

# CTGDF (601888 CH)

## Lockdown in Sanya likely represents yet another entry opportunity

Sanya's Omicron subvariant BA.5.1.2 outbreak has led to ~700 positive cases as of yesterday, and has prompted the city to initiate lockdown again subsequent to the one in April this year. In response to this, CTGDF has suspended its Sanya operation (Sanya DFS Mall phase 1 and 2) starting from 5 Aug (same day as the lockdown was initiated) until further notice. Judging from past experience, we estimate that Sanya's social distancing policies will last for a month or so. This would undoubtedly put a pause on the recovery that we have seen in June and July, when August is at the core of the summer travel season. The incident has prompted us to lower our 2022E revenue by 14.9% considering also the preliminary results announcement for 2Q. Meanwhile, we raise our 2022E GPM by 1.4pp to factor in an improved discount discipline of the Hainan's duty free business, and these in aggregate explain to an 8.1% cut in our 2022E net profits and put us 6.6% below consensus. That said, similar to many other outbreaks in the past, any disruptions from lockdowns to tourist traffic would only represent temporary drags to share price, in our view. If the situation gets under control within August, we still see scope for travel demand to recover sequentially into 4Q, particularly when the quarter is seasonally clustered with festivals and shopping campaigns. We remain BUY-rated.

- **An update on Hainan's current outbreak.** 827 confirmed positive cases were reported during 1-7 Aug in the province, with 689 cases being reported in Sanya. Local government has initiated a lockdown and implemented city-wide nucleic acid tests. Meanwhile, inbound/ outbound flights, and public transportations are suspended. Tourists are permitted to return home only if they are tested negative after completing the 7-day risk screening tests (i.e., negative nucleic acid test results on day 1, 2, 3, 5, and 7).
- **Solid July momentum.** The Department of Commerce of Hainan Province reported over RMB5bn (+21% YoY) sales for offshore duty-free operators with RMB4bn duty-free sales (+9% YoY). The number extended from the strength in June in which CTGDF reported a 13% YoY sales growth.
- **Valuation.** Our new TP is based on an updated 45.0x (from 46.5x) roll-forward mid-23E P/E (from end-22E) which still represents 2-year average since 2020. We raised our target multiple [in our last upgrade report](#) to reflect the potential re-rating driven by the sequentially recovering, though bumpy, domestic tourist traffic over 2H22.

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	52,597	67,676	68,404	96,391	134,166
YoY growth (%)	8.2	28.7	1.1	40.9	39.2
Net income (RMB mn)	6,140	9,654	8,952	12,969	17,858
EPS (RMB)	3.1	4.9	4.6	6.6	9.1
YoY growth (%)	32.6	57.2	(7.3)	44.9	37.7
Consensus EPS (RMB)	n.a	n.a	4.9	7.3	9.3
P/E (x)	n.a	n.a	41.4	28.5	20.7
P/B (x)	n.a	n.a	10.4	8.3	6.5
Div yield (%)	n.a	0.8	0.8	1.1	1.5
ROE (%)	27.5	32.6	25.1	29.1	31.5
Net gearing (%)	54.6	32.8	48.6	50.1	53.5

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (maintain)**

Target Price **RMB253.0**  
 (Previous TP **RMB232.0**)  
 Up/Downside **+33.2%**  
 Current Price **RMB189.5**

### China Consumer Sector

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### Stock Data

Mkt Cap (RMB mn) 429,247 998  
 Avg 3 mths t/o (RMB mn) 2,650  
 52w High/Low (RMB) 276.2/ 155.0  
 Total Issued Shares (mn) 1,952  
 Source: Wind

### Shareholding Structure

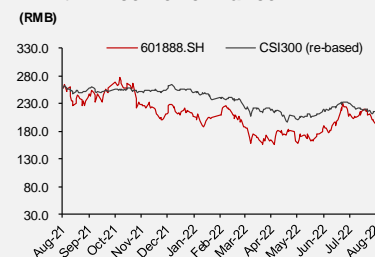
China Travel Group 53.3%  
 HKSC 9.8%  
 CSFC 3.0%  
 Source: Wind

### Share Performance

	Absolute	Relative
1-mth	-9.9%	-3.6%
3-mth	11.1%	6.3%
6-mth	-14.8%	-4.2%

Source: Wind

### 12-mth Price Performance



Source: Wind

### Related Reports

1. [Looking past the weak 2Q: earnings risk diminishing as consensus is subtly edging down: upgrade to BUY](#) – 8 June 2022
2. [1Q22 below market although GPM rebounded on strong 2M22 momentum: keep Hold on fluid COVID situation](#) – 26 Apr 2022

**Figure 1: Earnings revision**

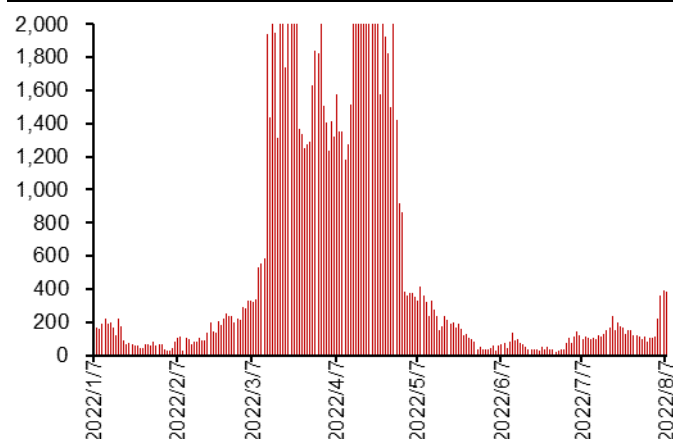
RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	68,404	96,391	134,166	80,343	118,452	164,665	-14.9%	-18.6%	-18.5%
Gross Profit	23,764	34,381	49,554	26,760	40,901	59,999	-11.2%	-15.9%	-17.4%
EBIT	14,345	19,802	27,229	15,164	21,392	29,560	-5.4%	-7.4%	-7.9%
Net profit	8,952	12,969	17,858	9,745	13,990	19,355	-8.1%	-7.3%	-7.7%
EPS (RMB)	4.58	6.64	9.15	4.99	7.17	9.91	-8.1%	-7.3%	-7.7%
Gross Margin	34.7%	35.7%	36.9%	33.3%	34.5%	36.4%	1.4ppt	1.1ppt	0.5ppt
EBIT Margin	21.0%	20.5%	20.3%	18.9%	18.1%	18.0%	2.1ppt	2.5ppt	2.3ppt
Net Margin	13.1%	13.5%	13.3%	12.1%	11.8%	11.8%	1ppt	1.6ppt	1.6ppt

Source: Company data, CMBIGM estimates

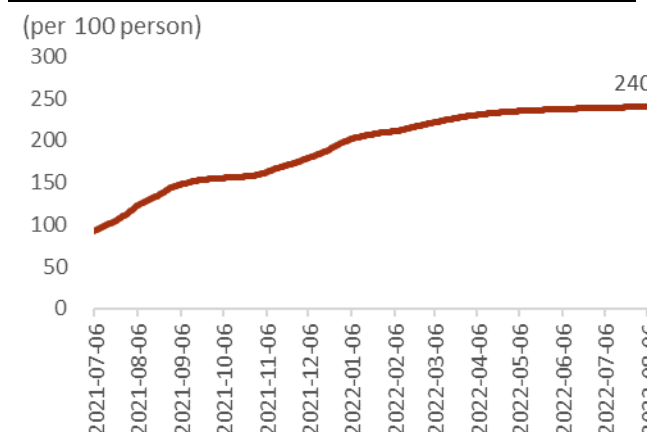
**Figure 2: CMBIGM estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	68,404	96,391	134,166	73,333	105,286	134,093	-6.7%	-8.4%	0.1%
Gross Profit	23,764	34,381	49,554	25,321	38,577	50,647	-6.1%	-10.9%	-2.2%
Operating Profit	14,345	19,802	27,229	14,190	21,243	27,128	1.1%	-6.8%	0.4%
Net profit	8,952	12,969	17,858	9,589	14,325	18,368	-6.6%	-9.5%	-2.8%
EPS (RMB)	4.58	6.64	9.15	4.89	7.33	9.29	-6.3%	-9.3%	-1.5%
Gross Margin	34.7%	35.7%	36.9%	34.5%	36.6%	37.8%	0.2ppt	-1ppt	-0.8ppt
Operating Margin	21.0%	20.5%	20.3%	19.4%	20.2%	20.2%	1.6ppt	0.4ppt	0.1ppt
Net Margin	13.1%	13.5%	13.3%	13.1%	13.6%	13.7%	0ppt	-0.2ppt	-0.4ppt

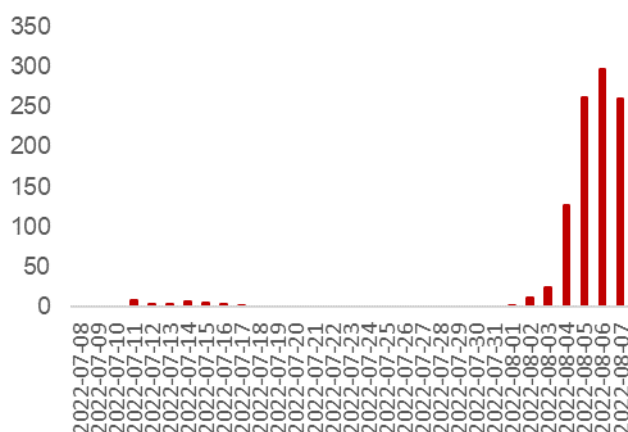
Source: Company data, CMBIGM estimates

**Figure 3: No. of daily confirmed cases in China**

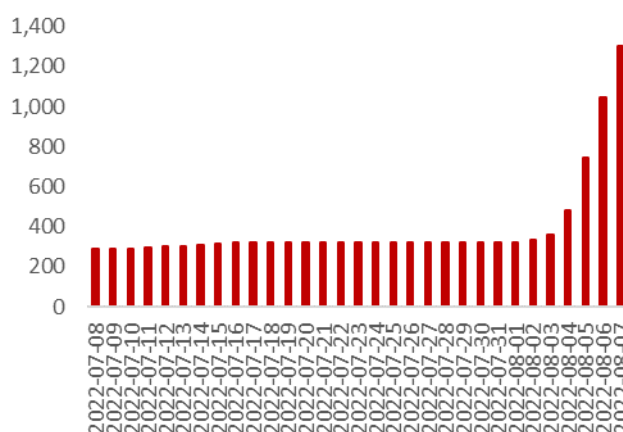
Source: Wind, CMBIGM research

**Figure 4: Degree of vaccination in China**

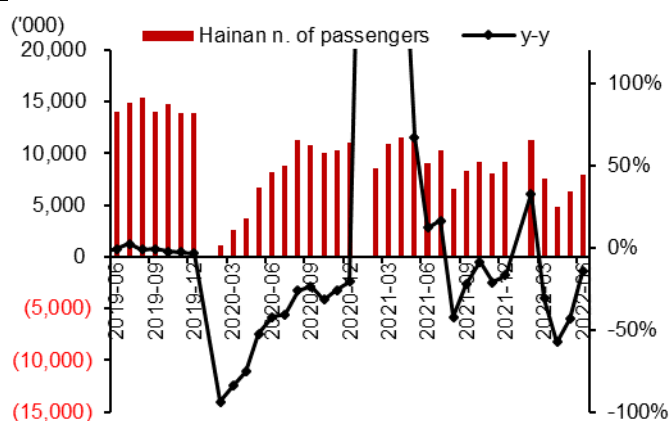
Source: Wind, CMBIGM research

**Figure 5: No. of daily confirmed cases in Hainan**

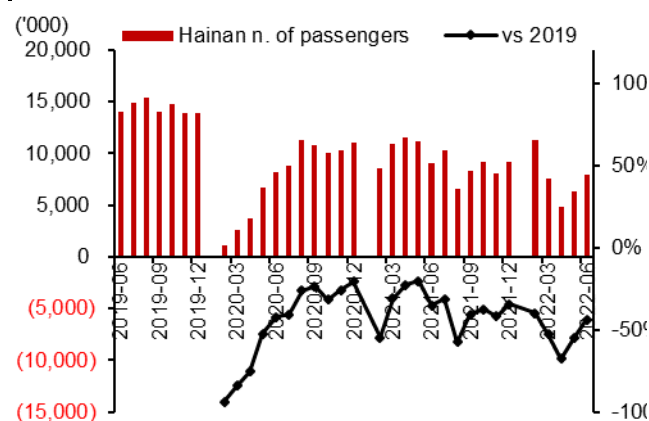
Source: Wind, CMBIGM research

**Figure 6: No. of total confirmed cases in Hainan**

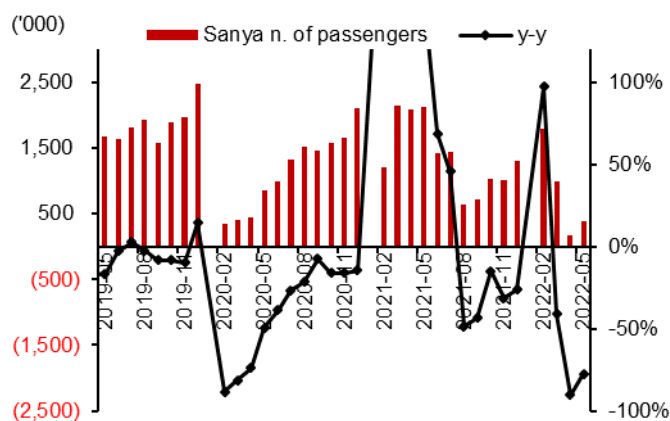
Source: Wind, CMBIGM research

**Figure 7: Hainan's no. of passengers (YoY)**

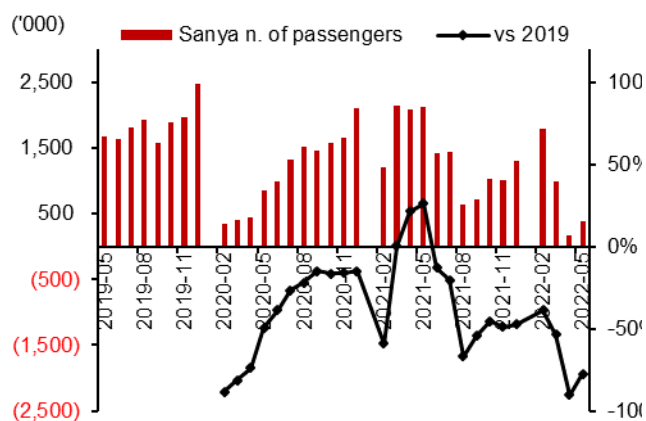
Source: Wind, CMBIGM research

**Figure 8: Hainan's no. of passengers (vs 2019)**

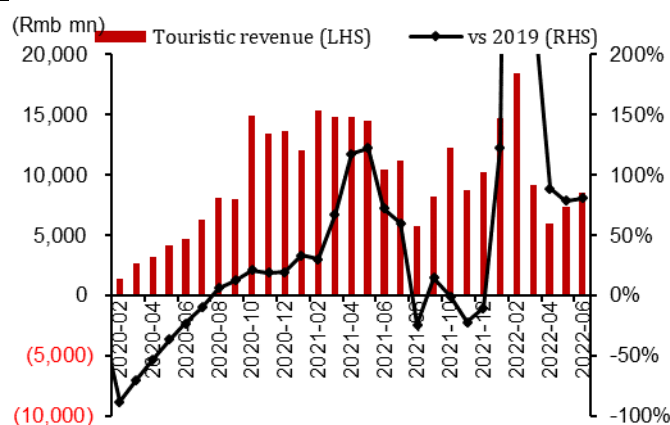
Source: Wind, CMBIGM research

**Figure 9: Sanya's no. of passengers (YoY)**

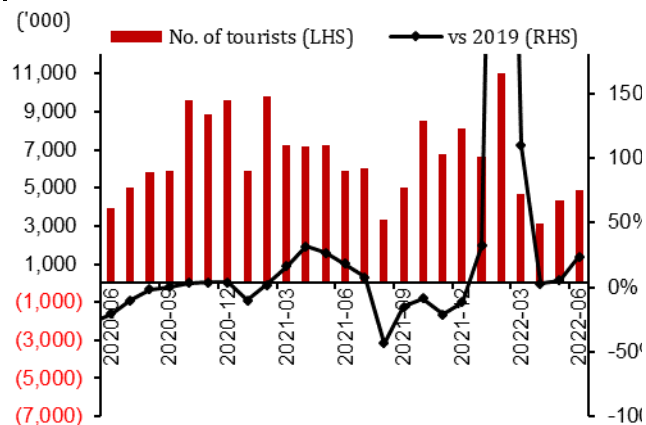
Source: Wind, CMBIGM research

**Figure 10: Sanya's no. of passengers (vs 2019)**

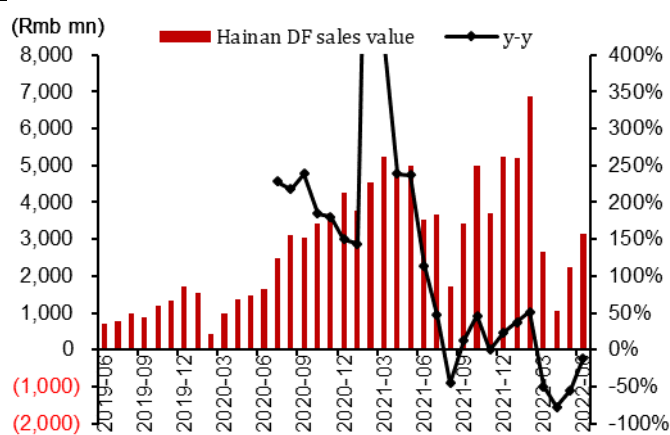
Source: Wind, CMBIGM research

**Figure 11: Hainan's touristic revenue**

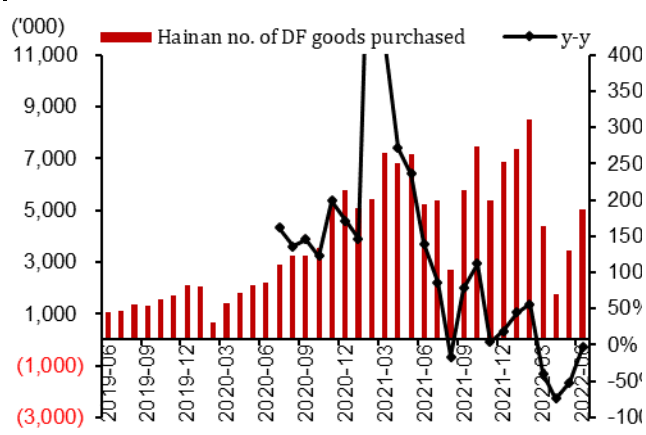
Source: Wind, CMBIGM research

**Figure 12: Hainan's no. of tourists**

Source: Wind, CMBIGM research

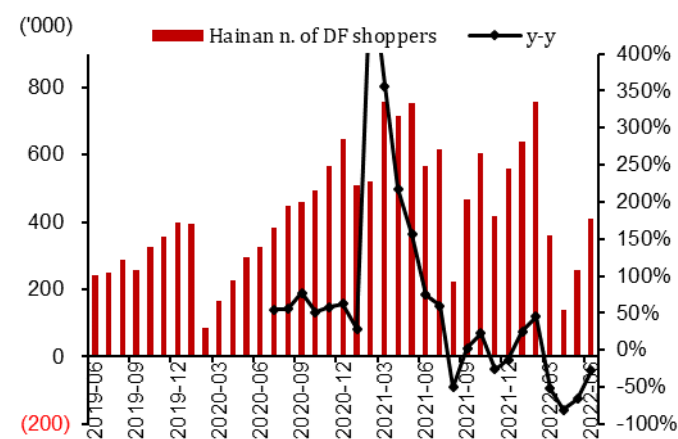
**Figure 13: Hainan's DF sales value**

Source: Wind, CMBIGM research

**Figure 14: Hainan's DF goods sold**

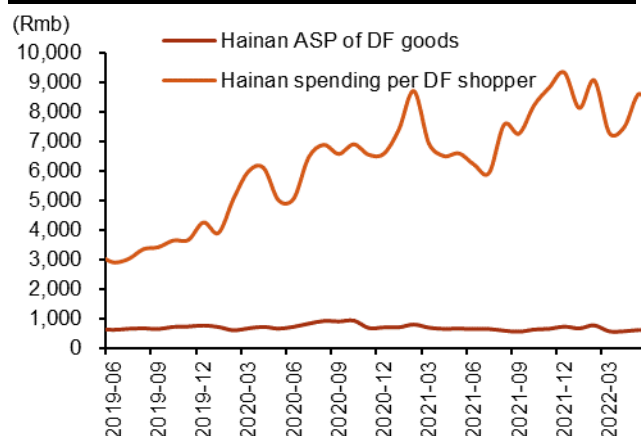
Source: Wind, CMBIGM research

Figure 15: Hainan's no. of DF purchases



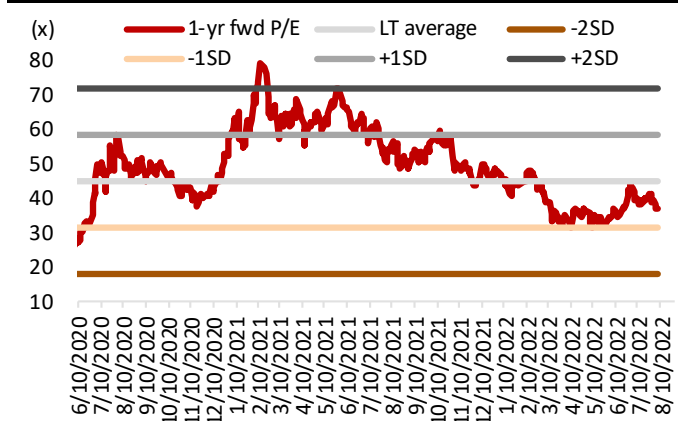
Source: Wind, CMBIGM research

Figure 16: Hainan's ASP of DF goods and average spending per DF purchase



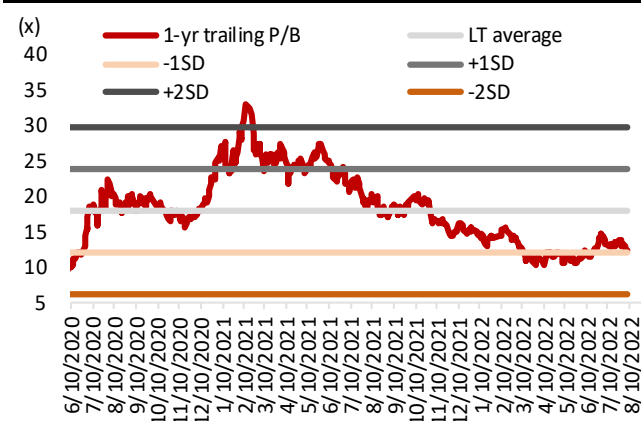
Source: Wind, CMBIGM research

Figure 17: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM

Figure 18: 12M trailing P/B band



Source: Company data, Bloomberg, CMBIGM

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>52,597</b>	<b>67,676</b>	<b>68,404</b>	<b>96,391</b>	<b>134,16</b>
Duty-paid sales	19,708	24,006	23,257	29,072	33,433
Duty-free sales	32,361	42,936	45,147	67,319	100,73
<b>Gross profit</b>	<b>21,376</b>	<b>22,793</b>	<b>23,764</b>	<b>34,381</b>	<b>49,554</b>
D&A	(516)	(480)	(542)	(647)	(754)
Selling expenses	(8,847)	(3,861)	(4,925)	(8,193)	(13,417)
Administration expenses	(1,637)	(2,250)	(2,394)	(3,374)	(4,696)
Other operating expenses	(568)	(1,360)	(1,557)	(2,366)	(3,458)
<b>EBIT</b>	<b>9,809</b>	<b>14,843</b>	<b>14,345</b>	<b>19,802</b>	<b>27,229</b>
<b>EBITDA</b>	<b>10,325</b>	<b>15,323</b>	<b>14,887</b>	<b>20,449</b>	<b>27,984</b>
Finance costs, net	545	43	(181)	139	228
Non-operating income	(676)	(245)	(400)	-	-
Total investment gains/(loss)	(7)	161	-	-	-
<b>Pre-tax profit</b>	<b>9,672</b>	<b>14,801</b>	<b>13,764</b>	<b>19,940</b>	<b>27,457</b>
Income tax	(2,335)	(2,437)	(2,291)	(3,319)	(4,570)
Less: Minority interests	(1,197)	(2,711)	(2,521)	(3,652)	(5,029)
<b>Net profit</b>	<b>6,140</b>	<b>9,654</b>	<b>8,952</b>	<b>12,969</b>	<b>17,858</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Net income</b>	<b>6,140</b>	<b>9,654</b>	<b>8,952</b>	<b>12,969</b>	<b>17,858</b>
D&A	516	480	542	647	754
Change in working capital	(2,888)	(2,955)	3,590	(3,097)	(3,672)
Others	4,435	1,151	2,261	3,252	4,538
<b>Net cash fr. operating act.</b>	<b>8,202</b>	<b>8,329</b>	<b>15,345</b>	<b>13,771</b>	<b>19,478</b>
Capex & investments	(1,234)	(2,155)	(2,358)	(2,191)	(2,026)
Associated companies	(1,542)	(62)	-	-	-
Others	337	338	-	-	-
<b>Net cash fr. investing act.</b>	<b>(3,814)</b>	<b>(2,318)</b>	<b>(2,358)</b>	<b>(2,191)</b>	<b>(2,026)</b>
Equity raised	-	-	-	-	-
Change of Debts	255	-	-	-	-
Dividend paid	(1,658)	(3,431)	(2,847)	(4,124)	(5,679)
Others	20	(386)	(1,097)	(1,567)	(2,218)
<b>Net cash fr. financing act.</b>	<b>(1,383)</b>	<b>(3,817)</b>	<b>(3,944)</b>	<b>(5,691)</b>	<b>(7,896)</b>
<b>Net change in cash</b>	<b>3,005</b>	<b>2,194</b>	<b>9,043</b>	<b>5,889</b>	<b>9,556</b>
Cash at the beginning of the year	12,032	14,858	16,856	25,899	31,788
Exchange difference	(331)	(196)	-	-	-
<b>Cash at the end of the year</b>	<b>14,706</b>	<b>16,856</b>	<b>25,899</b>	<b>31,788</b>	<b>41,344</b>
Less: pledged cash	50	-	-	-	-

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>10,948</b>	<b>16,932</b>	<b>18,788</b>	<b>20,332</b>	<b>21,603</b>
Fixed asset	1,591	1,843	2,714	3,537	4,312
Prepaid lease payments	357	357	357	357	357
Interest in JV	254	254	254	254	254
Other non-current assets	8,747	14,478	15,463	16,184	16,680
<b>Current assets</b>	<b>30,971</b>	<b>38,542</b>	<b>43,963</b>	<b>55,225</b>	<b>71,414</b>
Cash	14,706	16,856	25,899	31,788	41,344
Account receivable	129	106	107	151	210
Prepayments	256	348	348	348	348
Other current assets	15,881	21,232	17,608	22,938	29,511
<b>Current liabilities</b>	<b>15,661</b>	<b>17,136</b>	<b>17,104</b>	<b>19,380</b>	<b>22,341</b>
Borrowings	417	411	411	411	411
Obligations under finance	4,327	5,880	5,848	8,124	11,085
Other payables	7,246	6,122	6,122	6,122	6,122
Tax payables	3,671	4,722	4,722	4,722	4,722
<b>Non-current liabilities</b>	<b>79</b>	<b>3,546</b>	<b>3,546</b>	<b>3,546</b>	<b>3,546</b>
Borrowings	-	-	-	-	-
Deferred income	74	55	55	55	55
Others	5	3,491	3,491	3,491	3,491
<b>Minority Interest</b>	<b>3,871</b>	<b>5,173</b>	<b>6,336</b>	<b>8,021</b>	<b>10,342</b>
<b>Total net assets</b>	<b>26,179</b>	<b>34,791</b>	<b>42,060</b>	<b>52,590</b>	<b>67,089</b>
<b>Shareholders' equity</b>	<b>26,179</b>	<b>34,791</b>	<b>42,060</b>	<b>52,590</b>	<b>67,089</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Duty-paid sales	37.5	35.5	34.0	30.2	24.9
Duty-free sales	61.5	63.4	66.0	69.8	75.1
<b>P&amp;L ratios (%)</b>					
Gross margin	40.6	33.7	34.7	35.7	36.9
Operating margin	18.6	21.9	21.0	20.5	20.3
Pre-tax margin	18.4	21.9	20.1	20.7	20.5
Net margin	11.7	14.3	13.1	13.5	13.3
Effective tax rate	(24.1)	(16.5)	(16.6)	(16.6)	(16.6)
<b>Balance sheet analysis</b>					
Current ratio (x)	0.5	0.4	0.6	0.6	0.6
Net receivable days	0.9	0.6	0.6	0.6	0.6
Net payable days	50.6	47.8	47.8	47.8	47.8
Inventory turnover days	172.8	160.7	130.0	125.0	120.0
Net debt to equity (%)	54.6	32.8	48.6	50.1	53.5
<b>Returns (%)</b>					
ROE	27.5	32.6	25.1	29.1	31.5
ROA	14.6	17.4	14.3	17.2	19.2
Dividend yield	0.5	0.8	0.8	1.1	1.5
<b>Per share</b>					
EPS (RMB)	3.1	4.9	4.6	6.6	9.1
DPS (RMB)	1.0	1.6	1.5	2.1	2.9
BVPS (RMB)	11.4	15.2	18.3	22.8	29.1

Source: Company data, CMBIGM estimates



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<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
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<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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