


Rating
Hold

Asia
China

Transportation
Air

Company
Beijing Capital Int'l Airport

Reuters
0694.HK

Bloomberg
694 HK

Exchange
HSI

Ticker
0694

Date
18 June 2018

Breaking News

Price at 15 Jun 2018 (HKD)	11.76
Price target - 12mth (HKD)	11.20
52-week range (HKD)	13.90 - 10.16
HANG SENG INDEX	30,309

No more airport fee recognition starting late FY18

Civil Aviation Development Fund revenues to no longer be recognized

On 15 June, Beijing Capital Int'l Airport (BCIA) announced that it had received from the regulator a "Notice on Forwarding the Notice of the Ministry of Finance regarding the Abolition of the Policy of Recognition of Refunds from the Civil Aviation Development Fund to Three Listed Airports Including the Capital Airport as Revenues". According to the notice, the policy of recognizing the refunds from the Civil Aviation Development Fund to BCIA as revenues will be abolished. There will be a half-year transition period (commencing 29 May) during which refunds will still be recognized as revenues. According to BCIA, its FY18E revenue will be reduced by no more than RMB120m.

Deutsche Bank's view - significant impact on bottomline from FY19E but probably not on cash flow

In FY17 the refund, classified as airport fees, made up 13% of BCIA's revenue. As BCIA will still be able to recognize about 11 months of refunds in FY18E, the impact on revenue (about 1% on our estimates) and net profit (about 3% on our estimates, assuming no operating cost forecast change) should be insignificant this year. However, with the full removal of airport fee income from the income statement, we think that BCIA's FY19/20E revenue and net profit will be trimmed by about 10% and 25%, respectively.

That being said, the government's notice only changes the revenue recognition, not the receipt of refunds. As a result, there should theoretically be no change in BCIA's cash flow going forward.

All in all, we think that the market reaction may be negative for BCIA's shares given the potential earnings and dividend shortfall. However, we maintain our recommendation and DCF-derived target price at the moment given no change in cash flow in theory. We will try to get more details from the company regarding future P&L accounting implications and the possible measures it might take before reviewing our financial model. Key upside/downside risks include stronger/weaker-than-expected traffic volume increases, slower/faster-than-expected growth in travelers' spending at the airport, and a failure to contain costs.

Valuation & Risks

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	2.3	5.2	7.9
HANG SENG INDEX	-2.7	-3.9	18.6

Source: Deutsche Bank

Key indicators (FY1)

DB ROE (%)	15.8
Net debt/equity (%)	-0.7
Book value/share (CNY)	5.464
Price/book (x)	1.8
Net interest cover (x)	42.0
Operating profit margin (%)	41.9

Source: Deutsche Bank



Forecasts and ratios

Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (CNYm)	8,677.8	9,574.5	11,517.8	12,331.8	12,310.1
EBITDA (CNYm)	4,441.2	4,952.7	6,209.8	6,581.1	6,321.5
Reported NPAT (CNYm)	1,781.0	2,600.5	3,557.2	3,833.3	3,700.3
DB EPS FD(CNY)	0.411	0.600	0.821	0.885	0.854
DB EPS growth (%)	8.5	46.0	36.8	7.8	-3.5
PER (x)	16.9	15.9	11.7	10.9	11.2
EV/EBITDA (x)	8.2	9.0	6.7	5.9	6.6
DPS (net) (CNY)	0.165	0.240	0.329	0.354	0.342
Yield (net) (%)	2.4	2.5	3.4	3.7	3.6

Source: Deutsche Bank estimates, company data



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Beijing Capital Int'l Airport	0694.HK	11.76 (HKD) 15 Jun 2018	6, 9, 13

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Historical recommendations and target price. Beijing Capital Int'l Airport (0694.HK)

(as of 06/15/2018)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	06/21/2016	Buy, Target Price Change HKD 9.40 Fei Sun, CFA**	4.	05/02/2017	Downgraded to Hold, Target Price Change HKD 11.90 Fei Sun, CFA**
2.	07/31/2016	Buy, Target Price Change HKD 9.80 Fei Sun, CFA**	5.	08/31/2017	Hold, Target Price Change HKD 12.30 Fei Sun, CFA**
3.	03/22/2017	Buy, Target Price Change HKD 10.70 Fei Sun, CFA**	6.	03/30/2018	Hold, Target Price Change HKD 11.20 Vincent Ha, CFA

Equity Rating Key

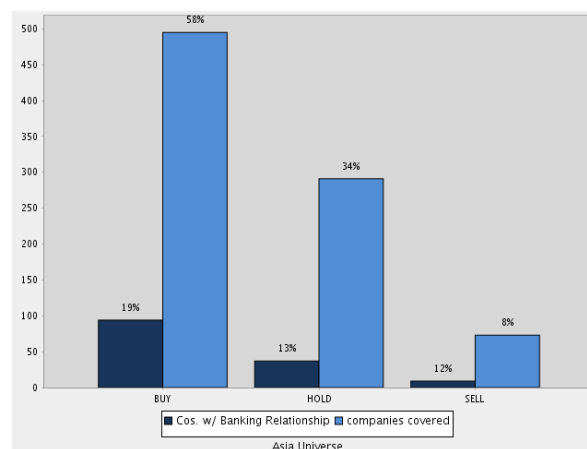
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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