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Airbus

Aerospace & defence

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Reducing turbulence as year progresses

Airbus has maintained guidance for FY17, although the recurring issues on the A380, A400M, A350 and A320neo programmes remain a focus of discussion. A stronger second half implied by the guidance should allay some of the concerns, and provide trading momentum into next year. Cash flow appears to be broadly on track which, combined with a resumption of EPS growth in FY18, remains the main support for the investment case.

Programme issues constrain first half

H117 results showed stable sales, but a step backward in reported EBITDA in all three divisions, although €939m in Q2 (FY16: €1,181m) was ahead of consensus. In Commercial Aircraft profits fell 25%, reflecting delivery mix and phasing, as well as the transition pricing to new models. The engine issues continued to constrain A320neo production and deliveries. The A350 ramp-up is progressing more positively, although the recent cancellation of four aircraft by Qatar Airways is unhelpful. The reduction of A380 output to eight per annum also requires rigorous management of costs. In ADS the 23% decline in adjusted EBIT was largely due to M&A activity, with underlying performance broadly maintained. Resolution of the ongoing A400M issues is still being discussed with customers and, with export orders yet to materialise, the production rate is also being monitored. Typhoon production has fallen as further export orders remain elusive, although support should continue for decades. A commitment to the next Franco-German generation fighter is encouraging. Stronger sales and deliveries in Helicopters only partly offset adverse delivery mix and lower flying hours on service contracts, so profits fell by a lower than expected 36% due to an improved Q2.

Stronger momentum implied from H217

The maintenance of FY17 guidance implies greatly improved H2 deliveries, earnings and cash flow. In turn, this suggests many of the constraints on H117 are being removed, especially in Commercial Aircraft. Allowing for recent disposals, a FCF of c €1.25bn before M&A and customer financing is anticipated despite the burden of the >€1bn outflow relating to the A400M, which persists through 2018. We still expect an improvement in FY18 to gather pace in FY19.

Valuation: Growth should accelerate

While FY17 is heavily skewed to the second half, guidance of mid-single digit growth in adjusted EBIT and adjusted EPS is reflected in consensus estimates, allowing for the M&A perimeter changes. However, earnings growth should accelerate In FY18 as the current issues are overcome.

Consensus estimates

Year end	Revenue (€bn)	EBIT* (€bn)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/15	64.5	4.11	3.39	1.30	21.3	1.8
12/16	66.6	3.96	3.31	1.35	21.8	1.9
12/17e	67.8	4.11	3.34	1.47	21.6	2.0
12/18e	73.3	5.27	4.47	1.81	16.1	2.5

Source: Bloomberg consensus. Note: *Historic figures are EBIT adjusted as per Airbus's calculation.

Price	€72.27
Market cap	€56bn

US$1.17/€, €1.12/£

Share price graph

Share details

Code	AIR
Listing	Euronext
Shares in issue	772.7m

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 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.
- A380 production cuts raise concerns over programme longevity and costs.

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