



China travel and tourism sector

Outbound visitor growth continued to decelerate on weaker yuan

	Ticker	Rec	Ccy	Mkt cap (HKD bn)	Price	PER		EV/EBITDA Curr	PBR Curr	ROIC %	ROA %	Dvd yield
						FY1	FY2					
Haichang Ocean Park	2255 HK	HOLD	HKD	7.32	1.83	27.85	23.76	10.27	1.68	4.45	2.49	-
Shanghai Jinjiang International	2006 HK	NR	HKD	11.35	2.04	18.96	15.94	14.52	1.10	2.34	1.58	3.60
China Travel Int'l Investment	308 HK	BUY	HKD	11.60	2.13	13.80	12.00	7.36	0.77	3.22	3.18	3.05
Dalian Sunasia Tourism	600593 CH	NR	CNY	3.16	34.37	79.93	67.39	N/A	7.23	6.18	4.39	-
Shenzhen OCT	000069 CH	NR	CNY	56.37	6.87	10.16	9.11	N/A	1.42	8.12	4.24	-
Shanghai New Culture	300336 CH	NR	CNY	9.85	18.33	35.12	27.88	N/A	3.61	6.29	6.54	-
Songcheng Performance	300144 CH	NR	CNY	28.54	19.65	31.24	24.32	29.11	4.81	15.73	13.94	0.36
Emei Shan Tourism	000888 CH	NR	CNY	6.06	11.51	29.51	24.81	N/A	3.03	6.89	7.72	-
China International Travel	601888 CH	NR	CNY	43.46	44.52	25.40	21.77	N/A	3.57	13.49	9.79	-
CYTS Tours	600138 CH	NR	CNY	14.91	20.60	32.39	27.80	N/A	2.96	6.16	4.53	-
Beijing Utour	002707 CH	NR	CNY	112.68	21.97	49.49	34.28	N/A	12.35	11.50	6.23	-
Tuniu	TOUR US	NR	USD	1.16	9.17	N/A	N/A	N/A	1.55	(56.02)	(27.13)	-
Ctrip	CTRP US	NR	USD	21.98	44.17	107.86	41.19	N/A	2.23	(3.19)	(2.16)	-

Source: Bloomberg, CSCI Research Estimates. Price as of 17 January 2017

- According to the latest announcement from the China National Tourism Association (CNTA), the YoY growth in the total number of Chinese outbound visitors decelerated to 4.3% in 2016, from 8.5% YoY in 2015. CNTA anticipates that outbound tourism will remain relatively subdued, with the growth rate estimated to come in flat at 4.0% to 123mn in 2017E. On the contrary, the number of domestic visitors continued to increase by a double-digit percentage of 11.0% YoY to reach 4.4bn in 2016 (2015: +10.8%). CNTA estimates domestic tourism will remain strong in 2017E, with 10.0% YoY growth to 4.8bn. Meanwhile, inbound tourism grew sharply by 8.3% YoY to 28.1mn in 2016, compared with a 1.4% drop in 2015.
- Moreover, total earnings receipts from domestic tourism grew 14% YoY, outpacing China's overall retail sales increase of 10.4% in 2016. It echoed our view since last year that a weaker yuan would be favourable to domestic and inbound tourism, which in turn has benefited the operators of domestic tourist attractions. However, we are looking for company-specific drivers that could benefit from such favourable macro backdrop in 2017E. We continue to prefer China Travel (308 HK, BUY, PT: HKD2.8) on M&A opportunities.

Domestic visitor growth is expected to continue to outpace outbound tourism in 2017:

According to CNTA, the number of Chinese outbound visitors grew only 4.3% YoY to 122mn in 2016, a sharp deceleration from a 8.5% growth in 2015. On the contrary, the number of domestic visitors continued to maintain a strong double-digit growth of 11.0% YoY to 4.4bn in 2016, slightly higher versus the 10.8% growth registered in 2015. Excluding HK, Macau & Taiwan nationals, as well as overnight visitors, total inbound tourism rebounded sharply by 8.3% YoY to 28.1mn in 2016, from a 1.4% drop in 2015. CNTA estimates that in 2017, China's domestic visitors will grow by 10% YoY to 4.8bn, whereas Chinese outbound visitors will increase by merely 4% YoY to 123mn whilst total inbound tourism (including all visitors) will also rise by only 3.5% YoY to 140mn. (see Figure 1-4)

Visitor spending per head has increased:

Total earnings from domestic tourism grew 14% YoY in 2016, outpacing market expectations of c.10.4% YoY increase in China's retail sales for the year. The higher growth in earnings versus visitor numbers suggest that tourist spending per head has also increased.

Looking for stocks with idiosyncratic growth drivers:

We believe the above trend was a direct result of RMB depreciation, as the RMB has fallen by 3% against the dollar in 2016 and by another 4% YTD in 2017. We expect such trend to persist at least through the 1H of 2017, until we see stabilisation in the yuan in the latter part of 2017. However, whether such favourable macro development could translate into incremental earnings growth for tourism-related counters is debatable, in our view. As we prefer stocks that possess idiosyncratic growth drivers, we continue to prefer China Travel (308 HK, BUY, HKD2.80), given its M&A opportunities and favourable dividend yield. We believe 2017 will be a challenging year for Haichang (2255 HK, HOLD, PT: HKD2.0), in light of the pre-opening expenses that its Shanghai Polar park would need to incur for the year.

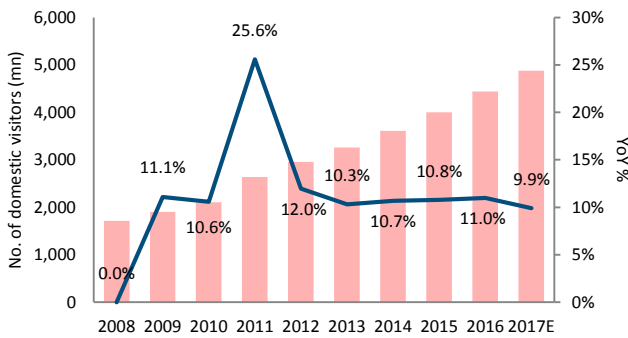
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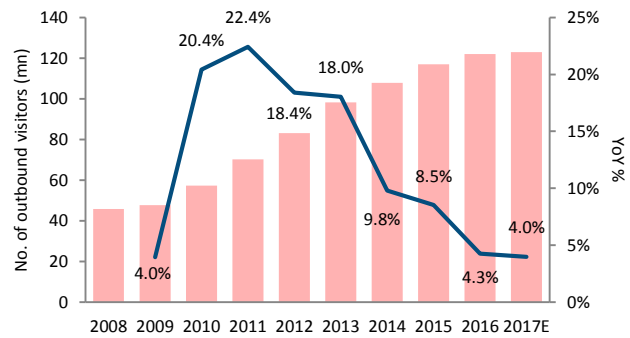
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Figure 1: Domestic visitor growth



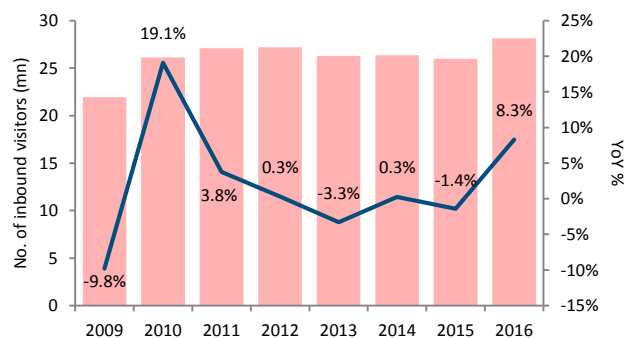
Source: CNTA, NBSC, CSCI research

Figure 2: Chinese outbound visitor growth



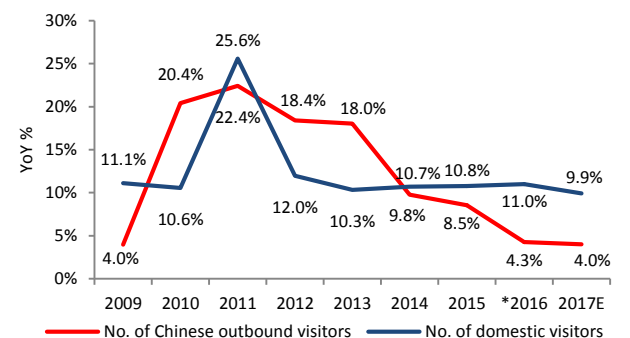
Source: CNTA, NBSC, CSCI research

Figure 3: Inbound tourism growth (foreigners only)



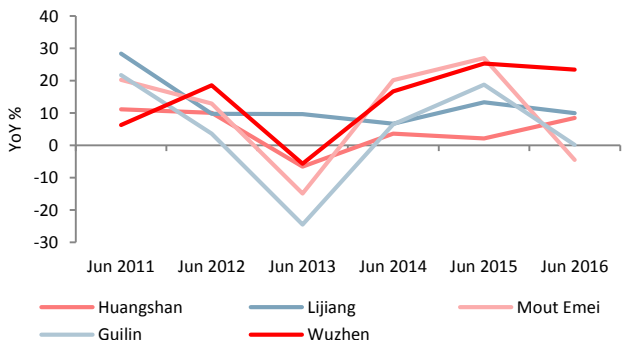
Source: CNTA, NBSC, CSCI research

Figure 4: Domestic vs Chinese outbound growth



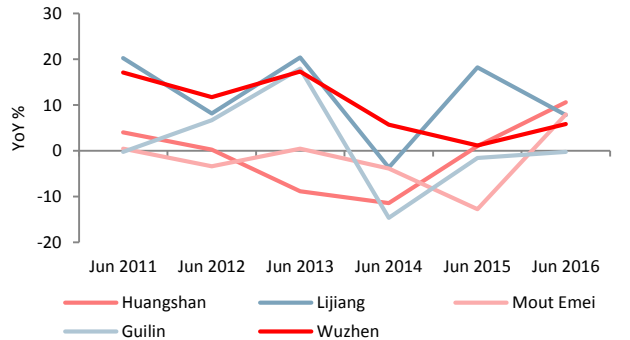
Source: CNTA, NBSC, CSCI research

Figure 5: Visitor growth of key scenic spots



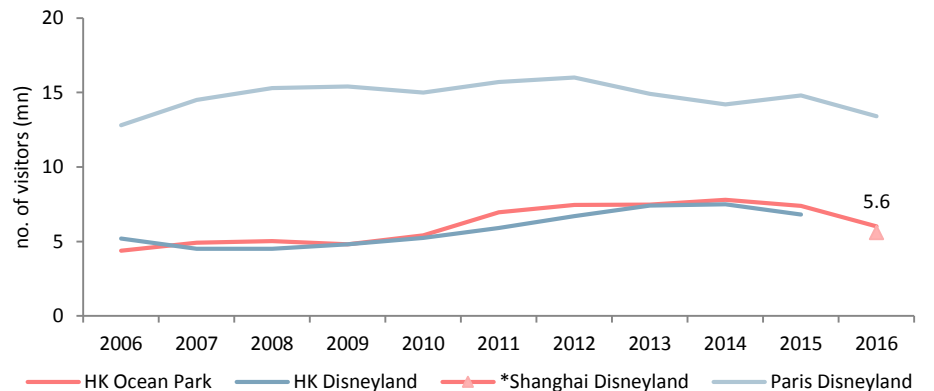
Source: WIND, CSCI research

Figure 6: Visitor per head spending of key scenic spots



Source: WIND, CSCI research

Figure 7: Comparison of visitor numbers for Disneyland



Source: Company data, CSCI Research (*Remarks: Shanghai Disneyland was opened in mid-June 2016)

Figure 8: Peers valuation

Name	Ticker	Currency	Last Price	Mkt Cap (bn)	PER (x)		EV/EBITDA (x)		Sales growth (%)	Op Profit Margin (%)	Cap Ex/Sales (%)	ROIC (%)	ROA (%)	Dvd Yield (%)
					FY1	FY2		PBR (x)						
HK-listed														
Haichang Ocean Park	2255 HK	HKD	1.8	7.3	27.9	23.8	10.3	1.7	(7.5)	42.4	64.2	4.4	2.5	0.0
Shanghai Jinjiang International	2006 HK	HKD	2.0	11.4	19.0	15.9	14.5	1.1	29.9	6.1	8.3	2.3	1.6	3.6
China Travel Int'l Investment	308 HK	HKD	2.1	11.6	13.8	12.0	7.4	0.8	(1.8)	20.5	10.9	3.2	3.2	3.1
HK- Average				10.1	20.2	17.2	10.7	1.2	6.9	23.0	27.8	3.3	2.4	2.2
PRC-listed														
Dalian Sunasia Tourism	600593 CH	CNY	34.4	3.2	79.9	67.4	N/A	7.2	5.3	23.6	11.0	6.2	4.4	N/A
Shenzhen OCT	000069 CH	CNY	6.9	56.4	10.2	9.1	N/A	1.4	7.4	28.3	6.9	8.1	4.2	N/A
Shanghai New Culture	300336 CH	CNY	18.3	9.9	35.1	27.9	N/A	3.6	63.3	31.4	3.3	6.3	6.5	N/A
Songcheng Performance	300144 CH	CNY	19.7	28.5	31.2	24.3	29.1	4.8	82.7	50.1	14.7	15.7	13.9	0.4
Emei Shan Tourism	000888 CH	CNY	11.5	6.1	29.5	24.8	N/A	3.0	7.2	18.0	22.5	6.9	7.7	N/A
China International Travel	601888 CH	CNY	44.5	43.5	25.4	21.8	N/A	3.6	s	10.1	3.2	13.5	9.8	N/A
CYTS Tours	600138 CH	CNY	20.6	14.9	32.4	27.8	N/A	3.0	(0.3)	5.7	6.7	6.2	4.5	N/A
Beijing Utour	002707 CH	CNY	22.0	112.7	49.5	34.3	N/A	12.4	98.5	3.1	0.4	11.5	6.2	N/A
PRC-Average				34.4	36.7	29.7	29.1	4.9	37.7	21.3	8.6	9.3	7.2	0.4
US-listed														
Tuniu	TOUR US	USD	9.2	1.2	N/A	N/A	N/A	1.5	116.3	(19.0)	2.0	(56.0)	(27.1)	0.0
Ctrip	CTRP US	USD	44.2	22.0	107.9	41.2	N/A	2.2	48.3	3.5	5.9	(3.2)	(2.2)	0.0
Walt Disney	DIS US	USD	108.0	171.0	18.2	16.3	10.1	4.0	6.0	25.5	8.6	13.7	10.4	1.3
Twenty-first Century	FOXA US	USD	29.9	55.0	15.6	14.0	9.0	4.0	(5.7)	21.9	1.0	12.5	6.0	1.1
Cedar Fair	FUN US	USD	63.4	3.6	19.3	17.9	11.2	33.7	6.6	23.9	14.2	13.0	7.6	5.3
Seaworld Entertainment	SEAS US	USD	18.7	1.7	72.0	23.9	10.0	3.5	(0.5)	11.6	11.5	1.4	(0.5)	5.0
Six Flags Entertainment	SIX US	USD	60.5	5.6	45.5	32.1	16.6	N/A	7.5	27.4	9.0	10.1	4.4	3.8
US-Average				37.1	46.4	24.2	11.4	8.2	25.5	13.5	7.5	(1.2)	(0.2)	2.4
Average of All				31.4	37.2	25.6	13.1	5.4	27.2	18.6	11.3	4.2	3.5	2.1

Source: Bloomberg, CSCI 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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