



Conference call takeaways

China Eastern Airlines (CEA) hosted a post-3Q17 results conference call on 27 October. Key takeaways are as follows:

- Yield: CEA recorded flattish passenger yield in 3Q17 with 0.3% domestic yield YoY growth offset by 0.6% international yield YoY decline (mainly due to the aggressive launch of long-haul international routes in the past few years).
- Capacity: CEA guided for about 9% YoY passenger capacity (ASK) expansion in 4Q17, comprising 7% domestic ASK growth and 13% international ASK growth. For FY18, the airline expects its ASK to grow c.10% YoY with 8% YoY on domestic routes and 10-12% YoY on international routes. Considering the regulator's (CAAC) new policy to control overall flight slot increase in some congested airports, CEA targets to optimize its flight routes by increasing long-distance route and international route mix. Meanwhile, the airline also aims at improving operating efficiency by minimizing flights cancellation occurrence with more backup planes.
- Load Factor: CEA attributes the load factor decline in business routes in August to extreme weather and large national events. The airline estimates that the load factor will gradually recover starting September, and sustain at a high level in future. For the international market, there is upward load factor trend in Europe, but weaker for North America and Korea routes.
- Direct sales: CEA's revenue from direct sales increased 34% YoY in 3Q17, accounting for 53% of total passenger traffic.
- FX gain: CEA recorded RMB620m FX gain in 3Q17 vs. RMB410m FX loss in 3Q16 due to the recent RMB appreciation against USD. CEA has reduced its USD to total debt ratio to 31% in 3Q17, and the company tends to maintain the current debt structure.

Deutsche Bank view - Buy H-shares on the expectation of improving yield

We remain optimistic on CEA's business operation despite slowing traffic growth, as we expect the yield to gradually improve with a stable load factor amid slowing capacity growth as well. We also see long-term upside potential from its low-

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Companies featured

	2016A	2017E	2018E	
China Eastern Airlines (0670.HK), HKD3.99				Buy
P/E (x)	6.5	9.4	8.3	
EV/EBITDA (x)	6.5	7.0	6.7	
Price/book (x)	0.9	0.9	0.8	
China Eastern Airlines-A (600115.SS), CNY6.76				Sell
P/E (x)	12.6	18.7	16.6	
EV/EBITDA (x)	8.3	9.0	8.5	
Price/book (x)	2.1	1.8	1.7	

Source: Deutsche Bank

Our price target is based on a target 1.1x FY18E P/BV. Key downside risks are demand weakening on North Asian routes and excessive new capacity on domestic routes. Key upside risks are stronger-than-expected growth in yield and return of demand on Korean routes.

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cost carrier unit, China United Airlines. All in all, we think CEA is better positioned with its Shanghai hub, and all of the aforementioned factors should 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 valuation.



Appendix 1

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*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
China Eastern Airlines-A	600115.SS	6.76 (CNY) 26 Oct 2017	14
China Eastern Airlines	0670.HK	3.99 (HKD) 26 Oct 2017	14

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

(as of 10/26/2017)



Current Recommendations

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

** Analyst is no longer at Deutsche Bank

1.	01/28/2016	Sell, Target Price Change CNY 4,45 Vincent Ha, CFA	5.	03/08/2017	Sell, Target Price Change CNY 4,45 Vincent Ha, CFA
2.	04/26/2016	Sell, Target Price Change CNY 4,85 Joe Liew, CFA	6.	07/13/2017	Sell, Target Price Change CNY 4,80 Vincent Ha, CFA
3.	07/05/2016	Sell, Target Price Change CNY 4,60 Vincent Ha, CFA	7.	09/19/2017	Sell, Target Price Change CNY 4,50 Joe Liew, CFA
4.	12/02/2016	Sell, Target Price Change CNY 3,80 Fei Sun, CFA			

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

(as of 10/26/2017)



Current Recommendations

- Buy
- Hold
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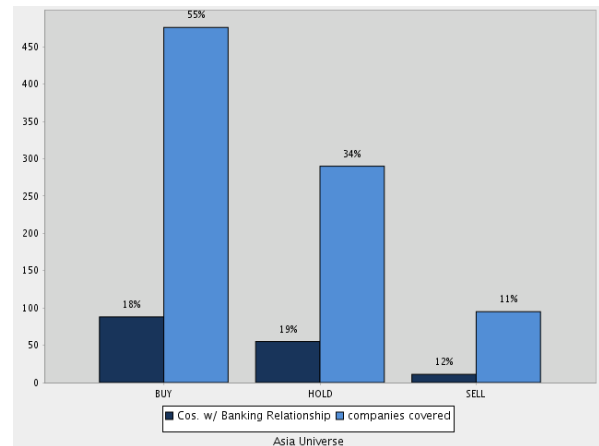
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