

SIA (600009.CH)

Surged Non-aeronautical Business Promote Good 1Q Result

China | Airport | Company Update

14 May 2019

First-quarter Net Income Rose 37%

SIA recently released its 2019Q1 result: revenue reached RMB2.77 billion, increasing by 21.6% yoy; net profit attributable to the parent company reached RMB1.39 billion, up by 36.7% yoy, with a growth rate achieving the new peak over the past 8 years; and its non-attributable net profit deducted reached RMB1,343 million, increasing by 32% yoy. The basic EPS was RMB0.72. Cash flow from operating activities nearly doubled, reaching RMB978 million and increasing by 96% yoy, and the yield of weighted net assets increased by 0.84ppts.

Aeronautical Business Maintained Small Growth

The latest operation data showed that, in 2019Q1, SIA completed 126,900 aircraft movements, increasing by 2.4% yoy, and recorded a passenger throughput of 18,826,100 capitals, increasing by 4.9% yoy, among which, domestic passengers reached 9.22 million, increasing by 5.5% yoy, international passengers reached 7.9 million, increasing by 4.9%, and regional passengers reached 1.71 million, increasing by 2.3%. The cargo throughput was 804,900 tons, decreasing by 9.1% yoy. With the scaling-up proportion of wide-body aircraft, we expect the yoy growth of aeronautical business revenue to maintain a small-moderate single-digit growth rate.

Rapid Growth of Non-aeronautical Business Sustained

As of the first quarter of 2019, duty-free stores in Pudong T2 Terminal started to adopt the new royalty rate of 42.5%, increasing sharply by 17.5ppts from that of 25% of 2018. In the first quarter, this section contributed RMB1.01 billion to the revenue, equivalent to a turnover of RMB2.38 billion, which was estimated to drive an overall tax-free sales growth of 33% yoy approx. We believe that the improved deduction rate and substantial sales growth have boosted the profitability of the non-aeronautical business of SIA and were the main driving force for its strong performance in the first quarter. The Company's overall gross margin reached 55.24% in the first quarter, increasing by 4.5ppts from that of 50.7% a year earlier.

Expense Ratio Dropped and Investment Income Increased by RMB85 Million

In Q1, the Company's expense ratio dropped significantly, with the sum of sales, administration and financial expenses totaling RMB11.62 million, decreasing by 53% from that of RMB24.77 million a year earlier. Cause for such drop mainly lies in the decrease of current operating costs of one subsidiary, the expiration of the depreciation period of fixed assets, and one-time expenses in the same period of the last year. In addition, due to the change of accounting method, the investment gains increased by 39% or RMB85 million yoy.

Non-aeronautical Business will be Improved After the Satellite Terminal Puts into Service

Satellite Terminal S1 and S2, the Phase III Expansion Project of Pudong Airport, is expected to put into service in September, 2019, which will increase a duty-free area of 9,062m², and T1 and T2 Terminal will offer a new duty-free area of 1,000m², which is expected to enhance the shopping experience of passengers while expanding the area of its duty-free business, so as to fully release the premium valuation 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 2019/2020 E EBITDA per share. The target price is increased to RMB 74, with the estimation of a 19/18x multiple respectively, and the "Accumulate" rating is maintained. (Closing price as at 9 May 2019)

Accumulate (Maintain)

CMP CNY 67.54

(Closing price as at 9 May 2019)

TARGET CNY 74.00 (+9.6%)

COMPANY DATA

O/S SHARES (MN) :	1927
MARKET CAP (CNY MN) :	73853
52 - WK HI/LO (CNY):	71.66/43.74

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	11587	13391
Net Profit	3683	4232	5198	5537
EPS, CNY	1.91	2.20	2.70	2.87
P/E, x	35.3	30.8	25.0	23.5
BVPS, CNY	13.04	14.66	16.70	18.76
P/BV, x	5.2	4.6	4.0	3.6
DPS (CNY)	0.58	0.66	0.81	0.87
Div. Yield (%)	0.9%	1.0%	1.2%	1.3%

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
Valuation Ratios						
P/E (X), adj.	51.4	46.4	35.3	30.8	25.0	23.5
P/EBITDA	32.7	29.6	23.4	20.9	17.4	16.5
P/B (X)	6.4	5.8	5.2	4.6	4.0	3.6
Dividend Yield (%)	0.6%	0.7%	0.9%	1.0%	1.2%	1.3%
Per share data (RMB)						
EPS, (Basic)	1.31	1.46	1.91	2.20	2.70	2.87
EPS, (Diluted)	1.31	1.46	1.91	2.20	2.70	2.87
DPS	0.43	0.44	0.58	0.66	0.81	0.87
BVPS	10.54	11.57	13.04	14.66	16.70	18.76
EBITDA/Share	2.06	2.28	2.88	3.23	3.89	4.10
Growth & Margins (%)						
Growth						
Revenue	9.3%	10.6%	16.0%	15.5%	24.4%	15.6%
EBIT	17.6%	11.8%	32.2%	15.2%	23.0%	5.7%
Net Income, adj.	20.8%	10.8%	31.3%	14.9%	22.8%	6.5%
Margins						
Gross margin	43.8%	44.3%	49.6%	51.4%	52.1%	48.2%
EBIT margin	50.8%	51.4%	58.5%	58.4%	57.7%	52.8%
Net Profit Margin	40.3%	40.4%	45.7%	45.4%	44.9%	41.4%
Key Ratios						
ROE	13.1%	13.2%	15.5%	15.9%	17.2%	16.2%
Income Statement (RMB mn)						
Revenue	6285	6951	8062	9313	11587	13391
Gross profit	2755	3078	3995	4792	6037	6454
EBIT	3195	3571	4720	5436	6687	7068
Profit before tax	3380	3718	4842	5630	6876	7237
Tax	696	752	984	1199	1444	1469
Profit for the period	2684	2966	3857	4432	5432	5768
Minority interests	153	160	174	200	234	231
Total capital share	1927	1927	1927	1927	1927	1927
Net profit	2531	2806	3683	4232	5198	5537

Source: PSR

(Financial figures as at 9 May 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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