

China Southern Airlines-A (600029 CH)

Solid operating results; positive 4Q19 outlook

9M19 revenue +7.1% YoY. Net profit -2.3% YoY. Adjusted net profit -1.6% YoY. RPK +9.2% YoY. Passenger load factor was 83.0%, down 0.2ppt 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 10% 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 7.45 to RMB 7.63, corresponding to 1.5x 2020E P/B. Maintain HOLD.

- 9M19 revenue in line.** For 9M19, operating revenue increased 7.1% YoY to RMB 117bn, representing 78%/75% of our/consensus previous full-year estimates. Net profit decreased 2.3% YoY to RMB 4,078mn, representing 125%/89% of our/consensus previous full-year estimates. Net profit in 3Q19 increased 17.2% YoY, benefitting from increase in other income and fair value gains. Adjusted net profit decreased 1.6% YoY to RMB 3,601mn.
- Solid operating results; positive 4Q19 outlook.** For 9M19, RPK increased 9.2% YoY, lower than CEA (+10.4% YoY), but higher than AC (+6.2% YoY). Third quarter is a traditional peak season for business, student and tourism travel. Traffic in 3Q19 increased 11.1% YoY, slightly down 2.8ppt YoY, mainly due to unrests in Hong Kong. RPK from regional routes decreased 4.2% YoY in 3Q19, as compared with 15.7% increase in 3Q18. ASK increased 9.4% YoY, largely in line with management guidance at the beginning of the year. Passenger load factor was 83.0%, down 0.2ppt 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 10% YoY increase in ASK for the whole year.
- Proposed share issuance.** On 30 Oct, the Board proposed to issue not more than 2,453mn new A Shares to CSAH (parent company). Total funds to be raised will be not more than RMB 16,800mn, and will be utilized in the procurement of aircraft and the repayment of the Company’s borrowings. Also, the Board proposed to issue not more than 613mn new H Shares to Nan Lung (a wholly-owned subsidiary of CSAH). Total funds to be raised will be not more than HK\$ 3,500mn, and will be utilized to supplement the general working capital of the Company.
- 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 63.6%/126.7%, and roll over TP to RMB 7.63. Our TP corresponds to 1.5x 2020E P/B. The stock is currently trading at 1.4x 2020E P/B, lower than historical average of 1.7x. Maintain HOLD.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Traffic revenue (RMB mn)	121,873	138,064	149,024	157,293	163,084
YoY growth (%)	11.1	13.3	7.9	5.5	3.7
Net income (RMB mn)	5,961	2,895	5,319	7,485	6,551
EPS (RMB)	0.60	0.27	0.43	0.54	0.43
YoY growth (%)	16.9	(55.0)	60.6	25.1	(21.2)
P/E (x)	11.3	25.0	15.6	12.5	15.8
P/B (x)	1.4	1.3	1.2	1.4	1.3
Yield (%)	1.5	0.7	1.3	1.8	1.6
ROE (%)	12.8	5.0	8.0	10.5	8.3
Net gearing (%)	175	153	151	104	90

Source: Company data, CMBIS estimates

HOLD (Maintain)

Target Price	RMB7.63
(Previous TP)	RMB7.45)
Up/Downside	+12.9%
Current Price	RMB6.76

China Airline Sector

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Stock Data

Mkt Cap (RMB mn)	74,106
Avg 3 mths t/o (RMB mn)	211.79
52w High/Low (RMB)	9.71/ 6.06
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%

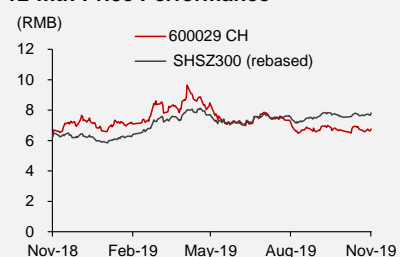
Source: Company data

Share Performance

	Absolute	Relative
1-mth	0.5%	-2.6%
3-mth	-8.5%	-5.6%
6-mth	-21.5%	-13.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

- “Fundamentals remained healthy” – 29 Aug 2019
- “Dual hubs” strategy stimulates capacity growth” – 31 Jul 2019

Figure 1: 9M19 results

RMB mn	9M19	9M18	YoY	3Q19	3Q18	YoY
Operating revenue	116,665	108,889	7.1%	43,726	41,334	5.8%
Operating expenses	(99,547)	(94,138)	5.7%	(35,102)	(34,024)	3.2%
Taxes and surcharges	(270)	(164)	64.6%	(84)	(56)	50.0%
Selling expenses	(5,311)	(5,090)	4.3%	(1,978)	(1,791)	10.4%
General and administrative expenses	(2,735)	(2,483)	10.1%	(1,039)	(956)	8.7%
R&D expenses	(233)	(163)	42.9%	(74)	(49)	51.0%
Finance expenses	(7,146)	(4,531)	57.7%	(3,903)	(2,495)	56.4%
Of which: Interest expenses	(4,388)	(2,403)	82.6%	(1,512)	(867)	74.4%
Interest income	64	78	-17.9%	6	27	-77.8%
Asset impairment losses			NA			NA
Credit impairment losses	(1)	2	NA	(1)		NA
Total expenses	(115,243)	(106,567)	8.1%	(42,181)	(39,371)	7.1%
Other income	2,887	2,429	18.9%	1,044	590	76.9%
Investment income	550	525	4.8%	351	250	40.4%
Of which: investments in asso. and JVs	511	508	0.6%	349	253	37.9%
Fair value gains/(losses)	506	231	119.0%	383	159	140.9%
Gain on disposal	53	405	-86.9%	16	103	-84.5%
Operating profit	5,418	5,912	-8.4%	3,339	3,065	8.9%
Non-operating income	635	574	10.6%	300	280	7.1%
Non-operating expenses	(15)	(94)	-84.0%	(1)	(54)	-98.1%
Profit before income tax	6,038	6,392	-5.5%	3,638	3,291	10.5%
Income tax expenses	(1,471)	(1,535)	-4.2%	(783)	(839)	-6.7%
Profit for the year	4,567	4,857	-6.0%	2,855	2,452	16.4%
Non-controlling interests	(489)	(682)	-28.3%	(467)	(414)	12.8%
Net profit	4,078	4,175	-2.3%	2,388	2,038	17.2%

Source: Company data, CMBIS

Figure 2: Earnings revision

RMB mn	New			Old			Diff		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Traffic revenue	149,024	157,293	163,084	148,962	157,251	162,336	0.0%	0.0%	0.5%
Passenger	139,197	147,900	154,333	139,135	147,857	153,584	0.0%	0.0%	0.5%
Cargo and mail	9,827	9,394	8,752	9,827	9,394	8,752	0.0%	0.0%	0.0%
Total operating revenue	154,861	163,422	169,520	155,107	164,044	169,846	-0.2%	-0.4%	-0.2%
EBITDAR	36,407	40,270	39,763	33,466	34,953	35,481	8.8%	15.2%	12.1%
Net profit	5,319	7,485	6,551	3,251	3,301	2,493	63.6%	126.7%	162.7%

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	154,861	163,422	169,520
Traffic revenue	121,873	138,064	149,024	157,293	163,084
Passenger	112,791	128,038	139,197	147,900	154,333
Cargo and mail	9,082	10,026	9,827	9,394	8,752
Other operating revenue	5,933	5,559	5,837	6,129	6,435
Operating expenses	(123,098)	(140,242)	(149,119)	(155,553)	(163,531)
Jet fuel costs	(31,895)	(42,922)	(44,935)	(44,484)	(47,673)
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)	(16,218)	(17,120)
Other operating expenses	(59,445)	(62,819)	(67,012)	(71,396)	(74,320)
Other net income	4,448	5,438	5,492	5,547	5,603
EBIT	9,156	8,819	11,234	13,416	11,591
Exchange gain/(loss)	1,801	(1,853)	(667)	140	132
Other non-operating profit/(loss)	(2,083)	(2,602)	(2,549)	(2,273)	(1,849)
Pre-tax profit	8,874	4,364	8,019	11,283	9,875
Income tax	(1,976)	(1,000)	(1,837)	(2,586)	(2,263)
Minority interests	(937)	(469)	(862)	(1,213)	(1,061)
Net profit	5,961	2,895	5,319	7,485	6,551

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pre-tax profit	8,874	4,364	8,019	11,283	9,875
Depreciation and amortization	13,162	14,308	15,160	16,218	17,120
Other adjustments	758	4,800	3,351	2,268	1,851
Changes in working capital	684	(2,298)	1,181	1,122	1,066
Taxation and others	(5,746)	(5,786)	(4,886)	(5,359)	(4,611)
Operating activities	17,732	15,388	22,824	25,533	25,301
Capital expenditure	(13,846)	(24,033)	(25,000)	(23,750)	(22,563)
Other investing activities	5,610	3,516	1,340	6,182	6,182
Investing activities	(8,236)	(20,517)	(23,660)	(17,568)	(16,381)
Equity raised	1,321	10,908	-	19,940	-
Changes in borrowings	(5,957)	6,255	1,704	(3,697)	(5,600)
Dividends paid	(261)	(1,107)	(793)	(1,317)	(1,719)
Others	(578)	72	-	-	-
Financing activities	(6,796)	5,220	911	(5,014)	(7,319)
Net change in cash	2,700	91	75	2,950	1,601
Cash at the beginning of the year	4,152	6,826	6,928	7,003	9,953
Exchange difference	(26)	11	-	-	-
Cash at the end of the year	6,826	6,928	7,003	9,953	11,555

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	200,834	222,877	272,733	277,557	280,284
Property, plant and equipment	158,926	170,692	93,495	101,183	105,975
Construction in progress	30,233	37,791	32,997	29,633	27,068
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	23,483	26,433	28,035
Cash and cash equivalents	6,826	6,928	7,003	9,953	11,555
Other current assets	11,058	17,144	16,480	16,480	16,480
Total assets	218,718	246,949	296,216	303,990	308,319
Current liabilities	69,577	83,687	84,122	82,907	82,137
Borrowings	27,568	38,741	34,909	28,480	26,957
Current portion of lease liabilities	8,341	9,555	15,696	14,089	13,708
Other current liabilities	33,668	35,391	33,516	40,338	41,472
Non-current liabilities	86,598	84,793	131,575	129,675	128,471
Borrowings	20,719	15,676	16,941	13,821	13,082
Lease liabilities	59,583	62,666	108,555	96,075	93,118
Other non-current liabilities	6,296	6,451	6,079	19,779	22,271
Total liabilities	156,175	168,480	215,697	212,582	210,608
Share capital	10,088	12,267	12,267	15,334	15,334
Reserves	39,848	52,990	54,696	60,684	65,925
Shareholders' Equity	49,936	65,257	66,963	76,018	81,258
Non-controlling interests	12,607	13,212	13,557	15,391	16,452
Total equity	62,543	78,469	80,520	91,408	97,710

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	10.5	8.0	6.0
Passenger load factor (%)	82.2	82.4	82.7	82.9	83.5
Passenger yield (RMB cents)	48.9	49.4	48.6	47.8	47.1
Passenger revenue YoY (%)	10.0	13.5	8.7	6.3	4.3
Cargo revenue YoY (%)	26.3	10.4	-2.0	-4.4	-6.8
Operating margin	7.2	6.1	7.3	8.2	6.8
EBITDAR margin	24.2	22.5	23.5	24.6	23.5
Net profit margin	4.7	2.0	3.4	4.6	3.9
B/S ratios (%)					
Total debt / Total equity	185.8	161.4	159.4	114.5	101.4
Net debt / Total equity	174.9	152.6	150.7	103.7	89.6
Returns (%)					
ROE	12.8	5.0	8.0	10.5	8.3
ROA	2.8	1.2	2.0	2.5	2.1
Per share (RMB)					
EPS	0.60	0.27	0.43	0.54	0.43
DPS	0.10	0.05	0.09	0.12	0.11
BVPS	4.95	5.32	5.46	4.96	5.30

Source: Company data, CMBIS estimates

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