

BCIA (694.HK)

Continuous advance in structural readjustment

Hong Kong | Airline Support | Update Report

15 April 2015

Earned 4.7% more in 2014

Revenue of BCIA was RMB 7.656 billion, +6.0%yoy. The recorded net profit was RMB 1.39 billion, + 4.7%yoy. The EPS was RMB 0.32, while the EPS of 2013 was RMB 0.31. The Board proposed to distribute the final dividend of RMB 0.0816 per share, together with the interim dividend of RMB 0.0469 per share, the dividend payout ratio reached 40%. The debt structure of the Company was continuously optimized and the total debt ratio dropped from 50.4% to 46%. The operating expenses were RMB 5.171 billion, representing an increase of 6.7% or RMB 0.323 billion, of which the increase was higher than revenues.

Aeronautical business: continuously slow increase in revenues

In 2014, the Company's aircraft movements reached 582,000 sorties, +2.5%yoy. The passenger throughput reached 86.13 million person-times, up 2.9% yoy. The cargo and mail throughput reached 1.85 million tons, basically flat as compared with corresponding period of the previous year. The aeronautical revenues were RMB 4.368 billion, +4.0% yoy.

A slight increase in non-aeronautical business

In 2014, the non-aeronautical revenue of the Company was RMB 3.288 billion, up 8.8% yoy, and the growth was higher than 2013. Among which, the concession revenues were RMB 2.15 billion, + 6.4%. The rental revenues of the Company were RMB 0.944 billion, + 15.8%, mainly due to the increase in the rental price. In addition, the Company reached agreements with certain customers in respect of the usage fee of some facilities for the previous years, and recorded the related revenues in this fiscal year. The car parking service fee of the Company was RMB 0.18 billion, +7.3%, mainly due to the increase in car parking price standard.

Outlook

Look into the future, the company plans to continuously optimize the flow structure and hopes to raise the proportion of the passengers of international flights and the punctuality rate of the flight schedules. As to the freight service, the company also tries to implement the new freight service mode, for example, it signs a strategic cooperative agreement on freight with SF-Express. We believe, with the further development and the popularization of this mode in the coming future, it is expected to be a new business increase point in the future.

Valuation and investment thesis We adjust the net profit in 2015/2016 to the expected 1.59/1.80 Billion RMB, and correct the target price to 9.23 HKD, corresponding to respectively 7.5 x EBITDA per share in 2015, and give an Accumulate rating. (Closing price as at 10 April 2015)

Accumulate (Downgrade)

CMP HKD 8.73

(Closing price as at 10 April 2015)

TARGET HKD 9.23 (+6%)

COMPANY DATA

O/S SHARES (MN) :	4331
MARKET CAP (HKD MN) :	16406
52 - WK HI/LO (HKD):	8.82 / 4.96

SHARE HOLDING PATTERN, %

Capital Airports Holding Company	56.61
Fortland Ventures Limited	8.94

PRICE PERFORMANCE, %

	1M	3M	1Y
BCIA	18.94	18.29	60.18
HIS index	3.95	4.28	41.63

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY13	FY14E	FY15E	FY16E
Net Sales	7225	7656	8084	8541
Net Profit	1329	1391	1594	1796
EPS, CNY	0.31	0.32	0.37	0.41
P/E, x	22.5	21.6	18.8	16.7
BVPS, CNY	3.74	3.97	4.20	4.53
P/BV, x	1.8	1.7	1.6	1.5
DPS (CNY)	0.12	0.13	0.15	0.17
Div. Yield (%)	1.8%	1.9%	2.1%	2.4%

Source: Company reports, Phillip Securities Est.

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Earned 4.7% more in 2014

In 2014, the revenue of BCIA was RMB 7.656 billion, representing an increase of 6.0% as compared with the previous year. The recorded net profit was RMB 1.39 billion, representing an increase of 4.7% as compared with the previous year. The EPS was RMB 0.32, while the EPS of the same period last year was RMB 0.31.

The Board proposed to distribute the final dividend of RMB 0.0816 per share, together with the interim dividend of RMB 0.0469 per share, the dividend payout ratio reached 40%. The debt structure of the Company was continuously optimized and the total debt ratio dropped from 50.4% to 46%.

Steady and slight increase in traffic volumes

In 2014, the Company's aircraft movements reached 582,000 sorties, representing an increase of 2.5% as compared with the previous year. The passenger throughput reached 86.13 million person-times, up 2.9% yoy. The cargo and mail throughput reached 1.85 million tons, basically flat as compared with corresponding period of the previous year.

On a closer look, for domestic routes, the relevant aircraft movements and passenger throughput continued to record a modest growth subject to the slow growth of domestic economy and the tight flight slots of BCIA;

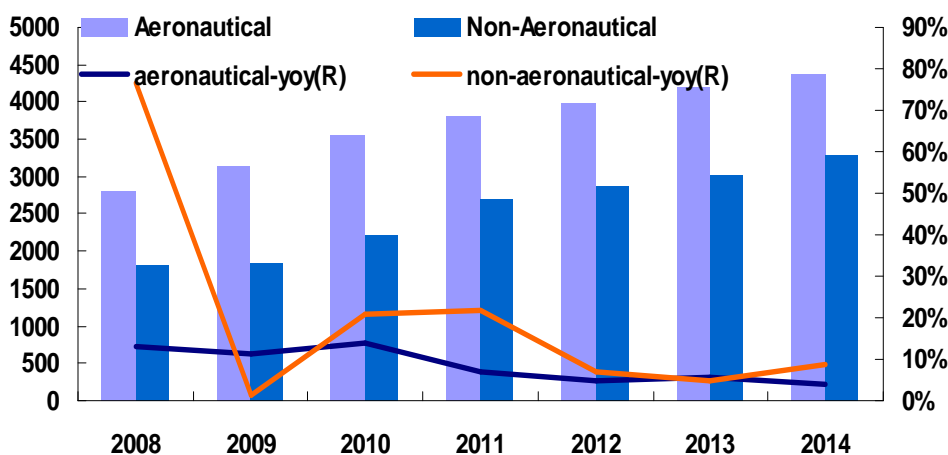
While for international routes, the growth of relevant aircraft movements and passenger throughput remained stable due to the gradual increase in demand for air travel of international passengers and the higher percentage of large aircrafts, which were comparable to those in the previous year.

Continuously slow increase in Aeronautical revenues

The aeronautical revenues were RMB 4.368 billion, representing an increase of 4.0% as compared with the previous year. Among which, mainly due to positive impact of the uniform charging policy for domestic airliners operating international routes with effect from April 2013 and a higher percentage of large aircrafts, the revenue from passenger charges was RMB 1.7 billion, representing an increase of 3.6% as compared with the previous year, which was higher than the increase in passenger throughput.

The revenue from aircraft movement fees and related charges was RMB1.58 billion, representing an increase of 5.4% as compared with the previous year which was higher than the increase in aircraft movements.

View of BCIA's Revenue by segment



Source: Company reports, Phillip Securities Hong Kong Research

The revenue from the Airport Fee was RMB 1.1 billion, representing an increase of 2.4% as compared with the previous year, which was slightly lower than the increase of passenger throughput, mainly due to the significant growth in the number of children passengers (Airport Fee is waived for children passengers) resulted from the popularity of the parent-child travel market.

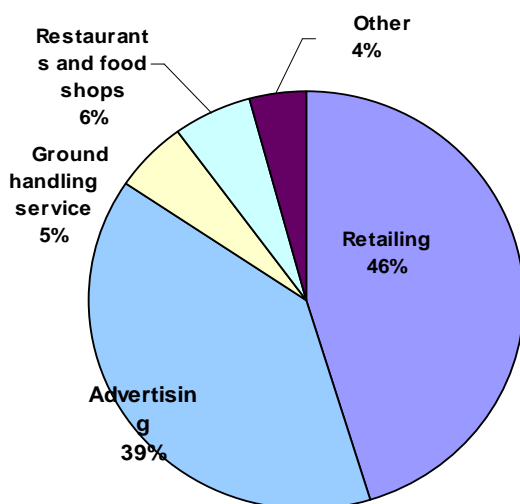
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The concession revenues from retailing and concession revenues from advertising increased more than others among concession revenues.

The former increased to about RMB 0.94 billion, up 7% yoy, which was benefited from the recovery of the growth in international passenger throughput and the increase in the number of passengers with high purchasing power (the number of passengers in international routes from domestic airlines up 11.6% yoy). The later increased to RMB 0.82 billion, up 6% yoy, due to the addition of certain new media resources and the increase in certain new contractual prices. In addition, other concession revenues were RMB 84.41 million, representing a great increase of 25.2% due to the addition of catering business.

Concessions Breakdown



Source: Company reports, Phillip Securities Hong Kong Research

Growth rate of expenses was higher than revenues

The operating expenses were RMB 5.171 billion, representing an increase of 6.7% or RMB 0.323 billion, of which the increase was higher than revenue`s.

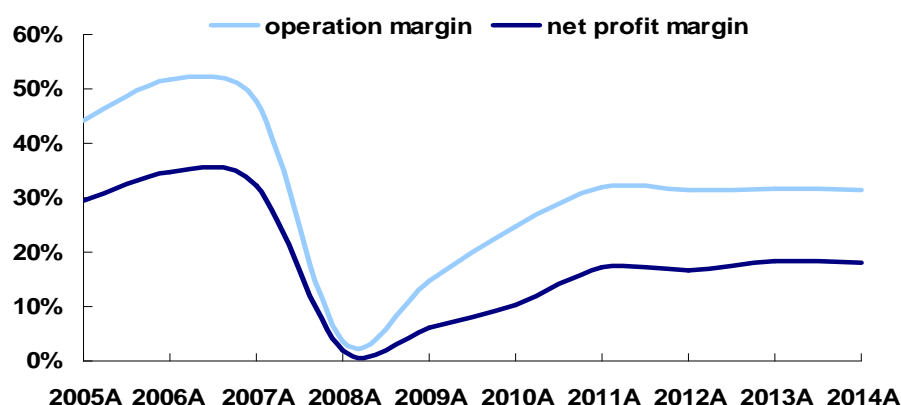
Among which, the depreciation and amortization expenses were RMB1.454 billion, representing a decrease of 5.5% or RMB 84 million, mainly because the depreciation and amortization period of certain fixed assets ended. But the cost savings from this section was offset by increased repair and maintenance expenses.

The increase in costs was mainly due to the relevant costs generated from the increase in operating time of T3D, including repair and maintenance expenses, the utilities and power expenses, the rental expenses and operating contracted services costs, totally increased by 18.7% or RMB 0.32 billion.

In addition, the aviation safety and security guard costs represented an increase of 7.0% or RMB 32 million, due to the convening of APEC and large meeting and the security upgrade for dealing with safety emergencies.

As a result of the significant appreciation in RMB against USD in 2014, exchange losses on the liabilities denominated in US dollar was about RMB 10 million, and the annual net finance costs represented an increase of 5.3% or RMB 27 million.

Margin trend



Source: Company reports, Phillip Securities Hong Kong Research

The company purchased T3D and the supporting resources from the parent company at the end of October 2014, with the price of RMB 2.24 billion. The transfer transaction had been completed in January 2015 and it is expected that the rent expense, namely RMB 0.13 billion/year will be saved in the coming future. However, the cost of depreciation will increase a little.

Outlook

Look into the future, the company plans to continuously optimize the flow structure and hopes to raise the proportion of the passengers of international flights and the punctuality rate of the flight schedules. As to the freight service, the company also tries to implement the new freight service mode, for example, it signs a strategic cooperative agreement on freight with SF-Express. We believe, with the further development and the popularization of this mode in the coming future, it is expected to be a new increase point in the future.

Valuation

We adjust the net profit in 2015/2016 to the expected 1.59/1.80 Billion RMB, and correct the target price to 9.23 HKD, corresponding to respectively 7.5 x EBITDA per share in 2015, and give an Accumulate rating.

Peer Comparison

Ticker	Name	BEst P/E: 1FY	BEst P/E: 2FY	BEst EV/BEst EBITDA	P/B	ROA LF	ROE
CHF (1 security)							
FHZN SW Equity	FLUGHAFEN ZUERICH AG-REG	20.2	19.7	10.1	2.2	5.1	9.8
CNY (4 securities)							
600009 CH Equity	SHANGHAI INTERNATIONAL AIF	19.9	16.8	11.6	2.6	9.5	11.8
600004 CH Equity	GUANGZHOU BAIYUN INTERNA	13.6	12.5	5.6	1.8	10.3	13.4
000089 CH Equity	SHENZHEN AIRPORT CO-A	48.0	34.7	15.1	1.8	1.9	2.8
600897 CH Equity	XIAMEN INTERNATIONAL AIR-A	17.2	16.6	9.7	3.0		N/A
DKK (1 security)							
KBHL DC Equity	KOBENHAVNS LUFTHAVNE	N/A	N/A	N/A	9.8	9.9	33.4
EAS (1 security)							
FLU AV Equity	FLUGHAFEN WIEN AG	18.0	16.0	8.4	1.8	4.3	9.2
EDM (1 security)							
FRA GR Equity	FRAPORT AG FRANKFURT AIRF	18.9	16.8	10.7	1.6	2.6	7.5
EIL (1 security)							
AFI IM Equity	AEROPORTO DI FIRENZE SPA	N/A	N/A	N/A	2.9	3.0	6.9
HKD (2 securities)							
694 HK Equity	BEIJING CAPITAL INTL AIRPO-H	17.1	15.6	8.9	1.7	4.3	8.3
357 HK Equity	HNA INFRASTRUCTURE COMP/	N/A	N/A	N/A	1.0	6.7	12.0
JPY (2 securities)							
9706 JP Equity	JAPAN AIRPORT TERMINAL CO	86.8	70.1	29.0	5.7	3.3	5.9
8864 JP Equity	AIRPORT FACILITIES CO LTD	N/A	N/A	N/A	0.7	1.4	2.4
NZD (1 security)							
AIA NZ Equity	AUCKLAND INTL AIRPORT LTD	30.2	28.3	18.2	1.8	5.1	8.2
THB (1 security)							
AOT TB Equity	AIRPORTS OF THAILAND PCL	27.6	23.9	16.3	4.2	8.0	12.6

Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYDEC	FY11	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios						
P/E (X), adj.	27.8	26.6	22.5	21.6	18.8	16.7
P/B (X)	2.1	2.0	1.8	1.7	1.6	1.5
Dividend Yield (%)	1.1%	1.5%	1.8%	1.9%	2.1%	2.4%
Per share data (RMB)						
EPS, (Basic)	0.257	0.265	0.307	0.32	0.37	0.41
EPS, (Diluted)	0.257	0.265	0.307	0.32	0.37	0.41
DPS	0.08	0.11	0.12	0.13	0.15	0.17
BVPS	3.34	3.52	3.74	3.97	4.20	4.53
Growth & Margins (%)						
Growth						
Revenue	12.5%	5.6%	5.3%	6.0%	5.6%	5.7%
EBITDA	22.1%	2.4%	4.2%	0.7%	9.3%	6.7%
Net Income, adj.	87.2%	3.1%	15.7%	4.7%	14.6%	12.7%
Margins						
Operating margin	31.9%	31.3%	31.6%	31.3%	33.1%	34.7%
EBITDA margin	55.1%	53.4%	52.9%	50.3%	52.0%	52.6%
Net Profit Margin	17.1%	16.7%	18.4%	18.2%	19.7%	21.0%
Income Statement (RMB mn)						
Revenue	6500	6862	7225	7656	8084	8541
Aeronautical	3806	3980	4202	4368	4503	4625
Non-Aeronautical	2694	2882	3023	3288	3581	3916
Operating profit	2073	2150	2284	2393	2676	2962
EBITDA	3579	3667	3822	3847	4207	4490
Profit before tax	1486	1532	1775	1859	2131	2399
Tax	-372	-384	-446	-468	-537	-603
Profit for the period	1114	1148	1329	1391	1594	1796
Total capital share	4331	4331	4331	4331	4331	4331
Net profit	1114	1148	1329	1391	1594	1796

Source: PSR

(Financial figures as at 10 April 2015)

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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