



Rating  
**Buy**

Asia  
China

Transportation  
Air

Company  
**Spring Airlines**

Reuters 601021.SS    Bloomberg 601021 CH    Exchange SHH    Ticker 601021

Date  
30 October 2017

## Results

Price at 27 Oct 2017 (CNY)	33.96
Price target - 12mth (CNY)	41.20
52-week range (CNY)	43.99 - 30.60
Shanghai Composite	3,416

## Valuation & Risks

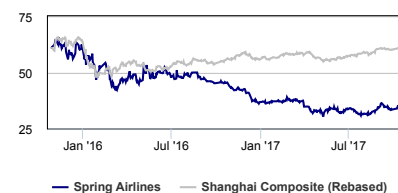
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## Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.8	6.7	-23.5
Shanghai Composite	2.1	5.1	9.8

Source: Deutsche Bank

## Key indicators (FY1)

DB ROE (%)	13.0
Net debt/equity (%)	38.8
Book value/share (CNY)	10.251
Price/book (x)	3.3
Net interest cover (x)	2.8
Operating profit margin (%)	4.7

Source: Deutsche Bank

# 3Q17 beat with encouraging yield and int'l load factor recovery

## 48% profit growth amid improvement in passenger yield

Spring reported 3Q17 gross revenue growth of 28.9% YoY to RMB3.6bn on the back of 15.0% passenger traffic (RPK) YoY growth and passenger yield recovery, in our opinion. Meanwhile, operating expenses increased at a slower pace of 27.0% YoY due mainly to an increase in capacity (ASK), higher fuel cost and take-off/landing fees post CAAC price reform in April, according to the company. Together with 1) 22bps drop in SG&A to revenue ratio; 2) flattish net finance cost and 3) limited investment loss (3Q16: RMB23.2m investment loss), the airline recorded a 36.6% YoY increase in operating profit to RMB696.9m. Helped by RMB195.0m non-operating income (+22.6% YoY) mainly from local airports route subsidies, the airline's 3Q17 net profit grew by 47.6% YoY to RMB633.9m. On a 9M17 basis, Spring's unaudited reported net profit increased by 1.6% YoY to RMB1.2bn.

## Deutsche Bank view – yield recovery on track; maintain Buy

As Spring's 9M17 profit accounted for 117% of our full-year earnings estimate and 107% of consensus, we consider the results beat our expectation. Even though 4Q is usually a slow season for Chinese airlines, we see upside risk to our full year forecast, due to a decent yield trend and recovery in the international load factor. In September, Spring recorded 10.3% YoY passenger traffic (RPK) growth, driven by 18.2% YoY growth in domestic passenger traffic but 3.0% YoY decline in international traffic. Passenger load factor improved 0.4ppt YoY to 89.6% in September with international load factor recording YoY improvement (+2.9ppt to 85.2%) for the first time since February.

We maintain Buy as we expect the airline's yield to bottom in FY17 with the load factor staying at c.92%. Our TP is based on 3.5x average FY18E P/BV, c.30% below Spring's average P/BV of 5.0x since listing. We believe this is justified vs. sustainable ROE of about 15-16%. Key downside risks: excessive capacity addition; competition from regional LCCs and Chinese airlines; and slower-than-expected demand growth.



Figure 1: Spring Airline - quarterly results summary

(RMBm)	3Q17	3Q16	YoY%	Deutsche Bank Comments
Gross revenue	3,358.0	2,604.8	28.9%	15.0% RPK growth with yield improvement
Operating expenses	(2,657.9)	(2,093.5)	27.0%	Mainly due to increase in ASK, fuel cost and take-off/landing fees
Net finance cost	(74.6)	(74.1)	0.7%	
Investment income	(0.0)	(23.2)	-99.8%	No longer recording investment loss from associate Spring Japan
Operating profit	696.9	510.3	36.6%	
Non-operating income	195.0	159.0	22.6%	Mainly due to increase in route subsidy
Net profit	633.9	429.5	47.6%	

Source: Company data, Deutsche Bank

## 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	26.9	19.9	17.0
EV/EBITDA (x)	27.8	33.3	23.7	17.2	14.3
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	33.96 (CNY) 27 Oct 2017	NA

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

(as of 10/27/2017)



### 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

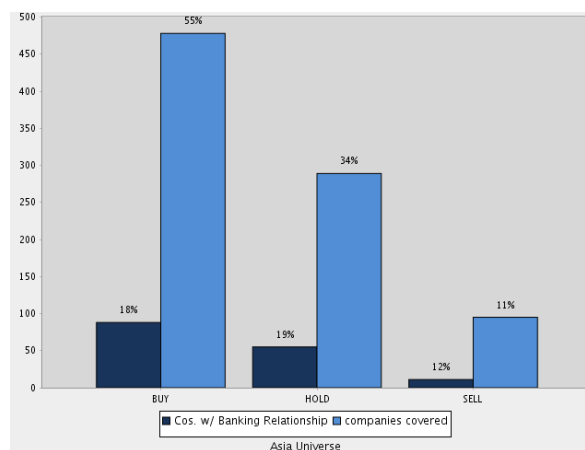
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**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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