

## EADS (EAD.PA)

### Alert: Reiterate Buy on EADS on Current Weakness

**Weakness Overdone** - The FT quoted Airbus COO John Leahy as saying that the order cycle "probably has peaked". This should not come as a surprise to investors as EADS has guided for book-to-bill to fall from c3x in 2011 to >1x in 2012E, following a bumper year for the newly launched A320NEO in 2011. Book-to-bill remains >1x and the order backlog continues to hold firm at c7 years worth of production, which will allow deliveries to rise through 2014E as guided. We believe that the fundamentals of the EADS investment case remain intact.

**Civil Aero: Still Attractive** - Most companies at the Farnborough Air Show remain upbeat on the cycle. We understand that the market is sensitive to bad news at the moment, but continue to believe that civil aero looks relatively attractive vs. other industrial sectors on account of the earnings visibility offered by the large order backlog, continued emerging market demand and need to replace older fuel inefficient aircraft.

**More Cautious on A380 Orders** - Airbus no longer expects 30 A380 orders in 2012, which we believe reflects customer concerns about ongoing wing crack issues. This should not impact earnings (we assume 26 deliveries in 2012) and EADS' guidance of closing out €1bn of A380 losses by 2015 remains unchanged. Airbus has a relatively large backlog of 180 on the A380.

**Positive on A330** - Airbus announced yesterday that it plans to launch an extended range version of the profitable and popular A330 aircraft to compete more effectively with the 787-10. We met with Airbus' Head of Strategy Chris Emerson yesterday, who was upbeat about the continued prospects for A330 sales, given continued customer demand and Boeing's delayed production of the 787.

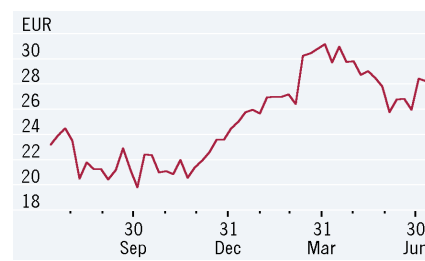
**Good news on A350-1000 and No Further Charges** - This week, Airbus announced orders for 26 of the largest variant of the A350 from Cathay, which is the first airline to order the A350-1000. Given concerns of limited demand for this variant, we view this as encouraging. Also EADS is sticking with its 1H14 target for release of the A350-900, with no further charges. We look for an update at the 1H12 results on 27 Jul.

**Currency Continues to Move in EADS' Favour** - We assume \$1.27/€ in our forecasts (vs. \$1.23/€ currently) and estimate that every 1 \$ cent movement boosts NPV by c€1/share from our Target Price of €36.50. EADS is currently trading on 12.9x P/E in 2012E and 9.4x in 2013E.

#### ■ Company Update

<b>Buy</b>	<b>1</b>
Price (11 Jul 12)	€27.51
Target price	€36.50
Expected share price return	32.7%
Expected dividend yield	2.5%
<b>Expected total return</b>	<b>35.2%</b>
Market Cap	€22,687M
	US\$27,795M

#### Price Performance (RIC: EAD.PA, BB: EAD FP)



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#### See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## EADS

### Valuation

Our one-year Target Price of €36.50/share is based on DCF using a conservative set of assumptions, including a 10% WACC, 2.4% long-term growth and a mid-cycle margin assumption of 8.1% for the group and 8.7% for Airbus Commercial (at \$1.27/€) vs. the company's target of achieving a 10% Airbus Commercial margin by 2015E (at \$1.30/€) before the dilutive impact of A350XWB. Our DCF based TP implies 12.5x 2013E P/E (vs. EADS' long run average consensus 12m P/E of 13.7x) and 11.0x 2013E EV/EBIT. Our Target implies 0.7x 2013E EV/Sales vs. our mid-cycle assumption of 8.1% and 6.3% in 2013E, rising to 7.5% in 2014E.

### Risks

The key risks to our investment thesis on EADS are: (1) potential further cost overruns on the A350XWB programme; (2) execution risks surrounding Airbus' plans to ramp up narrow-body production; (3) transactional FX risk; (4) cyclical and typical aviation risks including terrorism/war and external shocks; (5) increase in demand for vendor financing, worsening cash flows, if credit markets tighten or continued export credit agency support is not forthcoming; (6) Power 8 cost cutting plan failing to achieve the targeted cost savings as incremental savings prove harder to attain. Conversely, restructuring may exceed expectations; (7) continued difficulties ramping up A380 production; (8) continued cost overruns on the A400M military transporter programme; (9) the potential for a late-cycle decline in civil aircraft deliveries; (10) re-engining the A320 could prove technically and commercially risky, and lead to even higher R&D costs at Airbus Commercial;

(11) complex nature of the business, making it difficult to model and hard to value. Recurring non-recurring items can make estimating the underlying profitability of the business tricky.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price. Conversely, if the impact of any of these upside risks is greater than we anticipate, the stock could exceed our target price.

## Appendix A-1

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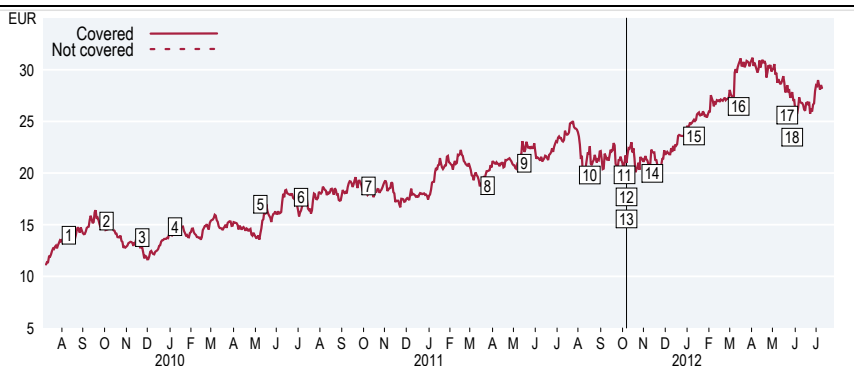
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Analyst: Jeremy Bragg



Date	Rating	Target Price	Closing Price
1 12-Aug-09	2H	*15.00	13.70
2 5-Oct-09	2H	*16.50	14.51
3 24-Nov-09	2H	*14.50	12.75
4 8-Jan-10	2H	*16.00	14.35
5 10-May-10	*1H	*18.50	14.16
6 6-Jul-10	1H	*22.50	16.37

\* Indicates change

Date	Rating	Target Price	Closing Price
7 8-Oct-10	*2H	*19.30	17.98
8 25-Mar-11	2H	*21.00	20.19
9 17-May-11	2H	*23.80	22.05
10 17-Aug-11	2H	*23.00	22.60
11 5-Oct-11	2H	*22.50	20.96
12 7-Oct-11	Stock rating system changed		

Date	Rating	Target Price	Closing Price
13 7-Oct-11	*2	22.50	20.99
14 14-Nov-11	*1	*27.00	22.05
15 11-Jan-12	1	*31.00	25.17
16 14-Mar-12	1	*34.50	30.56
17 22-May-12	1	*38.00	28.51
18 29-May-12	1	*36.50	27.83

Rating/target price changes above reflect Eastern Standard Time

### EADS (EAD.PA)

#### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jeremy Bragg



Date	Rating	Target Price	Closing Price
1 11-Feb-11	*ADD LP	-	21.77
2 6-May-11	*REM LP	-	20.95

\* Indicates change

Date	Rating	Target Price	Closing Price
3 26-Jan-12	*ADD MP	-	25.45
4 21-Jun-12	*REM MP	-	26.90

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Data current as of 30 Jun 2012

Citi Research Global Fundamental Coverage

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
53%	37%	10%	10%	80%	10%

% of companies in each rating category that are investment banking clients 44% 43% 40% 48% 43% 45%

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