

# SIA (600009.CH)

## Sustained Rapid Growth of Non-aeronautical Business

China | Airport | Company Update

2 April 2019

### Rapid Growth of Results

Shanghai International Airport (SIA) achieved a revenue of RMB9.313 billion in 2018, up by 15.5% yoy, and a net profit attributable to parent of RMB4.23 billion, up by 14.5% yoy, with a basic EPS of RMB2.2, slightly lower than our expectation by 7.7%. Its DPS was RMB0.66, with a dividend payout ratio maintained at 30%. Its weighted ROE rose to 15.85%, up by 0.32ppts.

### Steady Growth of Aeronautical Business

In 2018, the traffic in SIA was controlled, with a recorded increase of less than 5% in aeronautical business (+3.6% for takeoffs and landings and +5.6% for passenger throughput). However, thanks to the price raising effect of the internal routes by domestic airliners and the scaling-up of international routes and wide-bodied aircrafts, the revenue from aeronautical business grew faster than the traffic, up to RMB3.969 billion, with an increase of 6.58% yoy, maintaining a steady growth on the whole.

### Sustained Rapid Growth of Non-aeronautical Business

Unlike the restricted aeronautical business, the Company's non-aeronautical business recorded a sustained rapid growth up to RMB5.34 billion, with a surge of 23.2% yoy. Wherein, the commercial rental revenue increased by 33% yoy, up to RMB3.986 million, mainly benefiting from the increased proportion of international tourists with stronger consumption intention and the Company's sustained management, site optimization and adjustment of commercial retail brands. Of the commercial rental, over RMB3.5 million are from duty-free stores, the total volume and per customer transaction (RMB300/per customer) of which both recorded a rapid growth, with a growth rate of around 40% and 20% yoy, respectively, reflecting that duty-free stores in Pudong Airport were becoming a shopping hotspot for international routes passengers.

### Cost Growth Within A Stable Range

Except its running cost, the Company's other costs were well controlled. Its total cost stood at RMB4.57 billion, up by 9% yoy. Wherein, the running cost grew rapidly to 1.91 billion, up by 28.6% yoy, and the labor cost increased by 7.5%, while other operating costs dropped by 14.1% yoy, mainly due to the expiration of depreciation period of fixed assets and the non-bond interest expense of the current period. The raise of entrusted management fee due to the scaling-up of duty-free store business and the increase of one-off maintenance expense contributed to the growth of operating costs.

### Settlement of Duty-free Bidding Allowing the Growth of Non-aeronautical Business

In September, 2018, SIA entered into a new tax-free contract with Sunrise Duty Free, in which its minimum guaranteed commission will be RMB41 billion during the seven years from 2019 to 2025, deduction rate will be 42.5%, and its duty-free area will increase from 6,600km<sup>2</sup> to 16,915km<sup>2</sup>, with a substantial increase of 156%. We believe that, under the tide of consumption upgrading driven by outbound tourism, the tax-free business will allow the Company's non-aeronautical business to grow, which will not only provide a solid foundation for the Company's next round of development, but also, hopefully, launch a new business operation pattern that will fully release the valuation premium of the Company as a leading hub airport.

## Investment Thesis

Considering the Company riding on the new round of stable growth period, we revise the Company's EBITDA per share in 2019 and introduce 2020E EBITDA per share. The target price is increased to RMB 67, with the estimation of a 17.3/16.8x multiple respectively during the two years, and the "Accumulate" rating is maintained.

### Accumulate (Maintain)

CMP CNY 62.15

(Closing price as at 29 March)

TARGET CNY 67 (+7.2%)

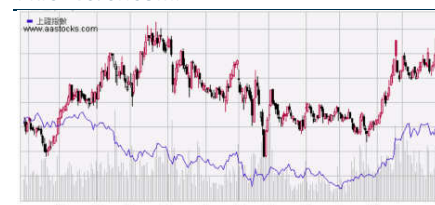
#### COMPANY DATA

O/S SHARES (MN) :	1927
MARKET CAP (CNY MN) :	67960
52 - WK HI/LO (CNY):	64.78/43.74

#### SHARE HOLDING PATTERN, %

Shanghai Airport Authority (SAA)	53.25
HKSCC	18.55

#### PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY17	FY18	FY19E	FY20E
Net Sales	8062	9313	11537	12991
Net Profit	3683	4232	5170	5396
EPS, CNY	1.91	2.20	2.68	2.80
P/E, x	32.5	28.3	23.2	22.2
BVPS, CNY	13.04	14.66	16.69	18.66
P/BV, x	4.8	4.2	3.7	3.3
DPS (CNY)	0.58	0.66	0.83	0.86
Div. Yield (%)	0.9%	1.1%	1.3%	1.4%

Source: Company reports, Phillip Securities Est.

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**Valuation Trend**



Source: Bloomberg, Company, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY15	FY16	FY17	FY18	FY19F	FY20F
<b>Valuation Ratios</b>						
P/E (X), adj.	47.3	42.7	32.5	28.3	23.2	22.2
P/EBITDA	30.1	27.2	21.6	19.3	16.1	15.5
P/B (X)	5.9	5.4	4.8	4.2	3.7	3.3
Dividend Yield (%)	0.7%	0.7%	0.9%	1.1%	1.3%	1.4%
<b>Per share data (RMB)</b>						
EPS, (Basic)	1.31	1.46	1.91	2.20	2.68	2.80
EPS, (Diluted)	1.31	1.46	1.91	2.20	2.68	2.80
DPS	0.43	0.44	0.58	0.66	0.83	0.86
BVPS	10.54	11.57	13.04	14.66	16.69	18.66
EBITDA/Share	2.06	2.28	2.88	3.23	3.87	4.00
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	9.3%	10.6%	16.0%	15.5%	23.9%	12.6%
EBIT	17.6%	11.8%	32.2%	15.2%	22.3%	3.5%
Net Income, adj.	20.8%	10.8%	31.3%	14.9%	22.2%	4.4%
<b>Margins</b>						
Gross margin	43.8%	44.3%	49.6%	51.4%	52.1%	48.2%
EBIT margin	50.8%	51.4%	58.5%	58.4%	57.6%	53.0%
Net Profit Margin	40.3%	40.4%	45.7%	45.4%	44.8%	41.5%
<b>Key Ratios</b>						
ROE	13.1%	13.2%	15.5%	15.9%	17.1%	15.8%
<b>Income Statement (RMB mn)</b>						
Revenue	<b>6285</b>	<b>6951</b>	<b>8062</b>	<b>9313</b>	<b>11537</b>	<b>12991</b>
Gross profit	2755	3078	3995	4792	6011	6262
EBIT	3195	3571	4720	5436	6649	6884
Profit before tax	3380	3718	4842	5630	6838	7053
Tax	696	752	984	1199	1436	1432
Profit for the period	2684	2966	3857	4432	5402	5621
Minority interests	153	160	174	200	232	225
Total capital share	1927	1927	1927	1927	1927	1927
<b>Net profit</b>	<b>2531</b>	<b>2806</b>	<b>3683</b>	<b>4232</b>	<b>5170</b>	<b>5396</b>

Source: PSR

(Financial figures as at 29 March 2019)

### 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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