

30 March 2015

买入
维持

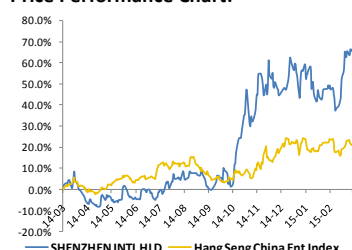
中联航全面转型廉价航空

中国东方航空 670:HK)

Market Data: Mar,27

Closing Price (HK\$)	4.19
Price Target (HK\$)	5.06
HSCEI	11,920
HSCCI	4,515
52-week High/Low (HK\$)	4.24/2.28
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

Analyst

Leo Fan A0230511040074

ARG408

fanlei@swsresearch.com

Contact

Crystal Xu

(8621)23297818x7486

Related Reports

"CHINA EASTERN AIRLINES CO-H
(670 HK) – Higher service ceiling"
Jan 06,2015

The company does not hold any equities or derivatives of the listed company mentioned in this report ("target"), but then we shall provide financial advisory services subject to the relevant laws and regulations. Any affiliates of the company may hold equities of the target, which may exceed 1 percent of issued shares subject to the relevant laws and regulations. The company may also provide investment banking services to the target. The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact compliance@swsresearch.com for relevant disclosure materials or log into www.swsresearch.com under disclosure column for further information. The clients shall have a comprehensive understanding of the disclosure and disclaimer upon the last page.

Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (Rmbm)	88,245.00	90,185.00	91,611.21	98,763.71	106,561.28
YoY (%)	3.51	2.20	1.58	7.81	7.90
Net income (Rmbm)	2,372.52	3,410.00	4,690.30	6,641.54	7,528.75
YoY (%)	(19.00)	43.73	37.55	41.60	13.36
EPS (Rmb)	0.20	0.27	0.38	0.54	0.61
Diluted EPS (Rmb)	0.20	0.27	0.38	0.54	0.61
ROE (%)	7.32	11.14	13.37	15.91	15.28
Debt/asset (%)	118.88	145.17	43.60	43.28	42.22
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
PE (x)	16.63	12.32	8.80	6.21	5.48
PB (x)	1.57	1.41	1.22	1.02	0.86
EV/Ebitda (x)	22.87	114.23	10.40	8.27	7.16

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:

由于退休福利政策的变化带来业绩超预期。2014 年，中国东方航空录得人民币 901.9 亿元，同比上升 2.2%。由于退休福利政策的变化和较低的航空燃油价格，经营利润同比上升 284.3%至人民币 60.6 亿元。股东应占净利同比上升 43.73%达到人民币 34.1 亿元。和我们预测的人民币 13.3 亿元相差人民币 20.8 亿元来自超过预期的退休福利政策带来的影响（人民币 21.0 亿元）。公司 14 年没有派息。

廉价航空的尝试。中国联航（CUA），是中国东方航空的子公司，北京第二机场（南苑机场）为主基地。2014 年中国联航净利润人民币 1.82 亿元，总资产人民币 51.9 亿元，拥有 27 架波音 737。从 2015 年 3 月 29 日开始，中国联航全面转变为廉价航空公司，通过缩减服务降低机票价格。中国联航 3 月 29 日首次推出一批人民币 8 元的特价机票，航线包括北京到呼和浩特，北京到阜阳等，受到了乘客的欢迎。考虑到北京机场旺盛的航空需求，以及中国东方航空的强力支持，我们预计中国联航的转型成功概率较高。

更多航线价格经济舱上限将在新的航空季中上涨。自 2014 年 12 月 15 日起，民航局和发改委推出新的经济舱上限计算方法。如果新的经济舱上限价格高于目前的价格，每家国内航空公司可以在每个航空季中申请十条航线价格的调整（请参考我们于 2015 年 1 月 6 日的点评报告）。本次新航空季从 3 月 25 日开始，我们将看到更多线路价格的上涨。

重申买入，目标价上调至港币 5.06 元。我们将 2015 和 2016 年原油价格的假设从从每桶 75 美金降至每桶 61 美金，从而提升了 15 年的每股盈利至人民币 0.38 元（同比上升 37.55%），16 年每股盈利至人民币 0.54 元（同比上升 41.60%）。我们引入 17 年每股盈利人民币 0.61 元（同比上升 13.36%）。2015 年盈利上调带动每股净资产的上涨，我们将目标价从港币 4.80 元上调至港币 5.06 元，新的目标价对应 1.5 倍 15 年 PB。目前股价对应 21%的上升空间，重申买入。

Investment Highlights:

Result beat due to changes on retirement benefit policies. In 2014, China Eastern recorded revenue of Rmb90.19bn, +2.2% YoY. Due to changes on retirement benefit policies and lower aircraft fuel costs, operating profit increased by 284.3% YoY to Rmb6.06bn. Net profit attributable to shareholders arrived at Rmb3.41bn, up 43.73% YoY (vs our expectation of Rmb1.33bn). The wide difference stems from the higher-than-expected impact from changes on retirement benefit policies (+Rmb2.10bn).

Low cost carrier (LCC) attempt. China United Airlines (CUA), one of China Eastern's subsidiaries, is based in Beijing 2nd Airport (Nanyuan). CUA contributed Rmb182mn profit with total assets of Rmb5.19bn and 27 Boeing-737 in 2014. From March 29, 2015, CUA comprehensively transitioned into LCCs by decreasing flight ticket price by large extent with simplified services. CUA provided a batch of airlines including Beijing-Huhehaote, Beijing-Fuyang with budget fare of Rmb8 on March 29, 2015 and are welcomed by customers. Backed on robust demand of Beijing Airport and support from China Eastern, CUA's transition will be successful with high possibility.

More controlled air routes' ticket price caps to rise in new aviation season. New ceiling freight rate will be determined by new formula for government guided routes. Each domestic airline can apply 10 routes cap hike in each aviation season if new cap is higher than current ones (Please refer to our industry report on Jan 06, 2015). With new aviation seasons beginning from March 25, 2015, we may see more routes' cap hike in future.

Reiterate BUY, upgrade target to HK\$5.06. We raise our EPS forecasts from Rmb0.19 to Rmb0.38 (+37.55% YoY) in 15E from Rmb0.26 to Rmb0.54 (+41.60% YoY) in 16E to factor in SWS oil price assumption of US\$61/bbl (vs US\$75 previously). We introduce our EPS forecast of Rmb0.61 (+13.36% YoY) in 17E. We revise up our target price from HK\$4.80 to HK\$5.06 to factor in rising BVPS with higher profitability. The new target represents 1.5x 15 PB and with 21% upside, we reiterate BUY.

APPENDIX

Figure 1: Consolidated Income Statement

Rmbm	2013	2014	2015E	2016E	2017E
Revenue	88,245	90,185	91,611	98,764	106,561
Cost of Sales	89,124	87,812	96,677	100,677	104,677
Gross Profit	7,595	10,995	13,998	16,626	18,559
SG&A Expense	8,744	8,622	9,528	9,876	10,656
Ebitda	5,281	1,200	11,189	13,670	15,031
Ebit	(1,149)	2,373	4,471	6,750	7,903
Finance Costs	(576)	2,072	1,580	1,620	1,542
Profit before tax	2,217	4,113	5,636	8,173	9,494
Income tax expense	124	573	845	1,389	1,804
Minority interests	(280)	130	100	142	161
Profit for the year	2,373	3,410	4,690	6,642	7,529

Source: Company Data, SWS Research

Figure 2: Consolidated Cash Flow Statement

Rmbm	2013	2014	2015E	2016E	2017E
Net income(loss)	2,217	4,113	5,636	8,173	9,494
Plus: Depr. and amortisation	6,430	6,620	6,718	6,920	7,127
Finance cost	(576)	2,072	1,280	1,620	1,542
Losses from investments	(5,334)	(5,334)	65	65	65
Change in working capital	808	(2,627)	399	177	105
Others	7,261	5,962	8,769	8,953	10,263
CF from operating activities	10,806	10,806	22,867	25,907	28,596
Capex	18,527	18,528	19,854	20,251	20,656
Other CF from investing activities	305	304	0	0	0
CF from investing activities	(17,028)	(17,027)	(19,854)	(20,251)	(20,656)
Net change in liabilities	23,285	5,391	(1,716)	(4,359)	(6,644)
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	(3,013)	(5,656)	(7,940)
Net cash flow	(491)	(489)	0	0	0
FCFF	24,492	24,321	30,596	32,708	33,988
FCFE	48,353	27,640	27,601	26,729	25,802

Source: Company Data, SWS Research

Figure 3: Consolidated Balance Sheet

Rmbm	2013	2014	2015E	2016E	2017E
Current Assets	12,610	18,243	14,591	15,486	16,452
Bank balances and cash	1,995	1,355	1,995	1,995	1,995
Trade and other receivables	7,583	10,256	10,179	10,974	11,840
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	100,810	102,810	104,810
Intangible and other assets	11,490	11,500	11,490	11,490	11,490
Total Assets	140,068	165,829	150,325	153,360	156,477
Current Liabilities	53,082	61,130	55,081	50,332	44,760
Borrowings	23,285	28,676	22,347	17,988	11,344
Trade and other payables	21,609	21,609	25,903	26,975	28,047
Other current liabilities	8,015	-	10,453	6,658	5,197
Long-term liabilities	58,375	72,902	59,375	60,375	61,375
Other non-current liabilities	72,209	80,798	50,315	51,315	51,315
Total Liabilities	1,680	1,797	1,175	1,317	1,478
Minority interest	12,610	18,243	14,591	15,486	16,452
Preferred shares	0	0	0	0	0
Shareholder Equity					
Share Capital	12,674	12,674	12,674	12,674	12,674
Additional paid-in capital & Reserves	14,228	17,300	21,990	28,632	36,161
Equity attributable	26,902	29,974	34,665	41,306	48,835
Total Liabilities and equity	140,068	165,829	150,325	153,360	156,477

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	0.38	0.54	0.61
Diluted earnings per share	0.20	0.27	0.38	0.54	0.61
Operating CF per share	0.85	0.85	1.80	2.04	2.26
Dividend per share	0.00	0.00	0.00	0.00	0.00
Net assets per share	2.12	2.36	2.74	3.26	3.85
Key Operating Ratios (%)					
ROIC	(1.87)	1.92	3.11	5.57	6.16
ROE	7.32	11.14	13.37	15.91	15.28
Gross margin	8.61	12.19	15.28	16.83	17.42
Ebitda Margin	5.98	1.33	12.21	13.84	14.11
Ebit Margin	(1.30)	2.63	4.88	6.83	7.42
Growth rate of Revenue (YoY)	3.51	2.20	1.58	7.81	7.90
Growth rate of Profit (YoY)	(28.55)	69.15	35.32	41.61	13.36
Debt-to-asset ratio	118.88	145.17	43.60	43.28	42.22
Turnover rate of net assets	3.09	2.84	2.56	2.32	2.12
Turnover rate of total assets	1.45	1.62	0.79	0.83	0.88
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	16.63	12.32	8.80	6.21	5.48
PB	1.57	1.41	1.22	1.02	0.86
EV/Sale	1.37	1.52	1.27	1.15	1.01
EV/Ebitda	22.87	114.23	10.40	8.27	7.16

Source: Company Data, SWS Research

Information Disclosure :

The views expressed in this report accurately reflect the personal views of the analyst. The analyst declares that neither he/she nor his/her associate serves as an officer of nor has any financial interests in relation to the listed corporation reviewed by the analyst. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this report to any of the analyst, the Company or the group company(ies). A group company(ies) of the Company confirm that they, whether individually or as a group (i) are not involved in any market making activities for any of the listed corporation reviewed; or (ii) do not have any individual employed by or associated with any group company(ies) of the Company serving as an officer of any of the listed corporation reviewed; or (iii) do not have any financial interest in relation to the listed corporation reviewed or (iv) do not, presently or within the last 12 months, have any investment banking relationship with the listed corporation reviewed.

Undertakings of the Analyst

I (We) am (are) conferred the Professional Quality of Securities Investment Consulting Industry by the Securities Association of China and have registered as the Securities Analyst. I hereby issue this report independently and objectively with due diligence, professional and prudent research methods and only legitimate information is used in this report. I am also responsible for the content and opinions of this report. I have never been, am not, and will not be compensated directly or indirectly in any form for the specific recommendations or opinions herein.

Disclosure with respect to the Company

The company is a subsidiary of Shenwan Hongyuan Securities. The company is a qualified securities investment consulting institute approved by China Securities Regulatory Commission with the code number ZX0065.

Releasing securities research reports is the basic form of the securities investment consulting services. The company may analyze the values or market trends of securities and related products or other relevant affecting factors, provide investment analysis advice on securities valuation/ investment rating, etc. by issuing securities research reports solely to its clients.

The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact compliance@swsresearch.com for the relevant disclosure materials or log into www.swsresearch.com for the analysts' qualifications, the arrangement of the quiet period and the affiliates' shareholdings.

Introduction of Share Investment Rating

Security Investment Rating :

When measuring the difference between the markup of the security and that of the market's benchmark within six months after the release of this report, we define the terms as follows:

Trading BUY: Share price performance is expected to generate more than 20% upside over a 6-month period.

BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

Industry Investment Rating:

When measuring the difference between the markup of the industry index and that of the market's benchmark within six months after the release of the report, we define the terms as follows:

Overweight : Industry performs better than that of the whole market ;

Equal weight : Industry performs about the same as that of the whole market ;

Underweight : Industry performs worse than that of the whole market.

We would like to remind you that different security research institutions adopt different rating terminologies and rating standards. We adopt the relative rating method to recommend the relative weightings of investment. The clients' decisions to buy or sell securities shall be based on their actual situation, such as their portfolio structures and other necessary factors. The clients shall read through the whole report so as to obtain the complete opinions and information and shall not rely solely on the investment ratings to reach a conclusion. The Company employs its own industry classification system. The industry classification is available at our sales personnel if you are interested.

HSCEI is the benchmark employed in this report.

Disclaimer :

This report is to be used solely by the clients of SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities, hereinafter referred to as the "Company"). The Company will not deem any other person as its client notwithstanding his receipt of this report.

This report is based on public information, however, the authenticity, accuracy or completeness of such information is not warranted by the Company. The materials, tools, opinions and speculations contained herein are for the clients' reference only, and are not to be regarded or deemed as an invitation for the sale or purchase of any security or other investment instruments.

The clients understand that the text message reminder and telephone recommendation are no more than a brief communication of the research opinions, which are subject to the complete report released on the Company's website (<http://www.swsresearch.com>). The clients may ask for follow-up explanations if they so wish.

The materials, opinions and estimates contained herein only reflect the judgment of the Company on the day this report is released. The prices, values and investment returns of the securities or investment instruments referred to herein may fluctuate. At different periods, the Company may release reports which are inconsistent with the materials, opinions and estimates contained herein.

Save and except as otherwise stipulated in this report, the contactor upon the first page of the report only acts as the liaison who shall not provide any consulting services.

The clients shall consider the Company's possible conflict of interests which may affect the objectivity of this report, and shall not base their investment decisions solely on this report. The clients should make investment decisions independently and solely at your own risk. Please be reminded that in any event, the company will not share gains or losses of any securities investment with the clients. Whether written or oral, any commitment to share gains or losses of securities investment is invalid. The investment and services referred to herein may not be suitable for certain clients and shall not constitute personal advice for individual clients. The Company does not ensure that this report fully takes into consideration of the particular investment objectives, financial situations or needs of individual clients. The Company strongly suggests the clients to consider themselves whether the opinions or suggestions herein are suitable for the clients' particular situations; and to consult an independent investment consultant if necessary.

Under no circumstances shall the information contained herein or the opinions expressed herein forms an investment recommendation to anyone. Under no circumstances shall the Company be held responsible for any loss caused by the use of any contents herein by anyone. Please be particularly cautious to the risks and exposures of the market via investment.

Independent investment consultant should be consulted before any investment decision is rendered based on this report or at any request of explanation for this report where the receiver of this report is not a client of the Company.

The Company possesses all copyrights of this report which shall be treated as non-public information. The Company reserves all rights related to this report. Unless otherwise indicated in writing, all the copyrights of all the materials herein belong to the Company. In the absence of any prior authorization by the Company in writing, no part of this report shall be copied, photocopied, replicated or redistributed to any other person in any form by any means, or be used in any other ways which will infringe upon the copyrights of the Company. All the trademarks, service marks and marks used herein are trademarks, service marks or marks of the Company, and no one shall have the right to use them at any circumstances without the prior consent of the Company.

This report may be translated into different languages. The Company does not warrant that the translations are free from errors or discrepancies.

This report is for distribution in Hong Kong only to persons who fall within the definition of professional investors whether under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") or the Securities and Futures (Professional Investor) Rules (Chapter 571D of the laws of the Hong Kong under the SFO).

This report is for distribution in the United Kingdom only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) order 2001 (as amended) (the "Order") or (ii) are persons falling within Article 49(2)(a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc") of the Order (All such persons together being referred to as "Relevant Persons"). This document is directed only at Relevant Persons. Other Persons who are not Relevant Persons must not act or rely upon this document or any of its contents.

Disclaimer

This report was prepared, approved, published and distributed by the SWS Research Co., Ltd (subsidiary of Shenwan Hongyuan Securities) located outside of the United States (a "non-US Group Company"). This report is distributed in the U.S. by Enclave Capital LLC, a U.S. registered broker dealer, on behalf of SWS Research Co., Ltd only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through Enclave Capital LLC (19 West 44th Street, suite 1700, New York, NY 10036).

Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

The information has been compiled or arrived from sources believed to be reliable and in good faith, but no representation or warranty, express or implied is made as to their accuracy, completeness or correctness. SWS Research Co., Ltd has not verified the factual accuracy, assumptions, calculations or completeness of the information. Accordingly, SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) accepts no liability whatsoever for any direct or consequential loss or damage arising from (i) the use of this communication (ii) reliance of any information contained herein, (iii) any error, omission or inaccuracy in any such Information or (iv) any action resulting there from. SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) provides the information for the purpose of the intended recipient's analysis and review. Accordingly you are advised to verify the factual accuracy, assumptions, calculations or completeness of the information.

Analyst Certification

Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Important US Regulatory Disclosures on Subject Companies

This material was produced by SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by Enclave Capital LLC and elsewhere in the world by SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) or an authorized affiliate of SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities). This document does not constitute an offer of, or an invitation by or on behalf of SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) or its Affiliates consider to be reliable. None of SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

1. SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) or its Affiliates have not recently been the beneficial owners of 1% or more of the securities mentioned in this report.
2. SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) or its Affiliates have not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) or its Affiliates have not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more person of SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) or its affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon either on their own account or on behalf of their clients.
5. As of the publication of this report Enclave Capital LLC, does not make a market in the subject securities.
6. SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities) or its Affiliates may, to the extent permitted by law, act upon or use the above material or the conclusions stated above or the research or analysis on which they are based before the material is published to recipients and from time to time provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report

Distribution in Singapore

If distributed in Singapore, this report is meant only for Accredited Investors and Institutional Investors as defined under Section 4A of the Securities and Futures Act of Singapore. If you are not an Accredited Investor or an Institutional Investor, you shall ignore the report and its contents. The Singapore recipients of the report are to contact the Singapore office of Shenyin Wanguo Singapore Private Limited at 65-6323-5208, or 65-6323-5209 in respect of any matters arising from, or in connection with, the report.