

## Investment for both offensive and defensive

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694.HK | 694.HK | 694.HK

Industry: Airport

Phillip Securities Research Pte Ltd

28 February 2013

### 2012 Traffic Data Review

Rating: Buy | CP: HKD6.05 | TP: HKD7.6

#### Company Profile

BCIA is China's largest and global second largest civil aviation airport in terms of passenger throughput. Airport movements and cargo volumes rank global seventh and 14th respectively, with three terminals and three separate 4F level runways. The Company was listed on the Hong Kong market in January 2001.

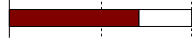
#### Summary

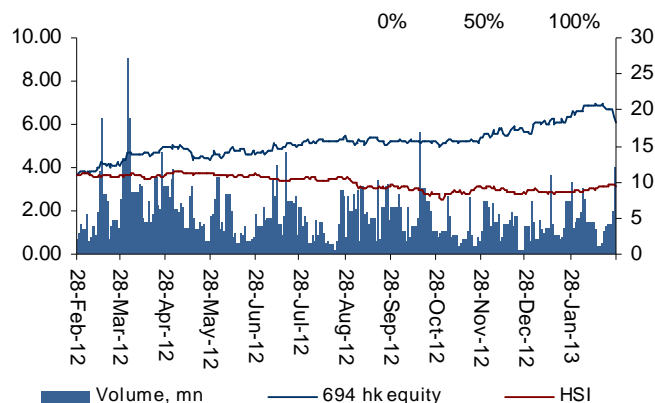
· **2012 Review:** the aircraft movements and passenger throughput increase by 4.5% and 4.1% in 2012. The aircraft movements of Beijing Capital International Airport (BCIA or the Company) reached 0.557 million with the yoy growth rate of 4.5%, increasing by 4.0% and 6.7% in domestic and international routes respectively in 2012. The Company's passenger throughput increased by 4.1% yoy to 81.929 million, with the growth rate of 11.1% and 8.8% in domestic and international routes respectively. The remaining months maintained stable growth, except the slow-down in April for the high base and in October caused by the dispute between China and Japan.

· **Combination of the charging standards for domestic and international routes expected to improve the Company's performance:** recently the Company announced charging standards of civil airport for the international flights operated by domestic airlines would be merged with charging standards for flights operated by foreign airlines, which represents 40% discount for the international flights operated by domestic airlines will disappear and the charging standards will increase by 67%. BCIA is the most important international hub in North China, and its international and regional routes occupy around 22% proportion of the total business, with 10.3% by domestic airlines. According to our estimation, after the adjustment, BCIA's EPS would be improved by 9% annually therefore, and the revenue would increase RMB100 million in 2013.

· **Prospects for 2013: lower-than-expected data in January not changing good prospects for the demand in the whole year.** The aircraft movements of BCIA increased slightly by 1.2% yoy to 45,690 in January, with the yoy growth rate of 0.8% and 2.8% in domestic and international/regional routes respectively. The passenger throughput dropped 0.3% yoy mainly affected by peak time stagger in China Lunar New Year, the haze and the split-flow from the high speed railways. Specifically, domestic routes dropped by 0.3% yoy and international/regional routes increased by 0.9% yoy.

#### BCIA

<b>Rating</b>	<b>1.00</b>	<b>Buy</b>
- Previous Rating	2.00	Accumulate
<b>Target Price (HKD)</b>	<b>7.6</b>	
- Previous Target Price (HKD)	6.1	
Closing Price (HKD)	6.05	
Expected Capital Gains (%)	25.6%	
Expected Dividend Yield (%)	2.5%	
<b>Expected Total Return (%)</b>	<b>28.1%</b>	
Raw Beta (Past 2yrs weekly data)	0.60	
Market Cap. (HKD bn)	26,202	
Enterprise Value (HKD mn)	35,807	
52 week range (HKD)	3.73 - 7	
Closing Price in 52 week range		



#### Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (RMB mn)	5777	6500	6887	7513
Net Profit, adj. (RMB mn)	595	1114	1308	1729
EPS, adj. (RMB)	0.14	0.26	0.30	0.40
P/E (X),adj.	35.8	19.1	16.1	12.2
BVPS (RMB)	3.10	3.34	3.59	3.93
P/B (X)	1.6	1.5	1.4	1.2
DPS (RMB)	0.00	0.08	0.10	0.12
Div. Yield (%)	0.0%	1.6%	2.1%	2.5%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

#### Valuation Method

EV/EBITDA

#### Analyst

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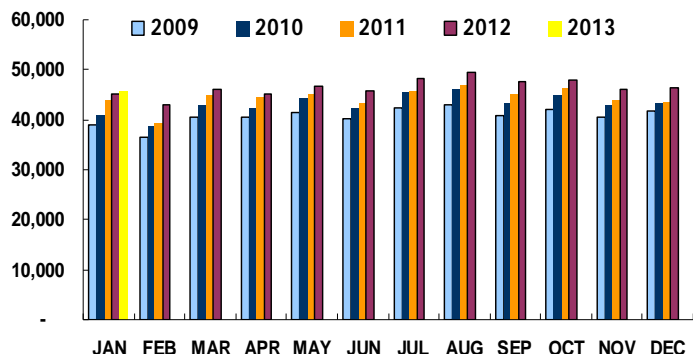
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We expect the demand of domestic aviation market in 2013 to be better than that of 2012 due to the rebound of domestic and foreign economy, although the Jan data is lower than expectation.

· **The expansion of the range of visa-free transit will help increase non-aeronautical revenue:** From January 1, 2013, Beijing and Shanghai offers 72-hour visa-free transit for foreign visitors from 45 countries. Considering the higher consuming capability of international and transfer passengers compared with domestic passengers (US\$1,000 average spent by international travelers in Beijing, and RMB2,000 by domestic travelers), we believe this policy will attract more international and transfer passengers and bring about considerable non-aeronautical revenues for the Company.

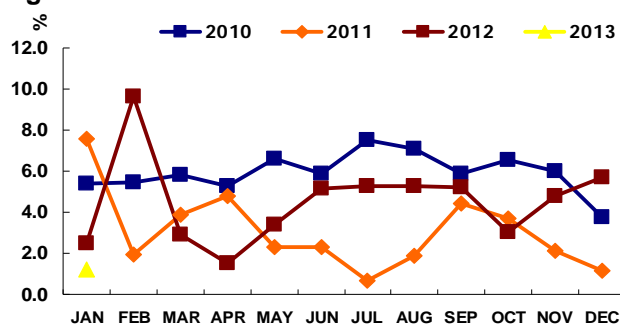
· **The adjustment of valuation provide a buying opportunity:** as a large-scale infrastructure, the airport owns specific defensive characteristics such as the price rigidity, rich cash flow and stable dividend payout policy, and the growth of non-aeronautical business lays the foundation for the performance improvement benefiting from the passenger throughput especially the large increase in the international/Hong Kong/Macau flights, and the expansion of commercial areas. It is a good investment subject in both offensive and defensive strategies. The Company's previous valuation recovered obviously and the share price faces probable adjustment in the short term, but provides the good buying opportunity. We expect the Company's net profits would achieve RMB1.31 and 1.73 billion, equivalent to EBITDA/Share RMB0.91 and 1.02 in 2012 and 2013 respectively. Currently the estimated Next-year EBITDA/Share for the European airport company is 7.4x, and 6.4x of Chinese airport companies. Our target price is HK\$7.6, equivalent to 6x 2013E EBITDA/Share, recommends Buy rating

**Fig 1 Aircraft movements of BCIA**



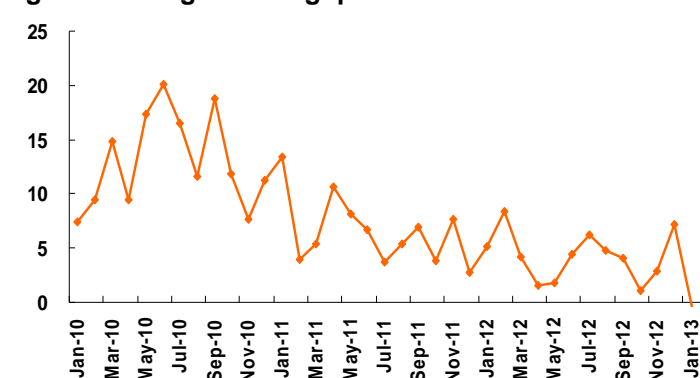
Source: Company reports, Phillip Securities

**Fig 2 Aircraft movements Growth of BCIA**



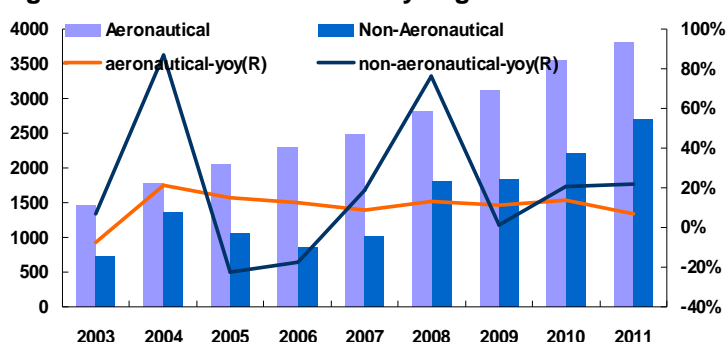
Source: Company reports, Phillip Securities

**Fig 3 Passenger Throughput Growth of BCIA**



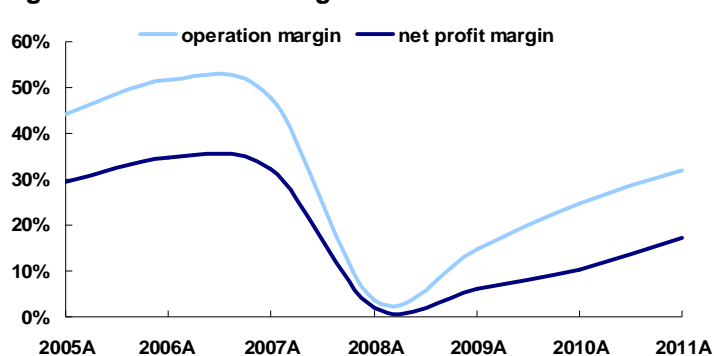
Source: Company reports, Phillip Securities

**Fig 5 View of BCIA's Revenue by segment**



Source: Company reports, Phillip Securities

**Fig 6 View of BCIA's Margins**



Source: Company reports, Phillip Securities

· Risk: (1) Economic situation get worse, airlines reduces the number of flights and air routes, the airport's operating income will be directly impacted. The economic crisis will also beat high-end customers' consuming capacity; (2)

other transportation methods such as high speed railway, highway will also divert some of its aviation passengers; and (3) Unexpected incidents in the industry such as terrorism, flu etc.

**Fig 6 Peer Valuation Comparison**

Name	Ticker	Mark Cap	P/E	P/B	EV/ MC	EV/This Year Est EBITDA	EV/Next Yr Est EBITDA
SYDNEY AIRPORT	SYD AU	5989.1	12.5	2.8	2.0	13.1	13.2
AUSTRALIAN INFRASTRUCTURE	AIX AU	1978.4	6.4	1.0	0.9	11.0	9.8
FLUGHAFEN ZUERICH AG-REG	FHZN SW	2778.6	14.5	1.4	1.4	6.9	6.7
SHANGHAI INTERNATIONAL AIR-A	600009 CH	4045.8	16.3	1.6	1.0	8.0	8.1
GUANGZHOU BAIYUN INTERNATI-A	600004 CH	1349.4	10.9	1.2	1.0	4.6	4.6
SHENZHEN AIRPORT CO-A	000089 CH	1101.5	12.1	1.0	1.1	7.4	7.5
XIAMEN INTERNATIONAL AIR-A	600897 CH	656.4	11.4	1.9	1.0	5.7	5.8
KOBENHAVNS LUFTHAVNE	KBHL DC	3083.2	20.9	6.3	1.2	NA	NA
FRAPORT AG	FRA GR	5227.8	15.4	1.4	1.9	8.3	8.3
BEIJING CAPITAL INTL AIRPO-H	694 HK	3550.6	18.9	1.5	1.6	8.5	8.5
HONG KONG AIRCRAFT ENGINEERG	44 HK	2394.8	21.0	3.3	1.1	19.6	20.7
HAINAN MEILAN INTL AIRPORT-H	357 HK	425.8	9.1	1.1	1.0	6.1	6.1
SIA ENGINEERING CO LTD	SIE SP	4341.7	19.7	4.4	0.9	28.2	28.0
SATS LTD	SATS SP	2636.9	17.5	2.4	1.0	10.8	10.7
AIRPORTS OF THAILAND PCL	AOT TB	5500.9	18.9	2.0	1.1	9.9	9.3
ADP	ADP FP	8018.0	18.7	1.7	1.5	9.1	9.1
GEMINA SPA	GEM IM	2526.9	NA	1.1	1.5	8.0	8.3
MACQUARIE INFRASTRUCTURE CO	MIC US	2429.2	189.6	3.7	1.4	14.4	12.6
WESCO AIRCRAFT HOLDINGS INC	WAIR US	1264.2	14.8	1.7	1.5	8.8	8.1

Data Source: Bloomberg, Phillip Securities

FYE DEC	FY09	FY10	FY11	FY12F	FY13F
<b>Valuation Ratios</b>					
P/E (X), adj.	70.9	35.8	19.1	16.1	12.2
P/B (X)	1.7	1.6	1.5	1.4	1.2
Dividend Yield (%)	0.2%	0.0%	1.6%	2.1%	2.5%
<b>Per share data (RMB)</b>					
EPS, (Basic)	0.069	0.137	0.257	0.302	0.399
EPS, (Diluted)	0.069	0.137	0.257	0.302	0.399
DPS	0.010	0.00	0.08	0.10	0.12
BVPS	2.94	3.10	3.34	3.59	3.93
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	7.36%	16.4%	12.5%	6.0%	9.1%
EBITDA	166.21%	27.9%	22.1%	9.7%	12.6%
Net Income, adj.	252.5%	97.9%	87.2%	17.4%	32.2%
<b>Margins</b>					
Operating margin	14.8%	24.6%	31.9%	35.1%	38.7%
EBITDA margin	46.2%	50.8%	55.1%	57.0%	58.9%
Net Profit Margin	6.1%	10.3%	17.1%	19.0%	23.0%
<b>Income Statement (RMB mn)</b>					
<b>Revenue</b>	<b>4965</b>	<b>5777</b>	<b>6500</b>	<b>6887</b>	<b>7513</b>
Aeronautical	3130	3561	3806	3982	4288
Non-Aeronautical	1835	2215	2694	2905	3225
<b>Operating profit</b>	<b>736</b>	<b>1423</b>	<b>2073</b>	<b>2415</b>	<b>2904</b>
EBITDA	2292	2932	3579	3926	4422
Profit before tax	403	793	1486	1755	2330
<b>Tax</b>	<b>-103</b>	<b>-198</b>	<b>-372</b>	<b>-448</b>	<b>-601</b>
Profit for the period	301	595	1114	1308	1729
Total capital share	4331	4331	4331	4331	4331
<b>Net profit</b>	<b>301</b>	<b>595</b>	<b>1114</b>	<b>1308</b>	<b>1729</b>

Source: PSR

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