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CATHAY PACIFIC

Date: 2025/06/04 | Industry: Airlines | Latest Price:10.34

Rating: Buy | Stock Code: 0293.HK | TargetPrice:13.41 （Upside 29.69%）

Figure 1:Company Data

Company Data	
Last Close(HKD)	10.34
Market Cap(Million HKD)	66,583
3Shares Outstanding(Million)	6,439
52-Week High(HKD)	11.54
52-Week Low(HKD)	7.18

Source:team analysis

Figure 2: Valuation Results

Methodology	Price
DCF	15.08
DDM	14.23
EV/EBITDA	11.75
Target Price	13.41
Upside	29.69%

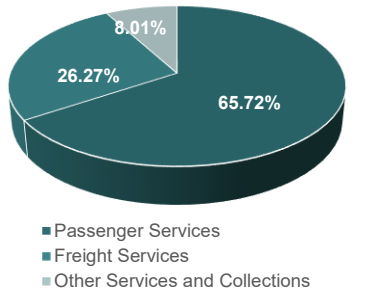
Source:team analysis

Figure 3: Financial Data

Financial Data	24A	25E	26E	27E
Rev.(Million)	104,371	112,946	116,548	120,354
Rev. growth	10.46%	8.22%	3.19%	3.27%
EBITDA(Million)	25,595	26,355	26,446	25,484
EBITDA margin	24.52%	23.33%	22.69%	21.17%

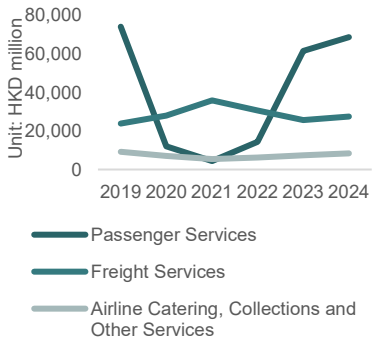
Source:team analysis

Figure 4: Cathay Pacific's business share in 2024



Source: Cathay Pacific 2024 annual report

Figure 5: Cathay Pacific's business growth in recent years



Source: Tonghuashun iFinD

Executive Summary

Cathay Pacific is a resilient carrier at a pivotal stage of value recovery.

We assign a Buy rating on Cathay Pacific (293.HK) with a HK$13.41 target price. FCF recovery, resumed dividends, and an optimized capital structure signal sustainable profitability. Valuation (DCF, DDM, EV/EBITDA) supports re-rating as ROIC improves and the impact of government support gradually fades.

Thesis1：The recovery trend of the passenger transport market is remarkable, and the upward economic trend has driven the demand for passenger transport

Passenger demand is rebounding strongly, with Cathay transporting 22.8 million passengers in 2024 (+26.9% YoY) and adding 15 new destinations. Global tourism growth (3–5% in 2025) supports sustained recovery.

Cathay enjoys unique access to U.S. routes via Hong Kong's civil aviation autonomy, operating 70+ weekly flights—far ahead of mainland peers. Its network spans 80+ global cities, with a focus on long-haul.

The full operation of Hong Kong Airport's third runway boosts capacity, positioning Cathay for the next phase of growth.

Thesis2：Freight gains from long-term e-com synergy & short-term cross-border rush; air-sea substitution drives volume growth.

E-commerce growth and shipping disruptions drive strong cargo demand. Cathay's freight volume rose 11% in 2024, with peak-season cross-border e-commerce contributing 50–60% of North America loads. Short-term catalysts include a 90-day U.S.-China tariff pause, triggering a pre-shipment rush and a 25%+ rise in air freight rates. As maritime routes remain unstable, high-value goods shift to air. Cathay, a key carrier on Sino-U.S. lanes, is set to benefit from both structural e-com momentum and short-term trade acceleration.

Thesis 3: Strong free cash flow and dividend resumption support valuation re-rating

Cathay Pacific's post-COVID recovery in free cash flow enables internally funded capital expenditures and resumed dividend payments. With ordinary dividends reinstated and preferred shares fully redeemed, the company has pivoted from liquidity preservation to a focus on capital return. This shift is reflected in our blended target price of HK$13.41—representing a 26.97% upside—based on a weighted average of DCF, DDM, and EV/EBITDA valuation methodologies. The re-rating is supported by strengthened ROIC, sustained cash generation, and long-term return potential.

Business Overview

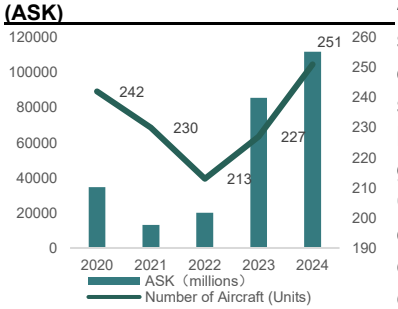
Cathay Pacific Airways Limited (HKEX: 0293) was founded in 1946 and is a full-service international airline headquartered in Hong Kong, as well as a founding member of the global oneworld alliance. The company positions itself as a premium full-service airline and operates through its wholly-owned low-cost subsidiary, Hong Kong Express (HK Express), which focuses on the budget air market. With Hong Kong International Airport as its hub, the airline's network covers over 80 cities worldwide, offering services including passenger transport, cargo, and related aviation services. It also expands its low-cost route network through its wholly-owned low-cost carrier, Hong Kong Express.

Business portfolio and operations

Passenger services:

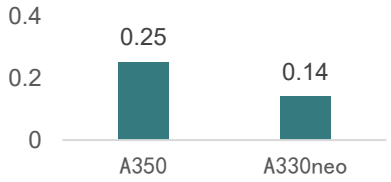
1) High-End Passenger Service (Cathay Pacific): As a full-service airline,Cathay Pacific is dedicated to providing passengers with an exceptional flying experience. The company offers various cabin classes including Economy, Select Economy, Business, and First Class to meet the comfort and budget needs of different travelers. Cathay Pacific continuously enhances in-flight services, such as seat design, entertainment systems, and dining experiences, striving to exceed passenger expectations in every aspect.

Figure 6: Trend of available seat miles (ASK)



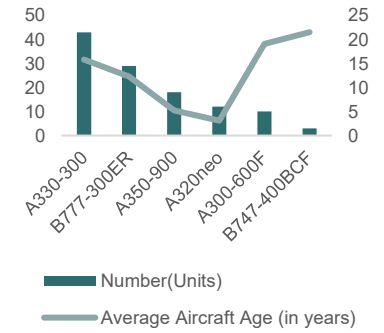
Source: Company annual report

Figure 7: Rate of decline in fuel consumption per vehicle



source: Civil Aviation Resource Network

Figure 8: Cathay Pacific's current fleet structure



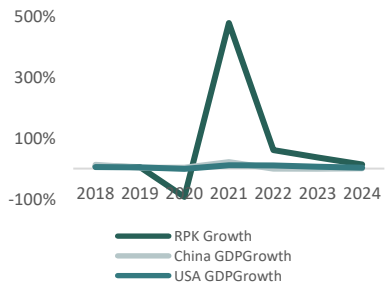
Source: Cathay Pacific 2024 Semi-annual Report

Figure 9: Net profit per passenger, USD

	2024A	2025E
Africa	0.9	1.0
AsiaPacific	1.8	1.8
Europe	8.2	9.2
LatAm	3.2	3.8
Middle East	23.1	23.9
NorthAm	10.3	11.8
Industry	**6.4**	**7.0**

Source: IATA

Figure 10: RPK Growth vs GDP Growth



Source: the World Bank, IATA

2) Low-cost Travel (Hong Kong Express): Hong Kong Express is a wholly-owned subsidiary of Cathay Pacific, focusing on low-cost air travel in the Asia region. By operating low-cost routes, Cathay Pacific can effectively expand its market share in price-sensitive markets and compete with other airlines offering similar services. This dual-brand strategy enables Cathay Pacific to reach a broader customer base and achieve growth in different markets.

Cargo Business (Cathay Cargo): Cathay Pacific has a significant cargo business and is one of the world's leading international air cargo carriers. Cathay Cargo leverages its extensive route network and professional cargo fleet to provide efficient and reliable air cargo services to customers worldwide. Hong Kong International Airport, as one of the busiest cargo airports globally, provides a solid foundation for the development of Cathay Cargo.

Company investment and objectives

New Aircraft Procurement: The company plans to make substantial investments in purchasing new, more fuel-efficient aircraft to modernize and expand its fleet, including the order of the Airbus A330-900 and other next-generation aircraft. Fleet modernization will help improve fuel efficiency, reduce operating costs, and enhance the passenger flying experience. At the same time, the crew investment expansion plan has increased Cathay Pacific's capacity.

Digital transformation of services:

The digital transformation of services is another key area of investment for the company, aimed at improving customer experience, optimizing operational efficiency and enhancing security, including the establishment of Cathay Technology. Digital transformation is critical to improving customer interaction and simplifying operations in the modern aviation industry.

Investment in Sustainable Aviation Fuel (SAF) :

Cathay Pacific is committed to investing in sustainable aviation fuel and other sustainability initiatives to achieve its long-term environmental goals. The company takes an active role in environmental responsibility and is aligned with global sustainability trends.

The company's goal is to regain and strengthen its leading position in the highly competitive aviation market of Asia-Pacific. This includes expanding its route network, enhancing service quality, and leveraging its hub advantages. Cathay Pacific's long-term value revaluation is closely tied to its strategy of "Hong Kong as an international aviation hub," especially after the full operation of the three-runway system at Hong Kong International Airport in November 2024. The full operation of the three-runway system will significantly boost the capacity of Hong Kong International Airport, driving Cathay Pacific's future growth.

Industry Overview

The aviation industry is a typical capital-intensive, low-profit margin and highly cyclical sector, featuring high beta attributes, cyclical attributes and consumption attributes. The civil aviation industry, as an important component, is characterized by a long upstream and downstream chain, wide service areas, high technology diffusion rate, large investment scale and strong driving effect. In the coming years, the global aviation market is expected to continue to grow.

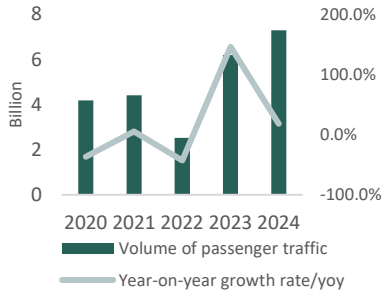
MACROECONOMICS:

The macroeconomic situation is the primary factor influencing the operation of the aviation industry. During the period of economic prosperity, the demand for business activities and tourism travel increased significantly, driving a notable growth in air passenger traffic. This year, on the whole, China's economy continues to show a positive and upward trend. On the one hand, macro indicators such as industry, consumption, investment, and the Purchasing Managers' Index (PMI) for the manufacturing sector continue to show signs of stabilization and improvement. On the other hand, new technologies, new industries, and new growth drivers have been continuously strengthened, the economic structure has been continuously optimized, and new progress has been made in high-quality development.

Demand side: Demand growth and policy support go hand in hand, and aviation infrastructure is constantly improving.

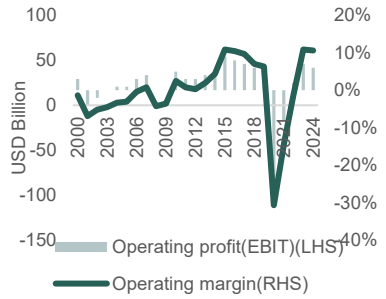
The demand for civil aviation transportation is strong, and the industry is recovering strongly.The recovery of the global air passenger market in 2024, especially in Northeast Asia (the Chinese market), is remarkable. This is mainly attributed to the release of domestic outbound travel demand and a series of domestic policies to stabilize the economy and stimulate consumption; Global air transport demand remains strong,

Figure 11: The total volume of civil aviation passenger transport across all industries



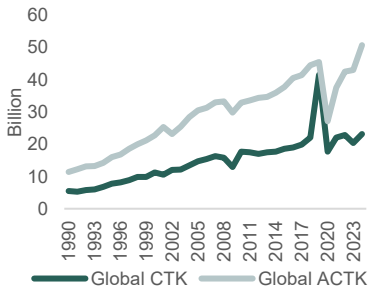
Source: Civil Aviation Administration of China

Figure 12: Operating profit and percentage of revenue of global airlines



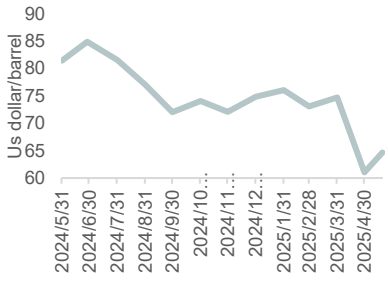
Source: IATA

Figure 13: Global seasonally adjusted ACTK and CTK



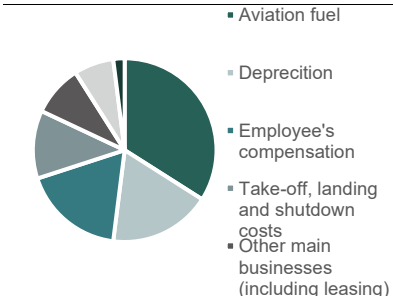
Source: IATA

Figure 14: Brent crude oil price



Source: International Oil Price Index

Figure 15: Operating costs of the three major state-owned airlines in 2024



Source: Company website, Team analysis

growing at a rate higher than capacity growth, driving up both turnover and freight rates, mainly driven by the strong cross-border e-commerce, followed by the capacity constraints of ocean transportation. Given these strong growth factors and the relatively positive macroeconomic outlook, it is expected that demand will continue to grow significantly in 2025.; The concept of green and low-carbon transformation and development is becoming increasingly profound, and supportive fiscal policies are constantly being introduced.

Supply side: The fluctuation and decline in crude oil prices have reduced operating costs, which is expected to release a considerable performance space for airlines.

In 2024, the price of Brent crude oil fluctuated downward within the range of $70 to $90 per barrel, with a decline of nearly 20% throughout the year. The fall in oil prices will help reduce the costs of airlines. From an economic perspective, fuel remains an unstable and significant cost factor, typically accounting for 25-30% of airlines' total expenditures. Considering weak demand, Trump's campaign promise to increase US petrochemical production and the possibility of OPEC+ increasing production, international crude oil prices are still likely to decline further in 2025.

Very- high rivalry within the industry, low threat of new entrants ,high bargaining power of customers, moderate threat of substitutes, high bargaining power of suppliers:

To further analyze the industry's competitive strategy and effectively assess the competitive environment of our clients, our team conducted Porter's Five Forces Analysis on the aviation industry **(Appendix 11)**.

Competitive Positioning

Dual-brand strategy

Hong Kong is the main base and strategic core of Cathay Pacific. Cathay Pacific is committed to consolidating Hong Kong's position as an international aviation hub and playing the role of a "high-end hub airline" in the Asia-Pacific region. Taking advantage of Hong Kong's geographical proximity to the Chinese mainland and the world, it has launched a large number of routes to Europe, America, Australia and the Asia-Pacific region, and offers luxury cabins such as first class and business class to meet the demands of high-end business travel. Meanwhile, Cathay Pacific offers low-cost flights to Southeast Asia and nearby cities through Hong Kong Express, covering price-sensitive leisure travelers. This dual-brand strategy enables Cathay Pacific to attract both high-value long-haul passengers and tap into the regional low-cost carrier market.

Geographical location advantages

Cathay Pacific Airways, "rooted in Hong Kong, backed by the motherland, and connected to the world", enjoys a unique geographical location, highly developed shipping infrastructure and supporting services. It provides convenient services for mainland tourists to travel between Hong Kong and the rest of the world via Hong Kong, contributing a distinctive force to promoting talent exchange and economic and trade cooperation.

Focus on the mid-to-high-end market

Our team selected two high-end airlines, Emirates and Singapore Airlines, for comparative analysis **(Appendix 3)**. Cathay Pacific's competitive positioning mainly focuses on the mid-to-high-end market, with target customer groups including business travelers and high-end travel enthusiasts. Through providing excellent service quality, advanced technology, extensive route network and clear market positioning, Maintain its high-end brand image and market competitiveness in the aviation field.

Investment Summary

Thesis1：The recovery trend of the passenger transport market is remarkable, and the upward economic trend has driven the demand for passenger transport

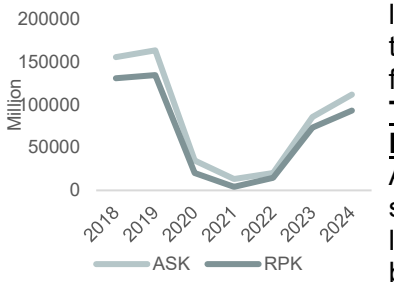
Passenger transport demand continues to recover

Cathay Pacific is benefiting from the ongoing recovery in global passenger demand, particularly on international routes. In 2024, it carried 22.83 million passengers (+26.9% YoY) with a load factor of 83.2%, and added 15 new destinations. Although flight volumes have returned to pre-pandemic levels, Cathay maintains strong profitability, supported by global ASK and RPK trends. According to UNWTO, international tourist arrivals may reach 1.5 billion by 2025, offering further growth tailwinds.

"Special Treatment" for Aviation Affairs in Hong Kong

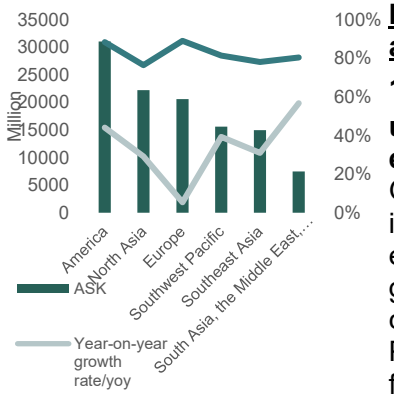
Hong Kong's independent authority to sign civil aviation agreements—such as its bilateral treaty with the U.S.—gives Cathay Pacific a competitive edge over mainland carriers. Cathay operates the majority of the 70+ weekly flights from Hong Kong to the U.S., compared to 50 shared flights from the mainland. The bilateral agreement allows Cathay broad access to U.S. routes and supports strong air cargo development, helping Hong Kong International Airport become the world's top cargo hub by 2020.

Figure 16: Cathay Pacific Available Seat-Kilometers (ASK) and Revenue Passenger-Kilometers (RPK)



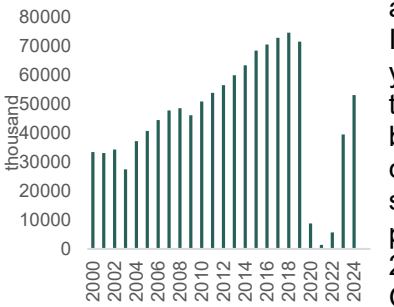
Source: Annual Report of Cathay Pacific Airways

Figure 17: Cathay Pacific's ASK, year-on-year growth, load factor in 2024, by region



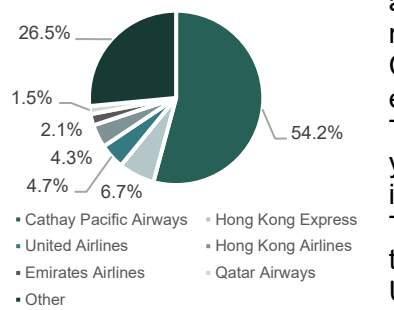
Source: Annual Report of Cathay Pacific Airways

Figure 18: The number of international civil aviation passengers at Hong Kong International Airport



Source: The official website of Hong Kong International Airport

Figure 19: Airline Share of the Hong Kong Aviation Market 2024 (ASK Metric)



Source: CAPA

Covers the whole world, with a large proportion of long-haul routes

Cathay Pacific operates about 80 passenger destinations globally. Its network spans North America, Europe, Asia, Oceania, and Africa, with a strong focus on medium- and long-haul routes—especially 99 weekly flights to North America and 29 destinations along the Belt and Road. Ongoing route expansion to cities like Dallas, Rome, and Hyderabad further enhances its international coverage.

Taking advantage of Hong Kong's unique geographical location and the fact that Hong Kong International Airport has entered the "three-runway era"

As the anchor carrier at Hong Kong International Airport, Cathay benefits from the city's strategic location and world-class connectivity. The airport's new three-runway system, launched in full operations, significantly boosts capacity and aligns with the city's vision to become an "airport city." With links to over 220 destinations pre-pandemic and close proximity to major Asian cities, Cathay is well-positioned to scale further under the Belt and Road aviation partnerships.

Thesis2: Freight gains from long-term e-com synergy & short-term cross-border rush; air-sea substitution drives volume growth.

Major shipping routes are congested and unstable, with the shipping crisis driving an explosion in air freight demand.

1) Long-term driving force: the development trend of e-commerce remains unchanged, and the growth of freight volume is synchronized with the demand of e-commerce

Global cross-border e-commerce transaction volume is expected to grow from $4.4 trillion in 2023 to $7 trillion by 2028, with a compound annual growth rate of 8.9%. As a core exporter, China's B2C model has already reached a 21.4% share. Boeing predicts that global air cargo traffic will expand at an annual rate of 4% due to the growth of e-commerce, and the share of express goods will rise from 18% to 25% by 2043. Cathay Pacific's capacity expansion plan aligns closely with this trend, and it is anticipated that its freight revenue will maintain a low single-digit annual growth rate from 2025 to 2027. A detailed analysis of its valuation will be provided.

In 2023, the annual cargo volume of Cathay Pacific increased by 19.6%, and in 2024, it will increase by 11%. According to the data of China General Administration of Customs, the annual growth rate of China's cross-border e-commerce export volume in the same period exceeded 20% (the export B2C market scale reached 3.7 trillion yuan in 2023, with a compound annual growth rate of 26.2%).

In 2024, Cathay Pacific Cargo transported 1.532 million metric tons of cargo, a year-on-year increase of 11%, with December's freight volume reaching a new high for the year. In the fourth quarter of 2024, Cathay Pacific's flights to and from North America were fully booked due to peak demand during the e-commerce season, with cross-border e-commerce cargo accounting for 50-60%. Cathay Pacific launched the "BookingEase" system for e-commerce at the end of November 2021. By June 2024,50% of orders were processed through this platform (as reported by China Civil Aviation News on June 28,2024), and it signed regular capacity agreements with major e-commerce giants in the Greater Bay Area, reinforcing air-rail intermodal models such as "truck flights."

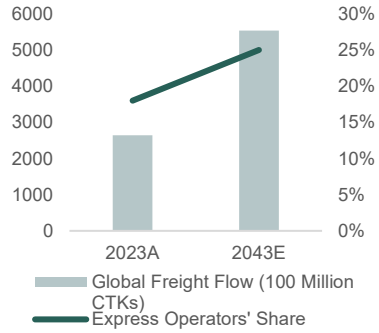
2) Short-term catalysis: the tariff shock enters a window of easing and cross-border trade enters a rush.

In May 2025, China and the United States reached a tariff easing agreement, suspending additional tariffs on goods such as machinery and textiles for 90 days, covering approximately $120 billion in Chinese exports to the U.S. To avoid potential tariff rebound risks, companies accelerated inventory buildup, creating a "pre-shipment" effect. In May, China's export orders to the U.S. increased by 18% month-over-month, with cross-border e-commerce orders surging by 45% year-over-year, over 60% of which were to the U.S. This concentrated shipping led to air freight prices on the West Coast route rising from 25 yuan per kilogram at the beginning of April to 40 yuan per kilogram in May, a 60% increase and the highest level this year.

The inventory sales ratio of U.S. retailers fell to 1.23 (the lowest in nearly 10 years), and the demand for replenishment was urgent. Cathay Pacific is the main carrier of China-U.S. routes, and this rush further intensified the capacity tension and pushed up freight rates in the short term.

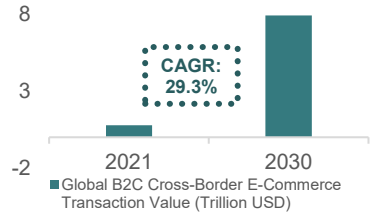
The rush to transport usually lasts for 3-6 months. Referring to the experience of the rush before the tariff increase in 2019, freight rates on the U.S.-West Coast route surged by 35% in a single month, and by May 2025, rates had already risen by 25%. It is expected that these high levels will continue for another 1-2 months. As the main carrier, Cathay

Figure 20: Global freight volume and express operator share



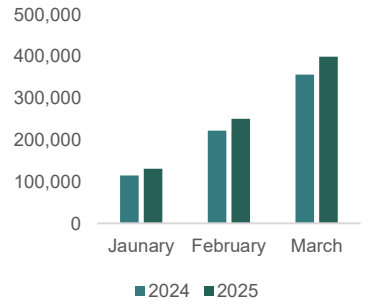
Source: Boeing World Air Cargo Forcast 2024-2043

Figure 21: Global B2C Cross-Border E-Commerce Transaction Value



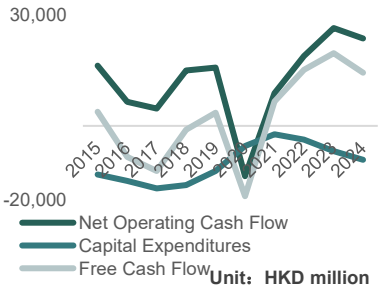
Source: Statista: B2C Cross-Border E-Commerce Market Value

Figure 22: Cathay Pacific's freight volume



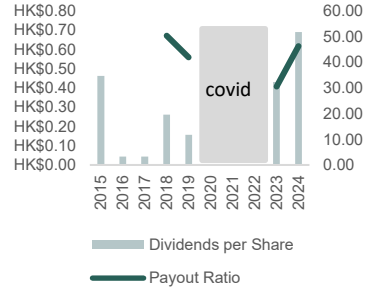
Source: Tonghuashun iFinD

Figure 23：Operating Cash Flow vs. CapEx vs. Free Cash Flow



Soure:Factset

Figure 24：Dividends and Dividend Yield



Pacific is forecasted to see its freight revenue grow by 15-20% year-over-year in Q2 2025, with quarterly freight profit potentially reaching HKD 1.5-2 billion.

The main maritime routes are congested and unstable, and the maritime crisis has forced the outbreak of air demand

The deterioration of shipping efficiency and cost

The maritime market currently remains deeply entrenched in an operational crisis triggered by the Red Sea crisis and persistent port congestion, with its impact unfolding through the dual "time-cost" pressures that are reshaping logistics dynamics. Analysis by the China Shipowners' Association indicates that rerouting via the Cape of Good Hope has increased one-way voyage times on Eurasian routes by 80%, extending delivery periods by approximately 18 days. When coupled with chronic delays at European ports, the overall transport cycle now exceeds 50 days. Concurrently, cost pressures have surged: spot freight rates on the U.S.-West Coast route hit $3,500 per FEU in May 2025, marking a 70% increase from the start of the year, with frequent adjustments to various surcharges. This dual deterioration in efficiency and cost has forced time-sensitive high-value goods—such as electronics, perishables, and pharmaceuticals—to rapidly shift to air freight. Following post-tariff policy adjustments, U.S. clients, aiming to mitigate potential risks, have mandated direct air shipments for certain cargoes, triggering a surge in Cathay Pacific's North American airfreight demand and creating a spillover effect from maritime disruptions to air transport markets.

The substitution effect of air transport is significant

The maritime crisis has directly boosted air freight demand. In July 2024, global air cargo demand grew by 13%, with China's e-commerce sector contributing the majority of the increase. According to industry analysis by Baidu Transport Network, during the Red Sea crisis, 30% of high-value-added goods that were previously transported by sea shifted to air transport. Cathay Pacific, as a major carrier on Sino-U.S. routes, saw its freight volume grow by 11.8% to 13.7% in January and February 2025, with a cumulative increase of 12.8% over the first two months. Data from the Civil Aviation Administration of China shows that the industry-wide cargo and mail transport volume grew by 9.8% in January and February 2025, with Cathay Pacific's freight significantly outpacing the industry average. This growth is not only driven by e-commerce packages but also includes time-sensitive industrial goods such as automotive parts and precision instruments.

Thesis 3: Strong free cash flow recovery and capital return transition support valuation re-rating

Since the pandemic, Cathay Pacific has undergone a full-cycle financial transformation—from crisis containment to internally funded growth and shareholder returns. In 2020, the collapse of international travel led to a significant decline in free cash flow (FCF), forcing the company to initiate a HKD 39 billion recapitalization package, including government-issued preferred shares and a rights offering. However, from 2021 onward, operational resilience—particularly through cargo strength and disciplined cost control—enabled a rapid recovery in operating cash flow. By 2021, Cathay returned to positive FCF, and despite increasing capex related to fleet modernization and network rebuilding in 2023–2024, internal cash generation remained strong.

This ability to sustain positive FCF even during peak investment cycles reflects a structural improvement in the company's cash flow model. It has allowed Cathay to redeem all government-issued preferred shares by 2024 and repurchase outstanding warrants, signaling a full exit from state support and a return to a market-oriented capital structure. More importantly, the company resumed ordinary dividends in 2023 and further raised payouts in 2024 (HKD 0.69/share), exceeding pre-pandemic levels. This marks a clear shift in capital allocation strategy—from crisis-driven capital preservation to long-term value distribution—underpinned by improved internal profitability and balance sheet strength.

We believe Cathay Pacific is at a strategic turning point that supports a structural valuation re-rating. Our 12-month target price of HK$13.41, implying a 29.69% upside, is derived from a blended valuation approach:

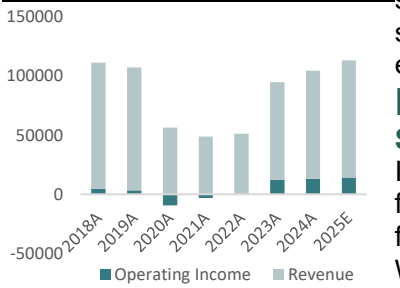
DCF (20% weight, HK$15.08 target): captures long-term intrinsic value based on normalized free cash flow. Given historical volatility in cash generation, we apply conservative growth and margin assumptions.

DDM (40% weight, HK$14.23 target): reflects the resumption of ordinary dividends and the company's potential to sustain capital returns, signaling a shift in investor focus from survival to yield stability.

EV/EBITDA (40% weight, HK$11.75 target): benchmarks Cathay against regional peers, adjusting for capital structure differences and highlighting improving operating leverage and profitability.

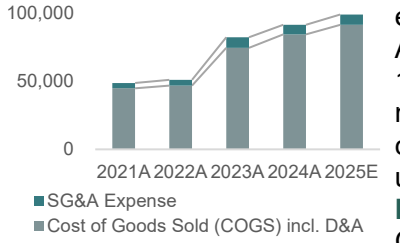
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Figure 25：Revenue&EBIT



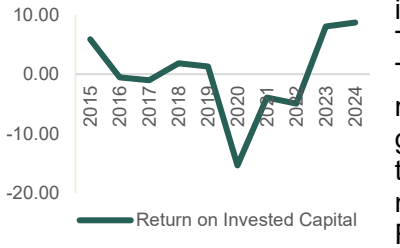
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Figure 26：COGS & SG&A



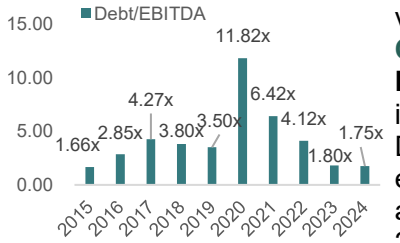
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Figure 27：ROIC



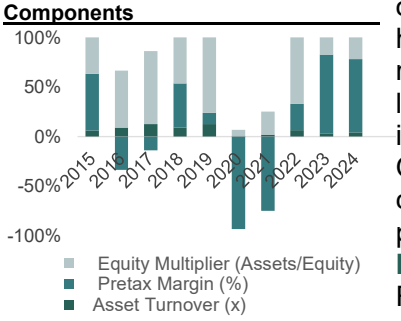
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Figure 28：Debt/EBITDA



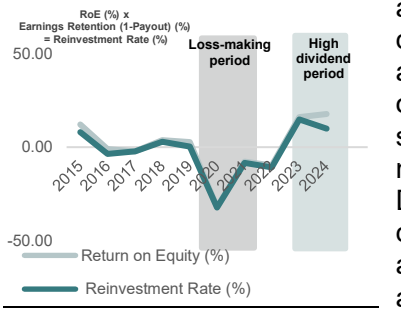
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Figure 29:DuPont Analysis: Decomposition into Three Components



Soure:Factset

Figure 30:ROE and Reinvestment Rate



Soure:Factset

Together, these methods illustrate Cathay's transformation from a post-crisis recovery story to a capital-efficient, cash-generative carrier. As ROIC strengthens and government support phases out, we expect the market to reprice Cathay based on its sustainable earnings power, disciplined capital return strategy, and enhanced shareholder alignment.

Financial Analysis

Solid Gross Margin Performance with Stable Fixed Costs

In 2023, Cathay Pacific's revenue surged 85.1% year-on-year to HKD 94.49 billion amid a full recovery in routes and strong passenger demand. On this high base, revenue grew a further 10.5% in 2024 to HKD 104.37 billion, signaling a transition into stable expansion. While operating expenses rose 11.9%—with inflight services, route-related costs, and fuel up 38.0%, 25.3%, and 13.1% respectively—these increases were in line with traffic growth and remain manageable.Gross margin peaked at 21.2% in 2023 and slightly eased to 19.2% in 2024 due to cost pressures, still well above pandemic-era levels. Aircraft depreciation and leases remained steady at HKD 9.80 billion, accounting for 10.7% of total costs, reflecting fixed-cost stability. Despite rising input prices, Cathay maintained solid profit resilience.Looking ahead, as capacity growth stabilizes, the company is well positioned to shift toward refined cost control and capex optimization, unlocking further earnings leverage.

FCF recovery and capital normalization drive ROIC rebound

Cathay Pacific's free cash flow turned positive in 2022, supported by cargo strength and tight cost control. Despite rising capex in 2023–2024, FCF remained positive, enabling internally funded fleet expansion, preferred share redemption, and dividend resumption. This reflects improved cash generation capacity and operational efficiency.

To stabilize its balance sheet during the pandemic, Cathay launched a HKD 39 billion recapitalization plan, including preferred shares issued to the Hong Kong SAR government. With fundamentals improving, the company completed full redemption of these shares and all warrants by 2024, fully exiting government support and restoring a market-based capital structure.

ROIC rebounded from -18% in 2020 to over 9% in 2023–2024, driven by cost cuts, network recovery, and fleet optimization. The company's financial model has shifted from crisis response to sustainable growth, supporting long-term capital efficiency and future value creation.

Operating Leverage Fuels Earnings Rebound

Balance Sheet Repair Driven by EBITDA Recovery: Cathay Pacific has significantly improved its financial leverage post-pandemic. At the peak of the crisis in 2020, its Debt/EBITDA ratio surged to 11.82x, reflecting elevated leverage risk amid collapsing earnings. Since 2021, EBITDA recovery—driven by cost reductions, route restoration, and asset optimization—alongside steady debt repayments, brought the ratio down to 1.80x in 2023, with a further decline to 1.75x expected in 2024. This marks a full return to pre-pandemic—or even stronger—balance sheet health.

Operational Strength vs. Domestic Carriers:Compared with mainland peers, Cathay also outperforms in profitability and liquidity. Its 2023 EBITDA margin reached 25.22%, the highest among major Chinese carriers, underscoring superior operating leverage and revenue quality. Its current ratio of 0.38, also industry-leading, reflects stronger short-term liquidity and cash flow resilience—key to supporting sustained recovery and capital investment.

Overall, Cathay has rebuilt its financial strength and earnings quality following a period of crisis, reinforcing its credit profile and funding capacity. This fundamental improvement provides strong support for a potential **valuation re-rating**.

Margin-Led ROE Rebound Signals Dividend Upside

Following heavy losses in 2020–2021 due to the pandemic, Cathay Pacific's return on equity (ROE) rebounded significantly starting in 2022, driven by simultaneous improvement across all three DuPont components—asset turnover, pre-tax profit margin, and equity multiplier. Among these, the sharp recovery in profit margin was the primary driver, reflecting strong earnings recovery, while improved asset efficiency further amplified return potential. Importantly, the ROE rebound stemmed mainly from operational improvement rather than leverage expansion, highlighting the company's sound capital structure and strong internal fundamentals.By 2022, ROE had recovered to near 20%, exceeding pre-pandemic levels and remaining elevated through 2023–2024. During this period, the reinvestment rate initially recovered in tandem with ROE, but later decoupled—suggesting that Cathay deliberately shifted toward higher dividend payouts and lower retained earnings, backed by robust cash flow and a more balanced capital allocation strategy.Overall, supported by optimized operating leverage and improved earnings quality, Cathay Pacific's ROE and shareholder return mechanisms have

strengthened in tandem, signaling a transition from recovery to sustained value realization.

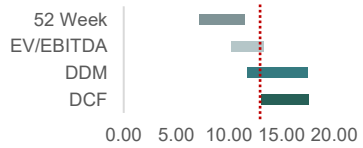
Figure 31: Case Scenario

CATHAY PACIFIC

Criteria	Bear	Base	Bull
Rev. CAGR	*2.15%*	*4.15%*	*6.15%*
Gross Margin	*17%-> 14%*	*19%-> 16%*	*21%-> 18%*
Implied Price			
DCF	13.09	15.08	17.61
DDM	9.71	14.23	19.43
EV/EBITDA	10.24	11.75	13.31
Target Price	10.60	13.41	16.62

Source: Team analysis

Figure 32:Football Field



Source: Team analysis

Figure 33：DCF Output

Present value of forecast period	37,092.63
Present value of transition period	21,888.89
Present value of perpetuity	65,851.52
Enterprise value	**124,833.03**
Add: Value of non-core assets	17,063.00
Less: Interest-bearing debt	44,800.00
Less: Minority interest	7.00
Equity value	**97,089.03**
Total shares outstanding	6,439.41
Value per share	**15.08**

Source: Team analysis

Figure 34：DDM Output

Present value of forecast period	18271.83
Present value of perpetuity	73347.11
Equity value	**91,618.96**
Total shares outstanding	6,439.41
Value per share	**14.23**

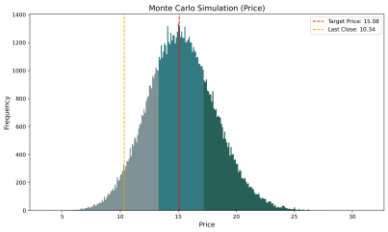
Source: Team analysis

Figure 35：EV/EBITDA Output

Peers Average	4.60x
1year Historical Discount Avg.	14.76%
Adjusted Multiple	**3.92x**
2025E EBITDA	26,354.65
Enterprise Value	103,419.44
Market Cap	75,682.44
Implied Price	**11.75**

Source: Team analysis

Figure 36:Monte Carlo Simulation



Valuation

Key Forecast

Revenue Forecast

We adopt a bottom-up approach to forecast Cathay Pacific's revenue across passenger, cargo, and other income streams. Passenger revenue is projected using ASK, load factor, and yield. ASK is expected to recover to 94% of 2019 levels by 2027, with stable load factors around 82–83%. Yield, currently elevated, is expected to gradually normalize. Cargo revenue is driven by steady growth in ATK and structural demand, though cargo yield may decline after a short-term uptick linked to trade-related disruptions.**(Appendix 19)**

Cost Forecast

Operating costs are forecast based on their relationship to ASK, RPK, or business scale. Fuel costs are expected to decline significantly as a share of ASK due to lower oil prices and improved aircraft efficiency. Inflight services remain tied to RPK at a stable rate, while staff costs grow modestly at a 3% CAGR. Airport charges benefit from scale, and maintenance costs increase gradually with new fleet operations. **(Appendix 19)**

Valuation Models

Valuation Methodology

We apply a blended valuation framework using DCF (20%), DDM (40%), and EV/EBITDA (40%) to capture Cathay Pacific's cash flow performance, capital return profile, and comparability within the airline industry.

The DCF model reflects the strong rebound in free cash flow from 2022 to 2024. However, due to historical volatility and uncertainty over long-term sustainability, we assign it a conservative 20% weight.

DDM is weighted at 40%, supported by Cathay's historically stable and high dividend payouts outside of the pandemic. The resumption of dividends in 2023 enhances its relevance.

EV/EBITDA also receives a 40% weight, as it is commonly used in airline valuation. It neutralizes capital structure differences and allows for effective peer benchmarking. Together, these methods provide a balanced and robust valuation that reflects Cathay Pacific's fundamental outlook from multiple perspectives.

Discounted Cash Flow (DCF)

Cathay Pacific's free cash flow rebounded significantly over 2022–2024, driven by earnings recovery and normalized capex. Looking ahead, we adopt a prudent forecast with stable EBIT growth, declining capital intensity, and steady working capital assumptions. Based on a WACC of 8.59% **(Appendix 23)**and a terminal growth rate reflected in a multi-stage model, we derive an enterprise value of HK$124.83 billion and an equity value of HK$97.09 billion. This corresponds to an implied valuation of HK$15.08 per share under the DCF framework. **(Appendix 24)**

Dividend Discount Model (DDM)

Post-pandemic dividend resumption marks a strategic pivot for Cathay. After suspending dividends from 2020–2022, the company resumed payouts in 2023. We model dividends in two stages: rising with earnings through 2026 at a 48% payout ratio, then growing perpetually at 3%. Using a 9.33% cost of equity, the model yields a target price of HKD 14.23 per share. **(Appendix 24)**

EV/EBITDA Valuation

We use a peer-based EV/EBITDA valuation framework referencing major regional carriers such as Singapore Airlines, Japan Airlines, and Qantas Airways. The peer group trades at an average multiple of 4.60x. To reflect Cathay Pacific's historical valuation pattern, we apply a 14.76% discount to derive an adjusted multiple of 3.92x. Applying this to the 2025E EBITDA forecast of RMB 26,355 million yields an enterprise value of RMB 103.42 billion and an equity value of RMB 75.68 billion. This implies a target price of HK$11.75 per share under the EV/EBITDA approach. **(Appendix 28)**

Investment Risks

Valuation Uncertainty Risk

A Monte Carlo simulation with 100,000 iterations was used to assess valuation uncertainty under varying assumptions in growth, margins, capex, working capital, and discount rate.

Valuation: The simulated price ranges broadly from below HKD 5 to above HKD 30, with a mean of approximately HKD 15.28. This distribution highlights both the significant upside potential and the model's sensitivity to key input assumptions such as revenue

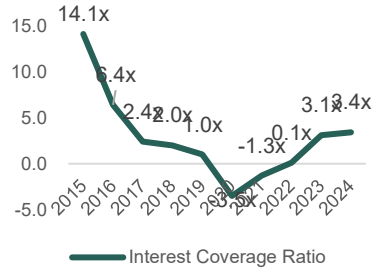
Source:team analysis

Figure 37: Sensitivity of Revenue to Changes in RPK

RPK	25E Rev.
-10%	105,471
-5%	109,208
0%	112,946
5%	116,683
10%	120,420

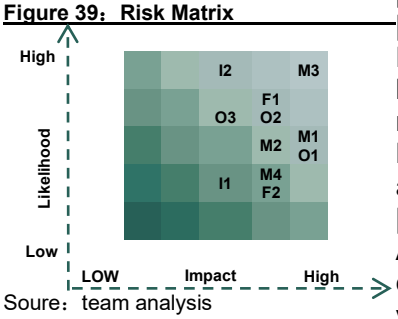
Source:Factset

Figure 38:Interest Coverage



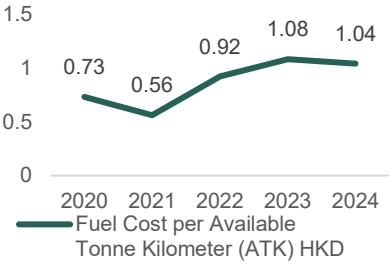
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Figure 39：Risk Matrix



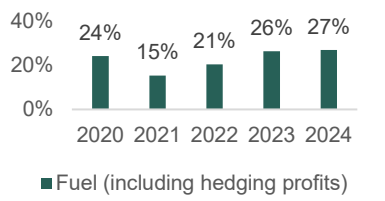
Soure：team analysis

Figure 40：Fuel Cost per Available Tonne Kilometer (ATK) HKD



Soure:Factset

Figure 41：Fuel (including hedging profits)



Soure:Factset

Figure 42: ESG Scorecard

Standard	ESG rating	Environmental	Social	Governance
Wind	7.27	4.65	5.96	7.10
Huazheng Index	86.64	82.23	85.62	85.73
S&P Global	41	50	33	43
LSEG	52	69	63	16

Source: Company website, 2024

growth, cost structure, and discount rate. The wide dispersion also reflects the inherent volatility of the aviation sector and macroeconomic uncertainties. **(Appendix 26)**

Financial Risks

[F1] Volatility in Free Cash Flow Due to Rising Capex

In 2023, Cathay Pacific's free cash flow reached HKD 19.7 billion, but fell to HKD 14.4 billion in 2024 as capex rose to HKD 9.2 billion. With ongoing fleet expansion, rising capex may pressure free cash flow and challenge liquidity if operating cash flow slows.

Mitigation： Cathay can improve liquidity by deferring some capex, speeding up receivables, and optimizing working capital. Backup credit lines offer additional flexibility.

[F2] Elevated Interest Rate Sensitivity Under High Leverage

As of 2024, Cathay's debt remained high at HKD 44.8 billion. EBITDA rose to HKD 25.6 billion, and interest coverage improved to 3.4×, but remains below pre-pandemic levels. With high fixed costs and interest rate sensitivity, free cash flow may stay under pressure.

Mitigation: Cathay should raise retained earnings, divest non-core assets, and limit expansion. A stable debt maturity profile helps reduce refinancing risk.

Operational Risks

[O1] Fleet Structure and Maintenance Cost Risk

Cathay Pacific operates a mixed widebody fleet, increasing maintenance complexity and logistics costs. Global supply issues have raised parts prices and delayed repairs. Aircraft delivery delays extend the use of older jets, raising maintenance and safety risks. Fleet renewal also requires large capital, straining cash flow.

Mitigation: Cathay should simplify fleet types, diversify parts sourcing, and align fleet upgrades with cash flow and market recovery to control capital and maintenance pressure.

[O2] Human Resources and Labor Relations Risk

During the pandemic, Cathay laid off 8,500 staff and shut down Cathay Dragon, straining labor relations and causing talent loss. As hiring resumes, global skilled worker shortages raise recruitment and cost pressure, while labor disputes may disrupt operations.

Mitigation: Cathay should develop internal talent, offer competitive pay and career paths, and maintain clear union communication to avoid labor issues.

[O3] Customer Service and Brand Consistency Risk

As a premium airline, Cathay relies on consistent service quality. Post pandemic recovery caused gaps due to staff inexperience and resource shifts, weakening loyalty and brand value.

Mitigation: Cathay should unify service standards, strengthen training, and enhance personalization and loyalty programs. Digital tools can help track service and ensure brand consistency.

Market Risks

[M1] Geopolitical Risk

Tensions between China and the United States, regional friction, and Hong Kong's politics may affect route access and operations. Rising conflict may cause suspensions and revenue loss.

Mitigation: Cathay should diversify routes and engage regulators to protect traffic rights.

[M2] Tariff and Policy Risk

Although the latest US-China tariff hike was delayed by 90 days, escalation risks remain. New tariffs on e-commerce or aviation parts may hurt cargo demand and delay aircraft deliveries, pressuring margins and supply chains. **(Appendix 29)**

Mitigation: Cathay should monitor trade trends, use flexible cargo strategies, seek alternative sourcing, and deepen logistics partnerships to reduce tariff risk.

[M3] Fuel Price Risk

Fuel is Cathay's largest variable cost, reaching 26–27 percent of revenue in 2023–2024. Since 2021, unit cost has nearly doubled. Despite hedging, price spikes could cut margins.

Mitigation: Cathay should improve fuel efficiency, adopt newer aircraft, and refine hedging to manage cost risk.

[M4] Delayed Route and Capacity Recovery Risk

Long haul capacity in 2023 had not fully returned to 2019 levels. Delays in restoring high margin routes due to limited bilateral talks may hurt profit. With scaled-up cost structures, revenue gaps could raise pressure on returns.

Mitigation: Cathay should push forward negotiations, restore routes faster, build short haul network resilience, and plan capacity based on different scenarios.

Industry Risks

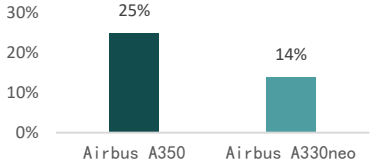
[I1] New Local Competitors Risk

Figure 43: ESG Scoring in the Same Industry

Name	S&P Global	LSEG
Cathay Pacific	41	52
Qantas Airlines	31	74
Singapore Airlines	52	72

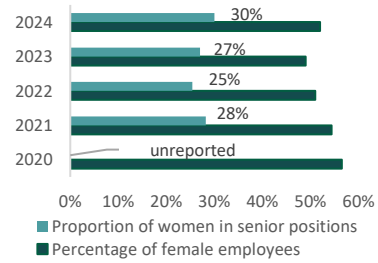
Source: Company website, 2024

Figure 44: Fuel consumption reduction rate for each building



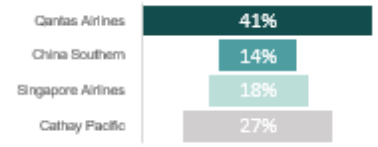
Source: Civil Aviation Resource Network

Figure 45: Proportion of female employees in Cathay Pacific Airways



Source: Company annual report
Note: Cathay Pacific Airways has not disclosed the proportion of women in senior positions in 2020.

Figure 46: Proportion of female senior executives



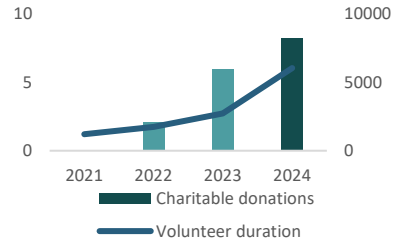
Source: Wind, 2023

Figure 47: Employee Review

Enterprise	overall assessment	Senior management	Whether to recommend to friends
Cathay Pacific Airlines	3.4	2.6	43%
Qantas Airways	3.6	3.1	67%
Singapore Airlines	3.7	2.9	67%
Air China	3.4	3.1	43%

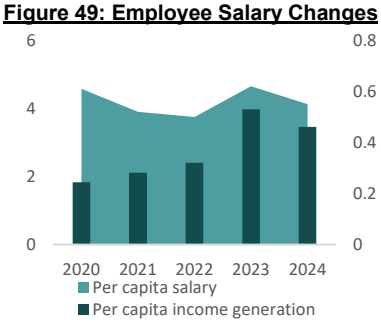
Source: Glassdoor, 2024

Figure 48: Community Volunteer Activities and Charitable Donations



Source :Company Sustainable Development Report

Figure 49: Employee Salary Changes



Source: Wind Unit: Million

Carriers like Greater Bay Airlines are expanding from Hong Kong with low cost and high frequency, challenging Cathay's share in short and medium haul markets.

Mitigation: Cathay should improve service differentiation, loyalty programs, and cost efficiency to stay competitive.

[I2] Intensifying Price Competition

Following the pandemic, rapid capacity growth has sparked fare wars. Low-cost carriers are expanding routes and slashing prices, pressuring full-service airlines like Cathay to cut fares.

Mitigation: Cathay should improve yield management, focus on route profitability, and invest in digital engagement and premium services to sustain pricing power.

ESG

Environmental, Social and Governance

As the importance of sustainability rises, Cathay's ESG profile influences stakeholders' perceptions of the business. Cathay Pacific is rated as medium risk according to ESG rating agencies. Based on our internal analysis of the most important industry-related ESG factors, Cathay Pacific does not lag behind its peers in any category. Our scorecard methodology is described in further detail **(Appendix 13)**.

Environmental

Cathay Pacific participates in a number of carbon-reduction and emissions-reduction programs, working in concert with the industry to achieve the Sustainable Development Goals (SDGs).

1) Sustainable Fuel Aviation (SFA):

SFA is one of the key technologies for the aviation industry to achieve carbon neutrality targets. Cathay Pacific, as a co-sponsor of the Hong Kong Sustainable Aviation Fuel Alliance, is committed to promoting the development, supply and use of SAF. Cathay Pacific is working to increase its share to 10% by 2030 through joint purchasing and corporate SAF programs, as well as launching a major tripartite partnership with HSBC Hong Kong and Ecoceres. We believe this move could reduce Cathay's carbon emissions and contribute to its sustainable growth in the long term.

2) Unit modernization: Cathay has continued to expand and modernize its units since 2023. The A350F ordered in 2023 and the Airbus A330neo purchased in 2024 have been effective in improving fuel efficiency.

3) Circular economy: Cathay launched an in-flight recycling program and set up the first recycling sorting process at Hong Kong International Airport. Resource use is optimized through the use of renewable plastics and water cups, waste re-entry into the supply chain, and waste data tracking.

4)Carbon offset: Cathay Pacific has taken a series of carbon offset measures. It provides passengers with carbon offset options and conducts special activities such as the "Green Double 11" and "Green Friday" to offset carbon emissions. In addition, starting from 2024, Cathay Pacific will use sustainable aviation fuel to offset 10% of the carbon emissions from flights generated by employees' business trips. These initiatives can enhance Cathay Pacific's sustainable development image and promote the achievement of the net-zero carbon emissions target.

Social

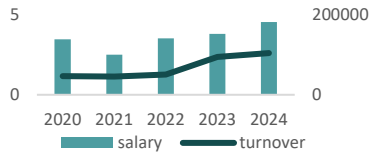
Cathay Pacific has a sound staffing structure and a solid foundation of governance, with a good corporate culture and image.

1) Staffing structure: 2019 Cathay Pacific joined IATA's "25 by 2025 Initiative" to set up a gender equality network to promote gender balance. Cathay's gender structure is relatively reasonable, with a higher percentage of women in senior positions compared to its peers. Based on the above data, we believe that Cathay is able to promote the elimination of gender barriers and bias in its business, and has demonstrated a good governance foundation in gender diversity management, with a certain degree of stability in its internal corporate operations.

2) Job Safety and Welfare: Cathay mandates a rigorous six-week induction safety and service training program. At the same time, crew members are assessed annually, which is higher than the frequency required by regulatory agencies (36 months/time), reducing safety risks to a greater extent. In addition, Cathay has established a more comprehensive employee welfare system through the implementation of the "flexible work" system and the Employee Assistance Program. Overall, employees have a more positive view of Cathay Pacific than their counterparts at other airlines and are more likely to recommend it to friends.

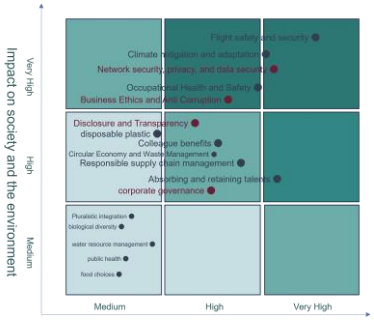
3) Social causes: Cathay is committed to fully supporting the communities it serves, with a particular focus on youth development, general well-being, and linking community arts

Figure 50: Changes in Management Salary



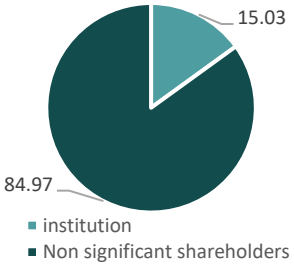
Source：Wind Unit: Million

Figure 51: Materiality Matrix



Source : Company Sustainable Development Report

Figure 52: Proportion of institutional and individual shareholding



Source：iFinD,2024

and culture for a long time .In 2023,Cathay brought back flagship I Can Fly programme .These may enhance Cathay's reputation in the community.

Governance

Cathay Pacific's governance structure is well organized with strong risk controls and management's interests are aligned with those of its stakeholders.

1) Governance: Cathay Pacific has a relatively standardized corporate code of conduct. Cathay Pacific adheres to the principle of double materiality, using a materiality matrix to ensure that important issues are in line with the development strategy. Corporate governance also contributes positively to a number of environmental and social issues.

2) Risk management: Cathay Pacific has a risk governance structure **(Appendix 14)**.Cathay organizes cross-functional workshops to evaluate identified risks annually, and defines the level of significance of the relevant impacts in accordance with the pre-established principle of double significance, which enables effective risk identification.

3) Shareholder ownership: Cathay Pacific is currently owned mainly by institutional investors, with Swire Pacific Limited holding an absolute controlling stake of 44.99% **(Appendix 15)**. We believe that Swire Pacific Limited's diversified businesses,including property, beverages and airline business ,make the company more robust overall, and that it will be able to stabilize its shareholding and will not have a significant negative impact on Cathay Pacific in the short term.

Air China Limited is cross-shareholding with Cathay Pacific and is an important affiliate of the airline. Affected by the pandemic, as of 2024, Air China had not yet returned to profitability. However, its overall losses were narrowing and its performance had improved.In the same year, Air China issued new shares, a move that enhanced the financial stability of Air China, facilitated the improvement of Air China's capital, and stabilized Cathay's shareholding. Although the equity held by Cathay Pacific Airways was diluted, due to cross-shareholding, Air China continued to have significant influence over Cathay Pacific. Cathay Pacific did not sell any shares, but this transaction was still accounted for as a deemed disposal of part of Air China's shares. As a result, Cathay Pacific obtained a non-cash income in the short term, which enhanced its net profit. We do not believe there will be a significant negative impact on Cathay in the short term at Air China.

4) Top Management and Board of Directors: Cathay's top management power structure has stability, and the diversity of board members in terms of industry experience as well as years of experience in managerial positions and other board positions fully reflects the competence of Cathay's board of directors **(Appendix 16).**

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Appendix 1:New aircraft procurement plan

	Aircraft Type	Quantity(Units)	Delivery Time	Range (Kilometers)	Seat Number (Typical)	Fuel Efficiency Improvement
Cathay Pacific	B777-9	21	From 2025 onwards	135,005	414	21%
	A330-900	30	From 2028 onwards	1,200,015	310	14%
	A350-900	48	From 2025 onwards	150,006	325	25%
	A350-1000	48	From 2025 onwards	1,610,018	350	25%
Hong Kong Express	A321neo	48	From 2026 onwards	74,002	220	22%
	A320neo	48	From 2026 onwards	630,013	180	20%
	Aircraft Type	**Quantity(Units)**	**Delivery Time**	**Range (Kilometers)**	**Cargo Capacity (Tons)**	**Fuel Efficiency Improvement**
Cathay Cargo	A350F	6	From 2027 onwards	8,700	111	40%

Source: Cathay Pacific 2024 Annual Report, Hong Kong Express 2024 press release (China Daily)

Appendix 2: Analysis of Cathay's Dual-Brand Strategy

Metric	Cathay Pacific Airways (Premium Airline)	Hong Kong Express (Budget Carrier)
Proportion of Business Travelers (2024)	40%	10%
Age distribution of leisure travelers	Mainly over 40 years old (>60%)	18–35: 60%; Student group: 25%
Average ticket price (USD)	Long-haul: 3,000–5,000; Short-haul: 1,500–2,000	Southeast Asia: 150–300; Mainland routes: 200–400
Proportion of high-net-worth clients	Among business travelers, 30% have an annual income of more than 200,000 USD	—
Repurchase rate (2025)	50%	35%
The proportion of tourists from the Greater Bay Area	15%	25%

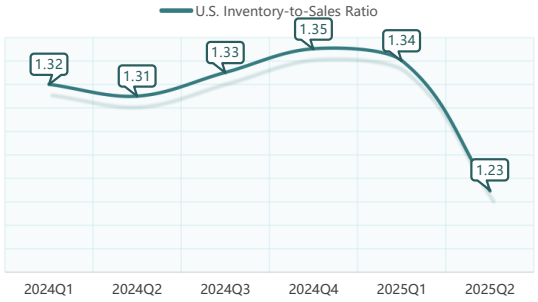
Source: Company website, Team analysis

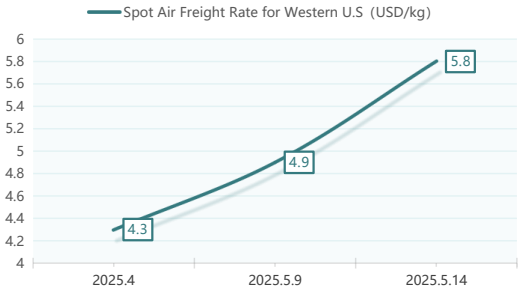
Appendix 3: A comparison between Cathay Pacific Airways and other high-end airlines

Airline	Service characteristic	Market positioning
Cathay Pacific	High-quality catering, comfortable cabins, and professional crew services	mid-to-high end
Singapore Airlines	Innovative services, luxurious facilities, and personalized experiences	high-end
Emirates Airlines	Luxurious cabins, rich entertainment and top-notch staffing	high-end

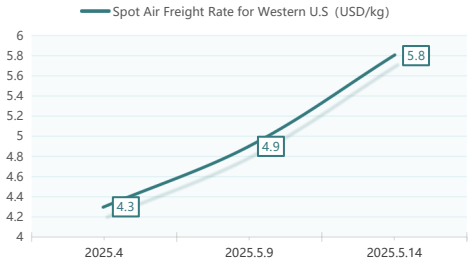
Source: Company website, Team analysis

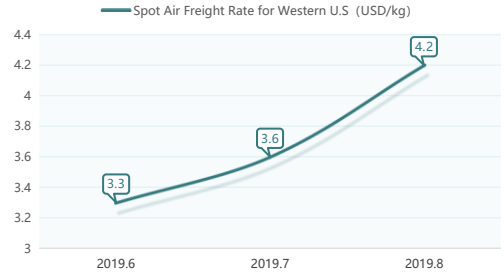
Appendix 4: Freight data to the United States

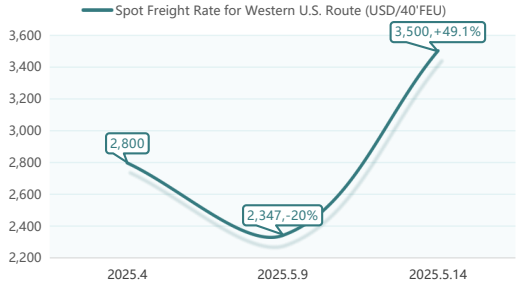




Source: U.S. Department of Commerce Business Inventory Report

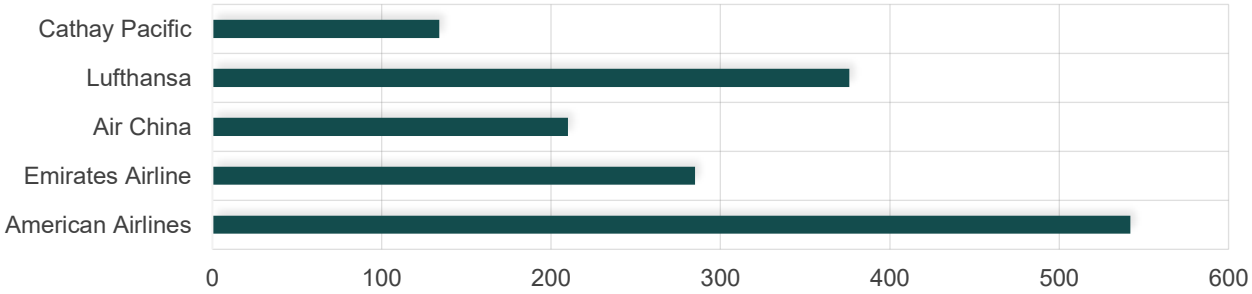






Source: Shanghai Shipping Exchange, IATA

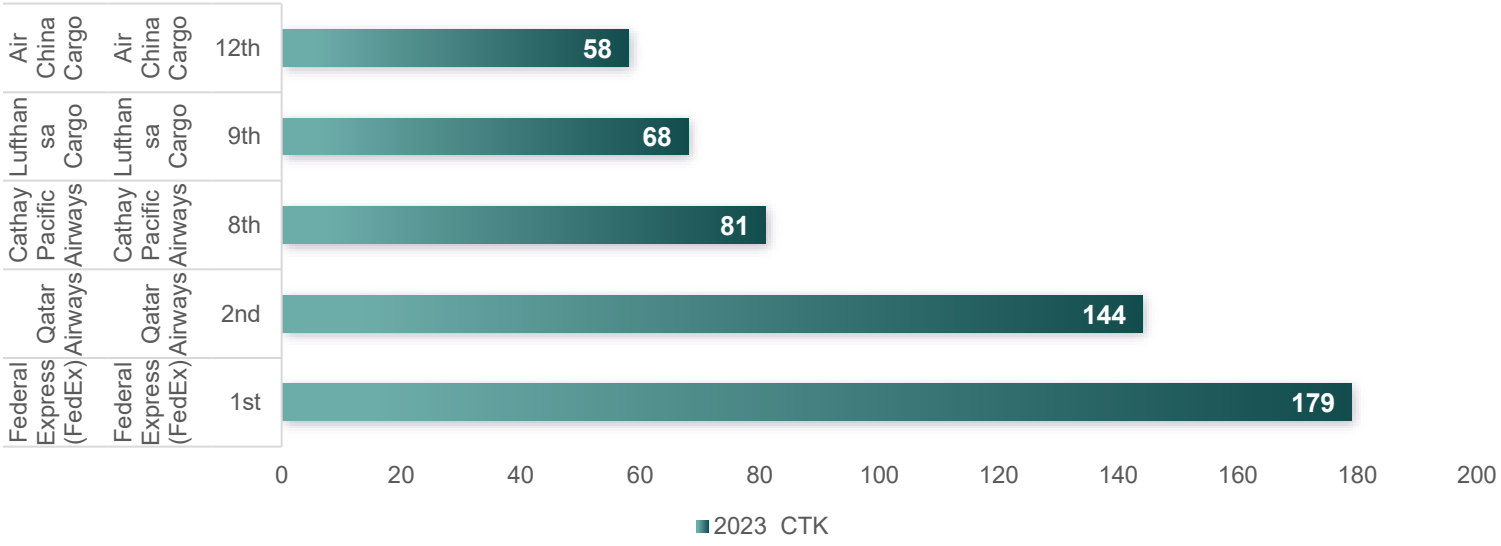
Appendix 5：Global Major Airlines Comparison-2024



	American Airlines	Emirates Airline	Air China	Lufthansa	Cathay Pacific
Total Revenue (USD 100 million)	542	285	210	376	134

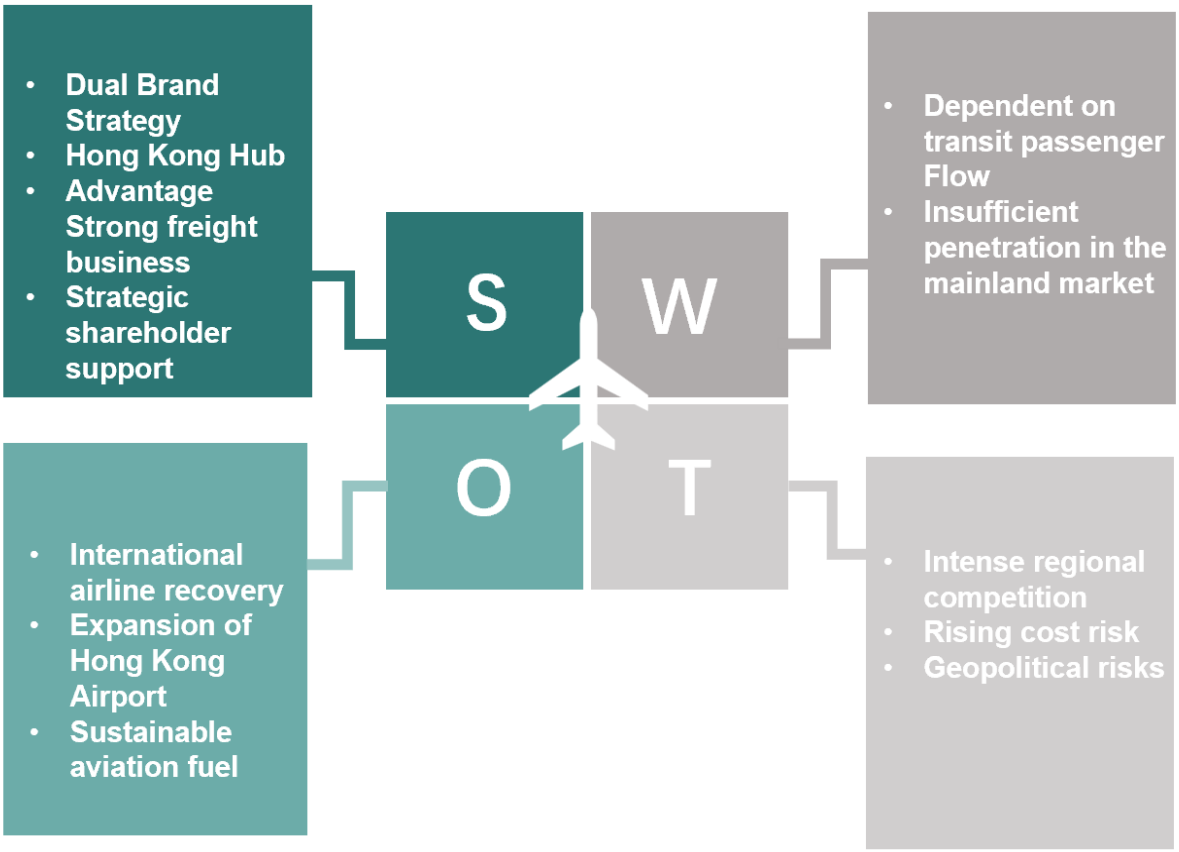
Source:IATA

Appendix 6：2023 Ranking of Key Competitors by CTK



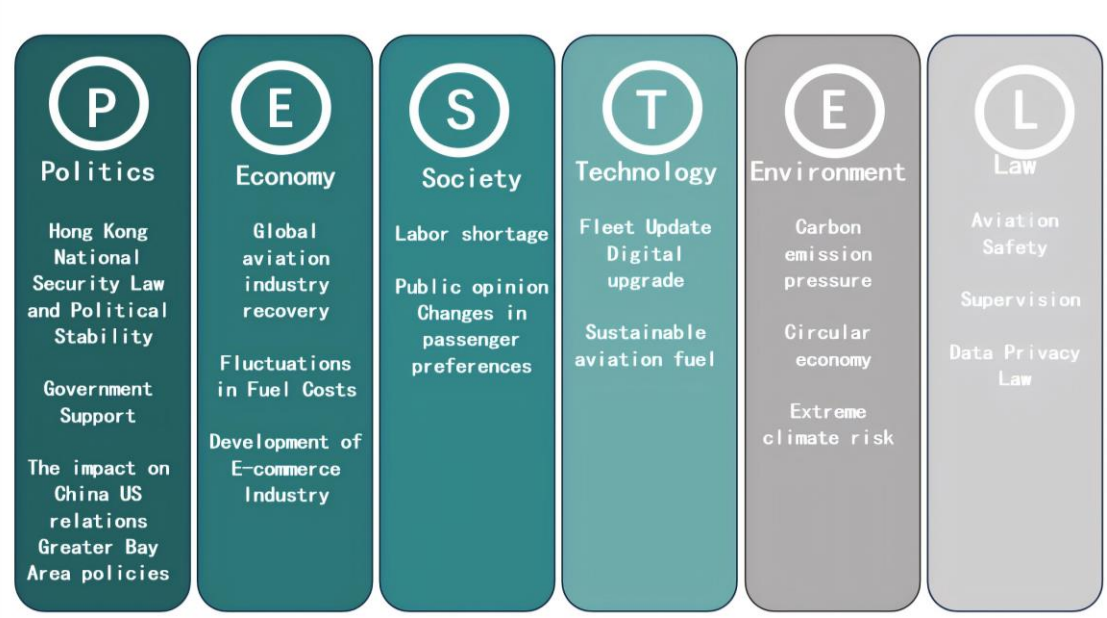
Source:IATA

Appendix 7：SWOT Analysis of Cathay Pacific Airways



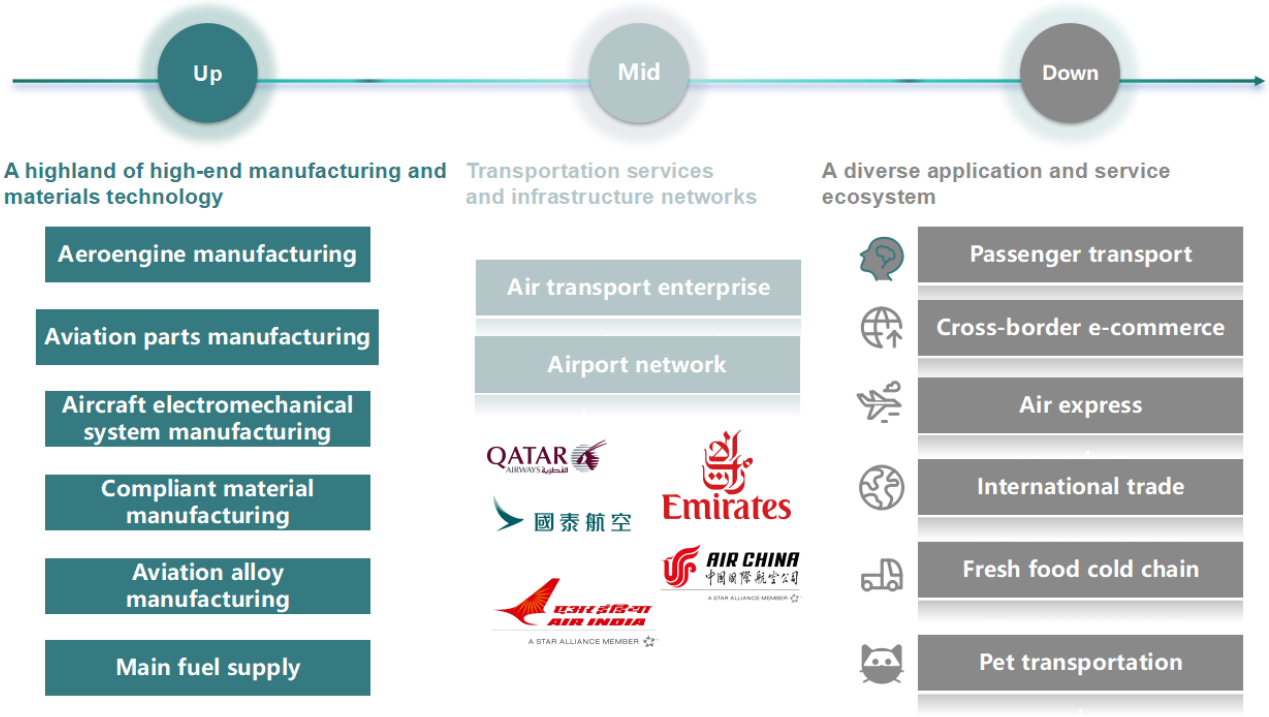
Source: Company reports

Appendix 8：Cathay Pacific PESTSL Analysis



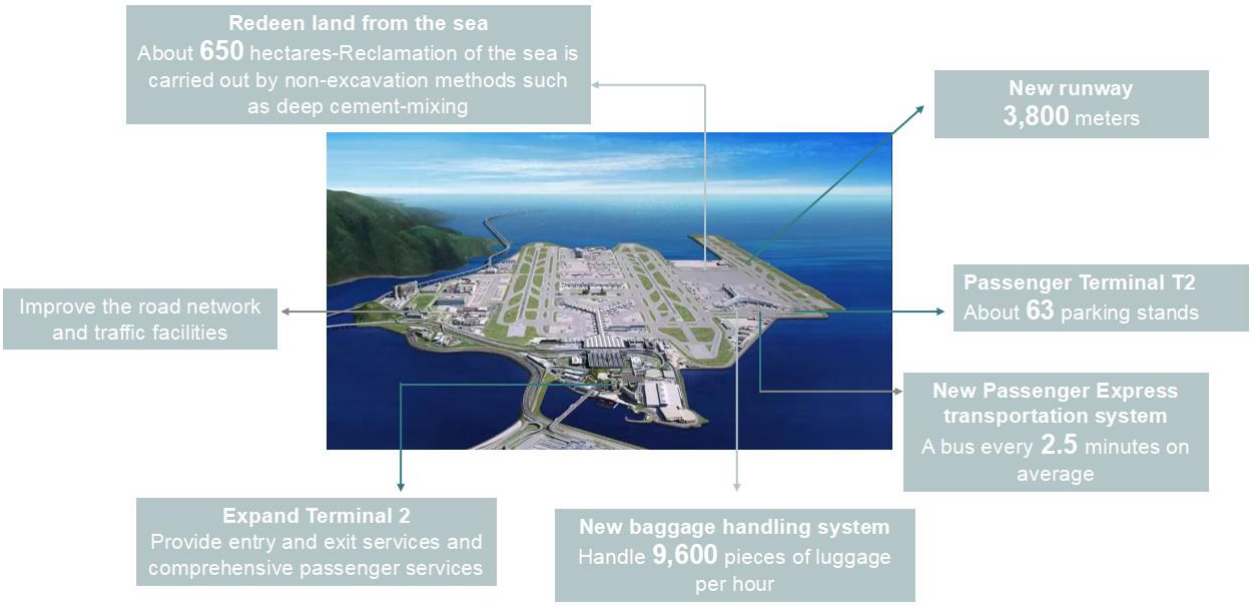
Source: Company reports

Appendix 9：Airline Industry Supply Chain Structure



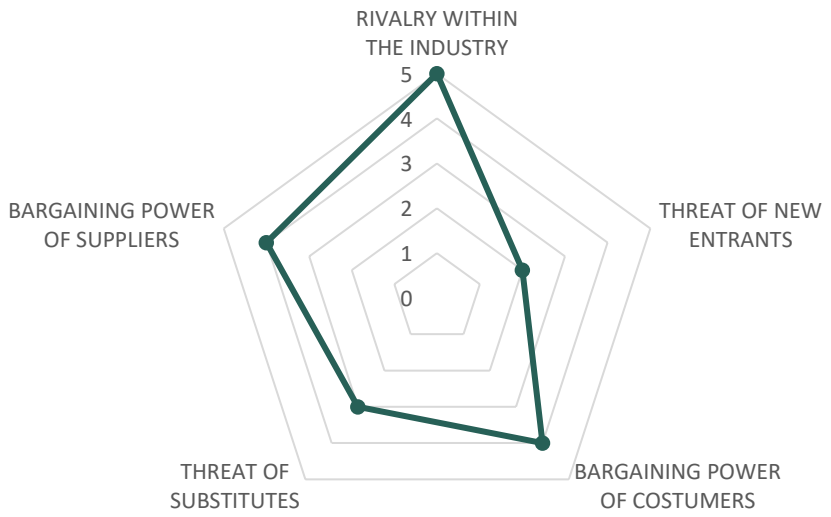
Source: team analysis

Appendix 10：Three-Runway System of Hong Kong International Airport



Source: Hong Kong International Airport Official Website

Appendix 11：Three-Runway System of Hong Kong International Airport



Legend:
0 No threat
1 Very Low
2 Low
3 Moderate
4 High
5 Very High

RIVALRY WITHIN THE INDUSTRY-VERY- HIGH

Competition among low-cost airlines in the Chinese mainland: Cathay Pacific Airways not only faces competition from local airlines in Hong Kong, but also has to deal with challenges from low-cost airlines in the Chinese mainland, such as Spring Airlines and Juneyao Airlines. Spring Airlines and Juneyao Airlines, among others, are renowned for their low-cost operation models. They maintain low ticket prices by simplifying services (such as reducing free meals and providing basic seats) and operating efficiently (such as achieving high aircraft utilization). These low-cost airlines have attracted price-sensitive consumer groups, especially on medium and short-haul routes, by offering low-fare services.

International route competition: Competing with globally renowned airlines such as Singapore Airlines, Qatar Airways, and Emirates.

THREAT OF NEW ENTRANTS- LOW

High capital demand: The aviation industry requires huge capital investment, including purchasing aircraft, leasing airport facilities, operation and maintenance, etc.

There are many policy restrictions: The aviation market is strictly regulated by the government, and new entrants need to obtain route operation rights, aviation licenses, etc.

Brand and loyalty: Mature airlines possess strong brand influence and customer loyalty, which are difficult for new entrants to establish in a short period of time.

BARGAINING POWER OF CUSTOMERS- HIGH

Consumers have many choices: The aviation market is highly competitive, and consumers can choose from different airlines, flight times and prices.

Online booking platforms: Online travel platforms and price comparison

Appendix 12：Redemption of preferred stocks

Phase	Date	Quantity (Shares)	Redemption Price per Share
Initial Redemption	4-Dec-23	97.5 million	HKD 100 + any unpaid preferred dividends
Final Redemption	31-Jul-24	97.5 million	HKD 100 + accrued (but excluding) dividends up to July 31, 2024

Soure：Annual Report

Appendix 13：ESG Scorecard

Score	Category	Description
0	Not Applicable	There is no evidence to suggest efforts or achievements related to the standards
1	Substandard	Some attempts have been made, but there has been little progress or no success in addressing the standard
2	Foundation	Showing partial success in meeting standards
3	Standards	The workload and results are consistent with the industry's typical expectations of standards
4	Prominent	Showing above average effort and significant success in achieving standards
5	Leader	Establish a model of excellence, innovation, and outstanding results in achieving standards

Criteria	Cathay Pacific	Qantas Airlines	Singapore Airlines	Emirates Airline	China Southern
carbon emission	Join the CORSIA program, launch the Sustainable Aviation Fuel Alliance, develop a circular economy, and achieve a carbon emissions of 1.41 million tons over 24 years	Launching the Flight Carbon Balance Program and Jointly Completing Australia's Largest Commercial Import of Sustainable Aviation Fuel	Invest in energy-saving aircraft such as A350 and Boeing 787; Collaborate on Pathfinder project * to optimize flight routes and reduce fuel consumption	Implement the International Air Transport Association Environmental Assessment (IEnvA) system to support IATA's four pillar strategy*	Strengthen ground energy conservation and adopt the "electricity first, bridge later" * mode; Build the "Aviation Fuel e-Cloud" system to reduce aviation fuel consumption
Plan&Execution	3.5	3	3.5	4	2.5
Use of clean energy	3.5	4	4	3	3
Target Reduction	3.8	3	3.5	4	3
Environmental	3.6	3.3	3.7	3.3	2.8
Employee welfare and safety	Guotai has established a relatively complete employee welfare system through the implementation of the 'flexible work' system and the Employee Assistance Program (EAP); Every year, crew members are required to undergo evaluations at a frequency higher than that required by regulatory agencies	Regularly carry out daily care activities and implement the thankq plan to provide employee benefits; Improve emergency response mechanism	Provide a salary of 13 *, and employees can use the company club and related facilities for free; Obtained the highest diamond rating in the health and safety ratings launched by APEX and SimpliFlying.	Regularly carry out daily care activities and implement the thankq plan to provide employee benefits; Provide comprehensive health insurance and retirement plans for employees; Implement the EMCare plan and improve the safety management system	Having a comprehensive flight safety management system, establishing an AOC operation center, and achieving 30 million hours of continuous safe flight.
Traning	4	3	4	4	4
Incident Response	4	4	4	4	4
Social	4	3.5	4	4	4
Risk management capability	Cathay Pacific builds a risk governance framework and defines the importance of relevant impacts based on the pre established principle of dual importance to identify risks	In 23 years, the company underwent organizational restructuring and established a new Chief Risk Officer to provide supervision and governance for risk management	Having the ability to flexibly respond to cost risks, the Civil Aviayion Authority of Singapore(CAAS)isresponsible for comperhensive surperivision and conducts regular safety audits	Establish a cross functional management committee responsible for governance and monitoring; Having a comprehensive policy framework, ensuring policy implementation through internal processes and controls	Build a risk prevention and control system based on 'other mountains' and conduct special safety risk assessments.
Experience&Competence	4	4	3.8	4	3.5
Compensation Structure	4	3.8	3.8	4.5	3.5
Governance	4	3.9	3.8	4.2	3.5
Overall ESG rating	3.6	3.5	3.7	3.9	3.4

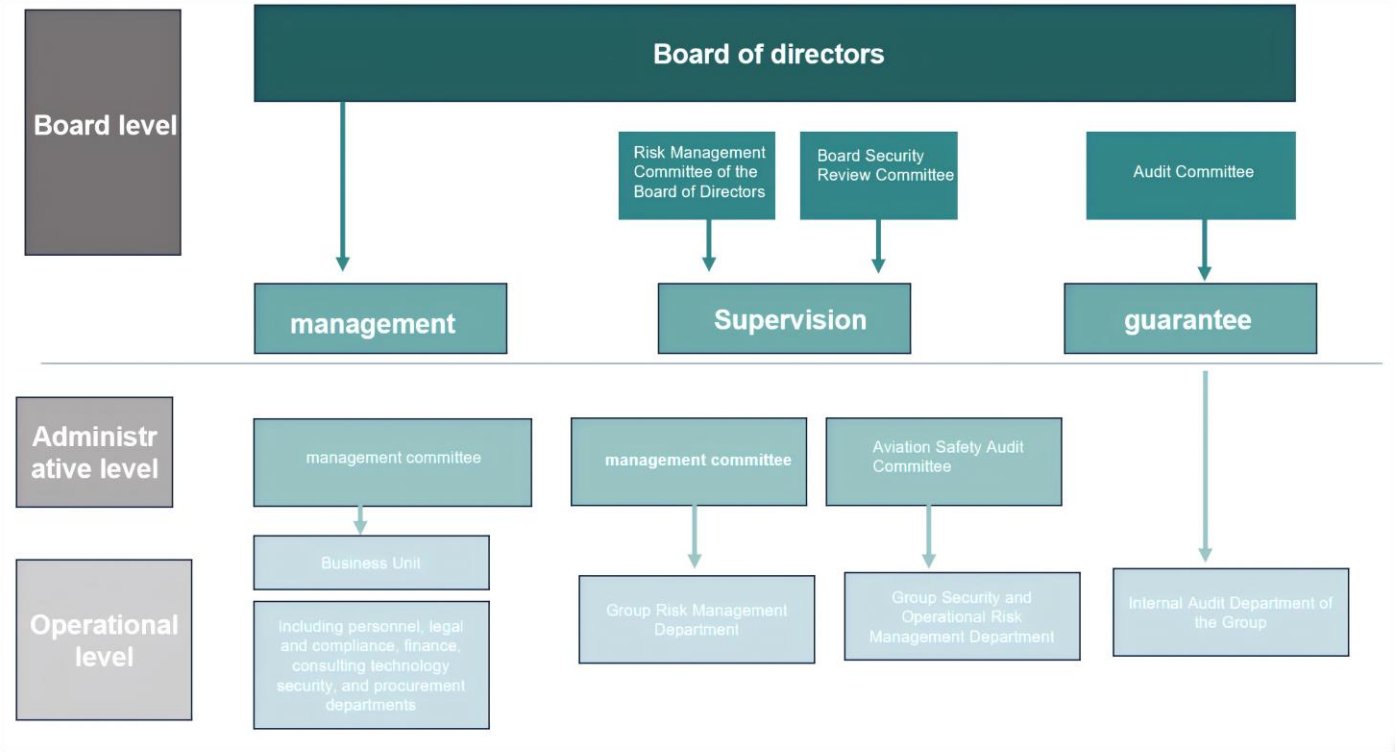
Source: Company website and reports，Guidelines for Corporate ESG Evaluation

Note：Pathfinder program: artificial intelligence solutions.

Pathfinder program: artificial intelligence solutions.

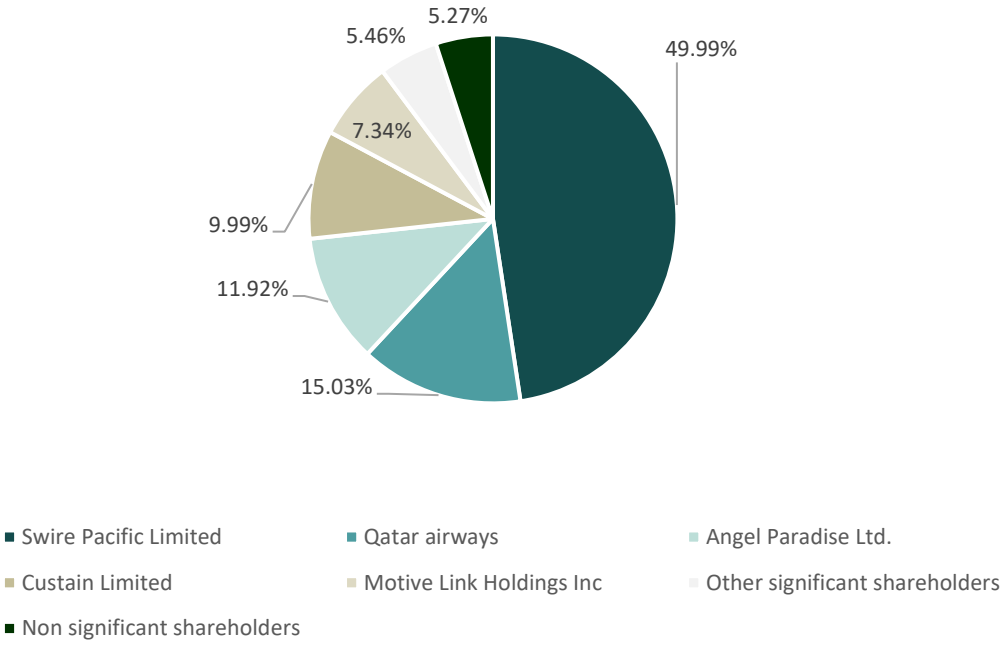
Power before bridge: connect the bridge power supply first, then rely on the boarding bridge.

Appendix 14：Risk governance structure



Source: Company reports

Appendix 15：Cathay Pacific Airways Equity Structure



Source:iFinD

Appendix 16：Members of the Cathay Pacific Board of Directors

Name and position	Prior board experience	Background
Board of directors		
He Yili is the Chairman of Cathay Pacific Group	YES	A Managing Director of Cathay Pacific for 5 years, a member of the Swire Group for 36 years, and was a Director of Swire Properties Limited and holds a Bachelor's degree from the University of Cambridge
Shaobo Lam is the Chief Executive Officer of Cathay Pacific Group	YES	Been a member of Cathay Pacific Group for 28 years and is the former Chief Executive Officer of Hong Kong Express
Sze Lau is Chief Customer & Commercial Officer, Cathay Pacific	YES	Been with the Swire group for 32 years and has extensive commercial experience as a Director of Cathay Pacific Commercial
Michael Mak, Chief Executive Officer, Operations and Aviation, Cathay Pacific	NO	Joined Cathay Pacific Group for 19 years, 10 years of management experience, and strong management and operation capabilities
Bijia Shen is the Chief Financial Officer of Cathay Pacific Group	YES	A Director of Hong Kong Aircraft Engineering Company Limited and a Group Finance Director with profound financial expertise

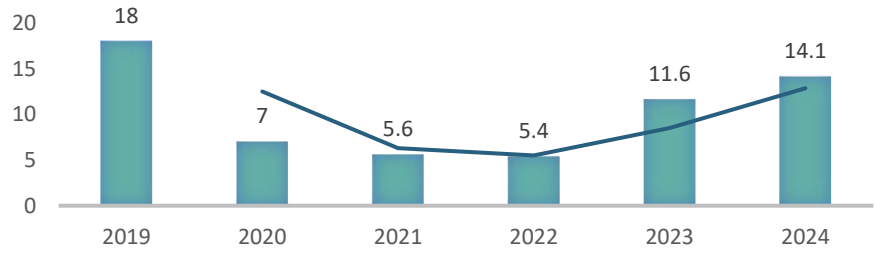
Source: Company website and reports

Appendix 17：Cathay Pacific plastic reduction journey

Cathay Pacific plastic reduction journey	
2024	Offset 54,492 tons of carbon emissions through the "Fly Greener" program, including voluntary offsets by passengers and corporate customers.
2023	friendly practices for economy class meals, replacing plastic tableware with lightweight metal tableware, using reusable salad bowl lids, and using environmentally - friendly paper cups.
2022	A total of 50,000 voluntary carbon credits were settled through Core Climate, a carbon market under the Hong Kong Stock Exchange, as part of the voluntary carbon offset program.
2021	Reduce 43 million single-use plastic products from an annual baseline
2019	Business Class passengers began to switch to cotton bags for their quilts and blankets
2016	Replace plastic bags with paper bags for duty-free goods
2013	The 200,000 obsolete economy cabin plastic cups will be handed over to recyclers to recycle into other plastics
2012	Chose biodegradable plastic bags for packaging blankets, tableware, and in - flight magazines.
2007	Initiated the recycling of plastic cups and bottles in the cabin.
2001	Started disinfecting and reusing plastic tableware in economy class cabins.

Source: Company website and reports

Appendix 18: Greenhouse gas emissions



Source: Company annual report *Unit: Million tons*

Note:As a result of the expansion of the fleet and the recovery of the industry after the outbreak, carbon emissions were on an upward trend, but were still lower than pre-epidemic levels, in line with the trend of carbon emissions changes in the industry. We believe that the effect of Cathay's series of measures to reduce carbon emissions is not obvious at present, but it has potential impact in the future.

Appendix 19: Key forecast data

Key Forecast	2024A	2025E	2026E	2027E	2028E	2029E
ASK	111,789	128,557	142,698	154,114	164,902	174,796
Growth yoy%	*30.6%*	*15.0%*	*11.0%*	*8.0%*	*7.0%*	*6.0%*
Load Factor (%)	*83.2%*	*83.0%*	*83.0%*	*82.0%*	*82.0%*	*82.0%*
RPK	93,016	106,702	118,440	126,374	135,220	143,333
Yield (cents)	74	70	67	66	65	63
Growth yoy%	*-12.0%*	*-5.0%*	*-4.0%*	*-2.0%*	*-2.0%*	*-2.0%*
PassengersRev	68,589	74,747	79,651	83,287	87,334	90,723
Growth yoy%	*11.6%*	*9.0%*	*6.6%*	*4.6%*	*4.9%*	*3.9%*
ATK	14,193	14,203	14,213	14,221	14,229	14,236
Growth yoy%	*9%*	*7.0%*	*7.0%*	*6.0%*	*5.0%*	*5.0%*
Load Factor (%)	*59.9%*	*63.0%*	*62.0%*	*62.0%*	*61.0%*	*61.0%*
RTK	8,503	8,948	8,812	8,817	8,679	8,684
Yield (cents)	3.22	3.25	3.08	3.02	2.97	2.93
CargoRev	27,417	29,081	27,141	26,628	25,778	25,443
Growth yoy%	*7.1%*	*6.1%*	*-6.7%*	*-1.9%*	*-3.2%*	*-1.3%*
OtherRev	8,365	9,118	9,756	10,439	11,065	11,729
Growth yoy%	*12.4%*	*9.0%*	*7.0%*	*7.0%*	*6.0%*	*6.0%*
Revenues	104,371	112,946	116,548	120,354	124,178	127,896

Source: team analysis,Factset

Revenue Forecast

We adopt a bottom-up approach to model Cathay Pacific's revenue, segmenting the business into passenger services, cargo operations, and other income streams. Independent forecasting paths are constructed for each segment to more accurately capture the distinct recovery trajectories and key drivers across business lines in the post-pandemic context.

1）Passenger Revenue：

Formula: *Passenger Revenue = ASK × Load Factor × Yield*

ASK (Available Seat Kilometers): Expected to recover to 79%, 87%, and 94% of 2019 levels in 2025–2027, driven by capacity expansion, route network growth, and the full resumption of international flights.

Load Factor: Forecast at 83%, 83%, and 82% over 2025–2027, reflecting stable efficiency supported by brand positioning and route optimization.

Yield: Currently at a cyclical peak due to recovery momentum and supply-demand mismatch. As competition normalizes, yield is projected to decline by 5%, 4%, and 2% from 2025 to 2027, then stabilize slightly above pre-COVID(2019) levels.

2）Cargo Revenue：

Formula: *Cargo Revenue = ATK × Cargo Load Factor × Cargo Yield*

ATK (Available Tonne Kilometres): Recovery has been steady with limited volatility. Structural demand from e-commerce and global trade supports projected growth of 7%, 7%, and 6% in 2025–2027.

Cargo Yield: Near-term yield may rise due to tariff-related front-loading under U.S.-China trade uncertainty. We expect a 1% increase in 2025, followed by declines of 5% and 2% in 2026 and 2027. Long term, yield is expected to normalize from elevated levels.

Cost Forecast

We categorize operating costs into five key components and forecast each based on its correlation with Available Seat Kilometers (ASK), Revenue Passenger Kilometers (RPK), or business scale. Most costs are modeled as:

Cost = ASK (or RPK) × Unit Cost

Unit costs are projected using historical benchmarks, price trends, scale effects, and efficiency assumptions. For components not directly linked to capacity, a compound annual growth rate (CAGR) is applied.

1)Fuel Cost: Accounted for 52% of ASK in 2022. Benefiting from lower Brent crude prices and optimized hedging strategies, and factoring in Cathay's adoption of fuel-efficient aircraft, network restructuring, and hedging coverage shifts, this ratio is expected to fall to approximately 23% over the forecast period.

2)Inflight and Passenger Services: Closely tied to RPK, this cost reflects direct expenses such as meals, entertainment, and baggage. Unit cost is projected to stabilize at around 4.5% of RPK.

3)Staff Costs: Considering labor market rigidity and structural adjustments in staffing, the CAGR is projected at 3%.

4)Airport and Route Charges: As capacity recovers, major hubs like Hong Kong and London are expected to realize scale efficiencies, reducing unit costs and driving the share of ASK down from 13% to approximately 12%.

5)Maintenance Expenses: With improved efficiency from new aircraft, maintenance costs are expected to grow at a CAGR of 2%.

Appendix 20:Income Statement

Income Statement	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
(amounts in millions)							*CAGR*	*4.15%*
Sales	**51,036.00**	**94,485.00**	**104,371.00**	**112,945.64**	**116,547.72**	**120,353.80**	**124,177.52**	**127,895.55**
Cost of Goods Sold (COGS) incl. D&A	**46,691.00**	**74,479.00**	**84,306.00**	**91,283.44**	**94,423.74**	**98,820.73**	**102,996.82**	**106,792.59**
SG&A Expense	**4,176.00**	**7,713.00**	**6,980.00**	**7,567.36**	**7,692.15**	**7,823.00**	**8,071.54**	**8,313.21**
EBIT (Operating Income)	**169.00**	**12,293.00**	**13,085.00**	**14,094.85**	**14,431.82**	**13,710.07**	**13,109.16**	**12,789.75**
Nonoperating Income - Net	**(280.00)**	**2,869.00**	**1,446.00**	**1,759.35**	**1,914.70**	**2,042.55**	**2,176.17**	**2,313.96**
Nonoperating Interest Income	135.00	571.00	449.00	762.35	917.70	1,045.55	1,179.17	1,316.96
Other Income (Expense)	(415.00)	2,298.00	997.00	997.00	997.00	997.00	997.00	997.00
Interest Expense	**3,029.00**	**3,961.00**	**3,897.00**	**3,860.55**	**3,785.25**	**3,715.98**	**3,652.25**	**3,593.61**
Unusual Expense - Net	**(3,702.00)**	**(1,191.00)**	**(238.00)**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pretax Income	**562.00**	**12,392.00**	**10,872.00**	**11,993.65**	**12,561.27**	**12,036.65**	**11,633.08**	**11,510.10**
Income Taxes	**507.00**	**1,068.00**	**1,315.00**	**1,799.05**	**1,884.19**	**1,805.50**	**1,744.96**	**1,726.52**
Equity in Earnings of Affiliates	(6,677.00)	(1,534.00)	331.00	347.55	364.93	383.17	402.33	422.45
Consolidated Net Income	**(6,622.00)**	**9,790.00**	**9,888.00**	**10,542.15**	**11,042.01**	**10,614.32**	**10,290.45**	**10,206.04**
Minority Interest	1.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Income	**(6,623.00)**	**9,789.00**	**9,888.00**	**10,542.15**	**11,042.01**	**10,614.32**	**10,290.45**	**10,206.04**
Preferred Dividends	614.00	722.00	281.00	263.55	276.05	265.36	257.26	255.15
Net Income available to Common	(7,237.00)	9,067.00	9,607.00	10,278.60	10,765.96	10,348.97	10,033.19	9,950.89
EBITDA								
EBITDA	**12,597.00**	**24,731.00**	**25,595.00**	**26,354.65**	**26,446.43**	**25,484.38**	**24,647.98**	**24,097.80**
Depreciation & Amortization Expense	12,428.00	12,438.00	12,510.00	12,259.80	12,014.60	11,774.31	11,538.83	11,308.05
EPS	**(1.12)**	**1.41**	**1.49**	**1.60**	**1.67**	**1.61**	**1.56**	**1.55**

Source: team analysis,Factset

Appendix 21:Balance Sheet

Balance Sheet	2020A	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Assets										
Cash & Short-Term Investments	19,341	19,284	18,277	15,530	10,534	17,729	21,342	24,315	27,422	30,627
Short-Term Receivables	6,469	8,296	6,921	6,252	7,326	8,045	8,302	8,573	8,821	9,110
Inventories	1,719	1,269	1,137	967	1,386	1,501	1,552	1,624	1,688	1,755
Other Current Assets	38	48	1	0	0	0	0	0	0	0
Total Current Assets	**27,567**	**28,897**	**26,336**	**22,749**	**19,246**	**27,275**	**31,196**	**34,513**	**37,932**	**41,493**
Net Property, Plant & Equipment	131,925	123,990	118,855	116,088	116,457	117,474	118,522	119,606	120,723	121,874
Total Long-Term Investments	28,399	26,437	18,366	18,066	18,478	18,303	18,282	18,355	18,313	18,317
Intangible Assets	15,061	15,035	14,800	14,539	14,420	14,420	14,420	14,420	14,420	14,420
Deferred Tax Assets	627	846	1,134	1,085	1,152	1,152	1,152	1,152	1,152	1,152
Other Assets	995	1,422	1,423	1,588	1,491	1,491	1,491	1,491	1,491	1,491
Total Assets	**204,574**	**196,627**	**180,914**	**174,115**	**171,244**	**180,280**	**185,263**	**189,764**	**194,292**	**199,039**
Liabilities & Shareholders' Equity										
ST Debt & Curr. Portion LT Debt	24,249	22,350	14,643	10,523	11,626	10,696	9,840	9,053	8,329	7,662
Accounts Payable	3,284	4,327	5,380	7,397	7,480	8,003	8,278	8,664	9,005	9,363
Income Tax Payable	1,977	2,765	4,023	2,509	1,771	1,488	1,364	1,306	1,278	1,264
Other Current Liabilities	17,214	13,693	19,356	25,064	29,362	31,625	32,633	33,699	34,770	35,811
Total Current Liabilities	**46,724**	**43,135**	**43,402**	**45,493**	**50,239**	**51,812**	**52,116**	**52,722**	**53,381**	**54,100**
Long-Term Debt	**68,880**	**68,030**	**62,989**	**58,297**	**56,849**	**55,859**	**54,910**	**54,001**	**53,130**	**52,295**
Long-Term Debt excl Lease Obligations	37,982	39,587	37,202	34,102	33,174	33,174	33,174	33,174	33,174	33,174
Operating Lease Obligations	30,898	28,443	25,787	24,195	23,675	22,685	21,736	20,827	19,956	19,121
Provision for Risks & Charges	0	0	75	90	99	99	99	99	99	99

Deferred Tax Liabilities	11,499	9,820	8,117	7,756	7,990	8,316	8,226	7,541	6,948	6,523
Other Liabilities	4,210	3,919	3,048	2,972	3,560	3,564	3,684	3,793	3,907	4,021
Total Liabilities	**131,313**	**124,904**	**117,631**	**114,608**	**118,737**	**119,650**	**119,035**	**118,155**	**117,465**	**117,037**
Equity										
Preferred Stock (Carrying Value)	**0**	**19,500**	**19,500**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Common Stock Par/Carry Value	48,322	28,822	28,822	28,828	28,841	28,841	28,841	28,841	28,841	28,841
Retained Earnings	24,741	19,724	13,209	21,186	26,437	31,782	37,380	42,762	47,979	53,153
Other	194	3,672	1,746	9,486	-2,778	0	0	0	0	0
Total Shareholders' Equity	**73,257**	**71,718**	**63,277**	**59,500**	**52,500**	**60,623**	**66,221**	**71,603**	**76,820**	**81,994**
Accumulated Minority Interest	4	5	6	7	7	7	7	7	7	7
Total Equity	**73,261**	**71,723**	**63,283**	**59,507**	**52,507**	**60,630**	**66,228**	**71,610**	**76,827**	**82,001**
Total Liabilities & Shareholders' Equity	**204,574**	**196,627**	**180,914**	**174,115**	**171,244**	**180,280**	**185,263**	**189,764**	**194,292**	**199,039**

Source: team analysis,Factset

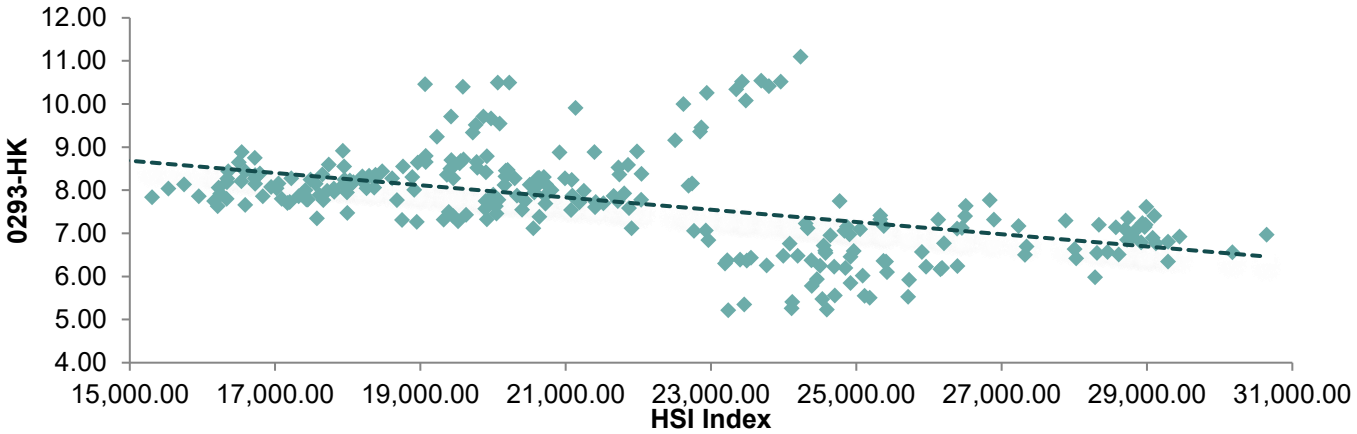
Appendix 22:FCFF Project

	2024A	2025E	2026E	2027E	2028E	2029E
EBIT	13,085.00	14,094.85	14,431.82	13,710.07	13,109.16	12,789.75
Tax rate	*12.10%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*
Net operating profit after tax (NOPAT)	11,502.33	11,980.62	12,267.05	11,653.56	11,142.78	10,871.29
Add: Non-cash adjustments	12,510.00	12,259.80	12,014.60	11,774.31	11,538.83	11,308.05
Less: Increase in working capital	3,572.00	4,519.70	2,592.10	2,894.59	2,924.32	3,054.54
Less: Capital investments	9,207.00	10,165.11	10,489.29	10,831.84	11,175.98	11,510.60
Free cash flow to the firm (FCFF)	**11,233.33**	**9,555.61**	**11,200.26**	**9,701.44**	**8,581.31**	**7,614.20**

Source: team analysis

Cash Flow Forecasting Approach:
From 2022 to 2024, Cathay Pacific's free cash flow showed a rapid rebound, primarily driven by the recovery of international routes, elevated ticket prices, and restrained capital expenditures. However, we view this high level of cash flow as cyclical and unlikely to be sustained over the long term. Drawing on historical pre-pandemic volatility and industry earnings cyclicality, we adopt a more conservative outlook for free cash flows from 2025 onwards—assuming stable revenue growth, gradual unit cost reduction, and manageable fluctuations in depreciation and working capital—to avoid overestimating the upper bound of valuation.

Appendix 23:Beta&WACC



Regression Statistics	
Multiple R	0.490
R Square	0.241
Adjusted R Square	0.238
Stand Error	0.972
Observation	262

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	77.825	77.825	82.344	0.000
Residual	260	245.730	0.945		
Total	261	323.554			

Beta and WACC Assumptions

Cost of Equity (CoE): 9.33%

The cost of equity is estimated using the Capital Asset Pricing Model (CAPM). The adjusted beta of 1.10 reflects a weighted combination of Cathay Pacific's five-year stock regression against the Hang Seng Index and Damodaran's industry beta for air transportation. This adjustment accounts for Cathay's reduced volatility relative to peers following its capital restructuring.

The risk-free rate is set at 3.70%, based on the yield of the 10-year Hong Kong government bond, which represents the long-term sovereign benchmark rate in Cathay's operating region. The equity risk premium of 5.13% is adopted from Damodaran's estimate for the Hong Kong market, in line with Hong Kong's Aa3 sovereign credit rating by Moody's.

These inputs collectively result in a cost of equity of 9.33%, reflecting the return required by investors to compensate for Cathay's market and operational risks.

WACC Buildup	
Pre-tax Cost of Debt	8.70%
Tax rate	15.00%
After-tax Cost of Debt	7.39%
Risk-free rate	3.70%
Equity risk premium	5.13%
Levered beta(Adj.)	1.10
Cost of Equity	9.33%
Net Debt	44,800
Market value of equity	71,845
WACC	8.59%

Cost of Debt (CoD): 7.39%

The cost of debt is derived from Cathay Pacific's outstanding bond yields and commercial borrowing rates, with a pre-tax rate of 8.70%. After incorporating the 15% corporate tax rate, the effective post-tax cost of debt is 7.39%. This figure reflects the actual financing cost borne by the company after considering the tax shield on interest expenses.

Weighted Average Cost of Capital (WACC): 8.38%

Cathay Pacific's capital structure is assumed to consist of 51.2% equity and 48.8% debt, corresponding to HKD 71.84 billion in equity and HKD 68.48 billion in debt. Based on this structure and the calculated cost of capital components, the company's weighted average cost of capital is 8.38%. This WACC is applied consistently across both the explicit forecast horizon and the terminal period, representing the blended cost of financing the company's operations and investments.

Appendix 24:DCF&DDM Buildup

DCF

Free Cash Flow Forecast and Terminal Growth Assumption

We project Cathay Pacific's free cash flows (FCFF) over the next three years to remain robust, driven by post-pandemic demand recovery, progressive international capacity deployment, and ongoing cost optimization.

The terminal growth rate is set at 2.41%, derived as a weighted average of China's long-term GDP growth and Japan's five-year airline sector forecast. This assumption balances emerging market momentum with mature market stability and aligns with long-term interest rate trends, supporting a robust terminal value estimate.

Valuation Output

Present value of forecast period: HKD 37,092.63 million

Present value of transition period: HKD 21,888.89 million

Present value of perpetuity: HKD 65,851.52 million

Enterprise value totals HKD 124,833.03 million. After adding non-core assets (HKD 17,063.00 million) and deducting debt (HKD 44,800.00 million) and minority interest (HKD 7.00 million), the equity value is HKD 97,089.03 million.

With 6,439.41 million shares outstanding, the implied price per share is HKD 15.08.

DCF Output	
Present value of forecast period	37,092.63
Present value of transition period	21,888.89
Present value of perpetuity	65,851.52
Enterprise value	**124,833.03**
Add: Value of non-core assets	17,063.00
Less: Interest-bearing debt	44,800.00
Less: Minority interest	7.00
Equity value	**97,089.03**
Total shares outstanding	6,439.41
Value per share	**15.08**

DDM

We apply a two-stage DDM model: from 2024 to 2026, dividends resume with a payout ratio of 48% and increase alongside earnings; from 2027 onward, dividends grow perpetually at a long-term rate of 3%. The cost of equity (CoE) is set at 9.33%, based on CAPM and consistent with the DCF valuation.

Valuation Output

Implied target price is HKD14.23 per share, representing an upside of 35.76%. Dividend resumption signals not just profit recovery but long-term capital return strength, anchoring Cathay's valuation re-rating.

DDM Output	
Present value of forecast period	18271.83
Present value of perpetuity	73347.11
Equity value	**91,618.96**
Total shares outstanding	6,439.41
Value per share	**14.23**

Appendix 25：Sensitvity Analyist

WACC \ Perpetual Growth Rate	1.91%	2.16%	2.41%	2.66%	2.91%
8.09%	15.71	16.18	16.70	17.27	17.89
8.34%	14.96	15.39	15.86	16.36	16.92
8.59%	14.26	14.66	15.08	15.54	16.03
8.84%	13.62	13.98	14.36	14.77	15.22
9.09%	13.02	13.35	13.69	14.07	14.47

Ke \ Perpetual Growth Rate	2.80%	2.90%	3.00%	3.10%	3.20%
7.33%	18.87	19.25	19.64	20.05	20.48
8.33%	15.92	16.18	16.44	16.71	16.99
9.33%	13.86	14.04	14.23	14.42	14.62
10.33%	12.32	12.46	12.60	12.75	12.90
11.33%	11.13	11.24	11.35	11.47	11.58

Appendix 26: Monte Carlo Simulation

Purpose and Methodology

To account for valuation uncertainty and input sensitivity, we performed a Monte Carlo simulation on the discounted cash flow (DCF)-based target price. This method involves randomly sampling key model variables—such as revenue growth, operating margin, capital expenditures, and WACC—within defined probability distributions and computing the equity value across thousands of iterations.

This approach provides a probabilistic view of Cathay Pacific's valuation, moving beyond a single-point estimate and highlighting the range of potential outcomes under real-world volatility.

Assumptions and Inputs

Simulation size: 10,000 iterations

Distribution types:

Revenue growth and EBITDA margin follow normal distributions

WACC follows a triangular distribution to reflect asymmetric downside risk

Capex and terminal growth rate follow bounded uniform distributions

Correlations between variables (e.g., higher growth often implies higher reinvestment) are considered in the simulation logic

Results Interpretation

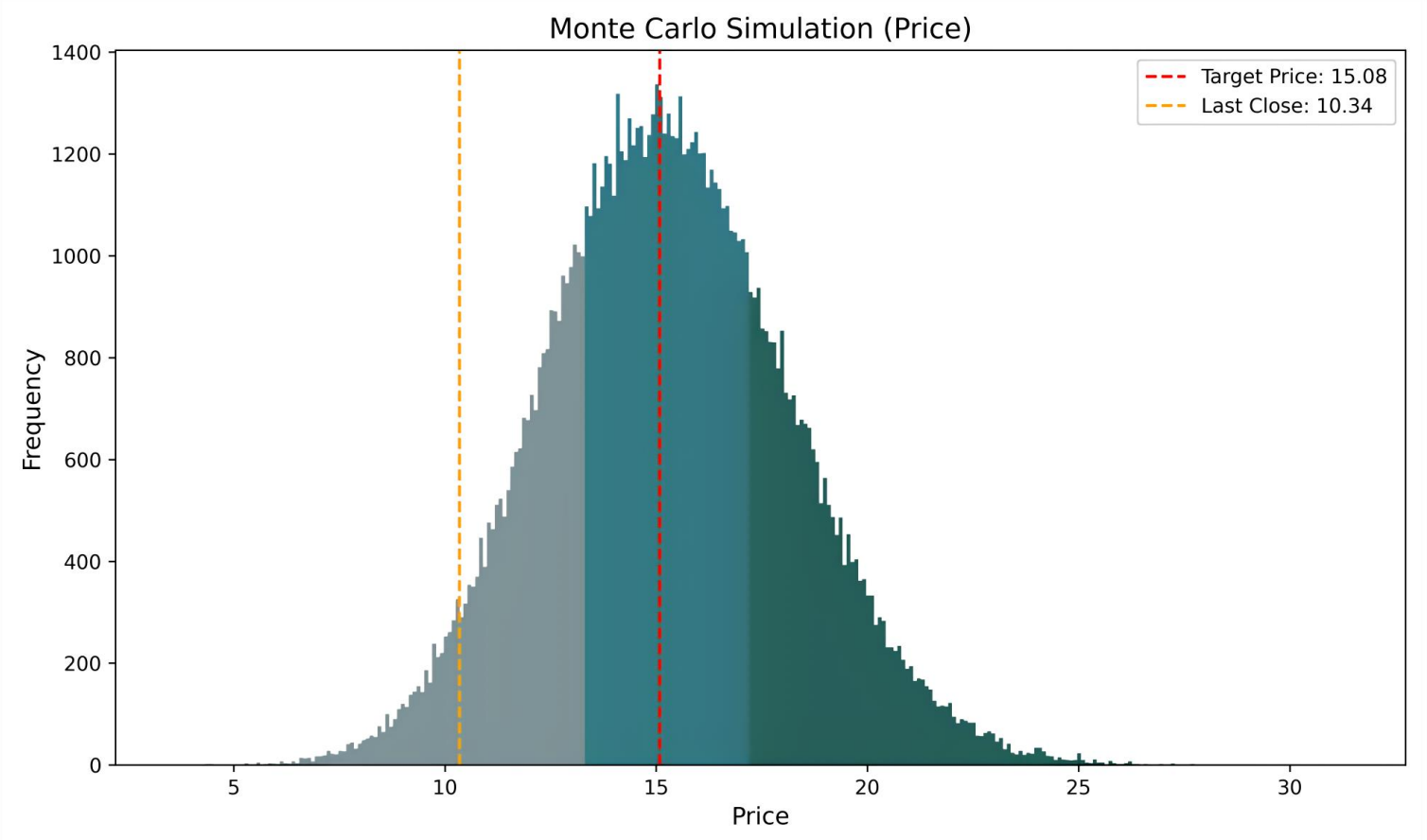
The histogram below shows the distribution of simulated share prices:

Mean simulated price: ~HKD 15.28

Current market price: HKD 10.34

Confidence interval (1 standard deviation): Approximately HKD 12–18

The results indicate that the current market price lies in the lower quartile of the simulation output, suggesting market underpricing relative to model-based fair value. More than 75% of the simulated outcomes exceed the current share price, reinforcing the investment case based on favorable risk-reward asymmetry.



Appendix 27: Peer Comparison(Domestic)

Rank	Ticker	Company Name	EBITDA Margin	Current Ratio
—	—	**Industry Median**	**21.20%**	**0.28**
1	0753.HK	Air China	19.62%	0.3
2	1055.HK	China Southern Airlines	20.80%	0.27
3	0670.HK	China Eastern Airlines	21.60%	0.17
4	0293.HK	**Cathay Pacific Airways**	**25.22%**	**0.38**

Appendix 28: Comparable Company Valuation

Valuation Methodology

To cross-check the results of our discounted cash flow (DCF) model, we apply a relative valuation approach using the EV/EBITDA multiple method. This approach is widely used in capital markets due to its simplicity, comparability across firms, and insulation from differences in capital structure and non-cash items such as depreciation. It is particularly appropriate for capital-intensive sectors like aviation.

Peer Selection Criteria

Comparable companies were selected based on the following criteria:

Business Model Similarity – All selected peers operate full-service or hybrid airline models with significant exposure to international and long-haul routes.

Geographic Relevance – All peers are based in the Asia-Pacific region, which aligns with Cathay Pacific's core operating geography.

Publicly Listed and Transparent Financials – Each peer is publicly listed and provides consistent, accessible financial disclosures.

Brand Positioning and Scale – Companies such as Singapore Airlines and Japan Airlines share Cathay's mid-to-high-end positioning and operate at a comparable scale.

Why Chinese Mainland Airlines Are Excluded

Although large Chinese airlines such as Air China, China Eastern, and China Southern are major players, we exclude them due to significant structural differences. Their business is predominantly focused on domestic routes, with international operations still recovering at a slower, policy-dependent pace. Cathay Pacific, by contrast, is an international long-haul premium carrier. Additionally, Chinese mainland airlines differ in accounting standards, government subsidy reliance, and ownership structure, all of which affect valuation comparability and market perception.

Selected Peers

Singapore Airlines (C6L-SG): Southeast Asia's premium flag carrier with similar long-haul exposure.

Japan Airlines (9201-JP): A major full-service airline with a wide global network.

Korean Air Lines (003490-KR): Operates passenger and cargo services with regional and intercontinental routes.

Qantas Airways (QAN-AU): Australia's national airline, comparable in brand positioning and route diversity.

Cathay Pacific (293-HK): Included as a reference to benchmark its historical valuation.

Valuation Adjustment and Result

The average EV/EBITDA multiple across peers is 4.60x. Applying a 14.76% historical discount to reflect Cathay Pacific's typical trading range below peers, we derive an adjusted multiple of 3.92x.

Using Cathay's projected 2025 EBITDA of RMB 26,354.65 million, we estimate an enterprise value of RMB 103,419.44 million. After accounting for net debt and share count, the implied equity value corresponds to a target price of RMB 11.75 per share.

EV/EBITDA Multiples		
Ticker	Name	Inputs
293-HK	Cathay Pacific Airways	4.66x
C6L-SG	Singapore Airlines	5.85x
9201-JP	Japan Airlines	5.32x
003490-KR	Korean Air Lines	3.67x
QAN-AU	Qantas Airways	3.52x
Peers Average		4.60x
1year Historical Discount Avg.		14.76%
Adjusted Multiple		3.92x
2025E EBITDA (in million HKD)		26,354.65
Enterprise Value (Million HKD)		103,419.44
Market Cap (Million HKD)		75,682.44
Implied Price		**11.75**

Appendix 29: China US Tariff Timeline

Date	Event	Tariff Increase	Post-Tariff Cumulative Rate	Effective Date	Remarks
1-Feb-25	Trump signs Executive Order (EO14195)	10%	37.50%	4-Feb-25	2.5% base tariff on auto parts, 25% '301' tariff in 2018
3-Mar-25	"Fentanyl Incident"	10%	47.50%	4-Mar-25	
26-Mar-25	"232"	25%	72.50%	3-Apr-25	Applies to autos and components on '232 list'
2-Apr-25	Reciprocal Tariffs	34%	81.50%	4-Apr-25	
8-Apr-25	Reciprocal Tariffs	50%	131.50%	8-Apr-25	Mutually exclusive with 232, not cumulative
9-Apr-25	Reciprocal Tariffs	41%	172.50%	9-Apr-25	
12-May-25	Joint Statement of Sino-US Geneva Economic Talks	-91%	81.50%	12-May-25	Revoked April 8 and 9 orders