

China

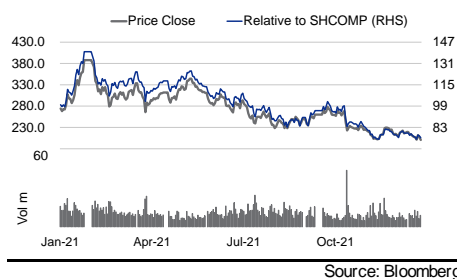
ADD (no change)

Consensus ratings*: Buy 41 Hold 0 Sell 1

Current price:	Rmb200.5
Target price:	Rmb301.0
Previous target:	Rmb314.0
Up/downside:	50.1%
CGI / Consensus:	-11.2%
Reuters:	601888.SS
Bloomberg:	601888 CH
Market cap:	US\$61,613m
	Rmb391,452m
Average daily turnover:	US\$352.9m
	Rmb2,252m
Current shares o/s:	1,952m
Free float:	25.6%

Key changes in this note

- FY21F EPS cut by 2.3%.
- FY22F EPS cut by 3.2%.
- FY23F EPS cut by 3.4%.



Price performance	1M	3M	12M
Absolute (%)	-12.1	-26.6	-28.5
Relative (%)	-8.3	-25.5	-27.2

Major shareholders	% held
China National Travel Service Group	55.3

Analysts

Lei Yang

T (86) 21 6162 9676
E yanglei@chinastock.com.hk

Sun Feifei

T (86) 21 6162 5750
E sunfeifei@chinastock.com.hk

China Tourism Group Duty Free

Expecting a better recovery in FY22F

- CDF issued a profit alert for FY21. Net profit rose by 54%–66% yoy to Rmb9.4bn–10.1bn in FY21, slightly below our expectation, since tourist traffic suffered a sharp decline due to the epidemic situation in 2H21. The detailed result will be on 23 Apr.
- Since the Company's sales in 1Q usually account for c. 30% of full-year sales, and given the current Omicron situation in China, we expect the Company's business in Hainan to continue face some pressure in 1Q22F and to start to recover in 2Q22F.
- We expect the Company's sales to grow by 21.0% yoy in FY22F, with net profit up by 21.3% yoy, driven mainly by a recovery in tourist traffic and improvement in the average ticket size.
- Reiterate Add with a lower DCF-based TP of Rmb301.

Sales in Hainan softened in 2H21 due to Covid-19 volatility

Based on the Company's guidance for FY21, we expect net profit in 4Q21 to decline significantly by 46%–69% yoy to Rmb909m–1,609m, mainly due to the severe impact of Covid cases on its Hainan duty-free business. According to the Hainan government, the number of tourists visiting Hainan dropped by 17% yoy in 4Q21 (2H21: 16% yoy decline). According to the Department of Commerce in Hainan Province, total sales of 10 duty-free stores in Hainan reached Rmb60.2bn in FY21, up by 84% yoy. Duty-free sales rose by 83% yoy to Rmb50.5bn, the number of duty-free shoppers grew by 73% yoy to 9.7m, and the average ticket size in FY21 was Rmb5,218, lower than that of Rmb7,001 in 1H21. We estimate that the Company's sales in Hainan grew by 40%–50% yoy to c.45bn in FY21F, accounting for 90% of total duty-free sales in Hainan, indicating CDF's strong leading position in Hainan's duty-free industry.

Hainan's duty-free services largely improved

There are five duty-free business entities on Hainan Island, and the number of duty-free stores increased to 10 as at the end of FY21. With the opening of Phase II of Haikou Meilan Airport, the total operating area of duty-free stores has reached 220,000 sqm, and CDF accounts for 80%–90% of the total duty-free space, based on our estimates. The number of brands in duty-free stores exceeds 720. The product categories have expanded from perfume and skin-care products to jewelry, watches, bags, clothing and electronics, providing consumers with more choices. Hainan Island added two delivery methods in 2021 - direct mail (邮寄送达) and return for collection (返岛提取) which improved customer convenience when buying large products, such as alcohol and luggage cases.

Limited impact if Korea launches more aggressive duty-free policy

According to Jiemian.com, the Korean government plans to allow Korean duty-free shops to open online channels for overseas residents without Korean entry records to buy Korean duty-free goods directly. We believe this policy will have a limited impact on CDF's business in Hainan, as 1) Hainan's duty-free business focuses on tourists, instead of daigou business; Hainan Island has built up its tourism infrastructure and its own tourism brand in China's travel market; and 2) during the past two years, there has been no big price difference between CDF's platform and Korea duty-free channels, and CDF's platform has developed customer loyalty and trust.

Reiterate Add with a lower DCF-based TP of Rmb301

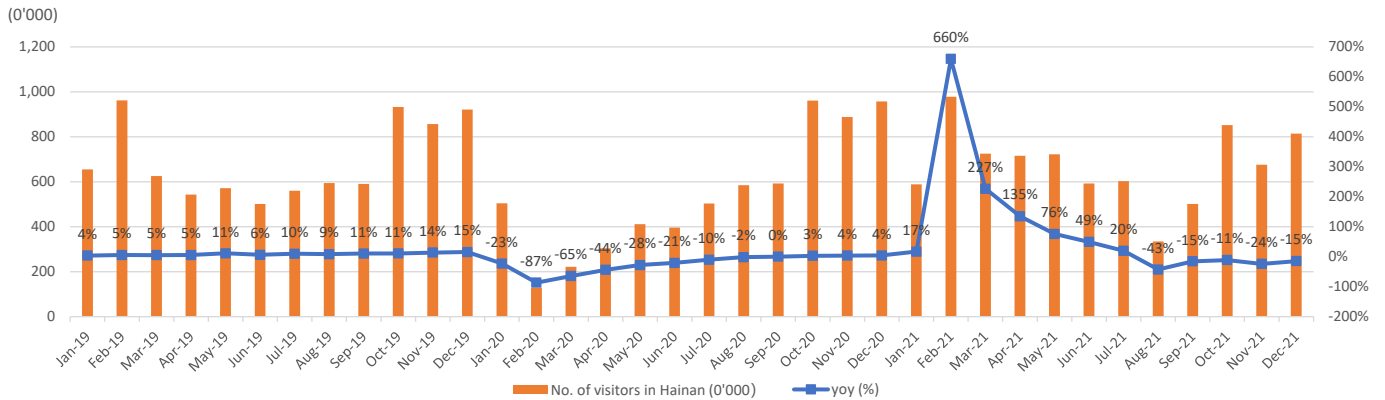
We cut our EPS forecasts for FY21–23F by 2.3%–3.4%, to reflect a slower-than-expected recovery in Hainan's tourist traffic due to the Covid-19 situation. CDF is currently trading at 31.9x FY22F P/E, 0.8 s.d below its historical mean of 41x since 2019. We reiterate Add, since we expect Hainan's duty-free market expansion to become a significant long-term growth driver and the Company's bargaining power with brand suppliers to gradually improve. A potential catalyst is policy relaxation for downtown duty-free stores.

Financial Summary	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (Rmbm)	47,966	52,597	64,646	78,247	99,425
Operating EBITDA (Rmbm)	6,760	10,107	15,911	18,214	24,639
Net Profit (Rmbm)	4,629	6,140	10,032	12,169	16,402
Core EPS (Rmb)	2.21	3.54	5.25	6.28	8.45
Core EPS Growth	28.0%	59.8%	48.5%	19.6%	34.5%
FD Core P/E (x)	90.56	56.67	38.17	31.90	23.72
DPS (Rmb)	0.72	1.00	1.63	1.98	2.67
Dividend Yield	0.36%	0.50%	0.81%	0.99%	1.33%
EV/EBITDA (x)	56.50	37.62	23.39	20.18	14.59
P/FCFE (x)	215.2	84.3	30.5	39.2	26.1
Net Gearing	(52.4%)	(54.6%)	(68.1%)	(66.4%)	(67.6%)
P/BV (x)	19.68	17.55	12.88	9.94	7.54
ROE	23.9%	32.7%	38.9%	35.2%	36.2%
% Change In Core EPS Estimates			(2.34%)	(3.25%)	(3.49%)
CGI/consensus EPS (x)			0.91	0.83	0.85

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Expecting a better recovery in FY22F

Figure 1: Number of tourism visitors in Hainan



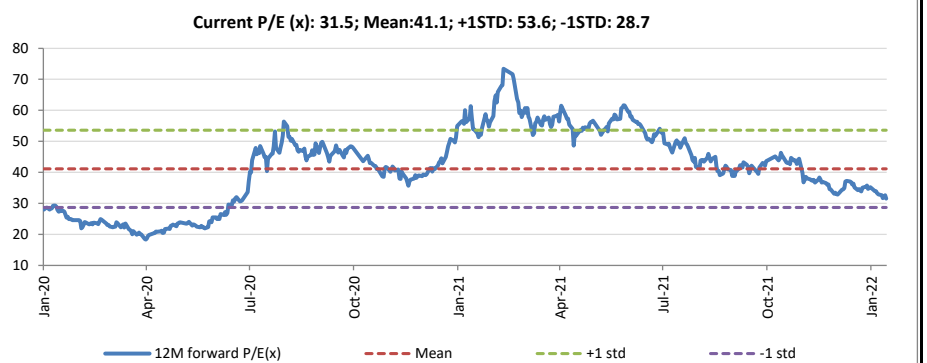
SOURCES: CGIS RESEARCH, HAINAN GOVERNMENT

Figure 2: Duty-free sales in Hainan since the policy stimulus in July 2020

Period	Duty free sales (Rmb, 0'000)	No. of actual duty free shoppers (0'000)	Ticket size (Rmb)
3Q20	860,576	129	6,670
4Q20	1,137,974	170	6,684
1Q21	1,357,113	179	7,598
2Q21	1,319,583	204	6,477
3Q21	877,746	131	6,714
4Q21	1,494,558	455	3,288

SOURCES: CGIS RESEARCH, HAINAN CUSTOMS, DEPARTMENT OF COMMERCE OF HAINAN PROVINCE

Figure 3: CDF 12m forward P/E(x) since the company divested travel agency business in 2019



SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

Figure 4: Earnings revision

(Rmb m)	FY21F			FY22F			FY23F		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	66,149	64,646	-2.3%	80,818	78,247	-3.2%	102,960	99,425	-3.4%
yoy growth	26%	23%	-2.9%	22%	21%	-1.1%	27%	27%	-0.3%
Gross profit	21,546	21,056	-2.3%	27,536	26,660	-3.2%	35,904	34,671	-3.4%
GPM	32.6%	32.6%	0.0%	34.1%	34.1%	0.0%	34.9%	34.9%	0.0%
Operating profit	16,318	15,955	-2.2%	18,432	17,852	-3.1%	24,868	24,021	-3.4%
Reported net profit	10,264	10,032	-2.3%	12,567	12,169	-3.2%	16,984	16,402	-3.4%

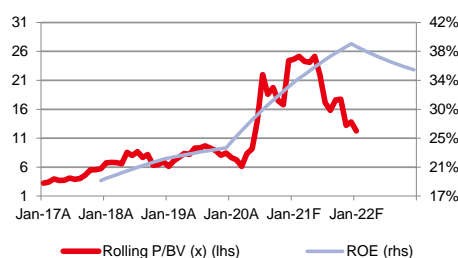
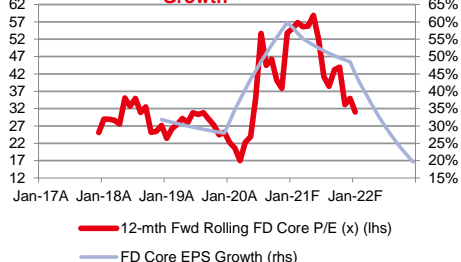
SOURCES: CGIS RESEARCH

Figure 5: DCF valuation

(Rmb, m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F
Operating EBIT	17,852	24,021	30,042	36,521	42,747	48,960	55,091	60,883	66,060	70,350
Taxes	-3,192	-4,302	-5,257	-6,209	-7,053	-7,834	-8,539	-9,132	-9,579	-9,849
EBIT, tax-affected	14,660	19,719	24,785	30,313	35,694	41,126	46,552	51,751	56,482	60,501
Add: Depreciation & amortisation	562	818	961	1,088	1,181	1,247	1,285	1,291	814	863
Add Changes in Working capital	-1,527	-2,295	-2,871	-3,475	-4,051	-4,621	-5,178	-5,699	-6,159	-6,533
Less Capital Expenditure	-3,500	-3,000	-3,000	-3,000	-2,100	-2,037	-1,976	-1,917	-1,859	-1,803
Free Cash Flow to firm	10,195	15,242	19,875	24,926	30,723	35,715	40,683	45,425	49,277	53,028
YoY growth	-23%	50%	30%	25%	23%	16%	14%	12%	8%	8%
Key assumptions										
NPV of FY22-26 cash flow	75,124	Company average beta		1.0						
NPV of FY27-31 cash flow	112,149	Risk free rate		3%						
NPV of Terminal Value	389,772	Risk premium		5%						
Enterprise Value	577,046	Cost of equity		9%						
Add Net cash/(Net Debt)	14,289	Cost of Debt		4%						
Less Minority	-3,871	Debt %		0%						
Equity value of firm	587,463	Tax rate		26%						
Share outstanding (m)	1,952	WACC		9%						
Target price (Rmb)	301	Terminal growth rate		3%						

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth


Profit & Loss

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Net Revenues	47,966	52,597	64,646	78,247	99,425
Gross Profit	22,922	20,293	21,056	26,660	34,671
Operating EBITDA	6,760	10,107	15,911	18,214	24,639
Depreciation And Amortisation	(674)	(1,189)	(456)	(562)	(818)
Operating EBIT	6,086	8,919	15,455	17,652	23,821
Financial Income/(Expense)	(11)	545	(100)	(100)	(100)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	180	208	330	180	180
Profit Before Tax (pre-EI)	6,756	10,684	15,959	17,856	24,025
Exceptional Items	905	0	0	0	0
Pre-tax Profit	7,160	9,672	15,685	17,732	23,901
Taxation	(1,746)	(2,335)	(2,823)	(3,192)	(4,302)
Exceptional Income - post-tax					
Profit After Tax	5,415	7,337	12,862	14,540	19,599
Minority Interests	(786)	(1,197)	(2,830)	(2,371)	(3,197)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,629	6,140	10,032	12,169	16,402
Recurring Net Profit	4,323	6,907	10,257	12,270	16,504
Fully Diluted Recurring Net Profit	4,323	6,907	10,257	12,270	16,504

Cash Flow

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
EBITDA	6,760	10,107	15,911	18,214	24,639
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(2,150)	200	3,266	(1,527)	(2,295)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1,684)	(2,105)	(2,743)	(3,112)	(4,222)
Net Interest (Paid)/Received	(11)	0	(100)	(100)	(100)
Tax Paid					
Cashflow From Operations	2,915	8,202	16,334	13,475	18,022
Capex	(1,998)	(2,775)	(3,500)	(3,500)	(3,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	899	(1,039)	0	0	0
Cash Flow From Investing	(1,099)	(3,814)	(3,500)	(3,500)	(3,000)
Debt Raised/(repaid)	3	255	0	0	0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid					
Preferred Dividends	(1,618)	(1,658)	(1,952)	(3,190)	(3,870)
Other Financing Cashflow	81	477	0	0	0
Cash Flow From Financing	(1,535)	(927)	(1,952)	(3,190)	(3,870)
Total Cash Generated	281	3,462	10,881	6,785	11,152
Free Cashflow To Equity	1,819	4,643	12,834	9,975	15,022
Free Cashflow To Firm	1,827	4,388	12,934	10,075	15,122

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	11,906	14,706	25,687	32,572	43,824
Total Debtors	2,280	1,532	2,145	2,343	2,659
Inventories	8,060	14,733	11,512	13,934	17,706
Total Other Current Assets	0	0	0	0	0
Total Current Assets	22,246	30,971	39,345	48,850	64,189
Fixed Assets	1,632	1,591	4,909	7,971	10,277
Total Investments	2,039	3,305	3,305	3,305	3,305
Intangible Assets	3,327	3,271	3,147	3,023	2,900
Total Other Non-Current Assets	1,444	2,781	2,781	2,781	2,781
Total Non-current Assets	8,442	10,948	14,143	17,081	19,263
Short-term Debt	224	417	417	417	417
Current Portion of Long-Term Debt					
Total Creditors	5,674	9,322	9,981	11,074	12,865
Other Current Liabilities	2,063	5,922	5,922	5,922	5,922
Total Current Liabilities	7,961	15,661	16,320	17,413	19,204
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	415	79	79	79	79
Total Non-current Liabilities	415	79	79	79	79
Total Provisions	0	0	0	0	0
Total Liabilities	8,377	15,741	16,399	17,492	19,284
Shareholders' Equity	19,890	22,308	30,387	39,366	51,899
Minority Interests	2,421	3,871	6,701	9,072	12,269
Total Equity	22,310	26,179	37,088	48,438	64,167

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	2.0%	9.7%	22.9%	21.0%	27.1%
Operating EBITDA Growth	14.8%	49.5%	57.4%	14.5%	35.3%
Operating EBITDA Margin	14.1%	19.2%	24.6%	23.3%	24.8%
Net Cash Per Share (Rmb)	5.98	7.32	12.94	16.47	22.23
BVPS (Rmb)	10.19	11.43	15.56	20.16	26.58
Gross Interest Cover	616.2	N/A	157.3	177.8	239.5
Effective Tax Rate	24.4%	24.1%	18.0%	18.0%	18.0%
Net Dividend Payout Ratio	33.3%	27.3%	31.0%	31.5%	31.6%
Accounts Receivables Days	6.77	3.23	1.97	2.94	2.88
Inventory Days	102.0	129.1	109.9	90.0	89.2
Accounts Payables Days	46.61	44.55	40.19	40.71	39.61
ROIC (%)	98%	110%	182%	207%	183%
ROCE (%)	32.3%	43.6%	50.2%	41.6%	42.6%
Return On Average Assets	17.5%	21.5%	27.7%	24.7%	26.5%

Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Airport duty free sales growth (%)	38.2%	-29.4%	-12.3%	21.5%	18.0%
Hainan offshore sales growth (%)	30.6%	186.3%	40.4%	20.8%	31.5%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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619 companies under coverage for quarter ended on 31 Dec 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)

China Tourism Group Duty Free (601888 CH)

RECOMMENDATION FRAMEWORK

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