

China Eastern Airlines - H

Results above market but slightly below our expectations; prefer Air China and CSA

CEA's results beat consensus estimates but fell slightly below our expectations. However, we remain Neutral on China Eastern as we believe it is already near fair value and see better risk-reward in Air China and CSA.

- **Results slightly below our expectations but beat consensus:** 2H14 net profit rose significantly to Rmb3,398MM, 94% higher y/y versus its small profit of Rmb12MM in 1H14. This raised full year net profit to Rmb3,410MM, 44% higher y/y. Excluding one-offs, core profit was c.Rmb3,602MM, 852% higher y/y. **Core profit margin was 4.0% (vs Air China's 3.9%), 4ppts higher y/y.** Core ROE was c.13% (better than Air China's 8%) due to its smaller equity base. Dec-14 book value was rose 12% h/h to c.Rmb2.37/shr and net debt-equity was 3.2x (vs 2.7x in Dec-13).
- **Key 2H14 highlights - good cost control excluding fuel; margins beat Air China:** Revenue rose 1% y/y, driven by passenger revenue which was 3% higher y/y as cargo revenue fell 9% y/y. On a h/h basis, revenue rose 9% as passenger revenue rose 9% while cargo revenue rose 3%. Operating costs fell 6% y/y but rose 3% h/h, mainly driven by lower wages, salaries and benefits (-39%), aircraft operating lease rentals (-10%) and selling and marketing expenses (-8%) which is impressive. Fuel costs also fell 3% y/y. **Unit cost ex-fuel fell 10% y/y, 4% h/h.** EBIT rose 209% y/y, 178% h/h to Rmb4,456MM. **EBIT margin was 9.5%, up 6ppts y/y, 6ppts h/h (vs Air China's 8.8%, 4ppts higher y/y, h/h).**

Neutral

0670.HK, 670 HK

Price: HK\$4.19

▲ **Price Target: HK\$4.30**
Previous: HK\$3.90

Hong Kong
Transportation, Logistics,
Aerospace and Aircraft Leasing

Corrine Png ^{AC}

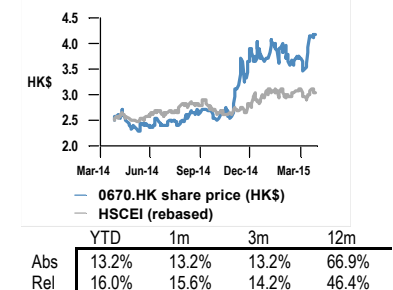
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Price Performance



China Eastern Airlines - H (Reuters: 0670.HK, Bloomberg: 670 HK)

Rmb in mn, year-end Dec	FY12A	FY13A	FY14A	FY15E	FY16E
Revenue (Rmb mn)	85,253	88,245	90,185	94,348	105,668
Net Profit (Rmb mn)	3,072	2,373	3,410	4,724	5,297
Recurring Net Profit (Rmb mn)	2,924	397	3,613	5,024	5,297
EPS (Rmb)	0.27	0.20	0.27	0.37	0.42
Recurring EPS (Rmb)	0.26	0.03	0.29	0.40	0.42
DPS (Rmb)	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	3.5%	3.5%	2.2%	4.6%	12.0%
Recurring Net Profit growth	8.1%	(86.4%)	811.0%	39.0%	5.4%
EPS growth (%)	(32.9%)	(27.9%)	37.1%	38.5%	12.1%
Recurring EPS growth	8.1%	(87.3%)	769.1%	39.0%	5.4%
ROCE	4.9%	1.6%	4.6%	4.8%	4.5%
ROE	16.5%	10.1%	12.0%	14.5%	14.1%
P/E (x)	12.3	17.1	12.5	9.0	8.0
P/BV (x)	1.9	1.5	1.4	1.2	1.1
EV/EBITDA (x)	9.7	12.9	5.9	8.8	8.1
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

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

Company Data	
Shares O/S (mn)	12,674
Market Cap (Rmb mn)	42,536
Market Cap (\$ mn)	6,848
Price (HK\$)	4.19
Date Of Price	27 Mar 15
Free Float(%)	21.0%
3M - Avg daily vol (mn)	11.85
3M - Avg daily val (HK\$ mn)	45.74
3M - Avg daily val (\$ mn)	5.9
HSCEI	11,898.09
Exchange Rate	7.75
Fiscal Year End	Dec
Price Target End Date	31-Dec-15

See page 14 for analyst certification and important disclosures, including non-US analyst disclosures.

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<p>Key catalysts for the stock price:</p> <p>China's growing outbound travel, Shanghai Disneyland opening, synergies with Qantas, leverage to budget travel growth, falling fuel prices, Rmb appreciation, industry M&A.</p>	<p>Upside risks to our view:</p> <p>Better-than-expected traffic and yield growth, falling jet fuel prices, Rmb rebounds, earlier-than-expected success of its low cost carrier JV and potential strategic investor.</p>	<p>Downside risks to our view:</p> <p>China's economy weakens, rising competition from high-speed rail expansion, rising fuel prices, and risk of potential equity-raising.</p>
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Key financial metrics	FY14A	FY15E	FY16E	FY17E
Revenues (Rmb mn)	90,185	94,348	105,668	118,354
Revenue growth (%)	2.2%	4.6%	12.0%	12.0%
EBITDA (Rmb mn)	15,476	18,972	20,743	23,464
EBITDA margin (%)	17.2%	20.1%	19.6%	19.8%
Tax rate (%)	14%	14%	14%	14%
Net profit (Rmb mn)	3,410	4,724	5,297	6,547
EPS (RMB)	0.27	0.37	0.42	0.52
EPS growth (%)	37.1%	38.5%	12.1%	23.6%
DPS (Rmb)	0.00	0.00	0.00	0.00
BVPS (Rmb)	2.36	2.76	3.18	3.70
Operating cash flow (Rmb mn)	12,295	16,880	19,787	22,620
Free cash flow (Rmb mn)	(11,609)	(13,791)	(1,744)	(2,911)
Interest cover (X)	8.3	9.8	11.5	13.9
Net margin (%)	3.8%	5.0%	5.0%	5.5%
Sales/assets (X)	0.59	0.53	0.54	0.57
Debt/equity (%)	308.1%	309.4%	276.4%	246.4%
Net debt/equity (%)	322.0%	315.2%	278.1%	245.5%
ROE (%)	12.0%	14.5%	14.1%	15.0%
Key model assumptions	FY14A	FY15E	FY16E	FY17E
Passenger traffic growth	6.1%	10.0%	9.0%	9.0%
Passenger yield growth	-0.3%	-9.9%	3.0%	3.0%
Jet fuel price (US\$/bbl)	130.9	93.0	101.0	105.0
CNY/USD	6.16	6.25	6.25	6.25

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

Sensitivity analysis	EBITDA	EPS
Sensitivity to 1% change in	FY15E	FY15E
Passenger traffic growth	+/-4%	+/-12%
Passenger yield growth	+/-4%	+/-14%
Jet fuel price (US\$/bbl)	-/+1%	-/+2%
CNY/USD	-/+1%	-/+6%

Source: J.P. Morgan estimates. *High earnings sensitivity due to small profit base.

Comparative metrics

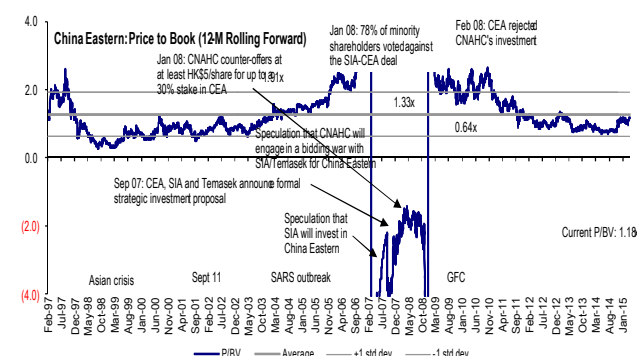
	CMP LC	Mkt Cap \$MM	P/E (x)		P/BV (x)		ROE (%)		YTD Stock perf.
			FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	
Air China – H	6.94	16,699	12.4	10.3	1.2	1.1	10.4%	11.3%	10.7%
China Eastern – H	4.19	14,304	9.0	8.0	1.2	1.1	14.5%	14.1%	12.6%
China Southern - H	4.69	10,493	10.7	9.4	1.0	0.9	9.4%	9.8%	27.1%
Average			16.8	10.9	1.5	1.3	9.3%	10.8%	8.2%

Source: Bloomberg, J.P. Morgan estimates. Prices are as of 27 March, 2015.

Valuation and price target basis

Our Dec-15 share price target of HK\$4.30 is based on 1.2x P/B, a 10% discount to China Eastern H-share's historical average valuation since listing.

P/BV Trading Range Since Listing



Source: Bloomberg, J.P. Morgan estimates.

JPM vs consensus

EPS (Rmb)	FY15E	FY16E
JPM new	0.37	0.42
JPM old	0.32	0.36
% chg	15%	15%
Consensus	0.39	0.49

Source: Bloomberg, J.P. Morgan estimates.

2H14 Results Review

Results slightly below our expectations but ahead of consensus

2H14 net profit rose significantly to Rmb3,398MM, 94% higher y/y, and vs. a small profit of Rmb12MM in 1H14. This resulted in full-year net profit of Rmb3,410MM, 44% higher y/y. Excluding Rmb203MM F/X losses and Rmb11MM derivative gains, core profit was c.Rmb3,602MM, 852% higher y/y. Core profit margin was 4.0% (vs Air China's 3.9%), 4ppts higher y/y. Core ROE was c.13% (better than Air China's 8%) due to its smaller equity base. Dec-14 book value was rose 12% h/h to c.Rmb2.37/shr and net debt-equity was 3.2x (vs 2.7x in Dec-13).

Key 2H14 highlights

Revenue rose 1% y/y, driven by passenger revenue which was 3% higher y/y as cargo revenue fell 9% y/y. On a h/h basis, revenue rose 9% as passenger revenue rose 9% while cargo revenue rose 3%. Passenger traffic rose 6% y/y while passenger yield fell 2%. On a h/h basis, passenger traffic rose 8% and passenger yield rose 1%.

Cargo traffic fell 2% y/y while cargo yield fell 5%. On a h/h basis, cargo traffic rose 9% while cargo yield fell 4%. 2014 revenue breakdown: passenger 84%, cargo 8%, other 8%.

Operating costs fell 6% y/y but rose 3% h/h, mainly driven by lower wages, salaries and benefits (-39% due to changes in retirement benefit policies), aircraft operating lease rentals (-10% due to lower number of aircraft on operating lease) and selling and marketing expenses (-8% due to lower handling fees of agency business). Fuel costs also fell 3% y/y due to 5% fall in fuel price paid. Unit cost ex-fuel fell 10% y/y, 4% h/h.

EBIT rose 209% y/y, 178% h/h to Rmb4,456MM. EBIT margin was 9.5%, up 6ppts y/y, 6ppts h/h (vs Air China's 8.8%, 4ppts higher y/y, h/h). Interest expenses fell 10% y/y, 53% h/h.

Fleet update

As at 31 Dec 2014, the Group operated a fleet of 5155 aircraft, which included 485 passenger aircraft, 12 freighters (of which 349 are owned/finance leased and 148 on operating leases) plus 18 business aircraft in custody. CEA plans to introduce 80 aircraft and retire 46 aircraft in 2015 and introduce 70 aircraft and retire 26 aircraft in 2016. Advanced sales rose 43% y/y, 58% h/h which is positive.

Raising estimates and price target to factor improving cost efficiency

We have raised our FY15-16 net profit forecasts, mainly to factor in improving cost efficiency. We also introduce FY17E estimates.

Consequently, we have raised our Dec-15 price target to HK\$4.30 (from HK\$3.90) which is based on 1.2x P/B, a 10% discount to China Eastern's historical average valuation since listing.

We remain Neutral on CEA as we believe it is already near fair value. We see better risk-reward in Air China and China Southern. If the CNY weakens further, CEA could book substantial forex losses (we factored in Rmb300MM in FY15E).

Key upside risks: 1) better-than-expected traffic and yield growth, 2) falling jet fuel prices, 3) Rmb rebounds, 4) earlier than expected success of its low cost carrier JV and 5) potential strategic investor. **Key downside risks:** 1) China's economy weakens, 2) rising competition from high-speed rail expansion, 3) rising fuel prices, and 4) risk of potential equity raising.

Table 1: China Eastern Airlines: 2H14 & 2014 Results At A Glance

(RMB million)	2H14	2H13	Y/Y Chg	1H14	H/H Chg	2014	2013	Y/Y Chg
Passenger	39,296	38,262	3%	35,965	9%	75,261	72,928	3%
Cargo	3,712	4,072	-9%	3,616	3%	7,328	7,603	-4%
Other	4,083	4,286	-5%	3,513	16%	7,596	7,714	-2%
Total revenue	47,091	46,621	1%	43,094	9%	90,185	88,245	2%
Aircraft Fuel	15,289	15,703	-3%	14,949	2%	30,238	30,681	-1%
Gain on fair value movements of derivatives financial instruments	(5)	(7)	-25%	(6)	-17%	(11)	(18)	-40%
Take-off and landing charges	4,861	4,611	5%	4,579	6%	9,440	9,190	3%
Depreciation and amortization	4,734	4,262	11%	4,449	6%	9,183	8,226	12%
Wages, salaries and benefits	4,385	7,227	-39%	6,885	-36%	11,270	13,454	-16%
Aircraft maintenance	2,373	2,389	-1%	2,080	14%	4,453	4,690	-5%
Impairment losses	8	171	nm	4	100%	12	186	-94%
Food and beverages	1,216	1,180	3%	1,148	6%	2,364	2,268	4%
Aircraft operating lease rentals	2,204	2,457	-10%	2,298	-4%	4,502	4,605	-2%
Other operating lease rentals	406	391	4%	231	76%	637	679	-6%
Selling and marketing expenses	2,076	2,266	-8%	2,044	2%	4,120	4,139	0%
Civil aviation infrastructure levies	859	815	5%	797	8%	1,656	1,566	6%
Office operating expenses	6,072	5,786	5%	3,876	57%	9,948	9,728	2%
Total operating expenses	44,478	47,250	-6%	43,334	3%	87,812	89,394	-2%
Other income (loss)	1,843	2,070	-11%	1,842	0%	3,685	2,725	35%
EBIT	4,456	1,441	209%	1,602	178%	6,058	1,576	284%
<i>EBIT margin</i>	<i>9.5%</i>	<i>3.1%</i>	<i>6.4ppt</i>	<i>3.7%</i>	<i>5.7ppt</i>	<i>6.7%</i>	<i>1.8%</i>	<i>4.9ppt</i>
Interest income	48	873	-94%	40	20%	88	2,125	-96%
Interest expense	(694)	(775)	-10%	(1,466)	-53%	(2,160)	(1,549)	39%
Share of associates and JV results	100	66	51%	27	270%	127	65	96%
Profit (loss) before taxation	3,910	1,604	144%	203	1826%	4,113	2,218	85%
Tax credit (expense)	(414)	(44)	832%	(159)	160%	(573)	(124)	361%
<i>Effective tax rate</i>	<i>10.6%</i>	<i>2.8%</i>	<i>7.8ppt</i>	<i>78.3%</i>	<i>-67.7ppt</i>	<i>13.9%</i>	<i>5.6%</i>	<i>8.3ppt</i>
Minority interest	(98)	191	nm	(32)	206%	(130)	280	nm
Net profit	3,398	1,751	94%	12	28217%	3,410	2,373	44%
<i>Net profit margin</i>	<i>7.2%</i>	<i>3.8%</i>	<i>3.5ppt</i>	<i>0.0%</i>	<i>7.2ppt</i>	<i>3.8%</i>	<i>2.7%</i>	<i>1.1ppt</i>
Basic EPS (RMB)	2,936	942	212%	666	341%	3,602	378	852%

Source: Company reports.

Table 2: China Eastern Airlines: 2H14 & 2014 Operating Statistics

	2H14	2H13	Y/Y Chg	1H14	H/H Chg	2014	2013	Y/Y Chg
Traffic								
RPK(million)								
Domestic	45,563	43,338	5%	42,628	7%	88,192	82,812	6%
Regional	2,180	2,093	4%	2,187	0%	4,367	4,049	8%
International	18,507	17,175	8%	16,685	11%	35,191	33,600	5%
Total	66,250	62,606	6%	61,500	8%	127,750	120,461	6%
RFTK(million)								
Domestic	467	518	-10%	432	8%	899	959	-6%
Regional	67	64	5%	61	9%	128	123	4%
International	1,975	1,977	0%	1,801	10%	3,776	3,775	0%
Total	2,509	2,559	-2%	2,294	9%	4,803	4,857	-1%
RTK(million)								
Domestic	4,504	4,361	3%	4,222	7%	8,726	8,321	5%
Regional	259	248	4%	254	2%	513	481	7%
International	3,607	3,494	3%	3,276	10%	6,883	6,749	2%
Total	8,370	8,103	3%	7,753	8%	16,122	15,552	4%
Capacity								
ASK(million)								
Domestic	57,296	54,846	4%	53,085	8%	110,381	104,459	6%
Regional	2,887	2,795	3%	2,872	1%	5,759	5,435	6%
International	23,470	21,489	9%	20,975	12%	44,445	42,181	5%
Total	83,653	79,130	6%	76,932	9%	160,585	152,075	6%
AFTK(million)								
Domestic	1,048	1,134	-8%	1,044	0%	2,091	2,172	-4%
Regional	143	138	4%	148	-3%	291	275	6%
International	2,927	2,917	0%	2,777	5%	5,704	5,581	2%
Total	4,118	4,190	-2%	3,968	4%	8,086	8,028	1%
ATK(million)								
Domestic	6,204	6,071	2%	5,821	7%	12,026	11,573	4%
Regional	403	389	4%	406	-1%	809	765	6%
International	5,039	4,852	4%	4,664	8%	9,704	9,377	3%
Total	11,647	11,312	3%	10,892	7%	22,539	21,715	4%
Load factors								
Pax load factors(RPK/ASK)%								
Domestic	79.5%	79.0%	0.5ppt	80.3%	-0.8ppt	79.9%	79.3%	0.6ppt
Regional	75.5%	74.9%	0.6ppt	76.2%	-0.7ppt	75.8%	74.5%	1.3ppt
International	78.9%	79.9%	-1.1ppt	79.5%	-0.7ppt	79.2%	79.7%	-0.5ppt
Total	79.2%	79.1%	0.1ppt	79.9%	-0.7ppt	79.6%	79.2%	0.3ppt
Cargo load factors(RFTK/AFTK)%								
Domestic	44.6%	45.7%	-1.1ppt	41.4%	3.2ppt	43.0%	44.2%	-1.2ppt
Regional	46.7%	46.2%	0.4ppt	41.5%	5.1ppt	44.1%	44.8%	-0.7ppt
International	67.5%	67.8%	-0.3ppt	64.9%	2.6ppt	66.2%	67.6%	-1.4ppt
Total	60.9%	61.1%	-0.2ppt	57.8%	3.1ppt	59.4%	60.5%	-1.1ppt
Overall load factors(RTK/ATK)%								
Domestic	72.6%	71.8%	0.8ppt	72.5%	0.1ppt	72.6%	71.9%	0.7ppt
Regional	64.2%	63.8%	0.4ppt	62.6%	1.6ppt	63.4%	62.9%	0.5ppt
International	71.6%	72.0%	-0.4ppt	70.2%	1.3ppt	70.9%	72.0%	-1.0ppt
Total	71.9%	71.6%	0.2ppt	71.2%	0.7ppt	71.5%	71.6%	-0.1ppt

Source: Company reports.

Table 3: China Eastern Airlines vs Air China: 2H14 Operating Statistics Comparison

	China Eastern Airlines			Air China		
	2H14	Y/Y Chg	H/H Chg	2H14	Y/Y Chg	H/H Chg
Traffic						
RPK(million)						
Domestic	45,563	5%	7%	51,089	5%	4%
Regional	2,180	4%	0%	3,557	12%	4%
International	18,507	8%	11%	24,984	11%	10%
Total	66,250	6%	8%	79,630	8%	6%
RFTK(million)						
Domestic	467	-10%	8%	759	3%	9%
Regional	67	5%	9%	65	28%	20%
International	1,975	0%	10%	2,304	23%	27%
Total	2,509	-2%	9%	3,128	18%	22%
RTK(million)						
Domestic	4,504	3%	7%	5,279	5%	5%
Regional	259	4%	2%	392	14%	6%
International	3,607	3%	10%	4,524	17%	18%
Total	8,370	3%	8%	10,196	10%	10%
Capacity						
ASK(million)						
Domestic	57,296	4%	8%	63,434	6%	6%
Regional	2,887	3%	1%	4,844	13%	4%
International	23,470	9%	12%	32,225	15%	12%
Total	83,653	6%	9%	100,503	9%	8%
AFTK(million)						
Domestic	1,048	-8%	0%	1,509	7%	-3%
Regional	143	4%	-3%	170	24%	4%
International	2,927	0%	5%	3,719	25%	22%
Total	4,118	-2%	4%	5,397	19%	14%
ATK(million)						
Domestic	6,204	2%	7%	7,213	6%	4%
Regional	403	4%	-1%	624	16%	4%
International	5,039	4%	8%	6,624	20%	18%
Total	11,647	3%	7%	14,461	13%	10%
Load factors						
Pax load factors(RPK/ASK)%						
Domestic	79.5%	0.5ppt	-0.8ppt	80.5%	-0.6ppt	-1.6ppt
Regional	75.5%	0.6ppt	-0.7ppt	73.4%	-0.5ppt	-0.2ppt
International	78.9%	-1.1ppt	-0.7ppt	77.5%	-2.5ppt	-1.0ppt
Total	79.2%	0.1ppt	-0.7ppt	79.2%	-1.2ppt	-1.4ppt
Cargo load factors(RFTK/AFTK)%						
Domestic	44.6%	-1.1ppt	3.2ppt	50.3%	-2.0ppt	5.3ppt
Regional	46.7%	0.4ppt	5.1ppt	38.0%	1.1ppt	5.0ppt
International	67.5%	-0.3ppt	2.6ppt	62.0%	-0.7ppt	2.3ppt
Total	60.9%	-0.2ppt	3.1ppt	58.0%	-0.7ppt	4.0ppt
Overall load factors(RTK/ATK)%						
Domestic	72.6%	0.8ppt	0.1ppt	73.2%	-1.0ppt	0.2ppt
Regional	64.2%	0.4ppt	1.6ppt	62.8%	-0.7ppt	1.3ppt
International	71.6%	-0.4ppt	1.3ppt	68.3%	-1.9ppt	0.4ppt
Total	71.9%	0.2ppt	0.7ppt	70.5%	-1.5ppt	0.2ppt

Source: Company reports.

Table 4: China Eastern Airlines vs Air China: 2H14 Operating Statistics Comparison

	China Eastern Airlines			Air China		
	2014	2013	Y/Y Chg	2014	2013	Y/Y Chg
Traffic						
RPK(million)						
Domestic	88,192	82,812	6%	100,100	94,344	6%
Regional	4,367	4,049	8%	6,989	6,115	14%
International	35,191	33,600	5%	47,595	41,531	15%
Total	127,750	120,461	6%	154,683	141,990	9%
RFTK(million)						
Domestic	899	959	-6%	1,457	1,423	2%
Regional	128	123	4%	118	96	23%
International	3,776	3,775	0%	4,116	3,497	18%
Total	4,803	4,857	-1%	5,691	5,015	13%
RTK(million)						
Domestic	8,726	8,321	5%	10,326	9,797	5%
Regional	513	481	7%	762	660	16%
International	6,883	6,749	2%	8,349	7,192	16%
Total	16,122	15,552	4%	19,437	17,648	10%
Capacity						
ASK(million)						
Domestic	110,381	104,459	6%	123,119	115,388	7%
Regional	5,759	5,435	6%	9,508	8,385	13%
International	44,445	42,181	5%	61,005	51,904	18%
Total	160,585	152,075	6%	193,631	175,677	10%
AFTK(million)						
Domestic	2,091	2,172	-4%	3,058	2,806	9%
Regional	291	275	6%	333	271	23%
International	5,704	5,581	2%	6,756	5,587	21%
Total	8,086	8,028	1%	10,148	8,664	17%
ATK(million)						
Domestic	12,026	11,573	4%	14,129	13,180	7%
Regional	809	765	6%	1,225	1,057	16%
International	9,704	9,377	3%	12,258	10,267	19%
Total	22,539	21,715	4%	27,613	24,504	13%
Load factors						
Pax load factors(RPK/ASK)%						
Domestic	79.9%	79.3%	0.6ppt	81.3%	81.8%	-0.5ppt
Regional	75.8%	74.5%	1.3ppt	73.5%	72.9%	0.6ppt
International	79.2%	79.7%	-0.5ppt	78.0%	80.0%	-2.0ppt
Total	79.6%	79.2%	0.3ppt	79.9%	80.8%	-0.9ppt
Cargo load factors(RFTK/AFTK)%						
Domestic	43.0%	44.2%	-1.2ppt	47.6%	50.7%	-3.1ppt
Regional	44.1%	44.8%	-0.7ppt	35.6%	35.4%	0.1ppt
International	66.2%	67.6%	-1.4ppt	60.9%	62.6%	-1.7ppt
Total	59.4%	60.5%	-1.1ppt	56.1%	57.9%	-1.8ppt
Overall load factors(RTK/ATK)%						
Domestic	72.6%	71.9%	0.7ppt	73.1%	74.3%	-1.2ppt
Regional	63.4%	62.9%	0.5ppt	62.2%	62.4%	-0.2ppt
International	70.9%	72.0%	-1.0ppt	68.1%	70.0%	-1.9ppt
Total	71.5%	71.6%	-0.1ppt	70.4%	72.0%	-1.6ppt

Source: Company reports.

Table 5: China Eastern vs Air China: 2H14 Financials And Operating Statistics Comparison

RMB million	China Eastern			Air China		
	2H14	Y/Y Chg	H/H Chg	2H14	Y/Y Chg	H/H Chg
Air traffic revenue	43,008	2%	9%	53,874	7%	13%
Other operating revenue	4,083	-5%	16%	2,078	3%	-14%
Total revenue	47,091	1%	9%	55,952	7%	12%
Operating Expenses	42,635	-6%	3%	51,034	3%	7%
Profit/(Loss) from operations	4,456	209%	178%	4,918	83%	110%
<i>Operating profit margin</i>	9.5%	6.4ppt	5.7ppt	8.8%	3.6ppt	4.1ppt
Finance revenue	48	-94%	20%	123	-88%	15%
Finance costs	(694)	-10%	-53%	(1,165)	-16%	-45%
Gain on disposal	-	-	-	-	-	-
Share of profits and losses of associates	100	51%	270%	629	-4%	157%
Others	-	-	-	-	-	-
Profit/(Loss) before tax	3,910	144%	1826%	4,505	52%	705%
Tax	(414)	832%	160%	(678)	33%	563%
<i>Effective tax rate</i>	10.6%	7.8ppt	-67.7ppt	15.0%	-2.1ppt	-3.2ppt
Profit/(Loss) for the year	3,496	124%	7845%	3,827	55%	737%
Attributable to:						
Equity holders of the Company	3,398	94%	28217%	3,307	56%	548%
<i>Net profit margin</i>	7.2%	3.5ppt	7.2ppt	5.9%	1.8ppt	4.9ppt
Minority interests	98	nm	206%	520	51%	nm
Operating Statistics:						
Traffic						
Passenger (RPK)	66,250	6%	8%	79,630	8%	6%
Cargo (FTKm)	2,509	-2%	9%	3,128	18%	22%
Capacity						
Passenger (ASKm)	83,653	6%	9%	100,503	9%	8%
Cargo (AFTKm)	4,118	-2%	4%	5,397	19%	14%
Load factor						
Passenger (%)	79%	0.1ppt	-0.7ppt	79%	-1.3ppt	-1.4ppt
Cargo (%)	61%	-0.2ppt	3.1ppt	58%	-0.5ppt	4.0ppt
Yield						
Passenger (RMB/RPK)	0.61	-2%	1%	0.62	0%	7%
Cargo (RMB/FTK)	1.52	-5%	-4%	1.54	-1%	0%

Source: Company reports.

Table 6: China Eastern vs Air China: 2014 Financials And Operating Statistics Comparison

RMB million	China Eastern			Air China		
	2014	2013	Y/Y Chg	2014	2013	Y/Y Chg
Air traffic revenue	82,589	80,531	3%	101,385	94,603	7%
Other operating revenue	7,596	7,714	-2%	4,499	3,578	26%
Total revenue	90,185	88,245	2%	105,884	98,181	8%
Operating Expenses	84,127	86,669	-3%	98,623	94,063	5%
Profit/(Loss) from operations	6,058	1,576	284%	7,262	4,118	76%
<i>Operating profit margin</i>	6.7%	1.8%	4.9ppt	6.9%	4.2%	2.7ppt
Finance revenue	88	2,125	-96%	230	2,265	-90%
Finance costs	(2,160)	(1,549)	39%	(3,301)	(2,688)	23%
Gain on disposal	-	-	-	-	-	-
Share of profits and losses of associates	127	65	96%	874	823	6%
Others	-	-	-	-	-	-
Profit/(Loss) before tax	4,113	2,218	85%	5,065	4,518	12%
Tax	(573)	(124)	361%	(780)	(903)	-14%
<i>Effective tax rate</i>	13.9%	5.6%	8.3ppt	15.4%	20.0%	-4.6ppt
Profit/(Loss) for the year	3,540	2,093	69%	4,285	3,615	19%
Attributable to:						
Equity holders of the Company	3,410	2,373	44%	3,817	3,264	17%
<i>Net profit margin</i>	3.8%	2.7%	1.1ppt	3.6%	3.3%	0.3ppt
Minority interests	130	(280)	nm	468	351	33%
Operating Statistics:						
Traffic						
Passenger (RPK)	127,750	120,461	6%	154,683	141,964	9%
Cargo (FTKm)	4,803	4,857	-1%	5,691	5,016	13%
Capacity						
Passenger (ASKm)	160,585	152,075	6%	193,631	175,677	10%
Cargo (AFTKm)	8,086	8,028	1%	10,148	8,664	17%
Load factor						
Passenger (%)	80%	79%	0.3ppt	80%	81%	-0.9ppt
Cargo (%)	59%	61%	-1.1ppt	56%	58%	-1.8ppt
Yield						
Passenger (RMB/RPK)	0.61	0.61	-8%	0.60	0.61	-2%
Cargo (RMB/FTK)	1.55	1.57	-2%	1.54	1.57	-2%

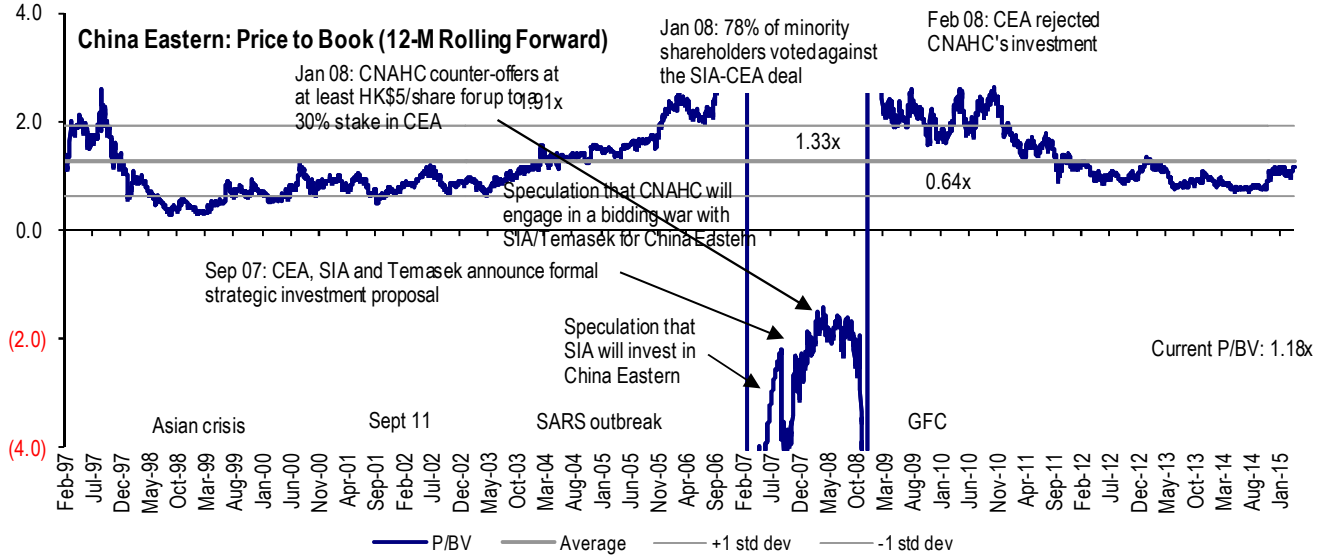
Source: Company reports.

Table 7: China Eastern: FY14-16 Earnings Estimates

	Old			New			% chg		
	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
Net profit (RMBm)	4,106	4,611	-	4,724	5,297	6,547	15%	15%	-
EPS (RMB)	0.32	0.36	-	0.37	0.42	0.52	15%	15%	-

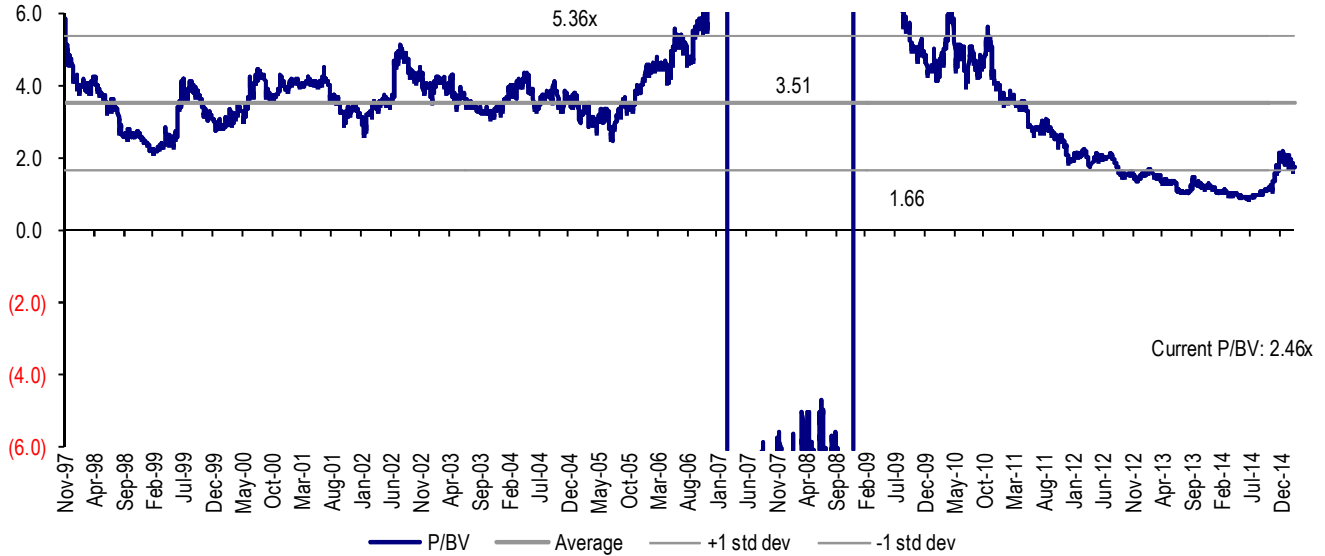
Source: J.P. Morgan estimates.

Figure 1: China Eastern – H: P/BV Trading Range Since Listing



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

Figure 3: China Eastern - A: P/BV Trading Range Since Listing



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

Investment Thesis, Valuation and Risks

China Eastern Airlines - H *(Neutral; Price Target: HK\$4.30)*

Investment Thesis

We rate CEA Neutral, as we see better value and risk-reward in Air China and China Southern. A key risk is potential equity-raising, given its higher financial leverage and substantial capex. However, if CEA succeeds in bringing in strategic investor(s), it would be a positive catalyst for the stock, in our view.

Valuation

Our Dec-15 H-share price target to HK\$4.30 is based on 1.2x P/B, a 10% discount to China Eastern H-share's historical average valuation since listing.

Risks to Rating and Price Target

Upside risks: Better-than-expected traffic and yield growth, falling jet fuel prices, Rmb rebound, earlier-than-expected success of its low-cost-carrier JV and potential strategic investor.

Downside risks: China's economy weakens, rising competition from high-speed rail expansion, rising fuel prices and potential equity-raising.

China Eastern Airlines - H: Summary of Financials

Income Statement						Cash flow statement					
Rmb in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	Rmb in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Revenues	88,245	90,185	94,348	105,668	118,354	EBIT	1,576	6,058	7,799	8,047	9,432
% change Y/Y	3.5%	2.2%	4.6%	12.0%	12.0%	Depr. & amortization	8,174	9,735	11,173	12,696	14,031
EBITDA	9,694	15,476	18,972	20,743	23,464	Change in working capital	(367)	(1,408)	639	1,738	1,948
% change Y/Y	(18.0%)	59.6%	22.6%	9.3%	13.1%	Taxes	-	-	-	-	-
EBIT	1,576	6,058	7,799	8,047	9,432	Cash flow from operations	10,806	12,295	16,880	19,787	22,620
% change Y/Y	(63.8%)	284.3%	28.7%	3.2%	17.2%	Capex	(1,822)	(27,867)	(30,670)	(21,531)	(25,531)
EBIT Margin	1.8%	6.7%	8.3%	7.6%	8.0%	Disposal/(purchase)	556	0	0	0	0
Net Interest	(1,400)	(1,869)	(1,938)	(1,804)	(1,692)	Net Interest	(1,400)	(1,869)	(1,938)	(1,804)	(1,692)
Earnings before tax	2,218	4,113	5,698	6,389	7,896	Other	(15,761)	51,900	0	0	0
% change Y/Y	(29.3%)	85.5%	38.5%	12.1%	23.6%	Free cash flow	(6,221)	36,328	(13,791)	(1,744)	(2,911)
Tax	(124)	(573)	(794)	(890)	(1,100)	Equity raised/(repaid)	-	-	-	-	-
as % of EBT	5.6%	13.9%	13.9%	13.9%	13.9%	Debt raised/(repaid)	6,141	24,148	16,500	3,000	4,000
Net income (reported)	2,373	3,410	4,724	5,297	6,547	Other	(437)	(61,116)	0	0	0
% change Y/Y	(22.7%)	43.7%	38.5%	12.1%	23.6%	Dividends paid	0	0	0	0	0
Recurring Net income	397	3,613	5,024	5,297	6,547	Beginning cash	2,512	1,995	1,355	4,064	5,321
% change Y/Y	(86.4%)	811.0%	39.0%	5.4%	23.6%	Ending cash	1,995	1,355	4,064	5,321	6,410
Shares outstanding	12,092	12,674	12,674	12,674	12,674	DPS	0.00	0.00	0.00	0.00	0.00
EPS (reported)	0.20	0.27	0.37	0.42	0.52						
% change Y/Y	(27.9%)	37.1%	38.5%	12.1%	23.6%						
Recurring EPS	0.03	0.29	0.40	0.42	0.52						
% change Y/Y	(87.3%)	769.1%	39.0%	5.4%	23.6%						
Balance sheet						Ratio Analysis					
Rmb in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	Rmb in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	1,995	1,355	4,064	5,321	6,410	EBITDA margin	11.0%	17.2%	20.1%	19.6%	19.8%
Accounts receivable	7,583	10,256	10,729	12,017	13,459	Operating margin	1.8%	6.7%	8.3%	7.6%	8.0%
Inventories	2,305	2,259	2,363	2,647	2,965	Net margin	0.4%	4.0%	5.3%	5.0%	5.5%
Others	727	4,373	4,373	4,373	4,373	Sales per share growth	(3.5%)	(2.5%)	4.6%	12.0%	12.0%
Current assets	12,610	18,243	21,530	24,357	27,207	Sales growth	3.5%	2.2%	4.6%	12.0%	12.0%
LT investments	-	-	-	-	-	Net profit growth	(22.7%)	43.7%	38.5%	12.1%	23.6%
Net fixed assets	92,783	109,439	128,937	137,772	149,271	EPS growth	(27.9%)	37.1%	38.5%	12.1%	23.6%
Total Assets	140,068	165,829	188,750	200,557	215,062	Interest coverage (x)	6.9	8.3	9.8	11.5	13.9
Liabilities						Net debt to equity	266.7%	322.0%	315.2%	278.1%	245.5%
Short-term loans	26,266	33,272	33,272	33,272	33,272	Sales/assets	0.7	0.6	0.5	0.5	0.6
Payables	21,609	21,298	22,281	24,954	27,950	Assets/equity	560.3%	537.8%	545.7%	517.1%	477.0%
Others	5,207	6,560	6,794	7,429	8,142	ROE	10.1%	12.0%	14.5%	14.1%	15.0%
Total current liabilities	53,082	61,130	62,347	65,656	69,364	ROCE	1.6%	4.6%	4.8%	4.5%	5.0%
Long-term debt	47,470	64,612	81,112	84,112	88,112						
Other liabilities	2,556	2,877	2,877	2,877	2,877						
Total Liabilities	111,486	134,058	151,775	158,084	165,792						
Shareholder's equity	28,582	31,771	36,975	42,474	49,270						
BVPS (Rmb)	2.22	2.36	2.76	3.18	3.70						

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

Other Companies Discussed in This Report (all prices in this report as of market close on 27 March 2015)
Air China - H (0753.HK/HK\$6.94/Overweight), China Southern Airlines - H (1055.HK/HK\$4.69/Overweight)

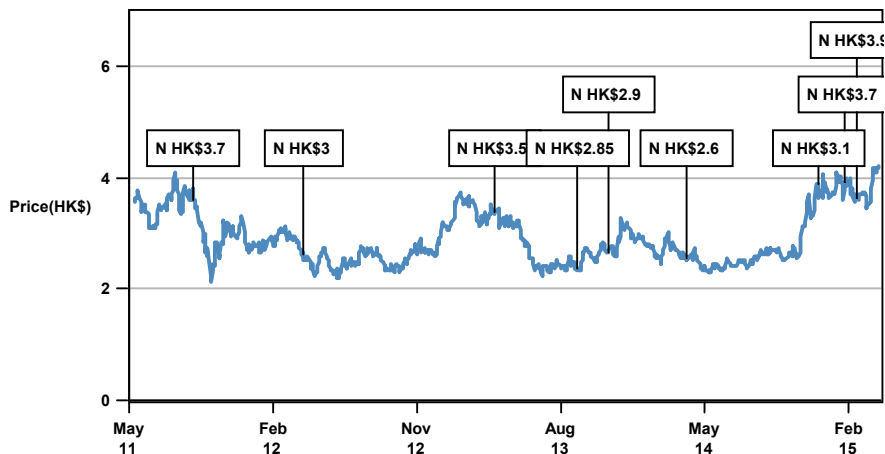
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- **Client/Investment Banking:** J.P. Morgan currently has, or had within the past 12 months, the following company(ies) as investment banking clients: China Southern Airlines - H.
- **Client/Non-Investment Banking, Securities-Related:** J.P. Morgan currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, securities-related: China Eastern Airlines - H, Air China - H, China Southern Airlines - H.
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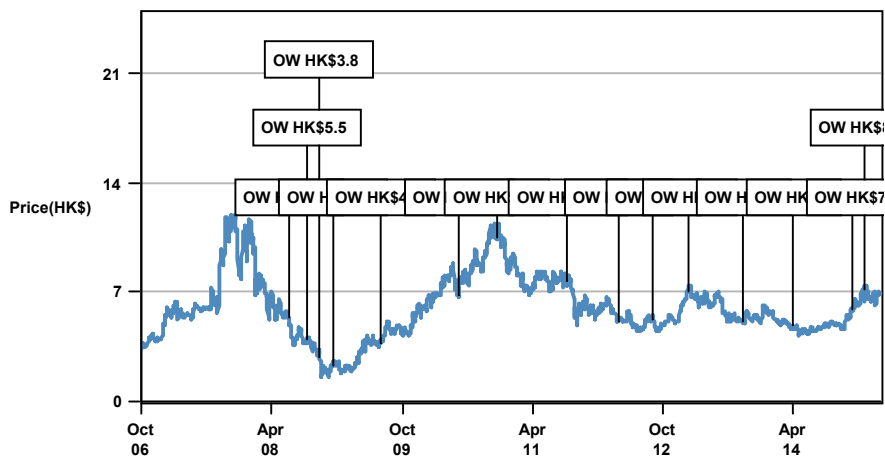
China Eastern Airlines - H (0670.HK, 670 HK) Price Chart



Date	Rating	Share Price (HK\$)	Price Target (HK\$)
30-Aug-11	N	3.60	3.70
26-Mar-12	N	2.63	3.00
27-Mar-13	N	3.37	3.50
31-Aug-13	N	2.37	2.85
30-Oct-13	N	2.66	2.90
27-Mar-14	N	2.54	2.60
02-Dec-14	N	3.89	3.10
22-Jan-15	N	3.91	3.70
14-Feb-15	N	3.61	3.90

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Aug 30, 2011.

Air China - H (0753.HK, 753 HK) Price Chart



Date	Rating	Share Price (HK\$)	Price Target (HK\$)
09-Jun-08	OW	5.36	6.60
27-Aug-08	OW	3.93	5.50
16-Oct-08	OW	2.79	3.80
12-Dec-08	OW	2.31	3.50
07-Jul-09	OW	3.78	4.50
23-May-10	OW	6.85	7.80
29-Oct-10	OW	10.46	12.00
26-Aug-11	OW	7.74	10.50
28-Mar-12	OW	5.12	8.50
21-Aug-12	OW	5.20	7.00
15-Jan-13	OW	7.00	8.00
28-Aug-13	OW	5.14	7.00
26-Mar-14	OW	4.82	6.00
02-Dec-14	OW	5.95	7.00
22-Jan-15	OW	7.15	8.30

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Jun 09, 2008.

China Southern Airlines - H (1055.HK, 1055 HK) Price Chart



Date	Rating	Share Price (HK\$)	Price Target (HK\$)
09-Jun-08	OW	3.01	3.80
19-Aug-08	OW	1.72	1.50
07-Jul-09	N	2.07	2.10
13-Apr-10	N	3.82	4.00
28-Oct-10	UW	5.91	4.70
28-Oct-11	N	4.48	5.10
30-Mar-12	N	3.59	4.70
21-Aug-12	N	3.74	4.30
27-Mar-13	N	4.34	4.60
12-Jul-13	OW	3.04	4.60
31-Oct-13	OW	2.98	4.00
29-Mar-14	OW	2.50	3.30
02-Dec-14	OW	3.53	3.90
22-Jan-15	OW	4.10	4.50

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 09, 2008.

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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Coverage Universe: Png, Corrine: Air China - A (601111.SS), Air China - H (0753.HK), AirAsia BHD (AIRA.KL), Cathay Pacific (0293.HK), Cebu Air, Inc. (CEB.PS), China Airlines (2610.TW), China Cosco Holdings - A (601919.SS), China Cosco Holdings - H (1919.HK), China Eastern Airlines - A (600115.SS), China Eastern Airlines - H (0670.HK), China Shipping Container Lines - A (601866.SS), China Shipping Container Lines - H (2866.HK), China Southern Airlines - A (600029.SS), China Southern Airlines - H (1055.HK), EVA Airways (2618.TW), Evergreen Marine Corp Taiwan Ltd (2603.TW), Hanjin Shipping Co Ltd (117930.KS), Korean Air (003490.KS), Neptune Orient Lines (NOL) (NEPS.SI), Orient Overseas Int'l Ltd (0316.HK), Pacific Basin Shipping (2343.HK), Precious Shipping (PSL.BK), SIA Engineering Company (SIAE.SI), ST Engineering (STEG.SI), Singapore Airlines (SIAL.SI), Tigerair (TAHL.SI), U-Ming Marine Transport Corporation (2606.TW), Wan Hai Lines (2615.TW), Yang Ming Marine (2609.TW)

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	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	45%	43%	12%
IB clients*	56%	49%	33%
JPMS Equity Research Coverage	45%	48%	7%
IB clients*	75%	67%	52%

*Percentage of investment banking clients in each rating category.

For purposes only of FINRA/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category. Please note that stocks with an NR designation are not included in the table above.

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