



Asia  
China  
Transportation  
Air

Industry  
**China Eastern  
Airlines**

Date  
30 August 2017

**Results**

**1H17 a small beat; Buy H shares on better traffic and pricing outlook**

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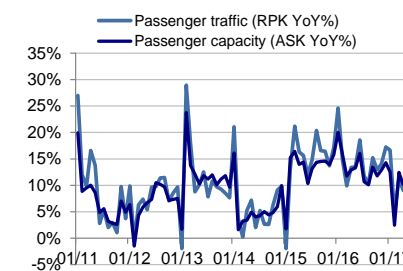
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Focus stocks

China Eastern Airlines (0670.HK), HKD4.23 Buy  
Price Target HKD5.30  
China Eastern Airlines-A (600115.SS), CNY6.99  
Sell Price Target CNY4.80

Source: Deutsche Bank

CEA - passenger traffic and capacity growth



Source: Company data

34% earnings growth thanks to FX gain and logistics business disposal

China Eastern Airlines (CEA) reported 8.3% 1H17 total income YoY growth to RMB53.2bn, driven by 10.2% YoY passenger traffic (RPK) growth and partially offset by passenger yield decline, especially for international routes, and the disposal of freighter operation. With a 45.2% YoY jump in fuel cost on higher fuel price, mitigated by a mild 3.4% YoY increase in ex-fuel operating cost (after disposal of Eastern Logistics), the airline recorded a 11.6% YoY decline in 1H17 operating profit to RM6.3bn. However, with 73.9% YoY drop in finance cost (due to FX gain of RMB674m in 1H17 vs. RMB1,355m FX loss in 1H16), CEA's 1H17 reported net profit increased 34.4% YoY to RMB4.3bn. Stripping out the FX impact, CEA's 1H17 core net profit indeed decreased by 20.0% YoY to RMB3.7bn.

Deutsche Bank view – The better positioned network carrier in China

CEA's 1H17 core net profit accounts for 56% of our FY17 earnings forecast, and we consider the results as above our expectations. In July, CEA registered a 7.6% YoY RPK growth on high base. We remain upbeat on the airlines' business operation, going forward, as we expect the yield trend to improve, after attaining higher load factor YTD. We also see long-term upside potential from its LCC unit, China United Airlines (CUA). All in all, we think CEA is better 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 a Sell rating on CEA-A due to the excessive A-share FY17/18E P/BV valuation. We will provide more details after the company's telephone conference on 30 August.

Figure 1: China Eastern Airlines - 1H17 results summary

(RMBm)	1H17	1H16	YoY%	Deutsche Bank comments
Operating income	53,189	49,107	8.3%	
Passenger	43,106	39,298	9.7%	On 10.2% RPK growth and 0.2% yield decrease(including fuel surcharge)
Cargo	1,777	2,690	-33.9%	On 8.0% RFTK growth
Others	8,306	7,119	16.7%	
Operating expenses	(46,859)	(41,949)	11.7%	
Jet fuel	(12,139)	(8,363)	45.2%	
Others	(34,720)	(33,586)	3.4%	On 8.9% total capacity (ATK) growth
Operating profit	6,330	7,158	-11.6%	
Net finance cost	(701)	(2,683)	-73.9%	Including RMB674m FX gain vs. RMB1,355m FX loss in 1H16
Reported net profit	4,341	3,230	34.4%	
Core net profit	3,667	4,585	-20.0%	Excluding FX impacts

Source: Deutsche Bank, Company data

Deutsche Bank AG/Hong Kong

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