



## Spring Airlines Communication Materials

May 2019

# Contents

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1. Company Overview
2. Fleet and Network
3. Operation Statistics and Financials



# 1. Company Overview

# Company Overview



**2018 Most potential development of Airline Employer**

**CAPSE 2017 Best Airline**

**2016 Skytrax Best LCC in China**

**2016 CAPA Best LCC in Asia Pacific Region**

**2014-2015 Shanghai Advanced Enterprises**

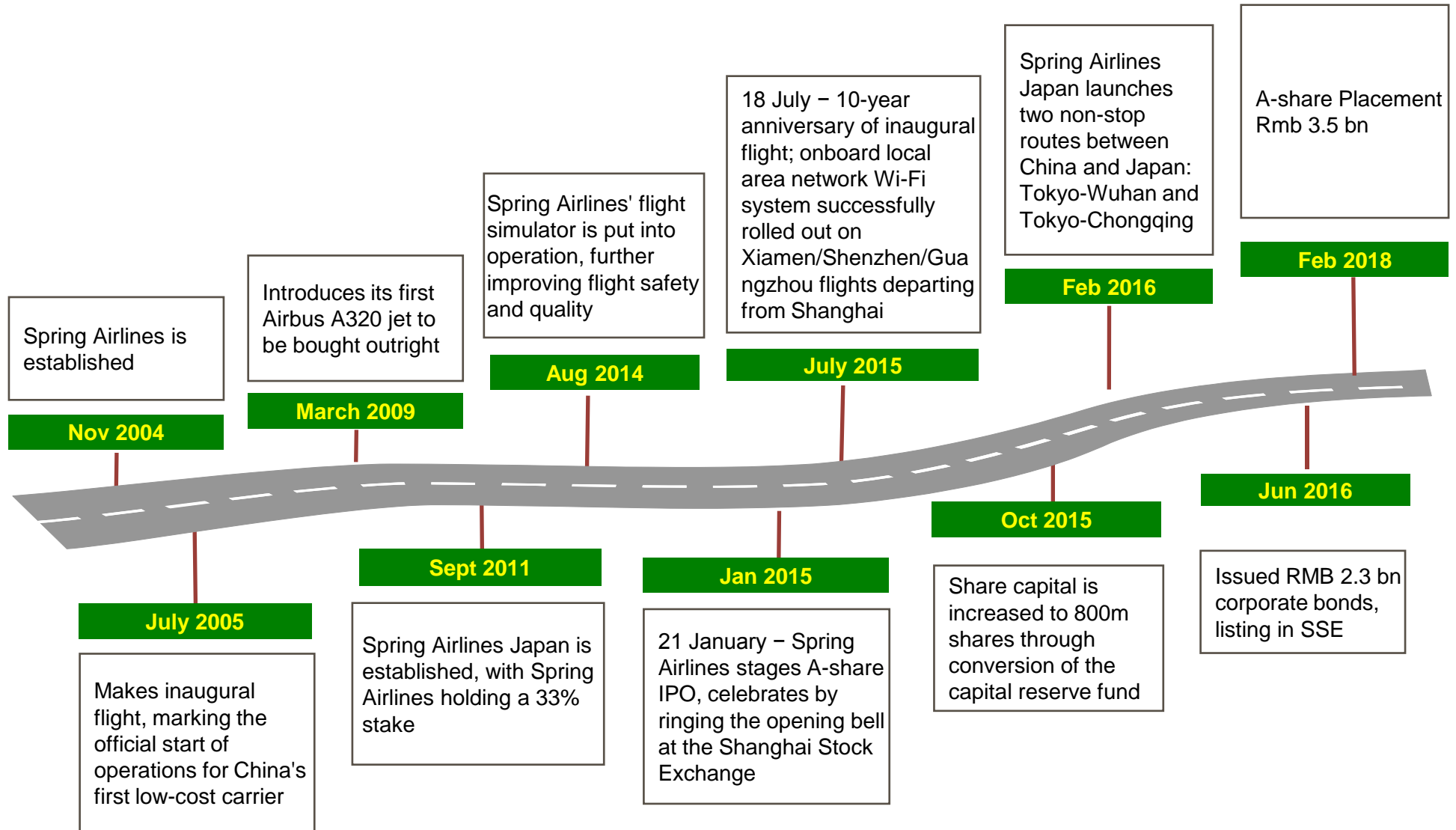
**No. 2 ranking in CAA's safety and financial assessment (2014)**

**China Tourism Awards (Best Low-cost Airline) (2015)**

**Strategic goal: "Become a competitive Low-Cost Carrier that is internationalized, offers good value for the money, and offers passengers a safe, low cost, on-time, convenient and pleasant flying experience."**

- Established in Shanghai in 2004, Spring Airlines launched its first flight in 2005. After restructuring into a joint-stock limited liability company in December 2010, the company went public on 21 January 2015 in A-share market. It currently has 916.90mn shares after IPO in Jan. 2015 and placement in Feb. 2018.
- Since that first flight in 2005, the company has launched more than 100 domestic routes providing round-trip service between Shanghai, Shenyang, Shijiazhuang, Shenzhen, Yangzhou, Ningbo, Kityall, Lanzhou base and all of China's major cities except Beijing. In 2010, the company began opening international and regional routes. It has now launched above 60 international and regional routes linking Shanghai and other main bases as well as tier 2/3 cities to Hong Kong, Macau, Taiwan, and main cities in Northeast and Southeast Asia.
- As of end-2018, total assets reached Rmb26.6bn and 2018 net profit was RMB 1.50bn.
- The company currently operates a fleet of 81 A320 aircrafts, the biggest all-Airbus fleet among China's private sector airlines, which will reach the size of 96 A320 aircrafts by the end of 2019 according to the agreements signed already.

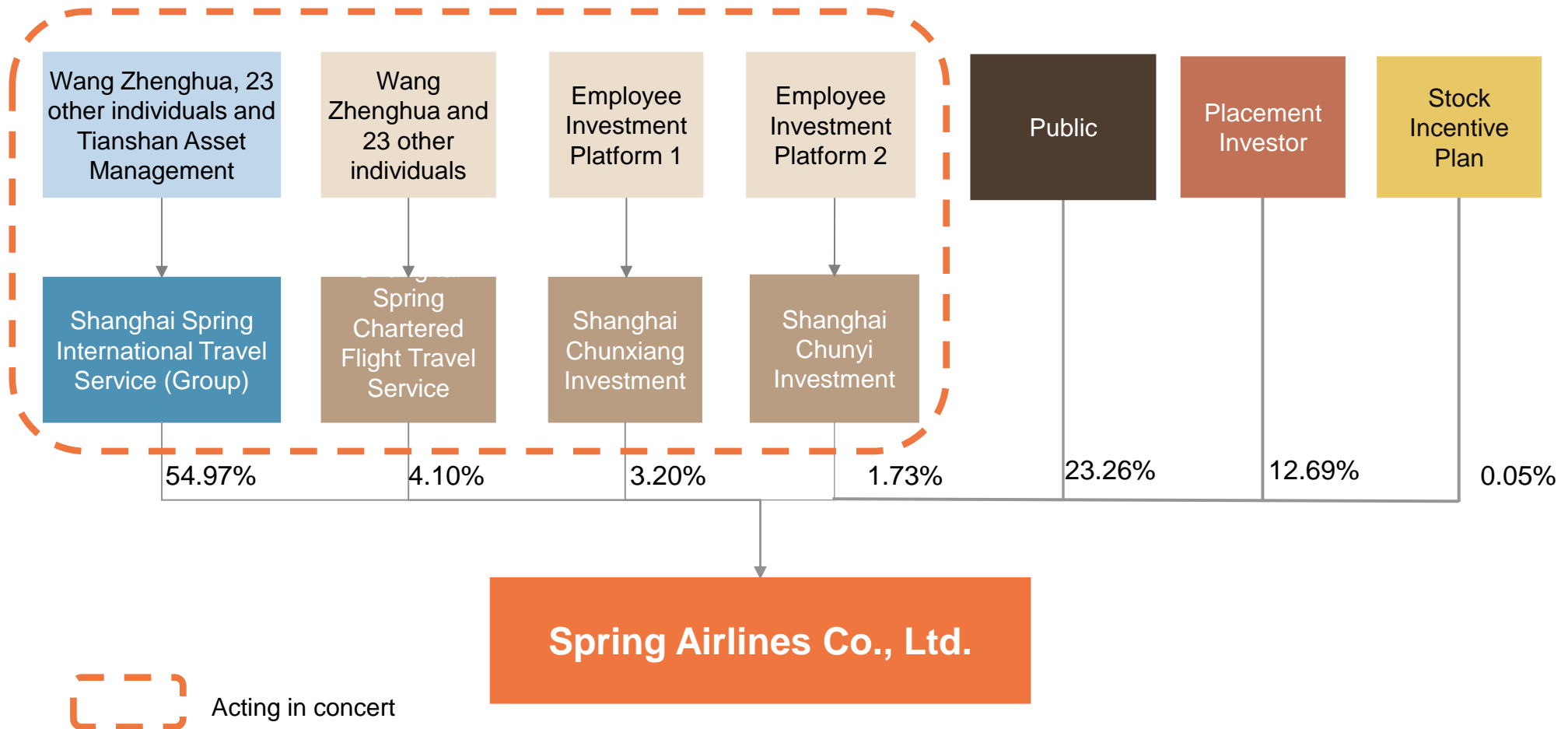
# Development History



# Shareholding Structure



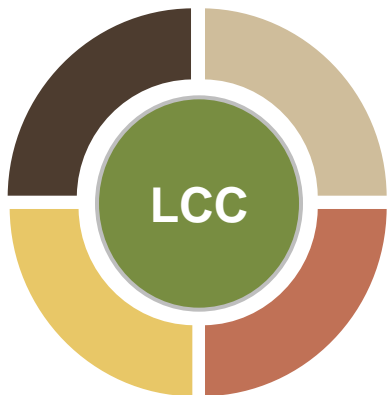
## A-share shareholding diagram



# Operational Model



Simplicity



Efficiency

Two "ones"

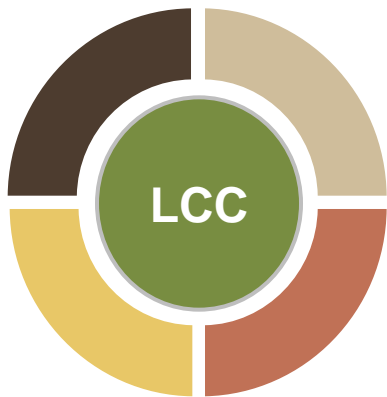
- **One aircraft model – the Airbus A320**
  - Using just one aircraft model and engine type lets Spring Airlines lower costs for aircraft and supplies through **centralized procurement**; also **lower inventories**.
  - Makes maintenance work easier to manage; simplifies training of pilots, aircraft crew and cabin crew.
- **One cabin section – Economy class**
  - This can result in 15-20% more passenger seats compared to an A320 with a typical two-classes configuration, which means a lower cost per available seat kilometer (CASK).
  - Since Sept 2015, Spring Airlines introduced A320 with new cabin configuration that increases the number of seats to 186 from 180 without reducing the space between rows, driving further efficiency gains.

Two "highs"

- **High Passenger Load Factor**
  - Passenger load factor (PLF) has been averaged above 89%, **around 720bps above Big3 SOEs average** of 81.8% for regular flights in 2018.
  - For local airports, high PLF means substantial amounts of extra passenger traffic, which contributes to rapid growth in airport throughput. This has prompted local airports and governments to offer many types of support, such as **landing fee reductions/exemptions, route subsidies, etc.**
- **High aircraft utilization**
  - Spring Airlines' aircraft have maintained a daily utilization of above 11 hours, significantly higher than **the 2018 industry average**.



Simplicity



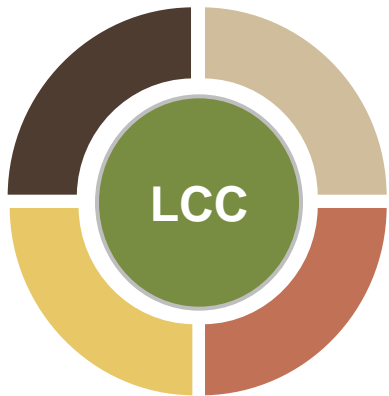
Efficiency

Two "lows"

- **Low marketing overhead: independent information systems**
  - The company has distribution and booking systems that are **independent from Travel Sky**, which minimizes sales expenses and other related cost incurred during the ticket sales process. It also strengthens the independence of the company's sales activities and its control over sales channels.
  - Except for chartered flights/block space, e-commerce channel mixed had an 90.7% contribution in 2018, including 36.1% from APP on mobile terminal, increased by 7.9pct yoy. XCX becomes the new traffic growth point, where the amount of real-name users increase rapidly.
  - As the end-2018, Spring Airlines' sales expenses averaged Rmb0.0067 per available seat kilometer (ASK), declined by 25.4% yoy– much lower than the average for A-share listed airlines.
- **Low administrative overhead**
  - The company has significantly reduced labor costs and routine expenses for administrative staff through strict budget management, scientific performance assessments and rational limits on the ratio of employees to aircraft.
  - As the end-2018, Spring Airlines' administrative expenses averaged Rmb0.0052 per ASK, decreased by 7.6% yoy, much lower than the average for A-share listed airlines however



**Simplicity**



**Efficiency**

**Ancillary revenue**

- **Differentiated service**

- Unlike full service airlines, Spring Airlines adopts a differentiated service policy whereby passengers can pay extra for additional services, such as inflight food and beverages, overweight baggage, express boarding (including seat selection) and insurance, which gives customers more autonomy and convenience throughout the entire service process, from ticket booking to payment, boarding and flying.
- Developing diverse sales channels while continuously expanding ancillary products. In addition, to further enrich the category of in-cabin sales, trying to launch personalized products for different customers.
- Will further operate Intelligent revenue management systems to improve fare.
- Will carry out cabin WIFI laying work from 2019H1; Will solve the problem of payment without network in cabin within 2019H1, by introducing various card-free payment.



## 2. Fleet and Network

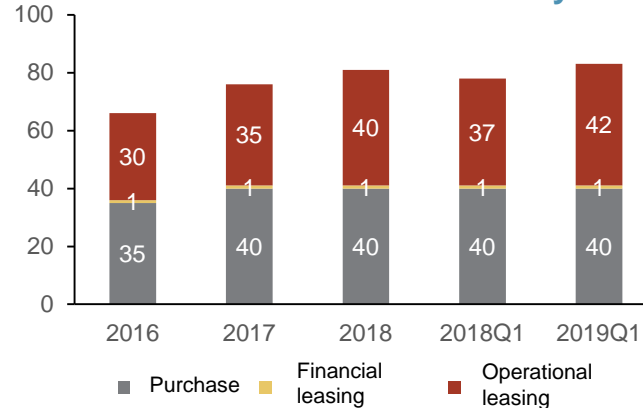
# Fleet Expansion



The company signed aircraft purchase agreement with Airbus on Dec. 3, 2015 to purchase 60 aircrafts of A320NEO Family, including 15 A321NEO and 45 A320NEO with rights to convert into A321 NEO. The aircrafts are expected to be delivered during 2019 to 2023

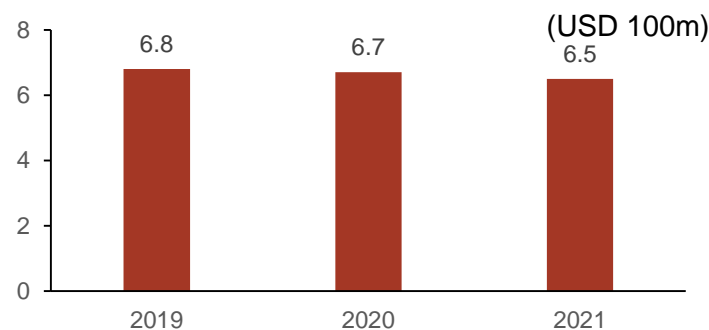
15 A321NEO, single economy class with 240 seats, will be delivered during 2020 and 1Q 2021. The company will also consider to convert more A320NEO into A321NEO.

### Fleet scale and structure of last 3 years



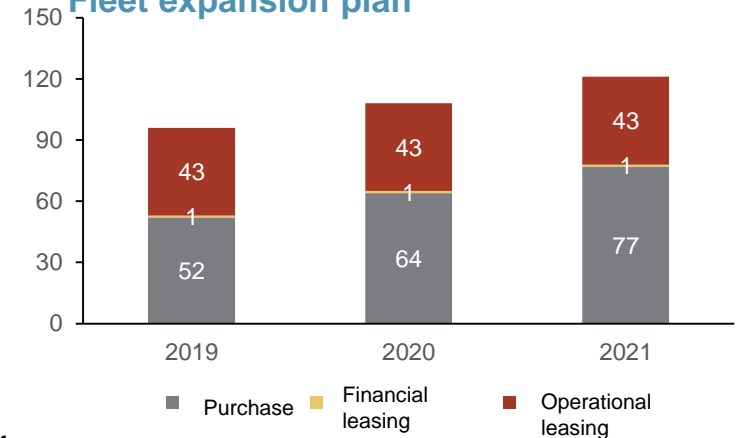
- The company owns A320 fleet of 86 aircrafts, 45 of which have 180 seats each and the others have 186 seats each
- The average age of the planes is 4.91 years
- The aircrafts delivered in the future are all 186 seats

### Expense of aircraft purchase



- The catalogue price of A320CEO is USD 98 million each and the price of A320NEO is USD 111million, according to Airbus website
- The price above doesn't include refund of pre-delivery payments and leaseback

### Fleet expansion plan



	2019	2020	2021
Purchase	12 A320 NEO	12 A321 NEO	3 A321 NEO 10 A320 NEO
Operational leasing	3 A320 NEO	0	0
Lease expire	6	2	8
Lease renew	5	0	0
<b>Total</b>	<b>15</b>	<b>12</b>	<b>13</b>

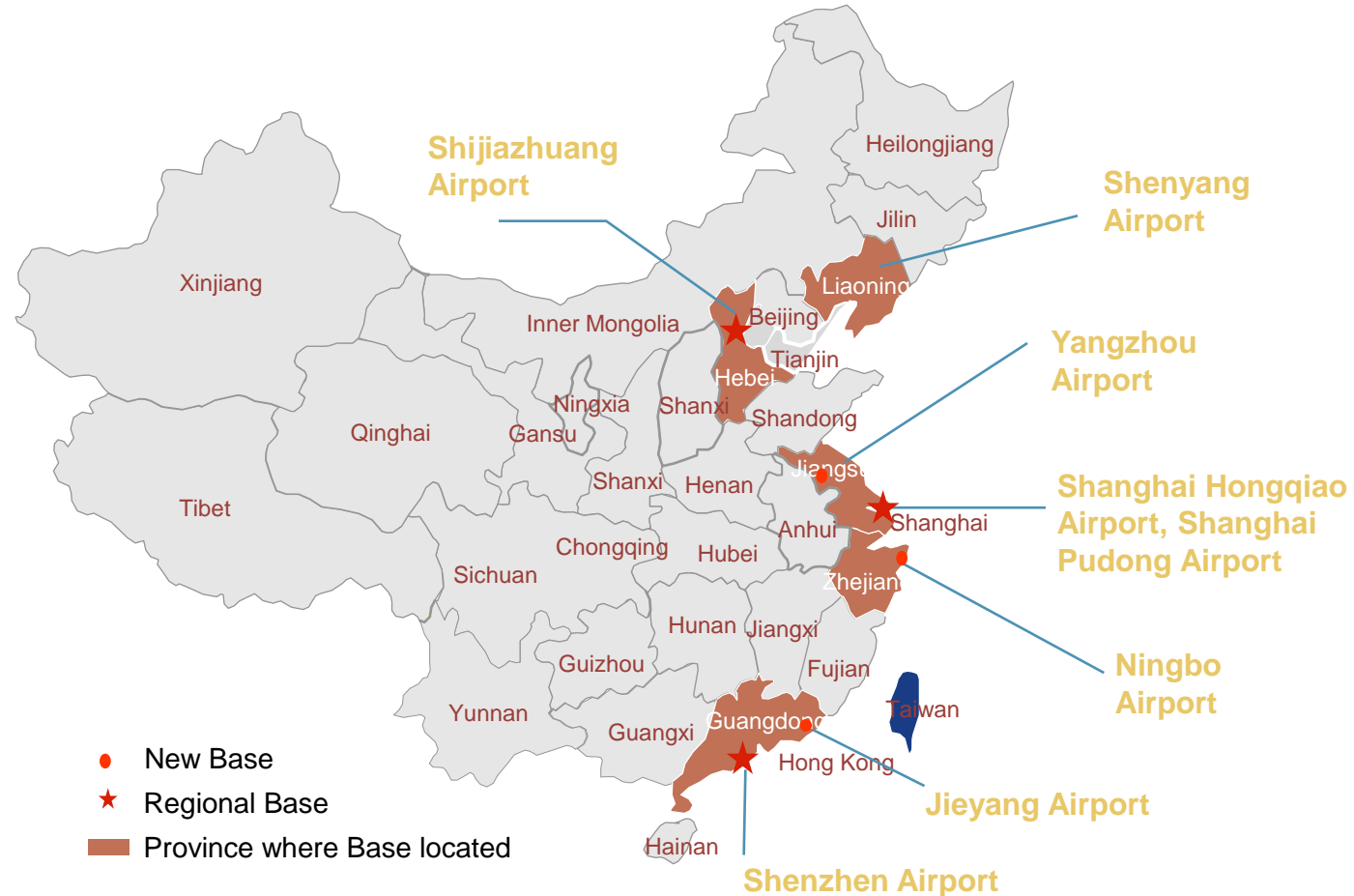
- The company has submitted aircraft purchase plan to NDRC and CAAC, which will be subject to the approval from NDRC and CAAC
- The aircrafts to be delivered in 2020 and 2021 are all directly purchased from Airbus. To keep the flexibility of fleet, the company plans to sell and leaseback some aircrafts. The company has already signed letter of intents for 8 aircrafts, which are to be delivered in 2019.

# Operation Bases



In domestic market, the company has main bases in Shanghai Hongqiao Airport and Shanghai Pudong Airport, and second-tier bases in Shenyang Airport, Shijiazhuang Airport and Shenzhen Airport, also has set new bases in Yangzhou Airport, Ningbo Airport in East China and Jieyang Airport in South China for strategic growth. Meanwhile, the company keeps looking for potential bases in southwest China, in order to support national strategies of “one-belt-one-road”, Beijing-Tianjin-Hebei region and Yangtze economic zone development.

For international routes, the company has set Bangkok, Osaka and Jeju as overnight bases. Backed by domestic network, the company targets southeast Asia market and keep expanding to northeast Asia



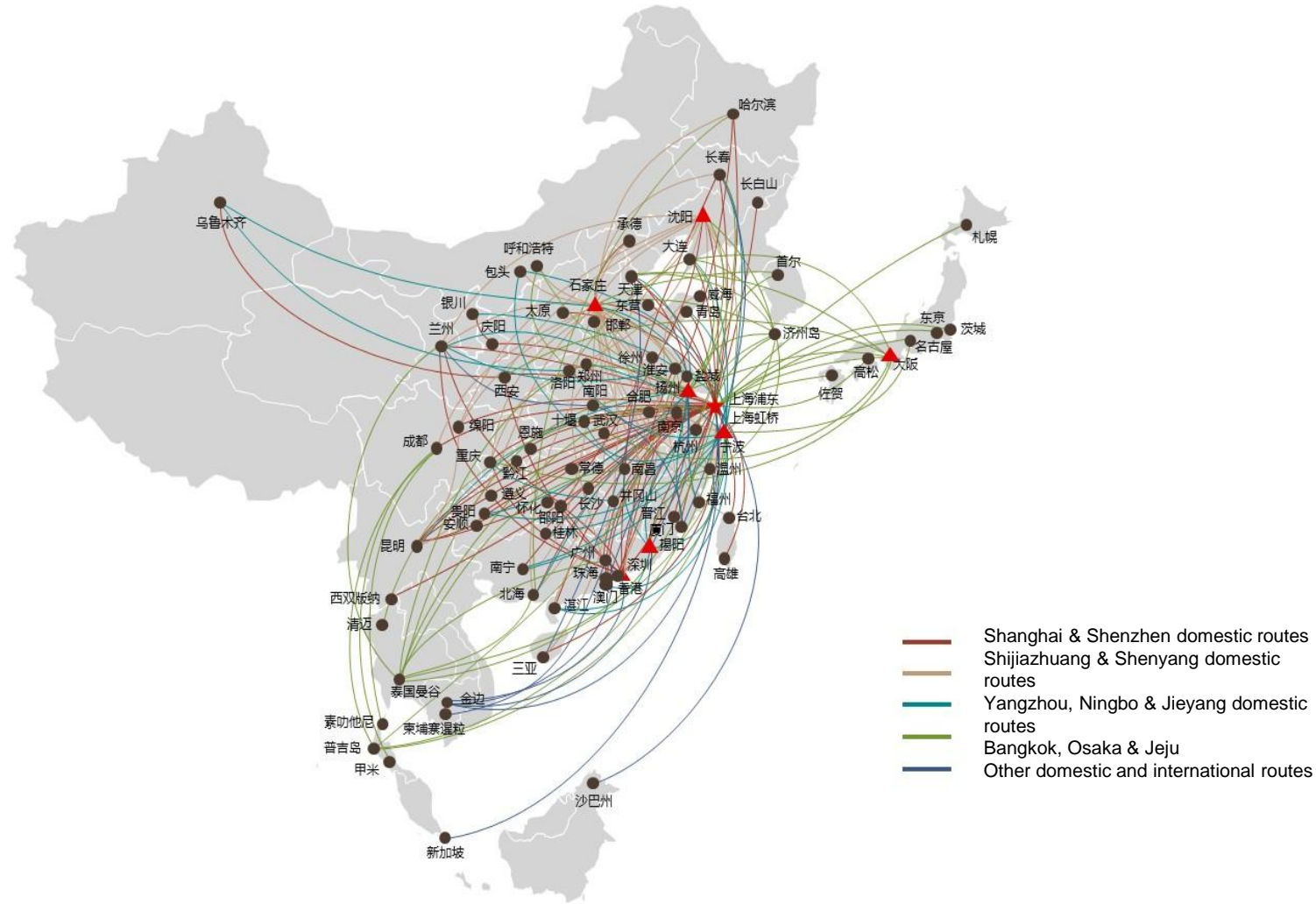
- In 2019, the company will continue to construct network under current bases distribution, decrease routes deviation from bases, increase the frequency of routes to/from the bases, enhance the maintenance and operation capability at the bases and the security facilities construction including flight training and logistics support

# Routes Network (by the end of 2018)



The overall structure of the company has been relatively stable in 2018, and the domestic and international capacity is more balanced. In domestic, the additional domestic capacity will continue to be deployed in new bases in 2018 because of the limited additional resources in the first-tier and second-tier market.

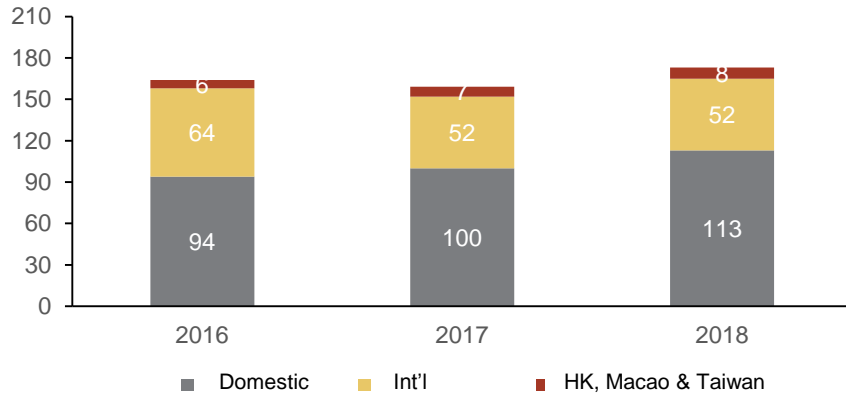
Thailand, Japan and South Korea are still the three largest destination countries as always, among which, Thailand route contributes most additional capacity as well as new slots this year.



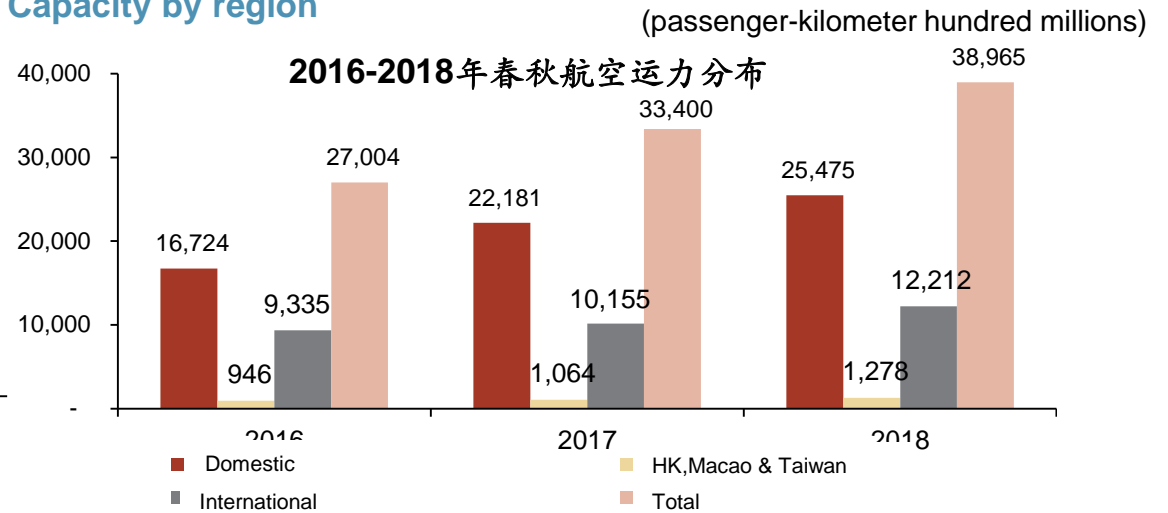
# Routes Network



## Routes Structure



## Capacity by region



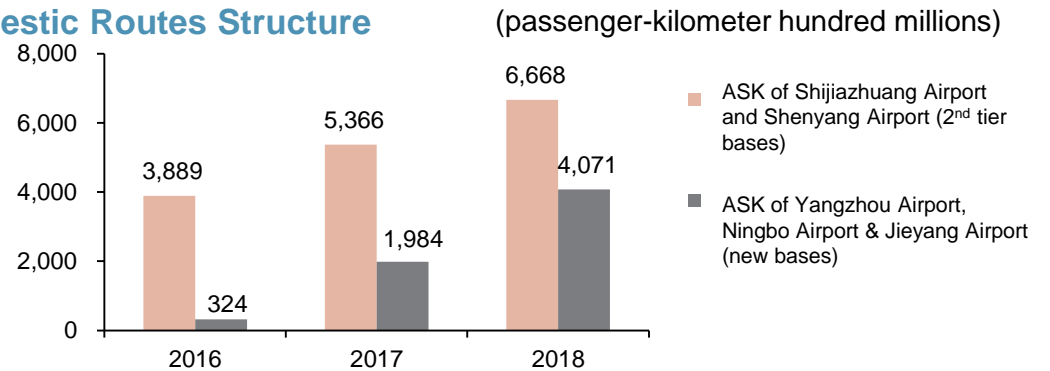
- By the end of 2018, the company operated 173 routes, i.e., 113 domestic, 52 international and 8 regional

- In H1 2018, total ASK increased by 16.7% yoy, with domestic, international and regional increasing by 14.9%, 20.3% and 20.1%, accounting for 65.4%, 31.3% and 3.3% respectively.

## International Routes Structure

- In 2018, ASK of the three largest routes, Thailand, Japan and Korea, increased by 21.1% yoy, accounting for 81.6% of the total international capacity.
- Thailand routes contributed most additional capacity, getting new slots in Bangkok, Phuket, Chiang Mai, so that ASK increased by 40.7% yoy.
- Except for three major routes, the capacity in Cambodian routes also achieved rapid growth with ASK increasing by about 50% yoy.
- There were 25 domestic cities of departure and 18 overseas destinations, same as that at the end of 2019.

## Domestic Routes Structure



- In 2018, ASK of routes from/to bases reached further improvement of total domestic ASK.
- In 2018, ASK increased by 24.3% and 105.2% yoy in second-tier bases and new bases, accounting for 26.5% and 16.2% comparing with 24.6% and 9.1% in 2018.



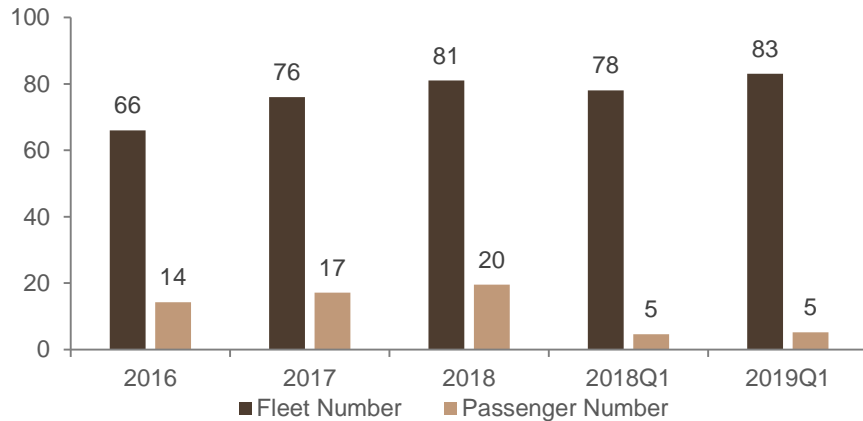
### **3. Operational Statistics and Financials**

# Operational Statistics



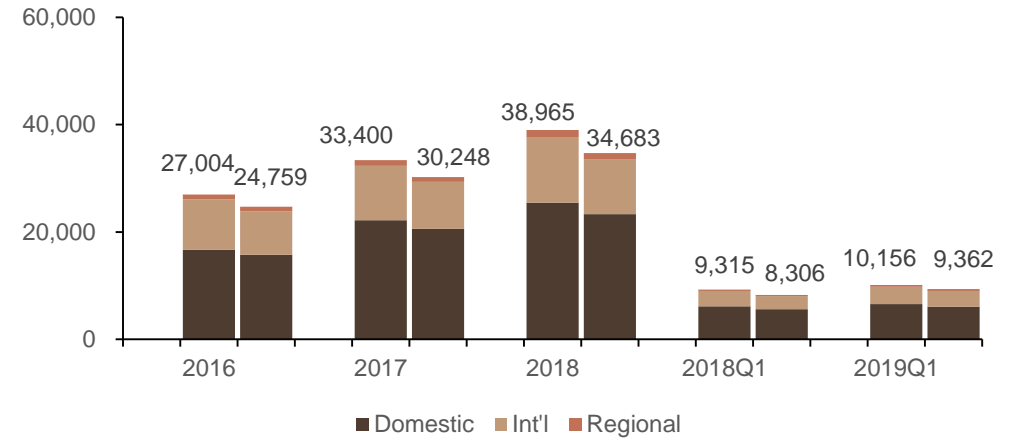
## Fleet and Passenger Number

(# of aircraft, Pax in millions)



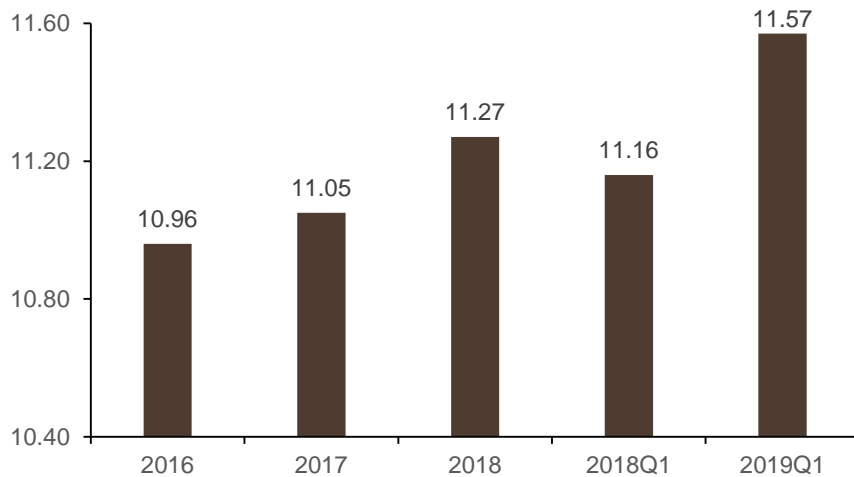
## ASK & RPK

(Unit in millions)

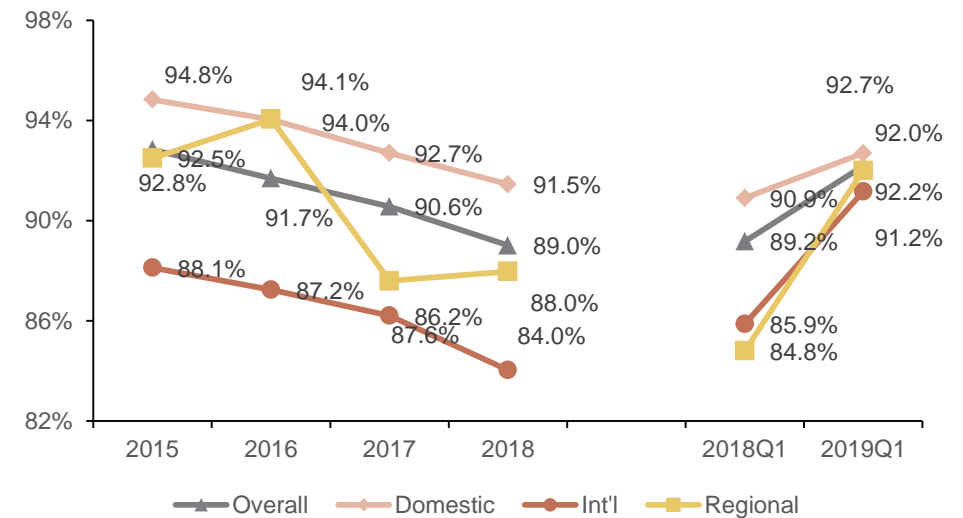


## Daily Utilization Hours (Available)

(Hours)



## Passenger Load Factor

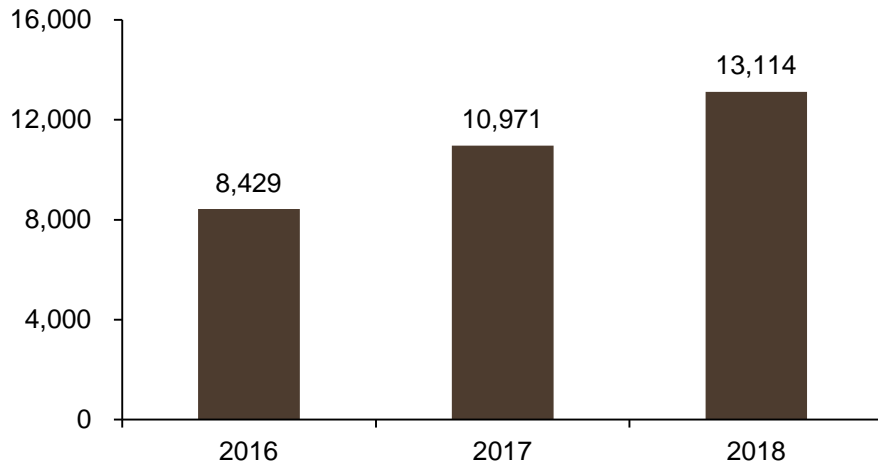


# Revenue and Profit



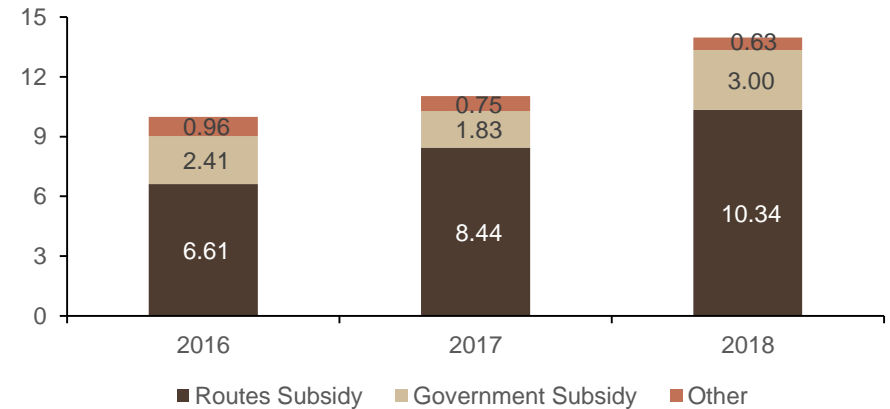
## Operating Revenue

(RMB in millions)



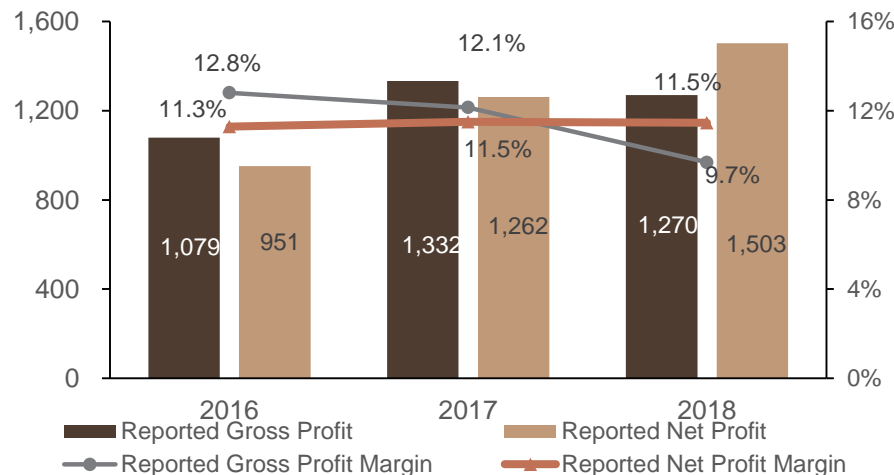
## Non-Operating Revenue\*

(RMB in millions,)



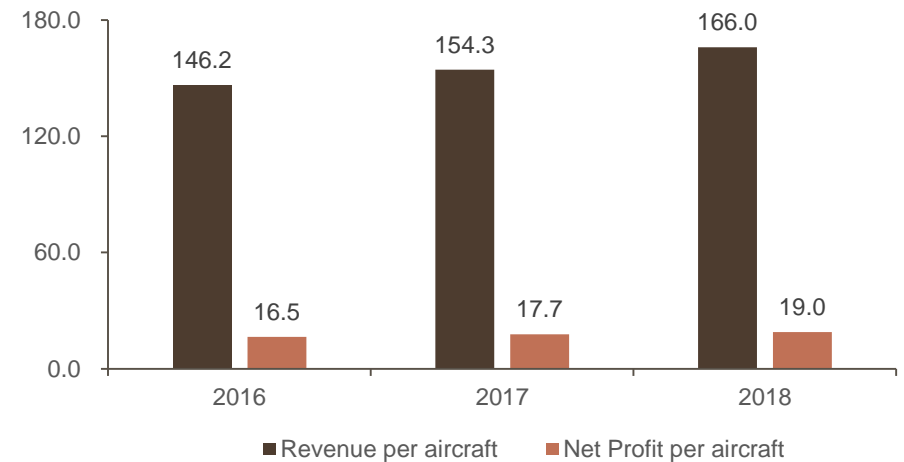
## Net Profit & Net Margin

(RMB in millions, %)



## Revenue and Net Profit per Aircraft

(RMB in millions)

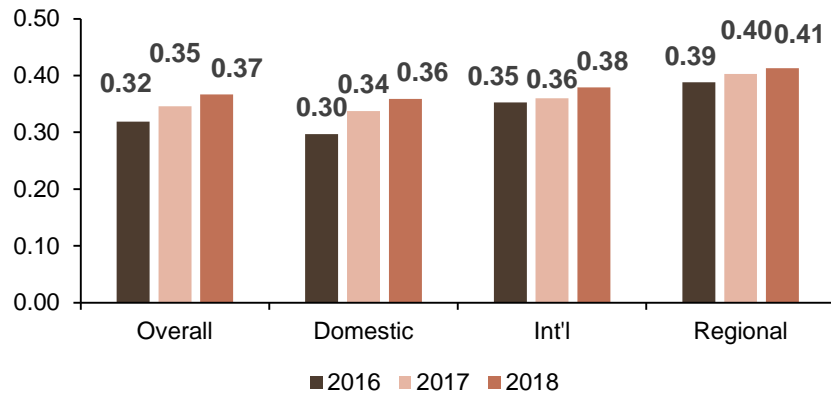


# Yield & Unit Cost and Expenses



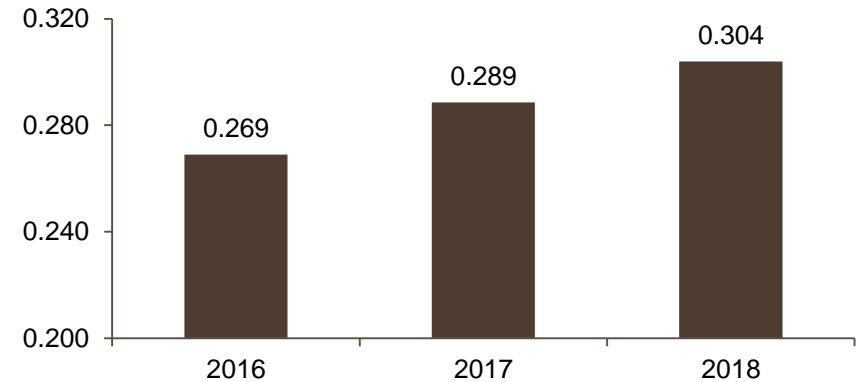
## Passenger Yield

(RMB in Yuan)



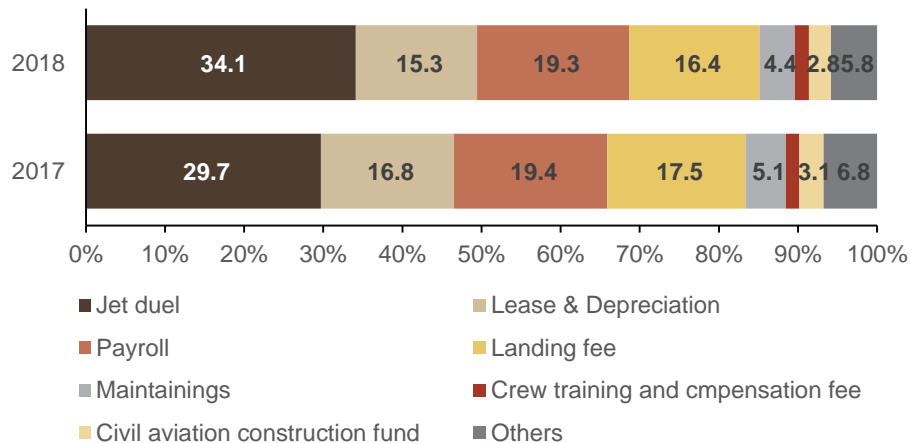
## Unit Cost

(RMB in Yuan)



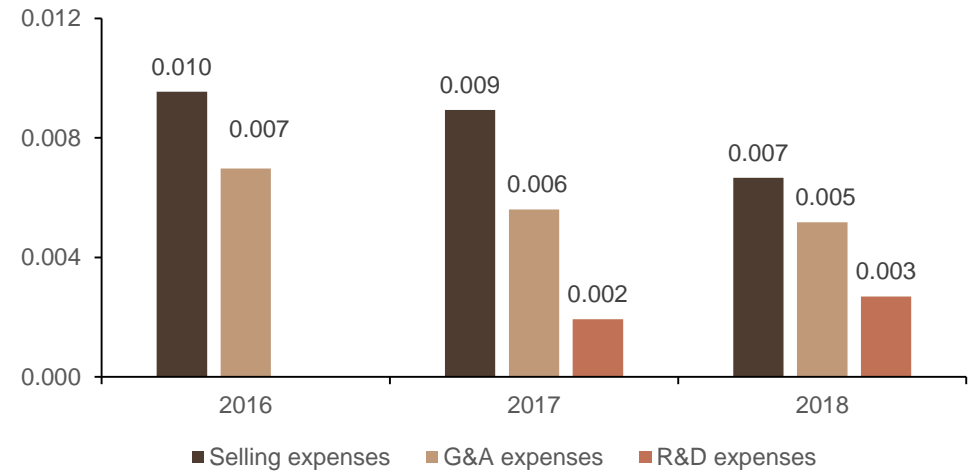
## Structure of COGS

(%)



## Selling & G&A & R&D Expenses per ASK

(RMB in Yuan)



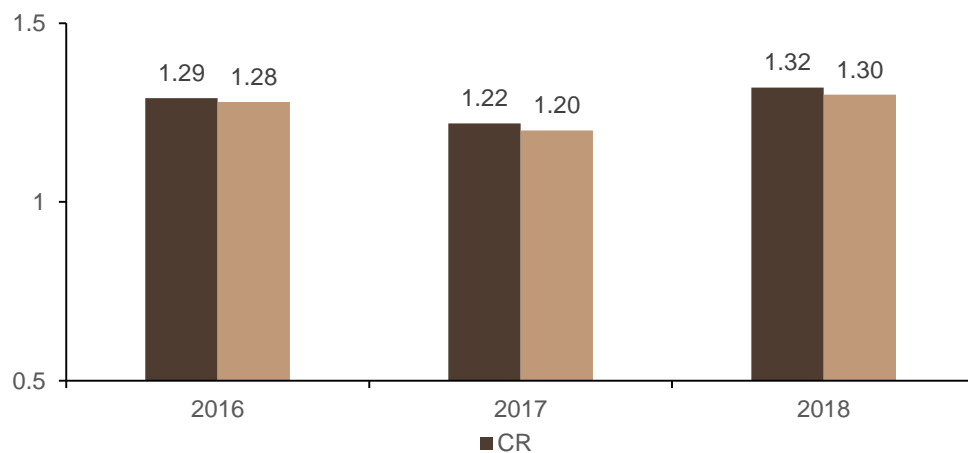
\*According to Circular No. 15 of Finance [2018] issued by the Ministry of Finance, general enterprises are required to revise the format of financial statements and add new "R&D expenses" items. The R&D expenses originally included in the "G&A expenses" items are listed separately as "R&D expenses" items.

# Solvency & Foreign Currency Exchange Analysis



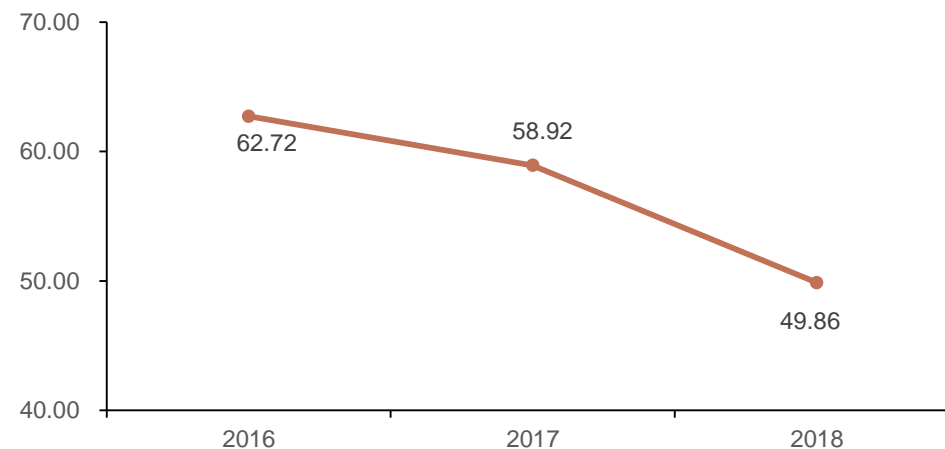
## Current Ratio & Quick Ratio

(RMB in Yuan)

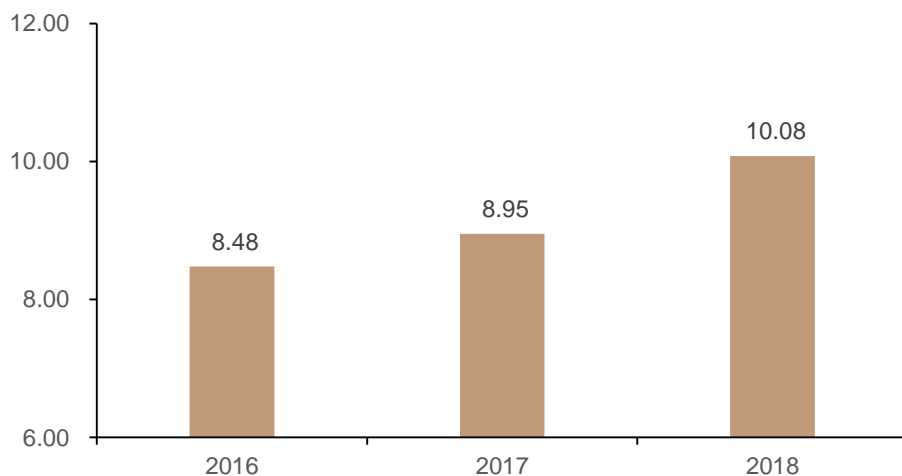


## Asset Liability Ratio

(%)



## EBITDA Interest Coverage Ratio



## Foreign Currency Exchange Analysis

(RMB in Yuan)

	USD Liability Proportion	USD Exposure	USD Sensitivity (10%)
2017	19.4%	200,752,962	29,514,670
2018	21.2%	77,137,896	5,785,342



**Thank you!**