Morning Wrap

Today's Newsflow

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Diageo Self-help and cash generation to the fore as external backdrop remains subdued into FY26

IAG No change in expectations but we move to HOLD

Wizz Air May traffic stats

Equity Research 03 Jun 2025 08:44

Upcoming Events

Company Events

03-Jun	FD Technologies; FY25 Results
5-Jun	Wizz Air; FY25 Results
10-Jun	Bellway; Q325 Trading Update

Economic Events

Ireland

05-Jun	GDP
	ILO Unemployment Rate
09-Jun	Industrial Production
	Live Register

United Kingdom

04-Jun	CIPS Composite PMI
	CIPS Services PMI
05-Jun	CIPS Construction PMI
10-Jun	ILO Unemployment Rate

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Diageo Self-help and cash generation to the fore as external backdrop remains subdued into FY26

Recommendation: Hold
Closing Price: £19.88

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We update our DGE model following its recent Q3 trading update and Guinness deep-dive event. We keep our earnings estimates broadly unchanged as organic downgrades for FY26 (from +3.4%/+4.2% organic sales/EBIT to +2.7%/+3.5%) are largely offset by FX tailwinds. Following +5.9% organic sales growth in Q3 (+2% ex-tariff phasing), we model -0.6% decline in Q4 – this drives FY25 organic sales +1.6% and organic EBIT -0.9% to $5,701m with adj EPS -8.5% to $1.64.

While performance in ~1/4 of the portfolio is robust (Tequila at c.15% sales, Guinness at c.10%), the rest of the portfolio is modest at best, impacted by myriad factors across DGE's key geographies (e.g. affordability, abstinence, tariffs). We see some signs of green shoots for DGE based on an improving launch pipeline and resilient market shares, but for the time being, we expect subdued markets to persist into FY26. With this in mind, we welcome management's greater emphasis on costs (c.$500m 3-year gross savings under the Accelerate program) and cash (>$3bn FCF per annum commitment from FY26). Details on delivery and phasing will come with FY25 results on 5 August.

For now, we stay HOLD as it will likely take some time for the cost actions to come through and external visibility remains very limited (e.g. US tariffs). Management's deleverage priority from 3.3-3.5x EBITDA in FY25 towards c.2.5x by FY28 likely includes "significant" disposals (we estimate up to c.$1bn over the period). Shares are -22% ytd with valuation on 16.1x cal.25 P/E trading just back in line with the wider Beverages (17.0x) and Spirits sector averages, also supported by a c.4% dividend and >4% FCF yield

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IAG No change in expectations but we move to HOLD

Recommendation: Hold
Closing Price: £3.35

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IAG's Q1 EBIT of €198m was ahead of our forecast at €155m. The beat was driven by a stronger than expected revenue performance which was somewhat offset by higher than anticipated costs. We update for results as well as the commentary on capacity (unch at c.+3% yoy), costs and capex. We also update for the increased fuel hedge in FY25 and FY26 and the guidance on the fuel bill. Despite highlighting some "recent softness in the US point of sale economy leisure" IAG commented that strength in premium somewhat mitigated that softness and demand continued to be strong in LATAM and Europe. More recently IAG has said that demand is now recovering, and intra-European demand is very strong into summer. At the time of the Q1 results IAG commented that the outlook for FY25 was unchanged.

IAG's did not guide on FY25 RASK. We continue to expect RASK to only be slightly higher yoy (+0.8% yoy). Our ex-fuel CASK assumption is in line with guidance for c.+4% higher yoy. IAG expects the fuel bill to be €7.5bn, we are marginally below this at €7.4bn. Putting it all together, our FY25 EBIT forecast comes in at €4.33bn (was €4.35bn). This compares to FY25 consensus of €4.6bn with our assumption being that others are more bullish on pricing.

While the pace of earnings growth will be slower in FY25, we still expect cashflow to remain robust, allowing IAG to fund capex, reduce leverage, pay dividends and buy back shares. Our PT remains at 350p, given the recent significant share price appreciation our recommendation moves to HOLD.

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Wizz Air May traffic stats

Recommendation: Hold
Closing Price: £15.95

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Wizz Air has reported that it carried 5.66m passengers in May, up +10.3% yoy. Capacity increased by +10.0% yoy to 6.20m seats leaving the load factor at 91.2%, up +0.2ppts on last year's 91.0%. Commenting the traffic stats Wizz Air said that "The increase achieved in passengers carried and the associated lift in loads is very encouraging, particularly given the timing of Easter the month before".

Wizz Air will report FY25 results on Thursday morning. In January, after a period of Euro weakness, Wizz Air guided net income for FY25 between €125m - €175m. This was based on capacity which was anticipated to be flat to up +1%, the load factor being maintained at 92% and RASK up mid-single digits yoy. Ex-fuel CASK was expected to increase by high teens yoy while the fuel CASK was projected to decline by 3%-5% yoy. At the time we reduced our net income forecast to €125m. Subsequently the Euro strengthened and in late March, after factoring in a partial unwind of the Q3 €160m unrealised FX hit and leaving all else broadly unchanged, we increased our net income forecast to €188m.

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