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UPDATE

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Cathay Pacific Airways | Asia Pacific

Takeaways from Operational Update Call with Management

MORGAN STANLEY ASIA LIMITED+

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Key Takeaways

- Management tone was constructive, highlighting solid business and transit demand as well as strong cargo performance, despite pressure from surging jet fuel prices.
- FY26 capacity growth target unchanged at ~10%, strong YTD demand driven by higher utilization and a relatively low base; 2H growth to moderate as base normalizes.
- Fuel cost pressure is only partially passed through by surcharge hikes, but robust demand continues to support both PLFs and ex-fuel ticket prices for Cathay.
- Summer demand remains resilient, with solid long-haul bookings and regional bookings recovering with fuel surcharge cuts.
- ~50% dividend payout policy maintained (excl. non-cash disposal gain on Air China).

10% 2026 capacity increase target remains unchanged: Growth could be faster in 1H vs. 2H. YTD growth mainly driven by a relatively low base and higher aircraft utilization.

Yields:

- Fuel surcharge hikes are not enough to cover fuel cost inflation...
- ...however, thanks to strong demand YTD, yields (ex-fuel surcharge) are supported by higher PLFs driven by strong demand for Cathay.

HK Express operation mixed, with 2Q pressured by higher fuel costs and price-sensitive demand. Management mentioned adjusting yields to support load factors, to operate flights efficiently and profitably.

Summer outlook remains constructive, with long-haul demand positive and regional bookings accelerating on fuel surcharge cuts.

Strong cargo business thanks to AI-capex related shipments – cargo rates (ex-fuel) also up YoY due to robust demand.

Shareholder return – ~50% payout unchanged (excl. HK$1.4bn Air China non-cash disposal gain); no further buybacks planned as of now.

Cathay Pacific Airways (0293.HK, 293 HK)

Hong Kong/China Transportation & Infrastructure | Hong Kong

Stock Rating	**Overweight**
Industry View	**In-Line**
Price target	HK$16.20
Up/downside to price target (%)	29
Shr price, close (Jun 26, 2026)	HK$12.58
52-Week Range	HK$14.15-10.34
Sh out, dil, curr (mn)	7,020
Mkt cap, curr (mn)	HK$88,315
EV, curr (mn)	HK$135,134
Avg daily trading value (mn)	HK$137

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (HK$)**	1.68	1.39	1.74	2.01
Revenue, net (HK$ mn)	116,766	137,382	138,783	147,117
EBITDA (HK$ mn)	26,166	23,471	26,087	28,756
ModelWare net inc (HK $ mn)	10,443	8,454	10,570	12,227
P/E	8.0	9.0	7.2	6.3
P/BV	1.4	1.2	1.1	1.0
RNOA (%)	11.1	9.5	11.9	12.0
ROE (%)	19.6	13.9	16.4	17.4
EV/EBITDA	5.1	5.3	5.1	4.8
Leverage (EOP) (%)	76.9	57.6	62.6	65.3
Div yld (%)	6.7	5.5	6.9	8.0

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
** = Based on consensus methodology
e = Morgan Stanley Research estimates

Read:

Cathay Pacific Airways: Business Exposure Brings Resilience; Resuming Coverage at OW (9 Jun 2026)

Valuation Methodology and Risks

Cathay Pacific Airways (0293.HK)

Probability-weighted base 70%, bull and bear each 15%. Balance reflects moderate likelihoods of jet fuel prices normalizing faster and slower versus our base case.

Target mid-2027e P/B multiples:

- Bull: 2.0x, implies 6.9x EV/EBITDA in-line with historical mean since 2011
- Base: 1.5x, implies 5.5x EV/EBITDA in-line with Singapore Air
- Bear: 0.9x, implies 4.0x EV/EBITDA in-line with lower end of global peers with high business travel exposure

Risks to Upside

- Stronger-than-expected leisure/business passenger demand recovery and/or easing competition
- Stronger-than-expected cargo profits amid strong cross-border e-commerce demand
- Higher-than-expected shareholder return

Risks to Downside

- Weaker-than-expected travel demand
- Sharp deterioration in air freight volume
- Intensified competition in passenger business

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(as of May 31, 2026)

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1542	42%	465	51%	30%	707	43%
Equal-weight/Hold	1571	43%	369	40%	23%	723	44%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	551	15%	86	9%	16%	201	12%
Total	3,667		920			1632	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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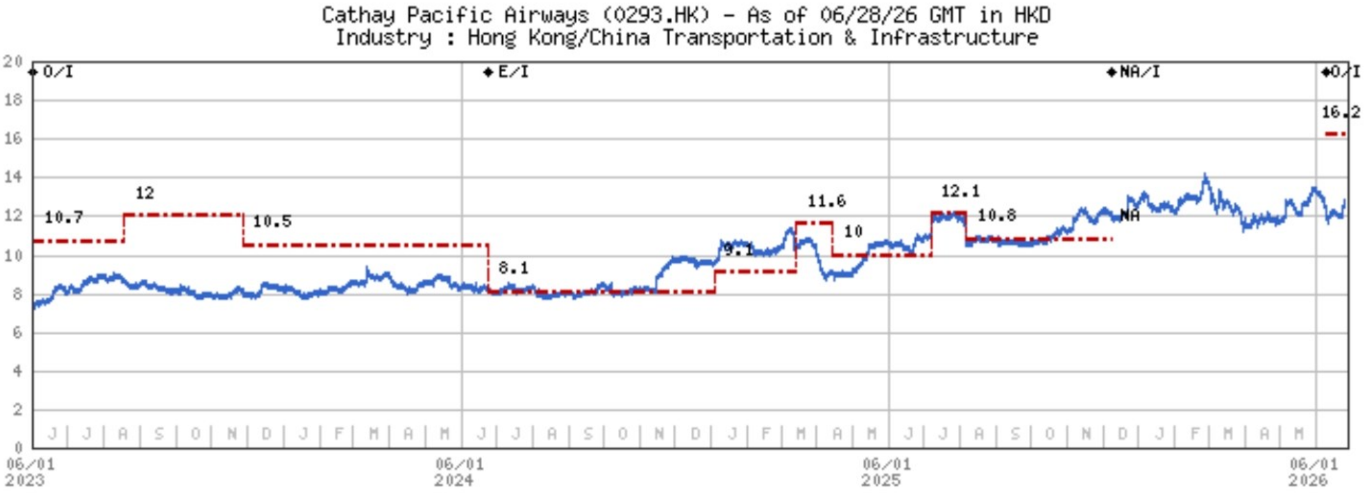
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 6/1/21 : O/I; 6/24/24 : E/I; 12/8/25 : NA/I; 6/10/26 : O/I

Price Target History: 11/17/20 : 8.2; 8/6/21 : 7.6; 3/4/22 : 8.2; 5/20/22 : 9.4; 7/28/22 : 10.7; 8/18/23 : 12; 11/27/23 : 10.5; 6/24/24 : 8.1; 1/3/25 : 9.1; 3/14/25 : 11.6; 4/14/25 : 10; 7/7/25 : 12.1; 8/7/25 : 10.8; 12/8/25 : NA; 6/10/26 : 16.2

Source: Morgan Stanley Research   Date Format : MM/DD/YY   Price Target   No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst)   Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (06/26/2026)
Qianlei Fan, CFA		
Air China Limited (601111.SS)	O (02/09/2026)	Rmb6.37
Air China Limited (0753.HK)	O (01/13/2025)	HK$4.51
Beijing-Shanghai High-Speed Railway (601816.SS)	O (07/03/2020)	Rmb4.53
BOC Aviation (2588.HK)	O (03/21/2022)	HK$80.25
Cathay Pacific Airways (0293.HK)	O (06/10/2026)	HK$12.58
China Eastern Airlines (600115.SS)	O (02/09/2026)	Rmb4.05
China Eastern Airlines (0670.HK)	O (01/13/2025)	HK$3.47
China Merchants Energy Shipping Co. Ltd. (601872.SS)	O (03/10/2020)	Rmb19.56
China Southern Airlines (600029.SS)	O (02/09/2026)	Rmb5.41
China Southern Airlines (1055.HK)	O (01/13/2025)	HK$3.58
COSCO SHIPPING Energy Transportation (1138.HK)	O (01/12/2023)	HK$16.83
COSCO SHIPPING Energy Transportation (600026.SS)	O (11/25/2025)	Rmb19.96
COSCO Shipping Holdings Ltd (601919.SS)	U (07/15/2024)	Rmb13.39
COSCO Shipping Holdings Ltd (1919.HK)	U (07/15/2024)	HK$13.16
J&T Global Express Ltd (1519.HK)	E (08/21/2024)	HK$8.45
Orient Overseas (International) Ltd (0316.HK)	U (07/15/2024)	HK$121.80
Pacific Basin Shipping (2343.HK)	E (07/04/2025)	HK$2.82
S.F. Holding Co Ltd (002352.SZ)	E (09/01/2025)	Rmb30.82
SITC International Holdings Company (1308.HK)	E (01/12/2023)	HK$31.76
Spring Airlines (601021.SS)	O (08/31/2015)	Rmb47.28
TravelSky Technology (0696.HK)	U (01/13/2025)	HK$8.31
ZTO Express (ZTO.N)	O (11/21/2016)	US$21.91
Tenny Song		
Beijing Capital Int'l Airport (0694.HK)	U (09/23/2025)	HK$1.47
Guangzhou Baiyun Int'l Airport (600004.SS)	U (06/10/2026)	Rmb7.48
JD Logistics, Inc. (2618.HK)	O (03/09/2026)	HK$11.57
Shanghai International Airport (600009.SS)	E (09/23/2025)	Rmb23.20

STO Express Co Ltd (002468.SZ)	E (10/22/2024)	Rmb13.68
YTO Express Group Co Ltd (600233.SS)	O (09/11/2025)	Rmb15.29
YUNDA Holding Co Ltd (002120.SZ)	U (07/29/2020)	Rmb6.21

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.