

# China Southern Airlines (1055.HK)

Spring Festival effect and outbound travel are CSA's two major long-term focuses

Hong Kong | Air | Update Report

3 February 2016

## Latest operating output statistics review:

### Domestic routes downturned slightly while international routes continued to grow in December.

In December, as driven by the high growth rate of international routes, the RPK (revenue passenger kilometres) of passenger traffic of China Southern Airlines (CSA) increased by 5.4% yoy; of which international routes continued to grow significantly while domestic routes downturned slightly and regional routes declined apparently. Due to the low-season of airline industry and the high comparison benchmark of the previous year, passenger load factor dropped by 0.9 ppts to 77%. Except the 1.8 ppts mom increase for international routes, other data demonstrated certain downturn generally.

### CSA Monthly Operating Output Statistics (Dec, 2015)

TRAFFIC	15-Dec	M/M Chg	Y/Y Chg	YTD-15	Y/Y Chg
<b>RPK(million)</b>					
Domestic	10403.05	-2.37%	-1.12%	138733.12	8.66%
Regional	262.10	-10.40%	-9.38%	3526.99	9.72%
International	4432.47	10.23%	<b>26.18%</b>	47291.40	<b>32.35%</b>
Total	15097.61	0.86%	5.41%	189551.51	13.76%
<b>RFTK(million)</b>					
Domestic	150.63	2.09%	-3.36%	1662.34	2.05%
Regional	1.78	-2.44%	-11.47%	21.59	19.97%
International	362.41	-17.90%	23.45%	3977.72	16.69%
Total	514.83	-12.86%	14.04%	5661.64	11.99%
<b>LOAD FACTORS</b>					
Domestic	76.49%	-2.90%	-0.56%	80.61%	1.05%
Regional	70.44%	-4.06%	-5.12%	74.06%	0.65%
International	78.50%	1.82%	-1.98%	80.50%	1.00%
Total	76.95%	-1.59%	-0.88%	80.45%	1.03%

Source: Company, Phillip Securities Hong Kong Research

### Annual passenger traffic grew by 13.8% yoy

RPK recorded in 2015 increased by 13.8% yoy, of which the growth for international routes was significant, while domestic routes and regional routes kept steady growth. With the Company's effort spent on developing international routes for years, their proportion now reaches a quarter of the total RPK. The allocation of capacity basically matched market demand for the whole year. The overall passenger load factor grew by 1 ppts to 80.5%. International routes, domestic routes and regional routes recorded growth of 1 ppt, 1.05 ppts and 0.65 ppts respectively, to 80.5%, 80.6% and 74.1% respectively.

## BUY (Upgrade)

CMP: HKD 4.59

(Closing price as at 1 FEB 2016)

TARGET: HKD 5.66 (+23%)

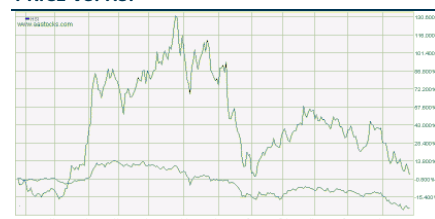
### COMPANY DATA

O/S SHARES (MN) :	9819
MARKET CAP (HKD MN) :	12829
52 - WK HI/LO (HKD):	10.36 / 2.42

### SHARE HOLDING PATTERN, %

China Southern Air Holding Company	53.13
HKSCC Nominees Limited	17.83

### PRICE VS. HSI



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

CNY mn	FY13	FY14	FY15E	FY16E
Net Sales	98,547	108,584	114,632	121,926
Net Profit	1,986	1,777	3,851	8,478
EPS, CNY	0.20	0.18	0.39	0.86
P/E, x	17.8	20.0	9.8	4.5
BVPS, CNY	3.50	3.64	3.79	4.29
P/BV, x	1.0	1.0	1.0	0.9
DPS (CNY)	0.04	0.04	0.09	0.15
Div. Yield (%)	1.1%	1.2%	2.3%	3.9%

Source: Company reports, Phillip Securities Est.

Research Analyst

**ZhangJing**

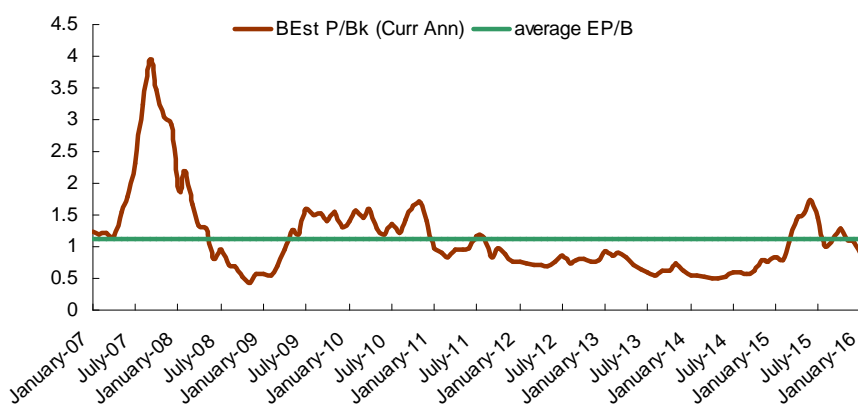
(+ 86 51699400-103)

zhangjing@phillip.com.cn

## Investment thesis

CSA issued a positive profit alert, and the net profit for the year 2015 is expected to increase 110% to 130% yoy to 3.7billion to 4.1billion, which means the 15Q4 turn to net loss of 0.58billion to 0.93billion. Affected by the depreciation of RMB, the Q3 results of CSA (RMB1.17 billion) shrank 50% in comparison to the same period last year (RMB2.274 billion), and dragged down the profit growth for the first nine months of 2015. The Company recorded a profit of RMB4.66 billion, which increased 2.7x yoy. Overall, we adjusted the Company's EPS forecast of 2015/2016 to RMB0.39/0.86, and accordingly marked down target price to HKD5.66, which is based on 1.25x/1.12x of eP/B and 12x/5.6x of eP/E for the two years, but upgrade rating as "BUY". (Closing price as at 1 FEB 2016)

### CSA's Forward P/B in ten years



Source: Bloomberg, Phillip Securities Hong Kong Research

### Spending big sum on purchasing aircrafts in order to enhance capacity

In order to satisfy the growing demand of air travel, CSA's plan of substantial expansion of transportation capacity is progressing. According to a recent announcement by the Company, CSA will purchase 110 units of Boeing 737 aircrafts (30 units of NG series and 80 units of MAX series) and 10 units of A330-300 aircrafts. Meanwhile, CSA will sell 13 units of Boeing 757 aircrafts, 3 units of Boeing 737 aircrafts, and some of the aircraft parts. According to the price on catalog, these two transactions will involve approximately USD10.1 billion and USD2.27 billion respectively. Yet, we considered such purchase as a bulk purchase and thus CSA's actual cost of purchase should be far lower than the price announced. New aircrafts will be delivered successively between 2017 and 2021. By then the total transportation capacity of the Company would increase by about 20% and the composition of aircraft fleet would be further upgraded.

### Spring Festival effect and outbound travel are CSA's two major long-term focuses

CSA has the highest number of domestic routes among the three major Chinese airlines and is the least affected by the speed enhancement of Beijing-Shanghai express rail. Therefore, CSA is benefited the most from the strong seasonal demand of Spring Festival. Meanwhile, the Company's routes to Australia and South-east Asia were popular among outbound leisure passengers. In view of the depreciation of currencies in the above regions, increase of consumption power of passengers, and sufficient transportation capacity of the Company, prosperous development of outbound air travel can have bright prospect amid slowdown of macro-economic growth.

## Risk

Traffic demand languished for the deterioration of macro-economy;  
 The depreciation of the RMB against USD would bring exchange loss;  
 Oil prices rose exceeded forecast.  
 War, terrorist attacks, SARS and other emergencies;  
 Irrational inter-industrial price war;

## Financials

FYE DEC	FY11	FY12	FY13	FY14	FY15F	FY16F
<b>Valuation Ratios</b>						
P/E (X), adj.	7.2	13.8	17.8	20.0	9.8	4.5
P/B (X)	1.14	1.10	1.03	0.99	1.01	0.91
Dividend Yield (%)	5.4%	1.4%	1.1%	1.2%	2.3%	3.9%
<b>Per share data (RMB)</b>						
EPS, reported	0.52	0.27	0.20	0.18	0.39	0.86
EPS, adj.	0.52	0.27	0.20	0.18	0.39	0.86
DPS	0.2	0.05	0.04	0.04	0.09	0.15
BVPS	3.28	3.34	3.50	3.64	3.79	4.29
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	18.2%	10.1%	-1.0%	10.2%	5.6%	6.4%
EBIT	-53.5%	17.1%	-70.4%	214.4%	203.4%	22.4%
Net Income, adj.	-11.8%	-48.7%	-24.2%	-10.5%	116.7%	120.1%
<b>Margins</b>						
EBIT margin	4.8%	5.1%	1.5%	4.4%	12.6%	14.5%
Net Profit Margin	5.7%	2.6%	2.0%	1.6%	3.4%	7.0%
D/E	38.4%	18.7%	19.8%	23.8%	22.9%	17.4%
<b>Key Ratios</b>						
ROE (%)	15.9%	8.1%	5.9%	5.1%	10.6%	21.4%
ROA (%)	3.9%	1.8%	1.3%	1.0%	1.9%	3.7%
<b>Income Statement (RMB mn)</b>						
Revenue	90,395	99,514	98,547	108,584	114,632	121,926
Operating expenses	(87,063)	(95,877)	(98,280)	(106,026)	(103,095)	(107,457)
Other Gains-net	1,021	1,462	1,243	2,190	2,870	3,161
Profit from operations	4,353	5,099	1,510	4,748	14,407	17,630
Non-operating income/expense	2,577	(361)	1,974	(1,682)	(8,744)	(5,054)
Profit before tax	6,930	4,738	3,484	3,066	5,663	12,576
Tax	(840)	(954)	(734)	(668)	(1,019)	(2,767)
Profit for the period	6,090	3,784	2,750	2,398	4,643	9,809
Minority interests	(980)	(1,165)	(764)	(621)	(792)	(1,331)
Total capital share	9,818	9,818	9,818	9,818	9,818	9,818
<b>Net profit</b>	<b>5,110</b>	<b>2,619</b>	<b>1,986</b>	<b>1,777</b>	<b>3,851</b>	<b>8,478</b>

Source: PSR

(Financial figures as at 1 February 2016)

### 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

#### GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

#### Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

#### Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2016 Phillip Securities (Hong Kong) Limited

**Contact Information (Regional Member Companies)**
**SINGAPORE**
**Phillip Securities Pte Ltd**

250 North Bridge Road, #06-00 Raffles City Tower,  
Singapore 179101  
Tel : (65) 6533 6001 Fax: (65) 6535 3834  
[www.phillip.com.sg](http://www.phillip.com.sg)

**INDONESIA**
**PT Phillip Securities Indonesia**

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,  
Jakarta 10220, Indonesia  
Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809  
[www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**
**Phillip Securities (Thailand) Public Co. Ltd.**

15th Floor, Vorawat Building, 849 Silom Road,  
Silom, Bangrak, Bangkok 10500 Thailand  
Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921  
[www.phillip.co.th](http://www.phillip.co.th)

**UNITED STATES**
**Phillip Futures Inc.**

141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel (1) 312 356 9000 Fax: (1) 312 356 9005

**MALAYSIA**
**Phillip Capital Management Sdn Bhd**

B-3-6 Block B Level 3, Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur  
Tel (60) 3 2162 8841 Fax (60) 3 2166 5099  
[www.poems.com.my](http://www.poems.com.my)

**CHINA**
**Phillip Financial Advisory (Shanghai) Co. Ltd.**

No 436 Heng Feng Road, Green Tech Tower Unit 604  
Shanghai 200 070  
Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155  
[www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**
**King & Shaxson Capital Ltd.**

3rd Floor, 35 Rue de la Bienfaisance  
75008 Paris France  
Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017  
[www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**
**PhillipCapital Australia**

Level 12, 15 William Street,  
Melbourne, Victoria 3000, Australia  
Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277  
[www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**HONG KONG**
**Phillip Securities (HK) Ltd**

11/F United Centre 95 Queensway Hong Kong  
Tel (852) 2277 6600 Fax: (852) 2868 5307  
[www.phillip.com.hk](http://www.phillip.com.hk)

**JAPAN**
**Phillip Securities Japan, Ltd**

4-2 Nihonbashi Kabutocho, Chuo-ku  
Tokyo 103-0026  
Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141  
[www.phillip.co.jp](http://www.phillip.co.jp)

**INDIA**
**PhillipCapital (India) Private Limited**

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,  
Lower Parel West, Mumbai 400013  
Tel: (9122) 2300 2999 Fax: (9122) 6667 9955  
[www.phillipcapital.in](http://www.phillipcapital.in)

**UNITED KINGDOM**
**King & Shaxson Ltd.**

6th Floor, Candlewick House, 120 Cannon Street  
London, EC4N 6AS  
Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835  
[www.kingandshaxson.com](http://www.kingandshaxson.com)

**SRI LANKA**
**Asha Phillip Securities Limited**

Level 4, Millennium House, 46/58 Navam Mawatha,  
Colombo 2, Sri Lanka  
Tel: (94) 11 2429 100 Fax: (94) 11 2429 199  
[www.ashaphillip.net/home.htm](http://www.ashaphillip.net/home.htm)