

Aeroflot announced financial results for 12M2018 based on RAS

Aliya Assilbekova — February 05, 2019

According to Russian Accounting Standards, the Company's revenue amounted to 504 697mln RUB (+13% y/y). The cost of sales reached 499 683mln RUB (+25% y/y). General, selling and administrative expenses declined by 15% y/y totaling to 29 816mln RUB. The Company's gross and net profit amounted to 5 013mln RUB (-89% y/y) and 2 796mln RUB (-90% y/y), accordingly.

The growth in revenue was mainly attributable to an increase in operating indicators and movements in the exchange rates. Passenger numbers of Aeroflot company increased reaching 35.8mln (+8.9% y/y) and revenue passenger kilometers (RPKs) grew by 6.7% y/y reaching 98bln RPKs. Yields increased due to the appreciation of EUR and USD against RUB by 12,2% y/y and by 7,5% y/y, accordingly.

An increase in cost of sales (+25% y/y) is related to the growth of number of flights (+12,3% y/y) and capacity growth (+8,4% y/y). Leasing, aircraft and maintenance costs significantly affected the growth of operating expenses. The biggest impact on costs in 2018 was the growth of aviation fuel (+47,7% y/y), including the surge in the cost of jet fuel in rubles (+37,7% y/y), which negatively impacted the Company's net profit. In addition, the higher operating costs were driven by an increase in salaries to flight crew, airport charges and expenses related to passenger service.

A number of optimization measures undertaken by management to mitigate external factors enabled the Company to reduce general, selling and administrative expenses by 15,2% y/y in 2Q and 3Q 2018.

As the result, the net profit equaled to 2 796mln RUB (-90%\$ y/y), which decreased mainly due to growth of aviation fuel, lease and maintenance expenses as well as staff costs.

Our opinion:

Overall, Aeroflot demonstrated relatively weak financial results in 2018 as the result of external factors, which had a significant impact on the financial indicators of the Company. High jet fuel prices and the increase in competition in the airline market negatively affected the net profit of Aeroflot. On the other hand, we positively estimate the Company's efforts to control the operating expenses and actively manage the revenues due to the growth of traffic volumes and route networks. Our recommendation is under review.

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