

Last Closing: HK\$5.39

Upside: -9%

Target Price: HK\$4.90 →

Aviation Sector

## China Southern Airlines (1055 HK)

### FY2014 results review – Strong pickup in 2H14

UP

MP

**OP**

#### Financial Highlights

Y/E 31 Dec	2013	2014	2015E	2016E	2017E
Revenue (Rmbm)	98,547	108,584	105,175	112,813	123,993
YoY growth	(1.0)	10.2	-3.1	7.3	9.9
Net profit (Rmbm)	1,986	1,777	5,262	6,581	8,274
YoY growth	(24.2)	(10.5)	196.1	25.1	25.7
EPS (Rmb)	0.202	0.181	0.536	0.670	0.843
PER (x)	21.18	23.29	7.96	5.71	4.06
PBR (x)	1.23	1.16	1.03	0.80	0.61

Source: Company, BOCOM Int'l estimates



● **FY14 earnings at Rmb1,777m, down 10.5% YoY.** China Southern Airlines (CSA) reported net profit of Rmb1,777m for FY14. Turnover grew 10.2% YoY to Rmb108.5bn, on the back of a 12.2% YoY increase in RPK and 13.2% YoY in RFTK for the period. Operating margin increased notably from 1.5% in FY2013 to 4.4% in FY2014, as a result of a surge in operating margin in 2H14 to 6.8%. However, the result fell short of our expectation as we expected a full-year operating margin of over 5.1% led by lower jet fuel prices. Yet, the reported FY2014 earnings were still better than the Bloomberg consensus forecast of Rmb1,640.3m. Management proposed a final DPS of Rmb0.04, the second year of dividend payout in a row.

● **Lower-than-expected operating margin as jet fuel cost was still up 9.1% YoY.** In 1H14, CSA reported a net loss of Rmb1,057m due mainly to a forex loss of Rmb1,109m. In 2H14, CSA reported a forex gain of Rmb817m instead, reducing the yearly forex loss substantially. Jet fuel cost increased 9.1% during the period and accounted for 35.6% of total operating cost (36.2% in FY2013). Revenue from international passenger transportation continued to rise during the period, accounting for 18.5% of total passenger revenue (FY2013: 16.8%), on the back of a 21.4% YoY increase in international passenger revenue. Reflecting the effort in expanding international and regional services, revenue contribution from domestic passenger transportation declined from 80.7% in FY2013 to 78.9% in FY2014.

● **We maintain our BUY recommendation.** CSA will host the interim result analyst meeting on 31<sup>st</sup> March. In the meantime, we revise down our earnings forecasts for FY2015-2016 and introduce our FY2017 forecast. We maintain our recommendation for the counter, pending more information from the analyst meeting.

- China Southern Airlines reported net profit of Rmb1,777m for FY2014, compared with Rmb1,986m in FY2013. The result, while lower than our forecast, beat the Bloomberg consensus forecast of Rmb1,640.3m.
- Despite lower market jet fuel prices in 2H14, full-year jet fuel cost was still up 9.1% YoY, partly due to the strong growth in ASK (12.32% YoY) and AFTK (17.6% YoY).
- We pare our FY2015-2016 earnings forecasts. We maintain our BUY recommendation for CSA, pending further updates from the analyst briefing on 31<sup>st</sup> March 2015.

#### Stock data

52w High (HK\$)	5.5
52w Low (HK\$)	2.21
Market cap (HK\$m)	87,094
Issued shares (m)	9,817.57
Avg daily vol (m)	25.8
1-mth change (%)	39.3
YTD change (%)	46.1
50d MA (HK\$)	4.005
200d MA (HK\$)	3.178
14-day RSI	68.6

Source: Company data, Bloomberg

#### 1 Year Performance chart



Source: Company data, Bloomberg

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**Figure 1: China Southern Airlines – FY14 result summary**

(Rmb m)	FY13	FY14	%YoY	1H14	2H14	% HoH
Revenue	98,547	108,584	10.2	50,225	58,359	16.2
Operating profit	1,510	4,748	214.4	775.0	3,973	412.6
Operating margin (%)	1.5	4.4		1.5	6.8	
Forex gain	2,903	(292)	(110.1)	(1,109)	817	N.A.
Profit before tax	3,484	3,066	(12.0)	(1,129)	4,195	N.A.
Net profit	1,986	1,777	(10.5)	(1,057)	2,834	N.A.
Net margin (%)	2.0	1.6		(2.1)	4.9	
EPS (Rmb)	0.202	0.181	(10.5)	(0.110)	0.291	N.A.

Source: Company

**Figure 2: China Southern Airlines – earnings forecast revisions**

	Earnings		EPS		Change (%)
	Before (Rmbm)	After (Rmbm)	Before (Rmb)	After (Rmb)	
FY15F	6,769	5,262	0.689	0.536	(22.27)
FY16F	9,493	6,581	0.967	0.670	(30.67)
FY17F		8,274		0.843	

Source: Company

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[www.bocomgroup.com](http://www.bocomgroup.com)**Rating System****Company Rating**

Buy: Expect more than 20% upside in 12 months

LT Buy: Expect more than 20% upside but longer than 12 months

Neutral: Expect low volatility

Sell: Expect more than 20% downside in 12 months

**Sector Rating**

Outperform ("OP"): Expect more than 10% upside in 12 months

Market perform ("MP"): Expect low volatility

Underperform ("UP"): Expect more than 10% downside in 12 months

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