

## Tourism - China

# Key takeaways from Innovative China conf. and Hotel/Hainan duty free tour

Industry Overview

### Key takeaways from China conf. and Hotel/Hainan DF tour

There were seven hotel/tourism companies and one hotel expert attending our Innovative China conference on May 9-10. We also hosted two investor tours around our conference: i) Shanghai hotel tour: We visited mid and upscale hotels of major branded operators on May 8. ii) Hainan duty free tour: We visited major duty free/resort operators and a government agency on May 11-12.

### Hotels: Solid RevPAR but weak share prices

**Investor focus:** Latest RevPAR trends, franchisee sentiment, supply outlook and the reasons for weak share prices performances despite solid fundamentals.

**RevPAR trends:** RevPAR trends of major operators have been solid and tracking above company guidance YTD. In late March, major operators guided full-year RevPAR recovery to be largely in-line with 1Q level. Yet, April/May golden week RevPAR recovery has accelerated from 1Q/March level, suggesting upside risks to management guidance. During May golden week, RevPAR was strong in the first two days and tapered off in the last three days. Some travel demand cannot be fulfilled due to unavailability for HSR tickets and very high room rates.

**Franchisee sentiment/supply outlook:** Franchisees sentiment has turned more positive in 2023, as indicated by solid hotel signups. During COVID, there was a reduction in hotel supply particularly for small and non-branded hotels. Hotel supply will be coming back but it will take time.

**Reasons for the disconnect between fundamentals and share prices:** Investors are surprised by the disconnect between solid fundamentals and weak share prices in April/May. One possible explanation is that RevPAR recovery could peak in golden week and decelerate afterwards.

### Duty Free: Lower average spend, DF policies post 2025

**Investor focus:** Reasons behind lower average spend YTD and DF policies post 2025.

**Duty Free sales YTD:** The DF sales growth has been slower than visitations growth YTD, implying lower average spend. This could be due to reduced disposable income, increased mix of family customers and stricter crackdown on Daigou activities.

**DF policies post 2025:** Hainan is expected to become a free trade port in 2025 according to the Central government policy. The hardware is expected to be ready by end-2023 and testing of the policies will be conducted in 2024. One possible scenario for DF policies after 2025 is that all imported goods to Hainan will be exempted from import duty. DF-licensed operators can still sell products which are fully exempted for VAT and consumption tax. For duty-paid operators, the VAT and consumption tax will be combined into one single tax. The effective tax rates for the new single tax are likely to be lower than the current combined tax rates for custom duty, VAT and consumption tax.

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HSR: High speed rail

VAT: Value-added tax

DF: Duty Free

DP: Duty paid

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