

## HNA Infrastructure (357 HK)

### Expanding horizons: Hainan to be free-trade zone by 2020

- ⊕ **Long-anticipated opening-up of Hainan confirmed for 2020:** Chinese President Xi Jinping announced last Friday that Hainan will become a pilot free-trade zone by 2020. With the full backing of the central government, a basic framework will be established by 2020 with development expected to mature by 2035. In our view, Hainan's opening-up is a massive boon to Hainan-based industries, specifically HNA Infrastructure, which is set to post rising profitability alongside surging tourism upon comprehensive market liberalization. Prior to the announcement, HNA Infrastructure's management forecasted another 8-10 years of rising traffic for Haikou Meilan International Airport (HMIA). Now, with the pilot zone confirmed for 2020, we believe traffic growth at HMIA will be more enduring than before as Hainan opens up tourism, medical, financial, and technology industries in the next decade.
- ⊕ **A domestic destination with global appeal:** Hainan has long strived to challenge popular international destinations with its own growing array of world-class attractions. However, we have observed that many high-investment tourist attractions (such as the Boao Lecheng International Medical Tourism Pilot Zone) have struggled despite significant government support. The mediocre appeal, in our view, is due to the lack of high-quality, overseas talent which Chinese tourists typically find abroad. The other issue is the lack of product variety within luxury DFS, which puts Hainan behind international competitors. We believe the influx of foreign multinationals and subsequent inflows of international brands, technology, and service standards will quickly resolve both issues and further boost the global appeal of Hainan's developing attractions.
- ⊕ **Gambling still on the cards:** The permission of gambling operation in Hainan is still uncertain, in our view, despite more encouraging signs. China will now allow sports lotteries and horse racing in Hainan, but general gambling operation on the island has yet to be realized. We believe any positive move towards allowing gambling operation could fuel a surge in tourism and divert billions in revenue from neighboring Macau. As such moves could irrevocably harm Macau's US\$33.0bn gambling industry, we expect any potential progress towards allowing gambling operation in Hainan to advance only on an incremental, trial basis.
- ⊕ **HMIA expansion just in time:** We believe HNA Infrastructure's dedicated development of HMIA is setting the stage for the airport to shine just as Hainan falls under national spotlight. According to the company, HMIA's annual capacity will reach 35m passengers upon completion of Phase II expansion in 2019, right on time to process boosted passenger throughput following the pilot zone's commencement.
- ⊕ **We maintain our Buy call.** Hainan's opening-up will undoubtedly super-charge HMIA's traffic for years to come. As the benefits from the pilot zone will not be seen until 2020, we maintain our **Buy** recommendation and target price of HK\$11.99 for now, equivalent to 9.6x P/E and 1.2x P/B on our FY18 forecasts.

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Broad market benchmark for Hong Kong is **the Hang Seng Composite Index**, for China A-shares is the **MSCI China A Index**, for US-listed Chinese companies is **S&P US Listed China 50 (USD) Index**.

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