

15 September 2014

TravelSky (696.HK)

The new operation center is expected to be accelerated in 2H

HONG KONG | AIR INFORMATION SERVICE | INTERIM RESULTS

- 1H14 Revenue was RMB 2.54 billion, up 28.6%, and the operating costs increased quickly, up 43.5%
- Operating profit reached RMB 650 million with increase only 5%.
- Net profit growth to RMB 1.133 billion, up 78.6% yoy
- EPS RMB 0.39 yuan, no interim DPS.
- Maintain "Accumulate", with changed TP of HK\$8.73

The increase of total revenue lay on the increase of business volume especially data network and other revenue growth. At the same time, the operating costs increased quickly, offsetting the revenue growth. The company received 500 million RMB industry support subsidy from government, stimulating net profit strong growth.

How we view this

The Company has been piloting the business transformation with a view to improving new product development and market promotion while stabilizing the traditional market share, the efforts to this end include the construction of a new technology center and introduction of new generation GDS system, accelerating the development of emerging industries products based on mobile Internet end. The new-added research fellows of the Company have been available, now the research and development are going all out. As of the end of June, the number of "Umetrip" team increased from more than 10 to 40, the registered users was still 1 million, but the number of activated users increased dramatically, rising from 5-6 million at the end of last year to 9 million now. According to the plan of the Company, the number of users will surpass 10 million at the end of 2014.

The construction of the Company's new operation center in Shunyi District, Beijing is proceeding well but lowers than expected in 1H2014; the work is expected to be accelerated in 2H2014, and the capex budget of the year still stand at RMB2.4 billion.

Investment Action

We change the Company's estimated adjusted EPS to RMB0.42 and 0.48 in 2014 and 2015 respectively. According to the current situation of industry and the Company's comprehensive, based on 2015 EPS and 14.2 x P/E, we give the 12-month target price of 8.73 HK\$, 10.5% higher than the last close, and we maintain the rating at Accumulate

Key Financial Summary

FYE Dec	12/12	12/13	12/14F	12/15F
Revenue (RMB mn)	4,061	4,509	5,120	5,739
Net Profit, adj. (RMB mn)	1,133	1,206	1,656	1,413
EPS, adj. (RMB)	0.39	0.41	0.42	0.48
P/E (X),adj.	16.4	15.1	14.7	12.8
BVPS (RMB)	2.82	3.10	3.44	3.77
P/B (X)	2.2	2.0	1.8	1.6
DPS (RMB)	0.13	0.14	0.14	0.16
Div. Yield (%)	2.1%	2.3%	2.3%	2.6%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

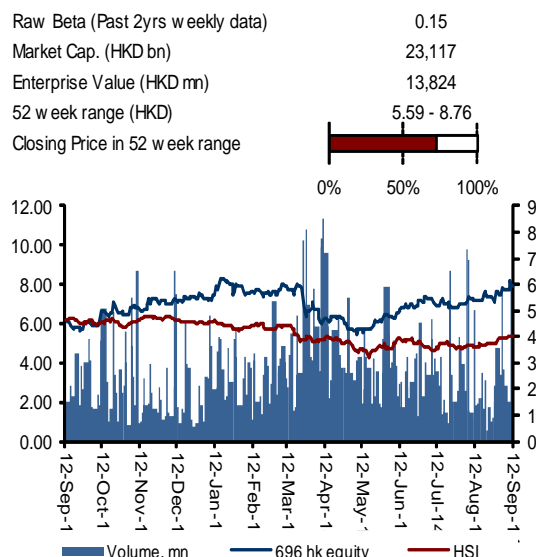
Rating: **Accumulate**

Maintained at Accumulate

Target Price (HKD)	8.73
Forecast Dividend (HKD)	0.18
Closing Price (HKD)	7.90
Potential Return	12.8%

Company Description

TravelSky is the leading provider of information technology solutions for aviation and travel industry in PRC. TravelSky provides centralized air ticket reservation services to all Chinese airlines except China Spring Airlines through the only GDS (global distribution system) used at mainland airports. The H shares of the Company were listed on HKEx on February 7, 2001.



Major Shareholders

1.China TravelSky Holding Company	29.29%
2.China Southern Air Holding Company	14.19%
3.China Eastern Air Holding Company	12.21%
4.China National Aviation Holding Company	9.81%

Valuation Method

PE

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Government subsidy helps boost performance

TRAVELSKY's total revenue of 1H2014 was RMB 2.54 billion, up 28.6% compared with that of previous year. The increase of total revenue lay on the increase of business volume especially data network and other revenue growth. At the same time, the operating costs increased quickly, up 43.5% compared with that of the previous year, offsetting the revenue growth. The operating profit reached RMB 650 million with increase only 5%. The company received 500 million RMB industry support subsidy from government, stimulating net profit growth to RMB 1.133 billion, up 78.6% yoy with per stock RMB 0.39 without sending middle-term dividend.

Fig 1. 2014H Result Review

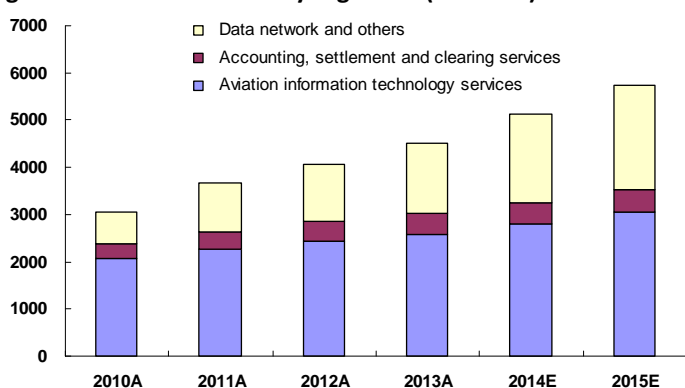
	2013H	2014H	yoy
Revenues	1976	2541	28.59%
Aviation information technology services	1242	1370	10.31%
Accounting, settlement and clearing services	199	209	5.00%
Data network and others	536	963	79.76%
Operating expenses	-1262	-1810	43.45%
Business taxes and other surcharges	-13	-10	-20.20%
Depreciation and amortisation	-192	-209	8.71%
Network usage	-26	-24	-9.53%
Personnel	-369	-434	17.77%
Operating lease rentals	-65	-74	13.84%
Technical support and maintenance fees	-108	-188	73.15%
Commission and promotion expenses	-235	-264	12.31%
Other operating expenses	-252	-606	140.30%
Operating profit	715	732	2.36%
Financial income, net	38	59	55.83%
Share of result of associated companies	6	9	57.44%
Profit before tax	758	1300	71.38%
Income tax	-111	-147	31.82%
Profit after tax	647	1153	78.17%
minority interest	12	20	59.13%
Net profit	635	1133	78.55%
EPS	0.22	0.39	77.27%

Source: Company

The revenue from data network increased 80%

The revenue from data network and other channels increased to RMB 960 million, up 80% yoy in the first half year, accounting for 38% of the total revenue with an increase of 11 ppts. The main reason for increase lay on the way of bidding. Breakthroughs were also made in airport IT integration services, achieving revenue amounting to RMB 470 million, up 290% yoy. But at the same time, the costs amounted to RMB 440 million, up 300%. Company showed that the revenue of this business was "case by case" and its future depends on whether they could win the bid. Other two businesses: the revenue of network and other new business were RMB 250 million and RMB 240 million respectively, up 10% and 28% yoy.

Fig2. Revenue breakdown by segments (RMB:mil)

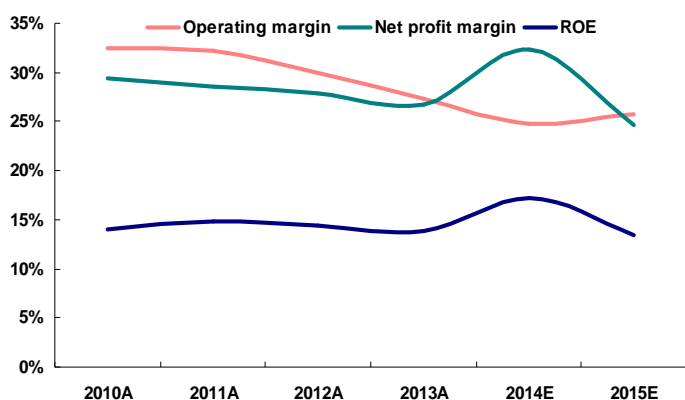


Source: Company, PSR est.

The revenue from aviation information and settlement business increased steadily

It's main business: the revenue of aviation information increased to RMB 1.37 billion with 10.3% growth in the first half year owing to flight reservation the company deal with increased to 2.018 million persons with the increase of 10.5% compared with that of the previous year. The volume of inner flight reservation increased 10.7% while outer flight 7.5%. The season for slow growth of foreign airlines(double-digit growth to single-digit) are :transport capacity of foreign airlines slow and affluenced by negative events in the first half year especially the political turmoil in southeast Asia such as Tailland and Philippines as well as the event of Malaysia Airline. Currently, regulation shows that eight foreign airlines and thirty one agents were allowed to sell tickets, only accounting for 4% of total TRAVELSKY, which had little influence on the revenue from foreign airlines.

Fig3. View of margins



Source: Company, PSR est.

In addition, influenced by the growth of international routes, its settlements and clearing business reached RMB 210 million with the growth of 5%, accounting for 8.2% of the total revenue of company, declining nearly 2ppts.

New Businesses Going All Out, Operation Progress Followed

The Company has been piloting the business transformation with a view to improving new product development and market promotion while stabilizing the traditional market share, the efforts to this end include the construction of a new technology center and introduction of new generation GDS system, accelerating the development of emerging industries products based on mobile Internet end. The new-added research fellows of the Company have been available, now the research and development are going all out.

As of the end of June, the number of "Umetrip" team increased from more than 10 to 40, the registered users was still 1 million, but the number of activated users increased dramatically, rising from 5-6 million at the end of last year to 9 million now. According to the plan of the Company, the number of users will surpass 10 million at the end of the year, and the Company will step up investment based on the business expansion.

The Company plans to establish a new operation center in Shunyi District, Beijing, the center will be an international headquarter occupying the land of 533,000 square meters and integrating the large data center, operation maintenance, smart office, research and development and logistics support into one, the investment for phase-1 work of which will be RMB3.655 billion, the phase-1 work will be put into use at the end of 2015. In the first half of the year, the work is proceeding well but lowers than expected; the work is expected to be accelerated in 2H2014, and the capex budget of the year still stand at RMB2.4 billion.

Fig4. Peer Comparison

Name	Ticker	Mkt Cap (HKD)	BEst				EV/BEst	ROA		
			BEst P/B	BEst P/B:2FY	BEst P/E:1FY	BEst P/E:2FY		P/B	LF	ROE
AMADEUS	AMS SM	125584	5.8	4.9	18.4	16.9	10.9	6.1	10.4	31.3
TRAVELSKY	696 HK	23117	1.8	1.6	14.5	13.0	7.7	1.9	14.6	18.6
CTRP.COM	CTRP US	65331	6.2	5.4	62.4	38.5	63.1	6.1	4.8	11.3
SABRE	SABR US	37779	17.1	7.4	19.6	16.3	9.1	95.3		N/A
ORBITZ	OWW US	7015	13.5	7.1	22.6	14.8	7.2	26.6	1.5	62.0
PRICELINE	PCLN US	478397	7.2	5.6	22.4	18.2	16.5	7.9	19.7	30.9
QUNAR	QUNR US	27257	78.5	N/A	N/A	N/A	N/A	15.2	-14.9	N/A

Source: Company, PSR est.

FYE DEC	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios					
P/E (X), adj.	17.7	16.4	15.1	14.7	12.8
P/B (X)	2.5	2.2	2.0	1.8	1.6
Dividend Yield (%)	1.9%	2.1%	2.3%	2.3%	2.6%
Dividend payout ratio (%)	33.5%	34.4%	34.0%	33.6%	33.1%
Per share data (RMB)					
EPS, reported	0.36	0.39	0.41	0.57	0.48
EPS, adj.	0.36	0.39	0.41	0.42	0.48
DPS	0.12	0.13	0.14	0.14	0.16
BVPS	2.56	2.82	3.10	3.44	3.77
Growth & Margins (%)					
Growth					
Revenue	20.2%	10.6%	11.1%	13.5%	12.1%
EBIT	19.3%	3.0%	1.3%	2.9%	16.2%
Net Income, adj.	16.8%	8.2%	6.4%	37.3%	-14.7%
Margins					
Gross margin	63.0%	63.1%	59.2%	55.7%	56.0%
EBIT margin	32.2%	30.0%	27.4%	24.8%	25.7%
Net Profit Margin	28.5%	27.9%	26.7%	32.3%	24.6%
Key Ratios					
ROE (%)	7.00%	0.38%	2.58%	5.2%	8.8%
ROA (%)	12.34%	12.00%	11.47%	14.1%	10.9%
Income Statement (RMB mn)					
Revenue	3672	4061	4509	5,120	5,739
Operating expenses	(2,490)	(2,843)	(3,276)	(3,850)	(4,264)
Operating profit	1182	1218	1234	1,270	1,475
Finacial income, net	74	58	64	110	123
Share of result of associated companies&othe	27	29	15	519	24
Profit before tax	1,283	1,304	1,312	1,899	1,622
Tax	(208)	(142)	(73)	(190)	(162)
Profit for the period	1,075	1,163	1,240	1,709	1,460
Minority interests	(28)	(30)	(34)	(53)	(47)
Net profit	1,047	1,133	1,206	1,656	1,413
Total capital share	2926	2926	2926	2926	2926

Source: PSR



PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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