

## COMMENT

**Cathay Pacific (0293.HK) HK\$17.04**

Equity Research

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**First Take: Broadly in line, unrealized hedging loss eroded book value**


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**News**

On March 18 at mid-day, Cathay Pacific (CX) announced 2014 results, posting a pre-exceptional net profit of HK\$3.55bn (from HK\$2.78bn last year), broadly in line with our estimate of HK\$3.79bn and Bloomberg consensus of HK\$3.49bn. Revenues grew 5.5% year-on-year (vs. GSe: 5.1%) and operating margins improved 0.5pp to 4.4% (vs. GSe: 4.4%). Full-year dividend came at HK\$0.36 per share, representing a payout of 45% (above GSe: 30%). Impacted by unrealized fuel hedging losses (in balance sheet reserve, -HK\$14.4bn, for hedges through to 2018), CX's end-2014 book value per share declined 18% to HK\$13.15 (i.e., 1.3X P/B at last close).

**Analysis**

**Fuel costs and realized hedging losses:** CX's gross fuel costs increased 1% yoy to HK\$39.4bn, mainly due to a 5.6% increase in consumption. Realized hedging loss for 2014 (recorded in P&L) came at HK\$911mn, implying 2H14 of HK\$1.94bn due to the decline in oil price in 2H14.

**Passenger yields were softer:** Yields fell across all key regions (overall: -1.8% yoy) other than Europe, which saw a 5% improvement in 2014 off a very depressed base. Specifically, yields fell 3.9% yoy on North American routes (which makes up 27% of pax traffic) on a 19% yoy jump in capacity. CX continued to increase capacity rapidly to the US market in the start of 2015 (Jan-Feb capacity: +14.5% yoy).

**Cargo load factors higher, but from a low base:** Traffic recovered 15% yoy in 2014, but the drag from supply continued which led cargo yields to decline 5.6% with load factors of 64% (up 2.5pp but below mid-cycle levels of 68%). As a reference, Singapore Airlines' cargo business achieved load factors of 63% during the period with a -2.3% operating margin.

**Landing, parking expenses** accounted for 14% of operating costs (+5% yoy). Following approval from the govt for building HK's third runway, the Airport Authority HK outlined yesterday its part user-pay funding proposal.

**Implications**

Our Neutral rating, target price, and earnings estimates remain unchanged.

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Neutral

**Coverage View: Neutral**

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**Exhibit 1: Neutral-rated Cathay Pacific reported in-line 2014 results with net profit of HK\$3.55bn. However, unrealized hedging losses have eroded book value per share by 18% to HK\$13.15. Management will host an analyst briefing at 2:30pm HK time today (March 18)**

Cathay Pacific 2014 results details

	1H13	2H13	2013	1H14	2H14	2014
RPK	50,543	54,028	104,571	54,713	57,543	112,257
ASK	62,187	65,049	127,235	65,474	69,237	134,711
Load factor	81%	83%	82%	84%	83%	83%
China	70%	73%	72%	75%	75%	75%
North Asia	76%	81%	79%	80%	80%	80%
South East Asia and Middle East	78%	79%	79%	80%	82%	81%
Europe	87%	88%	87%	87%	89%	88%
South West Pacific & South Africa	78%	83%	81%	85%	85%	85%
North America	89%	88%	89%	89%	84%	86%
Yield	0.69	0.68	0.69	0.67	0.68	0.67
yoy change	4.4%	-0.9%	1.7%	-3.5%	-0.1%	0.0%
RFTK	4,325	4,625	8,950	4,622	5,422	10,044
AFTK	6,729	7,555	14,284	7,318	8,311	15,630
Load factor	64%	61%	63%	63%	65%	64%
Yield	2.61	2.68	2.64	2.52	2.53	2.53
yoy change	-5.2%	-2.3%	-3.7%	-3.2%	-5.4%	-4.4%
RTK	8,873	9,488	18,361	9,547	10,601	20,147
ATK	12,326	13,410	25,735	13,211	14,543	27,754
Load factor	72%	70.8%	71%	72%	73%	73%
Yield	5.48	5.47	5.47	5.33	5.20	5.26
yoy change				-2.7%	-2.3%	
Pax revenue	34,978	36,848	71,826	36,520	39,214	75,734
Cargo revenue	11,278	12,385	23,663	11,663	13,737	25,400
Other revenue	2,328	2,667	4,995	2,657	2,200	4,857
<b>Total</b>	<b>48,584</b>	<b>51,900</b>	<b>100,484</b>	<b>50,840</b>	<b>55,151</b>	<b>105,991</b>
Cost / ATK	3.86	3.68	3.75	3.73	3.58	3.65
yoy	-0.3%	-2.1%	-1.6%	-3.3%	-2.8%	-2.8%
<b>CX</b>						
<b>HK\$ mn</b>	<b>1H13</b>	<b>2H13</b>	<b>2013</b>	<b>1H14</b>	<b>2H14</b>	<b>2014</b>
Revenue	48,584	51,900	100,484	50,840	55,151	105,991
EBIT	1,035	2,581	3,917	1,576	3,157	4,733
Extraordinary gain/(loss)	(301)	144	(157)	0	(398)	(398)
Net income	24	2,596	2,620	347	2,803	3,150
<b>Pre-exceptional net profit</b>	<b>325</b>	<b>2,452</b>	<b>2,777</b>	<b>347</b>	<b>3,201</b>	<b>3,548</b>
yoy growth						
<b>CX Margin</b>	<b>1H13</b>	<b>2H13</b>	<b>2013E</b>	<b>1H14</b>	<b>2H14</b>	<b>2014A</b>
EBIT	2.1%	5.0%	3.9%	3.1%	5.7%	4.4%
Pre-exceptional net profit	0.7%	4.7%	2.8%	0.7%	5.8%	3.6%

Source: Company data, Goldman Sachs Global Investment Research.

# Disclosure Appendix

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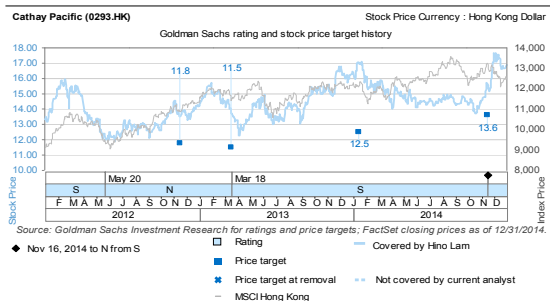
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