

China / Hong Kong Company Update

China Southern Airlines

Bloomberg: 1055 HK Equity | 600029 CH Equity | Reuters: 1055.HK | 600029.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Apr 2022

H: BUY

Last Traded Price (25 Apr 2022): HK\$4.23 (HSI : 19,869)
Price Target 12-mth: HK\$5.10 (20.6% upside) (Prev HK\$5.70)

A: BUY

Last Traded Price (25 Apr 2022): RMB6.50 (CSI300 Index : 3,815)
Price Target 12-mth: RMB7.30 (12.3% upside) (Prev RMB8.30)

Analyst

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What's New

- Increasing frequency of lockdowns is a near-term setback
- Unit costs will rise in FY22F but should decline considerably in FY23F
- CSA has a stronger ability than peers to endure the delay in China's reopening timeline
- Maintain HOLD with lower TP of HK\$5.10

More resilient compared to domestic peers

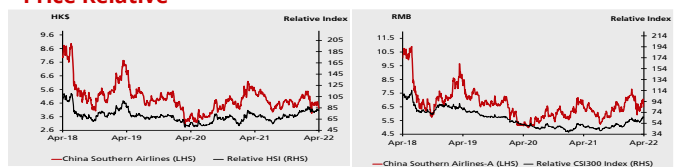
Investment Thesis

In a better position to weather near-term turbulence. While we project China Southern Airlines (CSA) to remain in the red in FY22F, we believe that its net losses should narrow by a wider margin compared to the other two flag carriers.

Shorter recovery timeframe compared to peers. CSA's earnings are set to normalise ahead of its peers given its leading position in the domestic market, stronger cost control, and larger freighter operations.

Valuation is attractive. Despite its fairly favourable recovery profile, CSA is only priced at 1.0x P/BV (FY22F), which is in line with its five-year average, and cheaper than domestic peers and considerably below the regional peer median of 1.5x.

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	92,561	101,644	114,091	144,794
EBITDA	19,761	18,781	18,818	34,298
Pre-tax Profit	(15,195)	(13,910)	(12,326)	2,495
Net Profit	(10,847)	(12,106)	(10,382)	1,752
EPS (RMB)	(0.71)	(0.75)	(0.58)	0.09
EPS (HK\$)	(0.85)	(0.91)	(0.70)	0.11
Core EPS (RMB)	(0.45)	(0.57)	(0.58)	0.09
Core EPS (HK\$)	(0.54)	(0.69)	(0.70)	0.11
EPS Gth (%)	N/A	(6.0)	22.1	N/A
Core EPS Gth (%)	N/A	(26.9)	(2.6)	N/A
Diluted EPS (HK\$)	(0.85)	(0.91)	(0.70)	0.11
DPS (HK\$)	0.00	0.00	0.00	0.02
BV Per Share (HK\$)	5.48	4.83	4.16	4.25
PE (X)	nm	nm	nm	37.2
CorePE (X)	nm	nm	nm	37.2
P/Cash Flow (X)	19.9	7.4	4.5	2.1
P/Free CF (X)	nm	nm	nm	8.7
EV/EBITDA (X)	12.3	13.3	13.6	7.3
Net Div Yield (%)	0.0	0.0	0.0	0.5
P/Book Value (X)	0.8	0.9	1.0	1.0
Net Debt/Equity (X)	2.0	2.1	2.1	2.0
ROAE (%)	(16.2)	(17.6)	(15.7)	2.7

Earnings Rev (%): n.m. (12)
Consensus EPS (RMB) (0.21) 0.17
Other Broker Recs: B:14 S:2 H:4

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Valuation:

Our TP of HK\$5.10 is based on 1.2x (+1.0 standard deviation of 5-year average) FY22/23F book value. Our A-share TP is based on a 75% valuation premium to the H shares.

Where we differ:

Our FY22/23F net earnings projections are considerably below consensus, as we expect softer domestic air traffic and international travel activity to improve at a more gradual pace.

Key Risks to Our View:

1) Repeated COVID-19 outbreaks in China, 2) prolonged reopening of international borders, 3) substantial depreciation of the RMB, 4) a further spike in jet fuel prices ahead of recovery in passenger traffic.

At A Glance

Issued Capital - H shares (m shs)	4,275
- Non H shrs (m shs)	13,883
H shs as a % of Total	24
Total Mkt Cap (HK\$m/US\$m)	126,043 / 16,062
Major Shareholders (%)	
China Southern Air Holding Co. Ltd.	67.9
Major H Shareholders (As % of H shares)	
China Southern Air Holding Co. Ltd.	53.3
American Airlines Group Inc	6.3
H Shares-Free Float (%)	40.3
3m Avg. Daily Val. (US\$m)	6.06
GICS Industry: Industrials / Transportation	



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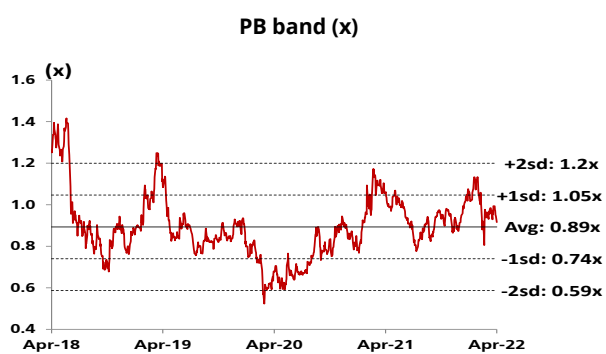
Live more, Bank less

China Southern Airlines

Company Background

China Southern Airlines (CSA) was established in 1989 and debuted on the New York and Hong Kong exchanges in 1997. In 2003, the company was also listed on the Shanghai Stock Exchange. CSA is based in Guangzhou, Guangdong Province with Baiyun International Airport as its main hub.

Historical PB band



Source: Thomson Reuters, DBS HK

China Southern Airlines

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
ASK (m p-km)	344,061.9	214,756.6	213,921.8	227,770.7	309,823.9
RPK (m p-km)	284,920.8	153,440.1	152,426.3	165,764.1	240,895.9
Passenger Load Factor (%)	82.8	71.4	71.3	72.8	77.8
Passenger Yield (RMB cts per rpk)	48.6	46.0	49.5	54.1	52.7
All-in jet fuel price (US\$/bbl)	85.8	55.7	83.4	116.3	107.2

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Passenger	138,502	70,534	75,392	89,672	126,894
Cargo and Mail	9,615	16,493	19,887	17,927	11,278
Others	6,205	5,534	6,365	6,492	6,622
Total	154,322	92,561	101,644	114,091	144,794

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	154,322	92,561	101,644	114,091	144,794
Cost of Goods Sold	(148,608)	(105,094)	(113,726)	(125,891)	(141,064)
Gross Profit	5,714	(12,533)	(12,082)	(11,800)	3,730
Other Opng (Exp)/Inc	5,124	4,686	4,767	4,750	5,000
Operating Profit	10,838	(7,847)	(7,315)	(7,050)	8,730
Other Non Opg (Exp)/Inc	(1,477)	3,485	1,575	500	(600)
Associates & JV Inc	187	(467)	280	400	450
Net Interest (Exp)/Inc	(5,771)	(6,394)	(5,527)	(6,176)	(6,085)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	278	(3,972)	(2,923)	0	0
Pre-tax Profit	4,055	(15,195)	(13,910)	(12,326)	2,495
Tax	(971)	3,368	2,894	2,910	(582)
Minority Interest	(444)	980	(1,090)	(966)	(161)
Preference Dividend	0	0	0	0	0
Net Profit	2,640	(10,847)	(12,106)	(10,382)	1,752
Net Profit before Except.	2,362	(6,875)	(9,183)	(10,382)	1,752
EBITDA	34,168	19,761	18,781	18,818	34,298
Growth					
Revenue Gth (%)	7.4	(40.0)	9.8	12.2	26.9
EBITDA Gth (%)	57.2	(42.2)	(5.0)	0.2	82.3
Opg Profit Gth (%)	22.9	(172.4)	(6.8)	(3.6)	(223.8)
Net Profit Gth (%)	(8.8)	N/A	(11.6)	14.2	N/A
Margins & Ratio					
Gross Margins (%)	3.7	(13.5)	(11.9)	(10.3)	2.6
Opg Profit Margin (%)	7.0	(8.5)	(7.2)	(6.2)	6.0
Net Profit Margin (%)	1.7	(11.7)	(11.9)	(9.1)	1.2
ROAE (%)	4.1	(16.2)	(17.6)	(15.7)	2.7
ROA (%)	1.0	(3.4)	(3.7)	(3.3)	0.6
ROCE (%)	3.4	(2.8)	(2.5)	(2.5)	2.4
Div Payout Ratio (%)	0.0	N/A	N/A	N/A	20.0
Net Interest Cover (x)	1.9	(1.2)	(1.3)	(1.1)	1.4

Source: Company, DBS HK

China Southern Airlines

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	277,221	269,618	261,382	256,413	254,694
Invt in Associates & JVs	6,446	5,674	5,978	6,378	6,828
Other LT Assets	6,523	12,106	17,985	17,985	17,985
Cash & ST Invt	1,849	25,419	22,748	15,369	16,511
Inventory	1,893	1,760	1,652	1,854	2,353
Debtors	3,152	2,525	2,858	2,852	3,620
Other Current Assets	9,844	9,281	10,608	10,608	10,608
Total Assets	306,928	326,383	323,211	311,459	312,600
ST Debt	57,541	61,029	78,718	78,718	78,718
Creditors	2,317	1,782	1,328	1,491	1,892
Other Current Liab	35,632	32,870	30,944	29,731	34,906
LT Debt	127,713	138,417	120,298	112,298	106,298
Other LT Liabilities	6,396	7,154	7,415	7,416	7,417
Shareholder's Equity	64,106	69,584	67,851	64,183	65,585
Minority Interests	13,223	15,547	16,657	17,623	17,784
Total Cap. & Liab.	306,928	326,383	323,211	311,459	312,600
Non-Cash Wkg. Capital	(23,060)	(21,086)	(17,154)	(15,907)	(20,217)
Net Cash/(Debt)	(183,405)	(174,027)	(176,268)	(175,647)	(168,505)
Debtors Turn (avg days)	7.2	11.2	9.7	9.1	8.2
Creditors Turn (avg days)	6.8	9.3	6.3	5.1	5.4
Inventory Turn (avg days)	5.3	8.3	7.0	6.3	6.7
Asset Turnover (x)	0.6	0.3	0.3	0.4	0.5
Current Ratio (x)	0.2	0.4	0.3	0.3	0.3
Quick Ratio (x)	0.1	0.3	0.2	0.2	0.2
Net Debt/Equity (X)	2.4	2.0	2.1	2.1	2.0
Net Debt/Equity ex MI (X)	2.9	2.5	2.6	2.7	2.6
Capex to Debt (%)	7.8	4.1	8.1	10.5	13.0
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

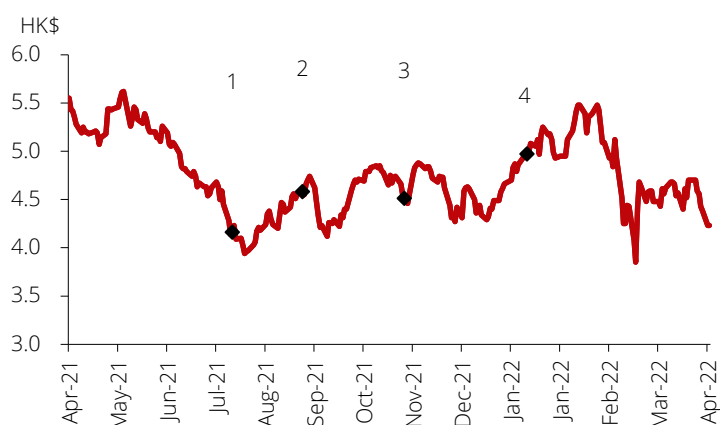
Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	4,055	(15,195)	(13,910)	(12,326)	2,495
Dep. & Amort.	24,620	24,590	24,241	24,969	25,718
Tax Paid	(369)	(563)	(462)	(844)	2,910
Assoc. & JV Inc/(loss)	(187)	467	(280)	(400)	(450)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	4,619	(1,873)	(4,314)	2,507	818
Other Operating CF	(1,563)	(4,728)	2,413	0	0
Net Operating CF	31,175	2,698	7,688	13,906	31,491
Capital Exp.(net)	(14,427)	(8,213)	(16,147)	(20,000)	(24,000)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	337	263	0	0
Other Investing CF	0	(173)	64	0	0
Net Investing CF	(14,427)	(8,049)	(15,820)	(20,000)	(24,000)
Div Paid	0	0	0	0	(350)
Chg in Gross Debt	(21,833)	9,415	3,711	(8,000)	(6,000)
Capital Issues	0	19,753	1,128	6,714	0
Other Financing CF	0	(223)	(653)	0	0
Net Financing CF	(21,833)	28,945	4,186	(1,286)	(6,350)
Currency Adjustments	6	(24)	(17)	0	0
Chg in Cash	(5,079)	23,570	(3,963)	(7,380)	1,141
Opg CFPS (RMB)	2.16	0.30	0.74	0.64	1.65
Free CFPS (RMB)	1.37	(0.36)	(0.52)	(0.34)	0.40

Source: Company, DBS HK

China Southern Airlines

H Share - Target Price & Ratings History

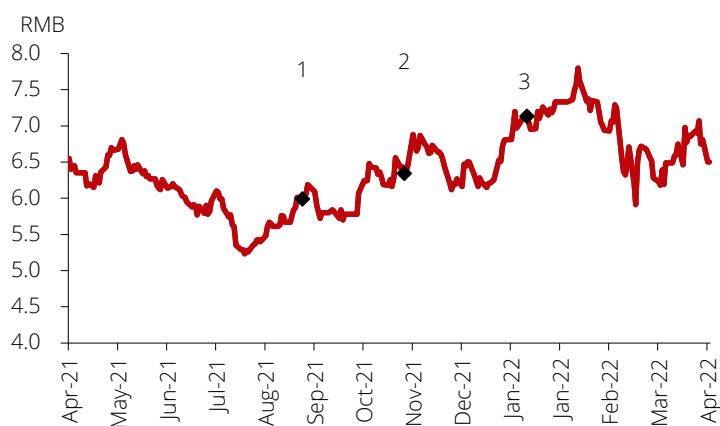


S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	28-Jul-21	HK\$4.14	HK\$6.40	Buy
2:	6-Sep-21	HK\$4.56	HK\$6.40	Buy
3:	3-Nov-21	HK\$4.56	HK\$6.30	Buy
4:	12-Jan-22	HK\$4.94	HK\$5.70	Buy

Source: DBS HK

Analyst: Paul YONG, CFA

A Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	6-Sep-21	RMB6.01	RMB8.00	Buy
2:	3-Nov-21	RMB6.43	RMB7.90	Buy
3:	12-Jan-22	RMB7.11	RMB8.30	Buy

Source: DBS HK

Analyst: Paul YONG, CFA

China Southern Airlines

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

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