



# Airbus SE ADR (EADSY)

Updated February 20<sup>th</sup>, 2021 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$28	<b>5 Year CAGR Estimate:</b>	-4.6%	<b>Market Cap:</b>	\$87B
<b>Fair Value Price:</b>	\$17	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	N/A
<b>% Fair Value:</b>	170%	<b>5 Year Valuation Multiple Estimate:</b>	-10.0%	<b>Dividend Payment Date:</b>	N/A
<b>Dividend Yield:</b>	0.0%	<b>5 Year Price Target</b>	\$22	<b>Years Of Dividend Growth:</b>	N/A
<b>Dividend Risk Score:</b>	N/A	<b>Retirement Suitability Score:</b>	N/A	<b>Last Dividend Increase:</b>	N/A

## Overview & Current Events

Airbus SE is one of the world's largest aerospace & defense companies. The company operates in three different segments: Airbus, Airbus Helicopters, and Airbus Defense & Space. Together with Boeing, the company holds most of the market share in the commercial jet market. Airbus also is Europe's second largest defense company. Airbus was founded in 2000 through the fusion of three different companies and is headquartered in the Netherlands. US-based investors can invest via American Depository Shares that trade under the symbol EADSY. Airbus reports its results and dividends in €, but all numbers in this report have been converted to USD, unless noted otherwise.

Airbus reported the results for the fourth quarter of fiscal 2020 on February 19. The company announced that its revenues during the quarter totaled €19.8 billion, which equates to ~\$24 billion. This was 19% less compared to the revenues that Airbus generated during the previous year's quarter. Most of those revenues were generated by the commercial aircraft segment, which has also been the case in the past. Airbus' revenue decline can be explained by the impact that the coronavirus crisis has on the company, as production at some facilities has slowed down, while some of Airbus' customers deferred deliveries to preserve cash during this crisis.

These pandemic headwinds also explain why Airbus was not able to generate any profits during fiscal 2020. The company's loss-per-ADR totaled -€5.80 during 2020, which equates to -\$7.00. The very weak results during 2020 were not representative of Airbus' underlying earnings generation ability, however, due to the large headwinds from the pandemic. 2021 will be better, but Airbus will likely not generate any profits this year. To account for the company's underlying earnings generation ability, we calculate fair value using an earnings power figure of \$1.10.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$0.42	\$0.47	\$0.61	\$0.99	\$0.95	\$0.36	\$1.02	\$1.44	\$1.67	-\$7.00	<b>-\$3.00</b>	<b>\$1.47</b>
<b>DPS</b>	\$0.08	\$0.14	\$0.19	\$0.20	\$0.34	\$0.37	\$0.37	\$0.46	\$0.47	\$0.00	<b>\$0.00</b>	<b>\$0.00</b>
<b>Shares<sup>1</sup></b>	3.27	3.30	3.13	3.14	3.11	3.09	3.10	3.10	3.13	3.14	<b>3.15</b>	<b>3.20</b>

Airbus is part of a successful duopoly in the commercial aircraft market, but so far it has not been able to generate the same amount of profits as its peer Boeing, despite a relatively similar market share and amount of deliveries. Airbus' cost structure is not as lean as that of Boeing, due to operations that are inefficiently spread around Europe, mostly for political reasons. Airbus' profits rose substantially since 2010, albeit from a low level.

Airbus' biggest segment, the commercial jet business, benefits from large growth tailwinds, due to the megatrend of growing air travel. This trend is mainly driven by emerging markets such as China and India, where a fast-growing middle class is increasingly able to travel the world. Replacement demand for older aircraft is another factor. In the near term, the coronavirus will lead to lower deliveries, as airlines are under a lot of pressure to preserve cash, which makes them push deliveries into the future. In the long run, however, Airbus should be able to benefit from a world that is growing more connected. Airbus' smaller defense business provides an additional, less cyclical, earnings stream.

<sup>1</sup> In billions

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## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	18.8	21.5	31.1	13.3	17.7	47.5	24.3	17.5	22.3	-	25.5	15.0
Avg. Yld.	1.0%	1.4%	1.0%	1.5%	2.0%	2.2%	1.5%	1.8%	1.3%	0.0%	0.0%	0.0%

Airbus' shares have risen meaningfully over the last couple of months, thanks to improving sentiment due to the vaccine rollout. Airbus' median earnings multiple over the last decade was above 20, but based on the growth outlook, the cyclicality of the business, and the uncertain near-term demand, we believe that a 20+ earnings multiple is not justified. Based on our earnings power estimate for 2021, shares are trading above what we would deem a fair valuation for Airbus' shares. The market is pricing in a recovery before it has materialized.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	19%	30%	31%	20%	36%	103%	36%	32%	28%	---	---	---

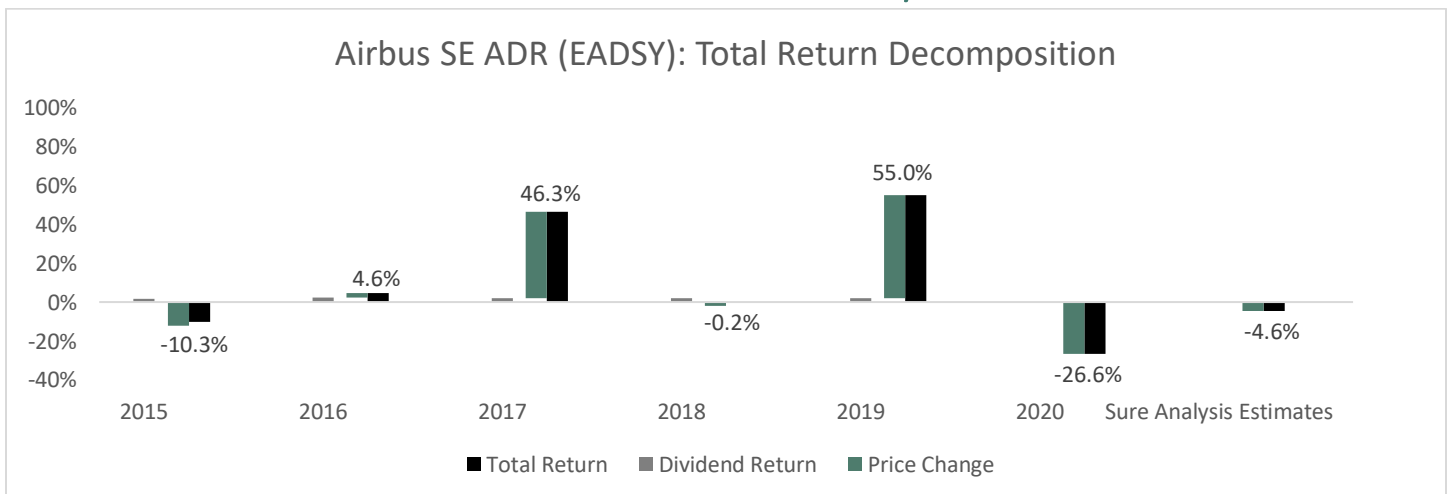
Airbus' dividend payout ratio has moved in a wide range since the company started to pay dividends in 2011, peaking at more than 100% in 2016. In early 2020, Airbus decided to suspend its dividend to shore up the strength of its balance sheet, and it is not yet known when, and at what level, the dividend will be reinstated.

Airbus holds, together with Boeing, a dominant position in the global commercial aircraft market, and moats around this market are very large. During the last couple of years, Airbus was able to capture some market share versus Boeing thanks to the rival's issues with its B737 MAX program. Airbus is also well-connected with European governments, which helps it capture lucrative defense deals. Airbus is not a recession-resilient stock, as profits can be very cyclical. This is not only showcased by the current coronavirus crisis, but was also visible during the Great Recession.

## Final Thoughts & Recommendation

Being part of a wide-moat duopoly with long-term growth tailwinds is a great position to be in, but Airbus has not benefited from this scenario as much as expected. Its profitability has always lagged compared to that of its peer Boeing, and during the current crisis Airbus is reporting substantial losses. We see an eventual earnings recovery over the coming years, but it looks like the market is pricing that in already, before it has materialized. Since the forecasted total returns are not attractive, we rate Airbus' shares a sell at the current price.

## Total Return Breakdown By Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	60645	60645	68500	72612	76454	80738	71520	73690	66843	75226
<b>Gross Profit</b>	8250	9449	10154	10564	11885	9822	5826	7784	10376	11760
<b>Gross Margin</b>	13.6%	13.8%	14.0%	13.8%	14.7%	13.7%	7.9%	11.6%	13.8%	14.9%
<b>SG&amp;A Exp.</b>	3065	3366	3688	3668	3459	2942	3014	2762	2875	6857
<b>D&amp;A Exp.</b>	2097	2627	2639	2559	2859	2737	2539	2603	2886	3277
<b>Operating Profit</b>	1165	1436	2160	2444	3916	3041	(475)	1843	3702	1144
<b>Operating Margin</b>	1.9%	2.1%	3.0%	3.2%	4.9%	4.3%	-0.6%	2.8%	4.9%	1.5%
<b>Net Profit</b>	733	1366	1539	1956	3116	2992	1101	2674	3606	(1525)
<b>Net Margin</b>	1.2%	2.0%	2.1%	2.6%	3.9%	4.2%	1.5%	4.0%	4.8%	-1.9%
<b>Free Cash Flow</b>	2907	2917	733	-1446	16	(37)	1449	2136	39	1582
<b>Income Tax</b>	323	470	563	633	1148	751	322	1656	1504	2674

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	110635	114611	117689	124657	116862	115651	117485	129168	131775	128158
<b>Cash &amp; Equivalents</b>	6690	6844	10806	9944	8842	7205	10723	12169	10768	10433
<b>Accounts Receivable</b>	8820	8282	8177	9152	8267	8612	8564	7658	6953	6356
<b>Inventories</b>	27746	29226	29361	33173	30832	31761	31385	33720	36480	35341
<b>Goodwill &amp; Int. Ass.</b>	15027	16562	16228	17261	15514	13726	12758	14478	19133	18585
<b>Total Liabilities</b>	98751	103128	104099	109597	108254	109121	113625	127301	120657	121448
<b>Accounts Payable</b>	11366	12474	12261	13350	12383	11878	13248	15501	18574	16587
<b>Long-Term Debt</b>	-	6028	6315	7537	8698	9552	10666	12570	9833	9620
<b>Shareholder's Equity</b>	11758	11463	13569	15002	8586	6523	3866	1873	11123	6693
<b>D/E Ratio</b>	-	0.53	0.47	0.50	1.01	1.46	2.76	6.71	0.88	1.44

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	0.7%	1.2%	1.3%	1.6%	2.6%	2.6%	0.9%	2.2%	2.8%	-1.2%
<b>Return on Equity</b>	5.5%	11.8%	12.3%	13.7%	26.4%	39.6%	21.2%	93.2%	55.5%	-17.1%
<b>ROIC</b>	5.4%	9.3%	8.2%	9.2%	15.6%	17.9%	7.2%	18.5%	20.4%	-8.2%
<b>Shares Out.</b>	3.27	3.30	3.13	3.14	3.11	3.09	3.10	3.10	3.13	3.14
<b>Revenue/Share</b>	18.70	21.05	22.12	24.07	25.74	22.68	23.65	21.44	24.08	25.38
<b>FCF/Share</b>	0.90	0.90	0.22	(0.46)	0.01	(0.01)	0.46	0.69	0.01	0.51

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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