

Event-driven idea

AviChina (2357 HK) - An inflection point?

Company background. AviChina (2357 HK, NR) is mainly engaged in the development, manufacture, sales and upgrade of defense and civil aviation products such as helicopters, trainer aircrafts, general-purpose aircrafts and regional jets for domestic and overseas customers. Aviation Industry Corporation of China (AVIC), wholly-owned by SASAC, is the controlling shareholder of AviChina. **Airbus Group (AIR FP)** is the second largest shareholder of AviChina with a stake of 5%. AviChina currently owned four A-share listed companies, namely **JONHON Optronics (002179 CH)**, **AVIC Avionics (600372 CH)**, **Hongdu Aviation (600316 CH)** and **AVICOPTER (600038 CH)**. These four companies contribute majority of AviChina's earnings.

Source of opportunity:

- **A significant rebound of share price since the start of buyback.** AviChina announced on 22 May that it will repurchase a maximum of 624.5mn shares, representing 10% of the total outstanding shares. Immediately after that, AviChina repurchased shares in the market every trading day, driving a 20% increase in share price, which was a meaningful rebound as the share price had declined 40% since early 2019. As at 11 Jun, the total amount spent was HK\$75.5mn for 19.7mn shares (average price of HK\$3.83). **Most notably is that the amount spent over the past four days significantly increased to a total of HK\$59mn (Figure 1).**
- **Repurchase likely to continue in the near term.** The repurchased shares so far accounted for only 3.2% of the maximum shares to be repurchased (624.5mn). We expect the share buyback will continue in the near term. As at end-2019, AviChina had net cash of ~RMB2.2bn (consolidated).
- **Acquisition of helicopter businesses should be completed in the near term.** In Nov 2019, AviChina announced three major acquisitions: (1) to acquire all the interest in AVIC Helicopter from AVIC and Tianjin Free Trade Zone Investment; (2) to acquire 10.21% interest in Harbin Aircraft from AVIC; and (3) 47.96% interest in Changhe Aircraft from AVIC. The total consideration of RMB5.69bn will be settled by issuing 1.5bn new shares to AVIC. The acquisition price of HK\$4.19 per share is slightly higher than the current share price of HK\$4.0. The transaction was approved by shareholders in the EGM in Feb 2020. The acquisition of AVIC Helicopter will enrich AviChina's helicopter products and help the Company to further expand its defense equipment product line.
- **Expect more asset injections from the parent company.** AVIC has conducted a series of asset restructuring for the subsidiaries over the past few years. We expect more corporate actions to follow. To recap, AviChina is one of the two companies that participated in H-share full circulation pilot project in 2018.
- **Valuation.** Stock is trading at 14x/12.7x 2020E/21E consensus P/E. Besides, the market cap of AviChina represents a 41% discount to the attributable market cap of the four listed subsidiaries (Figure 2).

Not rated

Current Price

HK\$4.00

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Stock Data

Mkt Cap (HK\$ mn)	24,963
Avg 3 mths t/o (HK\$ mn)	51
52w High/Low (HK\$)	4.66/2.63
Total Issued Shares (mn)	6,245.1
Source: Bloomberg	

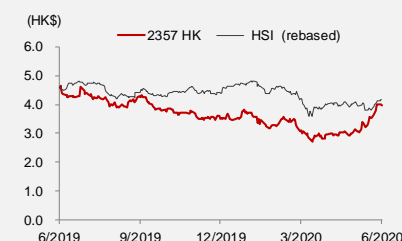
Shareholding Structure

AVIC	56.0%
Airbus Group	5.0%
Others	39.0%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	29.8%	25.6%
3-mth	27.7%	29.5%
6-mth	13.1%	19.4%
Source: Bloomberg		

AviChina 12-mth Price Performance



Source: Bloomberg, CMBIS

Auditor: SHINEWING (HK) CPA

Figure 1: Shares repurchased since 25 May

Date	O/S shares (000)	Shares repurchased Shares (000)	% of O/S shares	Repurchased price HK\$	Amount spent HK\$ 000
25-May-20	6,245,122	-	-	-	-
26-May-20	6,242,042	3,080	0.049%	3.34	10,279
27-May-20	6,242,032	10	0.000%	3.42	34
28-May-20	6,241,902	130	0.002%	3.46	450
29-May-20	6,241,632	270	0.004%	3.53	953
1-Jun-20	6,240,798	834	0.013%	3.60	3,000
2-Jun-20	6,240,628	170	0.003%	3.68	626
3-Jun-20	6,240,448	180	0.003%	3.74	672
4-Jun-20	6,240,438	10	0.000%	3.80	38
5-Jun-20	6,240,437	1	0.000%	3.91	4
6-Jun-20	6,236,857	3,580	0.057%	3.96	14,164
9-Jun-20	6,233,997	2,860	0.046%	4.00	11,441
10-Jun-20	6,228,077	5,920	0.095%	3.93	23,266
11-Jun-20	6,225,407	2,670	0.043%	3.97	10,592
Total	-	19,715	0.316%	3.83	75,519

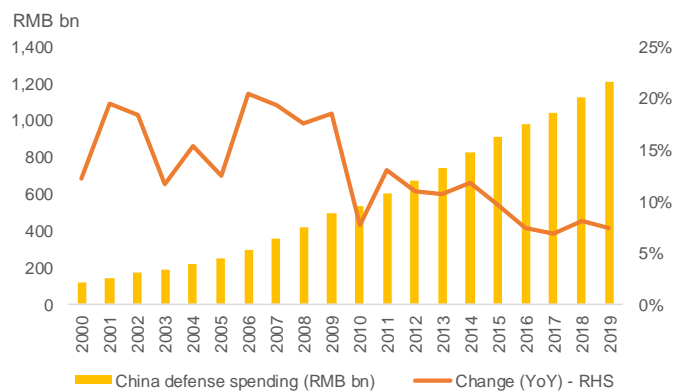
Maximum no. of shares to be repurchased (000)	624,512
Share purchased / Max no. of shares to be repurchased	3.2%

Source: HKEX, CMBIS

Figure 2: Listed companies owned by AviChina

Company name	Ticker	Stake owned by AviChina	Market cap 2019 (RMB mn)	Mkt cap attributable to AviChina (RMB mn)	Company background
JONHON Optronic	中航光电 002179 CH	39.78%	39,467	15,700	AVIC Jonhon Optronic Technology manufactures electronic connectors. The Company produces circular electrical connectors, rectangular electrical connectors, filter electrical connectors, and other products. AVIC Jonhon Optronic Technology also operates import and export businesses.
AVIC Avionics	中航电子 600372 CH	43.21%	23,314	10,074	China Avionics Systems manufactures and distributes aero-mechanical and electrical products.
Hongdu Aviation	洪都航空 600316 CH	43.77%	10,040	4,395	Jiangxi Hongdu Aviation Industry manufactures aircraft products. The Company produces training planes, agricultural planes, basic training planes, and other equipment. Jiangxi Hongdu Aviation Industry markets its products to Asia, Africa, Americas, and other countries and regions.
AVICOPTER	中直股份 600038 CH	34.77%	24,068	8,368	AVIC Helicopter designs, develops, manufactures, and sells helicopters, airplane parts, and aviation-related products. The Company also manufactures auto parts.
Total			96,889	38,537	
AviChina	中航科工 2357 HK			Market cap (HK\$ mn) 24,963 (RMB mn) 22,902 Discount to the four A-share companies -40.6%	

Source: HKEX, CMBIS

Figure 3: China defense spending

Source: Wind, CMBIS

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