

China Southern Airlines-A (600029 CH)

Weather the harsh winter of the industry

The Company's 2019 annual results was in line with our and consensus estimates. Under the pandemic, the Company's cost control measures will help it weather the harsh winter of the industry. We expect net loss for FY20E to be RMB 2,975mn, and BVPS to decrease to RMB 4.19. Based on 1.2x P/B, we lower TP to HK\$ 5.02. The stock is currently trading at 1.2x 2020E P/B, lower than historical average. Maintain HOLD.

- 2019 annual results in line.** The Company announced 2019 annual results. RPK increased 9.9% YoY, in line with guidance. Passenger load factor increased 0.37ppt to 82.81%. Passenger yield remained flat at RMB 0.49 per RPK. Revenue increased 7.4% YoY to RMB 154.3bn, in line with our and consensus estimates. Impacted by the adoption of IFRS 16, interest expenses increased 82.5% YoY to RMB 5.8bn. As a result, net profit attributable decreased 8.8% YoY to RMB 2.6bn, missed our and consensus estimates. The Board did not recommend any payment of final cash dividend for FY19.
- Operational highlights. (1)** The Company strengthened cost controls. Fuel consumption per ton kilometer decreased 3.95% YoY. We believe cost control measures will help the Company weather the harsh winter of the industry. **(2)** The Company successfully transited 13 routes to the new Daxing Airport. By Mar 2021, the Company's market share in Daxing Airport will reach 43%.
- Demand recovery faces great uncertainties.** According to the Ministry of Transport, on 31 Mar, civil aviation carried 487,600 passengers, less than 30% of the same day last year. Due to insufficient air travel demand, passenger load and yield both dropped. Looking forward, listed airlines generally expect domestic demand to resume steady growth around May or Jun, and that international demand to be more uncertain. Due to the uncertainty of demand recovery, listed airlines did not give 2020E guidance. **We assume:** domestic RPK growth in 1/2/3/4Q 20E is -50%/-5%/5%/10% YoY, respectively; international and regional RPK growth in 2020E is -50% YoY; passenger load factor decreases 10ppt YoY; passenger yield decreases RMB 0.1 YoY.
- Valuation.** After oil price tumbled in 1Q20, we expect oil expenses to decrease 46.8% YoY to RMB 22.8bn. We expect net loss for FY20E to be RMB 2,975mn, and BVPS to decrease to RMB 4.19. Based on 1.2x P/B, we lower TP to HK\$ 5.02. The stock is currently trading at 1.2x 2020E P/B, lower than historical average. Maintain HOLD.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Traffic revenue (RMB mn)	138,064	148,117	96,711	106,135	117,017
YoY growth (%)	13.3	7.3	(34.7)	9.7	10.3
Net income (RMB mn)	2,895	2,640	(2,975)	1,502	3,396
EPS (RMB)	0.27	0.22	(0.22)	0.10	0.22
YoY growth (%)	(55.0)	(20.3)	(200.2)	(145.4)	126.1
P/E (x)	N/A	N/A	(0.19)	0.42	0.21
P/B (x)	19.2	24.1	(24.0)	52.9	23.4
Yield (%)	1.0	1.0	1.2	1.2	1.2
ROE (%)	1.0	0.0	0.0	0.2	0.5
Net gearing (%)	5.0	4.1	(4.6)	2.3	5.1

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price	RMB5.02
(Previous TP)	RMB7.63)
Up/Downside	-3.0%
Current Price	RMB5.18

China Airline Sector

Hanbo Xu
 (852) 3761 8725
 xuhanbo@cmbi.com.hk

Wenjie Ding, PhD
 (852) 3900 0856
 dingwenjie@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	55,700
Avg 3 mths t/o (RMB mn)	437.36
52w High/Low (RMB)	9.65/5.05
Total Issued Shares (mn)	3,666 (H)
	8,601 (A)

Source: Bloomberg

Shareholding Structure

China Southern Air Holding Limited Company	50.54%
Qatar Airways	5.00%
American Airlines	2.21%

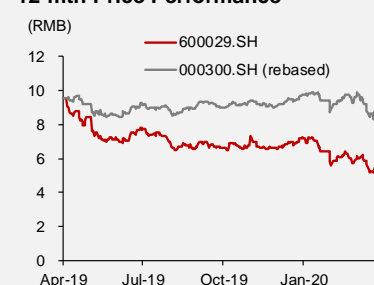
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-12.2%	-4.3%
3-mth	-28.8%	-20.9%
6-mth	-21.9%	-20.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

- "Solid operating results; positive 4Q19 outlook" – 1 Nov 2019
- "Fundamentals remained healthy" – 29 Aug 2019
- "Dual hubs" strategy stimulates capacity growth" – 31 Jul 2019

Figure 1: 2019 results

RMB mn	2019	2018	YoY
Operating revenue	154,322	143,623	7.4%
Traffic revenue	148,117	138,064	7.3%
Passenger	138,502	128,038	8.2%
Cargo and mail	9,615	10,026	-4.1%
Other operating revenue	6,205	5,559	11.6%
Operating expenses	(148,608)	(140,242)	6.0%
Jet fuel costs	(42,814)	(42,922)	-0.3%
Operating lease charges	(1,412)	(8,726)	-83.8%
Flight personnel costs	(12,709)	(11,467)	10.8%
Depreciation & amortization	(24,620)	(14,308)	72.1%
Other operating expenses	(67,053)	(62,819)	6.7%
Other net income	5,124	5,438	-5.8%
EBIT	10,838	8,819	22.9%
Exchange gain/(loss)	(1,477)	(1,853)	-20.3%
Other non-operating profit/(loss)	(5,306)	(2,602)	103.9%
Pre-tax profit	4,055	4,364	-7.1%
Income tax	(971)	(1,000)	-2.9%
Minority interests	(444)	(469)	-5.3%
Net profit	2,640	2,895	-8.8%

Source: Company data, CMBIS

Figure 2: Earnings revision

RMB mn	New		Old		Diff	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Traffic revenue	96,711	106,135	157,293	163,084	-38.5%	-34.9%
Passenger	88,467	97,547	147,900	154,333	-40.2%	-36.8%
Cargo and mail	8,245	8,587	9,394	8,752	-12.2%	-1.9%
Total operating revenue	103,537	113,643	163,422	169,520	-36.6%	-33.0%
EBITDAR	19,519	23,977	40,270	39,763	-51.5%	-39.7%
Net profit	(2,975)	1,502	7,485	6,551	-139.7%	-77.1%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating revenue	143,623	154,322	103,537	113,643	125,275
Traffic revenue	138,064	148,117	96,711	106,135	117,017
Passenger	128,038	138,502	88,467	97,547	107,622
Cargo and mail	10,026	9,615	8,245	8,587	9,395
Other operating revenue	5,559	6,205	6,826	7,508	8,259
Operating expenses	(140,242)	(148,608)	(106,624)	(112,601)	(121,965)
Jet fuel costs	(42,922)	(42,814)	(22,767)	(31,136)	(33,335)
Operating lease charges	(8,726)	(1,412)	(843)	(19)	(20)
Flight personnel costs	(11,467)	(12,709)	(10,891)	(11,064)	(12,164)
Depreciation & amortization	(14,308)	(24,620)	(16,197)	(17,080)	(17,849)
Other operating expenses	(62,819)	(67,053)	(55,927)	(53,302)	(58,598)
Other net income	5,438	5,124	5,380	5,649	5,932
EBIT	8,819	10,838	2,293	6,691	9,242
Finance expenses, net	(3,077)	(5,771)	(6,220)	(4,837)	(4,478)
Exchange gain/(loss)	(1,853)	(1,477)	0	0	0
Other non-operating profit/(loss)	475	465	452	452	452
Pre-tax profit	4,364	4,055	(3,476)	2,307	5,216
Income tax	(1,000)	(971)	-	(552)	(1,249)
Minority interests	(469)	(444)	500	(253)	(571)
Net profit	2,895	2,640	(2,975)	1,502	3,396

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pre-tax profit	4,364	4,055	(3,476)	2,307	5,216
Depreciation and amortization	14,308	24,620	16,197	17,080	17,849
Other adjustments	4,800	7,079	6,051	4,668	4,309
Changes in working capital	(2,298)	1,321	1,387	1,456	1,529
Taxation and others	(5,786)	(6,548)	(6,220)	(5,389)	(5,727)
Operating activities	15,388	30,527	13,939	20,121	23,176
Capital expenditure	(24,033)	(25,000)	(23,750)	(22,563)	(21,434)
Other investing activities	3,516	2,219	2,321	2,427	2,539
Investing activities	(20,517)	(22,781)	(21,429)	(20,135)	(18,895)
Equity raised	10,908	-	10,000	20,000	-
Changes in borrowings	(4,653)	58,616	(37,541)	(15,881)	(948)
Dividends paid	(1,107)	(706)	105	(53)	(270)
Others	72	-	-	-	-
Financing activities	5,220	57,910	(27,436)	4,067	(1,217)
Net change in cash	91	65,656	(34,927)	4,053	3,063
Cash at the beginning of the year	6,826	6,928	72,584	37,657	41,710
Exchange difference	11	-	-	-	-
Cash at the end of the year	6,928	72,584	37,657	41,710	44,773

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	222,877	290,190	277,601	279,757	280,035
Property, plant and equipment	170,692	84,788	100,515	105,052	107,245
Construction in progress	37,791	39,222	29,613	27,046	24,943
Right-of-use assets	-	153,211	134,317	134,317	134,317
Other non-current assets	14,394	12,969	13,156	13,343	13,530
Current assets	24,072	16,738	52,328	56,381	59,444
Cash and cash equivalents	6,928	1,849	37,657	41,710	44,773
Other current assets	17,144	14,889	14,671	14,671	14,671
Total assets	246,949	306,928	329,929	336,138	339,479
Current liabilities	83,687	95,490	98,471	100,257	100,122
Borrowings	38,741	37,543	29,935	26,717	26,525
Current portion of lease liabilities	9,555	19,998	22,914	21,200	21,098
Other current liabilities	35,391	37,949	45,621	52,340	52,499
Non-current liabilities	84,793	134,109	154,018	156,812	156,601
Borrowings	15,676	13,637	10,874	9,705	9,635
Lease liabilities	62,666	114,076	131,749	121,970	121,386
Other non-current liabilities	6,451	6,396	11,396	25,137	25,580
Total liabilities	168,480	229,599	252,489	257,068	256,722
Share capital	12,267	12,267	15,334	15,334	15,334
Reserves	52,990	51,839	48,864	50,215	53,272
Shareholders' Equity	65,257	64,106	64,198	65,549	68,606
Non-controlling interests	13,212	13,223	13,242	13,521	14,151
Total equity	78,469	77,329	77,440	79,070	82,757

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Operating metrics					
ASK YoY (%)	12.0	9.4	-11.6	10.5	10.5
RPK YoY (%)	12.4	9.9	-22.2	10.9	10.9
Passenger load factor (%)	82.4	82.8	72.9	73.1	73.4
Passenger yield (RMB cents)	49.4	48.6	39.9	39.7	39.5
Passenger revenue YoY (%)	13.5	8.2	-36.1	10.3	10.3
Cargo revenue YoY (%)	10.4	-4.1	-14.3	4.2	9.4
Operating margin	6.1	7.0	2.2	5.9	7.4
EBITDAR margin	22.5	24.0	18.9	21.1	21.8
Net profit margin	2.0	1.7	-2.9	1.3	2.7
B/S ratios (%)					
Total debt / Total equity	161.4	239.6	190.7	166.7	158.2
Net debt / Total equity	152.6	237.2	142.1	114.0	104.1
Returns (%)					
ROE	5.0	4.1	-4.6	2.3	5.1
ROA	1.2	1.0	-0.9	0.5	1.0
Per share (RMB)					
EPS	0.27	0.22	-0.22	0.10	0.22
DPS	0.05	-	-	0.01	0.03
BVPS	5.32	5.23	4.19	4.27	4.47

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.