

SIA (600009.CH)

The duty-free bidding is about to start!

China | Airport | Company Update

4 October 2017

- Jump of 21% in 2017H1 Earnings

- Aviation business revenue increased by 3.5% YoY

- Soar of 26% in non-aeronautical business

- As the duty-free bidding is about to start, the value of airline hub is stable

Accumulate (Maintain)

CMP: RMB 37.98

(Closing price as at 29 Sep 2017)

TARGET: RMB 44.35 (+16.8%)

COMPANY DATA

O/S SHARES (MN) :	1927
MARKET CAP (CNY MN) :	73552
52 - WK HI/LO (CNY):	42.82/26.1

Investment Thesis

We increase the Company's EBITDA per share to RMB2.17 in 2017 and RMB2.6 in 2018, respectively, with the estimation of a 20/17x multiple during the two years. The target price is increased to RMB44.35 and the "Accumulate" rating is maintained.

Peer Comparison

上海机场(600009.SH) - 估值分析比较 (机场服务)

排名	代码	证券简称	总市值(亿元)	流通市值(亿元)	市盈率PE			市净率PB(MRQ)	企业价值(亿元)	企业价值/收入(倍)	企业价值/EBITDA(倍)
					TTM	17E	18E				
1	600009.SH	上海机场	869.3	869.3	23.9	22.4	19.0	3.2	--	--	18.1
		最高值	869.3	869.3	35.1	35.0	31.1	5.3	--	--	32.2
		中位值	207.3	207.3	23.9	22.4	19.0	2.3	--	--	12.8
2	600004.SH	白云机场	315.6	315.6	18.1	17.6	16.7	1.9	--	--	10.7
3	000089.SZ	深圳机场	207.3	207.3	28.6	23.5	19.7	1.6	--	--	12.8
4	300178.SZ	腾邦国际	108.6	108.6	35.1	35.0	31.1	5.3	--	--	32.2
5	600897.SH	厦门空港	85.6	85.6	17.9	15.6	14.1	2.3	--	--	10.0
		最高值	520.1	225.7	40.5	19.6	14.2	2.2	655.9	6.1	22.5
		中位值	85.8	85.8	21.1	19.6	14.2	1.3	158.2	5.8	13.6
1	0694.HK	北京首都机场股份	520.1	225.7	21.1	19.6	14.2	2.2	655.9	6.1	12.0
2	0044.HK	香港飞机工程	85.8	85.8	40.5	--	--	1.3	158.2	1.1	13.6
3	0357.HK	航基股份	35.3	16.9	6.8	--	--	0.8	89.9	5.8	22.5

Source: Wind, Phillip Securities Hong Kong Research

SHARE HOLDING PATTERN, %

Shanghai Airport Authority (SAA)	17.62
HKSCC	7.37

PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

In H1 2017, twenty percent more were earned, and the net profit attributable to the parent company witnessed a YoY increase of 21%

Shanghai Airport recorded operating revenues of RMB3,898 million in 2017, up by 14.71% YoY; the net profit attributable to the parent company stood at RMB1,696 million, up by 20.56% YoY; its basic EPS was RMB0.88, up by 20.55% YoY, and no interim dividend was generated.

The revenue of aviation business, under the influence of assessment on punctuality rate, increased by 3.5% YoY

In H1 2017, benefiting from the relatively low oil price and the slow recovery of macro economy, Chinese airline industry progressed steadily, the airline passenger volume maintained good growth momentum, the market demand was huge, and the air passenger transport market maintained a rapid growth. The revenue ton kilometers, passenger traffic volume, and cargo and mail traffic volume of the whole industry in H1 2017 witnessed a YoY growth of 12.5%, 13.4% and 5.1%, respectively. The aircraft movements, passenger throughput and cargo and mail throughput recorded by domestic airports also correspondingly grew by 10.4%, 13.5% and 8.9% YoY, respectively, and the three indicators of Shanghai Airport witnessed a YoY growth of 3.9%, 6.5% and 13.6%, respectively.

The growth of aircraft movements and passenger throughput of the Company were lower than the industrial averages, since the assessment on punctuality rate failed to meet the standards. As a result, the aeronautical business of H1 only grew by 3.5% YoY to RMB1,803 million. At the same time, from the perspective of structure, the growth (+11%) of passenger throughput of domestic route was far higher than that (+3%) of international route, and the performance of the growth of cargo throughput of international route was impressive (+18%).

KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	6285	6951	7946	9456
Net Profit	2531	2806	3325	3970
EPS, CNY	1.31	1.46	1.73	2.06
P/E, x	29.0	26.2	22.1	18.5
BVPS, CNY	10.54	11.57	12.86	14.32
P/BV, x	3.6	3.3	3.0	2.7
DPS (CNY)	0.43	0.44	0.53	0.63
Div. Yield (%)	1.1%	1.2%	1.4%	1.7%

Source: Company reports, Phillip Securities Est.

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The non-aeronautical business went beyond expectation and greatly grew by 26%

The reason why the result went beyond expectation mainly lies in high-growth non-aeronautical business. In H1, the Company reported a revenue of non-aeronautical business of RMB2,094 million, a great YoY increase of 26%, and its proportion in the total revenue increased by 5 ppts to 54%, surpassing the revenue of aeronautical business for the first time. Wherein, mainly benefiting from the expansion of commercial space after transformation of T1 terminal, the annual revenue of business tenancy increased by 35.99% YoY to RMB1,436 million, and that of non-aeronautical business increased by 9.68% YoY to RMB658 million.

As the duty-free bidding is about to start, the value of airline hub is stable

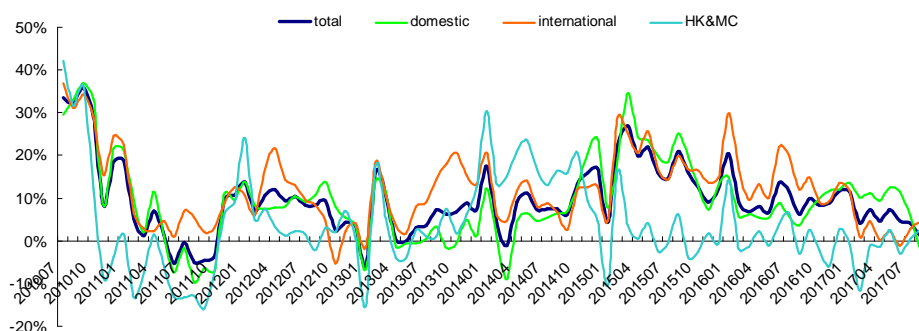
The duty-free business contract of the Company will expire in March 2018, and the management has indicated that a new round of bidding plan is underway, and we expect that it will be started before the end of this year. It is expected that the commission percentage will increase from about 25% to 45%, greatly improving the result of the Company.

In H1 2017, the annual passenger throughput of Shanghai Airport consolidated its second place at home. Wherein, the international and regional passenger volumes continually maintained the first place at home. The Company is still promoting the construction of air hub in the Yangtze River economic belt that centers on Shanghai, continually optimizing the structure of its airline network, and emphatically developing the international remote air routes. In H1, Shanghai Airport newly increased 2 international traffic points and densified 2 remote air routes; moreover, it newly increased 3 overseas airlines, enhancing its European and American remote air route markets. As at the end of June, there were a total of 234 traffic points, of which 109 and 125 were at home and abroad (including regions), respectively, demonstrating that its position of airline hub is stable. In the future, after Phase III of the expansion project is completed, the passenger throughput will exceed 80 million, and the "single-terminal double-runway" will change to the operational mode of "multiple-terminal multiple-runway". Therefore, it is expected that the Company will start its new round of stable growth.

Investment Thesis

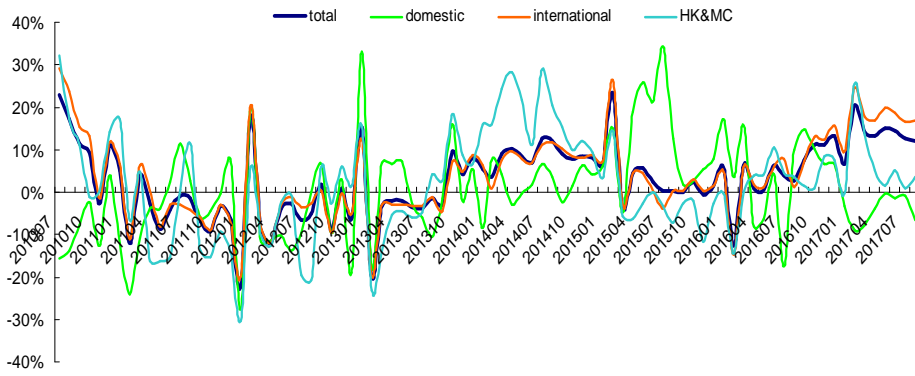
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Passenger traffic by segments



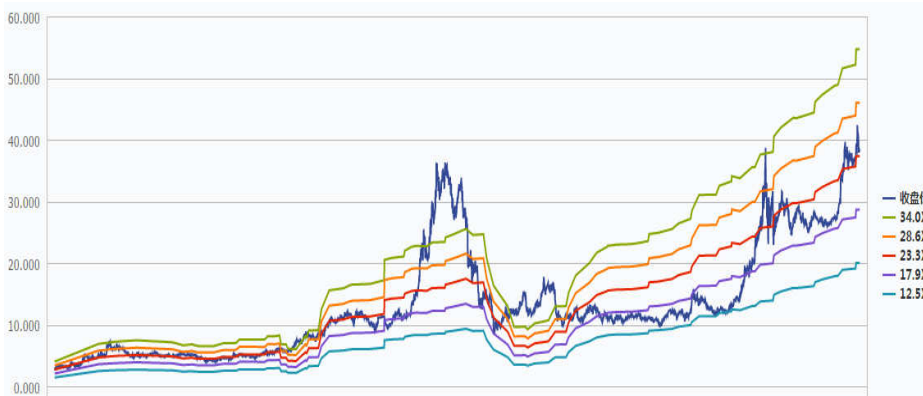
Source: Company, Phillip Securities Hong Kong Research

Cargo traffic by segments



Source: Company, Phillip Securities Hong Kong Research

P/E Trend



Source: Wind, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY13	FY14	FY15	FY16	FY17F	FY18F
Valuation Ratios						
P/E (X), adj.	39.3	35.1	29.0	26.2	22.1	18.5
P/EBITDA	25.4	24.5	22.2	20.0	17.6	14.6
P/B (X)	4.3	4.0	3.6	3.3	3.0	2.7
Dividend Yield (%)	0.8%	0.9%	1.1%	1.2%	1.4%	1.7%
Per share data (RMB)						
EPS, (Basic)	0.97	1.09	1.31	1.46	1.73	2.06
EPS, (Diluted)	0.97	1.09	1.31	1.46	1.73	2.06
DPS	0.30	0.35	0.43	0.44	0.53	0.63
BVPS	8.79	9.58	10.54	11.57	12.86	14.32
EBITDA/Share	1.50	1.56	1.72	1.90	2.17	2.60
Growth & Margins (%)						
Growth						
Revenue	10.5%	10.3%	9.3%	10.6%	14.3%	19.0%
EBIT	67.3%	7.9%	19.1%	12.2%	19.1%	23.5%
Net Income, adj.	55.1%	11.9%	20.8%	10.8%	18.5%	19.4%
Margins						
Gross margin	41.7%	41.6%	43.8%	44.3%	45.9%	47.3%
EBIT margin	37.8%	37.0%	40.3%	40.9%	42.6%	44.2%
Net Profit Margin	35.9%	36.4%	40.3%	40.4%	41.8%	42.0%
Key Ratios						
ROE	11.4%	11.8%	13.1%	13.8%	14.1%	15.2%
Income Statement (RMB mn)						
Revenue	5215	5751	6285	6951	7946	9456
Gross profit	2176	2393	2755	3078	3647	4473
EBIT	1969	2125	2531	2841	3385	4180
Profit before tax	2515	2806	3380	3718	4380	5219
Tax	492	556	696	752	876	1044
Profit for the period	2023	2250	2684	2966	3504	4175
Minority interests	150	155	153	160	179	205
Total capital share	1927	1927	1927	1927	1927	1927
Net profit	1873	2095	2531	2806	3325	3970

Source: PSR

(Financial figures as at 29 September 2017)

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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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