

Asian Transport and Leisure

Who benefits most from China's outbound tourism?

Equities

Asia Pacific Ex. Japan
Airlines

A long-term theme; Labour Day should be a short-term catalyst

The number of Chinese outbound travellers recorded a 17% CAGR over the past decade. While outbound tourism is a multi-year growth theme, holidays have always been short-term catalysts. The number of outbound travellers during the 2013 Labour Day holiday rose 30% YoY. The upcoming holiday (1-3 May 2014) will be short. We expect Chinese tourists to visit regional destinations, if not travel within China.

Korea, Thailand and Taiwan have the biggest potential

Korea reported a 53% YoY increase in Chinese arrivals in March and we believe the strong momentum will continue. Taiwan recorded 29% YoY growth in 2M14, and its outlook is strengthened by a recent increase in the daily quota on individual Chinese tourists by 33%. Chinese arrivals into Thailand are set to recover from the political unrest, which has led to an 18% YoY decline YTD.

Hong Kong focuses on its hub status; Macau has gaming capacity

In 2013, 75%/64% of all visitors to Hong Kong/Macau came from China. We expect growth in arrivals for Hong Kong to slow given a high base and capacity constraints. However, Hong Kong should remain the main gateway to other destinations. We forecast steady growth for Macau as gaming and tourist facilities expand.

UBS-preferred stocks are exposed to China's outbound tourism

We think the beneficiaries of higher Chinese outbound tourism include airlines, airports, hotels, travel retailers, online travel agencies, and casinos in seven markets. We pick stocks from our coverage that generate a significant proportion of their revenue from Chinese visitors, with a decent long-term outlook and can benefit from the short-term holiday catalyst.

Eric Lin

Analyst

eric-p.lin@ubs.com

+852-3712 3640

Erica Poon Werkun, CFA

Analyst

erica-poon.werkun@ubs.com

+852-2971 8605

Xin Chen

Analyst

S1460511050002

xin.chen@ubssecurities.com

+86-213-866 8864

Anthony Wong

Analyst

anthony-y.wong@ubs.com

+852-2971 8735

Sera Oh

Analyst

sera.oh@ubs.com

+82-2-3702 8808

Angus Chan

Analyst

angus.chan@ubs.com

+852-2971 7530

Camellia Cheng

Analyst

camellia.cheng@ubs.com

+886-2-8722 7345

Figure 1: List of UBS-preferred stocks exposed to China's outbound tourism

Country	Stock	Mkt cap (US\$m)	Analyst	Rating	Price target (LC)	China outbound tourism exposure
China	Air China	7,178	Eric Lin	Neutral	5.20	34% of 2013 total revenue from China's international traffic
	Ctrip.com	6,760	Erica Poon Werkun	Buy	54.40	14-18% of 2013 total revenue from outbound travel
	Shanghai Int'l Airport	3,979	Xin Chen	Buy	15.00	55% of 2013 total throughput from international traffic
Hong Kong	Cathay Pacific	7,540	Eric Lin	Buy	18.50	20% of traffic are China-HK-overseas; a 20% stake in Air China
	Sands China	63,557	Anthony Wong	Buy	72.70	Biggest spare capacity available for growth
Korea	Hotel Shilla	3,135	Sera Oh	Buy	105,000	55% of 2013 total revenue from Chinese visitors
Malaysia	AirAsia	1,958	Eric Lin	Buy	3.20	18% of 2013 group revenue from Chinese passengers
Singapore	Genting Singapore	13,118	Angus Chan	Buy	1.69	Approximately one-third of total revenue from Chinese visitors
Taiwan	Formosa International Hotels	1,302	Camellia Cheng	Buy	410	10% of 2013 total revenue from Chinese tourists
Thailand	Airports of Thailand	8,536	Eric Lin	Neutral	205	10% of 2013 throughput at the Bangkok airports are Chinese

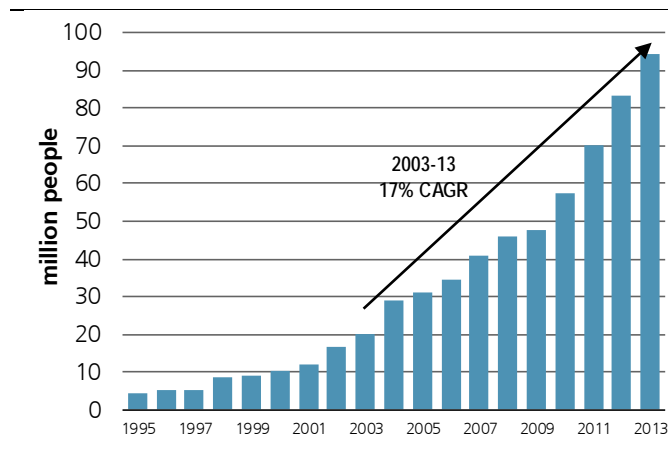
Source: Company data, UBS estimates

China outbound tourism

A long-term growth story

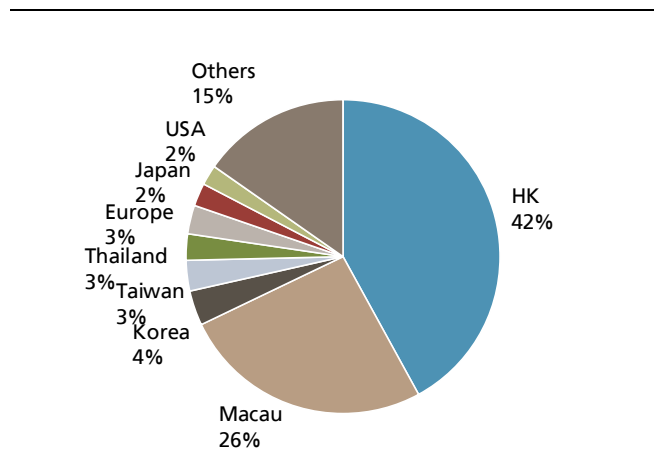
We estimate the number of Chinese outbound tourists recorded a 17% CAGR over the past decade. In 2013, there were 94.3m Chinese outbound tourists (+13% YoY). According to official data, most visited Hong Kong and Macau, of which we estimate a significant portion had onward journeys to other destinations.

Figure 2: Chinese outbound tourists



Source: CEIC, UBS estimates

Figure 3: Destination mix for China's outbound tourists



Note: We estimate a significant portion of Chinese visitors into Hong Kong and Macau had onward journeys to other destinations that are not captured by China's official data.

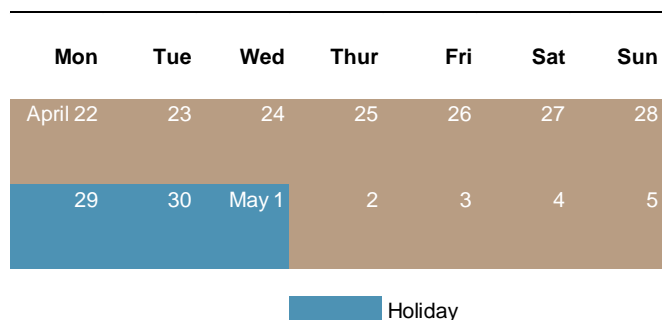
Source: CEIC

Labour Day Holiday

Chinese outbound travel is concentrated on major holidays. We believe the Labour Day holiday (1-3 May) could be a short-term catalyst. The number of outbound travellers during the 2013 Labour Day holiday rose 30% YoY, higher than normalised growth.

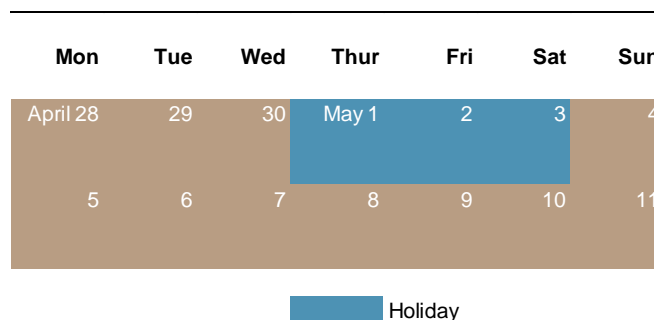
The upcoming Labour Day holiday will be short. An additional three days of annual leave (28-30 April) are required (only two days, 2-3 May in 2013) if one wants to take the entire week off. Therefore, we believe most Chinese tourists will only visit regional destinations, if not travel within China.

Figure 4: Labour Day holiday 2013



Note: 27-28 April were working days.
Source: China National Holiday Office

Figure 5: Labour Day holiday 2014

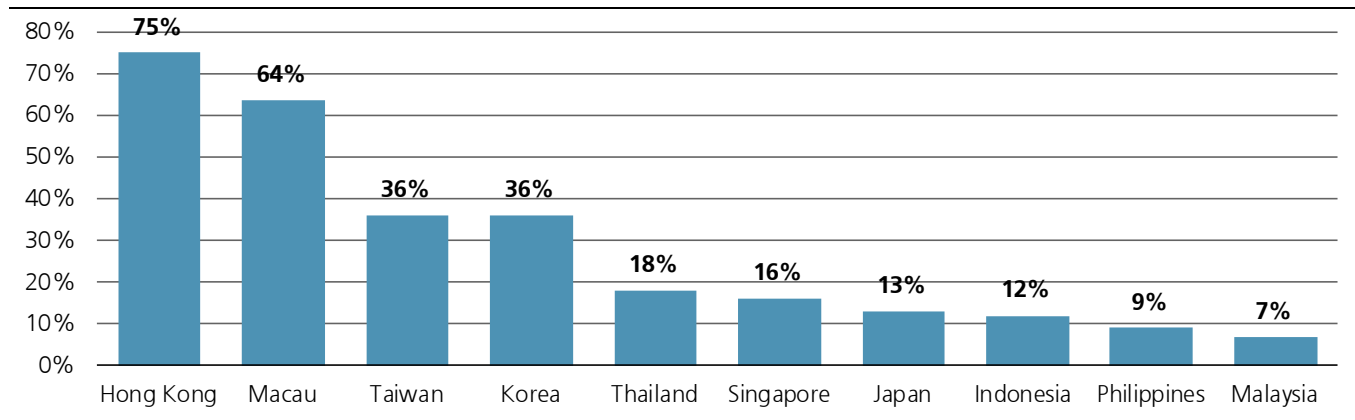


Note: 4 May will be a working day.
Source: China National Holiday Office

Implications for the region

The region continues to benefit from a rising penetration of Chinese tourists. In 2013, 75% of all arrivals in Hong Kong came from China. This is followed by 64% in Macau, and 36% in Taiwan and Korea. Malaysia and the Philippines have relatively low penetration of Chinese tourists.

Figure 6: % Chinese travellers to each country in 2013

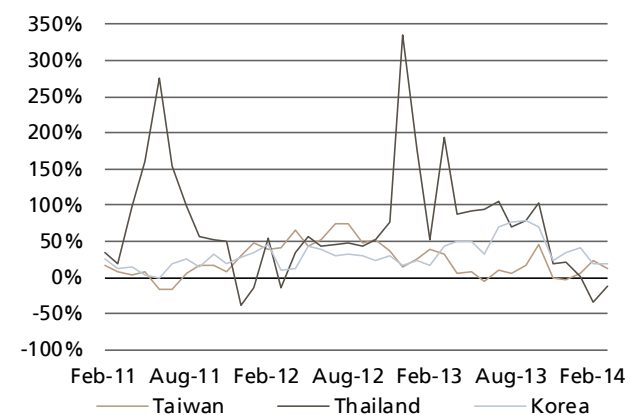


Source: CEIC, UBS estimates

Korea, Taiwan and Thailand had the biggest growth in Chinese travellers in 2013. The number of Chinese visitors in Korea increased 53% YoY in 2013. Strong growth continued into Q114 and we expect it to be sustained. Thailand had a 69% YoY increase in Chinese visitors in 2013. However, its political unrest led to an 18% YoY decline YTD. We expect a gradual recovery from Q214 onwards as the risk gradually diminishes. Taiwan had slower growth in 2013 compared to 2012, but there was rising growth momentum in 2M14, driven by individual tourists. The Taiwanese government recently raised its daily quota of individual Chinese tourists from 3,000 to 4,000 as average daily arrivals reached 2,800 in Q114.

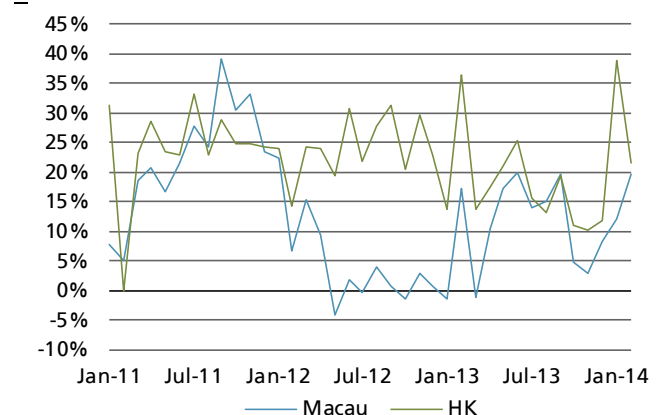
In contrast, we expect growth in Hong Kong to slow given the high base and capacity constraints. However, Hong Kong should remain the main gateway to other destinations. In Macau, we expect steady growth as gaming and tourist facilities expand.

Figure 7: Chinese visitors YoY growth—Korea, Taiwan and Thailand



Source: CEIC

Figure 8: Chinese visitors YoY growth—Hong Kong and Macau



Source: CEIC

Major beneficiaries

Airlines

Air China is China's flag carrier with the largest exposure to China's international air traffic. We estimate international routes account for 34% of its total revenue in 2013, with the bulk of this generated by Chinese outbound travellers. We expect more contributions from international traffic. In Q114, international passenger traffic (RPK) rose 19% YoY, higher than the 12% network-wide growth and 10.3% international RPK growth in FY13.

Cathay Pacific (Cathay) is the major hub carrier for Asian and Chinese travellers. We estimate 20% of Cathay's passengers flew its China routes in 2013. Of which, we estimate half were transit travellers. Accounting for the impact on its entire network would suggest that around 20% of its passengers carried were part of the China-Hong Kong-overseas hub traffic. The airline also owns a 20% stake in Air China.

AirAsia is Asia's largest low-cost carrier with a pan-Asia network that covers China and the ASEAN market. In 2013, Chinese passengers generated 18% of the group's revenue and 11% of Malaysia AirAsia. We expect rising contributions from Chinese outbound travellers as AirAsia grows its network into China.

Airports

Shanghai International Airport owns and operates Shanghai Pudong International Airport, which is China's major international airport. We estimate 55% of its total passenger throughput are international. We are positive on its outlook given it is the only airport in the Shanghai Free Trade Zone and a potential air hub.

Airports of Thailand is the gateway for Chinese arrivals into Thailand. In 2013, 10% of all passengers passing through the Bangkok's Suvarnabhumi and Don Mueang Airport were Chinese. We expect Chinese tourists to return as the political risk gradually diminishes.

Hotels

We estimate 10% of Formosa International Hotels' total revenue comes from Chinese tourists. It is a direct beneficiary of more affluent Chinese individual tourists coming into Taiwan, which supports high-end lodging demand. We think the Taiwanese government's daily quota hike for individual Chinese tourists is a near-term catalyst for the stock.

Travel retailers

We estimate 55% of Hotel Shilla's total revenue was derived from Chinese outbound tourists in 2013 (from its duty-free business). The luxury brands offer lower rates to Hotel Shilla, making luxury goods there cheaper and attractive to Chinese visitors. The Korean government's relaxation of visa rules has also encouraged more Chinese tourists into Korea. We think Hotel Shilla offers rare duty-free exposure in Asia. It is the second-largest travel retailer in Asia after Lotte Duty Free (unlisted and does not belong to any listed Lotte companies).

Online travel agents

Ctrip.com is China's leading online travel agent. We estimate it generated 5-10% of its revenue from international hotel reservations in 2013, which had 300% YoY

volume growth in 2013 compared with 46% of its overall hotel reservation volume. For its international air ticketing business, we estimate it represents 10-15% of its revenue, which had 50-60% YoY volume growth versus 31% for its overall ticketing volume. Overseas-packaged tours represented half of its segment revenue in 2013. On aggregate, we estimate outbound travel represents 14-18% of its total revenue.

Casinos

Sands China is our preferred Macau stock due to its biggest spare capacity for growth. With a multi-year trend of mass market visitations shifting to non-Guangdong province overnight stayers, we think such spare room capacity should mean that Sands China will be able to deliver above-average growth compared to other existing properties in the years ahead.

Outside Macau, we think Genting Singapore will be the biggest beneficiary in the gaming sector as well as the Singapore market. We estimate that in 2013, approximately one-third of its total revenue came from Chinese visitors.

Statement of Risk

Over the long term, a diversified portfolio of airline stocks has underperformed broader market averages. Our estimates, which form the basis of our valuations and price targets are subject to a very high degree of error and may be materially inaccurate. This forecast error is primarily driven by revenue volatility; a function of unpredictable business travel spending combined with significant operating and financial leverage. Other sources of error include, but are not limited to, jet fuel price volatility, labour disruptions, discount carrier growth, bankruptcy risk, and significant event risk associated primarily with terrorist actions. All these risk factors combine to make our estimates statistically unreliable, but it is still the best we can do.

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Neutral	FSR is between -6% and 6% of the MRA.	42%	34%
Sell	FSR is > 6% below the MRA.	11%	23%
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Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 March 2014.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Air China ^{2, 4}	0753.HK	Neutral	N/A	HK\$4.24	23 Apr 2014
AirAsia	AIRA.KL	Buy	N/A	RM2.32	23 Apr 2014
Airports of Thailand	AOT.BK	Neutral	N/A	Bt197.50	23 Apr 2014
Cathay Pacific	0293.HK	Buy	N/A	HK\$14.86	23 Apr 2014
Ctrip.com International ^{16b}	CTRP.O	Buy	N/A	US\$50.22	23 Apr 2014
Formosa International Hotels Corp	2707.TW	Buy	N/A	NT\$370.00	23 Apr 2014
Genting Singapore	GENS.SI	Buy	N/A	S\$1.35	23 Apr 2014
Hotel Shilla	008770.KS	Buy	N/A	Won83,000	23 Apr 2014
Sands China ^{16a}	1928.HK	Buy	N/A	HK\$62.60	23 Apr 2014
Shanghai International Airport ¹³	600009.SS	Buy	N/A	Rmb12.86	23 Apr 2014

Source: UBS. All prices as of local market close.

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