



Rating
Buy

Asia
China

Transportation
Air

Company
Spring Airlines

Reuters 601021.SS Bloomberg 601021 CH Exchange SHH Ticker 601021

Date
17 August 2017

Results

Price at 16 Aug 2017 (CNY)	31.77
Price target - 12mth (CNY)	41.20
52-week range (CNY)	49.94 - 30.60
Shanghai Composite	3,247

1H17 post-results conference call takeaways

Spring Airlines hosted a post-1H17 results conference call on 17 August. Key takeaways are as follows:

- Yield:** Spring attributes the passenger yield recovery mainly to yield management, especially on routes with high load factor, but less to ticket pricing increase. Management commented that yields in tier-1 cities such as Shanghai and Shenzhen recovered by double-digit in 1H17.
- Load Factor:** The 1.2ppt YoY drop in load factor in 1H17 was due to new domestic flights started during the period. However, load factor on new routes recorded sequential improvement, according to the airline. In addition, the company is confident to maintain load factor at over 90% level.
- Capacity:** Spring recorded 31% YoY ASK growth in 1H17 on the back of additional 7 aircrafts. Domestic ASK expanded (+44% YoY) faster than international ASK (+11% YoY). The airline plans to add another 4 aircrafts (1 self-owned; 3 under operating lease) in 2H17E and 10 fleets (operating lease) in 2018E to maintain an annual ASK growth of c.15-20%.
- Domestic ASK:** Domestic ASK accounts for 66% of total ASK in 1H17, an increase vs. 60% a year ago. According to management, most of the additional capacity was added in tier-2 cities such as Shenyang, Shijiazhuang, Yangzhou, Ningbo and Harbin, while ASK growth in Shanghai and Shenzhen remained muted given limited slots availability.
- International ASK:** Most of the incremental international ASK was added to Thailand market, which recovered faster than they expected despite load factor staying low. For international routes, Spring cut some domestic departure airports from 28 to 20 by the end of first-half, while maintained the number of international destinations unchanged at 19.
- Cost control:** Spring attributes the 42% YoY increase in operating expenses to faster growth in fuel cost and take-off/landing charge. Although the fuel price is likely to stay high, the company aims to reduce its cost base in 2H17E by optimizing aircraft utilization, fuel saving measures and operating efficiency.

Valuation & Risks

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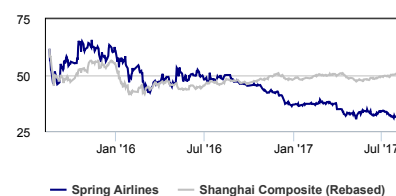
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Price/price relative



Performance (%)	1m	3m	12m
Absolute	-3.7	-5.0	-36.4
Shanghai Composite	0.8	4.3	4.4

Source: Deutsche Bank

Key indicators (FY1)

DB ROE (%)	13.0
Net debt/equity (%)	38.8
Book value/share (CNY)	10.251
Price/book (x)	3.1
Net interest cover (x)	2.8
Operating profit margin (%)	4.7

Source: Deutsche Bank

Deutsche Bank view – maintain Buy on pax yield recovery expectation



We maintain Buy as we expect the airline's yield to bottom out in 3Q17 with load factor staying at c.90%. We believe Spring Airlines should be a key beneficiary of China's LCC development, which is still in its infancy stage at the moment with only 9% penetration. Downside risks: 1) excessive new capacity on international routes, 2) slower-than-expected demand growth in the North Asia and ASEAN routes, and 3) competition in domestic and regional routes.

Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	8,069.6	8,422.7	9,881.6	11,498.4	13,275.7
EBITDA (CNYm)	1,591.2	1,209.9	1,278.9	1,788.8	2,210.8
Reported NPAT (CNYm)	1,327.9	950.5	1,011.3	1,364.9	1,599.0
Reported EPS FD(CNY)	1.680	1.188	1.263	1.705	1.997
DB EPS FD(CNY)	1.680	1.188	1.263	1.705	1.997
DB EPS growth (%)	14.0	-29.3	6.3	35.0	17.2
PER (x)	32.0	39.6	25.1	18.6	15.9
EV/EBITDA (x)	27.8	33.3	22.3	16.3	13.5
DPS (net) (CNY)	0.210	0.160	0.170	0.230	0.269
Yield (net) (%)	0.4	0.3	0.5	0.7	0.8
DB ROE (%)	26.3	13.7	13.0	15.5	15.8

Source: Deutsche Bank estimates, company data



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Spring Airlines	601021.SS	31.77 (CNY) 16 Aug 2017	NA

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Historical recommendations and target price. Spring Airlines (601021.SS)

(as of 08/16/2017)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	12/02/2016	Buy, Target Price Change CNY 48,20 Fei Sun, CFA	4.	03/30/2017	Buy, Target Price Change CNY 42,30 Fei Sun, CFA
2.	01/17/2017	Buy, Target Price Change CNY 44,60 Fei Sun, CFA	5.	04/28/2017	Buy, Target Price Change CNY 39,10 Fei Sun, CFA
3.	03/08/2017	Buy, Target Price Change CNY 44,50 Vincent Ha, CFA	6.	07/13/2017	Buy, Target Price Change CNY 41,20 Vincent Ha, CFA



Equity Rating Key

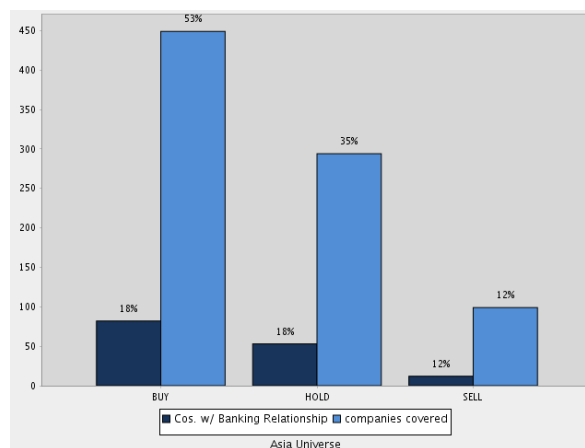
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