

China travel and tourism sector

China's inbound tourism glittered in 1Q 2016

	Ticker	Rec	Mkt cap			PER		EV/EBITDA		PBR			
			(HKD mn)	Ccy	Price	FY1	FY2	FY1	FY2	Curr	ROIC %	ROA %	Dvd yield
Haichang Ocean Park	2255 HK	BUY	1.7	HKD	HKD	35.8	28.1	10.8	10.3	1.5	4.9	2.7	N/A
Shanghai Jinjiang International	2006 HK	NR	3.0	HKD	HKD	21.7	17.8	13.3	10.2	1.5	2.1	2.6	2.5
China Travel Int'l Investment	308 HK	BUY	2.2	HKD	HKD	14.4	14.8	6.5	5.6	0.7	3.9	6.4	3.2

Source: Bloomberg, CSC Research estimates

- **China's inbound tourism, once regarded insignificant in terms of driving the growth of the domestic travel & tourism sector with a meagre historical growth pace and marginal investment yields as compared with domestic tourism and outbound tourism, has picked up in the 1Q of this year. The total number of foreign inbound tourists (excl. HK, Macau and Taiwan) registered a 10.9% YoY gain to 6.2mn in 1Q16 after posting negative growth rates for three consecutive years from 2012 to 2014. In contrast, the growth in outbound tourist numbers saw a sharp deterioration to only 2.4% YoY in 1Q16 from 13.8% YoY in 2015.**
- **The reversal of trend development is in-line with our scenario that a depreciation of the yuan against major foreign currencies would tend to stimulate inbound tourism, whereas a stronger yuan would deter outbound tourism, and hence favourable to operators of domestic tourist attractions.**

China's inbound tourism turns golden:

Inbound tourism, once regarded insignificant in terms of driving the growth of China's travel & tourism sector and investment yields as compared to both domestic and outbound tourism, has started to pick up gradually since the beginning of 2015, posting a 4.1% YoY gain, after registering negative growth for three consecutive years from 2012 to 2014, weighed down by a stronger yuan, deteriorating air pollution, visitor's visa restrictions and a sluggish global economy. China National Tourism Administration (CNTA) forecasts that inbound tourism will continue to grow in the years ahead; for the financial year of 2016, the total inbound tourist number is projected to increase 2.5% YoY. (see Figure 1).

The rebound is gathering pace in 1Q 2016:

According to data released by CNTA, the total number of foreign inbound tourists (excluding HK, Macau and Taiwan) registered a 10.9% YoY gain to 6.2mn in the 1Q (see Figure 2) of this year; this compares with a negative growth rate of 3.9% in the same period of 2015. More significantly, the first two months of 2016 saw the total number of foreign inbound tourists jumped 15.9% on a YoY basis, while the total earnings derived from inbound tourism grew at even stronger pace of 112.8% YoY.

Conclusion:

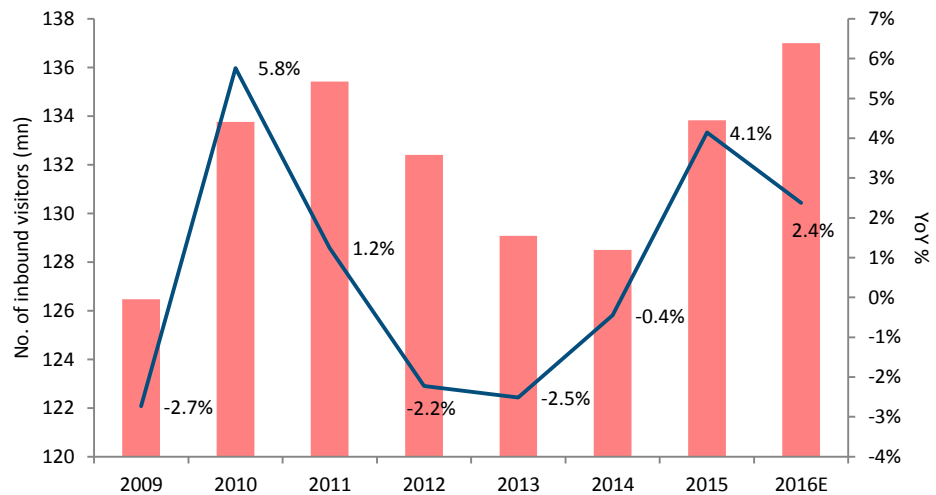
The reversal of trend development is in-line with our scenario that a depreciation of the yuan against major foreign currencies would tend to stimulate inbound tourism (refer to "China travel & tourism sector: A solace in China's consumer space", 12 Feb 2016), whereas a stronger yuan would deter outbound tourism, and hence favourable to operators of domestic tourist attractions such as scenic spots, national parks, theme parks and historic buildings. Thus, we reiterate our BUY rating on Haichang (2255 HK, PT HKD2.10) and China Travel (308 HK, PT HKD3.10).

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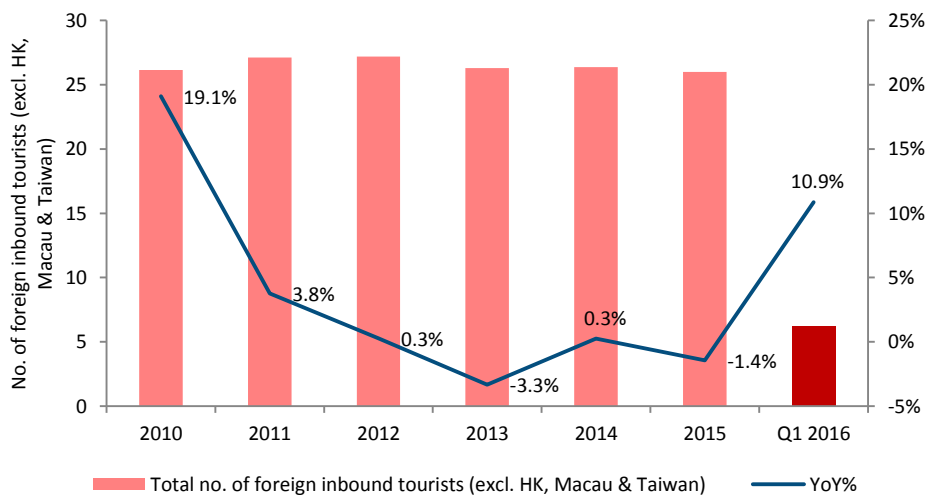
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Outbound tourist growth decelerated sharply, a big contrast to inbound growth:

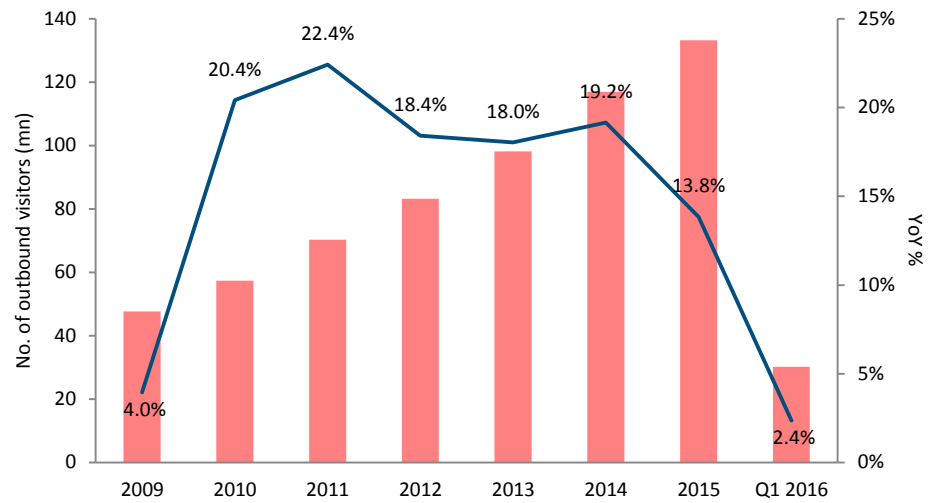
Outbound tourist growth decelerated to +2.4% YoY in 1Q16, compared with +8.8% in 1Q15 and a sharp deceleration from the double-digit growth of 13.8% in 2015 and 19.2% in 2014 (see Figure 3).

Figure 1: China's total number of inbound tourists (2009 – 2016E)


Source: WIND data, CNTA, CSCI Research

Figure 2: China's total number of inbound foreign tourists (excl. HK, Macau & Taiwan)


Source: WIND data, CSCI Research

Figure 3: China's total number of outbound tourists (2009- Q1 2016)


Source: WIND data, CSCI Research

Figure 4: Peers valuation

Name	Ticker	Currency	Last Price	Mkt Cap (bn)	PER (x)		EV/EBITDA (x)		PBR (x)	Sales growth (%)	Op Profit Margin (%)	Cap Ex/Sales (%)	ROIC (%)	ROA (%)	Dvd Yield (%)
					FY1	FY2	FY1	FY2							
HK-listed															
Haichang Ocean Park	2255 HK	HKD	1.7	6.8	28.1	23.3	10.3	9.2	1.5	-7.5	42.4	64.2	4.9	2.7	0.0
Shanghai Jinjiang International	2006 HK	HKD	3.0	16.9	21.7	17.8	13.3	10.2	1.5	29.9	6.1	8.3	2.1	2.6	2.5
China Travel Int'l Investment	308 HK	HKD	2.2	12.1	14.8	12.6	6.5	5.5	0.8	-1.8	20.5	10.9	3.9	6.4	3.2
HK-Average				11.9	21.5	17.9	10.0	8.3	1.3	6.9	23.0	27.8	3.6	3.9	1.9
PRC-listed															
Dalian Sunasia Tourism	600593 CH	CNY	28.8	2.7	59.2	52.1	23.0	19.9	7.0	5.3	23.6	11.0	9.1	6.3	N/A
Shenzhen OCT	000069 CH	CNY	6.5	52.9	8.7	7.5	7.0	5.7	1.4	7.4	28.4	6.9	7.7	4.4	N/A
Shanghai New Culture	300336 CH	CNY	42.0	22.6	31.8	24.3	32.4	36.8	4.9	63.3	31.4	3.3	8.4	6.9	N/A
Songcheng Performance	300144 CH	CNY	25.1	36.4	40.1	31.5	26.0	20.7	6.5	82.7	50.1	14.7	13.1	11.6	0.3
Emei Shan Tourism	000888 CH	CNY	11.9	6.3	27.1	23.0	13.8	12.4	3.3	7.2	18.0	22.5	7.6	9.1	N/A
China International Travel	601888 CH	CNY	42.6	41.6	22.0	18.6	15.4	12.4	3.5	6.7	10.1	3.2	13.4	9.7	N/A
CYTS Tours	600138 CH	CNY	19.3	13.9	32.4	26.6	19.5	15.4	2.9	-0.3	5.7	6.7	6.3	3.4	N/A
Beijing Utour	002707 CH	CNY	22.0	112.7	51.7	37.1	40.7	30.0	12.4	98.5	3.1	0.4	11.1	6.9	N/A
PRC-Average				36.1	34.1	27.6	22.2	19.2	5.2	33.8	21.3	8.6	9.6	7.3	0.3
US-listed															
Walt Disney	DIS US	USD	98.4	159.7	16.9	15.9	10.3	9.8	3.8	7.5	25.1	8.1	13.5	10.4	1.4
Twenty-first Century	FOXA US	USD	27.9	53.2	16.8	13.2	10.1	9.4	3.7	-9.0	20.4	1.5	10.6	4.5	1.1
Cedar Fair	FUN US	USD	57.7	3.2	15.8	15.4	10.1	9.6	N/A	6.6	23.9	14.2	14.3	7.4	5.5
SeaWorld Entertainment	SEAS US	USD	17.5	1.5	24.9	17.7	9.0	8.4	3.7	-0.5	11.6	11.5	3.1	0.4	6.0
Six Flags Entertainment	SIX US	USD	58.0	5.4	30.5	28.1	13.5	12.5	N/A	7.5	27.4	9.0	13.8	7.3	3.8
US-Average				44.6	21.0	18.1	10.6	9.9	3.7	2.4	21.7	8.9	11.1	6.0	3.5
Average of All				34.2	27.7	22.8	16.3	14.2	4.1	19.0	21.7	12.3	8.9	6.3	2.6

Source: Bloomberg, CSCI Research estimates



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Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Buy	12-month absolute total return: $\geq 10\%$
Hold	12-month absolute total return: $> -10\%$ but $< 10\%$
Sell	12-month absolute total return: $\leq -10\%$

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