

China Internet

Release of pent-up demand aids robust travel and consumption recovery

Labour Day (LD) Holiday data revealed a strong recovery trend for travel industry aided by the release of pent-up demand, which is likely to trend into 3Q22 aided by the coming of peak summer holiday travel period. With the recovery of offline activities and low base effect, local consumer services industry also saw robust recovery, while the evolution of competitive landscape is the key to watch. Maintain BUY on TCOM, BABA, and Meituan.

- **Strong recovery of travel industry likely to trend into 3Q22.** Per Ministry of Culture and Tourism, domestic tourism volume/spending reached 119.1%/100.7% of 2019 level during this year's LD holiday, compared to 67%/44% for 2022 LD holiday and 89/73% for 2023 Spring Festival. Data from Meituan revealed that the number of accommodation reservation volume for long-haul travel has increased by 40% during the first three days of this year's LD holiday, compared with the same period in 2019. Per Tongcheng, during 2023 LD Holiday, booking volume for international hotel has surpassed that in 2019. In addition, HK Immigration Department estimated trips to and from HK to reach 4.61mn for this year's LD holiday period (29 Apr-4 May), recovered to c. 69% of 2019 level. Labour Day travel data reviewed a strong release of pent-up demand, in our view, with long-haul travel demonstrated robust recovery trend. The strong recovery is likely to trend into 3Q23 aided by the peak summer holiday travel period.
- **Offline activities saw solid recovery and has surpassed 2019 level.** According to Ministry of Transport, the number of passenger volume reached 57.0mn on 29 April 2023, up 151.8% YoY and has surpassed that in 2019. Per Wind, the daily average subway passenger volume in China's 10 large cities between 28 April and 1 May 2023 was up 14% compared to the comparable period in 2019 (30 Apr-3 May).
- **Recovery in travel and offline activities aided consumption recovery during LD holiday.** Per Ministry of Commerce, China's key retail and catering enterprises saw sales GMV growth of 18.9% YoY during this year's LD holiday. Data from Meituan also revealed a solid consumption recovery trend: during the first three days of this year's LD holiday: 1) compared to the same comparable period in 2019, daily average consumption GTV for life services related industries on Meituan platform increased by 133%, indicating a 4-year CAGR of 23.5% (2023 New Year Day holiday: 15.0% CAGR), and catering services GMV increased by 92% (17.7% 4-year CAGR); 2) the proportion of consumption made by users from cities that they are not currently living in increased by 10pp compared to that in the same period in 2019. Per Alipay, total consumption GTV during this year's LD holiday increased by 200% YoY and was up 70% compared to that of 2019. Local consumer services industry is likely to see strong GMV growth in 2Q23, due to a constant recovery in offline activities and low base effect, in our view, while the evolution of industry competition and related long-term impact is the key to watch.
- **Stock recommendations: BUY TCOM, Alibaba, and Meituan.** Trip.com Group (TCOM) is well-positioned to benefit from the industry recovery, especially for the recovery of long-haul travel. The upcoming peak summer season could boost further revenue and earnings recovery. Cost saving measures adopted amid previous industry headwind could aid rapid margin recovery when revenue generation normalizes. We also like **Alibaba** for its deep value discount. For **Meituan**, investment opportunities may appear after the market has fully digested competition impact, in our view.

China Internet Sector

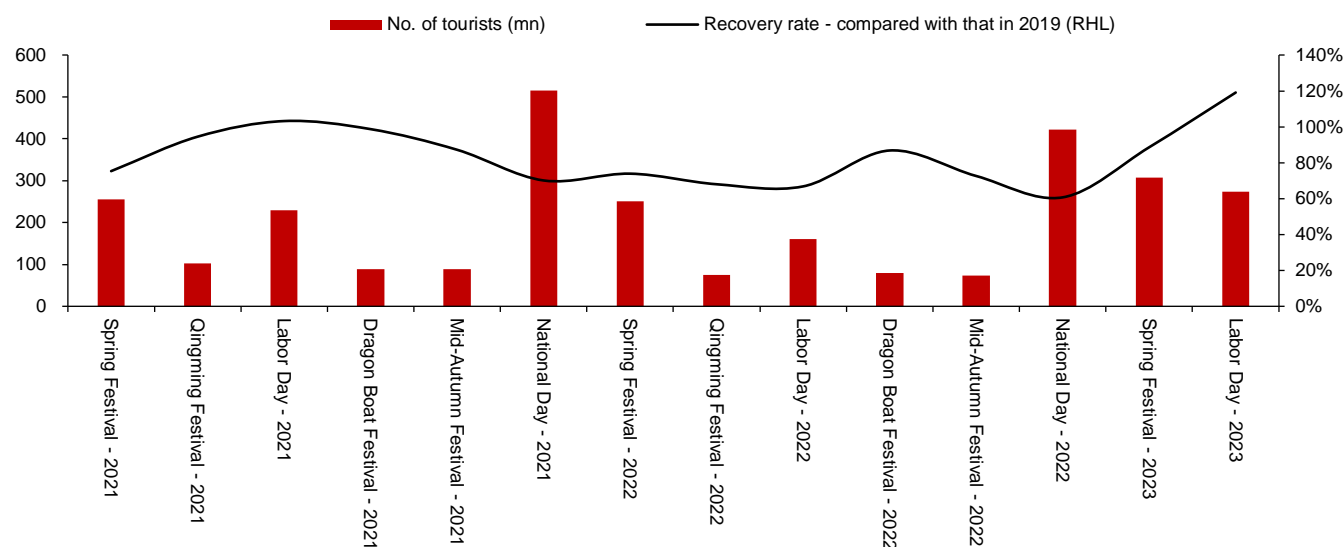
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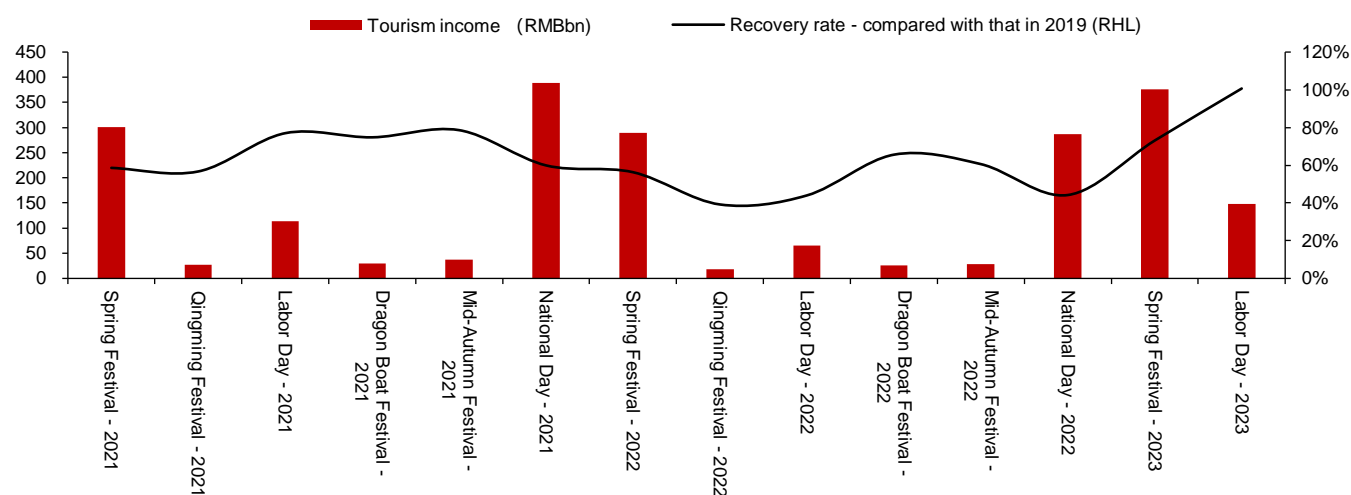
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Figure 1: Domestic tourism volume and recovery rate

Source: Ministry of Culture and Tourism, CMBIGM

Figure 2: Domestic tourism spending and recovery rate

Source: Ministry of Culture and Tourism, CMBIGM

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