

SIA (600009.CH)

Excellent FY2018Q1 !

China | Airport | Company Update

11 JUNE 2018

Investment Thesis

Considering the Company riding on the new round of stable growth period, we increase the Company's EBITDA per share in 2018 and introduce 2019E EBITDA per share. The target price is increased to RMB 63, with the estimation of a 18.3/16.6x multiple respectively during the two years, and the "Accumulate" rating is maintained. (Closing price as at 7 June)

Results momentum continued

The revenue of Shanghai Airport in 2017 was RMB8.06 billion, increasing by 15.9% yoy; the net profit attributable to its parent company reached RMB3.68 billion, up 31.3% yoy; its basic EPS was RMB1.91, which was in line with our expectations and was slightly higher at around 3%. The dividend per share was RMB0.58, with a dividend payout ratio of 30%. The weighted return on equity rose by 2.6 ppts to 15.5%.

The first quarter financial report for 2018 showed that the results of the Company continued to grow strongly. In the Q1 of 2018, the revenue reached RMB2.281 billion, up by 20.35% yoy; the net profit attributable to its parent company was RMB1.018 billion, rising by 28.62% yoy; and its basic EPS was RMB0.53.

The Gross Profit Margin Was Soaring and the Profitability Was on the "Fast Track"

2017: In 2017, the traffic in Shanghai Airport was controlled. Aeronautical business volume recorded only single-digit increase (the takeoffs and landings increased by 3.5%, while the passenger throughput by 6%), and aeronautical revenue only rose by 6% yoy to RMB3.724 billion. Although aeronautical business was restricted, the Company's non-aeronautical business recorded rapid growth. Non-aeronautical business revenue increased significantly by 26% yoy to RMB4.34 billion, of which commercial leasing revenue rose by 43% yoy.

On the other hand, the operating costs remained stable and only increased by 6.1%. In 2017, gross profit margin increased by 4.7 ppts yoy to 49.82%. In addition, benefiting from the satisfactory performance of its subsidiaries (oil companies and advertising companies), its investment income increased by 34% yoy to RMB975 million.

2018: In 2018, the air traffic of Shanghai Airport continued to be controlled. Its takeoffs and landings rose by only 2.7%, and its passenger throughput by only 5.5%. It is estimated that the aeronautical revenue will remain low. International routes continued to record higher than the overall growth rate, and the route structure was further optimized.

It is worth mentioning that, due to the re-tendering of some commercial contracts and other reasons, the non-aeronautical business continued to maintain a high growth rate. Coupled with other factors such as the increase in airport charges, the growth of overall revenue was led to reach a record high in recent eight years, a yoy increase of more than 20%. The improvement of both the airline structure and the revenue structure boosted the gross margin in the first quarter of the year to increase by 5.3 ppts yoy to 50.68%, a record high in nine years.

Accumulate (Maintain)

CMP: CNY 56.92

(Closing price as at 7 June)

TARGET: CNY 63.00 (+10.7%)

COMPANY DATA

O/S SHARES (MN) :	1927
MARKET CAP (CNY MN) :	62241
52 - WK HI/LO (CNY):	57.67/35.5

SHARE HOLDING PATTERN, %

Shanghai Airport Authority (SAA)	53.25
HKSCC	18.55

PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY16	FY17	FY18E	FY19E
Net Sales	6951	8062	9296	10537
Net Profit	2806	3683	4583	5108
EPS, CNY	1.46	1.91	2.38	2.65
P/E, x	39.1	29.8	23.9	21.5
BVPS, CNY	11.57	13.04	14.84	16.76
P/BV, x	4.9	4.4	3.8	3.4
DPS (CNY)	0.44	0.58	0.73	0.86
Div. Yield (%)	0.8%	1.0%	1.3%	1.5%

Source: Company reports, Phillip Securities Est.

Research Analyst
ZhangJing
 (+ 86 51699400-103)
 zhangjing@phillip.com.cn

According to the financial report, in the first quarter of 2018, the three expense ratios decreased by 1.2%. Owing to the yoy decrease in operating costs of subsidiaries and the changes in expense accounting standards, sales expenses decreased by 93% yoy, while financial expenses dropped by 155% yoy because no bond interest needed to be expended in the current period due to the expiration of corporate bonds. In total, the net profit margin increased by 2.7 pts to 46.4%.

The Implementation of Duty Free Bidding Is Expected to Increase Valuation

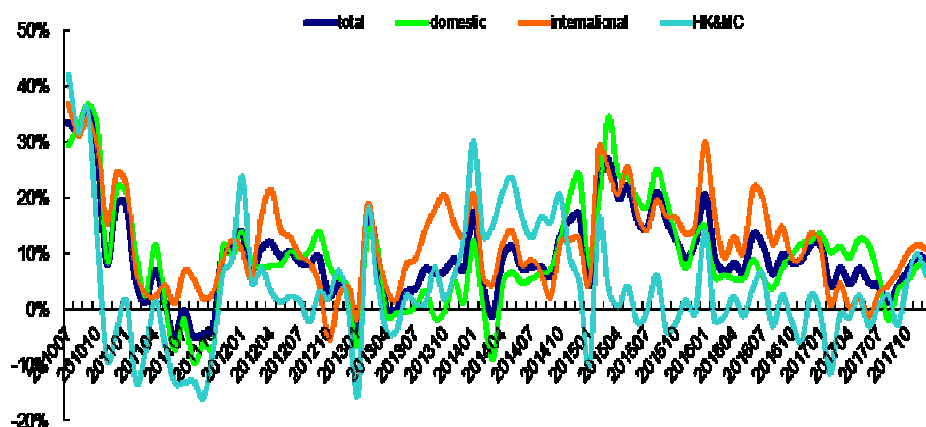
The Company's airport duty-free business contract expired at the end of March. A new round of tendering is underway and will begin to contribute to the result in the H2 of 2018. The new percentage of commission is likely to increase from the original 25% to not less than 40%. After the S1/S2 satellite hall was completed and put into operation in 2019, the total floor area of the airport terminal building will increase by 69%, and the passenger throughput will exceed 80 million. The resulting expansion of commercial area and increase in the number of consumers will not only lay a solid foundation for the Company's next round of development but also be expected to develop a new business operating model and to fully release the valuation premium of the Company as a leading hub airport.

PE Trend



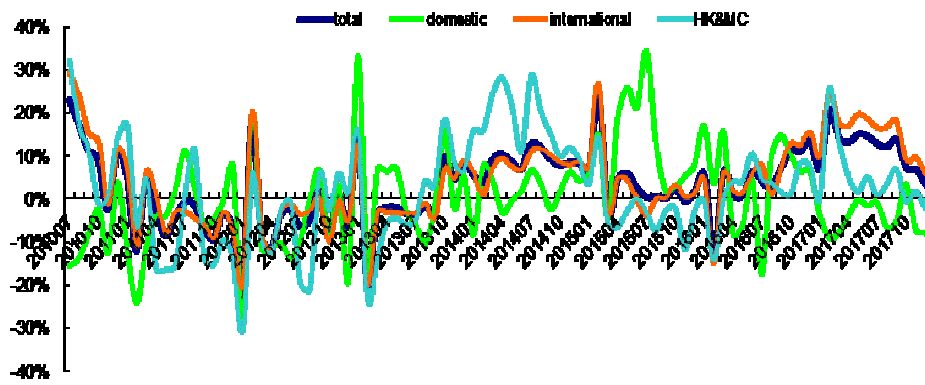
Source: Bloomberg, Company, Phillip Securities Hong Kong Research

Passenger traffic by segments



Source: Company, Phillip Securities Hong Kong Research

Cargo traffic by segments



Source: Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY14	FY15	FY16	FY17	FY18F	FY19F
Valuation Ratios						
P/E (X), adj.	52.4	43.3	39.1	29.8	23.9	21.5
P/EBITDA	30.5	27.6	24.9	19.8	16.5	15.0
P/B (X)	5.9	5.4	4.9	4.4	3.8	3.4
Dividend Yield (%)	0.6%	0.8%	0.8%	1.0%	1.3%	1.5%
Per share data (RMB)						
EPS, (Basic)	1.09	1.31	1.46	1.91	2.38	2.65
EPS, (Diluted)	1.09	1.31	1.46	1.91	2.38	2.65
DPS	0.35	0.43	0.44	0.58	0.73	0.86
BVPS	9.58	10.54	11.57	13.04	14.84	16.76
EBITDA/Share	1.86	2.06	2.28	2.88	3.44	3.80
Growth & Margins (%)						
Growth						
Revenue	10.3%	9.3%	10.6%	16.0%	15.3%	13.3%
EBIT	7.9%	17.6%	11.8%	32.2%	22.9%	11.7%
Net Income, adj.	11.9%	20.8%	10.8%	31.3%	24.4%	11.5%
Margins						
Gross margin	41.6%	43.8%	44.3%	49.6%	52.6%	53.9%
EBIT margin	47.3%	50.8%	51.4%	58.5%	62.4%	61.5%
Net Profit Margin	36.4%	40.3%	40.4%	45.7%	49.3%	48.5%
Key Ratios						
ROE	11.8%	13.1%	13.2%	15.5%	17.1%	16.8%
Income Statement (RMB mn)						
Revenue	5751	6285	6951	8062	9296	10537
Gross profit	2393	2755	3078	3995	4890	5679
EBIT	2717	3195	3571	4720	5800	6480
Profit before tax	2806	3380	3718	4842	5990	6669
Tax	556	696	752	984	1216	1354
Profit for the period	2250	2684	2966	3857	4774	5316
Minority interests	155	153	160	174	191	207
Total capital share	1927	1927	1927	1927	1927	1927
Net profit	2095	2531	2806	3683	4583	5108

Source: PSR

(Financial figures as at 7 June 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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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

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

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

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

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

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

AUSTRALIA
PhillipCapital Australia

Level 10, 330 Collins Street

Melbourne VIC 3000

Tel (+61) 3 8633 9803 Fax (+61) 3 8633 9899

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

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

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

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

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