

China Internet

Trends observed from National Day Holiday

Overall travel industry demonstrated mild growth in this year's National Day holiday & Mid-Autumn Festival period versus that in pandemic period in 2019. Consumption segmentation trend sustained during holiday period as an increasing number of consumers are willing to spend more for quality services and better experience. Robust GMV growth for local consumer services sustained during holiday period, driven by strong offline traffic, and by increasing effort made by both Meituan and its competitor to drive for further increase in online penetration. On the back of on track fundamental recovery and undemanding valuation, we reiterate BUY on TCOM and Meituan, while long-term structural valuation rerating still depends on: 1) the evolvement of competitive landscape; 2) the magnitude of recovery in macro and consumption; and 3) the improvement of liquidity environment.

- **Travel industry saw mild growth vs that in pre-pandemic period.** Per data published (6 October) by the Ministry of Culture and Tourism of China (MCT), the total number of tourists over the National Day holiday & Mid-Autumn Festival (29 Sep – 6 Oct 2023) reached 826mn, up 71.3% YoY, and was 104.1% of that in the comparable period in 2019 (2023 Labor Day holiday: 119.1%). Tourism income reached RMB753.4bn, up 129.5% YoY, and was 101.5% of that in 2019 (2023 Labor Day holiday: 100.7%).
- **TCOM: order contribution from long-haul travel on robust recovery track.** Per Trip.com Group (TCOM), during this year's National Day holiday & Mid-Autumn Festival, local and short-haul travel booking orders accounted for 49% of total booking, while that of long-haul travel increased to 51% (2022 National Day holiday: 35%; 2021 National Day holiday: c.50%). The healthy recovery of relatively high-margin long-haul travel likely heralds a on track margin expansion for TCOM in 3Q23, in our view.
- **Consumption segmentation trend sustained during this year's holiday period.** Per Qunar, booking volume for high-end hotels on its platform during National Day holiday & Mid-Autumn Festival has reached historical high, and the 470% growth of booking volume for high-end hotels during this year's holiday period as compared to that of pre-pandemic period in 2019 were much faster than that of mid-to-low end hotels. Per TCOM, per capita spending for its packaged tour business was up c.80% YoY during holiday period in our view, thanks to: 1) recovery in outbound travel business; and 2) increasing willingness to spend more on quality travel products and services.
- **Meituan: local consumer services saw robust growth.** Per Meituan, during this year's holiday period (as of 5 Oct 2023), compared to that of comparable period in 2019, daily average gross transaction volume (GTV) for services retail business on its platform grew 153% (2019-2023 CAGR of 26%), and the GTV of in-store dining business grew 254% (2019-2023 CAGR of 37%). The early stage GTV growth data for services retail business of Meituan was largely in line with our expectation for 4Q23E, and indicated an ongoing increase in online penetration.
- **Leading games companies maintain solid performance during the Holiday.** Tencent/NetEase each had 3/3 games ranking among the iOS top 10 mobile games grossing chart during the Holiday (based on avg. ranking during the holiday, see Fig.3). Per CNG's latest report on 8 Oct, China's online game market revenue grew by 46.1% YoY to RMB29.2bn in Aug 2023, mainly driven by strong growth of mobile game revenue (+63.7% YoY) during the summer vacation. Several new games delivered solid grossing performance in August: CNG estimates the first-month revenue of Tencent's Maple Story Mobile and NetEase's Dunk City Dynasty surpassed RMB900mn and RMB400mn in August. Overseas revenue from China's self-developed games was up 5.5% YoY to US\$1.5bn in August.

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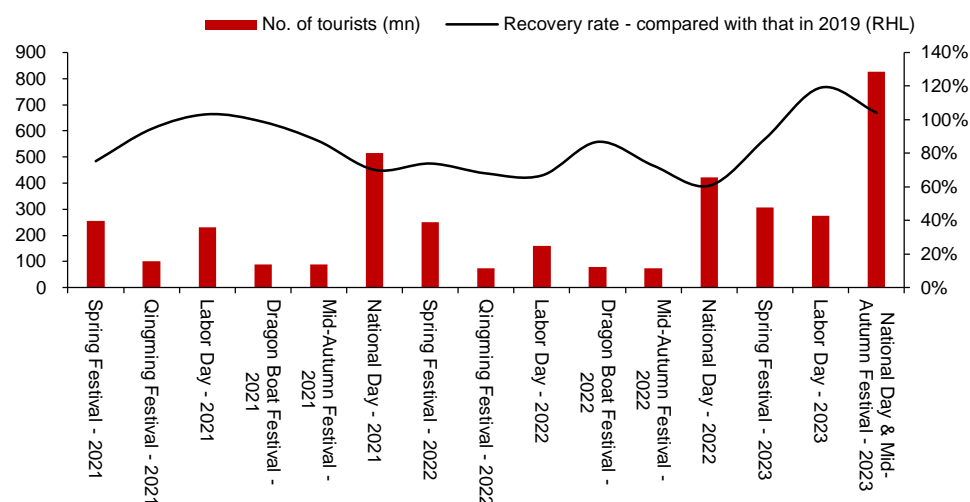
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Overall travel industry saw mild growth versus pre-pandemic period with consumption segmentation trend sustained

Per data published (6 October) by the MCT, the total number of tourists over the National Day holiday & Mid-Autumn Festival (29 Sep – 6 Oct 2023) reached 826mn, up 71.3% YoY, and was 104.1% of that in the comparable period in 2019 (2023 Labor Day holiday: 119.1%). Tourism income reached RMB753.4bn, up 129.5% YoY, and was 101.5% of that in 2019 (2023 Labor Day holiday: 100.7%). The sets of data imply tourist spending per capita (ARPU) of RMB912 during the holiday.

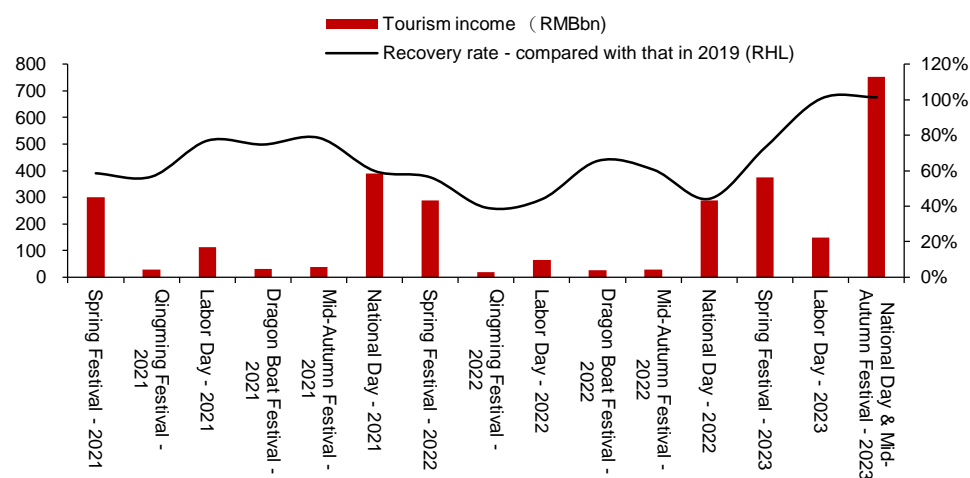
Both the number of tourists and the tourism income were short of the forecasts given by MCT on 30 Sep 2023, according to which the number of tourists was expected to reach 896mn and total tourism income was expected to reach RMB782.5bn. However, the ARPU of RMB912 is better than the forecast at RMB873, which in our view demonstrated a sustained consumption segmentation trend.

Figure 1: No. of tourists during National Day holiday



Source: Company data, CMBIGM estimates

Figure 2: Travel income during National Day holiday



Source: Company data, CMBIGM estimates

TCOM: order contribution from long-haul travel on robust recovery track

Per TCOM, during this year's National Day holiday & Mid-Autumn Festival, local and short-haul travel booking orders accounted for 49% of total booking, while that of long-haul travel increased to 51% (2022 National Day holiday: 35%; 2021 National Day holiday: c.50%). The healthy recovery of relatively high-margin long-haul travel likely heralds the on track margin expansion for TCOM in 3Q23, in our view.

Per Qunar, booking volume for high-end hotels on its platform during National Day holiday & Mid-Autumn Festival has reached historical high, and the growth of booking volume for high-end hotels was much faster than that of mid-to-low end hotels. The booking volume for high-end hotels jumped over 470% during this year's holiday period as compared to that of pre-pandemic period in 2019.

Leading games companies maintain solid performance during the holiday

Tencent/NetEase each had 3/3 games ranking among the iOS top 10 games grossing chart during the holiday (based on avg. ranking during the holiday, see Fig.3). Per CNG's latest report published on 8 Oct, China's online game market revenue grew by 46.1% YoY to RMB29.2bn in Aug 2023, mainly driven by strong growth of mobile game revenue (+63.7% YoY) during the summer vacation. Several new games delivered solid grossing performance in August: CNG estimates the first-month revenue of Tencent's Maple Story Mobile and NetEase's Dunk City Dynasty surpassed RMB900mn and RMB400mn in August. Overseas revenue from China's self-developed games was up 5.5% YoY to US\$1.5bn in August.

Figure 3: Ranking on iOS games grossing chart

| Date | Honor of Kings Tencent | Peacekeeper Elite Tencent | Justice NetEase | Eggy Party NetEase | Maple Story Mobile Tencent | Fantasy Westward Journey NetEase |
|---------------------|---------------------------|------------------------------|--------------------|-----------------------|-------------------------------|-------------------------------------|
| 10/06/23 | 1 | 3 | 2 | 5 | 9 | 6 |
| 10/05/23 | 1 | 3 | 2 | 5 | 6 | 8 |
| 10/04/23 | 1 | 2 | 5 | 4 | 6 | 7 |
| 10/03/23 | 1 | 2 | 5 | 4 | 6 | 7 |
| 10/02/23 | 1 | 3 | 4 | 7 | 5 | 6 |
| 10/01/23 | 1 | 3 | 5 | 6 | 4 | 7 |
| 09/30/23 | 1 | 3 | 4 | 5 | 6 | 7 |
| 09/29/23 | 1 | 4 | 3 | 8 | 5 | 6 |
| Avg. ranking | 1.0 | 2.9 | 3.8 | 5.5 | 5.9 | 6.8 |

Source: Qimai, CMBIGM

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