

## EARNINGS

# CATHAY A DRAG ON 2019 PROFIT, SWIRE SAYS

**Group sounds warning that its consolidated recurring underlying profit will be below 2018 as months of unrest in the city hurt airline unit**

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Swire Pacific, parent company of Hong Kong's Cathay Pacific Airways, said yesterday that it expected to post a lower recurring profit for this year, mainly because of poor results at the carrier, which has been affected by about five months of anti-government protests in the city.

"The company's consolidated recurring underlying profit for 2019 is expected to be below that of 2018," it said in a filing to the Hong Kong bourse after the stock market closed. "The expected results of Cathay Pacific are the principal reason for this," it added.

However, after taking into account HK\$13.4 billion in investment property disposal gains in the year's first seven months and other non-recurring factors, overall profit for 2019 is still expected to be substantially above that of 2018.

Swire Pacific, one of Asia's largest and oldest conglomerates controlled by the Swire family of Britain, posted 40 per cent year-on-year growth in underlying profit to HK\$4.23 billion in the first half, with Cathay turning in an interim net profit of HK\$1.35 billion – a turnaround from a loss of HK\$263 million last year.

However, Cathay's fortunes have rapidly deteriorated in the past few months, with passenger throughput falling 11.3 per cent year on year in August and by 7.1 per cent in September.

Inbound traffic for September divided 38 per cent from a year ago, as travellers were deterred by the city's increasingly violent protests, some of which were at the airport.

The steep falls pared the

airline's accumulated throughput growth to 1.3 per cent for the year's first nine months, from 4.4 per cent in the first six months.

"The protests in Hong Kong have continued to reduce Cathay Pacific's passenger traffic and to affect forward bookings adversely," Swire Pacific said. "It is no longer expected that Cathay Pacific will achieve better results in the second half of 2019 than in the first half [as it did in normal times]."

Property rents, another big profit driver for Swire Pacific, had continued to be affected since July by the protests, which had deterred visitors from its shopping malls, it said, adding it had to offer rental concessions to some tenants.

The protests were also affecting its sportswear and leisure products retail and wholesale unit, Swire Resources, while losses deepened at the Chongqing New Qinyuan Bakery chain it operates in the mainland.

Meanwhile, after a review of its offshore services business, which operates a fleet of vessels mainly serving the oil and gas and renewable energy industries, Swire Pacific expected to book impairment charges on the fleet's value of HK\$2.12 billion this year.

Another HK\$440 million of impairment on goodwill – the excess of an asset's acquisition price over its assets' fair value – is expected to be booked on its US-based aircraft maintenance business HAECO Americas and on the Qinyuan bakery business.

Before the profit warning, Swire Pacific was forecast to post a net profit, including disposal gains, of HK\$13.75 billion this year, from HK\$7.49 billion last year, according to an average estimate in a poll of analysts by Bloomberg.