

SIA (600009 CH)

The Overall Listing Plan Price Is Determined and the Results Are Approaching an Inflection Point

China | Airport | Company Update

3 March 2022

Investment Summary

2021 Review

Under the influence of the pandemic, the passenger throughput of airports in China reached 907 million in 2021, an increase of 5.9% over 2020, and a recovery of 67.1% in 2019, which was a 32.9% decline compared to 2019. On a closer look at markets, due to the Spring Festival travel policy and the repeated sporadic outbreaks in China, the low point of aviation demand for domestic routes appeared in February, August and November, and the high point was in March, April, May and July. As the Civil Aviation Administration of China enforced strict control over the cases imported from overseas, the number of international and regional flights has always hit a trough, with small fluctuations throughout the year. Compared to 2019, the monthly number of international and regional flights has dropped by more than 90%. Only the number of flights in April and July increased slightly compared to 2020.

In 2021, SIA reported a passenger throughput of 32,210 thousand, up 5.7% yoy, slightly weaker than the industry's overall 5.9%, and a sharp drop of 57.7% compared to 2019. Specifically, the passenger throughput of domestic routes reached 30,530 thousand, up 19.2% yoy, and down 18.9% compared to 2019. The passenger throughput of international and regional routes registered 1,679 thousand, down 65.5% yoy and down 95.6% compared to 2019. However, driven by the strong cargo demand, the Company recorded an annual cargo and mail throughput of approximately 3,990 thousand tons in 2021, an increase of 8.1% over the same period in 2020, and an increase of 9.7% over the same period in 2019.. Compared to other airports in China, Shanghai Pudong International Airport is more dependent on non-aviation revenue such as international routes and duty-free business rentals in terms of results. Therefore, the sharp drop in international passenger traffic has a greater impact on the airport's results. According to the result forecast released on 24 January 2022, the Company predicted losses in 2021 could reach RMB1.64 billion to RMB1.78 billion. The corresponding loss from Q1 to Q4 was RMB436 million, RMB304 million, RMB510 million and RMB390-540 million. The annual tax-free revenue was expected to approach RMB500 million, a decrease of nearly 90% compared to nearly RMB5 billion in 2019.

Accumulate (Downgrade)

CMP CNY 54.16

(Closing price as at 1 March)

TARGET CNY 62.3 (+15%)

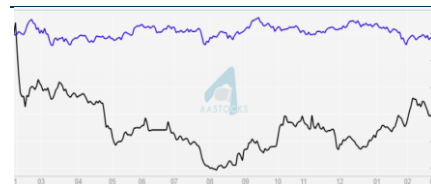
COMPANY DATA

O/S SHARES (MN) :	1927
MARKET CAP (CNY MN) :	104364
52 - WK HI/LO (CNY):	64.29/36.6

SHARE HOLDING PATTERN, %

Shanghai Airport Authority (SAA)	46.25
HKSCC	18.37

PRICE VS. SHCOMP



Source: Aastock, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY20	FY21E	FY22E	FY23E
Net Sales	4303	3772	6484	9753
Net Profit	-1274	-1687	642	2235
EPS, CNY	-0.66	-0.88	0.33	1.16
P/E, x	NA	NA	162.5	46.7
BVPS, CNY	15.16	14.28	14.61	15.69
P/BV, x	3.6	3.8	3.7	3.5
DPS (CNY)	0.00	0.00	0.09	0.41
Div. Yield (%)	0.0%	0.0%	0.2%	0.8%

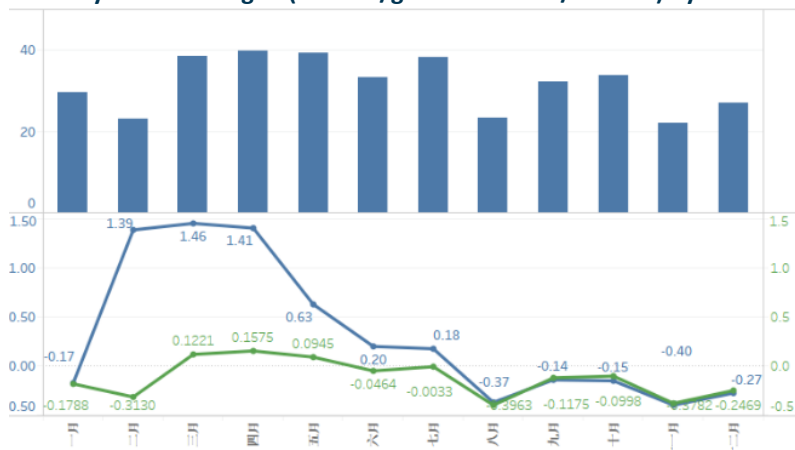
Source: Company reports, Phillip Securities Est.

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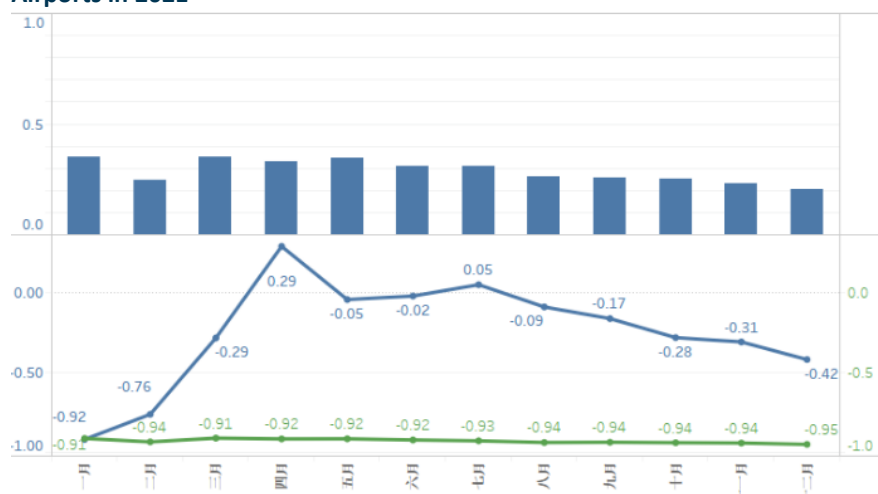
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Monthly Domestic flights(volume/growth vs 2020/vs 2019) by China Airports in 2021



Source: VariFlight, Phillip Securities Group

Monthly International & regional flights(volume/growth vs 2020/vs 2019) by China Airports in 2021



Source: VariFlight, Phillip Securities Group

Mild Recovery Continues in Early 2022

However, with the improvement of the pandemic situation and the relaxation of travel restrictions in China, the overall domestic aviation demand showed a trend of strong resilience and rapid recovery. In January 2022, there were 599,476 aircraft movements of passenger flights at airports in China, up 1.7% from 2021, up 11.78% from December, and down 25.28% compared to January 2019. Specifically, the recovery of domestic flights improved compared to the previous month. The aircraft movements increased by 11.84% from December, up 0.66% from 2021, and down 17.46% from 2019. However, the aircraft movements of international and regional flights climbed by 4.28% from December, down 41.66% from 2021, and down 95.07% from 2019. There was still no obvious sign of recovery.

According to SIA's announcement, there were 29,735 aircraft movements in January, up 13.99% yoy; the passenger throughput was 2,118.3 thousand, up 14.47% yoy; the cargo and mail throughput was 318.7 thousand tons, down 10.43% yoy.

Recently, the government announced the 14th Five-Year Plan for the civil aviation industry, in which 2021~2022 is defined as the recovery period and accumulation period of China's civil aviation industry, while 2023~2025 is the growth period and acceleration period. The focus will be on expanding the domestic market and restoring the international market, and vigorously developing the cargo market. We expect 2022 to become an inflection point in the results of airport companies, and 2023 will start a rebound in results.

The Overall Listing Plan for RMB19.1 Billion Asset Injection Is Determined

According to the announcement, SIA signed an agreement with the holding major shareholder SAA, in which the transaction price of 100% equity of the underlying asset Hongqiao Airport is approximately RMB14.5 billion, the transaction price of 100% equity of the logistics company is approximately RMB3.1 billion, and the transaction price of No.4 Runway in Pudong Airport is approximately RMB1.5 billion, with a total of approximately RMB19.1 billion. The listed company is expected to issue approximately 434 million shares to SAA at a price of RMB44.09 per share. Meanwhile, the Company will issue no more than approximately 128 million targeted additional shares to SAA. The scale of supporting financing will be reduced to no more than RMB5 billion. The issue price will be RMB39.19 per share. The raised funds are planned to be used for the Company's four-type airport construction project, smart cargo terminal project, comprehensive improvement project of smart logistics

park and working capital supplement. After the transaction is completed, SAA will hold 58.38% of the total share capital of the listed company (46.25% before the transaction).

We think that Hongqiao Airport, which mainly engages in domestic routes, has quick business recovery. In the long run, it has good development prospects and strong profitability. The injection into the listed company will realise the re-integration and optimization of route resources. Affected by the pandemic, Pudong Airport, which mainly focuses on international routes, has high operating costs. In order to utilize resources more rationally and efficiently, Shanghai Airport has tried to divert a large number of idle international time resources to the domestic market, so that the passenger flow of Pudong Airport will recover faster. In addition, the reorganisation will also incorporate the logistics and cargo business, which will help improve the air cargo hub network, expand multimodal transportation, and optimize the cargo layout of Hongqiao Airport and Pudong Airport.

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 revised the EBITDA predicted value of SIA in 2021/2022/2023, and revised the target price to RMB 62.3 (formerly RMB 56.3), and the "Accumulate" rating is given. (Closing price as at 1 March)

Financials

FYE DEC	FY19	FY20	FY21F	FY22F	FY23F
Valuation Ratios					
P/E (X), adj.	20.7	NA	NA	162.5	46.7
P/EBITDA	14.4	NA	NA	39.8	25.3
P/B (X)	3.3	3.6	3.8	3.7	3.5
Dividend Yield (%)	1.5%	0.0%	0.0%	0.2%	0.8%
Per share data (RMB)					
EPS, (Basic)	2.61	-0.66	-0.88	0.33	1.16
EPS, (Diluted)	2.61	-0.66	-0.88	0.33	1.16
DPS	0.79	0.00	0.00	0.09	0.41
BVPS	16.61	15.16	14.28	14.61	15.69
EBITDA/Share	3.77	-0.55	-0.34	1.36	2.14
Growth & Margins (%)					
Growth					
Revenue	17.5%	-60.7%	-12.3%	71.9%	50.4%
EBIT	18.8%	-136.9%	-16.9%	-164.7%	115.4%
Net Income, adj.	18.9%	-125.3%	32.4%	-138.1%	247.9%
Margins					
Gross margin	51.1%	-53.5%	-70.1%	5.5%	15.0%
EBIT margin	59.0%	-55.3%	-52.5%	19.8%	28.3%
Net Profit Margin	46.0%	-29.6%	-44.7%	9.9%	22.9%
Key Ratios					
ROE	16.7%	-4.1%	-5.9%	2.3%	7.7%
Income Statement (RMB mn)					
Revenue	10945	4303	3772	6484	9753
Gross profit	5594	-2302	-2644	357	1463
EBIT	6459	-2381	-1979	1281	2759
Profit before tax	6668	-1516	-2324	983	2999
Tax	1407	-347	-744	200	570
Profit for the period	5261	-1169	-1580	783	2429
Minority interests	231	106	107	141	194
Total capital share	1927	1927	1927	1927	1927
Net profit	5030	-1274	-1687	642	2235

Source: PSR

(Closing price as at 1 March)

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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