

January 4, 2019 05:26 PM GMT

Guangzhou Baiyun Int'l Airport | Asia Pacific

Risk-Reward Remains Unfavorable

Stock Rating: Underweight
 Industry View: In-Line
 Price Target: Rmb9.78

We see limited upside for GBIA in 1H19, given its low slot growth and unfavorable economic environment. We expect further negatives from potential capex for its phase III expansion and capital injection by the parent. Stay UW.

WHAT'S CHANGED

Guangzhou Baiyun Int'l Airport (600004.SS)	From	To
Price Target	Rmb11.51	Rmb9.78
2018-20e net profit		-27.4%/-23.4%/-12.4%

What's in the price: We believe the underperformance since June 19, 2018 (-46% vs. -17% for SHCOMP index) has factored in a number of factors. 1) Unfavorable policy shift, namely the cancellation of the airport fee, which we expect to lead to a Rmb829m revenue drop in 2019 vs. 2018 on a comparable basis. 2) Lower-than-expected earnings in 2Q-3Q18, mainly due to higher-than-expected depreciation for the new terminal (T2), higher-than-expected other costs related with T2, and the impact of T1 commercial rentals due to potential upgrade work.

Not the right time to turn positive: We expect limited positive news in 1H19, given the likelihood of more slots remains low given CAAC's continued control on new slot growth, as well as limited upside to commercial rentals and advertising revenue given the potential for an economic soft landing.

Potential negatives ahead: 1) Capex for GBIA's phase III expansion; 2) potential share issuance to the parent for subsidies, which would lead to EPS dilution; 3) potential downside to T2 commercial rental and advertising revenue if new slot approval remains difficult.

Earnings and PT changes: We have cut our 2018-20 earnings estimates by 27.4%, 23.4% and 12.4%, respectively. We have also lowered our PT by 15.0% to Rmb9.78 on our lower earnings forecasts.

We remain UW on GBIA: Our new earnings forecasts are 14-22% below consensus, and our new price target implies 1% downside vs. an average 24% upside for our China Transportation coverage. We expect potential catalysts from higher-than-expected 2019-20 capex and the announcement of the phase III expansion project. Upside risks: 1) Stronger-than-expected traffic growth driven by improved efficiency; 2) better-than-expected non-aeronautical business development.

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Guangzhou Baiyun Int'l Airport (600004.SS, 600004.CH)

Hong Kong/China Transportation & Infrastructure / China

Stock Rating	Underweight
Industry View	In-Line
Price target	Rmb9.78
Up/downside to price target (%)	(1)
Shr price, close (Jan 4, 2019)	Rmb9.90
52-Week Range	Rmb18.87-9.50
Sh out, dil, curr (mn)	2,069
Mkt cap, curr (mn)	Rmb20,486
EV, curr (mn)	Rmb19,984
Avg daily trading value (mn)	Rmb170

Fiscal Year Ending	12/17	12/18e	12/19e	12/20e
ModelWare EPS (Rmb)	0.77	0.54	0.41	0.52
Prior ModelWare EPS (Rmb)	-	0.74	0.53	0.60
Revenue, net (Rmb mn)	6,673	7,795	8,013	8,731
EBITDA (Rmb mn)	2,756	2,702	2,599	2,932
ModelWare net inc (Rmb mn)	1,596	1,113	844	1,083
P/E	19.0	18.7	24.3	18.9
P/BV	2.0	1.3	1.3	1.2
ROE (%)	14.8	7.4	5.4	6.7
EV/EBITDA	10.8	8.1	8.7	7.8
Div yld (%)	1.6	1.7	1.3	1.6

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
 e = Morgan Stanley Research estimates

Related research

[Guangzhou Baiyun Int'l Airport: T1 New Advertising Contract Announced \(31 Jul 2018\)](#)

[China Airports: GBIA and BCIA: PT Cuts after Airport Fee Refund Cancellation \(18 Jun 2018\)](#)

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GBIA: Financial Summary

Exhibit 1: GBIA: Financial Summary, 2016-20E

Income Statement					
RMB Mn	2016	2017	2018E	2019E	2020E
Aeronautical Revenues	3,470	3,844	4,059	3,454	3,651
Non-aeronautical Revenues	2,697	2,917	3,839	4,666	5,196
Less: Business tax	(66)	(88)	(103)	(106)	(116)
Net Revenues	6,101	6,673	7,795	8,013	8,731
Cost of Services	(3,724)	(4,019)	(5,690)	(6,193)	(6,551)
Operating Expenses	(101)	(88)	(39)	(41)	(44)
General & Administrative	(393)	(423)	(482)	(495)	(540)
Operating Profit	1,883	2,142	1,583	1,284	1,596
Net Interest Income/(Expenses)	6	(39)	(130)	(190)	(168)
Investment income and subsidy	30	46	50	53	55
Net non-operation income	(14)	16	43	43	43
Pre-tax Profit	1,905	2,165	1,546	1,190	1,526
Income tax	(513)	(565)	(403)	(310)	(398)
Net Profit before Minority Interest	1,393	1,601	1,143	880	1,128
Minority interest	2	(5)	(30)	(36)	(45)
Net Profit	1,395	1,595	1,113	844	1,083
EBITDA	2,461	2,604	2,702	2,599	2,932
EPS (Rmb)	0.84	0.82	0.54	0.41	0.52

Balance Sheet					
RMB Mn	2016	2017	2018E	2019E	2020E
Net Fixed Assets	7,016	8,603	20,979	20,476	19,503
Construction in Progress	7,948	9,094	(1,906)	7	2,166
Intangible and Deferred Assets	52	59	600	559	522
Other non-current assets	634	651	617	623	720
Total Non-current Assets	15,649	18,407	20,290	21,666	22,911
Cash and Cash Equivalents	990	2,837	4,682	4,418	1,893
Non-cash current Assets	1,104	1,276	1,618	1,692	1,820
Total Current Assets	2,094	4,113	6,300	6,111	3,713
Total Assets	17,743	22,520	26,589	27,776	26,624
Current Liabilities	2,609	3,962	4,016	4,026	4,061
Loans or debts	3,158	2,370	5,800	6,500	4,500
Net Working Capital	(515)	151	2,284	2,085	(348)
Total Non-current Liabilities	3,158	2,370	5,800	6,500	4,500
Minority Interest	108	94	124	160	205
Net Assets	10,767	15,006	15,623	16,120	16,940
Common stock	1,150	2,069	2,069	2,069	2,069
Additional paid-in capital	3,855	6,750	6,750	6,750	6,750
Surplus reserve	575	714	714	714	714
Retained earnings	5,187	5,473	6,090	6,587	7,407
Total shareholders' equity	10,767	15,006	15,623	16,120	16,940

Cash Flow Statement					
RMB Mn	2016	2017	2018E	2019E	2020E
Net income before minority interest	1,392	1,601	1,143	880	1,128
Depreciation and Amortization	609	632	1,133	1,330	1,351
Increase in working capital	(29)	(84)	(217)	(29)	(145)
Investment income and disposal	(29)	(46)	(50)	(53)	(55)
Financial expenses	14	50	158	237	212
CF from Operating Activities	1,956	2,153	2,168	2,365	2,492
Capex	(5,294)	(4,037)	(3,050)	(2,700)	(2,500)
Cash for investment	-	(48)	-	-	-
Cash from investment	(50)	26	-	-	-
Disposal of asset and investment	-	-	-	-	-
CF from Investing Activities	(5,345)	(4,058)	(3,050)	(2,700)	(2,500)
Issue of debts	3,805	5,370	3,382	655	(2,043)
Issue of equity	-	-	-	-	-
Other cash received	(1)	(37)	-	-	-
Retirement of debts	(350)	(1,000)	-	-	-
Interests on debts	-	-	(158)	(237)	(212)
Dividends	(413)	(580)	(497)	(346)	(263)
CF from Financing Activities	3,040	3,753	2,727	72	(2,518)
Effect of Exchange rate on cash	(6)	0	-	-	-
Change in Net Cash	(354)	1,849	1,845	(264)	(2,526)
Beginning Net Cash	1,346	990	2,837	4,682	4,418
Ending Net Cash	992	2,839	4,682	4,418	1,893

Source: Company data, Morgan Stanley Research. e=Morgan Stanley Research estimates

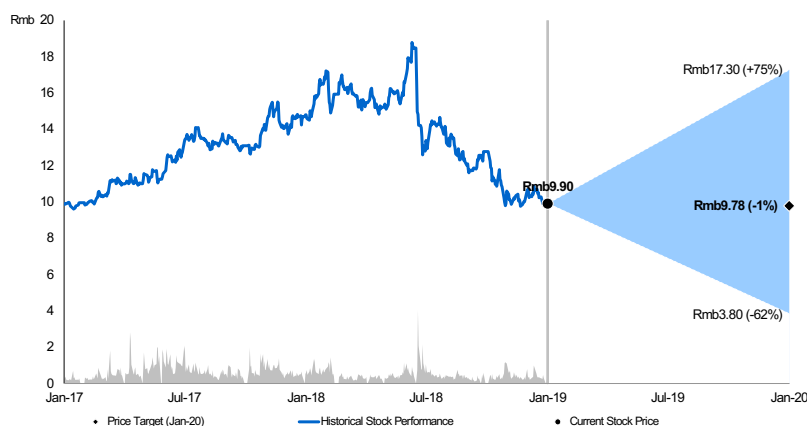
Ratio Analysis					
	2016	2017	2018E	2019E	2020E
Growth					
Aeronautical Rev	11.5%	10.8%	5.6%	-14.9%	5.7%
Non-aeronautical Rev	7.6%	8.2%	31.6%	21.5%	11.4%
Total Revenues	9.5%	9.4%	16.8%	2.8%	9.0%
Operating Profits	13.3%	13.8%	-26.1%	-18.9%	24.3%
Pretax Profits	8.7%	13.7%	-28.6%	-23.0%	28.2%
Net Profit	11.2%	14.5%	-30.2%	-24.2%	28.4%
EBITDA	10.9%	5.8%	3.7%	-3.8%	12.8%
EPS	11.2%	-1.9%	-34.4%	-24.2%	28.4%
Margins					
EBITDA Margin	39.9%	38.5%	34.2%	32.0%	33.1%
Operating Margin	30.5%	31.7%	20.0%	15.8%	18.0%
Net Profit Margin	22.6%	23.6%	14.1%	10.4%	12.2%
Return					
MW ROE	14.9%	14.8%	7.4%	5.4%	6.7%
ROA	9.2%	7.9%	4.5%	3.1%	4.0%
ROIC	11.8%	10.1%	6.0%	4.3%	5.4%
Gearing					
Net Debt/Equity	20.1%	Net Cash	7.2%	12.9%	15.4%
Net Interest Coverage (x)	177.6	Net Cash	17.1	11.0	13.8

Operational Analysis					
	2016	2017	2018E	2019E	2020E
Volumes					
Passenger Volumes ('000)	59,737	65,807	70,019	74,570	79,417
Aircraft Movements	435,174	465,300	481,586	496,033	510,914
Cargo and Mail ('000 ton)	1,652	1,780	1,896	2,019	2,120
Growth					
Passenger Volumes	8.2%	10.2%	6.4%	6.5%	6.5%
Aircraft Movements	6.2%	6.9%	3.5%	3.0%	3.0%
Cargo and Mail	7.4%	7.8%	6.5%	6.5%	5.0%

Valuation					
(x)	2016	2017	2018E	2019E	2020E
P/E	11.6	19.0	18.7	24.0	18.7
P/BV	1.5	2.0	1.3	1.3	1.2
EV/EBITDA	7.4	10.8	8.1	8.6	7.8
Dividend Yield	3.3%	1.6%	1.7%	1.3%	1.7%

Risk-Reward Snapshot: GBIA (600004.SS, Rmb9.90, UW, PT Rmb 9.78)

Upside is limited; Remain UW



Source: Thomson Reuters, Morgan Stanley Research

Price Target Rmb 9.78

Derived from a DCF valuation, then probability weighted (10% bull case, 85% base case, and 5% bear case).

Bull Rmb 17.30**42.4x base case 2019e P/E**

Better-than-expected ASP expansion from traffic mix: We assume traffic growth and ASP are 5% higher than in the base case in 2018-20. Labor per head shows low-single-digit growth, driven by effective cost control. Airport fee continues.

Base Rmb 9.25**22.7x base case 2019e P/E**

Moderate growth in traffic and costs: Pax and flight traffic grow by 6.4%, 6.5% and 6.5%, and 3.5%, 3.0% and 3.0% YoY, respectively, in 2018-20. Per head labor costs rise 8.0%, 8.0% and 8.0% YoY in 2018-20, with 5.0%, 2.0% and 2.0% annual headcount increases. No airport fee after November 30, 2018.

Bear Rmb 3.80**9.3x base case 2019e P/E**

Slower traffic growth with higher labour costs: We assume traffic growth is 5% lower than in the base case in 2018-20, while per head labour cost is 8% higher than in our base case. Lower revenue from airport commercial business. No airport fee after November 30, 2018.

Investment Thesis

■ We believe potential negatives are not in the price: 1) Capex for GBIA's phase III expansion; 2) potential share issuance to the parent for subsidies, which should lead to EPS dilution; 3) potential downside to T2 commercial rental and advertising revenue if new slot approval remains difficult.

■ While our new earnings forecasts are 14-22% below consensus, we see further downside risks to consensus earnings estimates for 2018-20e.

■ GBIA is trading at 24x 2019e P/E vs. its domestic and global peers' means of 14.0x and 23.8x, respectively. We think GBIA should be trading at a discount to its A-share peers due to its high runway utilization.

Key Value Drivers

- Traffic volume growth and airport utilization.
- ASP driven by traffic mix.
- Earnings resumption in non-aeronautical segments.
- Effectiveness of labor cost control measures.

Potential Catalysts

- 2019-20 capex is higher than market expectations.
- Guangzhou Baiyun phase III expansion project is announced by the listco.

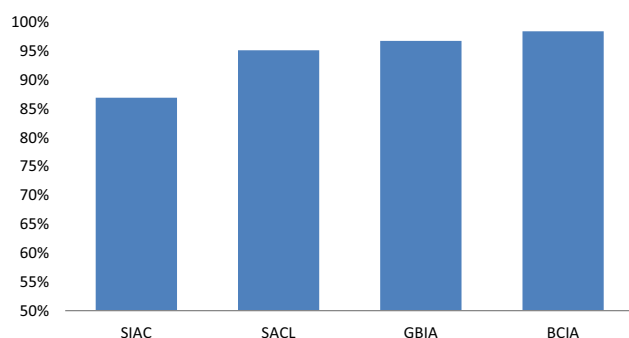
Risks to Achieving Price Target

- Upside: 1) Stronger-than-expected traffic growth driven by improved efficiency; 2) better-than-expected non-aeronautical business development.

Investment Thesis

Why Remain Underweight?

Utilization is already high

Exhibit 2: Chinese Airports: Runway Utilization (2019E)

Source: Morgan Stanley Research estimates

Capacity at Chinese airports is capped by their runways. Normally, one independent runway translates into 200-205k take-offs/landings p.a., considering current safety and aerospace management requirements in China.

GBIA has three runways, but there is only a short distance between the third runway and the east runway. As a result, we estimate GBIA has only 2.5 effective runways, with a utilization rate of 94% at end-2018.

For terminal capacity, we agree with the market that it will increase on the Terminal 2 launch. However, we highlight that the increase in terminal capacity will not help expand GBIA's runway capacity until an additional runway is built.

Further downside to consensus earnings

Exhibit 3: GBIA: Morgan Stanley vs. Consensus Earnings Estimates

Rmb mn		2018E	2019E	2020E
Revenue	MSe	7,898	8,120	8,847
	Consensus	8,046	8,328	9,064
		-1.8%	-2.5%	-2.4%
Gross margin	MSe	27.0%	22.7%	25.0%
	Consensus	31.4%	28.0%	30.2%
		-4.4ppt	-5.3ppt	-5.2ppt
Operating margin	MSe	20.3%	16.0%	18.3%
	Consensus	22.2%	18.7%	21.0%
		-1.9ppt	-2.7ppt	-2.7ppt
Net profit	MSe	1,113	844	1,084
	Consensus	1,296	1,079	1,340
		-14.1%	-21.9%	-19.1%

Source: Thomson Reuters, Morgan Stanley Research estimates

As our new net profit forecasts are 14%, 22% and 19% below consensus for 2018-20e, respectively, we see further downside to consensus net profit estimates, led by: 1) low slot increase given CAAC's continued control over new slot growth; and 2) worse-than-expected commercial rentals and advertising revenue, given a potential economic soft landing.

Our revenue forecasts are only 2% below consensus, but we differ more from the Street on margin assumptions. In particular, our gross margin assumptions are 4.4ppt, 5.3ppt, and 5.2ppt below consensus estimates for 2018-20e, respectively, taking into account more significant cost inflation from the new terminal (T2) following disappointing 2Q-3Q18 results.

Further risks ahead

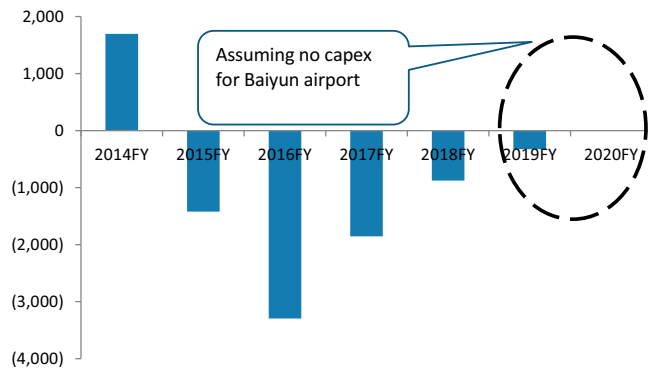
1) Capex for phase III expansion: We believe the market has not factored in potential capex from the phase III expansion project, as consensus capx estimates look too low at only Rmb248mn for 2019 and Rmb540mn for 2020 ([Exhibit 5](#)).

According to a news report by [China Securities Journal](#), the preliminary work on the phase III expansion started in Dec-18. The project includes the construction of two new runways (R4, R5) and one terminal (T3), with total capex of Rmb49bn, based on a

document released by the Guangzhou government in April 2018.

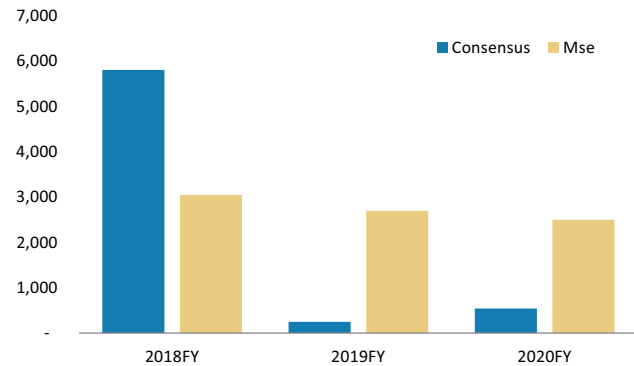
2) Potential share issuance to the parent for subsidies: Following the cancellation of the airport fee refund announced by MoF in Jun-18, we think it is possible that GBIA could receive the airport fee refund (subsidy) via capital injection by its parent. Any such move would likely be accompanied by an equity issuance, which would lead to potential EPS dilution.

Exhibit 4: GBIA: Free Cash Flow (Rmb mn)



Source: Company data, Morgan Stanley Research estimates

Exhibit 5: GBIA Capex: MS vs. Consensus Estimates (Rmb mn)



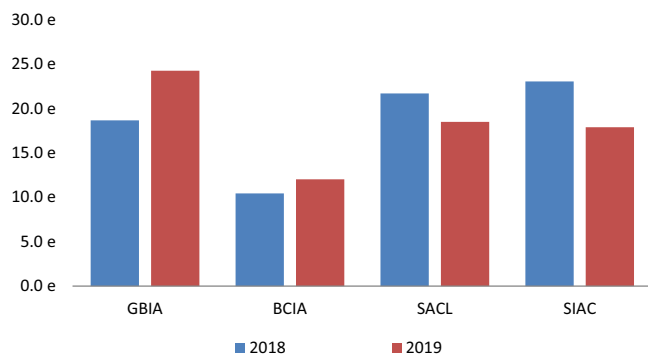
Source: Thomson Reuters, Morgan Stanley estimates. Note: Potential capex for Phase III expansion is not included in MSe.

Valuation is not cheap

GBIA stock is trading at a P/E of 24x 2019e, more than 30% above its Chinese peers'. However, we think GBIA should be trading at a discount to its A-share peers due to its high runway utilization.

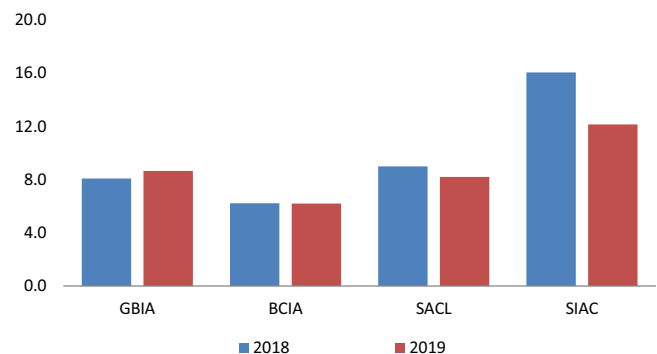
In terms of EV/EBITDA, the stock is cheaper than SIAC, mainly due to SIAC's better traffic mix (~50% non-domestic vs. 25% for GBIA), and lower runway utilization ([Exhibit 2](#)). Further, GBIA's EV/EBITDA may also be understated if capex is higher than our expectation in 2019 and beyond, as we do not factor in any potential capex from phase III expansion in our forecasts, or any unexplained capex budgeted and announced by the listco.

Exhibit 6: Chinese Airports: Forward P/E



Source: Morgan Stanley Research estimates

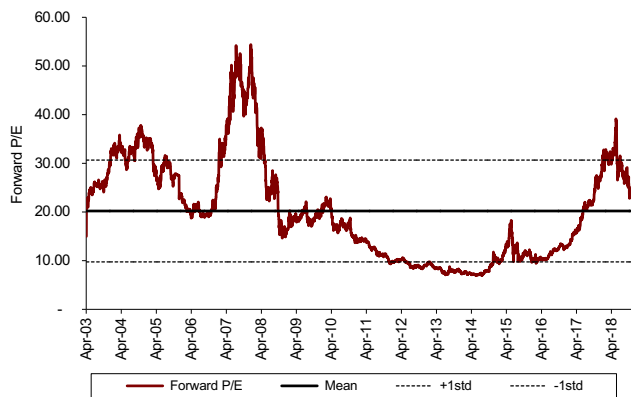
Exhibit 7: Chinese Airports: Forward EV/EBITDA



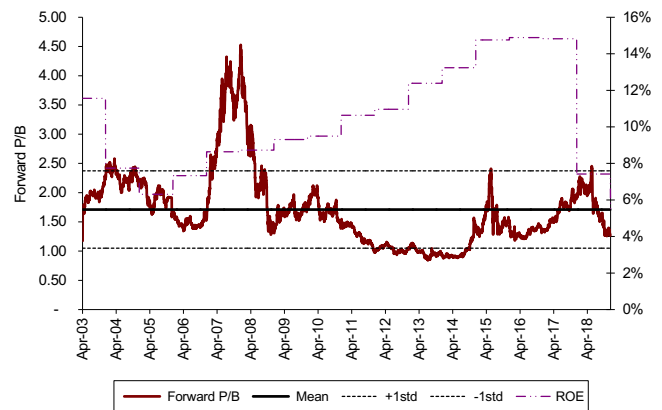
Source: Morgan Stanley Research estimates

Valuation vs. Historical Average

Despite share price correction in recent months, GBIA's valuation does not look cheap to us compared with its historical levels, at about 0.4 standard deviation above its historical (2003-present) average forward P/E, and in line with its historical average EV/EBITDA. GBIA's forward P/B is 0.6std below its historical average P/B; however, due to the removal of the airport fee subsidy, its forward ROE will also fall below historical average.

Exhibit 8: GBIA: Forward P/E


Source: Bloomberg, Morgan Stanley Research estimates

Exhibit 9: GBIA: Forward P/B


Source: Bloomberg, Morgan Stanley Research estimates

Exhibit 10: GBIA: Forward EV/EBITDA


Source: Bloomberg, Morgan Stanley Research estimates

Where we could be wrong

1) GBIA delivers better-than-expected results, thanks to better-than-expected revenue generation from terminal rentals, including its duty free business; 2) re-rating of Chinese airports thanks to strong performance of Shanghai International Airport or improved market valuations.

3Q18 Earnings Miss

GBIA's recurring profit dropped 48.9% YoY in 3Q18 to Rmb214mn. Net profit fell 45.5% YoY (-27.6% in 2Q18), to Rmb216mn. Total recurring net profit of 1-3Q18 amounted to Rmb915m, -23.7% YoY, accounting for 60% of our previous full-year estimate.

We think the earnings declines primarily reflected: 1) higher-than-expected depreciation and operating costs related to its newly delivered Terminal 2 (T2); 2) commercial areas shutdown in T1; and 3) the hit to traffic from the typhoon in September.

Read our notes:

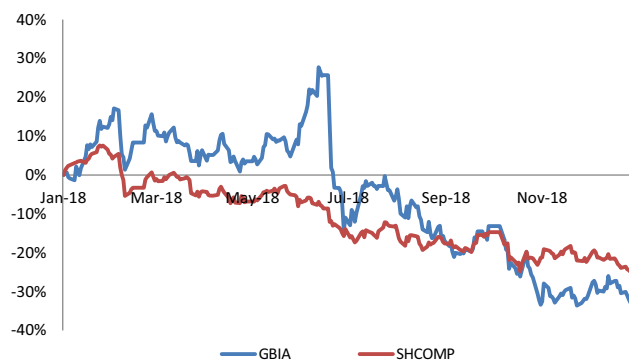
[Guangzhou Baiyun Int'l Airport: Discussion with the Management after 3Q18 Results: Quick Notes \(31 Oct 2018\)](#)

[Guangzhou Baiyun Int'l Airport: 3Q18 Earnings Down 46% YoY, Stay UW \(30 Oct 2018\)](#)

What's in the Price

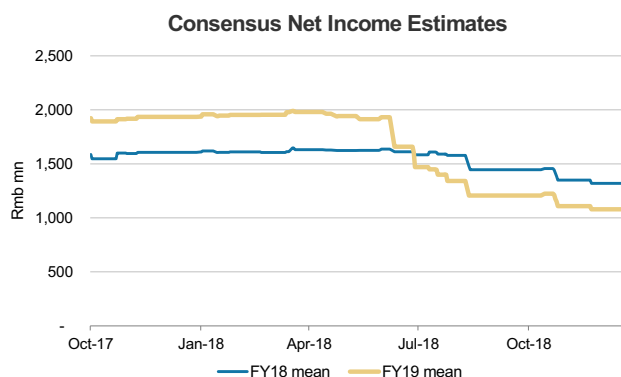
Over the course of 2018, GBIA's share price dropped significantly, by 33%, underperforming the Shanghai Composite Index by 7ppt. We think the share price correction mainly reflects the earnings downgrades as a result of: 1) the announcement of the airport fee refund cancellation in Jun-18 (see our report: [China Airports: GBIA and BCIA: PT Cuts after Airport Fee Refund Cancellation](#)); and 2) earnings weakness for 2Q-3Q18. Specifically, consensus earnings have dropped 21% for 2018e and 46% for 2019e from their respective peaks in 2018.

Exhibit 11: GBIA underperformed Shanghai Composite Index by 7ppt in 2018



Source: Thomson Reuters, Morgan Stanley Research

Exhibit 12: GBIA: 2018-19 consensus earnings estimates



Source: Thomson Reuters, Morgan Stanley Research

Earnings Estimates and Price Target

After factoring in GBIA's 3Q18 results, we have cut our net profit forecasts for 2018, 2019 and 2020 by 27.4%, 23.4%, and 12.4%, respectively, reflecting lower revenues growth and sustained cost pressure owing to T2's launch.

Exhibit 13: GBIA: What's Changed

Year ended Dec 31 (Rmb Mn)	New Est	2018E Old Est	% Diff.	New Est	2019E Old Est	% Diff.	New Est	2020E Old Est	% Diff.
Revenue	7,898	8,465	-6.7%	8,120	8,624	-5.8%	8,847	9,265	-4.5%
Business taxes and levies	(103)	(111)	-6.7%	(106)	(113)	-5.8%	(116)	(121)	-4.5%
Net revenue	7,795	8,354	-6.7%	8,013	8,511	-5.8%	8,731	9,143	-4.5%
Cost of services	(5,690)	(5,681)	0.2%	(6,193)	(6,325)	-2.1%	(6,551)	(6,753)	-3.0%
Sales expenses	(39)	(112)	-64.7%	(41)	(125)	-67.5%	(44)	(134)	-67.1%
G&A expenses	(482)	(470)	2.6%	(495)	(526)	-5.8%	(540)	(565)	-4.5%
Operating profit	1,583	2,091	-24.3%	1,284	1,535	-16.4%	1,596	1,691	-5.6%
Operating profit margin	20.3%	25.0%	-4.7ppt	16.0%	18.0%	-2.0ppt	18.3%	18.5%	-0.2ppt
Net interest income/(expenses)	(130)	(75)	73.1%	(190)	(106)	78.4%	(168)	(80)	111.0%
Investment income and subsidy	50	50	0.0%	53	53	0.0%	55	55	0.0%
Net non-operation income	43	16	167.8%	43	16	167.8%	43	16	167.8%
Profit before taxation	1,546	2,082	-25.7%	1,190	1,498	-20.5%	1,526	1,682	-9.3%
PBT margin	19.8%	24.9%	-5.1ppt	14.9%	17.6%	-2.7ppt	17.5%	18.4%	-0.9ppt
Income tax	(403)	(543)	-25.7%	(310)	(390)	-20.5%	(398)	(438)	-9.3%
Minority interest	(30)	(5)	449.6%	(36)	(6)	488.1%	(45)	(7)	571.5%
Net Profit	1,113	1,534	-27.4%	844	1,101	-23.4%	1,083	1,237	-12.4%
Net margin	14.3%	18.4%	-4.1ppt	10.5%	12.9%	-2.4ppt	12.4%	13.5%	-1.1ppt
EPS (Rmb)	0.54	0.74	-27.4%	0.41	0.53	-23.4%	0.52	0.60	-12.4%

Source: Morgan Stanley Research (E) estimates

Morgan Stanley vs. Consensus Estimates

Our revised net profit assumptions are now 14%, 22% and 19% below 2018-20e consensus estimates. We think the difference is mainly due to our more conservative view on GBIA's non-aeronautical business growth.

Exhibit 14: GBIA: Morgan Stanley vs. Consensus Net Profit Estimates

Year to Dec 31		2018E	2019E	2020E
Guangzhou Airport				
MS estimates	Rmb mn	1,113 e	844 e	1,083 e
Consensus estimates	Rmb mn	1,296	1,079	1,340
% variance		-14%	-22%	-19%

Source: Thomson Reuters, Morgan Stanley Research estimates

Valuation methodology

Our price target of Rmb9.78 (was Rmb11.51) is derived from our probability weighted average of scenario values. Our base-case value is derived from DCF valuation. We assume a WACC of 10.8% (unchanged) based on a cost of equity of 12.0%, a cost of debt of 5.5%, and a consistent target structure of 85% equity and 15% debt. We use a beta of

Exhibit 15: GBIA: Price Target

Rmb	Value - New	Value - Old	Up (down)	Prob.	Prob-wt values	Implied 2019 PE
Bull case	17.30	20.25	-15%	10%	1.73	42.4
Base case	9.25	10.89	-15%	85%	7.86	22.7
Bear case	3.80	4.50	-16%	5%	0.19	9.3
Price target				100%	9.78	24.0

Source: Morgan Stanley Research (E) estimates

its two-year weekly beta from Bloomberg. We assume a terminal growth rate of 2.0%. All of these metrics are unchanged.

The probability weightings we apply to our bull, base and bear cases remain at 10%, 85% and 5%, respectively. We see a higher chance of our bull case playing out, in view of sustained traffic growth and increasing pricing power in the long run. However, we still attach a slight probability to our bear case, in view of tail risks related to traffic growth.

Our base-case value drops by 15% from Rmb10.89 to Rmb9.25 mainly due to the revisions in our earnings assumptions.

Exhibit 16: GBIA: DCF Valuation

Year to Dec, Rmb mn	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Terminal Val.
Free Cash Flow to Entity														
EBITDA	2,702	2,599	2,932	3,200	3,366	3,500	3,638	3,784	3,911	4,034	4,164	4,300	4,436	
Less: Cash Tax Payable on EBIT	(413)	(335)	(416)	(482)	(522)	(552)	(583)	(615)	(642)	(667)	(694)	(722)	(750)	
Less: Investments in Working Capital	(217)	(29)	(145)	(101)	(83)	(82)	(84)	(87)	(83)	(84)	(87)	(91)	(94)	
Less: Capital Expenditure	(3,050)	(2,700)	(2,500)	(852)	(854)	(856)	(858)	(860)	(913)	(915)	(917)	(920)	(922)	
Plus: Proceeds from Asset Sales and Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	
FCF to Entity	(979)	(464)	(129)	1,764	1,907	2,009	2,114	2,221	2,273	2,368	2,465	2,567	2,670	30,882
WACC	10.8%													
Terminal Growth	2.0%													
PV of Free Cash Flow		(232)	(116)	1,436	1,401	1,332	1,264	1,199	1,107	1,041	977	918	862	9,968
DCF Valuation (Rmb mn)														
NPV of Explicit Cash Flow Forecasts	11,420													
Terminal Value	9,968													
Enterprise Value	21,388													
Net debt	(2,082)													
Minority interest	(160)													
Equity Value	19,146													
No. of shares outstanding	2,069													
Per Share Equity Value (Rmb)	9.25													

Source: Morgan Stanley Research (E) estimates

Bull- and bear-case scenario values

We have cut our bull-case and bear-case values by 15% and 16%, respectively, to Rmb 17.30 and Rmb 3.80 , largely in line with the reduction in our base-case value.

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1143	36%	282	40%	25%	540	38%
Equal-weight/Hold	1428	45%	336	47%	24%	651	46%
Not-Rated/Hold	46	1%	6	1%	13%	6	0%
Underweight/Sell	566	18%	86	12%	15%	232	16%
TOTAL	3,183		710			1429	

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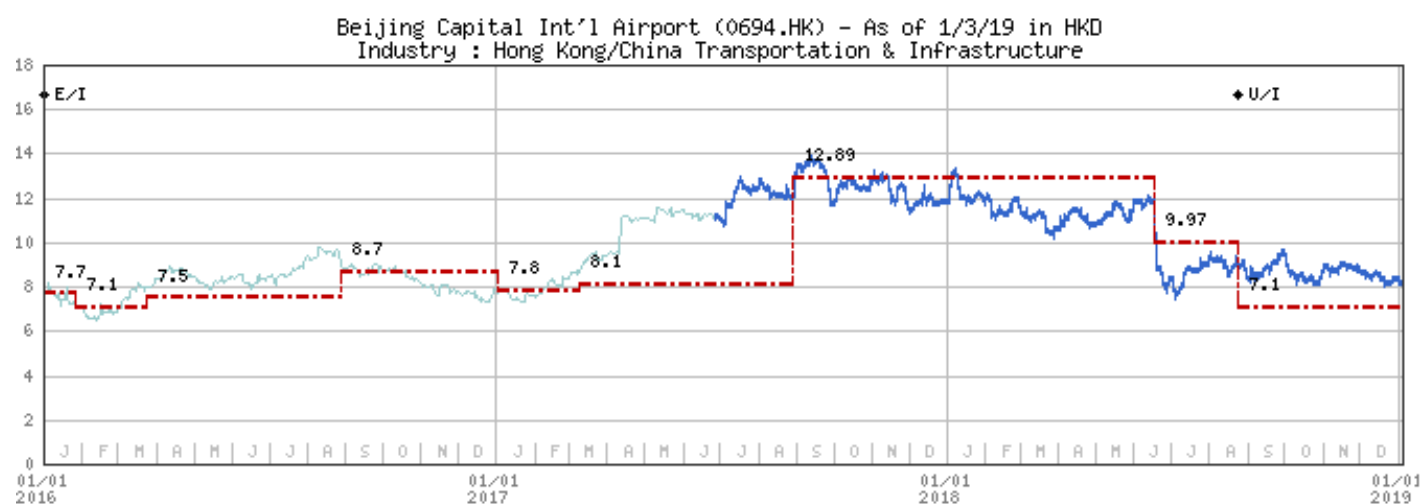
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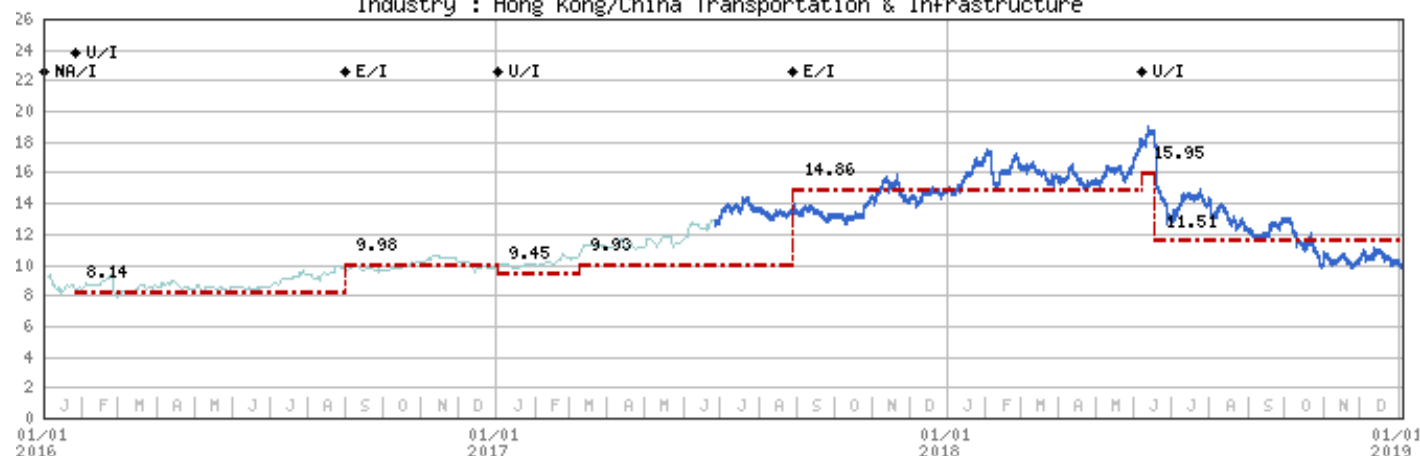
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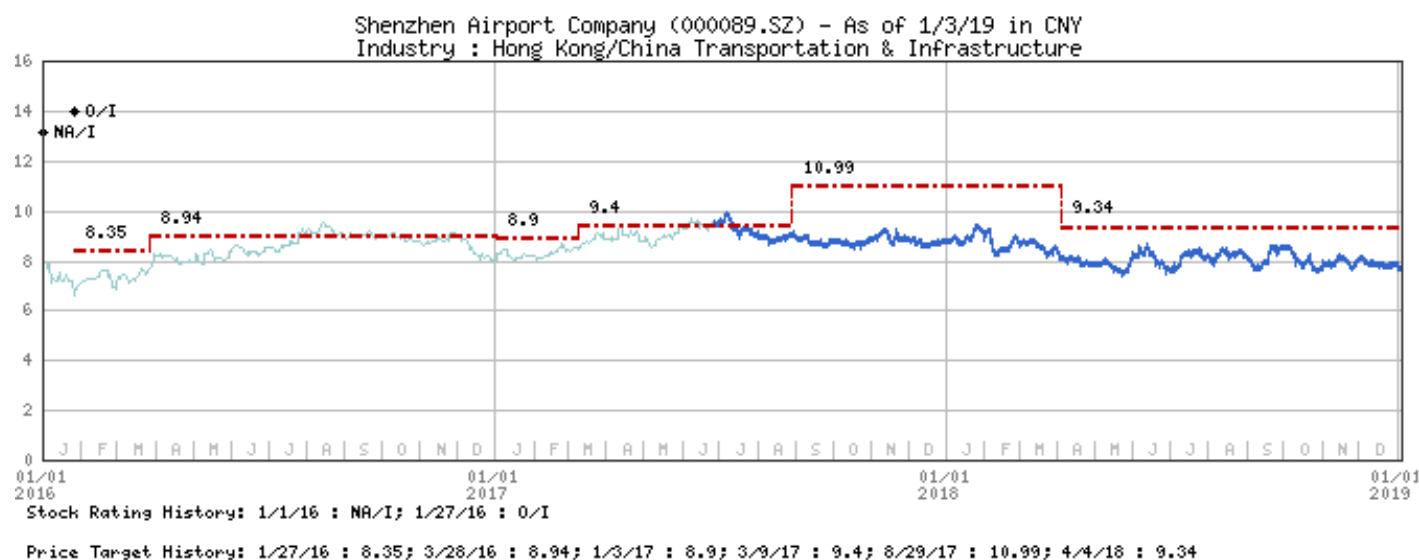
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INDUSTRY COVERAGE: Hong Kong/China Transportation & Infrastructure

COMPANY (TICKER)	RATING (AS OF)	PRICE* (01/04/2019)
Edward H Xu, CFA		
Air China Limited (601111.SS)	E (01/11/2018)	Rmb7.62
Air China Limited (0753.HK)	O (01/11/2018)	HK\$6.24
BOC Aviation (2588.HK)	E (11/27/2018)	HK\$56.80
Cathay Pacific Airways (0293.HK)	E (11/10/2016)	HK\$10.98
China Eastern Airlines (600115.SS)	E (01/11/2018)	Rmb4.83
China Eastern Airlines (0670.HK)	O (01/11/2018)	HK\$4.10
China Southern Airlines (600029.SS)	E (01/11/2018)	Rmb6.84
China Southern Airlines (1055.HK)	O (01/11/2018)	HK\$4.62
Daqin Railway Co. Ltd. (601006.SS)	O (08/29/2016)	Rmb8.13
Deppon Logistics Co Ltd (603056.SS)	U (11/21/2018)	Rmb15.96
Guangshen Railway (0525.HK)	E (08/22/2018)	HK\$2.93
Guangshen Railway (601333.SS)	E (08/22/2018)	Rmb3.27
Kerry Logistics Network (0636.HK)	E (04/23/2018)	HK\$11.38
S.F. Holding Co Ltd (002352.SZ)	E (01/22/2018)	Rmb32.95
Shenzhen International Holdings (0152.HK)	O (05/27/2014)	HK\$14.58
Sinotrans Limited (0598.HK)	O (05/27/2014)	HK\$3.35
SITC International Holdings Company (1308.HK)	E (08/20/2018)	HK\$6.93
Spring Airlines (601021.SS)	O (08/31/2015)	Rmb31.54
TravelSky Technology (0696.HK)	O (11/27/2018)	HK\$19.74
ZTO Express (ZTO.N)	O (11/21/2016)	US\$15.33
Qianlei Fan, CFA		
Beijing Capital Int'l Airport (0694.HK)	U (08/24/2018)	HK\$6.75
China Merchants Energy Shipping Co. Ltd. (601872.SS)	E (11/08/2018)	Rmb3.73
China Merchants Port Holdings (0144.HK)	E (12/07/2017)	HK\$14.20
COSCO SHIPPING Energy Transportation (1138.HK)	E (10/18/2016)	HK\$3.83
COSCO SHIPPING Energy Transportation (600026.SS)	U (10/18/2016)	Rmb4.54
COSCO Shipping Holdings Ltd (601919.SS)	U (10/26/2017)	Rmb4.29
COSCO Shipping Holdings Ltd (1919.HK)	E (02/22/2017)	HK\$2.98
COSCO SHIPPING Ports Limited (1199.HK)	E (08/29/2018)	HK\$7.68
Guangzhou Baiyun Int'l Airport (600004.SS)	U (06/08/2018)	Rmb9.90
Hutchison Port Holdings Trust (HPHT.SI)	U (10/26/2017)	US\$0.25
Pacific Basin Shipping (2343.HK)	O (10/18/2016)	HK\$1.46
Shanghai International Airport (600009.SS)	O (08/28/2015)	Rmb49.82
Shanghai International Port Group Co Ltd (600018.SS)	E (12/07/2017)	Rmb5.25
Shenzhen Airport Company (000089.SZ)	O (01/27/2016)	Rmb7.72

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.