



Rating
Buy

Asia
China

Transportation
Infrastructure

Company
**Shanghai Airport
Alert**

Reuters 600009.SS Bloomberg 600009 CG Exchange SHH Ticker 600009

Date
26 July 2018

Company Update

Price at 25 Jul 2018 (CNY)	62.67
Price target - 12mth (CNY)	70.00
52-week range (CNY)	62.75 - 35.84
HANG SENG INDEX	28,921

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Duty-free auction drives earnings growth

New duty-free concession rate of 42.5%

Shanghai Airport announced the results of the duty-free concession auction on 21 Jul. The winning bid was from Sunrise Duty Free Group (Shanghai), an associate of CITS and the current duty-free operator of Pudong Airport. Sunrise (Shanghai) offered a 42.5% concession rate and total guaranteed revenue of RMB41bn over the expected contract term from 1 Jan 2019 to 31 Dec 2025. The operating areas include Pudong Airport T1, T2 and the new satellite concourse, which is expected to open mid-2019. The new contract terms are expected to come into effect from 1 Jan 2019 for T2, from 1 Jan 2022 for T1 and from the commencement of operations in mid-2019 for the satellite concourse. Shanghai Airport and Sunrise (Shanghai) are finalizing further details of the contract.

Adjusted forecasts to factor in traffic growth and concession rate changes

We have increased our 2018E NP forecast by 7% to take into account the better-than-expected traffic growth YTD (our 2018 forecast now assumes 6% pax traffic growth compared to 5.4% previously) and cut our 2019-2020E NP forecasts by 10% due to the lower concession rate assumption of 38%, compared to our previous assumption of 45%. The adjusted NP forecasts for 2018-2020E are RMB4,453m, RMB5,549m, and RMB5,937m respectively. We cut our TP by 6% to RMB70; maintaining Buy.

1H18 results expected on 25 Aug

In 1Q18, Shanghai Airport reported NP of RMB 1,017m up 28.6% yoy, supported by a 5.5% yoy increase on total passenger traffic and the new airport fee standards. For the first half of 2018, total passenger traffic was 36.69m (up 7.5% yoy) and international pax traffic growth was 12.6% yoy. We are forecasting RMB 2,064m NP for 1H18, representing 22% yoy growth.

Key changes

TP	74.40 to 70.00	↓	-5.9%
Sales (FYE)	9,014 to 9,400	↑	4.3%
Op prof margin (FYE)	49.7 to 51.8	↑	4.2%
Net profit (FYE)	4,161.4 to 4,453.4	↑	7.0%

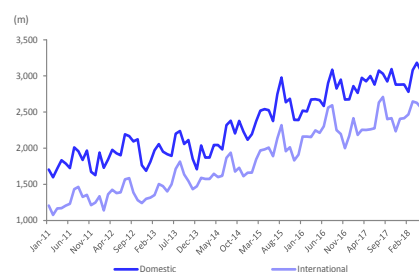
Source: Deutsche Securities Inc.

Key data

FYE 12/31	2017A	2018E	2019E
Sales (CNYm)	8,062	9,400	11,629
Net Profit (CNYm)	3,683.4	4,453.4	5,549.4
DB EPS (CNY)	1.91	2.31	2.88
PER (x)	18.8	27.1	21.8
Yield (net) (%)	1.6	1.1	1.4

Source: Deutsche Securities Inc.

Strong traffic growth



Source: Deutsche Securities Inc., company data

Figure 1: Forecasts before and after adjustments and versus consensus

	Before			After			Chg.			Consensus			Diff.		
	18E	19E	20E	18E	19E	20E	18E	19E	20E	18E	19E	20E	18E	19E	20E
OP	4,480	7,076	7,609	4,866	6,270	6,739	9%	-11%	-11%	4,619	5,941	6,635	5%	6%	2%
NP	4,161	6,159	6,595	4,453	5,549	5,937	7%	-10%	-10%	4,366	5,299	5,691	2%	5%	4%

Source: Deutsche Bank, Bloomberg Finance LP

Deutsche Securities Inc.

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