

China Eastern Airlines-A (600115 CH)

2019 results in line

The Company's 2019 annual results was in line with our and consensus estimates. Under the pandemic, the Company's cost control measures will help it weather the harsh winter of the industry. We expect net loss for FY20E to be RMB 1,880mn, and BVPS to decrease to RMB 4.10. Based on 1.3x P/B, we lower TP to RMB 5.33. The stock is currently trading at 1.0x 2020E P/B, lower than historical average. Maintain BUY.

- 2019 annual results in line.** The Company announced 2019 annual results. RPK increased 10.1% YoY, in line with guidance. Passenger load factor decreased 0.23ppt to 82.06%. Passenger yield decreased 3.3% YoY to RMB 0.52 per RPK. Revenue increased 5.2% YoY to RMB 128.2bn, in line with our and consensus estimates. Net profit attributable increased 18.3% YoY to RMB 3.2bn, in line. The Board proposed cash dividend of RMB 0.05 per share for FY19.
- Operational highlights.** The Company strengthened cost controls. Fuel consumption per ton kilometer decreased 4.4% YoY. We believe cost control measures will help the Company weather the harsh winter of the industry.
- 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.
- Valuation.** After oil price tumbled in 1Q20, we expect oil expenses to decrease 48.7% YoY to RMB 17.5bn. We expect net loss for FY20E to be RMB 1,880mn, and BVPS to decrease to RMB 4.10. Based on 1.3x P/B, we lower TP to RMB 5.33. The stock is currently trading at 1.0x 2020E P/B, lower than historical average. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Traffic revenue (RMB mn)	107,936	114,242	70,342	77,437	85,464
YoY growth (%)	6.3	13.4	5.8	(38.4)	10.1
Net income (RMB mn)	2,698	3,192	(1,880)	842	1,262
EPS (RMB)	0.19	0.21	(0.11)	0.05	0.08
YoY growth (%)	(57.5)	13.3	(154.3)	(144.8)	49.8
Consensus EPS (RMB)	N/A	N/A	(0.05)	0.35	0.45
P/E (x)	22.4	19.7	(36.3)	81.1	54.1
P/B (x)	1.0	1.0	1.0	1.0	1.0
Yield (%)	0.0	1.2	0.0	0.1	0.2
ROE (%)	4.8	5.0	(2.8)	1.2	1.8
Net gearing (%)	214	221	194	189	180

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB5.33
(Previous TP)	RMB6.86)
Up/Downside	27.8%
Current Price	RMB4.17

China Airline Sector

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Stock Data

Mkt Cap (RMB mn)	59,279
Avg 3 mths t/o (RMB mn)	290.38
52w High/Low (RMB)	8.24/4.01
Total Issued Shares (mn)	11,203(A)
	5,177(H)

Source: Bloomberg

Shareholding Structure

CEA Holding	33.76%
Juneyao Airlines	10.00%

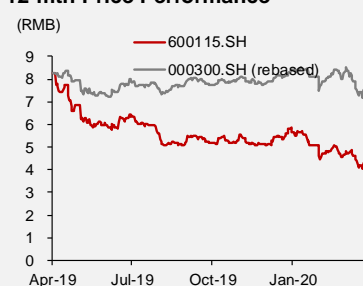
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-10.1%	-2.1%
3-mth	-28.8%	-20.9%
6-mth	-19.5%	-17.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- "9M19 revenue in line; positive 4Q19 outlook" – 31 Oct 2019
- "Highest RPK growth among major peers" – 2 Sep 2019
- "Sitting in China's largest aviation market - Yangtze River Delta" – 31 Jul 2019

Figure 1: 2019 results

RMB mn	2019	2018	YoY
Operating revenue	128,188	121,870	5.2%
Traffic revenue	114,242	107,936	5.8%
Passenger	110,416	104,309	5.9%
Cargo and mail	3,826	3,627	5.5%
Other operating revenue	13,946	13,934	0.1%
Operating expenses	(118,107)	(112,561)	4.9%
Jet fuel costs	(34,191)	(33,680)	1.5%
Operating lease charges	0	(4,306)	NA
Flight personnel costs	(24,152)	(22,134)	9.1%
Depreciation & amortization	(22,080)	(15,313)	44.2%
Other operating expenses	(37,684)	(37,128)	1.5%
Other net income	0	0	NA
EBIT	10,081	9,309	8.3%
Exchange gain/(loss)	(990)	(2,040)	-51.5%
Other non-operating profit/(loss)	(4,791)	(3,413)	40.4%
Pre-tax profit	4,299	3,856	11.5%
Income tax	(819)	(926)	-11.6%
Minority interests	(288)	(232)	24.1%
Net profit	3,192	2,698	18.3%

Source: Company data, CMBIS estimates

Figure 2: Earnings revision

RMB mn	New		Old		Diff	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Traffic revenue	70,342	77,437	126,802	133,643	-44.5%	-42.1%
Passenger	67,070	73,827	122,873	129,693	-45.4%	-43.1%
Cargo and mail	3,271	3,610	3,929	3,949	-16.7%	-8.6%
Total operating revenue	84,985	92,812	140,966	147,098	-39.7%	-36.9%
EBITDAR	22,793	27,563	38,962	37,664	-41.5%	-26.8%
Net profit	(1,880)	842	8,314	6,238	-122.6%	-86.5%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating revenue	121,870	128,188	84,985	92,812	101,608
Traffic revenue	107,936	114,242	70,342	77,437	85,464
Passenger	104,309	110,416	67,070	73,827	81,271
Cargo and mail	3,627	3,826	3,271	3,610	4,193
Other operating revenue	13,934	13,946	14,643	15,375	16,144
Operating expenses	(112,561)	(118,107)	(81,472)	(85,926)	(93,971)
Jet fuel costs	(33,680)	(34,191)	(17,530)	(24,184)	(26,108)
Operating lease charges	(4,306)	-	-	-	-
Flight personnel costs	(22,134)	(24,152)	(20,026)	(21,029)	(23,469)
Depreciation & amortization	(15,313)	(22,080)	(18,998)	(20,395)	(21,740)
Other operating expenses	(37,128)	(37,684)	(24,918)	(20,318)	(22,654)
Other net income	-	-	-	-	-
EBIT	9,309	10,081	3,513	6,886	7,637
Finance expenses, net	(3,617)	(5,073)	(5,845)	(6,034)	(6,220)
Exchange gain/(loss)	(2,040)	(990)	0	0	0
Other non-operating profit/(loss)	204	282	282	282	282
Pre-tax profit	3,856	4,299	(2,050)	1,134	1,700
Income tax	(926)	(819)	-	(216)	(324)
Minority interests	(232)	(288)	170	(76)	(114)
Net profit	2,698	3,192	(1,880)	842	1,262

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Pre-tax profit	3,856	4,299	(2,050)	1,134	1,700
Depreciation and amortization	15,084	22,080	18,998	20,395	21,740
Other adjustments	5,175	6,792	5,776	5,965	6,151
Changes in working capital	(68)	(297)	(312)	(328)	(344)
Taxation and others	(1,709)	(819)	-	(216)	(324)
Operating activities	22,338	32,055	22,412	26,950	28,922
Capital expenditure	(25,995)	(29,187)	(20,407)	(20,407)	(20,407)
Other investing activities	13,215	1,549	1,512	1,663	1,748
Investing activities	(12,780)	(27,638)	(18,894)	(18,744)	(18,658)
Changes in borrowings	(8,012)	29,559	9,177	6,866	5,137
Dividends paid	(738)	-	(819)	-	(84)
Others	(4,808)	(6,231)	(5,807)	(6,149)	(6,368)
Financing activities	(13,558)	23,328	2,551	717	(1,316)
Net change in cash	(4,000)	27,745	6,069	8,923	8,948
Cash at the beginning of the year	4,616	646	28,391	34,460	43,383
Exchange difference	30	-	-	-	-
Cash at the end of the year	646	28,391	34,460	43,383	52,331

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	223,085	265,442	270,776	277,059	284,471
Property, plant and equipment	180,104	99,437	99,622	100,588	99,692
Advanced payments on aircraft	21,942	16,222	19,687	18,235	17,233
Other non-current assets	21,039	149,783	151,467	158,236	167,546
Current assets	15,932	19,743	52,853	61,776	70,724
Cash and cash equivalents	646	1,350	34,460	43,383	52,331
Other current assets	15,286	18,393	18,393	18,393	18,393
Total assets	239,017	285,185	323,629	338,836	355,196
Current liabilities	73,064	78,363	88,537	93,580	98,887
Borrowings	29,259	25,233	26,661	27,730	28,530
Current portion of lease liabilities	9,364	15,590	5,217	5,217	5,217
Other current liabilities	34,441	37,540	56,658	60,633	65,141
Non-current liabilities	104,352	134,176	164,425	173,791	183,648
Borrowings	25,867	26,604	28,110	29,237	30,080
Lease liabilities	68,063	94,685	30,282	30,282	30,282
Other non-current liabilities	10,422	12,887	106,033	114,272	123,286
Total liabilities	177,416	212,539	252,962	267,371	282,535
Share capital	14,467	16,379	16,379	16,379	16,379
Reserves	43,541	52,629	50,749	51,507	52,643
Shareholders' Equity	58,008	69,008	67,128	67,886	69,022
Non-controlling interests	3,593	3,638	3,539	3,579	3,639
Total equity	61,601	72,646	70,667	71,465	72,661

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Operating metrics					
ASK YoY (%)	8.3	10.3	-13.9	9.7	9.7
RPK YoY (%)	10.0	10.0	-24.0	10.2	10.2
Passenger load factor (%)	82.3	82.0	72.4	72.7	73.0
Passenger yield (RMB cents)	51.8	49.8	39.8	39.8	39.8
Passenger revenue YoY (%)	13.9	5.9	-39.3	10.1	10.1
Cargo revenue YoY (%)	0.1	5.5	-14.5	10.3	16.2
Operating margin	7.6	7.9	4.1	7.4	7.5
EBITDAR margin	23.9	25.3	26.8	29.7	29.2
Net profit margin	2.2	2.5	-2.2	0.9	1.2
B/S ratios (%)					
Total debt / Total equity	215.2	223.2	242.4	249.3	252.3
Net debt / Total equity	214.1	221.3	193.6	188.6	180.2
Returns (%)					
ROE	4.8	5.0	-2.8	1.2	1.8
ROA	1.2	1.2	-0.6	0.3	0.4
Per share (RMB)					
EPS	0.19	0.21	-0.11	0.05	0.08
DPS	-	0.05	-	0.01	0.01
BVPS	4.01	4.21	4.10	4.14	4.21

Source: Company data, CMBIS estimates

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