

CEA (670.HK)

Good Main Business, Oil Price, Exchange Rates and Base Lead To Result Fluctuations

Hong Kong | Air | Update Report

Investment Summary:

Annual Revenues Are Cut In Half

China Eastern recorded revenues of RMB114.93 billion in 2018, up 13.0% yoy, and recorded a net income attributable to the parent company of RMB2.71 billion, down 57.4% yoy, in line with the company's previous result expectation. Basic EPS was RMB0.187. As the company is in the stage of introducing of the audit process of private placement of Shanghai Juneyao (Group) Co., Ltd., no dividends are paid.

Oil Price, Exchange Rates and Base Lead To Result Fluctuations

In 2018, operating indicators of the company grew steadily and reform measures aimed at strengthening sales & marketing and improving service quality were also implemented on a phased basis. However, the company experienced wild fluctuations in its result compared with previous years due to higher oil prices, exchange loss and annual cost base.

1) Affected by average annual oil price increase by 24.93%, the cost of aviation oil increased sharply by RMB8.55 billion (oil price rise added to extra cost of RMB6.72 billion while higher oil consumption increase the cost by RMB1.83 billion.)

2) Meanwhile, the depreciation of RMB exchange rate led to the exchange loss of RMB2.04 billion (the exchange net income was RMB2 billion during the same period of last year);

3) In addition, in 2017, the company transferred 100% equity interest in Eastern Logistics and obtained an investment income of about RMB 1.754 billion, while there was no investment income in 2018.

Net profit excluding the impact of foreign exchange and non-recurring gains and losses was up about 16% yoy.

Main Business Performs Excellently, with RPK Increasing by 4%

Under the premise of stable demand growth of air travel and austere flight schedules by CAAC, the company's passenger service remained rapid growth in 2018. The company's passenger spending increased by 8.3% yoy, with a net increase of 53 aircraft. Total passenger turnover increased by 10.0% yoy, while passenger transport volume increased by 9.4% yoy. As of the end of December 2018, the number of frequent traveler members of the company's Eastern Miles had reached 39.63 million, up by 18.8% yoy.

Due to tight supply and air fare increase, the quantity and cost of airlines have been rising. The company's P L /F increased by 1.2 percentage points yoy to 82.3%, and RPK (Revenue Passenger Kilometers) recorded RMB0.538, up by 4.1% yoy, and ASK (available seat kilometers) was RMB0.443, up by 5.7% yoy.

Foreign Exchange Risk Has Shrunk Further

Debt to equity ratio values for Eastern Airline at the end of 2018 reduced by 0.22 percentage point to 74.93 percent compared with 2017. The proportion of US dollar debts in interest-bearing debt rapidly reduced from 45% at the end of 2016 and 28% at the end of 2017 to 21.51% in 2018. A 1% rise in the Dollar to Yuan Exchange Rate (USD/CNY) would affect the company's net profit of RMB178 million.

In 2018, the company's market share in Shanghai, Beijing and Kunming (in accordance with the passenger throughput) increased by 0.6, 0.4 and 0.8 percentage point, respectively, while that of Xi'an remained unchanged yoy. The company plans to add 59, 51 and 8 aircraft, respectively to its fleet which will reach 751, 802 and 810, respectively over the next three years.

25 April 2019

Accumulate (Maintain)

CMP HKD 5.47

(Closing price as at 23 April 2019)

TARGET HKD 6 (+9.7%)

COMPANY DATA

O/S SHARES (MN):	14467
MARKET CAP (HKD MN):	25485
52 - WK HI/LO (HKD):	7.2/ 3.95

SHARE HOLDING PATTERN, %

China Eastern Air Group:	53.2
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY17	FY18	FY19E	FY20E
Net Sales	102475	115278	129103	141922
Net Profit	6342	2698	7293	8382
EPS, CNY	0.44	0.19	0.50	0.58
P/E, x	10.5	25.5	9.2	8.0
BVPS, CNY	3.83	4.01	4.51	5.03
P/BV, x	1.2	1.2	1.0	0.9
DPS (CNY)	0.05	0.00	0.05	0.06
Div. Yield (%)	1.1%	0.0%	1.1%	1.3%

Source: Company reports, Phillip Securities Est.

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Investment Thesis

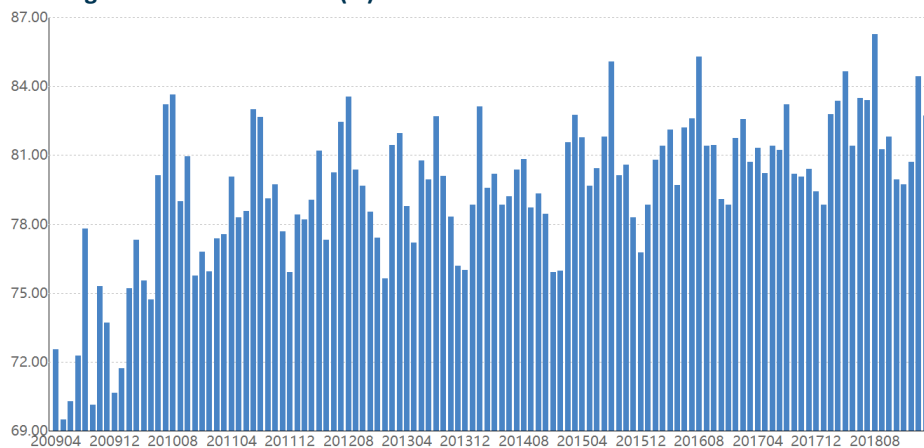
Under dual pressure of the grounding of the Boeing 737 MAX and tight schedule of CAAC, the trend of tight airline capacity will continue unabated while the benefits of the market-oriented reform of air fare are expected to last, and the aviation industry is expected to prosper.

We expect the company's 2019/2020 EPS of RMB0.50/0.58. 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 set the target price at HK\$6, equivalent to 10.1X/8.8X estimated P/E in 2019/2020. Also, the "Accumulate" rating is given. (Closing price as at 23 April 2019)

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;
- Boeing 737MAX deteriorate

Passenger Load Factor of CEA (%)



Source: Wind, Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY15	FY16	FY17	FY18	FY19F	FY20F
Valuation Ratios						
P/E (X), adj.	12.9	15.0	10.5	25.5	9.2	8.0
P/B (X)	1.6	1.4	1.2	1.2	1.0	0.9
Dividend Payout Yield (%)	0.0%	30.7%	11.6%	0.0%	9.9%	10.4%
Dividend Yield (%)	0.0%	2.1%	1.1%	0.0%	1.1%	1.3%
Per share data (RMB)						
EPS, reported	0.35	0.33	0.44	0.19	0.50	0.58
EPS, adj.	0.35	0.33	0.44	0.19	0.50	0.58
DPS	0.00	0.10	0.05	0.00	0.05	0.06
BVPS	2.92	3.58	3.83	4.01	4.51	5.03
Growth & Margins (%)						
Growth						
Revenue	4.2%	5.3%	3.6%	12.5%	12.0%	9.9%
EBIT	106.6%	-0.8%	-23.6%	-1.7%	38.8%	11.6%
Net Income, adj.	33.0%	-0.9%	41.0%	-57.5%	170.3%	14.9%
Margins						
EBIT margin	-1.5%	0.3%	7.4%	-1.6%	5.1%	5.6%
Net Profit Margin	4.8%	4.5%	6.2%	2.3%	5.6%	5.9%
Key Ratios						
ROE (%)	13.5%	12.2%	12.1%	4.8%	11.8%	12.2%
Income Statement (RMB mn)						
Revenue	93,969	98,904	102,475	115,278	129,103	141,922
Operating expenses	(86,613)	(91,887)	(100,525)	(112,561)	(122,313)	(133,683)
Profit from operations	12,625	12,486	9,431	9,309	12,988	14,493
Non-operating income/expense	152	187	251	204	213	240
Profit before tax	5,667	6,497	8,610	3,856	9,887	11,357
Tax	(624)	(1,542)	(1,800)	(926)	(1,977)	(2,271)
Profit for the period	5,043	4,955	6,810	2,930	7,910	9,086
Minority interests	(506)	(457)	(468)	(232)	(617)	(703)
Total capital share	12,819	12,819	14,467	14,467	14,467	14,467
Net profit	4,537	4,498	6,342	2,698	7,293	8,382

Source: PSR

(Financial figures as at 23 April 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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