

24 April 2015

买入
维持

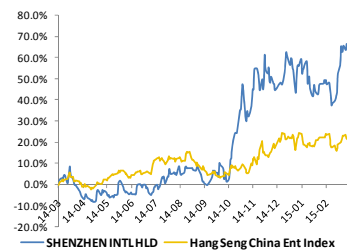
增发降低负债率，重申“买入”

中国东方航空股份 (670:HK)

Market Data: Apr,22

Closing Price (HK\$)	5.91
Price Target (HK\$)	7.64
HSCEI	14,478
HSCCI	5,519
52-week High/Low (HK\$)	6.80/2.28
Market Cap (USD Mn)	4,199
Market Cap (HK\$ Mn)	32,573
Shares Outstanding (Mn)	12,674
Exchange Rate (RMB-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

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Mar 30,2015

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Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (Rmbm)	88,245.00	90,185.00	92,740.13	98,913.48	106,723.03
YoY (%)	3.51	2.20	2.83	6.66	7.90
Net income (Rmbm)	2,372.52	3,410.00	5,550.09	6,751.21	7,644.34
YoY (%)	(22.75)	43.73	62.76	21.64	13.23
EPS (Rmb)	0.20	0.27	0.41	0.46	0.52
Diluted EPS (Rmb)	0.20	0.27	0.41	0.46	0.52
ROE (%)	7.32	11.14	10.93	11.76	11.76
Debt/asset (%)	79.59	80.84	68.10	65.21	62.85
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
PE (x)	23.45	17.37	11.49	10.21	9.02
PB (x)	2.08	1.87	1.36	1.20	1.06
EV/Ebitda (x)	26.14	128.65	10.95	9.32	8.11

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

投资要点:

东航计划增发 A 股。中国东方航空公告计划在 A 股发行不超过 23.3 亿新股（约占总股本的 18.38%），发行价不低于人民币 6.44 元，募集约 150 亿元人民币，新发行的股份有 12 个月的锁定期。募集资金中的约 120 亿元将用于引进 23 架飞机，30 亿元将用于偿还美元债务。增发完成后，东航集团的持股比例将从目前的 64.35% 降低到 54.36%。

增发将改善负债率，但摊薄收益。增发将提升公司的净资产，降低负债比率，根据我们的预测，2015 年年底的每股净资产将从 2.90 元人民币提升至 3.45 元人民币，负债率（总负债/总资产）将从 77.36% 降低至 68.10%。然而每股盈利将摊薄约 18.38%。

一季度运营数据复苏有助于提升盈利。东方航空 2015 年 1 季度客运量 (RPK) 同比增长 10.59%，好于去年同期的 7.81%，运力 (ASK) 同比增长 11.01%，高于去年同期的 6.84%。客运量的增长，加上油价的下跌和经济舱最高限价的上调共同导致了公司一季度业绩大幅扭亏至人民币 15.62 亿元。

油价下跌和经济舱最高限价的上调。航油成本占到公司运营成本的 35%，2015 年 1 季度，新加坡航空煤油价格同比大幅下滑 43.4%，环比下滑 25.3%，节约了燃油成本，另一方面，从 2015 年 1 月 1 日起，根据发改委和民航局的规定，经过航空公司申请，上调了部分航线的经济舱最高限价，提升了票价水平。

维持买入，上调目标价至 7.64 港币。考虑到客运量复苏超出预期和增发带来财务成本的节约，我们上调东方航空 2015-2017 年的盈利，2015 年公司归母净利润从人民币 46.9 亿元提升至 55.5 亿元（同比上升 62.76%），2016 年公司归母净利润从人民币 66.4 亿元提升至 67.5 亿元（同比上升 21.64%），2017 年公司归母净利润从人民币 75.3 亿元提升至 76.4 亿元（同比上升 13.23%）。2015-2017 年的每股盈利将分别为人民币 0.41（假设加权平均的总股数位 138.4 亿），0.46 和 0.52 元。上调公司目标价至 7.64 港币，对应 1.8 倍 2015 年市净率，距收盘价有 29.3% 的涨幅，重申“买入”。

Investment Highlights :

Placement plan. China Eastern Airlines unveiled a plan to raise c.Rmb15bn in an offering of up to 2.33bn new A-shares, representing an 18.38% stake, at no less than Rmb6.44 per share. Funds collected will go towards the financing of 23 new aircraft (Rmb12bn), with the remaining Rmb3bn to pay back US dollar-dominated loans. The placement will dilute the stake held by its parent, CEA Group, from 64.35% to 54.36%. Trading in the company's stock, which was suspended from 10 April, will resume on 24 April.

Placement to improve balance sheet. The placement will bolster the company's net assets and enhance the book value per share from Rmb2.90 to Rmb3.45 in 15E, improving the company's debt-assets ratio for the year from 77.36% to 68.10%.

Traffic growth recovery. In 1Q15, China Eastern Airlines's total revenue passenger kilometres (RPK) increased 10.59% YoY, compared with 7.81% YoY in 1Q14. Total available seat kilometres (ASK) increased 11.01% YoY, vs 6.84% in 1Q14. Passenger load factor declined to 80.2% from 80.5%. Traffic recovery, combined with sharp decline in fuel prices and the removal of fare caps on selected routes, helped the carrier boost 1Q15 net profit to Rmb1.56bn in 1Q15 vs Rmb-205m in 1Q14.

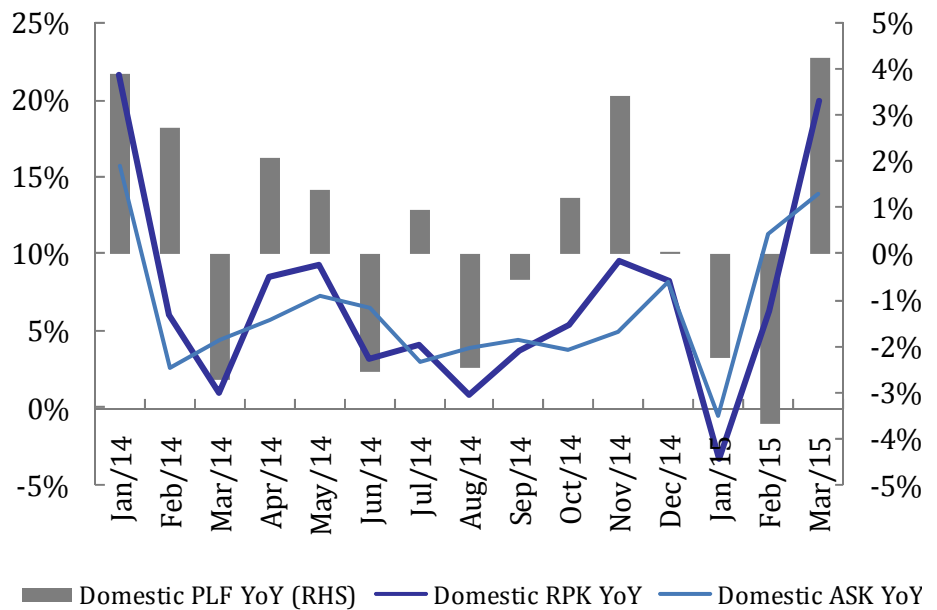
Jet fuel costs down, fare cap lifted. Jet fuel cost, which accounts for c.35% of the company's operating costs, declined 43.4% YoY in 1Q15 and 25.3% QoQ compared with 4Q14. In addition, fare liberalisation on selected routes and lifted price caps on other routes where price controls remain in effect boosted 1Q15 ticket average selling price.

Upgrade target price. Considering higher than expected traffic recovery and financial cost saving from capital injection, we raise our net profit EPS forecast from Rmb4.69bn to Rmb5.55bn (+62.76% YoY) in 15E, from Rmb6.64bn to Rmb6.75bn (+21.64% YoY) in 16E and from Rmb7.53bn to Rmb7.64bn (+13.23%) in 17E. We raise our EPS forecast from Rmb0.38 to Rmb0.41 in 15E (+51.8% YoY), and lower our forecasts from Rmb0.54 to Rmb0.46 in 16E (+12.53% YoY), and from Rmb0.61 to Rmb0.52 (+13.23% YoY) in 17E. We revise up our target price from HK\$5.06 to HK\$7.64, representing 1.8X 15E PB. With 29.3% upside, we maintain our BUY rating on the carrier.

Traffic growth recovery

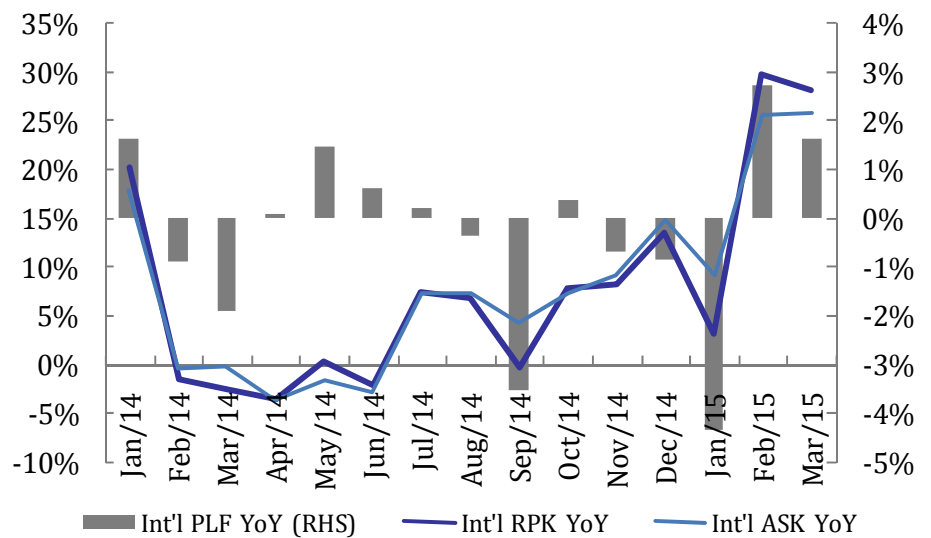
In 1Q15, China Eastern Airlines's total revenue passenger kilometres (RPK) increased 10.59% YoY, compared with 7.81% YoY in 1Q14. Total available seat kilometres (ASK) increased 11.01% YoY, vs 6.84% in 1Q14. Passenger load factor declined to 80.2% from 80.5%. Traffic recovery, combined with sharp decline in fuel prices and the removal of fare caps on selected routes, helped the carrier boost 1Q15 net profit to Rmb1.56bn in 1Q15 vs Rmb-205m in 1Q14.

Figure 1: Domestic RPK, ASK and PLF YoY growth rate



Source: Company data, SWS Research

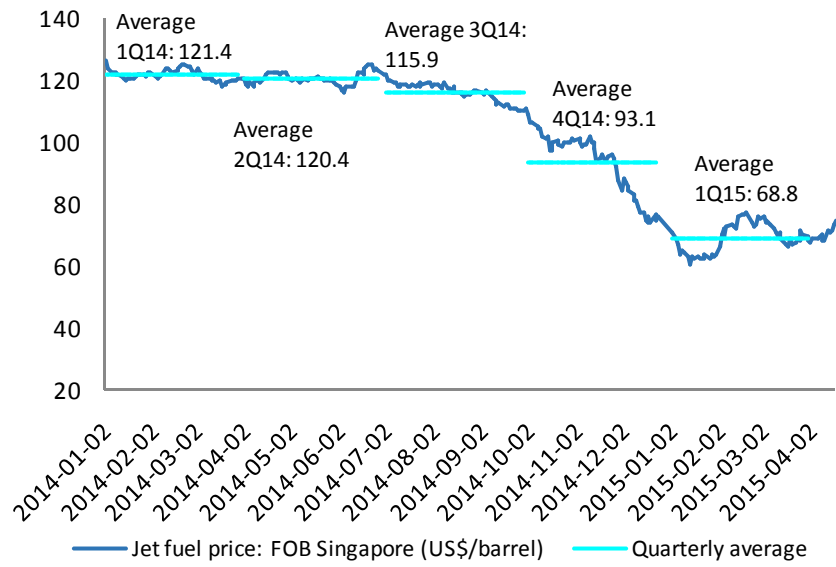
Figure 2: International RPK, ASK and PLF YoY growth rate



Source: Company data, SWS Research

Jet fuel cost, which accounts for c.35% of the company's operating costs, declined 43.4% YoY in 1Q15 and 25.3% QoQ compared with 4Q14. In addition, fare liberalisation on selected routes and lifted price caps on other routes where price controls remain in effect boosted 1Q15 ticket average selling price.

Figure 3: Singapore jet fuel price growing trend



Source: Company data, SWS Research

APPENDIX

Figure 1: Consolidated Income Statement

Rmbm	2013	2014	2015E	2016E	2017E
Revenue	88,245	90,185	92,740	98,913	106,723
Cost of Sales	89,124	87,812	96,677	100,677	104,677
Gross Profit	7,595	10,995	15,127	16,773	18,718
SG&A Expense	8,744	8,622	9,645	9,891	10,672
Ebitda	5,281	1,200	12,200	13,802	15,173
Ebit	(1,149)	2,373	5,482	6,882	8,046
Finance Costs	(576)	2,072	1,580	1,620	1,542
Profit before tax	1,576	6,058	8,162	9,860	11,113
Income tax expense	124	573	997	1,412	1,831
Minority interests	(280)	130	100	142	161
Profit for the year	2,373	3,410	5,550	6,751	7,644

Source: Company Data, SWS Research

Figure 2: Consolidated Cash Flow Statement

Rmbm	2013	2014	2015E	2016E	2017E
Net income(loss)	1,576	6,058	8,162	9,860	11,113
Plus: Depr. and amortisation	6,430	6,620	6,718	6,920	7,127
Finance cost	(576)	2,072	1,580	1,620	1,542
Losses from investments	(5,334)	(5,334)	65	65	65
Change in working capital	808	(2,627)	4,088	286	104
Others	7,902	4,017	(1,510)	8,859	8,786
CF from operating activities	10,806	10,806	19,103	27,610	28,738
Capex	18,527	18,528	19,466	19,855	20,252
Other CF from investing activities	305	304	0	0	0
CF from investing activities	(17,028)	(17,027)	(19,466)	(19,855)	(20,252)
Net change in liabilities	23,285	5,391	(21,045)	(3,018)	0
Dividend and interest paid	(3,017)	(3,398)	(1,300)	(1,301)	(1,301)
Other CF from financing activities	1	2	3	4	5
CF from financing activities	5,730	5,731	(7,342)	(4,315)	(1,296)
Net cash flow	(491)	(489)	(7,705)	3,440	7,189
FCFF	24,492	24,321	34,757	32,531	33,699
FCFE	48,353	27,640	12,132	27,893	32,157

Source: Company Data, SWS Research

Figure 3: Consolidated Balance Sheet

Rmbm	2013	2014	2015E	2016E	2017E
Current Assets	12,610	18,243	6,372	10,598	18,755
Bank balances and cash	1,995	1,355	6,350	2,909	4,280
Trade and other receivables	7,583	10,256	10,304	10,990	11,858
Inventories	2,305	2,259	2,417	2,517	2,617
Other current assets	-	5	-	-	-
Long-term investment	1,908	2,024	2,157	2,297	2,448
PP&E	92,783	109,439	116,810	118,810	120,810
Intangible and other assets	11,490	11,500	11,490	11,490	11,490
Total Assets	140,068	165,829	162,070	168,436	178,744
Current Liabilities	53,082	61,130	39,709	37,763	38,835
Borrowings	23,285	28,676	3,018	-	-
Trade and other payables	21,609	21,609	25,903	26,975	28,047
Other current liabilities	8,015	10,616	10,616	10,616	10,616
Long-term liabilities	58,375	72,902	70,631	72,050	73,481
Other non-current liabilities	0	0	0	0	0
Total Liabilities	72,209	80,798	50,315	62,636	62,636
Minority interest	1,680	1,797	1,175	1,317	1,478
Preferred shares	0	0	0	0	0
Shareholder Equity					
Share Capital	12,674	12,674	15,003	15,003	15,003
Additional paid-in capital & Reserves	14,228	17,300	35,521	42,272	49,916
Equity attributable	26,902	29,974	50,524	57,276	64,920
Total Liabilities and equity	140,068	165,829	162,070	168,436	178,744

Source: Company Data, SWS Research

Figure 4: Key Financial Ratios

	2013	2014	2015E	2016E	2017E
Ratios per share (Rmb)					
Earnings per share	0.20	0.27	0.41	0.46	0.52
Diluted earnings per share	0.20	0.27	0.41	0.46	0.52
Operating CF per share	0.85	0.85	1.27	1.84	1.92
Dividend per share	0.00	0.00	0.00	0.00	0.00
Net assets per share	2.26	2.51	3.45	3.91	4.43
Key Operating Ratios (%)					
ROIC	(1.87)	2.13	4.06	5.08	5.67
ROE	7.32	11.14	10.93	11.76	11.76
Gross margin	8.61	12.19	16.31	16.96	17.54
Ebitda Margin	5.98	1.33	13.16	13.95	14.22
Ebit Margin	(1.30)	2.63	5.91	6.96	7.54
Growth rate of Revenue (YoY)	3.51	2.20	2.83	6.66	7.90
Growth rate of Profit (YoY)	(28.55)	69.15	59.61	22.00	13.23
Debt-to-asset ratio	79.59	80.84	68.10	65.21	62.85
Turnover rate of net assets	3.09	2.84	1.79	1.69	1.61
Turnover rate of total assets	1.45	1.62	0.87	0.76	0.76
Effective tax rate (%)	5.61	13.93	15.00	17.00	19.00

Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Valuation Ratios (x)					
PE	23.45	17.37	11.49	10.21	9.02
PB	2.21	1.98	1.39	1.23	1.08
EV/Sale	1.56	1.71	1.44	1.30	1.15
EV/Ebitda	26.14	128.65	10.95	9.32	8.11

Source: Company Data, SWS Research

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