

Air China-A (601111 CH)

Winter is coming

The Company's 2019 annual results was in line with our and consensus estimates. Since the Company has the highest proportion of international routes, we expect net loss for FY20E to be RMB 1,912mn, and BVPS to decrease to RMB 6.30. Based on 1.0x P/B, we lower TP to RMB 6.30. The stock is currently trading at 1.1x 2020E P/B, lower than historical average. Downgrade to HOLD.

- **2019 annual results in line.** The Company announced 2019 annual results. RPK increased 5.7% YoY, lower than guidance. Passenger load factor increased 0.42ppt to 81.02%. Passenger yield decreased 2.2% YoY to RMB 0.53 per RPK. Revenue decreased 0.5% YoY to RMB 140.2bn, in line with our and consensus estimates. Impacted by the adoption of IFRS 16, interest expenses increased 69.8% YoY to RMB 4.9bn. As a result, net profit attributable decreased 12.7% YoY to RMB 6.4bn, in line. The Board proposed cash dividend of RMB 0.04 per share for FY19.
- **Demand recovery faces great uncertainties.** According to the Ministry of Transport, on 31 Mar, civil aviation carried 487,600 passengers, less than 30% of the same day last year. Due to insufficient air travel demand, passenger load and yield both dropped. Looking forward, listed airlines generally expect domestic demand to resume steady growth around May or Jun, and that international demand to be more uncertain. Due to the uncertainty of demand recovery, listed airlines did not give 2020E guidance. **We assume:** domestic RPK growth in 1/2/3/4Q 20E is -50%/-5%/5%/10% YoY, respectively; international and regional RPK growth in 2020E is -50% YoY; passenger load factor decreases 10ppt YoY; passenger yield decreases RMB 0.1 YoY.
- **The pandemic has the greatest impact on Air China.** For the full year of 2019, international RPK of Air China / China Eastern Airlines / China Southern Airlines contributed 42.4% / 33.3% / 30.3% of total RPK. In Jan 2020, international RPK of AC / CEA / CSA changed by -1.9% / 7.6% / 3.8% YoY, respectively. Since Air China has the highest proportion of international routes, we believe that the pandemic has the greatest impact on Air China.
- **Valuation.** After oil price tumbled in 1Q20, we expect oil expenses to decrease 48.3% YoY to RMB 18.6bn. We expect net loss for FY20E to be RMB 1,912mn, and BVPS to decrease to RMB 6.30. Based on 1.0x P/B, we lower TP to RMB 6.30. The stock is currently trading at 1.1x 2020E P/B, lower than historical average. Downgrade to HOLD.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Traffic revenue (RMB mn)	131,836	130,257	82,811	88,354	94,831
YoY growth (%)	14.3	(1.2)	(36.4)	6.7	7.3
Net income (RMB mn)	7,351	6,420	(1,912)	360	3,021
EPS (RMB)	0.54	0.47	(0.13)	0.02	0.21
YoY growth (%)	(0.5)	(12.7)	(128.2)	(118.8)	738.5
Consensus EPS (RMB)	N/A	N/A	(0.12)	0.61	0.46
P/E (x)	12.6	14.4	(51.1)	271.3	32.4
P/B (x)	1.0	1.0	1.1	1.1	1.0
Yield (%)	1.5	0.7	0.0	0.0	0.3
ROE (%)	8.2	6.9	(2.1)	0.4	3.2
Net gearing (%)	89	129	93	91	84

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Down)

Target Price	RMB6.30
(Previous TP	RMB10.40)
Up/Downside	-6.3%
Current Price	RMB6.73

China Airline Sector

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Stock Data	
Mkt Cap (RMB mn)	87,353
Avg 3 mths t/o (RMB mn)	602.73
52w High/Low (RMB)	12.22/6.31
Total Issued Shares (mn)	9,962 (A) 4,563 (H)

Source: Bloomberg

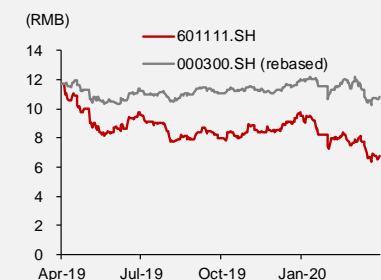
Shareholding Structure	
China National Aviation	51.69%
Holding Corporation Limited	
Cathay Pacific	18.13%

Source: HKEx

Share Performance		
	Absolute	Relative
1-mth	-11.9%	-4.0%
3-mth	-31.3%	-23.6%
6-mth	-15.9%	-14.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

1. "9M19 revenue in line; cautiously optimistic 4Q19 outlook" – 1 Nov 2019
2. "Expect demand to recover in 2H19" – 30 Aug 2019

Figure 1: 2019 results

RMB mn	2018	2018	YoY
Operating revenue	140,240	140,883	-0.5%
Traffic revenue	130,257	131,836	-1.2%
Passenger	124,525	120,430	3.4%
Cargo and mail	5,732	11,406	-49.7%
Other operating revenue	9,983	9,048	10.3%
Operating expenses	(125,598)	(126,537)	-0.7%
Jet fuel costs	(35,965)	(38,481)	-6.5%
Lease charges	(966)	(7,166)	-86.5%
Flight personnel costs	(25,474)	(24,450)	4.2%
Depreciation & amortization	(21,279)	(14,504)	46.7%
Other operating expenses	(41,914)	(41,936)	-0.1%
Other net income	0	0	NA
EBIT	14,642	14,346	2.1%
Exchange gain/(loss)	(1,211)	(2,377)	-49.0%
Other non-operating profit/(loss)	(4,310)	(1,993)	116.3%
Pre-tax profit	9,120	9,977	-8.6%
Income tax	(1,856)	(1,762)	5.4%
Minority interests	(843)	(864)	-2.4%
Net profit	6,420	7,351	-12.7%

Source: Company data, CMBIS

Figure 2: Earnings revision

RMB mn	New		Old		Diff	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Traffic revenue	82,811	88,354	140,567	140,094	-41.1%	-36.9%
Passenger	77,910	84,191	129,695	129,890	-39.9%	-35.2%
Cargo and mail	4,901	4,164	10,872	10,205	-54.9%	-59.2%
Total operating revenue	93,792	100,434	145,593	145,170	-35.6%	-30.8%
EBITDAR	20,449	23,168	41,224	39,499	-50.4%	-41.3%
Net profit	(1,912)	360	9,757	7,616	-119.6%	-95.3%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating revenue	140,883	140,240	93,792	100,434	108,118	Pre-tax profit	9,977	9,120	(2,163)	512	4,292
Traffic revenue	131,836	130,257	82,811	88,354	94,831	Depreciation and amortization	14,358	21,279	16,581	18,120	19,441
Passenger	120,430	124,525	77,910	84,191	91,079	Other adjustments	3,599	5,562	5,119	4,098	4,016
Cargo and mail	11,406	5,732	4,901	4,164	3,752	Changes in working capital	6,749	1,934	2,031	2,132	2,239
Other operating revenue	9,048	9,983	10,981	12,080	13,288	Taxation and others	(6,000)	(6,728)	(5,520)	(4,602)	(5,290)
Operating expenses	(126,537)	(125,598)	(90,911)	(95,899)	(99,885)	Operating activities	28,683	31,168	16,048	20,259	24,697
Jet fuel costs	(38,481)	(35,965)	(18,611)	(24,344)	(25,153)	Capital expenditure	(9,139)	(24,107)	(25,000)	(20,000)	(20,000)
Lease charges	(7,166)	(966)	(511)	(38)	(39)	Other investing activities	189	556	584	613	644
Flight personnel costs	(24,450)	(25,474)	(21,494)	(21,632)	(22,385)	Investing activities	(8,950)	(23,551)	(24,416)	(19,387)	(19,356)
Depreciation & amortization	(14,504)	(21,279)	(16,581)	(18,120)	(19,441)	Changes in borrowings	(7,929)	44,023	(6,591)	(4,866)	(3,592)
Other operating expenses	(41,936)	(41,914)	(33,713)	(31,765)	(32,867)	Dividends paid	(1,873)	(1,500)	(645)	-	(36)
Other net income	-	-	-	-	-	Others	(8,845)	-	-	-	-
EBIT	14,346	14,642	2,882	4,535	8,233	Financing activities	(18,647)	42,523	(7,236)	(4,866)	(3,628)
Finance expenses, net	(2,742)	(4,786)	(5,520)	(4,498)	(4,417)	Net change in cash	1,086	50,140	(15,605)	(3,994)	1,713
Exchange gain/(loss)	(2,377)	(1,211)	0	0	0	Cash at the beginning of the year	5,563	6,763	56,903	41,298	37,305
Other non-operating profit/(loss)	749	475	475	475	475	Exchange difference	114	-	-	-	-
Pre-tax profit	9,977	9,120	(2,163)	512	4,292	Cash at the end of the year	6,763	56,903	41,298	37,305	39,017
Income tax	(1,762)	(1,856)	-	(104)	(874)						
Minority interests	(864)	(843)	251	(47)	(397)						
Net profit	7,351	6,420	(1,912)	360	3,021						

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
	219,931	269,390	275,134	280,321	283,183	Operating metrics					
Non-current assets						ASK YoY (%)	10.4	5.2	-16.2	7.4	7.4
Property, plant and equipment	171,663	102,158	123,408	128,119	130,507	RPK YoY (%)	9.7	5.7	-26.1	7.2	7.2
incl. Construction in progress	10,876	10,568	10,711	9,359	8,886	Passenger load factor (%)	80.6	81.0	71.5	71.3	71.2
Other non-current assets	48,268	167,231	151,726	152,202	152,676	Passenger yield (RMB cents)	54.6	53.4	45.2	45.6	46.0
Current assets	23,726	24,817	57,180	53,186	54,899	Passenger revenue YoY (%)	14.6	3.4	-37.4	8.1	8.2
Cash and cash equivalents	6,763	8,935	41,298	37,305	39,017	Cargo revenue YoY (%)	11.2	-49.7	-14.5	-15.0	-9.9
Other current assets	16,963	15,882	15,882	15,882	15,882	Operating margin	10.2	10.4	3.1	4.5	7.6
Total assets	243,657	294,206	332,314	333,507	338,081	EBITDAR margin	26.1	26.6	21.8	23.1	26.1
Current liabilities	72,540	77,973	81,570	81,865	82,434	Net profit margin	5.2	4.6	-2.0	0.4	2.8
Borrowings	27,195	22,730	21,658	20,867	20,283	B/S ratios (%)					
Lease liabilities	7,126	13,862	18,307	17,824	17,468	Total debt / Total equity	95.3	137.9	134.2	128.8	121.6
Other current liabilities	38,219	41,381	41,605	43,174	44,683	Net debt / Total equity	88.6	129.1	92.6	91.4	83.6
Non-current liabilities	70,619	114,904	151,487	152,034	153,091	Returns (%)					
Borrowings	15,585	16,599	15,816	15,238	14,812	ROE	8.2	6.9	-2.1	0.4	3.2
Lease liabilities	45,848	86,586	117,979	114,965	112,740	ROA	3.1	2.4	-0.6	0.1	0.9
Other non-current liabilities	9,186	11,719	17,692	21,831	25,540	Per share (RMB)					
Total liabilities	143,159	192,877	233,057	233,899	235,525	EPS	0.54	0.47	-0.13	0.02	0.21
Share capital	11,477	11,477	11,477	11,477	11,477	DPS	0.10	0.04	-	0.00	0.02
Reserves	81,680	81,981	80,070	80,394	83,113	BVPS	6.41	6.43	6.30	6.33	6.51
Shareholders' Equity	93,157	93,458	91,547	91,871	94,590						
Non-controlling interests	7,341	7,871	7,710	7,737	7,966						
Total equity	100,498	101,329	99,256	99,608	102,556						

Source: Company data, CMBIS estimates

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