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CTGDF (601888 CH)

At near term trough; Shares likely mean-revert on sequentially better 4Q tourist traffic; Initiate at Buy

Travel bans in view of the outbreak of Delta Variant in Guangzhou and Nanjing is likely to weigh on 3Q domestic travel momentum. That said, when the pandemic gradually dies down and when vaccination surpasses 2.1bn times, we see scope for domestic travel to normalize into 4Q, particularly when the quarter is clustered with various festivals and shopping campaigns that catalyze leisure travelling and shopping. CTGDF is the largest domestic duty-free operator with 90%+ market share in 2020, and is therefore poised to be the major beneficiary of this recovery trajectory. The stock is trading at 30.9x end-22E P/E, at par to its 3-year average but -2sd below its 1-year average, when the stock was re-rated on policy tailwind. We argue shares mean-reversion is likely to take place towards 4Q, not to mention value to be unlocked through its secondary H share listing on an expanded shareholder base. We initiate the stock at Buy with TP of RMB350.0.

- **Hainan expansion a major driver to offer 51.0% CAGR to duty-free revenue.** We project a 42.3% 3-year revenue CAGR for CTGDF during 2020-23E. We forecast duty-free sales to grow at a 51.0% CAGR during the same period, which will be underpinned by its organic expansion in Haitang Bay Phase 2 and Haikou International Duty-free Mall. The expansion is debottlenecking to CTGDF, in our view, as a larger store space will enable CTGDF to enrich its product shelving and display, across its brand portfolio.
- **Potential earnings upside on rental renegotiation and tax concession.** We believe rental renegotiation for Beijing airport could enhance operating leverage, while Hainan's potential tax concession approval could boost 2021/22E net profits by approximately 8%, in our estimate. Separately, owing to a rising online/ lower-margins SKU mix, we expect pressure to gross margins to prevail until 2022E when a more centralized procurement strategy, recovering offline traffic and the SKU mix upgrade could revive the trend.
- **Valuation at its low-cycle 30.9x P/E; we are c5% ahead of 22E consensus.** Our target price of RMB350.0 is based on 43.0x end-22E P/E, which represents +1sd above the average of the last 3 years. Our multiple is also benchmarked to the average valuation of 44.0x since July 2020. This explains our near-term expectation for CTGDF's share price to mean-revert as if domestic travel and spending were to recover as we are heading to a more festive 4Q. Our 2021E earnings is slightly below consensus, while that of 2022E is c6% above.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	47,966	52,597	78,379	114,404	151,491
YoY growth (%)	2.0	9.7	49.0	46.0	32.4
Net income (RMB mn)	3,906	6,390	10,681	15,873	21,255
EPS (RMB)	2.0	3.3	5.5	8.1	10.9
YoY growth (%)	26.7	63.6	69.4	50.3	33.9
Consensus EPS (RMB)	N/A	N/A	5.6	7.8	10.1
P/E (x)	N/A	N/A	45.9	30.9	23.1
P/B (x)	N/A	N/A	16.2	11.5	8.3
Div Yield (%)	N/A	N/A	0.5	0.7	1.0
ROE (%)	19.6	28.6	35.2	37.2	35.9
Net gearing (%)	52.4	54.6	46.6	45.8	49.4

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	**RMB350.0**
Up/Downside	**+39.3%**
Current Price	**RMB251.3**

China Consumer Sector

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Stock Data

Mkt Cap (US$ mn)	75,995
Avg 3 mths t/o (RMB mn)	3,436
52w High/Low (RMB)	403.8/172.8
Total Issued Shares (mn)	1,952.4

Source: Bloomberg

Shareholding Structure

China Travel Group	53.3%
HKSC	9.6%
CSFC	3.0%

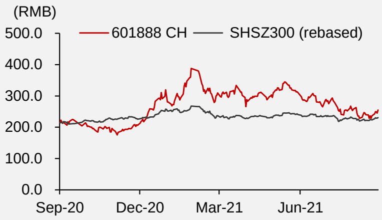
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-0.7%	0.0%
3-mth	-19.5%	-14.6%
6-mth	-19.1%	-15.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

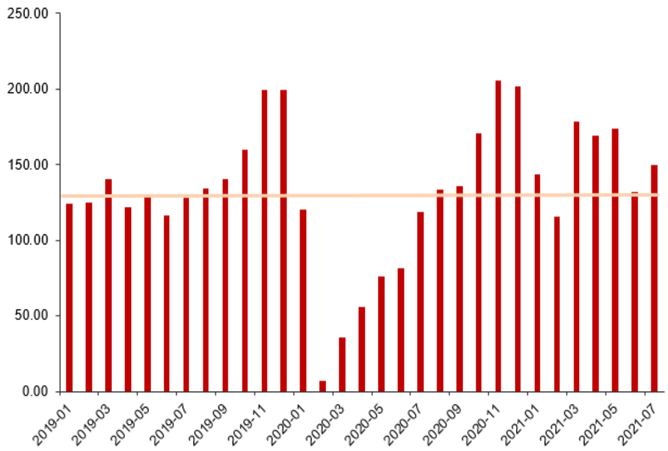
Contents

Investment Thesis

Stabilizing spending and travellers to Hainan

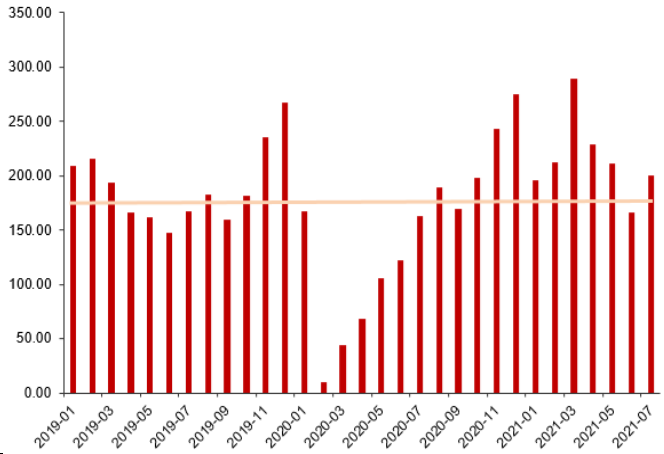
The recent resurgence of COVID-19 cases that mostly found in the Guangdong area (14 communities labelled as medium/high risk) has again reignited concerns over renewed travel bans. The duty-free spending and the number of domestic travelers to Hainan have stabilized in June and July, and the average visitation of the last 3 months remained comparable to the pre-COVID level at approximately 5mn per month. Of the total, 55% of the visits were paid to Haikou and Sanya.

Figure 1: Haikou monthly overnight visitation



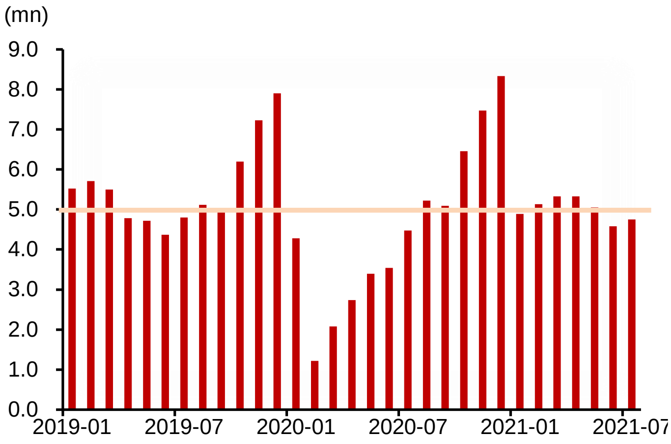
Source: Wind, CMBIS

Figure 2: Sanya monthly overnight visitation



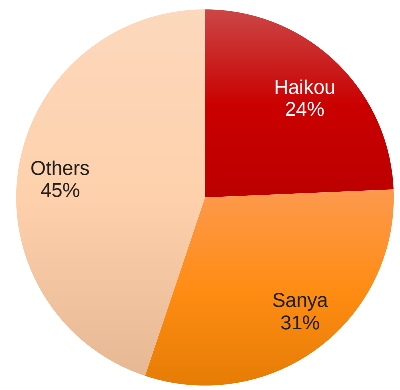
Source: Wind, CMBIS

Figure 3: 3m average overnight visitation to Hainan



Source: Wind, CMBIS

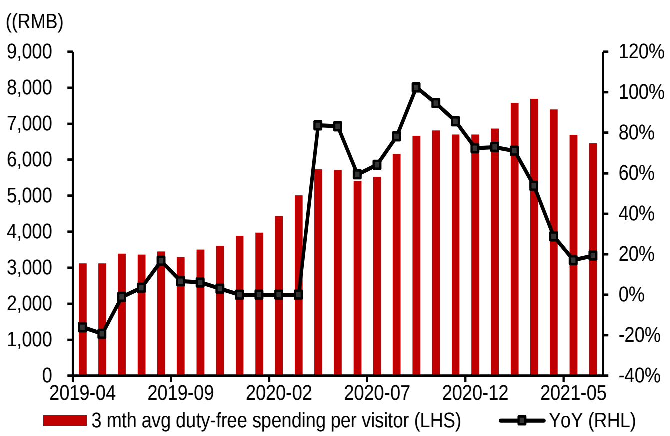
Figure 4: 55% of visitation driven by Haikou & Sanya



Source: Wind, CMBIS

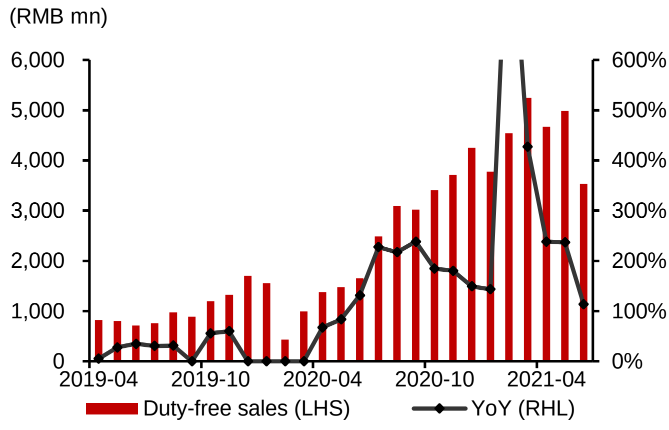
Separately, on a per visitor basis, there was no sign of a slowdown in spending which has increased by 20% YoY to approximately RMB6,400, in our estimates. The number actually tallied with the data announced by the Haikou Custom that offshore duty-free spending per visitor amounted to RMB7,002, given a total spending of RMB26.7bn with 3.8mn of shoppers.

Figure 5: 3m average duty-free spending per visitor



Source: Wind, CMBIS

Figure 6: China duty-free sales monthly



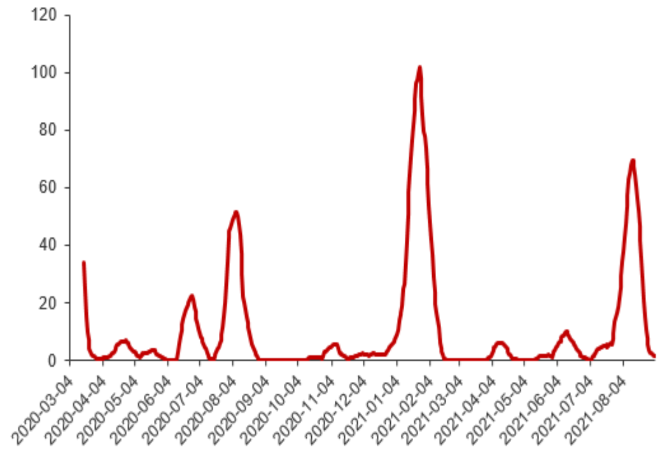
Source: Wind, CMBIS

Pandemic largely under control by end-Aug; reasonable 2022 expectation

According to the National Health Commission, by end of August, infections in most of the medium/ high-risk communities have largely reduced and domestic travels have started to resume. Year-to-date, the number of vaccination has reached 2.1bn, and this should set stage for domestic travel to recover towards 4Q, particularly when the quarter is clustered with various traditional Chinese festivals that catalyze leisure travelling and shopping.

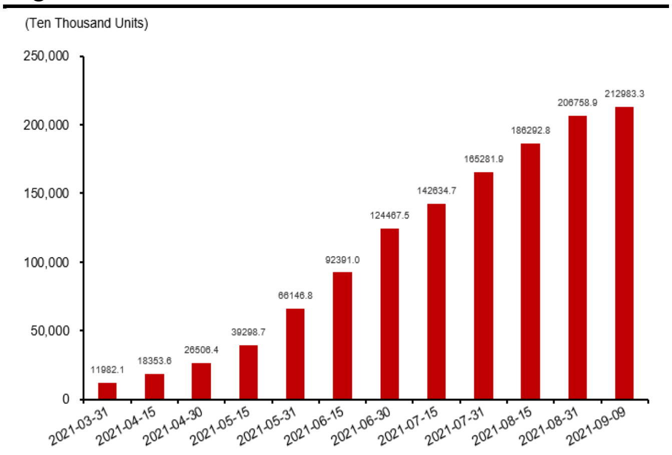
Barring any lingering COVID cases towards the end of 2021, Frost and Sullivan estimated the number of domestic tourists would return to the pre-pandemic level in 2022E. Furthermore, the number of domestic tourists will grow further to 10.6bn units in 2025E, registering a 4-year CAGR of 19.9%.

Figure 7: China 14-day average local COVID cases



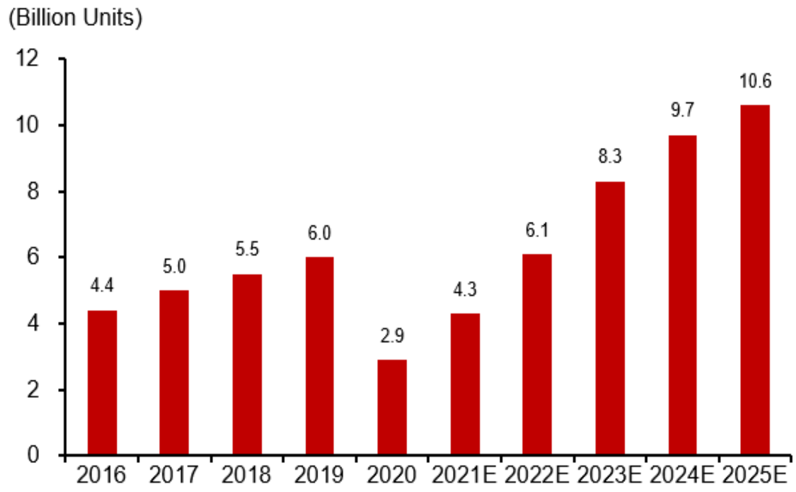
Source: Wind, NHC, CMBIS

Figure 8: China COVID-19 vaccination rate



Source: NHC, CMBIS

Figure 9: Annual domestic travellers 2016-25E



Source: Frost & Sullivan, CMBIS

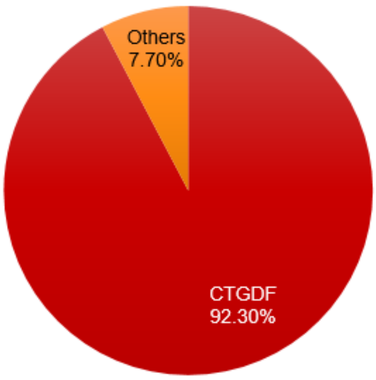
An unchallenged leadership despite relaxed entry regulation

Although there have been new entrants to China's travel retail market in the recent years, we hold the view that CTGDF will be able to leverage its first-mover advantage as well as its edges in rapid store expansion, a rich product portfolio, and a well-tailored customer loyalty program to secure its market share.

- **Industry and operation experience makes high entry barrier to new entrants**

Duty-free market in China is highly concentrated and has a high entry barrier. In 2020, according to Frost and Sullivan, the top five duty-free travel retailers in China accounted for 99.9% of the market share, with CTGDF being the no.1 player with a market share of 92.3%.

Figure 10: Top 5 duty-free merchandise operators ranking (by retail sales), China, 2020



Source: Company data, Frost & Sullivan, CMBIS

CTGDF was among 10 groups of entities with duty-free operation permits in China and among six groups of entities with duty-free operation permits to operate duty-free port stores nationwide. Meanwhile, the Company is currently the only group with operation permits for all types of duty-free stores in China. In particular, the Company enjoys substantial competitive advantages in Hainan, occupying approximately 99.8% of China's offshore duty-free market share in 2020, according to Frost & Sullivan. Although the restrictions to enter into the duty-free market has been relaxed in recent years, we believe new entrants will not be able to shake up the market dynamics in the near term, as they would struggle with various operation challenges given the lack of industry experience, as well as supply management.

Figure 11: Existing DFS player in China subsequent to the last round of approval in 2020

Ticker	Operator	Controlling Shareholder	License Approval Date	Type of DFS store
601888 CH	China Duty Free	China Tourism Group	N/A	Airport, offshore, downtown
601888 CH	Sunrise	CTGDF (51%)	N/A	Airport
601888 CH	Hainan Duty Free	CTGDF (51%)	2011	Airport, offshore
600859 CH	Wangfujing	Beijing Tourism Group	2020	Airport, offshore, downtown
N/A	Shenzhen Duty Free	Shenzhen Duty-free Group	N/A	Airport, port, offshore
N/A	China National Service for Chinese	Sinopharm	N/A	Airport, downtown
N/A	Zhongqiao Duty Free	China Tourism Group	N/A	Downtown
N/A	Zhuhai Duty Free	Zhuhai SASAC	Early 2000	Airport, port
N/A	Hainan Tourism Investment Duty Free	Hainan SASAC	2020	Offshore
N/A	Hainan Development Holdings	Hainan SASAC	2020	Offshore

Source: Company data, CMBIS

1) Industry Experience

Current players in the market are all state-owned companies with long-time industry operation history. The bidding on duty-free projects requires comprehensive assessments including the store layout design, marketing and customer service strategies, business plan and brand introduction. New entrants would have difficulties providing a comprehensive and profitable business plan compared to mature players with abundant duty-free operation experience.

2) Supplier management

Brand portfolio of duty-free businesses largely comprises global luxury brands. These brands normally engage in business relationship with well-established duty-free operators with sound financial muscle and international presence, not to mention the ability to secure stable and high volumes of purchase orders. This is also crucial for duty-free operators to gain bargaining power with brand owners to protect margins.

3) Continuous new store expansion

CTGDF has made cleared that the Company will continue to compete for concessions at airports and other transportation terminals and destinations with a number of other global, national and regional duty-free operators in China and at popular overseas destinations for Chinese travelers. Beyond its existing domestic airport operations, the Company also planned to extend its coverage to other airports in Ningbo, Yiwu, Jinan, Jiaxing with target commencement date within 2021. Separately, CTGDF intends to open its new offshore store in Hainan, the Haikou International Duty-Free Complex, with an estimated sales area of 150,000 sq m in 2022E. Of note, currently, it operates a total of 194 stores, six oversea duty-free stores in Hong Kong, Macau and Cambodia, and 188 stores in Mainland China covering more than 90 cities, spanning across 29 provinces, municipalities and autonomous regions.

Figure 12: List of new airport concessions and duty-free operations

Name/Location	Sales Area (m^2)	Expected Year of Business Commencement
Haikou International Duty-Free Complex	150,000	2022
Ningbo Airport	252	2021
Yiwu Airport	150	2021
Jinan Airport	300	2021
Jiaxing Port	N/A[1]	2021
Macau downtown store	8,000	2021

Source: Company data, CMBIS
Note: (1) ship-supply store, no physical store location

Figure 13: Geographic distribution of CTGDF's stores in operation, as of 31 Dec 2020

Source: Company data

Figure 14: CTGDF's stores (by type)

	As of 31 Dec		
	2018	2019	2020
Port duty-free stores	122	126	126
Airport	58	60	60
Border crossings and others[1]	64	66	66
Offshore duty-free stores	1	4	5
Downtown duty-free stores	3	9	9
Others[2]	56	59	54
Total	**182**	**198**	**194**

Source: Company data
Note: (1) Including railway stations, cross-border bus stations and seaports
(2) Including cruise duty-free stores, inflight duty-free stores, ship-supply duty free stores and duty-paid stores

- **A rich product offering**
  CTGDF secures a product portfolio with more than 200,000 SKUs, ranging from perfume and cosmetics, fashion and accessories, tobacco and liquor, and food and miscellaneous goods.

In our view, CTGDF's competitive advantage of having a wide variety of brand and product selections is underpinned by its centralized procurement (that ensures large and steady order flows to brand owners) and an improved window-display opportunity and distribution channel through our network of 194 shops across China, Hong Kong, Macau and Cambodia. For instance, by end-2020, CTGDF connected with 946 brands globally that consisted of 111 perfume and cosmetics brands, 155 fashion and accessories brands, 467 tobacco and liquor brands and 213 food brands). The strong franchise has created a strong moat for CTGDF to keep away from its competitors for any direct competition.

Figure 15: CTGDF offers a much richer product portfolio than peers in Hainan

Outlets	Operator	Store GFA (sqmt)	No. of SKUs			
			Beauty	Alcohol	Jewellery& Accessories	Watch
Haikou						
Meilan Airport	**CTGDF**	**32,000**	**1,800+**	**200+**	**300+**	**300+**
Haikou downtown DFS	**CTGDF**	**22,000**	**2,000+**	**100+**	**800+**	**400+**
Haikou Mission Hills Duty Free Store	Shenzhen Duty-free Group/ DFS Group	20,000	350+	350+	90+	90+
Global Premium Duty Free Plaza	Hainan Development Holding	3,000 (Phase I only)	N/A	N/A	N/A	N/A
Sanya						
Sanya Haitang Bay mall	**CTGDF**	**72,000**	**7,000+**	**450+**	**2,100+**	**2,200+**
Sanya Phoenix Airport	**CTGDF**	**800 (Phase I only)**	**500+**	**N/A**	**200+**	**N/A**
Sanya Intl Duty Free Shopping Park	The China National Service Corporation for Chinese Personnel Working Abroad	33,000	300+	50+	90+	100+
Sanya Hainan Tourism Duty Free Shopping Complex	Hainan Tourism Investment Development/ Lagardere	50,000	300+	N/A	300+	N/A

Source: Company data, Jessica's Secret, CMBIS

■ Customer Loyalty Program

To better preserve its client loyalty, CTGDF has established a five-tier customer loyalty program. Each tier offers unique privileges and customers may upgrade to the next tier after fulfilling the relevant spending requirements. Customers gain membership points upon any successful purchases and points could be used to offset payment in future purchases. Leveraging the recent popularity of online shopping, the loyalty program can be accessed via WeChat mini-app.

Figure 16: CTGDF offers a much richer product portfolio than peers

Membership Tier	Upgrade Requirements	Membership Benefits
Ordinary	Free	• 2x membership points during birthday month
Silver	Total spending exceeds RMB5,000 within a three-year period, refreshed at the end of each calendar year	• 1.2x membership points when shopping • 2x membership points during birthday month
Gold	Total spending exceeds RMB10,000 within a three-year period, refreshed at the end of each calendar year	• 1.5x membership points when shopping • 2x membership points during birthday month
Platinum	Total spending exceeds RMB50,000 within a three-year period, refreshed at the end of each calendar year	• 2x membership points when shopping • 2x membership points during birthday month • Express checkout • Dedicated customer service line • Dedicated salon • Dedicated airport transfer (twice per year)
Diamond	Total spending exceeds RMB100,000 within a three-year period, refreshed at the end of each calendar year	• 2x membership points when shopping • 2x membership points during birthday month • Express checkout • Dedicated customer service line • Dedicated salon • Private shopping companion • Dedicated airport transfer (five times per year)

Source: Company data, CMBIS

Enjoying policy tailwind; and we expect more to come

To revive the duty-free market that has been significantly hit by COVID-19, the Chinese government enacted a series of policies to promote the growth and development of the duty-free industry including measures to encourage offshore duty-free shopping and the development of integrated travel retail complex and downtown duty-free stores. In our view, with the below policy aids, Hainan is poised to reach RMB100bn DFS sale target by 2022E.

Figure 17: List of favourable policies that promote the duty-free market

Time	Key message
April 2011	• The official launch of preferential tax policy for travellers leaving Hainan to enjoy duty-free shopping
November 2012	• The increase in duty-free spending allowance (from RMB5,000 to RMB8,000) • The expansion of product category list (from 18 to 21 items)
March 2015	• The expansion of product category list (from 21 to 38 items)
February 2016	• The approval of non-Hainan residents making duty-free purchases multiple times in a year with annual exempted tax value of up to RMB16,000 • The approval of duty-free stores operating online shopping platforms
December 2018	• The increase in offshore duty-free shopping allowance (from RMB16,000 to RMB30,000) • The cancellation of limits on the number of purchases
June 2020	• The announcement of favourable corporate tax policies for registered companies in Hainan and companies operating in encouraged industries (lower rate of 15% or exempted) • The announcement of favourable individual income tax policies for talents and those in short supply (the part of tax burden above 15% would be exempted) • The increase in annual purchase cap (from RMB30,000 to RMB100,000) • The expansion of product category list (from 38 to 45 items) • The cancellation of the maximum purchase price of RMB8,000 per item
November 2020	• The announcement of a set of measures for the customs supervision of zero tariff raw and auxiliary materials imported into the Hainan Free Trade Port
December 2020	• The approval of establishment of six new duty-free stores in Hainan • The announcement of the List of “Zero Tariff” Vehicles and Yachts in the Hainan Free Trade Port
February 2021	• The launch of mail services, instead of picking up the goods at the airports and train stations • The announcement of the Negative List on “Zero Tariff” Policy for importing self-use production equipment into Hainan Free Trade Port
April 2021	• The announcement of further relaxation on market access in major industries such as healthcare and finance

Source: Government websites, CMBIS

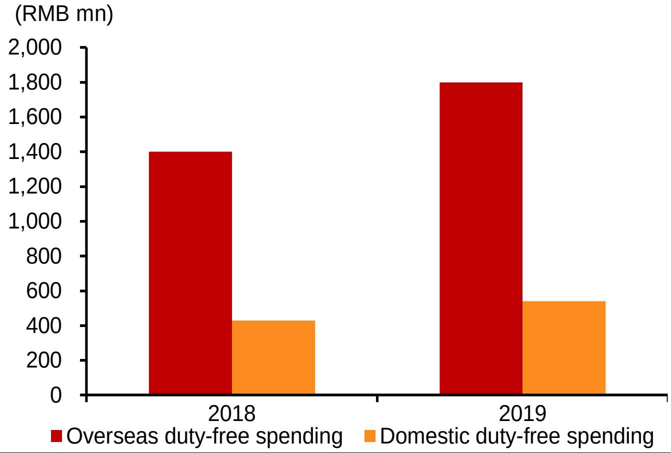
■ **We await relaxation on purchase of imported necessities for Hainan residents**

The next supportive policy announcement, according to the Chinese government in December 2020, relates to allowing duty-free shopping for Hainan onshore residents (without departing Hainan), which we believe could be a pilot program ahead of the tax exemption initiative for Hainan by 2025. According to Wind, there are about 9mn local residents in Hainan. Assuming an annual luxury/ leisure spending of RMB1,000 that CTGDF could capture, we estimate the relaxation, should it realize, would represent a RMB9bn addressable market that CTGDF could explore and a 14% expansion to the Hainan offshore duty free market.

■ **Domestic consumption repatriation**

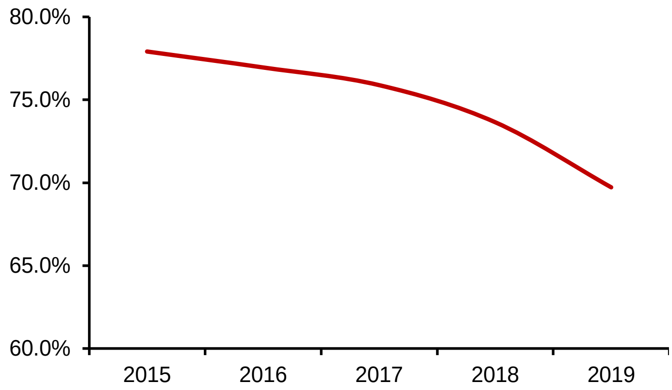
The 14th Five-Year Plan promotes a new development pattern that centers on the domestic consumption circulation along with the co-development of an international circulation. The policy emphasizes the central role of the domestic consumption and seeks to improve the efficacy and efficiency of the circulation with the aim of bringing back overseas spending to sustain domestic economic growth. According to CTGDF, total overseas duty-free spending by China tourists reached approximately RMB1.8tn in 2019, with Korean Duty-free (KDFS) contributing to RMB1tn, 55% of the total. These compare to only RMB54bn domestic duty free spending. Assuming 10% of the spending will be redirected to the domestic market; we estimate this could boost the market size of the latter by 33%.

Figure 18: Duty-free spending 2018/19 (RMB mn)



Source: Wind, UNWTO, CMBIS

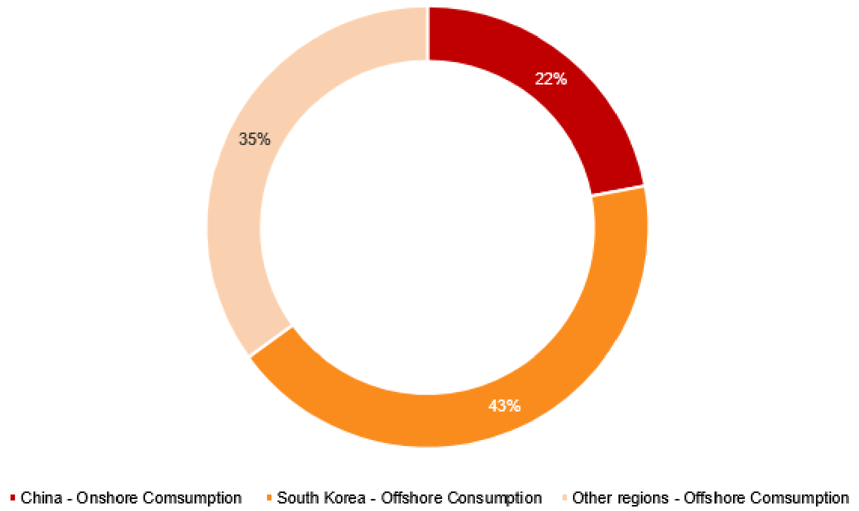
Figure 19: c70% luxury spending made in overseas



Source: Company data, CMBIS

On a separate note, The Tax Free World Association (TFWA) pointed out that around 78% of China consumers' spending were conducted overseas. The organization also pointed out that Chinese consumers contributed about 60% of the global duty-free consumption in 2020, and about 80% of the Korea duty-free consumption of the same year.

Figure 20: Scale of duty-free goods purchased by Chinese consumers in different regions, 2019



Source: TFWA

In fact, with the relaxation of duty-free policy since July 2020, the total imports of consumer goods grew 8.2% YoY to RMB1.6tn, according to the China Custom. Jewelry and cosmetics offered the fastest growth of 30%, followed by suitcase of 20%. This translated to RMB33bn duty-free spending for Hainan for the same year, despite travel restrictions amid the pandemic. Given the ambition of reshaping Hainan to be a tax-free port by 2025, domestic duty-free sales will remain a channel to repatriate overseas consumption back to China.

Figure 21: Tax summary for imported products to China

Product Category	Minimum Tariff	GST	VAT
Wine	20%	10%	13%
Tobacco	10%	46%	13%
Handbags/ Luggage	10%	N/A	13%
Watches	11%	20%	13%
Jewellery	17%	5%	13%
Make-up	5%	15%	13%
Perfume	5%	15%	13%

Source: China Customs, State Taxation Administration

Aggressive online strategy

CTGDF took the initiative to develop its online platform. It takes full advantage of the rise of online shopping and creates a consistent customer engagement from the moment a trip is planned and the moment the traveler returns home. The international travel restrictions since early 2020, as a result of the COVID-19 pandemic has accidentally accelerated the launch of the initiative. Of note, CTGDF has been full engaged in online sales and marketing through multiple online channels since February 2020 with new functions that are, but not limited to the followings:

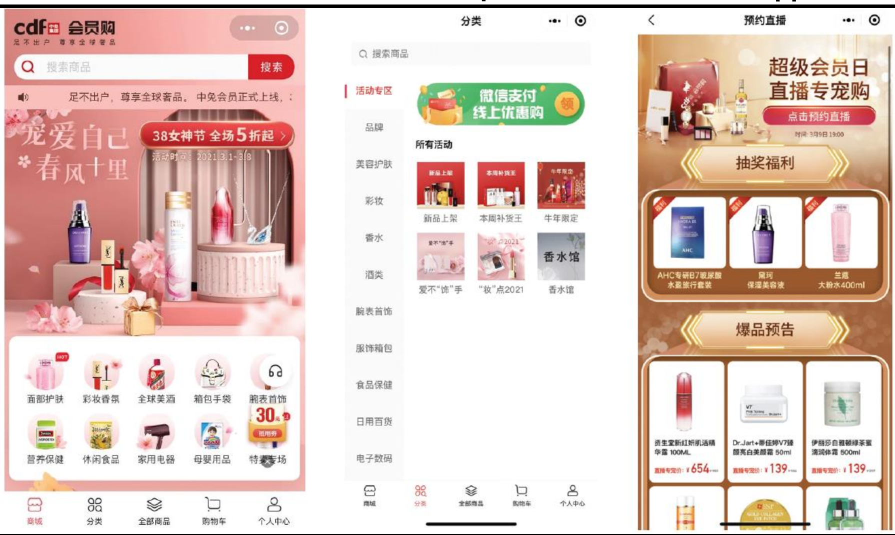
- **Personalized product recommendations**

Personalized product recommendations were made to customers based on their browsing and purchase histories. CTGDF also organized livestreaming shows to enable direct interaction between customers and KOLs.

- **Customer services and customer loyalty program**

The Company provided online chats and hotline support to respond to customer enquiries. An integrated customer loyalty program based on membership points was also created via WeChat app.

Figure 22: Screenshots of the cdf membership club's WeChat mini-app



Source: Company data

Unlocking value from a USD1bn H-share secondary listing

We believe CTGDF's upcoming H-share listing (likely within 4Q21) is value accretive to shareholders. Operationally, the listing will help cementing CTGDF's global presence by enhancing its war chest for future overseas expansion or acquisitions, as well as smoothing out its international procurement activities. The former will include green-field projects in port stores overseas, securing concession rights and operate duty-free stores in airports in Asia, as well as duty-free counters on cruise ships, of which is regarded as the new growth spot for Chinese tourists. Separately, according to CTGDF, there will be a portion of the proceeds to be spent on existing channels, including but not limited to:

1) Investment in the duty-free stores in key airports, seaports, railway stations, etc. More specifically, the proceeds will be used to (a) develop new stores in key airports, especially in relation to their renovation, procurement and operations, and (b) renew the concession rights;

2) Development of the integrated travel retail complex. Integrated travel retail complex is a business model with duty-free retail as their core business and in synergetic development with other businesses such as duty-paid retail, dining, entertainment, leisure and hotel;

3) Expansion for the Haikou International Duty-Free Complex and the Sanya International Duty-free Complex. Both are expected to complete in 2022 and 2023. .

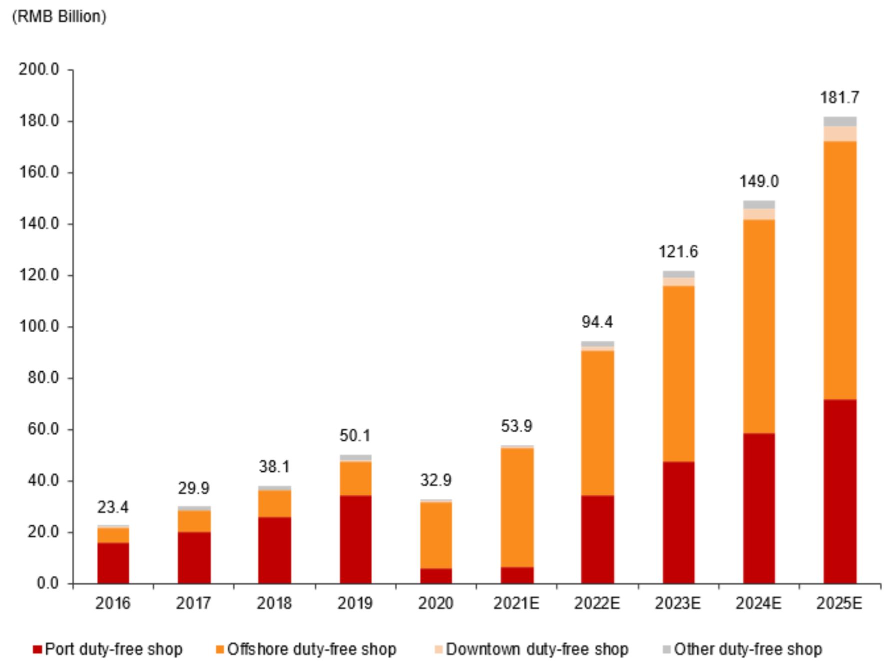
Figure 23: Exterior of Phase I of Sanya International Duty-Free Complex (Frontal View)

Source: Company data

Figure 24: Exterior of Phase II of Sanya International Duty-Free Complex

Source: Company data

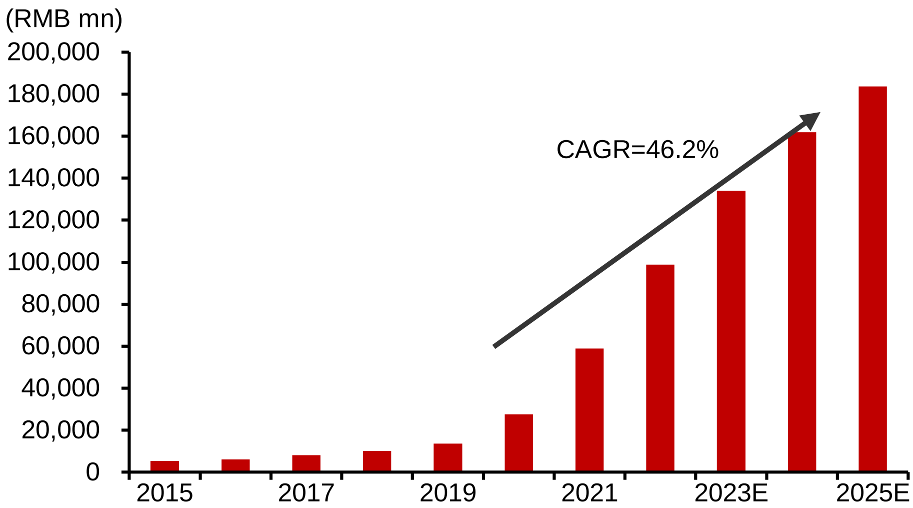
Figure 25: China domestic duty-free market size (by channel), 2016-25E



Source: Frost & Sullivan, CMBIS

We believe the expansion of Haikou/ Sanya Duty-free complex is crucial to sustain CTGDF's leadership in Hainan (currently 90%+ market share), especially when we forecast Hainan's total duty-free sales could grow at a 46.2% 5-year CAGR from currently RMB60bn by end-2021 to RMB183bn by 2025. Our forecast is in line with Hainan's official target of RMB60bn in 2021 and RMB100bn in 2022, and is slightly more aggressive than IATA's recovery expectation of having global tourist traffic for 2022 and 2023 to reach 88% and 105% of 2019, respectively.

Figure 26: We estimate Hainan duty-free sales to reach RMB183bn in 2025



Source: Company data, Wind, CMBIS

Potential re-rating from an expanded shareholder base

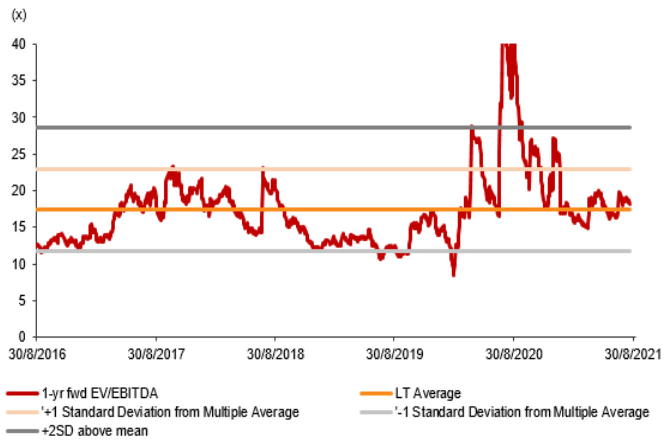
We argue the benefits from CTGDF's secondary listing in HK do not only source from an enhanced operational efficiency, but also from an expanded global investor base. CTGDF will be the only stock in the H-share market that directly exposes to the fast-growing duty-free market of China. It possess a recognizable operational scale and an unparalleled industry leadership, a crown jewel of the market that deserves a scarcity premium over both its international and domestic peers in a sustainable manner.

Since July 2020, CTGDF used to trade at a 2.0x average premium to its international peers, such as Hotel Shilla (008770 KS, NR), Lotte Shopping (023530 KS, NR), Lagardere (MMB FP, NR) and Dufry (DUFN SW, NR). Given a higher ROE and faster earnings projection (34% 2-year CAGR vs c20% CAGR), CTGDF looks to be undervalued relative to its peers.

Figure 27: Hotel Shilla bounced c50% from trough

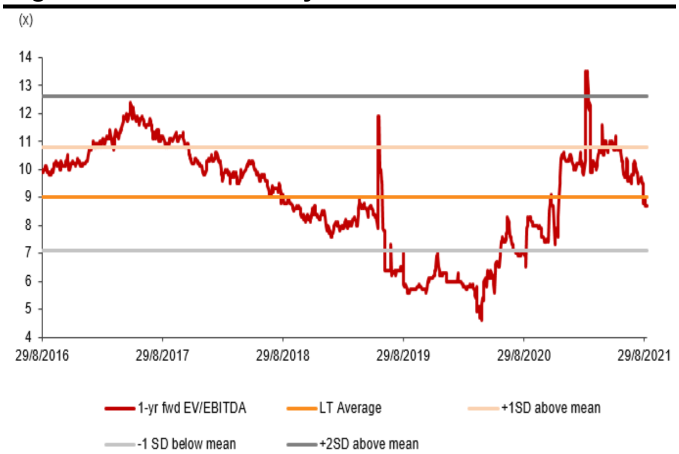
Source: Bloomberg, CMBIS

Figure 28: … so did Lotte



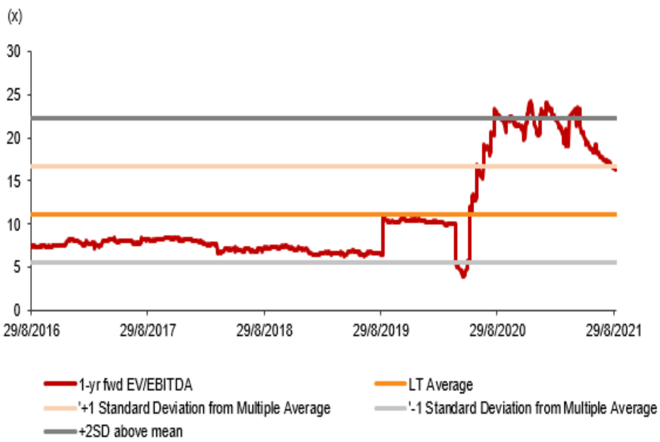
Source: Bloomberg, CMBIS

Figure 29: … while Dutry's valuation doubled



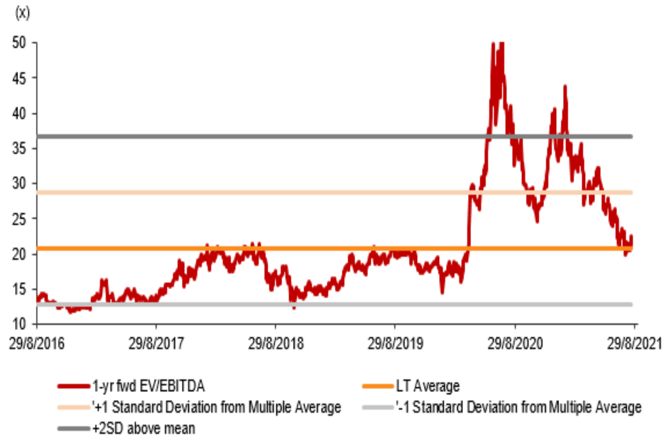
Source: Bloomberg, CMBIS

Figure 30: … so did Lagardere's



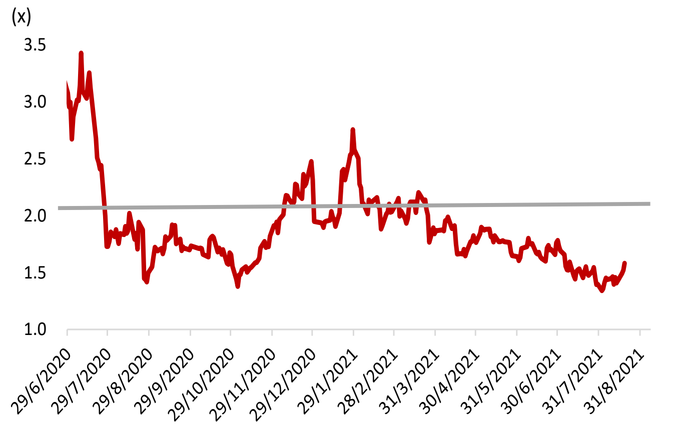
Source: Bloomberg, CMBIS

Figure 31: … but CTGDF only recovered by ~20%



Source: Bloomberg, CMBIS

Figure 32: CTGDF's premium to peers below 1 yr avg



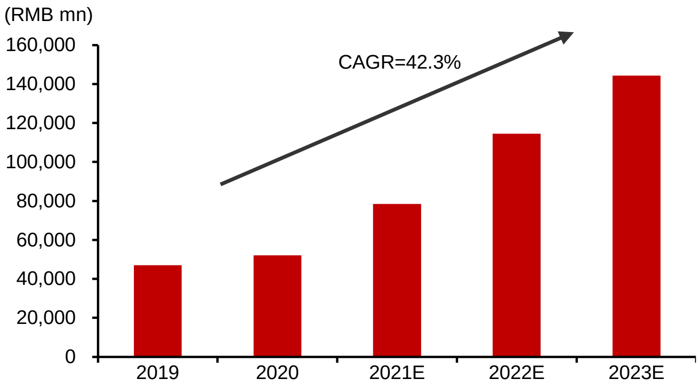
Source: Bloomberg, CMBIS

Financial analysis

We project a 42.3% 3-year revenue CAGR for CTGDF during 2020-23E, driven mainly by a 51.0% CAGR of duty-free sales, which will be underpinned by the fast-growing Hainan offshore duty-free business. Owing to the rapid expansion of the online operations, which typically offer lower profitability, as well as more aggressive discount promotions amid the pandemic, we estimate gross margins weakness to prevail until 2022E when benefits of a better SKU mix and scale of economies emerge. Meanwhile, a lower rental and hence better operating leverage could partially neutralize the impact to our net profits estimates. We regard further rental concessions from Beijing and Guangzhou airports and Hainan's tax concession as event-driven catalyst to our earnings forecasts.

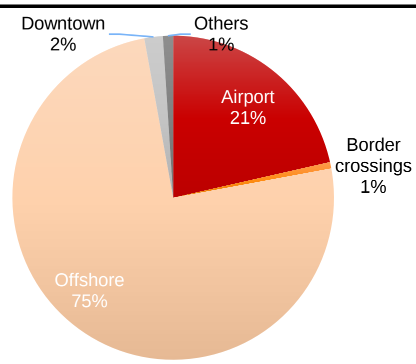
- **Hainan offshore and online businesses are major revenue growth drivers**
  We expect total revenue growth to offer a 42.3% 3-year CAGR from 2020-2023E, mainly driven by the 51.0% CAGR of duty-free sales. Owing to the resurgence of COVID cases in May, 2Q21 revenue were flat QoQ. Together with the lingering outbreaks in Nanjing by end-July, we believe market expectation on 3Q revenue has remained low. That said, this could probably mark the trough of the year, followed by a quick recovery heading into the festive 4Q, in our view. Into 2022E, we are hopeful to see a pick-up in duty-free revenue from a better tourist traffic to Hainan. Separately, there is no sign of a slowdown in CTGDF's online business thanks to an aggressive online strategy, not to mention the gradual yet permanent migration in the shopping behaviour for Chinese consumers. For instance, we estimate CTGDF's Sanya DF and Hainan Duty-free (HDFS) to register RMB39.4bn/14.5bn and RMB49.3bn/19.5bn revenue for 2021/22E, respectively. (1H21: RMB18.5bn and RMB7.7bn).

Figure 33: Revenue growing at 3-year CAGR 42.3%



Source: Company data, CMBIS

Figure 34: CTGDF revenue breakdown 2021E

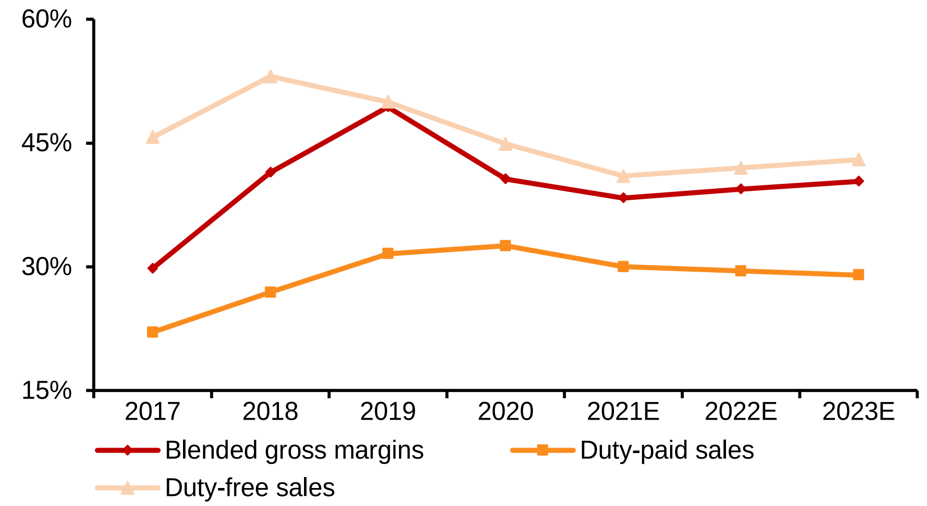


Source: Company data, CMBIS
Note: Offshore DF revenue includes all operations in Hainan

- **Margins recovery in sight thanks to better efficiency and SKU mix**
  Profit margins across business segments (i.e. ports, airports and offshore operations, etc.) vary due to product mix and mark-up. Of note, cosmetic and beauty products typically offer higher margins than luxuries and apparels. The same dynamic also applies to CTGDF's online platform, which commands a lower margin than offline sales due to more intensified competition and difference in SKUs.

  Since 2020, a higher contribution from electronic platforms (website, WeChat) and discount offered to members were the major reasons for gross margins to soften. That said, we are optimistic that over time scale of economies from a centralized procurement would gradually mitigate the trend. Separately, CTGDF also mentioned since the policy relaxation in July 2020, they have seen a noticeable pickup in demand for high price-tag products. There is also an increasing number of brand owners who are becoming more aggressive to offer discount promotions. In our view, this should be positive to CTGDF. We only expect a more meaningful pick-up beyond 2022E when travel restrictions are more likely to be withdrawn.

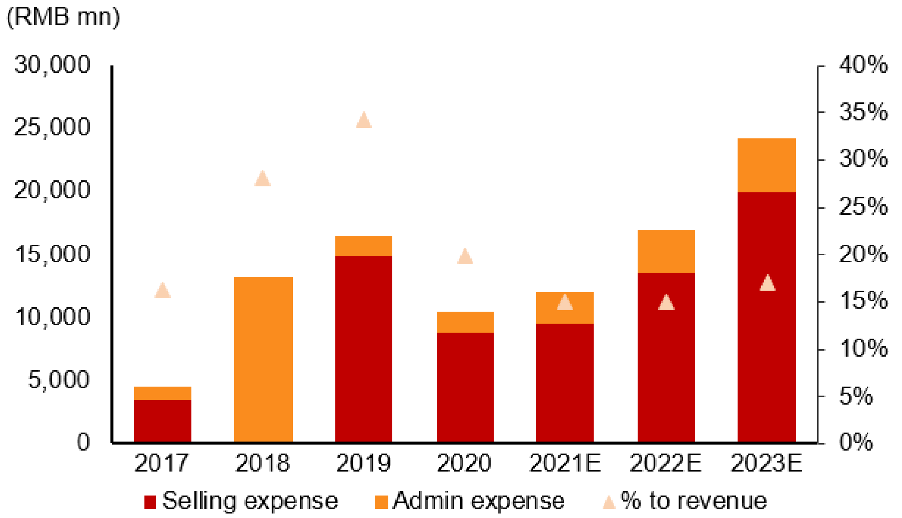
Figure 35: Gross margins profile 2017-23E



Source: Company data, CMBIS

- **Rental revision a relief to margins; provision reversal an upside to earnings**
  The revision on the rental negotiations with Shanghai Pudong airport was favorable to CTGDF. Instead of charging a monthly rental guarantee, the new term is based on variable factors such as international and total passenger volume as well as rental area, if international traffic falls below 80% of the average monthly level of 2019. Separately, the monthly rental guarantee would only be required only when international passenger traffic rises beyond 80% of the average monthly level of 2019. On the financial statements, the new agreement has achieved a 70% rental fee savings for 2020. Considering also a swift migration to e-commerce platforms, we believe CTGDF will see a structural reduction on its rental expenses under SG&A.

Figure 36: SG&A expenses breakdown 2017-23E



Source: Company data, CMBIS

CTGDF has not finalized its discussions with Beijing and Guangzhou Airport. But since rental terms of both were based on passenger traffic of the airports, we incline to believe CTGDF would also be able to enjoy similar concessions when the number of international travelers remains unexciting. We estimate CTGDF had already provided for the rental expenses for Beijing and Guangzhou airports for 2020 and 1H21. In this case, any future rental concessions should prompt relevant reversals and hence profit accretive.

- **Hainan's 15% tax concession could boost 8% of 2021/22E consolidated NPs**

CTGDF recognized a 25% effective tax rate for 2018-20, as the Company is yet to be entitled to the 15% tax concession under Hainan's Free Trade Port (FTP) scheme. We have no visibility on when CTGDF could monetize the opportunity, however, we are certain that the recognition could not only lead to a partial reversal of a RMB2.57bn tax provision for 2020, but also 13% increase in post-tax profits for CTGDF's Hainan operations upon implementation. In our sensitivity analysis, the change could lead to c8% upside in our 2021/22E net profits estimate on group level.

Figure 37: Impact to our net profits estimate on Hainan's 15% tax concession

	Sanya Downtown		HDFS		CTGDF Total	
(RMB mn)	2020	2021E	2020	2021E	2020	2021E
Profits before tax	3,961	7,176	2,069	3,361	9,694	16,558
@ current tax rate	(990)	(1,794)	(517)	(840)	(2,287)	(4,139)
@ 15% tax rate	(594)	(1,076)	(310)	(504)	(1,684)	(3,086)
PAT adjusted for shareholding @ current tax rate	2,971	5,382	636	1,034	7,407	12,418
PAT adjusted for shareholding @ 15% tax rate	3,367	6,099	721	1,171	8,010	13,472
Difference					**8.1%**	**8.5%**

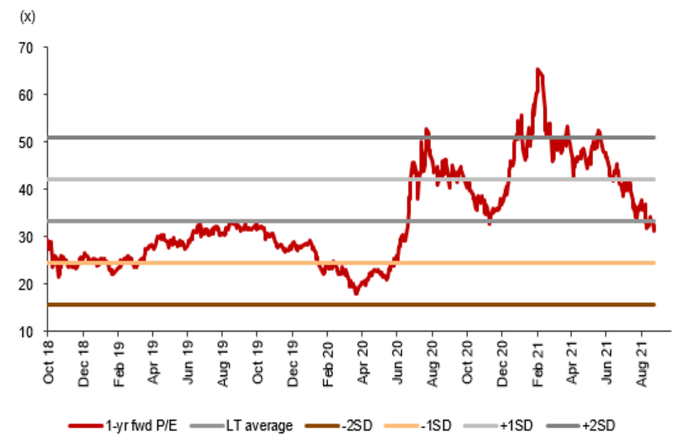
Source: Company data, CMBIS

Valuation

We initiate at Buy with a target price of RMB350.0

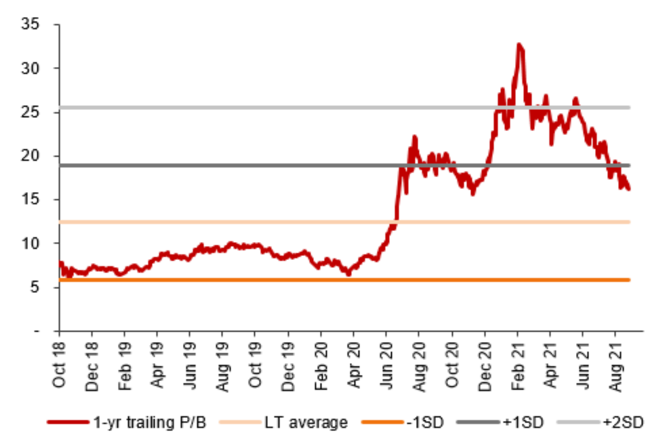
We initiate CTGDF at Buy. Our target price of RMB350.0 is based on 43.0x end-22E P/E, which represents +1sd above average of the last 3 years. CTGDF was significantly re-rated since July 2020, when a set of policy relaxations on duty-free spending cap was announced. As such, our target multiple is also approximately benchmarked to the long-term average valuation starting from July 2020 of 44.0x. Our methodology explains our near-term expectation for CTGDF's share price to mean-revert as if domestic travel and spending were to recover approaching a more festive 4Q, and even to a better 2022E with undisrupted domestic tourist traffic.

Figure 38: 12M forward P/E band



Source: Company data, Bloomberg, CMBIS

Figure 39: 12M trailing P/B band



Source: Company data, Bloomberg, CMBIS

Figure 40: 12M forward P/E band, with average since July 2020

Source: Company data, Bloomberg, CMBIS

Figure 41: Valuation summary

Company name	Bloomberg Code	Share price 13 Sep	Market Cap USD Mn	TP	Upside (%)	PER (x) FY21E	PER (x) FY22E	PBR (x) FY21E	PBR (x) FY22E	EV/EBITDA(x) FY21E	EV/EBITDA(x) FY22E	Div yield (%) FY21E	Div yield (%) FY22E	ROE (%) FY21E	ROE (%) FY22E
Global duty free															
CTGDF	601888 CH Equity	251.3	75,994.5	350.0	39.30	45.9	30.9	16.2	11.5	28.3	19.0	0.5	0.7	35.2	37.2
DUFRY AG-REG	DUFN SW Equity	46.5	4,579.3	NR	n.a.	n.a.	28.2	6.0	8.4	n.a.	n.a.	n.a.	1.3	n.a	13.2
LAGARDERE SA	MMB FP Equity	20.2	3,354.3	NR	n.a.	n.a.	23.4	4.6	3.3	20.1	11.4	n.a.	1.4	n.a	8.7
HOTEL SHILLA	008770 KS Equity	87,000	2,904.6	NR	n.a.	51.1	21.0	5.1	4.1	14.4	11.1	0.0	0.0	10.2	21.9
SHINSEGAE INC	004170 KS Equity	274,500	2,298.9	NR	n.a.	11.4	9.0	0.7	0.7	8.3	8.2	0.7	0.7	6.6	7.7
China duty free/ travel retail/ hotel															
WANGFUJING GROUP	600859 CH Equity	31.3	3,761.5	NR	n.a.	26.0	22.5	2.0	1.9	15.6	13.3	0.0	0.0	7.6	8.1
SHANGHAI BAILIAN	900923 CH Equity	0.9	3,748.9	NR	n.a.	11.0	9.9	0.5	0.5	13.7	13.2	0.0	0.0	4.8	5.2
HUNAN FRIENDSHIP & APOLLO	002277 CH Equity	3.5	758.1	NR	n.a.	16.7	15.6	0.7	0.7	n.a.	n.a.	0.0	0.0	4.2	4.3
ZHONGBAI HOLDINGS GROUP	000759 CH Equity	5.1	538.0	NR	n.a.	76.1	58.6	1.1	1.1	n.a.	n.a.	0.0	0.0	1.4	1.8
BETTER LIFE COMMERCIAL	002251 CH Equity	7.1	946.2	NR	n.a.	33.3	30.0	0.9	0.9	14.2	13.0	0.0	0.0	2.2	2.4
DASHANG	600694 CH Equity	20.7	941.4	NR	n.a.	10.0	9.2	0.6	0.6	5.8	5.4	0.0	0.0	n.a.	6.7
GUANGZHOU LINGNAN	000524 CH Equity	7.1	740.3	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
WUHAN DEPARTMENT STORE	000501 CH Equity	11.3	1,345.0	NR	n.a.	8.3	8.3	0.8	0.7	7.9	4.7	0.0	0.0	9.1	9.0
SONGCHENG PERFORMANCE	300144 CH Equity	15.2	6,156.8	NR	n.a.	47.4	28.0	4.9	4.2	27.3	18.8	0.0	0.0	10.2	14.9

Source: Bloomberg, CMBIS estimates
Note: Closing price as of 13 Sep 2021

Investment risk

Changes in the existing duty-free policies and regulations – CTGDF's duty-free retail business in China is generally subject to the government policies and regulations, and any changes in these policies or regulations would significantly impact the duty-free purchase volume, and thus materially impact CTGDF. In particular, the downtown duty-free policies will likely be further refined and the further development of downtown duty-free stores, especially those by CTGDF's competitors, may increase the competition.

Renewed outbreak of domestic COVID variants – that directly attributable to further travel bans and hence visitation to Hainan.

Competition from online shopping platforms – online retailers, for instance the Daigou service provider, are able to sell directly to consumers, diminishing the importance of traditional distribution channels. Internet retailers may have significantly lower operating costs than CTGDF does, as they do not rely on an expensive physical retail network or a large sales force. Their products could look more price competitive than CTGDF's.

Risk with brand owners – renewal of contracts with brands is subject to the mutual consent and CTGDF may lose the cooperation due to various reason such as brand owners' ongoing struggle on balancing the interest between onshore and duty-free sales.

Resumption of global travelling activities – this may indirectly channel domestic duty-free spending to overseas.

Company Overview

The predecessor of CTGDF, China Duty Free Company, was established in 1984 to operate nationwide duty-free business when the State Council of the PRC officially authorized its establishment. Backed by CITS Group and OCT Group, the Company, formerly known as China International Travel Service Corporation, was founded in 2008 with a registered share capital of RMB660mn. CITS Group is a state-owned enterprise that primarily engaged in travel services, duty-free business and real estate development and management, while OCT Group is a state-owned enterprise that primarily engaged in travel services, real estate and hotel development. CTGDF was listed on Shanghai Stock Exchange in 2009 with stock code 601888.

Figure 42: Major milestones of CTGDF

Year	Event
1984	China Duty Free Company, the predecessor of CDFG, was established
1989	China Duty Free Company's Hong Kong agency was established
1990	Commenced first downtown duty-free store in Beijing, China
1996	Commenced first border duty-free store in Heilongjiang Province
1997	Began selling domestic products at its duty-free stores
2001	Commenced Shanghai CDF Downtown Duty Free Shop
2004	Acted as one of the franchised retailers for the 2008 Beijing Olympic Games
2006	Established its first overseas sales terminals
2008	The Company, then known as China International Travel Service Corporation Limited, was established
2009	Listed on Shanghai Stock Exchange (stock code: 601888)
2011	Commenced Sanya downtown duty free store, the first duty-free store operated under the Policies on Duty-free Shopping for Travelers Leaving the Hainan Island
2014	Commenced Sanya International Duty-Free Complex (Phase I), the largest standalone duty-free store in the world in terms of sales area, according to Frost & Sullivan
	Commenced its first overseas duty-free store in downtown Angkor, Cambodia
2017	Acquired 51% equity interest in Sunrise China
	Secured the duty-free liquor and tobacco concession at Hong Kong International Airport through CDF-Lagardere Company Limited
	Secured the duty-free concessions at Terminal 2 and Terminal 3 of the international area of Beijing Capital International Airport for the following eight years
2018	Acquired 51% equity interest in Sunrise Shanghai
	Secured the duty-free concession onboard Costa Atlantica cruise ship
	Secured the duty-free concessions at Pudong International Airport and at Shanghai Hongqiao International Airport for the following seven years
2019	Secured the duty-free concessions for the following ten years at the Beijing Daxing International Airport
2020	Commenced Sanya International Duty-Free Complex (Phase II)
	Acquired 51% equity interest in Hainan DF
	Renamed as China Tourism Group Duty Free Corporation Limited
	Became the largest travel retailer in the world in terms of retail sales value, according to Frost & Sullivan

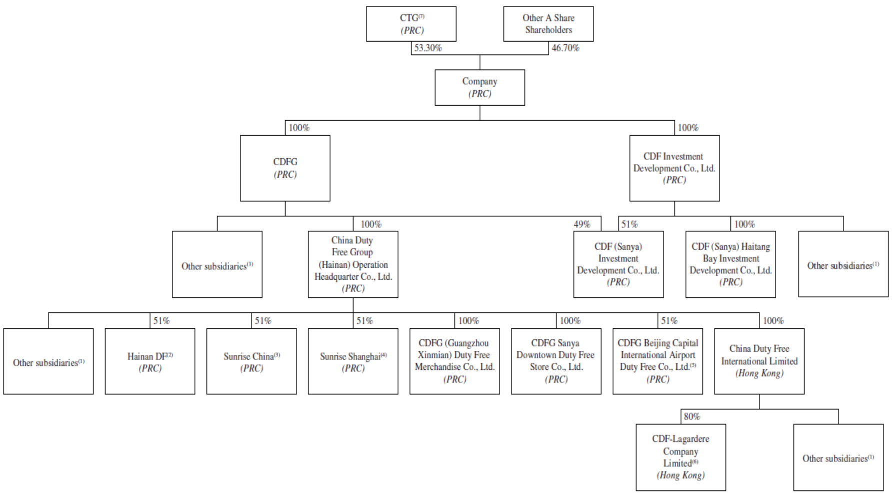
Source: Company data, CMBIS

With over 35 years of experience, CTGDF has become the largest travel retail operator worldwide offering high quality duty-free and duty-paid merchandise to travelers. CTGDF's worldwide ranking by retail sales value has gradually improved over the last decade, from the 19th in 2010 to the 12th in 2015, and further enhanced to the fourth in 2019 before hitting the top in 2020, representing a 22.6% of market share of the global travel retail industry in 2020, according to Frost & Sullivan.

To develop China's travel retail business, CTGDF focuses on duty-free, its core strength, while pursuing international expansion. Having the most duty-free stores in China, the Company is the dominant retail operator in China covering all duty-free sales channels, including port stores, offshore stores, downtown stores, cruise stores, inflight stores as well as ship-supply stores.

Acknowledging the importance of streamlining its business, CTGDF acquired Sunrise China, Sunrise Shanghai and Hainan DF in 2017, 2018 and 2020. In 2019, the Company transferred its entire equity interest in CITS Agency to CTG while continuing to focus on the duty-free retail industry. In response to its business and strategy, the Company was renamed as China Tourism Group Duty Free Corporation Limited in June 2020. As of 31 Dec 2020, CTGDF's registered capital was RMB1,952,475,544, comprising 1,952,475,544 A Shares, of which approximately 53.30% was held by CTGDF's controlling shareholder, CTG.

Figure 43: Corporate and shareholding structure of CTGDF



Source: Company data

As a key market player, CTGDF refined duty-free policies in China and brought innovations in duty-free business models, which allowed the Company to enjoy the first-mover advantage. Given the expectation of favorable offshore duty-free policies, in 2011, the Company operated an offshore duty-free store in downtown Sanya, namely the first in China. To take a step further, in 2014, CTGDF opened the Sanya International Duty-Free Complex, China's first integrated travel retail complex, which has been recognized as a landmark of Hainan and established the integrated travel retail complex business model for the industry. Being the largest standalone integrated travel retail complex in the world by sales area (over 70,000 sq m), other than duty-free business, the complex also supports other businesses such as duty-paid retail, dining, entertainment and leisure to offer a one-stop shopping and leisure experience.

Figure 44: Geographic distribution of CTGDF's stores in operation, as of 31 Dec 2020

Source: Company data

It operates a total of 194 stores, six oversea duty-free stores in Hong Kong, Macau and Cambodia, and 188 stores in Mainland China covering more than 90 cities, spanning across 29 provinces, municipalities and autonomous regions.

Figure 45: CTGDF's stores (by type)

	As of 31 Dec		
	2018	**2019**	**2020**
Port duty-free stores	122	126	126
Airport	58	60	60
Border crossings and others[1]	64	66	66
Offshore duty-free stores	1	4	5
Downtown duty-free stores	3	9	9
Others[2]	56	59	54
Total	**182**	**198**	**194**

Source: Company data
Note: (1) Including railway stations, cross-border bus stations and seaports
(2) Including cruise duty-free stores, inflight duty-free stores, ship-supply duty free stores and duty-paid stores

1. Port duty-free stores

CTGDF has a broad network of port duty-free stores covering airports, border crossings and other areas such as railway stations, cross-border bus stations and seaports. With airport channel being the largest part of its port duty-free business, CTGDF's stores can be found in both departure and arrival areas in airports, and are usually located in central areas with strong traffic. Thanks to its wholly-owned subsidiary CDFG and majority-owned subsidiaries Sunrise China and Sunrise Shanghai, CTGDF has concession rights to run duty-free stores in key aviation hubs in China and the Asia-Pacific Region, including nine of the top ten airports in China, including Beijing Capital International Airport, Shanghai Pudong International Airport and Guangzhou Baiyun International Airport, the top three airports in terms of international passenger traffic in 2020, as well as the Hong Kong International Airport and the Macau International Airport.

In addition, CTGDF secured the concession rights in 2019 to sell duty-free perfume, cosmetics, food, tobacco and liquor products at Beijing Daxing International Airport for a term of 10 years. Looking ahead, the passenger traffic of Daxing Airport is expected to grow and the Company's influence over the duty-free channels of the major ports would be further enhanced.

According to Frost & Sullivan, CTGDF's duty-free stores offer the most comprehensive coverage in border crossings across China. It had duty-free stores at 46 land border-crossings, 20 duty-free stores in other locations including railway stations, cross-border bus stations and seaports, as of 31 Dec 2020.

Figure 46: Wine cellar feature zone at one of the "DUTY ZERO by cdf" stores

Source: Company data

Figure 47: Storefront of the "cdf Beauty" store at the Citygate Outlets in Hong Kong

Source: Company data

2. Offshore duty-free stores

Following the favorable tax policy for tourists leaving Hainan to enjoy duty-free shopping, Hainan's core duty-free sale channels have been captured by CTGDF through the establishment of offshore duty-free stores throughout the island. In 2014, its Sanya International Duty-Free Complex, the first integrated travel retail complex in China, and the largest single duty-free store in the world in terms of total sales area according to Frost & Sullivan, commenced business with more than 70,000 sq m of sales area. CTGDF also operates duty-free stores with easy access in downtown Haikou and the area of Boao Forum for Asia. To stay in line with its marketing and promotion strategy, it has set up experience centers designed for different locations such as resorts, scenic spots, and outlets in Hainan to let travelers experience the products in person while offering the pick-up service when they depart Hainan. Together with two major airports in Hainan, it has successfully set up a well-rounded duty-free retail network.

CTGDF's offshore duty-free stores offer Chinese tourists who usually visit overseas duty-free stores another option. In 2020, in view of the favorable government policies and COVID-19 pandemic which caused significant decrease in international travel activities, its sales from offshore duty-free stores recorded a strong improvement. In 2018, 2019 and 2020, the revenue generated from offshore duty-free stores were RMB8,010.4mn, RMB13,249.6mn and RMB29,961.9mn, with a CAGR of 93.4%.

Figure 48: Exterior of Phase I of Sanya International Duty-Free Complex (Frontal View)

Source: Company data

Figure 49: Exterior of Phase II of Sanya International Duty-Free Complex

Source: Company data

In response to the "duty-free shopping plus premium hotel" project, expansion of Sanya International Duty-Free Complex is expected. The duty-free shopping area has been under construction since March 2021 and is foreseen to be completed in 2023 with an estimated GFA of 76,500 sq m. For hotel area, its construction is targeted to start in Dec 2021 and to commence operations in 2026 with an estimated GFA of 96,000 sq m.

3. Downtown duty-free stores

Apart from four overseas downtown duty-free stores, five downtown duty-free stores are operated in Beijing, Shanghai, Xiamen, Qingdao and Dalian respectively to target foreign nationals and Hong Kong, Macau and Taiwan residents. Customers are requested to show their travel documents when ordering and making payments. They can only collect the purchased goods in the pick-up areas of airports or other facilities where CTGDF operates. In other words, to purchase duty-free products at CTGDF's downtown duty-free stores, customers need to have a definite plan to travel abroad.

4. Others

CTGDF also operates duty-free stores onboard cruise liners and airplanes that are en route to destinations abroad. While operating in-flight duty stores with major airlines in China, CTGDF signed a cooperation agreement with one of the world's largest cruise companies in 2018 to step into the international cruise market, securing the concession rights to operate duty-free stores on their cruises.

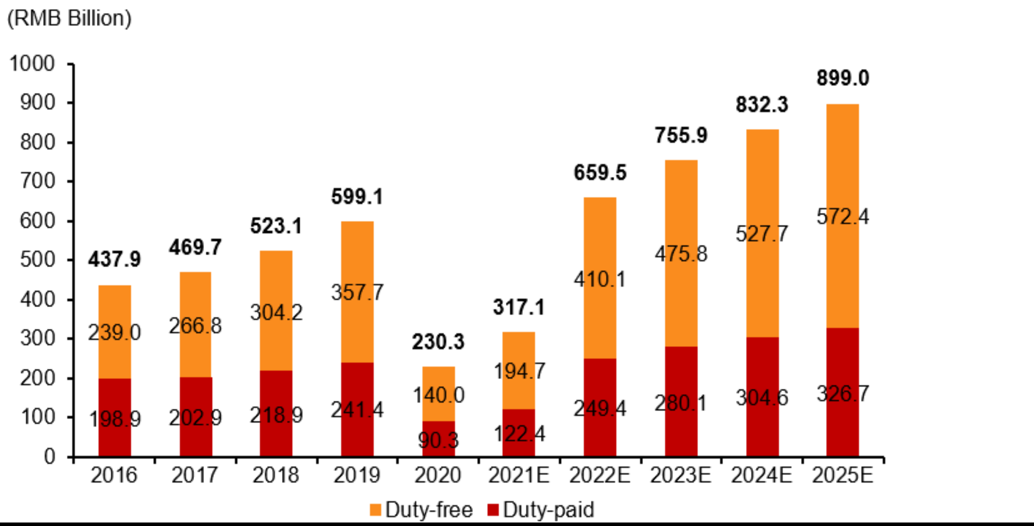
In addition, ship-supply services are available for outbound ships, and duty-paid stores are available in the domestic departure and arrival areas of several airports and railway stations.

Market Size of the Global Travel Retail Market

A steady increase had been recorded in the global travel retail market, rising from RMB437.9bn in 2016 to RMB599.1bn in 2019 with a CAGR of 11.0%. However, in 2020, given the COVID-19 pandemic and relevant travel restrictions, the market size of global travel retail market was down 61.6% YoY to RMB230.3bn. It is expected that the travel retail market will resume and increase to RMB659.5bn in 2022, if the COVID-19 pandemic will be under control by early 2022. From 2022 to 2025, the travel retail market is projected to increase and will surge to RMB899.0bn in 2025, with a CAGR of 10.9%.

Duty-free travel retail accounted for 54.6% of the travel retail market globally in 2016 and grew at a CAGR of 14.4% from 2016 to 2019, faster than duty-paid travel retail at a CAGR of 6.7% during the same period. As COVID-19 hit the travel industry heavily in 2020, actions were taken by governments to stimulate the duty-free market, leading to its further enhancement in the global travel retail market share. Duty-free travel retail is expected to grow at a CAGR of 11.8% from 2022 to 2025, faster than duty-paid retail at 9.4% during the same period. The duty-free travel retail is expected to occupy 63.7% of the global travel retail market in 2025.

Figure 50: Market size of travel retail market (by sales), Global, 2016-25E

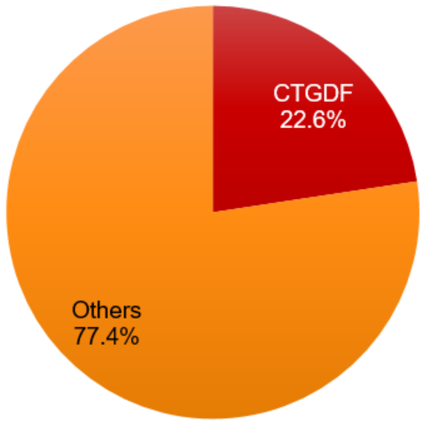


Source: Frost & Sullivan, CMBIS

■ Competitive landscape of the global travel retail market

Due to the high entry barrier, the global travel retail market is relatively concentrated. With a market share of 22.6%, in 2020, CTGDF ranked first among the top five global travel retailers, which together accounted for 69.2% of the market share in terms of retail sales.

Figure 51: Top 5 travel retailer ranking (by retail sales), Global, 2020

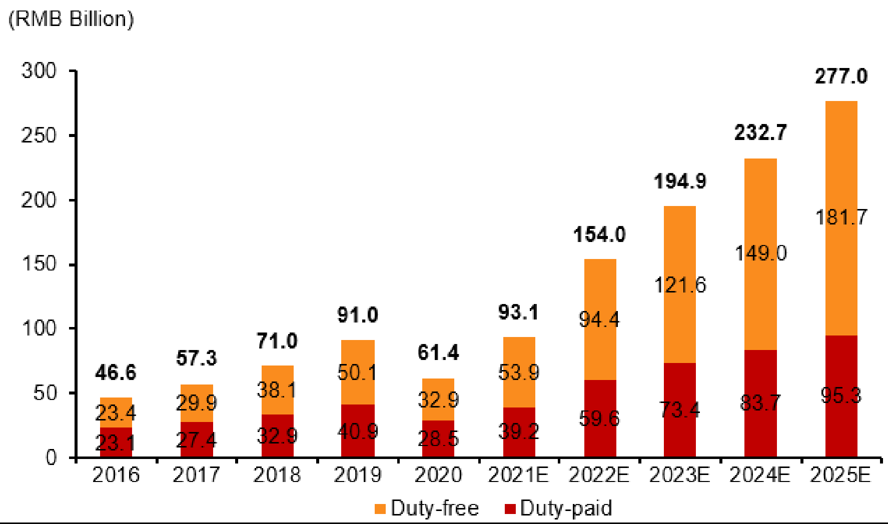


Source: Company data, Frost & Sullivan, CMBI

■ **Overview of the travel retail market in China**

With a CAGR of 25.0%, sales of travel retail goods in China amounted to RMB91.0bn in 2019, growing from RMB46.6bn in 2016. The COVID-19 pandemic had caused significant disruptions to the world in 2020, both domestic travel and international travel in China were inevitably affected. China's travel retail market still reached RMB61.4bn in 2020, representing a drop of 32.5% YoY (compared to 61.6% for the world and 40.3% in Asia during the same period). Meanwhile, China's travel retail market is foreseen to experience a stronger rebound than the rest of the world, reaching a CAGR of 19.2% from 2019 to 2022 (compared to 3.3% for the world and 7.1% in Asia). China's travel retail market is expected to further increase to RMB277.0bn by 2025, with a CAGR of 21.6% from 2022 to 2025, if the COVID-19 pandemic will be under control by early 2022, along with the recovery of international travel.

Figure 52: Market size of travel retail[1] (by sales), Mainland China, 2016-25E



Source: Frost & Sullivan, CMBIS

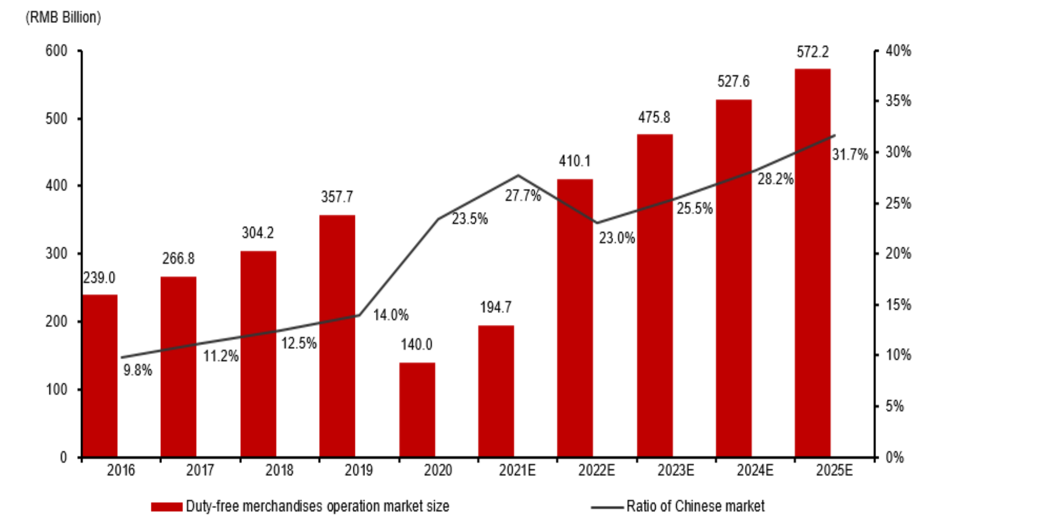
Note: (1) China travel retail and duty-free market size does not include the duty-free merchandise which can be purchased by Hainan residents without leaving Hainan island

■ **China's Duty-Free Market**

In light of the rapid development of the travel industry and the increase in residents' income levels, China's duty-free market experienced a swift growth with a CAGR of 28.8% from 2016 to 2019. Thanks to the effective containment effort and the favorable policies to support the duty-free market and promote domestic consumption, China's duty-free market demonstrated resilience and down only 34.2% in 2020 (compared to 60.9% for the world and 40.2% in Asia) and still amounted to RMB32.9bn in 2020. Going forward, it is believed that the favorable government policies will continue to motivate the growth of China's duty-free market, expecting a CAGR of 23.5% between 2019 and 2022, and a market of RMB94.4bn in 2022. China's duty-free market is expected to rise to RMB181.7bn by 2025, with a CAGR of 24.4% from 2022 to 2025, if the COVID-19 pandemic will be under control by early 2022, along with the recovery of international travel.

As an increasingly significant factor of China's travel retail market, sales of duty-free merchandise accounted for 50.2% and 53.6% of China's travel retail market in 2016 and 2020 respectively, and expected to increase to 65.6% in 2025. China's duty-free market is taking an increasingly important role in the global duty-free market, with its share of the global duty-free market climbing from 9.8% in 2016 to 23.5% in 2020, and is expected to grow to 31.7% by 2025.

Figure 53: Market size of duty-free merchandise operation market (by sales), Global, 2016-25E



Source: Frost & Sullivan, CMBIS

Note: (1) China travel retail and duty-free market size does not include the duty-free merchandise which can be purchased by Hainan residents without leaving Hainan island

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	**47,966**	**52,597**	**78,379**	**114,404**	**151,491**
Duty-paid sales	1,149	19,708	25,620	32,025	40,031
Duty-free sales	45,818	32,361	52,759	82,380	111,46
Other net income	**23,694**	**21,376**	**29,794**	**44,532**	**60,032**
Operating expenses	(408)	(516)	(542)	(577)	(612)
D&A	(14,904)	(8,847)	(9,405)	(14,301)	(19,69
Personnel costs	(1,549)	(1,637)	(2,351)	(3,432)	(4,545)
Repair and maintenance	(364)	(568)	(1,072)	(1,780)	(2,508)
Administration expenses	**6,468**	**9,809**	**16,423**	**24,444**	**32,673**
Other operating expenses					
EBIT	**6,876**	**10,325**	**16,965**	**25,020**	**33,285**
Finance costs, net	(11)	545	395	459	637
JV & associates	(314)	(676)	(260)	(297)	(362)
Exceptional	60	16	0	0	0
Pre-tax profit	**6,204**	**9,694**	**16,558**	**24,606**	**32,949**
Income tax	(1,525)	(2,287)	(4,139)	(6,151)	(8,237)
Less: Minority interests	(773)	(1,017)	(1,737)	(2,581)	(3,457)
Net profit	**3,906**	**6,390**	**10,681**	**15,873**	**21,255**

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	**3,906**	**6,390**	**10,681**	**15,873**	**21,255**
D&A	408	516	542	577	612
Change in working capital	(562)	(2,888)	(6,147)	(7,219)	(7,322)
Others	(630)	4,185	1,320	2,100	2,797
Net cash fr. operating act.	**3,121**	**8,202**	**6,396**	**11,331**	**17,342**
Capex & investments	(1,498)	(1,234)	(1,467)	(1,409)	(1,221)
Associated companies	(500)	(1,542)	-	-	-
Others	336	337	338	339	340
Net cash fr. investing act.	**(631)**	**(3,814)**	**(1,461)**	**(1,403)**	**(1,215)**
Equity raised	-	-	-	-	-
Change of Debts	3	255	-	-	-
Dividend paid	(1,618)	(1,658)	(2,670)	(3,492)	(4,676)
Others	(113)	20	(1)	(140)	(172)
Net cash fr. financing act.	**(1,729)**	**(1,383)**	**(2,671)**	**(3,632)**	**(4,848)**
Net change in cash	**761**	**3,005**	**2,265**	**6,297**	**11,280**
Cash at the beginning of the year	11,059	12,032	14,706	16,971	23,268
Exchange difference	85	(331)	-	-	-
Cash at the end of the year	**11,906**	**14,706**	**16,971**	**23,268**	**34,547**
Less: pledged cash	504	50	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	**8,442**	**10,948**	**11,867**	**12,693**	**13,296**
Fixed asset	1,632	1,591	1,758	1,903	2,025
Prepaid lease payments	357	357	357	357	357
Interest in JV	254	254	254	254	254
Other non-current assets	6,199	8,747	9,498	10,179	10,660
Current assets	**22,246**	**30,971**	**41,789**	**58,255**	**79,848**
Cash	11,906	14,706	16,971	23,268	34,547
Account receivable	800	129	192	280	371
Prepayments	381	256	256	256	256
Other current assets	9,159	15,881	24,371	34,452	44,675
Current liabilities	**7,961**	**15,661**	**18,067**	**21,018**	**24,009**
Borrowings	224	417	417	417	417
Obligations under finance	3,537	4,327	6,733	9,683	12,675
Other payables	2,729	7,246	7,246	7,246	7,246
Tax payables	1,471	3,671	3,671	3,671	3,671
Non-current liabilities	**415**	**79**	**79**	**79**	**79**
Borrowings	-	-	-	-	-
Obligations under finance leases	97	74	74	74	74
Deferred income	319	5	5	5	5
Others					
Minority Interest	**2,421**	**3,871**	**5,191**	**7,152**	**9,777**
Total net assets	**22,310**	**26,179**	**35,509**	**49,851**	**69,056**
Shareholders' equity	**22,310**	**26,179**	**35,509**	**49,851**	**69,056**

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Duty-paid sales	2.4	37.5	32.7	28.0	26.4
Duty-free sales	95.5	61.5	67.3	72.0	73.6
P&L ratios (%)					
Gross margin	49.4	40.6	38.0	38.9	39.6
Operating margin	13.5	18.6	21.0	21.4	21.6
Pre-tax margin	12.9	18.4	21.1	21.5	21.7
Net margin	8.1	12.1	13.6	13.9	14.0
Effective tax rate	(24.6)	(23.6)	(25.0)	(25.0)	(25.0)
Balance sheet analysis					
Current ratio (x)	0.5	0.5	0.4	0.4	0.4
Net receivable days	6.1	0.9	0.9	0.9	0.9
Net payable days	53.2	50.6	50.6	50.6	50.6
Inventory turnover days	124.1	172.8	172.8	172.8	172.8
Net debt to equity (%)	52.4	54.6	46.6	45.8	49.4
Returns (%)					
ROE	19.6	28.6	35.2	37.2	35.9
ROA	12.7	15.2	19.9	22.4	22.8
Dividend yield	0.3	0.4	0.5	0.7	1.0
Per share					
EPS (RMB)	2.0	3.3	5.5	8.1	10.9
DPS (RMB)	0.7	1.0	1.4	1.8	2.4
BVPS (RMB)	10.2	11.4	15.5	21.9	30.4

Source: Company data, CMBIS estimates

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