

COMPANY RESULTS

Cathay Pacific Airways (293 HK)

2024: Results Slightly Miss Our Forecast But A Solid Beat Of Consensus'

Cathay's 2024 core net profit of HK\$8.9b (+27.6% yoy) beat consensus estimates by 11.4% but slightly missed ours at 96.2%. The positives from better-than-expected pax yields in 2H24 were offset by negatives from higher staff costs and weaker fuel efficiency. 2025 earnings should stay largely flattish yoy, with subdued fuel prices balancing cargo headwinds from US-China trade tensions. Pax and cargo yields are expected to normalise further in 2025. Maintain HOLD. Target price: HK\$11.20.

2024 RESULTS

Year to 31 Dec (HK\$b)	2H24	2H23	yoy % chg	1H24	hoh % chg	2024	2023	yoy % chg	Prev. 2024F	Actual as % of 24F
Revenue	54.8	50.9	+7.6	49.6	+10.4	104.4	94.5	+10.5	103.4	100.9%
Pax services	35.6	33.9	+5.1	33.0	+7.8	68.6	61.4	+11.6	67.8	101.2%
Cargo services	14.8	13.2	+12.4	12.6	+17.4	27.4	25.6	+7.1	27.4	99.9%
Non-fuel opex	-33.4	-30.2	+10.7	-29.5	+13.1	-62.9	-56.5	+11.4	-62.1	101.4%
Fuel cost	-14.1	-14.4	-1.8	-14.2	-0.4	-28.3	-25.0	+13.1	-27.6	102.2%
Core operating profit	7.3	6.4	+14.3	5.9	+23.1	13.2	13.0	+1.4	13.7	96.3%
JV/associates contribution	0.7	1.1	-40.1	-0.3	-303.4	0.3	-1.5	-121.6	0.4	79.1%
Net interest inc/(exp)	-1.6	-1.3	+24.4	-1.5	+10.0	-3.1	-2.7	+11.8	-3.0	103.6%
Tax expense	-0.7	-0.6	+9.2	-0.6	+9.4	-1.3	-1.1	+23.1	-1.7	79.0%
Net Profit (reported)	6.2	5.1	+22.1	3.4	+84.9	9.6	9.1	+6.0	9.9	96.8%
Core net profit*	5.6	5.1	+9.3	3.3	+71.4	8.9	6.9	+27.6	9.2	96.2%
Margins (%)										
Core operating profit*	13.3	12.5	+0.8ppt	11.9	+1.4ppt	12.6	13.8	-1.1ppt	13.2	
Core net profit*	10.2	10.1	+0.2ppt	6.6	+3.6ppt	8.5	7.3	+1.1ppt	8.9	

Source: Cathay, UOB Kay Hian

RESULTS

- 2024 results confirm consensus beat.** Cathay Pacific Airways' (Cathay) 2024 core net profit of HK\$8.9b (up 27.6% yoy) slightly missed our full-year estimates, at 96.2%, but represents an 11.4% beat against consensus estimates of HK\$8.0b. Our trading BUY call on Cathay has worked well, as we had highlighted the trading opportunity from the potential results beat of consensus estimates in our company update note last week.
- Better-than-expected pax yield offset by higher-than-expected operating costs.** 2H24 pax yields for the full-service carrier (FSC) normalised by 12.6% yoy to HK\$0.66, slightly better than our projection, while the strong cargo yield of HK\$2.95 was in line at 100% of our estimate. However, the positive surprises from pax yields were more than offset by higher-than-expected staffing costs (+11.0% yoy due to an increase in employee headcount), which outpaced group revenue growth of 7.6% yoy. In addition, 2H24 fuel efficiency was weaker than expected, with fuel consumption per million ATK rising 2.8% yoy, due to increased utilisation of less fuel-efficient aircraft compared with the initial stages of post-pandemic recovery.

KEY FINANCIALS

Year to 31 Dec (HK\$m)	2023	2024	2025F	2026F	2027F
Net turnover	94,485	104,371	114,706	117,824	121,909
EBITDA	25,323	25,236	25,598	23,704	23,307
Operating profit	12,999	13,177	12,475	9,616	8,334
Net profit (rep./act.)	9,067	9,607	9,021	7,141	6,415
Net profit (adj.)	6,941	8,856	9,021	7,141	6,415
EPS (HK\$ cents)	93.9	137.6	140.1	110.9	99.6
PE (x)	11.6	7.9	7.8	9.8	10.9
P/B (x)	1.4	1.3	1.3	1.2	1.1
EV/EBITDA (x)	4.0	4.2	4.2	4.6	4.7
Dividend yield (%)	3.9	6.3	6.4	5.1	4.6
Net margin (%)	9.6	9.2	7.9	6.1	5.3
Net debt/(cash) to equity (%)	103.7	90.6	71.3	65.1	60.7
ROE (%)	14.6	17.1	16.7	12.5	10.6
Consensus net profit	-	-	8,179	8,537	6,022
UOBKH/Consensus (x)	-	-	1.10	0.84	1.07

Source: Cathay, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	HK\$10.90
Target Price	HK\$11.20
Upside	2.7%
(Previous TP)	HK\$11.30

COMPANY DESCRIPTION

Cathay Pacific Airways is a leading premium travel lifestyle brand based in Hong Kong, offering products and services across four business lines including full-service airline, low-cost airline, cargo and lifestyle.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	293 HK
Shares issued (m):	6,439.4
Market cap (HK\$m):	70,189.6
Market cap (US\$m):	9,034.8
3-mth avg daily t'over (US\$m):	13.8

Price Performance (%)

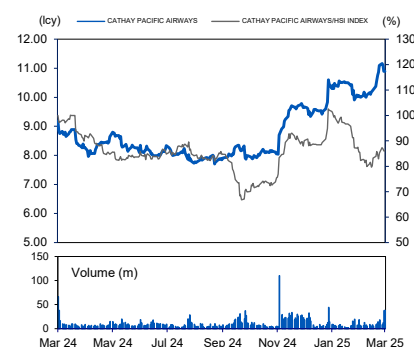
52-week high/low	HK\$11.54/HK\$7.68
1mth	10.0
3mth	11.3
6mth	38.3
1yr	30.1
YTD	14.3

Major Shareholders

Swire Pacific	45.0%
Air China	30.0%

FY24 NAV/Share (Rmb)	8.65
FY24 Net Cash/Share (Rmb)	8.70

PRICE CHART



Source: Bloomberg

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- Decent dividend yield.** A second interim dividend of HK\$0.49 per ordinary share was announced, bringing the full-year dividend to HK\$0.69, implying a 2024 dividend yield of 6.3% based on the closing price of HK\$10.90 on 12 Mar 25.
- Deleveraging its balance sheet.** Backed by strong earnings and free cash flow, Cathay managed to redeem/repurchase most of its outstanding quasi-equity instruments, including convertible bonds and preference shares, which are deemed debts from common shareholders' perspective. As a result, Cathay's net gearing (excluding operating lease liabilities) declined to 91% as at end-24 (end-23: 104%), largely in line with pre-pandemic levels.

STOCK IMPACT

- Management's outlook guidance.** Management noted that the group would continue to ramp up capacity supply, as air travel in Hong Kong continues to recover. However, pax yields, which were still at 125% of pre-pandemic levels in 2024, are expected to continue normalising, particularly for long-haul routes as Cathay and other regional/global players continue to ramp up their capacity supply. Having temporarily reversed a declining trend in 2H24, cargo yields (at 151% of pre-pandemic levels in 2024) are likely to face more uncertainties going ahead amid the US-China trade tension.
- Weak jet fuel prices to support 2025 earnings.** Jet fuel prices have been on a largely declining trend throughout 2024, averaging at US\$99/bbl for the whole year. After a short-lived rebound at the start of 2025, jet fuel prices retreated to US\$86/bbl on 12 Mar 25, a 13% drop from 2024's average levels. Although fluctuations in fuel costs should be largely passed through to end-customers in the long run, lower jet fuel costs would still benefit airlines' earnings in the near term before the pass-through occurs. As such, we expect the favourable fuel costs seen in early-25 to at least support Cathay's 1H25 earnings performance.
- Earnings outlook: Largely flattish in 2025 but to moderate further in 2026-27.** Overall, we expect Cathay's 2025 earnings to be largely flattish yoy or see a slight improvement over 2024, balancing the following factors: a) further pax load recovery as better network connectivity drives increasing air travel demand, b) favourable fuel costs, c) moderating pax yields as industry-wide capacity supply continues to increase, and d) cargo headwinds from the US-China trade tensions and President Trump's potential removal of the de minimis exemption. Assuming Cathay's pax and cargo yields normalise to 112% and 125% of pre-pandemic levels, respectively, by 2027 (compared with 125% and 151% in 2024), our base-case projection suggests Cathay's core earnings would moderate to HK\$6.4b in 2027, a 28% decline from its 2024 core earnings levels.

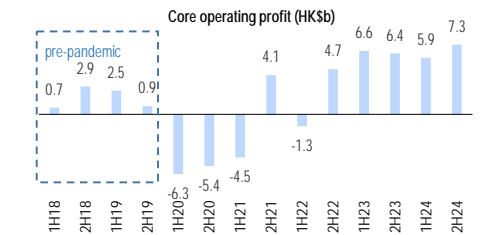
EARNINGS REVISION/RISK

- Maintain 2025/26/27 earnings forecasts.** We maintain our 2025/26/27 net profit forecasts for Cathay at HK\$9.0b/HK\$7.1b/HK\$6.4b, respectively.
- Key risks include:** a) Weaker-than-expected macroeconomic environment dampening air travel demand; b) escalating trade tensions dampening air cargo prospects; c) unfavourable fluctuations in jet fuel prices.

VALUATION/RECOMMENDATION

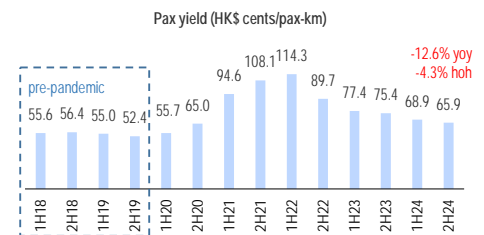
- Maintain HOLD on Cathay with a target price of HK\$11.20.** Our target price is based on 1.30x 2025F P/B, pegged to 1.5SD above Cathay's historical mean P/B of 0.95x. While Cathay lacks sustainable re-rating catalysts due to a moderating medium-term earnings outlook, investors may still hold Cathay for its decent dividend yields (6.3%/6.4% in 2024/25, respectively), while eyeing possible short-term trading opportunities.

CORE OPERATING PROFIT TREND (HALF YEARLY)



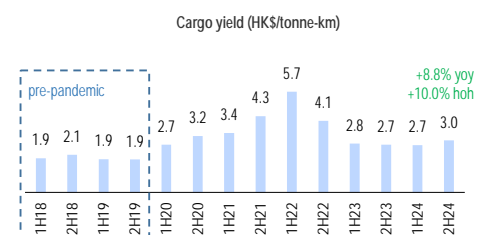
Source: Cathay

PAX YIELD TREND



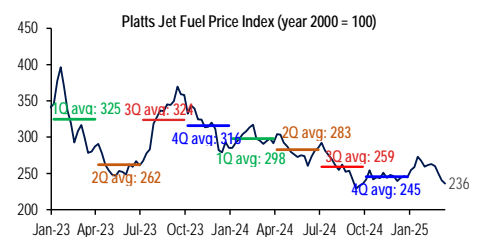
Source: Cathay

CARGO YIELD TREND



Source: Cathay

GLOBAL JET FUEL PRICES



Source: S&P Global Platts

TARGET PRICE REFERENCE TABLE

		FY24	FY25F	FY26F
BVPS		HK\$8.05	HK\$8.65	HK\$9.14
P/B peg		----- Target price -----		
+2.0SD	1.41x	HK\$11.36	HK\$12.19	HK\$12.89
+1.5SD	1.30x	HK\$10.43	HK\$11.20	HK\$11.84
+1.0SD	1.18x	HK\$9.50	HK\$10.20	HK\$10.79
+0.5SD	1.07x	HK\$8.58	HK\$9.21	HK\$9.74
Mean	0.95x	HK\$7.65	HK\$8.21	HK\$8.69

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (HK\$m)	2024	2025F	2026F	2027F
Net turnover	104,371	114,706	117,824	121,909
EBITDA	25,236	25,598	23,704	23,307
Deprec. & amort.	12,059	13,123	14,087	14,972
EBIT	13,177	12,475	9,616	8,334
Total other non-operating income	470	0	0	0
Associate contributions	331	1,152	1,534	1,628
Net interest income/(expense)	(3,056)	(3,050)	(2,900)	(2,600)
Pre-tax profit	10,922	10,578	8,250	7,362
Tax	(1,315)	(1,555)	(1,108)	(946)
Minorities	0	(1)	(1)	(1)
Net profit	9,607	9,021	7,141	6,415
Net profit (adj.)	8,856	9,021	7,141	6,415

BALANCE SHEET

Year to 31 Dec (HK\$m)	2024	2025F	2026F	2027F
Fixed assets	116,457	118,346	120,287	122,405
Other LT assets	35,541	36,693	38,227	39,855
Cash/ST investment	10,534	12,960	13,311	13,057
Other current assets	8,712	9,208	9,467	9,797
Total assets	171,244	177,207	181,292	185,115
ST debt	11,626	11,626	11,626	11,626
Other current liabilities	38,613	40,882	42,753	44,550
LT debt	56,849	57,373	56,373	55,373
Other LT liabilities	11,649	11,649	11,649	11,649
Shareholders' equity	52,500	55,669	58,881	61,907
Minority interest	7	8	9	10
Total liabilities & equity	171,244	177,207	181,292	185,115

CASH FLOW

Year to 31 Dec (HK\$m)	2024	2025F	2026F	2027F
Operating	23,541	28,600	21,420	21,226
Pre-tax profit	11,203	10,578	8,250	7,362
Tax	(2,010)	(1,555)	(1,108)	(946)
Deprec. & amort.	12,059	13,123	14,087	14,972
Associates	(331)	(1,152)	(1,534)	(1,628)
Working capital changes	2,888	1,773	1,613	1,466
Non-cash items	(618)	5,834	112	(0)
Other operating cashflows	350	0	0	0
Investing	(6,082)	(11,224)	(12,242)	(13,304)
Capex (maintenance)	(8,272)	(9,336)	(10,300)	(11,185)
Investments	164	0	0	0
Proceeds from sale of assets	190	0	0	0
Others	1,836	(1,889)	(1,941)	(2,118)
Financing	(19,834)	(14,950)	(8,828)	(8,176)
Dividend payments	(4,056)	(5,411)	(4,041)	(3,389)
Proceeds from borrowings	13,112	0	0	0
Loan repayment	(11,812)	(3,787)	(3,787)	(3,787)
Others/interest paid	(17,078)	(5,752)	(1,000)	(1,000)
Net cash inflow (outflow)	(2,375)	2,426	351	(253)
Beginning cash & cash equivalent	7,894	5,444	7,870	8,221
Changes due to forex impact	(75)	0	0	0
Ending cash & cash equivalent	5,444	7,870	8,221	7,967

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin				
Pre-tax margin	24.2	22.3	20.1	19.1
Net margin	10.5	9.2	7.0	6.0
ROA	9.2	7.9	6.1	5.3
ROE	5.6	5.2	4.0	3.5
	17.1	16.7	12.5	10.6
Growth				
Turnover				
EBITDA	10.5	9.9	2.7	3.5
Pre-tax profit	(0.3)	1.4	(7.4)	(1.7)
Net profit	7.8	(3.2)	(22.0)	(10.8)
Core net profit	6.0	(6.1)	(20.8)	(10.2)
EPS	27.6	1.9	(20.8)	(10.2)
	46.6	1.8	(20.8)	(10.2)
Leverage				
Debt to total capital				
Debt to equity	56.6	55.3	53.6	52.0
Net debt/(cash) to equity	130.4	123.9	115.5	108.2

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