

Airbus

Resolving engine delays key for take-off

Q118 trading continued to be adversely affected by engine delays on the A320neo programmes, which constrained deliveries as the manufacturing programme ramps up. Nevertheless, adjusted EBIT actually improved year-on-year. Assuming the corrective actions are successful, Airbus's sequential progress in cash flow and profitability should become more consistent. Management appears confident that with current A320 and A350 ramp-ups being achieved by mid-2019 and the A400M cash profile improving from next year, strong EPS development and cash growth are in prospect. FY18 guidance is for a 63% rise in adjusted EBIT under IFRS 15 to €5.2bn, with sustainable growth increasingly likely in the future.

Progress in Q1 despite delivery delays

Q1 results were reported after the adoption of IFRS 15. Q118 revenue of €10.1bn (Q117: €11.4bn restated) compared to consensus of €10.2bn. Airbus commercial aircraft revenues fell by almost €1bn to €7.2bn, reflecting lower aircraft deliveries (Q118: 121 vs Q117: 136) as engine delays held back completions on the A320neo family as well as adverse unhedged FX movements. However, the adjusted EBIT loss for the operation reduced to €41m from a loss of €103m in Q117. The decline in sales also reflected disposals by Airbus Helicopters (AH) and Airbus Defence and Space (ADS), which were otherwise relatively stable y-o-y, especially in terms of adjusted EBIT, which totalled €109m. For the group Q118 adjusted EBIT of €14m (Q117: -€19m restated) vs consensus of -€63m. The free cash outflow before M&A and customer financing was €3.8bn (Q117: outflow €1.3bn), reflecting the build-up of undelivered inventory as well as unfavourable timing on trade liabilities.

Moving to more consistent cash inflow growth

As the civil ramp-ups are achieved, Airbus should move down the learning curve and be able to deliver improving margins and more favourable cash flow dynamics. Guidance for 800 deliveries this year has been reiterated implying H218 catch-up. Feasibility studies on further rate increases to 70+ per month for the A320 are indicative of the potential for growth to be sustained into the mid-2020's. Greater stability in AH and improved cash flow at ADS as the €1bn consumption in FY18 by the A400m transitions to a likely cash inflow in FY20 should also help.

Valuation: Moving to more sustained growth

FY18 is all about H2 catch-up but, assuming success, the improvement expected in EPS over the next few years should be supported by a more consistent cash flow growth now that the investment and ramp-up phases are completing in civil.

Consensus estimates

Year end	Revenue (€bn)	Adj EBIT (€bn)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/16	66.6	3.96	3.31	1.35	29.2	1.4
12/17	59.0	3.19	3.71	1.50	26.1	1.6
12/18e	66.8	5.16	4.44	1.79	21.8	1.9
12/19e	72.6	6.22	5.59	2.19	17.3	2.3

Source: Company reports, Bloomberg. Note: IFRS 15 adjusted from FY17 except FY17 EPS.

Aerospace & defence

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Price €96.78

Market cap €75bn

US\$1.21/€

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 2017 delivery levels).
- Production rates are set to rise from the recent plateau as A320neo transitions to 60 per month by mid-FY19 and A350 moves to rate 10 per month.
- Cash conversion should improve as the new product investment phase in Civil wanes.

Bear

- Continuing issues in military aircraft, although A400M contractual resolution appears closer.
- A320 neo engine delays continue to affect deliveries.
- Ongoing SFO and PNF investigations hold the potential for imposition of monetary penalties.

Analysts

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