

## Aeroflot's results for 1H2019 under RAS

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Aliya Assilbekova — August 02, 2019

According to RAS financial statements, Aeroflot's revenue for 1H2019 amounted to 252 863 RUB (+ 15,4% y/y) and cost of sales amounted to 269 355 mn RUB (+ 17.9% y/y). General, selling and administrative expenses increased by 10.2% y/y to RUB 22,622 mn. The net loss of the Group reached RUB 14,120 mn (+ 96.6% y/y).

Revenue growth was driven by an increase in operating performance and a change in the exchange rate. Passenger traffic increased to 17.8 mn (+ 9.7% y/y) with an increase in passenger turnover of 8.7% y/y. The growth of carrying capacities, as well as the exchange rate effect determined the positive dynamics of specific revenue per seat-kilometer (+ 2.8% y/y) and the growth of income rates by 3.7% y/y.

The cost increase (+ 17.9% y/y) is associated with an increase in the cost of aviation fuel (+ 15.4% y/y), due to an increase in its cost by 4.5% y/y in rubles. Higher costs for fuel are due to the increase in flight hours by 12.2% y/y. The growth in leasing and maintenance of aircraft and aircraft engines increased due to an increase in aircraft fleet. Over the past 12 months, the increase in the number of aircraft in operating leases amounted to 8 aircrafts. The increase in costs is also due to an increase in the cost of ground services, air navigation and airport charges due to the growth in traffic volumes and tariffs for services at airports in the Russian Federation.

### **Our opinion:**

Aeroflot's financial performance for 1H2019 meets our expectations. Seasonality, supplemented by the continued influence of fuel and the increased influence of currency factors, explains the net loss of Aeroflot over the reporting period. The Group continues to implement optimization measures, adhering to strict cost control, which helped to curb the growth of commercial and administrative expenses in 1H2019 at the level of 10.2% against 10.9% in 1H2018.

We expect the Company's results to improve in 3Q2019 due to increased demand for air travel and increased operational performance of the budget airline Pobeda. We maintain our **Buy** recommendation with **12M TP 125 RUB / share**.

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