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Airbus Group

Aerospace & defence

23 February 2017

Flight path maintained

Airbus delivered another robust performance in 2016, with Q4 results exceeding market expectations. The addition of a further provision of €1.2bn (FY16 total €2.2bn) for the troubled A400M military transport aircraft remains a burden on cash in 2017 and 2018. However, even allowing for this, it would appear that both underlying earnings and group FCF are set to start improving from this year, and likely accelerate as the civil aircraft ramp-ups deliver expected learning curve benefits with improved pricing.

Successful execution in 2016, despite issues

Airbus delivered Q416 sales ahead of market expectations by around 3%, some 10% higher than the comparable period. Nearly all of the surprise came from the commercial aircraft division, courtesy of very high December deliveries. That also boosted Q416 group-adjusted EBIT to €1.55bn, which was up 16% with margin increasing to 6.6% against a flat expectation. FY16 revenues of €66.6bn were up 3.3%, but adjusted EBIT was down almost 4% at €3.96bn. Adjusted margin fell to 5.9% from 6.4% in 2015. This resulted from continuing dilution of civil programmes due to new model transitions, together with adverse mix at Airbus Helicopters caused by a weaker medium/heavy market and lower flying hours.

Improvement to cash flow remains key

FCF of €1.4bn was generated in 2016 before M&A and customer financing. However, this was delivered despite a >€1bn outflow relating to the A400M, which will likely recur this year. The €2bn received from disposals and business restructuring, primarily the formation of the Airbus Safran Launchers joint venture and the sale of Dassault Aviation shares, left year-end net cash balances at €11.1bn (€10.0bn in FY15). Guidance is for a similar FCF in 2017 with a comparable burden from the A400M. We expect an improvement in FY18 to gather pace in FY19.

Valuation: Resumption of growth closer

FY17 guidance suggests the model transition is going well, and further progress should be delivered as the company ramps up output of the A320neo and the A350. Airbus continues to invest in efficiency. Mid-single-digit growth in adjusted EBIT and adjusted EPS, aided by favourable FX, implies a move off the earnings plateau of recent years. EPS growth should then accelerate due to higher civil aircraft deliveries with improved pricing and learning curve benefits. A 3.8% increase in the dividend to €1.35 per share has been proposed, an exceptional increase in the payout ratio. We take this as a sign of the increasing maturity of Airbus Group as a commercial entity, as well as confidence that progress can be delivered.

Consensus estimates

Year end	Revenue (€bn)	PBT (€bn)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/15	64.5	3.64	3.39	1.30	19.7	1.9
12/16	66.6	3.62	3.31	1.35	20.2	2.0
12/17e	68.1	3.62	3.48	1.52	19.2	2.3
12/18e	73.4	4.92	4.65	1.90	14.3	2.8

Source: Bloomberg

Price	€66.7
Market cap	€52bn

US$1.0500/€, €1.1848/£

Share price graph

Share details

Code	AIR FP
Listing	Euronext
Shares in issue	772.7m

Business description

Airbus is 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 (at 2016 delivery levels)
- 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 stronger space margin returns in defence remain subdued
- UK export credit financing issues are not yet resolved implying increased customer financing

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