

Safran projects LEAP deliveries up 50%

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French engine manufacturer Safran is targeting recurring operating profit of around €3 billion (\$3.2 billion) on revenues of at least €23 billion in 2023, after posting a 33% increase in core profit in 2022.

Safran said it expected China's reopening to boost traffic further and help aftermarket sales. But chief executive officer Olivier Andries cautioned he expected "industry-wide challenges to continue near-term".

"We expect continuing positive trends in global air traffic with China reopening gradually, a good catalyst for our aftermarket businesses at a time when airlines are catching up on maintenance," he commented.

The aerospace group reported 2022 recurring operating income of €2.41 billion as revenues rose 25% to €19 billion, driven by services to support air travel recovery.

Safran posted a €1.21 billion adjusted net profit for 2022. This compared with an adjusted €784 million net profit in 2021 on revenues of €15.2 billion.

In 2022 revenues in aerospace propulsion reached €9.5 billion, up from €7 billion in 2021.

The aerospace propulsion segment returned a €1.56 billion net profit, up from €1 billion in 2021. Aerospace propulsion's free cash flow totalled €2.45 billion last year, up from €1.33 billion in 2021 as the commercial aircraft market improved in terms of available seat kilometres.

Safran said the conflict in Ukraine impacted the group's activities. In compliance with the European, US and UK sanctions against Russia, it suspended all exports and services to Russia and halted the operations of its joint ventures in the country and with its Russian partners until further notice.

The company said the supply of engines, equipment and aftermarket services for the regional Sukhoi Superjet 100, the MC21 and the Kamov 62/226 helicopter programmes impacted business operations. It also was affected over service activities for CFM engines powering approximately 500 A320 and Boeing 737 aircraft operated by Russian carriers.

"The suspension of all commercial exports (products and services) to Russia and the halt of all operations in the country represents a loss of business of approximately 2% of revenue," it said.

The group booked a €105 million impairment charge for several programmes related to Russia.

At 31 December, 2022, consolidated cash and cash equivalents amounted to approximately €6.69 billion, up from €5.25 billion at the end of December 2021.

In 2022 the group continued to optimise its debt profile with key financing transactions. Leveraging its liquidity position and business resilience, the group engaged in a financial rating process in 2021 and obtained its first long-term credit rating from Standard & Poor's, which assigned Safran a rating of BBB+ with a stable outlook.

In April 2022 Standard & Poor's revised the outlook on the company's BBB+ rating from stable to positive. Last December, the rating agency raised the rating to A- with a stable outlook.

Safran announced that it would buy back up to 9.4 million of its own shares (approximately 2.2% of its share capital) last October with a view to eliminating the potential dilution risk related to its convertible bonds maturing in 2027. Under the programme, Safran bought back nearly 2.4 million shares in November and December 2022 for a total of €275 million.

In January, it entered into an agreement with an investment services provider for the implementation of a follow-on buyback tranche to meet its obligations arising from the convertible bonds maturing in 2027.

At 9 February circa four million shares were purchased, representing a cumulative €492 million cash-out. Under the terms of the agreement, Safran will buy back up to €650 million worth of ordinary shares no later than 31 March 2023.

In March 2021, Safran signed a €500 million loan agreement with the European Investment Bank (EIB), which was drawn down in full on 21 February 2022 for 10 years (maturing in February 2032). The loan is being used to finance some of the group's research into innovative propulsion systems for the next generation of single-aisle commercial aircraft, marking a major step forward in Safran's roadmap towards achieving carbon-free air transportation by 2050.

In addition, Safran set up a five-year €2 billion revolving credit facility (RCF) in May 2022. At the end of 2022, the new line was undrawn. The financial terms and conditions of the liquidity line are indexed to the achievement by the group of two sustainable development criteria: CO2 emissions (Scopes 1 and 2) and the proportion of women among senior executives.

The new line replaced the €2.52 billion facility set up in December 2015, which was terminated in advance last year. Cash and cash equivalents totalled €6.69 billion at the end of 2022 (up €1.44 billion compared with 31 December 2021).

EBITDA reached €3.5 billion in 2022, up from €2.7 billion the previous year.

Free cash flow totalled €2.66 billion, up from €1.68 billion 12 months earlier. The company forecasts free cash flow of at least €2.5 billion subject to payment schedule of some advance payments.

Its revenue guidance is at least €23 billion for fiscal year 2023 with LEAP deliveries up 50%.

Safran expects no further disruption to the world economy, and narrowbody available seat kilometres back to 2019 level in the course of this year.

The company said worldwide CFM engine flight cycles were at 97% of 2019 levels at the beginning of February 2023, with North America, Middle East and South America above 2019 levels and Europe at 85% of 2019 levels. China was at 93% of 2019 levels with a strong improvement with the lifting of travel restrictions since mid-December 2022. Safran said the Asia-Pacific region excluding China was at 84% of 2019 levels.

Safran delivered 1,196 CFM engines in 2022, including 1,136 LEAP engines (up 291 units compared with 2021). The company also delivered 60 CFM56 engines, down from 107 engines in 2021.

Safran's commercial engine backlog was at almost 10,000 LEAP engines at the end of last year. Its civil aftermarket revenues grew 29% last year in US dollars terms with strong growth of spare parts sales for CFM56 and high-thrust engines.

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