

China Southern Airlines (1055 HK)

Domestic Market Is in a Period of Rapid Recovery

Hong Kong | Air | Update Report

12 April 2021

Investment Summary

Losses Are Less Than That of the Industry under the severe attack from COVID-19

Under the impact of COVID-19 Pandemic, CSA reported a total revenue of RMB92,561 million in 2020, down by 40% YoY. The net loss attributable to shareholders was RMB10,847 million, with decrease in profit or increase in loss of RMB13,487 million YoY. The LPS was RMB0.77. In the same period last year, the EPS was RMB0.22. The EBIT was RMB16,126 million, down by 53.3% YoY. However, due to better performance in cargo business and a higher share of the domestic market, CSA's losses were less than that of the industry.

Cargo Business Is Thriving

Last year, the Company's passenger transportation business was seriously dragged by the pandemic. Passenger traffic turnover fell by 46.15% YoY. The capacity allocation decreased by 37.6% YoY. The PLF was 71.46%, down by 11.35 pts YoY. Passenger transportation revenue was RMB70,534 million, down by 49.1% YoY.

Benefiting from the strong demand for air cargo for anti-pandemic materials, the Company's cargo revenue was RMB16,493 million, up by 71.5% YoY, of which international cargo revenue rose by 93.6%. Cargo revenue accounted for 19% of transportation revenue, up by 12.5 pts YoY; while passenger transportation revenue accounted for 81%, down by 12.5 pts YoY.

In terms of revenue quality, the RPK was RMB0.46, down by 6.1% YoY. Cargo and mail RTK was RMB2.27, up by 79% YoY. Due to the sharp contraction of supply, the unit revenue of passenger transportation and cargo businesses on international routes performed outstandingly, driving the overall yield to fall only slightly.

Costs Are Relatively Rigid

The costs were relatively rigid. Last year, CSA's operating expenses totaled RMB109.11 billion, down by 27% YoY, the decline was smaller than that of revenue. Specifically, jet fuel costs were RMB18,797 million, down by RMB24 billion or 56.1%. RMB10.61 billion was reduced due to the drop in oil prices, and RMB13,407 million was reduced due to the decline in fuel consumption. Other costs such as labor costs, depreciation and amortization, and maintenance costs were relatively rigid, only down by 10% and 0.12%, and up by 4.2%, respectively, YoY.

Sales expenses during the reporting period exceeded RMB5 billion, down by 35% over the same period last year; administration expenses were approximately RMB4 billion, basically the same as the same period last year, mainly due to the increase in office expenses, utilities and depreciation expenses caused by the transfer of Beijing Daxing Airport.

Financial expenses were approximately RMB3 billion, down by approximately 60% yoy, mainly due to an exchange gain of RMB3,485 million from substantial appreciation of the RMB, and 2019 saw the loss on exchange of RMB1.48 billion, but which was partially offset by approximately RMB4 billion of impairment loss on fixed assets.

Accumulate (Downgrade)

CMP HKD 5.85

(Closing price as at 8 April)

TARGET HKD 6.3 (+7.7%)

COMPANY DATA

O/S SHARES (MN) :	15329
MARKET CAP (HKD MN) :	25010
52 - WK HI/LO (HKD):	6.3 /3.0

SHARE HOLDING PATTERN, %

China Southern Air Holding Company	60.2
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PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY19	FY20	FY21E	FY22E
Net Sales	154,322	92,561	138,485	168,745
Net Profit	2,640	-10,847	-1,406	4,161
EPS, CNY	0.22	-0.77	-0.09	0.27
P/E, x	24.5	(6.4)	(53.6)	18.1
BVPS, CNY	5.23	4.95	4.50	4.79
P/BV, x	1.0	1.0	1.1	1.0
DPS (CNY)	0.00	0.00	0.00	0.05
Div. Yield (%)	0.0%	0.0%	0.0%	1.0%

Source: Company reports, Phillip Securities Est.

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Domestic Market Is in a Period of Rapid Recovery

Judging from the current flight reservations for the Qingming Festival and the Labor Day, domestic market demand is rapidly recovering. However, the international air passenger market is not optimistic in the short term due to the different levels of vaccine penetration in various countries. At the end of 2020, the number of aircraft registered by the Company was 867. During the reporting period, a total of 32 aircraft were delivered and 27 were withdrawn, with a net increase of 3. In the future, the Company will control the speed and types of aircraft introduced. It is expected that the average annual growth rate of the overall fleet size will remain at a mid-single digit. In terms of specific arrangements for capacity allocation, the Company will ensure that the share of flight time resources added by Beijing Daxing Airport is not less than 50%, and the share of flight time resources added by Guangzhou Baiyun International Airport is not less than 40%.

Investment Thesis

In accordance with the latest data, we adjust the estimate of the Company's EPS to RMB-0.09/0.27 in 2021/2022. The target price is HK\$ 6.3, equivalent to 1.18/1.11x estimated P/B ratio for 2021/2022. Considering the stock price has recorded rise to a certain extent, the "Accumulate" rating is given. (Closing price as at 8 April)

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, pandemic and other emergencies;
Irrational inter-industrial price war;

Financials

FYE DEC	FY18	FY19	FY20	FY21F	FY22F
Valuation Ratios					
P/E (X), adj.	18.6	24.5	(6.4)	(53.6)	18.1
P/B (X)	0.98	1.01	1.00	1.09	1.03
Dividend Yield (%)	1.0%	0.0%	0.0%	0.0%	1.0%
Per share data (RMB)					
EPS, reported	0.28	0.22	-0.77	-0.09	0.27
EPS, adj.	0.28	0.22	-0.77	-0.09	0.27
DPS	0.05	0.00	0.00	0.00	0.05
BVPS	5.32	5.23	4.95	4.50	4.79
Growth & Margins (%)					
Growth					
Revenue	12.4%	7.4%	-40.0%	49.6%	21.9%
EBIT	-3.7%	22.9%	-209.5%	-128.8%	255.8%
Net Income, adj.	-51.4%	-8.8%	-510.9%	-87.0%	-395.9%
Margins					
EBIT margin	6.1%	7.0%	-12.8%	2.5%	7.2%
Net Profit Margin	2.0%	1.7%	-11.7%	-1.0%	2.5%
D/E	17.9%	0.0%	0.0%	0.0%	18.4%
Key Ratios					
ROE (%)	5.0%	4.1%	-16.2%	-2.0%	5.8%
ROA (%)	1.2%	1.0%	-3.4%	-0.4%	1.2%
Income Statement (RMB mn)					
Revenue	143,623	154,322	92,561	138,485	168,745
Operating expenses	(140,242)	(148,608)	(109,111)	(139,968)	(161,610)
Other Gains-net	5,438	5,124	4,686	4,900	5,023
Profit from operations	8,819	10,838	(11,864)	3,417	12,158
Non-operating income/expense	(4,455)	(6,783)	(3,331)	(6,337)	(5,909)
Profit before tax	4,364	4,055	(15,195)	(2,920)	6,249
Tax	(1,000)	(971)	3,368	669	(1,431)
Profit for the period	3,364	3,084	(11,827)	(2,251)	4,818
Minority interests	(469)	(444)	980	845	(657)
Total capital share	12267	12267	14057	15329	15329
Net profit	2,895	2,640	-10,847	-1,406	4,161

Source: PSR

(Closing price as at 8 April)

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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