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QuickView

Airbus Group

Aerospace & defence

11 April 2016

In it for the longhaul and the shorthaul

Airbus Group is now a much better-defined business and investment proposal as it increases its focus on its core aerospace actvities. Civil aerospace growth provides a solid foundation, with Airbus a clear leader in accessing it at present. Aided by favourable currency movements and an innovative product strategy, the company continues to move forward positively, coping with short-term trials and preparing for excess returns.

New programmes progressing

The market success of the A320neo family of aircraft and the A350XWB suggest that Airbus is approaching an inflection point in its fortunes. The A350XWB has entered service with excellent reliability, and initial A320neo deliveries are building progressively. The decline in A330ceo production is being absorbed and while supply chain issues have constrained recent deliveries, the returns from Civil operations looks set to grow. Continuing worries over Defence (Typhoon and the A400M) seem to impact valuations unduly, with Space and Helicopters both appearing set for more moderate profit growth.

Market share vindicates product strategy

Allowing for the limits in very large aircraft segment, Airbus seems well positioned relative to Boeing. Its $1trn-plus order book at the start of the year included almost 1,200 more narrowbody aircraft than Boeing, or 56% unit market share and 47% of the widebody market with 155 fewer aircraft in backlog. The Airbus backlogs at 2015 delivery rates represent more than 11 years output for single aisle aircraft, and over eight years for twin aisle (although output is set to rise sharply).

The competitor is having to react

Boeing Commercial Aircraft is now responding to Airbus's improved competitive position by increased efficiencies. Airbus faced similar FX issues as the euro strengthened above $1.30/€ from 2006 to 2014. This reflects the dollar-based nature and competitive landscape of the large civil aircraft market. Boeing and Airbus remain the world's leading civil airframers, operating in an effective duopoly.

Valuation: Potential to climb

All in all, with an extremely favourable exchange rate pertaining, the group seems well set to resume growth from 2017. Guidance and estimates remain attainable and long-term cash valuations suggest significant potential.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/14	60,713	3,629	3.36	1.20	17.1	2.0
12/15	64,450	3,663	3.41	1.30	16.9	2.3
12/16e	66,752	3,821	3.42	1.42	16.8	2.5
12/17e	72,412	4,585	4.33	1.68	13.3	2.9

Source: Company reports; Thomson Reuters Eikon consensus estimates

Price	**€57.51**
Market cap	**€45bn**

US$1.139/€; €1.253/£

Share price graph

Share details

Code	AIR FP
Listing	Euronext
Shares in issue	783.9m

Business description

Airbus Group is the parent company of Airbus, 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 of 2015 deliveries
- Production rates should now start to rise from the recent plateau as neo transitions develop and A350 ramp up kicks in
- Cash dynamic has been better than expected and cash conversion should improve as the new product investment phase in Civil wanes

Bear

- Continuing issues in military aircraft with A400M performance problems and lower Typhoon production
- Despite the strong space, growth margin returns in non-Airbus activities remain subdued
- UK export credit financing issues may curb near-term liquidity until resolved

Analysts

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