

China Southern Airlines-H (1055 HK)

Fundamentals remained healthy

1H19 revenue +8.0% YoY; net profit -19.7% YoY. EBITDAR increased 14.5% YoY to RMB 18.1bn. For 2H19, the Company expects domestic demand to be released after the National Day, and international demand to maintain double-digit growth. On the supply side, the Company maintains 11% YoY ASK growth guidance. We adjust net profit down 46.3%, and trim TP down to HK\$ 5.94. Maintain BUY.

■ **1H19 revenue +8.0% YoY; net profit -19.7% YoY.** The Company announced 1H19 results. Total operating revenue increased 8.0% YoY to RMB 72.9bn, representing 46% of both our and consensus estimates. Passenger revenue increased 8.7% YoY to RMB 65.6bn, while cargo revenue decreased 2.0% YoY to RMB 4.4bn. Net profit decreased 19.7% YoY to RMB 1,682mn, representing less-than-a-third of both our and consensus estimates.

■ **Excluding effect of IFRS 16, decrease of profit for the period would narrow.** As a result of the adoption of the new lease standard, total balance of lease liabilities amounted to RMB 124.8bn, increased 72.8% from YE18. Interest expense increased 87.2% YoY to RMB 2,876mn. Profit for the period decreased 27.8% YoY. Excluding this effect, interest expenses would be RMB 1,715mn, and decrease of profit for the period would narrow to 18.3% YoY. USDCNY on 1H19 was 6.87, vs 6.86 on YE18, foreign exchange loss was RMB 317mn, yet smaller as compared with RMB 471mn in 1H18.

■ **EBITDAR +14.5% YoY; fundamentals remained healthy.** In 1H19, EBITDAR increased 14.5% YoY to RMB 18.1bn. RPK and ASK saw double-digit growth. RPK increased 10.4% YoY to 137.2bn. ASK increased 10.1% YoY to 166.0bn. Passenger load and yield remained stable. Passenger load factor was 82.65%, up 0.20ppt YoY. Passenger yield was RMB 0.48. Jet fuel costs mildly increased 6.4% YoY to RMB 20.6bn, representing 29.5% of total operating expenses. For 2H19, the Company expects domestic demand to be released after the National Day, and international demand to maintain double-digit growth. On the supply side, the Company maintains 11% YoY ASK growth guidance.

■ **Valuation.** We adjust net profit down 46.3%, and trim TP down to HK\$ 5.94. Our TP corresponds to 1.0x 2019E P/B. The stock is currently trading at 0.7x 2019E P/B, lower than historical average of 1.07x. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Traffic revenue (RMB mn)	121,873	138,064	148,962	157,251	162,336
YoY growth (%)	11.1	13.3	7.9	5.6	3.2
Net income (RMB mn)	5,961	2,895	3,251	3,301	2,493
EPS (RMB)	0.60	0.27	0.27	0.27	0.20
YoY growth (%)	16.9	(55.0)	(1.9)	1.5	(24.5)
P/E (x)	6.6	14.6	14.9	14.7	19.5
P/B (x)	0.8	0.7	0.7	0.7	0.7
Yield (%)	2.5	1.3	1.3	1.4	1.0
ROE (%)	12.8	5.0	5.0	5.0	3.6
Net gearing (%)	175	153	175	172	168

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$5.94
(Previous TP)	HK\$6.49
Up/Downside	+34.6%
Current Price	HK\$4.41

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)	78,616
Avg 3 mths t/o (HK\$ mn)	72.22
52w High/Low (HK\$)	8.56/3.98
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%

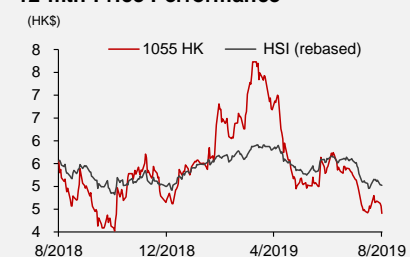
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-13.0%	-3.7%
3-mth	-10.2%	-4.5%
6-mth	-31.7%	-23.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

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Figure 1: 1H19 results

RMB mn	1H19	1H18	YoY
Traffic revenue	70,026	64,885	7.9%
Passenger	65,617	60,386	8.7%
Cargo and mail	4,409	4,499	-2.0%
Other operating revenue	2,913	2,635	10.6%
Total operating revenue	72,939	67,520	8.0%
Flight operation expenses	(34,269)	(35,339)	-3.0%
Jet fuel costs	(20,616)	(19,381)	6.4%
Aircraft operating lease charges	(1,076)	(3,968)	-72.9%
Maintenance expenses	(6,007)	(6,082)	-1.2%
Aircraft and transportation service exp.	(12,147)	(11,298)	7.5%
Promotion and selling expenses	(3,262)	(3,253)	0.3%
General and administrative expenses	(1,719)	(1,506)	14.1%
Impairment on PP&E	0	0	NA
Depreciation and amortization	(11,681)	(6,946)	68.2%
Others	(853)	(836)	2.0%
Total operating expenses	(69,938)	(65,260)	7.2%
Other net income	2,225	2,412	-7.8%
Operating profit (EBIT)	5,226	4,672	11.9%
EBITDAR	18,145	15,841	14.5%
Interest income	58	51	13.7%
Interest expenses	(2,876)	(1,536)	87.2%
Share of associates' results	7	184	-96.2%
Share of joint ventures' results	155	71	118.3%
Exchange (loss)/gain, net	(317)	(471)	-32.7%
Fair value changes of financial instruments	123	72	70.8%
Re-measurement of equity interests in JV	13	0	NA
Non-operating profit/(loss)	(2,837)	(1,629)	74.2%
Profit before income tax	2,389	3,043	-21.5%
Income tax	(685)	(682)	0.4%
Less: Non-controlling interests	22	266	-91.7%
Net profit	1,682	2,095	-19.7%

Source: Company data, CMBIS

Figure 2: Earnings revision

RMB mn	New			Old			Diff		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Traffic revenue	148,962	157,251	162,336	152,537	164,839	174,146	-2.3%	-4.6%	-6.8%
Passenger	139,135	147,857	153,584	142,389	154,822	164,508	-2.3%	-4.5%	-6.6%
Cargo and mail	9,827	9,394	8,752	10,148	10,018	9,638	-3.2%	-6.2%	-9.2%
Operating revenue	155,107	164,044	169,846	158,485	171,204	180,956	-2.1%	-4.2%	-6.1%
EBITDAR	33,466	34,953	35,481	36,178	41,439	45,911	-7.5%	-15.7%	-22.7%
Net profit	3,251	3,301	2,493	6,053	7,414	9,179	-46.3%	-55.5%	-72.8%

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	127,806	143,623	155,107	164,044	169,846
Traffic revenue	121,873	138,064	148,962	157,251	162,336
Passenger	112,791	128,038	139,135	147,857	153,584
Cargo and mail	9,082	10,026	9,827	9,394	8,752
Other operating revenue	5,933	5,559	6,145	6,794	7,511
Operating expenses	(123,098)	(140,242)	(151,830)	(161,293)	(168,354)
Jet fuel costs	(31,895)	(42,922)	(47,646)	(49,942)	(51,796)
Operating lease charges	(8,022)	(8,726)	(9,512)	(10,136)	(10,552)
Flight personnel costs	(10,574)	(11,467)	(12,500)	(13,320)	(13,866)
Depreciation & amortization	(13,162)	(14,308)	(15,160)	(16,500)	(17,820)
Other operating expenses	(59,445)	(62,819)	(67,012)	(71,396)	(74,320)
Other net income	4,448	5,438	5,016	5,067	5,117
EBIT	9,156	8,819	8,294	7,818	6,610
Exchange gain/(loss)	1,801	(1,853)	(719)	196	196
Other non-operating profit/(loss)	(2,083)	(2,602)	(2,674)	(3,036)	(3,047)
Pre-tax profit	8,874	4,364	4,901	4,977	3,759
Income tax	(1,976)	(1,000)	(1,123)	(1,140)	(861)
Minority interests	(937)	(469)	(527)	(535)	(404)
Net profit	5,961	2,895	3,251	3,301	2,493

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pre-tax profit	8,874	4,364	4,901	4,977	3,759
Depreciation and amortization	13,162	14,308	15,160	16,500	17,820
Other adjustments	758	4,800	3,528	2,976	2,986
Changes in working capital	684	(2,298)	684	3,843	3,895
Taxation and others	(5,746)	(5,786)	(4,297)	(4,677)	(4,408)
Operating activities	17,732	15,388	19,976	23,618	24,051
Capital expenditure	(13,846)	(24,033)	(38,141)	(32,395)	(30,000)
Other investing activities	5,610	3,516	1,340	6,182	6,182
Investing activities	(8,236)	(20,517)	(36,801)	(26,213)	(23,818)
Changes in borrowings	(5,957)	6,255	11,704	7,964	256
Dividends paid	(261)	(1,107)	(723)	(762)	(745)
Others	(578)	72	-	-	0
Financing activities	(6,796)	5,220	10,981	7,202	(489)
Net change in cash	2,700	91	(5,844)	4,607	(256)
Cash at the beginning of the year	4,152	6,826	6,928	1,084	5,691
Exchange difference	(26)	11	-	-	-
Cash at the end of the year	6,826	6,928	1,084	5,691	5,435

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	200,834	222,877	286,213	299,630	309,305
Property, plant and equipment	158,926	170,692	98,318	112,973	124,648
Construction in progress	30,233	37,791	41,654	39,916	37,417
Right-of-use assets	-	-	134,317	134,317	134,317
Other non-current assets	11,675	14,394	11,924	12,424	12,924
Current assets	17,884	24,072	17,564	22,171	21,915
Cash and cash equivalents	6,826	6,928	1,084	5,691	5,435
Other current assets	11,058	17,144	16,480	16,480	16,480
Total assets	218,718	246,949	303,776	321,800	331,220
Current liabilities	69,577	83,687	87,846	93,637	96,375
Borrowings	27,568	38,741	37,629	39,795	39,865
Current portion of lease liabilities	8,341	9,555	-	-	-
Other current liabilities	33,668	35,391	50,217	53,841	56,510
Non-current liabilities	86,598	84,793	137,400	146,457	150,740
Borrowings	20,719	15,676	18,261	19,312	19,346
Lease liabilities	59,583	62,666	-	-	-
Other non-current liabilities	6,296	6,451	119,139	127,145	131,394
Total liabilities	156,175	168,480	225,246	240,094	247,116
Share capital	10,088	12,267	12,267	12,267	12,267
Reserves	39,848	52,990	53,041	55,682	57,677
Shareholders' Equity	49,936	65,257	65,308	67,949	69,944
Non-controlling interests	12,607	13,212	13,222	13,757	14,161
Total equity	62,543	78,469	78,530	81,706	84,105

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Operating metrics					
ASK YoY (%)	9.6	12.0	10.1	7.7	5.2
RPK YoY (%)	11.9	12.4	10.4	8.0	5.5
Passenger load factor (%)	82.2	82.4	82.6	82.8	83.1
Passenger yield (RMB cents)	48.9	49.4	48.6	47.9	47.1
Passenger revenue YoY (%)	10.0	13.5	8.7	6.3	3.9
Cargo revenue YoY (%)	26.3	10.4	-2.0	-4.4	-6.8
Operating margin	7.2	6.1	5.3	4.8	3.9
EBITDAR margin	24.2	22.5	21.6	21.3	20.9
Net profit margin	4.7	2.0	2.1	2.0	1.5
B/S ratios (%)					
Total debt / Total equity	185.8	161.4	176.2	179.1	174.3
Net debt / Total equity	174.9	152.6	174.8	172.1	167.8
Returns (%)					
ROE	12.8	5.0	5.0	5.0	3.6
ROA	2.8	1.2	1.2	1.1	0.8
Per share (RMB)					
EPS	0.60	0.27	0.27	0.27	0.20
DPS	0.10	0.05	0.05	0.05	0.04
BVPS	4.95	5.32	5.32	5.54	5.70

Source: Company data, CMBIS estimates

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CMB International Securities Limited

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

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