## CMB International Securities | Equity Research | Company Update





# Juneyao Airlines-A (603885 CH)

## **RPK** growth beats expectation

The Company announced 3Q19 results on 31 Oct. 9M19 revenue +17.0% YoY. Net profit -13.8% YoY. Adjusted net profit -4.9% YoY. RPK +16.8% YoY. Passenger load factor was 85.9%, down 0.7ppt 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. And we believe the Company will achieve 15% YoY increase in ASK for the whole year. We factor in our house view of 2019E average Brent crude oil, and raise TP from RMB 15.03 to RMB 17.63, corresponding to 2.9x 2020E P/B. Maintain BUY.

- 9M19 revenue in line. For 9M19, operating revenue increased 17.0% YoY to RMB 13bn, representing 80%/78% of our/consensus previous full-year estimates. Net profit decreased 13.8% YoY to RMB 1,236mn, representing 98%/91% of our/consensus previous full-year estimates. Net profit in 3Q19 decreased 19.5% YoY, mainly due to sharp decline in non-operating income. Excluding extraordinary items, decrease in net profit shrank to 4.9% YoY to RMB 1,153mn.
- RPK growth beats expectation. For 9M19, RPK increased 16.8% YoY, highest among peers (CEA +10.4%; CSA +9.2%; AC +6.2%; Spring Airlines +13.7%). The third quarter is a traditional peak season for business, student and tourism travel. Benefitting from new international routes opened in YE18, traffic in 3Q19 increased 19.1% YoY, as compared with 6.7% increase in 3Q18. ASK increased 17.7% YoY, higher than management guidance at the beginning of the year. Passenger load factor was 85.9%, down 0.7ppt YoY.
- Positive 4Q19 outlook. For 4Q19, as domestic economy stabilizes, and China and US are marching towards a "phase one" deal, we reiterate our view that we expect both domestic and international demand to release. And we believe the Company will achieve 15% YoY increase in ASK for the whole year.
- Valuation. 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 13.7%/31.5%, and roll over TP to RMB 17.63. Our TP corresponds to 2.9x 2020E P/B. The stock is currently trading at 2.5x 2020E P/B, lower than historical average of 3.0x. Maintain BUY.

## **Earnings Summary**

FY17A	FY18A	FY19E	FY20E	FY21E
12,231	14,198	16,243	18,324	20,480
24.6	16.1	14.4	12.8	11.8
1,326	1,233	1,427	1,751	1,490
0.74	0.69	0.76	0.89	0.76
(24.2)	(7.0)	10.6	17.4	(14.9)
20.6	22.2	20.0	17.1	20.1
3.2	2.9	2.8	2.5	2.3
1.5	0.0	0.0	1.8	1.5
16.3	13.6	14.2	15.4	11.9
77	72	79	107	114
	12,231 24.6 1,326 0.74 (24.2) 20.6 3.2 1.5	12,231 14,198 24.6 16.1 1,326 1,233 0.74 0.69 (24.2) (7.0) 20.6 22.2 3.2 2.9 1.5 0.0 16.3 13.6	12,231     14,198     16,243       24.6     16.1     14.4       1,326     1,233     1,427       0.74     0.69     0.76       (24.2)     (7.0)     10.6       20.6     22.2     20.0       3.2     2.9     2.8       1.5     0.0     0.0       16.3     13.6     14.2	12,231     14,198     16,243     18,324       24.6     16.1     14.4     12.8       1,326     1,233     1,427     1,751       0.74     0.69     0.76     0.89       (24.2)     (7.0)     10.6     17.4       20.6     22.2     20.0     17.1       3.2     2.9     2.8     2.5       1.5     0.0     0.0     1.8       16.3     13.6     14.2     15.4

## **BUY (Maintain)**

Target Price RMB17.63 (Previous TP RMB15.03) Up/Downside +16.0% Current Price RMB15.20

#### **China Airline Sector**

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#### Stock Data

Mkt Cap (RMB mn)	29,885
Avg 3 mths t/o (RMB mn)	82.64
52w High/Low (RMB)	17.80/ 11.50
Total Issued Shares (mn)	1,966
Source: Bloomberg	

**Shareholding Structure** 

Shanghai Juneyao (Group)	51.92%
Co., Ltd.	
Eastern Airlines Industry	15.00%
Investment Co., Ltd.	

Source: Wind

## **Share Performance**

	Absolute	Relative
1-mth	6.4%	2.7%
3-mth	18.5%	12.3%
6-mth	8.5%	7.4%

Source: Bloomberg

## 12-mth Price Performance



Source: Bloomberg

## Auditor: Deloitte

## **Related Reports**

- 1. "Code sharing with CEA broadens destinations" 2 Sep 2019
- "Highest operational efficiency" –
   31 Jul 2019



Figure 1: 3Q19 results

RMB mn	9M19	9M18	YoY	3Q19	3Q18	YoY
Operating revenue	13,004	11,113	17.0%	4,942	4,182	18.2%
Operating expenses	(10,654)	(8,883)	19.9%	(3,755)	(3,131)	19.9%
Taxes and surcharges	(7)	(10)	-25.2%	(3)	(2)	37.5%
Selling expenses	(499)	(450)	10.7%	(189)	(162)	16.2%
General and administrative expenses	(306)	(286)	7.1%	(99)	(104)	-4.1%
R&D expenses	(35)	0	NA	(17)	0	NA
Finance expenses	(212)	(130)	62.7%	(70)	(48)	45.0%
Of which: Interest expenses	(248)	(122)	103.9%	(91)	(49)	85.7%
Interest income	33	18	89.2%	12	7	71.4%
Asset impairment losses	0	(4)	NA	0	(3)	NA
Credit impairment losses	(2)	0	NA	(0)	0	NA
Total expenses	(11,716)	(9,764)	20.0%	(4,134)	(3,451)	19.8%
Other income	298	293	1.7%	100	140	-28.8%
Investment income	1	181	-99.4%	(0)	179	NA
Of which: investments in asso. and JVs	1	2	-64.7%	(0)	1	NA
Fair value gains/(losses)	(16)	0	NA	(9)	0	NA
Gain on disposal	25	38	-33.4%	6	11	-45.9%
Operating profit	1,596	1,861	-14.2%	905	1,061	-14.7%
				_		
Non-operating income	94	103	-8.9%	6	69	-91.7%
Non-operating expenses	(1)	(1)	13.5%	(0)	(0)	-8.0%
Profit before income tax	1,690	1,964	-13.9%	911	1,130	-19.4%
Income tax expenses	(434)	(511)	-15.0%	(237)	(297)	-20.4%
Profit for the year	1,256	1,453	-13.6%	674	833	-19.1%
Non-controlling interests	(20)	(18)	7.5%	(17)	(16)	1.7%
Net profit	1,236	1,434	-13.8%	657	816	-19.5%

Source: Company data, CMBIS

Figure 2: Earnings revision

	New				Old		Diff			
RMB mn	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	
Traffic revenue	16,243	18,324	20,480	16,282	18,321	20,300	-0.2%	0.0%	0.9%	
Passenger	15,944	17,882	19,739	15,983	17,879	19,560	-0.2%	0.0%	0.9%	
Cargo and mail	299	443	741	299	443	741	0.0%	0.0%	0.0%	
Total operating revenue	16,414	18,499	20,658	16,453	18,495	20,478	-0.2%	0.0%	0.9%	
EBITDAR	4,324	5,221	5,365	4,089	4,645	4,713	5.8%	12.4%	13.9%	
Net profit	1,427	1,751	1,490	1,256	1,331	1,014	13.7%	31.5%	46.9%	

Source: Company data, CMBIS estimates



## Figure 3: Historical P/B



Source: Bloomberg, CMBIS

Income tax
Minority interests

Net profit



## **Financial Summary**

(474)

(26)

1,326

(453)

1,233

(7)

(524)

1.427

(8)

(643)

1,751

(9)

(547)

1,490

(8)

#### Income statement Cash flow summary YE 31 Dec (RMB mn) FY17A FY18A FY19E FY20E FY21E YE 31 Dec (RMB mn) FY17A FY18A FY19E FY20E FY21E 12,412 20,658 Profit for the year 1,352 1,435 Operating revenue Traffic revenue 12,231 14,198 16,243 18,324 20,480 Depreciation and amortization 634 676 847 997 1,167 Passenger 12.053 13.982 15,944 17.882 19.739 Other adjustments 308 155 200 241 360 467 (122) 365 Cargo and mail 178 216 299 443 741 Changes in working capital 317 935 174 181 168 171 178 Other operating revenue Others Operating activities 2,761 1,949 2,800 3,364 3,960 Operating expenses (10,803) (13,260) (14,776) (16,508) (18,898) (2,866) (3,951) (4,129) (4,459) (5,323) Capital expenditure (3,508) (5,397) (6,112) (7,779) (5,552) Operating lease charges (1,164)(1,447)(1,678) (1,975)(2,311) Other investing activities 299 867 5 5 5 Flight personnel costs (1,938)(2,314)(2,756)(3,250)(3,808)Investing activities (3,209)(4,530)(6,107)(7,775) (5,548)Depreciation & amortization (634)(676)(847)(997)(1,167)Other operating expenses (4,202)(4,872)(5,366)(5,827)(6,288)5 0 2,090 0 Equity raised 0 Changes in borrowings 1,343 2,873 4,372 4,118 2,010 Other net income 317 690 461 643 610 Dividends paid (681) (782) (525) **EBIT** 1,657 1,541 1,799 2,248 1,887 Others 221 (32) Financing activities 889 2,059 6,462 4,118 1,484 Exchange gain/(loss) 0 0 (81) 27 31 Other non-operating profit/(loss) 169 151 242 128 127 Net change in cash 444 (535)3.155 (293)(103)Pre-tax profit 1,826 1,693 1,959 2,404 2,045 Cash at the beginning of the year 1,482 1,927 1,391 4,546 4,253

Exchange difference

Cash at the end of the year

1,927

1,391

4,546

4,253

4,150

Balance sheet						Key ratios					
YE 31 Dec (RMB mn) Non-current assets	FY17A 16,264	FY18A 16,137	FY19E 20,394	FY20E 26,081	FY21E 29,566	YE 31 Dec Operating metrics	FY17A	FY18A	FY19E	FY20E	FY21E
Property, plant and equipment	11,239	9,835	11,770	14,825	18,925	ASK YoY (%)	22.3	10.4	16.0	13.5	11.1
Construction in progress	4,023	5,064	7,386	10,018	9,403	RPK YoY (%)	24.1	9.5	15.2	13.3	11.5
Other non-current assets	1,002	1,238	1,238	1,238	1,238	Passenger load factor (%)	86.9	86.2	85.6	85.4	85.8
Current assets	3,973	5,318	8,711	8,418	8,315	Passenger yield (RMB cents)	44.0	46.6	46.1	45.6	45.2
Cash and cash equivalents	2,103	1,825	4,546	4,253	4,150	Passenger revenue YoY (%)	24.9	16.0	14.0	12.2	10.4
Other current assets	1,870	3,493	4,165	4,165	4,165	Cargo revenue YoY (%)	7.9	21.3	38.3	48.1	67.4
Total assets	20,237	21,455	29,105	34,499	37,882						
						Operating margin	13.3	10.7	11.0	12.2	9.1
Current liabilities	5,682	8,595	12,184	13,733	13,928	EBITDAR margin	27.8	25.5	26.3	28.2	26.0
Borrowings	2,971	5,444	7,673	8,818	8,780	Net profit margin	10.7	8.6	8.7	9.5	7.2
Obligations under finance leases	100	184	209	672	852						
Other current liabilities	2,611	2,967	4,301	4,243	4,296	B/S ratios (%)					
Non-current liabilities	5,771	3,260	6,001	8,597	10,723	Total debt / Total equity	100.6	91.3	120.3	141.8	145.6
Borrowings	4,996	2,023	3,388	5,007	6,211	Net debt / Total equity	76.6	72.3	78.7	106.8	114.2
Obligations under finance leases	768	1,114	1,866	2,758	3,421						
Other non-current liabilities	7	123	746	833	1,091	Returns (%)					
Total liabilities	11,453	11,855	18,185	22,331	24,651	ROE	16.3	13.6	14.2	15.4	11.9
						ROA	7.1	5.9	5.6	5.5	4.1
Share capital	1,797	1,797	1,966	1,966	1,966						
Reserves	6,853	7,632	8,759	9,985	11,028	Per share (RMB)					
Shareholders' Equity	8,650	9,429	10,725	11,951	12,994	EPS	0.74	0.69	0.76	0.89	0.76
Non-controlling interests	133	171	195	217	236	DPS	0.23	-	-	0.27	0.23
Total equity	8,783	9,600	10,920	12,169	13,231	BVPS	4.81	5.25	5.46	6.08	6.61

Source: Company data, CMBIS estimates



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Stock with potential return of +15% to -10% over next 12 months
Stock with potential loss of over 10% over next 12 months

NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months

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