Chinese tourism is taking off

China's economy may be slowing, but this has not stopped consumers spending more to improve their lifestyles – travel and tourism being the biggest winners

Much has been made about the slowdown in the Chinese economy but, despite the headlines, the fact remains that on a per-capita basis Chinese GDP is on an upward trajectory. Indeed, the average per-capita figure, which is currently in the $7,000-$8,000 range, is expected to rise to between $11,000 and $12,000 by 2020, with that number already being achieved in some metropolitan areas.

For the average man and woman on the street that means one thing – more money to spend on luxuries. And among the luxuries being favoured by the Chinese population is travel and tourism.

In 2015 alone, spending on tourism reached $150bn, with that sum expected to grow by 7-11% over the next decade. In May, Chinese Premier Li Keqiang stressed at the opening ceremony of the First World Conference on Tourism for Development in Beijing that China's tourism revenue and trips per capita are expected to double by 2020 when compared with 2015.

On the up

From an investment point of view this creates huge opportunities. Although tourism is growing at a rapid rate, the sector remains largely underpenetrated, meaning many of its stocks are undervalued growth plays. Airlines in particular are proving attractive, with favourable government policy and persistently low oil prices as well as improving lifestyles all helping to drive profitability.

Indeed, plummeting oil prices have made the airlines' operating costs – hence the cost of air fares – lower at the same time the government has introduced policies designed to bolster the tourism sector. In addition to unveiling plans to increase the number of holidays available to the population and introducing more flexible-working arrangements, the government is also putting resources into developing rural tourism.

Plane sailing

With airlines introducing new routes, both domestic and international, a number of Chinese airports are benefiting. Shenzhen Airport is a case in point. We like Shenzhen Airport Company (SZAC) not only because it has sufficient capacity to support further growth, but because it is repositioning itself as an international hub, too.

While regional peers Guangzhou Baiyun International Airport and Hong Kong International Airport will suffer from capacity bottlenecks until their expansion works complete in 2018 and 2023 respectively, SZAC's 2015 utilisation rate of 82% shows it is in a strong position to gain market share.

The airport has added routes to link the South China region to Southeast Asia and Australia, with Civil Aviation Administration of China flight plans showing that SZAC will offer 25% more international flights this year than it did last year.

High growth area

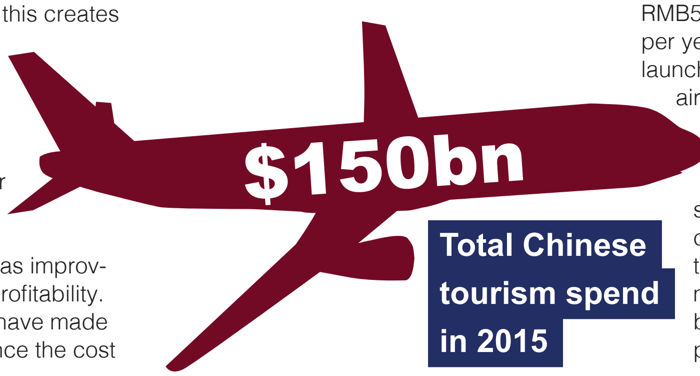
Aircraft leasing and duty free also fit with this trend, given the expansion of both airline operators and airports. China Aircraft Leasing Group (CALC) is currently on track to become one of the leading aircraft leasing companies in China. Thanks to its relationship with aircraft manufacturer Airbus, CALC can take delivery of new planes more rapidly than airlines can, benefiting from a bulk purchase discount in the process.

China's tourism revenue and trips per capita are expected to double by 2020

Just as the tourism sector more generally stands to benefit from under-penetration, so too does CALC, with China's domestic airline industry leasing ratio of 40% comparing with a ratio of around 60% in developed markets. As Chinese airline companies turn to leasing to support the expansion of their fleets, this looks set to be another high-growth area.

Duty-free operators stand to benefit from increased footfall in airports as well as a relaxation in the quotas applied to this type of consumption. In the island province of Hainan, for example, domestic tourists from outside the province can now buy duty-free products with an annual purchase price of RMB16,000 with no restrictions on frequency, while previously they were limited to RMB5,000 across a maximum of two trips per year. As the State Council plans to launch 19 extra duty-free stores in various airports across the country, this consumption spree looks set to continue.

Although there are some headwinds affecting the China tourism sector, most notably the impact of capacity constraints, the appetite for travel among the Chinese population means that growth in the sector is all but unstoppable. From an investment perspective that is compelling. ■



Total Chinese tourism spend in 2015

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