broking (Hong Kong) Limited is the liquidity provider/market maker for derivative warrants, callable bull bear contracts and stock options listed on the Stock Exchange of Hong Kong Limited. An updated list can be found on HKEx website: <http://www.hkex.com.hk>. **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, JPMorgan Securities Japan Co., Ltd., will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between JPMorgan Securities Japan Co., Ltd., and the customer in advance. Financial Instruments Firms: JPMorgan Securities Japan Co., Ltd., Kanto Local Finance Bureau (kinsho) No. 82 Participating Association / Japan Securities Dealers Association, The Financial Futures Association of Japan, Type II Financial Instruments Firms Association and Japan Investment Advisers Association. **Korea:** This report may have been edited or contributed from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul Branch. **Singapore:** JPMS and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **Taiwan:** This material is issued and distributed in Taiwan by J.P. Morgan Securities (Taiwan Limited). **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by JPMSAL in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. JPMSAL does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of JPMSAL. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offence. **Dubai:** This report has been issued to persons regarded as professional clients as defined under the DFSA rules. **Brazil:** Ombudsman J.P. Morgan: 0800-7700847 / ouvidoria.jp.morgan@jpmorgan.com.

General: Additional information is available upon request. Information has been obtained from sources believed to be reliable but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively J.P. Morgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMS and/or its affiliates and the analyst's involvement with the issuer that is the subject of the research. All pricing is as of the close of market for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. JPMS distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Periodic updates may be provided on companies/industries based on company specific developments or announcements, market conditions or any other publicly available information. Clients should contact analysts and execute transactions through a J.P. Morgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

"Other Disclosures" last revised November 29, 2014.

Copyright 2015 JPMorgan Chase & Co. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of J.P. Morgan.