

## Aeroflot: Results for 1Q2019 under IFRS

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Aliya Assilbekova — May 31, 2019

According to 1Q2019 results, Aeroflot increased its revenue to RUB 138 041 mn (+23.3% y/y), EBITDA amounted to 21 333 mn RUB (+ 21.2% y/y), the Company's net loss in the reporting period reached RUB 15 746 mn (net loss in 1Q2018 - RUB 10,415 mn). Passenger traffic for 1Q2019 increased to 12 764 thousand people (+ 16.2% y / y) with an increase in the available seat kilometres to 43 043 mn (+ 17.5% y/y) and the growth in revenue passenger kilometres to 33 542 mn (+ 16.7% y/y). The passenger load factor was 77.9% (+0.6 bp).

Market factors, including foreign exchange and fuel, put pressure on the Company's profits and influence the growth of operating costs. In particular, the cost of aviation fuel increased to 43 700 mn RUB (+ 28.4% y/y), labor costs amounted to 22 579 mn RUB (+ 6.4% y/y), maintenance costs of aircraft increased to 6 174 mn RUB (+ 50.3% y/y), selling, general and administrative expenses amounted to 6 669 mn RUB (+ 8.3% y/y). The higher cost of fuel, despite the Brent decline by 5.4%, is due to the depreciation of the RUB against USD by 16.3% compared to the same period of 2018.

In 2019, in line with the new standard the IFRS 16 standard, the Company recognized assets and liabilities relating to all aircraft leasing agreements longer than 12 months, which were previously classified as aircraft on operational leases. The company notes that the change in debt under the IFRS 16 standard is an accounting change that is not associated with a real increase in the Company's liabilities or a change in its financial position. Total debt as of 31<sup>st</sup> March 2019 decreased by 2.9% compared with the total debt as of December 31, 2018, due to the revaluation of lease obligations as the result of the RUB strengthening against the USD in 1Q2019.

### **Our opinion:**

For Aeroflot, 1Q and 4Q are weak in terms of financial results, as the Company incurs fixed costs with reduced demand due to a decrease in passenger traffic. Financial indicators of the Company for 1Q2019 meet our expectations and are explained by seasonality and the negative impact of fuel and currency factors on the Company's net profit. Among positive factors, we note an increase in revenue rates on domestic and international flights, as well as an increase in operating performance, which is in line with the approved strategy of the Company.

The increase in financial and operational indicators of Pobeda airlines (passenger traffic in 2018 increased by 56.8% y/y to 7.2 mn), the commissioning of the new terminal at Sheremetyevo Airport in late 2018, and the opening of new domestic and international destinations in 2019 will positively affect the Company's operational metrics in 2019. Due to the need to update our forecast indicators, we put our recommendation under review.

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