

# Aeroflot announces IFRS results for 2018

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According to the IFRS results announced by Aeroflot for 2018, the revenue of the Company for 2018 was 611.6bn RUB (+14,8% y/y), EBITDA, including customs duties, decreased to 33.6bn RUB (-40% y/y). EBITDA margin declined from 10.5% to 5.5%, net income of the Company decreased to 5.7bn RUB (-75% y/y). In case the Company distributes 50% of net profit for 2018 for dividend payments, which is our base-case assumption, the amount of shareholder dividends will be 2.57 RUB/share.

The increase in the Company's revenue was due to an increase in production indicators. The dynamics of the revenue was also influenced by the increase in yields on international routes due to the weakening of the ruble and the consequent effect of this on foreign-exchange denominated revenue. Revenue from charter flights increased by 22.6% y/y due to increase in yields on charter flights and the expansion of Rossiya's charter programme. Cargo revenue rose by 14.4% y/y as cargo and mail volumes grew by 11.2% y/y.

The Company's operating expenses increased by 20.2% y/y to 591.9bn RUB. The cost of jet fuel, being the main cost item (25%), increased by 48.2% y/y to 181.9bn RUB. The increase in expenses is due to the increase in average prices for jet fuel in rubles by 36% y/y due to the dynamics of oil prices as well as increase in flight numbers and flying time. In addition to increase in the cost of the jet fuel, the increase in operating costs was contributed by the increase in aircraft maintenance costs (+12.6% y/y) due to the growth of passenger traffic and increased airport fares. Operating lease expenses (+35.1% y/y) and technical maintenance costs (+25% y/y) increased due to the expansion of the fleet and increase in LIBOR for 2018 (+1.05 b.p.).

Costs staff in the amount of 82.8bn RUB remained at the same level due to the decrease in remuneration paid to senior management as well as the revaluation of the reserve for future payments. Selling, general and administrative expenses decreased by 12.2% y/y (31.7bn RUB) due to the implementation of optimization programme.

Total debt of the Company as of 31 December 2018 reduced to 97.6bn RUB (-6.8% y/y) with a balance of cash and short-term investments of 30.1 bn RUB (-45.1% y/y). A reduction in debt is associated with a decrease in finance lease obligations.

As of 2018, Aeroflot carried 55.7 bn passengers increasing passenger traffic by 11.1% y/y. Passenger traffic on international routes amounted to 24.7mn passengers (+9.7% y/y), on domestic routes 31 mn passengers (+12.3% y/y). With an increase in the Company's available seat kilometers by 10.1% y/y, passenger load factor totaled to 82.7% y/y and remained at the same level as in 2017 (82.8%).

## **Our opinion:**

The presented general results generally fit into our forecast. The most significant factors affecting the financial results in 2018 were the significant increase in the average price for jet fuel as well as the depreciation of the ruble. The increase in price of jet fuel was 36% y/y, which led to additional expenses in the amount of 48bn USD. Considering that half of the Company's expenses are denominated in rubles, the weakening of the ruble created additional pressure on the Company's financial results.

Despite the growing pace of rising fuel prices and the devaluation of the ruble, we note a positive trend of growth in operating performance. The revenue from the regular passenger traffic increased by 16.1% y/y, which is associated with an increase in passenger traffic and increase in yields on international destinations. Due to the launch of the optimization programme in 2018 by the Company to reduce costs, actively manage capacity and revenue, the Company managed to limit the growth of operating expenses and generate the revenue per available seat at the level of 4.9% y/y.

Taking into account that the Company's results fit into our forecast, we maintain our recommendation to **Buy** and 12M TP at 130 RUB/share unchanged.

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