

## China Eastern Airlines-A (600115 CH)

### Highest RPK growth among major peers

The Company announced 1H19 results on 30 Aug. 1H19 revenue +7.6% YoY; net profit -14.8% YoY, representing 29%/31% of our/consensus full-year estimates. EBITDAR increased 7.2% YoY to RMB 16.2bn. RPK increased 10.6% YoY, higher than industry growth of 9.9% (CSA +10.4%, AC +6.6%). ASK increased 10.4% YoY, in line with guidance. For 2H19, we expect the marginal impact of China-US trade friction on international travel demand to decline, and domestic demand will pick up after the National Day. We believe the Company will manage to achieve ASK guidance i.e. 10% YoY growth. We adjusted 2019-21E net profit down by 34-52%, and trimmed TP to RMB 5.74. Maintain HOLD.

- 1H19 revenue +7.6% YoY; net profit -14.8% YoY.** Total operating revenue increased 7.6% YoY to RMB 62.3bn, representing 46%/48% of our/consensus full-year estimates. Passenger revenue increased 9.2% YoY to RMB 53.6bn, while cargo revenue decreased 0.2% YoY to RMB 1.7bn. EBITDAR increased 7.2% YoY to RMB 16.2bn. Foreign exchange loss was RMB 588mn, greater as compared with RMB 196mn in 1H18. Net profit decreased 14.8% YoY to RMB 1,941mn, representing 29%/31% of our/consensus full-year estimates. During the period, the Company's has completed non-public issuance of H shares. Juneyao Airlines now holds 3.53% of the total issued share capital of the Company.
- Highest RPK growth among major peers.** RPK increased 10.6% YoY to 108.7bn, higher than industry growth of 9.9% (CSA +10.4%, AC +6.6%). ASK increased 10.4% YoY to 131.5bn, in line with management guidance at the beginning of the year. Passenger load and yield remained stable. Passenger load factor was 82.66%, up 0.19ppt YoY. Passenger yield was RMB 0.49. Jet fuel costs increased 9.0% YoY to RMB 16.6bn, representing 29.1% of total operating expenses. Unit cost (operating cost per ASK) decreased 1.3% YoY to RMB 0.4344 (CSA -2.7%, AC -4.1%).
- Positive 2H19 outlook.** For 2H19, we expect the marginal impact of China-US trade friction on international travel demand to decline, and domestic demand will be released after the National Day. The Company expects ASK to increase by 10% YoY. We believe the Company will manage to achieve ASK guidance for the whole year.
- Valuation.** We adjusted 2019E net profit down by 36.2%, and trimmed TP to RMB 5.74. Our TP corresponds to 1.5x 2019E P/B. The stock is currently trading at 1.3x 2019E P/B, lower than historical average of 2.16x. Upside potential 13.2%, maintain HOLD.

#### Earnings Summary

| (YE 31 Dec)              | FY17A  | FY18A   | FY19E   | FY20E   | FY21E   |
|--------------------------|--------|---------|---------|---------|---------|
| Traffic revenue (RMB mn) | 95,187 | 107,936 | 117,786 | 126,416 | 132,970 |
| YoY growth (%)           | 5.3    | 6.3     | 13.4    | 9.1     | 7.3     |
| Net income (RMB mn)      | 6,342  | 2,698   | 4,235   | 4,761   | 3,591   |
| EPS (RMB)                | 0.44   | 0.19    | 0.29    | 0.32    | 0.24    |
| YoY growth (%)           | 34.6   | (57.5)  | 54.2    | 10.5    | (24.6)  |
| P/E (x)                  | 11.6   | 27.2    | 17.6    | 16.0    | 21.2    |
| P/B (x)                  | 1.3    | 1.3     | 1.3     | 1.2     | 1.1     |
| Yield (%)                | 1.0    | 0.0     | 0.6     | 0.6     | 0.5     |
| ROE (%)                  | 12.1   | 4.8     | 7.2     | 7.7     | 5.5     |
| Net gearing (%)          | 214    | 214     | 216     | 208     | 202     |

Source: Company data, CMBIS estimates

#### HOLD (Maintain)

|               |         |
|---------------|---------|
| Target Price  | RMB5.74 |
| (Previous TP) | RMB6.63 |
| Up/Downside   | +13.2%  |
| Current Price | RMB5.07 |

#### China Airline Sector

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#### Stock Data

|                          |                  |
|--------------------------|------------------|
| Mkt Cap (RMB mn)         | 67,160           |
| Avg 3 mths t/o (RMB mn)  | 183.60           |
| 52w High/Low (RMB)       | 8.24/ 4.40       |
| Total Issued Shares (mn) | 5,177 (H)        |
|                          | <b>9,808 (A)</b> |

Source: Bloomberg

#### Shareholding Structure

|                  |        |
|------------------|--------|
| CEA Holding      | 54.43% |
| Juneyao Airlines | 3.53%  |

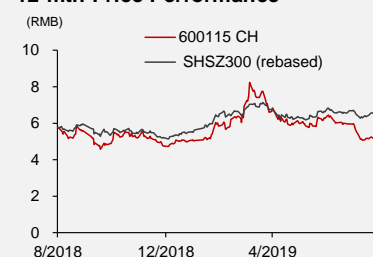
Source: HKEX

#### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -15.1%   | -13.5%   |
| 3-mth | -15.4%   | -18.9%   |
| 6-mth | -13.2%   | -16.2%   |

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Deloitte

#### Related Reports

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## Earnings revision

Figure 1: 1H19 results

| RMB mn   | 1H19            | 1H18            | YoY           |
|--|-----------------|-----------------|---------------|
| Traffic revenue                                  | 55,323          | 50,790          | 8.9%          |
| Passenger  | 53,581          | 49,045          | 9.2%          |
| Cargo and mail                                   | 1,742           | 1,745           | -0.2%         |
| Other operating revenue                          | 6,943           | 7,100           | -2.2%         |
| <b>Total operating revenue</b>                   | <b>62,266</b>   | <b>57,890</b>   | <b>7.6%</b>   |
| Aircraft fuel                                    | (16,625)        | (15,252)        | 9.0%          |
| Take-off and landing charges                     | (7,840)         | (7,097)         | 10.5%         |
| Depreciation and amortisation                    | (10,818)        | (7,534)         | 43.6%         |
| Wages, salaries and benefits                     | (11,171)        | (9,831)         | 13.6%         |
| Aircraft maintenance                             | (1,891)         | (1,649)         | 14.7%         |
| Impairment charges                               | 0               | (4)             | NA            |
| Impairment losses on financial assets, net       | (3)             | (2)             | 50.0%         |
| Food and beverages                               | (1,822)         | (1,665)         | 9.4%          |
| Low value and short-term lease rentals           | (265)           | 0               | NA            |
| Aircraft operating lease rentals                 | 0               | (2,016)         | NA            |
| Other operating lease rentals                    | 0               | (473)           | NA            |
| Selling and marketing expenses                   | (2,040)         | (1,813)         | 12.5%         |
| Civil aviation development fund                  | (1,205)         | (1,093)         | 10.2%         |
| Ground services and other expenses               | (1,343)         | (1,651)         | -18.7%        |
| Fair value changes of financial asset at FVTPL   | 18              | (30)            | NA            |
| Gain/(loss) on fair value changes of derivatives | 0               | 0               | NA            |
| Indirect operating expenses                      | (2,105)         | (2,334)         | -9.8%         |
| <b>Operating expenses</b>                        | <b>(57,110)</b> | <b>(52,444)</b> | <b>8.9%</b>   |
| <b>Operating profit (EBIT)</b>                   | <b>5,156</b>    | <b>5,446</b>    | <b>-5.3%</b>  |
| <b>EBITDAR</b>                                   | <b>16,166</b>   | <b>15,081</b>   | <b>7.2%</b>   |
| Share of results of associates                   | 167             | 57              | 193.0%        |
| Share of results of joint ventures               | 25              | 28              | -10.7%        |
| Finance income                                   | 45              | 52              | -13.5%        |
| Finance costs                                    | (2,685)         | (2,416)         | 11.1%         |
| <b>Non-operating profit/(loss)</b>               | <b>(2,448)</b>  | <b>(2,279)</b>  | <b>7.4%</b>   |
| <b>Profit before income tax</b>                  | <b>2,708</b>    | <b>3,167</b>    | <b>-14.5%</b> |
| Income tax expense                               | (576)           | (665)           | -13.4%        |
| Less: Non-controlling interests                  | 191             | 223             | -14.3%        |
| <b>Net profit</b>                                | <b>1,941</b>    | <b>2,279</b>    | <b>-14.8%</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         | 117,786 | 126,416 | 132,970 | 123,403 | 135,631 | 144,419 | -4.6%  | -6.8%  | -7.9%  |
| Passenger               | 113,968 | 122,487 | 129,020 | 119,507 | 131,542 | 140,226 | -4.6%  | -6.9%  | -8.0%  |
| Cargo and mail          | 3,818   | 3,929   | 3,949   | 3,895   | 4,089   | 4,193   | -2.0%  | -3.9%  | -5.8%  |
| Total operating revenue | 131,024 | 139,786 | 146,473 | 136,640 | 149,001 | 157,922 | -4.1%  | -6.2%  | -7.2%  |
| EBITDAR                 | 33,189  | 33,951  | 34,112  | 34,142  | 38,143  | 40,239  | -2.8%  | -11.0% | -15.2% |
| Net profit              | 4,235   | 4,761   | 3,591   | 6,641   | 7,248   | 7,459   | -36.2% | -34.3% | -51.9% |

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>          | <b>109,956</b>   | <b>121,870</b>   | <b>131,024</b>   | <b>139,786</b>   | <b>146,473</b>   |
| Traffic revenue                   | 95,187           | 107,936          | 117,786          | 126,416          | 132,970          |
| Passenger                         | 91,564           | 104,309          | 113,968          | 122,487          | 129,020          |
| Cargo and mail                    | 3,623            | 3,627            | 3,818            | 3,929            | 3,949            |
| Other operating revenue           | 14,769           | 13,934           | 13,237           | 13,370           | 13,503           |
| <b>Operating expenses</b>         | <b>(100,525)</b> | <b>(112,561)</b> | <b>(119,618)</b> | <b>(129,893)</b> | <b>(138,159)</b> |
| Jet fuel costs                    | (25,131)         | (33,680)         | (35,152)         | (37,552)         | (39,641)         |
| 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)         | (20,422)         |
| Other operating expenses          | (36,787)         | (37,128)         | (38,566)         | (41,993)         | (44,710)         |
| Other net income                  | -                | -                | -                | -                | -                |
| <b>EBIT</b>                       | <b>9,431</b>     | <b>9,309</b>     | <b>11,405</b>    | <b>9,892</b>     | <b>8,314</b>     |
| Exchange gain/(loss)              | 2,001            | (2,040)          | (584)            | 154              | 156              |
| Other non-operating profit/(loss) | (2,822)          | (3,413)          | (3,177)          | (3,241)          | (3,339)          |
| <b>Pre-tax profit</b>             | <b>8,610</b>     | <b>3,856</b>     | <b>6,053</b>     | <b>6,805</b>     | <b>5,132</b>     |
| Income tax                        | (1,800)          | (926)            | (1,454)          | (1,634)          | (1,232)          |
| Minority interests                | (468)            | (232)            | (364)            | (409)            | (309)            |
| <b>Net profit</b>                 | <b>6,342</b>     | <b>2,698</b>     | <b>4,235</b>     | <b>4,761</b>     | <b>3,591</b>     |

### Cash flow summary

| YE 31 Dec (RMB mn)                 | FY17A           | FY18A           | FY19E           | FY20E           | FY21E           |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Pre-tax profit                     | 8,610           | 3,856           | 6,053           | 6,805           | 5,132           |
| Depreciation and amortization      | 13,769          | 15,084          | 17,121          | 18,998          | 20,422          |
| Other adjustments                  | (375)           | 5,175           | 6,133           | 3,131           | 3,223           |
| Changes in working capital         | (896)           | (68)            | (2,846)         | (1,733)         | (365)           |
| Taxation and others                | (1,536)         | (1,709)         | (1,454)         | (1,634)         | (1,232)         |
| <b>Operating activities</b>        | <b>19,572</b>   | <b>22,338</b>   | <b>25,008</b>   | <b>25,567</b>   | <b>27,179</b>   |
| Capital expenditure                | (24,555)        | (25,995)        | (29,187)        | (20,906)        | (20,906)        |
| Other investing activities         | 3,243           | 13,215          | 5,756           | (5,019)         | (5,043)         |
| <b>Investing activities</b>        | <b>(21,312)</b> | <b>(12,780)</b> | <b>(23,431)</b> | <b>(25,924)</b> | <b>(25,949)</b> |
| Changes in borrowings              | 9,183           | (8,012)         | 6,377           | 3,321           | 2,325           |
| Dividends paid                     | (709)           | (738)           | -               | (424)           | (476)           |
| Others                             | (3,766)         | (4,808)         | (5,658)         | (3,615)         | (3,661)         |
| <b>Financing activities</b>        | <b>4,708</b>    | <b>(13,558)</b> | <b>719</b>      | <b>(718)</b>    | <b>(1,813)</b>  |
| <b>Net change in cash</b>          | <b>2,968</b>    | <b>(4,000)</b>  | <b>2,296</b>    | <b>(1,076)</b>  | <b>(582)</b>    |
| Cash at the beginning of the year  | 1,695           | 4,616           | 646             | 2,942           | 1,867           |
| Exchange difference                | (47)            | 30              | -               | -               | -               |
| <b>Cash at the end of the year</b> | <b>4,616</b>    | <b>646</b>      | <b>2,942</b>    | <b>1,867</b>    | <b>1,285</b>    |

### Balance sheet

| YE 31 Dec (RMB mn)                   | FY17A          | FY18A          | FY19E          | FY20E          | FY21E          |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Non-current assets</b>            | <b>211,434</b> | <b>223,085</b> | <b>267,343</b> | <b>269,105</b> | <b>269,337</b> |
| Property, plant and equipment        | 166,856        | 180,104        | 96,493         | 100,044        | 101,450        |
| Advanced payments on aircraft        | 24,752         | 21,942         | 21,790         | 19,801         | 18,427         |
| Other non-current assets             | 19,826         | 21,039         | 149,060        | 149,260        | 149,460        |
| <b>Current assets</b>                | <b>18,293</b>  | <b>15,932</b>  | <b>18,228</b>  | <b>17,153</b>  | <b>16,571</b>  |
| Cash and cash equivalents            | 4,605          | 646            | 2,942          | 1,867          | 1,285          |
| Other current assets                 | 13,688         | 15,286         | 15,286         | 15,286         | 15,286         |
| <b>Total assets</b>                  | <b>229,727</b> | <b>239,017</b> | <b>285,571</b> | <b>286,257</b> | <b>285,908</b> |
| <b>Current liabilities</b>           | <b>80,328</b>  | <b>73,064</b>  | <b>77,895</b>  | <b>75,449</b>  | <b>75,219</b>  |
| 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         | 30,999         | 27,557         | 26,629         |
| <b>Non-current liabilities</b>       | <b>90,621</b>  | <b>104,352</b> | <b>144,663</b> | <b>143,244</b> | <b>139,693</b> |
| 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         | 17,130         | 13,386         | 8,208          |
| <b>Total liabilities</b>             | <b>170,949</b> | <b>177,416</b> | <b>222,558</b> | <b>218,693</b> | <b>214,912</b> |
| Share capital                        | 14,467         | 14,467         | 14,985         | 14,985         | 14,985         |
| Reserves                             | 40,893         | 43,541         | 44,353         | 48,638         | 51,869         |
| <b>Shareholders' Equity</b>          | <b>55,360</b>  | <b>58,008</b>  | <b>59,338</b>  | <b>63,623</b>  | <b>66,855</b>  |
| Non-controlling interests            | 3,418          | 3,593          | 3,675          | 3,941          | 4,141          |
| <b>Total equity</b>                  | <b>58,778</b>  | <b>61,601</b>  | <b>63,013</b>  | <b>67,564</b>  | <b>70,996</b>  |

### 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  | 10.6  | 8.1   | 5.7   |
| Passenger load factor (%)   | 81.1  | 82.3  | 82.5  | 82.6  | 82.8  |
| Passenger yield (RMB cents) | 50.0  | 51.8  | 51.1  | 50.8  | 50.7  |
| Passenger revenue YoY (%)   | 9.6   | 13.9  | 9.3   | 7.5   | 5.3   |
| Cargo revenue YoY (%)       | -39.4 | 0.1   | 5.3   | 2.9   | 0.5   |
| Operating margin            | 8.6   | 7.6   | 8.7   | 7.1   | 5.7   |
| EBITDAR margin              | 25.4  | 23.9  | 25.3  | 24.3  | 23.3  |
| Net profit margin           | 5.8   | 2.2   | 3.2   | 3.4   | 2.5   |
| <b>B/S ratios (%)</b>       |       |       |       |       |       |
| Total debt / Total equity   | 222.3 | 215.2 | 220.5 | 210.5 | 203.6 |
| Net debt / Total equity     | 214.5 | 214.1 | 215.8 | 207.8 | 201.8 |
| <b>Returns (%)</b>          |       |       |       |       |       |
| ROE                         | 12.1  | 4.8   | 7.2   | 7.7   | 5.5   |
| ROA                         | 2.9   | 1.2   | 1.6   | 1.7   | 1.3   |
| <b>Per share (RMB)</b>      |       |       |       |       |       |
| EPS                         | 0.44  | 0.19  | 0.29  | 0.32  | 0.24  |
| DPS                         | 0.05  | -     | 0.03  | 0.03  | 0.02  |
| BVPS                        | 3.83  | 4.01  | 3.96  | 4.25  | 4.46  |

Source: Company data, CMBIS estimates

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