

China / Hong Kong Company Update

China Eastern Airlines

Bloomberg: 670 HK EQUITY | 600115 CH Equity | Reuters: 0670.HK | 600115.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 Sep 2022

H: HOLD

Last Traded Price (13 Sep 2022):HK\$2.72(HSI : 19,327)
Price Target 12-mth: HK\$2.60 (4.4% downside) (Prev HK\$2.80)

A: HOLD

Last Traded Price (13 Sep 2022):RMB5.12(CSI300 Index : 4,111)
Price Target 12-mth: RMB4.60 (10.2% downside) (Prev RMB4.10)

Analyst

Paul YONG +65 6682 3712 paulyong@dbs.com

What's New

- 1H22 net loss was the widest on record, and equivalent to three-four years of annual profit prior to COVID-19
- CEA saw the largest increase in net losses because of the grounding of aircraft and Shanghai lockdowns
- Cut FY22/23F earnings estimates to reflect slower recovery in passenger traffic; more equity may need to be raised given its weak financial health
- Maintain HOLD with lower TP of HK\$2.60

More time needed to return to the black

Investment Thesis

CEA expected to report massive losses in FY22F and will likely remain in the red in FY23F. We now expect CEA to post wider net losses of RMB28.4bn in FY22F due to a higher rate of lockdowns coupled with multiple cost pressures like rising wages and jet fuel prices. The airline may not return to the black in FY23F if China maintains its zero-COVID stance and international borders remain closed. More equity raising could be on the cards given CEA's weak financial health.

Reopening of borders will accelerate earnings recovery, but timing is uncertain. CEA has the largest share of key regional routes to countries like South Korea, Japan, and Taiwan, which should normalise to pre-crisis levels at a relatively swifter pace. However, there is still a lack of visibility on when China might relax international travel restrictions.

Valuation aligned with sluggish recovery trajectory. At 1.4x FY22F P/BV (peer median: 1.5x), CEA's valuation is on par with regional peers.

Valuation:

Our TP of HK\$2.60 is based on 1.4x (+2.0SD of its five-year average) FY22/23F book value. Our A-share TP is derived by applying a 100% valuation premium to its H-shares.

Where we differ:

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

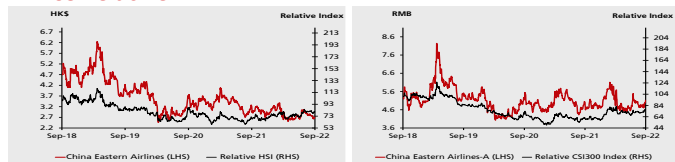
Key Risks to Our View:

1) Domestic air traffic stabilising ahead of expectations, 2) mass international air travel resuming before 2023, and 3) cost pressures subsiding ahead of expectations.

At A Glance

Issued Capital - H shares (m shs)	5,177
- Non H shrs (m shs)	13,698
H shs as a % of Total	27
Total Mkt Cap (HK\$/US\$m)	93,573 / 11,921
Major Shareholders (%)	
China Eastern Air Holding Company Limited	55.2
Major H Shareholders (As % of H shares)	
China Eastern Air Holding Company Limited	50.7
Juneyao Airlines Co., Ltd.	10.8
Delta Air Lines, Inc.	9.0
H Shares-Free Float (%)	29.5
3m Avg. Daily Val. (US\$m)	2.45
GICS Industry: Industrials / Transportation	

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	64,425	73,206	52,174	97,356
EBITDA	10,814	10,678	(7,010)	20,201
Pre-tax Profit	(16,488)	(17,513)	(33,869)	(7,941)
Net Profit	(11,836)	(12,214)	(27,736)	(5,709)
EPS (RMB)	(0.72)	(0.65)	(1.13)	(0.23)
EPS (HK\$)	(0.82)	(0.73)	(1.28)	(0.26)
Core EPS (RMB)	(0.72)	(0.65)	(1.13)	(0.23)
EPS Gth (%)	N/A	10.4	(74.7)	79.4
Core EPS Gth (%)	N/A	10.4	(74.7)	79.4
Diluted EPS (HK\$)	(0.82)	(0.73)	(1.28)	(0.26)
DPS (HK\$)	0.00	0.00	0.00	0.00
BV Per Share (HK\$)	3.89	3.22	1.89	1.62
PE (X)	nm	nm	nm	nm
CorePE (X)	nm	nm	nm	nm
P/Cash Flow (X)	nm	nm	nm	3.3
P/Free CF (X)	nm	138.3	nm	nm
EV/EBITDA (X)	20.2	21.6	nm	12.2
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.7	0.8	1.4	1.7
Net Debt/Equity (X)	3.0	3.2	4.4	5.2
ROAE(%)	(18.9)	(22.2)	(58.7)	(15.0)
Earnings Rev (%):			n.m.	(1.465)
Consensus EPS (RMB)			(1.04)	(0.01)
Other Broker Recs:		B:12	S:2	H:4

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



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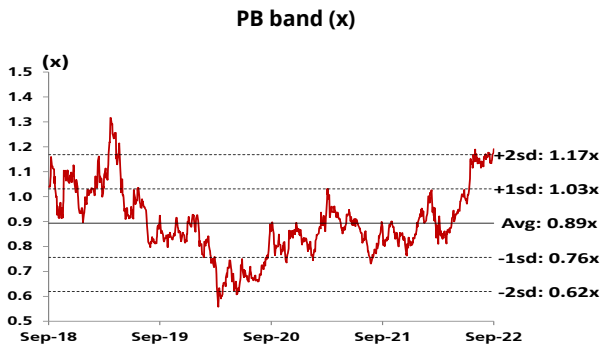


China Eastern Airlines

Company Background

Incorporated in China in 1995, China Eastern Airlines (CEA) was publicly listed on the New York, Hong Kong, and Shanghai stock exchanges in 1997. The major hubs for CEA are Shanghai Hongqiao International Airport and Shanghai Pudong International Airport. CEA also has hubs in Kunming and Xi'an.

Historical PB Band



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
ASK (m p-km)	270,254.0	152,066.4	160,690.4	106,474.5	194,373.5
RPK (m p-km)	221,779.1	107,273.3	108,803.7	68,475.5	144,994.0
Passenger Load Factor (%)	82.1	70.5	67.7	64.3	74.6
Passenger Yield (RMB cts per rpk)	52.3	49.2	53.1	57.0	57.9
All-in jet fuel price (US\$/bbl)	86.7	57.8	81.5	112.4	104.5

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Passenger	110,416	49,215	54,105	35,864	79,933
Cargo	3,826	4,895	8,309	8,179	6,535
Others	6,744	4,617	4,713	3,535	5,302
Other operating income	7,202	5,698	6,079	4,596	5,586
Total	128,188	64,425	73,206	52,174	97,356

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	128,188	64,425	73,206	52,174	97,356
Cost of Goods Sold	(118,107)	(78,265)	(86,724)	(78,189)	(99,778)
Gross Profit	10,081	(13,840)	(13,518)	(26,015)	(2,422)
Other Opg (Exp)/Inc	0	0	0	0	0
Operating Profit	10,081	(13,840)	(13,518)	(26,015)	(2,422)
Other Non Opg (Exp)/Inc	(990)	2,494	1,619	(2,400)	0
Associates & JV Inc	282	(95)	(141)	50	200
Net Interest (Exp)/Inc	(5,074)	(5,047)	(5,473)	(5,504)	(5,719)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	4,299	(16,488)	(17,513)	(33,869)	(7,941)
Tax	(819)	3,927	4,229	4,064	1,747
Minority Interest	(288)	725	1,070	2,069	485
Preference Dividend	0	0	0	0	0
Net Profit	3,192	(11,836)	(12,214)	(27,736)	(5,709)
Net Profit before Except.	3,192	(11,836)	(12,214)	(27,736)	(5,709)
EBITDA	31,453	10,814	10,678	(7,010)	20,201
Growth					
Revenue Gth (%)	5.2	(49.7)	13.6	(28.7)	86.6
EBITDA Gth (%)	41.9	(65.6)	(1.3)	N/A	N/A
Opg Profit Gth (%)	8.3	(237.3)	(2.3)	92.4	(90.7)
Net Profit Gth (%)	18.3	N/A	(3.2)	(127.1)	79.4
Margins & Ratio					
Gross Margins (%)	7.9	(21.5)	(18.5)	(49.9)	(2.5)
Opg Profit Margin (%)	7.9	(21.5)	(18.5)	(49.9)	(2.5)
Net Profit Margin (%)	2.5	(18.4)	(16.7)	(53.2)	(5.9)
ROAE (%)	5.0	(18.9)	(22.2)	(58.7)	(15.0)
ROA (%)	1.2	(4.2)	(4.3)	(9.9)	(2.1)
ROCE (%)	3.6	(5.5)	(5.2)	(10.2)	(1.0)
Div Payout Ratio (%)	25.7	N/A	N/A	N/A	N/A
Net Interest Cover (x)	2.0	(2.7)	(2.5)	(4.7)	(0.4)

Source: Company, DBS HK

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Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	99,437	101,043	93,242	82,696	79,082
Invt in Associates & JVs	2,604	2,387	2,261	2,311	2,511
Other LT Assets	163,401	158,722	165,377	164,568	163,759
Cash & ST Invt	1,350	7,651	12,950	7,570	7,183
Inventory	2,407	2,054	1,799	1,586	1,835
Debtors	1,717	1,124	974	952	1,669
Other Current Assets	14,269	11,669	12,187	12,187	12,187
Total Assets	285,185	284,650	288,790	271,870	268,227
ST Debt	40,823	71,223	61,349	61,349	61,349
Creditors	3,877	3,220	2,454	1,699	3,059
Other Current Liab	33,663	25,365	22,088	25,055	28,055
LT Debt	121,289	112,923	132,918	132,918	132,918
Other LT Liabilities	12,887	12,765	12,829	8,502	6,693
Shareholder's Equity	69,008	56,249	53,615	40,879	35,170
Minority Interests	3,638	2,905	3,537	1,468	982
Total Cap. & Liab.	285,185	284,650	288,790	271,870	268,227
Non-Cash Wkg. Capital	(19,147)	(13,738)	(9,582)	(12,030)	(15,423)
Net Cash/(Debt)	(160,762)	(176,495)	(181,317)	(186,697)	(187,084)
Net Debt/Equity (X)	2.2	3.0	3.2	4.4	5.2
Net Debt/Equity ex MI (X)	2.3	3.1	3.4	4.6	5.3

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	4,299	(16,488)	(17,513)	(33,869)	(7,941)
Dep. & Amort.	22,080	22,255	22,718	N/A	N/A
Tax Paid	(819)	(269)	(136)	(263)	(62)
Assoc. & JV Inc/(loss)	(282)	95	141	(50)	(200)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(86)	(7,054)	(3,016)	2,448	3,393
Other Operating CF	(1,714)	(2,810)	(2,809)	0	0
Net Operating CF	23,478	(4,271)	(615)	(10,380)	17,613
Capital Exp.(net)	(5,064)	(6,353)	943	(10,000)	(18,000)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	165	70	1,212	0	0
Net Investing CF	(4,899)	(6,283)	2,155	(10,000)	(18,000)
Div Paid	0	(819)	0	0	0
Chg in Gross Debt	(27,322)	17,184	(7,948)	0	0
Capital Issues	9,442	0	11,103	15,000	0
Other Financing CF	(1)	543	626	0	0
Net Financing CF	(17,881)	16,908	3,781	15,000	0
Currency Adjustments	6	(53)	(22)	0	0
Chg in Cash	704	6,301	5,299	(5,380)	(387)
Opg CFPS (RMB)	1.44	0.17	0.13	(0.52)	0.58
Free CFPS (RMB)	1.12	(0.65)	0.02	(0.83)	(0.02)

Source: Company, DBS HK

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H Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	3-Nov-21	HK\$2.92	HK\$4.30	Buy
2:	12-Jan-22	HK\$3.13	HK\$4.00	Buy
3:	26-Apr-22	HK\$2.58	HK\$2.80	Hold

Source: DBS HK

Analyst: Paul YONG

A Share - Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	3-Nov-21	RMB4.69	RMB5.40	Buy
2:	12-Jan-22	RMB5.30	RMB5.80	Buy
3:	26-Apr-22	RMB4.62	RMB4.10	Hold

Source: DBS HK

Analyst: Paul YONG

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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)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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DBS Bank (Hong Kong) Limited

13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

China Eastern Airlines

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Dennis Lam

13th Floor One Island East,
18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

SINGAPORE

DBS Bank Ltd

Contact: Paul Yong

12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982

Tel: 65 6878 8888

e-mail: groupresearch@dbs.com

Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif

DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaresearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul

989 Siam Piwat Tower Building,
9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand