

# SIA (600009.CH)

## Expectful Non-aeronautical Business

China | Airport | Company Update

9 February 2018

- Nearly 30% Increase in Profit in the First Three Quarters of 2017

- The Gross Margin Rises by 3.8 ppts to 48.2%

- Revenue from Aeronautical Business Stably Slightly Rises

- The Non-aeronautical Business Continually Increases strongly

## Investment Thesis

Riding on the "single-terminal double-runway" to the operational mode of "multiple-terminal multiple-runway" path, the Company will start its new round of stable growth. We increase the Company's EBITDA per share to RMB2.8 in 2017 and RMB3.25 in 2018, respectively, with the estimation of a 19/16x multiple during the two years. The target price is increased to RMB52.1 and the "Accumulate" rating is maintained. (Closing price as at 7 Feb 2018)

## Accumulate (Maintain)

CMP: CNY 47.71

(Closing price as at 7 Feb 2018)

TARGET: CNY 52.10 (+9.2%)

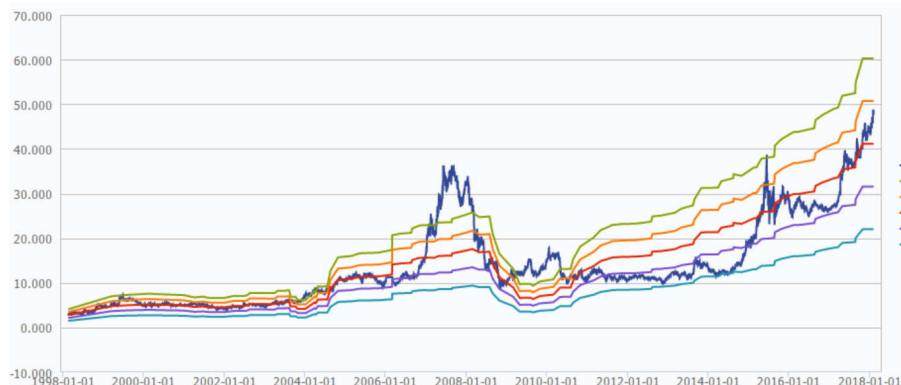
### COMPANY DATA

O/S SHARES (MN) :	1927
MARKET CAP (CNY MN) :	91935
52 - WK HI/LO (CNY):	49.2/27.31

### SHARE HOLDING PATTERN, %

Shanghai Airport Authority (SAA)	17.62
HKSCC	7.37

### PE Trend



Source: Wind, Company, Phillip Securities Hong Kong Research

### PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	6285	6951	7978	9406
Net Profit	2531	2806	3563	4144
EPS, CNY	1.31	1.46	1.85	2.15
P/E, x	36.3	32.8	25.8	22.2
BVPS, CNY	10.54	11.57	12.95	14.53
P/BV, x	4.5	4.1	3.7	3.3
DPS (CNY)	0.43	0.44	0.56	0.65
Div. Yield (%)	0.9%	0.9%	1.2%	1.4%

Source: Company reports, Phillip Securities Est.

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### Nearly 30% Increase in Profit in the First Three Quarters of 2017

Shanghai Airport recorded revenues of RMB6,010 million in the first three quarters of 2017, up by 14.9% YoY; the net profit attributable to the parent company stood at RMB2,690 million, up by 27.9% YoY; its basic EPS was RMB1.4, up by 28% YoY. In Q3, the revenue rose by 15% YoY, and the net profit attributable to the parent company soared by 43% YoY, an obvious increase in result growth compared with 21% of H1. The reason is that benefiting from recovery of oil price, the oil company, 40% of whose shares are held by Shanghai Airport, had driven the return on investment to increase by 92% to RMB0.3 billion.

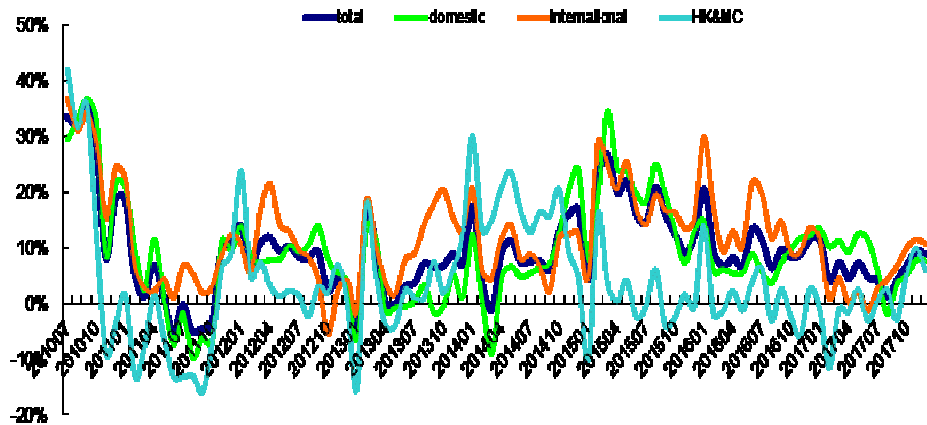
### The Gross Margin Rises by 3.8 ppts to 48.2%.

After the Terminal Building T1 Reconstruction Project was completed, the Company's cost side has been increasing stably. The operating cost of the first three quarters of the Company only rose by 7.4%, far lower than the growth rate of revenue, and thus the gross margin increased by 3.8 ppts to 48.2%. The three-expense ratio increased by 1.3 ppts to 2.03% YoY due to decrease of interest revenue, and the final operating profit rate still increased by 2.5 ppts YoY..

### Revenue from Aeronautical Business Stably Slightly Rises

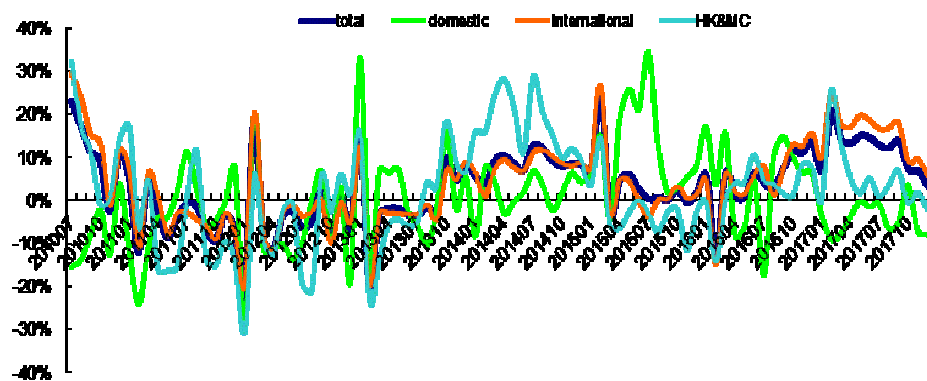
In the first three quarters, the aircraft movements reached 370,500 sorties, slightly up by 3.3% YoY. Specifically, the number of domestic, international and regional airways increased by 2.7%, increased by 4.8% and decreased by 2.2%, respectively. The passenger throughput amounted to 52,493,500, increased by 5.3% YoY. Specifically, the number of domestic, international and regional airways increased by 8.2%, increased by 3.6% and decreased by 1.7%, respectively. The cargo and mail throughput amounted to 337,000 tons, up by 12.8% YoY. Specifically, the number of international airways obviously grew faster -- still a double-digit number.

### Passenger traffic by segments



Source: Company, Phillip Securities Hong Kong Research

### Cargo traffic by segments



Source: Company, Phillip Securities Hong Kong Research

We found that, the aircraft movements of international airways had tended to increase month by month, while those of domestic airways had declined month by month. This reflects that the airport's increased airway resources had been mostly distributed to international airways. Moreover, the number of passengers increased at a growth rate 2 pts higher than the number of aircraft movements did, indicating an obvious aircraft upsizing. This characteristic is reflected more obviously in domestic airways.

In Q4, the aircraft movements, the passenger throughput, and the cargo and mail throughput increased by 4.2%, 8.4%, and 5.7%, respectively. The aircraft movements

and passenger throughput of international airways still grew at a high speed, and at the same time, regional airways started to recover.

Recently aiming at increasing the on-schedule rate, Civil Aviation Administration of China put forward the measures on flight limitation, limiting the growth of aircraft movements of the Company to a certain extent. Yet, considering the Company can adopt such response measures as adjusting the flight structure and increasing the proportions of international flights and wide-bodied aircraft and has ample room for productivity enhancement, we expect that the negative influence would be quite limited.

#### **The Non-aeronautical Business Continually Increases**

Benefiting from the expansion of commercial space and the increase of the proportion of passengers of international airways after the full commissioning of the Terminal Building T1 Reconstruction Project, the revenue from the non-aeronautical business of the Company soared to be more than that of aeronautical business in 2017 at one go. The duty-free business contract of the Company will expire in March 2018, and it is expected that the new commission percentage in the new round of bidding will rise from 25% to about 45%, greatly enhancing the revenue of non-aeronautical business. Moreover, after the S1/S2 satellite hall is completed and put into operation in 2019, the total covered area of terminal building will rise by 69%, the passenger throughput will exceed 80 million, and the resulting expansion of commercial space and increase of the number of consumers will be solid support for the next round of result growth of the Company.

## Financials

FYE DEC	FY13	FY14	FY15	FY16	FY17F	FY18F
<b>Valuation Ratios</b>						
P/E (X), adj.	49.1	43.9	36.3	32.8	25.8	22.2
P/EBITDA	26.8	25.6	23.1	20.9	17.0	14.7
P/B (X)	5.4	5.0	4.5	4.1	3.7	3.3
Dividend Yield (%)	0.6%	0.7%	0.9%	0.9%	1.2%	1.4%
<b>Per share data (RMB)</b>						
EPS, (Basic)	0.97	1.09	1.31	1.46	1.85	2.15
EPS, (Diluted)	0.97	1.09	1.31	1.46	1.85	2.15
DPS	0.30	0.35	0.43	0.44	0.56	0.65
BVPS	8.79	9.58	10.54	11.57	12.95	14.53
EBITDA/Share	1.78	1.86	2.06	2.28	2.80	3.25
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	10.5%	10.3%	9.3%	10.6%	14.8%	17.9%
EBIT	67.3%	7.9%	17.6%	11.8%	29.0%	17.2%
Net Income, adj.	55.1%	11.9%	20.8%	10.8%	27.0%	16.3%
<b>Margins</b>						
Gross margin	41.7%	41.6%	43.8%	44.3%	47.8%	48.6%
EBIT margin	48.1%	47.3%	50.8%	51.4%	57.7%	57.4%
Net Profit Margin	35.9%	36.4%	40.3%	40.4%	44.7%	44.1%
<b>Key Ratios</b>						
ROE	11.4%	11.8%	13.1%	13.2%	15.1%	15.6%
<b>Income Statement (RMB mn)</b>						
<b>Revenue</b>	<b>5215</b>	<b>5751</b>	<b>6285</b>	<b>6951</b>	<b>7978</b>	<b>9406</b>
<b>Gross profit</b>	<b>2176</b>	<b>2393</b>	<b>2755</b>	<b>3078</b>	<b>3813</b>	<b>4571</b>
EBIT	2509	2717	3195	3571	4605	5396
Profit before tax	2515	2806	3380	3718	4693	5446
<b>Tax</b>	<b>492</b>	<b>556</b>	<b>696</b>	<b>752</b>	<b>939</b>	<b>1089</b>
Profit for the period	2023	2250	2684	2966	3755	4357
Minority interests	150	155	153	160	191	214
Total capital share	1927	1927	1927	1927	1927	1927
<b>Net profit</b>	<b>1873</b>	<b>2095</b>	<b>2531</b>	<b>2806</b>	<b>3563</b>	<b>4144</b>

Source: PSR

(Financial figures as at 7 February 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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