春秋航空
SPRING AIRLINES

Spring Airlines Communication Materials

May 2020

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春秋航空
SPRING AIRLINES

1. Company Overview

Company Overview

CAPSE 2019 Best Low-Cost Airline

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 916.73mn 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 openning 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 the end ot 1Q-2020 , total assets reached Rmb30.0bn.Net profit was RMB 1.84bn and -0.23bn at the end of 2010 and 1Q-2020.
- The company currently operates a fleet of 96 A320 aircrafts at the end of 1Q-2020, the biggest all-Airbus fleet among China's private sector airlines.

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Development History

Nov 2004

Spring Airlines is established

July 2005

Makes inaugural flight, marking the official start of operations for China's first low-cost carrier

March 2009

Introduces its first Airbus A320 jet to be bought outright

Sept 2011

Spring Airlines Japan is established, with Spring Airlines holding a 33% stake

Aug 2014

Spring Airlines' flight simulator is put into operation, further improving flight safety and quality

Jan 2015

21 January − Spring Airlines stages A-share IPO, celebrates by ringing the opening bell at the Shanghai Stock Exchange

July 2015

18 July − 10-year anniversary of inaugural flight; onboard local area network Wi-Fi system successfully rolled out on Xiamen/Shenzhen/Guangzhou flights departing from Shanghai

Oct 2015

Share capital is increased to 800m shares through conversion of the capital reserve fund

Feb 2016

Spring Airlines Japan launches two non-stop routes between China and Japan: Tokyo-Wuhan and Tokyo-Chongqing

Jun 2016

Issued RMB 2.3 bn corporate bonds, listing in SSE

Feb 2018

A-share Placement Rmb 3.5 bn

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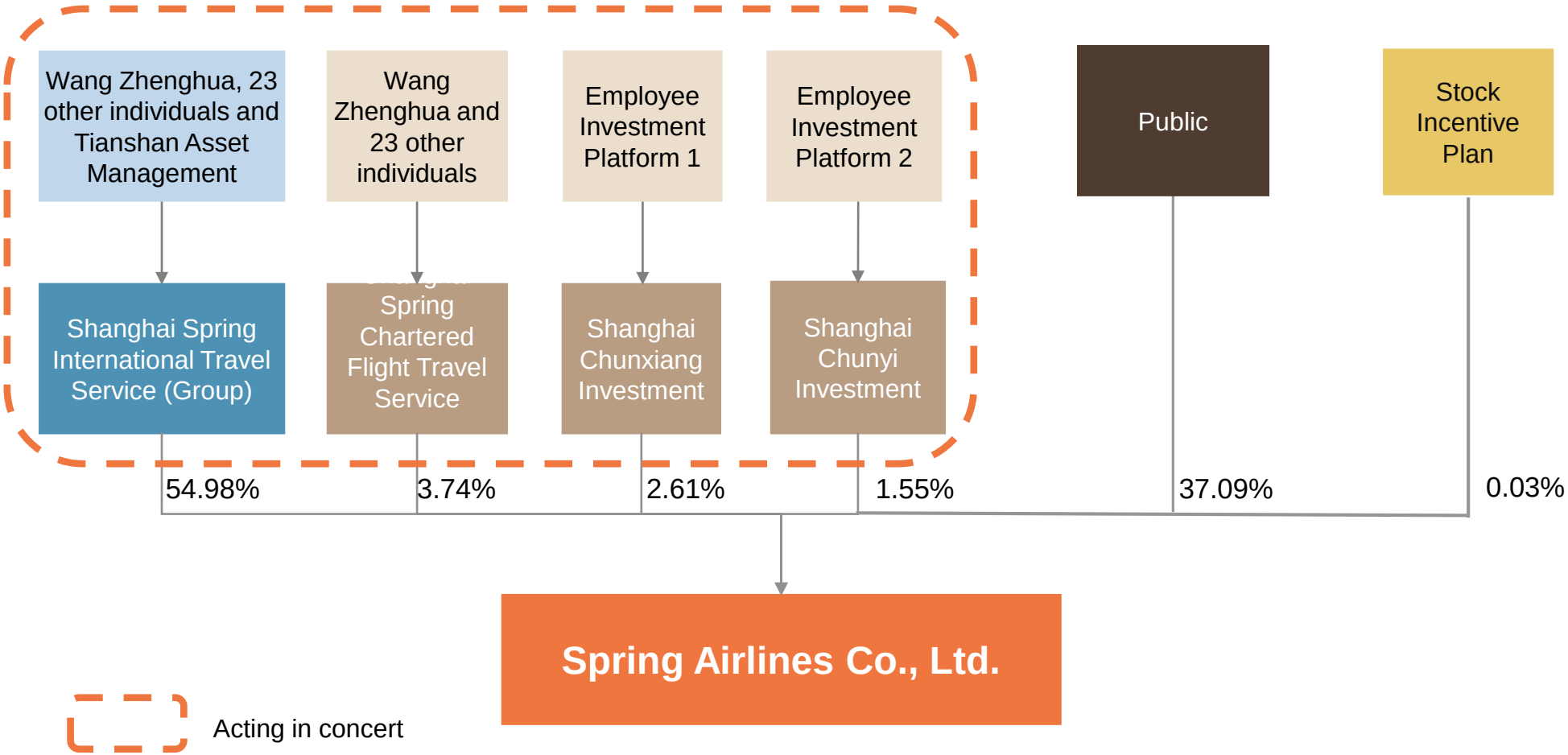
Shareholding Structure

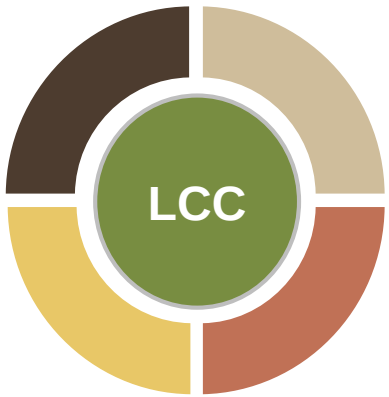
A-share shareholding diagram（By the end of 1Q-2020）



Zhenghua Wang, who is the actual controller of the company, holds 21.46% shares indirectly through 2 legal entities.

Operational Model

Simplicity



Efficiency

Two "ones"

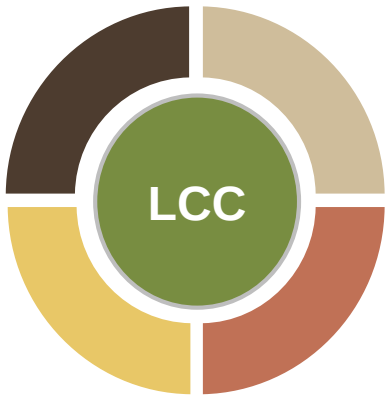
- **One aircraft model − the Airbus A320**
  - Using just one aircraft model and engine type lets Spring Airlines lower costs for aircraft and supplies through **centralized procurement**; also **lower inventories**.
  - Makes maintenance work easier to manage; simplifies training of pilots, aircraft 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 amounting to 61 aircrafts currently 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 90.8%, **around 880bps above Big3 SOEs average** of 82.0% for regular flights in 2019.
  - 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**
  - The company maintained a daily aircraft utilization hours above 11.2 hours in 2019, significantly higher than **the industry average**.

Operational Model

Simplicity



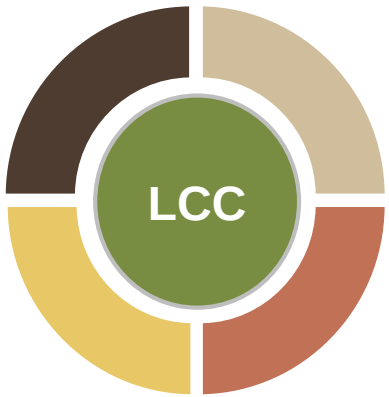
Efficiency

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 91.9% contribution in 2019 including 33.1% from APP on mobile terminal, of which WeChat mini program became the channel with the highest growth rate.
  - The company continuously upgrades the loyalty membership program. The number of senior members increased by 66 times yoy.
  - In 2019, Spring Airlines‘ sales expenses was Rmb0.0060 per available seat kilometer (ASK), declined by 10.4% 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.
  - In 2019, Spring Airlines' administrative expenses was Rmb0.0042 per ASK, decreased by 19.7% yoy, much lower than the average for A-share listed airlines.

Operational Model

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.
  - In the field of aviation media, the company continued to actively explore the advertising media service business, and the overall aircraft spraying business achieved rapid growth in 2019
  - In 2019, vigorously developed the retail business and gradually transfer from the main cabin scene to the online scene to realize the two-way conversion between high-frequency and low-frequency consumption. Cooperated with Chunqiu payment, Tencent, Jingdong and other online payment platforms to break through mobile payment without internet in the air.

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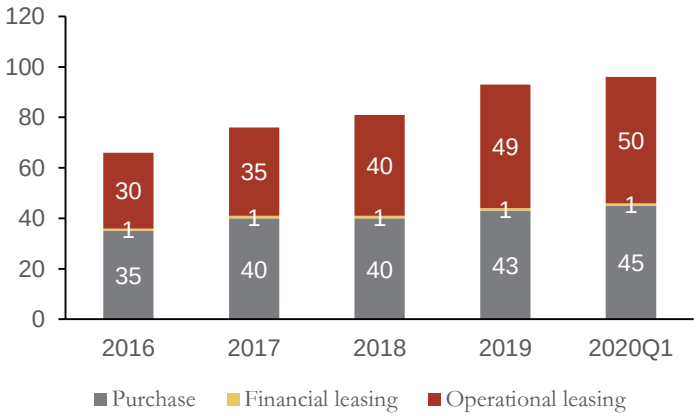
2. Fleet and Network

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

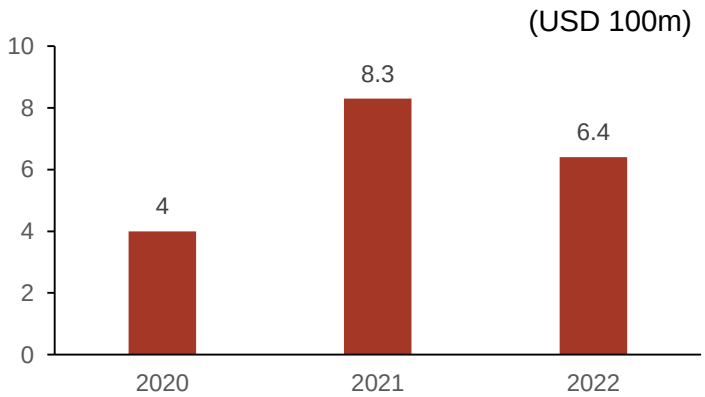
A321NEO, single economy class with 240 seats, will be delivered from 2020. The company will also consider to convert more A320NEO into A321NEO

Fleet scale and structure of last 3 years



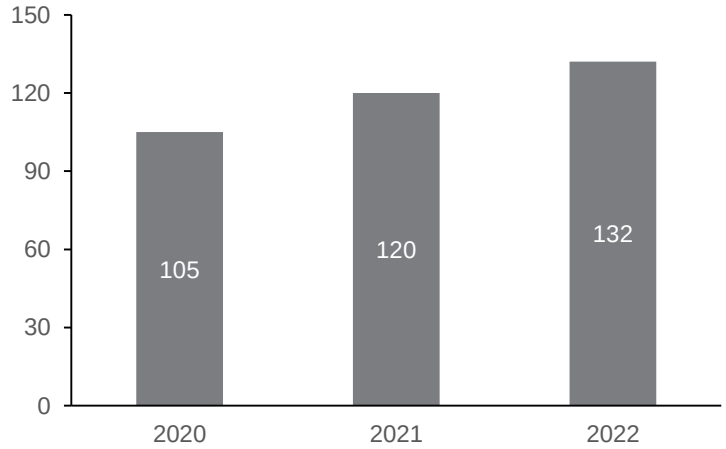
- The company owns A320 fleet of 96 aircrafts, 61 of which have 186seats each and the others have 180 seats each at the end of Q1-2020
- The average age of the planes 5.2 years
- The aircrafts delivered in the future are all 186 seats

Expense of aircraft purchase



- The catalogue price of A320CEO is USD 106 million each and the price of A320NEO is USD 115million, according to Airbus website

3-year Fleet scale and expansion plan



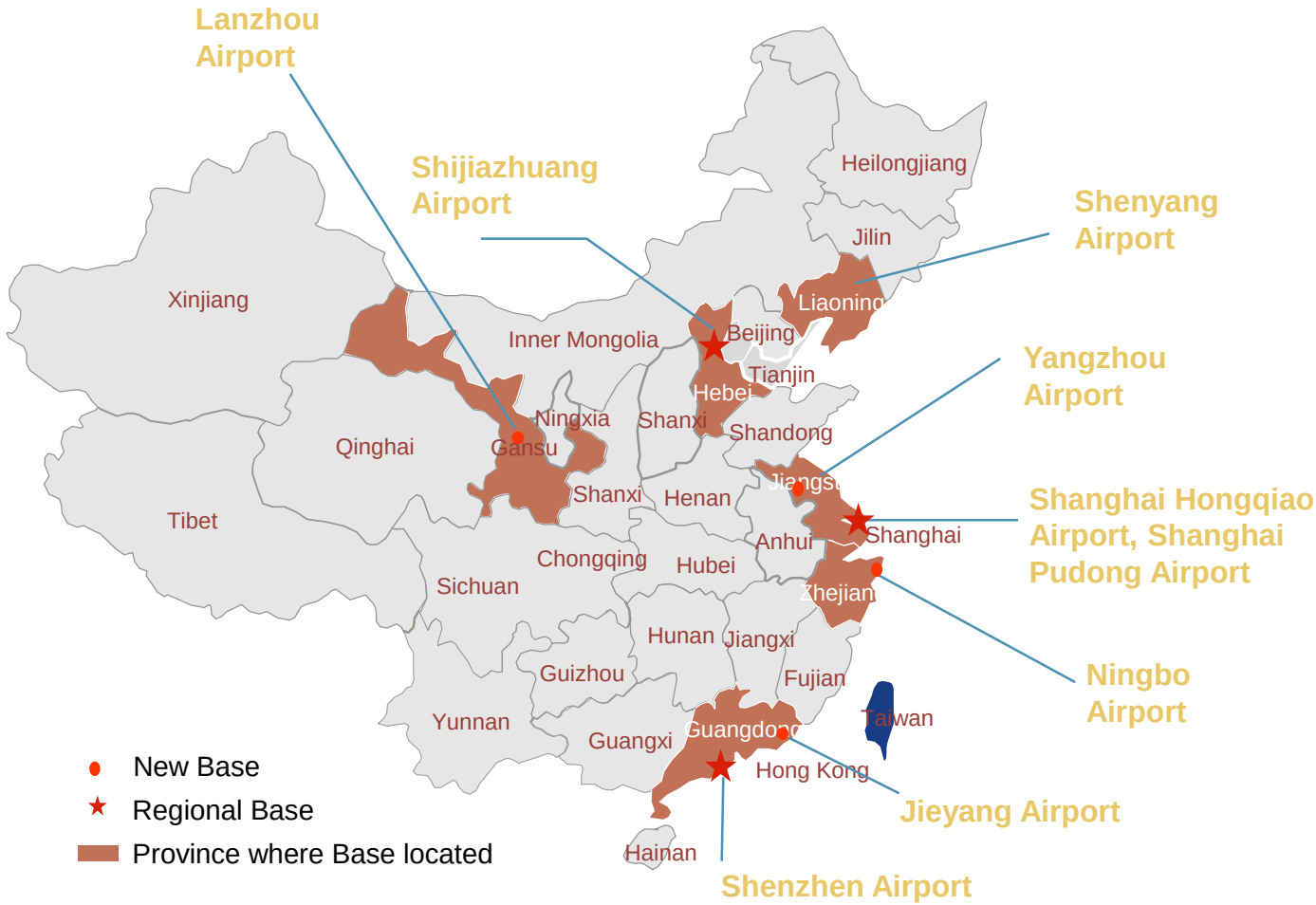
	2020	2021	2022
Delivered	12 A320	15 A320	12 A320
Lease expire	2	7	11
Total	12	15	12

- The company has submitted aircraft delivery plan to NDRC and CAAC,
- The actual number and progress of aircraft delivery will be adjusted continuously according to the approval of the NDRC and CAAC, combined with the actual delivery capacity of Airbus as well as the development of the Covid-19 epidemic.

Operation Bases

The hub of East China is based in the Shanghai base, Yangzhou in Jiangsu Province and Ningbo in Zhejiang Province, serving the Yangtze River Delta regional economic integration construction.
The hub of South China is based in Shenzhen and Jieyang serving GBA.
The hub of North China is based in Shijiazhuang serving the integration construction of Beijing, Tianjin and Hebei. The hub of Northeast China is based in Shenyang. Lanzhou and Xi'an airports with new capacity deployment in 2019 becomes the milestone of developing the northwest region, meanwhile, the company will also gradually increase the capacity in Southwest China.

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

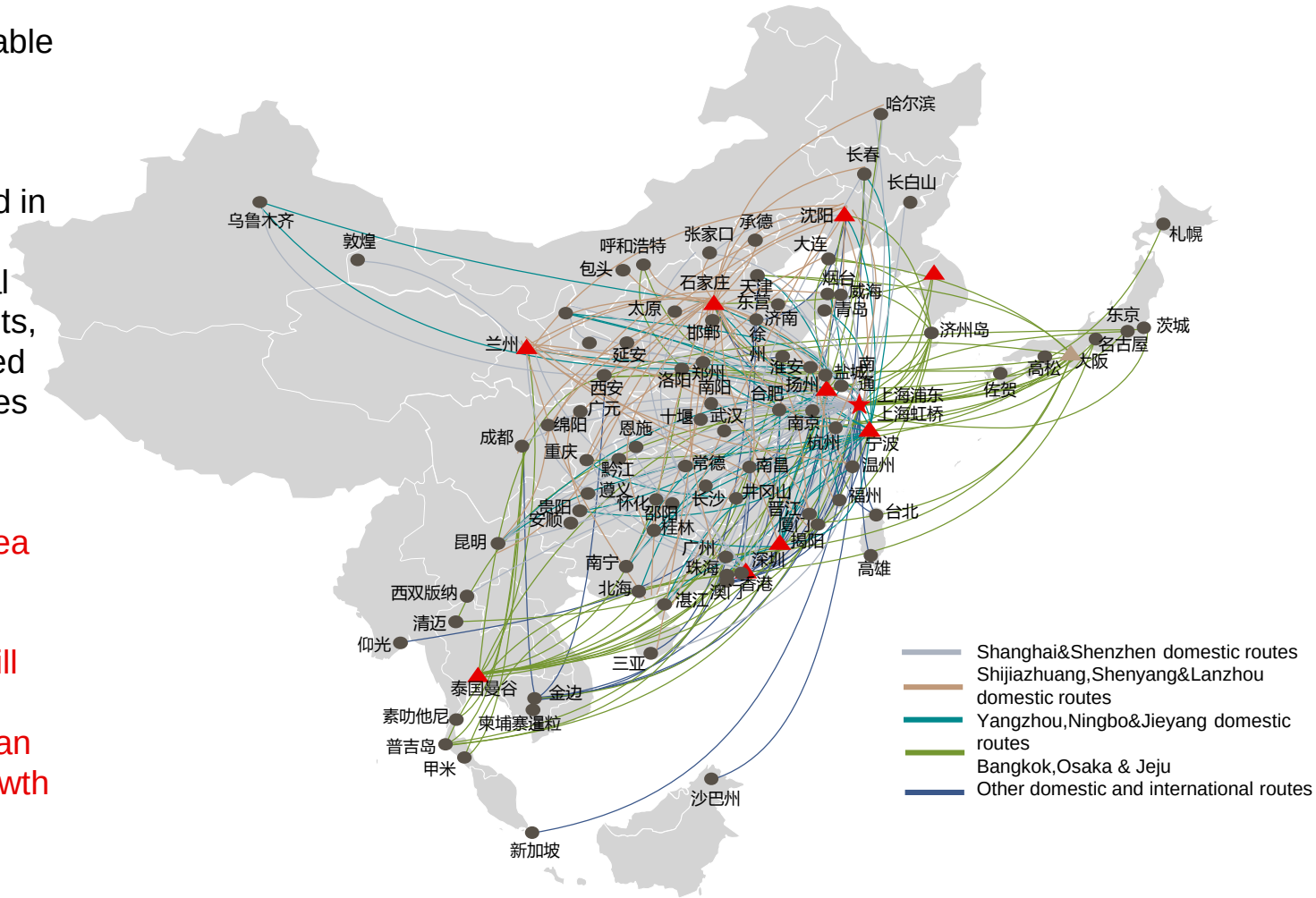


- The company will continue to construct network under current bases distribution, decrease routes deviation from bases, increase the frequency of routes to/from the bases, enhance the maintenance and operation capability at the bases, keep the balanced deployment between the domestic and overseas market.

Routes Network（by the end of 2019）

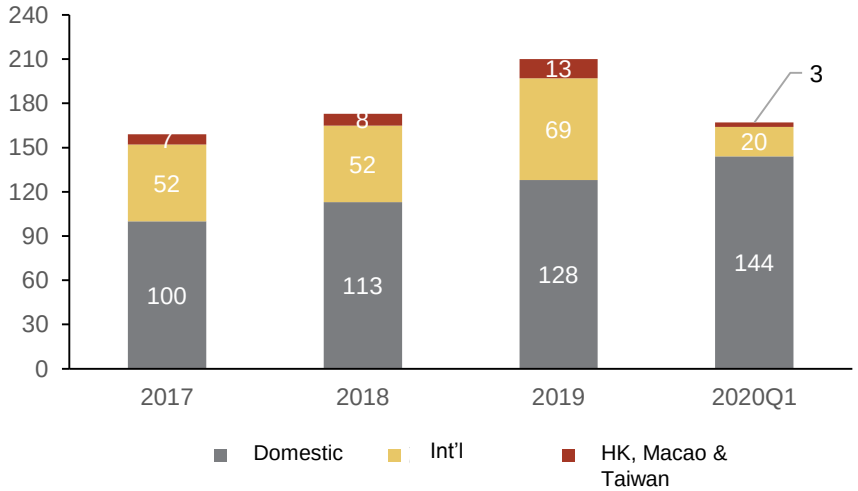
The overall structure of the company has been relatively stable in 2019, and the domestic and international capacity is more balanced. More additional domestic capacity was deployed in new bases in the last 3 years because of the limited additional resources in the high-tier markets, which is expected to be improved with more and more opportunities released in the next few years.

Thailand, Japan and South Korea are still the three largest destination countries as always, among which, Thailand route still contributes most capacity with lower growth rate however. Japan and Korea routes enjoy fast growth because of relationship improvement and Jeju routes contribution.



Routes Network

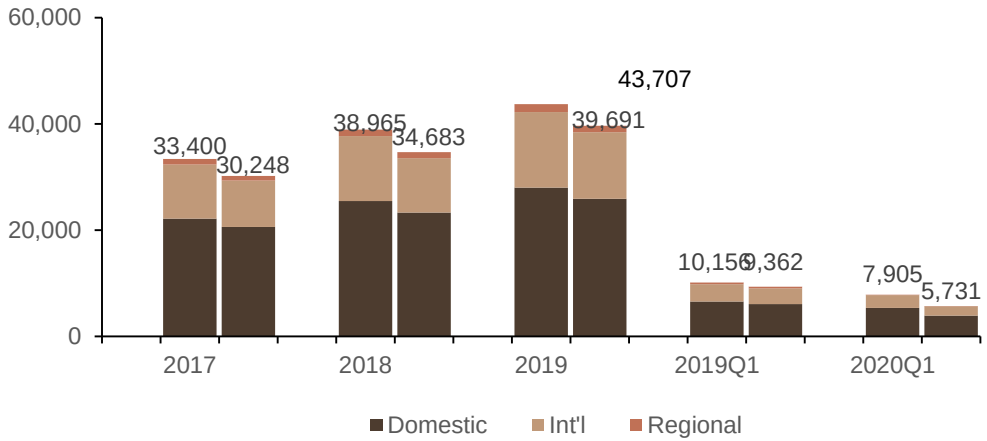
Routes Structure



- As of 2019, the company operated 210 routes,128 domestic, 69 international and 13 regional routes.

Capacity by region

(passenger-kilometer hundred millions)



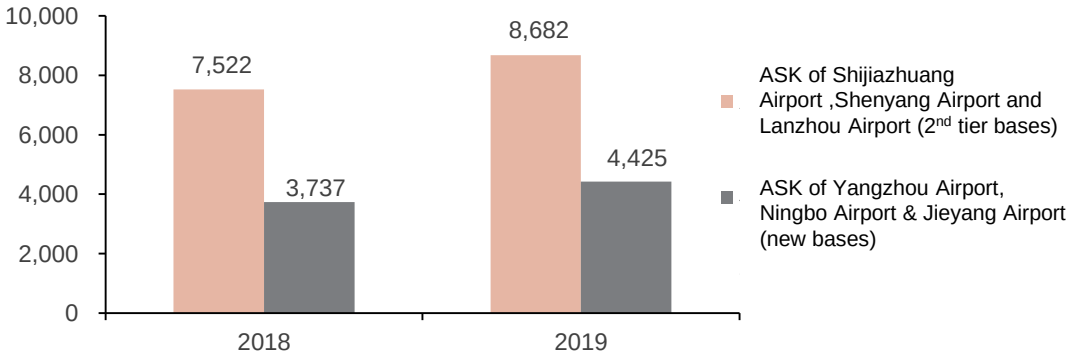
- In 2019, total ASK increased by 12.2% yoy, with domestic, international and regional increasing by 10.0%, 16.5% and 14.7%, accounting for 64.1%, 32.6% and 3.3% respectively.

International Routes Structure

- In 2019, ASK of Thailand, Japan and Korea, increased by 18.2% yoy, accounting for 82.8% of the total international capacity.
- The capacity in Japan increased rapidly because of the relationship improvement and Tokyo Olympic Games so that ASK increased by more than 60% yoy.
- Cambodian routes were optimized and Phnom Penh capacity increased.
- There were 28 domestic cities of departure and 18 overseas destinations by the end of 2019.

Domestic Routes Structure

(passenger-kilometer hundred millions)



- In 2019, ASK increased by 15.4% and 18.4% yoy in second-tier bases and new bases, accounting for 31.2% and 15.9% comparing with 29.9% and 14.8% in 2018.

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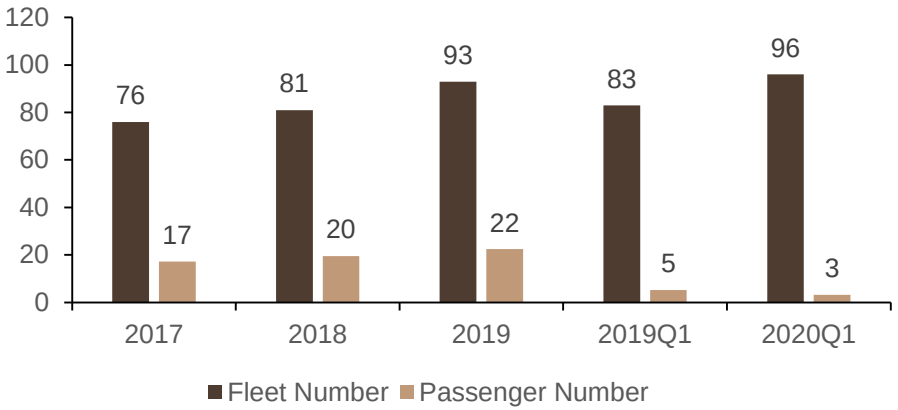
3. Operational Statistics and Financials

Operational Statistics

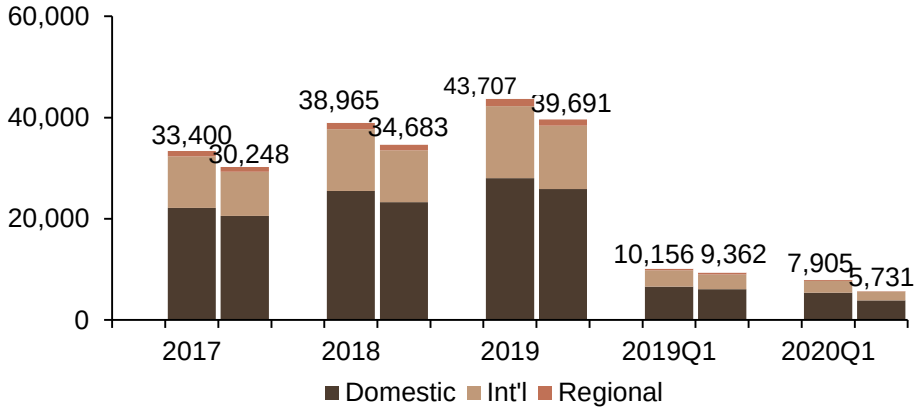
Fleet and Passenger Number

(# of aircraft, Pax in millions)



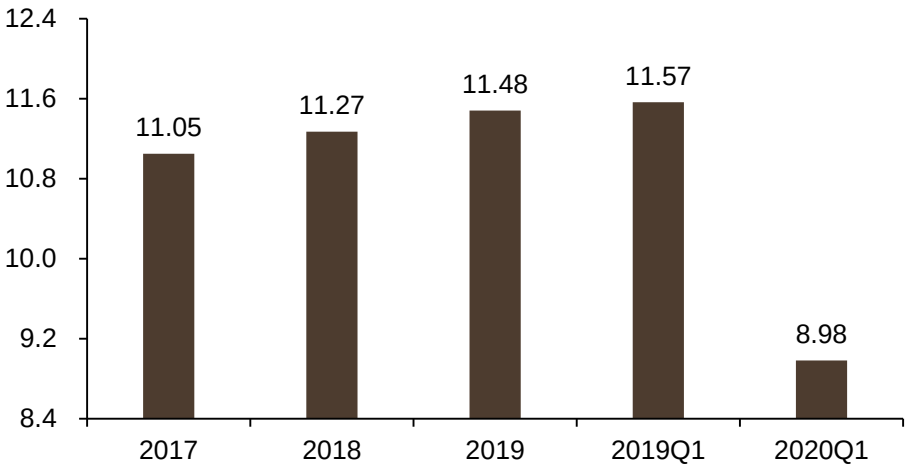
ASK & RPK

(Unit in millions)

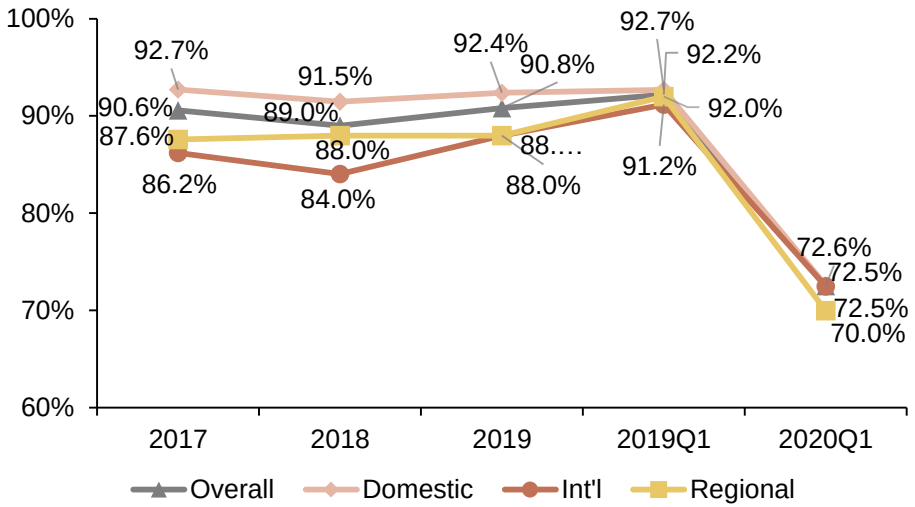


Daily Utilization Hours (Available)

(Hours)

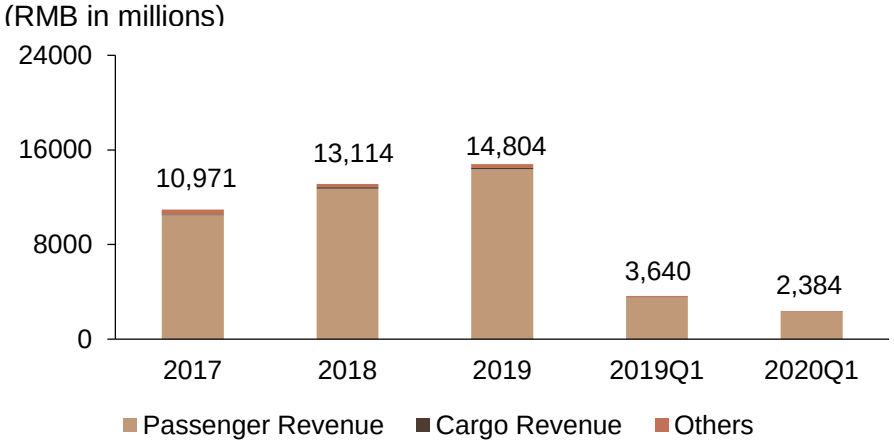


Passenger Load Factor

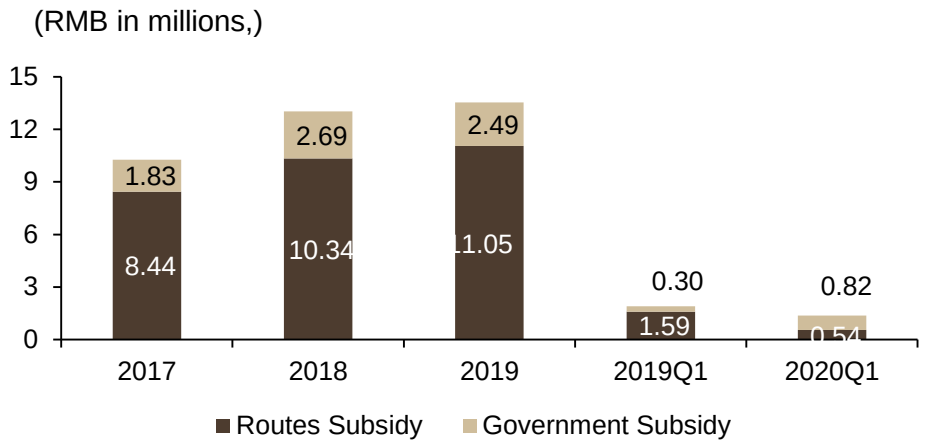


Revenue and Profit

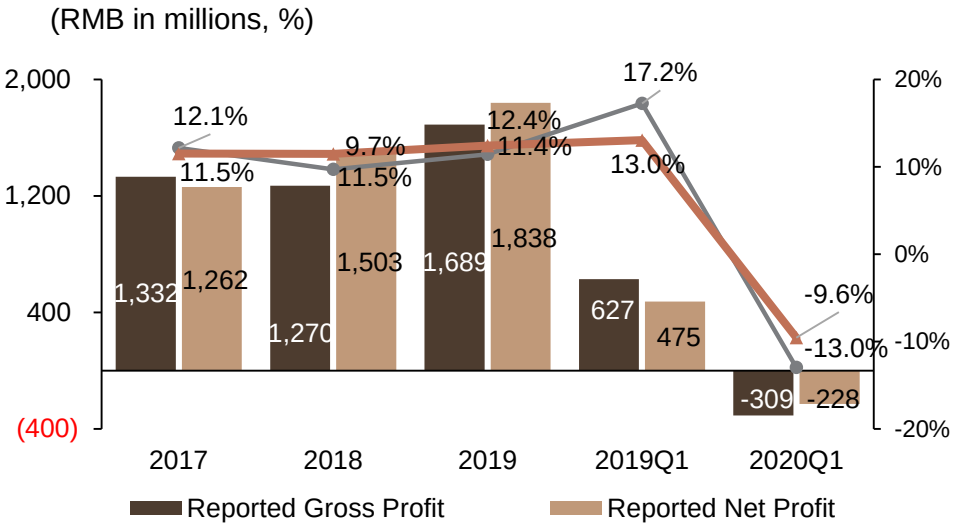
Operating Revenue



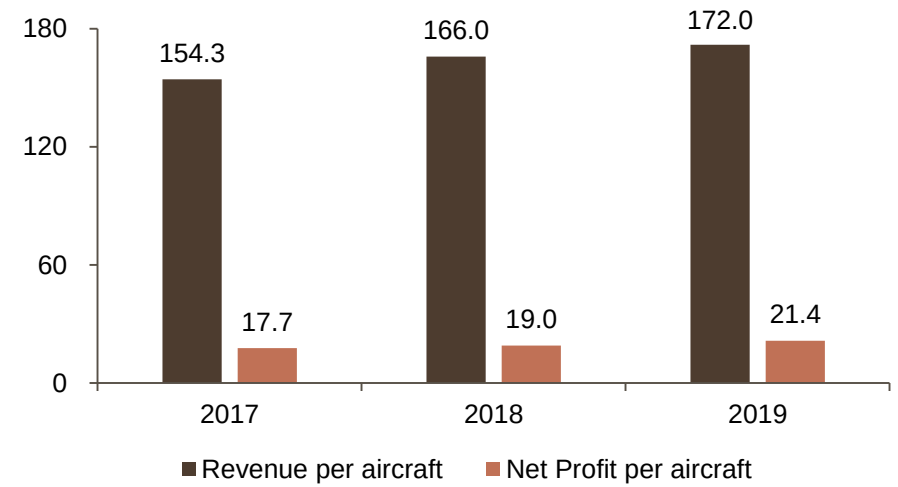
Other revenue



Net Profit & Net Margin



Revenue and Net Profit per Aircraft



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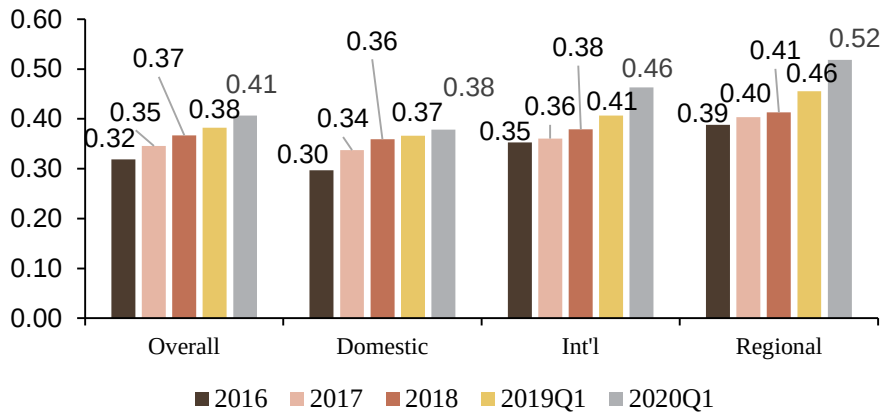
Yield & Unit Cost and Expenses

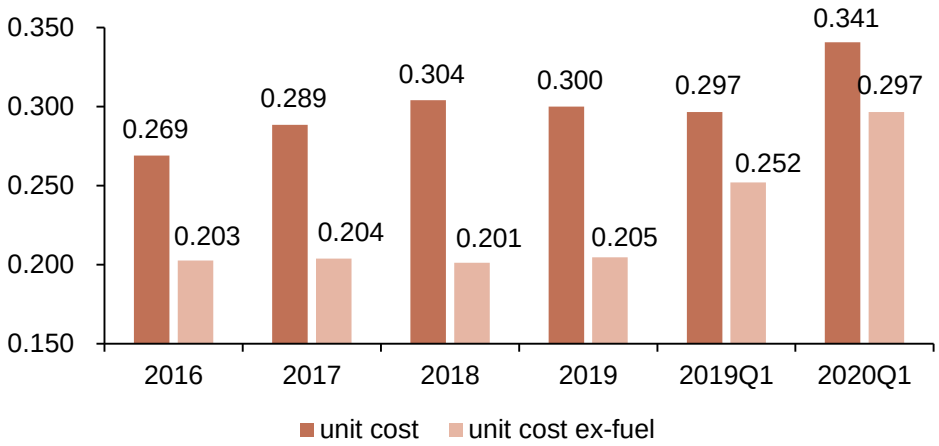
Passenger Yield

(RMB in Yuan)



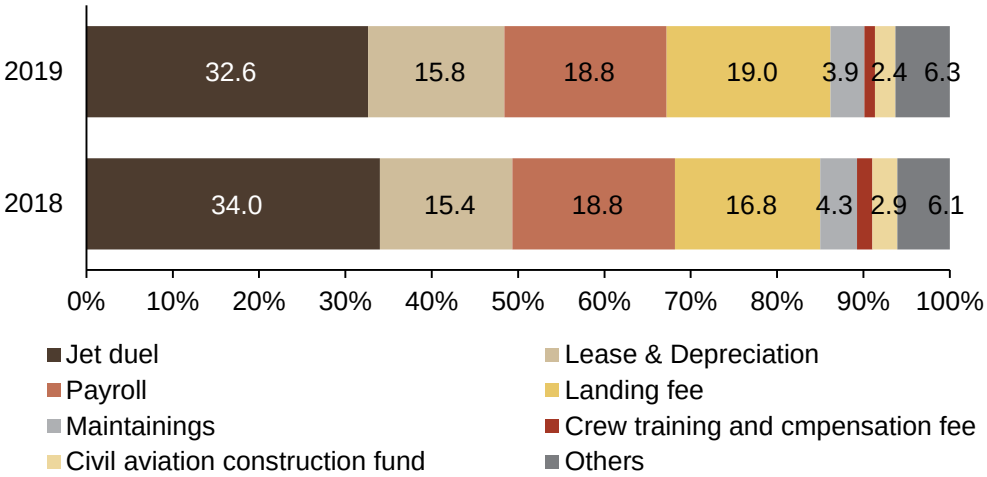
Unit Cost

(RMB in Yuan)



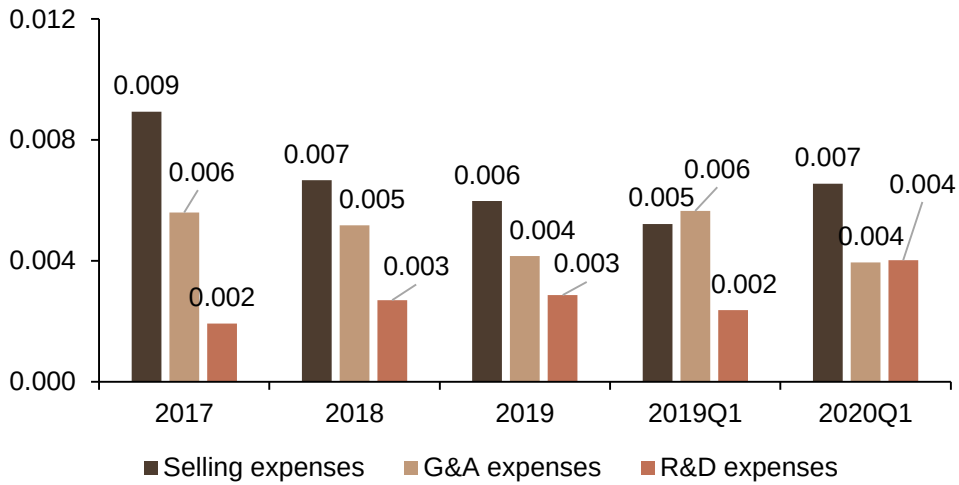
Structure of COGS

(%)



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

(RMB in Yuan)



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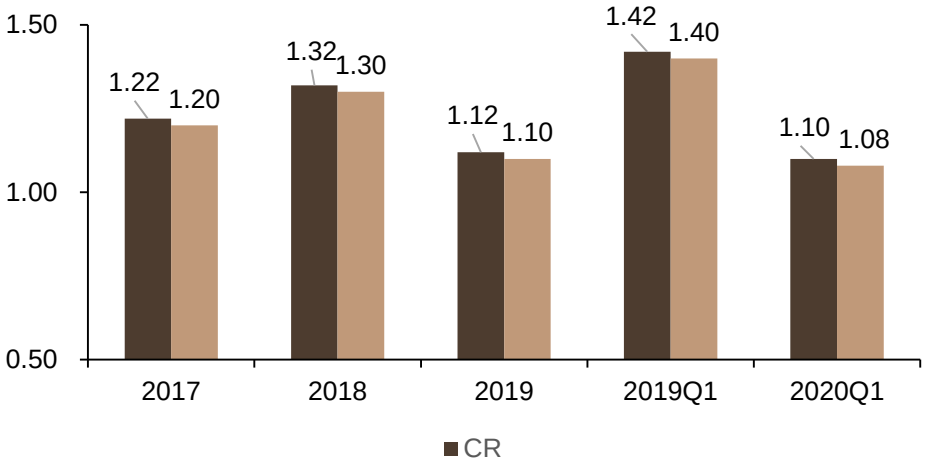
Solvency & Foreign Currency Exchange Analysis

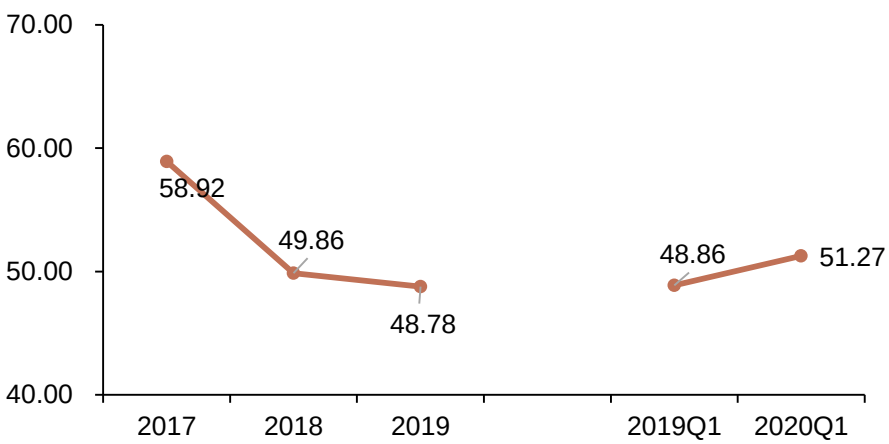
Current Ratio & Quick Ratio

(RMB in Yuan)

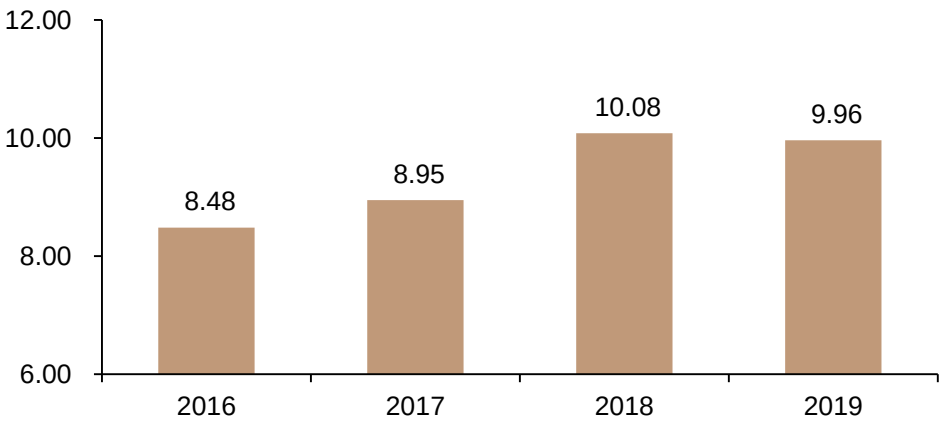


Asset Liability Ratio

(%)



EBITDA Interest Coverage Ratio



Foreign Currency Exchange Analysis

(RMB in Yuan)

	USD Liability Proportion	USD Exposure	USD Sensitivity (+10%)
2018	21.2%	-77.137,896	5,785,342
2019	9.0%	26,552,119	-1,991,409

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Thank you!