

## China Eastern Airlines-H (670 HK)

### 9M19 revenue in line; positive 4Q19 outlook

The Company announced 3Q19 results. 9M19 revenue +6.3% YoY, in line with our/consensus estimates. Net profit -2.7% YoY. Adjusted net profit -8.0% YoY. RPK +10.4% YoY, highest among major peers. Passenger load factor was 82.6%, down 0.3ppt YoY. For 4Q19, as China-US are marching towards a “phase one” deal, we reiterate our view that we expect domestic demand to release. We factor in our house view of 2019E average Brent crude oil, and roll over TP to HK\$ 5.80, corresponding to 1.1x 2020E P/B. Maintain BUY.

- 9M19 revenue in line; net profit decline narrowed due to other income.** For 9M19, operating revenue increased 6.3% YoY to RMB 93.4bn, representing 79%/74% of our/consensus full-year estimates. Net profit decreased 2.7% YoY to RMB 4,367mn, representing 103%/91% of our/consensus full-year estimates. Net profit in 3Q19 increased 9.8% YoY, benefitting from 30.5% YoY increase in other income. Adjusted net profit decreased 8.0% YoY to RMB 3,893mn.
- Highest RPK growth among major peers.** For 9M19, RPK increased 10.4% YoY, higher than major peers (CSA +9.2% YoY, AC +6.2%). Third quarter is a traditional peak season for business, student and tourism travel. Traffic in 3Q19 increased 11.0% YoY, as compared with 6.8% in 3Q18. ASK increased 10.9% YoY, in line with management guidance at the beginning of the year. Passenger load factor was 82.6%, slightly down 0.3ppt YoY.
- Positive 4Q19 outlook.** For 4Q19, as China-US trade negotiation is inching towards a “phase one” deal, we reiterate our view that we expect domestic demand to release. And we believe the Company will achieve 10% YoY increase in ASK for the whole year.
- Valuation.** We adjust 2019/20E revenue up 1.4%/0.8% to reflect increase in other income. 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 59.4%/74.6%, and roll over TP to HK\$ 5.80. Our TP corresponds to 1.1x 2020E P/B. The stock is currently trading at 0.8x 2020E P/B, lower than historical average of 1.2x. Maintain BUY.

#### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Traffic revenue (RMB mn)	95,187	107,936	117,924	126,802	133,643
YoY growth (%)	5.3	6.3	13.4	9.3	7.5
Net income (RMB mn)	6,342	2,698	6,752	8,314	6,238
EPS (RMB)	0.44	0.19	0.44	0.51	0.38
YoY growth (%)	34.6	(57.5)	134.8	15.9	(25.0)
P/E (x)	8.1	19.0	8.1	7.0	9.3
P/B (x)	0.9	0.9	0.8	0.8	0.7
Yield (%)	1.4	0.0	1.3	1.6	1.2
ROE (%)	12.1	4.8	10.6	11.3	7.8
Net gearing (%)	214	214	179	161	153

Source: Company data, CMBIS estimates

**BUY (Maintain)**

**Target Price** **HK\$5.80**  
 (Previous TP **HK\$4.95**)  
**Up/Downside** **+46.5%**  
**Current Price** **HK\$3.96**

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#### Stock Data

Mkt Cap (HK\$ mn)	85,115
Avg 3 mths t/o (HK\$ mn)	34.25
52w High/Low (HK\$)	7.20/ 3.56
Total Issued Shares (mn)	<b>5,177(H)</b>
	11,203(A)

Source: Bloomberg

#### Shareholding Structure

CEA Group	33.76%
Juneyao Group	10.00%

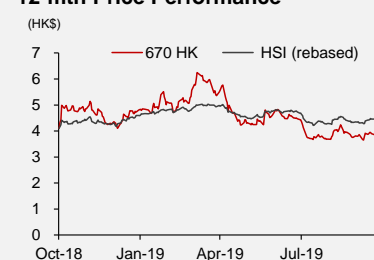
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	4.5%	1.3%
3-mth	-11.7%	-7.4%
6-mth	-28.7%	-20.5%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

**Auditor: Deloitte**

#### Related Reports

- “Highest RPK growth among major peers” – 2 Sep 2019
- “Sitting in China’s largest aviation market - Yangtze River Delta” – 31 Jul 2019

**Figure 1: 3Q19 results**

RMB mn	9M19	9M18	YoY	3Q19	3Q18	YoY
<b>Operating revenue</b>	<b>93,400</b>	<b>87,878</b>	<b>6.3%</b>	<b>34,616</b>	<b>33,456</b>	<b>3.5%</b>
Operating expenses	(79,769)	(74,419)	7.2%	(27,544)	(26,630)	3.4%
Taxes and surcharges	(232)	(275)	-15.6%	(76)	(113)	-32.7%
Selling expenses	(4,468)	(4,467)	0.0%	(1,492)	(1,600)	-6.8%
General and administrative expenses	(2,456)	(2,209)	11.2%	(893)	(803)	11.2%
R&D expenses	(72)	(62)	16.1%	(24)	(20)	20.0%
Finance expenses	(5,572)	(5,032)	10.7%	(2,791)	(2,550)	9.5%
Of which: Interest expenses	(3,832)	(2,762)	38.7%	(1,343)	(892)	50.6%
Of which: Interest income	70	67	4.5%	25	15	66.7%
Asset impairment losses	0	(4)	NA	0	0	NA
Credit impairment losses	(3)	(2)	50.0%	0	0	NA
<b>Total expenses</b>	<b>(92,572)</b>	<b>(86,470)</b>	<b>7.1%</b>	<b>(32,820)</b>	<b>(31,716)</b>	<b>3.5%</b>
Other income	4,346	3,865	12.4%	1,370	1,050	30.5%
Investment income	319	175	82.3%	57	85	-32.9%
Of which: investments in asso. and JVs	237	149	59.1%	44	64	-31.3%
Fair value gains/(losses)	20	281	-92.9%	2	38	-94.7%
Gain on disposal	11	30	-63.3%	11	36	-69.4%
<b>Operating profit</b>	<b>5,524</b>	<b>5,759</b>	<b>-4.1%</b>	<b>3,236</b>	<b>2,949</b>	<b>9.7%</b>
Non-operating income	592	587	0.9%	156	218	-28.4%
Non-operating expenses	(21)	(37)	-43.2%	(7)	(29)	-75.9%
<b>Profit before income tax</b>	<b>6,095</b>	<b>6,309</b>	<b>-3.4%</b>	<b>3,385</b>	<b>3,138</b>	<b>7.9%</b>
Income tax expenses	(1,314)	(1,371)	-4.2%	(738)	(706)	4.5%
<b>Profit for the year</b>	<b>4,781</b>	<b>4,938</b>	<b>-3.2%</b>	<b>2,647</b>	<b>2,432</b>	<b>8.8%</b>
Non-controlling interests	(414)	(448)	-7.6%	(223)	(225)	-0.9%
<b>Net profit</b>	<b>4,367</b>	<b>4,490</b>	<b>-2.7%</b>	<b>2,424</b>	<b>2,207</b>	<b>9.8%</b>

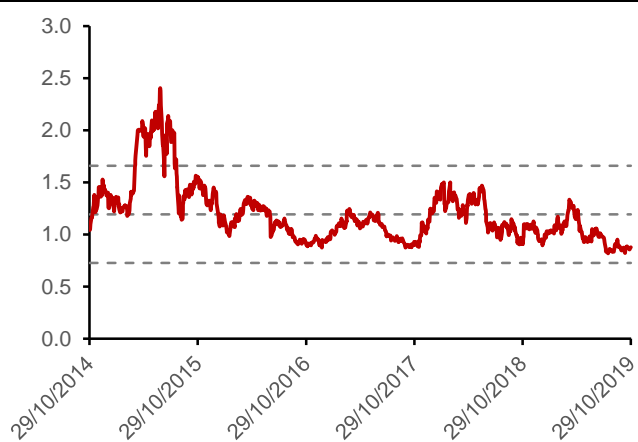
Source: Company data, CMBIS estimates

**Figure 2: Earnings revision**

RMB mn	New			Old			Diff		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Traffic revenue	117,924	126,802	133,643	117,786	126,416	132,970	0.1%	0.3%	0.5%
Passenger	114,106	122,873	129,693	113,968	122,487	129,020	0.1%	0.3%	0.5%
Cargo and mail	3,818	3,929	3,949	3,818	3,929	3,949	0.0%	0.0%	0.0%
Total operating revenue	132,834	140,966	147,098	131,024	139,786	146,473	1.4%	0.8%	0.4%
EBITDAR	36,786	38,962	37,664	33,189	33,951	34,112	10.8%	14.8%	10.4%
Net profit	6,752	8,314	6,238	4,235	4,761	3,591	59.4%	74.6%	73.7%

Source: Company data, CMBIS estimates

**Figure 3: Historical P/B**



Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Operating revenue</b>	109,956	121,870	132,834	140,966	147,098
Traffic revenue	95,187	107,936	117,924	126,802	133,643
Passenger	91,564	104,309	114,106	122,873	129,693
Cargo and mail	3,623	3,627	3,818	3,929	3,949
Other operating revenue	14,769	13,934	14,909	14,164	13,456
<b>Operating expenses</b>	(100,525)	(112,561)	(117,831)	(126,063)	(135,206)
Jet fuel costs	(25,131)	(33,680)	(33,365)	(33,722)	(36,715)
Operating lease charges	(4,318)	(4,306)	(4,462)	(4,861)	(5,177)
Flight personnel costs	(20,320)	(22,134)	(24,317)	(26,489)	(28,210)
Depreciation & amortization	(13,969)	(15,313)	(17,121)	(18,998)	(20,395)
Other operating expenses	(36,787)	(37,128)	(38,566)	(41,993)	(44,710)
Other net income	-	-	-	-	-
<b>EBIT</b>	9,431	9,309	15,003	14,903	11,892
Exchange gain/(loss)	2,001	(2,040)	(584)	154	156
Other non-operating profit/(loss)	(2,822)	(3,413)	(3,177)	(3,174)	(3,134)
<b>Pre-tax profit</b>	8,610	3,856	9,650	11,883	8,915
Income tax	(1,800)	(926)	(2,318)	(2,854)	(2,141)
Minority interests	(468)	(232)	(581)	(715)	(536)
<b>Net profit</b>	6,342	2,698	6,752	8,314	6,238

### Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pre-tax profit	8,610	3,856	9,650	11,883	8,915
Depreciation and amortization	13,769	15,084	17,121	18,998	20,395
Other adjustments	(375)	5,175	6,133	3,064	3,018
Changes in working capital	(896)	(68)	(2,846)	(1,733)	(365)
Taxation and others	(1,536)	(1,709)	(2,318)	(2,854)	(2,141)
<b>Operating activities</b>	19,572	22,338	27,741	29,358	29,822
Capital expenditure	(24,555)	(25,995)	(29,187)	(20,407)	(20,407)
Other investing activities	3,243	13,215	5,756	(3,459)	(7,345)
<b>Investing activities</b>	(21,312)	(12,780)	(23,431)	(23,865)	(27,751)
Equity raised	-	-	7,459	-	-
Changes in borrowings	9,183	(8,012)	1,131	3,321	2,325
Dividends paid	(709)	(738)	-	(675)	(831)
Others	(3,766)	(4,808)	(7,924)	(3,690)	(3,717)
<b>Financing activities</b>	4,708	(13,558)	666	(1,045)	(2,224)
<b>Net change in cash</b>	2,968	(4,000)	4,976	4,448	(153)
Cash at the beginning of the year	1,695	4,616	646	5,622	10,070
Exchange difference	(47)	30	-	-	-
<b>Cash at the end of the year</b>	4,616	646	5,622	10,070	9,917

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	211,434	223,085	267,512	270,807	276,658
Property, plant and equipment	166,856	180,104	96,493	99,622	100,588
Advanced payments on aircraft	24,752	21,942	21,790	19,687	18,235
Other non-current assets	19,826	21,039	149,229	151,498	157,834
<b>Current assets</b>	18,293	15,932	20,908	25,356	25,203
Cash and cash equivalents	4,605	646	5,622	10,070	9,917
Other current assets	13,688	15,286	15,286	15,286	15,286
<b>Total assets</b>	229,727	239,017	288,420	296,163	301,861
<b>Current liabilities</b>	80,328	73,064	74,074	73,576	74,126
Borrowings	39,090	29,259	31,259	32,006	32,530
Current portion of lease liabilities	9,241	9,364	15,637	15,886	16,060
Other current liabilities	31,997	34,441	27,178	25,684	25,536
<b>Non-current liabilities</b>	90,621	104,352	140,013	140,308	139,494
Borrowings	24,711	25,867	26,782	27,422	27,870
Lease liabilities	57,627	68,063	100,751	102,436	103,615
Other non-current liabilities	8,283	10,422	12,480	10,450	8,009
<b>Total liabilities</b>	170,949	177,416	214,087	213,884	213,620
Share capital	14,467	14,467	16,380	16,380	16,380
Reserves	40,893	43,541	53,618	61,101	66,715
<b>Shareholders' Equity</b>	55,360	58,008	69,998	77,480	83,094
Non-controlling interests	3,418	3,593	4,336	4,799	5,147
<b>Total equity</b>	58,778	61,601	74,333	82,279	88,241

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Operating metrics</b>					
ASK YoY (%)	9.6	8.3	10.4	7.9	5.5
RPK YoY (%)	9.3	10.0	10.8	8.4	5.9
Passenger load factor (%)	81.1	82.3	82.6	82.9	83.2
Passenger yield (RMB cents)	50.0	51.8	51.1	50.8	50.7
Passenger revenue YoY (%)	9.6	13.9	9.4	7.7	5.6
Cargo revenue YoY (%)	-39.4	0.1	5.3	2.9	0.5
Operating margin	8.6	7.6	11.3	10.6	8.1
EBITDAR margin	25.4	23.9	27.7	27.6	25.6
Net profit margin	5.8	2.2	5.1	5.9	4.2
<b>B/S ratios (%)</b>					
Total debt / Total equity	222.3	215.2	186.9	172.9	163.8
Net debt / Total equity	214.5	214.1	179.3	160.6	152.6
<b>Returns (%)</b>					
ROE	12.1	4.8	10.6	11.3	7.8
ROA	2.9	1.2	2.6	2.8	2.1
<b>Per share (RMB)</b>					
EPS	0.44	0.19	0.44	0.51	0.38
DPS	0.05	-	0.05	0.06	0.04
BVPS	3.83	4.01	4.27	4.73	5.07

Source: Company data, CMBIS estimates

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