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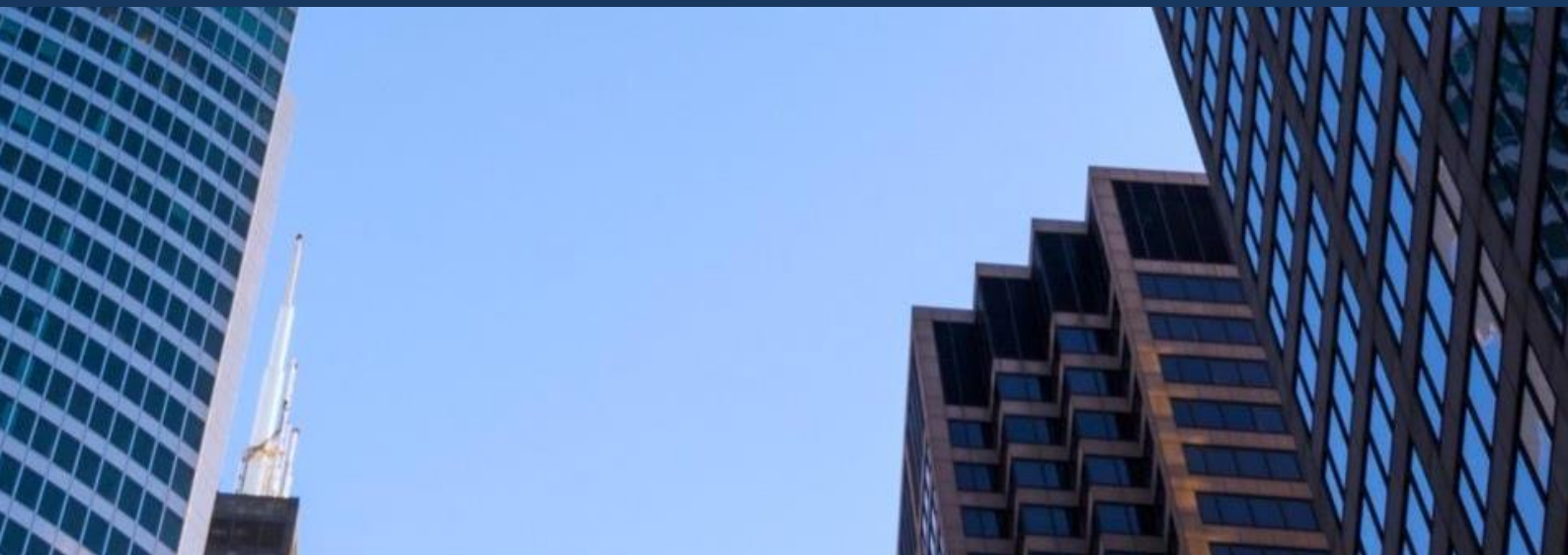


ABCI Research

China Airport Sector

Sky is the limit:
The lucrative potential of
China's aviation demand

Oct 27, 2020



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China Airport Sector

Sky is the limit: the lucrative potential of China's aviation demand

- China's slow average flight per capita per year indicates great potential for aviation industry
- Regional monopolistic advantage limits competition and secures margins
- Airport operation entails a high margin with strong cash flow
- OVERWEIGHT** sector outlook; **Shanghai International Airport (600009 CH, BUY)** is our top pick on strong population and disposal income growth

China's low average flight per capita per year indicates great potential for aviation industry. According to the World Bank, the average flight per capita per year (number of passengers carried via aviation transportation divided by total population) of China was 0.4 in 2018, far below US's 2.7, UK's 2.5, Korea's 1.7, and Germany's 1.3. For developing countries in Asia such as Thailand and Vietnam, the figures were 1.1 and 0.5. The average flight per capita per year can be regarded as the proxy for the number of times each resident in China travels per year. We believe as disposal income rises, travelling will increase. The currently low figure indicates great room for development.

Regional monopolistic advantage. Most airports in China are operating by the city governments because 1). high initial investment is needed; 2). airports are a key channel in communicating with outsiders; hence, they should be controlled by governments for national security purpose. Each city in China usually has only one or two airports (depending on the size and population of the city); the lack of competition forms a regional monopolistic advantage for most operators.

High margin with strong cash flow. The highest operating costs are employee wages, fuel cost of equipment and machines, and depreciation of facilities. Since most of these are fixed cost items, meaning that the unit cost would fall as the number of travelers increases. The average NPM of airport is ~20%. In addition, an airport usually has strong cash inflow as a large part of the aviation-related fees are prepaid by passengers and travel agents. In addition, rental income from duty-free shops, catering, and souvenir shops also increase cash inflow. Without any significant expansion plans (such as runway and terminal additions), airports usually can generate a positive free cash flow, maintaining a strong balance sheet position marked by a low net gearing ratio.

OVERWEIGHT sector outlook; top pick is SIA. Outbreak of COVID-19 would slash profitability in the near term. The low average flight per capita rate at present, especially compared to the ones in the developed country, would potentially imply the major catch-up in the future. With the regional monopolistic advantage and high-margin business model, airports are cash-rich. We assign an **OVERWEIGHT** sector outlook and **Shanghai International Airport (SIA, 600009 CH, BUY)** is our top pick.

Risks. 1) Disease outbreak would reduce travelling demand; 2) Slowdown in economy would reduce disposal income and traveling demand; 3) Technological advancement in high-speed railway would lower demand for short-haul flight; 4) Fear of terrorist attacks would reduce air travel.

Sector Valuation Summary (data as of Oct 23, 2020)

Company	Ticker	Rating	TP (HK\$/RMB)	FY20E P/E(x)	FY21E P/E (x)	FY20E P/B (x)	FY21E P/B (x)	FY20E Yield (%)	FY21E Yield (%)
Shanghai Int'l Airport	600009 CH	BUY	90.00	92.9	30.8	5.2	4.7	0.3	1.0
Shenzhen Airport	000089 CH	BUY	10.50	85.5	26.9	1.4	1.2	0.3	0.9
GZ Baiyun Int'l Airport	600004 CH	BUY	15.50	114.3	26.6	1.9	1.9	0.3	1.1
Beijing Capital Int'l Airport – H	694 HK	HOLD	5.10	60.3	10.9	0.8	0.8	0.7	3.7
Xiamen Int'l Airport	600897 CH	HOLD	19.00	23.8	11.7	1.4	1.3	1.3	2.6

Source(s): Bloomberg, ABCI Securities estimates

Sector Report

Oct 27 2020

OVERWEIGHT

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Key Data

Avg.21E P/E (x)	21.39
Avg.21E P/B (x)	1.96
Avg.21E Dvd. Yield (%)	1.85

Source(s): ABCI Securities estimates

Sector Performance

	Absolute	Relative*
1-mth	(2.05%)	(2.93%)
3-mth	(5.87%)	(9.37%)
6-mth	(0.92%)	(18.72%)

*Relative to SHCOMP

Source(s): Bloomberg, ABCI Securities

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

Investment summary

1. Regional monopolistic advantage

Most airports in China are operated by the city governments because 1). high initial investment is needed; 2). airport are gateways of connecting with outsiders; they are therefore controlled by the governments for national security reason. Each city in China usually has only one or two airports (depending on the size and population of the city); therefore, the lack of competition forms a regional monopolistic advantage for most operators.

2. High margin with strong cash flow

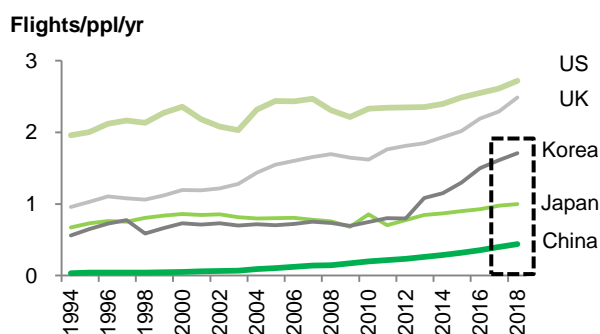
The highest operating costs of airports are employee wages, fuel cost of equipment and machines, and depreciation of facilities. Since most of these are fixed-cost items, meaning that the unit cost would fall as the number of travelers increases. The average NPM of airport is ~ 20%. In addition, an airport usually has strong cash inflow as a large part of the aviation-related fees are prepaid by passengers and travel agents. In addition, rental income from duty-free shops, catering, and souvenir shops also increase cash inflow. Without any significant expansion (like runway and terminal expansion), airports usually can generate a positive free cash flow and maintain a strong balance sheet position marked by a low net gearing ratio.

3. China's low average flight per capita per year indicates great potential for aviation industry

According to the World Bank, in 2018, the average flight per capita per year (number of passengers carried via aviation transportation divided by total population) of China was 0.4, far below US's 2.7, UK's 2.5, Korea's 1.7, and Germany's 1.3. For developing countries in Asia such as Thailand and Vietnam, the figures were 1.1 and 0.5.

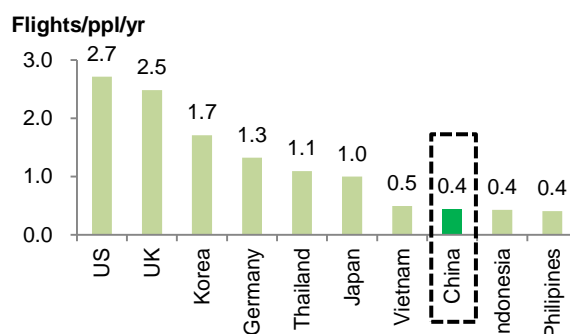
The average flight per capita per year can be regarded as the proxy for the number of times each China resident travels per year. We believe as disposal income increases, more residents would increase the number of tours. The low figure indicates great room for development.

Exhibit 1: Average flight per capita per year

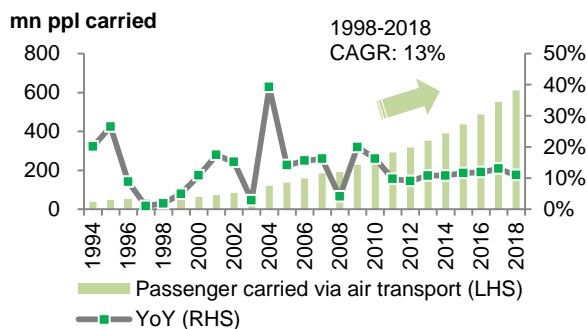


Source(s): World Bank, ABCI Securities

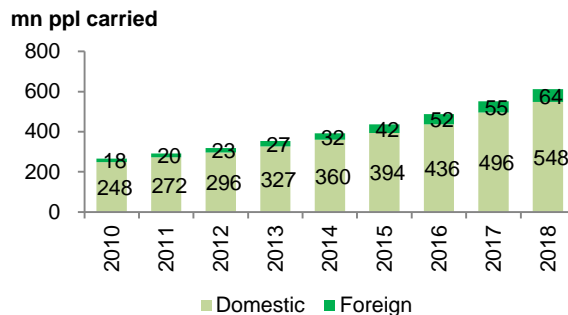
Exhibit 2: Average flight per capita per year (2018)



Source(s): World Bank, ABCI Securities

Exhibit 3: The number of China passengers carried via air transport grew strongly


Source(s): World Bank, ABCI Securities

Exhibit 4: Most of the flight trips made by China passengers are domestic ones


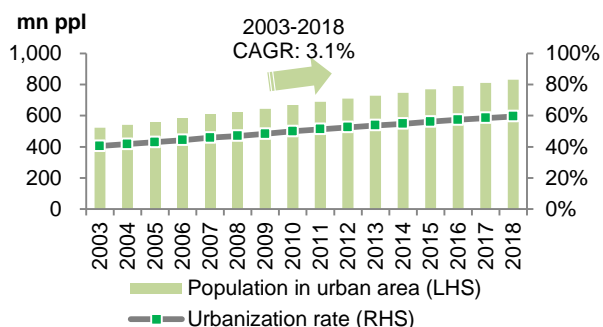
Source(s): National Bureau of Statistics, World Bank, ABCI Securities

4. Rise of low-cost carriers and traveling apps would spur demand for travelling via aviation

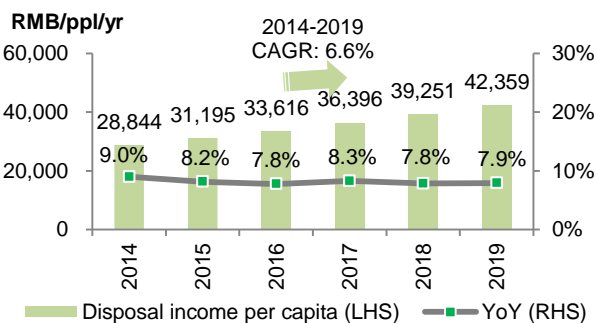
In the recent decade, low-cost carriers have expanded quickly in China and around the world. According to Statista data, the worldwide market share of low-cost carriers rose from 15.7% in 2006 to 31% in 2019. The cost of travelling via aviation has been declining, spurring demand for airline services. Popular apps like Booking.com, Trip.com, Hotels combined, etc., have simplified the hotel and flight booking procedures. We believe this would increase the number of air travels.

5. Rising urbanization and disposal income per capita would benefit airports in major cities the most

The Chinese government has been promoting urbanization to help reduce the unit cost of public facilities such as hospitals, parks, and schools. Job opportunities and higher living standard have attracted population to major cities, bringing more opportunities to airports, especially in tier-1 cities such as Beijing, Shanghai, Guangzhou, Shenzhen. According to the National Bureau of Statistics, average disposal income per capita in urban region in China increased from RMB 28,844 in 2014 to RMB 42,359 in 2019, representing a 6.6% CAGR during 2014-19. Rising disposal income per capita would support air travels and benefit airports.

Exhibit 5: Urban population keeps rising in China


Source(s): National Bureau of Statistics, ABCI Securities

Exhibit 6: Average disposal income per capita in China's urban regions


Source(s): National Bureau of Statistics, ABCI Securities

Nature of airport industry in China

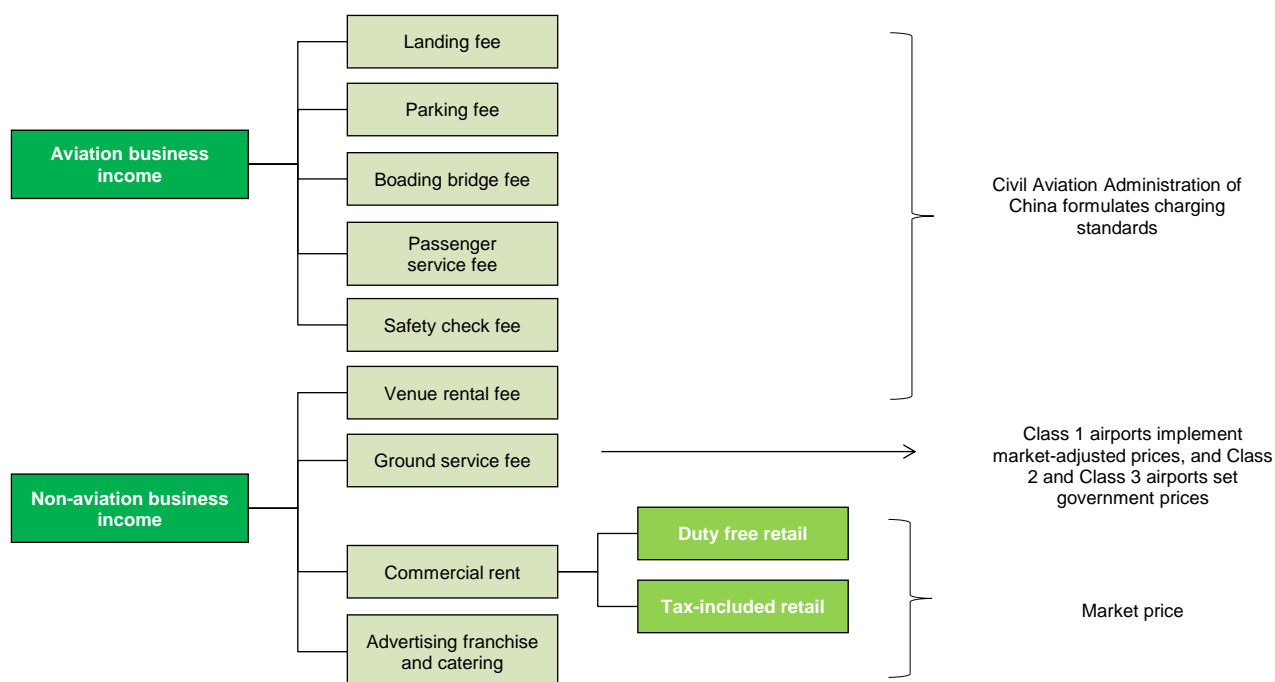
Regional monopolistic advantage

All airports in China are operating by the city governments because 1). high initial investment is needed; 2). airport is a key channel in communicating with outsiders, which should be controlled by governments for national security purpose. Each city in China usually has only one or two airports (depending on the size and population of the city); the lack of competition forms a regional monopolistic advantage for the operators.

Income of airports: aviation and non-aviation income

Revenue of the Chinese airports comes mostly from two channels: the aviation-related business and the non-aviation related business. Aviation-related business is related to the number of flights (both passengers and cargo flights) taking off and number of travelers using the airport. The non-aviation related business refers to the business generated from catering, shopping, and other businesses in the terminals. In the past, aviation-related business contributed to ~70% of total revenue. With the rising disposable income, however, non-aviation business now accounts for 50%-70% of total revenue in China's major international airports.

Exhibit 7: Income of airports: aviation and non-aviation income



Source(s): Civil Aviation Administration of China, ABCI Securities

Airport usually grows with the city

Airport is one of the transportation channels in a city connecting to other domestic and overseas cities. As the business activities of a city keep growing, the number of flights and earnings of the airport would increase. In another words, a thriving city would benefit its airport with the rising number of travelers and residents.



Robust cash inflow

The key operating costs of airports are employee wages, management fees, depreciation, and fuel usage (lighting and cargo services). As most of the costs are fixed ones, increasing passengers and cargo throughput would elevate margins. Rental income from retail sales, catering, and duty-free area would be another important source of cash inflow.

Exhibit 8: Airports in China have been maintaining strong operating cashflow in past several years

Year	Op. cashflow/share (RMB/share)					Free cashflow/share (RMB/share)				
	SIA	SZA	GZA	BCA	XMA	SIA	SZA	GZA	BCA	XMA
2014	1.55	0.53	1.59	0.75	2.13	1.32	(0.28)	1.51	0.62	(1.77)
2015	1.66	0.62	1.54	0.96	2.04	0.93	0.54	(1.22)	0.40	1.31
2016	1.34	0.56	1.18	1.06	2.32	(0.00)	0.00	(2.01)	1.02	(0.49)
2017	2.13	0.53	1.11	0.99	2.00	0.88	0.41	(0.99)	0.83	1.11
2018	2.32	0.51	1.52	1.08	2.88	0.17	0.14	0.63	0.44	2.58
2019	2.53	0.47	1.45	0.89	2.46	1.31	(0.42)	0.93	0.71	1.71

Source(s): Company data, ABCI Securites

SIA = Shanghai Int'l Airport; SZA = Shenzhen Int'l Airport; GZA = Guangzhou Baiyun Int'l Airport; BCA = Beijing Capital Int'l Airport;

XMA = Xiamen Int'l Airport

Airports in China

Tiers of airports

According to “Notice on the issuance of the civil airport fee reform plan” issued by Civil Aviation Administration of China and National Development Reform Committee in 2007, there are four tiers of airport in China, namely, Class 1 Level 1, Class 1 Level 2, Class 2, and Class 3

- ◆ **Class 1 Level 1:** Passenger throughput accounts for 4% or above of national total. International, Hong Kong, Macau, and Taiwan passengers jointly account for 25% of total airport passenger throughput. There are three airports in this class.
- ◆ **Class 1 Level 2:** Passenger throughput accounts for 4% or above of the national total. There are three airports in this class.
- ◆ **Class 2:** Passenger throughput accounts for 1% - 4% or above of the national total. There are 20 airports in this class.
- ◆ **Class 3:** Passenger throughput accounts for less than 1% of national total. There are 213 airports in this class.

In summary, airports in major cities, including Beijing, Shanghai, Guangzhou, Shenzhen, and Chengdu, would be at the higher tiers based on their greater mix of international passengers.

Exhibit 9: China airport classes and definitions

Class	Total	Names	Definition
Class 1 Level 1	3	Beijing Capital, Shanghai Pudong, Guangzhou Baiyun	Passenger throughput accounts for 4% or above of national total International, Hong Kong, Macau and Taiwan passenger jointly accounts for 25% of total airport passenger throughput
Class 1 Level 2	3	Shanghai Hongqiao, Shenzhen Baoan, Chengdu Shuangliu	Passenger throughput accounts for 4% or above of national total
Class 2	20	Kunming Changshui, Chongqing Jiangbei, Xi'an Xianyang, Hangzhou Xiaoshan, Xiamen Gaoqi, Nanjing Lukou, etc.	Passenger throughput accounts for 1% - 4% or above of national total
Class 3	213	Others	Passenger throughput accounts for less than 1% of national total

Source(s): Civil Aviation Administration of China, NDRC, ABCI Securities

Fee standards of airport in China

China's airport has multiple income streams in the aviation-related business, namely, the landing fee, parking fee, boarding bridge fee, passenger service fee, and safety check fee. Usually, passenger service fee is the largest income source for the aviation business segment.

Exhibit 10: Income of airports: aviation and non-aviation income

	Landing fee (RMB/time)				
	T = Maximum takeoff weight				
	< 25 tons	25-50 tons	51-100 tons	101-200 tons	> 200 tons
Class 1 Level 1	240	650	1200 + 24 x (T-50)	2400 + 25 x (T-100)	5000 + 32 x (T-200)
Class 1 Level 2	250	700	1250 + 25 x (T-50)	2500 + 25 x (T-100)	5100 + 32 x (T-200)
Class 2	250	700	1300 + 26 x (T-50)	2600 + 26 x (T-100)	5200 + 33 x (T-200)
Class 3	270	800	1400 + 26 x (T-50)	2700 + 26 x (T-100)	5300 + 33 x (T-200)

Source(s): Civil Aviation Administration of China, NDRC, ABCI Securities

Exhibit 11: Income of airports: aviation and non-aviation

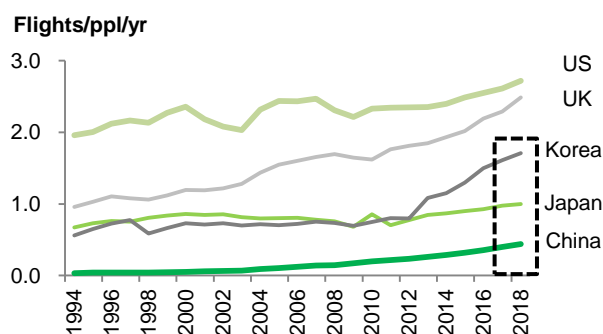
	Parking fee (RMB/unit)	Boarding bridge fee (RMB/hour)	Passenger service fee (RMB/ppl)	Safety check fee	
				Passenger cargo	Cargo
				(RMB/ppl)	(RMB/ton)
Class 1 Level 1	Within 2 hours: free of charge	Single bridge: within 1 hour: RMB200	34	8	53
Class 1 Level 2	2 - 6 hours: landing fee 20%	more than 1 hour: RMB100/30min	40	9	60
Class 2	6 - 24 hours: Landing fee 25%	Multi bridges: base on single bridge times multiple	42	10	62
Class 3	more than 24 hours: Landing fee 25%		42	10	63

Source(s): Civil Aviation Administration of China, NDRC, ABCI Securities

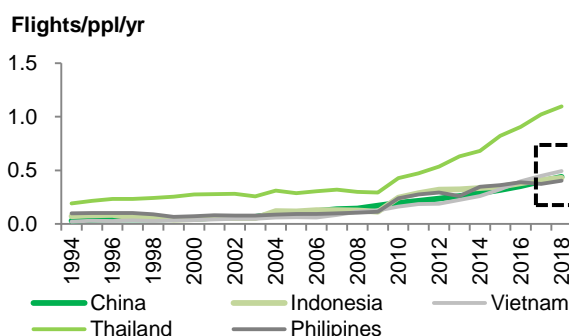
Passenger trends in China's airports

According to the World Bank, in 2018, the average flight per capita per year (number of passengers carried via aviation transportation divided by total population) of China was 0.4, far below US's 2.7, UK's 2.5, Korea's 1.7, and Germany's 1.3. For developing countries in Asia such as Thailand and Vietnam, the figures were 1.1 and 0.5.

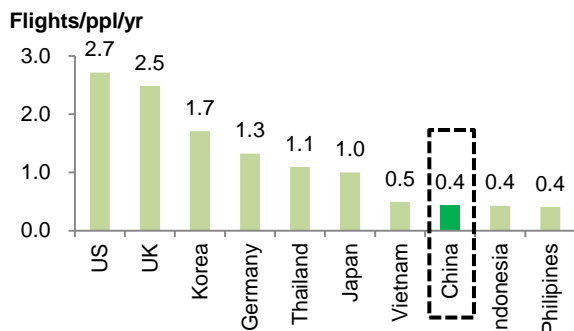
- ◆ **Average flight per capita per year:** The average figure of average flight per capita per year in developed countries (US, UK, Korea, Japan, Germany) is 1.85 in 2018. The figure for developing countries is at 0.57. China's 0.44 was far below the developed countries and in the mid-range of developing countries in Asia.
- ◆ **Passengers travelling by air in China showed robust growth:** According to the National Bureau of Statistics, the number of passengers travelling by air was 612mn in 2018, a 10-time jump from 53mn in 1994 (1994-2018 CAGR: 13%). Strong growth in business activities and tourism were the key drivers.
- ◆ **Passenger mix:** Domestic travelers are the key customers for airports. As of end-2018, there are 548mn domestic travelers and 64mn foreign travelers, representing a passenger mix of 90% and 10%. For 2000-18, the average proportions of domestic/foreign travelers were 93%/7%.
- ◆ **Distribution of air passengers by region.** According to the Civil Aviation Administration of China, as of 2019, 52% passengers are traveling via airports in eastern China (including provinces and cities such as Beijing, Shanghai, Tianjin, Guangdong, Jiangsu, Shandong, Hebei, Zhejiang, Fujian, and Hainan), 12% via airport in central China region (including provinces like Shanxi, Henan, Anhui, Hubei, Hunan and Jiangxi), 6% via airport in northeast China region (including provinces like Heilongjiang, Jilin and Liaoning); 30% via western China airports (remaining provinces).

Exhibit 12: Average flight per capita per year (2018): China vs. developed countries


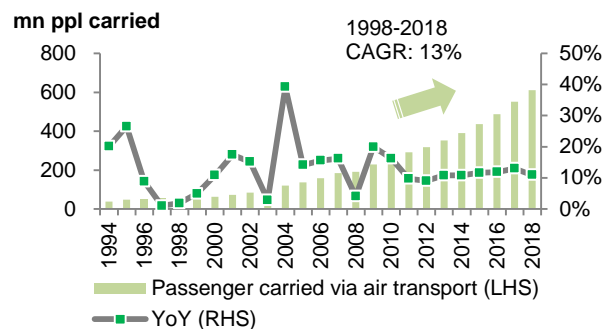
Source(s): World Bank, ABCI Securities

Exhibit 13: Average flight per capita per year (2018): China vs. Developing countries in Asia


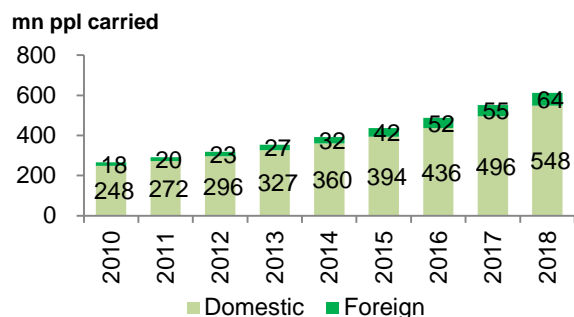
Source(s): World Bank, ABCI Securities

Exhibit 14: Average flight per capita per year (2018)


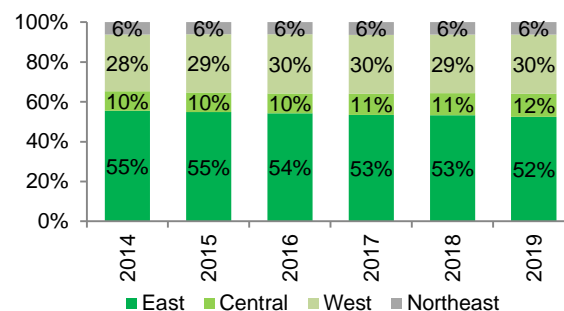
Source(s): World Bank, ABCI Securities

Exhibit 15: The number of passengers travelling by air is increasing in China


Source(s): World Bank, ABCI Securities

Exhibit 16: Passengers in China are mostly taking domestic flights


Source(s): National Bureau of Statistics, World Bank, ABCI Securities

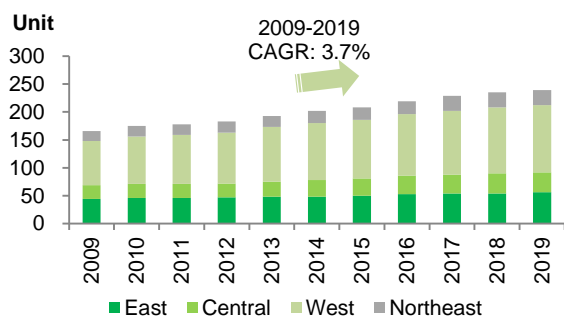
Exhibit 17: Passenger distribution: airports in east China are the busiest


Source(s): CAAC, World Bank, ABCI Securities

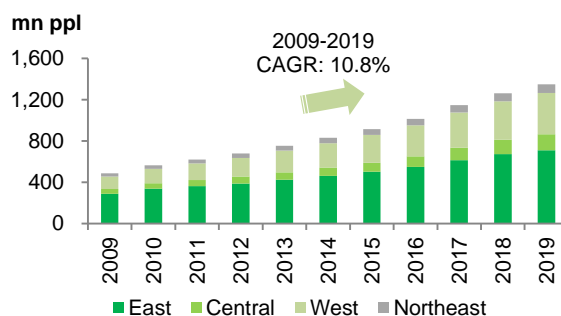
Number and distribution of airports in China

In China, passenger throughput and cargo throughput have been maintaining an uptrend in the past decade, thanks to the rising disposal income of residents and low base of average flight per capita per year. Airports in east China have maintained the highest passenger and cargo throughputs (50% and 73% of the national total in 2019); west China reported the highest growth rate in passenger throughput (2009-19 CAGR:12.9%); central China reported the highest growth rate in cargo throughput (2009-19 CAGR:13.2%).

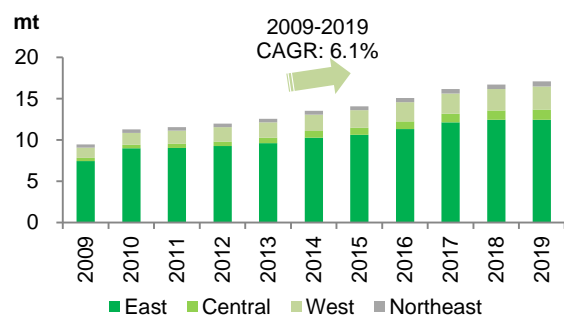
- ◆ **Locations:** According to Civil Aviation Administration of China, by end-2019, there were 239 airports in China in operation. Half of these airports are located in western China, 11% in northeast, 15% in central China, and 23% in eastern China. The number of airports grew at a 3.7% CAGR during 2009-19.
- ◆ **Passenger throughput:** passenger throughput equals to the number of passengers both taking off and landing in an airport. According to the Civil Aviation Administration of China, by end-2019, passenger throughput in China's airports was 1.35bn, with the eastern region accounting for 0.71bn (52%), central region for 0.16bn (12%), western region for 0.40bn (30%) and northeast region for 0.84bn (accounts for 6%). Airports in eastern China remain as one of the busiest, with passenger throughput increasing at a 10.8% CAGR in 2009-19.
- ◆ **Cargo throughput:** cargo throughput equals to the number of tons of cargos both taking off and landing in an airport. According to the Civil Aviation Administration of China, by end-2019, airports in eastern China accounted for 73% of total national cargos throughput; central, western and northeast China took up 7%, 16%, and 4%, respectively. Cargo throughput increased at a 6.1% CAGR during 2009-19.

Exhibit 18: The number of airports in China has been increasing in 2009-19


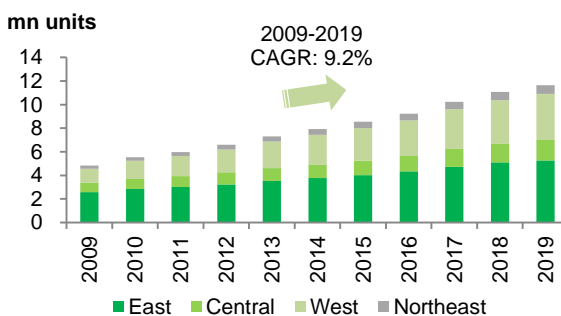
Source(s): Civil Aviation Administration of China, ABCI Securities

Exhibit 19: Passenger throughput in airports by region


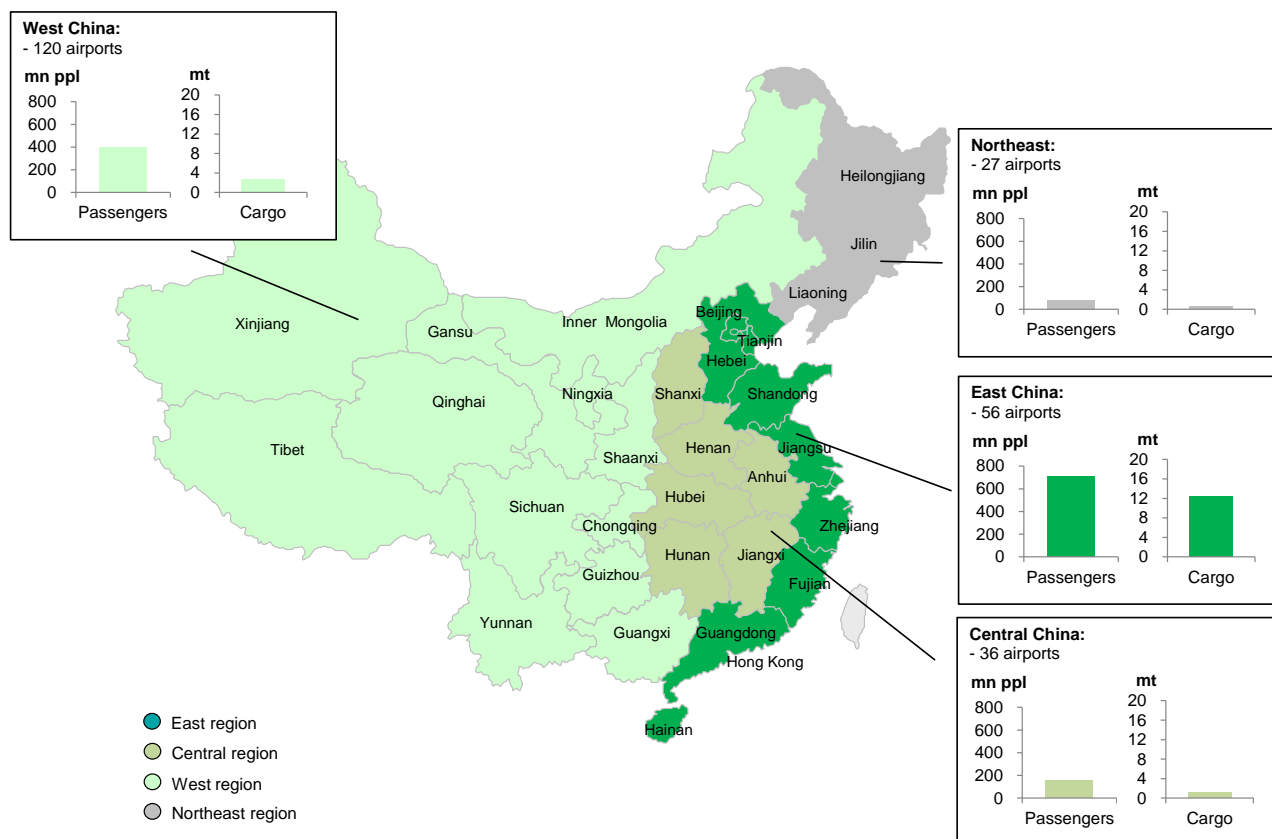
Source(s): Civil Aviation Administration of China, ABCI Securities

Exhibit 20: Cargo throughput in airports by region


Source(s): Civil Aviation Administration of China, ABCI Securities

Exhibit 21: Planes taking off and landing on airports by region


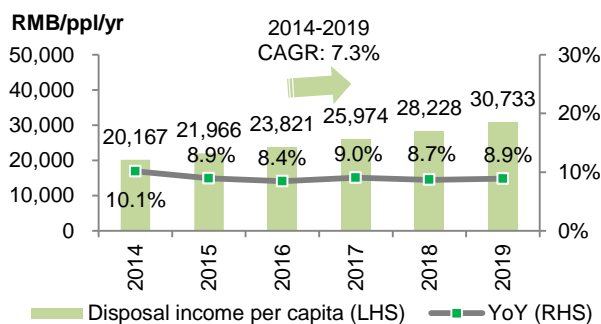
Source(s): Civil Aviation Administration of China, ABCI Securities

Exhibit 22: China airport distribution and passenger and cargo throughputs data (2019)


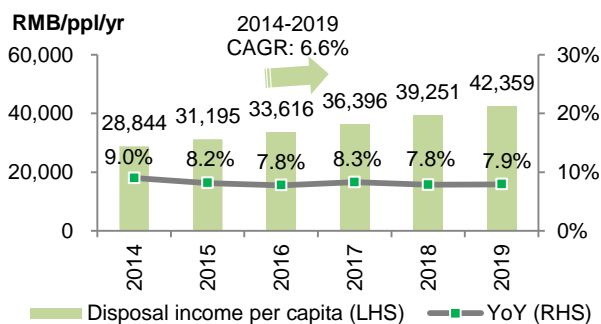
Source(s): Civil Aviation Administration of China, ABCI Securities

Increasing disposal income per capita would spur demand for travelling

We believe the rising disposal income would spur demand for air travel. According to National Bureau of Statistics, the national average disposal income per capita increased from RMB 20,167 in 2014 to RMB 30,733 in 2019, indicating a 7.3% CAGR during the period. For residents in urban area, the figure was RMB 28,844 in 2014 to RMB 42,359 in 2019, representing a 6.6% CAGR during the period. We believe continue rising disposal income would help boosting flight per capita per year in the future and drive up the demand for air travel.

Exhibit 23: National average disposal income per capita


Source(s): National Bureau of Statistics, ABCI Securities

Exhibit 24: Urban area average disposal income per capita


Source(s): National Bureau of Statistics, ABCI Securities

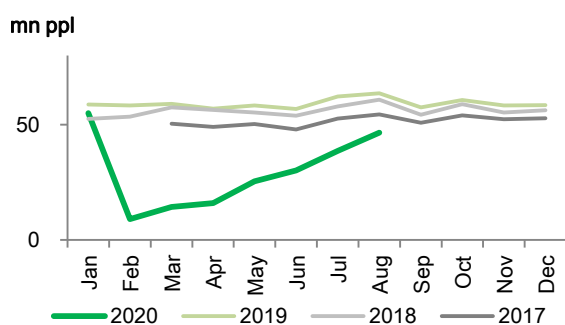
Post-COVID-19 recovery

Passenger throughput in China's airports has been recovering since Apr 2020 from the COVID-19 outbreak, according to the data by the Civil Aviation Administration of China,

- ◆ **Eastern region:** Recovery is slower than the national average. Passenger throughput in Aug 2020 was 73% of the Aug 2019 monthly level, slower than the national average of 75%. We believe business trips in China's mega cities, which are mostly in this region, have not been fully resumed yet.
- ◆ **Central region:** Recovery is rather swift. Passenger throughput in Aug 2020 was 81% of Aug 2019 monthly level, higher than the national average of 75%.
- ◆ **Western region:** Recovery was fast. Passenger throughput in Aug 2020 reached 80% of Aug 2019 monthly level, much higher than the national average. We believe the resumption of flights in the region has supported the rebound.
- ◆ **Northeast region:** Recovery is slow, Passenger throughput in Aug 2020 reached 60% of Aug 2019 monthly level, far lower than the national average. We believe the sluggish economy has reduced air travel.

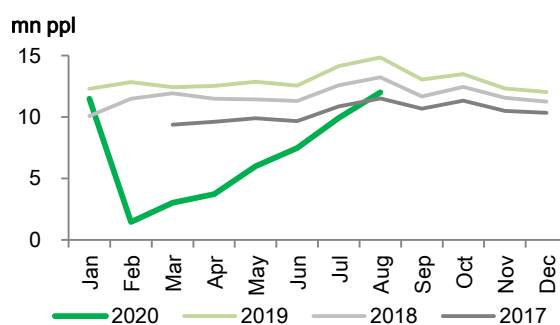
Since Apr, air traffic has rebounded strongly. We expect strong momentum in the eastern and western regions - growth in the former would be supported by the higher disposal income per capita; meanwhile, low comparison base in the latter suggests room for growth. We estimate growth in the central region would be in line with the national average; air traffic in the northeast region would lag behind due to the lower level of economic growth.

Exhibit 25: Passenger throughput in east region



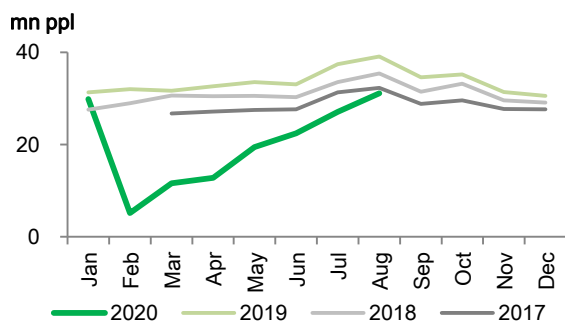
Source(s): Civil Aviation Administration of China, ABCI Securities

Exhibit 26: Passenger throughput in central region



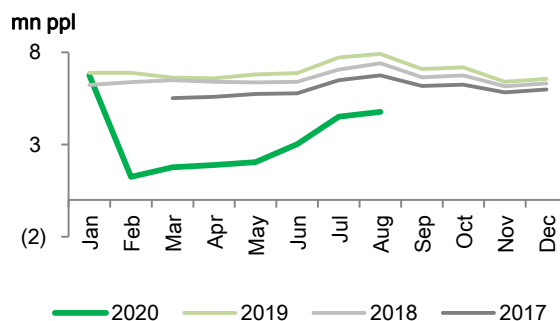
Source(s): Civil Aviation Administration of China, ABCI Securities

Exhibit 27: Passenger throughput in west region



Source(s): Civil Aviation Administration of China, ABCI Securities

Exhibit 28: Passenger throughput in northwest



Source(s): Civil Aviation Administration of China, ABCI Securities

Comparison of airports by district

Shanghai district (Yangtze River Delta)

There are two airports in Shanghai city – Pudong International Airport, the largest airport in Shanghai, and Hongqiao International Airport. Both are owned by the Shanghai city government.

- ◆ **Cities in proximity:** seven cities – Shanghai, Suzhou, Wuxi, Nantong, Changzhou, Changshu, and Jiaqing.
- ◆ **Population:** According to Ministry of Housing and Urban-Rural Development (MOHURD) data, population in these cities reached 42.8mn in 2018.
- ◆ **Competing airports:** Hangzhou International Airport, Nanjing Lukou Airport

Exhibit 29: Shanghai district (2019, red circle means 100km in radius)

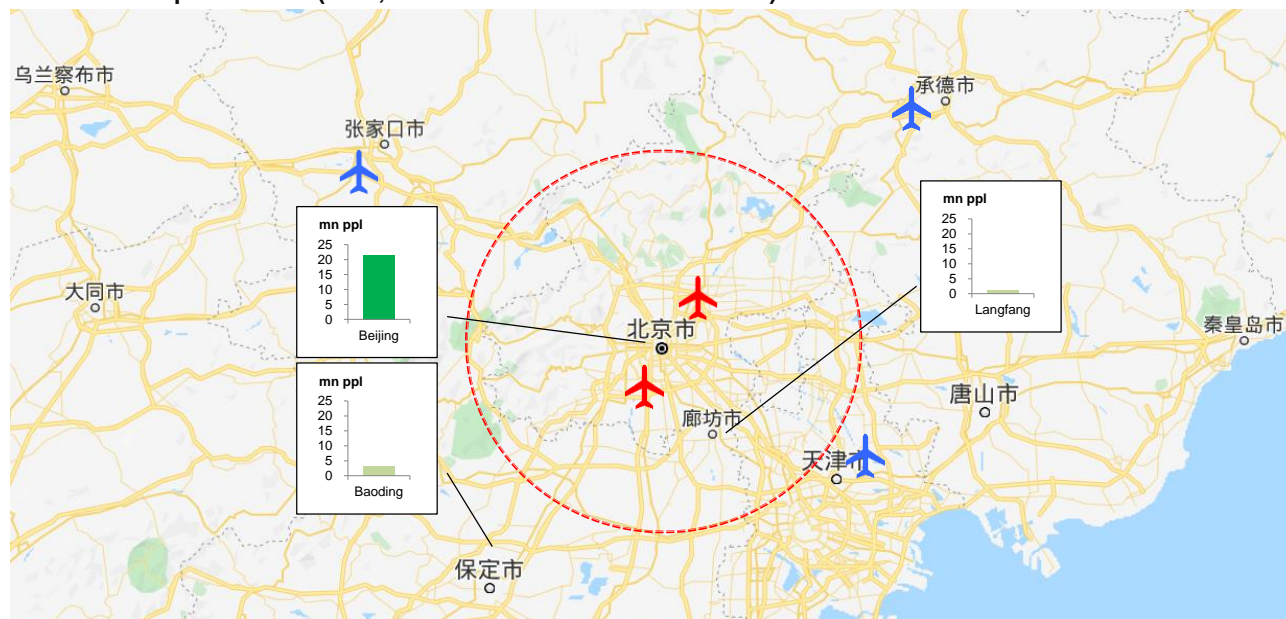


Source(s): Civil Aviation Administration of China, Google Map, ABCI Securities

Capital district (Bohai Rim)

There are two airports in the Beijing city – China Capital International Airport and Beijing Daxing International Airport. China Capital International Airport is the largest airport in Beijing.

- ◆ **Cities in proximity:** Four cities – Beijing, Langfang, Baoding and Zhuozhou.
- ◆ **Population:** According to MOHURD, population in these cities reaches 26.5mn in 2018.
- ◆ **Competing airports:** Tianjin Binhai International Airport, Zhangjiakou Ningyuan Airport and Chengde Puning Airport

Exhibit 30: Capital district (2019, red circle means 100km in radius)


Source(s): Civil Aviation Administration of China, Google Map, ABCI Securities

Guangzhou district (Pearl River Delta)

There is only one airport in Guangzhou city – Guangzhou Baiyun International Airport. The airport is owned by Guangzhou city government and Guangdong provincial government.

- ◆ **Cities in proximity:** six cities – Guangzhou, Foshan, Zhaoqing, Sihui, Qingyuan and Yingde.
- ◆ **Population:** According to MOHURD, population in these cities reached 28.3mn in 2018.
- ◆ **Competing airports:** Shenzhen Baoan International Airport, Huizhou Airport

Exhibit 31: Guangzhou district (2019, red circle means 100km in radius)

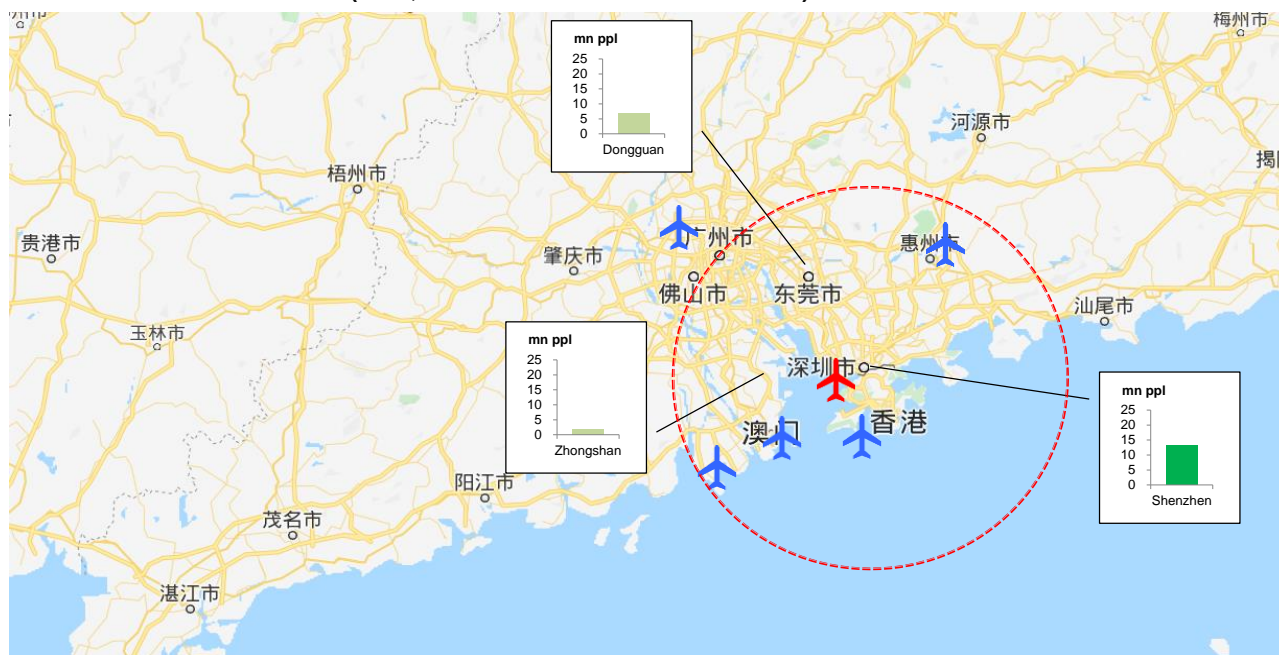

Source(s): Civil Aviation Administration of China, Google Map, ABCI Securities

Shenzhen district

There is only one airport in Shenzhen city – the Shenzhen Baoan International Airport owned by the Shenzhen city government.

- ◆ **Cities in proximity:** four cities – Shenzhen, Dongguan, Jiangmen, and Zhongshan.
- ◆ **Population:** According to MOHURD data, population in these cities was 23.6mn in 2018.
- ◆ **Competing airports:** Hong Kong International Airport, Macau International Airport, Zhuhai International Airport and Huizhou Airport

Exhibit 32: Shenzhen district (2019, red circle means 100km in radius)

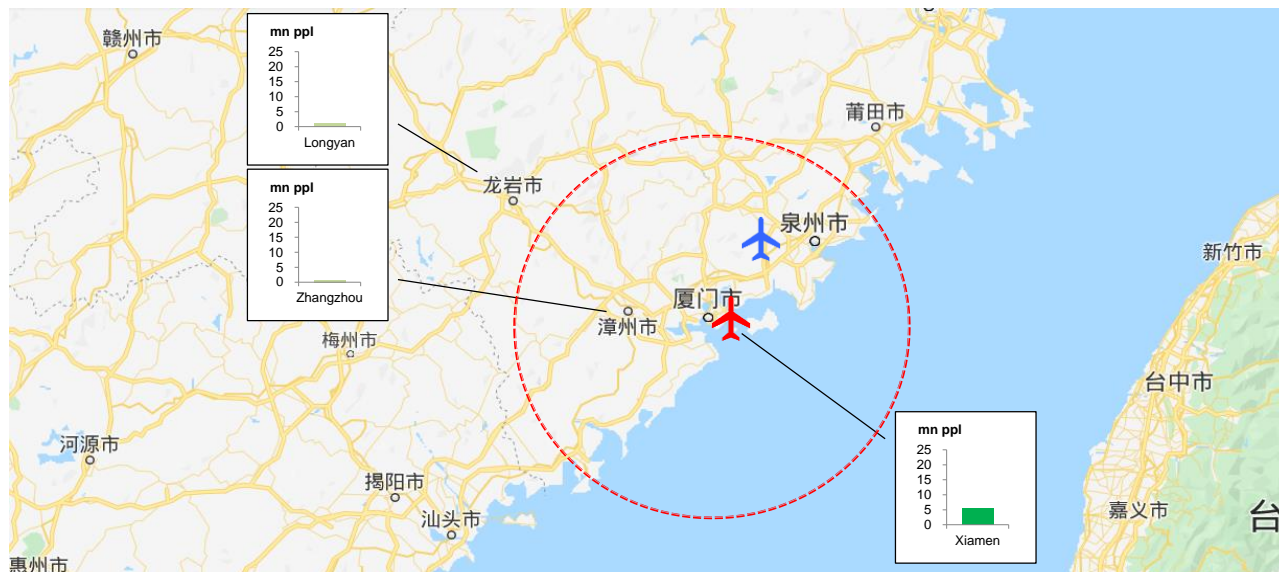


Source(s): Civil Aviation Administration of China, Google Map, ABCI Securities

Xiamen district

There is only one airport in Xiamen city, the Xiamen Gaoqi International Airport owned by the Xiamen city government.

- ◆ **Cities in proximity:** four cities – Xiamen, Zhangzhou, Longhai, and Longyan.
- ◆ **Population:** According to MOHURD, population in these cities was 8.1mn in 2018.
- ◆ **Competing airport:** Quanzhou Jinjiang Airport

Exhibit 33: Xiamen district (2019, red circle means 100km in radius)


Source(s): Civil Aviation Administration of China, Google Map, ABCI Securities

Challenges in China's airport sector

Outbreak of other epidemic would reduce the number of passengers

The outbreak of COVID-19 in 2020 has negatively impacted economic activities worldwide, with passenger throughput dropping sharply on travel restrictions. Outbreak of infectious diseases in the future may have similar impacts.

Slowdown in economy would reduce the travel willingness

Slowdown in economic growth (such as the Global Financial Crisis in 2007-2008) will affect passenger throughput since both leisure and business travels are reduced to save cost.

Technological advancement in high-speed railway would lower demand for short-haul flight

The average speed of China's high-speed trains is ~300-350km/hour, far below the 800-1,000km/hour for airplanes. The ticketing and related costs are much lower for trains, however, rendering it an ideal means of short-distance travel (< 1000km). We believe further technological advancement in high-speed railway would reduce the demand for short-haul air travel.

Terrorist attacks may reduce flying

The September 11 attacks (9/11) in 2001 has casted a long shadow on people all over the world, with the fear of flying rising sharply after the event. Increase in terrorist attack would raise anxiety and travelers may opt for other transportation options if possible.

Shanghai Int'l Airport (600009 CH) Yangtze River Delta to support growth

- Increasing population in the Yangtze River Delta region will benefit Shanghai International Airport (SIA)
- Increasing duty-free retail and commercial rent income would help SIA the most
- Competition in the region is low
- Adjusted net profit: 63%YoY decline in 2020E; a 201%YoY jump in 2021E
- Initiate **BUY** with TP at RMB 90.00, implies 30.9x 2021E P/E and 4.7x 2021E P/B

Increasing population in the Yangtze River Delta region. Rising living standard and the government's urbanization policies would boost population growth in the Yangtze River Delta, raising passenger throughput in SIA. According to the Ministry of Housing and Urban-Rural Development (MOHURD) data, population in Shanghai, Suzhou, Wuxi, Nantong, Changzhou, Changshu, Jiaqing cities increased from 41.3mn in 2015 to 42.8mn in 2018, or 1.2% CAGR during the period.

Increasing duty-free retail and commercial rent income to drive growth. The air travel per capita in China has been rising over the past decade. The outbreak COVID-19 crisis, however, took a heavy toll on the airline sector as a whole and the government is seeking to lower its operating cost. We believe income from aviation business (e.g. landing fee, parking fee, etc.) would continue to decrease; income from non-aviation business, however, would increase and become the main source of revenue for SIA.

Low competition in the region. There are only two airports in Shanghai - Pudong International Airport (listco) and Hongqiao Int'l Airport (another airport owned by the Shanghai city government but has not been injected into the listco). The non-Shanghai airports closest to Shanghai are Hangzhou Int'l Airport and Nanjing Lukou Airport, which are 147km and 249km away from Shanghai's city center. Hence, SIA is subject to limited competition regionally.

Adjusted net profit: 63%YoY decline in 2020E; a 201%YoY leap in 2021E. Since passenger throughput dropped 48%YoY in 2020E, both aviation revenue and non-aviation revenues, including catering and franchise income, would fall. We expect 2020E adjusted net profit to drop 63%YoY. For 2021E, we expect the figure to rebound by 201% YoY as we expect economic recovery to be the sharpest in airport located in China's central hubs.

Initiate with BUY, TP at RMB 90.0. SIA is our top pick in the China airport sector because 1). Shanghai, as a major hub in the Yangtze River Delta region, will demonstrate strong population and disposal income growth; 2). low competition in the region; 3). near big cities such as Suzhou, Wuxi, and Nantong, etc. We initiate our coverage with **BUY** and set our DCF-derived TP at RMB 90.0, implying 30.9x 2021E P/E and 4.7x 2021E P/B.

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	9,313	10,945	7,271	11,692	13,469
Chg (% YoY)	15.5	17.5	-33.6	60.8	15.2
Adj. net profit* (RMB mn)	4,239	5,054	1,866	5,623	6,878
Chg (% YoY)	15.0	19.2	-63.1	201.3	22.3
EPS (RMB)	2.204	2.622	0.968	2.917	3.569
Chg (% YoY)	15.3	19.0	-63.1	201.3	22.3
BVPS (RMB)	14.686	16.606	17.284	19.326	21.824
Chg (% YoY)	12.7	13.1	4.1	11.8	12.9
P/E (x)	40.83	34.32	92.95	30.85	25.22
P/B (x)	6.13	5.42	5.21	4.66	4.12
ROAE (%)	15.85	16.70	5.71	15.94	17.34
ROAA (%)	14.47	14.77	4.93	14.25	15.88
DPS (RMB)	0.661	0.790	0.290	0.875	1.071
Dvd yield (%)	0.73	0.88	0.32	0.97	1.19
Net gearing* (%)	Net cash	Net cash	Net cash	Net cash	Net cash

* Net gearing=Net debt/Total equity;

Adj. net profit = net profit excluded fair value change, impairment loss and non-operating income

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Oct 27, 2020

Rating: **BUY**

TP: RMB 90.00

Analyst : Kelvin Ng

Tel: (852) 2147 8869

kellynng@abci.com.hk

Share price (RMB)	67.30
Est. share price return	33.73%
Est. dividend yield	0.43%
Est. total return	34.16%

Source(s): ABCI Securities estimates

Key Data

52Wk H/L (RMB)	81.7/58.0
Total issued shares (mn)	1,927
Market cap (RMB mn)	129,687
3-mth avg daily turnover (RMB mn)	920
Major shareholder(s) :	
Shanghai SASAC	53.3%

Source(s): Bloomberg, ABCI Securities

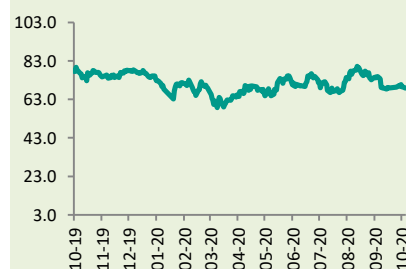
Share Performance A-Share (%)

	Absolute	Relative*
1-mth	(2.61)	(3.58)
3-mth	(2.48)	(1.15)
6-mth	(3.83)	(19.51)

*Relative to SHCOMP

Source(s): Bloomberg, ABCI Securities

1-Year share price performance (RMB)



Source(s): Bloomberg, ABCI Securities

Investment summary

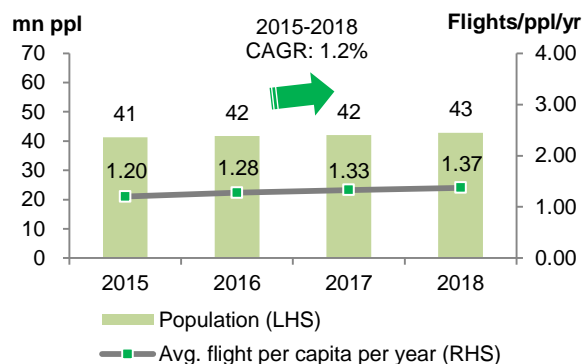
Increasing population in the Yangtze River Delta region

Rising living standard and the government's urbanization policies would boost population growth in the Yangtze River Delta, raising the passenger throughput for the airport. According to the Ministry of Housing and Urban-Rural Development (MOHURD) data, population in Shanghai, Suzhou, Wuxi, Nantong, Changzhou, Changshu, Jiaqing cities increased from 41.3mn in 2015 to 42.8mn in 2018, or 1.2% CAGR during the period.

Low average flight per capita per year ratio suggests ample room to grow in passenger throughput

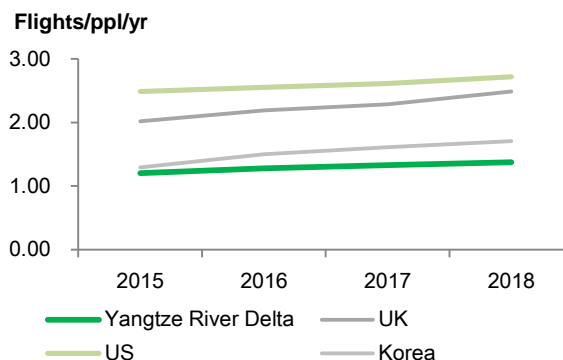
Average flight per capita per year ratio can be used to measure how often the residents in the region taking flight within a year. According to the data by World Bank and MOHURD, as of end-2018, average flight per capita per year in the US, UK and Korea were 2.72, 2.49 and 1.71, much higher than Yangtze River Delta's 1.37. We believe rising disposal income and living standard would spur demand for aviation travel.

Exhibit 34: Population and average flight per capita per year ratio in the Yangtze River Delta region



Source(s): MOHURD, ABCI Securities

Exhibit 35: Average flight per capita per year ratio: Yangtze River Delta region remains low compared to advanced countries



Source(s): MOHURD, World Bank, ABCI Securities

Increasing duty-free retail and commercial rent income would help Shanghai Airport the most

Air travel per capita in China has been rising over the past decade. Nonetheless, the government is seeking to lower the operating cost of airlines amid the COVID-19 crisis, which wreaks havoc in the airline and tourism industry. We believe income from aviation business (e.g. landing fee, parking fee, etc.) would decrease; income from non-aviation business, however, would increase and become the main source of revenue for SIA. Non-aviation business, including duty-free retail, commercial rent and others, would be supported by the rising disposal income in Yangtze River Delta.

Low competition in the region

There are only two airports in Shanghai - Pudong International Airport (listco) and Hongqiao International Airport (another airport owned by Shanghai city government but has not been injected into the listco). The non-Shanghai airports closest to Shanghai are Hangzhou International Airport and Nanjing Lukou Airport, which are 147km and 249km away from Shanghai's city center. Hence, the Shanghai International Airport is subject to limited competition in the region.

2020/21 outlook

Passenger throughput estimates: 48%YoY decline in 2020E; 76%YoY growth in 2021E

The outbreak of COVID-19 has hit the aviation industry worldwide. In 1H20, passenger throughput of SIA dropped 68%YoY (domestic: -57%YoY; international: -77.4%). While recovery has started in 2H as economic activities resumes, we expect 2020 full-year passenger throughput would decline by 48%YoY before rebounding by 76%YoY in 2021E, assuming that vaccines by then would be ready for use and global economy would recover by then.

Cargo throughput: 2.2%/5.8%YoY growth in 2020E/21E is expected

Unlike passenger throughput, the negative impact of COVID-19 on cargo throughput is less substantial. In 1H20, cargo throughput reported a 0.4% YoY growth (domestic: -24.6%YoY; international: +3.3%YoY). We believe this was mainly due to strong purchasing power in Yangtze River Delta region and strong demand for foreign goods. We expect 2020E/21E cargo throughput of SIA to go up by 2.2%/ 5.8%YoY.

Net gearing ratio: net cash position for the next three years

We do not expect any substantial CAPEX since SIA has not proposed any major expansion plans (such as airport runway expansion). Thanks to its strong cash inflow, SIA has been in a net cash position for nine years (2010-19), and would remain so for 2020E-22E. A sound balance sheet would strengthen the airport's ability to expand in future.

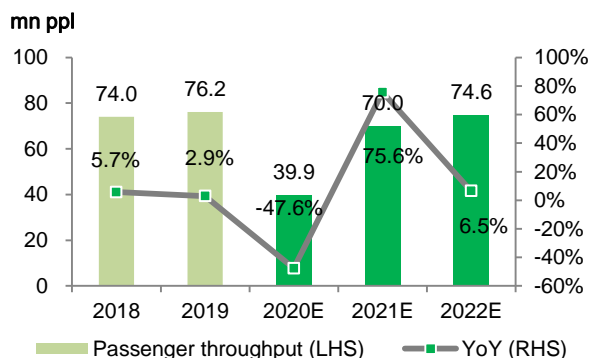
Adjusted net profit: 63%YoY decline in 2020E; a 201%YoY jump in 2021E

Since we estimate passenger throughput would drop 48%YoY in 2020E, both aviation revenue and non-aviation revenues, including catering and franchise income, would fall. We expect 2020E adjusted net profit to drop 63%YoY. For 2021E, we expect the figure to rebound by 201% YoY on strong rebound in China's eastern hub.

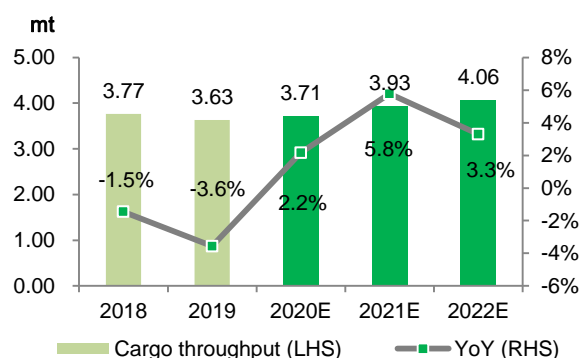
Initiate with BUY, TP at RMB 90.0

SIA is our top pick in the China airport sector because 1). Shanghai, as a major hub in the Yangtze River Delta region, will ride on population and disposal income growth; 2). low competition in the region; 3). near big cities such as Suzhou, Wuxi, and Nantong, etc.

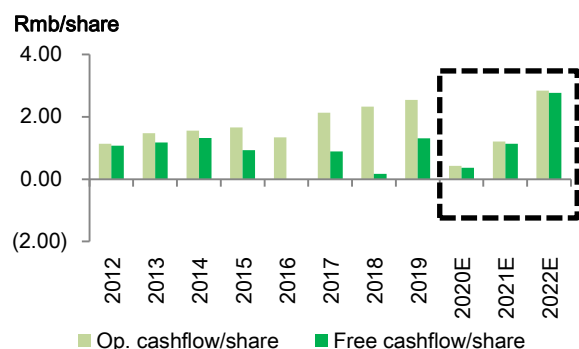
We initiate our coverage with **BUY** and set our DCF-derived TP at RMB 90.0, implying 30.9x 2021E P/E and 4.7x 2021E P/B. Assumptions in our model include: a WACC at 9.1% calculated by a risk-free rate of 3.14% (10-year China government bond yield), a stock beta of 0.96 and an equity risk premium of 7.66%.

Exhibit 36: SIA's passenger throughput outlook


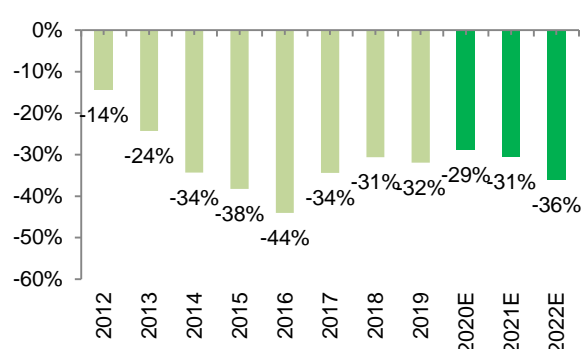
Source(s): Company, ABCI Securities estimates

Exhibit 37: SIA's cargo throughput outlook


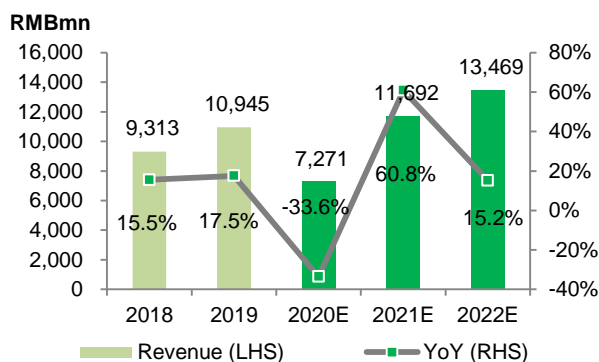
Source(s): Company, ABCI Securities estimates

Exhibit 38: SIA has strong cash inflow


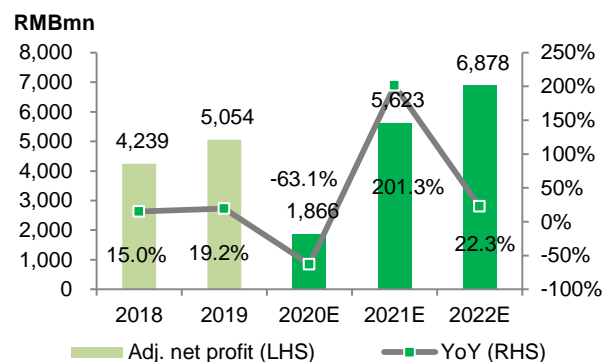
Source(s): Company, ABCI Securities estimates

Exhibit 39: SIA's net gearing ratio


Source(s): Company, ABCI Securities estimates

Exhibit 40: SIA's revenue outlook


Source(s): Company, ABCI Securities estimates

Exhibit 41: SIA's adjusted net profit outlook


Source(s): Company, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

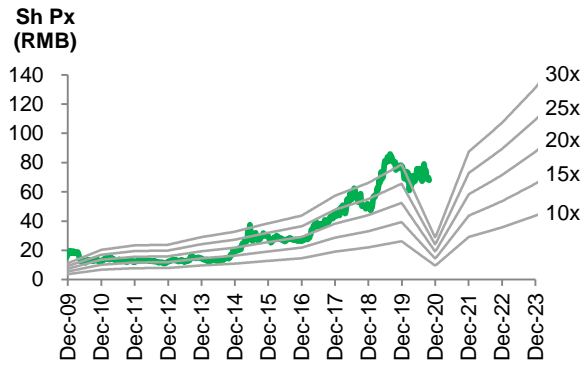
ABC SECURITIES COMPANY LIMITED

Shanghai International Airport (600009 CH; BUY)

China Airport Sector- OVERWEIGHT

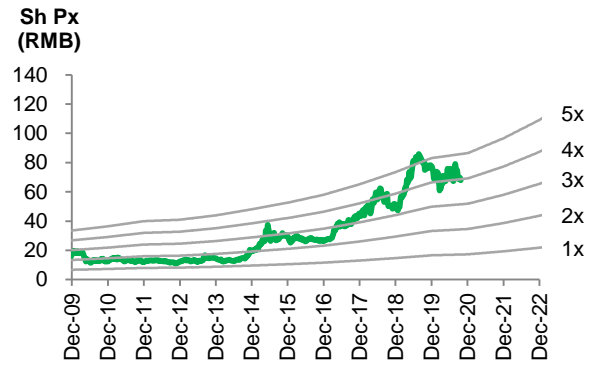
Oct 27, 2020

Exhibit 42: SIA's fwd P/E chart



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 43: SIA's fwd P/B chart



Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	9,313	10,945	7,271	11,692	13,469
Aviation	3,970	4,084	2,923	4,319	4,689
Non-aviation	3,986	5,463	3,089	6,077	7,445
Others	1,358	1,398	1,258	1,296	1,335
Cost of sales	(4,522)	(5,350)	(5,626)	(5,413)	(5,713)
Gross Profit	4,792	5,594	1,645	6,279	7,755
SG&A expenses	(244)	(265)	(175)	(282)	(325)
Net financial income (cost)	194	209	238	225	267
Other income/ (expenses)	889	1,130	766	1,231	1,418
Profit before tax	5,630	6,668	2,474	7,453	9,116
Tax	(1,199)	(1,407)	(519)	(1,565)	(1,914)
Profit after tax	4,431	5,261	1,954	5,888	7,202
Profit attributable to:					
Minority interest	200	231	88	265	324
Equity shareholders of the Co.	4,231	5,030	1,866	5,623	6,878
Adj. equity shareholders of the Co.	4,239	5,054	1,866	5,623	6,878
Basic EPS (RMB)	2.200	2.610	0.968	2.917	3.569
Adj. basic EPS (RMB)	2.204	2.622	0.968	2.917	3.569
DPS (RMB)	0.661	0.790	0.290	0.875	1.071

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	10,637	12,468	11,622	13,537	17,565
Cash	8,766	10,360	9,775	11,630	15,542
Trade and bill receivables	1,314	1,662	1,724	1,799	1,891
Other receivables and prepayments	73	74	97	95	104
Inventories	20	14	26	13	28
Other current assets	463	358	0	0	0
Non-current assets	20,292	24,703	26,923	26,807	28,736
Property, plant & equipment	16,667	20,234	19,253	18,273	17,294
Intangible assets	348	499	479	459	438
Investment in JV and associates	3,245	3,930	4,747	5,735	6,928
Deferred tax assets	6	10	10	10	10
Other non-current assets	25	30	2,434	2,331	4,065
Total Assets	30,929	37,171	38,545	40,344	46,301
Current Liabilities	2,287	4,715	4,701	2,299	3,117
Trade and bill payables	454	575	658	765	800
Other payables	1,833	4,140	4,042	1,534	2,317
Short term borrowings	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Non-current liabilities	8	7	0	0	0
Deferred tax liabilities	0	0	0	0	0
Long-term borrowings	0	0	0	0	0
Other non-current liabilities	8	7	0	0	0
Total Liabilities	2,294	4,722	4,701	2,299	3,117
Minority interests	389	445	533	798	1,122
Shareholders' equities	28,246	32,004	33,311	37,247	42,062

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement

FY ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Profit before tax	4,231	5,030	1,866	5,623	6,878
Change in depreciation and amortization	784	883	1,123	1,128	1,133
Change in Working Capital	(328)	2,190	240	(2,461)	702
Income tax paid	(984)	(1,199)	(1,407)	(519)	(1,565)
Others	765	(2,021)	(1,002)	(1,452)	(1,682)
Operating cash flow	4,468	4,885	821	2,317	5,466
CAPEX	(3,570)	(2,302)	(102)	(107)	(113)
Increase in intangible assets	(567)	(60)	(19)	(20)	(21)
Others	934	552	238	225	267
Investing cash flow	(3,203)	(1,810)	117	97	133
Net Capital raise	0	0	0	0	0
Net debt financing	0	0	0	0	0
Dividend payout	(1,263)	(1,481)	(1,522)	(560)	(1,687)
Others	0	0	(0)	0	0
Financing cash flow	(1,263)	(1,481)	(1,522)	(560)	(1,687)
Net change in cash	1	1,594	(585)	1,855	3,912
Cash at the beginning	8,764	8,766	10,360	9,775	11,630
Adjustment (Time deposit & FX effect)	0	0	0	0	0
Cash at the end	8,766	10,360	9,775	11,630	15,542

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Sales mixed (%)					
Aviation	42.62	37.31	40.21	36.94	34.82
Non-aviation	42.80	49.91	42.49	51.97	55.27
Others	14.58	12.77	17.30	11.08	9.91
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	51.45	51.12	22.62	53.70	57.58
Operating profit margin	40.87	46.51	48.86	48.73	20.24
Pre-tax margin	60.45	60.92	34.02	63.74	67.69
Net profit margin	47.58	48.07	26.88	50.36	53.47
Selling & administrative expenses/revenue	2.62	2.42	2.41	2.41	2.41
Effective tax rate	21.29	21.10	21.00	21.00	21.00
Growth (%)					
Revenue	15.51	17.52	(33.57)	60.81	15.20
Gross profit	19.93	16.75	(70.60)	281.69	23.52
Operating profit	21.36	17.19	(72.40)	307.66	23.90
Net profit	14.88	18.72	(62.86)	201.30	22.32
Balance sheet ratios					
Current ratio (x)	4.65	2.64	2.47	5.89	5.64
Quick ratio (x)	4.41	2.55	2.45	5.84	5.59
Cash ratio (x)	3.83	2.20	2.08	5.06	4.99
Trade and bill receivables days	49.05	49.63	85.00	55.00	50.00
Trade and bill payables turnover days	29.90	35.09	40.00	48.00	50.00
Inventory turnover days	1.56	1.17	1.30	1.30	1.30
Total debt / equity ratio (%)	0.00	0.00	0.00	0.00	0.00
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROAA	14.47	14.77	4.93	14.25	15.88
ROAE	15.85	16.70	5.71	15.94	17.34
Payout ratio	30.06	30.26	30.00	30.00	30.00

Source(s): Company, ABCI Securities estimates



Shenzhen Airport (000089 CH)

Airport in China's innovation hub

- Shenzhen is the fast-growing innovation hub of China
- Passenger throughput: 30%YoY decline in 2020E; 68%YoY growth in 2021E
- Cargo throughput: 4%/10%YoY growth in 2020E/21E
- Adjusted net profit: 63%YoY decline in 2020E; 218%YoY growth in 2021E
- Initiate with **BUY** with TP of RMB 10.50, which implies 26.9x 2021E P/E and 1.19x 2021E P/B

The fast-growing innovation hub in China. Shenzhen is the innovation hub of China. Cultivating internet and high-technology giants like Tencent (700 HK), Da-Jiang Innovation, ZTE (763 HK), Huawei, etc. The city is also the headquarters of famous financial companies, including Ping An Insurance (2318 HK) and China Merchant Bank (3968 HK). The city's proximity to Hong Kong helps attract foreign investment. Positive prospects of the city will support business of the Shenzhen Airport (SZA). According to MOHURD, as of end-2018, population in the Shenzhen district (including Dongguan, Zhongshan and Jiangmen cities) reached 23.6mn, implying a 2.6% CAGR during 2015-18, mainly driven by growing population in Shenzhen that increased from 11.4mn in 2015 to 13mn in 2018 (2015-18 CAGR: 4.6%).

Passenger throughput: 30%YoY decline in 2020E; 68%YoY growth in 2021E. The outbreak of COVID-19 has affected business of SZA although we believe but the situation would recover in 2021E. In 1H20, passenger throughput dropped 45%YoY. But resumption of economic activities after Apr prompts us to estimate 2H20 business would recover to more than 80% of the 2H19 level; still, we estimate the 2020E full-year passenger throughput would be down by 30%YoY. For 2021E, boosted by recovery of the economy and opening of the third runway, passenger throughput would jump 68%YoY.

Cargo throughput: 4%/10%YoY growth in 2020E/21E. SZA's cargo throughput in 1H20 grew 4.6%YoY. As economic activities resume in 2H20, we forecast the cargo throughput in 2H20 would exceed the 2H19 level; 2020E growth would be at 4%YoY. For 2021E, rising disposal income in Shenzhen city and opening of the third runway in SZA would boost growth to 10%YoY.

Adjusted net profit: 63%YoY decline in 2020E; 218%YoY growth in 2021E. We expect passenger throughput to drop 30%YoY in 2020E; consequentially, adjusted net profit would fall 63%YoY. Recovery in 2021E and commencement of the new runway would result in a 218%YoY jump in 2021E.

TP at RMB10.50; initiate with BUY. Our DCF-derived TP implies 26.9 x 2021E P/E and 1.19x 2021E P/B. Shenzhen's position as a national innovation hub and its swift population growth prompt us to be positive on the airport's earnings potential.

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	3,599	3,807	2,914	4,730	5,463
Chg (% YoY)	8.4	5.8	-23.4	62.3	15.5
Adj. net profit [#] (RMB mn)	671	676	252	801	925
Chg (% YoY)	0.6	0.8	-62.8	218.4	15.4
EPS (RMB)	0.327	0.330	0.123	0.391	0.451
Chg (% YoY)	0.6	0.8	-62.8	218.4	15.4
BVPS (RMB)	5.674	5.882	7.712	8.808	9.878
Chg (% YoY)	4.2	3.7	31.1	14.2	12.1
P/E (x)	32.10	31.84	85.55	26.87	23.28
P/B (x)	1.85	1.79	1.36	1.19	1.06
ROAE (%)	5.86	5.01	1.81	4.73	4.83
ROAA (%)	5.03	4.32	1.51	3.80	3.74
DPS (RMB)	0.082	0.080	0.031	0.098	0.113
Dvd yield (%)	0.78	0.76	0.29	0.93	1.07
Net gearing* (%)	Net cash	Net cash	Net cash	Net cash	2.1

* Net gearing=Net debt/Total equity;

[#]Adj. net profit = net profit excluded fair value change, impairment loss and non-operating income

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Oct 27, 2020

Rating: **BUY**

TP: **RMB 10.50**

Analyst : Kelvin Ng
Tel: (852) 2147 8869
kelvinn@abci.com.hk

Share price (RMB)	8.30
Est. share price return	26.51%
Est. dividend yield	0.37%
Est. total return	26.88%

Source(s): ABCI Securities estimates

Key Data

52Wk H/L(RMB)	11.7/7.1
Issued shares (mn)	2,051
Market cap (RMB mn)	17,023
3-mth avg daily turnover (RMB mn)	200
Major shareholder(s) :	
Shenzhen SASAC.	57.0%

Source(s): Company, ABCI Securities

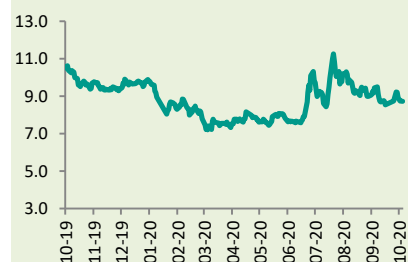
Share Performance (%)

	Absolute	Relative*
1-mth	(4.71)	(5.67)
3-mth	(8.90)	(7.56)
6-mth	6.51	(9.16)

*Relative to SHCOMP

Source(s): Bloomberg, ABCI Securities

1-Year share price performance (RMB)



Source(s): Bloomberg, ABCI Securities



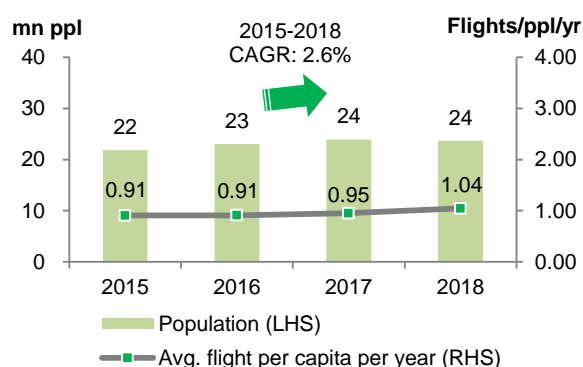
Investment summary

Expanding population in China's innovation hub

Shenzhen is the innovation hub of China as the city cultivates internet and high-technology giants such as Tencent, Da-Jiang Innovation, ZTE, and Huawei. In addition, Shenzhen is the headquarters of famous financial companies, including Ping An Insurance and China Merchant Bank. Its close proximity to Hong Kong would help attract foreign investment. All in all, we believe population in Shenzhen would continue to increase, boosting traffic in the SZA.

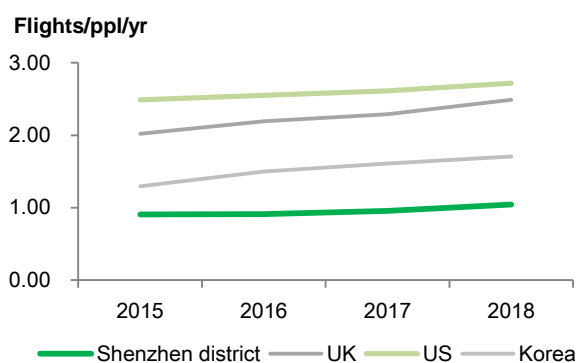
According to MOHURD, as of end-2018, population in the Shenzhen district (including Dongguan, Zhongshan and Jiangmen cities) reached 23.6mn, implying a 2.6% CAGR during 2015-18, mainly driven by growing population in Shenzhen that increased from 11.4mn in 2015 to 13mn in 2018 (2015-18 CAGR: 4.6%). As living standard in Shenzhen district continues to rise, we believe population growth in the region would benefit SZA.

Exhibit 44: Population and average flight per capita per year ratio in Shenzhen district



Source(s): MOHURD, ABCI Securities

Exhibit 45: Average flight per capita per year ratio comparison: Shenzhen district remains low when comparing to advanced countries



Source(s): MOHURD, World Bank, ABCI Securities

Concern 1: Keen competition in the region, especially from the Hong Kong International Airport

There are six airports in the Pearl River Delta region – the Shenzhen Baoan International airport, Guangzhou Baiyun International airport, Zhuhai International airport, Huizhou airport, Macau International airport, and the Hong Kong International airport. These airports are not far from each other, meaning that competition among the airports is rather intense. Shenzhen is right next to Hong Kong – passengers from Shenzhen may opt to travel from the Hong Kong airport.

2020E / 21E outlook

Passenger throughput: 30%YoY decline in 2020E; 68%YoY growth in 2021E

The outbreak of COVID-19 has affected business of SZA although we believe the situation would recover in 2021E. In 1H20, passenger throughput dropped 45%YoY. But resumption of economic activities after Apr prompts us to estimate 2H20 business would recover to more than 80% of the 2H19 level; as such, we estimate 2020 full-year passenger throughput would be down by 30%YoY. For 2021E, boosted by recovery of the economy and the opening of third runway, passenger throughput would jump 68%YoY.

Cargo throughput: 4%/10%YoY growth in 2020E/21E

SZA's cargo throughput in 1H20 grew 4.6%YoY. We forecast the cargo throughput in 2H20 would exceed the 2H19 level; 2020E growth would be at 4%YoY. For 2021E, rising disposal income in Shenzhen city and the opening of the third runway in SZA would boost growth to 10%YoY.



Net gearing ratio: trending up due to CAPEX of third runway; low-single-digit level in 2022E

SZA has been in a net cash position in balance sheet for the past five years. Yet, we expect net gearing to trend up due to the CAPEX for the airport's third runway, which totaled at RMB 12.3bn. Free cash flow would be negative in 2020E and 2021E before turning positive in 2022E. The net gearing ratio would be net cash for 2020E/21E, and 2% for 2022E.

Adjusted net profit: 63%YoY decline in 2020E; 218%YoY growth in 2021E

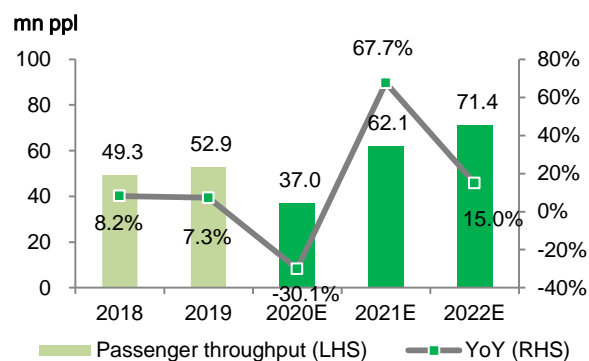
As passenger throughput would drop 63%YoY in 2020E, we expect SZA's adjusted net profit to fall by 63% YoY. Nonetheless, recovery in 2021E and opening of the third runway would result in a 218%YoY rebound for 2021E.

Initiate with BUY, TP at RMB 10.50

We like SZA on the fast-paced development in Shenzhen, though competition from Hong Kong International Airport and Huizhou Airport should not be overlooked.

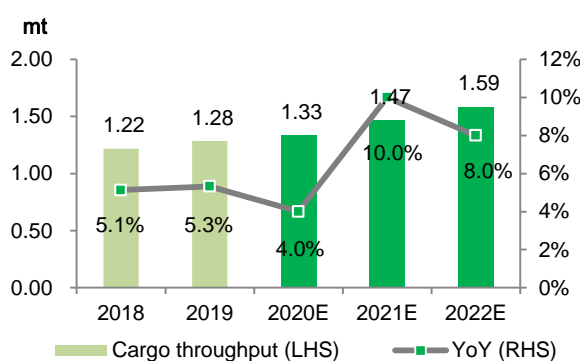
We initiate with **BUY** and set our TP at RMB 10.50 based on DCF valuation, implying 26.9 x 2021E P/E and 1.19x 2021E P/B. A WACC at 9.7% is applied, assuming a risk-free rate of 3.14% (10-year China government bond yield), a stock beta of 0.87, and an equity risk premium of 7.66%.

Exhibit 46: SZA's passenger throughput outlook



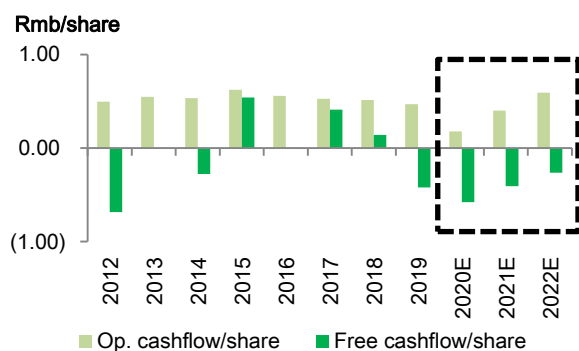
Source(s): Company, ABCI Securities estimates

Exhibit 47: SZA's cargo throughput outlook



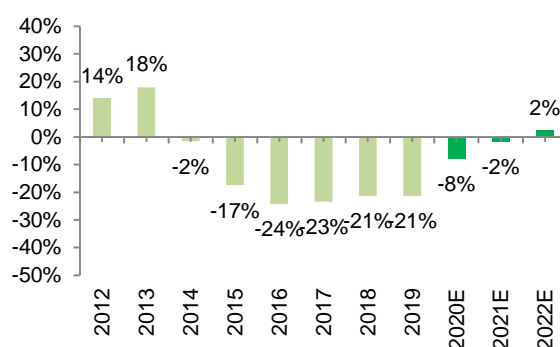
Source(s): Company, ABCI Securities estimates

Exhibit 48: SZA's cash flow outlook



Source(s): Company, ABCI Securities estimates

Exhibit 49: SZA's net gearing ratio outlook



Source(s): Company, ABCI Securities estimates



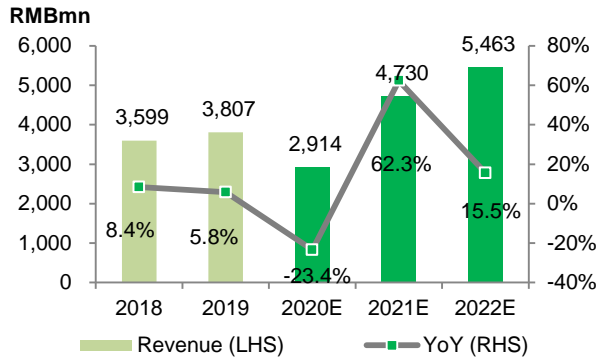
農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

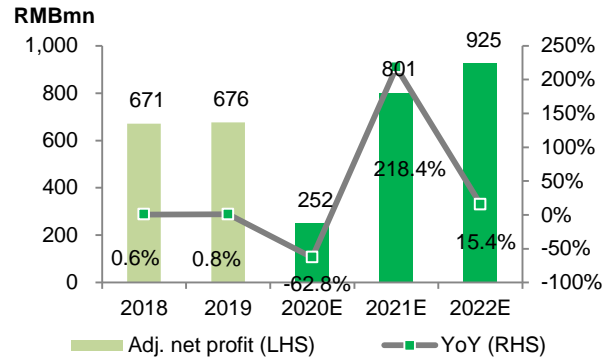
Shenzhen Airport (000089 CH, BUY)
China Airport Sector - OVERWEIGHT
Oct 27, 2020

Exhibit 50: SZA's revenue outlook



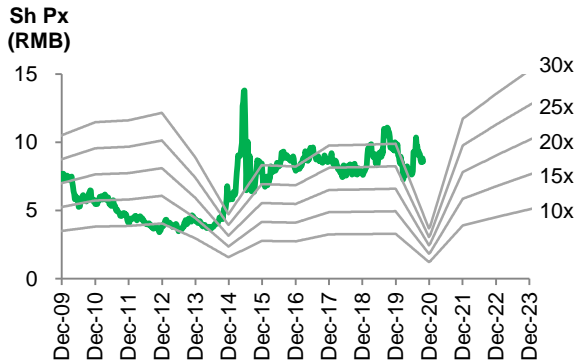
Source(s): Company, ABCI Securities estimates

Exhibit 51: SZA's adjusted net profit outlook



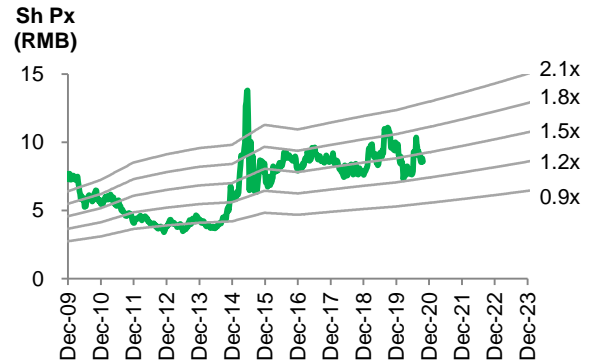
Source(s): Company, ABCI Securities estimates

Exhibit 52: SZA's fwd P/E chart



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 53: SZA's fwd P/B chart



Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	3,599	3,807	2,914	4,730	5,463
Aviation	2,879	3,147	2,267	3,858	4,503
Non-aviation	330	336	341	364	382
Others	389	324	306	508	578
Cost of sales	(2,751)	(2,985)	(2,624)	(3,652)	(4,176)
Gross Profit	848	822	290	1,077	1,288
SG&A expenses	(112)	(117)	(88)	(143)	(166)
Net financial income (cost)	49	51	52	(7)	(52)
Other income/ (expenses)	91	21	76	124	143
Profit before tax	876	777	330	1,051	1,213
Tax	(194)	(171)	(73)	(233)	(269)
Profit after tax	682	606	257	818	944
Profit attributable to:					
Minority interest	14	12	5	16	19
Equity shareholders of the Co.	668	594	252	801	925
Adj. equity shareholders of the Co.	671	676	252	801	925
Basic EPS (RMB)	0.326	0.290	0.123	0.391	0.451
Adj. basic EPS (RMB)	0.327	0.330	0.123	0.391	0.451
DPS (RMB)	0.082	0.080	0.031	0.098	0.113

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	3,994	3,183	3,339	4,108	4,667
Cash	2,484	2,583	2,783	3,258	3,745
Trade and bill receivables	383	521	517	779	868
Other receivables and prepayments	47	30	26	65	41
Inventories	6	6	13	6	13
Other current assets	1,075	43	0	0	0
Non-current assets	9,460	10,839	15,904	18,814	21,920
Property, plant & equipment	8,296	9,611	14,596	17,436	20,479
Intangible assets	251	251	248	246	243
Investment in JV and associates	802	835	877	920	966
Deferred tax assets	110	141	140	140	140
Other non-current assets	1	1	43	73	93
Total Assets	13,453	14,022	19,244	22,922	26,586
Current Liabilities	1,791	1,870	2,159	2,468	2,931
Trade and bill payables	19	18	33	11	34
Other payables	1,772	1,852	1,814	1,868	2,061
Short term borrowings	0	0	312	588	835
Other current liabilities	0	0	0	0	0
Non-current liabilities	5	73	1,247	2,352	3,341
Deferred tax liabilities	0	0	0	0	0
Long-term borrowings	0	0	1,247	2,352	3,341
Other non-current liabilities	5	73	0	0	0
Total Liabilities	1,796	1,943	3,406	4,820	6,272
Minority interests	20	16	22	38	57
Shareholders' equities	11,638	12,063	15,816	18,064	20,258

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement

FY ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Profit before tax	668	594	252	801	925
Change in depreciation and amortization	442	446	460	463	465
Change in Working Capital	(435)	1,056	(51)	(261)	144
Income tax paid	(213)	(194)	(171)	(73)	(233)
Others	593	(937)	(125)	(112)	(84)
Operating cash flow	1,055	964	365	819	1,217
CAPEX	(768)	(1,828)	(1,550)	(1,653)	(1,755)
Increase in intangible assets	(1,050)	0	(9)	(10)	(10)
Others	1,389	1,638	0	0	0
Investing cash flow	(429)	(190)	(1,559)	(1,662)	(1,765)
Net Capital raise	0	0	0	0	0
Net debt financing	0	0	1,559	1,381	1,236
Dividend payout	(198)	(227)	(164)	(63)	(200)
Others	0	0	0	0	0
Financing cash flow	(198)	(227)	1,395	1,318	1,036
Net change in cash	428	546	201	475	487
Cash at the beginning	2,627	2,484	2,583	2,783	3,258
Adjustment (Time deposit & FX effect)	(571)	(448)	0	0	0
Cash at the end	2,484	2,583	2,783	3,258	3,745

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Sales mixed (%)					
Aviation	80.00	82.67	77.79	81.57	82.43
Non-aviation	9.18	8.82	11.71	7.69	7.00
Others	10.82	8.51	10.49	10.73	10.58
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	23.57	21.59	9.97	22.78	23.57
Operating profit margin	20.58	18.65	7.06	19.87	20.66
Pre-tax margin	24.35	20.41	11.33	22.22	22.20
Net profit margin	18.94	15.91	8.81	17.29	17.27
Selling & administrative expenses/revenue	3.12	3.06	3.03	3.03	3.03
Effective tax rate	22.20	22.07	22.20	22.20	22.20
Growth (%)					
Revenue	8.40	5.76	(23.45)	62.30	15.52
Gross profit	(3.26)	(3.14)	(64.65)	270.86	19.55
Operating profit	(3.36)	(4.13)	(71.04)	356.87	20.14
Net profit	1.00	(11.18)	(57.59)	218.36	15.40
Balance sheet ratios					
Current ratio (x)	2.23	1.70	1.55	1.66	1.59
Quick ratio (x)	1.60	1.66	1.53	1.64	1.57
Cash ratio (x)	1.39	1.38	1.29	1.32	1.28
Trade and bill receivables days	41.83	43.32	65.00	50.00	55.00
Trade and bill payables turnover days	2.83	2.25	3.50	2.20	2.00
Inventory turnover days	0.73	0.72	1.30	0.90	0.80
Total debt / equity ratio (%)	0.00	0.00	9.84	16.24	20.56
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	2.12
Returns (%)					
ROAA	5.03	4.32	1.51	3.80	3.74
ROAE	5.86	5.01	1.81	4.73	4.83
Payout ratio	25.04	27.63	25.00	25.00	25.00

Source(s): Company, ABCI Securities estimates



GZ Baiyun Int'l Airport (600004 CH)

Urban agglomeration in Pearl River Delta as driver

- Urban agglomeration in the Pearl River Delta region will benefit Guangzhou Baiyun Int'l Airport (GZA). Low average flight per capita per year ratio would help boosting passenger throughput
- Passenger throughput: 37%YoY decline in 2020E; 47%YoY growth in 2021E
- Adjusted net profit: 71%YoY decline in 2020E; 330%YoY growth in 2021E
- Initiate with **BUY** with TP of RMB 15.50, which implies 26.6x 2021E P/E and 1.85x 2021E P/B

Urban agglomeration in the Pearl River Delta region will benefit GZA. Guangzhou is the center of the Pearl River Delta region. Cities in the Pearl River Delta region, benefiting from the "Reform and Opening" policy announced in 1978, have grown rapidly. Several cities, namely, Dongguan, Foshan, Zhongshan, Zhaoqing, Jiangmen, and Qingyuan, had a population of ~2mn. We believe rising population and disposal income would be a long-term positive to GZA.

Low average flight per capita per year ratio would boost passenger throughput. According to the World Bank and MOHURD, as of end-2018, the average flight per capita per year in the Guangzhou district (including Foshan, Zhaoqing, Sihui, Qingyuan, and Yingde cities) reached 1.23, lower than the ones in the Shanghai district and Capital district. We believe passenger throughput in GZA has much room for growth.

Passenger throughput: 37%YoY decline in 2020E; 47%YoY growth in 2021E. The outbreak of COVID-19 has negatively impacted GZA. In 1H20, passenger throughput dropped 56%YoY. As economic activities recover in China, we estimate 2H20 throughput would bounce back to ~80% of the 2H19 level; thus, 2020 full-year passenger throughput would fall by 37%YoY before rebounding by 47%YoY in 2021E.

Adjusted net profit: 71%YoY decline in 2020E; 330%YoY growth in 2021E. As we forecast passenger throughput to drop 37%YoY in 2020E, adjusted net profit would be down by 71%YoY. As normalcy resumes, we expect adjusted net profit to jump 330%YoY jump in 2021E.

Initiate with BUY; TP at RMB 15.50. The Guangzhou city would benefit immensely from development in the Pearl River Delta region. The low average flight per capita per year in the region would mean room for GZA to grow. We initiate **BUY** with TP at RMB 15.50, implying 26.6x 2021E P/E and 1.85x 2021E P/B. Our DCF-derived TP is based on a WACC of 9.6% calculated by a risk-free rate of 3.14% (10-year China government bond yield), a stock beta of 1.07, and an equity risk premium of 7.66%.

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	7,747	7,870	5,504	7,578	8,546
Chg (% YoY)	14.6	1.6	-30.1	37.7	12.8
Adj. net profit [#] (RMB mn)	1,149	970	283	1,214	1,478
Chg (% YoY)	-28.7	-15.5	-70.9	329.8	21.7
EPS (RMB)	0.560	0.466	0.136	0.583	0.709
Chg (% YoY)	-32.5	-16.8	-70.9	329.8	21.7
BVPS (RMB)	7.606	7.820	7.953	8.361	8.858
Chg (% YoY)	-1.4	2.8	1.7	5.1	5.9
P/E (x)	27.70	33.27	114.27	26.59	21.85
P/B (x)	2.04	1.98	1.95	1.85	1.75
ROAE (%)	7.37	6.27	1.72	7.15	8.24
ROAA (%)	4.55	3.84	1.14	4.98	6.02
DPS (RMB)	0.171	0.144	0.041	0.175	0.213
Dvd yield (%)	1.11	0.93	0.26	1.13	1.37
Net gearing* (%)	Net cash	Net cash	Net cash	Net cash	Net cash

* Net gearing=Net debt/Total equity;

[#]Adj. net profit = net profit excluded fair value change, impairment loss and non-operating income

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Oct 27, 2020

Rating: **BUY**

TP: RMB 15.50

Analyst : Kelvin Ng
Tel: (852) 2147 8869
kelvinng@abci.com.hk

Share price (RMB)	12.91
Est. share price return	20.06%
Est. dividend yield	0.32%
Est. total return	20.38%

Source(s): ABCI Securities estimates

Key Data

52Wk H/L(RMB)	21.5/12.3
Issued shares (mn)	2,069
Market cap (RMB mn)	26,717
3-mth avg daily turnover (RMB mn)	307
Major shareholder(s) :	
GD Airport Mgmt Group.	51.1%

Source(s): Company, ABCI Securities

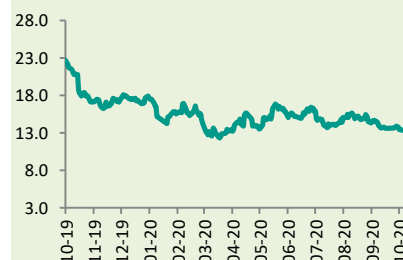
Share Performance (%)

	Absolute	Relative*
1-mth	(5.65)	(6.65)
3-mth	(9.33)	(8.04)
6-mth	(15.96)	(31.68)

*Relative to SHCOMP

Source(s): Bloomberg, ABCI Securities

1-Year share price performance (RMB)



Source(s): Bloomberg, ABCI Securities

Investment summary

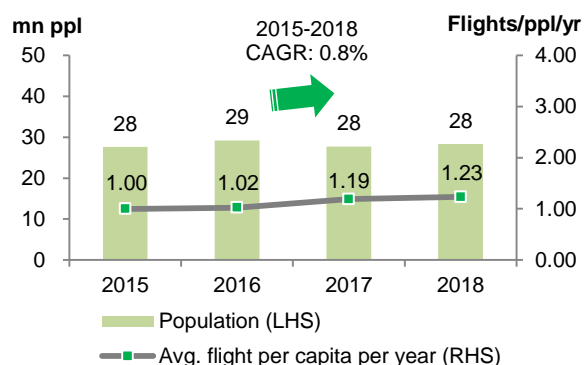
Urban agglomeration in the Pearl River Delta region will benefit GZA

Guangzhou is the center of the Pearl River Delta region. Cities in the Pearl River Delta region, benefiting from the "Reform and Opening" policy announced in 1978, grew rapidly. Several cities, namely, Dongguan, Foshan, Zhongshan, Zhaoqing, Jiangmen, and Qingyuan, had a population of ~2mn. We believe rising population and disposal income would be a long-term positive to Guangzhou Baiyun Airport (GZA).

Low average flight per capita per year ratio should help boosting passenger throughput

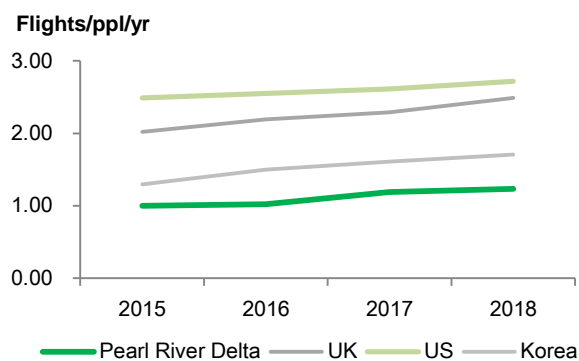
According to the World Bank and MOHURD, as of end-2018, the average flight per capita per year in the Guangzhou district (including Foshan, Zhaoqing, Sihui, Qingyuan, and Yingde cities) reached 1.23, lower than the ones in the Shanghai district and Capital district. We believe passenger throughput in GZA has much room for growth.

Exhibit 54: Population and average flight per capita per year ratio in the Pearl River Delta region



Source(s): MOHURD, ABCI Securities

Exhibit 55: Average flight per capita per year ratio comparison: Pearl River Delta region remains low when compared to the advanced countries



Source(s): MOHURD, World Bank, ABCI Securities

2020E / 21E outlook

Passenger throughput: 37%YoY decline in 2020E; 47%YoY growth in 2021E

The outbreak of COVID-19 should have negatively impacted GZA. In 1H20, passenger throughput dropped 56%YoY. As economic activities recovery in China, we estimate 2H20 throughput would be at ~80% of the 2H19 level; thus, 2020 full-year passenger throughput would fall by 37%YoY before rebounding by 47%YoY in 2021E.

Cargo throughput: 9%YoY decline in 2020E; 10%YoY rebound in 2021E

GZA's cargo throughput was 0.77mt in 1H20, down 15%YoY. Improved situations in 2H would support 2020 full-year cargo to decline only 9% YoY to 1.74mt. For 2021E, growing population and disposal income increment in the Pearl River Delta region would boost cargo throughput in GZA by 10%YoY.

Net gearing ratio: net cash position in 2020E-22E

GZA has been reporting net cash position in balance sheet in 2017 mainly due to its strong operating cash flow. Without any significant CAPEX plan in foreseeable future (third runway has been completed in 2015), we expect a net cash position for 2020E-22E.

Adjusted net profit: 71%YoY decline in 2020E; 330%YoY growth in 2021E

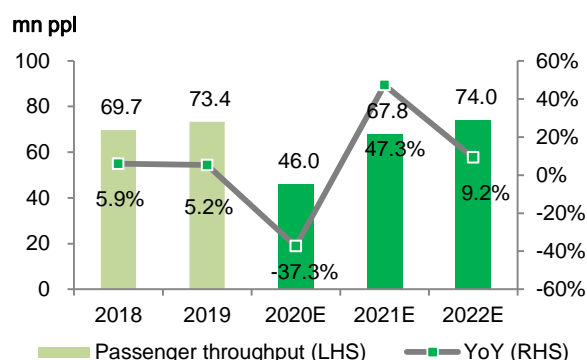
As we estimate passenger throughput to drop by 37%YoY in 2020E, adjusted net profit would reduce by 71%YoY. As normalcy resumes, we expect adjusted net profit to jump 330%YoY in 2021E.

Initiate with BUY; TP at RMB 15.50

The Guangzhou city would benefit immensely from development in the Pearl River Delta region. The low average flight per capita per year in the region would mean room for expansion.

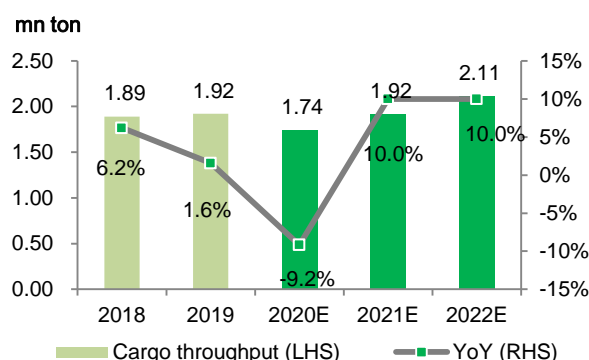
Initiate with **BUY**. Our TP at RMB 15.50, implying 26.6x 2021E P/E and 1.85x 2021E P/B. Our DCF-derived TP is based on a WACC of 9.6% calculated by a risk-free rate of 3.14% (10-year China government bond yield), a stock beta of 1.07, and an equity risk premium of 7.66%.

Exhibit 56: GZA's passenger throughput outlook



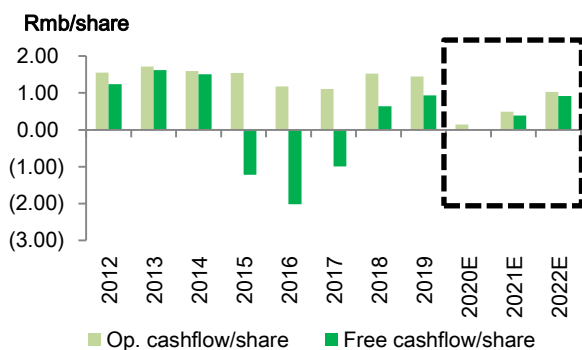
Source(s): Company, ABCI Securities estimates

Exhibit 57: GZA's cargo throughput outlook



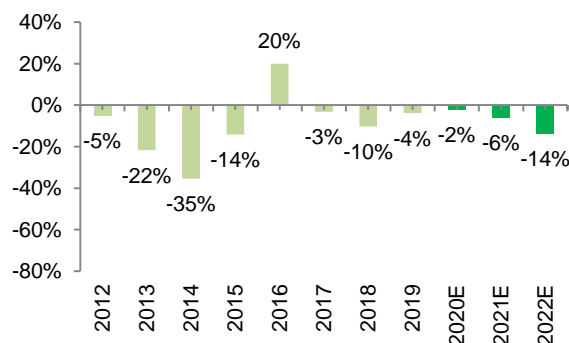
Source(s): Company, ABCI Securities estimates

Exhibit 58: GZA's cash flow outlook

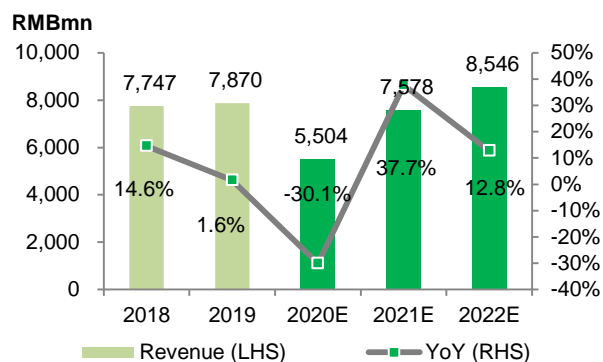


Source(s): Company, ABCI Securities estimates

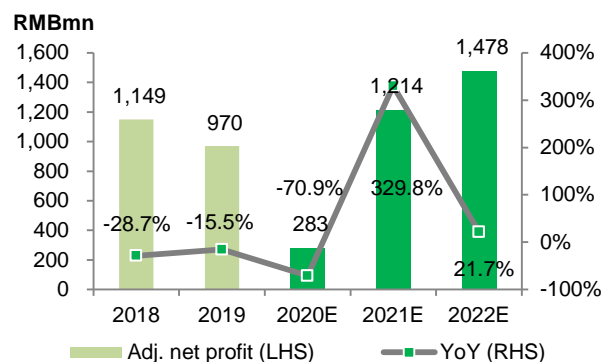
Exhibit 59: GZA's net gearing ratio outlook



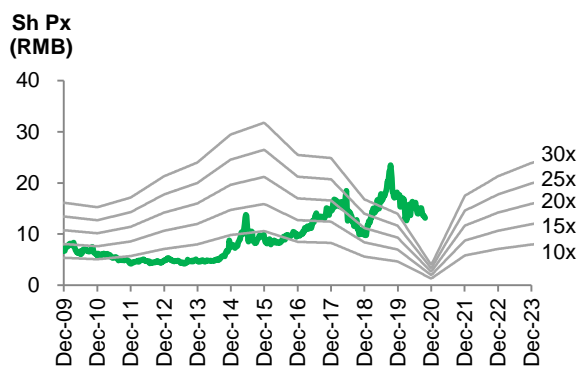
Source(s): Company, ABCI Securities estimates

Exhibit 60: GZA's revenue outlook


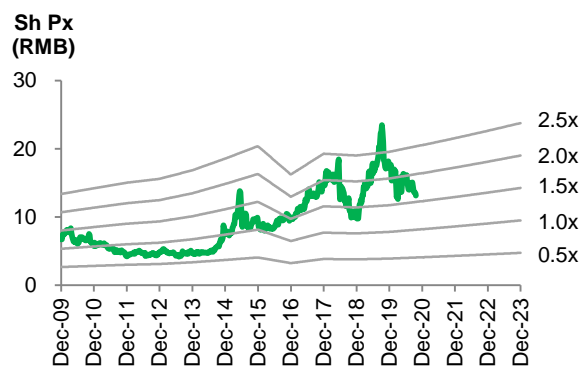
Source(s): Company, ABCI Securities estimates

Exhibit 61: GZA's adjusted net profit outlook


Source(s): Company, ABCI Securities estimates

Exhibit 62: GZA's fwd P/E chart


Source(s): Bloomberg, ABCI Securities estimates

Exhibit 63: GZA's fwd P/B chart


Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	7,747	7,870	5,504	7,578	8,546
Aviation	6,572	6,692	4,403	6,164	6,969
Non-aviation	905	1,063	916	1,140	1,274
Others	269	115	184	274	303
Cost of sales	(5,571)	(6,136)	(4,827)	(5,472)	(6,023)
Gross Profit	2,176	1,734	677	2,106	2,523
SG&A expenses	(516)	(474)	(334)	(459)	(518)
Net financial income (cost)	(157)	(55)	(12)	(32)	(32)
Other income/ (expenses)	35	121	65	89	101
Profit before tax	1,538	1,327	397	1,705	2,074
Tax	(376)	(271)	(99)	(426)	(519)
Profit after tax	1,162	1,057	297	1,278	1,556
Profit attributable to:					
Minority interest	33	57	15	64	78
Equity shareholders of the Co.	1,129	1,000	283	1,214	1,478
Adj. equity shareholders of the Co.	1,149	970	283	1,214	1,478
Basic EPS (RMB)	0.560	0.466	0.136	0.583	0.709
Adj. basic EPS (RMB)	0.550	0.480	0.136	0.583	0.709
DPS (RMB)	0.171	0.144	0.041	0.175	0.213

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	3,789	2,531	2,768	3,902	5,338
Cash	2,284	1,231	1,536	2,483	4,240
Trade and bill receivables	1,194	953	1,158	1,333	1,008
Other receivables and prepayments	77	52	8	17	11
Inventories	61	66	66	69	80
Other current assets	173	229	0	0	0
Non-current assets	23,276	22,476	21,787	20,365	19,491
Property, plant & equipment	22,023	21,043	19,823	18,534	17,248
Intangible assets	550	499	475	452	428
Investment in JV and associates	220	263	299	339	385
Deferred tax assets	306	358	360	360	360
Other non-current assets	176	313	830	680	1,070
Total Assets	27,065	25,007	24,555	24,267	24,829
Current Liabilities	9,772	7,037	5,914	4,517	3,790
Trade and bill payables	414	727	823	926	998
Other payables	6,833	6,310	4,855	3,308	2,464
Short term borrowings	5	0	235	284	328
Other current liabilities	2,520	0	0	0	0
Non-current liabilities	1,551	1,501	1,880	2,074	2,252
Deferred tax liabilities	21	28	0	0	0
Long-term borrowings	650	600	940	1,134	1,312
Other non-current liabilities	880	873	940	940	940
Total Liabilities	11,323	8,539	7,794	6,591	6,042
Minority interests	127	180	195	259	336
Shareholders' equities	15,616	16,289	16,567	17,417	18,452

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement

FY ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Profit before tax	1,129	1,000	283	1,214	1,478
Change in depreciation and amortization	1,320	1,589	1,532	1,539	1,548
Change in Working Capital	5,372	(2,531)	(1,224)	(1,632)	(451)
Income tax paid	(565)	(376)	(271)	(99)	(426)
Others	(4,137)	3,332	(16)	(6)	(11)
Operating cash flow	3,119	3,013	304	1,016	2,137
CAPEX	(1,816)	(1,071)	(279)	(218)	(229)
Increase in intangible assets	0	0	(9)	(9)	(9)
Others	8	13	0	0	0
Investing cash flow	(1,808)	(1,059)	(288)	(227)	(239)
Net Capital raise	0	0	14	0	0
Net debt financing	(1,201)	(2,570)	575	243	222
Dividend payout	(656)	(430)	(300)	(85)	(364)
Others	(1)	0	0	0	0
Financing cash flow	(1,858)	(3,000)	289	158	(143)
Net change in cash	(546)	(1,045)	305	947	1,756
Cash at the beginning	2,808	2,262	1,231	1,536	2,483
Adjustment (Time deposit & FX effect)	22	15	0	0	0
Cash at the end	2,284	1,231	1,536	2,483	4,240

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Sales mixed (%)					
Aviation	84.84	85.04	80.01	81.34	81.55
Non- aviation	11.69	13.51	16.64	15.04	14.91
Others	3.47	1.46	3.35	3.62	3.54
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	28.09	22.04	12.30	27.79	29.52
Operating profit margin	21.87	16.68	6.92	22.41	24.14
Pre-tax margin	19.86	16.87	7.21	22.49	24.27
Net profit margin	15.00	13.43	5.40	16.87	18.20
Selling & administrative expenses/revenue	6.65	6.02	6.06	6.06	6.06
Effective tax rate	24.47	20.39	25.00	25.00	25.00
Growth (%)					
Revenue	14.57	1.59	(30.07)	37.69	12.77
Gross profit	(18.01)	(20.31)	(60.97)	211.16	19.80
Operating profit	(22.48)	(22.51)	(71.00)	346.06	21.49
Net profit	(27.44)	(9.06)	(71.85)	329.83	21.68
Balance sheet ratios					
Current ratio (x)	0.39	0.36	0.47	0.86	1.41
Quick ratio (x)	0.36	0.31	0.46	0.84	1.38
Cash ratio (x)	0.23	0.17	0.26	0.55	1.12
Trade and bill receivables days	48.89	49.78	70.00	60.00	50.00
Trade and bill payables turnover days	22.97	34.86	60.00	60.00	60.00
Inventory turnover days	4.60	3.79	5.00	4.50	4.50
Total debt / equity ratio (%)	4.16	3.64	7.01	8.02	8.73
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROAA	4.55	3.84	1.14	4.98	6.02
ROAE	7.37	6.27	1.72	7.15	8.24
Payout ratio	31.15	30.01	30.00	30.00	30.00

Source(s): Company, ABCI Securities estimates

Beijing Capital Int'l Airport (694 HK)

A major airport in the capital city

- Future growth of capital city presents attractive opportunities
- Competition from Daxing Int'l Airport will divert passengers and cargoes
- Passenger throughput: 36%YoY decline in 2020E; 56%YoY growth in 2021E
- Adjusted net profit: 87%YoY decline in 2020E; 452%YoY growth in 2021E
- Initiate with **HOLD**; TP at HK\$ 5.10 implies 11.1x 2021E P/E and 0.78x 2021E P/B

Future growth of the capital city. Beijing is capital city of China and is the most populous city in northern China. According to MOHURD, population in Beijing reached 21.5mn in 2018, the second highest among cities in China after Shanghai (2018: 24.2mn). Beijing, the center of cultural, politics and headquarters of many state-owned enterprises (SOEs), has a great potential for both population and disposal income growth. Beijing Capital Int'l Airport (BCA) is the key airport of Beijing and will benefit from the thriving region.

Competition from Daxing Int'l Airport would divert passengers and cargoes. We believe completion from the Daxing Int'l Airport will adversely impact BCA's business. Beijing Daxing Int'l Airport, which has commenced operation in 2019, is located at ~44km south of Beijing's city center (Capital Airport is ~ 24km northeast to Beijing's city center). Daxing Int'l Airport mostly serves the domestic passengers; nonetheless, we believe it would affect the passenger throughput of BCA.

Passenger throughput: 36%YoY decline in 2020E; 56%YoY growth in 2021E. Despite the negative impacts of COVID-19 on BCA's operation, we believe the situation would recover in 2021E. In 1H20, passenger throughput dropped 74%YoY (Domestic: -72% YoY; International: -79% YoY). With the resumption of economic activities in China since Apr, we estimate business performance in 2H20 would be comparable to that in 2H19. For 2020E, passenger throughput would decline 36%YoY before rebounding by 56%YoY for 2021E.

Adjusted net profit: 87%YoY decline in 2020E; 452%YoY growth in 2021E. Passenger throughput and cargo throughput are expected to drop 36%/22.3%YoY in 2020E; hence, adjusted net profit would plummet by 87%YoY. Since BCA is a major airport in the Bohai Rim region, we expect a strong recovery of 452%YoY in adjusted net profit for 2021E.

TP at HK\$5.10; initiate with HOLD. We initiate with **HOLD**; TP at HK\$5.10 implies 11.1x 2021E P/E and 0.78x 2021E P/B.

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	11,263	10,810	7,082	10,127	11,072
Chg (% YoY)	17.6	-4.0	-34.5	43.0	9.3
Adj. net profit* (RMB mn)	2,873	2,517	334	1,841	2,133
Chg (% YoY)	10.5	-12.4	-86.7	451.6	15.8
EPS (RMB)	0.660	0.572	0.073	0.402	0.466
Chg (% YoY)	10.0	-13.3	-87.3	451.6	15.8
BVPS (RMB)	5.380	5.674	5.488	5.729	6.009
Chg (% YoY)	8.8	5.5	-3.3	4.4	4.9
P/E (x)	6.77	7.81	61.32	11.12	9.60
P/B (x)	0.83	0.79	0.81	0.78	0.74
ROAE (%)	12.81	10.00	1.33	7.17	7.94
ROAA (%)	8.79	6.97	0.95	5.27	6.02
DPS (RMB)	0.264	0.248	0.029	0.161	0.186
Dvd yield (%)	5.91	5.54	0.65	3.60	4.17
Net gearing* (%)	13.2	2.5	8.5	6.3	Net cash

* Net gearing=Net debt/Total equity;

Adj. net profit = net profit excluded fair value change, impairment loss and non-operating income

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Oct 27, 2020

Rating: **HOLD**

TP: **HK\$ 5.10**

Analyst : Kelvin Ng
 Tel: (852) 2147 8869
 kelvinn@abci.com.hk

Share price (HK\$)	5.21
Est. share price return	(2.11%)
Est. dividend yield	0.65%
Est. total return	(1.46%)

Source(s): ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	8.1/4.3
Issued shares (mn)	4,579
Issued H-shares (mn)	1,879
Market cap (HK\$ mn)	23,857
H-share Mkt cap (HK\$ mn)	9,790
3-mth avg daily turnover (HK\$ mn)	67
Major shareholder(s) (%):	
Civil Aviation Admin. of China	59.0%

Source(s): Company, ABCI Securities

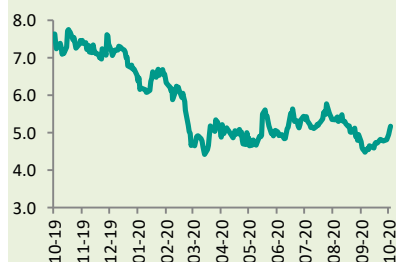
Share Performance (%)

	Absolute	Relative*
1-mth	12.72	4.68
3-mth	(1.75)	(0.44)
6-mth	(0.73)	(1.40)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year share price performance (HK\$)



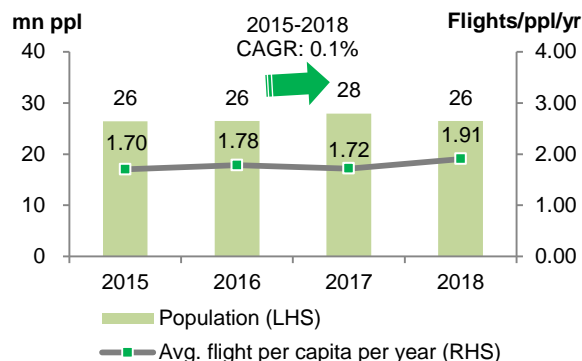
Source(s): Bloomberg, ABCI Securities

Investment summary

Riding on growth in the capital city

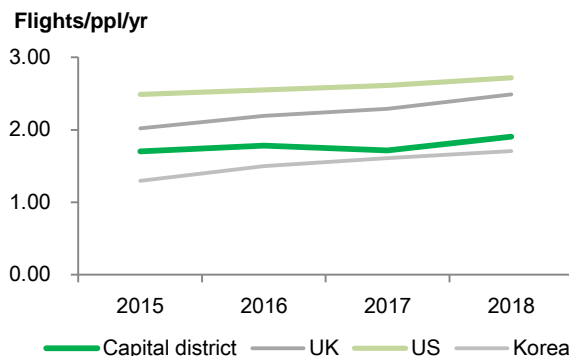
Beijing, the capital city of China, is the second most populous city in China (2018: 21.5mn) after Shanghai (2018: 24.2mn). As the center of cultural, politics and headquarters of state-owned enterprises (SOEs), Beijing's population and disposal income will continue to grow, benefiting BCA since it is the city's major airport.

Exhibit 64: Population and average flight per capita per year ratio in Capital district



Source(s): MOHURD, ABCI Securities

Exhibit 65: Average flight per capita per year ratio comparison: Capital district is higher than Korea



Source(s): MOHURD, World Bank, ABCI Securities

Concern 1: Lack of fast-growing urban agglomeration

Cities in Bohai Rim economic zone are smaller and fewer than those in the Yangtze River Delta. According to MOHURD, population in cities near BCA (Beijing, Baoding, Langfang and Zhuozhou; Tianjin has its own airport) was ~26.49mn in 2018, growing at a 3-year (2015-2018) CAGR of 0.1%, with Beijing reporting a 0.3% CAGR decline during the period. Slower population growth in the nearby cities means BCA's earnings growth would rely on the increase in disposal income of Beijing residents.

Concern 2: Competition from Daxing Int'l Airport would divert passengers and cargoes

We believe the Daxing Int'l Airport would be a competitor of BCA. Beijing Daxing Int'l Airport, which commenced operation in 2019, is located at ~ 44km south of Beijing's city center (Capital Airport is at ~ 24km northeast to Beijing's city center). Daxing Int'l Airport's major target would be domestic passengers; nonetheless, we believe the new airport would divert passengers and cargoes from BCA.

2020 / 21 outlook

Passenger throughput: 36%YoY decline in 2020E; 56%YoY growth in 2021E

Despite the negative impacts of COVID-19 on BCA's operation, we believe the situation would recover in 2021E. In 1H20, passenger throughput dropped 74%YoY (Domestic: -72%YoY; International: -79%YoY). With the resumption of economic activities in China, we estimate business performance in 2H20 would be comparable to that in 2H19. For 2020E, passenger throughput would decline by 36%YoY before rebounding by 56%YoY for 2021E.

Cargo throughput: 22%YoY decline in 2020E; 20%YoY growth in 2021E

Cargo throughput was less affected by the pandemic. In 1H20, cargo throughput of BCA dropped 40%YoY (Domestic: -39%YoY; International: -41%YoY). We forecast business to recover in 2H20; hence, the full-year figure would decline by 22%YoY. For 2021E, we expect a 20% YoY growth.

Net gearing ratio: single-digit level in 2020E/21E

We expect BCA's net gearing ratio would increase in 2020E due to the impacts of COVID-19 on the Group's cash flow. Nonetheless, the strong cash flow under a normalized environment would keep BCA's net gearing at low levels. For 2020E/21E we expect the figure to be 9%/6%, assuming economic activities will fully resume in 2021E and there will be no significant CAPEX.

Adjusted net profit: 87%YoY decline in 2020E; 452%YoY growth in 2021E

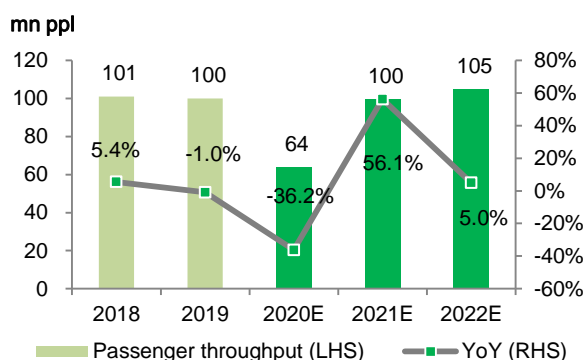
Passenger throughput and cargo throughput are expected to drop 36%/22%YoY in 2020E; hence, adjusted net profit would plummet by 87%YoY. Since BCA is a major airport in the Bohai Rim region, we expect a strong recovery of 452%YoY in adjusted net profit for 2021E.

Initiate with HOLD; TP at HK\$ 5.10

We like BCA's position as the central airport in the Bohai Rim region; increasing disposal income in Beijing will also benefit the Group. However, population growth in nearby cities (Baoding, Zhuozhou and Langfang) is slow and this may limit the space for growth. In addition, competition from Daxing Int'l Airport may divert passengers and cargoes.

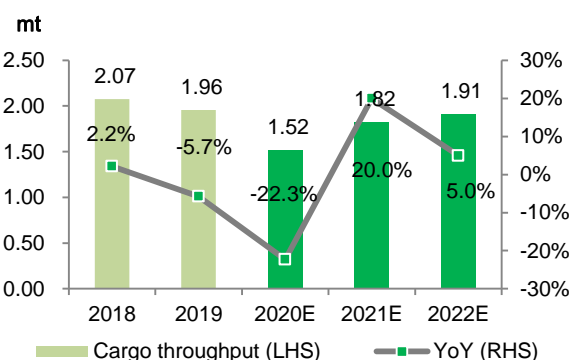
We initiate coverage with a **HOLD** rating with a DCF-derived TP at HK\$5.10, implying 11.1x 2021E P/E and 0.78x 2021E P/B. Our WACC at 9.1% is calculated by a risk-free rate of 3.14% (10-year China government bond yield), a stock beta of 0.81 and an equity risk premium of 7.66%.

Exhibit 66: BCA's passenger throughput outlook



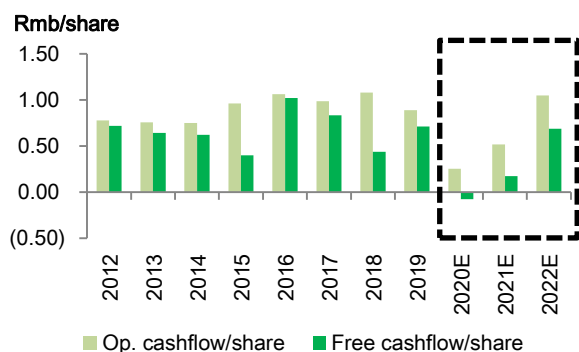
Source(s): Company, ABCI Securities estimates

Exhibit 67: BCA's cargo throughput outlook



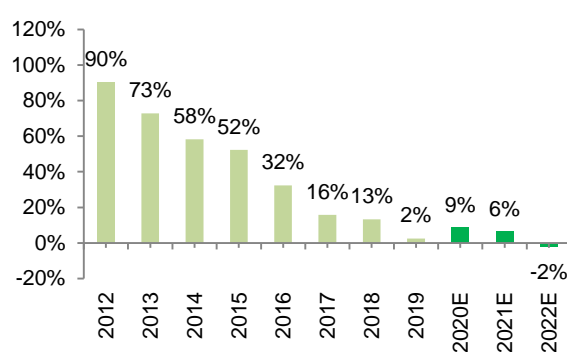
Source(s): Company, ABCI Securities estimates

Exhibit 68: BCA has a strong cash inflow

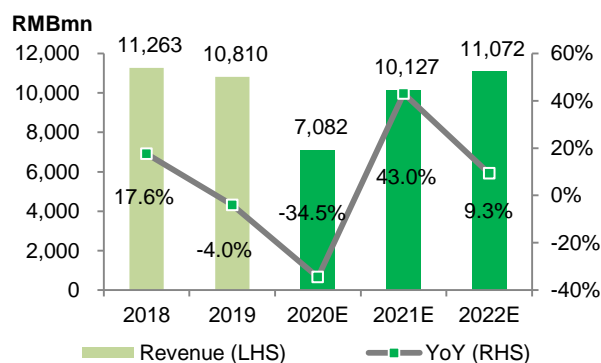


Source(s): Company, ABCI Securities estimates

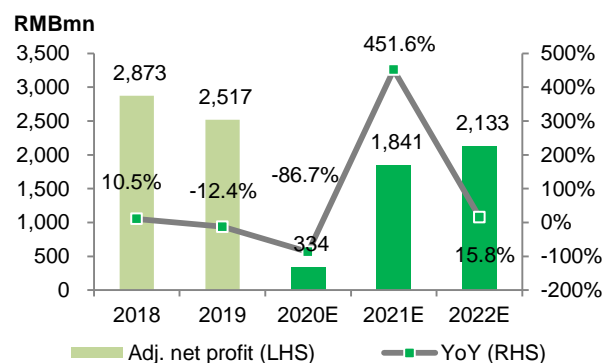
Exhibit 69: BCA's net gearing ratio



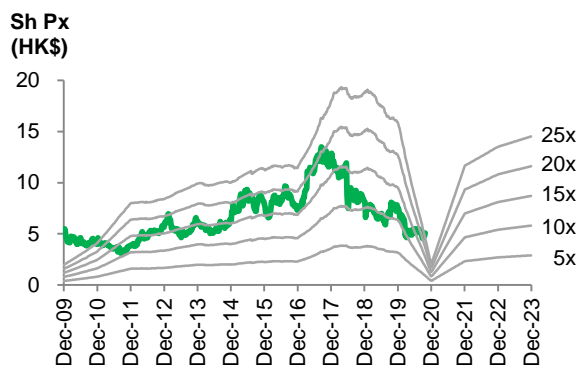
Source(s): Company, ABCI Securities estimates

Exhibit 70: BCA's revenue outlook


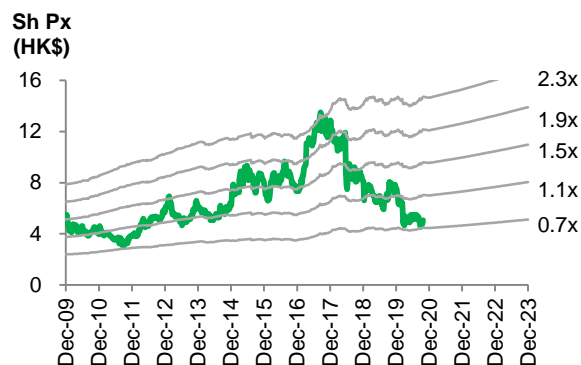
Source(s): Company, ABCI Securities estimates

Exhibit 71: BCA's adjusted net profit outlook


Source(s): Company, ABCI Securities estimates

Exhibit 72: BCA's fwd P/E chart


Source(s): Bloomberg, ABCI Securities estimates

Exhibit 73: BCA's fwd P/B chart


Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	11,263	10,810	7,082	10,127	11,072
Aviation	5,309	4,089	2,629	4,154	4,414
Non-aviation	5,926	6,698	4,429	5,950	6,633
Others	27	23	24	24	24
Cost of sales	(6,160)	(6,230)	(5,810)	(6,440)	(6,906)
Gross Profit	5,102	4,581	1,272	3,687	4,166
SG&A expenses	(701)	(703)	(496)	(709)	(775)
Net financial income (cost)	(251)	(170)	(55)	(128)	(116)
Other income/ (expenses)	(322)	(478)	(276)	(395)	(432)
Profit before tax	3,829	3,229	445	2,455	2,843
Tax	(957)	(810)	(111)	(614)	(711)
Profit after tax	2,872	2,419	334	1,841	2,133
Profit attributable to:					
Minority interest	0	0	0	0	0
Equity shareholders of the Co.	2,872	2,419	334	1,841	2,133
Adj. equity shareholders of the Co.	2,873	2,517	334	1,841	2,133
Basic EPS (RMB)	0.660	0.550	0.073	0.402	0.466
Adj. basic EPS (RMB)	0.660	0.572	0.073	0.402	0.466
DPS (RMB)	0.264	0.248	0.029	0.161	0.186

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	4,132	3,383	3,051	3,284	5,036
Cash	1,806	1,665	1,712	1,994	3,460
Trade and bill receivables	1,386	1,389	1,133	1,086	1,340
Other receivables and prepayments	13	26	12	43	17
Inventories	154	157	193	160	218
Other current assets	774	146	0	0	0
Non-current assets	30,566	31,361	32,126	31,380	31,143
Property, plant & equipment	26,973	26,645	26,095	25,561	25,045
Intangible assets	3,350	4,349	4,713	5,079	5,445
Investment in JV and associates	0	0	0	0	0
Deferred tax assets	190	195	190	190	190
Other non-current assets	53	173	1,127	550	463
Total Assets	34,698	34,744	35,176	34,664	36,180
Current Liabilities	9,334	7,050	7,159	5,694	6,486
Trade and bill payables	6,083	6,104	5,993	4,593	5,624
Other payables	95	75	0	0	0
Short term borrowings	3,147	670	1,156	1,091	852
Other current liabilities	8	200	10	10	10
Non-current liabilities	1,951	2,733	2,887	2,735	2,179
Deferred tax liabilities	0	0	0	0	0
Long-term borrowings	1,759	1,617	2,697	2,545	1,989
Other non-current liabilities	192	1,116	190	190	190
Total Liabilities	11,285	9,784	10,046	8,429	8,665
Minority interests	0	0	0	0	0
Shareholders' equities	23,413	24,961	25,130	26,235	27,515

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement

FY ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Profit before tax	2,872	2,419	334	1,841	2,133
Change in depreciation and amortization	1,369	1,405	1,692	1,751	1,812
Change in Working Capital	523	(157)	(923)	(1,351)	745
Income tax paid	(1,254)	(839)	(111)	(614)	(711)
Others	1,180	1,084	166	742	826
Operating cash flow	4,690	3,911	1,159	2,369	4,805
CAPEX	(2,129)	(760)	(869)	(913)	(958)
Increase in intangible assets	(28)	(24)	(25)	(26)	(28)
Others	(1,095)	518	(613)	(644)	(676)
Investing cash flow	(3,251)	(266)	(1,507)	(1,582)	(1,662)
Net Capital raise	0	0	(0)	0	0
Net debt financing	52	(2,445)	1,565	(217)	(795)
Dividend payout	(1,107)	(1,090)	(1,089)	(134)	(737)
Others	(179)	(244)	(80)	(154)	(145)
Financing cash flow	(1,234)	(3,779)	396	(505)	(1,677)
Net change in cash	205	(133)	47	282	1,466
Cash at the beginning	1,615	1,806	1,665	1,712	1,994
Adjustment (Time deposit & FX effect)	(13)	(8)	0	0	0
Cash at the end	1,806	1,665	1,712	1,994	3,460

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Sales mixed (%)					
Aviation	47.14	37.82	37.13	41.02	39.87
Non-aviation	52.62	61.96	62.54	58.75	59.91
Other	0.24	0.22	0.33	0.24	0.22
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	45.30	42.37	17.96	36.41	37.63
Operating profit margin	35.90	32.35	7.06	25.51	26.73
Pre-tax margin	33.99	29.87	6.28	24.24	25.68
Net profit margin	25.50	22.38	4.71	18.18	19.26
Selling & administrative expenses/revenue	6.23	6.50	7.00	7.00	7.00
Effective tax rate	24.98	25.08	25.00	25.00	25.00
Growth (%)					
Revenue	17.63	(4.01)	(34.49)	42.99	9.33
Gross profit	12.96	(10.23)	(72.23)	189.85	12.98
Operating profit	13.81	(13.50)	(85.70)	416.50	14.54
Net profit	10.44	(15.76)	(86.20)	451.58	15.82
Balance sheet ratios					
Current ratio (x)	0.44	0.48	0.43	0.58	0.78
Quick ratio (x)	0.34	0.43	0.40	0.54	0.74
Cash ratio (x)	0.19	0.24	0.24	0.35	0.53
Trade and bill receivables days	43.77	46.85	65.00	40.00	40.00
Trade and bill payables turnover days	288.24	357.03	380.00	300.00	270.00
Inventory turnover days	8.06	9.11	11.00	10.00	10.00
Total debt / equity ratio (%)	20.95	9.16	15.33	13.86	10.32
Net debt / equity ratio (%)	13.24	2.50	8.52	6.26	Net cash
Returns (%)					
ROAA	8.79	6.97	0.95	5.27	6.02
ROAE	12.81	10.00	1.33	7.17	7.94
Payout ratio	40.01	45.02	40.00	40.00	40.00

Source(s): Company, ABCI Securities estimates

Xiamen Int'l Airport (600897 CH)

Small population would restrain growth

- Close connection with Taiwan boost average flight per capita
- Small population size will restrain growth
- Passenger throughput: 30%YoY decline in 2020E; 43%YoY growth in 2021E
- Cargo throughput: 16%YoY decline in 2020E; 20%YoY growth in 2021E
- Adjusted net profit: 53%YoY decline in 2020E; 104%YoY growth in 2021E
- Initiate with **HOLD**. Our TP at RMB 19.00, which implies 11.7x 2021E P/E and 1.33x 2021E P/B

Connection with Taiwan is pivotal. Total population in the Xiamen district is low when compared to other airports in the tier-1 cities. According to MOHURD, in 2015-18, population in the Xiamen district grew from 7.5mn to 8.1mn, representing a 2.5% CAGR during the period. Average flight per capita per year was 1.72 by end 2018, higher than Korea's figure at 1.71. This indicates high frequency of residents travelling by air –we attribute this to the close connection between Taiwan and the Xiamen district.

Small population size will restrain growth. Population size in the Xiamen district is much smaller than the Shanghai district (2018: 43mn), Capital district (2018: 27mn), Guangzhou district (2018: 28mn), and Shenzhen district (2018: 24mn). Small population size would suggest limited potential in scaling up non-aviation business such as retail, catering, and duty-free shops.

Passenger throughput: 30%YoY decline in 2020E; 43%YoY growth in 2021E. According to the Company, passenger throughput reported a 56%YoY decline in 1H20. As COVID-19 recedes in China, we expect normalcy to resume to 2H20 and estimate the full-year passenger throughput would report a 30% YoY decline. For 2021E, we expect a rebound of 43%YoY.

Cargo throughput: 16%YoY decline in 2020E; 20%YoY growth in 2021E. Xiamen Int'l Airport (XMA) reported 0.15mt in cargo throughput for 1H20, down 18%YoY. We expect 2020 full-year cargo throughput to decline by 16% YoY with a slight recovery in 2H20. For 2021E, we believe cargo throughput in XMA would increase by 20%YoY to 0.38mt.

Adjusted net profit: 53%YoY decline in 2020E; 104%YoY growth in 2021E. As passenger throughput dropped 30%YoY in 2020E, which would reduce non-aviation income, 2020E adjusted net profit would tumble by 53%YoY before rebounding by 104%YoY jump for 2021E.

Initiate with HOLD, TP at RMB 19.00. We initiate **HOLD** with TP at RMB 19.00, based on the DCF valuation. Our WACC at 9.6% is calculated by a risk-free rate of 3.14% (10-year China government bond yield), a stock beta of 0.85, and an equity risk premium of 7.66%. Our TP implies 11.7x 2021E P/E and 1.33x 2021E P/B.

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	1,777	1,785	1,247	1,790	1,904
Chg (% YoY)	7.1	0.5	-30.1	43.5	6.4
Adj. net profit* (RMB mn)	503	510	238	484	560
Chg (% YoY)	19.7	1.2	-53.3	103.5	15.7
EPS (RMB)	1.690	1.711	0.799	1.625	1.880
Chg (% YoY)	19.7	1.2	-53.3	103.5	15.7
BVPS (RMB)	12.091	12.545	13.104	14.241	15.558
Chg (% YoY)	5.7	3.8	4.5	8.7	9.2
P/E (x)	11.24	11.10	23.79	11.69	10.10
P/B (x)	1.57	1.51	1.45	1.33	1.22
ROAE (%)	14.43	14.13	6.23	11.89	12.62
ROAA (%)	11.17	11.29	5.29	10.60	11.36
DPS (RMB)	1.280	0.523	0.240	0.487	0.564
Dvd yield (%)	6.74	2.75	1.26	2.57	2.97
Net gearing* (%)	Net cash	Net cash	Net cash	Net cash	Net cash

* Net gearing=Net debt/Total equity;

#Adj. net profit = net profit excluded fair value change, impairment loss and non-operating income

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Oct 27, 2020

Rating: HOLD

TP: RMB 19.00

Analyst : Kelvin Ng

Tel: (852) 2147 8869

kelvinng@abci.com.hk

Share price (RMB)	17.79
Est. share price return	6.80%
Est. dividend yield	1.35%
Est. total return	8.15%

Source(s): ABCI Securities estimates

Key Data

52Wk H/L(RMB)	23.5/16.9
Issued shares (mn)	298
Market cap (RMB mn)	5,301
3-mth avg daily turnover (RMB mn)	25
Major shareholder(s) :	
Xiamen SASAC.	68.0%

Source(s): Company, ABCI Securities

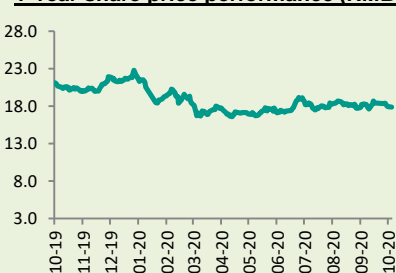
Share Performance (%)

	Absolute	Relative*
1-mth	(0.22)	(1.22)
3-mth	(0.17)	1.13
6-mth	5.27	(10.45)

*Relative to SHCOMP

Source(s): Bloomberg, ABCI Securities

1-Year share price performance (RMB)



Source(s): Bloomberg, ABCI Securities

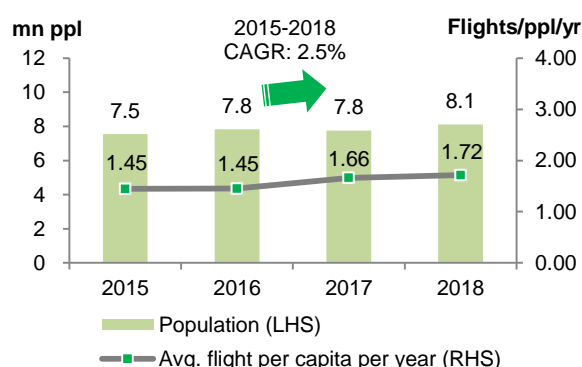
Investment summary

Connection with Taiwan is pivotal

Total population in the Xiamen district is low when compared to other airports in the tier-1 cities. According to MOHURD, in 2015-18, population in the Xiamen district grew from 7.5mn to 8.1mn, representing a 2.5% CAGR during the period.

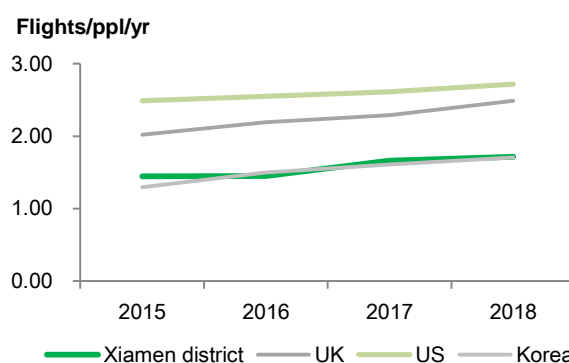
Average flight per capita per year was 1.72 by end 2018, higher than Korea's 1.71. This indicates high frequency of residents travelling by air –we attribute this to the close connection between Taiwan and the Xiamen district.

Exhibit 74: Population and average flight per capita per year ratio in the Xiamen district



Source(s): MOHURD, ABCI Securities

Exhibit 75: Average flight per capita per year ratio comparison: Xiamen district is at the same level with Korea



Source(s): MOHURD, World Bank, ABCI Securities

Concern 1: Small population size would restrain future growth

Population size in the Xiamen district is the smallest compared with the Shanghai district (2018: 43mn), Capital district (2018: 27mn), Guangzhou district (2018: 28mn), and Shenzhen district (2018: 24mn). Small population size would suggest limited potential in scaling up non-aviation business such as retail, catering, and duty-free shops.

2020 / 21 outlook

Passenger throughput: 30%YoY decline in 2020E; 43%YoY growth in 2021E

According to the Company, passenger throughput reported a 56%YoY decline in 1H20. As COVID-19 recedes in China, we expect normalcy to resume to 2H20 and estimate the full-year passenger throughput would report a 30% YoY decline. For 2021E, we expect a rebound of 43%YoY.

Cargo throughput: 16%YoY decline in 2020E; 20%YoY growth in 2021E

XMA reported 0.15mt in cargo throughput for 1H20, down 18%YoY. We expect 2020 full-year cargo throughput to decline by 16% YoY with a slight recovery in 2H20. For 2021E, we believe cargo throughput in XMA would increase by 20%YoY to 0.38mt.

Net gearing ratio: net cash position for 2020E-22E

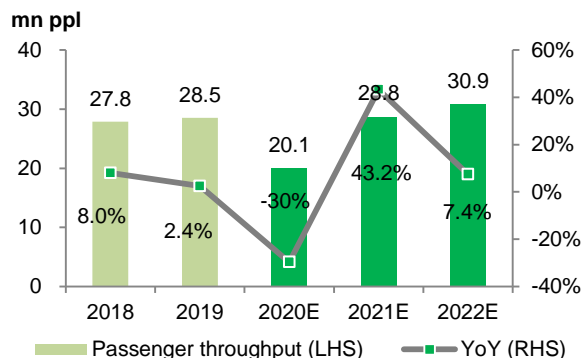
XMA has been in net cash position in balance sheet since 2010 mainly due to its strong operating cash flow. Without any significant CAPEX, we believe XMA would maintain a positive free cash flow and therefore net cash position would persist in 2020E-22E.

Adjusted net profit: 53%YoY decline in 2020E; 104%YoY growth in 2021E

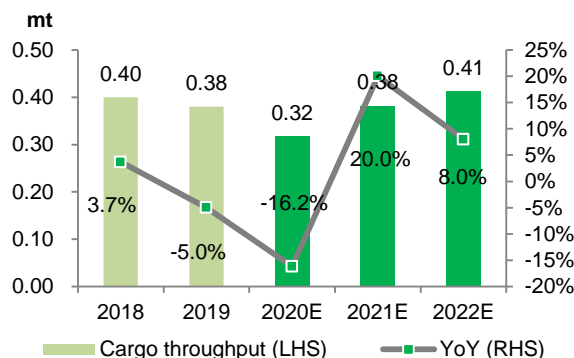
As we expect passenger throughput to drop by 30%YoY in 2020E, which would reduce non-aviation income, 2020E adjusted net profit would tumble by 53%YoY before a 104%YoY jump for 2021E.

Initiate with HOLD, TP at RMB 19.00

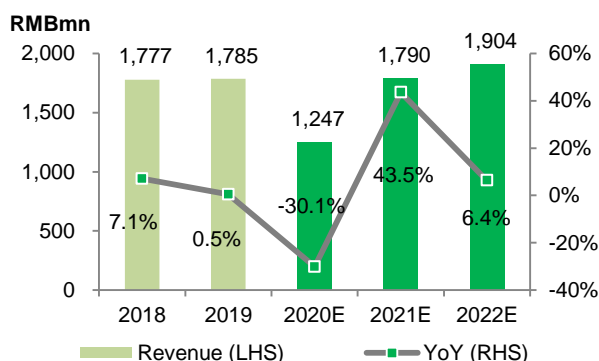
We recommend **HOLD** with TP at RMB 19.00, based on the DCF valuation. Our WACC at 9.6% is calculated by a risk-free rate of 3.14% (10-year China government bond yield), a stock beta of 0.85, and an equity risk premium of 7.66%. Our TP implies 11.7 x 2021E P/E and 1.33x 2021E P/B.

Exhibit 76: XMA's passenger throughput outlook


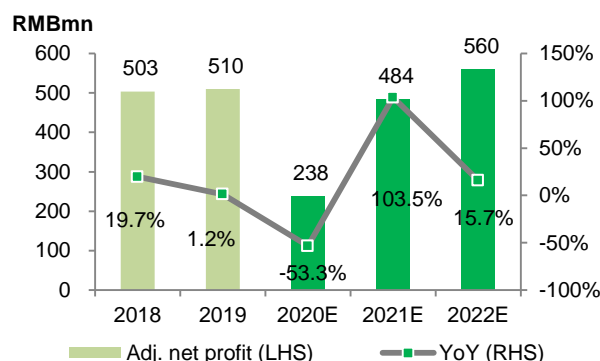
Source(s): Company, ABCI Securities estimates

Exhibit 77: XMA's cargo throughput outlook


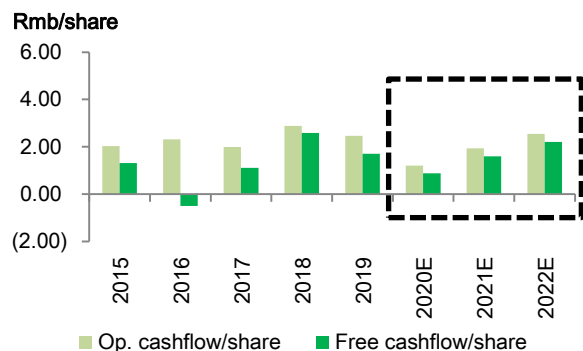
Source(s): Company, ABCI Securities estimates

Exhibit 78: XMA's revenue outlook


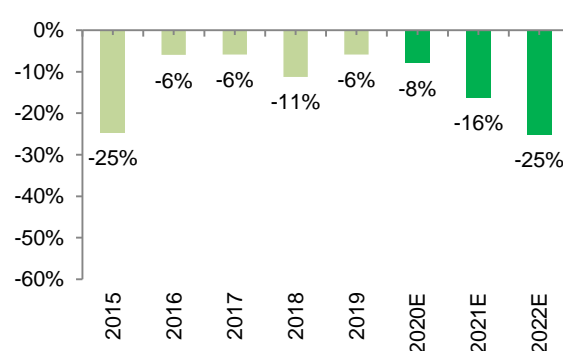
Source(s): Company, ABCI Securities estimates

Exhibit 79: XMA's adjusted net profit outlook


Source(s): Company, ABCI Securities estimates

Exhibit 80: XMA's cash flow outlook


Source(s): Company, ABCI Securities estimates

Exhibit 81: XMA's net gearing ratio outlook


Source(s): Company, ABCI Securities estimates



農銀國際

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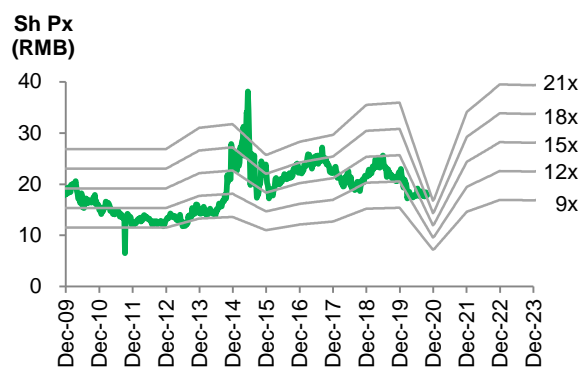
ABC SECURITIES COMPANY LIMITED

Xiamen Int'l Airport (600897 CH, HOLD)

China Airport Sector - OVERWEIGHT

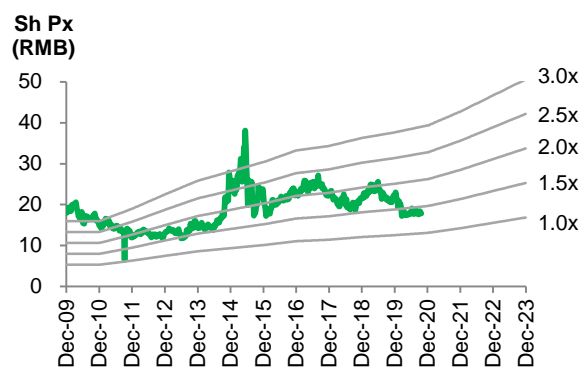
Oct 27, 2020

Exhibit 82: XMA's fwd P/E chart



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 83: XMA's fwd P/B chart



Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	1,777	1,785	1,247	1,790	1,904
Aviation	1,155	1,158	798	1,161	1,234
Non-aviation	552	546	393	548	583
Others	70	81	56	82	87
Cost of sales	(1,062)	(1,066)	(918)	(1,136)	(1,146)
Gross Profit	715	719	329	654	758
SG&A expenses	(48)	(52)	(50)	(54)	(57)
Net financial income (cost)	2	1	1	2	4
Other income/ (expenses)	35	47	54	77	82
Profit before tax	704	716	334	679	786
Tax	(177)	(179)	(83)	(170)	(196)
Profit after tax	527	537	250	509	589
Profit attributable to:					
Minority interest	21	19	13	25	29
Equity shareholders of the Co.	506	518	238	484	560
Adj. equity shareholders of the Co.	503	510	238	484	560
Basic EPS (RMB)	1.698	1.741	0.799	1.625	1.880
Adj. basic EPS (RMB)	1.690	1.711	0.799	1.625	1.880
DPS (RMB)	1.280	0.523	0.240	0.487	0.564

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	1,329	1,432	1,120	1,420	1,810
Cash	428	230	330	731	1,239
Trade and bill receivables	251	239	786	685	567
Other receivables and prepayments	10	9	2	3	2
Inventories	0	1	2	1	2
Other current assets	639	954	0	0	0
Non-current assets	3,298	3,124	3,318	3,268	3,357
Property, plant & equipment	2,889	2,735	2,644	2,555	2,462
Intangible assets	132	131	130	129	129
Investment in JV and associates	0	0	0	0	0
Deferred tax assets	10	9	10	10	10
Other non-current assets	267	249	534	574	757
Total Assets	4,628	4,556	4,438	4,689	5,167
Current Liabilities	798	581	301	187	244
Trade and bill payables	397	219	184	65	186
Other payables	398	363	116	122	58
Short term borrowings	0	0	0	0	0
Other current liabilities	3	0	0	0	0
Non-current liabilities	25	17	0	0	0
Deferred tax liabilities	0	0	0	0	0
Long-term borrowings	0	0	0	0	0
Other non-current liabilities	25	17	0	0	0
Total Liabilities	823	598	301	187	244
Minority interests	204	223	235	261	290
Shareholders' equities	3,601	3,736	3,902	4,241	4,633

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement

FY ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Profit before tax	506	518	238	484	560
Change in depreciation and amortization	197	190	192	196	200
Change in Working Capital	(166)	(527)	114	(12)	175
Income tax paid	(146)	(177)	(179)	(83)	(170)
Others	467	729	(5)	(7)	(9)
Operating cash flow	858	733	361	578	756
CAPEX	(88)	(224)	(100)	(100)	(100)
Increase in intangible assets	(1,400)	(1,910)	(6)	(7)	(7)
Others	1,160	1,624	1	2	4
Investing cash flow	(328)	(510)	(105)	(105)	(103)
Net Capital raise	0	0	0	0	0
Net debt financing	(4)	(5)	0	0	0
Dividend payout	(310)	(415)	(156)	(71)	(145)
Others	0	0	(0)	0	0
Financing cash flow	(313)	(420)	(156)	(71)	(145)
Net change in cash	216	(198)	99	401	508
Cash at the beginning	212	428	230	330	731
Adjustment (Time deposit & FX effect)	0	0	0	0	0
Cash at the end	428	230	330	731	1,239

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Sales mixed (%)					
Aviation	65.00	64.84	64.02	64.85	64.83
Non-aviation	31.06	30.60	31.48	30.59	30.62
Others	3.94	4.56	4.50	4.56	4.56
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	40.23	40.29	26.37	36.55	39.79
Operating profit margin	39.10	39.21	26.37	37.55	40.79
Pre-tax margin	39.62	40.09	26.76	37.94	41.28
Net profit margin	29.64	30.09	20.07	28.45	30.96
Selling & administrative expenses/revenue	2.68	2.91	4.00	3.00	3.00
Effective tax rate	25.19	24.96	25.00	25.00	25.00
Growth (%)					
Revenue	7.05	0.46	(30.14)	43.53	6.35
Gross profit	17.36	0.60	(54.28)	98.95	15.79
Operating profit	19.41	0.75	(53.03)	104.39	15.54
Net profit	22.55	1.97	(53.40)	103.50	15.72
Balance sheet ratios					
Current ratio (x)	1.66	2.47	3.73	7.59	7.41
Quick ratio (x)	0.85	0.81	3.71	7.56	7.39
Cash ratio (x)	0.54	0.40	1.10	3.91	5.07
Trade and bill receivables days	55.33	50.07	150.00	150.00	120.00
Trade and bill payables turnover days	148.50	105.35	80.00	40.00	40.00
Inventory turnover days	0.07	0.18	0.50	0.50	0.50
Total debt / equity ratio (%)	0.00	0.00	0.00	0.00	0.00
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROAA	11.17	11.29	5.29	10.60	11.36
ROAE	14.43	14.13	6.23	11.89	12.62
Payout ratio	75.39	30.05	30.00	30.00	30.00

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

The analyst, NG King Chuen, primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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