



Rating
Buy

Asia
China

Consumer
Hotels / Leisure / Gaming

Company
UTour Travel

Reuters 002707.SZ Bloomberg 002707 CH Exchange SHZ Ticker 002707

Date
18 August 2017

Forecast Change

Price at 17 Aug 2017 (CNY)	12.22
Price target - 12mth (CNY)	15.00
52-week range (CNY)	20.38 - 11.18
Shenzhen Index	1,997

1H17 topline up by 13%; wholesale business slows down

1H17 top line up by 13%; bottom line up by 27%

Utour Travel announced its 1H17 interim report today. The company reported that top line increased by 13% yoy to RMB5.05bn in 1H17 from RMB4.46bn in 1H16 and core net profit increased by 27% yoy to RMB94m in 1H17 from RMB74m. We believe the margin increase continues in 2017 due to better products mix change. We reiterate Buy given the company's more diversified products and more attractive valuation than previously. Our new target price of RMB15 (from RMB17) reflects a cut in our 2017 wholesale business growth forecast.

Top line up 13% yoy, driven mainly by outbound wholesale business

- Wholesale outbound - revenue rose 13% to RMB3.88bn in 1H17 from RMB3.43bn in 1H16. This was the main driver of total top-line growth, however, wholesale business growth slows down compared to 27% yoy growth in 2016. We believe that this is mainly due to the slowdown of outbound travel in China (number of outbound tourists increased only by 5% to 62 million in 1H17 from 56 million in 1H16)
- Retail outbound - By end-1H17, the company has 108 offline stores. Revenues from the retail sales business rose 7% to RMB769m in 1H17 from RMB720m in 1H16. Recall that the company has planned to expand its offline stores to 200 in the next two to three years. We believe margins will continue to increase in 2017 under the company's strategy of revenue mix change.

We cut our 2017E earnings forecast by 10%

Given that the recent Paris (in April) and London (in June) terrorist attacks may affect the 3Q peak season in Europe, we conservatively believe that 2017 full year wholesale revenue growth will be slightly above the 1H17 level (13%). The main revision is in our 2017 wholesale revenue growth forecast, which we cut to 15% from 35% to match. Consequently, our 2017/18E net profit decreases by 10%/7%.

Valuation and risks

Our RMB15 target price is DCF-derived (8.2% WACC and 3% TGR, unchanged). The stock is trading at 33x/27x 2017/18E PER, which we believe is more attractive than its previous valuation (over 45x). The outbound business normally has a premium to the domestic travel listco due to its 1) high growth, 2) asset-light business model and 3) higher barriers to entry. Its current valuation is in line with leading domestic travel companies in A shares. Key risks: 1) further depreciation

Valuation & Risks

Tallan Zhou

Research Analyst
+852-2203 6464

Karen Tang

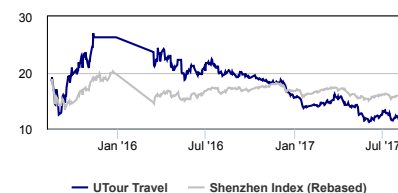
Research Analyst
+852-2203 6141

Key changes

TP	17.00 to 15.00	↓	-11.8%
Sales (FYE)	13,322 to 11,564	↓	-13.2%
Op prof margin (FYE)	4.0 to 4.2	↑	4.1%
Net profit (FYE)	342.8 to 305.6	↓	-10.8%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	4.8	-4.1	-40.2
Shenzhen Index	6.1	2.2	-6.6

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	15.7
Net debt/equity (%)	-19.4
Book value/share (CNY)	2.47
Price/book (x)	4.9
Net interest cover (x)	13.5
Operating profit margin (%)	4.2

Source: Deutsche Bank



in the RMB; 2) unfavorable government policy towards outbound travel; and 3) more terrorist attacks.

Forecasts and ratios

Year End Oct 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	8,370.2	10,104.0	11,563.6	14,325.1	17,797.4
EBITDA (CNYm)	279.4	369.2	569.7	703.7	824.7
Reported NPAT (CNYm)	186.7	214.9	305.6	378.1	458.2
Reported EPS FD(CNY)	0.22	0.25	0.36	0.45	0.54
DB EPS FD(CNY)	0.22	0.25	0.37	0.46	0.55
OLD DB EPS FD(CNY)	0.22	0.25	0.41	0.49	0.58
% Change	0.0%	0.0%	-10.5%	-7.3%	-4.4%
DB EPS growth (%)	-51.3	14.2	49.7	22.8	20.5
PER (x)	80.6	87.4	32.9	26.8	22.2
EV/EBITDA (x)	50.6	48.5	16.9	13.4	11.0
DPS (net) (CNY)	0.02	0.02	0.04	0.04	0.05
Yield (net) (%)	0.1	0.1	0.3	0.4	0.4

Source: Deutsche Bank estimates, company data



Earnings review

Utour – 1H17 earnings review

Figure 1: Utour – 1H17 results table

CNY m	1H16	1H17	yoy%
Revenue	4,456.9	5,054.0	13%
- Outbound Wholesale	3,425.8	3,875.1	13%
- Outbound Retail	719.7	768.8	7%
- Integrated Marketing Service	265.5	326.0	23%
- Others	45.9	84.1	83%
Gross profit	430.2	523.0	22%
SG&A	(300.3)	(370.1)	23%
EBIT	130.0	152.9	18%
Pre-tax profit	105.9	147.5	39%
Net profit	75.3	95.3	27%
Core net profit	73.9	93.8	27%
EPS (CNY)	0.09	0.11	27%
Core EPS (CNY)	0.09	0.11	27%

Margins	1H16	1H17	yoy%
GM	9.7%	10.3%	69bps
EBIT Margin	2.9%	3.0%	11bps
Net Margin	1.7%	1.9%	20bps
Core net margin	1.7%	1.9%	20bps

Source: Deutsche Bank, company data

Forecast changes

Figure 2: Earnings forecast changes, 2017E and 2018E

CNY m	Old		New		Diff	
	2017E	2018E	2017E	2018E	Diff	Diff
Revenue	13,322.0	16,509.6	11,563.6	14,325.1	-13.2%	-13.2%
Gross profit	1,446.2	1,837.3	1,274.3	1,634.8	-11.9%	-11.0%
SG&A	(907.7)	(1,199.2)	(787.9)	(1,040.5)	-13.2%	-13.2%
EBITDA	622.4	759.1	569.7	703.7	-8.5%	-7.3%
EBIT	538.5	638.1	486.4	594.3	-9.7%	-6.9%
Pre-tax profit	487.8	588.9	434.9	544.1	-10.8%	-7.6%
Net profit	342.8	409.2	305.6	378.1	-10.8%	-7.6%
Core net profit	350.1	415.4	313.4	385.0	-10.5%	-7.3%
EPS (CNY)	0.41	0.48	0.36	0.45	-10.8%	-7.6%
Core EPS (CNY)	0.41	0.49	0.37	0.46	-10.5%	-7.3%

Margins	2017E	2018E	2017E	2018E	Diff	Diff
GM	10.9%	11.1%	11.0%	11.4%	16bps	28bps
EBIT Margin	4.0%	3.9%	4.2%	4.1%	16bps	28bps
Net Margin	2.6%	2.5%	2.6%	2.6%	7bps	16bps
Core net margin	2.6%	2.5%	2.7%	2.7%	8bps	17bps

Source: Deutsche Bank estimates



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Model updated: 18 August 2017

Running the numbers

Asia
China
Hotels / Leisure / Gaming

UTour Travel

Reuters: 002707.SZ Bloomberg: 002707 CH

Buy

Price (17 Aug 17) CNY 12.22
Target Price CNY 15.00
52 Week range CNY 11.18 - 20.38
Market cap (m) CNYm 10,311 USDm 1,546.2

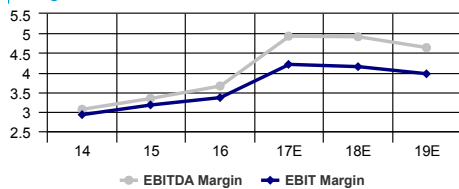
Company Profile

Utour Group offers travel services. The company provides overseas, domestic and other travel related services to customers throughout China.

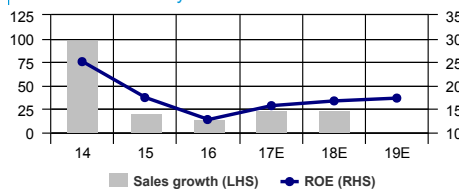
Price Performance



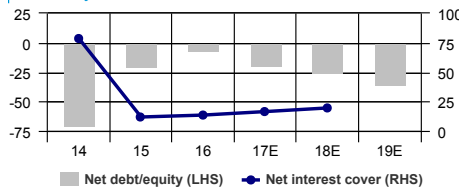
Margin Trends



Growth & Profitability



Solvency



Tallan Zhou

+852 2203 6464

tallan.zhou@db.com

Fiscal year end 31-Oct 2014 2015 2016 2017E 2018E 2019E

Financial Summary

DB EPS (CNY)	0.45	0.22	0.25	0.37	0.46	0.55
Reported EPS (CNY)	0.46	0.22	0.25	0.36	0.45	0.54
DPS (CNY)	0.03	0.02	0.02	0.04	0.04	0.05
BVPS (CNY)	2.4	1.9	2.1	2.5	2.9	3.4
Weighted average shares (m)	237	835	844	844	844	844
Average market cap (CNYm)	1,619	14,624	18,298	10,311	10,311	10,311
Enterprise value (CNYm)	1,215	14,154	17,897	9,629	9,429	9,058

Valuation Metrics

P/E (DB) (x)	15.3	80.6	87.4	32.9	26.8	22.2
P/E (Reported) (x)	14.9	78.3	85.2	33.7	27.3	22.5
P/BV (x)	4.38	11.81	8.66	4.94	4.24	3.61
FCF Yield (%)	3.6	nm	nm	3.2	2.6	4.4
Dividend Yield (%)	0.5	0.1	0.1	0.3	0.4	0.4
EV/Sales (x)	0.3	1.7	1.8	0.8	0.7	0.5
EV/EBITDA (x)	9.4	50.6	48.5	16.9	13.4	11.0
EV/EBIT (x)	9.9	53.3	52.7	19.8	15.9	12.8

Income Statement (CNYm)

Sales revenue	4,217	8,370	10,104	11,564	14,325	17,797
Gross profit	370	766	1,056	1,274	1,635	1,998
EBITDA	129	279	369	570	704	825
Depreciation	2	7	16	19	26	15
Amortisation	3	7	14	65	83	104
EBIT	123	265	339	486	594	706
Net interest income/(expense)	2	-3	-29	-36	-36	-36
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	-3	-8	-17	-17	-17	-17
Other pre-tax income/(expense)	27	3	24	1	2	-1
Profit before tax	148	258	318	435	544	652
Income tax expense	-40	-48	-72	-99	-124	-149
Minorities	0	-23	-31	-30	-42	-45
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	109	187	215	306	378	458
DB adjustments (including dilution)	-3	-5	-5	8	7	6
DB Net profit	106	182	209	313	385	464

Cash Flow (CNYm)

Cash flow from operations	69	13	50	434	400	608
Net Capex	-11	-30	-142	-101	-127	-155
Free cash flow	59	-17	-91	333	272	453
Equity raised/(bought back)	190	211	43	0	0	0
Dividends paid	-13	-23	-21	-21	-30	-37
Net inc/(dec) in borrowings	6	584	183	0	0	0
Other investing/financing cash flows	-100	-213	-373	0	0	0
Net cash flow	142	543	-260	312	242	416
Change in working capital	-48	-230	-221	46	-56	78

Balance Sheet (CNYm)

Cash and other liquid assets	414	960	932	1,244	1,487	1,903
Tangible fixed assets	6	11	56	49	37	40
Goodwill/intangible assets	10	565	631	636	644	650
Associates/investments	1	241	432	432	432	432
Other assets	640	1,441	1,951	1,773	2,624	2,710
Total assets	1,072	3,218	4,002	4,134	5,224	5,734
Interest bearing debt	6	620	803	803	803	803
Other liabilities	484	923	1,237	1,055	1,754	1,798
Total liabilities	490	1,543	2,040	1,857	2,556	2,601
Shareholders' equity	576	1,564	1,801	2,085	2,434	2,855
Minorities	6	111	161	192	234	279
Total shareholders' equity	582	1,675	1,962	2,277	2,667	3,134
Net debt	-408	-340	-130	-442	-684	-1,100

Key Company Metrics

Sales growth (%)	nm	98.5	20.7	14.4	23.9	24.2
DB EPS growth (%)	na	-51.3	14.2	49.7	22.8	20.5
EBITDA Margin (%)	3.1	3.3	3.7	4.9	4.9	4.6
EBIT Margin (%)	2.9	3.2	3.4	4.2	4.1	4.0
Payout ratio (%)	7.2	11.1	9.8	9.8	9.8	9.8
ROE (%)	25.1	17.4	12.8	15.7	16.7	17.3
Capex/sales (%)	0.3	0.4	1.4	0.9	0.9	0.9
Capex/depreciation (x)	1.9	2.1	4.7	1.2	1.2	1.3
Net debt/equity (%)	-70.2	-20.3	-6.6	-19.4	-25.6	-35.1
Net interest cover (x)	nm	78.6	11.8	13.5	16.5	19.5

Source: Company data, Deutsche Securities estimates



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
UTour Travel	002707.SZ	12.22 (CNY) 17 Aug 2017	NA

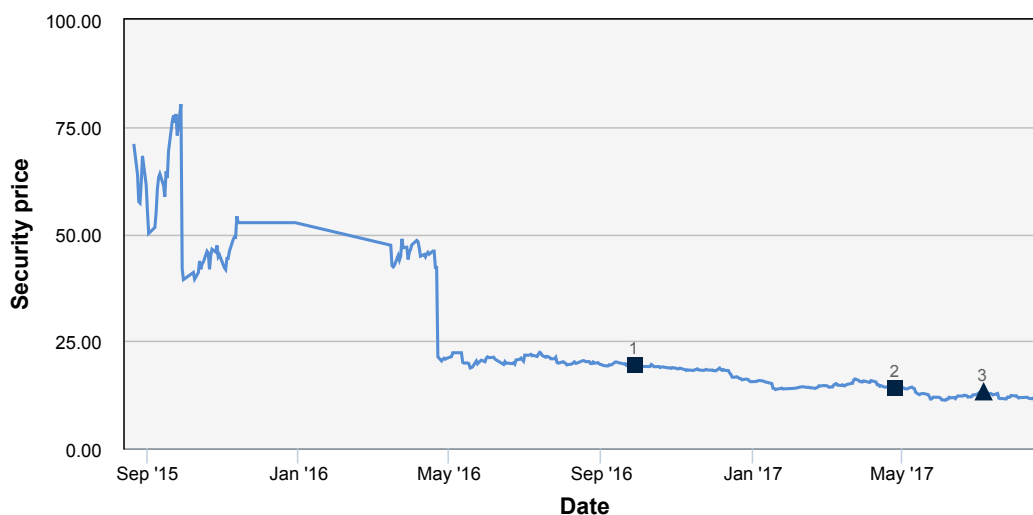
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Historical recommendations and target price. UTour Travel (002707.SZ)

(as of 08/17/2017)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	09/28/2016	Hold, Target Price Change CNY 20,00	Tallan Zhou	3.	07/06/2017	Upgraded to Buy, Target Price Change CNY 17,00	Tallan Zhou
2.	04/26/2017	Hold, Target Price Change CNY 18,00	Tallan Zhou				



Equity Rating Key

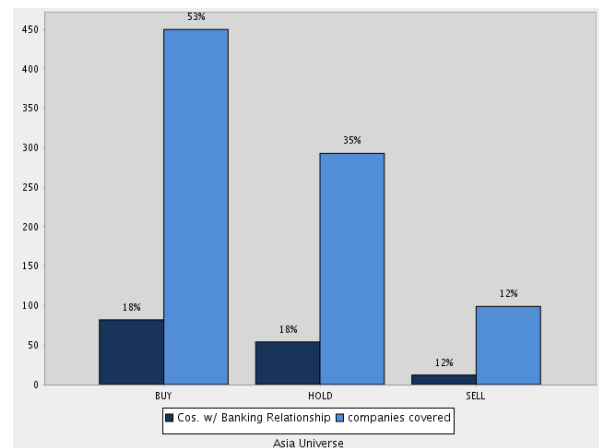
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships





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David Folkerts-Landau

Group Chief Economist and Global Head of Research

Raj Hindocha
Global Chief Operating Officer
Research

Michael Spencer
Head of APAC Research
Global Head of Economics

Steve Pollard
Head of Americas Research
Global Head of Equity Research

Anthony Klarman
Global Head of
Debt Research

Paul Reynolds
Head of EMEA
Equity Research

Dave Clark
Head of APAC
Equity Research

Pam Finelli
Global Head of
Equity Derivatives Research

Andreas Neubauer
Head of Research - Germany

Spyros Mesomeris
Global Head of Quantitative
and QIS Research

International locations

Deutsche Bank AG

Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG

Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG

Filiale Hongkong
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.

2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

Deutsche Bank AG London

1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank Securities Inc.

60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500
