

Air China-H (753 HK)

9M19 revenue in line; cautiously optimistic 4Q19 outlook

9M19 revenue +0.2% YoY. Net profit -2.5% YoY. Adjusted net profit +0.5% YoY. RPK +6.2% YoY. Passenger load factor was 81.4%, up 0.5ppt YoY. For 4Q19, as China and US are marching towards a “phase one” deal, we reiterate our view that we expect domestic demand to release. However, in the context of China-US trade frictions and unrests in Hong Kong, higher proportion of international and regional routes is a double-edged sword. For 4Q19, we remain cautiously optimistic. We factor in our house view of 2019E average Brent crude oil, and raise TP from HK\$ 8.61 to HK\$ 9.28, corresponding to 1.2x 2020E P/B. Maintain BUY.

- 9M19 revenue in line.** For 9M19, operating revenue increased 0.2% YoY to RMB 103bn, representing 74%/72% of our/consensus original full-year estimates. Net profit decreased 2.5% YoY to RMB 6,762mn, representing 93%/84% of our/consensus original full-year estimates. Net profit in 3Q19 increased 4.4% YoY, benefitting from increase in other income and investment income. Adjusted net profit increased 0.5% YoY to RMB 6,557mn.
- Disappointing operating results.** For 9M19, RPK increased 6.2% YoY, lower than major peers (CEA +10.4% YoY, CSA +9.2% YoY). Although third quarter is a traditional peak season for business, student and tourism travel, traffic in 3Q19 increased 5.6% YoY, down 3.8ppt YoY. RPK from international/regional routes in 3Q19 increased 4.4%/0.7% YoY, as compared with 12.7%/7.8% in 3Q18. ASK increased 5.6% YoY, lagging management guidance of 9-10% at the beginning of the year. Passenger load factor was 81.4%, up 0.5ppt YoY.
- Cautiously optimistic 4Q19 outlook.** For 4Q19, as China and US are marching towards a “phase one” deal, we reiterate our view that we expect domestic demand to release. However, in the context of China-US trade frictions and unrests in Hong Kong, higher proportion of international and regional routes is a double-edged sword. For 4Q19, we remain cautiously optimistic.
- Valuation.** We adjust 2019/20E revenue down 0.7%/1.5% to reflect lower-than-expected traffic growth. After drone attack on two Saudi Aramco’s oil facilities, production resumed faster than expected, our house trimmed 2019E average Brent crude oil to US\$64/b. We adjust 2019/20E net profit up by 20.6%/30.7%, and roll over TP to HK\$ 9.28. Our TP corresponds to 1.2x 2020E P/B. The stock is currently trading at 0.9x 2020E P/B, lower than historical average of 1.2x. Maintain BUY.

Earnings Summary

| (YE 31 Dec) | FY17A | FY18A | FY19E | FY20E | FY21E |
|--------------------------|---------|---------|---------|---------|---------|
| Traffic revenue (RMB mn) | 115,380 | 131,836 | 137,724 | 140,567 | 140,094 |
| YoY growth (%) | 7.5 | 14.3 | 4.5 | 2.1 | (0.3) |
| Net income (RMB mn) | 7,244 | 7,351 | 8,736 | 9,757 | 7,616 |
| EPS (RMB) | 0.54 | 0.54 | 0.60 | 0.67 | 0.52 |
| YoY growth (%) | (2.9) | (0.5) | 12.4 | 11.7 | (21.9) |
| P/E (x) | 11.6 | 11.6 | 10.4 | 9.3 | 11.9 |
| P/B (x) | 1.1 | 1.0 | 1.0 | 0.9 | 0.8 |
| Yield (%) | 1.8 | 1.7 | 1.9 | 2.2 | 1.7 |
| ROE (%) | 9.4 | 8.2 | 9.4 | 10.1 | 7.3 |
| Net gearing (%) | 95 | 89 | 86 | 74 | 69 |

BUY (Maintain)

| | |
|----------------------|-----------------|
| Target Price | HK\$9.28 |
| (Previous TP) | HK\$8.61 |
| Up/Downside | +33.7% |
| Current Price | HK\$6.94 |

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Stock Data

| | |
|--------------------------|------------------|
| Mkt Cap (HK\$ mn) | 123,764 |
| Avg 3 mths t/o (HK\$ mn) | 113.74 |
| 52w High/Low (HK\$) | 11.20/ 5.92 |
| Total Issued Shares (mn) | 4,563 (H) |
| | 9,962 (A) |

Source: Bloomberg

Shareholding Structure

| | |
|---|--------|
| China National Aviation Holding Corporation Limited | 51.69% |
| Cathay Pacific | 18.13% |

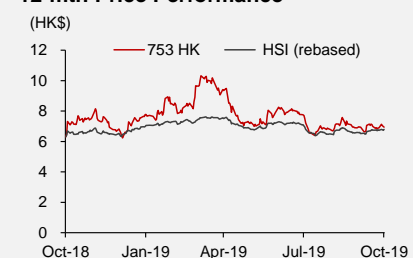
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 1.2% | -1.0% |
| 3-mth | -9.9% | -4.9% |
| 6-mth | -25.3% | -16.9% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- “Expect demand to recover in 2H19” – 30 Aug 2019
- “Reaping higher yield from international and regional routes” – 31 Jul 2019

4 Jun 2018

Source: Company data, CMBIS estimates

Figure 1: 3Q19 results

| RMB mn | 9M19 | 9M18 | YoY | 3Q19 | 3Q18 | YoY |
|--|-----------------|-----------------|--------------|-----------------|-----------------|--------------|
| Operating revenue | 103,077 | 102,880 | 0.2% | 37,764 | 38,638 | -2.3% |
| Operating expenses | (83,228) | (84,069) | -1.0% | (28,451) | (29,817) | -4.6% |
| Taxes and surcharges | (187) | (163) | 14.5% | (54) | (53) | 1.3% |
| Selling expenses | (4,901) | (4,750) | 3.2% | (1,579) | (1,688) | -6.5% |
| General and administrative expenses | (3,189) | (3,352) | -4.8% | (1,114) | (1,141) | -2.4% |
| R&D expenses | (136) | (61) | 122.0% | (49) | (21) | 134.7% |
| Finance expenses | (5,828) | (4,522) | 28.9% | (3,241) | (2,622) | 23.6% |
| Of which: Interest expenses | (3,705) | (2,132) | 73.8% | (1,266) | (762) | 66.0% |
| Interest income | 104 | 112 | -7.4% | 40 | 52 | -23.1% |
| Asset impairment losses | | (0) | NA | | | NA |
| Credit impairment losses | 10 | 285 | -96.6% | 0 | 102 | -99.9% |
| Total expenses | (97,460) | (96,633) | 0.9% | (34,488) | (35,240) | -2.1% |
| Other income | 2,604 | 2,288 | 13.8% | 854 | 608 | 40.6% |
| Investment income | 981 | 975 | 0.7% | 689 | 596 | 15.5% |
| Of which: investments in asso. and JVs | 934 | 772 | 20.9% | 676 | 580 | 16.6% |
| Fair value gains/(losses) | | 0 | NA | | (2) | NA |
| Gain on disposal | 40 | 84 | -52.9% | 40 | 12 | 228.4% |
| Operating profit | 9,241 | 9,593 | -3.7% | 4,859 | 4,612 | 5.4% |
| Non-operating income | 182 | 59 | 208.2% | 34 | 26 | 32.5% |
| Non-operating expenses | (86) | (79) | 8.1% | (55) | (61) | -9.7% |
| Profit before income tax | 9,337 | 9,573 | -2.5% | 4,838 | 4,577 | 5.7% |
| Income tax expenses | (1,734) | (1,947) | -10.9% | (731) | (848) | -13.8% |
| Profit for the year | 7,603 | 7,626 | -0.3% | 4,107 | 3,729 | 10.1% |
| Non-controlling interests | (841) | (688) | 22.2% | (485) | (260) | 86.4% |
| Net profit | 6,762 | 6,937 | -2.5% | 3,623 | 3,469 | 4.4% |

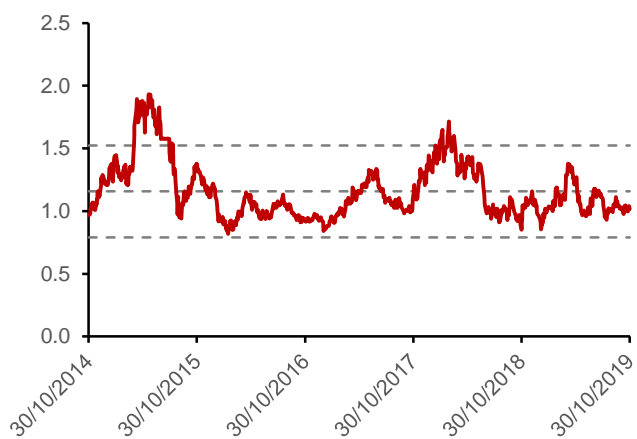
Source: Company data, CMBIS

Figure 2: Earnings revision

| RMB mn | New | | | Old | | | Diff | | |
|-------------------------|---------|---------|---------|---------|---------|---------|-------|-------|-------|
| | FY19E | FY20E | FY21E | FY19E | FY20E | FY21E | FY19E | FY20E | FY21E |
| Traffic revenue | 137,724 | 140,567 | 140,094 | 138,749 | 142,652 | 143,199 | -0.7% | -1.5% | -2.2% |
| Passenger | 126,444 | 129,695 | 129,890 | 127,469 | 131,780 | 132,994 | -0.8% | -1.6% | -2.3% |
| Cargo and mail | 11,280 | 10,872 | 10,205 | 11,280 | 10,872 | 10,205 | 0.0% | 0.0% | 0.0% |
| Total operating revenue | 142,700 | 145,593 | 145,170 | 142,612 | 146,554 | 147,139 | 0.1% | -0.7% | -1.3% |
| EBITDAR | 38,689 | 41,224 | 39,499 | 36,482 | 37,885 | 38,028 | 6.0% | 8.8% | 3.9% |
| Net profit | 8,736 | 9,757 | 7,616 | 7,245 | 7,465 | 6,537 | 20.6% | 30.7% | 16.5% |

Source: Company data, CMBIS estimates

Figure 3: Historical P/B



Source: Bloomberg, CMBIS

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY17A | FY18A | FY19E | FY20E | FY21E |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|
| Operating revenue | 124,026 | 140,883 | 142,700 | 145,593 | 145,170 |
| Traffic revenue | 115,380 | 131,836 | 137,724 | 140,567 | 140,094 |
| Passenger | 105,125 | 120,430 | 126,444 | 129,695 | 129,890 |
| Cargo and mail | 10,255 | 11,406 | 11,280 | 10,872 | 10,205 |
| Other operating revenue | 8,646 | 9,048 | 4,976 | 5,026 | 5,076 |
| Operating expenses | (112,270) | (126,537) | (127,190) | (129,293) | (132,187) |
| Jet fuel costs | (28,409) | (38,481) | (35,900) | (34,138) | (34,957) |
| Lease charges | (7,311) | (7,166) | (7,559) | (7,793) | (7,846) |
| Flight personnel costs | (22,392) | (24,450) | (25,793) | (26,590) | (26,772) |
| Depreciation & amortization | (13,596) | (14,504) | (15,070) | (16,581) | (18,120) |
| Other operating expenses | (40,562) | (41,936) | (42,868) | (44,190) | (44,492) |
| Other net income | - | - | - | - | - |
| EBIT | 11,756 | 14,346 | 15,510 | 16,301 | 12,983 |
| Exchange gain/(loss) | 2,938 | (2,377) | (538) | 137 | 136 |
| Other non-operating profit/(loss) | (3,208) | (1,993) | (2,041) | (1,994) | (1,845) |
| Pre-tax profit | 11,486 | 9,977 | 12,931 | 14,443 | 11,274 |
| Income tax | (2,845) | (1,762) | (3,168) | (3,538) | (2,762) |
| Minority interests | (1,397) | (864) | (1,027) | (1,147) | (895) |
| Net profit | 7,244 | 7,351 | 8,736 | 9,757 | 7,616 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY17A | FY18A | FY19E | FY20E | FY21E |
|------------------------------------|----------|----------|----------|----------|----------|
| Pre-tax profit | 11,486 | 9,977 | 12,931 | 14,443 | 11,274 |
| Depreciation and amortization | 13,453 | 14,358 | 15,070 | 16,581 | 18,120 |
| Other adjustments | 1,013 | 3,599 | 2,654 | 1,932 | 1,784 |
| Changes in working capital | 3,155 | 6,749 | (35) | 3,155 | (3,423) |
| Taxation and others | (6,270) | (6,000) | (5,759) | (6,083) | (5,157) |
| Operating activities | 22,837 | 28,683 | 24,860 | 30,028 | 22,598 |
| Capital expenditure | (10,206) | (9,139) | (24,107) | (25,000) | (20,000) |
| Other investing activities | (4,447) | 189 | 4,000 | 1,629 | 349 |
| Investing activities | (14,653) | (8,950) | (20,107) | (23,371) | (19,651) |
| Changes in borrowings | (1,382) | (7,929) | (4,321) | (1,087) | (718) |
| Dividends paid | (1,747) | (1,873) | (1,500) | (1,747) | (1,951) |
| Others | (6,173) | (8,845) | - | - | - |
| Financing activities | (9,302) | (18,647) | (5,821) | (2,834) | (2,669) |
| Net change in cash | (1,117) | 1,086 | (1,068) | 3,823 | 278 |
| Cash at the beginning of the year | 6,848 | 5,563 | 6,763 | 5,695 | 9,518 |
| Exchange difference | (168) | 114 | - | - | - |
| Cash at the end of the year | 5,563 | 6,763 | 5,695 | 9,518 | 9,796 |

Balance sheet

| YE 31 Dec (RMB mn) | FY17A | FY18A | FY19E | FY20E | FY21E |
|--------------------------------|---------|---------|---------|---------|---------|
| Non-current assets | 214,885 | 219,931 | 262,838 | 273,573 | 278,835 |
| Property, plant and equipment | 168,536 | 171,663 | 113,222 | 123,408 | 128,119 |
| incl. Construction in progress | 9,861 | 10,876 | 10,568 | 10,711 | 9,359 |
| Other non-current assets | 46,349 | 48,268 | 149,616 | 150,166 | 150,716 |
| Current assets | 20,760 | 23,726 | 22,657 | 26,480 | 26,758 |
| Cash and cash equivalents | 5,563 | 6,763 | 5,695 | 9,518 | 9,796 |
| Other current assets | 15,197 | 16,963 | 16,962 | 16,962 | 16,962 |
| Total assets | 235,645 | 243,657 | 285,495 | 300,053 | 305,593 |
| Current liabilities | 72,132 | 72,540 | 78,736 | 78,473 | 78,050 |
| Borrowings | 29,146 | 27,195 | 24,870 | 24,574 | 24,379 |
| Lease liabilities | 6,345 | 7,126 | 11,316 | 11,242 | 11,194 |
| Other current liabilities | 36,641 | 38,219 | 42,550 | 42,657 | 42,477 |
| Non-current liabilities | 68,654 | 70,619 | 106,525 | 112,925 | 112,315 |
| Borrowings | 22,108 | 15,585 | 15,086 | 14,907 | 14,789 |
| Lease liabilities | 37,799 | 45,848 | 80,735 | 80,197 | 79,842 |
| Other non-current liabilities | 8,747 | 9,186 | 10,703 | 17,821 | 17,684 |
| Total liabilities | 140,786 | 143,159 | 185,261 | 191,398 | 190,365 |
| Share capital | 11,477 | 11,477 | 11,477 | 11,477 | 11,477 |
| Reserves | 74,570 | 81,680 | 81,435 | 89,241 | 95,334 |
| Shareholders' Equity | 86,048 | 93,157 | 92,912 | 100,718 | 106,811 |
| Non-controlling interests | 8,811 | 7,341 | 7,322 | 7,937 | 8,417 |
| Total equity | 94,859 | 100,498 | 100,234 | 108,655 | 115,228 |

Key ratios

| YE 31 Dec | FY17A | FY18A | FY19E | FY20E | FY21E |
|-----------------------------|-------|-------|-------|-------|-------|
| Operating metrics | | | | | |
| ASK YoY (%) | 6.3 | 10.4 | 6.2 | 3.7 | 1.2 |
| RPK YoY (%) | 6.9 | 9.7 | 6.2 | 3.7 | 1.2 |
| Passenger load factor (%) | 81.1 | 80.6 | 80.6 | 80.6 | 80.5 |
| Passenger yield (RMB cents) | 52.3 | 54.6 | 54.0 | 53.4 | 52.9 |
| Passenger revenue YoY (%) | 6.2 | 14.6 | 5.0 | 2.6 | 0.2 |
| Cargo revenue YoY (%) | 23.5 | 11.2 | -1.1 | -3.6 | -6.1 |
| Operating margin | 9.5 | 10.2 | 10.9 | 11.2 | 8.9 |
| EBITDAR margin | 26.0 | 26.1 | 27.1 | 28.3 | 27.2 |
| Net profit margin | 5.8 | 5.2 | 6.1 | 6.7 | 5.2 |
| B/S ratios (%) | | | | | |
| Total debt / Total equity | 100.6 | 95.3 | 91.2 | 83.1 | 77.8 |
| Net debt / Total equity | 94.7 | 88.6 | 85.5 | 74.4 | 69.3 |
| Returns (%) | | | | | |
| ROE | 9.4 | 8.2 | 9.4 | 10.1 | 7.3 |
| ROA | 3.2 | 3.1 | 3.3 | 3.3 | 2.5 |
| Per share (RMB) | | | | | |
| EPS | 0.54 | 0.54 | 0.60 | 0.67 | 0.52 |
| DPS | 0.11 | 0.10 | 0.12 | 0.13 | 0.10 |
| BVPS | 5.92 | 6.41 | 6.40 | 6.93 | 7.35 |

Source: Company data, CMBIS estimates

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