

Regional Airlines

2021 Regional Airlines Sector Outlook

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Dec 2020

The vaccines are here, but the skies are not clear yet

- Remarkable progress on COVID-19 vaccine development is a shot in the arm for aviation
- But the recovery process will be long and windy as mass vaccination will take time, with international air travel recovery to significantly lag that of domestic air travel
- China's big three airlines are best positioned to outperform in the next 12 months given their robust domestic air travel demand with the pandemic in China under control
- Reiterate BUY on Air China, China Southern Airlines (CSA), and China Eastern Airlines (CEA); downgrade Cathay Pacific (CX) and Singapore Airlines (SIA) to FULLY VALUED as their share prices have run ahead of a slow earnings recovery trajectory
- Cautious on other ASEAN carriers in our coverage given their tepid earnings outlook and concerns on prolonged restructuring

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Contents

BULLISH ON CHINESE AIRLINES, BUT CAUTIOUS ON OTHER ASIAN AIRLINES DUE TO SLUGGISH RECOVERY COURSE

Remarkable progress on COVID-19 vaccine development is a shot in the arm for airlines. Recent breakthroughs on vaccine development has been a much-needed boost for the beleaguered aviation sector, igniting hopes for an imminent revival in travel activity. The extremely high efficacy rates (>90%) of recently developed vaccines by Pfizer/BioNTech, Moderna and other pharmaceutical companies should instill confidence among the general population and alleviate safety concerns surrounding vaccines developed at warp speed. We believe that 2H2021 should see a significant rebound in travel activity after evaluating the production and distribution plans of several promising vaccine candidates.

But the recovery process will be bumpy, especially in the short-term as Asia is hit by multiple COVID-19 waves. The next two quarters will be challenging for the sector, as the likelihood of comprehensive travel restrictions relaxing has all but vanished, as new COVID-19 cases continue to accelerate across Asia, with multiple countries reporting record new cases week after week. Furthermore, access to the vaccine is by no means guaranteed, given that majority of global vaccine supply has already been secured by richer nations. The turnaround in international travel activity in countries with a relatively lower vaccine coverage would likely trail other countries, as inbound travelers would opt to avoid these countries, while outbound travelers that have not been inoculated could be denied entry into other countries.

Chinese airlines are best positioned to navigate the turbulent skies; reiterate BUY with higher TPs. Among our coverage, the Chinese airlines scored higher than the other airlines in the region based on a list of criteria set as i) they have a robust domestic market that's already back to pre-crisis levels due to the government's successful management of COVID-19, ii) low exposure to business travelers relative to other full service carriers, iii) they have ample liquidity, and are already operating cash flow positive as of 3Q20, unlike most other airlines in the region, iv) COVID-19 vaccines should be widely available to the Chinese people. The three Chinese carriers are only priced at 0.9-1.0x on a P/BV basis, (FY21F), which is 0.5-1.0 standard deviations (sd) below their respective five-year averages. Current valuation levels have yet to capture the brighter recovery prospects of the Chinese airlines, and we believe the +0.5sd level is more reflective. Accordingly, we have raised the TPs of **Air China**, **CSA**, and **CEA** to **HK$7.60**, **HK$6.10, HK$4.60** respectively on the back of higher target P/BV multiples.

Market may have gotten ahead of themselves on CX and SIA; remain wary on other ASEAN airlines. After the recent rally in CX's and SIA's share prices, CX and SIA are now trading at 0.9x and 1.0x P/BV (CY21F), on par with the Chinese carriers, and about 1.0sd above their respective five-year averages, which is too rich in our view. Hence, we are downgrading our recommendation on both **CX** and **SIA** to **FULLY VALUED** with unchanged **TPs of HK$3.60 and S$3.60 respectively**. Meanwhile, the other Asian airlines under our coverage are facing precarious liquidity situations and are planning or have plans to restructure their balance sheets to avoid insolvency. We maintain **HOLD** on **Cebu**, and **FULLY VALUED** on **AAX** and **AAG** with unchanged TPs of **PHP40.0, MYR0.03 and MYR0.20** respectively, and downgrade **Garuda** to HOLD with a lower TP of **RP435**.

VACCINE BREAKTHROUGH ENHANCES VISIBILITY ON RECOVERY TIMELINE, BUT THE PATH WILL BE UNEVEN

We posit three scenarios with respect to how the recovery in air travel will take shape in Asia as the pandemic evolves. While we have not assigned probabilities to each scenario, the bull case is becoming increasingly less probable as risks at the current juncture are skewed to the downside. Over the next two quarters, the likelihood of travel bubbles being established between countries appears bleak as the virus has proven to be a stubborn adversary, and the arrival of winter could exacerbate the situation; positive developments on the vaccine front largely underpins our optimism on a meaningful resumption in travel activity in 2H2021. However, developing countries have yet to secure sufficient quantities of the vaccine, and supply chain issues surrounding the production and distribution of time and temperature sensitive vaccines could quickly change our narrative. One point we remain confident of is that the fundamental demand for air travel is robust, and pent-up demand will drive a front-loaded recovery when passengers are given the green light to travel again.

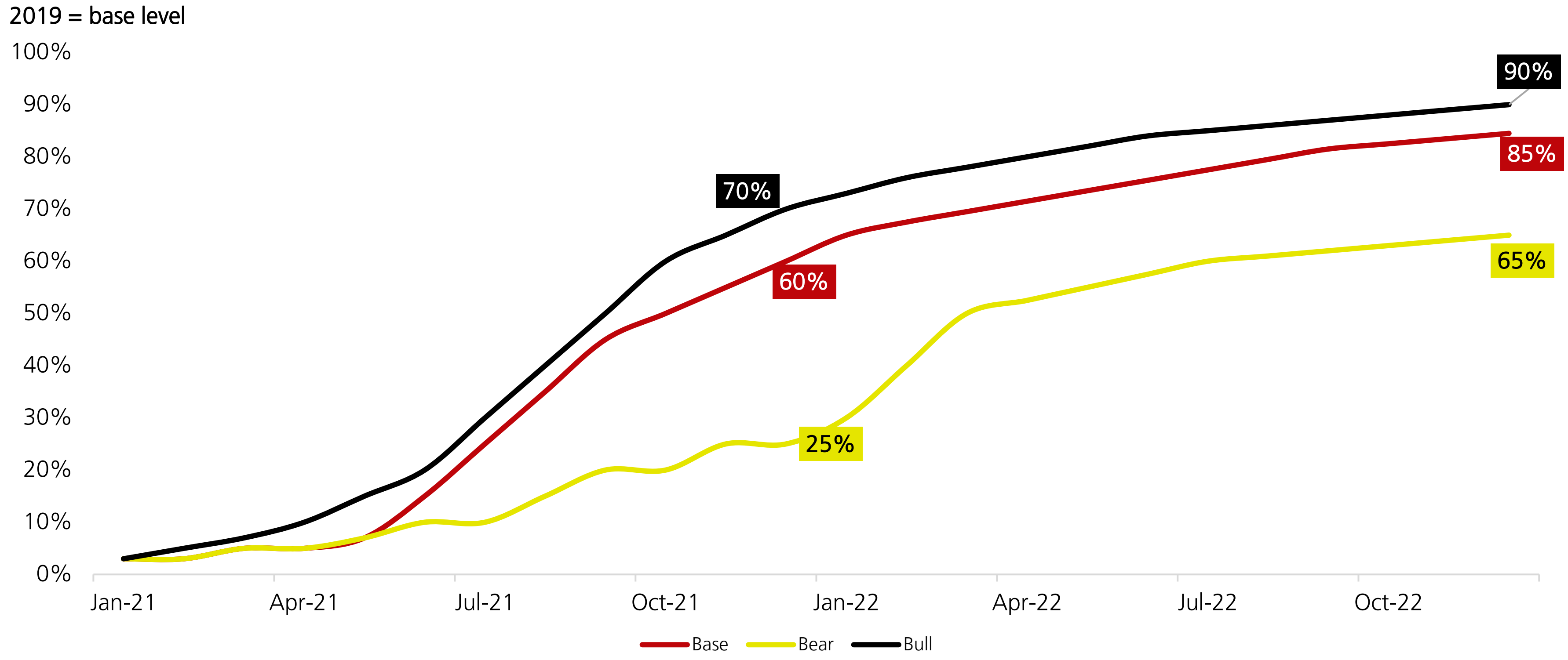
Containment of the virus is key for a meaningful uptick in travel activity and the key for most of the world seems to now lie in vaccinating the general population. Domestic revenue-passenger-kilometers (RPK) in China has largely returned to pre-COVID19 levels in October 2020, which is no surprise given that the country has managed to swiftly control the spread of the virus. However, in other important domestic markets like the USA, Japan and India, domestic RPK is still significantly down y-o-y after being hit by multiple waves of COVID-19 infections. Russia is the sole anomaly, registering growth in domestic RPK in September 2020, despite a surge in new COVID-19 cases, fueled by discounted fares and easing of restrictions within the country. As evident in the charts below, the COVID-19 situation in Asia appears grim, with new cases still trending higher in most parts of the region – a travel bubble between Hong Kong and Singapore that was slated to begin in early December was scrapped due to a surge in new COVID-19 cases in Hong Kong. With the pandemic hard to control in many parts of the world, all attention has now shifted to vaccinating the general population in order to contain the pandemic.

Limited access to vaccine could impede the normalisation of international travel. Recent vaccines developed by Pfizer/BioNTech, Moderna, and Gamaleya Research Institute all boast of extraordinarily high efficacy rates in excess of 90% while vaccines by AstraZeneca/Oxford and Sinopharm are not far behind, with efficacy rates ranging between 70-90% (mixed trial results) and 87% respectively. As of Dec-2020, there are four other promising vaccine candidates (apart from the vaccines mentioned earlier) in advanced phase 3 trials, so we should receive more good news on this front soon. Unfortunately, most of the vaccine supplies have been procured in advance by wealthier countries, which suggests a potentially lengthy timeframe for vaccination in developing countries, especially within Asia. According to estimates by Bloomberg (refer to the world map below), only Korea, Japan, Hong Kong, India and Indonesia have secured significant quantities of doses to inoculate most of their populations, while China plans to rely on vaccines developed domestically.

High acceptance of COVID-19 vaccine in Asia is encouraging. A global survey on vaccine acceptance conducted in June by the National Center for Biotechnology Information (NCBI) exhibited a wide range of acceptance across countries, with 71.5% of participants indicated that they would take a vaccine if it was proven safe and effective. On a positive note, Asian countries ranked relatively high on the survey, with 88.6%, 79.8%, 74.5% and 67.9% of respondents from China, South Korea, India and Singapore respectively responding positively. The relatively high level of acceptance bodes well for international travel activity, as vaccine passports could be made mandatory for international air travel, and majority of the general population must be inoculated to achieve herd immunity in the region.

VACCINE BREAKTHROUGH ENHANCES VISIBILITY ON RECOVERY TIMELINE, BUT THE PATH WILL BE UNEVEN

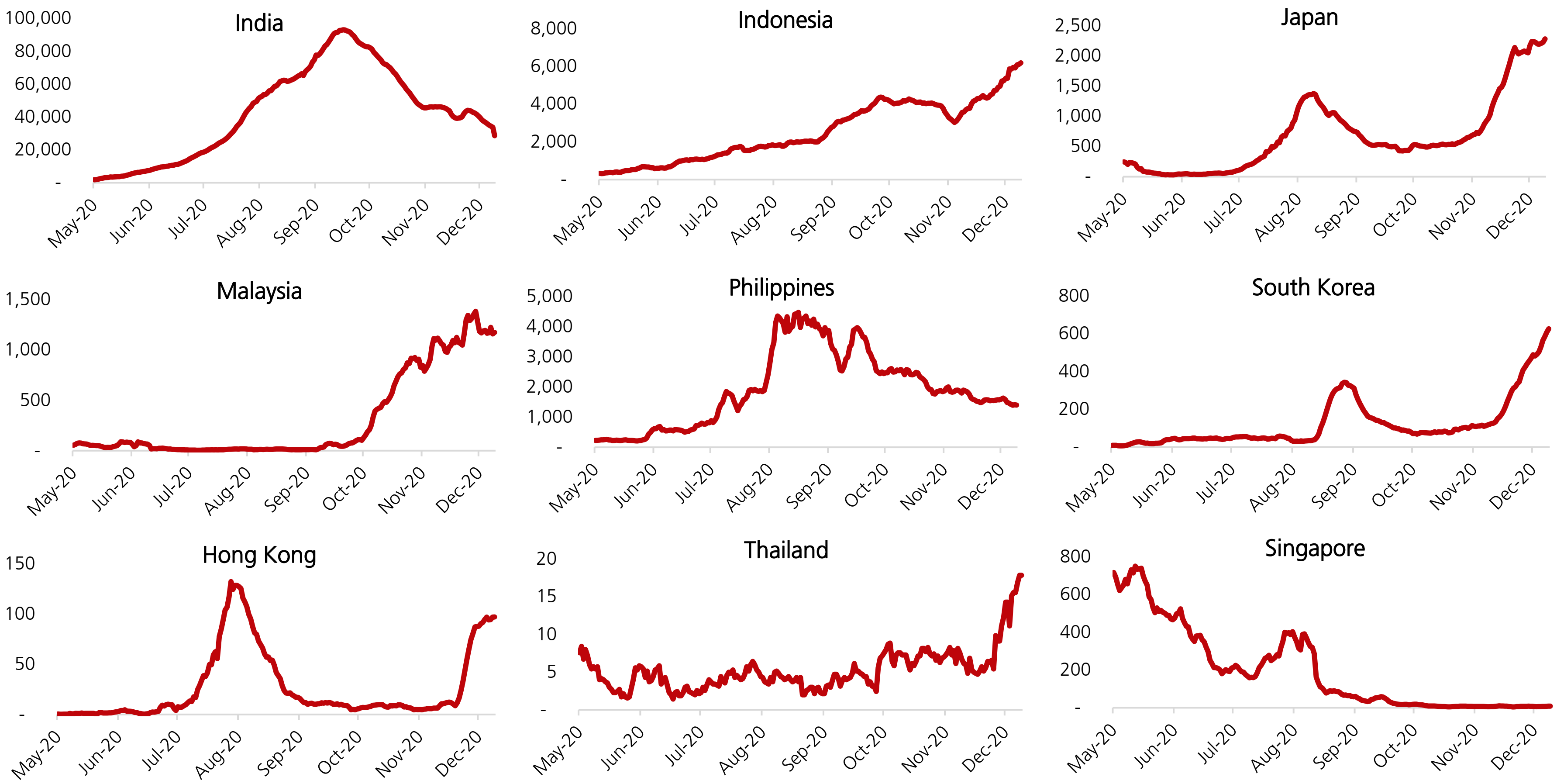
Forecasts of international travel activity under the various scenarios



Source: DBS Bank Ltd

VACCINE BREAKTHROUGH ENHANCES VISIBILITY ON RECOVERY TIMELINE, BUT THE PATH WILL BE UNEVEN

Count (7-day rolling average) of new COVID-19 cases is still trending higher in most countries within Asia



Source: Bloomberg Finance L.P., DBS Bank Ltd

VACCINE BREAKTHROUGH ENHANCES VISIBILITY ON RECOVERY TIMELINE, BUT THE PATH WILL BE UNEVEN

Summary of the nine most promising COVID-19 vaccine candidates

Developer	Vaccine	Efficacy	Comments
Pfizer / BioNTech	mRNA Vaccine BNT162b2	Over 90 percent effective (Nov 9)	• Plans to produce 50m doses in 2020 and 1.3bn doses in 2021 • Vaccine must be stored and transported at -70°C. Pfizer is building boxes that will keep vaccines cold during transport. • Approved by UK, US and Canada
Moderna	mRNA-1273	94.5 percent effective (Nov 16)	• Expects to have 20m doses for US in Dec 2020 and 100m doses globally in Q1 2021 • Standard refrigeration (2-8°C) • Trial will continue to gather more results and Moderna plans to submit application for emergency use authorisation in the next few weeks
AstraZeneca / Oxford	Covishield	70-90 percent effective, depending on dosage	• Making rapid progress in manufacturing with capacity of up to 3 billion doses in 2021 on rolling basis, pending regulatory approval • Standard refrigeration (2-8°C) • Could be approved for use by UK and India soon
Novavax	NVX-CoV2373	-	• Agreement with Serum Institute of India to produce as many as 2 billion doses a year • Standard refrigeration (2-8°C) • Expected to deliver results in early 2021
Johnson-Johnson	JNJ-78436735	-	• Aims for production of at least a billion doses in 2021 • Standard refrigeration (2-8°C) • Announced a separate trial with two doses in November

Source: The New York Times, DBS Bank Ltd

Summary of the nine most promising COVID-19 vaccine candidates (cont'd)

Sinovac Biotech	CoronaVac	Preliminary Phase 3 efficacy rate cannot be confirmed as not enough cases of the coronavirus have emerged yet in its study population.	• Approved for limited use in China • Plans to manufacture 300m doses annually and aims to complete construction of second production facility by end of 2020 to increase annual production capacity to 600m • Standard refrigeration (2-8°C) • Mixed findings - While the vaccine appeared to be safe in the early clinical trials, the company reported that it generated lower levels of protective antibodies in the bloodstream compared with those arising in recovered coronavirus patients.
Gamaleya Research Institute	Sputnik V	92% efficacy	• Aims to produce 1bn doses in 2021 • Standard refrigeration (2-8°C) • In talks with AstraZeneca to investigate if the two vaccines can be successfully combined
CanSino Biologics	Ad5-nCoV (Convidecia)	Phase 2 trials demonstrated vaccine produced strong immune response	• Plans to construct a facility to produce 200m doses annually • Standard refrigeration (2-8°C) • Chinese military approved vaccine on June 25 for a year as a "specially needed drug"
Sinopharm		86% efficacy	• Plans to produce 1bn doses by 2021 • Standard refrigeration (2-8°C) • Obtained emergency approval over summer for use by government officials, health care workers in China • Sought formal approval from authorities on November 25 to bring vaccine to market

Global COVID-19 Vaccine Tracker (as of 13-Dec-2020)				
Phase I	Phase 2	Phase 3	Approved for limited use	Approved for full use
40	17	15	5	2

Source: The New York Times, DBS Bank Ltd

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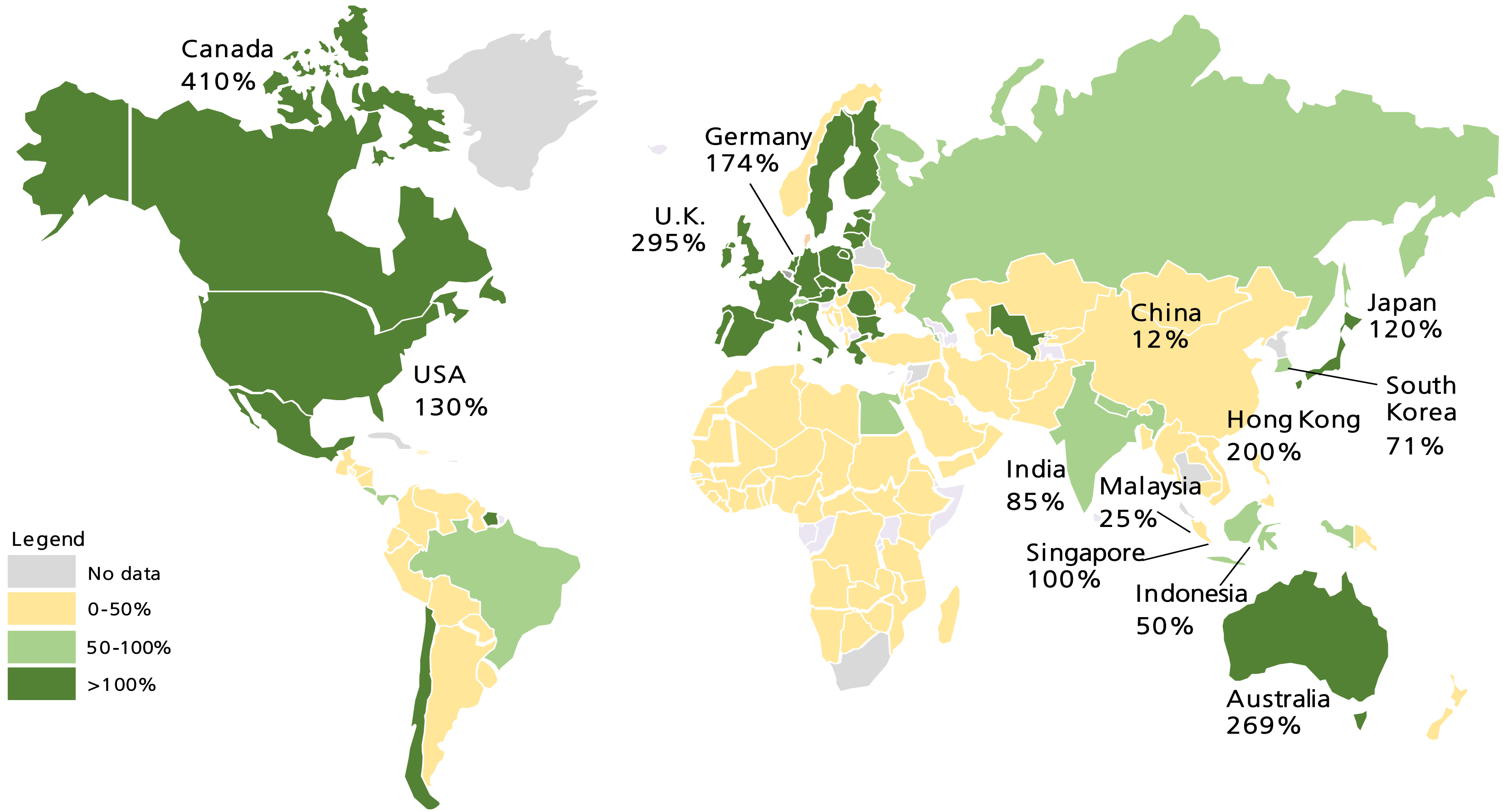
VACCINE BREAKTHROUGH ENHANCES VISIBILITY ON RECOVERY TIMELINE, BUT THE PATH WILL BE UNEVEN

Vaccine coverage by country as of 13-Dec 2020 (% of population covered)

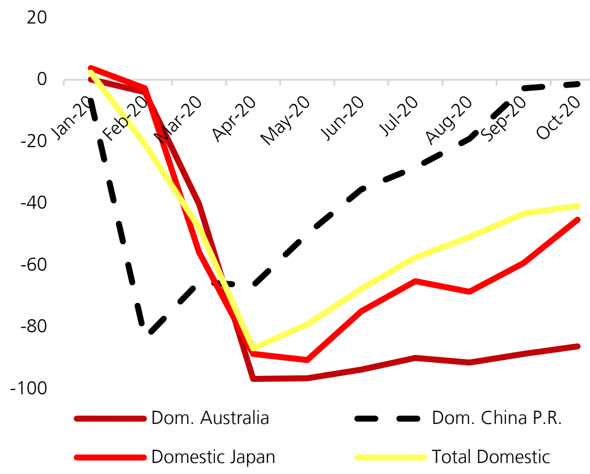


Source: Bloomberg Finance L.P., DBS Bank Ltd

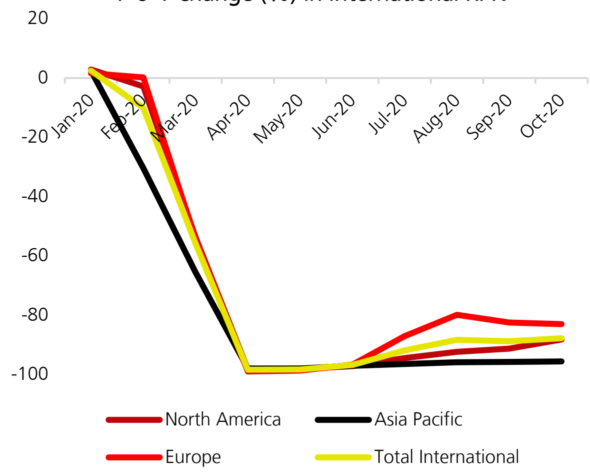
THE BUILDING BLOCKS OF RECOVERY FOR THE AVIATION SECTOR

Divergence in international and domestic RPK in key markets

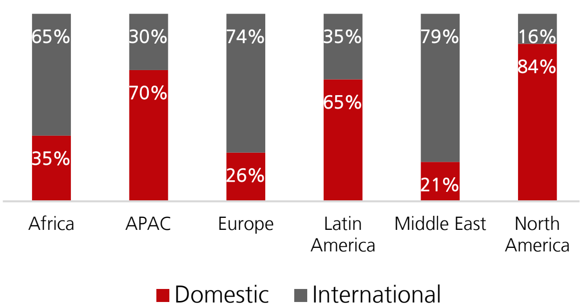
Y-o-Y change (%) in domestic RPK



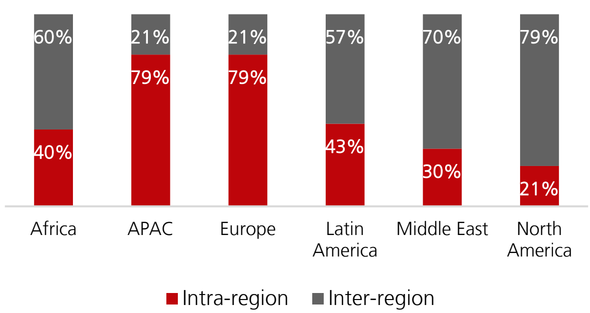
Y-o-Y change (%) in international RPK



Share of international/domestic passengers (2019)



Breakdown of international seats offered (2019)



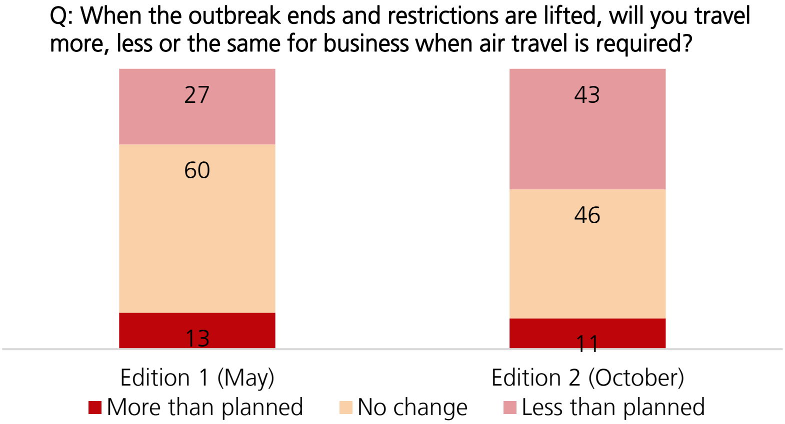
Source: IATA, ICAO, DBS Bank Ltd

Pace of recovery: domestic > regional short haul > international. Sequentially, we expect air travel to first bounce back in domestic markets, driven by a shift in preference for short-haul travel (consumers largely perceive domestic markets to be safer, and also want to minimise time spent in an enclosed area), and international travel restrictions remaining in place for a prolonged period of time. International air travel activity will likely remain subdued until COVID-19 vaccines are made widely available to the general population, as vaccine passports could be compulsory for cross-border travel. However, the turnaround trajectory for international travel will likely be bumpy, with developed countries that have secured significant vaccine doses in advance emerging out of the crisis first. Prior to that, regional flight activity could see a minor uptick as travel restrictions are gradually eased, likely between countries that have successfully contained the pandemic.

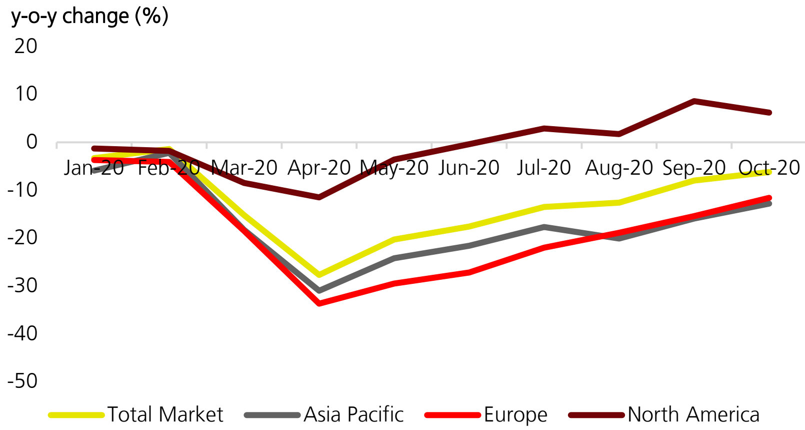
Relative to the other regions, APAC airlines are likely to see a faster recovery, given their relatively larger exposure to the domestic market, and considerable proportion of intra-region flights as a % of total international flights.

THE BUILDING BLOCKS OF RECOVERY FOR THE AVIATION SECTOR

Oliver Wyman Travel Sentiment Survey (Business Travel)



Historical domestic and international CTK



Source: Oliver Wyman, IATA, DBS Bank Ltd

COVID-19 could fundamentally alter the landscape for business travel. Companies have grown increasingly accustomed to virtual meetings and teleconferencing to maintain and even form new working relationships during the crisis. Although business meetings will likely still be crucial for developing new relationships, companies will likely dial back on internal trips to their own offices and facilities (which make up 40% of total corporate demand according to Oliver Wyman), and rely on alternate means like video-conferencing. Based on a survey conducted by Oliver Wyman in October, 43% of respondents indicated that they were likely to travel less for business when the outbreak ends, up from 27% when a first edition of the survey was conducted in May, citing health/safety concerns and the effectiveness of teleconferencing as key reasons, which suggests that the time span for a return to normalcy could be slower than previously envisaged or that some proportion of business travel would permanently be displaced by teleconferencing and virtual meetings.

Freighter operations continue to be a bright spot, but it can only do so much to mitigate muted travel demand. According to IATA, most airlines are expected to book higher cargo revenue in 2020, despite a projected 45% plunge in available cargo-tonne kilometres (ACTK), as still robust cargo uplift coupled with tighter cargo capacity (primarily driven by the grounding of passenger aircraft) fueled a 30% increase in yields during the year. Looking ahead into 2021, airlines should see another year of growth due to favourable supply-demand dynamics. Stronger business confidence, robust e-commerce growth, and the herculean and time-sensitive task of transporting billions of vaccine doses should stimulate demand growth, while supply should remain tight as airlines gradually return passenger aircraft into service. However, this will be grossly insufficient to propel airline revenue back to pre-COVID19 levels, given cargo's low share of total airline revenue (12% of sector revenue in 2019).

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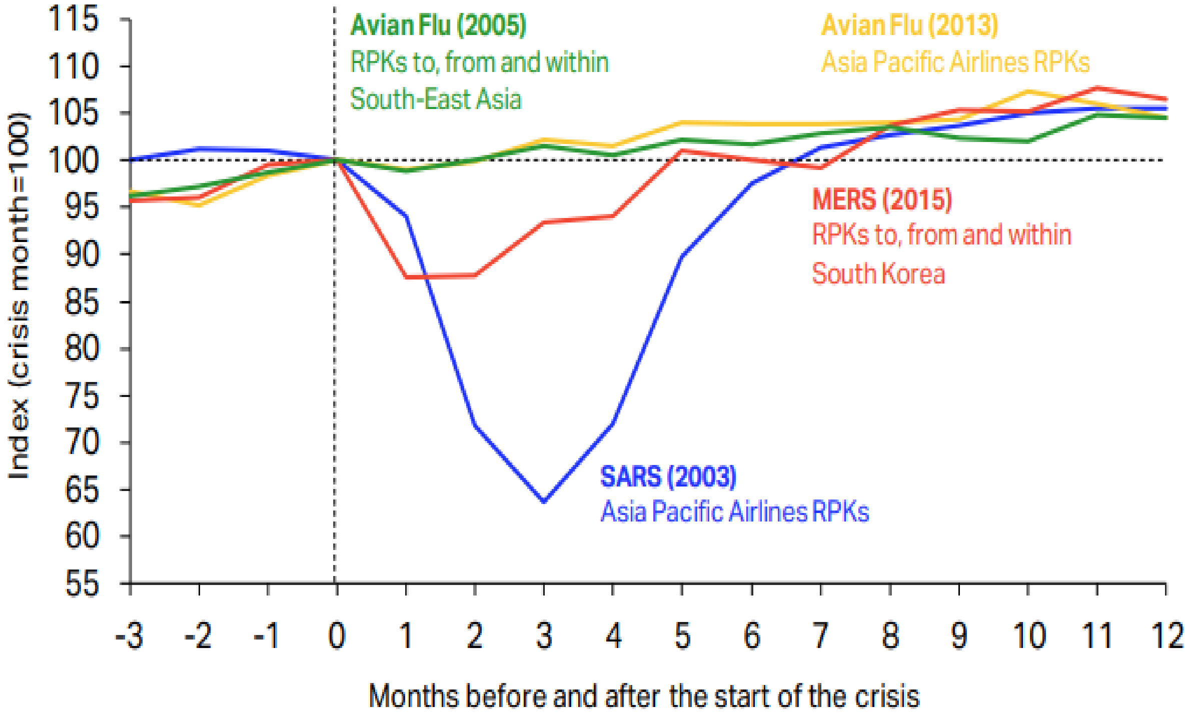
THE BUILDING BLOCKS OF RECOVERY FOR THE AVIATION SECTOR

Impact of past pandemics on the aviation sector

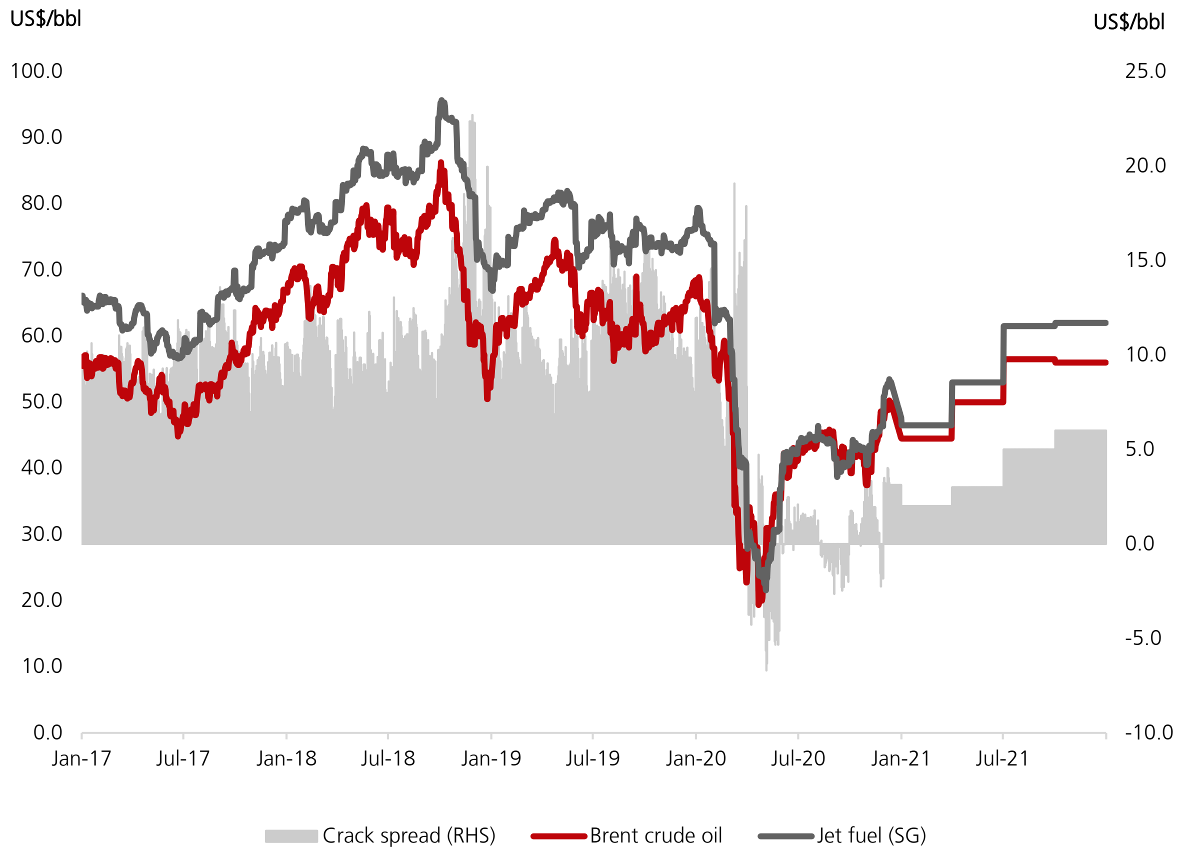


Source: IATA, DBS Bank Ltd

Pent-up demand will drive a spike as travel restrictions are relaxed, but full recovery is still sometime away. The aviation sector demonstrated commendable resilience in past crises, with pent-up travel demand catalysing the recovery each time - RPK in the most impacted regions of previous pandemic episodes like SARS in 2003, and MERS in 2015, returned to pre-crisis levels within four months after bottoming, while global RPK after the GFC took about twelve months to reach pre-crisis levels after hitting its trough. However, COVID-19's impact on the global aviation industry will certainly be far more profound and protracted. Our current base case assumes that 2H21 will be an inflection point for international travel activity, which eventually normalises to pre-crisis levels in 2H23. Revenge spending by consumers will likely drive a front-loaded recovery, and while the medium-term outlook is still shrouded in uncertainty, more positive news on the vaccine front would accelerate the recovery timeline.

THE BUILDING BLOCKS OF RECOVERY FOR THE AVIATION SECTOR

Historical and projected jet fuel prices



Source: IATA, DBS Bank Ltd

Crude oil market will remain oversupplied in 2021 and require OPEC+ production discipline to drive global inventory drawdowns. DBS currently expects Brent crude oil price to average between US$50-55/bbl in 2021, up from an average of c.US$44/bbl in 2020. Supply management by OPEC+ will largely dictate the direction of crude oil prices, with the alliance planning to meet more regularly to adjust production quotas according to the pace of crude oil demand recovery.

Anticipated rise in jet fuel prices should be manageable for airlines. Jet fuel prices should increase by a larger magnitude relative to Brent crude oil as crack spreads should widen with demand returning as more planes take to the skies. Hence, we currently project jet fuel prices to average US$56/bbl in 2021, up from c.US$45.7/bbl in 2020. Nonetheless, our projected jet fuel price is still considerably lower than the average jet fuel price of US$77/bbl in 2019, and this will be conducive for airlines' earnings.

REDUCING CASH BURN AND BUILDING UP LIQUIDITY REMAINS A TOP PRIORITY FOR MOST AIRLINES

Balance sheet and liquidity profile of airlines under our coverage

In reporting currency (millions)	As of	Net debt^	Equity	Net D/E	Cash burn/month	No. months runway
Air China	Sep-20	150,789	87,683	1.7x	+ve OCF	N.A
CSA	Sep-20	175,454	84,031	2.1x	+ve OCF	N.A
CEA	Sep-20	173,270	59,817	2.9x	+ve OCF	N.A
CX*	Jun-20	99,696	80,587	1.2x	1,250	27.6
SIA*	Sep-20	3,372	15,645	0.2x	300	25.9
AAG	Sep-20	11,706	-980	nm	70	10.7
Garuda	Sep-20	6,590	-458	nm	37	4.6
AAX	Sep-20	5,491	-1,151	nm	37	3.8
Cebu	Sep-20	69,882	29,815	2.3x	1,192	3.0

**- CX's net debt and equity value were obtained via its latest earnings presentation. Both CX and SIA's cash burn were obtained via the latest earnings presentation, while cash burn for the other airlines is derived using 3Q20 figures (net cash outflow from operations less interest payment in 3Q20)*
^-Net debt calculations include leases

Source: Companies, DBS Bank Ltd

Credit concerns continue to loom large on the aviation sector. The worst may be over, but many airlines lack the liquidity to survive beyond the next twelve months without recapitalisation or equity injection. IATA estimates that the median airline has just 8.5 months of runway from November 2020, despite significant governmental support and airlines undertaking drastic cost-cutting measures. A rise in insolvency within the sector appears inevitable if we were to factor in short-term debt maturities, and non-deferrable capital spending obligations (likely excluded in IATA's calculations).

Stark divergence in balance sheet health and liquidity among companies under our coverage.

- Air China, CSA and CEA were the only three airlines under our coverage to book positive operating cash flow in 3Q20.
- The liquidity situation of AAG, Garuda, AAX and Cebu appears grim, which is why they are undergoing restructuring or raising capital now.
- SIA and CX's liquidity appear sound, and they should be able to endure cash burn until market conditions improve without raising more equity.
- Financial leverage wise, AAG, Garuda and AAX all have negative equity book values, and staggering amount of debt.
- Net gearing of the three Chinese carriers is slightly higher than their historical averages, but not really a concern for now.

BULLISH ON CHINESE CARRIERS DUE TO FASTER RECOVERY TRAJECTORY AND UNDEMANDING VALUATION

We are reiterating our BUY call on the three Chinese airlines – Air China, China Southern Airlines (CSA) and Chinese Eastern Airlines (CEA). We see light at the end of the tunnel for the three Chinese carriers, and we believe that they are the best positioned to come out stronger from the crisis given their i) resilient domestic market, ii) high proportion of intra-region travel among their passenger base, iii) relatively lower exposure to business travelers, iv) stable liquidity positions (all three airlines were OCF positive in 3Q20), and v) high vaccine availability in China with four Chinese vaccine candidates already in phase lll clinical trials. Yet, current valuations of Air China, CSA and CEA have yet to reflect their brighter earnings prospects. Air China, CSA, and CEA are currently priced at 0.8-0.9x on a P/BV (FY21F) basis, which is below the peer median of the Asian aviation sector of 1.0x. Additionally, all three airlines are currently trading at around 0.5-1.0 standard deviations (sd) below their 5-year averages. Hence, we think it is an opportune time to accumulate these stocks despite the strong share price performance over the past quarter. We are raising the TPs of Air China, CSA, and CEA to HK$7.60, HK$6.10, HK$4.60 respectively on the back of higher P/BV multiples (+0.5sd, 1.1x FY21 P/BV).

Downgrade CX and SIA to FULLY VALUED from HOLD. The liquidity of both airlines appear sound after their recent fund-raising exercises. However, not only does CX and SIA lack domestic markets to fall back on, the two airlines arguably have the most significant exposure to inter-region long haul flights and business class travelers. At this juncture, we believe the current valuations of both airlines appear stretched compared to peers after the recent run-up in their stocks. Both airlines are now priced at 0.9-1.0x P/BV (FY20F), which is about c.1.0sd above their five-year averages, and in line with the sector peer median and higher than the Chinese carriers, despite their lackluster earnings profile. Thus, we are downgrading our recommendation on CX and SIA to FULLY VALUED with unchanged TPs of HK$6.70 and S$3.60 respectively.

Not optimistic on other Asian airlines under our coverage. We continue to be cautious on AirAsia Group (AAG), Cebu Pacific, and Garuda Indonesia as i) COVID-19 is still rampant in their respective home countries, and showing little signs of abating, ii) all four airlines have extremely poor liquidity, and could remain mired in restructuring woes for an extended period of time, and may potentially see more equity dilution down the road, and iii) vaccine coverage in Malaysia and Philippines is still quite limited, and this could constrain the easing of cross border travel to and from these countries in the near-term.

AAX is worse off than its peers as the airline primarily focuses on mid-long-haul travel. Balance sheet wise, Garuda and AAX already have negative equity book values, while the equity book value of AAG and Cebu will soon slip into the red unless they are able to raise more equity capital. We recommend steering clear of these four counters until they can strengthen their balance sheets and liquidity positions, and see clearer signs of improvement. Thus, we maintain HOLD on Cebu, and FULLY VALUED on AAX and AAG with TPs of PHP40.0, MYR0.03 and MYR0.20. respectively, and downgrade Garuda to HOLD with a lower TP of RP435.

ONLY THE CHINESE AIRLINES SHOULD SEE OPERATING METRICS AND EARNINGS RETURN TO 2019'S LEVEL IN 2022

Summary of projected operating metrics and earnings of airlines under our coverage

Absolute ASK (2019 = 100%)				
	2019	2020	2021	2022
Air China	100%	54%	79%	97%
CSA	100%	64%	85%	100%
CEA	100%	58%	82%	99%
CX	100%	21%	31%	71%
SIA	100%	10%	60%	81%
Cebu	100%	38%	100%	100%
AAG	100%	26%	62%	64%
AAX	100%	20%	34%	58%
Garuda	100%	36%	55%	82%
Average	**100%**	**36%**	**65%**	**83%**

Absolute RPK (2019 = 100%)				
	2019	2020	2021	2022
Air China	100%	47%	74%	94%
CSA	100%	56%	80%	95%
CEA	100%	51%	76%	94%
CX	100%	15%	24%	65%
SIA	100%	2%	46%	77%
Cebu	100%	22%	52%	74%
AAG	100%	19%	54%	59%
AAX	100%	18%	29%	50%
Garuda	100%	22%	55%	83%
Average	**100%**	**28%**	**54%**	**77%**

Load factors (RPK/ASK)				
	2019	2020	2021	2022
Air China	81%	71%	75%	78%
CSA	83%	72%	77%	79%
CEA	82%	72%	76%	78%
CX	82%	60%	64%	76%
SIA	82%	19%	64%	78%
Cebu	85%	50%	44%	63%
AAG	85%	62%	74%	78%
AAX	81%	75%	70%	70%
Garuda	74%	46%	75%	75%
Average	**82%**	**58%**	**69%**	**75%**

Absolute EBIT (2019 = 100%)				
	2019	2020	2021	2022
Air China	100%	-42%	86%	102%
CSA	100%	-34%	93%	110%
CEA	100%	-77%	84%	107%
CX	100%	-407%	-42%	80%
SIA^	100%	-285%	12%	61%
Cebu	100%	-102%	14%	49%
AAG	100%	-193%	191%	201%
AAX	nm	nm	nm	nm
Garuda	100%	-845%	-167%	-75%
Average	**100%**	**-248%**	**34%**	**79%**

Source: Companies, DBS Bank Ltd

^- FY19 used as base year for SIA, as FY20's earnings was negatively impacted by COVID-19

THE CHINESE AIRLINES RANK FAVOURABLY ON MOST CRITERIA WE SET

Summary of projected operating metrics of airlines under our coverage

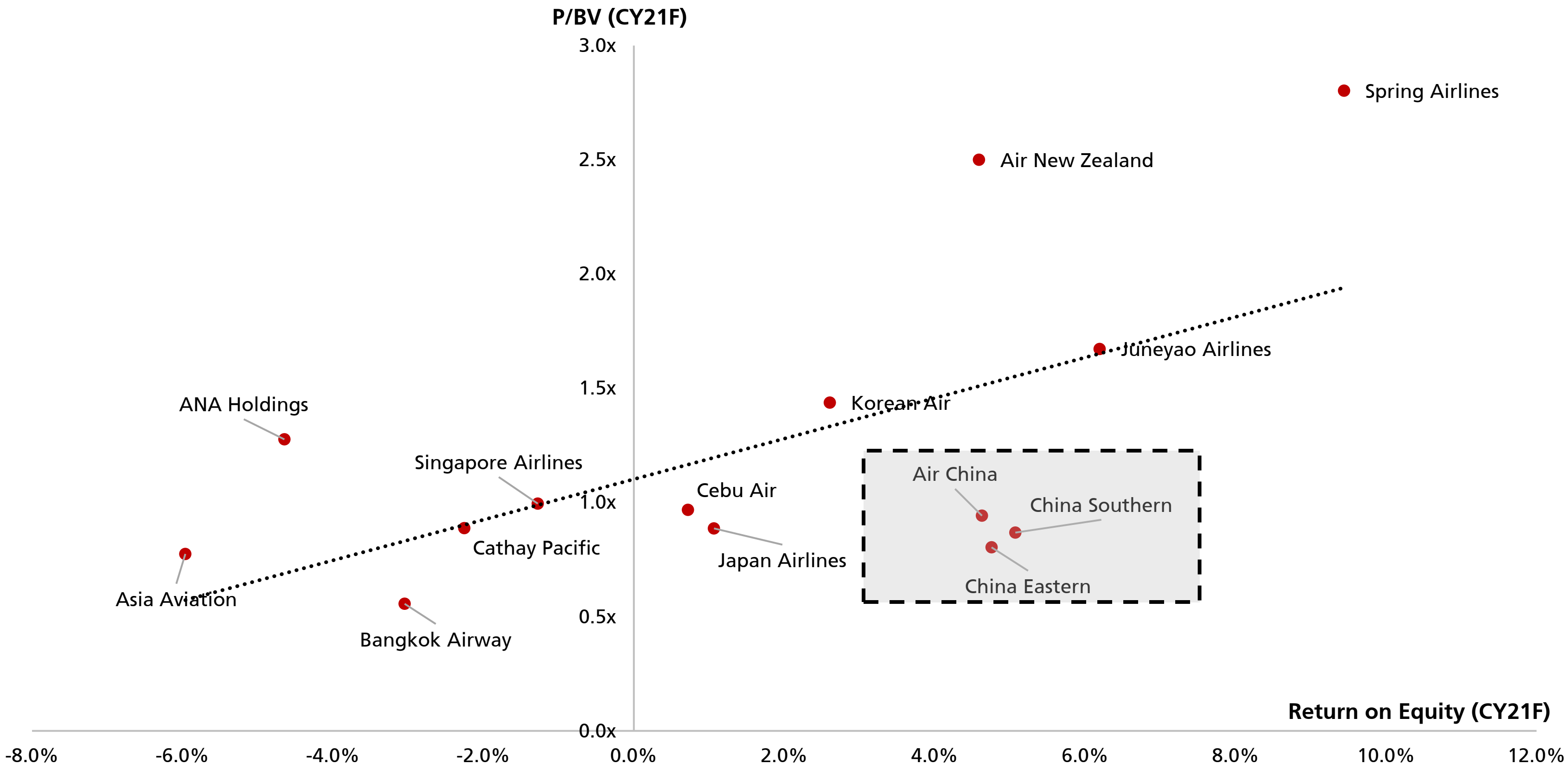
	Air China	CSA	CEA	CX	SIA	Cebu	AAG	AAX	Garuda
Ratio of domestic to international RPK (2019)	59:41	69:31	64:36	0:100	0:100	80:20	40:60	0:100	43:57
Average distance (km) travelled per passenger (2019)	2,028	1,879	1,702	3,815	3,909	1,108	1,229	4,672	1,329
Exposure to business class travellers	Low	Low	Low	High	High	Low	Low	Low	Moderate
Cargo revenue % of total revenue (2019)	4.8%	6.2%	3.2%	22.3%	11.7%	6.8%	4.0%	4.3%	7.1%
Domestic COVID-19 situation	Under control	Under control	Under control	Deteriorating	Under control	Deteriorating	Deteriorating	Deteriorating	Deteriorating
Vaccine coverage (% of population in country of domicile)	**75-100%***	**75-100%***	**75-100%***	200%	**75-100%***	**6%**	**25%***	**25%**	50%
Net debt to equity (Sep-20)	1.7x	2.1x	2.9x	1.2x	0.2x	2.3x	Negative equity	Negative equity	Negative equity
Liquidity runway (no. months)^	N.A	N.A	N.A	27.6	25.9	3.0	10.7	3.8	4.6
P/BV multiple (FY21F), no. standard deviations above/below 5-year average	-0.5	-0.5	-1.1	+0.8	+1.0	-1.0	+9.4	Negative common equity	Negative common equity

**- China has four COVID-19 vaccine candidates in phase III clinical trials and will likely rely on domestic vaccines to inoculate its citizens. Singapore recently announced that it has spent US$750m on multiple vaccines and expects to have enough supply to inoculate the entire population by 3Q21. Malaysia announced that it plans to purchase enough vaccines to increase vaccine coverage to 60-70% of its population.*
^- Liquidity runway = (Cash + ST investments)/(Net cash outflow from operations, including interest payments)

Source: Companies, DBS Bank Ltd

BULLISH ON CHINESE CARRIERS DUE TO FASTER RECOVERY TRAJECTORY AND UNDEMANDING VALUATION

Price-to-book (CY21F) against return on equity (CY21F) of Asia Pacific airlines



Source: Bloomberg Finance L.P, DBS Bank Ltd

BULLISH ON CHINESE CARRIERS DUE TO FASTER RECOVERY TRAJECTORY AND UNDEMANDING VALUATION

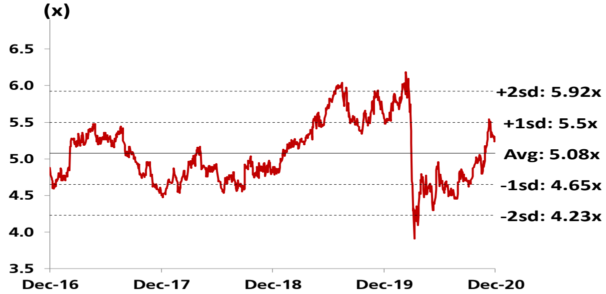
Asia Airlines Peer Comparison

Company	Rec	12-mth Target price (local)	Share Price (local)	Market cap (US$m)	P/E		EV-to-EBITDA		P/B		ROE (%)	
					CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F
Air China	BUY	7.60	6.60	15,694	20.9x	11.3x	7.8x	6.2x	0.9x	0.9x	4.6%	7.5%
China Southern	BUY	6.10	4.95	13,013	20.7x	11.9x	7.2x	5.9x	0.9x	0.8x	5.1%	7.5%
China Eastern	BUY	4.60	3.59	10,646	20.3x	9.2x	8.0x	6.7x	0.8x	0.7x	4.8%	8.0%
Cathay Pacific	FV	6.70	7.64	6,345	nm	14.5x	7.3x	4.8x	0.9x	0.8x	-2.3%	6.8%
Singapore Airlines	FV	3.60	4.40	9,755	nm	19.7x	11.4x	7.6x	1.0x	0.9x	-1.3%	5.3%
Garuda Indonesia	HOLD	435.00	454.00	830	nm	6.4x	nm	nm	nm	nm	nm	nm
Air Asia Group	FV	0.20	0.90	743	nm	18.0x	10.0x	4.4x	3.8x	1.9x	-42.6%	24.3%
Cebu Air	HOLD	40.00	50.00	624	nm	6.6x	6.4x	3.9x	1.0x	0.8x	0.7%	18.7%
AirAsia X	FV	0.03	0.09	92	nm	nm	14.2x	7.8x	nm	nm	nm	nm
			Sector average		20.6x	12.2x	9.0x	5.9x	1.3x	1.0x	-4.4%	11.2%

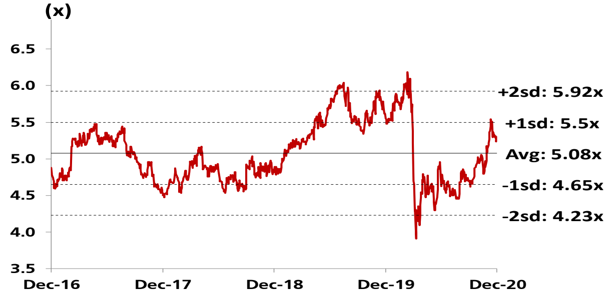
Closing Price as of 11 Dec 2020
Source: Bloomberg Finance L.P, DBS Bank Ltd

PB Charts

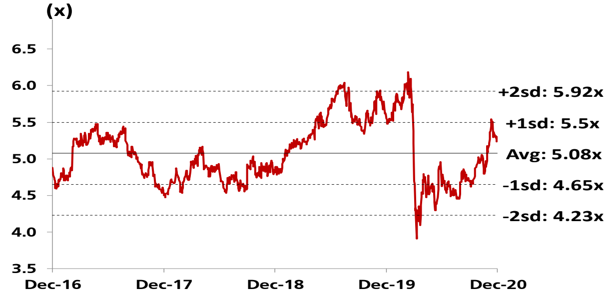
Air China



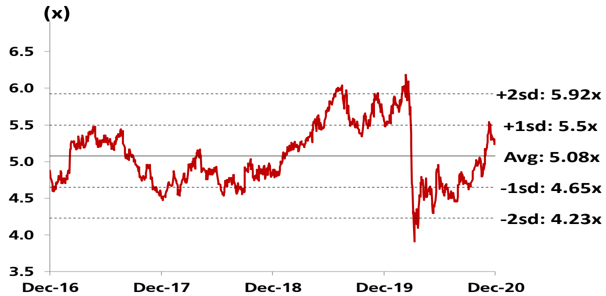
China Southern Airlines



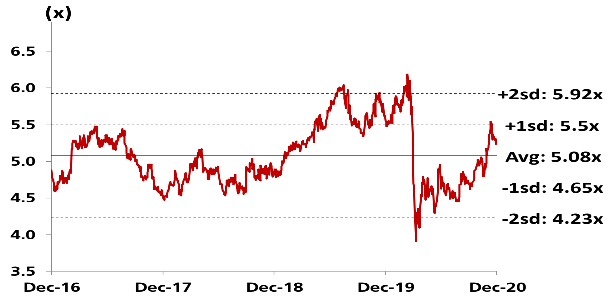
China Eastern Airlines



Cathay Pacific



Singapore Airlines



Air Asia Group

Cebu

Source: DBS Bank, AllianceDBS, Bloomberg Finance L.P.

Company Update	Click here for company report
Air China: Poised to fly higher in 2021 H: BUY; TP HK$7.60 A: BUY; TP: RMB9.40	
China Southern Airlines: Home Sweet Home H: BUY; TP: HK$6.10 A: BUY; TP: RMB7.60	
China Eastern Airlines: Looking forward to 2021 H: BUY; TP: HK$4.60 A: BUY; TP: RMB5.70	
Cathay Pacific: Long runway to take off FULLY VALUED, downgrade from HOLD; TP: HK$6.70	
Singapore Airlines: Recovery will take time FULLY VALUED, downgrade from HOLD; TP: S$3.60	
Garuda Indonesia: Stretched financials HOLD, downgrade from BUY; TP: Rp435	
Cebu Air: A slow ascent HOLD; TP: P44.00	
AirAsia Group: Flight delayed FULLY VALUED; TP: RM0.20	
AirAsia X: In critical condition FULLY VALUED: TP: RM0.03	

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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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