

# SIA (600009.CH)

## 3Q Result Review

China | Airport | Company Update

24 November 2015

### Business of first three quarters in 2015 beat expectations

The Q3 report of Shanghai International Airport revealed that the total revenue in the first three quarters of 2015 amounted to RMB 4.72 billion, grew by 10.45% yoy; net profit attributable to shareholders increased by 21.9% yoy to RMB 1.924 billion, so that the corresponding earning per share recorded as RMB 1.00. Such result is better than our expectation. The net profits recorded in Q1, Q2 and Q3 are RMB 628 million (RMB 0.33 per share), RMB 664 million (RMB 0.34 per share), and RMB 633 million (RMB 0.33 per share) respectively, keeping fast growth rate with double digit in an overall sense.

Cost control in the first three quarters was satisfactory with the advantage of economies of scale. The Company's cost of sale, management fees and financial costs reduced more than 80 million compared to the same period last year; but income from investment dropped nearly 40 million yoy because of the profit downturn of fuel companies.

### Fast growth of air traffic

In mid 2014, the Company's increase of maximum hourly capacity from 65 aircrafts to 74 aircrafts was approved, and the official opening of the fourth runway in Pudong airport enabled the release of more time resources of flights: the maximum hourly capacity increased from 74 aircrafts to 90 aircrafts. Moreover, the current international crude price is remaining at a low level and thus airline companies have stronger incentives to keep flying their routes. There are several factors inducing fast growth of air traffic of the Company.

In the first three quarters of 2015, the number of aircraft taking-off and landing exceeded 333,800, which grew by 12.45% yoy. The growth of domestic routes (16%) surpassed the growth of international routes (12%) (We considered such phenomenon was due to the capacity of Hongqiao Airport being fully utilized and parts of the domestic routes were transferred to Pudong Airport.) Regional routes slightly dropped by 3%. The Company recorded passenger throughput as 45.31 million, up 18% yoy. The growth of number of domestic passengers was still higher than that of international passengers, which amounted to 21% and 19% respectively. Cargo and shipment throughput reached 2.4 million tons, slightly increased by 3.6% yoy.

### Investment Thesis

We expect the Company's EBITDA per share in 2015 and 2016 will be RMB1.72 and RMB 2.05 respectively, which is based on the valuation of 21.5x 2015e and 18x 2016e, with the corresponding target price set as RMB 36.87. We give a rating of "Buy". (Closing price as at 20 Nov 2015)

### Buy (Upgrade)

CMP: CNY 30.15

(Closing price as at 20 Nov 2015)

TARGET: CNY 36.87 (+22%)

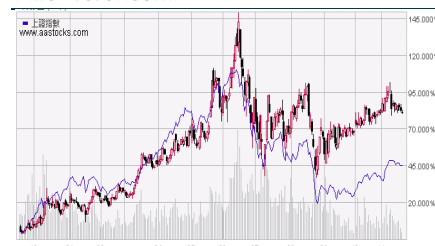
#### COMPANY DATA

O/S SHARES (MN) :	1927
MARKET CAP (CNY MN) :	58098
52 - WK HI/LO (CNY):	41.26/16.38

#### SHARE HOLDING PATTERN, %

Shanghai Airport Authority (SAA)	17.62
HKSCC	7.37

#### PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY13	FY14	FY15E	FY16E
Net Sales	4720	5215	5751	6407
Net Profit	1208	1873	2095	2459
EPS, CNY	0.63	0.97	1.09	1.28
P/E, x	48.1	31.0	27.7	23.6
BVPS, CNY	8.19	8.79	9.58	10.52
P/BV, x	3.7	3.4	3.1	2.9
DPS (CNY)	0.37	0.30	0.35	0.43
Div. Yield (%)	1.2%	1.0%	1.2%	1.4%

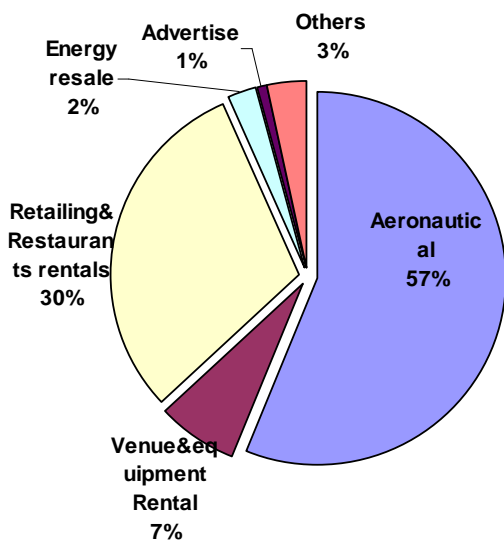
Source: Company reports, Phillip Securities Est.

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## Company Profile

Shanghai International Airport Company Limited’s major assets include Shanghai Pudong International Airport, and Shanghai Hongqiao International Airport which is operated and managed by a holding company owned by Shanghai Airport Authority. The Company’s sources of income include aeronautical business (aircraft taking off and landing fees, passenger service charges, and airport fees) and non-aeronautical business (advertising, franchise loyalty from retail shops, and parking fee and rent from car parks etc.). Pudong Airport currently has four runways and two terminals, with passenger handling capacity of 60 million passengers. The total equity of the Company amounted to 1.927 billion shares, of which Shanghai Airport Authority (wholly owned by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government) holds 53%.

### Revenue breakdown 2015H



Source: Company, Phillip Securities Hong Kong Research

### Fast growth of business expected to maintain

In regard to the most recently ranked top 10 Chinese airports, the throughput of Pudong Airport surpassed Baiyun Airport and ranked the second. The fifth runway of Pudong Airport is under construction and it will be the trial runway of locally produced large-sized aircrafts. The project of Southern Satellite terminal will be kicked off soon and will add 105 parking stations, which are all linked to the main terminal by mass railway transport system. It is expected that the bottleneck problem of inadequate parking positions due to a few number of terminals currently in operation would be solved upon commencement of operation of this new terminal. It is expected that the annual passenger throughput of Shanghai Pudong International Airport would exceed 80 million by 2020, while cargo and shipment throughput would exceed 3.4 million tons. It may rank among globally top 10 airports.

On the demand side, we expect the opening of Shanghai Disneyland and the establishment of free trade zone would bring new opportunities of growth. It not only brings higher growth of passenger flow to Pudong Airport, but also enhances the main business of the Company. In addition, it will open up more room for developing non-aeronautical business for the Company.

## 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 AIR	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

FYE DEC	FY11	FY12	FY13	FY14	FY15F	FY16F
<b>Valuation Ratios</b>						
P/E (X), adj.	54.6	48.1	31.0	27.7	23.6	19.6
P/EBITDA	29.9	27.9	20.1	19.4	17.6	14.7
P/B (X)	3.8	3.7	3.4	3.1	2.9	2.6
Dividend Yield (%)	2.0%	1.2%	1.0%	1.2%	1.4%	1.7%
<b>Per share data (RMB)</b>						
EPS, (Basic)	0.55	0.63	0.97	1.09	1.28	1.54
EPS, (Diluted)	0.55	0.63	0.97	1.09	1.28	1.54
DPS	0.60	0.37	0.30	0.35	0.43	0.52
BV/PS	7.97	8.19	8.79	9.58	10.52	11.70
EBITDA/Share	1.01	1.08	1.50	1.56	1.72	2.05
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	10.1%	2.4%	10.5%	10.3%	11.4%	19.5%
EBIT	18.5%	14.2%	67.3%	7.9%	14.9%	25.8%
Net Income, adj.	20.0%	13.4%	55.1%	11.9%	17.3%	20.4%
<b>Margins</b>						
Gross margin	25.9%	28.8%	41.7%	41.6%	42.0%	43.9%
EBIT margin	22.3%	24.9%	37.8%	37.0%	38.1%	40.1%
Net Profit Margin	23.1%	25.6%	35.9%	36.4%	38.4%	38.7%
<b>Key Ratios</b>						
ROE	7.2%	7.8%	11.4%	11.8%	12.7%	13.8%
<b>Income Statement (RMB mn)</b>						
<b>Revenue</b>	<b>4611</b>	<b>4720</b>	<b>5215</b>	<b>5751</b>	<b>6407</b>	<b>7657</b>
<b>Gross profit</b>	<b>1194</b>	<b>1361</b>	<b>2176</b>	<b>2393</b>	<b>2691</b>	<b>3361</b>
EBIT	1031	1177	1969	2125	2441	3070
Profit before tax	1509	1732	2515	2806	3229	3875
<b>Tax</b>	<b>329</b>	<b>388</b>	<b>492</b>	<b>556</b>	<b>614</b>	<b>736</b>
Profit for the period	1180	1345	2023	2250	2616	3139
Minority interests	116	137	150	155	157	179
Total capital share	1927	1927	1927	1927	1927	1927
<b>Net profit</b>	<b>1065</b>	<b>1208</b>	<b>1873</b>	<b>2095</b>	<b>2459</b>	<b>2960</b>

Source: PSR

(Financial figures as at 20 November 2015)

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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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