



Rating  
**Buy**

Asia  
China

Consumer  
Hotels / Leisure /  
Gaming

Company  
**CITS**

Reuters  
601888.SS

Bloomberg  
601888 CG

Exchange  
SHH

Ticker  
601888

Date  
10 November 2017

Forecast Change

Price at 9 Nov 2017 (CNY)	42.69
Price target - 12mth (CNY)	55.00
52-week range (CNY)	42.69 - 20.58
Shanghai Composite	3,428

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## Top pick and our conviction Buy

### Consensus may not fully capture company's growth, short term and long term

We raise our target price for CITS by 37.5% to RMB55, from RMB40. Management has publicly guided that its duty-free business is likely to see growth of over 60% yoy for FY2017. Also, we believe consensus hasn't factored in profit from Beijing Airport, the potential opening of a downtown duty-free store and the consolidation of duty-free in Shanghai Airport. Given its robust and sustainable growth, high barriers to entry and attractive valuation, CITS has become our conviction Buy for 2018.

### Profit from BCIA should be higher than the consensus estimate

We expect RMB6.6bn duty-free sales from BCIA (T2 & T3) in 2018. We believe the market is overly concerned with the high concessionaire rate from Beijing Airport: 1) during the transitional 12m, CITS will pay the original concessionaire rate agreed with Sunrise, and 2) there is still room for GM improvement, given the size-up (CITS' duty-free GP margin was only c.45% vs. Dufry's 60% in 2016). We estimate RMB623m profit contribution for 2017 and RMB349m for 2018. We believe this has not been factored into WIND/Bloomberg consensus.

### Haitang Bay's robust growth may continue all the way to 2020

We have grown more confident on Haitang Bay duty-free sales after our recent channel checks. We expect duty-free sales to hit RMB6.55bn in 2017, yoy growth of 43%, and to grow another 28% in 2018. Our channel check found that there are two new additions of luxury hotel resorts (new supply of 800-1,000 rooms) in Haitang Bay every year to meet the strong demand from domestic travelers. We also believe Atlantis and Haichang Ocean Park, two in-progress theme parks could add another 5-6m travelers to Haitang Bay. All these incremental travelers should benefit duty-free sales' long-term growth.

### Two more significant catalysts may double current profit – not priced in yet

We believe the current share price hasn't fully factored in two near-mid-term catalysts: a downtown duty-free store and consolidation of duty-free business in Shanghai Pudong/Hongqiao Airports. These two events are likely to bring a further c.RMB1.2bn in earnings to CITS, which is 35% on top of our 2018E.

### Valuation and risks

Our TP of RMB55 implies a forward PER of 24x on our 2018 earnings forecasts, which we believe is very attractive, given that the duty-free business is protected and enjoys barriers to entry in China. We derive our TP based on DCF (8.1% WACC, 9% cost of equity, beta of 0.9 and 3.0% TGR, unchanged). Key downside risks include 1) unfavorable government policy, 2) ecommerce competition, 3) delays in lifting shopping quota, and 4) competition from OTAs.

### Forecasts And Ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	21,291.9	22,389.8	29,241.9	36,980.9	41,839.7
Reported NPAT (CNYm)	1,505.9	1,808.2	2,851.5	3,451.2	4,057.1
DB EPS growth (%)	–	19.9	-20.9	21.2	17.6
PER (x)	17.4	12.0	29.4	24.3	20.6

Source: Deutsche Bank estimates, company data

DB EPS is fully diluted and excludes non-recurring items

DB EPS is fully diluted and excludes non-recurring items. Historical prices for past years and spot prices for current and future years, except P/B which uses

### Key changes

TP	40.00 to 55.00	↑	37.5%
Sales (FYE)	28,072 to 29,242	↑	4.2%
Op prof margin (FYE)	12.8 to 14.2	↑	11.2%
Net profit (FYE)	2,566.2 to 2,851.5	↑	11.1%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	22.8	49.8	100.3
Shanghai Composite	1.6	4.6	9.6

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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Model updated: 10 November 2017

### Running the numbers

Asia

China

Hotels / Leisure / Gaming

### CITS

Reuters: 601888.SS

Bloomberg: 601888 CG

### Buy

Price (9 Nov 17) CNY 42.69

Target Price CNY 55.00

52 Week range CNY 20.58 - 42.69

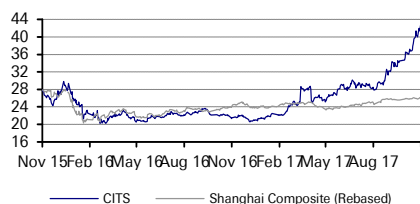
Market Cap (m) CNYm 83,351

USDm 12,564

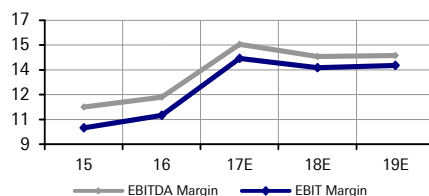
### Company Profile

China's leading travel agency and duty-free store

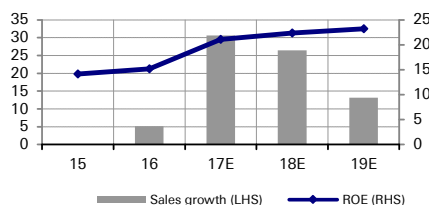
### Price Performance



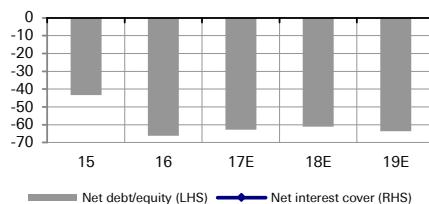
### Margin Trends



### Growth & Profitability



### Solvency



Fiscal year end 31-Dec

### Financial Summary

	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	1.53	1.83	1.45	1.76	2.07
Reported EPS (CNY)	1.54	1.85	1.46	1.77	2.08
DPS (CNY)	0.50	1.00	1.58	0.95	1.12
BVPS (CNY)	11.5	12.9	7.4	8.4	9.5
Weighted average shares (m)	976	976	1,952	1,952	1,952
Average market cap (CNYm)	26,001	21,583	83,351	83,351	83,351
Enterprise value (CNYm)	21,008	12,952	73,975	73,061	71,234

### Valuation Metrics

P/E (DB) (x)	17.4	12.0	29.4	24.3	20.6
P/E (Reported) (x)	17.3	11.9	29.2	24.2	20.5
P/BV (x)	2.52	1.65	5.76	5.09	4.49
FCF Yield (%)	3.4	8.2	2.2	3.0	4.5
Dividend Yield (%)	1.9	4.5	3.7	2.2	2.6
EV/Sales (x)	1.0	0.6	2.5	2.0	1.7
EV/EBITDA (x)	8.8	4.9	16.8	13.8	11.9
EV/EBIT (x)	9.9	5.4	17.8	14.5	12.4

### Income Statement (CNYm)

Sales revenue	21,292	22,390	29,242	36,981	41,840
Gross profit	5,471	5,862	9,244	12,936	15,295
EBITDA	2,398	2,656	4,398	5,294	6,010
Depreciation	136	131	128	128	123
Amortisation	132	117	121	125	130
EBIT	2,129	2,408	4,150	5,041	5,757
Net interest income/(expense)	12	41	172	190	213
Associates/affiliates	103	103	113	125	137
Exceptionals/extraordinaries	0	0	0	0	0
Other pre-tax income/(expense)	68	119	22	22	22
Profit before tax	2,313	2,671	4,457	5,378	6,130
Income tax expense	591	636	1,076	1,301	1,484
Minorities	216	227	530	626	588
Other post-tax income/(expense)	0	0	0	0	0
Net profit	1,506	1,808	2,852	3,451	4,057
DB adjustments (including dilution)	-12	-17	-17	-17	-17
DB Net profit	1,494	1,791	2,835	3,434	4,040

### Cash Flow (CNYm)

Cash flow from operations	1,571	1,937	1,961	2,661	3,831
Net Capex	-682	-167	-159	-127	-60
Free cash flow	888	1,770	1,802	2,534	3,770
Equity raised/(bought back)	7	34	0	0	0
Dividends paid	-449	-488	-976	-1,540	-1,863
Net inc/(dec) in borrowings	108	30	0	0	0
Other investing/financing cash flows	-2,583	-7,878	-90	-90	-90
Net cash flow	-2,029	-6,532	735	905	1,817
Change in working capital	-194	-213	-1,139	-1,043	-479

### Balance Sheet (CNYm)

Cash and other liquid assets	5,260	8,973	9,709	10,613	12,430
Tangible fixed assets	1,688	1,649	1,680	1,680	1,617
Goodwill/intangible assets	1,126	1,116	1,045	970	890
Associates/investments	555	552	562	572	582
Other assets	7,102	4,998	6,772	8,551	9,496
Total assets	15,731	17,288	19,768	22,386	25,016
Interest bearing debt	110	134	134	134	134
Other liabilities	3,729	3,794	4,399	5,105	5,541
Total liabilities	3,839	3,927	4,532	5,239	5,675
Shareholders' equity	11,181	12,599	14,475	16,386	18,580
Minorities	711	761	761	761	761
Total shareholders' equity	11,892	13,360	15,236	17,147	19,341
Net debt	-5,150	-8,840	-9,575	-10,480	-12,297

### Key Company Metrics

Sales growth (%)	nm	5.2	30.6	26.5	13.1
DB EPS growth (%)	na	19.9	-20.9	21.2	17.6
EBITDA Margin (%)	11.3	11.9	15.0	14.3	14.4
EBIT Margin (%)	10.0	10.8	14.2	13.6	13.8
Payout ratio (%)	32.4	54.0	108.0	54.0	54.0
ROE (%)	14.2	15.2	21.1	22.4	23.2
Capex/sales (%)	3.2	0.7	0.5	0.3	0.1
Capex/depreciation (x)	2.5	0.7	0.6	0.5	0.2
Net debt/equity (%)	-43.3	-66.2	-62.8	-61.1	-63.6
Net interest cover (x)	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

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# Beijing Airport profit seems under-estimated

## Profit from BCIA seems higher than consensus

### Concessionaire rate followed previous agreement during 6+6 transitional period

We believe the market is overly concerned about the high concessionaire rate (c.43.5% for T3 and 47.5% for T2) from Beijing Airport. As per management disclosure on the 3Q17 earnings conference call, CITS will pay the original concessionaire rate (c.20-30%) agreed with Sunrise during the next transitional 6-12 months.

### Consensus has not fully factored in profit from BCIA

CITS seems to be more aggressive after taking over the operations of Beijing Airport by introducing more international cosmetic brands to meet consumers' desire to trade-up. As a result, we expect its top line to post a c.20% CAGR during 2017-2019E and there will likely be improvement in the gross margin, driven by the size-up.

As a result, we expect duty-free sales from BCIA (T2 & T3) to deliver RMB6.6bn in 2018E and we estimate it could contribute an incremental RMB623m in profit (concessionaire rate of 25%) for 2017E and c.RMB350m (concessionaire rate of 36%) for 2018E.

Figure 1: Our estimates on duty-free profit in BCIA, 2017E/2018E

Duty-free in BCIA	2017E	2018E
Revenue (RMBm)	5,534	6,641
Gross margin	50%	53%
Gross profit	2,767	3,519
Concessionaire rate	25.0%	36.0%
Concessionaire payment to airport	1,383	2,391
Utility, staff and others	553	664
Utility, staff and others rate	10.0%	10.0%
EBIT	830	465
Profit before tax	830	465
Net profit	623	349
Net margin	11.3%	5.3%

Source: Deutsche Bank estimates



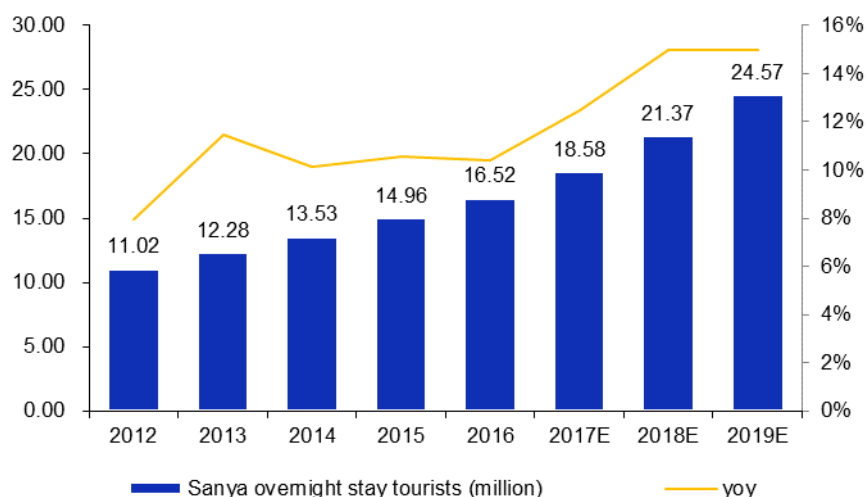
# Haitang Bay's long-term growth looks more firm

## Expect visitor CAGR in Haitang Bay to be 20% 2017-19E

2017 YTD, visitor growth in Sanya is 12% yoy.

According to Sanya City Statistics, the number of tourists who stay overnight increased by 12.2% yoy to 12.8 million in 9M17. We expect Sanya to enjoy 15% traffic growth in 2018-2019E as shown in the chart below. Haitang Bay is a comprehensive tourist destination with a shopping mall, resort and entertainment. Therefore, we expect Haitang Bay's tourists will register a 20% CAGR in 2018-2019E as more people are willing to stay there.

Figure 2: Overnight stay tourist traffic in Sanya



Source: Deutsche Bank, Sanya City Statistics

## New addition of hotel supply in Haitang Bay is sufficient

Currently, visitors to Haitang Bay rarely have any night life, except to stay in the hotel resorts. As it is the only shopping mall in Haitang Bay, we believe most overnight visitors will visit the mall for shopping/fun in the evening. Therefore, we also have channel-checked the luxury hotel resort pipeline in Haitang Bay.

On average, three more new luxury hotels opening every year

As shown in the table below, more than 10 luxury hotel resorts will start business in Haitang Bay over the next three years. We have seen incremental hotel room numbers of c.800-1,000 every year to accommodate the robust growth of visitors in Haitang Bay. Normally, CITS will work with these hotels on shuttle bus arrangements.



Figure 3: Luxury hotel pipeline in Sanya

Hotel	Rooms	Operation date	Location
Wyndham	200+	2017	Haitang Bay
Rosewood	700+	2017	Haitang Bay
Mangrove Tree	500+	2017	Haitang Bay
Hyatt Place	300+	2018E	
Hyatt House	200+	2018E	
Renaissance	300+	2018E	
Four Seasons	200+	2018E	Haitang Bay
Bellagio	200+	2018E	
Crown Plaza	600+	2018E	Haitang Bay
W Hotel	400+	2019E	Haitang Bay
Waldorf	200+	2019E	Haitang Bay
Mandarin Oriental	200+	2019E	Haitang Bay
Montage	200+	2019E	Haitang Bay
Regis	400+	2020E	Haitang Bay

Source: Deutsche Bank, Company data

## Three more leisure resorts/parks to extend visitors' stay

As we mentioned earlier, most visitors have no leisure events in the evening, other than to spend time in the hotel resorts. We believe two more thematic park/resorts will further extend visitors' stay length in Haitang Bay.

### 1) Atlantis to open in early 2018E

The world's third Atlantis Hotel Resort is scheduled to open at the beginning of 2018. Atlantis is only 3km away from the duty-free shopping mall. Therefore, we believe the establishment of Atlantis will direct sufficient visitors towards the shopping mall.

- Atlantis Resort is not only a luxury hotel (with 1,314 rooms) but also a water park, located only 3km from the Haitang Bay duty-free shopping mall.
- We expect Atlantis to attract an incremental 3-4 million visitors to the Haitang Bay area in 2018E

### 2) Haichang Dream World will start operations in early-2019E

Haichang Dream World is scheduled to start operation by the end of 2018E.

- The project is invested by Haichang Ocean Park (2255.HK, Non-rated), a leading developer and operator of ocean theme parks in China.
- Management disclosed that Haichang theme park is expected to attract c.5-6 million tourists in its mature stage.

### 3) Island project in Haitang Bay DFS open in 2019E

The Island project is owned by CITS, and is opposite the current duty-free shopping mall. The Island project is positioned to be an entertainment complex comprising catering, dining and entertainment. The Haitang Bay Island project will start operation by the end of 2018E.

- CITS has invested RMB840m in the construction of the Island project.



- As the ancillary commercial property for Haitang Bay DFS, the Island project mainly focuses on providing catering and entertainment facilities for traffic from Haitang Bay.
- Management disclosed that the project has been under construction since the beginning of 2017 and it plans to start operations by the end of 2018E.

Figure 4: Location of Haitang Bay in city of Sanya, Hainan province



Source: Deutsche Bank



# Two potential catalysts

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## Two more catalysts could double profit

### Management guided that they are in progress

There are two more projects that CITS is working on but the timeline is not certain: 1) to take over the duty-free business of the airports in Shanghai, and 2) to open a downtown duty-free store in Beijing.

As those two projects are policy driven, it is difficult to analyze the timing in executing these projects. However, we believe they could be the catalysts for the share price in the medium term. We have performed a sensitivity analysis on the earnings and risk-reward here.

**Conclusion:** we believe the duty-free business in Shanghai airports and the downtown duty-free store in Beijing are likely to contribute c.RMB1.2bn net profit to CITS (note that our 2018E earnings forecast for CITS is RMB3.4bn)

### Catalyst No. 1 – Shanghai HQ/PD airport

Sunrise's duty-free operation license is expected to expire in 2018. Therefore, the market has been expecting CITS to take over the operation rights in two airports in Shanghai. We believe winning BCIA is a milestone for CITS and taking over from Sunrise in Shanghai could follow the same process.

- Shanghai Airport (Pudong + Hongqiao) currently enjoys annual International traffic of c.40 million (35 million in Pudong and 5 million in Hongqiao).
- Although there is no public data for Sunrise's (the current duty-free operator) sales numbers for the existing Shanghai Hongqiao, we estimate that duty-free stores in Shanghai airport are likely to generate c.RMB7-8bn duty-free sales, higher than BCIA.
- If we assign a 7-8% net margin to the business, CITS is likely to generate another RMB490-640m net profit.

### Catalyst No. 2 – Downtown Duty-Free in Beijing

**The competitive advantage of downtown duty-free** is that 1) length of stay is much longer than for duty-free in the airports, 2) the ticket price is higher, and 3) CITS doesn't have to pay concessionaire to the airports.

Located in Beijing's Central Business District, the downtown duty-free store in Beijing is currently only open to foreigners (including people from Hong Kong, Macau and Taiwan).

Due to such restrictions, the current traffic volume is quite small. However, management disclosed that the company is actively applying for permission from the Ministry of Finance to extend the purchase qualification to domestic citizens who go abroad.

### Earnings upside potential from downtown duty-free

If the downtown duty-free is approved by the Chinese government, we believe it could contribute an additional c.RMB600m net profit to CITS, on top of our current estimate.



- **No need to pay concessionaire fee to BCIA** – customers can get their duty-free products in airports, but CITS doesn't have to pay 40%+ concessionaire sales to BCIA if the purchase happens in the downtown duty-free store.
- **Higher ticket price** – customers tend to shop more in the downtown DFS than the airport DFS, mainly due to the better shopping environment and more diversified brands and commodities. Taking Haitang Bay as an example, consumption per person was c.RMB4,700 in 2016. Per person purchases in BCIA are less than RMB1,000.

#### Sensitivity analysis on earnings potential upside

We have performed a sensitivity analysis on how much upside downtown duty-free can contribute to our 2018 earnings estimate.

- **Net margin** – we assign a 15% net margin gap between Downtown and Airport DFS, due to their rent cost difference.
- **Portion of international traffic** – we assign 25% as the portion of total international traffic that will likely shop in Downtown DFS. Note that the international traffic of BCIA was 25 million in 2016, we assume a 25% duty-free conversion rate.
- **Ticket price** – we conservatively assume consumption per visit in Downtown DFS will be RMB2,000 (vs. c.4,700 in Haitang Bay in 2016).
- As a result, we estimate additional earnings could be c.RMB600m, which accounts for c. 17% of our 2018E CITS earnings.

Figure 5: Factoring downtown DFS

Beijing Airport DFS	
Annual traffic (million)	4.5
Ticket price	1,000
Concession rate	43.5%
Net margin	10%
Net profit (RMBm)	450
Beijing Downtown DFS	
Annual traffic (million)	1.5
Ticket price	2,000
Concession rate	0%
Net margin	25%
Net profit (RMBm)	750
<b>Total net profit (RMBm)</b>	<b>1,200</b>

Source: Deutsche Bank

Figure 6: Without factoring downtown DFS

Beijing Airport DFS	
Annual traffic (million)	6
Ticket price	1,000
Concession rate	43.5%
Net margin	10%
Net profit (RMBm)	600
Beijing Downtown DFS	
Annual traffic (million)	-
Ticket price	2,000
Concession rate	0%
Net margin	25%
Net profit (RMBm)	-
<b>Total net profit (RMBm)</b>	<b>600</b>

Source: Deutsche Bank





Figure 7: Sensitivity analysis of ticket price and downtown DFS traffic as % of total

		Ticket Price (RMB)										
		RMB(m) 600	1,200	1,400	1,600	1,800	2,000	2,200	2,400	2,600	2,800	3,000
Downtown traffic as total	DFS of %	10.0%	3%	4%	5%	6%	7%	8%	9%	10%	10%	11%
		15.0%	5%	7%	8%	9%	10%	12%	13%	14%	16%	17%
		20.0%	7%	9%	10%	12%	14%	16%	17%	19%	21%	23%
		25.0%	9%	11%	13%	15%	17%	20%	22%	24%	26%	28%
		30.0%	10%	13%	16%	18%	21%	24%	26%	29%	31%	34%
		35.0%	12%	15%	18%	21%	24%	28%	31%	34%	37%	40%
		40.0%	14%	17%	21%	24%	28%	31%	35%	38%	42%	45%

Source: Deutsche Bank



# Forecast changes and Valuation

## Forecast changes

Figure 8: Forecast changes, 2017-2018E

RMBm	Old		New		Changes	
	2017E	2018E	2017E	2018E	2017E	2018E
Revenue	28,072	34,852	29,242	36,981	4.2%	6.1%
-Travel agency	13,678	14,690	13,678	14,690	0.0%	0.0%
-Duty-free	13,996	19,716	15,165	21,845	8.4%	10.8%
Gross profit	8,645	11,832	8,996	12,683	4.1%	7.2%
SG&A	(5,061)	(7,318)	(4,846)	(7,642)	-4.3%	4.4%
EBITDA	3,831	4,766	4,398	5,294	14.8%	11.1%
EBIT	3,583	4,514	4,150	5,041	15.8%	11.7%
Pre-tax profit	3,891	4,851	4,457	5,378	14.6%	10.9%
Net profit	2,566	3,140	2,852	3,451	11.1%	9.9%
Core net profit	2,549	3,123	2,835	3,434	11.2%	10.0%

Source: Deutsche Bank estimates

## DB estimates vs. Consensus

Figure 9: DB estimates vs. Consensus

RMB million	2017E			2018E		
	DB estimate	Consensus	Diff.	DB estimate	Consensus	Diff.
Sales revenue	29,242	27,522	6%	36,981	33,206	11%
EBITDA	4,398	3,623	21%	5,294	4,259	24%
Net profit	2,852	2,363	21%	3,451	2,720	27%
Core net profit	2,835	2,363	20%	3,434	2,720	26%

Source: Deutsche Bank, Bloomberg Finance LP

## Valuation – target price of RMB55

### Lifting our TP to RMB55 from RMB40 before

We believe CITS's valuation is very attractive at 24x our 2018 earnings forecast, as the duty-free business is protected and enjoys barriers to entry in China.

Our TP of RMB55 implies a forward PER of 24x on our 2018 earnings forecasts. We derive our TP based on DCF (8.1% WACC, 9% cost of equity, beta of 0.9 and 3.0% TGR, unchanged).

- WACC of 8.1%, unchanged
- Target of 80% equity for its capital structure
- A risk-free rate of 3.9% and market risk premium of 5.6% (our in-house estimates)



- A beta of 0.9, unchanged
- Cost of equity of 9%
- Cost of debt of 6.0% (our in-house estimates)
- Terminal growth of 3%
- A tax rate of 25% (for terminal growth)
- We also roll over our DCF and increase our 2020-2027E revenue CAGR to 10% from the previous 5% only.

Figure 10: Our DCF assumptions

DCF assumptions

Equity as % of capital structure	80.0%
Beta ( 3Y beta from Bloomberg)	0.91
Risk free rate	3.9%
Equity risk premium	5.6%
Cost of equity	9.0%
Tax rate (for discount rate calculation)	25%
Terminal growth rate	3.0%
WACC	8.1%

Source: Deutsche Bank

Figure 11: Our DCF valuation

Share Value

Discounted FCF	100,240
Discount Rate	8.1%
Net Cash	10,480
Minority Interest	(3,044)
Equity Value	107,676
Shares Outstanding	1,952
Value per Share	RMB 55

Source: Deutsche Bank

Figure 12: Our DCF valuation continued

RMB mn	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	36,981	41,840	46,024	50,626	55,689	61,257	67,383	74,122	77,457	80,943
EBIT	5,041	5,757	5,891	6,480	7,128	7,841	8,625	9,488	9,914	10,361
Tax Rate	24.8%	24.8%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Taxes	(1,249)	(1,426)	(1,473)	(1,620)	(1,782)	(1,960)	(2,156)	(2,372)	(2,479)	(2,590)
NOPAT	3,792	4,331	4,418	4,860	5,346	5,881	6,469	7,116	7,436	7,770
D&A	253	253	278	306	336	370	407	448	468	489
Capex	(127)	(60)	(322)	(354)	(390)	(429)	(472)	(448)	(468)	(489)
Change Working Cap	(1,043)	(479)	(460)	(253)	(278)	(306)	(337)	(371)	(387)	(405)
FCF	2,875	4,044	3,914	4,558	5,014	5,516	6,067	6,745	7,049	7,366
										3.0%
										148,332
	2,875	4,044	3,914	4,558	5,014	5,516	6,067	6,745	7,049	155,697
	2,631	3,423	3,063	3,299	3,357	3,415	3,474	3,573	3,453	70,553

Source: Deutsche Bank

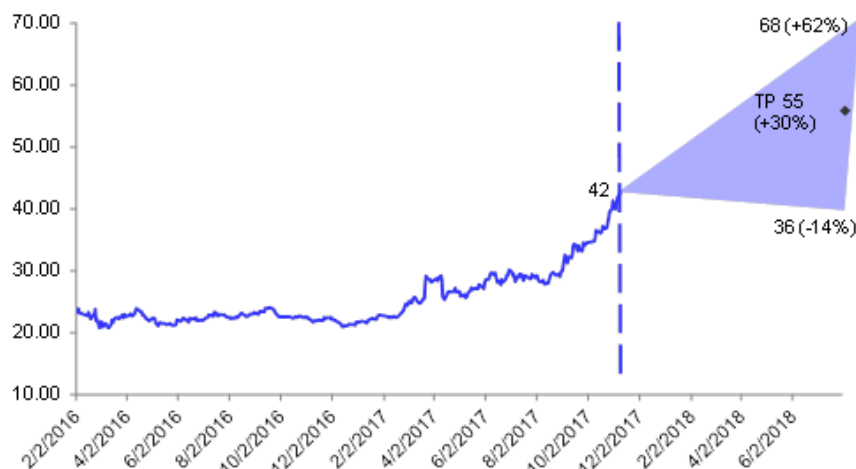


### Risk-reward seems attractive

We believe the risk-reward profile is attractive. Our target price implies 35% upside potential.

- **Bull case:** If we factor in the two catalysts in our DCF model, the upside could be as high as 62%.
- **Bear case:** If we lower our revenue growth to zero from year 2020 in our DCF model, the target price would be RMB36, implying the downside risk to its close is 14%.

Figure 13: Risk-reward snapshot: CITS



Source: Deutsche Bank, Bloomberg Finance LP

Figure 14: Tourism valuation comps

Ticker	English name	Chinese name	Target Price	Current price	Market cap (USD m)	ROE (%)	P/B	2017E PER	2018E PER	2017E EV/EBITDA	2018E EV/EBITDA	DB Recomm.
<b>Tourism</b>						<b>2017</b>	<b>2017</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	
696 HK Equity	TRAVEL SKY	中航信	23.0	19.84	7,440	17.2	3.1x	19.4x	17.7x	11.4x	9.3x	Buy
308 HK Equity	CHINA TRAVEL HK	香港中旅	3.1	2.72	1,920	4.3	1.0x	23.0x	20.7x	7.6x	6.9x	Buy
601888 CH Equity	CHINA INTERNAT-A	中國國旅	52.0	42.23	12,432	21.1	5.6x	28.4x	24.0x	15.6x	12.9x	Buy
300144 CH Equity	SONGCHENG PERF-A	宋城演藝	33.0	20.20	4,421	14.9	4.0x	29.0x	23.7x	18.9x	15.1x	Buy
600138 CH Equity	CHINA CYTS-A	中青旅	20.0	20.09	2,193	9.7	2.6x	31.5x	26.6x	11.5x	10.2x	Hold
600054 CH Equity	HUANGSHAN TOUR-A	黃山旅遊	22.4	14.56	1,641	10.0	2.4x	26.5x	21.0x	11.3x	8.9x	Buy
002707 CH Equity	UTOUR GROUP CO-A	眾信旅遊	15.0	11.49	1,461	15.7	4.6x	30.9x	25.2x	15.8x	12.5x	Buy
000796 CH Equity	HNA-CAISSA TR-A	凱撒旅遊	23.0	14.69	1,777	17.8	5.3x	32.9x	26.8x	15.7x	12.5x	Buy
<b>Average</b>							<b>3.6x</b>	<b>27.7x</b>	<b>23.2x</b>	<b>13.5x</b>	<b>11.1x</b>	

Source: Deutsche Bank estimates

The authors of this report wish to acknowledge the contribution made by Mengyi (Matt) Zhang, an employee of CRISIL Global Research & Analytics, a division of CRISIL Limited, a third-party provider of offshore research support services to Deutsche Bank



# Appendix 1

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Company	Ticker	Recent price*	Disclosure
CITS	601888.SS	42.69 (CNY) 9 Nov 17	14

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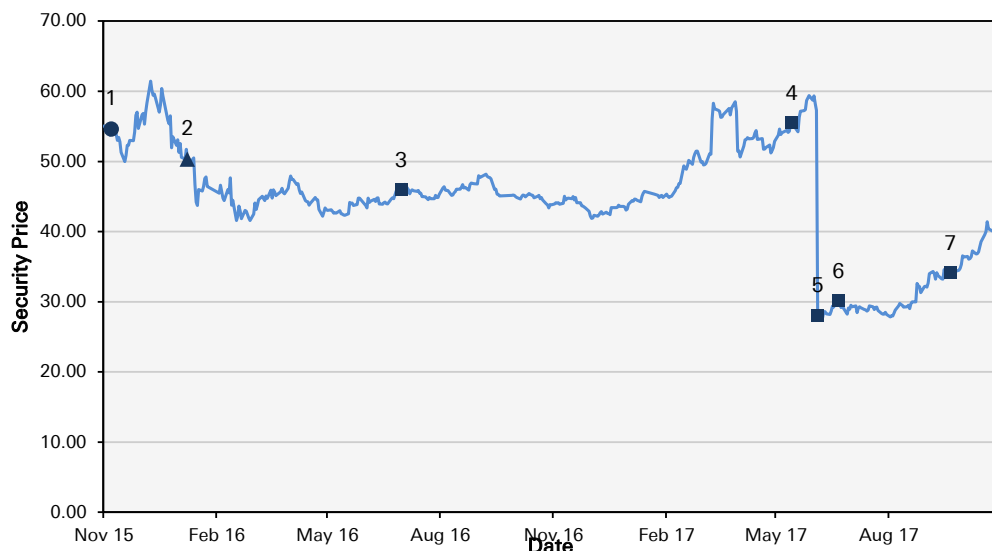
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**Historical recommendations and target price: CITS (601888.SS)**  
(as of 11/9/2017)



**Previous Recommendations**

Strong Buy  
Buy  
Market Perform  
Underperform  
Not Rated  
Suspended Rating

**Current Recommendations**

Buy  
Hold  
Sell  
Not Rated  
Suspended Rating

\*New Recommendation Structure as of September 9, 2002

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3. 12/07/2016:	Buy, Target Price Change CNY57.00 Tallan Zhou	7. 02/10/2017:	Buy, Target Price Change CNY40.00 Tallan Zhou
4. 26/05/2017:	Buy, Target Price Change CNY65.00 Tallan Zhou		

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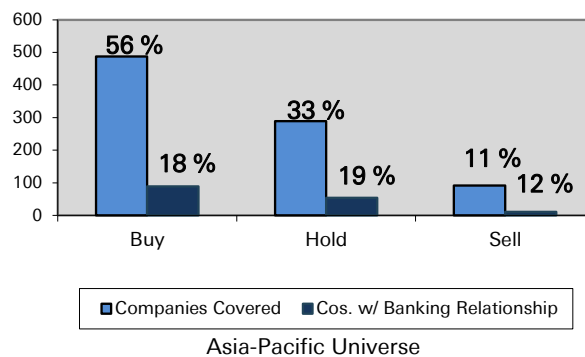
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