



Conference call takeaways

China Eastern Airlines (CEA) hosted a post-1H17 results conference call on 30 August. Key takeaways are as follows:

- Yield: CEA recorded a 0.2% YoY passenger yield decline in 1H17 with 3.9% YoY drop in international flight yield, partially offset by 1.5% YoY growth of domestic yield, mainly due to the aggressive launch of long-haul international routes in the past few years, which led to yield pressure, in our view. Going forward, management expects better yield trends amid better demand-supply balance on international routes. Based on August's forward booking, the overall international yield decline narrowed YoY while domestic yield remained stable.
- Capacity: CEA aims to further optimize its capacity with 9.6% 2H17 passenger capacity (ASK) expansion, comprising 8.8% growth for domestic routes and 12.8% growth for international routes. Going forward, the airline will further add domestic capacity on routes with higher demand and better yield by switching to wide-body aircrafts. For international routes, CEA will likely focus on increasing frequency and improving passenger yield. Meanwhile, the airline plans to further reduce capacity for the Korean market due to low demand.
- Low cost carrier (LCC): CEA's LCC unit, China United Airlines (CUA) recorded net profit of RMB359m in 1H17 (+c.50% YoY) on a c.30% YoY increase in revenue with direct sales proportion increased to 75%. According to management, CUA's passenger traffic increased 15% YoY with load factor improving 1.1ppt. It currently owns 35 aircrafts.
- Direct sales: CEA's revenue from direct sales increased 29% YoY in 1H17 to RMB21.5bn, accounting for 49% of total passenger traffic.
- FX gain: CEA recorded RMB674m FX gain in 1H17 vs. RMB1.4bn FX loss in 1H16 due to RMB appreciation against USD during the period. CEA has reduced its USD to total debt ratio to 34% in 1H17, 11ppt lower than the year-start level.

Deutsche Bank view - Buy H-shares on resilient traffic and yield outlook

Going forward, we expect the yield trend to improve, as international passenger yield decline narrowed sequentially. We also see long-term upside potential from its LCC unit, China United Airlines (CUA). All in all, we believe CEA is better

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Top picks

China Eastern Airlines (0670.HK),HKD4.23	Buy
China Eastern Airlines-A (600115.SS),CNY6.99	Sell

Source: Deutsche Bank

Companies featured

China Eastern Airlines (0670.HK),HKD4.23	Buy
	2016A 2017E 2018E
P/E (x)	6.5 7.9 6.5
EV/EBITDA (x)	6.5 6.6 6.1
Price/book (x)	0.9 0.9 0.9
China Eastern Airlines-A (600115.SS),CNY6.99	Sell
	2016A 2017E 2018E
P/E (x)	12.6 15.5 12.6
EV/EBITDA (x)	8.3 8.5 7.8
Price/book (x)	2.1 1.9 1.7

Source: Deutsche Bank

Our price target is based on a target 1.2x FY18E P/BV. A key downside risk is excessive new capacity on domestic routes. Key upside risks are stronger-than-expected growth in ticket price and yield and the reverse of the aforementioned point.



positioned with its Shanghai hub, and all of the aforementioned factors should still translate into an improvement in CEA's long-term earnings outlook. Hence, we maintain our Buy rating on CEA-H, but rate CEA-A as Sell due to the excessive A-share FY17/18E P/BV valuation. Key downside risks are excessive new capacity on domestic routes and worse-than-expected traffic diversion from the Beijing-Shanghai high-speed railway and other high-speed routes. Key upside risks are the reverse of the aforementioned points.



Appendix 1

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*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
China Eastern Airlines-A	600115.SS	7.08 (CNY) 30 Aug 2017	14
China Eastern Airlines	0670.HK	4.36 (HKD) 30 Aug 2017	14

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Historical recommendations and target price. China Eastern Airlines-A (600115.SS)

(as of 08/29/2017)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	09/09/2015	Sell, Target Price Change CNY 5,40 Vincent Ha, CFA	5.	12/02/2016	Sell, Target Price Change CNY 3,80 Fei Sun, CFA
2.	01/28/2016	Sell, Target Price Change CNY 4,45 Vincent Ha, CFA	6.	03/08/2017	Sell, Target Price Change CNY 4,45 Vincent Ha, CFA
3.	04/26/2016	Sell, Target Price Change CNY 4,85 Joe Liew, CFA	7.	07/13/2017	Sell, Target Price Change CNY 4,80 Vincent Ha, CFA
4.	07/05/2016	Sell, Target Price Change CNY 4,60 Vincent Ha, CFA			

Historical recommendations and target price. China Eastern Airlines (0670.HK)

(as of 08/29/2017)



Current Recommendations

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- Hold
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3.	04/26/2016	Buy, Target Price Change HKD 5,40 Joe Liew, CFA	7.	07/13/2017	Buy, Target Price Change HKD 5,30 Vincent Ha, CFA
4.	07/05/2016	Buy, Target Price Change HKD 5,30 Vincent Ha, CFA			



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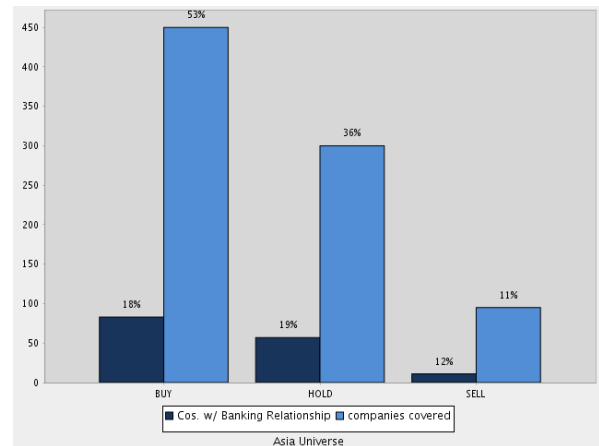
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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