国泰君安证券 GUOTAI JUNAN SECURITIES

Sector Report: Consumer Sector - Hotels

行业报告：消费行业 - 酒店

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Rebound Is Underway, but Still a Long Way to Full Recovery

已经开始恢复，但是完全恢复还有很长的一条路

- **The hotel sector was one of the hardest hit sectors from the COVID-19 pandemic.** The good news is that the worst has passed and the travel sector has already started to recover thanks to the Chinese government's effective measures at controlling the COVID-19 outbreak in China. Hotel occupancy rates and RevPAR in China bottomed in February and have been improving since March and currently, hotel bookings have returned to about 50% of their normal levels. The number of both passenger trips and flights bottomed on February 23 at equivalent to just 7.5% and 23%, respectively, of normal levels. However, the latest data shows that from 1-5 June the number of passenger trips and flights rebounded to 66.1% and 57.4% of the levels during the same period last year, respectively.

- **We think that 2020 hotel and tourism revenue in China could decrease by between 30% to 50%.** The speed of China's hotel sector recovery will depend on how quickly travel restrictions can be relaxed and eventually removed. China's OTA and hotel companies are expected to start to recover, but some not until 3Q2020. With the sector expected to still be in recovery for the rest of the year, hotel companies and OTA's are lowering prices in order to stay competitive and avoid losing market share.

- **We expect the hotel sector to "Underperform" in 2020.** We have "Sell" ratings for Trip.com (TCOM US) and Huazhu Group (HTHT US). We have "Reduce" rating for Jinjiangcapital (02006 HK). Although the sector is recovering, there is still a long way and a lot of uncertainty before sector revenues and profits rebound to catch up with 2019 levels.

- **酒店行业是受新冠肺炎疫情影响最严重的行业之一。**好消息是，由于中国政府采取有效措施控制新冠肺炎疫情，最坏的时候已经过去，旅游业已开始复苏。中国的酒店入住率和 RevPAR 在 2 月触底，自 3 月开始提升，目前酒店预订量已恢复到正常水平的 50%左右。客运量和航班量在 2 月 23 日触底，分别降至正常水平的 7.5%和 23%。然而，最新数据显示 6 月 1 日至 5 日客运量和航班数量分别回升至去年同期的 66.1%和 57.4%。

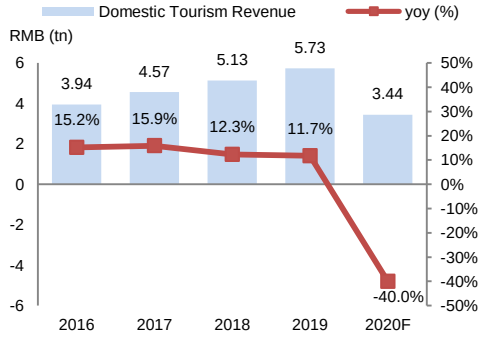
- **我们认为 2020 年中国的酒店和旅游收入可能将下降 30%至 50%。**中国酒店行业的复苏速度将取决于旅游限制放松及最终取消的速度。预计中国的在线旅行社和酒店企业将开始复苏，但部分企业要到 2020 年第 3 季度。由于预计行业在今年余下时间内仍将处于复苏阶段，酒店企业和在线旅行社正降低价格以保持竞争力，避免失去市场份额。

- **我们预计 2020 年酒店行业“跑输大市”。**我们对携程集团 (TCOM US)和华住集团(HTHT US)的评级为“卖出”。我们对锦江资本(02006 HK)的评级为“减持”。尽管行业正在复苏，但在行业的收入和利润恢复至 2019 年的水平之前，还需要一个漫长的过程和有许多不确定性。

Rating: **Underperform** Maintained

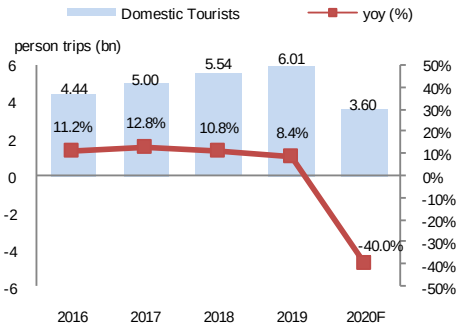
评级： **跑输大市** (维持)

China Domestic Tourism Revenue
中国国内旅游收入



Source: Ministry of Culture and Tourism of the People's Republic of China, Guotai Junan International.

China Domestic Tourists
中国国内旅游人数



Source: Ministry of Culture and Tourism of the People's Republic of China, Guotai Junan International.

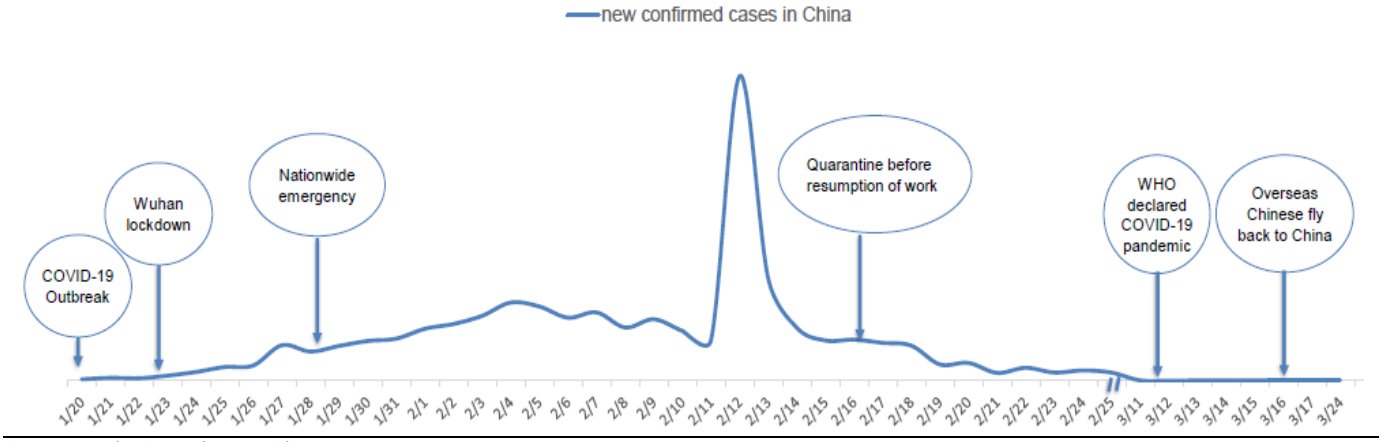
Company Name 公司名称	Code 编号	Price 股价(HK$)	Rating 投资评级	20PER 市盈率(x)	21PER 市盈率(x)	22PER 市盈率(x)	20ROE 净资产收益(%)	20P/B 市净率(x)	20Yield 股息率(%)
Jinjiangcapital	02006 HK	1.480	Reduce	54.1	24.4	17.6	1.5	0.8	1.2
Huazhu Group	HTHT US	36.600	Sell	n.a.	334.0	161.4	-3.8	7.0	-0.2
Trip.com Group	TCOM US	26.290	Sell	n.a.	42.9	28.6	-2.9	1.5	0.0
Weighted Average. 市值加权平均				54.1	129.7	67.6	-2.1	3.1	0.2

Source: the Companies, Guotai Junan International, Bloomberg.

The hotel sector was one of the hardest hit sectors from the COVID-19 pandemic during 1H2020, firstly in China, and then globally. Cities across the world were locked down and travel was severely restricted and in some cases banned, resulting in the largest disruption to the global hotel and travel industries in modern times. Since 28 March, foreigners, even those with valid visas, are no longer allowed to enter mainland China. Chinese citizens can return to China but are currently subject to a 14-day mandatory quarantine in government designated hotels each time they cross a border into China.

The good news is that the worst of the COVID-19 impact has been short term and is already behind us as China's hotel and travel sector has already started to recover. Thanks to the Chinese government's effective control measures, the COVID-19 outbreak has been essentially controlled in China. The Chinese government has introduced various initiatives to encourage domestic consumption and the hotel and travel sectors have started to recover as Chinese consumers gradually return to normal life and travel.

Figure-1: COVID-19 in China in 1Q2020



Source: Huazhu Group (HTHT US).

Hotel occupancy rates and RevPAR in China bottomed in February and have been improving since March. According to STR, a global hospitality and hotel industry data services provider, occupancy rates for hotels in China bottomed at below 10% in mid-February. However, by the end of April, occupancy and revenue-per-available-room (RevPAR) in China had rebounded to down by only around 52.1 ppt and 61.2% yoy, respectively. In March and April, Shenzhen outperformed Shanghai, Guangzhou and Beijing in terms of occupancy rate. In May, however, occupancy rate in Shanghai outperformed that of Shenzhen. Leisure markets, including Huzhou and Yunnan province had higher occupancy rates during May. According to STR, as of 6 June, occupancy rates in China recovered to about down 20-25 ppt yoy, with first-tier cities down more than other cities, and upscale and luxury hotels down by more than midscale and economy hotels. Hotel average daily rates (ADR) were down about 20% yoy as companies cut prices and fees to try to gain market share. Hotel bookings have returned to about 50% of their normal levels.

The number of air travel passengers plunged at the start of the COVID-19 pandemic as a result of severe travel restrictions. There were about 17,300 passenger flights a day with a maximum of almost 2 million passengers during the peak travel season before Chinese New Year in January, before the outbreak of COVID-19. But from January 23, the number of both passenger trips and flights plunged, bottoming on February 23 at 132,900 passenger trips and 3,931 flights, equivalent to just around 7.5% and 23%, respectively, of normal levels. During 1Q2020, the number of outbound tourists from China plunged 66.3% yoy to 14.5 million.

Recovery is underway in the domestic travel sector as the number or air passengers in China has started to recover since late February. In March, there was on average 6,538 flights per day transporting an average of 458,300 passengers per day, according to the Civil Aviation Administration of China. In April, the average number of daily flights and passengers increased by 6.3% MoM and 14.1% MoM to 6,950 and 522,700, respectively. In May, the numbers increased at an even faster pace; the average number of daily flights increased by 36.5% MoM to 9,487, while the average number of daily passengers surged 50.3% MoM to 785,800. The latest data shows that from 1-5 June, there was on average 10,570 flights and 935,200 passengers per day, up 61.7% MoM and 104.1% MoM, respectively, and equivalent to 66.1% and 57.4% of the levels during the same period last year, respectively. On 5 June, there was a total of 11,333 flights, the highest number since February, and there was a total of 1.037

million passengers, equivalent to 61.5% of the normal level in 2019. This was also the first day since 28 January that the number of air passengers reached 1 million.

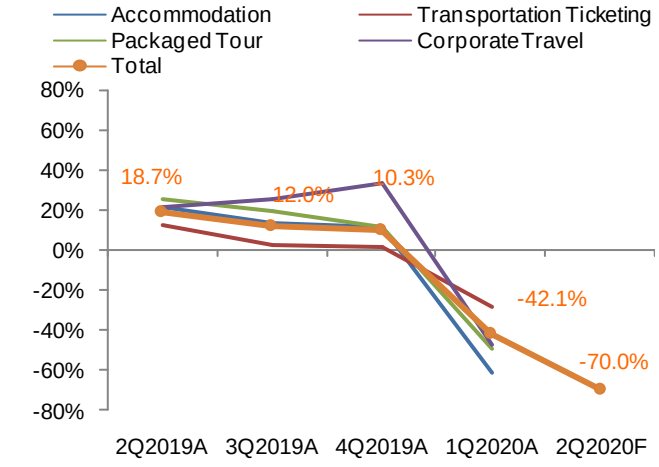
International travel is expected to start to recover later this year. Strict restrictions remain in place, which limit the number of international flights to about 134 per week, currently. Starting from late March, Chinese airline companies have been allowed just one international passenger flight per week on one route. However, these restrictions are expected to be relaxed in the coming months. Some foreign airline companies that had previously had flights to mainland China banned were allowed once-per-week flights starting from June 8. However, the increased capacity is mainly intended to be for overseas Chinese to return home. With many cross border travel restrictions and quarantine requirements still if effect, there is no sign yet of a recovery in Chinese outbound tourism. We expect that the Chinese authorities will continue to severely restrict international flights until at least October due to the COVID-19 pandemic.

Travel sentiment is steadily improving. Skyscanner, a U.K.-based online travel agency (OTA) and subsidiary of Trip.com (TCOM US) released survey results in early June which show the attitudes of travelers towards air travel in the current COVID-19 environment. Globally, traveler anxiety has dropped from a high of 72% to the current (and lowest) figure of 58%. The number of people that feel it is safe to travel internationally has doubled from a low of 6% to 12% currently, driven by optimism from Europe (from a bottom of 6% now up to 15%) and the U.S. (from 7% to 18%).

In the Asia Pacific region, 30% of people think that it's now safe to travel domestically, with people in Australia, South Korea, Singapore and Taiwan being the most optimistic. According to the Skyscanner survey, in the Asia Pacific region, 49% of people believe that the global situation is getting better, up from 47% from the prior week; 75% of people think that their domestic travel situation is getting better, up from 73% in the prior week, and; most people expect that it will take over six months before they are able to travel internationally again. According to the Travel Willingness Survey conducted by Trip.com (TCOM US) and the China Tourism Academy in March, 41% of travelers in China said that they would be willing to travel by car once the COVID-19 pandemic was contained, 29% would be willing to travel by train, 16% would be willing to travel by bus, and only 14% would be willing to fly.

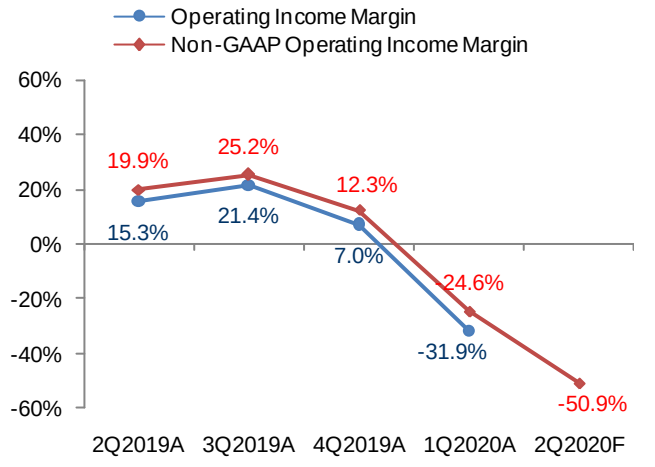
China's OTA and hotel companies are expected to start to recover, but some not until 3Q2020. China's largest OTA, Trip.com (TCOM), saw its 1Q2020 revenue decrease by 42.1% YoY, and for 2Q2020 it expects revenue to decrease by between 66%-77% YoY. We expect that 2Q2020 will be the bottom for Trip.com and that its results will start to recover in 3Q2020. Tongcheng-Elong (00780 HK) expects that its 2Q2020 net revenue will decrease by around 24%-29% YoY, better than the 43.6% revenue decrease it experienced in 1Q2020. Tuniu Corporation (TOUR US) had a 61.9% revenue decrease in Q12020, and for 2Q2020, it expects revenue to decline by between 86%-96% YoY. Green Tree Hospitality (GHG US), which has 3,963 hotels in operation in China, saw its 1Q2020 revenue decrease by 33.1% YoY and expects its 2Q2020 revenue to decline by 18%-23% YoY.

Figure-2: Trip.com Net Revenue yoy Growth



Source: the Company, Guotai Junan International.

Figure-3: Trip.com Operating Margins



Source: the Company, Guotai Junan International.

Heavy discounting will hurt profit margins. With the sector expected to still be in recovery for the rest of the year, hotel companies and OTA's are lowering prices in order to stay competitive and avoid losing market share. Trip.com's management gave guidance for 2Q2020 non-GAAP operating loss to be in the range of RMB1.2 billion-RMB1.3 billion. We expect that all hotel companies under our coverage will have negative core net income this year.

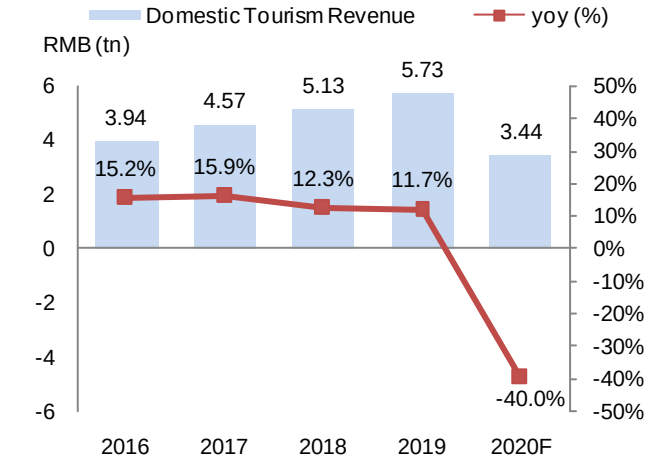
2020 global travel and tourism revenue could decrease by between 41% and 62%. According to STR, the worldwide travel and tourism sector experienced 3.5% growth in 2019, outpacing that of the global economy for the ninth year in row. According to a study published in June by the World Travel & Tourism Council, globally, under an optimistic case scenario, the number of 2020 international travelers would decrease by 41% and travel and tourism revenue would decrease by 30%. In the base case scenario, the number of 2020 international travelers would decrease by 53% and travel and tourism revenue would decrease by 39%. Finally, under the World Travel & Tourism Council's pessimistic scenario, the number of 2020 international travelers would plunge by 73% and travel and tourism revenue would decrease by 62%.

Travel corridors and "travel bubbles" that remove quarantine requirements would allow for faster regional border opening. On 8 June, Singapore and China opened a "fast lane" "travel corridor", allowing essential business and official travel between Singapore and six provinces in mainland China. The "travel bubble" allows people to cross borders with minimal or no quarantine. Travelers must test negative for COVID-19 before flying and again after arrival to their destination. Since May, Hong Kong authorities have been trying to establish a similar travel bubble that would allow for travel among Hong Kong, Guangdong province and Macau without needing to go into the current required 14-day quarantine. We expect such more such travel bubbles to be rolled out to other low risk jurisdictions before the eventual full resumption of international travel to and from China.

The speed of China's hotel sector recovery will depend on how quickly travel restrictions can be relaxed and eventually removed. China's travel restrictions have already started to ease and are expected to continue to ease in step with the extent to the COVID-19 pandemic is contained globally. Current restrictions for domestic and short-haul regional travel could continue to ease in the summer months, and intercontinental travel to and from China could reopen in October if global COVID-19 infection rates continue to decrease. We expect that domestic tourism will continue to recover and rebound throughout the remainder of 2020.

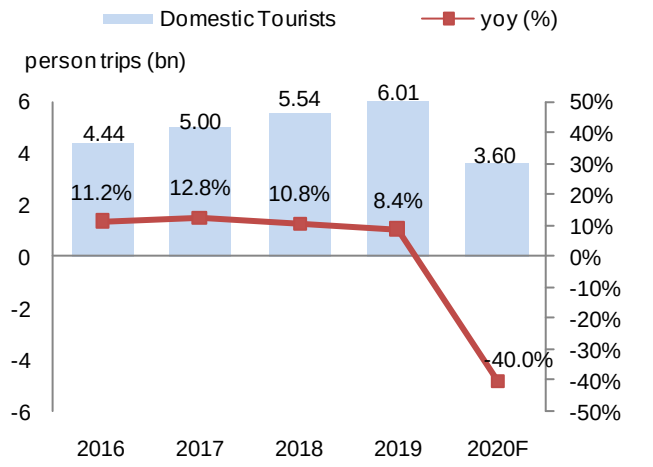
We think 2020 hotel and tourism revenue in China could decrease by between 30% to 50%. In 2019, China's domestic tourism revenue increased by 11.7% to RMB5.73 trillion while the number of domestic tourists trips increased by 8.4% to 6.01 billion. STR forecasts that hotel occupancy rates in Beijing won't recover to 2019 levels until 2023, due to a variety of factors such as there being more hotels in operation and the pace of economic recovery; RevPAR is not expected to recover to 2019 levels until 2024, according to STR. However, we think that China's hotel and tourism revenue growth will recover much faster compared to global hotel and tourism revenue growth. Thanks to the Chinese government's response, the COVID-19 pandemic has for the most part come under control in China, and domestic travel has started to recover.

Figure-4: China Domestic Tourism Revenue and Growth



Source: Ministry of Culture and Tourism of the People's Republic of China, Guotai Junan International.
Note: Data up through and including 2019 are actual figures. Figures for 2020 are Guotai Junan International estimates.

Figure-5: China Domestic Tourists and Growth



Source: Ministry of Culture and Tourism of the People's Republic of China, Guotai Junan International.
Note: Data up through and including 2019 are actual figures. Figures for 2020 are Guotai Junan International estimates.

We expect the hotel sector to "Underperform" in 2020. Although the sector is recovering, there is still a long way and a lot of uncertainty before the sector revenues and profits rebound to catch up with 2019 levels. We have "Sell" investment ratings for Trip.com (TCOM US) and Huazhu Group (HTHT US). We have a "Reduce" investment rating for Jinjiangcapital (02006 HK).

We expect that Trip.com (TCOM US) will have an operating profit loss and a net profit loss in 2020 as revenue plunges, exacerbated by lower profit margin. Trip.com, along with other OTA's that it competes with, is cutting prices and fees in order to try to stimulate demand and fight for market share in the current depressed environment.

The timing of the COVID-19 pandemic couldn't have been worse for Huazhu Group (HTHT US). We expect Huazhu Group will have negative net profit this year as revenue drops and expense ratios increase. Before the COVID-19 pandemic in 2019, Huazhu had already committed to additional expenses and capex this year with its acquisition of the upscale Deutsche Hospitality hotel company and Huazhu's push into the upscale market this year.

The negative impact on Jinjiangcapital (02006 HK) will be mitigated to some extent as it receives financial support from its holding company, Jin Jiang International Holdings Company Limited, which is a wholly state-owned company directly under the administration and control of the State-Owned Assets Supervision and Administration Commission of Shanghai Municipal Government ("Shanghai SASAC"). However, we still expect JIngjiangcapital will have negative core net profit this year.

Table-1: Hotels Peers Comparison

Company	Stock Code	Currency	Last price	Market Cap	PE				EV/EBITDA				ROE(%)	BPS
					19A	20F	21F	22F	19A	20F	21F	22F	20F	20F
HK - Listed				**HK$ mn**										
Great Eagle	00041 HK	HKD	19.20	13,822	8.4	4.8	4.8	n.a.	n.a.	n.a.	n.a.	n.a.	4.0	n.a.
Hk&S Hotels	00045 HK	HKD	7.05	11,523	25.6	n.a.	31.3	23.5	n.a.	n.a.	n.a.	n.a.	(2.7)	n.a.
Shangri-La Asia	00069 HK	HKD	6.26	22,445	21.9	n.a.	27.3	15.2	n.a.	53.9	14.7	12.7	(6.1)	0.5
Miramar Hot &Inv	00071 HK	HKD	13.58	9,383	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Asia Standard	00292 HK	HKD	0.21	432	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Fosun Tourism Gr	01992 HK	HKD	7.20	8,892	11.6	n.a.	10.9	6.8	n.a.	7.1	3.2	2.2	(7.1)	1.0
Jingjiang Captial	02006 HK	HKD	1.48	8,238	9.7	27.9	11.1	9.3	n.a.	5.4	4.0	3.4	3.2	0.8
Jinmao Hotel And	06139 HK	HKD	4.65	9,300	31.0	103.3	42.3	35.8	n.a.	19.8	15.9	14.7	3.1	1.7
Simple Average					18.0	45.4	21.3	18.1	n.a.	21.5	9.4	8.2	(0.9)	1.0
Weighted Average					**18.5**	**40.1**	**21.9**	**17.9**	**0.0**	**30.7**	**11.0**	**9.6**	**(1.6)**	**0.9**
U.S. Listed				**US$ mn**										
Choice Hotels	CHH US	USD	82.84	4,586	20.7	33.9	23.2	18.2	22.7	22.7	15.6	13.5	600.3	109.4
Greentree Ho-Adr	GHG US	USD	14.19	1,450	22.6	30.5	17.4	15.9	20.3	19.6	10.6	9.7	16.0	4.7
Hyatt Hotels-A	H US	USD	53.32	5,389	7.3	n.a.	n.a.	86.0	9.7	40.2	12.7	10.3	(8.6)	1.5
Hilton Grand Vac	HGV US	USD	21.41	1,820	8.8	930.9	9.9	7.2	7.9	16.2	6.8	4.3	(11.4)	3.2
Hilton Worldwide	HLT US	USD	76.08	21,094	24.8	72.5	30.0	22.3	15.8	26.1	15.4	12.9	3.2	(28.5)
Host Hotels & Re	HST US	USD	11.29	7,959	9.0	n.a.	n.a.	50.2	8.7	129.0	15.7	10.8	(11.6)	1.3
Huazhu Group Ltd	HTHT US	USD	36.60	10,864	40.6	257.7	34.5	26.4	35.2	40.3	18.4	14.2	4.9	9.0
Intercontin-Adr	IHG US	USD	48.32	8,826	n.a.	n.a.	n.a.	n.a.	4.3	24.6	14.0	11.1	(5.0)	n.a.
Marriott Intl-A	MAR US	USD	90.18	29,241	23.5	105.7	24.5	18.7	19.8	26.2	14.4	11.7	27.5	128.5
Playa Hotels & R	PLYA US	USD	3.63	483	n.a.	n.a.	n.a.	n.a.	16.9	186.2	13.1	9.1	(16.3)	0.7
Sunstone Hotel	SHO US	USD	8.54	1,842	15.8	n.a.	n.a.	n.a.	18.0	354.0	17.0	12.0	(14.3)	0.8
Extended Stay Am	STAY US	USD	11.67	2,071	31.5	69.5	17.5	14.2	8.8	12.0	9.1	8.5	2.4	1.6
Marriott Vacatio	VAC US	USD	87.04	3,573	27.8	24.5	12.6	11.1	15.7	13.4	8.2	7.5	n.a.	n.a.
Wyndham Hotels &	WH US	USD	45.42	4,228	27.9	33.4	15.5	13.1	15.0	17.2	10.7	9.6	9.3	n.a.
Wyndham Destinat	WYND US	USD	30.42	2,590	5.5	n.a.	7.7	6.0	8.6	18.5	6.9	6.2	(28.9)	2.7
Simple Average					20.5	173.2	19.3	24.1	15.2	63.1	12.6	10.1	40.5	19.6
Weighted Average					**23.1**	**122.7**	**25.0**	**25.6**	**17.0**	**40.7**	**14.3**	**11.5**	**33.5**	**42.5**

Source: Bloomberg, Guotai Junan International.

Table-2: Online Travel Agency Peers Comparison

Company	Stock Code	Cncy	Last price	Mkt. Cap US$ mil	PE (Adjusted) 20F	PE (Adjusted) 21F	PE (Adjusted) 22F	PE (GAAP) 20F	PE (GAAP) 21F	PE (GAAP) 22F	ROE(%) 20F	PB 20F
Trip.com.Com-Adr	TCOM US	USD	26.290	15,592	n.a.	22.0	16.5	n.a.	35.0	23.0	(2.5)	1.1
Booking Holdings	BKNG US	USD	1,633.52	66,861	108.3	22.7	16.2	n.a.	24.9	16.5	5.6	16.3
Tripadvisor Inc	TRIP US	USD	18.180	2,440	n.a.	24.9	14.0	n.a.	466.2	35.9	(9.2)	2.2
Makemytrip Ltd	MMYT US	USD	17.020	1,752	n.a.	n.a.	130.9	n.a.	n.a.	n.a.	(8.8)	1.5
Expedia Inc	EXPE US	USD	83.120	11,718	n.a.	31.2	15.3	n.a.	112.8	19.8	(23.5)	4.0
Travelzoo Inc	TZOO US	USD	6.340	72	11.5	8.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tuniu Corp-Adr	TOUR US	USD	1.060	131	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average					59.9	21.9	38.6	n.a.	159.7	23.8	(7.7)	5.0
Weighted Average					**108.2**	**23.7**	**18.1**	n.a.	**48.4**	**18.4**	**0.2**	**11.8**

Source: Bloomberg, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index / NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index / NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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