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Airbus

Aerospace & defence

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Increasing rewards from civil aircraft

Airbus reported Q218 adjusted EBIT well ahead of consensus, on sales modestly better than market forecasts. The beat was mainly driven by improvements on the A350 programme. Guidance is unchanged except for the addition of the A220 in H218. Prospects for Airbus Defence & Space (ADS) and Helicopters also appear to be improving, and as civil aircraft delivers improving financials, group cash and earnings should grow strongly into the next decade.

Q218 shows strong progress

Sales rose 8% to €14.9bn (consensus €14.6bn, Q217 €13.7bn) and adjusted EBIT almost doubled to €1,142m from €572m in Q217 (consensus €988m). The higher profit was largely attributed to reduced losses on the A350 programme as recurring costs fall, learning curve benefits accrue as the ramp up matures and a favourable price mix (a lower proportion of deliveries with launch discounts). Engine supply issues seem to be subsiding on the A320 programme, with more neos (new engine options) than ceos (current engine options) delivered for the first time in June. Overall civil adjusted EBIT rose to €908m (Q217 €360m). Airbus Helicopters and ADS also improved with adjusted EBIT rising to €138m (Q217 €86m) and €197m (Q217 €180m) respectively on flat revenues in each division, allowing for disposals. H118 group sales were relatively flat at €25.0bn (H117 €25.2bn) and adjusted EBIT doubled to €1.2bn (H117 €0.6bn). A modest €129m Q218 underlying free cash outflow also improved thanks to recovering deliveries, higher pre delivery payments and lower payments to engine suppliers due to Q1 supply delays.

Guidance indicates solid growth

Guidance is unchanged except for the addition of the A220 (formerly the C-Series) programme in H218 following Airbus's entry. Airbus still expects to deliver around 800 aircraft in 2018, excluding 18 A220's. Group guidance is now for adjusted EBIT of €5.0bn for FY18, including an EBIT loss of €0.2bn from the A220 that is yet to be reflected in consensus. FCF before M&A and customer financing of close to €3bn for the ongoing business is reduced by €0.3bn by the A220. However, at the net cash level the A220 cash outflow is largely mitigated by the funding agreement, as will be the outflows through to 2021.

Valuation: Rating reflects growth potential

As ADS and Helicopters prospects also appear to be improving and the civil aircraft activity generates increasing returns from the improving new aircraft programmes, EPS and cash flow should sustain strong growth, supporting a 19.6x FY19e PER.

Consensus estimates

Year end	Revenue (€bn)	Adj EBIT (€bn)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	66.6	3.96	3.31	1.35	33.1	1.2
12/17	59.0	3.19	3.71	1.50	29.5	1.4
12/18e	63.4	5.17	4.51	1.76	24.3	1.6
12/19e	69.0	6.24	5.60	2.11	19.6	1.9

Source: Company reports, Bloomberg

Price	€109.6
Market cap	€85bn

US$1.17/€

Share price graph

Share details

Code	AIR
Listing	Euronext
Shares in issue	775.6m

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 by end 2018.
- 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.
- Although improving, A320 neo engine delays mean heavy H2 skew of delivery schedule to achieve guidance.
- Ongoing SFO and PNF investigations hold the potential for imposition of monetary penalties.

Analysts

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