

CEA (670.HK)

The introduction of ASK is faster than its peers

Hong Kong | Air | Update Report

4 January 2018

Investment Summary:

- Soar of 18% in the Earnings of the First 3 Quarters
- The exchange earnings and investment income contribute to the growth of profit
- The introduction of ASK is faster than its peers
- The pioneer implementing SOE mixed reform in civil aviation

Accumulate (Downgrade)

CMP: HKD 5.64

(Closing price as at 2 Jan 2018)

TARGET: HKD 6.36 (+10.8%)

Soar of 66% in Q1 Earnings

China Eastern Airlines (CEA) recently released the Q1 report in the 2016 fiscal year. During the period, the total revenues increased by 5% over last year to RMB23.53 billion. The attributable net profit soared by 66.4% over last year to RMB2.6 billion, and EPS stood at RMB0.2. Downturn in oil prices, favorable RMB exchange rate and steady growth in demand contributed to the remarkable Q1 result.

COMPANY DATA

O/S SHARES (MN):	14467
MARKET CAP (HKD MN):	26277
52 - WK HI/LO (HKD):	5.79/ 3.54

Investment Thesis

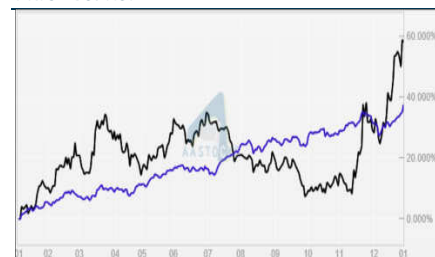
We expect the company's 2017/2018 net profit to be RMB6.5/6.7 billion, equivalent to EPS of RMB0.45/0.47.

Given that possible improvement on efficiency after the mix reform, and the expected better ticket price in the future, we are optimistic about the Company's future result flexibility. Therefore, we keep the target price unchanged at HK\$6.36, equivalent to 11.7X/11.1X estimated P/E in 2017/2018. Also, the "Accumulate" rating is given. (Closing price as at 2 Jan 2018)

SHARE HOLDING PATTERN, %

China Eastern Air Group:	53.2
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

Peer Comparison

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)
					TTM	17E	18E	
2	0670.HK	中国东方航空股份	1,210.3	262.8	12.1	10.7	13.3	1.3
港股(3)								
		中位值	1,207.2	344.2	12.1	10.4	12.7	1.3
1	0753.HK	中国国航	1,836.9	425.7	14.6	12.6	12.2	1.3
3	1055.HK	中国南方航空股份	1,204.1	242.2	12.0	10.2	8.7	1.3
4	0293.HK	国泰航空	480.7	480.7	--	-20.7	70.8	0.9

Source: Wind, Phillip Securities Hong Kong Research

KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	93969	98904	105285	115720
Net Profit	4537	4498	6520	6742
EPS, CNY	0.35	0.33	0.45	0.47
P/E, x	13.3	15.4	10.4	9.8
BVPS, CNY	2.92	3.58	4.00	4.50
P/BV, x	1.6	1.4	1.2	1.0
DPS (CNY)	0.00	0.10	0.13	0.14
Div. Yield (%)	0.0%	2.0%	2.8%	3.1%

Source: Company reports, Phillip Securities Est.

Soar of 18% in the Earnings of the First 3 Quarters

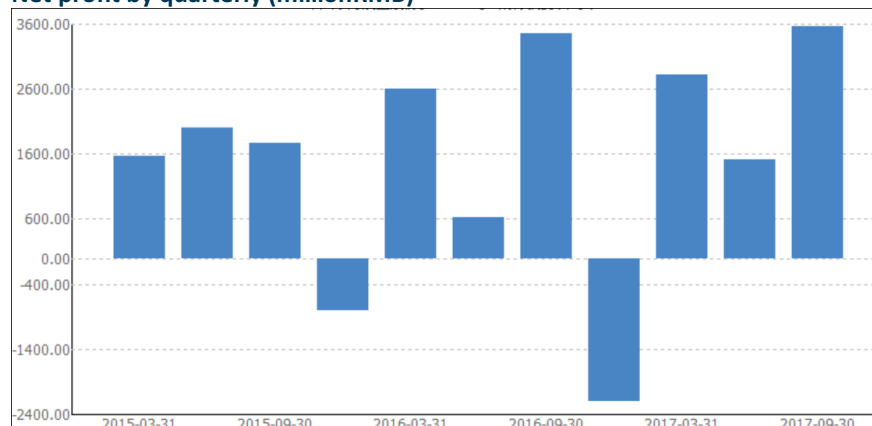
According to China Eastern's report of the first three quarters (Chinese Accounting Standards) in 2017, it recorded a revenue of RMB77.5 billion for the first three quarters, with slight yoy growth of 2.8%. The net profit attributable to the parent company was increased by 18% to RMB7.92 billion, ranking the first among the top three airlines. With the basic EPS of RMB0.55, China Eastern's EPS in Q1, Q2 and Q3 was RMB0.19, RMB0.11, RMB0.25, respectively, reduced by 5%, rocketed by 175% and increased by 4% yoy, respectively, from last year's RMB0.2, RMB0.04, RMB0.24, respectively.

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Net profit by quarterly (millionRMB)


Source: Company, Phillip Securities Hong Kong Research

The exchange earnings and investment income contribute to the growth of profit

Benefiting from the appreciation of RMB exchange rate, the exchange earnings were RMB1.3 billion. But last year, the exchange loss was RMB1.77 billion due to the depreciation of RMB, and therefore the financial cost in the first three quarters was decreased by 72% to RMB1.1 billion. In addition, RMB1.754 billion also contributed to the rapid growth of the final result as a result of the disposal of China Eastern's logistics equity.

The introduction of ASK is faster than its peers

CEA ranks the first among the top three airlines in introducing ASK. In the first ten months of this year, ASK increased by 9.5% yoy, whose growth is faster than that of RPK's yoy growth 9%. The slightly massive supply causes the P L /F to fall by 0.4 pts to 81.3%. Due to the penalty imposed on Shanghai Base, the summer weather, the high base of the same period and other factors, the problem of mismatch between supply and demand became more prominent on the international routes, with the P L /F of international routes declining by 2.3 pts.

The fleet currently has a net increase of 611 from 30 at the end of 2016, including 248 aircraft owned by itself, 224 aircraft in the form of finance lease, and 139 aircraft in the form of operating leases. According to the plan, there will be a net increase of 25 aircraft at the end of this year, and 52 aircraft by 2018. The continuous and rapid expansion of ASK makes the company's P L /F under pressure, but the company has accelerated the renewal of old aircraft, making the average age of the fleet keep only 5.5 years, superior to its peers.

The pioneer implementing SOE mixed reform in civil aviation

In September 2016, China Eastern Airlines Group became one of the six central SOE's to promote the pilot reform. In this round of reform, it is in the leading position in the mixed reform among central enterprises. Early in 2015, CEA carried out deep cooperation with the United States on China-U.S. routes through the introduction of the 3.55% equity investment of RMB2.75 billion of Delta Air Lines. In April 2016, Ctrip's private placement of RMB3 billion in CEA has left a room for imagination for follow-up cooperation between the two parties. On June 19, 2017, CEA formally signed a capital increase agreement with four investors, Legend Holdings, GLP, Deppon and Greenland. It reduced its state-owned equity to below 50% for the first time and completed the long-term equity incentive mechanism for its core employees. Although it still takes time to test whether the reform can be successful,

we think it is a good exploration and promotion for listed companies in terms of corporate governance and its efficiency.

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;
Highspeed railway diversion

Financials

FYE DEC	FY13	FY14	FY15	FY16	FY17F	FY18F
Valuation Ratios						
P/E (X), adj.	22.0	16.5	13.3	15.4	10.4	9.8
P/B (X)	2.1	1.9	1.6	1.4	1.2	1.0
Dividend Payout Yield (%)	0.0%	0.0%	0.0%	30.7%	28.8%	30.0%
Dividend Yield (%)	0.0%	0.0%	0.0%	2.0%	2.8%	3.1%
Per share data (RMB)						
EPS, reported	0.20	0.27	0.35	0.33	0.45	0.47
EPS, adj.	0.20	0.27	0.35	0.33	0.45	0.47
DPS	0.00	0.00	0.00	0.10	0.13	0.14
BVPS	2.12	2.36	2.92	3.58	4.00	4.50
Growth & Margins (%)						
Growth						
Revenue	3.5%	2.2%	4.2%	5.3%	6.5%	9.9%
EBIT	-63.4%	276.8%	106.6%	-0.8%	-12.2%	12.2%
Net Income, adj.	-22.8%	43.7%	33.0%	-0.9%	44.9%	3.4%
Margins						
EBIT margin	3.2%	2.3%	-1.5%	0.3%	6.7%	5.1%
Net Profit Margin	2.7%	3.8%	4.8%	4.5%	6.2%	5.8%
Key Ratios						
ROE (%)	10.1%	13.8%	13.5%	12.2%	11.0%	11.3%
Income Statement (RMB mn)						
Revenue	88,245	90,185	93,969	98,904	105,285	115,720
Operating expenses	(89,394)	(87,812)	(86,613)	(91,887)	(101,941)	(109,481)
Profit from operations	1,576	6,058	12,625	12,486	10,845	12,137
Non-operating income/expense	65	127	152	187	286	349
Profit before tax	2,217	4,113	5,667	6,497	9,085	9,205
Tax	(124)	(573)	(624)	(1,542)	(2,089)	(2,025)
Profit for the period	2,093	3,540	5,043	4,955	6,995	7,180
Minority interests	280	(130)	(506)	(457)	(476)	(438)
Total capital share	12,674	12,674	12,819	12,819	14,467	14,467
Net profit	2,373	3,410	4,537	4,498	6,520	6,742

Source: PSR

(Financial figures as at 2 January 2018)

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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