

Air China-H (753 HK)

Winter is coming

The Company's 2019 annual results was in line with our and consensus estimates. Since the Company has the highest proportion of international routes, we expect net loss for FY20E to be RMB 1,912mn, and BVPS to decrease to RMB 6.30. Based on 0.7x P/B, we lower TP to HK\$ 4.92. The stock is currently trading at 0.7x 2020E P/B, lower than historical average. Downgrade to HOLD.

- 2019 annual results in line.** The Company announced 2019 annual results. RPK increased 5.7% YoY, lower than guidance. Passenger load factor increased 0.42ppt to 81.02%. Passenger yield decreased 2.2% YoY to RMB 0.53 per RPK. Revenue decreased 0.5% YoY to RMB 140.2bn, in line with our and consensus estimates. Impacted by the adoption of IFRS 16, interest expenses increased 69.8% YoY to RMB 4.9bn. As a result, net profit attributable decreased 12.7% YoY to RMB 6.4bn, in line. The Board proposed cash dividend of RMB 0.04 per share for FY19.
- 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.
- The pandemic has the greatest impact on Air China.** For the full year of 2019, international RPK of Air China / China Eastern Airlines / China Southern Airlines contributed 42.4% / 33.3% / 30.3% of total RPK. In Jan 2020, international RPK of AC / CEA / CSA changed by -1.9% / 7.6% / 3.8% YoY, respectively. Since Air China has the highest proportion of international routes, we believe that the pandemic has the greatest impact on Air China.
- Valuation.** After oil price tumbled in 1Q20, we expect oil expenses to decrease 48.3% YoY to RMB 18.6bn. We expect net loss for FY20E to be RMB 1,912mn, and BVPS to decrease to RMB 6.30. Based on 0.7x P/B, we lower TP to HK\$ 4.92. The stock is currently trading at 0.7x 2020E P/B, lower than historical average. Downgrade to HOLD.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Traffic revenue (RMB mn)	131,836	130,257	82,811	88,354	94,831
YoY growth (%)	14.3	(1.2)	(36.4)	6.7	7.3
Net income (RMB mn)	7,351	6,420	(1,912)	360	3,021
EPS (RMB)	0.54	0.47	(0.13)	0.02	0.21
YoY growth (%)	(0.5)	(12.7)	(128.2)	(118.8)	738.5
Consensus EPS (RMB)	N/A	N/A	(0.12)	0.61	0.46
P/E (x)	8.1	9.3	(33.1)	175.7	21.0
P/B (x)	0.7	0.7	0.7	0.7	0.7
Yield (%)	2.4	1.0	0.0	0.1	0.5
ROE (%)	8.2	6.9	(2.1)	0.4	3.2
Net gearing (%)	89	129	93	91	84

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Down)

Target Price **HK\$4.92**
 (Previous TP **HK\$9.28**)
 Up/Downside **1.2%**
 Current Price **HK\$4.86**

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 (HK\$ mn)	95,383
Avg 3 mths t/o (HK\$ mn)	176.53
52w High/Low (HK\$)	11.02/4.7
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%

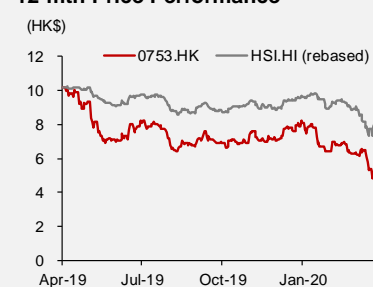
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-23.0%	-13.0%
3-mth	-41.2%	-27.9%
6-mth	-30.3%	-22.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- "9M19 revenue in line; cautiously optimistic 4Q19 outlook" – 1 Nov 2019
- "Expect demand to recover in 2H19" – 30 Aug 2019

Figure 1: 2019 results

RMB mn	2018	2018	YoY
Operating revenue	140,240	140,883	-0.5%
Traffic revenue	130,257	131,836	-1.2%
Passenger	124,525	120,430	3.4%
Cargo and mail	5,732	11,406	-49.7%
Other operating revenue	9,983	9,048	10.3%
Operating expenses	(125,598)	(126,537)	-0.7%
Jet fuel costs	(35,965)	(38,481)	-6.5%
Lease charges	(966)	(7,166)	-86.5%
Flight personnel costs	(25,474)	(24,450)	4.2%
Depreciation & amortization	(21,279)	(14,504)	46.7%
Other operating expenses	(41,914)	(41,936)	-0.1%
Other net income	0	0	NA
EBIT	14,642	14,346	2.1%
Exchange gain/(loss)	(1,211)	(2,377)	-49.0%
Other non-operating profit/(loss)	(4,310)	(1,993)	116.3%
Pre-tax profit	9,120	9,977	-8.6%
Income tax	(1,856)	(1,762)	5.4%
Minority interests	(843)	(864)	-2.4%
Net profit	6,420	7,351	-12.7%

Source: Company data, CMBIS

Figure 2: Earnings revision

RMB mn	New		Old		Diff	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Traffic revenue	82,811	88,354	140,567	140,094	-41.1%	-36.9%
Passenger	77,910	84,191	129,695	129,890	-39.9%	-35.2%
Cargo and mail	4,901	4,164	10,872	10,205	-54.9%	-59.2%
Total operating revenue	93,792	100,434	145,593	145,170	-35.6%	-30.8%
EBITDAR	20,449	23,168	41,224	39,499	-50.4%	-41.3%
Net profit	(1,912)	360	9,757	7,616	-119.6%	-95.3%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating revenue	140,883	140,240	93,792	100,434	108,118
Traffic revenue	131,836	130,257	82,811	88,354	94,831
Passenger	120,430	124,525	77,910	84,191	91,079
Cargo and mail	11,406	5,732	4,901	4,164	3,752
Other operating revenue	9,048	9,983	10,981	12,080	13,288
Operating expenses	(126,537)	(125,598)	(90,911)	(95,899)	(99,885)
Jet fuel costs	(38,481)	(35,965)	(18,611)	(24,344)	(25,153)
Lease charges	(7,166)	(966)	(511)	(38)	(39)
Flight personnel costs	(24,450)	(25,474)	(21,494)	(21,632)	(22,385)
Depreciation & amortization	(14,504)	(21,279)	(16,581)	(18,120)	(19,441)
Other operating expenses	(41,936)	(41,914)	(33,713)	(31,765)	(32,867)
Other net income	-	-	-	-	-
EBIT	14,346	14,642	2,882	4,535	8,233
Finance expenses, net	(2,742)	(4,786)	(5,520)	(4,498)	(4,417)
Exchange gain/(loss)	(2,377)	(1,211)	0	0	0
Other non-operating profit/(loss)	749	475	475	475	475
Pre-tax profit	9,977	9,120	(2,163)	512	4,292
Income tax	(1,762)	(1,856)	-	(104)	(874)
Minority interests	(864)	(843)	251	(47)	(397)
Net profit	7,351	6,420	(1,912)	360	3,021

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pre-tax profit	9,977	9,120	(2,163)	512	4,292
Depreciation and amortization	14,358	21,279	16,581	18,120	19,441
Other adjustments	3,599	5,562	5,119	4,098	4,016
Changes in working capital	6,749	1,934	2,031	2,132	2,239
Taxation and others	(6,000)	(6,728)	(5,520)	(4,602)	(5,290)
Operating activities	28,683	31,168	16,048	20,259	24,697
Capital expenditure	(9,139)	(24,107)	(25,000)	(20,000)	(20,000)
Other investing activities	189	556	584	613	644
Investing activities	(8,950)	(23,551)	(24,416)	(19,387)	(19,356)
Changes in borrowings	(7,929)	44,023	(6,591)	(4,866)	(3,592)
Dividends paid	(1,873)	(1,500)	(645)	-	(36)
Others	(8,845)	-	-	-	-
Financing activities	(18,647)	42,523	(7,236)	(4,866)	(3,628)
Net change in cash	1,086	50,140	(15,605)	(3,994)	1,713
Cash at the beginning of the year	5,563	6,763	56,903	41,298	37,305
Exchange difference	114	-	-	-	-
Cash at the end of the year	6,763	56,903	41,298	37,305	39,017

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	219,931	269,390	275,134	280,321	283,183
Property, plant and equipment incl. Construction in progress	171,663	102,158	123,408	128,119	130,507
Other non-current assets	48,268	167,231	151,726	152,202	152,676
Current assets	23,726	24,817	57,180	53,186	54,899
Cash and cash equivalents	6,763	8,935	41,298	37,305	39,017
Other current assets	16,963	15,882	15,882	15,882	15,882
Total assets	243,657	294,206	332,314	333,507	338,081
Current liabilities	72,540	77,973	81,570	81,865	82,434
Borrowings	27,195	22,730	21,658	20,867	20,283
Lease liabilities	7,126	13,862	18,307	17,824	17,468
Other current liabilities	38,219	41,381	41,605	43,174	44,683
Non-current liabilities	70,619	114,904	151,487	152,034	153,091
Borrowings	15,585	16,599	15,816	15,238	14,812
Lease liabilities	45,848	86,586	117,979	114,965	112,740
Other non-current liabilities	9,186	11,719	17,692	21,831	25,540
Total liabilities	143,159	192,877	233,057	233,899	235,525
Share capital	11,477	11,477	11,477	11,477	11,477
Reserves	81,680	81,981	80,070	80,394	83,113
Shareholders' Equity	93,157	93,458	91,547	91,871	94,590
Non-controlling interests	7,341	7,871	7,710	7,737	7,966
Total equity	100,498	101,329	99,256	99,608	102,556

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Operating metrics					
ASK YoY (%)	10.4	5.2	-16.2	7.4	7.4
RPK YoY (%)	9.7	5.7	-26.1	7.2	7.2
Passenger load factor (%)	80.6	81.0	71.5	71.3	71.2
Passenger yield (RMB cents)	54.6	53.4	45.2	45.6	46.0
Passenger revenue YoY (%)	14.6	3.4	-37.4	8.1	8.2
Cargo revenue YoY (%)	11.2	-49.7	-14.5	-15.0	-9.9
Operating margin	10.2	10.4	3.1	4.5	7.6
EBITDAR margin	26.1	26.6	21.8	23.1	26.1
Net profit margin	5.2	4.6	-2.0	0.4	2.8
B/S ratios (%)					
Total debt / Total equity	95.3	137.9	134.2	128.8	121.6
Net debt / Total equity	88.6	129.1	92.6	91.4	83.6
Returns (%)					
ROE	8.2	6.9	-2.1	0.4	3.2
ROA	3.1	2.4	-0.6	0.1	0.9
Per share (RMB)					
EPS	0.54	0.47	-0.13	0.02	0.21
DPS	0.10	0.04	-	0.00	0.02
BVPS	6.41	6.43	6.30	6.33	6.51

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.