



Airbus SE ADR (EADSY)

Updated May 28th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$17	5 Year CAGR Estimate:	8.0%	Market Cap:	\$52B
Fair Value Price:	\$18	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	N/A
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.1%	Dividend Payment Date:	N/A
Dividend Yield:	0.0%	5 Year Price Target	\$24	Years Of Dividend Growth:	N/A
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Last Dividend Increase:	N/A

Overview & Current Events

Airbus SE is one of the world's largest aerospace & defense companies. The company operates in three different segments: Airbus, Airbus Helicopters, and Airbus Defense & Space. Together with Boeing, the company holds the majority of the market share in the commercial jet market. On top of this, Airbus also is Europe's second largest defense company, manufacturing and selling combat aircraft such as the Eurofighter and a range of other products. Airbus was founded in 2000 through the fusion of three different companies, and is headquartered in the Netherlands. US-based investors can invest via American Depository Shares that trade under the symbol EADSY. Airbus reports its results and dividends in €, but all numbers in this report have been converted to USD, unless noted otherwise.

Airbus reported the results for the first quarter of fiscal 2020 on April 29. The company announced that its revenues during the quarter totaled €10.3 billion, which equates to \$11.6 billion. This was 15% below the revenues that Airbus generated during the previous year's first quarter. 70% of those revenues were generated by the commercial aircraft segment, which is Airbus' biggest business unit by far. Airbus' revenue decline can be explained by the impact that the coronavirus crisis has on the company, as production at some facilities had to be shut down, while some of Airbus' customers deferred deliveries at the same time. Despite the headwinds from the global pandemic during the first quarter, Airbus still managed to generate profits during the first quarter. Earnings-per-share totaled €0.23 during the first quarter on an adjusted basis, which equates to \$0.25. This was down by ~50% year over year, and it has to be expected that the impact during the second quarter will be significantly larger. 2020 will likely be a year of net losses, but we do not believe that this is very representative of the company's underlying profitability in normal times. To adjust for the pandemic impact, we calculate fair value and other metrics using an *earnings power* estimate of \$1.20 for 2020.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.23	\$0.42	\$0.47	\$0.61	\$0.99	\$0.95	\$0.36	\$1.02	\$1.44	\$1.67	-\$0.50	\$1.61
DPS	\$0.00	\$0.08	\$0.14	\$0.19	\$0.20	\$0.34	\$0.37	\$0.37	\$0.46	\$0.47	\$0.00	\$0.47
Shares¹	3.24	3.27	3.30	3.13	3.14	3.11	3.09	3.10	3.10	3.13	472	550

Airbus is part of a successful duopoly in the commercial aircraft market, but so far it has not been able to generate the same amount of profits as its peer Boeing, despite a relatively similar market share and amount of deliveries. Airbus' cost structure is not as lean as that of Boeing, due to operations that are inefficiently spread around Europe for political reasons. Airbus' profits rose substantially since 2010, albeit from a low level.

Airbus' biggest segment, the commercial jet business, profits from large growth tailwinds, due to the megatrend of growing air travel. This trend is mainly driven by emerging markets such as China and India, where a fast-growing middle class is increasingly able to travel the world. Replacement demand for older aircraft is another factor. In the near term, the coronavirus will lead to lower deliveries, as airlines are under a lot of pressure to preserve cash, which makes them push deliveries into the future. In the long run, however, Airbus should be able to benefit from a world that is growing more connected. Airbus' smaller defense business provides an additional, less cyclical, earnings stream.

¹ In Million

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	27.0	18.8	21.5	31.1	13.3	17.7	47.5	24.3	17.5	22.3	14.2	15.0
Avg. Yld.	-	1.0%	1.4%	1.0%	1.5%	2.0%	2.2%	1.5%	1.8%	1.3%	0.0%	1.9%

Airbus' shares have fallen by more than 50% year to date, due to growing uncertainties around the impact the coronavirus will have on air travel and the financial situation at Airbus' customers. Airbus' median earnings multiple over the last decade was above 20, but based on the growth outlook, the cyclicity of the business, and the uncertain near-term demand, we believe that a 20+ earnings multiple is not justified. Based on our earnings power estimate for 2020, shares are trading relatively close to what we deem a fair valuation for Airbus' shares.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	0%	19%	30%	31%	20%	36%	103%	36%	32%	28%	---	29%

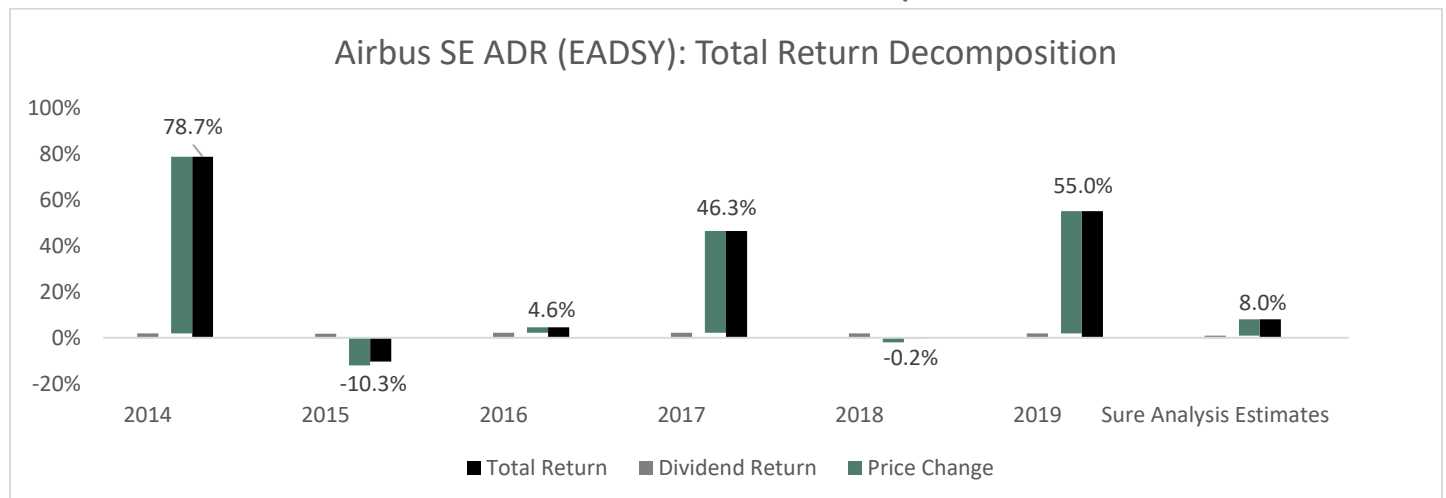
Airbus' dividend payout ratio has moved in a wide range since the company started to pay dividends in 2011, peaking at more than 100% in 2016. In early 2020, Airbus decided to suspend its dividend to shore up the strength of its balance sheet, and it is not yet known when, and at what level, the dividend will be reinstated.

Airbus holds, together with Boeing, a dominant position in the global commercial aircraft market, and moats around this market are very large. During the last couple of years, Airbus was able to capture some market share versus Boeing thanks to the rival's issues with its B737 MAX program. Airbus is also well-connected with European governments, which helps it capture lucrative defense deals. Airbus is not a recession-resilient stock, as profits can be very cyclical. This is not only showcased by the current coronavirus crisis, but was also visible during the Great Financial Crisis.

Final Thoughts & Recommendation

Being part of a wide-moat duopoly with long-term growth tailwinds is a great position to be in, but Airbus has not benefited from this scenario as much as expected. Its profitability has always lagged Boeing, and during the current crisis Airbus will most likely report substantial losses. We see an eventual earnings recovery, though, and based on our earnings power estimate, shares are not trading at an expensive valuation. Due to the fact that the forecasted total returns are solid, but not overly attractive, we rate Airbus' shares a hold in this initial report.

Total Return Breakdown By Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	60,645	68,500	72,612	76,454	80,738	71,520	73,690	66,843	75,226	78,900
Gross Profit	8,250	9,449	10,154	10,564	11,885	9,822	5,826	7,784	10,376	11,760
Gross Margin	13.6%	13.8%	14.0%	13.8%	14.7%	13.7%	7.9%	11.6%	13.8%	14.9%
SG&A Exp.	3,065	3,366	3,688	3,668	3,459	2,942	3,014	2,762	2,875	6,857
D&A Exp.	2,097	2,627	2,639	2,559	2,859	2,737	2,539	2,603	2,886	3,277
Operating Profit	1,165	1,436	2,160	2,444	3,916	3,041	-475	1,843	3,702	1,144
Operating Margin	1.9%	2.1%	3.0%	3.2%	4.9%	4.3%	-0.6%	2.8%	4.9%	1.5%
Net Profit	733	1,366	1,539	1,956	3,116	2,992	1,101	2,674	3,606	-1,525
Net Margin	1.2%	2.0%	2.1%	2.6%	3.9%	4.2%	1.5%	4.0%	4.8%	-1.9%
Free Cash Flow	2,907	2,917	733	-1,446	16	-37	1,449	2,136	39	1,582
Income Tax	323	470	563	633	1,148	751	322	1,656	1,504	2,674

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	110635	114611	117689	124657	116862	115651	117485	129168	131775	128158
Cash & Equivalents	6690	6844	10806	9944	8842	7205	10723	12169	10768	10433
Accounts Receivable	8820	8282	8177	9152	8267	8612	8564	7658	6953	6356
Inventories	27746	29226	29361	33173	30832	31761	31385	33720	36480	35341
Goodwill & Int. Ass.	15027	16562	16228	17261	15514	13726	12758	14478	19133	18585
Total Liabilities	98751	103128	104099	109597	108254	109121	113625	127301	120657	121448
Accounts Payable	11366	12474	12261	13350	12383	11878	13248	15501	18574	16587
Long-Term Debt	0	6028	6315	7537	8698	9552	10666	12570	9833	9620
Shareholder's Equity	11758	11463	13569	15002	8586	6523	3866	1873	11123	6693
D/E Ratio	-	0.53	0.47	0.50	1.01	1.46	2.76	6.71	0.88	1.44

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.7%	1.2%	1.3%	1.6%	2.6%	2.6%	0.9%	2.2%	2.8%	-1.2%
Return on Equity	5.5%	11.8%	12.3%	13.7%	26.4%	39.6%	21.2%	93.2%	55.5%	-17.1%
ROIC	5.4%	9.3%	8.2%	9.2%	15.6%	17.9%	7.2%	18.5%	20.4%	-8.2%
Shares Out.	3,244	3,255	3,282	3,177	3,137	3,154	3,116	3,117	3,124	3,108
Revenue/Share	18.70	21.05	22.12	24.07	25.74	22.68	23.65	21.44	24.08	25.38
FCF/Share	0.90	0.90	0.22	-0.46	0.01	-0.01	0.46	0.69	0.01	0.51

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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