

Juneyao Airlines-A (603885 CH)

RPK growth beats expectation

The Company announced 3Q19 results on 31 Oct. 9M19 revenue +17.0% YoY. Net profit -13.8% YoY. Adjusted net profit -4.9% YoY. RPK +16.8% YoY. Passenger load factor was 85.9%, down 0.7ppt 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. And we believe the Company will achieve 15% YoY increase in ASK for the whole year. We factor in our house view of 2019E average Brent crude oil, and raise TP from RMB 15.03 to RMB 17.63, corresponding to 2.9x 2020E P/B. Maintain BUY.

- 9M19 revenue in line.** For 9M19, operating revenue increased 17.0% YoY to RMB 13bn, representing 80%/78% of our/consensus previous full-year estimates. Net profit decreased 13.8% YoY to RMB 1,236mn, representing 98%/91% of our/consensus previous full-year estimates. Net profit in 3Q19 decreased 19.5% YoY, mainly due to sharp decline in non-operating income. Excluding extraordinary items, decrease in net profit shrank to 4.9% YoY to RMB 1,153mn.
- RPK growth beats expectation.** For 9M19, RPK increased 16.8% YoY, highest among peers (CEA +10.4%; CSA +9.2%; AC +6.2%; Spring Airlines +13.7%). The third quarter is a traditional peak season for business, student and tourism travel. Benefitting from new international routes opened in YE18, traffic in 3Q19 increased 19.1% YoY, as compared with 6.7% increase in 3Q18. ASK increased 17.7% YoY, higher than management guidance at the beginning of the year. Passenger load factor was 85.9%, down 0.7ppt YoY.
- Positive 4Q19 outlook.** For 4Q19, as domestic economy stabilizes, and China and US are marching towards a “phase one” deal, we reiterate our view that we expect both domestic and international demand to release. And we believe the Company will achieve 15% YoY increase in ASK for the whole year.
- Valuation.** 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 13.7%/31.5%, and roll over TP to RMB 17.63. Our TP corresponds to 2.9x 2020E P/B. The stock is currently trading at 2.5x 2020E P/B, lower than historical average of 3.0x. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Traffic revenue (RMB mn)	12,231	14,198	16,243	18,324	20,480
YoY growth (%)	24.6	16.1	14.4	12.8	11.8
Net income (RMB mn)	1,326	1,233	1,427	1,751	1,490
EPS (RMB)	0.74	0.69	0.76	0.89	0.76
YoY growth (%)	(24.2)	(7.0)	10.6	17.4	(14.9)
P/E (x)	20.6	22.2	20.0	17.1	20.1
P/B (x)	3.2	2.9	2.8	2.5	2.3
Yield (%)	1.5	0.0	0.0	1.8	1.5
ROE (%)	16.3	13.6	14.2	15.4	11.9
Net gearing (%)	77	72	79	107	114

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price RMB17.63
 (Previous TP RMB15.03)
Up/Downside +16.0%
Current Price RMB15.20

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Stock Data

Mkt Cap (RMB mn)	29,885
Avg 3 mths t/o (RMB mn)	82.64
52w High/Low (RMB)	17.80/ 11.50
Total Issued Shares (mn)	1,966

Source: Bloomberg

Shareholding Structure

Shanghai Juneyao (Group) Co., Ltd.	51.92%
Eastern Airlines Industry Investment Co., Ltd.	15.00%

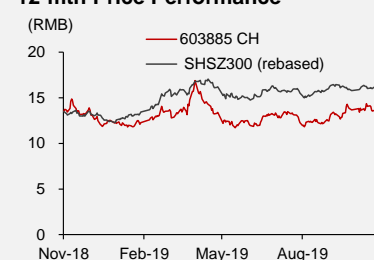
Source: Wind

Share Performance

	Absolute	Relative
1-mth	6.4%	2.7%
3-mth	18.5%	12.3%
6-mth	8.5%	7.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- “Code sharing with CEA broadens destinations” – 2 Sep 2019
- “Highest operational efficiency” – 31 Jul 2019

Figure 1: 3Q19 results

RMB mn	9M19	9M18	YoY	3Q19	3Q18	YoY
Operating revenue	13,004	11,113	17.0%	4,942	4,182	18.2%
Operating expenses	(10,654)	(8,883)	19.9%	(3,755)	(3,131)	19.9%
Taxes and surcharges	(7)	(10)	-25.2%	(3)	(2)	37.5%
Selling expenses	(499)	(450)	10.7%	(189)	(162)	16.2%
General and administrative expenses	(306)	(286)	7.1%	(99)	(104)	-4.1%
R&D expenses	(35)	0	NA	(17)	0	NA
Finance expenses	(212)	(130)	62.7%	(70)	(48)	45.0%
Of which: Interest expenses	(248)	(122)	103.9%	(91)	(49)	85.7%
Interest income	33	18	89.2%	12	7	71.4%
Asset impairment losses	0	(4)	NA	0	(3)	NA
Credit impairment losses	(2)	0	NA	(0)	0	NA
Total expenses	(11,716)	(9,764)	20.0%	(4,134)	(3,451)	19.8%
Other income	298	293	1.7%	100	140	-28.8%
Investment income	1	181	-99.4%	(0)	179	NA
Of which: investments in asso. and JVs	1	2	-64.7%	(0)	1	NA
Fair value gains/(losses)	(16)	0	NA	(9)	0	NA
Gain on disposal	25	38	-33.4%	6	11	-45.9%
Operating profit	1,596	1,861	-14.2%	905	1,061	-14.7%
Non-operating income	94	103	-8.9%	6	69	-91.7%
Non-operating expenses	(1)	(1)	13.5%	(0)	(0)	-8.0%
Profit before income tax	1,690	1,964	-13.9%	911	1,130	-19.4%
Income tax expenses	(434)	(511)	-15.0%	(237)	(297)	-20.4%
Profit for the year	1,256	1,453	-13.6%	674	833	-19.1%
Non-controlling interests	(20)	(18)	7.5%	(17)	(16)	1.7%
Net profit	1,236	1,434	-13.8%	657	816	-19.5%

Source: Company data, CMBIS

Figure 2: Earnings revision

RMB mn	New			Old			Diff		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Traffic revenue	16,243	18,324	20,480	16,282	18,321	20,300	-0.2%	0.0%	0.9%
Passenger	15,944	17,882	19,739	15,983	17,879	19,560	-0.2%	0.0%	0.9%
Cargo and mail	299	443	741	299	443	741	0.0%	0.0%	0.0%
Total operating revenue	16,414	18,499	20,658	16,453	18,495	20,478	-0.2%	0.0%	0.9%
EBITDAR	4,324	5,221	5,365	4,089	4,645	4,713	5.8%	12.4%	13.9%
Net profit	1,427	1,751	1,490	1,256	1,331	1,014	13.7%	31.5%	46.9%

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	12,412	14,366	16,414	18,499	20,658
Traffic revenue	12,231	14,198	16,243	18,324	20,480
Passenger	12,053	13,982	15,944	17,882	19,739
Cargo and mail	178	216	299	443	741
Other operating revenue	181	168	171	174	178
Operating expenses	(10,803)	(13,260)	(14,776)	(16,508)	(18,898)
Jet fuel costs	(2,866)	(3,951)	(4,129)	(4,459)	(5,323)
Operating lease charges	(1,164)	(1,447)	(1,678)	(1,975)	(2,311)
Flight personnel costs	(1,938)	(2,314)	(2,756)	(3,250)	(3,808)
Depreciation & amortization	(634)	(676)	(847)	(997)	(1,167)
Other operating expenses	(4,202)	(4,872)	(5,366)	(5,827)	(6,288)
Other net income	317	690	461	643	610
EBIT	1,657	1,541	1,799	2,248	1,887
Exchange gain/(loss)	0	0	(81)	27	31
Other non-operating profit/(loss)	169	151	242	128	127
Pre-tax profit	1,826	1,693	1,959	2,404	2,045
Income tax	(474)	(453)	(524)	(643)	(547)
Minority interests	(26)	(7)	(8)	(9)	(8)
Net profit	1,326	1,233	1,427	1,751	1,490

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit for the year	1,352	1,240	1,435	1,761	1,498
Depreciation and amortization	634	676	847	997	1,167
Other adjustments	308	155	200	241	360
Changes in working capital	467	(122)	317	365	935
Others	-	-	-	-	-
Operating activities	2,761	1,949	2,800	3,364	3,960
Capital expenditure	(3,508)	(5,397)	(6,112)	(7,779)	(5,552)
Other investing activities	299	867	5	5	5
Investing activities	(3,209)	(4,530)	(6,107)	(7,775)	(5,548)
Equity raised	5	0	2,090	0	0
Changes in borrowings	1,343	2,873	4,372	4,118	2,010
Dividends paid	(681)	(782)	-	-	(525)
Others	221	(32)	-	-	-
Financing activities	889	2,059	6,462	4,118	1,484
Net change in cash	444	(535)	3,155	(293)	(103)
Cash at the beginning of the year	1,482	1,927	1,391	4,546	4,253
Exchange difference	-	-	-	-	-
Cash at the end of the year	1,927	1,391	4,546	4,253	4,150

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	16,264	16,137	20,394	26,081	29,566
Property, plant and equipment	11,239	9,835	11,770	14,825	18,925
Construction in progress	4,023	5,064	7,386	10,018	9,403
Other non-current assets	1,002	1,238	1,238	1,238	1,238
Current assets	3,973	5,318	8,711	8,418	8,315
Cash and cash equivalents	2,103	1,825	4,546	4,253	4,150
Other current assets	1,870	3,493	4,165	4,165	4,165
Total assets	20,237	21,455	29,105	34,499	37,882
Current liabilities	5,682	8,595	12,184	13,733	13,928
Borrowings	2,971	5,444	7,673	8,818	8,780
Obligations under finance leases	100	184	209	672	852
Other current liabilities	2,611	2,967	4,301	4,243	4,296
Non-current liabilities	5,771	3,260	6,001	8,597	10,723
Borrowings	4,996	2,023	3,388	5,007	6,211
Obligations under finance leases	768	1,114	1,866	2,758	3,421
Other non-current liabilities	7	123	746	833	1,091
Total liabilities	11,453	11,855	18,185	22,331	24,651
Share capital	1,797	1,797	1,966	1,966	1,966
Reserves	6,853	7,632	8,759	9,985	11,028
Shareholders' Equity	8,650	9,429	10,725	11,951	12,994
Non-controlling interests	133	171	195	217	236
Total equity	8,783	9,600	10,920	12,169	13,231

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Operating metrics					
ASK YoY (%)	22.3	10.4	16.0	13.5	11.1
RPK YoY (%)	24.1	9.5	15.2	13.3	11.5
Passenger load factor (%)	86.9	86.2	85.6	85.4	85.8
Passenger yield (RMB cents)	44.0	46.6	46.1	45.6	45.2
Passenger revenue YoY (%)	24.9	16.0	14.0	12.2	10.4
Cargo revenue YoY (%)	7.9	21.3	38.3	48.1	67.4
Operating margin	13.3	10.7	11.0	12.2	9.1
EBITDAR margin	27.8	25.5	26.3	28.2	26.0
Net profit margin	10.7	8.6	8.7	9.5	7.2
B/S ratios (%)					
Total debt / Total equity	100.6	91.3	120.3	141.8	145.6
Net debt / Total equity	76.6	72.3	78.7	106.8	114.2
Returns (%)					
ROE	16.3	13.6	14.2	15.4	11.9
ROA	7.1	5.9	5.6	5.5	4.1
Per share (RMB)					
EPS	0.74	0.69	0.76	0.89	0.76
DPS	0.23	-	-	0.27	0.23
BVPS	4.81	5.25	5.46	6.08	6.61

Source: Company data, CMBIS estimates

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