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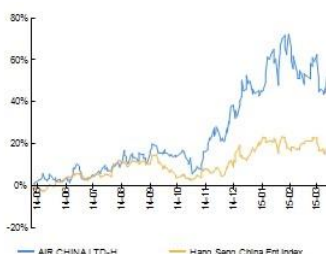
低油价，控费用带动成本降低

中国国航 (753:HK)

Market Data: Mar,13

Closing Price (HK\$)	6.85
Price Target (HK\$)	7.18
HSCEI	11,920
HSCCI	4,517
52-week High/Low (HK\$)	7.49/4.20
Market Cap (USD Mn)	10,510
Market Cap (HK\$ Mn)	81,518
Shares Outstanding (Mn)	13,085
Exchange Rate (RMB-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

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Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (Rmbm)	98180.79	105884.32	112687.19	122881.56	135330.00
YoY (%)	(1.30)	7.85	6.42	9.05	10.13
Net income (Rmbm)	3263.64	3817.47	5455.09	7100.00	8413.50
YoY (%)	(32.23)	16.97	42.90	30.15	18.50
EPS (Rmb)	0.27	0.31	0.42	0.54	0.64
Diluted EPS (Rmb)	0.27	0.31	0.42	0.54	0.64
ROE (%)	6.28	7.25	8.74	10.13	10.70
Debt/asset (%)	71.94	71.76	61.53	57.27	54.18
Dividend yield (%)	0.83	0.96	1.53	2.00	2.37
PE (x)	20.48	17.51	13.04	10.02	8.45
PB (x)	1.24	1.20	1.07	0.97	0.87
EV/Ebitda (x)	10.10	7.92	6.94	6.16	5.64

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：

受益于政府补贴等因素，业绩超出市场预期。中国国航 2014 年收入同比增长 7.89% 达人民币 1059 亿元，经营利润同比增长 76.34% 达人民币 72.6 亿元。归属于公司持有者的净利同比上涨 16.97% 达人民币 38.2 亿元。每股盈利人民币 0.31 元，约高出市场预期 10%，主要的差异来自于政府补贴超出预期。中国国航董事会提请发放每股人民币 0.052 元的股息。

国内航线客流量增速依然疲弱。国内航空市场面临经济增速下滑，高铁分流和廉价航空的竞争，2014 年中国国航的客流量（RPK）同比仅增长 6.11%，低于 2013 年的 8.95%。国内航线运力投放同比增加 6.71%，客座率同比下滑 0.46% 达 81.28%。收益水平为人民币 0.62 元，同比下滑 1.69%。

国际航线表现强劲。国际航线 2014 年客流量（RPK）同比增长 14.65%，高于 2013 年的 10.60%。国际航线 2014 运力投放（ASK）同比增长 17.50%，客座率同比下滑 1.94% 达 78.06%。收益水平为人民币 0.53 元，同比下滑 2.03%。

燃油成本下降带动单位成本下降。燃油成本占航空公司运营成本的约 35%。受益于燃油成本的下跌，中国国航单座位成本同比下滑 3.57% 达人民币 0.45 元。我们预期 2015 年单位成本仍将进一步降低。

机票代理费的调整带动销售费用占比下降。中国国航 2014 年销售费用同比上涨 3.26%，低于 7.37% 的收入增幅。销售费用对收入的占比也从 2013 年的 7.37% 下降到 7.09%，这主要得益于机票代理费的调整。2014 年 7 月，三大航纷纷下调了机票代理费，从 3+X 调整为 2+X，2015 年 1 月进一步调整为 1+X。销售费用占收入的比例仍有进一步下调的空间。

重申“中性”评级，目标价维持 7.18 港币。我们维持公司 2015 年（人民币 0.42 +34.3%）和 2016 年（人民币 0.54 +30.2%）的盈利预测，并推出 2017 年（人民币 0.64 +18.5%）盈利预测。目标价 7.18 港币，对应公司 2014 年 1.12 倍的市净率和 5% 的上行空间，重申“中性”。

Investment Highlights :

Results beat on subsidies. Air China reported growth in 2014 revenue of 7.89% YoY to Rmb105.89bn, while operating profit grew 76.34% YoY to Rmb7.26bn. Net profit expanded 16.97% YoY to Rmb3.82bn, while EPS of Rmb0.31 beat our forecast of Rmb0.26 by 19%. The primary reason for the sharply higher bottom line than expected was a Rmb1.06bn subsidy (vs our forecast of Rmb508m) paid by government for the company to operate less popular routes. The company proposed a dividend of Rmb0.052 per share.

Weak domestic traffic growth. Air China's domestic traffic revenue passenger kilometers (RPK) grew 6.11% YoY in 2014, a slowdown from 8.95% YoY in 2013. Domestic available seat kilometers (ASK) grew 6.71% YoY and passenger load factor declined by 0.46ppts to 81.28% in 2014. Yield (as measured by revenue/RPK) declined by 1.69% YoY to Rmb0.62.

Strong international traffic. International traffic RPK growth reach 14.65% YoY in 2014, an acceleration from 10.60% YoY in 2013. International capacity (ASK) grew by 17.50% YoY and passenger load factor declined by 1.94ppts YoY to 78.06% in 2014. Yield declined by 2.03% YoY to Rmb0.53.

Declining jet fuel price pushes down costs. Jet fuel cost accounts for c.35% of the company's operating cost. Cost per ASK declined by 3.57% YoY to Rmb0.45 thanks to a decline in jet fuel prices since 3Q14. We expects further cost decline in 15E.

Selling expense growth slowdown due to ticket agency fee cut. Air China recorded selling expense growth of 3.26% YoY in 2014, driving down selling expense to sales ratio from 7.37% to 7.09%, primarily as a result of the airline's move to cut rates on commissions paid to ticket agencies from 3% to 2% in July and to 1% in January 2015. Selling expense to sales ratio may decline further in 2015.

Maintain Hold. We maintain our EPS forecast of Rmb0.42 (+34.3%) in 15E, Rmb0.54 (+30.2%) in 16E and forecast EPS of Rmb0.64 (+18.5%) in 16E. We maintain our target price unchanged at HK\$7.18, representing 1.12x 15E PB. With 5% upside, we maintain our Hold rating for Air China.

APPENDIX

Table 1: Consolidated Income Statement

(Rmbm)	2013	2014	2015E	2016E	2017E
Revenue	98,181	105,884	112,687	122,882	135,330
CostofSales	87,081	92,155	95,748	103,515	113,887
GrossProfit	11,100	13,729	16,939	19,366	21,443
OtherIncome	0	0	0	0	0
SGAExpenses	6,982	6,468	7,901	8,554	9,353
EBITDA	13,836	17,660	20,156	22,693	24,780
EBIT	4,118	7,262	9,038	10,812	12,090
FinanceCosts	423	3,071	2,926	2,850	2,729
ProfitBeforeTax	4,518	5,065	7,258	9,314	10,956
IncomeTaxExpense	903	780	1,452	1,863	2,191
MinorityInterests	351	468	351	351	351
ProfitfortheYear	3,264	3,817	5,455	7,100	8,413

Source: SWS Research

Table 2: Consolidated Cash Flow Statement

(Rmbm)	2013	2014	2015E	2016E	2017E
ProfitBeforeTaxation	4,118	7,262	9,038	10,812	12,090
DeprAndAmortisation	9,718	10,398	11,118	11,881	12,690
FinanceCost	(423)	(3,071)	(2,926)	(2,850)	(2,729)
LossesFromInvestments	0	0	0	0	0
ChangeInWorkingCapital	656	(75)	669	727	1,052
Others	(597)	30,390	8,489	5,930	6,539
CFFFromOperatingActivities	13,144	43,395	25,999	26,111	29,252
CAPEX	14,355	15,448	16,600	17,816	19,102
OtherCFFFromInvestingActivities	0	0	0	0	0
CFFFromInvestingActivities	(14,355)	(15,448)	(16,600)	(17,816)	(19,102)
EquityFinancing	0	1	2	3	4
NetChangeInLiabilities	11,787	(4,942)	(5,193)	(5,481)	0
DividendAndInterstPaid	3,281	3,951	4,210	1,420	1,683
OtherCFFFromFinancingActivities	3	4	5	6	7
CFFFromFinancingActivities	8,509	(8,890)	(9,398)	(6,895)	(1,676)
NetCashFlow	7,298	19,058	1	1,400	8,474
FCFF	27,943	32,254	35,974	39,373	42,742
FCFE	40,152	30,382	33,706	36,742	45,471

Source : SWS Research

Table 3: Consolidated Balance Sheet

(Rmbm)	2013	2014	2015E	2016E	2017E
CurrentAssets	25,817	21,053	26,580	29,003	38,747
BankBalancesAndCash	14,762	9,660	11,793	13,193	21,667
TradeAndOtherReceivables	6,780	7,085	9,075	9,896	10,899
Inventories	1,045	1,100	2,481	2,682	2,950
OtherCurrentAssets	4,036	4,158	5,473	5,674	5,942
LongTermInvestment	39,120	31,436	39,763	40,093	40,430
PPE	132,806	148,180	99,702	96,396	93,098
IntangibleAndOtherAssets	1,154	1,137	1,154	1,154	1,154
TotalAssets	205,083	209,311	172,667	172,089	178,848
CurrentLiabilities	70,074	60,843	37,192	33,769	36,337
Borrowings	39,502	29,292	5,481	0	0
TradeAndOtherPayables	21,135	20,325	21,541	23,291	25,613
OtherCurrentLiabilities	9,437	11,226	10,170	10,478	10,724
LongTermLiabilities	71,616	83,665	63,195	58,941	54,718
TotalLiabilities	147,537	150,201	106,235	98,557	96,902
MinorityInterests	3,789	5,132	3,789	3,789	3,789
ShareholderEquity	57,546	59,110	66,432	73,532	81,946
ShareCapital	13,085	13,085	13,085	13,085	13,085
Reserves	40,080	40,208	40,080	40,080	40,080
EquityAttributable	57,546	59,110	66,432	73,532	81,946
TotalLiabilitiesAndEquity	205,083	209,311	172,666	172,089	178,847

Source: SWS Research

Table 4: Key Financial Ratios

	2013	2014	2015E	2016E	2017E
Ratios per share (RMB)					
Earnings per share	0.27	0.31	0.42	0.54	0.64
OperatingCFPerShare	1.00	3.32	1.99	2.00	2.24
DividendPerShare	0.05	0.05	0.08	0.11	0.13
Key Operating Ratios(%)	4.40	4.52	5.08	5.62	6.26
NetAssetsPerShare					
ROIC	3.15	2.99	5.37	7.18	8.22
ROE	6.28	7.25	8.74	10.13	10.70
GrossProfitMargin	11.31	12.97	15.03	15.76	15.84
EBITDAMargin	14.09	16.68	17.89	18.47	18.31
EBITMargin	4.19	6.86	8.02	8.80	8.93
GrowthRateOfRevenue	(1.30)	7.85	6.42	9.05	10.13
GrowthRateOfProfit	(32.23)	16.97	42.90	30.15	18.50
DebtToAssetRatio	71.94	71.76	61.53	57.27	54.18
TurnoverRateOfNetAssets	1.71	1.79	1.70	1.67	1.65
TurnoverRateOfTotalAssets	0.63	0.73	0.76	0.86	0.91
EffectiveTaxRate	19.99	15.40	20.00	20.00	20.00
DividendYield	0.83	0.96	1.53	2.00	2.37
Valuation Ratios (X)					
PE	20.48	17.51	13.04	10.02	8.45
PB	1.24	1.20	1.07	0.97	0.87
EVSale	1.42	1.32	1.24	1.14	1.03
EVEBITDA	10.10	7.92	6.94	6.16	5.64

Source: SWS Research

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