

# China Eastern Airlines-H (670 HK)

## 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 HK\$ 4.95. Maintain BUY.

- 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 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.
- Reiterate BUY.** We adjusted 2019E net profit down by 36.2%, and trimmed TP to HK\$ 4.95. Our TP corresponds to 1.1x 2019E P/B. The stock is currently trading at 0.8x 2019E P/B, lower than historical average of 1.21x. Upside potential 34.1%, maintain BUY.

### 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)	7.4	17.4	11.3	10.2	13.6
P/B (x)	0.8	0.8	0.8	0.8	0.7
Yield (%)	1.6	0.0	0.9	1.0	0.8
ROE (%)	12.1	4.8	7.2	7.7	5.5
Net gearing (%)	214	214	216	208	202

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$4.95
(Previous TP)	HK\$5.53)
Up/Downside	+34.1%
Current Price	HK\$3.69

### China Airline Sector

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### Stock Data

Mkt Cap (HK\$ mn)	73,600
Avg 3 mths t/o (HK\$ mn)	38.75
52w High/Low (HK\$)	7.20/ 3.56
Total Issued Shares (mn)	5,177 (H)
	9,808 (A)

Source: Bloomberg

### Shareholding Structure

CEA Holding	54.43%
Juneyao Airlines	3.53%

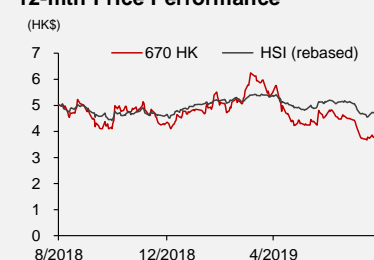
Source: HKEX

### Share Performance

	Absolute	Relative
1-mth	-16.7%	-8.9%
3-mth	-14.2%	-9.5%
6-mth	-26.3%	-18.0%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Deloitte

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"Sitting in China's largest aviation market - Yangtze River Delta" - 31 Jul 2019

## Earnings revision

Figure 1: 1H19 results

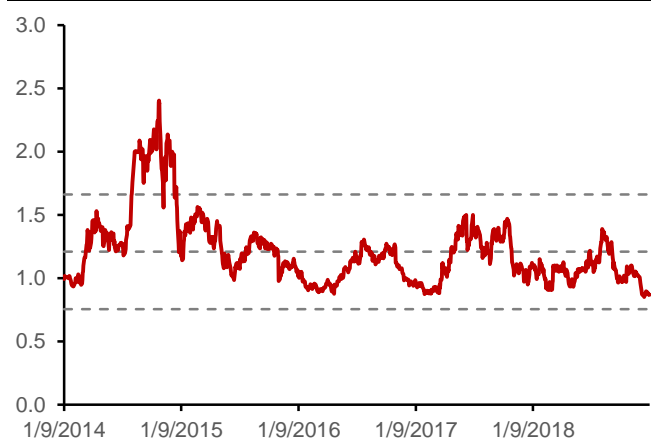
RMB mn	1H19	1H18	YoY
Traffic revenue	55,323	50,790	8.9%
Passenger	53,581	49,045	9.2%
Cargo and mail	1,742	1,745	-0.2%
Other operating revenue	6,943	7,100	-2.2%
<b>Total operating revenue</b>	<b>62,266</b>	<b>57,890</b>	<b>7.6%</b>
Aircraft fuel	(16,625)	(15,252)	9.0%
Take-off and landing charges	(7,840)	(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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