

## Beijing Capital International Airport

Int'l traffic sustained growth in Jan-Feb, better coordination in Bohai to release airspace

- **BCIA has risen by 20% since beginning of the year (HSCEI: flat YTD). The outperformance has been driven by:** (1) Removal of an overhang in relation to Beijing's 2nd airport and potential upside to payout; (2) Improving outlook for int'l traffic in light of various new policies: Recovery since 4Q14 has also been sustained into the Jan-Feb period; (3) Changes in business models in relation to the concession-based non-aeronautical businesses. BCIA remains one of the top picks in our space, for potential upside to earnings and payout, as well as its compelling value (relative to the regional peers).
- **Int'l traffic sustained growth momentum in Jan-Feb:** Int'l PAX rose by 5% Y/Y in 2M15. Int'l traffic growth started recovering from last October, on average rising by 6% Y/Y in 4Q14, driven by the enlarged airspace (with two additional landing slots received in 4Q14, both allocated to int'l flights) as well as a normalizing base (impact from anti-corruption campaign affected int'l travel from Beijing more than other cities since 4Q13).
- **Recent development suggests China may be moving to open its sky, resolving the structural issues with congestions at airfield.** We expect major Chinese airports, including Beijing and Shanghai, to continue receiving new landing slots, all to be allocated to int'l flights. We project BCIA's int'l traffic to rise by 5~7% p.a. over 2015-2018, while we see potential upside risk to estimates, given the expected continued lift in airfield for int'l flights as well as ongoing relaxation in VISA requirement for Chinese tourists.
- **CAAC's guidelines improving coordination among airports based in the Bohai region, first issued in mid-December, have been reaffirmed by MoC at the NPC meeting, to roll out in 2015:** The realignment across airports in Bohai would allow BCIA to be positioned as the prime airport in the region, prioritizing its resources on more profitable int'l business.
- **FY14 result is to be released after market close on Mar. 25.** We estimate BCIA's FY14 NPAT at Rmb1.46B, up 10% Y/Y. For 2H14, we expect BCIA's net profit to grow by 19% Y/Y, vs. the muted headline growth in 1H14. ***JPM Live Call will be held at 4pm HKT/8am LDN time on Mar.26. HK dial-in #: +852-3001-3802; London dial-in #: +44-20-7108-6382. Passcode: 1308053.***



**Overweight**

**0694.HK, 694 HK**

Price: HK\$7.40

Price Target: HK\$13.10

China

Infrastructure & Industrial

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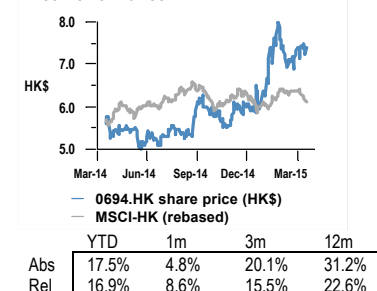
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J.P. Morgan Securities (Asia Pacific) Limited

Price Performance



**Beijing Capital International Airport (Reuters: 0694.HK, Bloomberg: 694 HK)**

Rmb in mn, year-end Dec	FY12A	FY13A	FY14E	FY15E	FY16E
Total Revenue (Rmb mn)	6,623	7,131	7,553	7,935	8,409
Net Profit (Rmb mn)	1,149	1,329	1,456	1,879	2,200
EPS (Rmb)	0.27	0.31	0.34	0.43	0.51
DPS (Rmb)	0.11	0.12	0.13	0.17	0.20
Revenue growth (%)	6.6%	7.7%	5.9%	5.1%	6.0%
EPS growth (%)	3.2%	15.7%	9.6%	29.1%	17.1%
ROCE	5.0%	5.6%	6.3%	7.6%	8.6%
ROE	7.7%	8.5%	8.7%	10.6%	11.7%
P/E (x)	22.5	19.4	17.8	13.8	11.7
P/BV (x)	1.7	1.6	1.5	1.4	1.3
EV/EBITDA (x)	10.7	9.6	8.7	7.6	6.5
Dividend Yield	1.8%	2.1%	2.3%	2.9%	3.4%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	4,331
Market Cap (Rmb mn)	25,846
Market Cap (\$ mn)	4,127
Price (HK\$)	7.40
Date Of Price	17 Mar 15
Free Float(%)	-
3M - Avg daily vol (mn)	8.00
3M - Avg daily val (HK\$ mn)	56.77
3M - Avg daily val (\$ mn)	7.3
MSCI-HK	1,2683.22
Exchange Rate	7.76
Price Target End Date	31-Dec-15

**See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.**

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<p><b>Key catalyst for the stock price:</b></p> <ul style="list-style-type: none"> <li>• Further acceleration in int'l traffic growth</li> <li>• Potential tariff hike</li> <li>• Additional landing slots to be awarded in the coming review window for taking-off/landing quota</li> </ul>	<p><b>Upside risks to our view:</b></p> <ul style="list-style-type: none"> <li>• Stronger-than-expected traffic growth</li> <li>• Better-than-expected cost control</li> <li>• Unexpected tariff hike</li> </ul>	<p><b>Downside risks to our view:</b></p> <ul style="list-style-type: none"> <li>• Weaker-than-expected traffic growth</li> <li>• Faster-than-expected increase in costs</li> <li>• Policy risk on the renewal for revenue sharing of airport fee with the government</li> </ul>
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Key financial metrics	FY13A	FY14E	FY15E	FY16E
Revenues (LC)	7,131	7,553	7,935	8,409
Revenue growth (%)	8%	6%	5%	6%
EBITDA (LC)	3,821	4,019	4,590	5,002
EBITDA margin (%)	54%	53%	58%	59%
Tax rate (%)	25%	25%	25%	25%
Net profit (LC)	1,329	1,456	1,879	2,200
EPS (LC)	0.31	0.34	0.43	0.51
EPS growth (%)	16%	10%	29%	17%
DPS (LC)	0.12	0.13	0.17	0.20
BVPS (LC)	3.74	3.95	4.21	4.51
Operating cash flow (LC mn)	3,246	3,581	3,785	4,228
Free cash flow (LC mn)	3,230	3,210	1,488	4,131
Interest cover (X)	7.5	7.9	10.0	12.4
Net margin (%)	18.6%	19.3%	23.7%	26.2%
Sales/assets (X)	0.22	0.24	0.25	0.27
Debt/equity (%)	85%	69%	61%	46%
Net debt/equity (%)	73%	59%	56%	39%
ROE (%)	8.5%	8.7%	10.6%	11.7%

Key model assumptions	FY13A	FY14E	FY15E	FY16E
Aircraft movement growth (%)	1.9%	2.7%	2.0%	2.5%
Int'l PAX growth (%)	3.5%	5.0%	5.5%	7.5%

Source: Company and J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
	FY15E	FY16E	FY15E	FY16E
Sensitivity to				
1% chg in traffic growth	2%	2%	8%	8%
1ppt chg in EBITDA margin	2%	2%	10%	10%

Source: J.P. Morgan estimates.

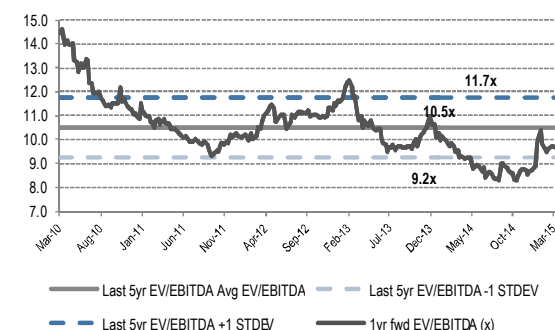
	CMP		Mkt Cap	P/E		EV/EBITDA		P/BV		YTD Stock perf.
	LC	\$Mn		FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	
	Beijing Int'l Capital Airport	7.47	4,170	17.9	13.8	9.2	8.0	1.5	1.4	19.9
Shanghai Int'l Airport	25.23	7,800	20.4	17.3	12.3	10.3	2.4	2.2	28.6	
Guangzhou Baiyun Int'l Airport	12.38	2,284	14.0	13.4	6.3	5.8	1.7	1.6	13.3	
Airport of Thailand	299.0	12,980	28.0	24.2	16.5	14.5	4.0	3.6	6.0	
Malaysia Airport	6.96	2,584	58.0	36.6	14.4	12.6	1.8	1.8	8.2	
Sydney Airport	5.2	8,757	52.0	43.3	18.1	17.1	10.3	13.9	10.4	

Source: Bloomberg, J.P. Morgan estimates. Prices are as of 3/18/2015

**Valuation and price target basis**

Our Dec-15 PT of HK\$13.1 is derived based on DCF valuation. Our PT translates into a target P/B of 2.5x/2.3x, Op-CF to EV yield of 6.8%/7.6%, and EV/EBITDA of 12.2x/11.1x on FY15/FY16E.

**BCIA—one-year fwd EV/EBITDA band chart**



Source: Bloomberg, Company and J.P. Morgan estimates.

**JPMe vs. consensus, change in estimates**

EPS	FY15E	FY16E
JPMe old	0.44	0.52
JPMe new	0.43	0.51
% chg	-1%	-2%
Consensus	0.38	0.43

Source: Bloomberg, J.P. Morgan estimates.

## Investment Thesis, Valuation and Risks

### Beijing Capital International Airport (*Overweight; Price Target: HK\$13.10*)

#### Investment Thesis

We believe the capital's airport assets are undervalued, while its growth potential is underestimated despite its distinctive business model and still-young maturity profile. We expect BCIA's ROE to rise to >12% in FY16E (vs. high-single-digits in FY14E), which along with potential payout hikes should drive a re-rating. Our PT would put BCIA on par with other major regional airports, including AOT and MAHB on an EV/EBITDA basis.

We are turning more positive on the int'l traffic growth at the capital airport, which along with changes in business models for concession-based operations (including advertising, retailing and restaurants), would drive faster expansion of the non-aeronautical businesses for BCIA, leading to improving profitability. Key drivers for the acceleration in int'l traffic growth include: 1) continued lift in airfield for int'l flights; 2) ongoing relaxation in VISA requirements for Chinese tourists; and 3) prioritizing the airport's resources on int'l flights by way of gradual shifting of some domestic routes to nearby airports.

Other positive catalysts include potential tariff hikes driven by ongoing pricing reform for the utility/SOE sectors. A key risk is cancellation of airport construction fee or discontinuation in revenue share, likelihood of appears low.

#### Valuation

Our Dec-15 PT of HK\$13.1 is derived based on DCF valuation. Our PT translates into a target P/B of 2.5x/2.3x, Op-CF to EV yield of 6.8%/7.6%, and EV/EBITDA of 12.2x/11.1x on FY15/FY16E.

The discount rate used in our DCF analysis is based on the following assumptions:

Risk-free rate: 5%

Market risk premium: 7%

Beta: 1.0x

After tax cost of debt: 3.8%

Terminal g: 1%

Target gearing: 20%

=>WACC: 10.1%

#### Risks to Rating and Price Target

Upside risks to our view: stronger-than-expected traffic growth, better-than-expected cost control, and unexpected tariff hike.

Downside risks to our view: weaker-than-expected traffic growth, faster-than-expected increase in costs, and cancelation of airport construction fee or discontinuation in revenue share.

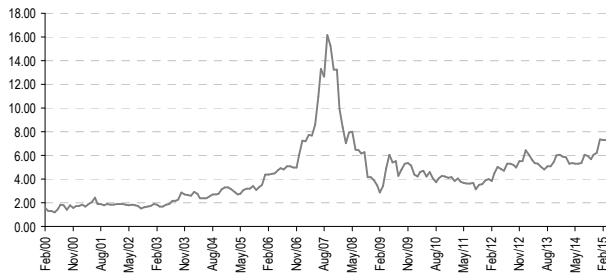
**JPM Q-Profile**

Beijing Capital International Airport Co., Ltd. Class H (CHINA / Industrials)  
 As Of: 13-Mar-2015

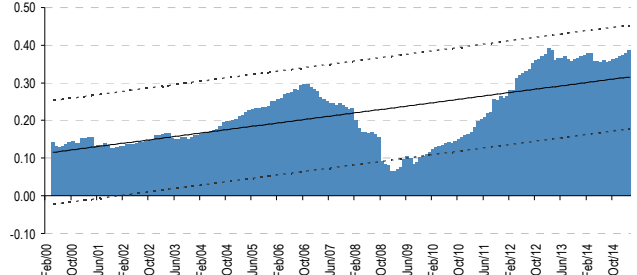


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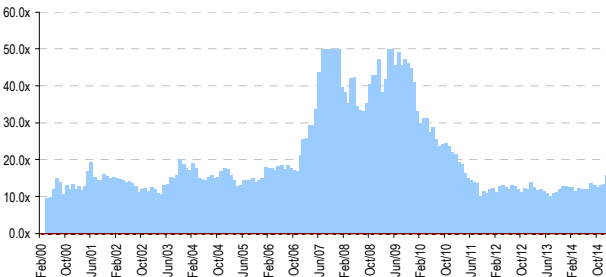
**Local Share Price** Current: **7.34**



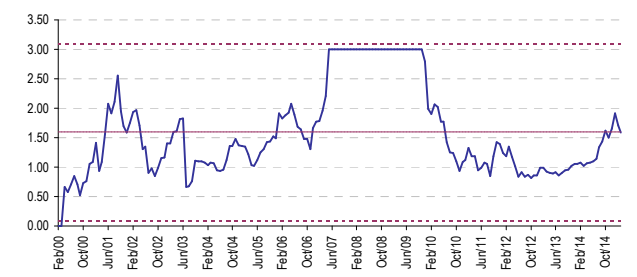
**12 Mth Forward EPS** Current: **0.39**



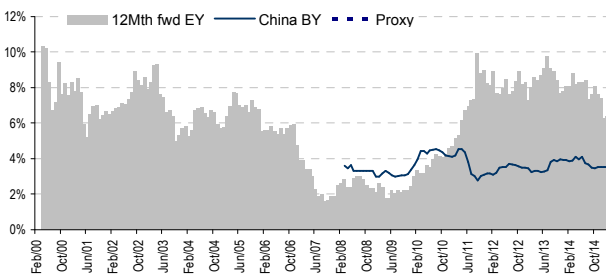
**PE (1Yr Forward)** Current: **15.3x**



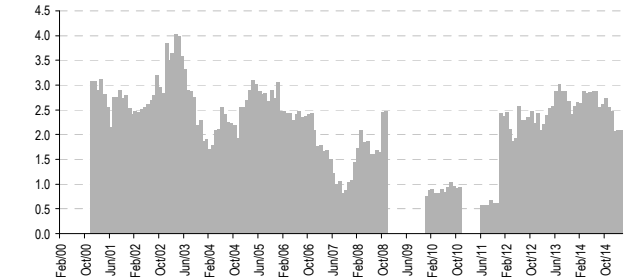
**P/E Relative to China Index** Current: **1.58**



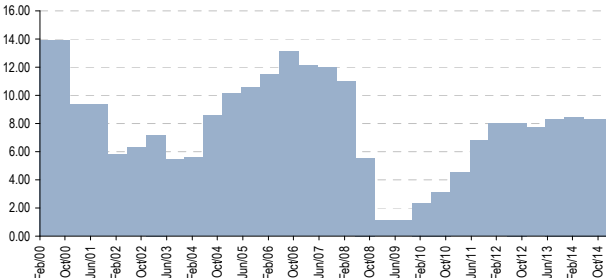
**Earnings Yield (& Local Bond Yield)** Current: **7%**



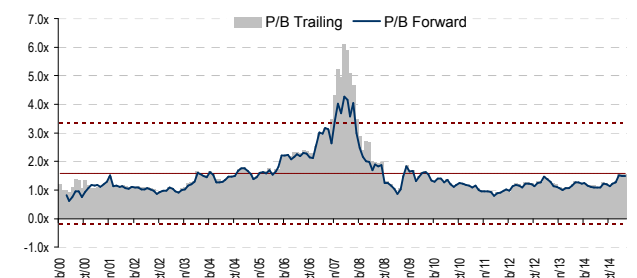
**Dividend Yield (Trailing)** Current: **2.08**



**ROE (Trailing)** Current: **8.29**



**Price/Book (Value)** Current: **1.5x**



**Summary**

Beijing Capital International Airport Co., Ltd.										As Of:	13-Mar-15
CHINA		TICKER 694 HK								Local Price:	7.34
Industrials										EPS:	0.39
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	15.28x										
P/BV (Trailing)	1.55	0.80	6.09	1.27	1.59	3.37	-0.20	-48%	293%	-18%	3%
Dividend Yield (Trailing)	2.08x	0.00	4.02	2.28	1.90	4.04	-0.25	-100%	93%	10%	-9%
ROE (Trailing)	8.29	1.07	13.90	8.29	7.91	14.67	1.15	-87%	68%	0%	-5%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

## Beijing Capital International Airport: Summary of Financials

Income Statement						Cash flow statement					
Rmb in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E	Rmb in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E
Revenues	6,623	7,131	7,553	7,935	8,409	EBIT	2,093	2,283	2,464	2,960	3,333
% change Y/Y	6.6%	7.7%	5.9%	5.1%	6.0%	Depr. & amortization	1,516	1,538	1,555	1,630	1,669
EBITDA	3,609	3,821	4,019	4,590	5,002	Change in working capital	50	(184)	68	(178)	(40)
% change Y/Y	1.2%	5.9%	5.2%	14.2%	9.0%	Taxes	(363)	(432)	(485)	(626)	(733)
EBITDA margin	54.5%	53.6%	53.2%	57.8%	59.5%	Other Operating Cash flow	614	607	506	457	403
EBIT	2,093	2,283	2,464	2,960	3,333	Cash flow from operations	3,302	3,246	3,581	3,785	4,228
% change Y/Y	1.6%	9.1%	7.9%	20.1%	12.6%	Capex	(54)	(400)	(750)	(2,640)	(400)
EBIT Margin	31.6%	32.0%	32.6%	37.3%	39.6%	Other	10	(1)	0	(8)	(10)
Net Interest	(620)	(512)	(506)	(457)	(403)	Net Interest	(658)	(591)	(506)	(457)	(403)
Exceptionals/Non-recurring											
Earnings before tax	1,533	1,775	1,941	2,506	2,934	Free cash flow	3,713	3,230	3,210	1,488	4,131
% change Y/Y	3.2%	15.8%	9.3%	29.1%	17.1%	Equity raised/(repaid)	0	0	0	0	0
Tax	(384)	(446)	(485)	(626)	(733)	Debt raised/(repaid)	0	(1,505)	(2,151)	(561)	(2,151)
as % of EBT	25.0%	25.1%	25.0%	25.0%	25.0%	Other	(1,958)	(609)	(533)	(477)	(420)
Net income (reported)	1,149	1,329	1,456	1,879	2,200	Dividends paid	(430)	(498)	(582)	(751)	(880)
% change Y/Y	3.2%	15.7%	9.6%	29.1%	17.1%	Beginning cash	949	1,818	2,052	1,617	966
Shares outstanding	4,331	4,331	4,331	4,331	4,331	Ending cash	1,818	2,052	1,617	966	1,333
EPS (reported)	0.27	0.31	0.34	0.43	0.51	DPS	0.11	0.12	0.13	0.17	0.20
% change Y/Y	3.2%	15.7%	9.6%	29.1%	17.1%						
Balance sheet						Ratio Analysis					
Rmb in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E	Rmb in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E
Cash and cash equivalents	1,818	2,052	1,617	966	1,333	EBITDA margin	54.5%	53.6%	53.2%	57.8%	59.5%
Accounts receivable	1,142	1,169	1,238	1,301	1,379	EBIT Margin	31.6%	32.0%	32.6%	37.3%	39.6%
Inventories	125	115	122	116	118	Net Margin	17.3%	18.6%	19.3%	23.7%	26.2%
Others	0	0	0	0	0						
Current assets	3,086	3,336	2,978	2,383	2,831	Sales growth	6.6%	7.7%	5.9%	5.1%	6.0%
						Net profit growth	3.2%	15.7%	9.6%	29.1%	17.1%
Net fixed assets	29,490	28,493	27,738	28,795	27,570	EPS growth	3.2%	15.7%	9.6%	29.1%	17.1%
Other non-current assets	847	868	849	832	820						
Total Assets	33,423	32,697	31,564	32,010	31,220	Interest coverage (x)	5.8	7.5	7.9	10.0	12.4
						Net debt to total capital	47.5%	42.1%	37.1%	35.9%	28.2%
Liabilities						Net debt to equity	90.5%	72.8%	59.1%	55.9%	39.2%
Short-term loans	7,655	3,160	161	5,126	349	Sales/assets	0.2	0.2	0.2	0.2	0.3
Payables	2,160	2,133	2,277	2,155	2,196	Assets/equity	226.7%	210.3%	193.0%	180.1%	167.5%
Others	311	378	378	378	378	ROE	7.7%	8.5%	8.7%	10.6%	11.7%
Total current liabilities	10,126	5,671	2,816	7,659	2,923	ROCE	5.0%	5.6%	6.3%	7.6%	8.6%
Long-term debt	7,937	10,699	11,548	6,022	8,648						
Other liabilities	137	115	115	115	115						
Total Liabilities	18,199	16,485	14,479	13,796	11,686						
Shareholder's equity	15,224	16,212	17,086	18,214	19,534						
BVPS	3.52	3.74	3.95	4.21	4.51						

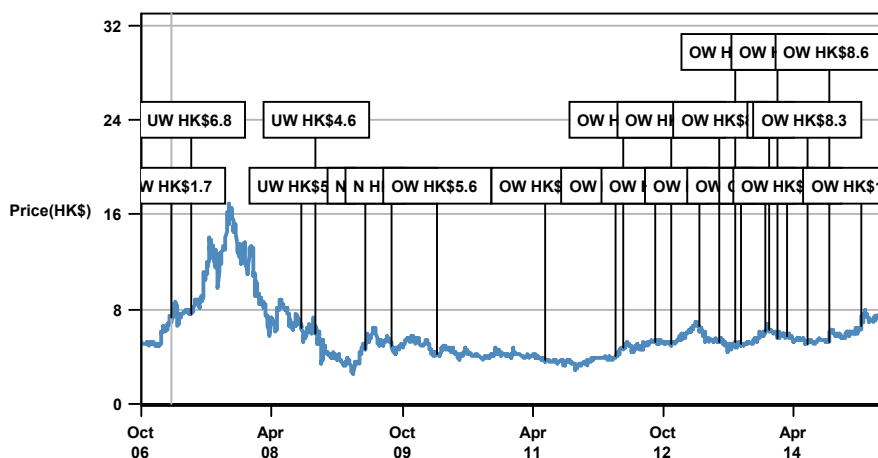
Source: Company reports and J.P. Morgan estimates.

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Beijing Capital International Airport (0694.HK, 694 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
 Break in coverage Dec 18, 2013 - Jan 20, 2014.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
01-Feb-07	UW	7.25	1.70
27-Apr-07	UW	7.65	6.80
03-Aug-08	UW	6.40	5.20
28-Sep-08	UW	6.00	4.60
28-Apr-09	N	4.53	5.00
17-Aug-09	N	4.88	4.50
25-Feb-10	OW	4.26	5.60
26-May-11	OW	3.66	4.90
14-Mar-12	OW	4.06	7.50
10-Apr-12	OW	4.76	7.80
26-Aug-12	OW	5.32	8.30
02-Nov-12	OW	5.06	9.30
24-Feb-13	OW	6.68	8.50
24-May-13	OW	5.25	8.00
26-Jul-13	OW	5.23	7.70
25-Aug-13	OW	5.15	8.20
03-Dec-13	OW	6.10	9.00
18-Dec-13	NR	6.28	--
20-Jan-14	OW	5.64	9.00
27-Feb-14	OW	5.78	8.60
27-May-14	OW	5.09	8.30
22-Aug-14	OW	5.33	8.60
07-Jan-15	OW	6.53	13.10

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

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