Source: South China Morning Post

Date: 21/2/2018

AVIATION

Cathay flies back into profit after a year of turbulence

Airline expects to make HK$2.3b in 2018, a huge turnaround from the HK$1.25b loss of 2017

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Embattled Cathay Pacific Airways yesterday said it expected to announce a net profit of HK$2.3 billion for 2018 – a huge turnaround from its HK$1.25 billion loss the previous year.

Hong Kong's biggest airline credited the upturn in fortunes to its transformation programme – in its final of three years – which aimed to revive the business by cutting HK$4 billion of expenses through investment in technology and fuel-efficient aircraft. It also launched a long-haul route to Washington in September.

"The transformation programme has had a positive impact," Cathay said in a statement to the Hong Kong stock exchange.

It was only the second time that Cathay had made an unscheduled profit performance announcement since it became a publicly traded company in 1986.

The other time was in July 2008 when the airline warned soaring fuel prices meant it could not accurately judge its financial results.

Hong Kong listed companies are required to alert or warn shareholders of any significant changes in profits or losses before scheduled announcements.

The unaudited results were better than analysts had expected, with a consensus of 15 having estimated HK$1.1 billion.

"The worst is behind Cathay," said Paul Yong, a Singapore-based equity analyst of DBS Bank. "This is also why the stock rose so much today."

The carrier's share price jumped by 90 cents – or 7.44 per cent – to HK$13 yesterday, an eight-month high.

Yong said the turnaround was mainly driven by lower fuel prices, Cathay's biggest cost.

He expected jet fuel prices to stay low – about US$65 per barrel – and said some airlines would benefit from a rise in earnings of more than 5 per cent for every US$1 decline per barrel.

The company, which also runs Cathay Dragon, slipped into the red in 2016 and 2017, losing heavily from hedging fuel contracts and punishing competition from mainland carriers, including China Eastern Airlines and China Southern, as well as those from farther afield such as Emirates.

Andrew Lee, equity analyst of Jefferies Hong Kong who forecast a profit of HK$702 million last year, said the 2018 profit was "a good, positive surprise".

Lee estimated the passenger yields in 2018 would jump 6.8 per cent year on year with the second half outperforming the first.

He added the air cargo yield grew 8.4 per cent last year, but the business would come under more pressure as the global trading environment deteriorates in the face of an uncertain future surrounding the US-China trade war.

Following back-to-back losses for the first time in its history, Cathay endured a turbulent 2018 when it was criticised for taking seven months to reveal personal data from 9.4 million passengers had been hacked.

It remained unclear whether the airline has set aside money for potential regulatory fines.

This month, the airline said it was closing its Toronto cabin crew base, putting dozens of jobs at risk.

"At least the passengers keep coming regardless of the data breach. No matter what the bad things about Cathay are about, people are willing to travel," transport expert Geoffrey Cheng said.

The company will reveal its full set of 2018 results on March 13.

The detailed results will shed more light on whether the company's core airline business is able to record its first profit in three years after contributing HK$7.6 billion in losses over that period, dragging down the group's wider performance.

Additional reporting by Danny Lee

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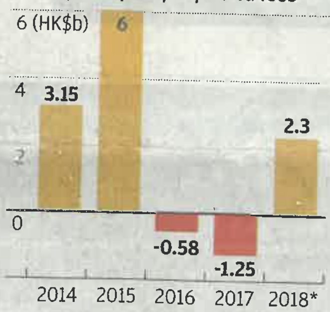
PAUL YONG, EQUITY ANALYST

Cathay Pacific's profit and loss



*Unaudited results

Source: Cathay Pacific Airways SCMP