Airbus

Q1 turbulence but FY17 ready on the runway

Airbus's Q117 margin was lower than expected, at 1.8% compared to market consensus of 2.5%, mainly due to weaker pricing of old aircraft and higher costs of production for new ones. The helicopter division also made an unexpected loss. However, management confirmed its FY17 guidance and is confident that the challenging production ramp-up is on track.

Negative price mix effect on EBIT is not a trend

Revenues were up 7% year-on-year to €13.0bn (3% ahead of consensus) driven by higher commercial aircraft and helicopter deliveries. Airbus Defence and Space (ADS) was stable; the lower headline revenue number (-17% y-o-y) was due to the sale of the defence electronics business and the formation of the launchers JV. Group EBIT adjusted was down 52% y-o-y. This was due to an adverse price and mix effect in civil aircraft, lower helicopter flying hours as a result of weak oil and gas markets, the financial impacts from the partial H225 fleet grounding following last year's crash and the perimeter change at ADS. New order activity was low in the first quarter, but this is to be expected and the order book of over 6,700 commercial aircraft represents just under 10 years of production at 2017 rates. Free cash flow (before M&A and customer financing) was better than expected at -€1,269m reflecting the strong focus on working capital amid the production ramp-up and back-loaded deliveries.

Management confirms FY17, which may be cautious

Quarterly numbers at Airbus are often very lumpy and can unhelpfully cloud the long-term growth story. Management is confident of meeting its FY17 guidance and may well exceed it, as it is guiding for 700 aircraft deliveries but targeting 720. Harald Wilhelm made clear on this morning's call that the Q117 margin is not indicative of the full year number and that he continues to expect mid-single digit growth in EBIT adjusted compared to 2016.

Risks from A320neo ramp-up

Airbus is currently managing its biggest ever production ramp-up with A320neo and A350 rates increasing simultaneously. This presents major logistical, operational and technological challenges. Management appears confident that the A350 is progressing along the all-important 'learning curve' and is on track to break even before the end of the decade. However, it is clear Pratt & Whitney (P&W) is struggling to deliver functioning GTF (geared turbofan) engines for the A320neo quickly enough to keep pace with the ramp-up. P&W says it is fixing the problems, but Airbus may have to pull forward delivery of lower-margin classics to substitute delayed neos.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	66.6	3.6	3.31	1.35	22.7	1.8
12/17e	68.4	3.7	3.42	1.48	21.9	2.0
12/18e	73.6	4.8	4.61	1.80	16.3	2.4
12/19e	83.6	6.2	5.82	2.28	12.9	3.0

Source: Bloomberg

Aerospace & defence

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Price	€75.00
Market cap	€58bn
	$1.09/€

Share price graph



Share details

Code	AIR FP
Listing	Euronext
Shares in issue	772.9m

Business description

Airbus is the European manufacturer of large civil passenger jets, which 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 just under 10 years of production (at 2017 delivery levels).
- Production rates are now rising as production ramps up on the A350 and the A320neo.
- Cash conversion is starting to improve due to better working capital management and as the new product investment phase in civil wanes.

Bear

- Continuing issues in military aircraft with A400M performance problems and lower Typhoon production.
- Problems with the GTF engine (from Pratt & Whitney) are delaying A320 neo deliveries.
- Airbus Helicopters is suffering from weak oil & gas demand, and the financial impact of the partly grounded H225 fleet.

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