

Air China-H (753 HK)

Expect demand to recover in 2H19

1H19 revenue +1.6% YoY; net profit -9.5% YoY. EBITDAR increased 2.9% YoY to RMB 17.9bn. RPK growth was lower than industry, and ASK growth was less than guidance. For 2H19, the Company expects domestic demand to be released after the National Day, and domestic/international/regional ASK to increase by 10%/1%/7% YoY respectively in 2H19. We adjust 2019E net profit down 36.9%, and trim TP to HK\$ 8.61. Maintain BUY.

- 1H19 revenue +1.6% YoY; net profit -9.5% YoY.** The Company announced 1H19 results. Total operating revenue increased 1.6% YoY to RMB 67.2bn, representing 46%/49% of our/consensus estimates. Passenger revenue increased 5.2% YoY to RMB 59.9bn, while cargo revenue decreased 25.7% YoY to RMB 5.5bn. EBITDAR increased 2.9% YoY to RMB 17.9bn. Foreign exchange loss was RMB 119mn, smaller as compared with RMB 518mn in 1H18. Net profit decreased 9.5% YoY to RMB 3,144mn, representing 27%/30% of our/consensus estimates. The new lease standard reduced profit by ~RMB 180mn.
- Disappointing traffic business; effective cost control.** RPK increased 6.6% YoY to 114.8bn, lower than industry growth of 9.9%. ASK increased 5.9% YoY to 141.7bn, less than management guidance at the beginning of the year (+9-10% YoY). Passenger load and yield remained stable. Passenger load factor was 80.99%, up 0.51ppt YoY. Passenger yield was RMB 0.52. Jet fuel costs slightly increased 0.2% YoY to RMB 17.6bn, representing 29.1% of total operating expenses. Unit cost (operating cost per ASK) decreased 0.67% YoY to RMB 0.4269.
- Domestic demand to be released in 2H19.** The Company's 1H19 ASK growth was less than guidance, mainly due to demand fluctuations, runway maintenance, and air traffic control etc. For 2H19, the Company expects domestic demand to be released after the National Day, and international demand to maintain. On the supply side, the Company expects domestic/international/regional ASK to increase by 10%/1%/7% YoY respectively in 2H19.
- Valuation.** We adjust 2019E net profit down 36.9%, and trim TP to HK\$ 8.61. Our TP corresponds to 1.2x 2019E P/B. The stock is currently trading at 1.0x 2019E P/B, lower than historical average of 1.15x. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Traffic revenue (RMB mn)	115,380	131,836	138,749	142,652	143,199
YoY growth (%)	7.5	14.3	5.2	2.8	0.4
Net income (RMB mn)	7,244	7,351	7,245	7,465	6,537
EPS (RMB)	0.54	0.54	0.50	0.51	0.45
YoY growth (%)	(2.9)	(0.5)	(6.8)	3.0	(12.4)
P/E (x)	11.2	11.2	12.0	11.7	13.3
P/B (x)	1.0	0.9	1.0	0.9	0.8
Yield (%)	1.9	1.7	1.7	1.7	1.5
ROE (%)	9.4	8.2	7.8	7.9	6.5
Net gearing (%)	95	89	88	80	76

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price HK\$8.61
 (Previous TP) HK\$9.61
Up/Downside +26.3%
Current Price HK\$6.82

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Stock Data	
Mkt Cap (HK\$ mn)	118,238
Avg 3 mths t/o (HK\$ mn)	117.29
52w High/Low (HK\$)	11.20/ 5.87
Total Issued Shares (mn)	4,563 (H) 9,962 (A)

Source: Bloomberg

Shareholding Structure

China National Aviation Holding Corporation Limited	51.69%
Cathay Pacific	18.13%

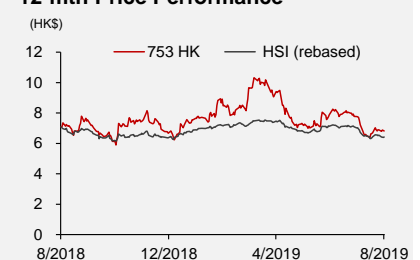
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-12.1%	-2.5%
3-mth	-6.6%	-0.1%
6-mth	-19.3%	-9.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

"Reaping higher yield from international and regional routes" – 31 Jul 2019

Figure 1: 1H19 results

RMB mn	1H19	1H18	YoY
Traffic revenue	65,313	64,242	1.7%
Passenger	59,851	56,894	5.2%
Cargo and mail	5,463	7,348	-25.7%
Other income and gains	1,931	1,973	-2.1%
Total operating revenue	67,245	66,215	1.6%
Jet fuel costs	(17,615)	(17,582)	0.2%
Employee compensation costs	(11,761)	(11,596)	1.4%
Depreciation and amortisation	(10,303)	(7,025)	46.7%
Take-off, landing and depot charges	(8,055)	(7,370)	9.3%
Aircraft and engine lease expenses	(560)	(3,504)	-84.0%
Aircraft maintenance, repair and overhaul costs	(2,886)	(3,416)	-15.5%
Air catering charges	(1,929)	(1,807)	6.7%
Other lease expenses	(323)	(573)	-43.6%
Other flight operation expenses	(4,072)	(4,180)	-2.6%
Selling and marketing expenses	(2,365)	(2,115)	11.9%
General and administrative expenses	(644)	(590)	9.1%
Net impairment gains/(losses)	9	183	-94.8%
Total operating expenses	(60,502)	(59,574)	1.6%
Operating profit (EBIT)	6,742	6,641	1.5%
EBITDAR	17,863	17,363	2.9%
Finance income	63	60	6.3%
Finance costs	(2,440)	(1,370)	78.1%
Share of results of associates	146	77	88.1%
Share of results of joint ventures	112	115	-2.8%
Exchange (loss)/gain, net	(119)	(518)	-77.0%
Non-operating profit/(loss)	(2,237)	(1,635)	36.8%
Profit before taxation	4,505	5,006	-10.0%
Income tax expense	(1,005)	(1,102)	-8.8%
Less: Non-controlling interests	356	428	-16.9%
Net profit	3,144	3,476	-9.5%

Source: Company data, CMBIS

Figure 2: Earnings revision

RMB mn	New			Old			Diff		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Traffic revenue	138,749	142,652	143,199	140,205	145,874	148,426	-1.0%	-2.2%	-3.5%
Passenger	127,469	131,780	132,994	128,925	135,002	138,222	-1.1%	-2.4%	-3.8%
Cargo and mail	11,280	10,872	10,205	11,280	10,872	10,204	0.0%	0.0%	0.0%
Total operating revenue	142,612	146,554	147,139	147,443	153,184	155,809	-3.3%	-4.3%	-5.6%
EBITDAR	36,482	37,885	38,028	41,590	45,009	47,321	-12.3%	-15.8%	-19.6%
Net profit	7,245	7,465	6,537	11,474	12,198	12,706	-36.9%	-38.8%	-48.5%

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	124,026	140,883	142,612	146,554	147,139
Traffic revenue	115,380	131,836	138,749	142,652	143,199
Passenger	105,125	120,430	127,469	131,780	132,994
Cargo and mail	10,255	11,406	11,280	10,872	10,205
Other operating revenue	8,646	9,048	3,863	3,902	3,941
Operating expenses	(112,270)	(126,537)	(129,309)	(133,592)	(135,627)
Jet fuel costs	(28,409)	(38,481)	(38,018)	(38,438)	(38,396)
Lease charges	(7,311)	(7,166)	(7,559)	(7,793)	(7,846)
Flight personnel costs	(22,392)	(24,450)	(25,793)	(26,590)	(26,772)
Depreciation & amortization	(13,596)	(14,504)	(15,070)	(16,581)	(18,120)
Other operating expenses	(40,562)	(41,936)	(42,868)	(44,190)	(44,492)
Other net income	-	-	-	-	-
EBIT	11,756	14,346	13,303	12,962	11,512
Exchange gain/(loss)	2,938	(2,377)	(538)	137	136
Other non-operating profit/(loss)	(3,208)	(1,993)	(2,041)	(2,048)	(1,971)
Pre-tax profit	11,486	9,977	10,724	11,051	9,677
Income tax	(2,845)	(1,762)	(2,627)	(2,707)	(2,371)
Minority interests	(1,397)	(864)	(852)	(878)	(769)
Net profit	7,244	7,351	7,245	7,465	6,537

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pre-tax profit	11,486	9,977	10,724	11,051	9,677
Depreciation and amortization	13,453	14,358	15,070	16,581	18,120
Other adjustments	1,013	3,599	2,654	1,986	1,910
Changes in working capital	3,155	6,749	(35)	3,155	(3,423)
Taxation and others	(6,270)	(6,000)	(5,219)	(5,305)	(4,892)
Operating activities	22,837	28,683	23,194	27,467	21,392
Capital expenditure	(10,206)	(9,139)	(24,107)	(25,000)	(20,000)
Other investing activities	(4,447)	189	4,000	1,629	349
Investing activities	(14,653)	(8,950)	(20,107)	(23,371)	(19,651)
Changes in borrowings	(1,382)	(7,929)	(4,321)	(1,087)	(718)
Dividends paid	(1,747)	(1,873)	(1,500)	(1,449)	(1,493)
Others	(6,173)	(8,845)	-	-	-
Financing activities	(9,302)	(18,647)	(5,821)	(2,536)	(2,211)
Net change in cash	(1,117)	1,086	(2,734)	1,560	(470)
Cash at the beginning of the year	6,848	5,563	6,763	4,029	5,589
Exchange difference	(168)	114	-	-	-
Cash at the end of the year	5,563	6,763	4,029	5,589	5,119

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	214,885	219,931	262,838	273,573	278,835
Property, plant and equipment	168,536	171,663	113,222	123,408	128,119
incl. Construction in progress	9,861	10,876	10,568	10,711	9,359
Other non-current assets	46,349	48,268	149,616	150,166	150,716
Current assets	20,760	23,726	20,991	22,551	22,082
Cash and cash equivalents	5,563	6,763	4,029	5,589	5,119
Other current assets	15,197	16,963	16,962	16,962	16,962
Total assets	235,645	243,657	283,829	296,124	300,917
Current liabilities	72,132	72,540	78,575	78,201	77,852
Borrowings	29,146	27,195	24,870	24,574	24,379
Lease liabilities	6,345	7,126	11,316	11,242	11,194
Other current liabilities	36,641	38,219	42,388	42,384	42,280
Non-current liabilities	68,654	70,619	106,307	112,533	112,031
Borrowings	22,108	15,585	15,086	14,907	14,789
Lease liabilities	37,799	45,848	80,735	80,197	79,842
Other non-current liabilities	8,747	9,186	10,485	17,429	17,401
Total liabilities	140,786	143,159	184,881	190,734	189,884
Share capital	11,477	11,477	11,477	11,477	11,477
Reserves	74,570	81,680	80,243	86,215	91,445
Shareholders' Equity	86,048	93,157	91,720	97,692	102,922
Non-controlling interests	8,811	7,341	7,228	7,698	8,111
Total equity	94,859	100,498	98,948	105,391	111,033

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Operating metrics					
ASK YoY (%)	6.3	10.4	6.2	3.7	1.2
RPK YoY (%)	6.9	9.7	6.8	4.3	1.8
Passenger load factor (%)	81.1	80.6	81.0	81.5	81.9
Passenger yield (RMB cents)	52.3	54.6	54.1	53.7	53.2
Passenger revenue YoY (%)	6.2	14.6	5.8	3.4	0.9
Cargo revenue YoY (%)	23.5	11.2	-1.1	-3.6	-6.1
Operating margin	9.5	10.2	9.3	8.8	7.8
EBITDAR margin	26.0	26.1	25.6	25.9	25.8
Net profit margin	5.8	5.2	5.1	5.1	4.4
B/S ratios (%)					
Total debt / Total equity	100.6	95.3	92.4	85.7	80.7
Net debt / Total equity	94.7	88.6	88.3	80.4	76.1
Returns (%)					
ROE	9.4	8.2	7.8	7.9	6.5
ROA	3.2	3.1	2.7	2.6	2.2
Per share (RMB)					
EPS	0.54	0.54	0.50	0.51	0.45
DPS	0.11	0.10	0.10	0.10	0.09
BVPS	5.92	6.41	6.31	6.73	7.09

Source: Company data, CMBIS estimates

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