China Travel & Leisure

Investment opportunities and long-term themes across six verticals

This report summarizes the key findings from our OTA primer, Position for reopening and other deep-dive sector reports over the last 1-2 years (Duty-free, Asia gaming, Dual Circulation, Six fresh ideas, Hotels, Airlines, Airports, FTG initiation, CTGDF-H initiation) and highlights key trends and investment ideas across the China travel verticals we cover.

Structurally, we prefer hotels, OTA, and duty-free names which we expect to enjoy outpaced growth from either market consolidation and/or addressable market expansion. We also see opportunities for selective airlines on cyclical recovery upon reopening. We break down the trajectory of travel recovery: 1) short-haul domestic travel (now till year-end); 2) long-haul domestic travel (4Q22-1Q23E);
3) international reopening (1H23E), and recommend names for investors to better position for potential upside as travel normalizes over the next 6-18 months: **H-World** (hotel), **Trip.com** (OTA), **CTGDF** (duty-free), **China Eastern** (airline), **Hainan Meilan** (airport) and **Fosun Tourism Group** (travel destination).

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Investment opportunities and long-term themes across six verticals

We forecast China's travel market size will exceed Rmb10trn / US$1.5trn in FY25E, c. 60% of which would relate to travel booking (+32% CAGR to US$824bn in FY22-25E), driven by income growth, more travel frequency and spending (4.3x trips per capita and 15% of disposable income vs. 7x and 21% in the US). We expect ongoing cannibalization of the offline travel booking market from rising online penetration, but more balanced growth between OTA and other online direct sale channels (34% vs. 35% CAGR).

- Structural trends - We prefer hotels, OTA, and duty-free names, which we expect to enjoy outpaced growth from either market consolidation and/or addressable market expansion. Our preferred names: CTDGF (duty-free; CL-Buy), H-World (hotel, Buy), Trip.com (OTA, Buy).
- Re-opening - We also see opportunities for selective airlines on cyclical recovery upon reopening, breaking down into 3 recovery phases: (1) short-haul domestic travel (now till year-end); (2) long-haul domestic travel (4Q22-1Q23E); (3) international reopening (1H23E). We recommend names for investors to better position for potential upside as travel normalizes over the next 6-18 months: **H-World** (hotel), **Trip.com** (OTA), **CTGDF** (duty-free), **China Eastern** (airline), **Hainan Meilan** (airport) and **Fosun Tourism Group** (travel destination) (Exhibit 1).

By sub-sectors, we see the largest opportunities in:

- Hotels - Just as OTA revenue increased 4-fold in FY15-19 on rising online penetration, we expect **increasing chain hotel penetration from 35% close to 50%**, coupled with **RevPar upside** following -24% cumulative room closure over the last 2 years, to drive accelerated revenue growth for the China hotel industry.
- OTA - OTA will remain enablers for **increased travel spending, especially in the lower-tier cities** where more sophisticated demand should open up opportunities to cross-sell, boding well for full-service providers like Trip.com.
- Duty-free - Favorable duty-free policies should continue to drive further **repatriation of more Chinese overseas spending back onshore** through expansion of both physical store and online channels. CTGDF, as the dominant operator, looks the best positioned to benefit from this trend, and is also expanding in overseas countries where Chinese travel abroad.

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Exhibit 1: Key trends and investment ideas across the entire China travel verticals we cover

Hotel booking

Market size (22 → → 25E): Rmb0.50trn → 0.90trn

Investment thesis:

- Market consolidation and higher chain hotel penetration rate
- Potential RevPAR upcycle on hotel closures

Challenges: Weaker funding channels lead to fewer franchisee additions

Top pick: H World Group (HTHT/1179.HK)

Attraction ticketing & packaged tours

Market size (22 → 25E): Rmb0.51trn → 1.43trn

Key trends:

- Experience seeking and personalized travel demand among younger generation

Travel destinations

Investment thesis:

- Undersupply of quality theme parks, ski resorts and indoor ice slopes in China
- Consumption upgrade among Chinese citizens

Challenges: Potential funding risks when developing large-scale new projects using asset heavy model

Top pick: Fosun Tourism (1992.HK)

OTA

GMV (22 → 25E): Rmb0.79trn → 1.92trn

Net take rate (22 → 25E): 4.7% → 4.4%

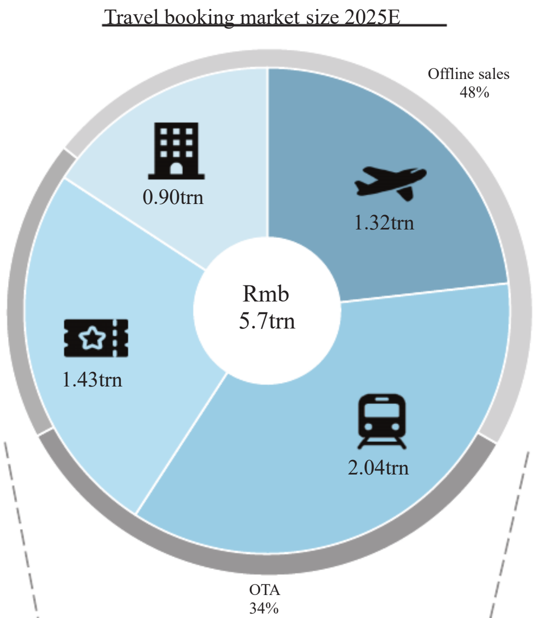
Revenue (22 → 25E): Rmb37.3bn → 85.4bn

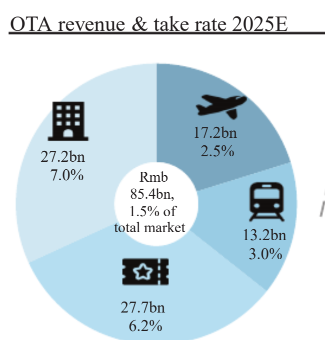
Investment thesis:

- Expansion into lower-tier cities and/or overseas
- Benefit from hotel RevPAR upcycle on hotel closures

Challenges: Sharper decline in transportation take rate, as OTA cannot share ASP upside

Top pick: Trip.com (TCOM/9961.HK)





Air ticketing

Market size (22 → 25E): Rmb0.49trn → 1.32trn

Investment thesis:

- Key beneficiary of China border reopening
- ASP upcycle due to constrained fleet expansion shortage

Challenges: Oil price, FX fluctuations and interest rate hike

Top pick: China Eastern Airlines-H (0670.HK)

Ground transportation

Market size (22 → 25E): Rmb0.94trn → 2.04trn

Key trends:

- Highy regulated and affortable prices continue t enablers of travel growth
- Motorway and waterway online penetration rate relatively low at ~10% with much scope to grow

Duty free and travel retail

Market size (22 → 25E): Rmb75bn → 236bn

Investment thesis:

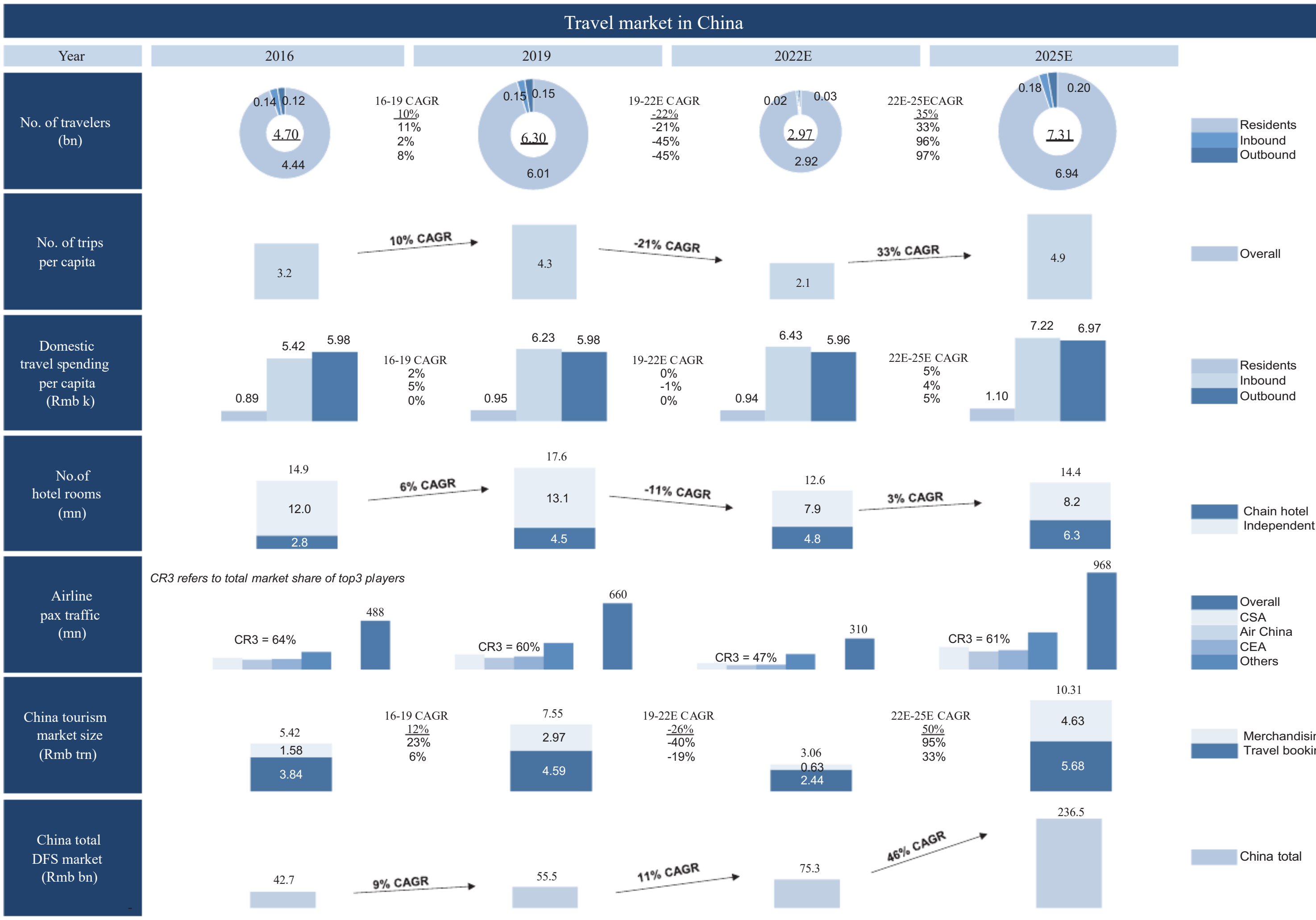
- Benefit from China's policy agenda to repatria overseas spending
- Potential rental reduction from airport DFS rev share renegotiation
- Upside from liberalization of pre-departure dov DFS market

Challenges: Intensified competition in Hainan res margin dilution

Top pick: CTGDF (601888.SS/1880.HK)

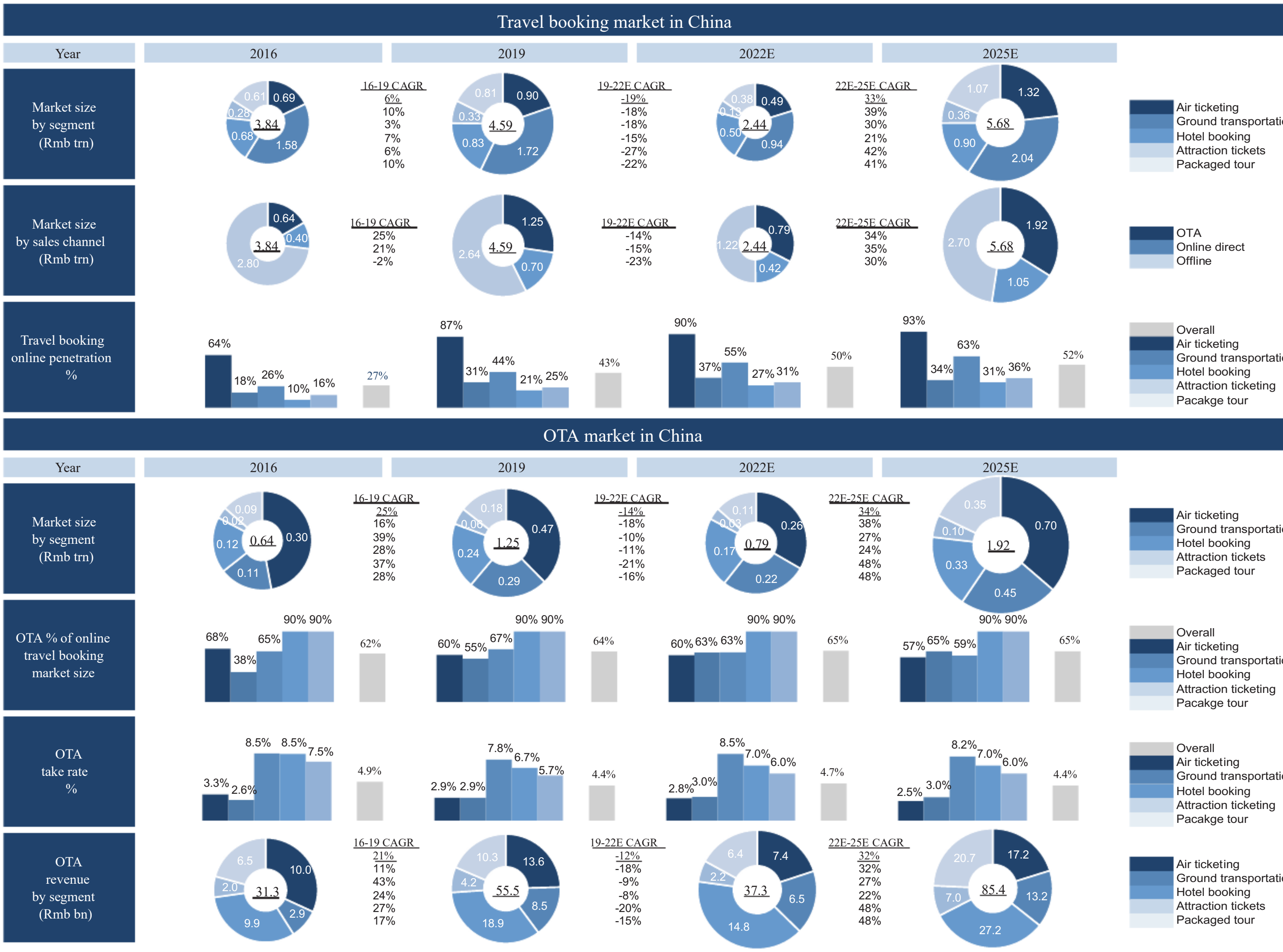
Source: iResearch, Inntie, Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research

Exhibit 2: China travel market in a glance



Source: NBS, CEIC, CAAC, Goldman Sachs Global Investment Research, Gao Hua Securities Research

Exhibit 3: China travel market at a glance (cont'd)



Source: NBS, CEIC, CAAC, Goldman Sachs Global Investment Research, Gao Hua Securities Research

The opportunity is immense

We have highlighted the seven key desires of Chinese consumers in a number of our prior reports (Dual Circulation, Six fresh ideas). Travel is mainly driven by their desires of 行 Mobility and 娱 Having fun, which we believe will become increasingly important with rising disposable income not only among the middle-class but also rural cohorts - the latter representing 56% of China's total population and contributing to 39% of income pool. Without accounting for corporate travelers, the number of domestic leisure travelers have been growing consistently at over 10% CAGR over the past decade and reached 6bn in 2019 before the pandemic. Yet comparing Chinese's travel frequency and spending with those of Americans' (4.3x vs. 7x a year; 15% vs. 21% of disposable income) suggests room for continued outpaced growth. We forecast China's travel market will exceed Rmb10trn (or US$1.5trn) in 2025E, close to 60% of which relates to travel booking (e.g., air tickets, accommodation) and the rest travel retail, dining, etc.

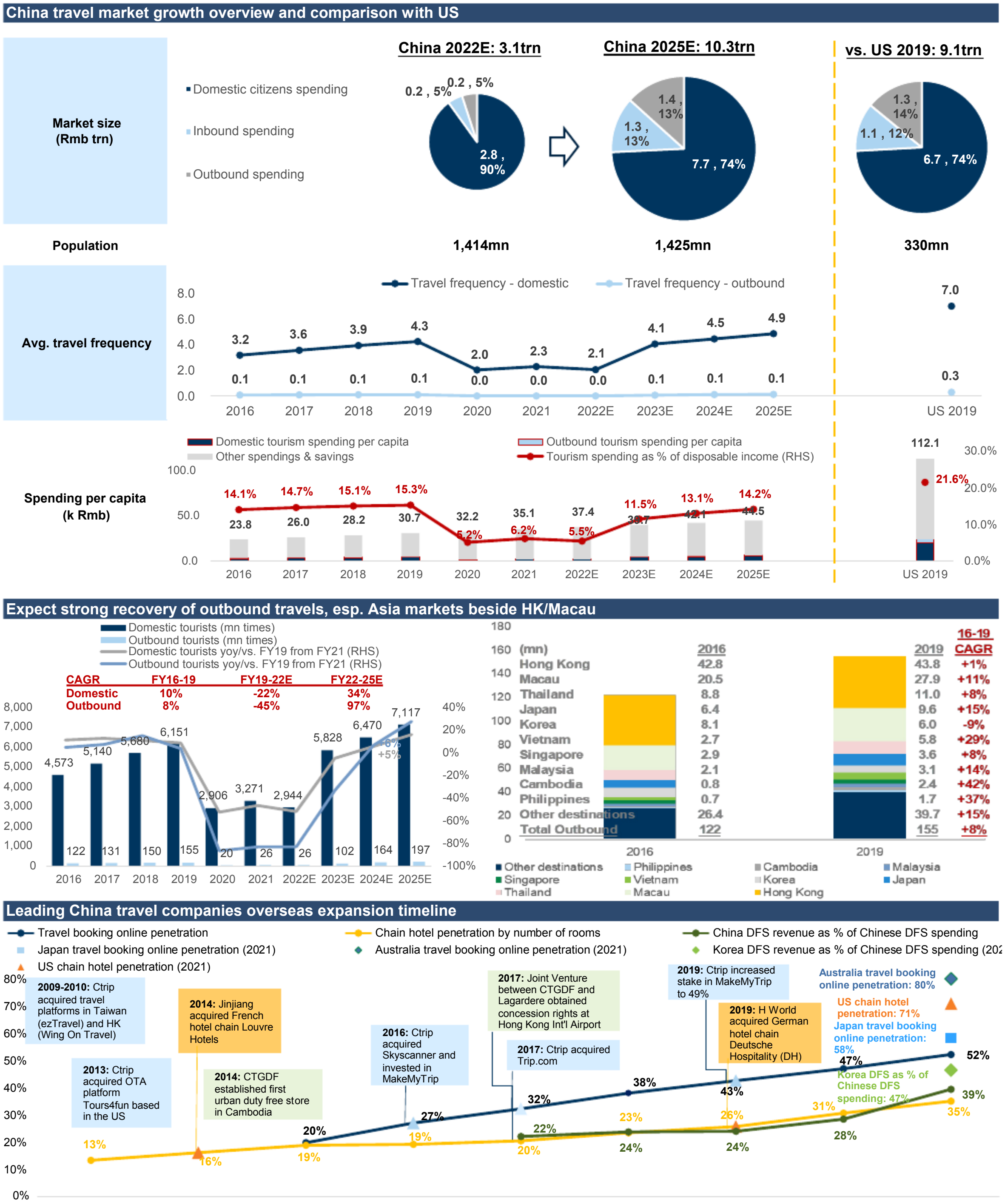
Within this long-term secular growth story, we see several trends that would shape the industry development and affect the companies along the verticals.

- Travelers have become more sophisticated, looking personalized experiences, which opens up opportunities for travel agents to cross-sell and expand their product offerings. Hotel chain operators are designing new brands with specific themes (e.g., E-sports, lifestyle). Resort operators are also incorporating more new amenities in new projects.
- As with other consumption categories, we see growing propensity to travel by those living outside of tier-1/2 cities, hence companies would benefit from stepping up efforts in penetrating into lower-tier cities. Meituan (covered by Ronald Keung) and Tongcheng Travel - both with strong positioning in the lower-tier cities, have been gaining market share in China's OTA market until recently when Trip.com set up more offline agency stores in lower-tier cities to better compete with them.
- More mainland Chinese are also seeking to travel abroad and visit elsewhere in Asia (besides HK/Macau), for which the growth rates have been significant before the pandemic, e.g., Japan (+15% CAGR to 9.6mn in FY16-19), Vietnam (+29% CAGR to 5.8mn), Cambodia (+42% CAGR to 2.4mn) and the Philippines (+37% CAGR to 1.7mn). Huazhu has recently been renamed to H-World signaling its commitment to expand more aggressively abroad. CTGDF plans to open duty-free stores across Asia and acquire 2-3 travel retail operators especially in countries with frequency visitations by Chinese tourists. Comparing domestic market penetrations (e.g., online travel booking, hotel chains, China DFS revenue as a % of Chinese DFS spending globally) and timeline of their overseas expansion, we notice that they tend to accelerate when domestic market penetration reaches around 20-30% (Exhibit 4).
- Affordable prices will continue to be enablers to support travel growth. Highspeed railway (HSR) and ground transportation fares are highly regulated and typically would not be adjusted for years. Hotel average daily rates (ADRs) in China are only 1/4 of those in the US/Europe. As the market matures, we see scope for price

increases in less regulated segments with tighter demand/supply (e.g., hotels, airlines).

Exhibit 4: Comparing domestic market penetrations (e.g., online travel booking, hotel chains, China DFS revenue as a % of Chinese DFS spending globally) and timeline of their overseas expansion, we notice that they tend to accelerate when domestic market penetration reaches around 20-30%

China travel market growth overview



Note: Chain hotel penetration by number of rooms excludes other lodging facilities

Source: NBS, Ministry of Culture and Tourism, US Travel Association, CEIC, Company data, Goldman Sachs Global Investment Research

OTA - From penetration to service and market expansion

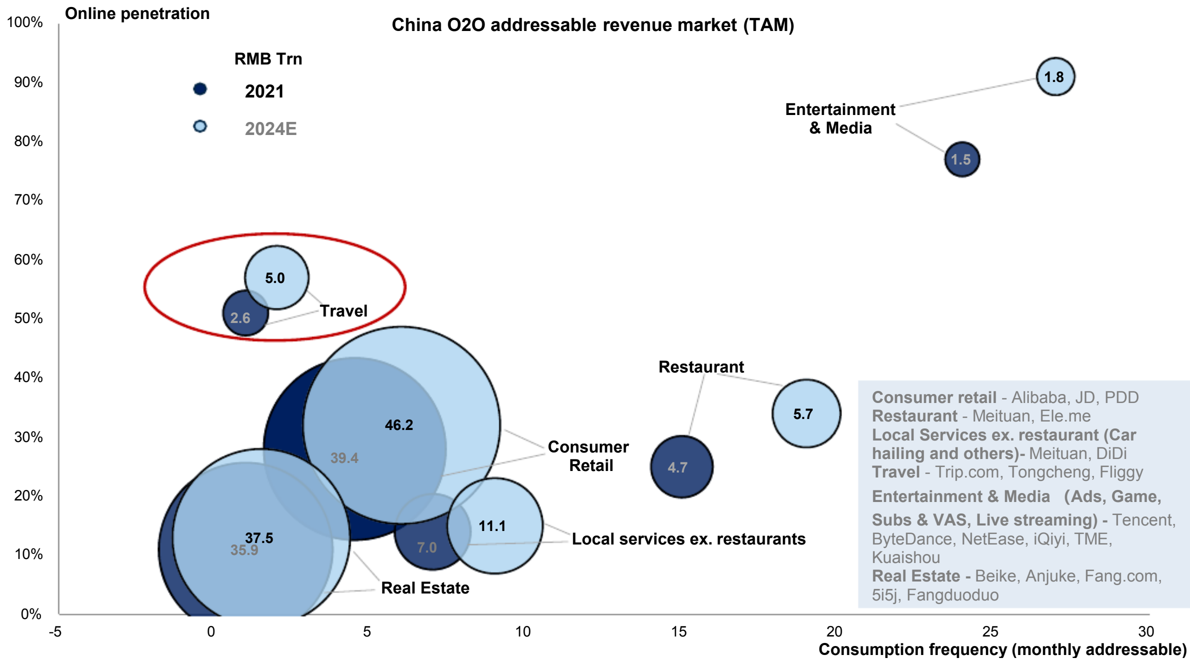
It took the US/Europe ~20 years to bring online travel booking penetration to 50+%. It only took China, 6-7 years explaining why China's online travel agent (OTA) industry has significantly outpaced overall travel booking growth (+25% vs. +6% CAGR in 2015-19). We expect ongoing cannibalization of the offline travel booking market by rising online penetration, but more balanced growth between OTA and other online direct sale channels (34% vs. 35% CAGR in FY22-25E) driven by different drivers by segment, i.e., market consolidation and rising chain penetration (hotels), ongoing regulatory control (transportation). Upside could come from promoting and cross-selling new services, e.g., packaged tours, attraction ticketing. We project China's total OTA GMV will reach Rmb1.9trn (or US$275bn) in FY25E. With 4-5% blended take rate (8% for hotels/attractions, 2-3% for air/ground transportation), OTA revenue should grow a +32% CAGR to Rmb85bn (or US$12bn) in FY22E-25E, off from a low base due to pandemic-driven disruptions.

Take rates for OTA operators in China are below those in overseas countries (12-14%) likely due to intense competition from internet giants (i.e. Meituan, Alibaba) for legacy reasons. As they shift their focus to other verticals, e.g., local delivery, grocery services which have higher consumption frequency and lower online penetration (Exhibit 5), take rates have started to stabilize and trend better (e.g., 2Q22 - when OTA lowered rebates since doing so would not affect traffic amid COVID outbreak). Looking ahead, we expect hotel take rates to remain steady, also benefiting from hotel RevPar upside on tighter supply following -24% hotel closure since 2019 (see next section). Take rates for air ticketing could fall gradually given fixed-fee structures such that OTA's revenue would be driven purely by traffic, not sharing any potential upside from airfare increase upon international reopening.

Trip.com has been losing market share to Tongcheng Travel (TCEL) and Meituan given its limited exposure to lower-tier cities in initial years and border closure amid COVID-19 in 2020-21 (34% of FY19 revenue for outbound or overseas travelers). Having beefed up its content and turned more active in penetrating into lower-tier cities, Trip.com's GMV share has stabilized over the past several quarters. As a full-service provider, we expect Trip.com to maintain its dominance with ~50% market share domestically and upside from international reopening, as it has been accelerating its expansion into overseas markets where take rates are generally higher. Trip.com captured more GMV than Booking.com and Expedia in 2019 before the pandemic, but only 1/3 to 1/2 of their revenue.

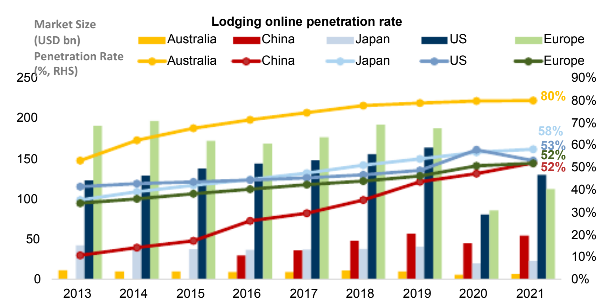
TCEL and Meituan may remain predominately local operators and could continue to leverage their large user bases (Meituan's 693mn transaction users on its delivery service network in FY21) and strategic partnerships (i.e., TCEL/Tencent's agreement to bring traffic from Wechat) to expand into lower tier cities. Payback period has been relatively short, i.e., they can cover their initial customer acquisition costs as long as their users take on one single trip. We believe TCEL should have an edge over Meituan on cross-provincial, long-haul domestic travels with its strength in air/ground transportation (vs. Meituan on local services).

Exhibit 5: The travel market has relatively higher online penetration and lower consumption frequency compared with other internet verticals



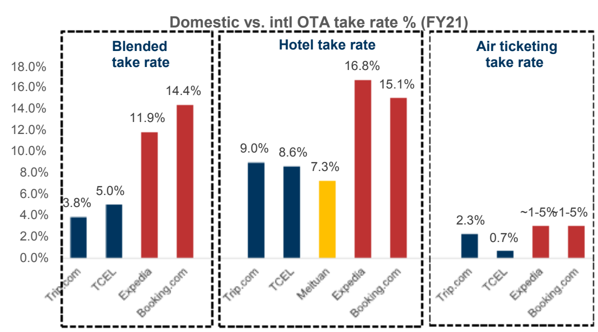
Source: QuestMobile, CIC, Gartner, NBS, PwC, Company data, Goldman Sachs Global Investment Research

Exhibit 6:
Lodging online penetration rates of select markets



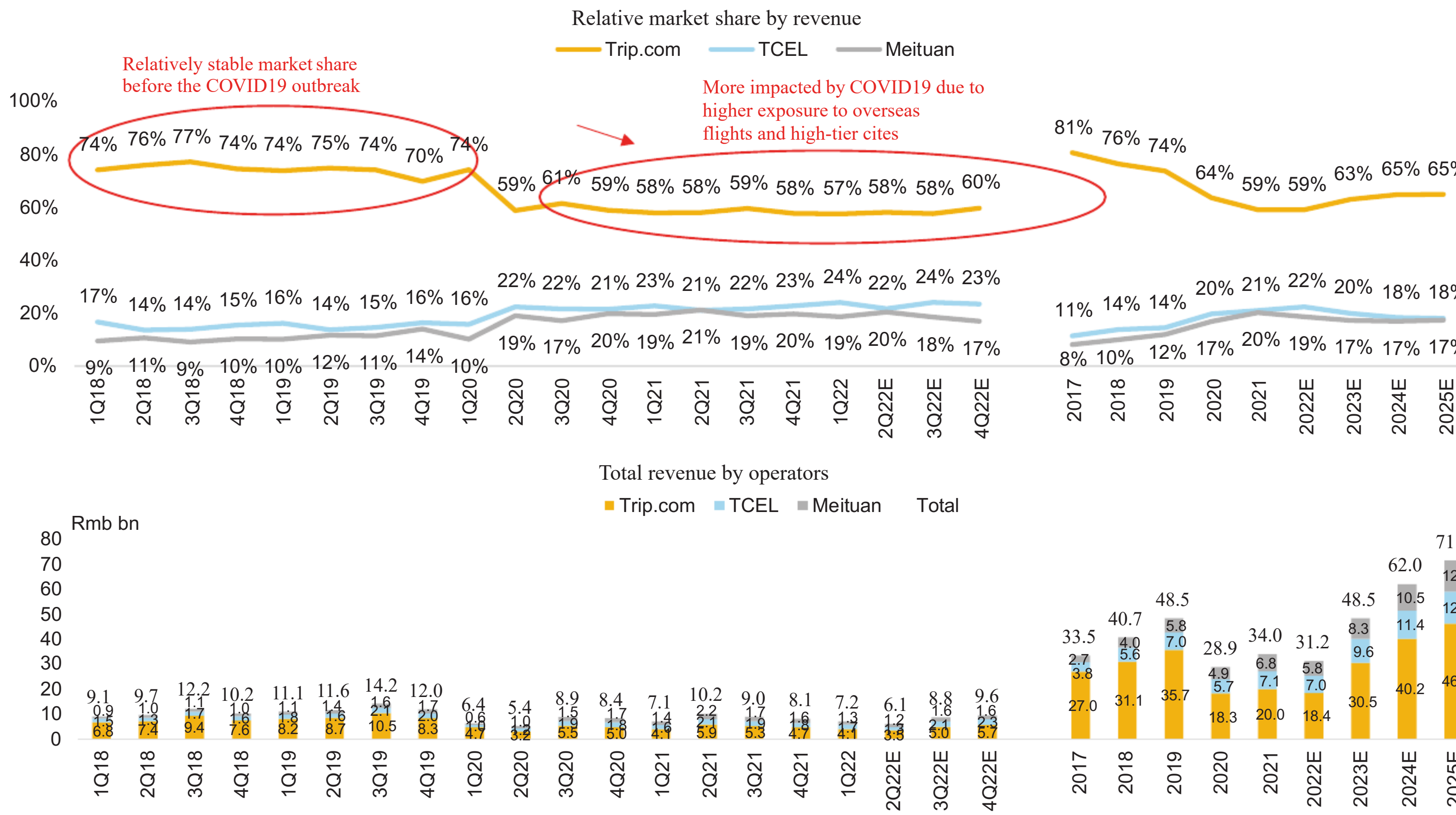
Source: Euromonitor, Goldman Sachs Global Investment Research

Exhibit 7: Hotel take rates for domestic OTA are below overseas competitors



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 8: Meituan and Tongcheng Elong gaining revenue share at the expense of Trip.com. Trip's share has slipped given overseas exposure, but has stabilized in recent quarter



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 9: China OTAs have relative higher GMV scale than global players, but lower take rates

		Trip.com TCOM/9961.HK	TCEL 0780.HK	Meituan 3690.HK	Booking.com BKNG	Expedia EXPE	MakeMyT MN
Market cap (USD bn)		16.1/15.8	4.6	120.4	75.7	16.0	2.
Average MAUs (mn) (1Q22)		~150 (FY21)	~245	~360	Booking.com >100 Agoda >60 Priceline ~40 KAYAK ~45	Expedia >90 hotels.com ~60 travelocity ~12 Cheapflights ~9 Orbitz ~8	Make Goi Rec
Geographical exposure (FY19)		China domestic ~66% Outbound ~24% Int'l ~10%	China domestic ~95% Int'l ~5%	Mostly China domestic	US ~10% Others ~90%	US ~57% Others ~43%	Ind ASE Oth
		FY19	FY19	FY19	FY19	FY19	F
GMV by segments (USD bn)	Total	125.2	24.0	13.6	96.4	107.9	5.4
	- Accommodation	26.7	3.8	11.3	90.6	40.7	
	- Air ticketing	71.2	9.8	1.2	2.2	34.8	
	- Ground	18.5	9.8		n.a.	n.a.	
	- Other travel	8.7	0.7	1.1	3.7	32.5	
By business model (USD bn)	Agency	Mostly agency model	Agency model >95%	Mostly agency model	70.7	60.0	Mostly ag
	Merchant				25.8	47.9	
Revenue by segments (USD mn)	Total	5,169	1,011	994	15,066	12,067	645
	- Accommodation	1,956	313	834	13,925	8,472	
	- Transportation	2,019	654	122	22	869	
	- Other travel	838	n.a.		185	1,623	
	- Others	356	44	37	934	1,103	
By business model (USD mn)	Agency	Mostly agency model	Agency model >95%	Mostly agency model	10,117	3,882	Mostly ag
	Merchant				3,830	6,763	
Accommodation segment	Room nights (mn)	461	102	392	844	389	27
	- Higher-end	216	n.a.	50	n.a.	n.a.	
	- Lower-end	246	n.a.	342	n.a.	n.a.	
	ADR (USD)	58	38	24	107	105	5
	- Higher-end	90	n.a.	54	n.a.	n.a.	
	- Lower-end	29	n.a.	22	n.a.	n.a.	
Transportation segment	Air tickets sold (mn)	374	87	n.a.	8	n.a.	39
	Air ticket price	141	112	n.a.	273	n.a.	
	Ground tickets sold (mn)	898	n.a.	n.a.	n.a.	n.a.	63
	Ground ticket price	11	n.a.	n.a.	n.a.	n.a.	
Take rate (%)	Overall	3.8%	4.5%	7.3%	14%	10%	12%
	- Accommodation	7.3%	8.2%	7.4%	15%	21%	
	- Air tickets	2.2%	3.6%	3.0%	1%	3%	
	- Ground transportation	2.7%	3.1%		n.a.	n.a.	
	- Other travel	4.9%	n.a.	11.5%	5%	5%	
Take rate % by business model	Agency	Mostly agency model	Mostly agency model	Mostly agency model	14%	6%	Mostly ag
	Merchant				15%	14%	
Non-GAAP EBITDA margin (2019)		22.0%	27.3%	Overall 7.4%	38.9%	15.0%	-26.1
Non-GAAP EBIT margin (2019)		18.9%	19.4%	Overall 3.1%; Hotel 18.3%	37.6%	10.1%	-22.7%
Core earnings (USD bn) (2019)		0.74	0.16	0.67	4.46	0.94	-0.17
P/E (FY23E)		22.5x	22.3x	34.7x	16.8x	14.1x	32.6 (

Source: Company data, Goldman Sachs Global Investment Research

Hotels - Just getting started

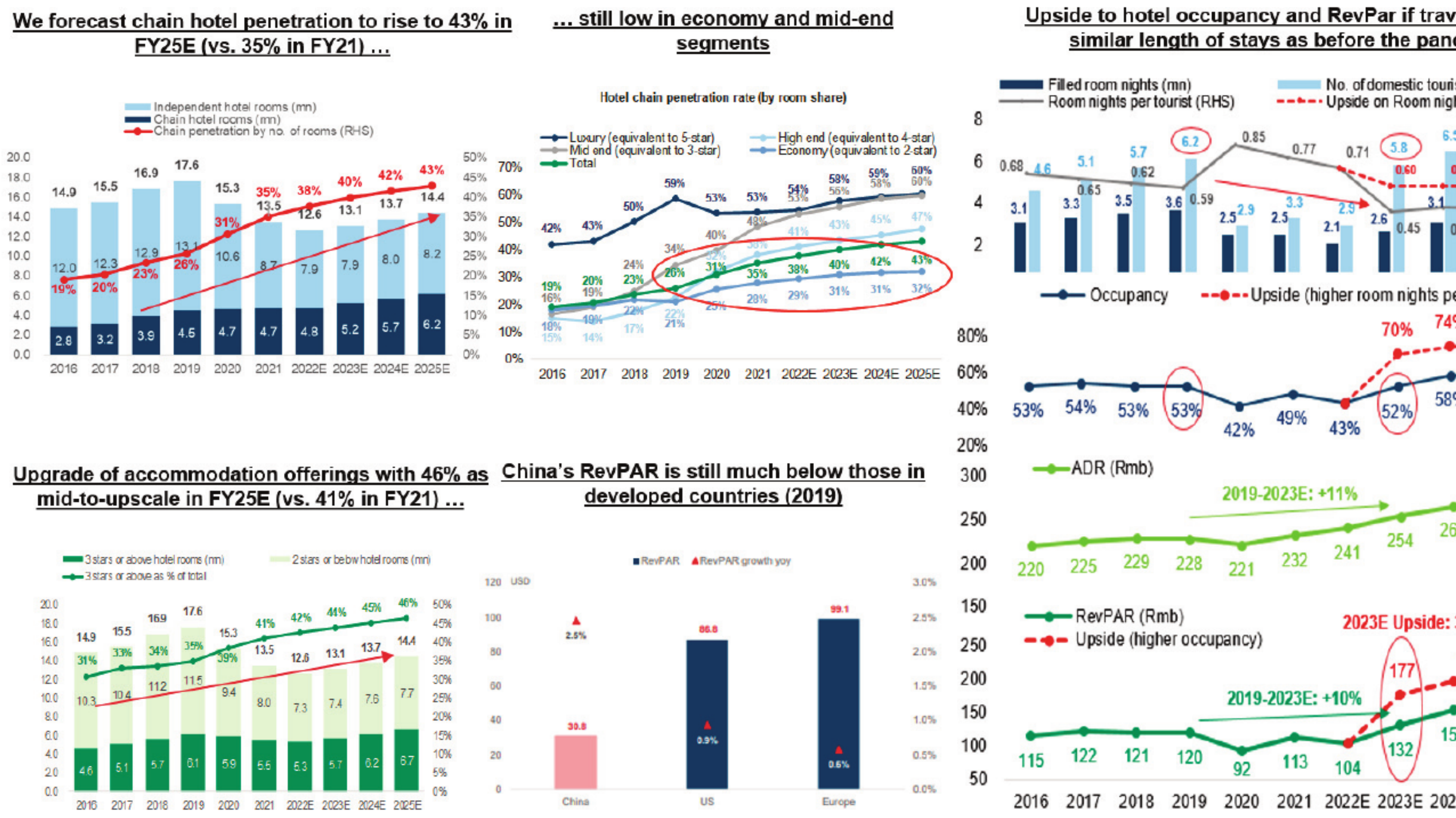
In our China Lodging report last year (1 June 2021), we highlighted our belief that China's chain hotel industry is entering a period of both cyclical recovery and structural upcycle, where we expect growth acceleration not only in RevPar but also hotel additions. Unfortunately, the recovery has been delayed by viral resurgences. As supply has tightened further with 12% or 2mn hotel room closures last year (-24% cumulatively since end-FY19), we believe RevPar could bounce back even more sharply once the pandemic is over. We model industry RevPar would exceed 2019 levels by 10% in 2023E above market expectations by assuming shorter length of stays as travelers could remain cautious initially. We could see another 30+% upside if the length of stays are similar to levels prior to the pandemic.

Globally, brands have been taking share of the hotel markets over the past 2-3 decades. The trend has also started to accelerate in China since 2016, when chain hotel penetration has risen from 19% to 35% last year as (1) customers are more willing to pay extra for better-quality hotels due to hygiene concerns; (2) more independent hotels struggle to fill up their rooms and try to take advantage of chain hotels' brands, corporate relationships, and customer loyalty programs to improve their occupancy and room rates, in view of the demand volatility amid the pandemic.

To a certain extent, the chain hotels are competing with OTA as an alternative way for independent hotel operators to improve their RevPar and profitability. Similar to OTA, chain hotel groups have their own loyalty programs and sizable membership bases (193/182/135mn for Huazhu/Jinjiang/BTG vs. ~150/245/360mn for Trip.com/TCEL/Meituan), where members usually book their rooms directly with the chain hotel operators. From a hotel investor's perspective, the key difference is that joining a chain hotel group would require upfront capex for room upgrades (Rmb50-60k per room) and paying higher take rates (11% vs. 8-9% on OTA), although it could be a better long-term solution as it enhances the hotel's competitiveness. Just as OTA experienced strong GMV growth when online hotel booking penetration rose from 17% in 2015 to 52% last year, we believe rising chain hotel penetration from 35% (as of 2021) closer to 50% in coming years would underpin strong hotel additions for the top chain hotel groups. We expect more balanced growth for OTA (+32% CAGR in FY22-25E) vs. chain hotel revenue growth (+28% CAGR). Chain hotels could be more leveraged to upcycles as every 10% change in RevPar would translate to 30+% EBITDA upside (vs. only ~9% for OTA).

We prefer H-World among the four chain hotel operators we cover for its strong execution operationally (e.g., RevPar recovery trend outperforming peers, fewer hotel closure for its focus on serving the better-quality hotels). Expansion into overseas countries could expand its TAMs in the long run, but may raise concern over longer investment payback. We are more cautious on BTG (Neutral). Although expansion by soft franchisees (i.e., lower initial investment, take rates) could help accelerate hotel additions, it may not necessarily translate into better profitability but can lead to concerns over higher churns similar to what happened to OYO entering China a few years back.

Exhibit 10: Rising chain hotel penetration. Expansion into mid-to-upscale segment. Potential RevPar upside on hotel closure



Source: Company data, Goldman Sachs Global Investment Research

Airlines - Upcoming supply shortage and price hike upcycle

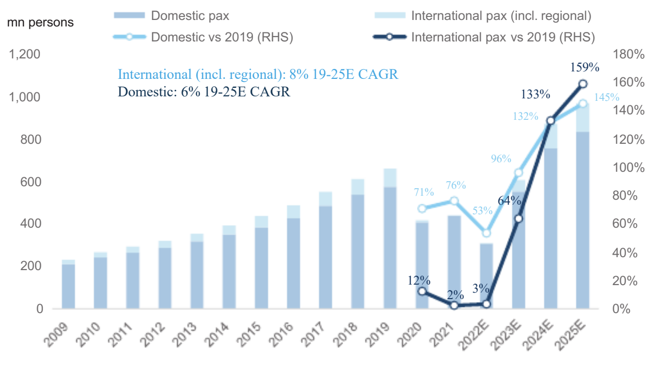
Airlines is a highly cyclical sector, as air travel demand is driven by macro factors and disposable income, while supply takes time to adjust as airlines usually need to place aircraft orders with manufacturers at least 3-4 years ahead of delivery and have limited flexibility to change their capacity in the short run. As a result, the industry's profitability is largely a function of supply and demand. As highlighted in our initiation report (Feb 9), we expect a supply shortage and price hike scenario after China's international travel reopening.

We forecast underlying demand for air travel in China to grow at a CAGR of 6.6% in 2019-25E, driven by 5% CAGR for individual disposable income in our base case. On the other hand, we forecast supply will decelerate to 4.4% CAGR in 2019-25E from 10% during 2015-19 due to slowing supply growth of both aircraft and pilots: (1) aircraft - both counting new aircraft deliveries in the pipeline and CAAC's 14th Five-Year Plan indicate c.4% CAGR seat growth during 2019-25E; (2) pilots - Chinese airlines have not recruited many new pilots since 2020, and the number of registered pilot trainees has dropped almost by half from 2020. Demand for pilots will likely actually increase given the new regulatory cap of flying hours which has been reduced from 1,000 hours to 900 hours annually, per the new regulations since March 2021. Overall, supply is expected to track behind demand by -2.2ppts p.a. during 2019-25E.

Based on past correlations, such supply shortage could drive +1.5% average revenue per passenger increase per annum, or 9% cumulatively in FY19-25E. In recent years, airlines have gained more pricing power from CAAC's ongoing deregulation on airfare. Currently, the routes adopting market rates account for 70% of total domestic routes in terms of airlines' capacity, vs. 5% in 2016. Per regulations, when a route becomes a market-rate route, it is able to lift its ceiling airfare by a maximum of 10% twice a year. For instance, the Beijing-Shanghai route, which turned into a market-rate route in end-2017, has seen its ceiling price for economy-class increased by c.60% over the past four years. We expect price hikes to make up for cost inflation, such that Chinese airline average EBIT margin should improve from 5% in 2019 to 7% in 2025E, driving ROE to c.20% in 2025E, higher than c.17% in the similar cycle post the GFC. Among airlines, we prefer Air China-H and CEA-H/A as key beneficiaries of potential international reopening and price hikes.

Exhibit 11: We forecast the total air travel passengers in China to achieve 7% CAGR during 2019-25E, with domestic/ international 6%/8% respectively

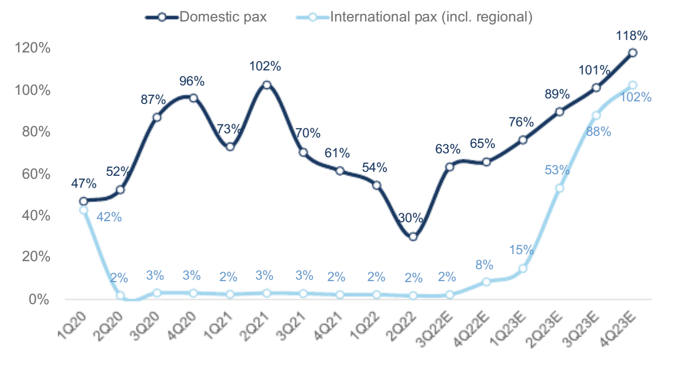
Air passenger traffic trend



Source: CAAC, Gao Hua Securities Research

Exhibit 12: We expect the international flights to increase to 10% of 2019's leve

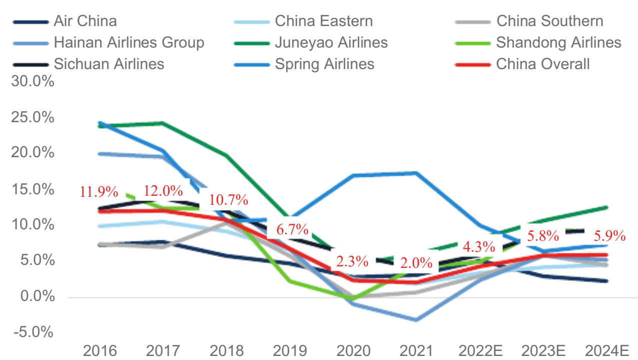
Quarterly air passenger traffic vs. 2019



Source: CAAC, Gao Hua Securities Research

Exhibit 13: We expect the fleets' seat supply growth to accelerate from 2022, but to still slow down compared with the period before 2019

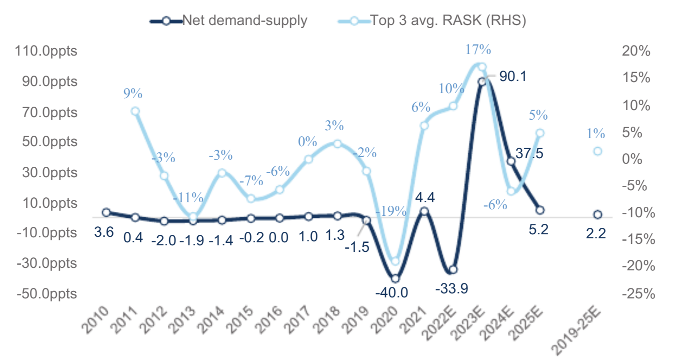
Chinese airlines' fleet expansion slowed down



Source: Company data, CAPA (for non-covered airlines), Gao Hua Securities Research

Exhibit 14: We forecast 2ppts net demand p.a. during 2019-25E, as a result of 7% CAGR and 4% supply CAGR; this would lead to 1.5% CAGR (or total 9% increase RASK during 2019-25E

Chinese airlines RASK vs. net demand-supply



Source: CAAC, Company data, CAPA, Gao Hua Securities Research

Lessons from the past: How to position for reopening

A closer look at the price performance of China's travel stocks across all sectors over the past cycles shows that (1) despite the robust GMV growth, OTA did not outperform due to intense competition and normalization of P/E valuation from 70x back in 2015 to 20-30x as of late; (2) Hotel names rallied strongly in 2015-17 when their RevPar outpaced GDP growth on reduced supply after the anti-grafting campaigns; (3) airlines remained volatile and only outperformed in 2017 in anticipation of fare de-regulation; (4) airports tended to lag during upcycles with no leverage to price upside, except for 2019 on higher rental rates after duty-free contract renewals; (5) performance of tourist destination stocks tended to be more mixed driven by project launches (see our report on Fosun Tourism Group initiation).

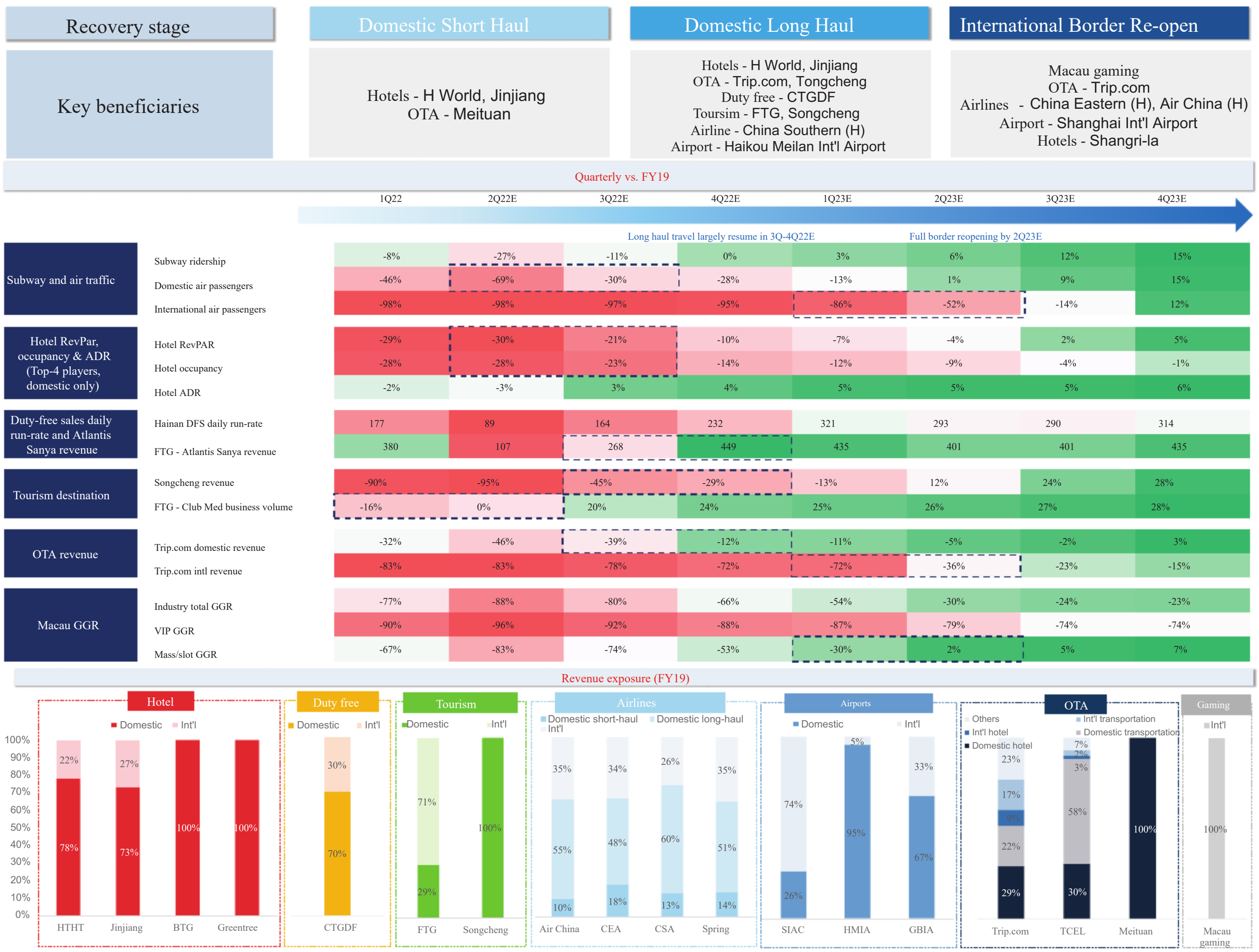
The current situation is a unique one in that the pandemic has affected the entire travel verticals for over 2 years. While many overseas countries have reopened gradually, China continues to adopt a dynamic zero COVID19 policy, resulting in much volatility in domestic travel trends and hence stock price performance. Our base case still assumes China's domestic travel would recover to ~80% of pre-pandemic level this year, with air passengers (as a proxy of long-haul, cross-provincial travel) lagging at 57%. We assume international borders would only be opened in 2Q23E in line with our macro team's expectation (May 18) such that outbound travel would recover to 65% in FY23E.

Given the different geographical exposure of travel names (Exhibit 15), we recommend investors to invest into individual companies and across the six sub-sectors (i.e., hotels, OTA, airlines, airports, travel destinations, duty-free) to better position for potential upside as travel restrictions normalize over the next 6-18 months. Overall, we break down the recovery into three phases:

- **Short-haul domestic travel (now till year-end)** - We see better price performance for leading chain hotel names (e.g., **H World, Jinjiang**) and **Meituan**, focused on local services) as travelers continue to be more willingly take short-haul trips.
- **Long-haul domestic travel (4Q22E and 1Q23E)** - We expect long-haul domestic travel to gradually recover and benefit **China Southern** (airlines with 60+% domestic long-haul route exposure), **Tongcheng Travel** (OTA with more transportation focused), **Trip.com** (a full-service OTA operator), **Songcheng** (for its projects tourist destinations in Lijiang, Jiuzhaigou, Guilin etc), and **Fosun Tourism Group, CTGDF, Hainan Meilan International Airport** given their exposure to Sanya.
- **International border reopening (1H23E)** - When international borders reopen, Chinese airlines would be able to fill up their remaining 30-40% capacity more easily giving them more bargaining power to raise fares. **China Eastern Airlines** and **Air China** have more international route exposure. **Shanghai International Airport** is the largest international airport in China. **Trip.com** among the OTA would see revenue recovery, 34% of which used to generate from Chinese outbound tourists or travelers abroad via Skyscanner or MakeMyTrip before the pandemic. Elsewhere, **Macau casinos** and HK retail landlords (e.g., **Wharf REIC, Swire Pacific/Swire**

Properties) could also benefit.

Exhibit 15: Given the different geographical exposure of travel names, we recommend investors to better position into individual companies and across the six sub-sectors for p upside as travel restrictions normalize over the next 6-18 months.



HTHT's revenue exposure refers to FY23E instead, given the company had not completed acquisition of DH in FY19; CTGDF's intl revenue include airport/port DFS segment

Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research

Exhibit 16: Valuation comps across sectors

Company	Ticker	Pricing CCY	Price	Rating	P/E (excl. exceptionals) 2022E	P/E 2023E	P/E 2024E	EV/EBITDA 2022E	EV/EBITDA 2023E	EV/EBITDA 2024E	P/B 2022E	P/B 2023E	P/B 2024E	ROE 2022E	ROE 2023E
Hotels															
Huazhu Group	HTHT	USD	35.3	Buy	n.m.	22.5x	16.1x	59.0x	13.8x	9.8x	7.5x	6.0x	4.5x	0.3%	3.8%
Shanghai Jinjiang Int'l Hotels	600754.SS	CNY	55.2	Buy	n.m.	31.3x	23.0x	44.0x	14.3x	10.6x	3.4x	3.1x	2.7x	3.3%	10.6%
BTG Hotels Group	600258.SS	CNY	20.9	Neutral	n.m.	25.1x	22.1x	81.9x	10.2x	7.6x	2.2x	2.0x	1.9x	-3.4%	8.0%
GreenTree Hospitality Group	GHG	USD	4.0	Neutral	21.1x	12.5x	8.1x	11.7x	6.6x	4.5x	1.6x	1.4x	1.2x	7.4%	11.4%
Shangri-La Asia	0069.HK	HKD	6.2	Sell	n.m.	22.9x	12.9x	30.5x	15.9x	13.3x	0.5x	0.5x	0.5x	-1.6%	2.0%
Marriott International	MAR	USD	154.2	CS	25.2x	21.0x	n.a.	16.5x	14.7x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hilton Worldwide Holdings Inc.	HLT	USD	127.5	CS	30.6x	23.2x	n.a.	18.2x	15.5x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hyatt Hotels	H	USD	88.1	CS	n.a.	61.1x	n.a.	16.4x	12.9x	n.a.	2.5x	2.5x	n.a.	-0.7%	4.6%
Hilton Grand Vacations Inc.	HGV	USD	40.5	CS	12.4x	9.5x	n.a.	7.5x	6.7x	n.a.	2.1x	1.8x	n.a.	6.0%	23.0%
OTA															
Trip.com Group	TCOM	USD	25.3	Buy	324.7x	22.5x	14.4x	84.8x	14.7x	8.8x	1.0x	1.0x	1.0x	0.7%	4.7%
Tongcheng Travel Holdings	0780.HK	HKD	16.2	Buy	45.9x	22.3x	17.1x	15.1x	9.6x	6.8x	2.0x	1.8x	1.7x	6.4%	10.7%
Meituan	3690.HK	HKD	173.6	Buy	n.m.	34.7x	20.5x	n.m.	20.8x	12.5x	8.1x	7.0x	5.6x	-0.9%	21.7%
Booking Holdings Inc.	BKNG	USD	1837.9	Neutral	26.8x	16.8x	14.4x	14.8x	11.8x	9.4x	20.6x	20.0x	7.9x	58.3%	121.0
Expedia Group	EXPE	USD	102.1	Buy	38.1x	14.1x	11.9x	8.2x	5.9x	4.3x	3.9x	2.9x	2.2x	11.1%	23.4%
MakeMyTrip Ltd.	MMYT	USD	33.6	Buy	n.m.	n.m.	49.4x	n.m.	44.3x	23.5x	3.2x	3.8x	3.4x	-5.1%	2.2%
Duty-Free															
China Tourism Group Duty Free (A)	601888.SS	CNY	182.7	Buy*	49.8x	25.1x	20.0x	25.4x	14.1x	10.4x	7.8x	6.4x	5.2x	15.6%	25.4%
China Tourism Group Duty Free (H)	1880.HK	HKD	172.0	Buy	40.8x	20.5x	16.3x	20.5x	11.3x	8.4x	6.4x	5.2x	4.3x	15.6%	25.4%
Dufry AG	DUFN.S	CHF	36.6	Neutral	n.m.	15.5x	9.3x	7.0x	6.1x	5.2x	3.6x	3.5x	2.9x	8.8%	21.1%
Hotel Shilla	008770.KS	KRW	71700.0	Neutral	n.m.	21.5x	16.1x	16.3x	10.9x	9.1x	4.4x	3.7x	3.0x	6.7%	19.0%
Travel															
Songcheng Performance	300144.SZ	CNY	12.1	Buy	n.m.	27.7x	18.4x	121.9x	17.2x	11.1x	4.1x	3.8x	3.4x	2.2%	13.7%
Fosun Tourism	1992.HK	HKD	8.0	Buy	n.m.	14.3x	7.9x	13.7x	5.4x	4.5x	3.5x	2.9x	2.2x	-14.9%	20.4%
Airlines															
China Eastern Airlines (A)	600115.SS	CNY	4.9	Buy	n.m.	31.4x	18.2x	n.m.	9.6x	8.6x	3.9x	3.5x	2.9x	-69.9%	11.8%
Air China (A)	601111.SS	CNY	10.3	Neutral	n.m.	30.6x	20.8x	n.m.	9.7x	8.6x	4.1x	3.3x	2.9x	-48.0%	11.2%
China Southern Airlines (A)	600029.SS	CNY	6.4	Sell	n.m.	31.9x	19.7x	42.4x	8.9x	7.9x	2.3x	2.0x	1.8x	-29.2%	6.7%
Spring Airlines Co.	601021.SS	CNY	47.4	Neutral	n.m.	31.6x	14.9x	112.5x	18.9x	11.8x	3.5x	3.0x	2.5x	-6.9%	10.2%
China Eastern Airlines (H)	0670.HK	HKD	2.6	Buy	n.m.	14.0x	8.1x	n.m.	7.9x	7.0x	1.8x	1.6x	1.3x	-69.9%	11.8%
Air China (H)	0753.HK	HKD	6.1	Buy	n.m.	15.0x	10.2x	n.m.	7.4x	6.5x	2.0x	1.6x	1.4x	-48.0%	11.2%
China Southern Airlines (H)	1055.HK	HKD	4.1	Neutral	n.m.	16.9x	10.4x	35.2x	7.3x	6.5x	1.2x	1.1x	1.0x	-29.2%	6.7%
Airport															
Shanghai Int'l Airport	600009.SS	CNY	57.1	Neutral	n.m.	36.6x	28.2x	n.m.	22.4x	18.0x	4.3x	3.8x	3.5x	-6.9%	10.5%
Guangzhou Baiyun Int'l Airport	600004.SS	CNY	13.4	Sell	n.m.	55.5x	29.9x	29.9x	11.8x	9.0x	1.8x	1.7x	1.6x	-3.5%	3.1%
Hainan Meilan Int'l Airport	0357.HK	HKD	18.1	Buy	92.0x	10.5x	7.5x	13.2x	6.1x	5.6x	1.5x	1.3x	1.1x	1.6%	12.6%

Pricing as of 06-Sep-2022. Buy denotes on Conviction List.*

*denotes stock is on our regional Conviction List; CS = Coverage Suspended

Source: Datastream, Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research

Investment thesis for top picks

Trip.com Group (TCOM/9961.HK; Buy): Upside from market share stabilization and overseas reopening

As a dominant full-service provider with cross-selling capabilities across hotels, airlines, ground transportation, tourist attractions and package tours online booking, we believe Trip.com is well positioned to benefit from more sophisticated demand by Chinese travelers. While it may take time for its revenue to fully recover to pre-Covid levels, depending on the border reopening timeline (we forecast its revenue to recover to 85%/113% of 2019 levels in FY23/24E), we believe Trip.com's strategic partnerships along the value chain, gradual expansion into lower-tier cities and initiatives to beef up its content (e.g., livestreaming) should help to stabilize its market share domestically. Having de-rated from a peak of 60x+ in 2016-17, the stock's valuation looks more reasonable now at 21x FY23E P/E (or 18x, excluding contributions from associates/affiliates).

Valuation: We are Buy rated on Trip.com with 12-month SOTP-based TPs of US$33.3/HK$260, implying +32%/+30% potential upside. We believe the market has not fully priced in:

1. **Market share stabilization with increasing penetration in lower-tier cities and new content strategy:** Trip.com's strategic partnerships with TCEL, Booking.com, H World, etc, have enriched its accommodation resources, supporting market share stabilization in recent quarters. While solidifying its strength in the high-end market, the company is also expanding into lower-tier cities through franchising offline travel agency stores under three brands (i.e., Ctrip, Qunar, Traveling Bestone) – it had ~5k stores at end-FY21 (vs. 3k in 2018) covering over 90% of tier-3/-4 cities and 70% of tier-5 or county-level cities. Meanwhile, Trip.com has also upgraded its content strategy since last year, incorporating livestreaming (e.g., BOSS Live), a content sharing community on its app, and Star Hub (a marketing channel for travel resource suppliers to display products and promote membership offerings). The company had accumulated ~220mn content viewers, ~35% of whom regularly browsed its content channels in FY21. Overall, we expect Trip.com's GMV market share in China's OTA industry to remain steady at ~50% in FY22-25E.
2. **Upside from overseas businesses upon border reopening:** With its various overseas businesses (e.g. Skyscanner, Trip.com, Makemytrip), we believe Trip.com would benefit more from border reopening than other OTAs. Prior to the pandemic, it generated 34% of revenue from either outbound travel of mainland Chinese tourists or bookings on its overseas platforms. The company targets this proportion to rise to ~50% in the medium term. Overall, group revenue recovery may lag other OTAs at 85% of the FY19 level in FY23E, though we expect it to catch up and exceed FY19 by +13% in FY24E.
3. **EBITDA upside from potentially higher hotel RevPar:** Compared to Tongcheng Travel, Trip.com has more revenue exposure to the accommodation segment (38% in 2019), benefiting not only from a relatively higher take rate in hotels vs. air/ground

transportation, but also from our expectation that the China hotel industry will head into an upcycle driven by a sharp RevPar recovery following ~30% hotel room closures over the last 2 years. We currently forecast Trip.com to achieve Rmb6.3bn/9.7bn in EBITDA in FY23/24E, tracking at 80%/123% of pre-pandemic levels. By way of sensitivity, every +10% change in hotel GMV (or RevPar) would lift its EBITDA by +9%. Every 1% change in take rate would increase its EBITDA by 20% (vs. 9% for TCEL), on our estimates.

Risks: Regulatory risk given its dominance in the China OTA industry, greater-than-expected competition, further delays to international border reopening.

Exhibit 17: TCOM Financials Summary

Key assumptions	2021	2022E	2023E	2024E
Volume (mn)				
Domestic businesses				
Hotel room nights sold	358	319	408	484
yoy%	*14%*	*-11%*	*28%*	*18%*
Air tickets sold (excl. Skyscanner)	242	194	256	307
yoy%	*14%*	*-20%*	*32%*	*20%*
Ground transportation tickets sold	626	540	890	989
yoy%	*-1%*	*-14%*	*65%*	*11%*
Int'l businesses				
Hotel room nights sold	6	10	42	73
yoy%	*-41%*	*70%*	*320%*	*75%*
Air tickets sold (excl. Skyscanner)	1	2	42	67
yoy%	*-93%*	*133%*	*2103%*	*60%*
Skyscanner revenue (Rmb mn)	943	1,651	2,889	3,467
yoy%	*-19%*	*75%*	*75%*	*20%*
ASP (Rmb)				
Domestic businesses				
Hotels avg. ADR	322	326	346	365
yoy%	*2%*	*1%*	*6%*	*6%*
Air tickets avg. price	856	899	1,079	1,101
yoy%	*9%*	*5%*	*20%*	*2%*
Railway tickets avg. price	150	150	152	155
yoy%	*1%*	*0%*	*1%*	*2%*
Bus tickets avg. price	46	46	46	47
yoy%	*1%*	*0%*	*1%*	*2%*
Int'l businesses				
Hotels avg. ADR	467	467	505	540
yoy%	*-3%*	*0%*	*8%*	*7%*
Air tickets avg. price (excl. Skyscanner)	1,370	1,465	1,685	2,107
yoy%	*-10%*	*7%*	*15%*	*25%*
Net commission rate %				
Domestic businesses				
Hotels	6.9%	6.9%	7.1%	7.1%
yoy chg (ppt)	*0.1ppt*	*0.1ppt*	*0.2ppt*	*0.0ppt*
Air tickets	1.8%	1.7%	1.4%	1.4%
yoy chg (ppt)	*0.0ppt*	*-0.1ppt*	*-0.3ppt*	*0.0ppt*
Railway tickets	2.5%	2.5%	2.5%	2.5%
yoy chg (ppt)	*-0.3ppt*	*0.0ppt*	*0.0ppt*	*0.0ppt*
Bus tickets	3.4%	3.4%	3.3%	3.3%
yoy chg (ppt)	*0.0ppt*	*0.0ppt*	*0.0ppt*	*-0.1ppt*
Int'l businesses				
Hotels	8.0%	8.1%	8.1%	8.1%
yoy chg (ppt)	*0.2ppt*	*0.1ppt*	*0.0ppt*	*0.0ppt*
Air tickets	3.0%	3.0%	3.0%	3.0%
yoy chg (ppt)	*-0.5ppt*	*0.0ppt*	*0.0ppt*	*0.0ppt*

Income Statement (Rmb mn)	2021	2022E	2023E	2024E
Total revenue	**20,023.0**	**18,430.2**	**30,493.4**	**40,146.1**
yoy%	*9%*	*-8%*	*65%*	*32%*
Cost of goods sold	(4,598.0)	(4,632.0)	(6,850.8)	(8,362.0)
Gross profit	15,425.0	13,798.2	23,642.6	31,784.0
Gross margin	77.0%	74.9%	77.5%	79.2%
SG&A	(7,767.0)	(6,708.8)	(10,405.6)	(13,097.3)
R&D	(7,388.0)	(6,984.8)	(8,042.9)	(10,187.4)
EBITDA, GAAP	**(390.0)**	**(54.2)**	**4,600.5**	**7,448.3**
yoy%	*89%*	*-86%*	*-8584%*	*62%*
EBITDA margin	*-2%*	*0%*	*15%*	*19%*
non-GAAP EBITDA	**1,291.0**	**1,143.7**	**6,277.7**	**9,656.3**
yoy%	*-23%*	*-11%*	*449%*	*54%*
Depreciation & amortization	(1,021.0)	(1,039.2)	(1,083.5)	(1,157.0)
EBIT	**270.0**	**104.6**	**5,194.1**	**8,499.3**
yoy%	*-40%*	*-61%*	*4867%*	*64%*
EBIT margin	*1%*	*1%*	*17%*	*21%*
Interest expense	(1,565.0)	(1,806.5)	(2,261.1)	(2,261.1)
Income/(loss) from uncons. subs.	96.0	(179.4)	763.3	984.4
Others	598.0	473.0	(1,327.1)	(1,958.0)
Profit before tax and MI	**(471.0)**	**(871.1)**	**3,919.9**	**6,889.3**
Net income, GAAP	**(550.0)**	**(1,113.8)**	**3,753.2**	**6,201.3**
yoy%	*n.m.*	*n.m.*	*n.m.*	*65%*
Net income margin	*-3%*	*-6%*	*12%*	*15%*
Core net income (non-GAAP, ex. SBC)	**758.0**	**341.2**	**5,080.3**	**8,159.4**
yoy%	-169%	-55%	1389%	61%
Core net income margin	4%	2%	17%	20%
EPS (Non-GAAP, diluted) (Rmb)	**2.14**	**1.25**	**8.10**	**12.18**

Balance sheet (Rmb mn)	2021	2022E	2023E	2024E
Cash & equivalents	21,196.0	21,983.6	30,233.5	41,009.0
Accounts receivable	4,649.0	4,279.2	7,080.0	9,321.2
Inventory		0.0	0.0	
Other current assets	40,263.0	39,724.6	40,289.2	40,741.0
Total current assets	**66,108.0**	**65,987.4**	**77,602.8**	**91,071.2**
Net PP&E	5,534.0	5,350.9	5,485.4	5,836.2
Net intangibles	12,960.0	12,660.0	12,360.0	12,060.0
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	107,257.0	106,682.6	107,057.8	108,039.2
Total assets	**191,859.0**	**190,680.8**	**202,506.0**	**217,006.6**
Accounts payable	6,019.0	6,979.7	10,323.1	12,600.3
Short-term debt	39,866.0	39,866.0	39,866.0	39,866.0
Other current liabilities	20,333.0	18,643.0	21,744.4	25,608.4
Total current liabilities	66,218.0	65,488.6	71,933.5	78,074.7
Long-term debt	11,093.0	10,610.0	10,610.0	10,610.0
Other long-term liabilities	3,692.0	3,692.0	3,692.0	3,692.0
Total long-term liabilities	15,185.0	14,702.0	14,702.0	14,702.0
Total liabilities	**81,403.0**	**80,190.6**	**86,635.5**	**92,776.7**
Preferred shares				
Total common equity	**109,677.0**	**109,761.2**	**115,191.5**	**123,600.9**
Minority interest	779.0	729.0	679.0	629.0
Total liabilities & equity	**191,859.0**	**190,680.8**	**202,506.0**	**217,006.6**
BVPS (Rmb)	**173.0**	**168.6**	**171.8**	**179.0**

Cash flow statement (Rmb mn)	2021	2022E	2023E	2024E
Net income pre-preferred dividends	1,356.0	814.2	3,753.2	6,201.3
D&A add-back	1,021.0	1,039.2	1,083.5	1,157.0
Minorities interests add-back	(95.0)	(50.0)	(50.0)	(50.0)
Net (inc)/dec working capital	177.0	178.9	3,079.4	3,448.2
Other operating cash flow	16.0	(158.6)	1,298.9	1,223.7
Cash flow from operations	**2,475.0**	**1,823.7**	**9,165.0**	**11,980.2**
Capital expenditures	(570.0)	(553.1)	(915.1)	(1,204.7)
Acquisitions	(42.0)			
Divestitures				
Others	(3,536.0)			
Cash flow from investments	**(4,148.0)**	**(553.1)**	**(915.1)**	**(1,204.7)**
Dividends paid (common & pref)				
Inc/(dec) in debt				
Common stock issuance (repurchase)				
Other financing cash flows	3,454.0	(483.0)		
Cash flow from financing	**3,454.0**	**(483.0)**	**0.0**	**0.0**
Total cash flow	**1,781.0**	**787.6**	**8,249.9**	**10,775.5**

Valuation	2021	2022E	2023E	2024E
EV / EBITDA	94.9x	84.8x	14.7x	8.8x
P/E	99.6x	136.1x	21.0x	14.0x
P/E excl. income/(loss) of affiliates	83.0x	81.3x	18.0x	11.8x
P/E ex exceptional	178.2x	324.7x	22.5x	14.4x
P/B	1.2x	1.0x	1.0x	1.0x
ROE	1%	1%	5%	7%

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

Pricing as of 6 Sep 2022

Source: Company data, Goldman Sachs Global Investment Research

H World Group (HTHT/1179.HK, Buy): RevPar outperforming peers on strong execution; our preferred pick

H World is one of the leading chain hotel operators in China, with 8,051 hotels representing 3.3% of the industry total as of 2Q22. It also generated 22% of revenue from Deutsche Hospitality (DH), a premium hotel brand based in Germany. H World is our preferred pick within our China hotel coverage universe for its strong operational capabilities and execution, being early in identifying a change in business trends historically, e.g., focused on mid-to-upscale segment and in penetrating into lower-tier cities in 2016-17 on premiumization and rural consumption – two themes we highlighted in an earlier section. We summarize the key investment thesis as:

1. **Proven execution record. Greater emphasis on profitability:** Over the past 2 years, H World has again demonstrated its strong operational capabilities as reflected by better RevPar performance vs. peers (e.g., Jinjiang, BTG). For instance, its RevPar recovered more swiftly to 90% in Jul-22 (vs. Jinjiang at 85%; BTG 75%) and continued to hold up in Aug (88%) shortly after Shanghai/Beijing reopened. In terms of its greater emphasis on profitability, the group has decided not to pursue hotel additions through soft franchisees – a strategy adopted by BTG and some other competitors. While the results of this strategy are yet to play out, recent quarterly results suggest better operational performance by the company, i.e., better gross hotel adds, fewer closures, better RevPar trends.
2. **Upside in RevPar on tighter supply with hotel closure; past cycle suggests potential outperformance:** As discussed in an earlier section, we believe China's chain hotel industry is entering a period of both cyclical recovery and structural upcycle where we expect growth acceleration not only in hotel RevPar but also hotel additions. As supply has tightened further (-24% since end-2019), we expect a sharper upcycle ahead and model RevPar to exceed 2019 levels by 10% in 2023E. H World has proven to benefit more during an upcycle, with its RevPar up 14% in FY17, outpacing the industry at 6%, given its greater business flexibility to capture the upside.
3. **Double-edge sword for its overseas expansion:** Deutsche Hospitality (DH) has been a drag on H World's EBITDA since it was acquired in late-2019, having recorded EBITDA over the last 2 years amid viral outbreaks. But as European countries reopened their borders, DH has returned to mild positive EBITDA (+EUR30mn) in 2Q22 for the first time. Management targets to drive its EBITDA margin to 15% in the long run (2024E and later) (vs. 8% in FY19) through cost reductions and efficiency management, which, if achieved, could add ~10% to H-World's group EBITDA, on our estimates. H-World's recent name change (from Huazhu) and the hiring of new executives for international businesses, signals its commitment to overseas expansion, which we believe should expand its addressable market over time, but also involves potential challenges and execution risks which could affect the valuation multiples at which the market is willing to ascribe to, similar to how the stock de-rated after its announcement of the DH acquisition back in 2019.

Valuation: We are Buy rated on H World with 12-month SOTP-based target prices of US$48.1/HK$38.6, implying 36%/41% upside potential. Our target multiple of 18x

FY23E EV/EBITDA is based on its core hotel operations business and incorporating other investments. The target 18x multiple we use is between 1stdev above (21x) and its historical average (16x), inline with the methodology used for peers. We see this as justified given we expect H World to also be a key beneficiary of the current market upcycle.

Risks: (1) Weaker-than-expected macro leading to slower-than-expected RevPAR growth; (2) weaker-than-expected funding channels in China leading to fewer-than-expected franchisee additions; (3) slower-than-expected recovery of consumer/travel demand in China post Covid; (4) dilutive M&A; and (5) weaker-than-expected operating performance and cash drag from Deutsche Hospitality.

Exhibit 18: HTHT Financials Summary

Key assumptions	2021	2022E	2023E	2024E
RevPAR				
RevPAR (Rmb) - blended	**180**	**173**	**225**	**244**
vs. FY19	*-9%*	*-13%*	*14%*	*24%*
RevPAR (Rmb) - L/O	224	232	313	349
vs. FY19	*-7%*	*-3%*	*30%*	*46%*
RevPAR (Rmb) - F/M	172	164	214	232
vs. FY19	*-8%*	*-13%*	*14%*	*24%*
Hotel add				
Net adds	**1,041**	**700**	**1,006**	**1,006**
Gross hotel add	1,540	1,307	1,513	1,513
Gross hotel closure	-499	-607	-507	-507
Total no. of hotels				
# hotels - total	**7,830**	**8,530**	**9,536**	**10,542**
# hotels - L/O	738	724	725	726
# hotels - F/M	7,092	7,806	8,811	9,816
Total no. of hotel rooms				
# hotel rooms - total	**753,216**	**815,351**	**905,344**	**995,338**
# hotels - L/O	105,548	103,264	101,720	100,176
# hotels - F/M	647,668	712,087	803,625	895,162
Income Statement (Rmb mn)	**2021**	**2022E**	**2023E**	**2024E**
Total revenue	**12,787.0**	**14,439.9**	**19,516.6**	**22,007.2**
yoy%	*25%*	*13%*	*35%*	*13%*
Cost of goods sold	(9,873.0)	(10,748.1)	(11,689.3)	(12,187.5)
Gross profit	2,914.0	3,691.9	7,827.4	9,819.7
Gross margin	22.8%	25.6%	40.1%	44.6%
SG&A	(2,188.0)	(2,263.6)	(2,537.2)	(2,827.6)
R&D				
Adj. EBITDA (non-GAAP) - company reportec	**1,571.0**	**1,366.4**	**5,586.9**	**7,307.0**
yoy%	*-744%*	*-13%*	*309%*	*31%*
EBITDA margin	*12%*	*9%*	*29%*	*33%*
EBIT	**164.0**	**80.0**	**3,840.8**	**5,448.7**
yoy%	*113%*	*-51%*	*4698%*	*42%*
EBIT margin	*1%*	*1%*	*20%*	*25%*
Interest expense	(405.0)	(359.7)	(228.4)	(125.8)
Income/(loss) from uncons. subs.	(60.0)	(19.0)	0.0	
Others	(255.0)	(561.0)	0.0	0.0
Profit before tax and MI	**(468.0)**	**(795.1)**	**3,620.3**	**5,363.0**
Net income	**(465.0)**	**(454.2)**	**3,380.0**	**4,731.7**
yoy%	*-72%*	*n.m.*	*-844%*	*40%*
Net income margin	*-4%*	*-3%*	*17%*	*22%*
Core net income	**(52.0)**	**194.8**	**3,380.0**	**4,731.7**
yoy%	*n.m.*	*n.m.*	*1635%*	*40%*
Core net income margin	*0%*	*1%*	*17%*	*22%*
EPS (basic, pre-except) (Rmb)	**(0.15)**	**(0.15)**	**1.09**	**1.52**
EPS (basic, post-except) (Rmb)	**(0.02)**	**0.06**	**1.09**	**1.52**
EPS (diluted, post-except) (Rmb)	**(0.02)**	**0.06**	**1.09**	**1.52**

Balance sheet (Rmb mn)	2021	2022E	2023E	2024E
Cash & equivalents	5,141.0	620.6	3,194.7	4,478.6
Accounts receivable	888.0	1,002.8	1,355.3	1,528.3
Inventory	88.0	95.8	104.2	108.6
Other current assets	3,436.0	3,436.0	3,436.0	3,436.0
Total current assets	**9,553.0**	**5,155.2**	**8,090.3**	**9,551.6**
Net PP&E	7,056.0	6,793.4	6,494.9	6,080.9
Net intangibles	5,385.0	5,308.5	5,232.0	5,155.5
Total investments	1,965.0	1,946.0	1,946.0	1,946.0
Other long-term assets	39,310.0	39,310.0	39,310.0	39,310.0
Total assets	**63,269.0**	**58,513.2**	**61,073.2**	**62,044.0**
Accounts payable	4,012.0	4,613.8	5,305.9	6,101.8
Short-term debt	6,232.0	0.0	922.0	
Other current liabilities	5,035.0	5,239.9	5,475.5	5,746.5
Total current liabilities	15,279.0	9,853.7	11,703.4	11,848.3
Long-term debt	3,565.0	5,080.0	3,158.0	0.0
Other long-term liabilities	33,381.0	33,381.0	33,381.0	33,381.0
Total long-term liabilities	36,946.0	38,461.0	36,539.0	33,381.0
Total liabilities	**52,225.0**	**48,314.7**	**48,242.4**	**45,229.3**
Preferred shares				
Total common equity	**10,935.0**	**10,114.5**	**12,761.8**	**16,760.8**
Minority interest	109.0	84.0	69.0	54.0
Total liabilities & equity	**63,269.0**	**58,513.2**	**61,073.2**	**62,044.0**
BVPS (Rmb)	**3.5**	**3.2**	**4.1**	**5.4**
Cash flow statement (Rmb mn)	**2021**	**2022E**	**2023E**	**2024E**
Net income pre-preferred dividends	(464.0)	(454.2)	3,380.0	4,731.7
D&A add-back	1,413.0	1,521.3	1,614.8	1,723.3
Minorities interests add-back	(15.0)	(25.0)	(15.0)	(15.0)
Net (inc)/dec working capital	(667.0)	479.2	331.1	618.5
Other operating cash flow	1,075.0	223.9	235.6	271.0
Cash flow from operations	**1,342.0**	**1,745.2**	**5,546.6**	**7,329.4**
Capital expenditures	(1,675.0)	(1,182.2)	(1,239.8)	(1,232.8)
Acquisitions	(742.0)			
Divestitures				
Others	1,015.0	0.0	0.0	
Cash flow from investments	**(1,402.0)**	**(1,182.2)**	**(1,239.8)**	**(1,232.8)**
Dividends paid (common & pref)	(42.7)	(366.3)	(732.7)	(732.7)
Inc/(dec) in debt	(1,802.0)	(4,717.0)	(1,000.0)	(4,080.0)
Common stock issuance (repurchase)	1.0			
Other financing cash flows	(45.3)			
Cash flow from financing	**(1,889.0)**	**(5,083.3)**	**(1,732.7)**	**(4,812.7)**
Total cash flow	**(1,949.0)**	**(4,520.4)**	**2,574.1**	**1,283.9**
Valuation	**2021**	**2022E**	**2023E**	**2024E**
EV / EBITDA	67.8x	59.0x	13.8x	9.8x
P/E	-219.7x	-167.6x	22.5x	16.1x
P/E ex exceptional	n.m.	390.7x	22.5x	16.1x
Dividend Yield	0.0x	0.0x	0.0x	0.0x
FCF yield	0.0x	0.0x	0.1x	0.1x
Net debt / EBITDA	3.0x	3.3x	0.2x	n.m.
P/B	9.3x	7.5x	6.0x	4.5x

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

Source: Company data, Goldman Sachs Global Investment Research

China Tourism Group Duty Free (601888.SS/1880.HK, Buy (on CL)/Buy): Near-term setback in Hainan, but upside from TAM expansion domestically and overseas

CTGDF is a leading duty-free operator in China. While new competition has increased on rising issuance of new duty-free licenses, we believe the company remains well positioned to capture upside from expanding addressable markets (TAMs) supported by the government's focus on repatriating Chinese overseas spending back onshore (please see our initiation on Aug 28). Our key investment thesis is based on:

1. **Revenue upside from the expanding addressable market, given China's policy agenda to repatriate overseas spending:** Specifically, we expect (1) Chinese duty-free spending globally to more than double to US$69bn by 2025E, with China duty-free stores taking back 51% share, or US$35bn (+29% CAGR vs. US$12.5bn in FY21). Before the pandemic, China duty-free stores (DFS) only captured 24% of global spending vs. 50% by South Korea DFS; (2) Chinese travel retail spending in nearby destinations (e.g., US$20bn in the Hong Kong market) and duty-paid spending in other cities onshore could potentially be diverted to Hainan and/or pre-departure downtown DFS, once they are opened up for local outbound travelers; (3) CTGDF's ongoing focus in developing online/digitalization businesses should also position the company to better compete with other cross-border e-commerce operators (CBEC). It only had 12% market share (as of 2021) in foreign cosmetic brand sales in China, for example.
2. **Margin bottoming out as competitive intensity vs. Korea and other operators stabilizes:** With the increased competition from new entrants, CTGDF's gross margin dropped sharply from 39%/37.5% in 1Q/2Q21 to its low of 26.4% in 4Q21. However, we expect margins to stabilize as (1) Hainan DFS prices have already caught up with those offered in Korea; and (2) the company's greater focus on profitability. After gaining significant scale last year, CTGDF has secured better bargaining power against brands in terms of procurement prices and product variety, and also more closely communicates with other duty-free operators in Hainan to avoid irrational pricing competition. Notably, its gross margin bounced back sharply to 34% in 1H22. Looking ahead, the company strives to maintain margins – we model 31.2%/34.5% gross margin in 2H22/FY23E.
3. **We see three potential sources of earnings upside for CTGDF in the medium-to-long term:** (1) likely lower revenue sharing paid to the airports from 2026E onward per regulations; (2) the opening up of downtown DFS to outbound mainland Chinese travelers; and (3) overseas expansion in addition to its existing 9 stores in HK, Macau, Cambodia and cruise ships. Our base case already assumes CTGDF's revenue share to airports would be lowered from 39-44% pre-Covid to 25-29% in FY26E. In an upside case where pre-departure downtown DFS get approved for outbound Chinese travelers, say in FY24E, this could imply 10-20% upside to our FY24-26E earnings forecasts. As for overseas expansion, CTGDF has earmarked Rmb3.6bn to upgrade existing and set up new stores abroad, and plans to acquire 2-3 travel retail operators located in popular tourist destinations with frequent mainland Chinese visitors. Although these markets are generally smaller in size, lower revenue shares paid to airports could mean better economies for CTGDF, if secured.

Valuation: Our 12-month target prices for CTGDF A/H-share are Rmb243/HK$196, implying 33%/14% potential upside, including (1) Rmb218/share from its existing businesses by applying a 30x (mid-cycle; or 21x for H-share) FY23E P/E; and (2) Rmb24.8/share by assigning half of the valuation (assuming 50% probability) for upside from potential liberalization of pre-departure downtown DFS, i.e. 30x FY25E earnings upside discounted back by a 10.3% CoE to end-FY23E. Under an upside earnings scenario whereby pre-downtown DFS open up from FY24E onwards, the implied value for A/H per share would be lifted to Rmb310/HK$249 (+70%/+45% implied upside), all else equal.

Risks: 1) Intensifying Hainan duty-free market competition; 2) lower onshore retail prices or cross-border e-commerce tax rate; and 3) weakening of Chinese spending on foreign-branded luxury products.

Exhibit 19: CTGDF Financials Summary

Key assumptions	2021	2022E	2023E	2024E
Hainan DFS				
Hainan DFS market size	**60,173**	**54,858**	**110,428**	**132,538**
yoy%	*93%*	*-9%*	*101%*	*20%*
CTGDF's market share	**78%**	**83%**	**77%**	**77%**
Airport DFS				
Airport/port DFS revenue	**17,012**	**15,826**	**38,936**	**58,881**
Traditional offline	2,966	2,744	24,285	43,057
Int'l traffic assumptions (mn)				
Shanghai	1.8	1.7	29.2	52.0
Beijing	0.7	0.7	20.8	32.0
Guangzhou	0.7	0.6	12.0	19.0
vs. FY19 %				
Shanghai	*-96%*	*-96%*	*-30%*	*25%*
Beijing	*-98%*	*-98%*	*-26%*	*14%*
Guangzhou	*-96%*	*-97%*	*-36%*	*2%*
Online	14,045	13,082	14,651	15,824

Income Statement (Rmb mn)	2021	2022E	2023E	2024E
Total revenue	**67,675.5**	**65,523.1**	**128,346.3**	**165,346.6**
yoy%	*29%*	*-3%*	*96%*	*29%*
Cost of goods sold	(44,882.4)	(44,294.8)	(84,072.6)	(106,420.3)
Gross profit	22,793.2	21,228.3	44,273.7	58,926.3
Gross margin	*33.7%*	*32.4%*	*34.5%*	*35.6%*
SG&A	(7,383.0)	(5,690.5)	(15,947.3)	(21,625.3)
R&D				
EBITDA	**13,570.7**	**13,705.7**	**24,960.2**	**33,121.9**
yoy%	*68%*	*1%*	*82%*	*33%*
EBITDA margin	*20.1%*	*20.9%*	*19.4%*	*20.0%*
EBIT	**12,048.8**	**12,228.0**	**23,381.3**	**30,888.5**
yoy%	*59%*	*1%*	*91%*	*32%*
EBIT margin	*17.8%*	*18.7%*	*18.2%*	*18.7%*
Interest expense	(221.9)	(256.9)	(214.4)	(214.4)
Income/(loss) from uncons. subs.	162.3	178.6	214.3	235.7
Others	(484.9)	(253.4)	(261.0)	(268.8)
Core pre-tax profit	**11,731.4**	**12,149.1**	**23,808.8**	**31,290.0**
Net income	**9,653.7**	**8,090.6**	**14,962.4**	**18,804.4**
yoy%	*57%*	*-16%*	*85%*	*26%*
Net income margin	*14.3%*	*12.3%*	*11.7%*	*11.4%*
Core net income	**7,447.7**	**7,539.6**	**14,962.4**	**18,804.4**
yoy%	*26%*	*1%*	*98%*	*26%*
Core net income margin	*11.0%*	*11.5%*	*11.7%*	*11.4%*
EPS (basic, pre-except) (Rmb)	**3.81**	**3.81**	**7.28**	**9.15**
EPS (basic, post-except) (Rmb)	**4.94**	**4.09**	**7.28**	**9.15**
EPS (diluted, post-except) (Rmb)	**4.94**	**3.94**	**7.28**	**9.15**

Balance sheet (Rmb mn)	2021	2022E	2023E	2024E
Cash & equivalents	16,856.2	32,790.7	30,908.7	37,730.3
Accounts receivable	106.0	102.6	201.0	258.9
Inventory	19,724.7	19,462.3	36,972.2	46,807.3
Other current assets	1,854.7	1,854.7	1,854.7	1,854.7
Total current assets	**38,541.6**	**54,210.3**	**69,936.5**	**86,651.2**
Net PP&E	1,843.3	1,296.6	5,859.2	4,596.2
Net intangibles	3,223.8	2,940.3	2,656.9	2,373.5
Total investments	2,188.5	2,351.7	2,547.4	2,762.8
Other long-term assets	9,676.5	12,150.0	8,355.1	10,100.0
Total assets	**55,473.6**	**72,948.9**	**89,355.1**	**106,483.7**
Accounts payable	10,604.5	10,527.5	15,738.7	18,666.4
Short-term debt	1,956.8	411.3	411.3	411.3
Other current liabilities	4,574.8	4,574.8	4,574.8	4,574.8
Total current liabilities	17,136.1	15,513.7	20,724.8	23,652.6
Long-term debt				
Other long-term liabilities	3,546.2	3,546.2	3,546.2	3,546.2
Total long-term liabilities	3,546.2	3,546.2	3,546.2	3,546.2
Total liabilities	**20,682.3**	**19,059.9**	**24,271.0**	**27,198.8**
Preferred shares				
Total common equity	**29,618.8**	**48,356.0**	**58,829.7**	**71,992.8**
Minority interest	5,172.5	5,533.0	6,254.2	7,292.1
Total liabilities & equity	**55,473.6**	**72,948.8**	**89,355.0**	**106,483.7**
BVPS (Rmb)	**15.2**	**23.5**	**28.6**	**35.0**

Cash flow statement (Rmb mn)	2021	2022E	2023E	2024E
Net income pre-preferred dividends	7,447.7	7,539.6	14,962.4	18,804.4
D&A add-back				
Minorities interests add-back				
Net (inc)/dec working capital	(2,456.5)	188.8	(12,397.1)	(6,965.3)
Other operating cash flow	(3,239.2)	(2,704.2)	(4,501.2)	(6,038.7)
Cash flow from operations	**7,874.9**	**11,190.3**	**8,062.0**	**20,117.9**
Capital expenditures	(2,154.8)	(3,121.1)	(2,063.0)	(2,432.1)
Acquisitions	(126.5)			
Divestitures	1.7			
Others	(51.9)	551.0	0.0	0.0
Cash flow from investments	**(2,331.5)**	**(2,570.1)**	**(2,063.0)**	**(2,432.1)**
Dividends paid to common shareholders	(2,963.0)	(3,194.2)	(4,488.7)	(5,641.3)
Inc/(dec) in debt		(1,545.5)		
Dividends paid to minority shareholders	(1,408.5)	11,801.1	(4,080.8)	(5,871.9)
Other financing cash flows	825.9	252.8	688.6	649.1
Cash flow from financing	**(3,545.5)**	**7,314.3**	**(7,881.0)**	**(10,864.2)**
Total cash flow	**1,997.9**	**15,934.5**	**(1,882.0)**	**6,821.7**

Valuation	2021	2022E	2023E	2024E
601888.SS				
PE	56.3x	47.2x	25.5x	20.3x
PE (excl. exceptional)	72.9x	50.6x	25.5x	20.3x
FCF yield	1.1%	2.1%	1.6%	4.6%
FCF yield (excl. expansionary capex)	1.3%	2.8%	1.9%	5.1%
Dividend Yield	0.5%	0.8%	1.2%	1.5%
EV / EBITDA	39.3x	25.9x	14.3x	10.6x
EV / EBITDA (excl. expansionary capex)	39.2x	25.7x	14.3x	10.6x
1880.HK				
PE		38.2x	20.7x	16.5x
PE (excl. exceptional)		41.0x	20.7x	16.5x
FCF yield		2.6%	1.9%	5.7%
FCF yield (excl. expansionary capex)		3.4%	2.4%	6.3%
Dividend Yield		1.0%	1.5%	1.8%
EV / EBITDA		20.6x	11.4x	8.4x
EV / EBITDA (excl. expansionary capex)		20.4x	11.4x	8.4x

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

Source: Company data, Goldman Sachs Global Investment Research

Fosun Tourism Group (1992.HK, Buy): Fulfill under-served demand for premium quality destination

FTG is a leading global tourism operator offering high-quality integrated leisure hospitality services through its ownership of Club Med (operates 66 upscale resorts across EMEA, the Americas and Asia as of 1H22) and Atlantis Sanya (the most-visited integrated resort in Sanya, capturing over 20% of inbound visitation). Both are well-established international brands well recognized for their premium product offerings, which the company has brought back and plans to expand more aggressively in China (e.g., the number of Club Med resorts in China is expected to double from 8 by 2021 to 15 by 2024E), benefiting from a consumption upgrade trend as Chinese consumers are looking for more sophisticated leisure travel and entertainment experiences both domestically and overseas (see our initiation report May 9). We believe the market has not fully priced in:

1. **Visible recovery and secular growth in Club Med's business volume with ADBR upside from premiumization:** Overseas markets contributed ~70% of FTG's revenue primarily via Club Med in 2019. As travel resumed in overseas countries, Club Med's business volume has recovered to 90% of 2019 levels in 1H22, driven by ADBR tracking at +19% above FY19 levels reflecting its strong pricing power on premiumization strategy (e.g., 4/5 trident resorts accounted for 95.2% of total capacity in 1H22). Looking ahead, Club Med's forward bookings in 2H22/1H23 have further improved to 114%/124% of pre-Covid levels and its ADBR rose to +21% above in 2H22. Setting aside cyclical recovery from travel demand normalization, we believe the group's plan to introduce more Club Med in China (7 scheduled by FY24) should help fulfill the under-served demand for differentiated, high-end quality resorts in China, when compared to neighboring countries such as Japan.
2. **Proven track record for Atlantis Sanya. Benefit from Hainan long-term tourism goal:** Launched in 2Q18, Atlantis Sanya has been successful and become a popular tourism property in Sanya. Located at Haitang Bay, it is less than an hour's drive from/to Sanya Phoenix International Airport, and is located next to the island's largest duty-free shopping complex, easily accessible by inbound tourists. It is also well positioned to benefit from the government's favorable policies promoting Hainan (e.g., free trade port, 14th five-year plan on tourism industry) with a target to attract 110mn tourist visits by 2025E, representing 11% CAGR from 65mn in 2020. Although Atlantis Sanya's performance could be affected by the viral outbreaks, past experience suggests a swift recovery once the situation gets controlled. e.g., its business volume bounced back sharply to Rmb215mn in Jul-22, the second highest historically, after the viral outbreak in 2Q22. We believe Atlantis Sanya will remain to be FTG's flagship destination resort and contribute around 30% of group tourism EBITDA in the next 2-3 years.
3. **Upside from launches of two new projects in Lijiang and Taicang. Slow property sales progress a risk but manageable;** Following Atlantis Sanya, FTG tried to replicate its success by building two new projects under its own brand "FOLIDAY Town", which they hope to gain recognition as being associated with premium, tailor-made, family-focused leisure experience. Taicang project (to be opened in 2023) is larger with a total GFA of 1.29mn sqm and Rmb13.2bn budgeted

for capex, while Lijiang project (opened in Sep-21) is much smaller (0.3mn sqm GFA) with Rmb4bn budgeted for capex. As with Atlantis Sanya, the company plans to fund a portion of its investments by pre-selling residential vacation units, although its property sales have been fairly slow, i.e., only sold 20/2% of its expected total proceeds ytd. The company will adjust its project scale in accordance to its property sales to preserve more liquidity for the buildout of the tourism portion if needed. Our analysis shows that group should have sufficient liquidity to complete the project as long as it can achieve 34% sell-through ratio.

Valuation: We are Buy rated on Fosun Tourism Group with a 12-month SOTP-based target price of HK$14.6, implying 83% potential upside. Our SOTP is derived by: (1) applying 6x EV/EBITDA for Club Med, inline with the 4-8x before it was privatized in 2015; (2) using 10x for Atlantis Sanya, consistent with other large-scale casino and tourism projects generating similar 8-10% CROCI; (3) conservatively valuing its two Foliday Town projects at cost; and (4) using 6x for its other tourism service businesses. Our target price implies 8x FY23E EV/EBITDA or 1.2x EV to invested capital, with group CROCI improving from 6.9% in FY22E to 12.7%/14.8% in FY23/24E. Even if we value the two Foliday Town projects at nil, the implied value for the shares would still be HK$8.9, +11% potential upside from the current level (vs. +83% potential upside to our target price). Risk-reward looks favorable.

Risks: (1) Weaker-than-expected property sales from the new Foliday Town projects; (2) longer-than-expected virus outbreaks and travel restrictions in China; and (3) slower-than-expected Club Med expansion in China; (4) more-than-expected Club Med resorts closures.

Exhibit 20: FTG Financials Summary

Key assumptions	2021	2022E	2023E	2024E
Club Med				
No. of resorts	64	66	70	72
Resorts capacity ('000 no. of beds)	6,979	11,504	13,117	13,930
RevPAB (Rmb)	732	905	957	996
yoy%	*-13%*	*24%*	*6%*	*4%*
Atlantis Sanya				
No. of visits (mn)	4.68	3.94	4.61	5.05
yoy%	*2%*	*-16%*	*17%*	*10%*
% of Sanya visitation	*22%*	*19%*	*20%*	*20%*
RevPAR (Rmb)	1,730	1,333	2,057	2,225
yoy%	*19%*	*-23%*	*54%*	*8%*
Taicang Foliday Town				
No. of visits (mn)			0.11	1.14
Alpes Snow World			0.05	0.60
Sports park			0.05	0.50
Club Med hotel			0.01	0.04
% of Taicang visitation			2%	15%
Lijiang Foliday Town				
No. of visits	0.00	0.03	0.15	0.25
Club Med hotel	0.00	0.03	0.05	0.05
Outdoor theme park	0.00	0.00	0.10	0.20
% of Lijiang visitation	*0.0%*	*0.1%*	*0.3%*	*0.4%*

Income Statement (Rmb mn)	2021	2022E	2023E	2024E
Total revenue	**9,261.5**	**14,638.5**	**19,024.2**	**22,476.4**
yoy%	*31%*	*58%*	*30%*	*18%*
Tourism Revenue	**7,249.5**	**13,428.2**	**16,641.0**	**18,882.5**
Resorts	5,586	11,805	14,358	15,736
Destination operation	1,482	1,342	1,971	2,806
Atlantis Sanya	1,401	1,128	1,549	1,720
Taicang	0	0	60	679
Lijiang	15	138	283	323
Tourism-related property sales and construction servic	2,012	1,210	2,383	3,594
Tourism and leisure services and solutions	181	281	312	340
Cost of goods sold	(6,694.5)	(10,288.4)	(13,180.6)	(15,572.4)
Gross profit	2,567.0	4,350.0	5,843.6	6,904.0
Gross margin	*27.7%*	*29.7%*	*30.7%*	*30.7%*
SG&A				
R&D	0.0	0.0	0.0	0.0
Core EBITDA (post-LAT)	**417.5**	**2,444.9**	**3,925.6**	**4,800.9**
yoy%	*46%*	*486%*	*61%*	*22%*
EBITDA margin	*5%*	*17%*	*21%*	*21%*
Resorts	(101)	2,184	2,728	2,990
Destination operation	617	498	740	1,081
Atlantis Sanya	652	522	728	826
Taicang	0	0	(12)	136
Lijiang	(25)	(21)	28	113
Tourism-related property sales and construction servic	78	199	458	730
Tourism and leisure services and solutions	(177)	(436)	0	0
EBIT	**(1,236.5)**	**667.5**	**2,091.2**	**2,997.3**
yoy%	*20%*	*154%*	*213%*	*43%*
EBIT margin	*-13%*	*5%*	*11%*	*13%*
Interest expense	(960.4)	(870.3)	(908.7)	(940.4)
Income/(loss) from uncons. subs.	(1.3)	(1.4)	(1.4)	(1.5)
Others	(244.1)	0.0	0.0	0.0
Profit before tax	**(2,397.0)**	**(159.1)**	**1,204.1**	**2,076.8**
Net income	**(2,712.0)**	**(366.1)**	**602.7**	**1,093.6**
yoy%	*5%*	*n.m.*	*-265%*	*81%*
Net income margin	*-29%*	*-3%*	*3%*	*5%*
Core net income	**(2,467.9)**	**(366.1)**	**602.7**	**1,093.6**
yoy%	*2%*	*n.m.*	*-265%*	*81%*
Core net income margin	*-27%*	*-3%*	*3%*	*5%*
EPS (basic, pre-except) (Rmb)	**(2.19)**	**(0.30)**	**0.49**	**0.88**
EPS (basic, post-except) (Rmb)	**(2.00)**	**(0.30)**	**0.49**	**0.88**
EPS (diluted, post-except) (Rmb)	**(2.00)**	**(0.30)**	**0.49**	**0.88**

Balance sheet (Rmb mn)	2021	2022E	2023E	2024E
Cash & equivalents	4,535.4	2,312.7	2,150.7	3,687.4
Accounts receivable	3,387.2	3,506.1	4,210.3	4,701.6
Inventory	207.6	207.6	207.6	207.6
Other current assets	1,827.5	2,753.1	3,055.5	2,706.8
Total current assets	**9,957.8**	**8,779.6**	**9,624.1**	**11,303.4**
Net PP&E	20,498.3	20,844.3	24,428.7	24,664.0
Net intangibles	4,239.4	4,093.7	3,956.4	3,826.8
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	2,589.3	3,485.3	2,133.0	2,950.8
Total assets	**37,284.7**	**37,203.0**	**40,142.2**	**42,745.0**
Accounts payable	2,348.6	2,578.2	3,016.3	3,371.7
Short-term debt	2,179.4	1,286.1	1,286.1	1,286.1
Other current liabilities	7,970.7	7,411.4	8,436.3	9,008.8
Total current liabilities	13,269.4	12,216.9	13,775.3	14,812.9
Long-term debt	11,084.2	11,604.4	11,449.4	11,020.8
Other long-term liabilities	1,294.8	1,294.8	1,294.8	1,294.8
Total long-term liabilities	21,023.4	22,328.1	23,174.6	23,798.9
Total liabilities	**34,292.8**	**34,545.0**	**36,949.9**	**38,611.8**
Preferred shares				
Total common equity	**2,819.4**	**2,453.3**	**2,947.4**	**3,844.2**
Minority interest	172.6	204.7	244.9	288.9
Total liabilities & equity	**37,284.7**	**37,203.0**	**40,142.2**	**42,745.0**
BVPS (Rmb)	**2.3**	**2.0**	**2.4**	**3.1**

Cash flow statement (Rmb mn)	2021	2022E	2023E	2024E
Net income pre-preferred dividends	(2,712.0)	(366.1)	602.7	1,093.6
D&A add-back	1,935.1	1,888.4	2,055.0	2,136.2
Minorities interests add-back	68.7	(28.9)	(36.1)	(39.6)
Net (inc)/dec working capital	3,082.1	(1,374.1)	456.4	785.3
Other operating cash flow	(1,447.1)	(613.6)	(434.9)	(403.4)
Cash flow from operations	**1,170.8**	**(494.4)**	**2,643.1**	**3,572.2**
Capital expenditures	(934.1)	(1,403.6)	(2,568.7)	(1,435.8)
Acquisitions				
Divestitures				
Others	1,296.1			
Cash flow from investments	**362.1**	**(1,403.6)**	**(2,568.7)**	**(1,435.8)**
Dividends paid (common & pref)			(108.5)	(196.9)
Inc/(dec) in debt	501.7	(373.0)	(155.0)	(428.7)
Common stock issuance (repurchase)				
Other financing cash flows	(2,070.4)	48.4	27.1	25.9
Cash flow from financing	**(1,568.7)**	**(324.6)**	**(236.4)**	**(599.7)**
Total cash flow	**(35.9)**	**(2,222.6)**	**(162.0)**	**1,536.7**

Valuation	2021	2022E	2023E	2024E
PE	-4.2x	-23.6x	14.3x	7.9x
PEG	-1.7x	0.3x	-0.1x	0.1x
PE (Tourism operation)	-3.1x	-13.1x	14.0x	7.1x
PEG (Tourism operation)	0.5x	n.a.	0.1x	0.3x
Tourism FCF yield	-28%	-15%	-14%	13%
Tourism FCF yield (excl. expansionary capex)	-24%	4%	20%	30%
Toursim OCF yield	-18%	14%	30%	42%
Tourism OCF yield (before change in working capital)	-18%	14%	30%	42%
Dividend Yield	0%	0%	1%	2%
EV / EBITDA (adjusted for new project o/s cashflow)	-29.4x	13.7x	5.4x	4.5x
EV / Tourism cash EBITDA (excl. DP inventory)	-22.4x	12.8x	5.2x	4.3x
P/B	3.7x	3.5x	2.9x	2.2x
EV / Invested capital	0.9x	0.9x	0.8x	0.7x
ROIC	-2%	7%	13%	15%
Tourism ROIC	-3%	7%	13%	14%

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

Source: Company data, Goldman Sachs Global Investment Research

China Eastern Airlines (0670.HK/600115.SS, Buy): Main beneficiary of price hikes and international reopening

China Eastern Airlines has the second-largest fleet in China with 752 aircraft as of end-2021. CEA's home base is in Shanghai, with 30% market share at the two airports in China's busiest city in terms of air passenger throughput. While CEA incurred the largest loss among the big three airlines in 1H22, due to the lockdown in Shanghai and an aircraft accident in March, we believe CEA-H/A valuation will catch up with peers with the recovery of Shanghai's passenger traffic and higher expectations for international reopening. Our investment thesis is based on:

1. **Top beneficiary of price hikes due to high exposure to business passengers:** CEA has 30% market share in the Shanghai market, and 45% market share on the Beijing-Shanghai route, the busiest business route in China (the route accounted for 13% of CEA's overall profit pre-Covid). Passengers on the Beijing-Shanghai route are less sensitive to price hikes – we note that the Beijing-Shanghai route's airfare ceiling price increased by c60% in the past four years. Even during Covid, the Beijing-Shanghai route had increased its ceiling price (the highest price for economy-class without a discount) twice. Our regression analysis shows CEA's RASK has the highest sensitivity to net demand / (supply). And we forecast a 14% RASK increase in total in 2025E vs. 2019, the highest among our Chinese airlines coverage.
2. **Beneficiary of full reopening, especially the reopening of short-haul international routes:** CEA had the second-highest international revenue exposure before Covid among domestic peers, but we expect it to be the highest after reopening, given a faster expected recovery on short-haul international routes like China-Japan / China-South Korea, where CEA occupies the highest market share. China-Japan / China-South Korea routes accounted for 31% / 16% of international capacity and total EBIT+ subsidiaries at CEA before Covid.
3. **Price hike could fully offset the cost increase and drive potential margin and ROE improvement:** We forecast unit costs to rise by a 1% CAGR during 2019-25E, to reflect higher oil prices, staff salaries and aircraft maintenance fees. But we believe this could be fully offset by the 14% RASK increase, or 2.2% CAGR during the same period. As a result, we forecast the EBIT margin/ ROE to improve from 3%/6% in 2019 to 5%/24% in 2025E.

Valuation: We are Buy rated on China Eastern Airlines. After taking a declining BVPS into consideration, our 12-month target prices are HK$4.3/Rmb5.5 per share, implying upside of 65%/12%, based on 2.5x/3.9x FY23E P/BV. We forecast CEA's ROE to be lifted to 24% in 2025E, higher than 19% of normalized ROE in the similar cycle post the global financial crisis, while the current valuation is 1.7x/3.7x still lower than the average of 2.0x/5.9x for H/A share then.

Risk: (1) Recovery uncertainties; (2) supply higher than expectations; (3) sustainability of subsidies; (4) oil price and foreign exchange rate fluctuations; and (5) ESG regulations, particularly concerning carbon dioxide emissions.

Exhibit 21: CEA Financials Summary

Key assumptions	2021	2022E	2023E	2024E
Air traffic				
Domestic air traffic ('000 person)	438,487	328,865	591,957	775,464
vs. FY19	*-24%*	*-43%*	*3%*	*35%*
Int'l&regional air traffic ('000 person)	2,070	2,544	55,459	113,370
vs. FY19	*-98%*	*-97%*	*-35%*	*33%*
ASK				
Dometic ASK (mn)	155,997	124,797	185,948	223,138
vs. FY19	*-9%*	*-27%*	*8%*	*30%*
Int'l&regional ASK (mn)	4,695	4,842	87,477	137,802
vs. FY19	*-95%*	*-95%*	*-11%*	*40%*
RPK				
Domestic RPK (mn)	106,589	79,942	148,691	185,864
vs. FY19	*-25%*	*-44%*	*4%*	*30%*
Int'l&regional RPK (mn)	2,199	2,301	53,109	108,808
vs. FY19	*-97%*	*-97%*	*-33%*	*38%*
Pax yield				
Domestic pax yield (Rmb)	0.51	0.56	0.59	0.60
vs. FY19	*-6%*	*4%*	*9%*	*12%*
International pax yield (Rmb)	1.79	2.27	0.84	0.53
vs. FY19	*278%*	*380%*	*78%*	*11%*

Income Statement (Rmb mn)	2021	2022E	2023E	2024E
Total revenue	**66,829.0**	**58,706.3**	**131,595.8**	**170,260.3**
yoy%	*14%*	*-12%*	*124%*	*29%*
Cost of goods sold	(80,041.0)	(82,483.3)	(111,056.4)	(144,533.0)
Gross profit	(13,212.0)	(23,777.0)	20,539.5	25,727.3
Gross margin	-19.8%	-40.5%	15.6%	15.1%
SG&A	(6,260.0)	(7,062.7)	(15,831.7)	(20,483.3)
R&D	0.0	0.0	0.0	0.0
EBITDA	**3,246.0**	**(5,804.5)**	**30,458.8**	**31,799.5**
yoy%	*8%*	*-279%*	*-625%*	*4%*
EBITDA margin	*5%*	*-10%*	*23%*	*19%*
EBIT	**(19,472.0)**	**(30,839.7)**	**4,707.8**	**5,244.0**
yoy%	*-1%*	*-58%*	*-115%*	*11%*
EBIT margin	*-29%*	*-53%*	*4%*	*3%*
Interest expense	(5,812.0)	(6,343.7)	(6,458.8)	(6,142.8)
Income/(loss) from uncons. subs.	(141.0)	200.0	200.0	200.0
Others	7,573.0	1,987.6	5,743.9	7,928.7
Profit before tax	**(17,513.0)**	**(34,569.7)**	**4,217.2**	**7,333.3**
Net income	**(13,428.3)**	**(26,169.7)**	**2,947.2**	**5,091.1**
yoy%	*-2%*	*n.m.*	*-111%*	*73%*
Net income margin	*-20%*	*-45%*	*2%*	*3%*
EPS (basic, pre-except) (Rmb)	**(0.73)**	**(1.48)**	**0.16**	**0.27**
EPS (basic, post-except) (Rmb)	**(0.80)**	**(1.39)**	**0.16**	**0.27**
EPS (diluted, post-except) (Rmb)	**(0.80)**	**(1.39)**	**0.16**	**0.27**

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

Balance sheet (Rmb mn)	2021	2022E	2023E	2024E
Cash & equivalents	12,962.0	740.1	3,143.2	6,422.7
Accounts receivable	3,371.0	3,701.0	8,296.2	10,733.7
Inventory	1,799.0	1,852.0	2,493.6	3,245.3
Other current assets	9,778.0	10,755.8	11,831.4	13,014.5
Total current assets	**27,910.0**	**17,049.0**	**25,764.4**	**33,416.2**
Net PP&E	230,089.0	221,422.4	217,009.5	207,243.6
Net intangibles	14,135.0	14,824.3	15,453.6	16,023.1
Total investments	2,261.0	2,461.0	2,661.0	2,861.0
Other long-term assets	12,153.0	12,147.9	12,142.8	12,137.7
Total assets	**286,548.0**	**267,904.6**	**273,031.2**	**271,681.5**
Accounts payable	20,490.0	19,958.4	26,872.1	34,972.4
Short-term debt	61,685.0	61,685.0	61,685.0	61,685.0
Other current liabilities	3,716.0	3,716.0	3,716.0	3,716.0
Total current liabilities	85,891.0	85,359.4	92,273.1	100,373.4
Long-term debt	132,918.0	145,203.5	140,203.5	125,203.5
Other long-term liabilities	12,829.0	12,829.0	12,829.0	12,829.0
Total long-term liabilities	145,747.0	158,032.5	153,032.5	138,032.5
Total liabilities	**231,638.0**	**243,391.9**	**245,305.7**	**238,405.9**
Preferred shares				
Total common equity	**51,373.0**	**23,489.2**	**26,436.4**	**31,527.5**
Minority interest	3,537.0	1,023.5	1,289.2	1,748.1
Total liabilities & equity	**286,548.0**	**267,904.6**	**273,031.2**	**271,681.5**
BVPS (Rmb)	**2.7**	**1.2**	**1.4**	**1.7**

Cash flow statement (Rmb mn)	2021	2022E	2023E	2024E
Net income pre-preferred dividends	(12,214.0)	(27,883.8)	2,947.2	5,091.1
D&A add-back	22,718.0	25,035.2	25,751.0	26,555.4
Minorities interests add-back				
Net (inc)/dec working capital	(3,073.0)	(1,892.5)	601.5	3,728.0
Other operating cash flow	(5,574.0)	(200.0)	(200.0)	(200.0)
Cash flow from operations	**787.0**	**(7,454.6)**	**29,365.4**	**35,633.4**
Capital expenditures	(10,807.0)	(17,052.8)	(21,962.3)	(17,353.9)
Acquisitions	265.0			
Divestitures				
Others	12,358.0			
Cash flow from investments	**1,816.0**	**(17,052.8)**	**(21,962.3)**	**(17,353.9)**
Dividends paid (common & pref)				
Inc/(dec) in debt	(9,071.0)	10,000.0	(5,000.0)	(15,000.0)
Common stock issuance (repurchase)	11,103.0			
Other financing cash flows	664.0	2,285.5	0.0	0.0
Cash flow from financing	**2,696.0**	**12,285.5**	**(5,000.0)**	**(15,000.0)**
Total cash flow	**5,299.0**	**(12,221.9)**	**2,403.1**	**3,279.5**

Valuation	2021	2022E	2023E	2024E
0670.HK				
P/E (excl. exceptionals) (X)		n.m.	14.0x	8.1x
EV/EBITDA (X)		n.m.	7.9x	7.0x
P/B (X)		1.8x	1.6x	1.3x
ROE (%)		-70%	12%	18%
600115.SS				
P/E (excl. exceptionals) (X)		n.m.	31.4x	18.2x
EV/EBITDA (X)		n.m.	9.6x	8.6x
P/B (X)		3.9x	3.5x	2.9x
ROE (%)		-70%	12%	18%

Source: Company data, Goldman Sachs Global Investment Research

Hainan Meilan International Airport (0357.HK, Buy): Passenger and retail capacity in place to capture the fast-growing Hainan DFS market

Hainan Meilan intl' Airport (HMIA) is located in Haikou, the capital of Hainan Province, and is one of two major civil international airports on Hainan Island. HMIA saw passenger throughput of 24mn in 2019 (vs. Hainan's Sanya Phoenix International Airport which handled 20mn), and looking ahead, we expect HMIA to benefit from the central government's plans to develop the island into China's largest free-trade port as well as policy liberalization and initiatives aimed at boosting China's and Hainan's DFS markets. In terms of the company's business units, Aeronautics, DFS (duty-free), and Other non-aeronautics (e.g., advertising and non-DFS rentals) accounted for 32%/ 36%/ 32% of total revenue as of end-2021, and we estimate this will grow to 35%/41%/24% in 2025E, given rapid growth in the DFS business (25% revenue CAGR in 19-25E). We have a positive view on HMIA given:

1. **Unique gateway to Hainan's solid duty-free growth, given Sanya's limited capacity:** HMIA's key competitor, Sanya Airport, was running at full capacity as of 2019 and could be facing expansion delays til after 2033 due to environmental protection policies, so it appears likely that almost all incremental air passenger traffic in and out of Hainan will go through Meilan, which should provide a growing customer base at DFS. Accordingly, we forecast a passenger throughput CAGR of 6% for HMIA during 2019-25E, which is already lower than 11% in 2015-19 to reflect the potential diversion of air passenger traffic after international travel reopens.
2. **Increasing DFS area to drive DFS sales growth:** Meilan's DFS area may expand from 21k sqm in 2021 to 32k sqm in 2025E, at a 10% CAGR, by leveraging the opening of T2 and ramping up more DFS area in the terminal complex. We expect HMIA's DFS area to increase further to over 50k sqm in 2030E, which would make for the biggest DFS area among Chinese airports. Based on data we have compiled on the new store pipelines of DFS operators, HMIA's DFS operating area market share in Hainan will likely trough in 2023E at 7%, and we expect it to recover gradually to 9% in 2025E. This would drive HMIA's DFS sales market share in Hainan to grow to 8% in 2025E after bottoming out at in 2022E with 6%.

Valuation: We are Buy rated on Hainan Meilan International Airport (HMIA) with a 12-month target price of HK$26.5, implying 46% upside, using a DCF-based methodology. We believe DCF is the appropriate methodology to value HMIA given airport businesses tend to generate relatively stable cash flow in the long run. We assume a WACC of 11.0% based on 1.2x beta, and a terminal growth rate of 3% (in line with the long-term air passenger growth).

Risks: (1) Recovery uncertainties; (2) traffic and sales diversion; (3) syndicated loans; (4) higher-than-expected expenses; and (5) downside risk for the DFS revenue sharing rate.

Exhibit 22: HMIA Financials Summary

Key assumptions	2021	2022E	2023E	2024E
Traffic volume				
Aircraft movements (mn)	**0.139**	**0.121**	**0.197**	**0.221**
Domestic	0.138	0.121	0.190	0.208
International+Regional	0.001	0.001	0.007	0.013
Pax throughput (mn)	**17.520**	**14.541**	**26.068**	**30.612**
Domestic	17.520	14.541	25.157	28.930
International+Regional	0.000	0.000	0.911	1.682
Retail				
DFS sales per head (Rmb/pax)	2,879.7	3,052.4	3,083.0	3,113.8
yoy%	*2%*	*6%*	*1%*	*1%*
No. shoppers (mn)	1.3	1.1	2.0	2.4
yoy%	*19%*	*-18%*	*85%*	*21%*
DFS concession rate to Meilan Airport	15%	15%	15%	15%

Income Statement (Rmb mn)	2021	2022E	2023E	2024E
Total revenue	**1,605.7**	**1,472.0**	**2,407.5**	**2,816.7**
yoy%	*17%*	*-8%*	*64%*	*17%*
Cost of goods sold	(650.4)	(661.9)	(847.4)	(926.4)
Gross profit	955.3	810.1	1,560.1	1,890.3
Gross margin	59.5%	55.0%	64.8%	67.1%
SG&A	(119.9)	(109.9)	(179.7)	(210.3)
R&D	0.0	0.0	0.0	0.0
EBITDA	**834.7**	**700.2**	**1,380.3**	**1,680.1**
yoy%	*7%*	*-16%*	*97%*	*22%*
EBITDA margin	*52%*	*48%*	*57%*	*60%*
EBIT	**613.7**	**159.1**	**823.4**	**1,106.9**
yoy%	*2%*	*-74%*	*418%*	*34%*
EBIT margin	*38%*	*11%*	*34%*	*39%*
Interest expense	(27.4)	(83.9)	(83.9)	(80.1)
Income/(loss) from uncons. subs.	(17.5)		10.0	10.5
Others	(16.4)	0.0	0.0	0.0
Profit before tax	**558.4**	**81.5**	**764.5**	**1,072.8**
Net income	**765.1**	**75.5**	**664.1**	**929.4**
yoy%	*-157%*	*n.m.*	*780%*	*40%*
Net income margin	*48%*	*5%*	*28%*	*33%*
EPS (basic, pre-except) (Rmb)	**1.28**	**0.16**	**1.40**	**1.96**
EPS (basic, post-except) (Rmb)	**1.62**	**0.16**	**1.40**	**1.96**
EPS (diluted, post-except) (Rmb)	**1.62**	**0.16**	**1.40**	**1.96**

Balance sheet (Rmb mn)	2021	2022E	2023E	2024E
Cash & equivalents	212.1	498.5	1,182.5	1,094.6
Accounts receivable	364.4	403.3	593.6	656.0
Inventory	0.6	0.6	0.8	0.9
Other current assets	45.4	45.4	45.4	45.4
Total current assets	**622.6**	**947.9**	**1,822.3**	**1,796.8**
Net PP&E	9,163.4	8,975.3	8,781.3	10,581.3
Net intangibles	1,067.0	1,036.2	1,005.5	974.7
Total investments	12.8	12.8	22.8	33.3
Other long-term assets	269.2	269.2	269.2	269.2
Total assets	**11,135.0**	**11,241.5**	**11,901.2**	**13,655.4**
Accounts payable	869.6	906.7	1,044.8	1,015.2
Short-term debt	2,798.3	2,798.3	2,668.7	2,539.1
Other current liabilities				
Total current liabilities	3,667.9	3,705.1	3,713.5	3,554.3
Long-term debt				1,000.0
Other long-term liabilities	283.7	283.7	283.7	283.7
Total long-term liabilities	283.7	283.7	283.7	1,283.7
Total liabilities	**6,569.3**	**6,606.4**	**6,614.9**	**7,455.7**
Preferred shares				
Total common equity	**4,533.6**	**4,609.1**	**5,273.2**	**6,202.6**
Minority interest	32.5	26.0	13.1	(2.8)
Total liabilities & equity	**11,135.3**	**11,241.5**	**11,901.2**	**13,655.4**
BVPS (Rmb)	**9.6**	**9.8**	**11.2**	**13.1**

Cash flow statement (Rmb mn)	2021	2022E	2023E	2024E
Net income pre-preferred dividends	605.7	75.5	664.1	929.4
D&A add-back	219.1	541.1	556.9	573.2
Minorities interests add-back	(9.6)	(6.2)	(12.8)	(16.0)
Net (inc)/dec working capital	5.1	(1.8)	(52.5)	(92.0)
Other operating cash flow	(151.6)		(10.0)	(10.5)
Cash flow from operations	**828.2**	**608.6**	**1,145.7**	**1,384.2**
Capital expenditures	(317.0)	(322.2)	(332.2)	(2,342.5)
Acquisitions				
Divestitures				
Others	0.7			
Cash flow from investments	**(316.4)**	**(322.2)**	**(332.2)**	**(2,342.5)**
Dividends paid (common & pref)	(97.7)			
Inc/(dec) in debt	(379.5)		(129.6)	870.4
Common stock issuance (repurchase)				
Other financing cash flows	(114.9)			
Cash flow from financing	**(592.0)**	**0.0**	**(129.6)**	**870.4**
Total cash flow	**(80.2)**	**286.4**	**683.9**	**(87.9)**

Valuation	2021	2022E	2023E	2024E
P/E (excl. exceptionals) (X)		92.0x	10.5x	7.5x
EV/EBITDA (X)		13.2x	6.1x	5.6x
P/B (X)		1.5x	1.3x	1.1x
ROE (%)		2%	13%	15%

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

Source: Company data, Goldman Sachs Global Investment Research

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Reg AC

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