

# Travelsky Technology (696.HK)

## United States trade war resumed, Airline industry will suffer in the short term

Hong Kong | TMT | Company Report

22 May 2019

### Investment Summary

Travelsky Technology is the largest provider of the aviation information systems in China, which developed systems, such as flight control, air ticket distribution, check-in, boarding and load planning, accounting, settlement and clearing system, and aviation logistic. Based on DCF valuation, we derived a TP of HK\$23.74, implied a P/E of 24.5x and 22x in 2019/20F. We maintain a “Buy” rating with a potential upside of 42.8%. (Closing price at 20 May 2019)

### Buy

CMP HKD 16.62

(Closing price at 20 May 2019)

TARGET HKD 23.74 (+42.8%)

#### COMPANY DATA

O/S SHARES (MN) :	2,926
MARKET CAP (HKDMN) :	15,499
52 - WK HI/LO (HKD):	25 / 16.62

### The pessimistic outlook on economy and depreciation on RMB reduce the number of tourists and freight transport volume in China in the short term

As the China - United States trade war resumed, the number of tourists and freight transport volume in China may reduce due to the pessimistic outlook on economy and depreciation on RMB. The China - United States trade war was reignited, after the US urged to raise the tax rate from 10% to 25% for goods from China worth USD 200 bn on 6 May and officially came into effect on 10 May. China also retaliated by imposing a tax rise on goods from US worth USD 60bn. If the intensity of conflict between US and China remains or goes up, it will definitely drive down their economic growth, or even the global economic growth. Besides, the depreciation on RMB could somehow alleviate the effect of tax rise from US side, which could maintain the competitiveness of the Chinese export. The RMB has depreciated by 2.7% in since May, reaching the previous bottom in 2017.

#### SHARE HOLDING PATTERN , %

China TravelSky	29.29
China Eastern	12.21
Air China	9.81
China Southern	9.18

#### PRICE PERFORMANCE , %

	1M	3M	1Y
Travelsky	-15.89	-27.9	-28.97
HSI	-7.25	0.16	-10.17

#### RETURN VS. HSI



Source: Aastocks, Phillip Securities (HK) Research

As the pessimistic outlook on economy and depreciation on RMB, the willingness to travel for Chinese may reduce. First, traveling is attributed to the discretionary spending, implying that it is vulnerable to the economic cycle. If the economy is heading into a recession, the number of travelling may reduce. Second, the depreciation on RMB lowers the purchasing power of Chinese travelers in foreign countries, which may eventually reduce their willingness to travel.

#### KEY FINANCIALS

RMB mn	FY17	FY18	FY19F	FY20F
Revenue	6,734	7,472	8,161	9,024
Net Profit	2,319	2,382	2,512	2,797
EPS, RMB	0.768	0.795	0.859	0.956
PER, x	19.18	18.55	17.17	15.42
BVPS, RMB	5.27	5.81	6.37	6.99
P/BV, x	2.80	2.54	2.31	2.11
ROE, %	15.4	14.3	14.1	14.3

Source: Company reports, Phillip Securities Est.

If the number of tourists drops, it would reduce the bookings through the Group's systems, thereby lowering the revenue of Group. The recession may also reduce the freight transport volume, which will affect the revenue from Accounting, Settlement and Cleaning Services.

However, we believe the number of traveling will remain its uptrend in the long term despite the shocks in the short term, thanks to the increase in GDP per capita. Once the monopoly due to the protection from the Civil Aviation Administration remains, the Group will be the only company that benefits from this uptrend in number of travelling.

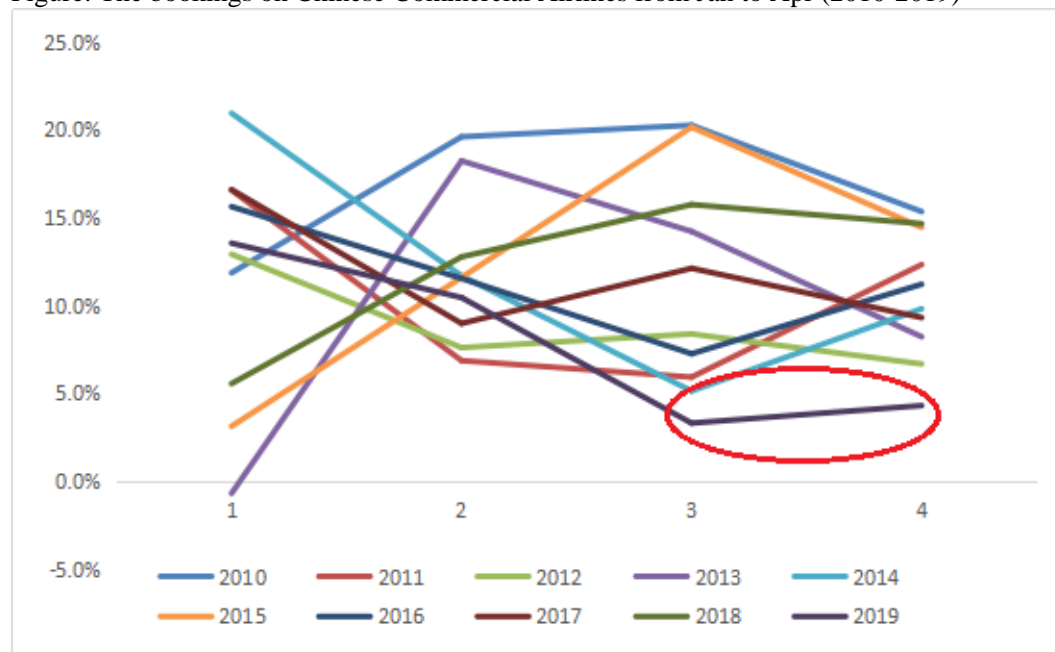
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At present, some of the impacts can be seen from the operational data released by the group. Although the number of bookings for Chinese commercial airlines increased by 7.74% YoY from January to April, and the number of foreign and regional commercial airlines` bookings increased by 8.95% YoY. However, the growth rate of bookings for Chinese commercial airlines in March and April were the lowest in nine years, only 3.3% and 4.3%. The trade war was reignited in May, so the operating data for the next few months may remain low.

Figure: The bookings on Chinese Commercial Airlines from Jan to Apr (2010-2019)



Source: Company website, Phillip Securities (HK) Research

### Spring Airlines adopted Travelsky`s computer reservation system (CRS)

The Group released on May 15 that Spring Airlines has adopted their computer reservation system (CRS) - eTerm, implying that the travel agents will be able to purchase the air ticket of Spring Airlines via the Group`s CRS.

Previously, Spring Airlines mainly sold their ticket through their own website. However, as its size became larger and the increase in international flights, direct sales will not be able to cope with the volume. As a result, Spring Airlines decided to adopt the Group`s CRS.

Although Spring Airlines did not adopt the Group`s Inventory Control System (ICS), the system we believe creates the greatest competitive advantage, the cooperation still could enhance the competitiveness of the Group`s Global Distribution System (GDS).

### Earnings Forecast

We lower our revenue growth forecast in 2019/20F by 1.1%/0.46%, to 9.2%/10.6%, reflecting the pessimistic outlook on Chinese economy and depreciation on RMB, but we should see the growth resume to normal in the long term.

### Valuation

We adopted the DCF model for valuation, where we assume the discount rate to be 9.76%, and terminal growth to be 2.5%, with FCFE forecast to 2028F. We derived a TP of HK\$23.75, implied a P/E of 24.5x and 22x in 2019/20F, 6.8% lower than our

previous TP, due to the pessimistic outlook on Chinese economy and depreciation on RMB. We believe the investment ground in the long term still remains, but may suffer in the short term due to the intensified trade war. In view of the plunge in stock price, we maintain a “Buy” rating with a potential upside of 42.8%. (HKD/CNY=0.887)

Figure: DCF model

(RMB million)	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
EBITDA	3,453	3,823	4,280	4,840	5,509	6,193	6,866	7,504	8,032	8,281
Adjust for										
CAPEX, net	(1,148)	(1,114)	(1,227)	(1,333)	(1,947)	(1,248)	(2,019)	(1,951)	(1,763)	(1,575)
Change in working capital	954	(24)	(28)	(33)	(38)	(41)	(42)	(43)	(41)	(33)
Tax	<u>(351)</u>	<u>(391)</u>	<u>(440)</u>	<u>(502)</u>	<u>(594)</u>	<u>(672)</u>	<u>(750)</u>	<u>(846)</u>	<u>(909)</u>	<u>(940)</u>
Free Cash Flow	2,909	2,294	2,584	2,972	2,929	4,231	4,055	4,664	5,319	5,732

### Assumptions

Terminal growth	2.5%
Risk-free rate	3.28%
Equity Risk Premium	5.89%
Beta	1.10
WACC	9.76%

<b>Enterprise Value</b>	53,593
+ Net cash (debt)	4,346
- Minority (Market value)	(1,333)
+/- Other items	5,022
Equity value	61,629

Number of shares	2,926
HKD/CNY	0.887
Equity value per share (HK\$)	23.74

Source: Company report, Phillip Securities (HK) Research

### Risk

1. Economic downturn
2. Aviation system market opening up
3. Airlines develop their own systems

## Financials

FYE DEC	FY15	FY16	FY17	FY18	FY19F	FY20F
<b>Valuation Ratios</b>						
P/E (X), adj	22.53	17.82	19.18	18.55	17.17	15.42
P/B (X)	3.64	3.13	2.80	2.54	2.31	2.11
Dividend Yield (%)	1.2%	1.6%	1.8%	1.9%	2.1%	2.3%
<b>Per share data (RMB)</b>						
EPS, (Basic)	0.654	0.827	0.768	0.795	0.859	0.956
EPS, (Diluted)	0.654	0.827	0.768	0.795	0.859	0.956
DPS (HKD)	0.205	0.259	0.305	0.312	0.347	0.387
BVPS	4.05	4.71	5.27	5.81	6.37	6.99
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	2.5%	13.7%	8.2%	11.0%	9.2%	10.6%
EBIT	39.2%	24.6%	13.6%	-6.2%	15.4%	10.8%
Net Profit	16.6%	25.9%	-6.7%	2.7%	8.2%	11.3%
<b>Margins</b>						
EBIT margin	31.9%	35.0%	36.7%	31.0%	32.8%	32.9%
Net Profit Margin	36.1%	39.9%	34.4%	31.9%	31.6%	31.8%
<b>Key Ratios</b>						
ROA	14.3%	15.1%	12.0%	11.2%	11.1%	11.2%
ROE	17.3%	18.9%	15.4%	14.3%	14.1%	14.3%
<b>Income statement (RMB mn)</b>						
Revenue	5,472	6,223	6,734	7,472	8,161	9,024
EBIT	1,748	2,177	2,473	2,319	2,677	2,966
Operating profit	2,180	2,706	2,509	2,430	2,725	3,019
EBT	2,870	2,632	2,650	2,928	3,260	3,671
Net Profit	1,974	2,486	2,319	2,382	2,577	2,869
Minority Interest	59	64	70	57	64	72
Net profit for owners	1,914	2,421	2,249	2,325	2,512	2,797

Source: Company, Phillip Securities (HK) Research

Exchange rate (0.887) is HKDCNY1Y forward contract price on May 20 from Wind.

(Financial figures as at 20 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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