

# Travelsky Technology (696.HK)

## Interim performance in line, Airline industry will still suffer in the short term

27 September 2019

Hong Kong | TMT | Company Report

### 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\$23.40, implied a P/E of 24.9x and 22.4x in 2019/20F. We maintain a “Buy” rating with a potential upside of 47.2%. (Closing price at 25 Sep 2019)

### Interim performance in line

The Group announced interim results with revenue of RMB 3.84 billion, up 9.2% YoY. Aviation information technology service revenue, settlement and clearing income, system integration service revenue, data network revenue and other revenues increased by +8.9% and +3.5%, respectively. 23.8%, -1.5% and +7.7%. Net profit was RMB 1.44 billion, up 4.3% YoY, mainly due to the higher growth on cost than revenue. Total operating costs increased by 12.1% YoY. Among them, labor costs, depreciation and amortization, commission and promotion expenses and costs of software and hardware sold increased by 17.9%, 38.4%, 6.4% and 66.9% respectively.

As of 2019H1, the system processed volume of the Group reached 337 million, a YoY increase of 7.8%, of which China and foreign commercial airlines increased by 7.7% and 9.6% respectively; BSP ticket system processing volume also reached 206 million, an increase of 7.6%. The number of newly added airports and number of system integration projects under implementation also reached 10 and 90 respectively.

### China’s passenger traffic has continued to grow, but the freight transport volume has declined

Despite the adverse effect on Chinese economy from US-China trade war, along with the sharp depreciation of the RMB, passenger traffic from January to July increased by 8.7% YoY to 381 million, but the growth rate was 3.4% lower than the same period last year. This is the same situation as in the 2008 financial crisis, and passenger traffic continued to grow even in times of economic downturn. We believe that this phenomenon is due to the fact that with the increase in people's purchasing power and the emergence of low-cost airlines, the people have gradually been able to afford the aircraft for travel, making the demand for the service less elastic, so even in the economic downturn, passenger traffic still has a good performance. However, freight transport was affected more by US-China trade war. The freight transport volume from January to July fell by 0.5% YoY to approximately 4.129 million tons.

### Buy

CMP HKD 15.90

(Closing price at 25 Sep 2019)

TARGET HKD 23.40 (+47.2%)

#### COMPANY DATA

O/S SHARES (MN)	2,926
MARKET CAP (HKDMN)	14,828
52 - WK HI/LO (HKD)	24.5 / 13.38

#### 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	0.63	2.85	-18.63
HSI	0.39	-7.70	-5.98

#### RETURN VS. HSI



Source: Aastocks, Phillip Securities (HK) Research

#### 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	18.89	18.27	16.91	15.19
BVPS, RMB	5.27	5.81	6.37	6.99
P/BV, x	2.75	2.50	2.28	2.08
ROE, %	15.4	14.3	14.1	14.3

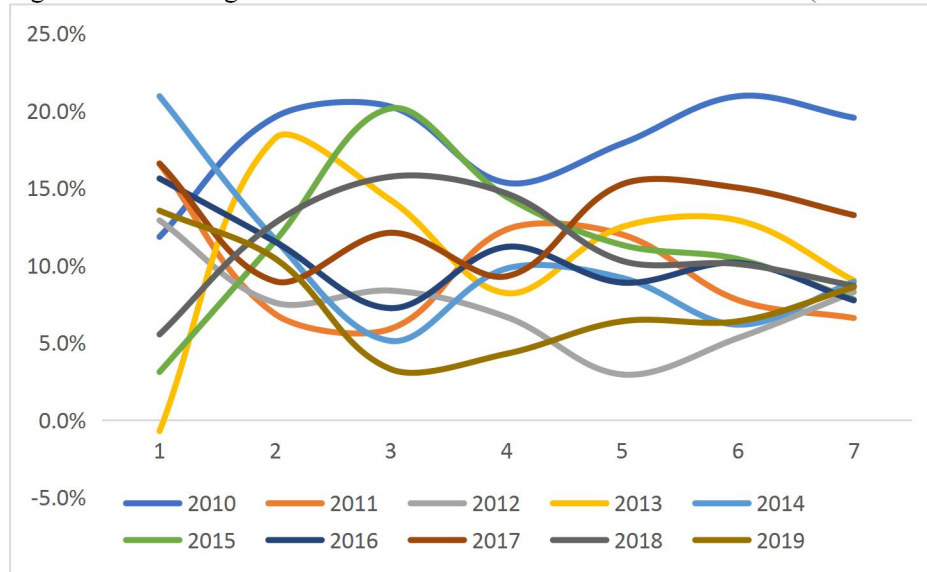
Source: Company reports, Phillip Securities Est.

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## Booking volume rebounds, but still lower than the past

Although the Group's bookings for commercial airlines in China in March and April this year were the lowest in nine years, only 3.3% and 4.3%, whereas the growth in bookings in May, June and July began to pick up, which were 6.4%, 6.4% and 8.6% respectively. However, this year's bookings are still at a relatively low level compared to the past. In view of the fact that the US-China trade war and the depreciation of the RMB are not likely to be resolved in the short term, we believe that the growth in booking volume will remain low this year.

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



Source: Company website, Phillip Securities (HK) Research

## 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 FCFF forecast to 2028F. We derived a TP of HK\$23.40, implied a P/E of 24.9x and 22.4x in 2019/20F, 1.47% lower than our previous TP, due to the depreciation on RMB. We believe the investment ground in the long term still remains, but may suffer in the short term due to the economic downturn. In view of the plunge in stock price, we maintain a "Buy" rating with a potential upside of 47.2%. (HKD/CNY=0.913)

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	(351)	(391)	(440)	(502)	(594)	(672)	(750)	(846)	(909)	(940)
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)	3,847
- Minority (Market value)	(1,275)
+/- Other items	6,351
Equity value	62,516

Number of shares	2,926
HKD/CNY	0.913
Equity value per share (HK\$)	23.40

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	22.19	17.55	18.89	18.27	16.91	15.19
P/B (X)	3.58	3.08	2.75	2.50	2.28	2.08
Dividend Yield (%)	1.3%	1.6%	1.9%	2.0%	2.1%	2.4%
<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	0.338	0.376
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 (0.913) is HKDCNY1Y forward contract price on May 20 from Wind.

(Financial figures as at 25 September 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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