

Air China-A (601111 CH)

9M19 revenue in line; cautiously optimistic 4Q19 outlook

9M19 revenue +0.2% YoY. Net profit -2.5% YoY. Adjusted net profit +0.5% YoY. RPK +6.2% YoY. Passenger load factor was 81.4%, up 0.5ppt YoY. For 4Q19, as China and US are marching towards a “phase one” deal, we reiterate our view that we expect domestic demand to release. However, in the context of China-US trade frictions and unrests in Hong Kong, higher proportion of international and regional routes is a double-edged sword. For 4Q19, we remain cautiously optimistic. We factor in our house view of 2019E average Brent crude oil, and raise TP from RMB 9.47 to RMB 10.40, corresponding to 1.5x 2020E P/B. Maintain BUY.

- 9M19 revenue in line.** For 9M19, operating revenue increased 0.2% YoY to RMB 103bn, representing 74%/72% of our/consensus original full-year estimates. Net profit decreased 2.5% YoY to RMB 6,762mn, representing 93%/84% of our/consensus original full-year estimates. Net profit in 3Q19 increased 4.4% YoY, benefitting from increase in other income and investment income. Adjusted net profit increased 0.5% YoY to RMB 6,557mn.
- Disappointing operating results.** For 9M19, RPK increased 6.2% YoY, lower than major peers (CEA +10.4% YoY, CSA +9.2% YoY). Although third quarter is a traditional peak season for business, student and tourism travel, traffic in 3Q19 increased 5.6% YoY, down 3.8ppt YoY. RPK from international/regional routes in 3Q19 increased 4.4%/0.7% YoY, as compared with 12.7%/7.8% in 3Q18. ASK increased 5.6% YoY, lagging management guidance of 9-10% at the beginning of the year. Passenger load factor was 81.4%, up 0.5ppt YoY.
- Cautiously optimistic 4Q19 outlook.** For 4Q19, as China and US are marching towards a “phase one” deal, we reiterate our view that we expect domestic demand to release. However, in the context of China-US trade frictions and unrests in Hong Kong, higher proportion of international and regional routes is a double-edged sword. For 4Q19, we remain cautiously optimistic.
- Valuation.** We adjust 2019/20E revenue down 0.7%/1.5% to reflect lower-than-expected traffic growth. After drone attack on two Saudi Aramco’s oil facilities, production resumed faster than expected, our house trimmed 2019E average Brent crude oil to US\$64/b. We adjust 2019/20E net profit up by 20.6%/30.7%, and roll over TP to RMB 10.40. Our TP corresponds to 1.5x 2020E P/B. The stock is currently trading at 1.2x 2020E P/B, lower than historical average of 1.7x. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Traffic revenue (RMB mn)	115,380	131,836	137,724	140,567	140,094
YoY growth (%)	7.5	14.3	4.5	2.1	(0.3)
Net income (RMB mn)	7,244	7,351	8,736	9,757	7,616
EPS (RMB)	0.54	0.54	0.60	0.67	0.52
YoY growth (%)	(2.9)	(0.5)	12.4	11.7	(21.9)
P/E (x)	15.4	15.5	13.8	12.4	15.8
P/B (x)	1.4	1.3	1.3	1.2	1.1
Yield (%)	1.4	1.2	1.4	1.6	1.3
ROE (%)	9.4	8.2	9.4	10.1	7.3
Net gearing (%)	95	89	86	74	69

BUY (Maintain)

Target Price	RMB10.40
(Previous TP)	RMB9.47)
Up/Downside	+25.3%
Current Price	RMB8.30

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Stock Data

Mkt Cap (RMB mn)	111,111
Avg 3 mths t/o (RMB mn)	286.38
52w High/Low (RMB)	12.35/ 7.15
Total Issued Shares (mn)	4,563 (H)
	9,962 (A)

Source: Bloomberg

Shareholding Structure

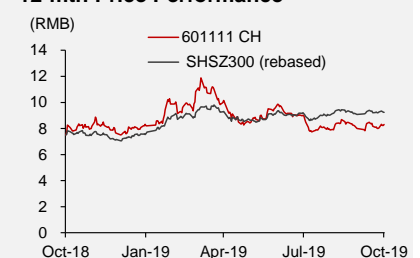
China National Aviation Holding Corporation Limited	51.69%
Cathay Pacific	18.13%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	3.0%	1.0%
3-mth	-8.6%	-9.1%
6-mth	-18.8%	-18.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- “Expect demand to recover in 2H19” – 30 Aug 2019
- “Reaping higher yield from international and regional routes” – 31 Jul 2019

4 Jun 2018

Source: Company data, CMBIS estimates

Figure 1: 3Q19 results

RMB mn	9M19	9M18	YoY	3Q19	3Q18	YoY
Operating revenue	103,077	102,880	0.2%	37,764	38,638	-2.3%
Operating expenses	(83,228)	(84,069)	-1.0%	(28,451)	(29,817)	-4.6%
Taxes and surcharges	(187)	(163)	14.5%	(54)	(53)	1.3%
Selling expenses	(4,901)	(4,750)	3.2%	(1,579)	(1,688)	-6.5%
General and administrative expenses	(3,189)	(3,352)	-4.8%	(1,114)	(1,141)	-2.4%
R&D expenses	(136)	(61)	122.0%	(49)	(21)	134.7%
Finance expenses	(5,828)	(4,522)	28.9%	(3,241)	(2,622)	23.6%
Of which: Interest expenses	(3,705)	(2,132)	73.8%	(1,266)	(762)	66.0%
Interest income	104	112	-7.4%	40	52	-23.1%
Asset impairment losses		(0)	NA			NA
Credit impairment losses	10	285	-96.6%	0	102	-99.9%
Total expenses	(97,460)	(96,633)	0.9%	(34,488)	(35,240)	-2.1%
Other income	2,604	2,288	13.8%	854	608	40.6%
Investment income	981	975	0.7%	689	596	15.5%
Of which: investments in asso. and JVs	934	772	20.9%	676	580	16.6%
Fair value gains/(losses)		0	NA		(2)	NA
Gain on disposal	40	84	-52.9%	40	12	228.4%
Operating profit	9,241	9,593	-3.7%	4,859	4,612	5.4%
Non-operating income	182	59	208.2%	34	26	32.5%
Non-operating expenses	(86)	(79)	8.1%	(55)	(61)	-9.7%
Profit before income tax	9,337	9,573	-2.5%	4,838	4,577	5.7%
Income tax expenses	(1,734)	(1,947)	-10.9%	(731)	(848)	-13.8%
Profit for the year	7,603	7,626	-0.3%	4,107	3,729	10.1%
Non-controlling interests	(841)	(688)	22.2%	(485)	(260)	86.4%
Net profit	6,762	6,937	-2.5%	3,623	3,469	4.4%

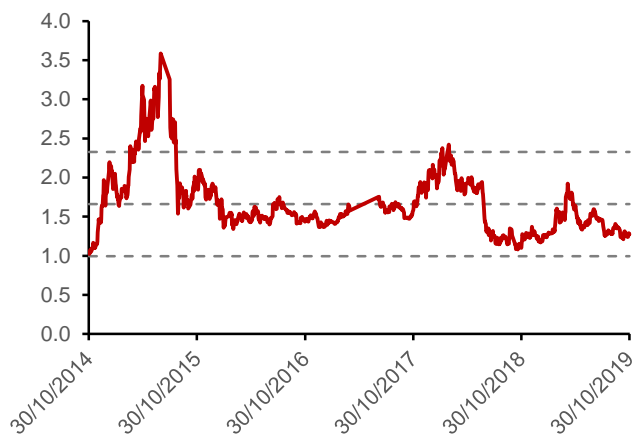
Source: Company data, CMBIS

Figure 2: Earnings revision

RMB mn	New			Old			Diff		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Traffic revenue	137,724	140,567	140,094	138,749	142,652	143,199	-0.7%	-1.5%	-2.2%
Passenger	126,444	129,695	129,890	127,469	131,780	132,994	-0.8%	-1.6%	-2.3%
Cargo and mail	11,280	10,872	10,205	11,280	10,872	10,205	0.0%	0.0%	0.0%
Total operating revenue	142,700	145,593	145,170	142,612	146,554	147,139	0.1%	-0.7%	-1.3%
EBITDAR	38,689	41,224	39,499	36,482	37,885	38,028	6.0%	8.8%	3.9%
Net profit	8,736	9,757	7,616	7,245	7,465	6,537	20.6%	30.7%	16.5%

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	142,700	145,593	145,170
Traffic revenue	115,380	131,836	137,724	140,567	140,094
Passenger	105,125	120,430	126,444	129,695	129,890
Cargo and mail	10,255	11,406	11,280	10,872	10,205
Other operating revenue	8,646	9,048	4,976	5,026	5,076
Operating expenses	(112,270)	(126,537)	(127,190)	(129,293)	(132,187)
Jet fuel costs	(28,409)	(38,481)	(35,900)	(34,138)	(34,957)
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	15,510	16,301	12,983
Exchange gain/(loss)	2,938	(2,377)	(538)	137	136
Other non-operating profit/(loss)	(3,208)	(1,993)	(2,041)	(1,994)	(1,845)
Pre-tax profit	11,486	9,977	12,931	14,443	11,274
Income tax	(2,845)	(1,762)	(3,168)	(3,538)	(2,762)
Minority interests	(1,397)	(864)	(1,027)	(1,147)	(895)
Net profit	7,244	7,351	8,736	9,757	7,616

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pre-tax profit	11,486	9,977	12,931	14,443	11,274
Depreciation and amortization	13,453	14,358	15,070	16,581	18,120
Other adjustments	1,013	3,599	2,654	1,932	1,784
Changes in working capital	3,155	6,749	(35)	3,155	(3,423)
Taxation and others	(6,270)	(6,000)	(5,759)	(6,083)	(5,157)
Operating activities	22,837	28,683	24,860	30,028	22,598
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)	(1,747)	(1,951)
Others	(6,173)	(8,845)	-	-	-
Financing activities	(9,302)	(18,647)	(5,821)	(2,834)	(2,669)
Net change in cash	(1,117)	1,086	(1,068)	3,823	278
Cash at the beginning of the year	6,848	5,563	6,763	5,695	9,518
Exchange difference	(168)	114	-	-	-
Cash at the end of the year	5,563	6,763	5,695	9,518	9,796

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	22,657	26,480	26,758
Cash and cash equivalents	5,563	6,763	5,695	9,518	9,796
Other current assets	15,197	16,963	16,962	16,962	16,962
Total assets	235,645	243,657	285,495	300,053	305,593
Current liabilities	72,132	72,540	78,736	78,473	78,050
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	42,550	42,657	42,477
Non-current liabilities	68,654	70,619	106,525	112,925	112,315
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	10,703	17,821	17,684
Total liabilities	140,786	143,159	185,261	191,398	190,365
Share capital	11,477	11,477	11,477	11,477	11,477
Reserves	74,570	81,680	81,435	89,241	95,334
Shareholders' Equity	86,048	93,157	92,912	100,718	106,811
Non-controlling interests	8,811	7,341	7,322	7,937	8,417
Total equity	94,859	100,498	100,234	108,655	115,228

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	6.2	3.7	1.2
Passenger load factor (%)	81.1	80.6	80.6	80.6	80.5
Passenger yield (RMB cents)	52.3	54.6	54.0	53.4	52.9
Passenger revenue YoY (%)	6.2	14.6	5.0	2.6	0.2
Cargo revenue YoY (%)	23.5	11.2	-1.1	-3.6	-6.1
Operating margin	9.5	10.2	10.9	11.2	8.9
EBITDAR margin	26.0	26.1	27.1	28.3	27.2
Net profit margin	5.8	5.2	6.1	6.7	5.2
B/S ratios (%)					
Total debt / Total equity	100.6	95.3	91.2	83.1	77.8
Net debt / Total equity	94.7	88.6	85.5	74.4	69.3
Returns (%)					
ROE	9.4	8.2	9.4	10.1	7.3
ROA	3.2	3.1	3.3	3.3	2.5
Per share (RMB)					
EPS	0.54	0.54	0.60	0.67	0.52
DPS	0.11	0.10	0.12	0.13	0.10
BVPS	5.92	6.41	6.40	6.93	7.35

Source: Company data, CMBIS estimates

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