

Aeroflot reports financial results for 1Q2019 according to RAS

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According to RAS financial statements, Aeroflot's revenue for 1Q2019 amounted to 114 026 mn RUB (+ 21,1% y/y), whilst cost of sales totaled to 133 039 mn RUB (+ 25,8% y/y). General, selling and administrative expenses increased by 16,9% y/y to RUB 11 290 mn. The net loss of the Company reached RUB 16 850 mn (+ 92.6% y/y).

Revenue growth was driven by an increase in operating performance and a change in the exchange rate. Passenger traffic increased to 8,5 mn (+ 14,3% y/y) with an increase in passenger turnover by 11% y/y. Yield rates increased due to the strengthening of EUR versus RUB by 7,1% y/y. The growth of carrying capacities, as well as the exchange rate effect, determined the positive dynamics of the proportional revenue per seat-kilometer (+ 4,6% y/y).

An increase in cost of sales (+ 25,8% y/y) is associated with an increase in the cost of aviation fuel (+ 24,5% y/y), including an increase in the cost of aviation fuel in terms of rubles by 10,4% y/y. Despite the decline in Brent price by 5.4% y/y, the higher cost of aviation fuel was due to the weakening of the RUB against the USD by 16% y/y in the reporting quarter. The growth in expenses related to leasing and maintenance of aircraft and aircraft engines was due to an increase in the number of aircraft fleet. Over the past 12 months, an increase in the number of aircrafts in the operating lease was equal to 21 aircraft. The increase in costs was also attributable 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, as well as the airline industry as a whole, traditionally shows relatively weak results in the 1st and 4th quarters. Seasonality, supplemented by the continued influence of fuel and the increased influence of currency factors, explains the net loss for the reporting period in the amount of RUB 16 850 mn. The company continues to implement optimization measures, adhering to strict cost control, which allowed it to restrain the growth of commercial and administrative expenses in 1Q2019 at the level of 16,3% against 18,2% in 1Q2018.

We expect the Company's financial results to improve in 2Q and 3Q2019. We maintain our recommendation to **Buy** and **12M TP 130RUB/share**.

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