

Aviation

Last Close	Target Price	Upside
HK\$13.78	HK\$15.50↑	+12.5%

15 March 2018

Cathay Pacific Airways (293 HK)

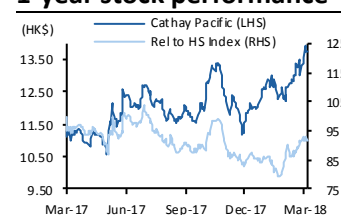
Earnings turnaround in 2H17, management confident in 2018

- ⊕ **A profitable 2H17:** Cathay Pacific Airways (CPA) reported a net loss of HK\$1,259m, widening from -HK\$575m in FY16 but better than our forecast of HK\$3.0bn loss or Bloomberg consensus of HK\$2.26bn loss. The reported net loss included one-off expenses of HK\$841m and exceptional gain of HK\$830m. Fuel hedging loss of HK\$6.4bn (1H17: HK\$3.2bn) was marginally lower than our forecast of HK\$6.6bn. Management explained that it declared a dividend of HK\$0.05 per share with the result because of the profitable performance in 2H17 (HK\$792m).
- ⊕ **Cargo operation fueled the turnaround:** Cargo yield rose 11.3% YoY in FY17 (our forecast: 6.5% YoY), with much of the growth in 2H17 (up 16.3% YoY or 12.0% HoH). Cargo revenue grew 19.1% YoY to HK\$23.9bn, better than our forecast of HK\$19.8bn, which is the main reason for the results beat, in our view. Passenger yield declined 3.3% YoY in FY17, but rebounded in 2H17 (down only 1.5% YoY). On a HoH basis, passenger yield rose 3.1%. Cost per ATK, according to management, was essentially flat if the exceptional items and fuel expenses were excluded.
- ⊕ **Management confident in FY18 outlook:** The yield recovery trend will continue in FY18, according to management, for both passenger and cargo operations. CPA will introduce six new destinations this year, a record for the company, with less incumbent competition. Management projects ATK growth of 4.2-4.3% YoY this year. In terms of cargo operation, management said cargo mix shift to high value cargoes such as pharmaceuticals could continue to support volume growth as well as yield recovery. More importantly, management believes that most of the benefits from its transformation efforts will kick in over the next two years after the foundation for transformation was laid in FY17.
- ⊕ **We maintain our Buy rating:** We revise our FY18-19 earnings forecasts, and raise our target price from HK\$14.50 to HK\$15.50, which is based on 5-year average P/B and equivalent to 1.1x P/B on our forecast FY18 BVPS. We see the potential trade war between the US and China as the only concern over CPA's cargo operation recovery.

Stock Rating

BUY

1-year stock performance



Source: Bloomberg

Stock data

52w high (HK\$)	14.2
52w low (HK\$)	10.2
Market cap (HK\$ m)	54,208
Avg daily vol (m)	5.61
YTD change (%)	13.7
200d MA (HK\$)	12.3

Source: Bloomberg

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Financial highlights

Y/E 31 Dec	2015	2016	2017	2018E	2019E
Revenue (HK\$ m)	102,342	92,751	97,284	101,038	107,960
YoY growth (%)	(3.4)	(9.4)	4.9	3.9	6.9
Net profit (HK\$ m)	6,000	(575)	(1,259)	1,755	7,003
EPS (HK\$)	1.525	(0.146)	(0.320)	0.446	1.780
YoY growth (%)	90.5	(109.6)	119.0	NA	299.1
Previous EPS (HK\$)	-	-	-	0.181	1.637
Change (%)	-	-	-	146.4	8.7
P/E (x)	8.88	NA	NA	74.81	8.27
BVPS (HK\$)	12.18	14.07	13.30	13.43	14.61
P/B (x)	1.11	0.96	1.02	1.01	0.93
Dividend yield (%)	3.91	0.37	0.00	0.44	3.99

Source: Company data, BOCOM Int'l estimates

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Figure 1: CPA FY17 results summary

(HK\$ m)	FY16	FY17	% YoY	1H17	2H17	% HoH
Revenue	92,751	97,284	4.9	45,858	51,426	12.1
Operating profit	(525)	(1,449)	176.0	(1,704)	255	NA
Operating margin (%)	(0.6)	(1.5)	-	(3.7)	0.5	-
Profit before tax	223	(580)	NA	(1,985)	1,405	NA
Net profit	(575)	(1,259)	119.0	(2,051)	792	NA
Net margin (%)	(0.6)	(1.3)	-	(4)	2	-
EPS (HK\$)	(0.1)	0.3	NA	(0.5)	0.8	NA
Passenger yield (HK\$)	0.541	0.523	(3.3)	0.515	0.531	3.1
Cost per ATK (HK\$)	3.020	3.120	3.3	3.140	3.100	(1.3)

Source: Company data, BOCOM Int'l

Figure 2: Earnings forecast revisions

	Earnings		EPS		Change (%)
	Before (HK\$ m)	After (HK\$ m)	Before (HK\$)	After (HK\$)	
FY18E	712	1,755	0.181	0.446	146.4
FY19E	6,440	7,003	1.637	1.780	8.7

Source: BOCOM Int'l estimates

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Buy: The stock's total return is expected to **exceed** that of the corresponding industry over the next 12 months.

Neutral: The stock's total return is expected to be **in line with** that of the corresponding industry over the next 12 months.

Sell: The stock's total return is expected to be **below** that of the corresponding industry over the next 12 months.

Not-Rated: The analyst **does not have conviction** regarding the outlook of the stock's total return relative to that of the corresponding industry over the next 12 months.

Analyst Industry Views:

Outperform: The analyst expects the industry coverage universe to be **attractive** relative to the relevant broad market benchmark over the next 12 months.

Market perform: The analyst expects the industry coverage universe to be **in line with** the relevant broad market benchmark over the next 12 months.

Underperform: The analyst expects the industry coverage universe to be **unattractive** relative to the relevant broad market benchmark over the next 12 months.

Broad market benchmark for Hong Kong is **the Hang Seng Composite Index**, for China A-shares is the **MSCI China A Index**, for US-listed Chinese companies is **S&P US Listed China 50 (USD) Index**.

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