Beijing Capital International Airport

Sept's int'l traffic growth rose back to pre-Diaoyu island dispute levels - ALERT

- Int'l pax traffic rebounded by 8% Y/Y in September, while we expect growth pace to further accelerate in 4Q13: BCIA released its monthly traffic report last Friday. The blended aircraft movements and passenger throughput were up 1.7% Y/Y in September. In particular, BCIA’s int’l pax traffic rose by 8% Y/Y in the month despite the still high base (vs. 2.7% Y/Y in 8M13) as the China-Japan diplomatic tensions broke out in mid-September last year. The sequential recovery trend for int'l traffic has been rather encouraging in recent months: with Sept's 8% rise, int'l PAX traffic was up 5% in 3Q13 vs. 2% in 1H13. Heading into 4Q13, we expect growth pace to further pick up partly helped by an easier comp, suggesting earnings upside risk as BCIA’s profitability is highly leveraged to int'l traffic.

- Update on the Beijing 2nd Airport project: Some investors still view BCIA as a proxy for government spend, concerned that the listed company will have to participate in the airport project, in which case the ROE will fall. The Beijing 2nd airport project has not yet been officially approved, still currently undertaking the feasibility study. Mgmt expects the NDRC approval to come through by end-2013. In mgmt view, the construction has to start around the year end so that the airport can be ready by 2017-2018 given the existing airport is likely to reach saturation by then. In late July, NDRC also made an official announcement noting that it was speeding up the approval progress for the Beijing 2nd airport as the project is one of the priority tasks. We retain our view that the possibility of BCIA being involved in the construction stage is low; even if BCIA has to participate in the event of parentco’s shortage of funding, the listco would probably only take minority stake, in contrast to what we currently assume in the base case - BCIA taking 100% stake and fully involved during the construction stage. The parentco has been actively negotiating with the government, seeking funding support for the project.

- Scenario analysis of BCIA’s participation in the Beijing 2nd airport project: Our base case continues to assume that BCIA would be fully involved during the construction stage of the Beijing 2nd airport project, while different scenarios offer upside to our estimates: Scenario #1: If we assume BCIA takes a minority stake in the project (at 30%), BCIA’s FY15 FCF yield would improve to 9.6% vs. -1.7% in our base case and our Dec-13 based PT will be lifted by 44% to HK$11.8 as a result; Scenario #2: If we assume BCIA does not participate in the project at all, its FY15 FCF yield would further rise to 15.3% (vs. -1.7% in the base case). The corresponding Dec-13 PT will be lifted by 63% to HK$13.3.
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