

SIA (600009.CH)

Excellent Non-aeronautical Business Continued

China | Airport | Company Update

2 September 2019

19H1 Results Maintained High Growth of 34%

According to the 2019 H1 Financial Report released by SIA (Shanghai International Airport), the Company recorded a revenue of RMB5,455 million, up 21.11% yoy, a net profit attributable of RMB2.70 billion, up 33.54% yoy, and an EPS of RMB1.4. It also recorded a net profit deducting the non-recurring items of RMB2.65 billion, up 31.09% yoy.

Aeronautical Business Enjoyed Small Growth

In H1, the production and operation index of SIA enjoyed a sound approach. Its aeronautical revenue recorded RMB2,024 million, up 3.0% yoy, of which the revenue from flights recorded RMB879 million, up 2.1% yoy, mainly benefiting from a 1.92% yoy increase in aircraft movements, and the revenue from passengers cargo and postal services recorded RMB1,145 million, up 3.77% yoy, benefiting mainly from a 4.2% yoy increase in passenger throughput. In H1, SIA enjoyed the second highest passenger throughput in China, of which the volume of international and regional passengers remained the first in China. With the scaling-up proportion of wide-body aircraft, we expect its aeronautical revenue to maintain a small single-digit growth ratio.

Non-aeronautical Business Gave Excellent Performance

The non-aeronautical revenue recorded RMB3.43 billion in 2019 H1, up 35.1% yoy, accounting for 62.9% of the total revenue. Among them, the commercial catering revenue recorded RMB2.77 billion, a significant increase of 46.0% by year, and other non-aeronautical revenues recorded RMB660 million, up 2.7% by year. Since the duty-free stores in Pudong T2 Terminal started to adopt the new royalty rate of 42.5% as of the first quarter of 2019, which increased sharply by 17.5 ppts from that of 25% of 2018, the sales revenue from duty-free stores in Shanghai Airport in H1 recorded RMB7 billion, approx., up 27% yoy, approx. The growth in royalty rate and sales revenue boosted greatly the profitability of non-aeronautical businesses, being the major driving force for its excellent result. In 2019Q4, the duty-free stores in Pudong Satellite Hall will be launched, and those on entry in T2 Terminal will be put into use. The duty-free business area will continue to expand, so there is still room for the further growth of the non-aeronautical revenue.

Depreciation Decreased, and Gross Margin Continued to Increase

In H1, the total operating cost increased by 9.3% yoy, 11.9 ppts lower than the revenue growth rate. The overall gross margin increased by 5.0 ppts to 56.4% when compared to that of the same period of last year. The depreciation and amortization cost decreased by 11% yoy due to the expiration of the depreciation life of some fixed assets.

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.

Moreover, the overall guideline of New LinGang Zone in Shanghai Free Trade Zone proposed recently, mentioning to support Pudong International Airport to be a world-class aviation hub, a regional center for airlines' headquarters base, and an international hub center of air cargo express. Enjoying a unique geographical advantage, SIA is expected to be the first to benefit from it.

Accumulate (Maintain)

CMP CNY 84.56

(Closing price as at 29 August 2019)

TARGET CNY 93 (+10%)

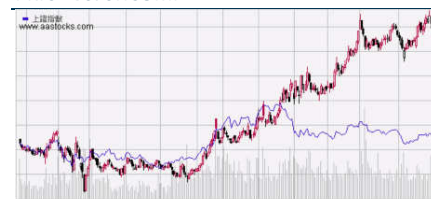
COMPANY DATA

O/S SHARES (MN) :	1927
MARKET CAP (CNY MN) :	162944
52 - WK HI/LO (CNY):	88.9/43.74

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	11634	13591
Net Profit	3683	4232	5401	5743
EPS, CNY	1.91	2.20	2.80	2.98
P/E, x	44.2	38.5	30.2	28.4
BVPS, CNY	13.04	14.66	16.80	18.94
P/BV, x	6.5	5.8	5.0	4.5
DPS (CNY)	0.58	0.66	0.84	0.90
Div. Yield (%)	0.7%	0.8%	1.0%	1.1%

Source: Company reports, Phillip Securities Est.

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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 93, with the estimation of a 23/22x multiple respectively, and the "Accumulate" rating is maintained. (Closing price as at 29 August 2019)

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.	64.4	58.1	44.2	38.5	30.2	28.4
P/EBITDA	41.0	37.0	29.3	26.2	21.0	20.0
P/B (X)	8.0	7.3	6.5	5.8	5.0	4.5
Dividend Yield (%)	0.5%	0.5%	0.7%	0.8%	1.0%	1.1%
Per share data (RMB)						
EPS, (Basic)	1.31	1.46	1.91	2.20	2.80	2.98
EPS, (Diluted)	1.31	1.46	1.91	2.20	2.80	2.98
DPS	0.43	0.44	0.58	0.66	0.84	0.90
BVPS	10.54	11.57	13.04	14.66	16.80	18.94
EBITDA/Share	2.06	2.28	2.88	3.23	4.03	4.23
Growth & Margins (%)						
Growth						
Revenue	9.3%	10.6%	16.0%	15.5%	24.9%	16.8%
EBIT	17.6%	11.8%	32.2%	15.2%	27.9%	5.5%
Net Income, adj.	20.8%	10.8%	31.3%	14.9%	27.6%	6.3%
Margins						
Gross margin	43.8%	44.3%	49.6%	51.4%	52.5%	49.2%
EBIT margin	50.8%	51.4%	58.5%	58.4%	59.8%	54.0%
Net Profit Margin	40.3%	40.4%	45.7%	45.4%	46.4%	42.3%
Key Ratios						
ROE	13.1%	13.2%	15.5%	15.9%	17.8%	16.7%
Income Statement (RMB mn)						
Revenue	6285	6951	8062	9313	11634	13591
Gross profit	2755	3078	3995	4792	6109	6687
EBIT	3195	3571	4720	5436	6955	7336
Profit before tax	3380	3718	4842	5630	7144	7505
Tax	696	752	984	1199	1500	1524
Profit for the period	2684	2966	3857	4432	5644	5982
Minority interests	153	160	174	200	243	239
Total capital share	1927	1927	1927	1927	1927	1927
Net profit	2531	2806	3683	4232	5401	5743

Source: PSR

(Financial figures as at 29 August 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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