

**Date**

March 28, 2016

Company

Cebu Air, Inc.

First Look Corporate

9M15 Earnings Outperformed;
Reiterate BUY - Attractive Upside
on estimated record earnings

Stock CEB**Price** 90.40**52wk Range** 74.00 - 99.50**Rating** BUY**Target** 140, 10.40x P/E**Upside** 55%**Issued Shares** 605mn**Market Cap** P49,779mn**Free Float** 32.76%**PSEi** N/A**MSCI** N/A

We reiterate a BUY for CEB and upgrade Target Price to 140/sh, 10.8x 2016F P/E, with an attractive upside of 55%.

The stock remains undervalued as company benefits from the sharp drop in jet kero prices to push earnings to record highs for FY15 and FY16 on strong passenger growth, significant jet fuel reduction. CEB also enjoys dominant domestic market share (59.1%) amid higher bookings and growing long-haul destinations segment.

9M15 Earnings Forecast Outperformed

- Outperformed forecast: 9M15 core income P6.9 billion (almost triple posted in 9M14 P2.3billion), already surpassed FY15 income forecast of P6.6 billion.
- Revenues +9.9% to P42.3 billion on strong passenger growth passenger +9% to 13.7 million (seat load factor at 81.5%) while maintaining Total Average Yield per passenger (+0.9% to P2,913.00).
- Earnings were complemented by slightly lower operating expenses (-1% to P35.23 billion).

Lower Jet Kero Prices likely to remain capped

Total bookings +17% with 3-month forward bookings at 3-

- The company reported that Jet Kero was at \$57.78/bbl (12 Nov 2015) from \$70.83/bbl(31 Dec 2014) and \$58.73/bbl (15 Sep 2015) September 30, 2015. Hedge Ratio at 28% for balance of 2015, 24% for 2016 and 18% for 2017.

Largest domestic market share 59.1%; Total bookings +17%

- CEB maintains largest domestic market share at 59.1% (3Q15) with 34 destinations, 56 routes, and 2,056 weekly flights
 - 23 short haul destinations, 32 routes and 438 weekly flights
 - 5 long haul destinations, 5 routes, and 36 weekly flights
- Total Bookings +17%. Forward 3-month bookings at 26% of total available seats (9 Nov 2015). Long haul forward bookings (9 Nov 2015) show 32% of seats sold. Long haul destination passengers grew 10% to 3.2 million, maintaining 23% share of total.

	Actual			Forecast	
	2013	2014	2015	2016	2017
Sales	41.00	52.00	56.66	60.32	65.65
		27%	9%	6%	9%
EBIT	2.40	4.16	9.82	9.91	9.46
		73%	136%	1%	-5%
EBITDA	5.86	8.44	14.82	15.07	15.53
		44%	76%	2%	3%
Net Income	0.802	0.853	6.62	7.76	7.38
		6%	676%	17%	-5%
EPS	0.84	1.41	11.49	12.87	12.78
		68%	715%	12%	-1%
BVPS	34.79	35.55	42.64	54.03	63.44
PBV		2.54	2.12	53.65	64.61
ROA%	0.79	1.19	12.05	12.13	8.85
ROE%	2.37	4.01	28.78	24.33	20.89

	9M14	9M15	Change
Total Revenue	38,446	42,259	9.9%
Passenger	29,725	32,126	8.1%
Ancillary	6,463	7,645	18.3%
Cargo	2,258	2,488	10.2%
Ave Yield per Passenger	2,888	2,913	0.9%
Average Fare	2,372	2,353	-0.8%
Ancillary/Passenger	516	560	8.5%
Cargo yield per kg	20	21	5.0%
Cost/ASK (CASK)	2.434	1.891	-22.3%
CASK ex-fuel	1.240	1.163	-6.2%
(Php Million)			
EBITDAR	8,947	14,317	60.0%
EBIT	2,854	7,035	146.5%
Pre-Tax Core Income	2,256	6,313	179.8%
Net Income	2,079	3,556	71.0%
Margins			
EBITDAR Margin	23.3%	33.90%	11 pts
EBIT Margin	7.40%	16.60%	9 pts
Pre-Tax Core Net Income Margin	5.90%	14.90%	9 pts
Net Income Margin	5.40%	8.40%	3 pts



Technicals

Current 90.40
Support 80, 76, 73
Resistance 95.45, 96.50, 99.50 (5-year high, pivotal break will lead to next highs), 109, 129
Target 140, 55% upside

- Short-term charts show overbought indicators with resistances at 92.40 and 99.50 after a strong rally from a low of about 74. Should stock pause, buy on dip.
- However, a break-out can occur should the stock break formidable resistance at 96.50 as seen on the chart since its 2010 IPO. In this case, buy on breakout.

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