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Shanghai International Airport (600009.CH)

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“Always look for durable competitive advantages...one of the things we got into was the Shanghai Airport, the main airport in China with no debt net. How can you lose with the main airport of China?” – Charlie Munger

Presented by:
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Market cap	\$14.0bn	EBIT margin:	46-48%
EV	\$12.8bn	Net margin:	39-43%
Net cash:	\$1.2bn	Passenger volume	70mm
FCF Yield (2020e)	6-7%	Majority shareholder	53.3%
PE ex cash	15-18x	Dividend yield	1.3%

Section I: Why is Shanghai International Airport Worth Your Attention?



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Charlie Munger on Investing in China and The Example of Shanghai International Airport

“Always look for durable competitive advantages...one of the things we got into was the Shanghai Airport, the main airport in China with no debt net. How can you lose with the main airport of China?” – Charlie Munger





1 Why is Shanghai Airport Worth Your Attention?

Wide Moat

- **Monopoly** as close to one that you get legally!
- **Location, location, location** – Shanghai is certain to rise in prominence over 20 years
- **Pricing power levers** – Duty free shop concession renewal, airport fees, average retail spend, 50% international mix means higher pricing power
- **No competition** : And 66mm travellers each year + growing means attractive IRR

Long structural growth

- Shanghai Airport is a direct way to play the **China tourism theme**. In 2017, there were **129mm Chinese outbound travellers** – 28% of them travelled through Pudong
- Less than **4% of Chinese hold passports**, GS → 12% by 2025, COO of Tripadvisor China says could go 10x! Structural trend that is a no brainer.
- **Shanghai airport retail spend is 1/3rd of Hong Kong & Singapore**, dramatically lower than other airports. **Paris retail spend is 3x of Shanghai Airport**.
- New retail malls are going to be **optimized for shopping**, Pudong built many years ago

Valuation and ownership

- **Predictability, durability, certainty of earnings + growth** – rare!
- **Valuation key drivers**: passenger growth, increasing average retail spend, duty free concession renewal, rising incomes GDP per capita still 1/7th of US/Europe
- **Top 3 in the world**: ~20-30% increase in throughput passenger volume given new terminal
- **Free cash cow**: Cash cow after capex cycle. And only net cash airport! Like a bond in sense a perpetual thing that has FCF, terminal value within a small range
- **Strong SOE backing** – Shanghai State Asset Supervision Administration owns 53%. For strong SOE's basically ~4% cost of capital!



1 Shanghai Airport is The Fastest Growing Tier 1 Airport Globally

Total Passengers Enplaned and Deplaned (in mm) from 2000 - 2017



2013

2015

2017

Rank	Airport	Passengers	Airport	Passengers	Airport	Passengers
1	ATLANTA GA, US (ATL)	94.4	ATLANTA GA, US (ATL)	101.5	ATLANTA GA, US (ATL)	103.9
2	BEIJING, CN (PEK)	83.7	BEIJING, CN (PEK)	89.9	BEIJING, CN (PEK)	95.8
3	LONDON, GB (LHR)	72.4	DUBAI, AE (DXB)	78.0	DUBAI, AE (DXB)	88.2
4	TOKYO, JP (HND)	68.9	CHICAGO IL, US (ORD)	76.9	LOS ANGELES CA, US (LAX)	84.6
5	CHICAGO IL, US (ORD)	66.8	TOKYO, JP (HND)	75.6	TOKYO, JP (HND)	79.8
6	LOS ANGELES CA, US (LAX)	66.7	LONDON, GB (LHR)	75.0	CHICAGO IL, US (ORD)	79.8
7	DUBAI, AE (DXB)	66.4	LOS ANGELES CA, US (LAX)	74.9	LONDON, GB (LHR)	78.0
8	PARIS, FR (CDG)	62.1	HONG KONG, HK (HKG)	68.3	HONG KONG, HK (HKG)	72.7
9	DALLAS/FORT WORTH TX, US (DFW)	60.5	PARIS, FR (CDG)	65.8	SHANGHAI, CN (PVG)	70.0
10	JAKARTA, ID (CGK)	60.1	DALLAS/FORT WORTH TX, US (DFW)	65.5	PARIS, FR (CDG)	69.5
	SHANGHAI, CN (PVG) - 21st	47.2	SHANGHAI, CN (PVG) - 13th	60.1		

Top 10 ranking for 1st time in 2016, ~17% CAGR in 2000-2017. We expect Shanghai Pudong to reach top 3-5 over next decade.

2000

2005

2009

Rank	Airport	Passengers	Airport	Passengers	Airport	Passengers
1	ATLANTA (ATL)	80.2	ATLANTA, GA (ATL)	85.9	ATLANTA GA, US (ATL)	88.0
2	CHICAGO (ORD)	72.1	CHICAGO, IL (ORD)	76.5	LONDON, GB (LHR)	66.0
3	LOS ANGELES (LAX)	66.4	LONDON (LHR)	67.9	BEIJING, CN (PEK)	65.4
4	LONDON (LHR)	64.6	TOKYO (HND)	63.3	CHICAGO IL, US (ORD)	64.2
5	DALLAS/FT WORTH (DFW)	60.7	LOS ANGELES, CA (LAX)	61.5	TOKYO, JP (HND)	61.9
6	TOKY (HND)	56.4	DALLAS/FT WORTH AIRPORT, TX (DFW)	59.2	PARIS, FR (CDG)	57.9
7	FRANKFURT/MAIN (FRA)	49.4	PARIS (CDG)	53.8	LOS ANGELES CA, US (LAX)	56.5
8	PARIS (CDG)	48.2	FRANKFURT (FRA)	52.2	DALLAS/FORT WORTH TX, US	56.0
9	SAN FRANCISCO (SFO)	41.0	AMSTERDAM (AMS)	44.2	FRANKFURT, DE (FRA)	50.8
10	AMSTERDAM (AMS)	39.6	LAS VEGAS, NV (LAS)	44.0	DENVER CO, US (DEN)	50.2
	SHANGHAI, CN (PVG) <30		SHANGHAI, CN (PVG) <30		SHANGHAI, CN (PVG) <30	

Shanghai Airport was unranked from 2000 – 2009.

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1 Shanghai Airport is The Fastest Growing Tier 1 Airport Globally

Total Aircraft Movements from 2000 - 2017



2013			2015			2017		
Rank	Airport	Movements	Rank	Airport	Movements	Rank	Airport	Movements
1	ATLANTA GA, US (ATL)	911,074	1	ATLANTA GA, US (ATL)	882,497	1	ATLANTA GA, US (ATL)	879,560
2	CHICAGO IL, US (ORD)	883,287	2	CHICAGO IL, US (ORD)	875,136	2	CHICAGO IL, US (ORD)	867,049
3	LOS ANGELES CA, US (LAX)	696,443	3	DALLAS/FORT WORTH TX, US (DFW)	681,261	3	LOS ANGELES CA, US (LAX)	700,362
4	DALLAS/FORT WORTH TX, US (DFW)	678,059	4	LOS ANGELES CA, US (LAX)	655,564	4	DALLAS/FORT WORTH TX, US (DFW)	654,344
5	DENVER CO, US (DEN)	582,653	5	BEIJING, CN (PEK)	590,169	5	BEIJING, CN (PEK)	597,259
6	BEIJING, CN (PEK)	567,759	6	CHARLOTTE NC, US (CLT)	543,944	6	DENVER CO, US (DEN)	574,966
7	CHARLOTTE NC, US (CLT)	557,948	7	DENVER CO, US (DEN)	541,213	7	CHARLOTTE NC, US (CLT)	553,817
8	LAS VEGAS NV, US (LAS)	520,992	8	LAS VEGAS NV, US (LAS)	530,330	8	LAS VEGAS NV, US (LAS)	542,994
9	HOUSTON TX, US (IAH)	496,908	9	HOUSTON TX, US (IAH)	502,844	9	AMSTERDAM, NL (AMS)	514,625
10	PARIS, FR (CDG)	478,306	10	PARIS, FR (CDG)	475,816	10	SHANGHAI, CN (PVG)	496,774
	SHANGHAI, CN (PVG) <30			SHANGHAI, CN (PVG) - 15th	449,171			

Top 10 for the 1st time in 2016. We expect Shanghai Pudong to become top 5 in 5 years.

2000			2005			2009		
Rank	Airport	Movements	Rank	Airport	Movements	Rank	Airport	Movements
1	ATLANTA (ATL)	915 454	1	ATLANTA, GA (ATL)	980 386	1	ATLANTA GA, US (ATL)	970 235
2	CHICAGO (ORD)	908 989	2	CHICAGO, IL (ORD)	972 248	2	CHICAGO IL, US (ORD)	827 899
3	DALLAS/FT WORTH (DFW)	837 779	3	DALLAS/FT WORTH AIRPORT, TX (DFW)	711 878	3	DALLAS/FORT WORTH TX, US	638 782
4	LOS ANGELES (LAX)	783 433	4	LOS ANGELES, CA (LAX)	650 629	4	LOS ANGELES CA, US (LAX)	634 383
5	PHOENIX (PHX)	637 779	5	LAS VEGAS, NEVADA (LAS)	605 046	5	DENVER CO, US (DEN)	607 019
6	DETROIT (DTW)	555 375	6	HOUSTON, TX (IAH)	562 966	6	HOUSTON TX, US (IAH)	538 168
7	MINNEAPOLIS/ST PAUL (MSP)	523 146	7	DENVER, CO (DEN)	560 669	7	PARIS, FR (CDG)	525 314
8	LAS VEGAS (LAS)	521 300	8	PHOENIX, AZ (PHX)	555 256	8	LAS VEGAS NV, US (LAS)	511 064
9	DENVER (DEN)	520 073	9	PHILADELPHIA, PA (PHL)	535 666	9	CHARLOTTE NC, US (CLT)	509 448
10	PARIS (CDG)	517 657	10	MINNEAPOLIS/ST PAUL, MN (MSP)	532 240	10	BEIJING, CN (PEK)	488 505
	SHANGHAI, CN (PVG) <30			SHANGHAI, CN (PVG) <30			SHANGHAI, CN (PVG) <30	

Shanghai Airport was unranked from 2000 – 2009.

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1 Shanghai Airport Has #3 Position in Cargo Traffic Since 2009

Total Cargo Traffic in million metric tonnes from 2000 - 2017

上海机场(集团)有限公司
SHANGHAI AIRPORT AUTHORITY

2013

2015

2017

Rank	Airport	Cargo	Airport	Cargo	Airport	Cargo
1	HONG KONG, HK (HKG)	4.2	HONG KONG, HK (HKG)	4.5	HONG KONG, HK (HKG)	5.0
2	MEMPHIS TN, US (MEM)	4.1	MEMPHIS TN, US (MEM)	4.3	MEMPHIS TN, US (MEM)	4.3
3	SHANGHAI, CN (PVG)	2.9	SHANGHAI, CN (PVG)	3.3	SHANGHAI, CN (PVG)	3.8
4	INCHEON, KR (ICN)	2.5	ANCHORAGE AK, US (ANC)	2.6	INCHEON, KR (ICN)	2.9
5	DUBAI, AE (DXB)	2.4	INCHEON, KR (ICN)	2.6	ANCHORAGE AK, US (ANC)	2.7
6	ANCHORAGE AK, US (ANC)	2.4	DUBAI, AE (DXB)	2.5	DUBAI, AE (DXB)	2.7
7	LOUISVILLE KY, US (SDF)	2.2	LOUISVILLE KY, US (SDF)	2.4	LOUISVILLE KY, US (SDF)	2.6
8	FRANKFURT, DE (FRA)	2.1	TOKYO, JP (NRT)	2.1	TOKYO, JP (NRT)	2.3
9	PARIS, FR (CDG)	2.1	PARIS, FR (CDG)	2.1	TAIPEI, TW (TPE)	2.3
10	TOKYO, JP (NRT)	2.0	FRANKFURT, DE (FRA)	2.1	PARIS, FR (CDG)	2.2

2000

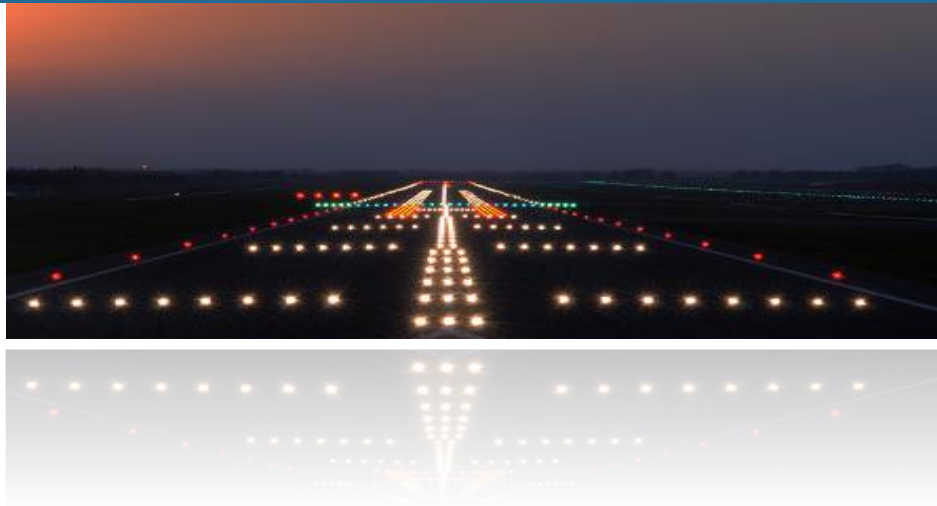
2005

2009

Rank	Airport	Cargo	Airport	Cargo	Airport	Cargo
1	MEMPHIS (MEM)	2.5	MEMPHIS, TN (MEM)	3.6	MEMPHIS TN, US (MEM)	3.7
2	HONG KONG (HKG)	2.3	HONG KONG, CHINA (HKG)	3.4	HONG KONG, HK (HKG)	3.4
3	LOS ANGELES(LAX)	2.0	ANCHORAGE, AK (ANC)*	2.6	SHANGHAI, CN (PVG)	2.5
4	TOKYO (NRT)	1.9	TOKYO (NRT)	2.3	INCHEON, KR (ICN)	2.3
5	SEOUL (SEL)	1.9	SEOUL (ICN)	2.2	PARIS, FR (CDG)	2.1
6	NEW YORK(JFK)	1.8	PARIS (CDG)	2.0	ANCHORAGE AK, US (ANC)*	2.0
7	ANCHORAGE(ANC)*	1.8	FRANKFURT (FRA)	2.0	LOUISVILLE KY, US (SDF)	1.9
8	FRANKFURT/MAIN (FRA)	1.7	LOS ANGELES, CA (LAX)	1.9	DUBAI, AE (DXB)	1.9
9	SINGAPORE (SIN)	1.7	SHANGHAI (PVG)	1.9	FRANKFURT, DE (FRA)	1.9
10	MIAMI(MIA)	1.6	SINGAPORE (SIN)	1.9	TOKYO, JP (NRT)	1.9
	SHANGHAI, CN (PVG) <30					

Shanghai moved to top 10 in total cargo volume in 2005 for the first time and to top 3 in 2009.

Section II: Financials – Predictable and High Earnings Power Through Cycles





2 Shanghai International Airport

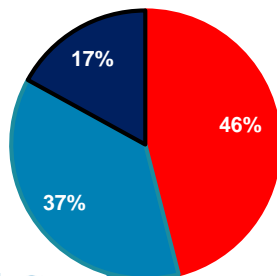
Business and Financials Overview

Shanghai International Airport operates Pudong International Airport – one of the most busiest airports in the world with 66 million annual passenger throughput, ranking #9 in the world.

Business Overview

- **Fastest growing top-50 airport in the world:** Shanghai International Airport (600009.CH) operates the Pudong Airport in Shanghai, China. Annual passenger throughput has compounded at 15% CAGR for the past 15 years – ranking top among all metropolis cities in the world..
- **International gateway:** nearly 1/3 of all outbound international travelers in China go through the Pudong Airport.
- **Aviation hub status:** Shanghai government aims to make Pudong Airport a top aviation hub in Asia as outline in its 2017-2035 masterplan.
- **Ownership:** 53% owned by SOE, Shanghai Airport Authority who also owns Shanghai's other airport, Hongqiao (mainly for domestic passengers).

Revenue breakdown by business segment (2017)



- Aeronautical revenues
- Non-aero: commercial rental
- Other non-aero

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Key Stats as Jan 7, 2019

Market cap

\$14.0bn

EV

\$12.8bn

Normalized FCF post capex

US\$600-700mm

Net cash

\$1.2bn

Passenger Volume

~70mm

Annual Enplanements

~500,000

Peak Flights per Hour

76

Runway Capacity Utilization

~80%





2 Revenue Growth – Resilient Over Cycles and Expected Increase Due to 3 Drivers: Passenger Volume, Fee Hikes, Duty Free (1/1)

Segment revenue breakdown

2 Revenue segments for Shanghai Airport: i) aeronautical and ii) non-aeronautical

Key drivers include: passenger volume, airport fee hike for aero revenues, concession duty free renewal

Revenue breakdown (in RMB)	2009	2010	2011	2012	2013	2014	2015	2016	2017 LTM	June 2018
Total revenues	3,338,337,110	4,186,408,261	4,611,211,636	4,720,413,739	5,215,129,817	5,750,882,944	6,285,400,290	6,951,474,481	8,062,379,030	8,669,101,290
YoY growth %	-0.4%	25.4%	10.1%	2.4%	10.5%	10.3%	9.3%	10.6%	16.0%	16.3%
Aeronautical revenues										
Flight-related	1,901,312,998	2,295,021,809	2,417,649,388	2,393,909,870	2,833,539,973	3,170,457,085	1,460,577,694	1,573,816,007	1,650,318,972	1,707,762,668
YoY growth %	-1.4%	20.7%	5.3%	-1.0%	18.4%	11.9%	-53.9%	7.8%	4.9%	6.6%
as % of total revenues	57.0%	54.8%	52.4%	50.7%	54.3%	55.1%	23.2%	22.6%	20.5%	19.7%
% of aero revenues	90.9%	89.6%	89.6%	91.0%	100.0%	100.0%	45.7%	44.8%	44.3%	44.0%
Passenger and Cargo related	-	-	-	-	-	-	1,734,796,019	1,938,108,313	2,074,012,189	2,177,410,630
YoY growth %	-	-	-	-	-	-	-	11.7%	7.0%	10.4%
as % of total revenues	-	-	-	-	-	-	27.6%	27.9%	25.7%	25.1%
% of aero revenues	-	-	-	-	-	-	54.3%	55.2%	55.7%	56.0%
Ground services	190,679,520	265,333,522	280,482,593	237,756,926	-	-	-	-	-	-
YoY growth %	-24.0%	39.2%	5.7%	-15.2%	-	-	-	-	-	-
as % of total revenues	5.7%	6.3%	6.1%	5.0%	-	-	-	-	-	-
% of aero revenues	9.1%	10.4%	10.4%	9.0%	-	-	-	-	-	-
Total aeronautical-related	2,091,992,518	2,560,355,332	2,698,131,981	2,631,666,796	2,833,539,973	3,170,457,085	3,195,373,713	3,511,924,319	3,724,331,161	3,885,173,298
YoY growth %	-4.0%	22.4%	5.4%	-2.5%	7.7%	11.9%	0.8%	9.9%	6.0%	8.7%
as % of total revenues	62.7%	61.2%	58.5%	55.8%	54.3%	55.1%	50.8%	50.5%	46.2%	44.8%



2 Revenue Growth – Non-Aeronautical provides Significant Long-Term Upside Due to International Mix and Concession Terms (2/2)

Segment Revenue Breakdown

- Non-aero contribution increasing in last 10 years. Expected to drive significant value due to concession terms renewal and international mix high in Shanghai vs other peers

Non-aeronautical revenues	2009	2010	2011	2012	2013	2014	2015	2016	2017	LTM June 2018
Commercial rental revenues	667,275,012	1,002,026,950	1,236,718,215	1,422,186,905	1,572,871,833	1,697,013,753	1,828,075,591	2,094,600,067	2,991,782,212	3,455,553,020
YoY growth %	16.2%	50.2%	23.4%	15.0%	10.6%	7.9%	7.7%	14.6%	42.8%	39.6%
as % of total revenues	20.0%	23.9%	26.8%	30.1%	30.2%	29.5%	29.1%	30.1%	37.1%	39.9%
% of non-aero revenues	53.5%	61.6%	64.6%	68.1%	66.0%	65.8%	59.2%	60.9%	69.0%	72.2%
Ground rental income	317,657,008	342,970,338	394,088,177	353,283,634	435,737,664	452,202,339	-	-	-	-
YoY growth %	-5.9%	8.0%	14.9%	-10.4%	23.3%	3.8%	-	-	-	-
as % of total revenues	9.5%	8.2%	8.5%	7.5%	8.4%	7.9%	-	-	-	-
% of non-aero revenues	25.5%	21.1%	20.6%	16.9%	18.3%	17.5%	-	-	-	-
Advertising income	61,238,338	60,770,945	54,854,174	52,088,346	57,923,514	55,333,812	-	-	-	-
YoY growth %	2.9%	-0.8%	-9.7%	-5.0%	11.2%	-4.5%	-	-	-	-
as % of total revenues	1.8%	1.5%	1.2%	1.1%	1.1%	1.0%	-	-	-	-
% of non-aero revenues	4.9%	3.7%	2.9%	2.5%	2.4%	2.1%	-	-	-	-
Utilities supply	105,413,976	130,890,153	131,589,683	138,274,897	146,112,230	147,347,438	-	-	-	-
YoY growth %	-4.4%	24.2%	0.5%	5.1%	5.7%	0.8%	-	-	-	-
% of non-aero revenues	8.5%	8.0%	6.9%	6.6%	6.1%	5.7%	-	-	-	-
Other non-aero revenues	94,760,259	89,394,543	95,829,408	122,913,160	168,944,604	228,528,519	1,261,950,986	1,344,950,095	1,346,265,657	1,328,374,972
YoY growth %	6.4%	-5.7%	7.2%	28.3%	37.5%	35.3%	-	6.6%	0.1%	-5.3%
as % of total revenues	2.8%	2.1%	2.1%	2.6%	3.2%	4.0%	20.1%	19.3%	16.7%	15.3%
% of non-aero revenues	7.6%	5.5%	5.0%	5.9%	7.1%	8.9%	40.8%	39.1%	31.0%	27.8%
Total non-aero revenues	1,246,344,592	1,626,052,929	1,913,079,655	2,088,746,942	2,381,589,844	2,580,425,860	3,090,026,578	3,439,550,162	4,338,047,869	4,783,927,992
YoY growth %	6.5%	30.5%	17.7%	9.2%	14.0%	8.3%	19.7%	11.3%	26.1%	23.4%
as % of total revenues	37.3%	38.8%	41.5%	44.2%	45.7%	44.9%	49.2%	49.5%	53.8%	55.2%
Total revenues	3,338,337,110	4,186,408,261	4,611,211,636	4,720,413,739	5,215,129,817	5,750,882,944	6,285,400,290	6,951,474,481	8,062,379,030	8,669,101,290
YoY growth %	-0.3%	25.4%	10.1%	2.4%	10.5%	10.3%	9.3%	10.6%	16.0%	16.3%



2 Revenue Operational Drivers – Passenger Volume, Enplanement and Average Retail Revenue Per Pax

Segment revenue breakdown

Passenger volume has grown double digits CAGR for the past 5 years. Average non-aero sales and retail revenue per passenger are still low compared to global peers

Key operational stats	2009	2010	2011	2012	2013	2014	2015	2016	2017
Passenger volume ('000)									
Domestic	16,596	21,108	21,438	23,350	23,770	25,624	30,392	32,737	35,286
International	15,322	19,474	20,015	21,530	23,420	26,064	29,706	33,266	34,715
Growth %	-5.1%	27.1%	2.8%	7.6%	8.8%	11.3%	14.0%	12.0%	4.4%
as % of total	48.0%	48.0%	48.3%	48.0%	49.6%	50.4%	49.4%	50.4%	49.6%
Total passenger volume	31,918	40,582	41,453	44,880	47,190	51,688	60,098	66,002	70,001
Growth %	13.0%	27.1%	2.1%	8.3%	5.1%	9.5%	16.3%	9.8%	6.1%
Enplanement (units)									
Domestic	147,757	172,926	179,125	194,571	196,038	211,298	240,809	255,039	261,424
Growth %	28.0%	17.0%	3.6%	8.6%	0.8%	7.8%	14.0%	5.9%	2.5%
as % of total	51.9%	52.7%	52.6%	54.3%	53.3%	53.0%	54.1%	53.1%	52.6%
International	137,041	155,431	161,354	163,754	171,861	187,508	204,565	220,736	230,320
Growth %	-7.4%	13.4%	3.8%	1.5%	5.0%	9.1%	9.1%	7.9%	4.3%
as % of total	48.1%	47.3%	47.4%	45.7%	46.7%	47.0%	45.9%	46.0%	46.4%
Total enplanements	284,798	328,357	340,479	358,325	367,899	398,806	445,374	479,902	496,774
Growth %	8.1%	15.3%	3.7%	5.2%	2.7%	8.4%	11.7%	7.8%	3.5%
Revenue drivers									
Avg aero-related sales per	66	63	65	59	60	61	53	53	53
Growth %	-15.0%	-3.7%	3.2%	-9.9%	2.4%	2.2%	-13.3%	0.1%	0.0%
Avg non-aero sales per pax	39	40	46	47	50	50	51	52	62
Growth %	-5.8%	2.6%	15.2%	0.8%	8.4%	-1.1%	3.0%	1.4%	18.9%
Avg retail revenue per pax	20.9	24.7	29.8	31.7	33.3	32.8	30.4	31.7	42.7
Growth %	2.8%	18.1%	20.8%	6.2%	5.2%	-1.5%	-7.4%	4.3%	34.7%

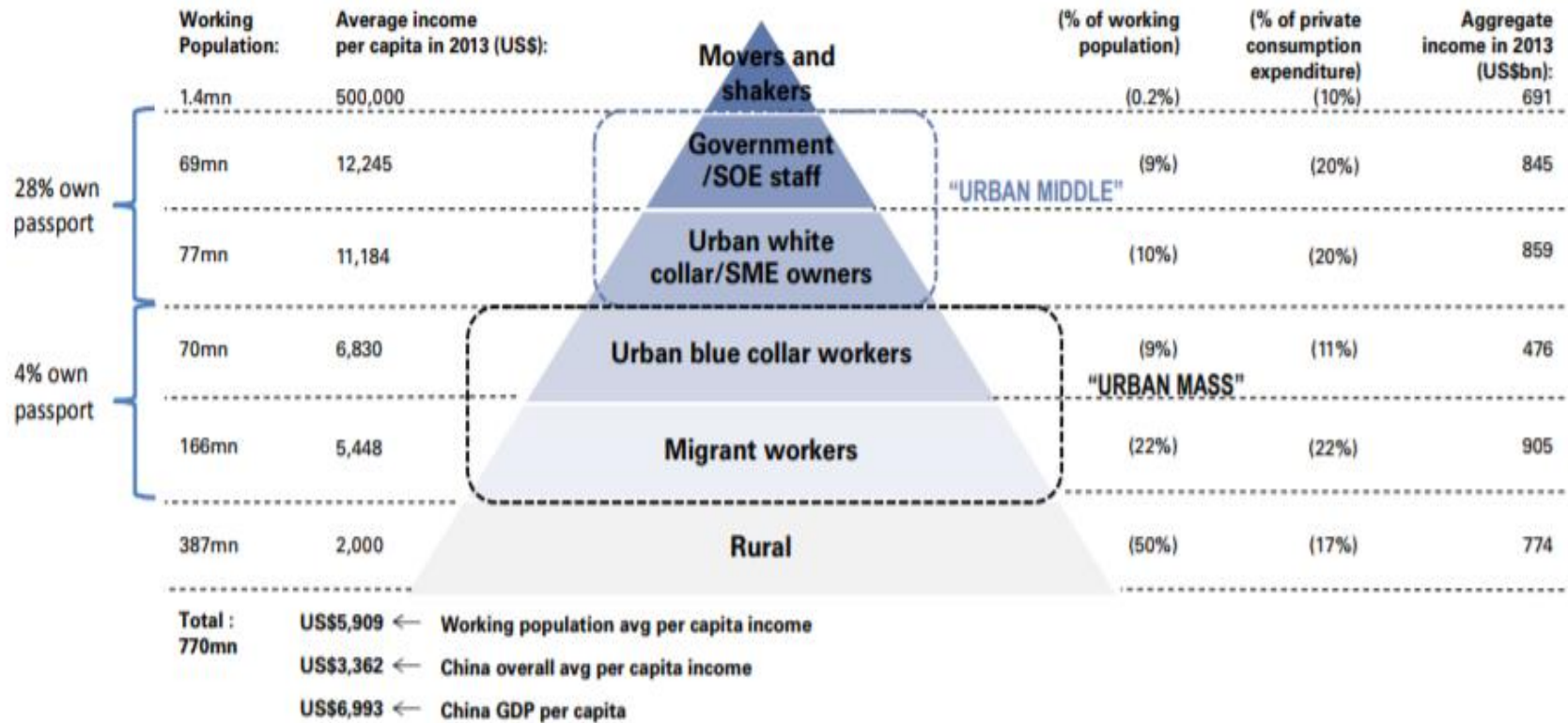


2

Predictable Revenue Growth Underpinned by Long Run Way of Structural Customer Demand

Only 4% of Chinese population owns a passport. Expected to grow multiples, GS says 12% by 2025, Trip Advisor China COO thinks 10x! USA has 40% and Japan has as high as 30%

The Chinese population divided into six segments





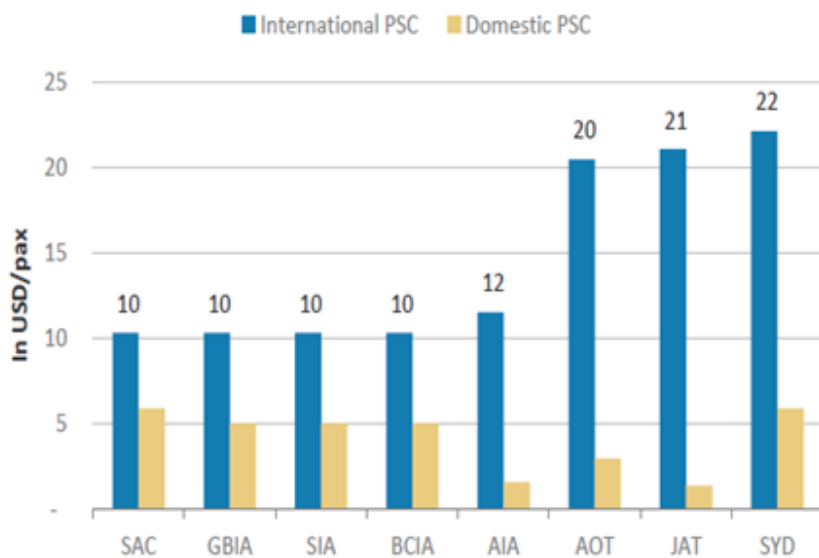
2

Long Runway for Revenue Growth as Airport Fees and Average Non-Aero Sales Per Pax Has Room to Grow

Airport fees and average retail sales per passenger are still low in Shanghai International airport and have significant potential to grow over the next 10 years

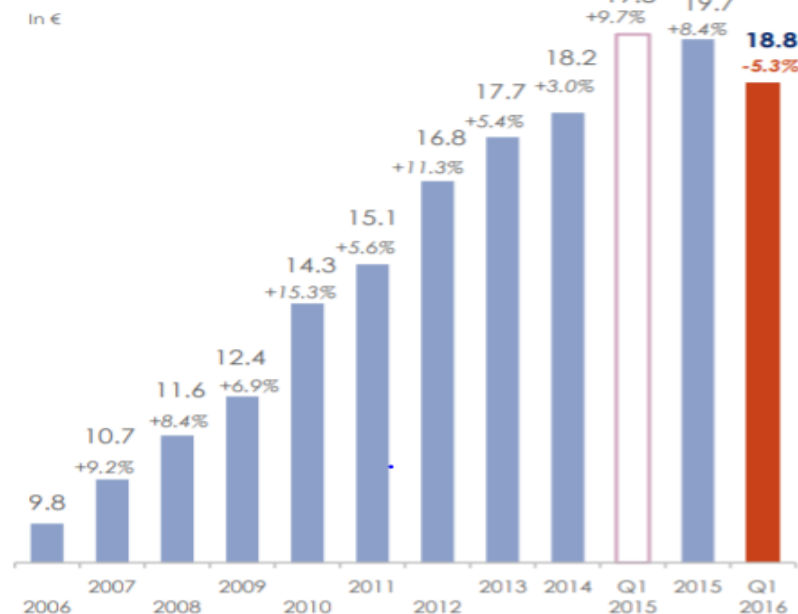
Passenger fee comparison across Asia peers

Passenger service charges tend to be higher for international passengers across APAC (2017)



Illustrative case study: Paris retail sales per passenger

Evolution of sales/PAX⁽¹⁾





2 Operating Costs Breakdown

Operating cost structure

The key cost items are labour and depreciation. Operating costs have declined driven by scale and declining labour costs and D&A relative to revenue growth

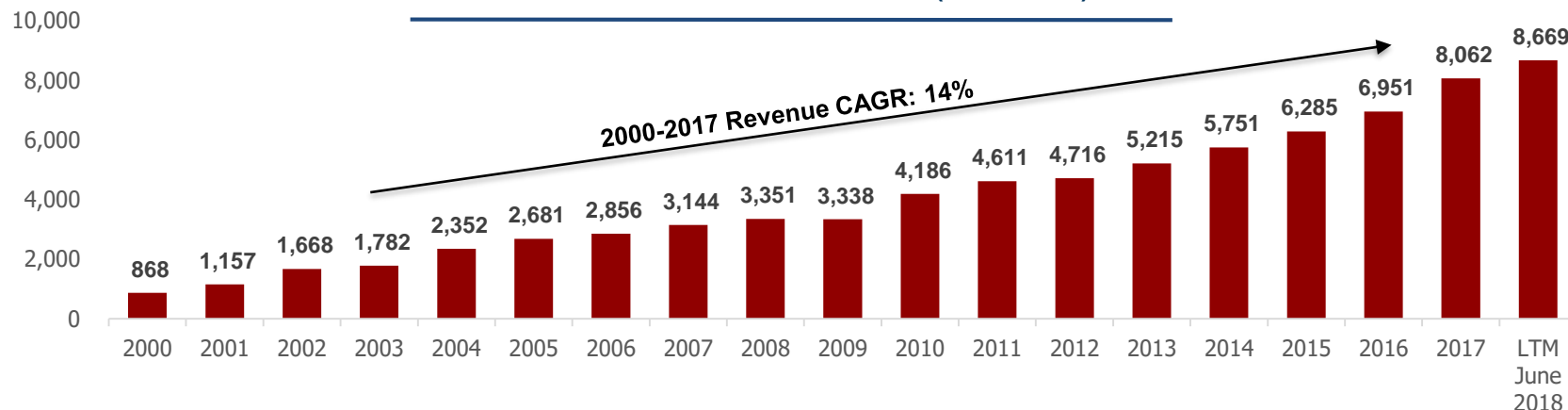
Operating cost analysis	2011	2012	2013	2014	2015	2016	2017
Labor costs	1,125,820,792	1,242,856,929	1,124,094,120	1,239,462,184	1,343,613,142	1,493,202,674	1,560,245,032
as % of total revenues	24.4%	26.3%	21.6%	21.6%	21.4%	21.5%	19.4%
% of total operating costs	35.8%	38.6%	34.6%	34.2%	35.8%	36.3%	36.2%
Depreciation and amortization	919,184,780	914,677,678	930,728,888	878,355,215	784,717,713	827,921,700	833,403,517
as % of total revenues	19.9%	19.4%	17.8%	15.3%	12.5%	11.9%	10.3%
% of total operating costs	28.4%	28.1%	28.7%	24.8%	22.0%	20.9%	19.9%
Operations expense	558,478,313	598,519,618	674,818,767	970,289,485	1,090,563,477	1,273,202,713	1,481,528,477
as % of total revenues	12.1%	12.7%	12.9%	16.9%	17.4%	18.3%	18.4%
% of total operating costs	17.8%	18.6%	20.8%	26.8%	29.0%	31.0%	34.3%
Rental fee paid to Shanghai Airport Authority	212,715,100	213,122,100	213,122,100	378,963,800	491,973,500	673,197,500	720,747,500
as % of total revenues	4.6%	4.5%	4.1%	6.6%	7.8%	9.7%	8.9%
YoY growth %	2.1%	0.2%	0.0%	77.8%	29.8%	36.8%	7.1%
% of total operating costs	6.8%	6.6%	6.6%	10.5%	13.1%	16.4%	16.7%
Fuel costs	310,065,903	297,548,447	329,845,861	341,114,198	351,276,249	374,264,069	357,215,388
as % of total revenues	6.7%	6.3%	6.3%	5.9%	5.6%	5.4%	4.4%
% of total operating costs	9.9%	9.2%	10.2%	9.4%	9.4%	9.1%	8.3%
Tax expenses	186,316,837	109,386,051	120,352,349	129,595,172	134,931,903	62,640,247	21,053,256
as % of total revenues	4.0%	2.3%	2.3%	2.3%	2.1%	0.9%	0.3%
% of total operating costs	5.9%	3.4%	3.7%	3.6%	3.6%	1.5%	0.5%
Finance expense	90,061,380	35,368,705	(5,889,367)	(88,145,311)	(185,191,893)	(146,644,869)	(121,149,428)
Others	45,305,714	56,070,611	66,328,259	67,002,836	49,104,091	79,098,408	61,304,646
Total operating costs	3,235,233,721	3,254,428,040	3,240,278,876	3,537,673,779	3,569,014,682	3,963,684,942	4,193,600,890
as % of total revenues	70.2%	68.9%	62.1%	61.5%	56.8%	57.0%	52.0%
Check	-	-	-	-	-	-	-
Total operating costs ex finance	3,145,172,341	3,219,059,336	3,246,168,243	3,625,819,090	3,754,206,575	4,110,329,811	4,314,750,318
% of revenues	68.2%	68.2%	62.2%	63.0%	59.7%	59.1%	53.5%



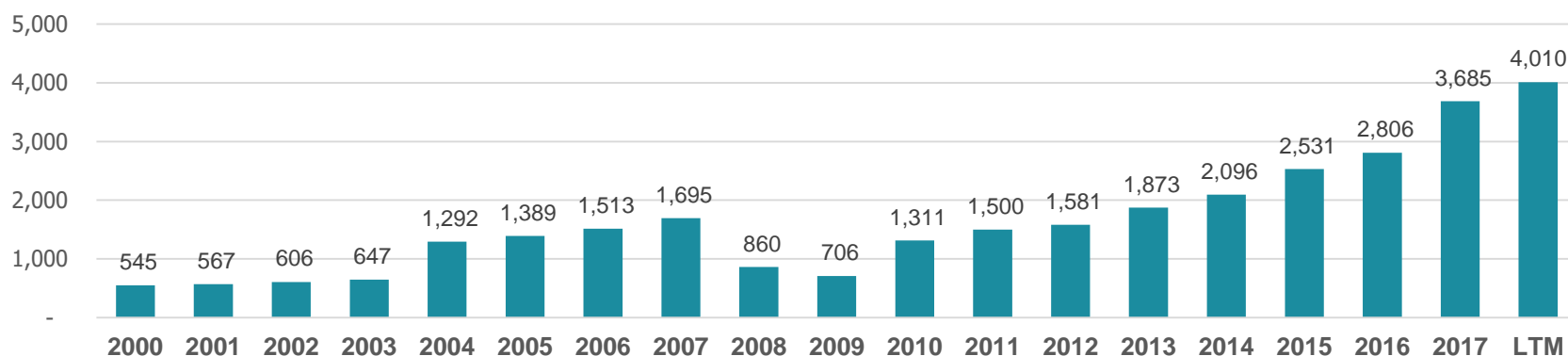
2 Predictable and Resilient Revenue and Profitability

Key value driver of airports is passenger throughput – over the past 10 years, domestic passenger volume tripled while international passenger volume doubled

2000 – 2017 Historical Revenues (RMB in mm)



2000 – 2017 Historical Net Profits to Company (RMB in mm)



Net Margin	63%	49%	36%	36%	55%	51%	53%	54%	26%	21%	31%	33%	34%	36%	36%	40%	44%	46%	46%
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2 Growth Driver: 2018 Duty Free Concession Renewal

Shanghai Airport will receive annual minimum guarantee payments increasing on average 15% per year from its duty free operator, Sunrise DF, providing strong earnings visibility

Duty-free concession revenue	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Commercial rental revenue	1,828	2,095	2,992	3,740	4,488	5,385	6,462	7,755	8,918	10,256	11,794
% chge		14.6%	42.8%	25.0%	20.0%	20.0%	20.0%	20.0%	15.0%	15.0%	15.0%
Duty free concession revenue	1,460	1,694	2,555	3,015	3,680	4,416	5,299	6,359	7,313	8,410	9,671
% chge		16.0%	50.8%	18.0%	16.9%	18.0%	9.6%	37.9%	9.1%	8.8%	9.2%
Minimum guarantee payments					3,525	4,158	4,559	6,288	6,859	7,464	8,148
as % of total revenue	23.2%	24.4%	31.7%	33.1%	34.7%	36.5%	35.6%	43.5%	42.0%	42.3%	43.1%
as % of commercial rental revenue	79.9%	80.9%	85.4%	80.6%	82.0%	82.0%	82.0%	82.0%	82.0%	82.0%	82.0%
% OPM, estimated	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
as % of operating profit, estimated	40.4%	41.7%	47.7%	48.3%	50.7%	69.6%	72.4%	76.9%	76.4%	79.4%	83.4%

Minimum guarantee payments from Sunrise DF to Shanghai Airport during 2019-2025

Revenue from duty free concession will be increasingly meaningful for the company's operating profit as contribution could grow to as much as 70-80% in 5 years.

- In 2017, Chinese government began allowing airports to run open tenders for duty-free shop concessions after receiving a decade of low rental yield and low minimal guarantee payments from duty-free operators
- In Sep 2018, Shanghai Airport announced a new contract with duty free operator Sunrise DF, which included a minimum guarantee payment increasing on average 15% per year from 2019-2025, bringing strong earnings visibility
- Contract also states a 42.5% revenue share – Sunrise DF to pay Shanghai Airport monthly the higher amount between minimum guarantee and revenue share
- Sunrise DF to operate Shanghai Airport's duty-free shops in T2 from 2019-2025, Satellite Terminal once it begins operation, and T1 from 2022-2025 under the new contract.



2 Growth Driver: New Satellite Terminal to Begin Operations in 2019



World's largest Satellite Terminal to open in 2H19

- Shanghai Pudong Airport's new passenger volume capacity to reach 80mm after 36mm incremental annual passenger volume capacity (+60%) on top of existing capacity of 60mm.
- Adds 83 new departure gates (vs existing 28 in T1 & 42 in T2).
- 622,000 sqm in total area vs (280,000 sqm of T1 and 480,000 sqm of T2). To add 9,062 sqm of duty free rental area on top of existing area of 7,853 sqm.
- RMB20.4bn total budgeted investment – construction commenced in 2015, expected to complete by June 2019 and go into operations in 3Q19.
- Expected to bring incremental revenues of RMB3-4bn per year from additional duty free concession revenue and (vs ~RMB3bn duty free concession revenue in 2018).
- Expected to incur RMB1.5-2bn of incremental costs (RMB1bn in depreciation, ~RMB300-400mm in labour costs, RMB100mm-200mm in fuel costs).



2 Quality Business Checklist

Shanghai Airport is a high quality asset that is predictable, durable and offers growth

The Business

- **Long history:** Shanghai airport has a long operating history with over 20 years as a listed company. The company has successfully gone through 2 capex cycles to grow traffic 66mm passengers
- **Predictable earnings power :** The company has predictable earnings power as it is a monopoly with pricing power with no competition. Moreover, only 4% of Chinese have passports, and this is definitely expected to increase over the next 10-20 years, offering very predictable customer stickiness to Shanghai Airport
- **Non-cyclicality:** Even in its worst year, Shanghai Airport had net margins of over 20%. Since 1997, the company has had only one year of revenue decline of -0.4% (in 2009!)
- **High barriers to entry:** No new competitive entrant!

Management & Corporate Culture

- **Strong SOE backing:** Strategic monopoly position secured by Shanghai municipal government - who is ultimate majority shareholder
- **Capital allocation:** Good track record in growing Pudong Airport through two investment cycles into one of most important aviation hubs in the world
- **Dividends:** Deployment of cash could be better, with higher dividends.
- **Corporate governance:** SOE shareholders are not known for the best corporate governance and transparency - hard to gain management access and poor communication with shareholders

Quality of Financials

- **Core business has remained profitable for over a decade.**
- **Strong FCF generation** which will increase post the capex cycle
- ROI during past investment cycle in around 2007 was 30%+ - high among peers
- **Upside or downside potential to profitability:** Upside contains lots of room for positive surprises including rise in average retail spend per pax, further airport fee hikes, improved revenue sharing agreements with duty-free operators. On the downside, aviation demand is quite sensitive to economic health and emergency incidents that affect peoples' perception of safety of air travel

Section III: Valuation – High Quality Company with a Wide Moat At a Fair Price





3 Benchmarking Peer Comparable Analysis: Revenue Growth + FCF+ High Returns Creates Long Term Value For Shanghai International



Company	Shanghai Intl	Aeroports de Paris	Sydney Airport	Airports Thailand	Zurich	Fraport	Japan
Market cap	\$14.0bn	\$17.8bn	\$11.5bn	\$29bn	\$7.2bn	\$9.4bn	\$3.0bn
Net Cash	\$1.2bn	-\$3.3bn	-\$6.3bn	\$1.2bn	-\$593mm	-\$4.7bn	-\$240m
EV	\$12.8bn	\$21.2bn	\$17.6bn	\$27.8bn	\$7.6bn	\$14.4bn	\$3.2bn
Revenue 3-year CAGR	12%	2%	7%	12%	2%	3%	10%
EBIT Margin	46-48%	27%	53%	47%	33%	21%	5%
Net Margin	39-43%	14%	23%	38%	28%	17%	3%
Passenger ⁽¹⁾	70mm	61mm	42mm	56mm	28mm	65mm	79mm
ROE	14%	11%	30%	17%	13%	13%	7%
Dividend	1.3%	1.7%	5%	1%	3%	1.7%	1%
FCF comments	\$700-800mm normalized; net cash BS, paid down debt previously	~200-300mm FCF. Net debt positive; dividends paid partly through financing vs FCF	Almost \$6.5bn net debt. Dividends entirely through debt + equity	FCF positive, debt paydown and paid div through FCF. 3x market cap of Shanghai!	~\$350mm FCF. Still has some debt on BS, but has paid down debt in last 5 years	Net debt positive. Funding div through debt + equity.	Different business profile with low margins due to active retail management business

ENTREPRENEURS INVESTIS (1) Includes only passenger volume at primary airport



3

Summary Tab

Share Price	49.8
Market Cap (R)	96,001
EV (RMB mm)	83,098
Upside	26%
Quality	5.9
ESR	3.4

End Dec (RMI)	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Sales	4,720	5,215	5,751	6,285	6,951	8,062	9,103	10,160	11,385	12,809	14,468
EBIT	1,501	1,969	2,125	2,531	2,841	3,748	4,369	5,080	4,440	5,124	5,787
Net profit	1,581	1,873	2,096	2,532	2,806	3,685	4,074	4,680	4,325	5,030	5,749
ND/EBITDA	-1.0x	-1.4x	-2.2x	-2.4x	-2.7x	-1.9x	-1.1x	-0.9x	-1.9x	-2.6x	-3.3x
EV/Sales	4.9x	4.0x	3.2x	5.5x	6.3x	8.0x	9.1x	8.2x	6.8x	5.5x	4.4x
EV/EBITDA	9.5x	7.3x	6.2x	10.3x	12.0x	14.1x	16.2x	14.4x	12.6x	10.2x	8.6x
P/E ex cash	14.5x	11.2x	8.9x	13.5x	15.7x	17.5x	20.4x	17.8x	17.9x	14.1x	11.1x
FCF/ Mkt Cap	8.2%	9.2%	10.1%	5.4%	0.0%	2.5%	-3.6%	-0.1%	6.6%	7.3%	7.9%
Div yield	4.6%	2.8%	2.3%	1.6%	1.5%	1.1%	1.3%	1.4%	1.6%	1.5%	1.7%



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