Cebu Air Inc (CEB PM)

Back in black

Strong recovery underway; initiate with BUY

We initiate coverage of CEB with a BUY and a DCF-based TP of PHP55 (WACC: 7.6%, G: 3%). We forecast FY23E net income to reach PHP6.1b, a turnaround from FY22's PHP14b in net losses as we expect a 34%/35% YoY increase in number of flights/passenger volume as travel demand rises. At this rate, we forecast CEB's earnings to exceed pre-pandemic levels by YE25E. Key risks include rising fuel costs and a weakening PHP vs the USD.

Tourism pure play

CEB's low fare, great value proposition expanded the Philippines' tourism market as it made air travel affordable for middle-income Filipinos. This enabled CEB to achieve domestic market leadership from 2006. As of Dec 2022, it continued to service the most number of domestic passengers, with 51% passenger share, roughly double its closest competitor, PAL (26%) and PAA (16%). CEB has also embarked on a strategic fleet expansion that should allow it reap the benefits of the uptrend in travel demand.

FY23/24E revenue growth of 49%/16%

Although domestic flights are back to pre-pandemic levels, CEB is still in the process of fully reinstating its international flights. We forecast international flights to revert to pre-pandemic levels by YE23 and this should see average fares rise by 23% and SLF at 85% by year-end. As such, overall FY23/24E revenues should still rise by 49%/16% YoY even as we expect cargo revenues to drop by 38% YoY in FY23E as customers shift to shipping and CEB's new energy efficient, narrow-bodied planes leave less room for cargo.

TP set at PHP55

Using the DCF model to compute CEB's fair value, we derive a TP of PHP55/sh. TP computation is for mid-2024. Our TP implies an FY23E EV/EBITDA of 2.6x, which is well below its 5-year mean at 10.8x, and below pre-pandemic valuations at 5x, strengthening our BUY call.

FYE Dec (PHP m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	15,741	56,751	84,420	97,480	107,736
EBITDAR	(3,943)	8,524	25,457	30,670	34,991
Core net profit	(24,899)	(13,979)	6,142	9,048	11,315
Core EPS (PHP)	(41.22)	(22.72)	9.98	14.71	18.39
Core EPS growth (%)	nm	nm	nm	47.3	25.1
Net DPS (PHP)	0.00	0.00	0.00	0.00	0.00
Core P/E (x)	nm	nm	3.3	2.3	1.8
P/BV (x)	2.4	nm	8.0	1.9	0.9
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	(146.2)	(343.4)	nm	145.6	74.4
ROAA (%)	(18.7)	(9.8)	3.8	4.9	5.5
EV/EBITDAR (x)	nm	11.8	4.6	3.8	3.2
Net gearing (%) (incl perps)	405.5	net cash	nm	277.4	78.1
Consensus net profit	-	-	2,690	5,120	6,999
MIBG vs. Consensus (%)	-	-	128.3	76.7	61.7

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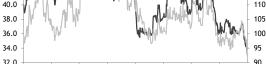
Share Price 12m Price Target PHP 33,10 PHP 55.00 (+66%)

Company Description

Cebu Air, Inc. is the leading domestic airline in the Philippines focusing on the low-cost segment

Statistics

52w high/low (PHP)	44.30/33.10
3m avg turnover (USDm)	0.1
Free float (%)	33.6
Issued shares (m)	615
Market capitalisation	PHP20.4B
	USD359M
Major shareholders:	
JG Summit Holdings, Inc.	67.2%
Dimensional Fund Advisors LP	1.2%
Norges Bank Investment Management	1.1%
Price Performance	
50.0	_ 135
48.0 -	- 130
46.0	- 125
44.0 -	- 120
42.0 - V T W M	- 115
	110



32.0 Sep-21 Dec-21 Mar-22 Jun-22 Sep-22 Dec-22 Mar-23 Jun-23

-Cebu Air - (LHS, PHP)

	-1M	-3M	-12M
Absolute (%)	(8)	(9)	(18)
Relative to index (%)	(8)	(6)	(17)
Source: FactSet			

Acronvms used:

- ADB Asian Development Bank
- ASK Available seat per kilometer
- CAB Civil Aeronautics Board
- CEO Current engine option
- DOT Department of Tourism
- DOTr Department of Transportation
- LCC Low-cost carrier
- NAIA Ninoy Aquino International Airport NEDA - National Economic and Development Authority
- NEO New engine option
- OPEC Organization of the petroleum exporting countries
- P&W Pratt and Whitney RSK Revenue passenger kilometers
- SLF Seat load factor
- Other stocks mentioned AC - Ayala Corporation (CP: PHP602, BUY, TP: PHP990)
- AEV Aboitiz Equity Ventures (CP: PHP46.15, Not rated) AGI Alliance Global Group Inc. (CP: PHP12.48, Not rated)
- JGS JG Summit Holdings, Inc. (CP: PHP35.95, BUY, TP: PHP57.00)
- PAL PAL Holdings, Inc. (CP: PHP5.20, Not rated)
- PAA Philippines AirAsia (Not listed)
 - RRHI Robinsons Retail Holdings, Inc. (CP: PHP45.70, BUY, TP: PHP67.00)



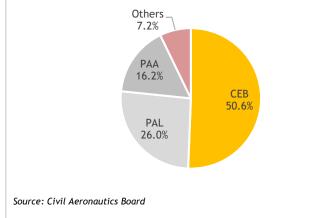




Value Proposition

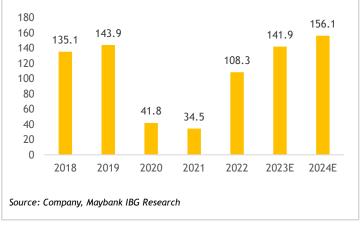
- CEB is the leading domestic airline in the Philippines, focusing on the low-cost segment.
- As travel recovered, CEB started rehiring retrenched employees in Nov 2021 and aims to restore its full workforce by 2023.
- Domestic operations are already restored to 100% of prepandemic levels by Jul 2022.
- CEB is pursuing a massive expansion plan in FY23E to be able to service increased travel demand. It aims to invest PHP42b in capex for FY23E on fleet expansion and other maintenance capex.

Domestic market share as of FY22



Financial Metrics

- We expect FY23E to see a turnaround and end the year with PHP6.1b in net income.
- This will be driven by 34% YoY increase in number of flights and 35% YoY increase in flight passengers.
- We forecast fares to rise by 23% on account of rising number of international flights, as well as higher fares charged to domestic flights. We estimate SLF to stay at the 85% level, which is where it was pre-pandemic.
- For cargo, we expect revenues to drop by 38% YoY, as we estimate volumes to drop by 11% YoY due to the shift to cargo shipping.



Historical and forecasted number of flights (in '000)

Price Drivers





Source: Company, Maybank IBG Research

- 1. CEB starts Manila-Melbourne route.
- 2. SLF reached all-time high at 87%.
- 3. The government mandated quarantines in lieu of the start of Covid-19 pandemic.
- 4. CEB reported FY21 net loss of PHP24.9b due to the impact of the pandemic.
- 5. CEB reported its first profitable quarter in Mar 2023.

Swing Factors

Upside

- Stronger-than-expected foreign travel demand to augment the strong domestic recovery.
- Speedy expansion of existing airport hubs would bode well for CEB as this will give the company more flexibility to raise flight frequency.
- Upgrading to NEO planes will increase fuel efficiency by 20%.

Downside

- PHP weakness will trickle down to CEB's income statement as c.60% of CEBs liabilities and expenses are USD-denominated.
- Higher-than-expected fuel prices could impact margins.
- Competition in the cargo space could further contract cargo revenues.

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Risk Rating & Score ¹	35.5 - High risk
Score Momentum ²	+7.1
Last Updated	20 Apr 2023
Controversy Score ³ (Updated: 24 Aug 2022)	0 - None

Business Model & Industry Issues

- CEB's main "E" issue relates to GHG emissions as aircraft emit large amounts of CO2 into the atmosphere. Nonetheless, CEB is
 aligned with the aviation industry's global goals to address climate change impact. The company targets to transition to more
 fuel efficient NEO fleet.
- CEB utilizes the SkyBreathe Fuel Efficiency Management System to provide information that helps optimize flight operations. SkyBreathe analyzes data from each flight, enabling Cebu Pacific to craft fuel-saving plans that result in lower fuel consumption.
- CEB uses the low-cost carrier (LCC) business model, the core element of which is to offer affordable air services to passengers.
- The company complies with the Occupational Health and Safety Standards set by the Department of Labor and Employment -Bureau of Working Conditions.
- On 21 Jun, the Senate committees on tourism and public services started a joint investigation into complaints against CEB for allegedly overbooking flights and offloading passengers.

Material E issues

- CEB is gradually transitioning to a 100% NEO fleet by 2028. Airbus' NEO aircraft is known for its 20% increase in fuel efficiency and nearly 50% reduction in noise footprint. As of end-2022, CEB already has a 43% NEO fleet.
- CEB is working to reduce carbon emissions. Total GHG emissions for 2021 is at 428.4k tCO2e, down by 24.8% in 2020. GHG intensity is at 84.4 gCO2/pk.
- Fuel efficiency is at 26.7 pax-km/L, 0.6% down from 2020. The company has put in place measures to keep fuel utilization efficient via investment in management systems and a more efficient fleet.
- Jet fuel consumed in 2021 is down by 24.8% YoY to 135.6 tonnes.
- CEB complies with the Bureau of Investments (BOI) requirement of planting 100 trees for every new aircraft registered with the BOI.

Material S issues

- CEB prioritizes making use of local suppliers for non-aircraft purchases. Percentage of procurement budget used on local suppliers stood at 77.2% in 2021.
- 100% of CEB's employees were trained on anti-corruption policies and procedures. There were zero incidents of corruption in 2021.
- Female employees make up 53% of CEB's 2,584 employees.
- Attrition rate stood at 3.56% in 2021.

Key G metrics and issues

- The Board of Directors (BOD) is comprised of 9 members,
 3 of who are independent directors.
- Lance Gokongwei (Director) serves as the President and CEO of the company.
- Two out of the 9 members of the BOD are female. These include Robina Gokongwei Pe, the President and CEO of RRHI, and Bernadine Siy, an independent director.
- CEB has an audit committee and related party transactions committee, which serves as a check and balance for the BOD.
- CEB has payables due to JGS totalling PHP9.4m. Other key related party transactions include (i) PHP609.1m due from 1Aviation and (ii) PHP2.4b loans owed to Robinsons Bank Corp.
- Total compensation paid to the CEO and four most highly compensated executive officers reached PHP107m.
- SGV and Co., the local partner of Ernst and young, has been the auditor of CEB for over 10 years.

<u>Risk Rating & Score</u> - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <u>Score</u> <u>Momentum</u> - indicates changes to the company's score since the last update - a <u>negative</u> integer indicates a company's improving risk score; a <u>positive</u> integer indicates a deterioration. <u>3Controversy Score</u> - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

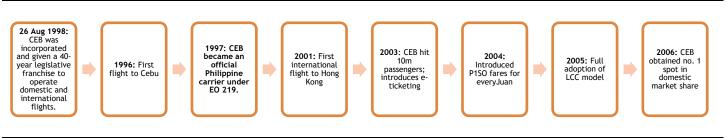
1. Investment thesis

Incorporated in 26 Aug 1998 by the Gokongwei group, CEB, which operates under the trade names "Cebu Pacific" and "Cebu Pacific Air", is the leading low-cost carrier (LCC) in the Philippines, and currently has the top domestic market share in terms of number of passengers. It pioneered the "low fare, great value" strategy in the industry, wherein CEB provides air travel services targeted to passengers willing to forego extra services offered by traditional full-service airlines for lower fares, while still providing reliable services.

Although CEB mainly provides air transport services, it also has airport-toairport cargo services on its domestic and international routes and other ancillary services such as cancellation and rebooking options, in-flight merchandising such as sale of duty-free products on international flights, baggage and travel-related products and services, line maintenance (including certification and providing mechanical assistance), provision of technical ramp, equipment handling, water and toilet servicing, operation of aircraft ground support equipment and provision of light maintenance aircraft checks.

As of 31 Dec 2022, CEB operates a route network serving 70 domestic routes and 22 international routes with a total of 2,694 scheduled weekly flights. It operates a fleet of 76 aircraft with an average age of 6 years.

Fig 1: Key timelines



Source: Company website

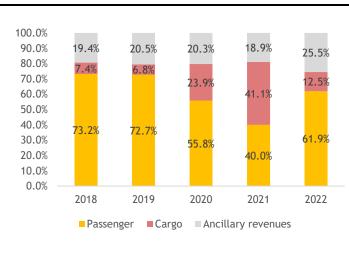
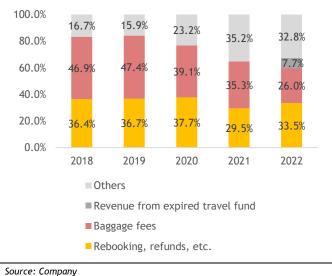


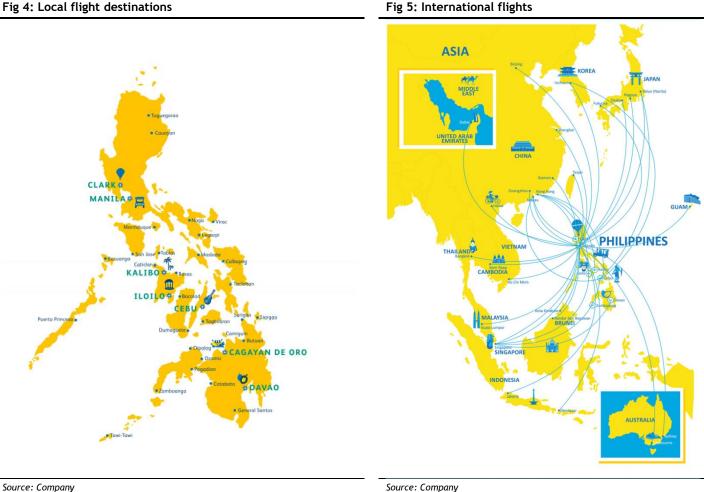
Fig 2: Historical revenue mix

Fig 3: Ancillary revenue mix



Source: Company

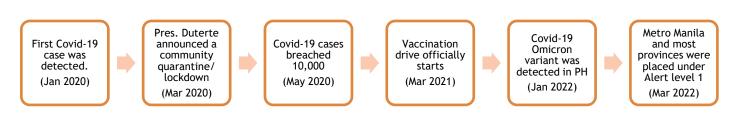
Fig 4: Local flight destinations



1.1 Best play to capture strong post-pandemic travel demand

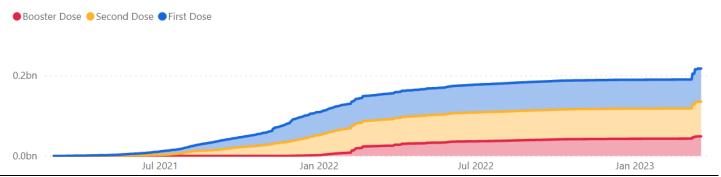
The strict travel restrictions globally during the Covid-19 pandemic severely impacted the airline industry. With the suspension of CEB's domestic and international commercial flights to China, Hong Kong, Macau and South Korea beginning 19 Mar 2020, the company had to (i) issue PHP12.5b convertible preferred shares; (ii) issue a 4.5% USD250m convertible bond; and (iii) sell and lease back plane engines and five A320 aircraft in 2020 and seven more in 2021, to keep CEB's operations afloat.





Source: Various news articles

Fig 7: Vaccination status (total doses administered as of 19 Mar 2023)



Source: Department of Health

While some sporadic arrangements for sweeper flights to assist with stranded tourists did occur, for the most part, CEB's operations were virtually nil until Apr 2020, when some cargo flights within the Philippines and, eventually, to countries like Japan, Thailand, China, Hong Kong recommenced.

By Jun 2020, the Philippine government de-escalated the quarantine restrictions to general community quarantine (2 notches below the strictest quarantine) and allowed some air travel, provided that airlines adhered to safety standards such as social distancing, wearing of masks, allowing CEB to resume domestic operations starting 3 Jun 2020 in a limited capacity. As of Jun 2023, CEB has reinstated flights to 35/23 local/international destinations, which is comparable to the pre-pandemic count of 41/24.

Fig 8: Domestic f	lights vs pre-C	Fig 9: Internatio	Fig 9: International flights vs pre-Covid				
	1Q23	2Q23	Pre-Covid		1Q23	2Q23	Pre-Covid
Destinations	34	35	36	Destinations	24	24	27
Routes	60	70	65	Routes	28	37	43
Weekly flights	2,100	2,584	2,054	Weekly flights	396	572	560
Source: Company				Source: Company			

Source: Company

In FY22/1H23, CEB serviced 14.8m/10.3m passengers, 57%/53% of total domestic passengers in the country, across its 108k/68k total flights. Given CEB's aggressive fleet expansion plans and its main competitor PAL's focus on long-haul flight expansion over its domestic operations, we expect CEB to remain the market leader in this space over the medium term, making it the best proxy for domestic tourism in the Philippines, in our view.

1.2 More planes, more flights

As of Dec 2022, CEB operates a fleet of 76 aircraft (6 ATRs are not operational) comprising the following:

Fig 10: CEB's fleet as of Dec 2022

Type of plane	Number of planes	Passenger capacity	Description
Airbus A320 CEO	21	180	The A320 CEO carries up to 180 passengers at a time, but its size makes it very flexible. It has an impressive range of 6,200 km, but is also nimble enough to make tricky landings on shorter runways. With a maximum cabin width of 3.7 meters, the A320 contains the widest sing-aisle configuration of any airplane in its class.
Airbus A321 CEO	7	230	The A321 CEO can fit up to 230 passengers with seats made by world- renowned seat manufacturer, Recaro. They are ergonomically designed, which helps make any journey as relaxing as possible. The seats are also made of lighter density material, which gives passengers up to 18 inches more space between rows while at the same time, increasing seating capacity by up to 27%.
Airbus A320 NEO	9	194	The A320 NEO is a replacement for the less efficient A320 CEO. It has more seating capacity and seating comfort, better ambient lighting, and a fancy new Sharklet wingtip design built to boost overall performance. Every A320 NEO in CEB's fleet comes decked with two Pratt & Whitney PurePower PW1100G-JM. These two jet engines are the main force behind the NEO's superiority in power output and fuel efficiency.
Airbus A321 NEO	10	236	The new A321 NEO is set to be a champion in fuel efficiency. It'll be able to carry up to 236 passengers to CEB's most frequently traveled destinations. Two of the biggest contributing features to the A321 NEO's "EcoPlane" status are the Pratt & Whitney PurePower PW1100G-JM engines and the wingtip Sharklets which act like sky-high spoilers for the planes. The new engines deliver more power per litre of fuel, while the Sharklets use the air around the plane's wings to decrease vortex drag.
Airbus A330 CEO	5	436	The Airbus A330 CEO is the largest of all of CEB's planes, capable of holding up to 436 passengers at a time. Each flight this plane makes can last several hours, of distances up to 13,450 km.
Airbus A330 NEO	4	459	The A330 NEO can sit 459 passengers in a single flight, helping lower the carbon footprint per passenger. This eco-plane consumes 25% less fuel than previous generation aircraft, emitting less carbon emissions. It also provides 60% less noise making the A330 NEO one of the quietest cabins developed by Airbus.
ATR 72-500	6	70	The ATR 72-500 has been the backbone of all CEB's domestic commercial flights. The plane's six-bladed twin engines provide the power and design to take off and land in the smallest of our country's domestic airports. Though the 72-500 is slowly being retired, two of these older planes have been converted into freighters.
ATR 72-600	14	70	The 72-600 is the new and improved version of the ATR 72-500, capable of seating more passengers, holding more cargo, and making the same distance with less fuel burn. This turboprop promises better in-flight comfort, from the wider seats down to the finely tuned cabin pressurization.
Total	76		

Source: Company website



It operates its Airbus aircraft on both domestic and international routes and operates the ATR 72-500 and ATR 72-600 aircraft on domestic routes, including destinations with runway limitations. The average aircraft age of the fleet is approximately 6 years.

For FY23, CEB plans to add 15 aircraft (including 4 wide-bodied NEOs), more than half of which will replace 9 retire-able planes. By YE23, CEB would have a fleet of 82 aircraft (+6 net additions, 6 ATRs to remain non-operational), which should increase its seat capacity by 20-30%, further validating our 35%/9% passenger volume growth assumption for FY23/24E.

Fig 11: A330 NEO cabin interior



Fig 12: A330 NEO plane



Source: Company

Source: Company

Further, CEB is gradually transitioning to a full NEO fleet by YE28E, from 43% as of Dec 2022. Airbus' NEO aircraft are 20% more fuel-efficient and nearly 50% quieter than the Airbus' CEO, which aligns with CEB's sustainability goals. Non-NEO aircraft are on 6-8 year leases, which means their disposal should have no material costs to CEB.

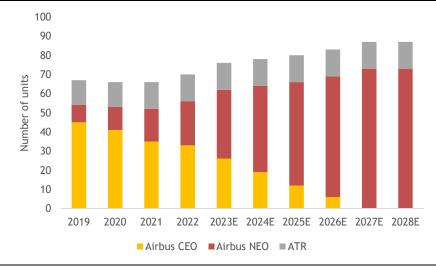


Fig 13: Forecasted Airbus' CEO and NEO, ATR mix

Source: Company, Maybank IBG Research

1.3 Further upside in airport rehabilitation and expansion

CEB's re-fleeting strategy coincides with the country's initiatives to expand its airport passenger capacities, further boosting this long-term growth potential. To date, the Cebu and Clark airports have ongoing expansions.

The construction of Terminal 2 in Cebu began on Jan 2016, and started operations in Jul 2018. In May 2021, work on the second runway and expanded apron of the airport kicked off, both of which are expected to be completed and operational by YE23. The new runway will increase capacity and efficiency of the Cebu airport by about 25% to 15m passengers annually.

The 10,000 sqm terminal of Clark International Airport, which held its grand opening in Sep 2022, can now accommodate 8m passengers per year (from 4.2m pre-renovation). This airport is considered as an alternate airport to the highly congested Ninoy Aquino International Airport (NAIA), which is why the Bases Conversion and Development Authority (BCDA) plans on constructing a second runway. While no timetable has been committed, the additional runway will be 3,200m x 60m and is extendable by an additional 600m in the future.

The increased airport capacities enabled CEB to add 13 domestic and international routes to and from Clark and 3 routes to and from Cebu.

Fig 14: New Clark International Airport



MIAC consists of AEV's Aboitiz InfraCapital, Inc., AC's AC Infrastructure Holdings Corporation, Lucio Tan's Asia's Emerging Dragon Corporation, AGI's Alliance Global -Infracorp Development, Inc., FDC and JGS' JG Summit Infrastructure Holdings Corporation. See <u>Ready for</u> <u>takeoff</u> report for more details.

Source: Clarkinternaionalairport.com

Aside from the Clark and Cebu airports, the Manila International Airport Consortium (MIAC, Unlisted) submitted an unsolicited proposal to upgrade NAIA. The PHP100b proposal, which was submitted to the Department of Transportation on 26 Apr, commits to expand passenger capacity to 62.5m by YE28E, more than double its current constrained design capacity of only 31m, and invest in new facilities and technology to transform NAIA into a world-class airport.

On 19 Jul, however, the Marcos administration declined the unsolicited NAIA proposal and instead approved through NEDA, the DOTr's concession plan. The NAIA upgrade proposal, crafted with the assistance of the ADB, is pegged to cost PHP170.6b covering a 15-year concession period. Despite the proposal rejection, the consortium of Philippine conglomerates is encouraged to participate in the bidding. Once this is underway, we expect CEB to be able to add 20% more capacity, reinforcing CEB's medium-term growth prospects.

1.4 Tourist arrivals expected to double in FY23 and sustain an upward trajectory

According to the Department of Tourism (DoT), the Philippines welcomed over 2.7m international arrivals in Jan-Jun 2023, tracking ahead of FY22 international arrivals of 2.7m and DoT's 4.8m target for FY23E. Majority of the country's international tourists in 1H23 were from South Korea (674k), US (516k), Australia (130k), Japan (128k), Canada (125k), and China (115k).

Given the strong Jan-Jun arrivals, we forecast tourist arrivals to exceed DoT's 4.8m target, more so as we factor in "revenge travel" arising from the travel drought in 2020-22 and the reopening of other Asian markets, including China (World Tourism Barometer report, May 2023, United Nations World Tourism Organization).

Travel to the Philippines is further encouraged by the government's removal of tedious entry requirements, which aligns with global travel practices, and other proactive marketing efforts. In fact, the Department of Budget and Management (DBM) allotted PHP6.4b of the country's PHP5.3t national budget for 2023 to improve the country's tourism sector, as part of the Marcos administration's resolve to promote the Philippines as a tourist hub and attract more foreign investment.

The government aims to "establish a tourism industry that is anchored on Filipino culture, heritage, and identity, which aims to be sustainable, resilient, and competitive in order to transform the Philippines into a tourism powerhouse in Asia." Among the government's initiatives for connectivity is negotiating for more flights not only coming into key destinations but also to lesser-known destinations. It is also looking to maximize the country's secondary gateways, by expanding flights out of Metro Manila airport into secondary airports such as Clark, Cebu, and Davao international airports.

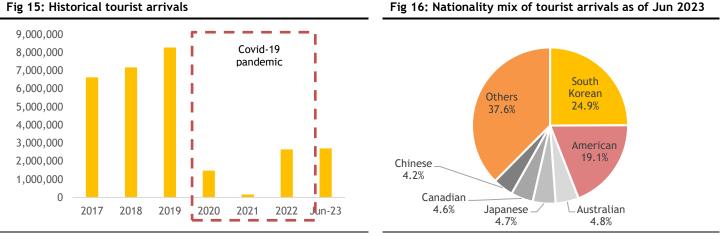


Fig 15: Historical tourist arrivals

Source: Department of Tourism

Source: Department of Tourism

We believe the government's effort to spur tourism is likely to succeed, and could be further supported by a stable PHP. In Jun, the DoT launched a new campaign "Love the Philippines" targeted to showcase the country's several landmarks and exquisite beaches. This, in our view, could help sustain CEB's long-term growth prospects.

Fig 17: New PH tourism marketing campaign



Source: Department of Tourism

1.5 Return to profitability

For the first time since 4Q19, CEB posted a net profit in 1Q23 as a result of robust growth in number of flights, which drove revenues from its passenger business up by 352% YoY. As air travel continues to pick up, we forecast CEB to end the year with PHP6.1b in net income, exceeding pre-pandemic levels and offsetting its retained earnings deficit by YE25, which should allow it to declare dividends to its shareholders.

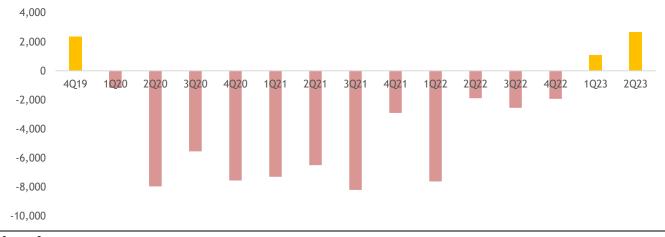


Fig 18: CEB achieved profitability beginning 1Q23 (in PHPm)

Source: Company

Over the medium term, we expect that the bulk of minority shareholder returns in CEB will come from share price accretion as CEB posts recoverydriven, double-digit earnings growth. However, when earnings growth starts to normalise by YE25, we expect dividends to further augment the stock's potential returns. In 2017-19, CEB paid out an average of 53% of its previous year's net income as dividends.



Key risks: weak PHP, high fuel prices and supply issues 1.6

1.6.1 Jet fuel price volatility

Jet fuel prices in FY22 averaged at USD141/bbl, 81.5% higher than the average price in 2021. Although CEB passes this on to end-customers via fuel surcharges, elevated jet fuel prices are net negative for CEB because it reduces the affordability of air travel for CEB's predominantly low- to middle-income target market, resulting in lower SLFs and cost inefficiencies, which flow directly to its bottom line.

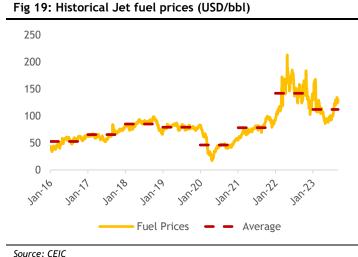
While we expect jet fuel prices to drop by 23% YoY in FY23E, we think they will remain elevated, at USD109/bbl, and increase by 3% YoY to USD112/bbl in FY24E. Should jet fuel prices rebound, CEB has, in the past, partially hedged to minimise its fuel costs. For 3Q/4Q23, CEB has a hedge ratio of 15%/4%, respectively.

1.6.2 PHP/USD volatility could impact profits

Around 60% of CEB's liabilities and expenses are USD-denominated, making the company highly vulnerable to FX fluctuations. When the PHP depreciated by 10% in 2022, CEB booked PHP3.3b in FX losses. CEB does not engage in FX derivatives hedging but, instead, builds USD reserves to partially lessen the impact of the weak PHP. Around half of CEB's cash is USD-denominated, accounting for 6.5% of total assets, as of Dec 2022.

1.6.3 Supply issues could impact future fleet growth

In 15 Sep, CEB has been informed by P&W of a condition that will further affect maintenance plans for its engines. The P&W engines power A320/321 NEO aircraft worldwide. While there is no immediate impact CEB's operations, this could potentially impact fleet availability in 2024.



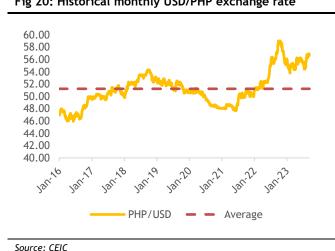


Fig 20: Historical monthly USD/PHP exchange rate

1.7 Regulatory risk exposure

On 21 Jun, the Senate committees on tourism and public services started a joint investigation into complaints against CEB for allegedly overbooking flights and offloading passengers.

CEB, meanwhile, blamed the frequent flight cancellations on a shortage of spare parts, issues with maintenance scheduling, and lightning alerts which brought airport operations to a halt. From Apr to Jun, CEB recorded a total of 78 'red lightning' alerts that disrupted 535 flights. These issues are not exclusive to CEB as PAL also issued an apology for several flight cancellations, also pointing to ongoing supply chain delays and unexpected technical issues.

To remedy this, CEB has ramped up customer assistance and increased standby aircraft to mitigate the surge in flight delays and cancellations due to fleet availability issues.

Fig 21: CEB policies on delayed and cancelled flights

	Flight Cancellation (more than 72hrs from Departure)	Flight Cancellation (within 72hrs from Departure)	Flight Cancellation (Day of Flight at Airport)	Flight Delay of 3hrs (Day of Flight at Airport)	Flight Delay of 4hrs (Day of Flight at Airport)	Flight Delay of 6hrs (Day of Flight at Airport
Free Rebooking	0	0	0	0	0	0
Travel Fund	0	0	0	0	0	0
Refund	0	0	0	0	0	0
Travel Voucher		0	0		0	0
Food			0	0	0	0
Move Flight to Other Carriers (subject to availability)			0	0	0	0
Hotel Accommodation (if flight is on a different day)			0			
Transportation Allowance (if flight is on a different day)			0			

Source: Company, ABS-CBN

Given the unfortunate events that led to these flight cancellations, and which are not exclusive to CEB, we believe that the company can provide the regulatory bodies justifiable explanations and that the probe is not likely to escalate further. Note, though, that CEB would need to make good on its word to the government to avoid further regulatory issues.

2. Financial Analysis

2.1 Overview of 1H23 results

CEB reported 2Q23 net income of PHP2.7b, a reversal from 2Q22's PHP1.9b loss and 148% up QoQ, bringing 1H23 net income to PHP3.7b, a reversal from 1H22's PHP9.5b loss.

Fig 22: 1H23 results

PHP m	2Q23	2Q22	% YoY	1Q23	% QoQ	1H23	1H22	% YoY
Revenue	22,674	13,973	62.3%	20,877	8.6%	43,551	20,682	110.6%
Passenger	15,842	8,505	86.3%	14,285	10.9%	30,126	11,666	158.2%
Cargo	867	1,724	- 49.7 %	1,131	-23.4%	1,998	3,570	-44.0%
Ancillary revenues	5,965	3,744	59.3 %	5,462	9.2%	11,427	5,445	109.9%
Operating expenses	(20,151)	(16,790)	20.0%	(19,639)	2.6%	(39,790)	(28,838)	38.0%
Gross income	2,523	(2,818)		1,239		3,761	(8,157)	
Gross profit margin	11.1%	-20.2%		5.9 %		8.6%	-39.4%	
Other operating inc/exp	288	446	-35.4%	(808)	-135.6%	(520)	(2,855)	-81.8%
Income from operations	2,810	(2,372)		431		3,241	(11,012)	
Provision for income tax	(139)	484	-128.6%	647	-121.4%	508	1,511	-66.4%
Net income to common shareholders	2,672	(1,888)		1,078	147.9%	3,749	(9,501)	
Net income margin	11.8%	-13.5%		5.2%		8.6%	-45.9%	
EBITDAR	7,198	2,449	193.9%	6,095	18.1%	13,293	2,103	532.1%
EBTIDAR margin	45.4%	28.8%		42.7%		44.1%	18.0%	

Source: Company

Revenues reached PHP43.6b, up 111% YoY, driven by passenger and ancillary revenues which grew 158.2% and 109.9% YoY, respectively. Cargo revenues, meanwhile, saw a 44% YoY drop, due to lower yields and volumes.

CEB flew 10.3m passengers in 1H23, 63.3% higher YoY, lifting its seat load factor 10.2ppts YoY to 84.8%. Number of flights increased 47.5% YoY. Average fares rose 58.2% YoY to PHP2,934, primarily due to an increase in the proportion of longer distance international flights. Opex, meanwhile, grew by 38%% YoY. EBITDAR margin stood at 30.5%.

SLF has seen steady improvement since last year when travel resumed as the country reopened. As of 2Q23, SLF stood at 86.4%, higher than 1Q20's 81.3% (when the travel restrictions began due to Covid-19).

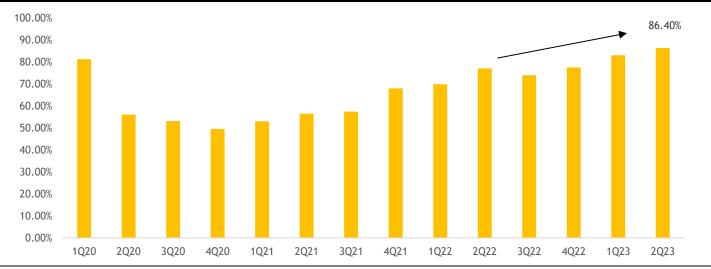


Fig 23: Improving seat load factor

Source: Company

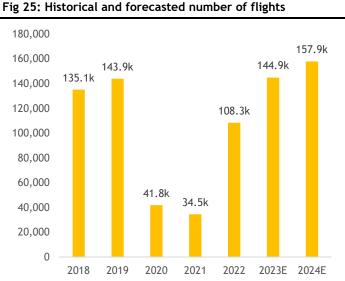
2.2 FY23/24E earnings forecasts

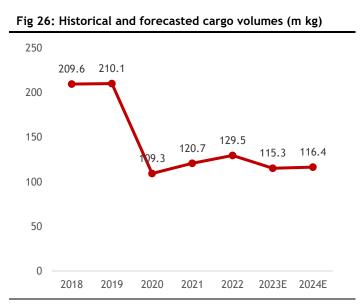
We expect CEB to turnaround and close FY23E with PHP6.1b in profits, from PHP14b in losses in FY22A. We expect CEB's net income to exceed prepandemic levels by YE25E.

Fig 24: Income forecasts

PHPm	FY22A	FY23E	YoY Change	FY24E	YoY Change	Notes
REVENUE						
Passenger Total passenger volume ('000)	35,138 14,845	58,200 19,990	65.6% 34.7%	67,879 21,790	16.6% 9.0%	The 34.7%/9% YoY increase in FY23/24E flight passengers will be driven by increased seat capacity and flight frequency, driven by tourism growth.
Total number of flights	108,329	144,859	33.7%	157,896	9.0%	We expect CEB's total number of international/domestic flights to reach 142k/156k by YE23/24, which is at par with pre-pandemic number of flights.
SLF	75.30%	84.50%		84.50%		We expect SLF to return to pre-pandemic levels
Average airfare	2,367	2,911	23.0%	3,115	7.0%	Despite the downtrend in fuel costs, we forecast average airfare to increase by 20% YoY due to increase in the % of international flights to total flights, as well as higher fares charged to domestic flights to reflect stronger demand which proved to be less price elastic post-pandemic. Pricing competition is also more rational vs pre-pandemic.
Cargo	7,120	4,437	-37.7%	4,527	2.0%	We expect cargo volumes to drop by 11% YoY due Filipinos' shift to cargo shipping. This is also a function of CEB using more narrow-bodied planes to conserve fuel, which results in less room for cargo.
Ancillary revenues	14,493	21,782	50.3%	25,074	15.1%	We expect travellers to avail of more in-flight services.
Total	56,751	84,420	48.8%	97,480	15.5%	
EXPENSES						
Flying operations	28,020	31,767	13.4%	35,708	12.4%	
Repairs and maintenance	14,686	14,773	0.6%	16,572	12.2%	
Depreciation and amortization	12,093	12,056	-0.3%	13,722	13.8%	
Aircraft and traffic servicing	5,261	8,189	55.6%	9,456	15.5%	
General and administrative	3,142	4,360	38.8%	5,035	15.5%	
Reservation and sales	2,392	3,377	41.2%	3,899	15.5%	
Passenger service	1,493	2,110	41.3%	2,437	15.5%	
Aircraft and engine lease	1,093	1,689	54.5%	1,729	2.4%	
	68,180	78,322	14.9%	88,558	13.1%	
Gross profit	(11,429)	6,098	-153.4%	8,922	46.3%	
OTHER INCOME (EXPENSES) - Net						
Interest income	308	544	76.4%	551	1.3%	
Gain from insurance claims	6	7	10.0%	7	0.0%	
Market valuation gains (losses) on	978	685	-30.0%	705	3.0%	
derivative financial instruments - net						
Gain (loss) on disposal of property	814	384	-52 .9 %	393	2.4%	
and equipment - net Equity in net loss of joint ventures	(113)	47	-141.1%	49	5.0%	
and associates Impairment loss	(87)	(77)	-11.5%	(39)	-48.8%	
Foreign exchange gains (losses) - net	(3,324)	1,382	-141.6%	1,513	-40.0% 9.5%	
Financing costs and other charges:	(3,324)	1,502	11.0/0	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	7.3/0	
Financing and others	(2,230)	(2,153)	-3.5%	(2,048)	-4.8%	
Leases	(1,152)	(1,433)	24.4%	(1,674)	16.8%	
	(4,800)	(614)	-87.2%	(544)	-11.4%	
INCOME/LOSS before tax	(16,228)		-133.8%	8,378	52.8%	
Tax expense/(benefit)	(2,249)	(658)	-70.7%	(670)	1.8%	For FY23/24E, we expect CEB to book tax benefits as it makes use of its net operating losses carried forward (NOLCO) arising from net losses booked from FY20-22.

Net income/loss	(13,979)	6,142	-143.9%	9,048	47.3%	
EBITDAR	8,524	25,457	198.6%	30,670	20.5%	
Source: Company, Maybank IBG Research						





Source: Company, Maybank IBG Research



2.3 Balance sheet forecasts

CEB is pursuing a substantial expansion plan in FY23E to be able to service the increased demand for travel. We forecast capex to reach PHP42b, inline with CEB's guidance, which will be spent on fleet expansion and other maintenance capex. This will be financed through a combination of bank loans (66.7%) and finance lease (33.3%).

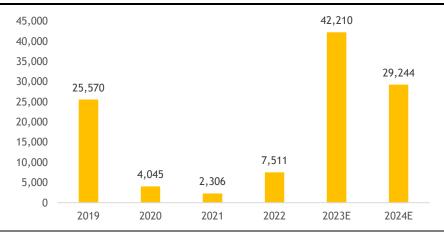
We forecast retained earnings deficit to drop by 24.2% in FY23E as CEB begins to book profits. We expect the deficit to be fully erased by FY25E.

Fig 27: Balance sheet forecasts (PHPm)

	FY22	FY23E	YoY Change	FY24E	YoY Change
ASSETS					
Current Assets					
Cash and cash equivalents	19,175	18,128	-5.5%	27,533	51.9%
Restricted cash	832	832	0.0%	832	0.0%
Derivative financial assets at fair value through other					
comprehensive income (FVOCI)	61	61	0.0%	61	0.0%
Receivables	2,591	4,221	62.9%	4,874	15.5%
Expendable parts, fuel, materials and supplies	2,533	4,221	66.7%	4,874	15.5%
Assets held for sale	820	820	0.0%	820	0.0%
Other current assets	3,783	4,161	10.0%	4,577	10.0%
Total Current Assets	29.795	32.444	8.9%	43,571	34.3%
Noncurrent Assets		,		,	
Property and equipment	64,624	76,772	18.8%	78,604	2.4%
Right-of-use assets	43,391	57,320	32.1%	66,971	16.8%
Investments in joint ventures and associates	222	233	5.0%	245	5.0%
Goodwill	722	722	0.0%	722	0.0%
Deferred tax assets - net	5,567	4,453	-20.0%	3,563	-20.0%
Other noncurrent assets	2,836	2,978	5.0%	3,127	5.0%
Total Noncurrent Assets	117,361	142,478	21.4%	153,230	7.5%
TOTAL ASSETS	147,156	174,921	18.9%	196,801	12.5%
	147,150	174,721	10.7/0	170,001	12,3/0
LIABILITIES AND EQUITY					
Current Liabilities					
Accounts payable and other accrued liabilities	21,815	21,178	-2.9%	23,805	12.4%
Unearned transportation revenue	11,559	14,439	24.9%	16,231	12.4%
Short-term debt					
Current portion of long-term debt	3,699	4,286	15.9%	5,994	39.8%
Current portion of lease liability	5,851	7,523	28.6%	8,681	15.4%
Derivative financial liabilities	847	847	0.0%	847	0.0%
Due to related parties	38	40	5.0%	42	5.0%
Income tax payable					
Other current liabilities					
Total Current Liabilities	43,809	48,313	10.3%	55,599	15.1%
Noncurrent Liabilities					
Long-term debt - net of current portion	36,680	41,807	14.0%	39,106	-6.5%
Lease liability - net of current portion	42,597	54,855	28.8%	63,348	15.5%
Bonds payable	13,423	13,423	0.0%	13,423	0.0%
Travel fund payable - net of current portion	260	260	0.0%	260	0.0%
Retirement liability	759	835	10.0%	919	10.0%
Other noncurrent liabilities	12,511	12,887	3.0%	13,273	3.0%
Total Noncurrent Liabilities	106,232	124,068	16.8%	130,330	5.0%
Total Liabilities	150,041	172,381	14.9%	185,929	7.9%
Equity (Capital Deficiency)	,	.,		,	
Capital stock	943	943	0.0%	943	0.0%
Capital paid in excess of par value	20,596	20,596	0.0%	20,596	0.0%
Share-based payments	20,370	20,370	0.0%	20,370	0.0%
Treasury stock	(951)	(951)	0.0%	(951)	0.0%
Other comprehensive income	504	504	0.0%	504	0.0%
Retained Earnings/Deficit	(24,189)	(18,763)	-22.4%	(10,431)	-44.4%
Total Equity (Capital Deficiency)	(2,885)	2,541	-188.1%	10,872	327.9%
TOTAL LIABILITIES AND EQUITY	147,156	174,921	18.9%	196,801	12.5%
	147,130	1/4,721	10,7/0	170,001	12,3%

Source: Company, Maybank IBG Research

Fig 28: Historical and forecasted capex (in PHPm)



Source: Company, Maybank IBG Research



3. Valuation

3.1 DCF-based TP at PHP55

We apply the DCF model to compute CEB's fair value. Using our WACC assumption of 7.6% which is based on a (i) risk-free rate of 6.0%, (ii) market risk premium of 5.5%, (iii) beta of 1.2x, (iv) terminal growth rate at 3%, and (v) D/E ratio at 56:44, we come up with a fair value equal to PHP55/sh. TP computation is for mid-2024.

Our 1.2x beta assumption takes into account the business's high volatility and still negative equity position, while our terminal growth rate forecast is based on the midpoint of the central bank's 2-4% inflation target band. Given CEB's current negative equity position, we use the pre-pandemic D/E ratio which is the mix we expect the company is heading towards to.

Our TP implies a 12-month forward 2.6x FY23E EV/EBITDA, which is >1SD below mean at 10.8x, and below pre-pandemic valuations at 5x. It also implies a FY23E P/E ratio of 6.2x. CEB's stock performance was hard hit during the pandemic with valuations reaching 2.8x EV/EBITDA at its lowest, which is still higher than our TP's implied EV/EBITDA.

Fig 29: Computation of free cash flow to firm (in PHPm)

	Y24E FY25E 047.8 11,314.9 722.1 12,002.4	9 14,351.5		FY28E 18,957.2	FY29E 22,910.0
	,- ,- ,-	,	16,761.5	18,957,2	22 910 0
6.1 13,2	722 1 12 002 4				22,710.0
	722.1 13,993.6	5 14,103.5	14,288.5	14,536.6	14,896.1
76.8	39.3 39.3	3 39.6	40.2	41.1	42.4
4.5 1,5	536.2 1,431.4	4 1,326.6	869.4	801.6	659.3
7.9) (4	13.0) (554.0)) (691.1)	(633.0)	(743.1)	(863.6)
3.9) (3	93.0) (393.1)) (396.2)	(401.9)	(411.1)	(423.6)
9.9) (29,2	43.9) (26,934.0)) (28,752.5)	(29,796.9)	(31,237.8)	(32,740.1)
5.0) 3,1	113.1 2,710.2	2 1,256.3	2,228.4	1,996.4	610.8
7.6) (2,5	91.3) 1,608.3	3 1,237.7	3,356.1	3,940.8	5,091.3
6.0) (7	16.0) (716.0)) (716.0)	(716.0)	(716.0)	(716.0)
3.6) (3,3	07.3) 892.3	521.7	2,640.1	3,224.8	4,375.2
	/				

Source: Maybank IBG Research

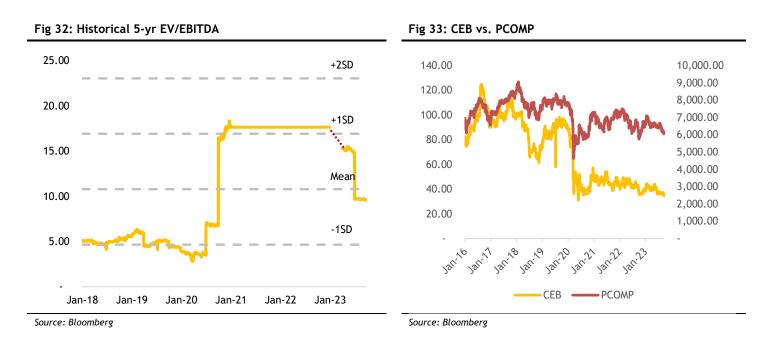
Fig 30: DCF Assumptions

NPV of FCFF (in PHPm) Terminal Value	6,561.51 44,841.01	WACC Risk free rate	7.6% 6.0%	Risk-free rate	WACC 6.8%	TP 79
Total Net Debt	51,402.52 (17,566.79)	Equity risk premium Beta	5.5% 1.2x	4.50% 5.00%	7.0% 7.2%	72 66
Equity Value # of shares (in millions)	33,835.73 615.21	Cost of equity Cost of debt	12.6% 3.8%	5.50%	7.4%	60 55
Equity Value per Share	55.00	Terminal growth rate	3.0%	6.50%	7.9%	50

Source: Maybank IBG Research

Source: Maybank IBG Research

Fig 31: Sensitivity Analysis



3.2 Comparison to peers

Relative to its regional peers, CEB is undervalued and is trading below the weighted average blended forward EV/EBITDA of 8.31x despite its strong recovery which is evidenced by 1Q23's comeback to net profits.

Fig 34: Comparison to peers

Name	Ticker	Mkt Cap (PHPm)	BF* EV/EBITDA	BF P/E	BF EV/EBIT	BF EV/Rev
Cebu Air, Inc.	CEB PM	21,440	4.96x	4.78x	13.07x	1.25x
PAL Holdings, Inc.	PAL PM	65,950	4.08x	5.61x	6.46x	0.94x
Jin Air Co Ltd	272450 KS	27,009	3.22x	6.09x	5.03x	0.57x
Asia Aviation PCL	AAV TB	51,241	8.44x	18.36x	17.81x	1.68x
Jeju Air Co Ltd	089590 KS	37,188	3.52x	7.10x	6.96x	0.68x
Vietjet Aviation JSC	VJC VN	125,742	18.05x	30.70x	23.21x	1.00x
InterGlobe Aviation Ltd	INDIGO IN	634,417	7.74x	14.88x	13.96x	1.69x
Tway Air Co Ltd	091810 KS	19,403	2.98x	4.86x	3.91x	0.44x
Air Arabia PJSC	AIRARABI UH	199,754	5.46x	9.11x	8.25x	1.70x
Air Arabia PJSC	AIRARABI UH	199,754	5.46x	9.11x	8.25x	1.70×
Air Busan Co Ltd	298690 KS	13,899				
CAPITAL A BHD	CAPITALA MK	51,141	10.11x	11.11x	18.70x	2.18>
AirAsia X Bhd	AAX MK	13,622	4.21x		6.35x	0.64x
SpiceJet Ltd	SJET IN	15,658	5.83x	30.25x		0.72>
AirAsia Indonesia Tbk PT	CMPP IJ	5,768				
Spring Airlines Co Ltd	601021 CH	433,469	11.73x	17.80x	16.95x	3.11>
Weighted average			8.31x	14.23x	13.11x	1.84>

*Blended forward

Source: Bloomberg

4. Risks to our valuation

4.1 Elevated inflation could impact travel demand

After six consecutive months of slowing, headline inflation rate in Aug 2023 picked up to +5.3% YoY (Jul 2023: +4.7% YoY; consensus: +4.7% YoY; 8M2023: +6.6% YoY) on higher food & non-alcoholic beverages inflation (see <u>Headline accelerates</u>, driven by higher food inflation report). Should inflation continue to be elevated, this could cause a shift in spending towards essential goods and reduce the wallet size for leisure travel. Every 1% drop in SLF corresponds to a 1.2% drop in number of flights. This would result in a 3.0% drop in our FY24E income forecast and a 1.0% reduction in TP.

4.2 Weak PHP and higher fuel costs could impact profits

PHP weakness directly impacts CEB's profitability as around 60% of its liabilities and expenses are USD-denominated. Every 1% PHP depreciation could impact FY24E income by 8%.

Meanwhile, aviation fuel expense accounts for 83% of CEBs flying operations costs; hence will greatly impact CEB's profitability. With OPEC cutting oil production, oil prices may remain elevated this year. Our sensitivity analysis show that every 100bps increase in our jet oil price forecast for FY24E reduces our net income forecast by 3%.

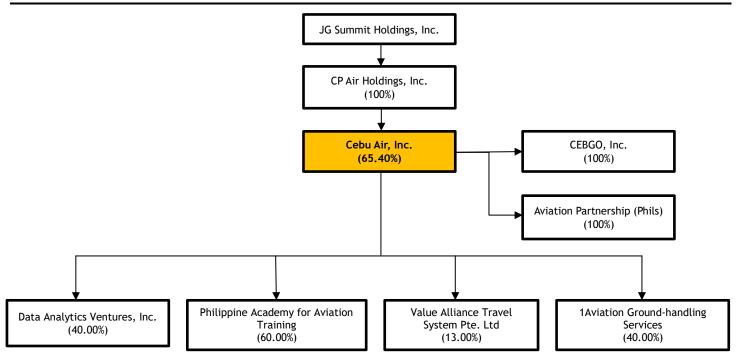


Annex

A. Company ownership and related parties

As of 1H23, the JGS group effectively owns 65.4% of CEB, with 1.1% direct ownerships and 64.3% through CP Air Holdings, Inc. Public ownership is at 33.6%, with foreign ownership at 12.1%.

Fig 35: Ownership structure



Source: Company

Fig 36: CEB's Board of Directors

Name	Position	Brief Description
Lance Y. Gokongwei (56 years old)	Chairman	Mr. Gokongwei has been the President and CEO of the Parent Company since 1997 until 31 Dec 2022. Effective 1 Jan 2023, he serves as Chairman of the Board of the Parent Company. He is also the President and CEO of JG Summit Holdings, Inc. (JGS PM), Universal Robina Corporation (URC PM), Robinsons Land Corporation (RLC PM), Robinsons Retail Holdings, Inc. (RRHI PM), Altus Property Ventures, Inc. (APVI PM), Robinsons Bank Corporation (RBank, Not listed), and JG Summit Olefins Corporation (Not listed). He is a Director and a Vice Chairman of the Executive Committee of Manila Electric Company (MER PM). He received a Bachelor of Science degree in Finance and a Bachelor of Science degree in Applied Science from the University of Pennsylvania.
Jose Fernando B. Buenaventura (88 years old)	Director	Mr. Buenaventura has been a director of the Parent Company since Dec 1995. He is a Senior Partner in Romulo Mabanta Sayoc & de los Angeles. He is Chairman and Director of Consolidated Coconut Corporation, Gladtobehome, Inc. and GROW, Inc. He is a member of the Board of Grow Holdings, Inc., Hicap Properties Corporation, Himap Properties Corporation, La Concha Land Investment Corp., Philplans First, Inc., Techzone Philippines, Inc., Total Consolidated Asset Management, Inc., and Turner Entertainment Manila, Inc. He is also a member of the Board of Advisors of BDO Unibank, Inc. Mr. Buenaventura received his Bachelor of Laws degree from the Ateneo de Manila University and his Master of Laws degree from Georgetown University Law Center, Washington D.C. He was admitted to the Philippine Bar in 1960.
Robina Gokongwei Pei (61 years old)	Director	Ms. Gokongwei Pe has been a director of the Parent Company since 1 Aug 2007. She is the President and CEO of RRHI. She is also a Director of JGS, RLC, and RBank. She is a Trustee and the Secretary of the Gokongwei Brothers Foundation, Inc. and a Trustee and Vice Chairman of the Immaculate Concepcion Academy Scholarship Fund. She is also a member of the Xavier School Board of Trustees. Robina was formerly a member of the University of the Philippines Centennial Commission. She attended the University of the Philippines-Diliman from 1978 to 1981 and obtained a Bachelor of Arts degree (Journalism) from New York University in 1984.

Source: Company's Definitive Information Statement 2023

Fig 36: CEB's Board of Directors (continued)

Name	Position	Brief Description
Frederick D. Go (53 years old)	Director	Mr. Go has been a director of the Parent Company since 1 Aug 2007. He is currently the President and CEO of RLC. He concurrently serves as the President and CEO of APVI and Universal Hotels and Resorts, Inc. He is also the Chairman of RL Commercial REIT, Inc. (RLREIT PM), and the Vice Chairman of Luzon International Premier Airport Development Corporation. He is a Trustee and the President of Robinsons Land Foundation, Inc. and Universal Cultural Foundation, Inc. He is the Group General Manager of Shanghai Ding Feng Real Estate Development Company Limited, Xiamen Pacific Estate Investment Company Limited, Chengdu Ding Feng Real Estate Development Company Limited, among others. In Jan 2023, he was appointed by the President of the Philippines as Presidential Adviser for Investment and Economic Affairs. He received a Bachelor of Science degree in Management Engineering from the Ateneo de Manila University.
Brian H. Franke (59 years old)	Director	Mr. Franke has been a director of the Parent Company since 15 Jul 2021. Mr. Franke has been a principal of Indigo Partners LLC, a private equity fund focused on air transportation, since Apr 2004. He has served as a member of the Frontier Airlines Board of Directors since December 2013. Mr. Franke has served on the boards of directors of Concesionaria Vuela Compañía de Aviación, S.A.B. de C.V., an airline based in Mexico doing business as Volaris, since July 2010. Mr. Franke also serves on the University of Arizona Foundation board and its investment and executive committees. Mr. Franke holds a BS from the University of Arizona and a Masters of International Management from the Thunderbird School of Global Management.
Alexander G. Lao (47 years old)	Director	Mr. Lao is presently the President and Chief Commercial Officer of the Parent Company following his appointment in 1 Jan 2023. He became Chief Commercial Officer last 10 May 2021. Prior that, he was the Chief Strategy Officer since 16 Aug 2019. Before joining the Group, he worked as Assistant Vice President of Philamlife from August 2001 to September 2007 and as Business Development Assistant of Ayala Life from 1998 to 1999. He graduated from Ateneo De Manila University with a Bachelor of Science degree in Legal Management. He also received his Master's degree in Business Administration from the Asian Institute of Management. He has 15 years of experience in the airline industry, all of which have been with the Group.
Bernadine T. Siy (64 years old)	Independent Director	Ms. Siy has been a director of the Parent Company since 3 Mar 2021. She is a current member of the Board of Directors of Epicurean Partners Exchange Inc., the operators of the Kenny Rogers restaurant chain which she founded in 1994, and Seattle's Best Coffee which she introduced to the Philippine market in 2000. She is currently the Chairman of the Board of Trustees of the Ateneo de Manila University, making her the first woman to hold the position. She also serves as an independent director of PLDT Inc. (TEL PM) since June 2021. She received her Bachelor of Arts in Economics (Honours Program) from the Ateneo de Manila University and graduated magna cum laude. Ms. Siy also has a Masters in Management degree from the J.L. Kellogg Graduate School of Management Northwestern University in Chicago in the United States.
Brian Matthew P. Cu (40 years old)	Independent Director	Mr. Cu has been a director of the Parent Company since 3 Mar 2021. He is the former President and Co-Founder for Grab Philippines. His role revolved around a duo directional and strategic leadership for core capabilities in Grab Philippines, other areas of focus include, strategies for business development and technology. He started his career as a management consultant with the Boston Consulting Group. While in BCG, he co-founded GoJek in Indonesia. He decided to jump full time into the world of entrepreneurship in 2012 when he co-founded Zalora Philippines. He left in mid-2013 to co-found Grab Philippines and served as its President until Aug 2020.
Richard Raymond B. Tantoco (56 years old)	Independent Director	Mr. Tantoco has been a director of the Parent Company since 12 May 2021. He is the President and Chief Operating Officer (COO) of Energy Development Corporation (EDC), the country's largest renewable power company. He is also a member of the Board of Directors of First Philippine Holdings Corporation (FPH PM), First Gen Corporation (FGEN PM), Energy Development Corporation, and several of these companies' subsidiaries. Prior to joining Energy Development Corporation and FGEN, Mr. Tantoco worked with the management-consulting firm Booz, Allen & Hamilton, Inc. in New York and London as well as Procter and Gamble Philippines. Mr. Tantoco obtained his BS Business Management degree from the Ateneo de Manila University where he graduated with honours, and his MBA in Finance from the Wharton School of Business of the University of Pennsylvania.

Source: Company's Definitive Information Statement 2023

R.A. No. 10378 - Common Carriers Tax Act	 This act recognizes the principle of reciprocity as basis for the grant of income tax exceptions to international carriers and rationalizes other taxes imposed thereon. Among the relevant provisions of the act follows: a. An international carrier doing business in the Philippines shall pay a tax of 2.5% on its Gross Philippine Billings, provided, that international carriers doing business in the Philippines may avail of a preferential rate or exemption from the tax herein imposed on their gross revenue derived from the carriage of persons and their excess baggage on the basis of an applicable tax treaty or international agreement to which the Philippines is a signatory or on the basis of reciprocity such that an international carrier, whose home country grants income tax exemption to Philippine carriers, shall likewise be exempt from the tax imposed under this provision; b. International air carriers doing business in the Philippines on their gross receipts derived from the Philippines to another country shall pay a tax of 3% of their quarterly gross receipts; and
Tax incentives	As a Board of Investments (BOI) registered operator, CEB is entitled to certain fiscal and non-fiscal incentives, including an income tax holiday (ITH) which extends for a period of two (2) to four (4) years for each batch of aircraft registered to BOI.

Source: Company annual financial statements

B. Competitive landscape and positioning

The Philippine aviation authorities deregulated the airline industry in 1995 resulting in fewer regulatory impediments for entrance to the sector, and eliminated certain restrictions on domestic routes and frequencies. On the international market, the Philippines currently operates under a bilateral framework, whereby foreign carriers are granted landing rights in the Philippines on the basis of reciprocity as set forth in the relevant bilateral agreements between the Philippine government and other countries. In Mar 2011, the Philippine government issued Executive Order 29, which authorizes the CAB and the Philippine Air Panels to pursue more aggressively the international civil aviation liberalization policy to boost the country's competitiveness as a tourism destination and investment location.

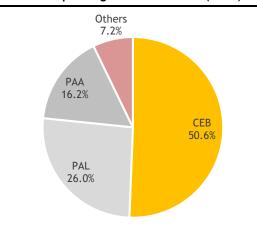
Currently, CEB faces intense competition from on both its domestic and international routes. CEB's competitors extend beyond other airlines to alternative modes of transportation, particularly sea and land transport, particularly given CEB's low-cost carrier positioning.

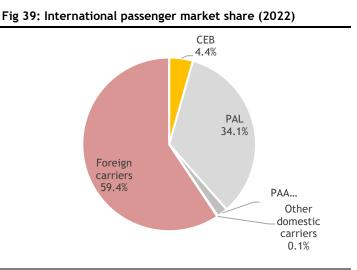
In the Philippines, CEB competes mainly with PAL, a full-service Philippine flag carrier and its domestic low-cost carrier subsidiary, PAL Express (Unlisted; formerly Airphil Express), which code shares with PAL on certain domestic routes and leases certain aircraft from PAL; and Philippines Air Asia (a merger between former Air Asia Philippines and Zest Air). Most of CEB's domestic and international destinations are also serviced by these airlines.

i. CEB has domestic market leadership

CEB held the number one spot in terms of share of domestic passengers serviced in the Philippines since 2006. Although it is growing its international flights, its near-term growth strategy is still largely domestic-driven and over the past 10 years, CEB's domestic market share hovered between 44-54%, consistently followed by L, which is the market leader for long-haul flights, then PAA.

Fig 38: Domestic passengers market share (2022)





Source: Civil Aeronautics Board

Source: Civil Aeronautics Board



Fig 40: Historical market share of domestic passengers

Source: Civil Aeronautics Board

ii. Value-for-money flights are CEB's differentiating factor

CEB uses the LCC business model and aims to offer the most affordable air services to passengers through high-load and highfrequency flights, high aircraft utilization, a young and simple fleet composition; and low distribution costs.

CEB's most popular seat-sale promotion is its P1SO (PHP1) fares, which it launched in 2004, and continues to offer to Filipinos up to this day. The PHP1 price excludes fuel surcharge, passenger service charge, airport fees, and other variable fees, which are all shouldered by the passenger.

Fig 41: Breakdown of total fare

Fuel Surcharge
PH Passenger Service Charge
Passenger Service Charge for National Government
Airport Development Fee - SG
PH PSC Value Added Tax
Passenger Service and Security Fee - SG
Base Fare
ASF of DPSC/IPSC
Aviation Levy
Administrative Fee

Source: Company

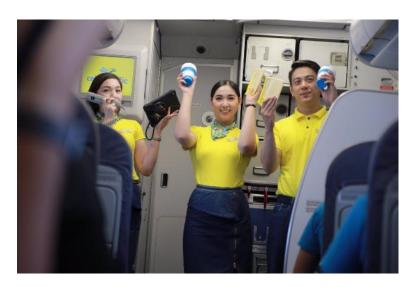
This pricing strategy allows CEB to divide its customers into 16 pricing buckets, wherein the lowest price point is the P1SO fares booked more than 6 months in advance, while the highest fares are charged to clients who booked closer to the actual flight date. The promotional fare seats are limited per flight, but it still works as it entices travellers to book ahead. It allows CEB to increase its SLF, and pass on its fixed fuel and other costs at the same time.

In addition to the promo fares, CEB also boasts its uniquely upbeat flying experience, as it is the only carrier that offers fun games on board, together with its entertaining, internationally renowned inflight magazine, Smile.

Fig 42: P1SO fares offered in Apr 2023

Fig 43: Inflight games





Source: Company

Source: Company

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	nm	nm	3.3	2.3	1.8
Core P/E (x)	nm	nm	3.3	2.3	1.8
P/BV (x)	2.4	nm	8.0	1.9	0.9
P/NTA (x)	2.6	(6.5)	11.2	2.0	1.0
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	25.3	nm	34.4	58.8
EV/EBITDAR (x)	nm	11.8	4.6	3.8	3.2
EV/EBIT (x)	nm	nm	16.8	12.0	9.5
INCOME STATEMENT (PHP m)					
Revenue	15,740.8	56,751.4	84,419.8	97,479.6	107,736.2
Gross profit	(19,594.3)	(7,193.3)	12,147.4	15,686.0	20,011.3
EBITDAR	(3,942.9)	8,524.5	25,457.1	30,670.5	34,990.7
Depreciation	(14,355.5)	(12,092.9)	(12,056.1)	(13,722.1)	(13,993.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(24,770.7)	(14,193.1)	7,046.0	9,826.4	11,907.5
Net interest income /(exp)	(1,981.4)	(1,922.0)	(1,608.8)	(1,497.6)	(1,169.9)
Associates & JV	(174.4)	(113.3)	46.6	48.9	38.5
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	(26,926.6)	(16,228.4)	5,483.7	8,377.6	10,776.1
Income tax	2,028.0	2,249.0	658.0	670.2	538.8
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(24,898.6)	(13,979.4)	6,141.8	9,047.8	11,314.9
Core net profit	(24,898.6)	(13,979.4)	6,141.8	9,047.8	11,314.9
Preferred Dividends	(550.8)	(716.0)	(716.0)	(716.0)	(716.0)
BALANCE SHEET (PHP m)					
Cash & Short Term Investments	19,582.6	20,007.5	18,959.6	28,365.1	37,762.4
Accounts receivable	1,978.9	2,591.1	4,221.0	4,874.0	5,386.8
Inventory	1,776.6	2,532.5	4,221.0	4,874.0	5,386.8
Property, Plant & Equip (net)	74,292.3	64,624.0	76,771.8	78,603.9	78,616.8
Intangible assets	721.6	721.6	721.6	721.6	721.6
Investment in Associates & JVs	335.2	221.9	233.0	244.6	256.9
Other assets	39,566.5	56,457.1	69,793.2	79,118.0	88,391.4
Total assets	138,253.8	147,155.9	174,921.3	196,801.2	216,522.8
ST interest bearing debt	8,317.9	3,699.4	4,286.1	5,993.6	5,993.6
Accounts payable	15,711.6	21,815.0	21,177.9	23,805.5	26,026.8
LT interest bearing debt	54,284.5	50,103.4	55,230.6	52,529.6	48,536.0
Other liabilities	49,330.0	74,423.0	91,686.0	103,600.0	114,495.0
Total Liabilities	127,644.0	150,041.0	172,380.7	185,928.8	195,051.5
Shareholders Equity	10,609.7	(2,885.1)	2,540.6	10,872.4	21,471.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	10,609.7	(2,885.1)	2,540.6	10,872.4	21,471.3
Total liabilities and equity	138,253.8	147,155.9	174,921.3	196,801.2	216,522.8
CASH FLOW (PHP m)					
Pretax profit	(26,926.6)	(16,228.4)	5,483.7	8,377.6	10,776.1
Depreciation & amortisation	14,355.5	12,092.9	12,056.1	13,722.1	13,993.6
Adj net interest (income)/exp	1,981.4	1,922.0	1,608.8	1,497.6	1,169.9
Change in working capital	3,232.1	9,924.3	220.1	3,857.0	3,550.0
Cash taxes paid	2,028.0	2,249.0	658.0	670.2	538.8
Other operating cash flow	1,502.0	3,524.2	(1,352.2)	(1,522.7)	0.8
Cash flow from operations	(3,827.6)	13,483.9	18,674.5	26,601.9	30,029.2
Capex	(3,827.8) (2,305.6)	(7,511.0)	(28,280.6)	(19,593.4)	(18,045.8
Free cash flow	(6,133.2)	5,972.9	(28,280.8) (9,606.1)	7,008.5	11,983.4
Dividends paid	0.0	0.0	(716.0)	(716.0)	(716.0
Equity raised / (purchased)	0.0	0.0 (8 700 5)	0.0 5 712 0	0.0	(2 002 6
Change in Debt	4,560.1	(8,799.5)	5,713.9	(993.6)	(3,993.6
Other invest/financing cash flow	4,526.8	6,037.2	2,177.9	2,593.5	2,123.
Effect of exch rate changes	(1,290.7)	(3,324.1)	1,382.4	1,513.1	0.0
Net cash flow	1,663.0	(113.6)	(1,047.9)	9,405.4	9,397.3

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(30.4)	260.5	48.8	15.5	10.5
EBITDAR growth	nm	nm	198.6	20.5	14.1
EBIT growth	nm	nm	nm	39.5	21.2
Pretax growth	nm	nm	nm	52.8	28.6
Reported net profit growth	nm	nm	nm	47.3	25.1
Core net profit growth	nm	nm	nm	47.3	25.1
Profitability ratios (%)					
EBITDAR margin	nm	15.0	30.2	31.5	32.5
EBIT margin	nm	nm	8.3	10.1	11.1
Pretax profit margin	nm	nm	6.5	8.6	10.0
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	nm	7.3	9.3	10.5
Revenue/Assets (x)	0.1	0.4	0.5	0.5	0.5
Assets/Equity (x)	13.0	nm	68.9	18.1	10.1
ROAE (%)	(146.2)	(343.4)	nm	145.6	74.4
ROAA (%)	(18.7)	(9.8)	3.8	4.9	5.5
Liquidity & Efficiency					
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	0.7	0.7	0.7	0.8	0.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.1	1.0	1.0	1.1	1.1
Net gearing (%) (incl perps)	405.5	net cash	nm	277.4	78.1
Net gearing (%) (excl. perps)	405.5	net cash	nm	277.4	78.1
Net interest cover (x)	na	na	4.4	6.6	10.2
Debt/EBITDAR (x)	nm	6.3	2.3	1.9	1.0
Capex/revenue (%)	14.6	13.2	33.5	20.1	16.8
Net debt/ (net cash)	43,019.7	33,795.3	40,557.1	30,158.1	16,767.2

Source: Company; Maybank IBG Research

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