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Airbus

Aerospace & defence

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Transition management continues

While Airbus has continued to maintain guidance for FY17, the demands to deliver in Q4 are clear. Although A320neo engine issues keep the pressure on the production schedule, the company is making good progress on its other programmes. A resumption of EPS growth in FY18 remains the main support for the investment case.

Programme issues persist

Continuing the trend from H1, Q3 results demonstrated a stable top line and a step down in adjusted EBIT. Reported adjusted EBIT of €1,796m represented a 25% decline on the first nine months of 2016. While the Q317 figure of €697m was just 4% down on Q316 (€729m), it did demonstrate an improvement in both the Commercial Aircraft and Helicopters divisions. Investment in innovation at company HQ does explain some of the decline. The engine issues continued to constrain A320neo production. While 90 aircraft were delivered to 19 customers in Q3, new engine availability and allocation between the OEM and spare pools will reduce the FY delivery total to slightly below the 200 targeted. Although full year free cash flow is expected to be similar to 2016 before M&A and customer financing, there has clearly been an impact on cash performance from inventory build for the production ramp-up and engine delays on neo with a negative working capital move of €4.5bn ytd. In addition to the ongoing UK Serious Fraud Office (SFO) and France's Parquet National Financier (PNF) investigations, the company has discovered and declared certain inaccuracies with filings with the US Department of State relating to part 130 of ITAR. Importantly, FY guidance for the group has been maintained.

All to deliver in Q4

December is always Airbus's busiest month for deliveries. Since 2008 it has shipped between 10-16% of its total annual deliveries in December. As described, the A320neo delivery profile is very much loaded into Q4. Moving into 2018, the A320 neo should account for more than half of single-aisle deliveries for the group. In addition, the A350 ramp-up is making good progress towards break-even by the end of the decade and the A330neo maiden flight was a successful milestone.

Valuation: Momentum to build

At the H117 report we noted that FY17 would be heavily skewed to the second half to deliver FY guidance, and the Q4 delivery profile is now very much in focus. We continue to believe that cash performance should improve and earnings growth should accelerate in FY18 as the current programme 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	25.8	1.5
12/16	66.6	3.96	3.31	1.35	26.4	1.6
12/17e	67.0	4.00	3.26	1.44	26.8	1.7
12/18e	72.3	5.16	4.33	1.73	20.2	2.0

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

Price	€87.4
Market cap	€68bn
	US$/€1.17

Share price graph

Share details

Code	AIR
Listing	Euronext
Shares in issue	774.5m

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 conversion should improve as the new product investment phase in Civil wanes.

Bear

- Continuing issues in military aircraft with A400M facing challenges to achieve contractual capabilities.
- A320 neo engine delivery delays continue to affect production.
- Ongoing SFO and PNF investigations hold the potential for imposition of monetary penalties.

Analysts

Andy Chambers	+44 (0)20 3681 2525
Annabel Hewson	+44 (0)20 3077 5700

industrials@edisongroup.com

Airbus is a client of Edison Investment Research Limited

Frankfurt +49 (0)69 78 8076 960	**London** +44 (0)20 3077 5700	**New York** +1 646 653 7026	**Sydney** +61 (0)2 8249 8342
Schumannstrasse 34b	280 High Holborn	295 Madison Avenue, 18th Floor	Level 12, Office 1205
60325 Frankfurt	London, WC1V 7EE	10017, New York	95 Pitt Street, Sydney
Germany	United Kingdom	US	NSW 2000, Australia