

Visit to Airbus UK

by *Malcolm Howard*

Over the years, I have found UKSA's company visits to be invaluable. They have led to some great investment opportunities (Airbus being one of them), but have also steered me away from investing in some companies where the presentation has not been impressive. For example, one presenter told us how wonderful his company was because 90% of net earnings were converted to cash. What he obviously did not know was that for his type of company, because net earnings are arrived at after deducting non cash items such as depreciation, amortisation and share based payments, the cash conversion rate should be around 130% and anything below 100% indicates a major problem. In this case, the black hole was the pension scheme.

A few years ago, the South West branch of UKSA organised a meeting at Airbus in Bristol. We were met at Bristol Parkway and driven by Airbus employees to the site. Upon arrival we were given croissants and coffee; then we had the presentation, which impressed me. We were told that at Bristol they make wings for military aircraft, but also the site



houses Airbus's largest research centre. We were shown the latest published accounts and we were told that the company had a seven year order backlog. We were then provided with lunch and after eating we went on a tour of the factory and research centre. At the factory we were shown how the wings are tested with the engines. Onto the research centre we were told they were developing and testing 'composites'. A composite looks like rubber, but it is very light and is strong as metal, the idea being that if you lighten the aeroplane you reduce fuel consumption. At the end of the visit we were all given a 'goody bag' and then we were taken back to Bristol Parkway. We all had an amazing day out and it was all thanks to UKSA. Having been duly impressed with both the management and the finances, I invested in the company by buying some shares at £23.60 per share. As I write, these shares are selling for €62.00 (£45.73).

The Private Investor · Issue 180 · January 2016

The next UKSA visit was to the Farnborough International Airshow in 2014, where we had glorious weather. We saw all the latest aeroplanes on show and we entertained all afternoon, including being wined and dined.

Airbus UK also organise meetings for shareholders and in this capacity we visited Oxford, where we were shown how helicopters are maintained.

The visit to Broughton in Wales was another shareholders' event.

There were just over thirty attendees, four of whom, including myself, were from UKSA. On arrival we were shown to a room where the light refreshments were being served and, as usual, they were superb; freshly made sandwiches, light puddings, fresh fruit and coffee, tea or water.

We then moved to another part of the room for the presentation. We were told that the order backlog had increased to over ten years, with over half of the orders being for the short haul A320's, with the balance being for the long haul A350's and A380's. We were nonplussed when we were told that Rolls Royce had refused to make engines for the A320's, so all the engines for over half of Airbus's production in the next ten years will be made in the USA. The shares in Rolls Royce have, unsurprisingly, been falling dramatically over the last few months which had led to workers being laid off. I cannot imagine what strategy the Rolls Royce Board are following.

We were then told how the civil aircraft is put together. The wings, apart from the outer edges (made in Germany), are made in Wales. The main body is made in either France or Germany, while all the composites are made in Spain. The aircraft is put together in France.

We then visited both the A350 factory and the A380 factory and were shown how the wings are put together. What I did not realise was that the wing structure was far larger than you see on an aircraft as the main part of it is hidden. Anyone sitting near the wing is actually sitting above a massive fuel tank. You only see the top of the wings, but they are so large that a man can crawl through them to do maintenance work.

As always with Airbus, you don't leave without a 'goody bag'. This time it included a model plain and an amazing key ring. On the train home I reflected that without being an UKSA member I would not have known anything about Airbus; I would have missed all these visits and I wouldn't have bought the shares. At £50 per annum, I regard UKSA as a bargain.

Malcolm Howard