

SIA (600009 CH)

July Operational Data Review

China | Airport | Company Update

25 August 2021

Investment Summary

Domestic Passenger Transport has Basically Recovered to Pre-pandemic Levels Since March

SIA released operational data for July 2021. The aircraft movements increased by 14.64% yoy and decreased by 0.34% mom; passenger throughput increased by 25.11% yoy and 3.38% mom; cargo and mail throughput increased by 14.88% yoy and decreased by 1.85% mom.

According to the accumulated data in the first seven months of 2021, the aircraft movements/passenger throughput/cargo and mail throughput increased by 32.8%/44.7%/22.9%, respectively compared with the same period of 2020, and decreased by 25.9%/decreased by 51.3%/increased by 23.4%, respectively compared with the accumulated operational data in the first seven months of 2019.

On a closer look at regions, at the beginning of 2021, due to the impact of the policy of "staying put during the Spring Festival", the passenger throughput of domestic routes of SIA declined greatly yoy. However, with the accelerated vaccine inoculation in China, the domestic pandemic control tended to be stable, and people's enthusiasm for traveling was high during the Tomb-sweeping Day holiday and the May Day holiday. Since March, the domestic aviation operational data (aircraft movements and passenger throughput) of SIA has continued to rally explosively, which has exceeded the data of the same period in 2019 and achieved triple-digit growth yoy. Since June, with the base rising, the growth rate yoy has narrowed to double digits, and the aircraft movements increased by about 10% compared with that of the same period in 2019. In the first seven months, the aircraft movements/passenger throughput of domestic routes increased by 72%/93% yoy, respectively, and was 4.8% higher/53% lower than that in 2019.

Since August, due to the outbreak of the secondary pandemic in some cities, the domestic air passenger transport market had to wind up the travel rush during the summer vacation in advance after experiencing a strong rally. At present, the overall planned domestic transport capacity is 67.2% of that at the same period in 2019. Whether the pandemic can be effectively controlled is the key to whether the domestic air passenger transport market can bottom out again and realize the peak season during the golden week of the National Day Holiday and even the Spring Festival at the end of the year.

International and regional routes continue to be under pressure due to the policies of strictly controlling the entry and preventing the imported pandemic cases. Although the yoy data (aircraft movements and passenger throughput) have turned positive, the aircraft movements of international routes are only about 40% of that in 2019, and that of regional routes is only about 50%. Because airlines strictly control the P L /F, the passenger throughput of international routes is less than 3% before the pandemic in 2019, and the regional routes only recover to about 13-17%. We think that the "Five - Ones" policy of the Civil Aviation Administration of China has not been liberalized, and it is unlikely that the anti-pandemic policy will be relaxed in the short term. The performance elasticity of SIA is mainly determined by the recovery of the domestic market.

BUY (Upgrade)

CMP CNY 38.91

(Closing price as at 23 August)

TARGET CNY 56.3 (+45%)

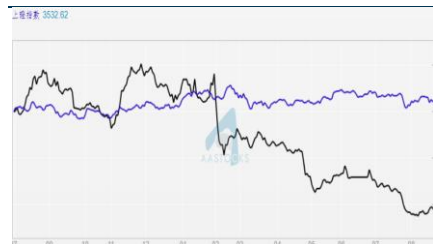
COMPANY DATA

O/S SHARES (MN) :	1927
MARKET CAP (CNY MN) :	74978
52 - WK HI/LO (CNY):	82.99/36.6

SHARE HOLDING PATTERN, %

Shanghai Airport Authority (SAA)	53.25
HKSCC	18.55

PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY20	FY21E	FY22E	FY23E
Net Sales	4303	6372	9197	12753
Net Profit	-1274	264	2466	4558
EPS, CNY	-0.66	0.14	1.28	2.37
P/E, x	NA	283.3	30.3	16.4
BVPS, CNY	15.16	15.30	16.55	18.71
P/BV, x	2.6	2.5	2.3	2.1
DPS (CNY)	0.00	0.03	0.43	0.85
Div. Yield (%)	0.0%	0.1%	1.3%	2.6%

Source: Company reports, Phillip Securities Est.

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Overall Listing is Completed after Private Placement

SIA announced in June that it plans to acquire Hongqiao Airport, The logistics company and No.4 Runway in Pudong by issuing shares to purchase assets to solve the problem of horizontal competition. The acquisition consideration has yet to be determined. Hongqiao Airport currently has two terminals and two runways. The owner's equity at the end of 2020 was RMB7.9 billion, the net profit in 2019 was RMB510 million, and the loss due to the pandemic in 2020 was RMB230 million. Hongqiao Airport mainly operates domestic routes. The asset injection will help SIA to optimize the allocation of aviation resources at Pudong and Hongqiao Airport, improve operational efficiency and regional traffic collection capacity, and better serve the Yangtze River Delta Economic Belt.

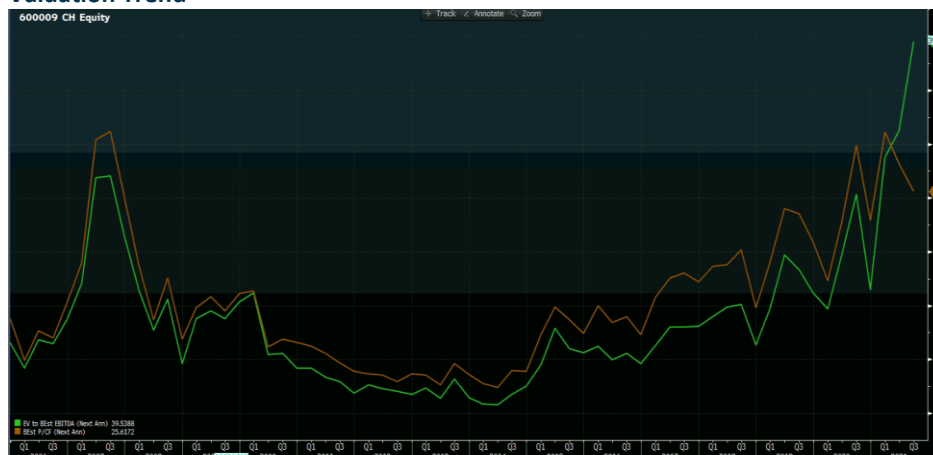
The logistics company's owner's equity at the end of 2020 was RMB1.93 billion, its net profit in 2019 was RMB600 million, and its net profit in 2020 was RMB570 million, which shows excellent profitability. The logistics company carries out freight business around airports in Shanghai, which has strong common benefits with the two airports in Shanghai. The asset injection will help the Company to establish an air freight system with the world first class as the benchmark, optimize the freight landscape, improve the efficiency of customs clearance at ports, and create new profit growth points for the Company.

After the adjustment of accounting standards in 2021, the entry of operating lease into the balance sheet greatly increased the liability/asset ratio of the Company (the Company leased runways, terminal buildings and other assets to the controlling shareholders). The injection of the No.4 Runway in Pudong Airport will reduce the lease cost of the Company, improve the liability/asset situation and advance the performance level.

Investment Thesis

We think that with the progress of vaccines, although there will still be challenges and setbacks, the dawn of the road to recovery has been clear, the airport encumbered by the pandemic has passed the darkest period, and the future performance of the Company is more inclined to grow than decline. In addition, as the injection of additional assets has not yet been completed, the relevant impact will not be considered for the time being. We lowered the EBITDA predicted value of SIA in 2021/2022, introduced the predicted value in 2023, and correspondingly lowered the target price to RMB56.3 (formerly RMB81), and the "BUY" rating is given. (Closing price as at 23 August)

Valuation Trend



Source: Bloomberg, Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY19	FY20	FY21F	FY22F	FY23F
Valuation Ratios					
P/E (X), adj.	14.9	NA	283.3	30.3	16.4
P/EBITDA	10.3	NA	52.1	17.8	11.0
P/B (X)	2.3	2.6	2.5	2.3	2.1
Dividend Yield (%)	2.0%	0.0%	0.1%	1.1%	2.2%
Per share data (RMB)					
EPS, (Basic)	2.61	-0.66	0.14	1.28	2.37
EPS, (Diluted)	2.61	-0.66	0.14	1.28	2.37
DPS	0.79	0.00	0.03	0.43	0.85
BVPS	16.61	15.16	15.30	16.55	18.71
EBITDA/Share	3.77	-0.55	0.74	2.19	3.52
Growth & Margins (%)					
Growth					
Revenue	17.5%	-60.7%	48.1%	44.3%	38.7%
EBIT	18.8%	-136.9%	-104.6%	2517.1%	89.0%
Net Income, adj.	18.9%	-125.3%	-120.7%	834.2%	84.8%
Margins					
Gross margin	51.1%	-53.5%	-5.3%	21.2%	33.0%
EBIT margin	59.0%	-55.3%	1.7%	31.2%	42.5%
Net Profit Margin	46.0%	-29.6%	4.1%	26.8%	35.7%
Key Ratios					
ROE	16.7%	-4.1%	0.9%	8.0%	13.4%
Income Statement (RMB mn)					
Revenue	10945	4303	6372	9197	12753
Gross profit	5594	-2302	-338	1950	4208
EBIT	6459	-2381	110	2870	5425
Profit before tax	6668	-1516	329	3168	5765
Tax	1407	-347	67	643	1095
Profit for the period	5261	-1169	262	2525	4670
Minority interests	231	106	-2	59	112
Total capital share	1927	1927	1927	1927	1927
Net profit	5030	-1274	264	2466	4558

Source: PSR

(Closing price as at 23 August)

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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