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Indonesia

Hotels & Leisure

Breaking 10m visitors

1H16 foreign tourists hit record high; more infra needed

The government's policy of free tourist visas for 169 countries and its big marketing push have started to have an effect, with foreign tourist arrivals hitting a record-high 4.7m in 1H16. Monthly average visitors were at 815k, a level only seen during the peak seasons in 2H14 and 2H15. China takes over the top position with 14.5% of total visitors in 1H16, followed by Singapore and Malaysia, although European tourists remain the biggest spenders. As the government continues to push for infra development with a focus on access to tourism spots across Indonesia, we believe the Hotels & Leisure sector is ripe for strong multi-year growth. One of the likely key beneficiaries of this growth: Indonesia's largest travel services firm, Panorama Sentrawisata (PANR).

1H16 foreign tourist arrivals hit record high

- ❑ The government introduced free foreign-visitor visas to 169 countries since January 2016. This was an expansion from the 2015 plan to offer free visas to 92 countries.
- ❑ This had an immediate impact, with foreign tourist arrivals reaching 4.7m visitors in 1H16 (+2% YoY), a record high.
- ❑ On a monthly average basis, foreign tourists hit 815k per month in 1H16, a level only seen during 4Q or the high seasons in 2014 and 2015.
- ❑ China tourists reached the top spot for the first time with 14.5% of the total foreign visitors from January to May 2016. This was followed by tourists from Singapore and Malaysia.

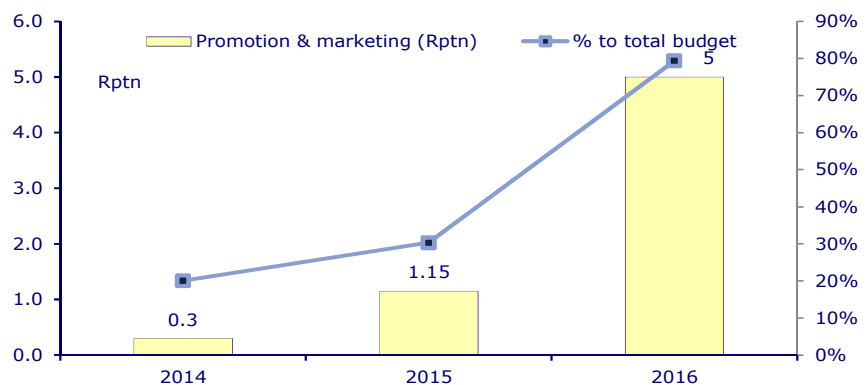
Supportive policies: Big push for infra development & marketing

- ❑ One of the key focuses on infra development is to build supporting facilities for the tourism industry.
- ❑ Airports are the key focus to open up access to tourism destinations. In 2016 alone, several new terminals are ready to operate in Jakarta, Gorontalo and Wakatobi.
- ❑ To boost its branding internationally, the government has increased its marketing and promotional budget by 4x in 2016 YoY. The marketing and promotional budget is now at 47% of the total tourism budget, from only 20% in 2014.

Key beneficiaries: Travel services firms, small but promising

- ❑ Tourism is now just 3% of Indonesian GDP, a tiny sector compared to Thailand at 9% of GDP or Malaysia at 7.2% of GDP. The upside is enormous and we expect the tourism sector to continue to blossom.
- ❑ We expect travel services firm Panorama Sentrawisata (PANR IJ - Not rated) to be one of the direct beneficiaries of higher foreign tourist arrivals as the company's inbound segment posted 46% YoY growth for pax-handled in 1H16.
- ❑ The company is now trading at 9x 2017 PE on consensus forecasts, below its regional peers.

The big spender: Indonesia's tourism marketing budget jumps by fourfold YoY

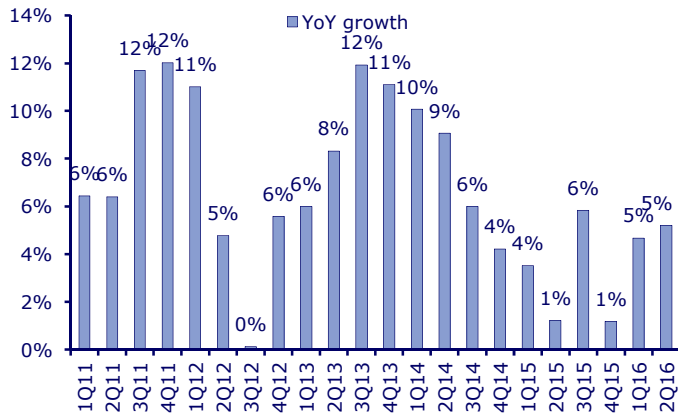


Source: CLSA, Tourism Ministry

1H16 foreign visitors reach record high

Figure 1

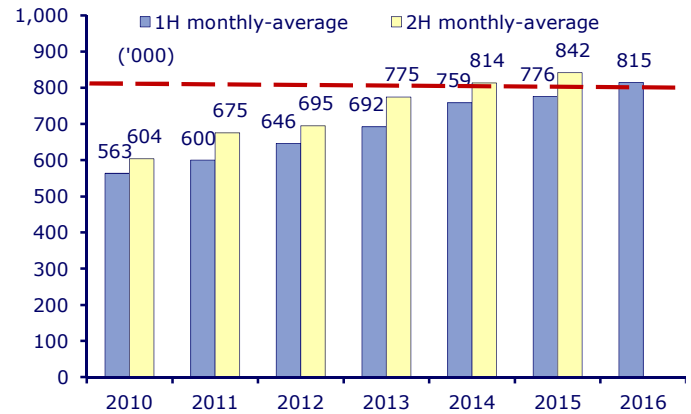
Quarterly foreign tourists - YoY growth



Source: CLSA, BPS

Figure 2

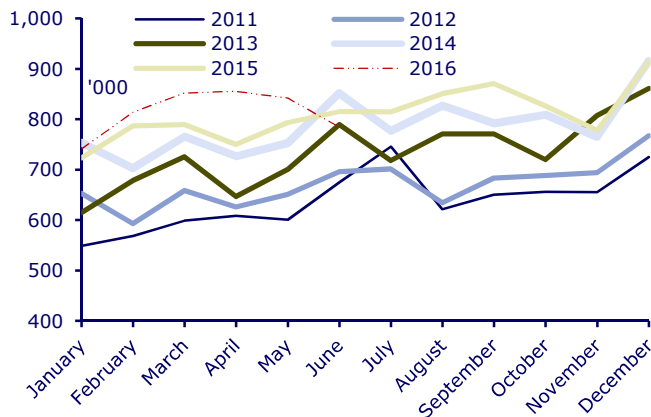
Foreign tourists arrivals - monthly-average basis



Source: CLSA, BPS

Figure 3

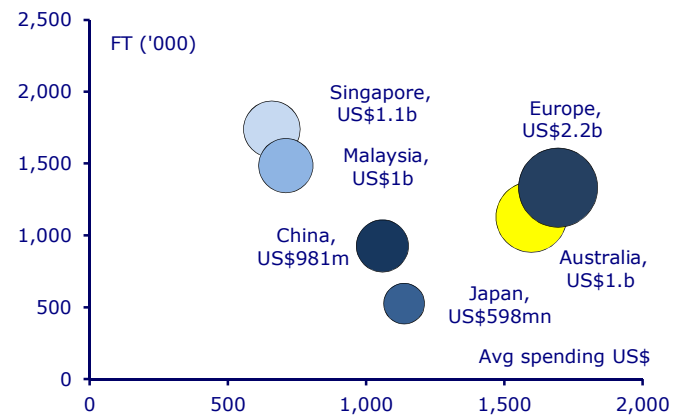
Foreign tourists arrivals - monthly basis



Source: CLSA, BPS

Figure 4

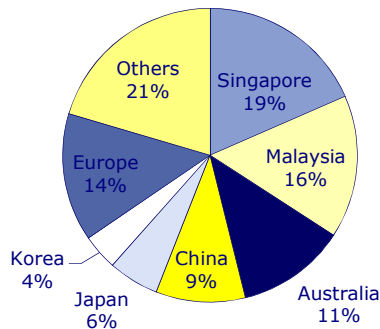
Foreign tourists average spending - Europe still leading



Source: CLSA, BPS

Figure 5

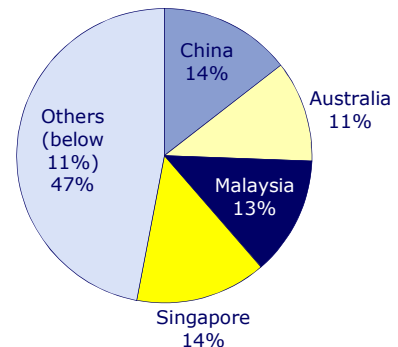
Indo foreign tourists arrival by country, 2014



Source: CLSA, BPS

Figure 6

Indonesia foreign tourists arrival by country, 1H16

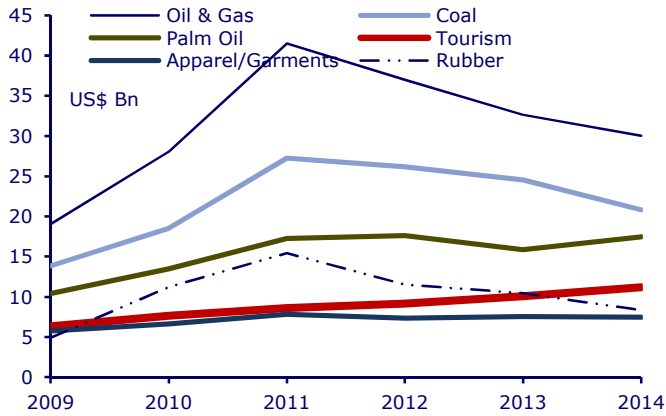


Source: CLSA, BPS

Supportive government policies

Figure 7

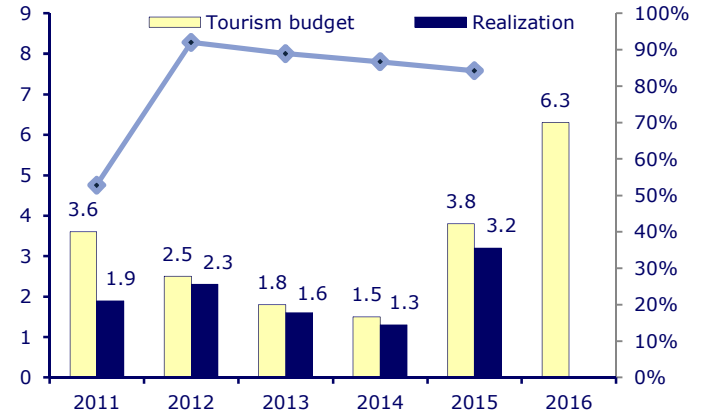
Gov't sees tourism revenue contribution at top 3 in '19



Source: CLSA, BPS

Figure 8

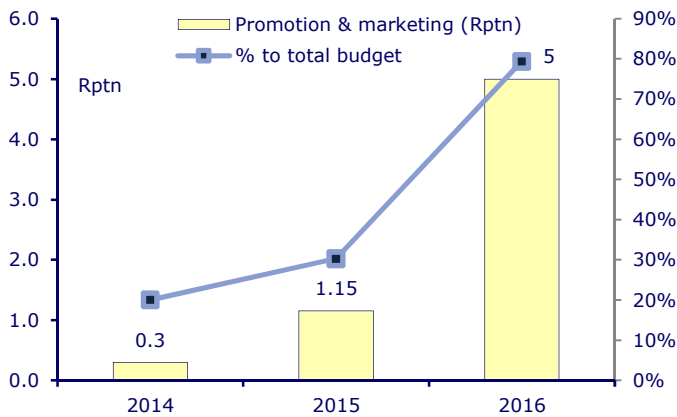
Tourism budget jumped by 66% YoY in 2016



Source: CLSA, Finance Ministry

Figure 9

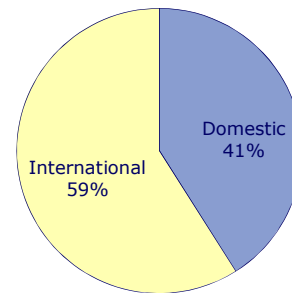
Tourism marketing budget rises by fourfold YoY



Source: CLSA, Tourism Ministry

Figure 10

Promotional & marketing budget breakdown - 2016

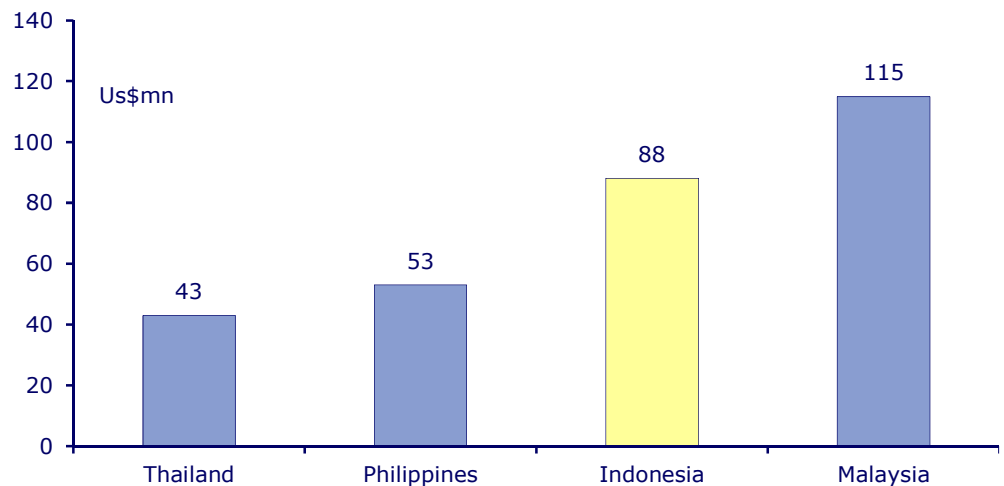


Source: CLSA, Tourism Ministry

Indonesia had improve its tourism promotional budget significantly by 2015

Figure 11

Indonesia tourism promotional spending budget vs ASEAN peers - 2015

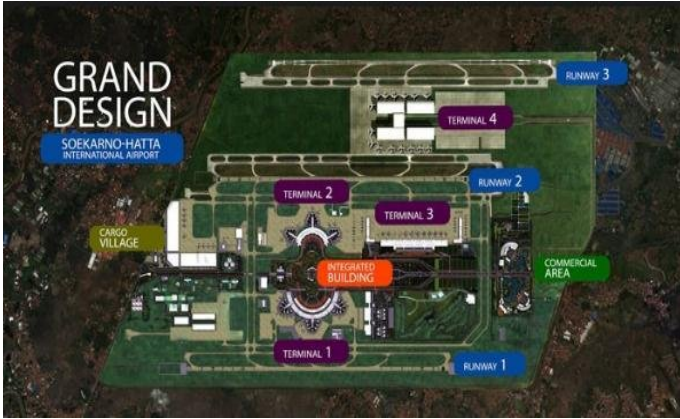


Source: CLSA, Tourism Ministry, media

Tourism-focused infrastructure development

Figure 12

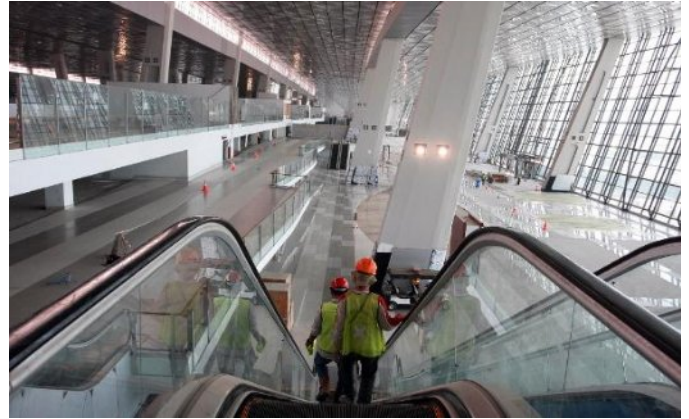
Soekarno-Hatta's terminal 3 is set to operate by 9 Aug



Source: Government of Indonesia

Figure 13

The new terminal will add 25m visitors/year capacity



Source: Government of Indonesia

The new terminal 3 ultimate will add 25m visitors per year of capacity to Soekarno-Hatta. The airport is currently run on 20m visitors per year of capacity. This was already run at an overcapacity level as 62m visitors used the airport in 2015.

The airport operator Angkasa Pura II is planning to expand the existing terminal I and II to reach 60m visitors-per-year capacity by 2018.

The Jokowi government has also completed several small-scale airports this year, following the similar trend in 2015 when it built airports to open access to tourism spots across Indonesia.

In May, the government opened a new airport in Wangi-Wangi, Wakatobi Islands, which is the getaway for foreign tourists to visit Wakatobi. The islands are well-known internationally for their beautiful marine ecosystem.

Figure 14

Wakatobi is well-known for its undersea gardens



Source: Government of Indonesia

Figure 15

Gov't completes airport in Wangi-Wangi May 2016



Source: Government of Indonesia

The government also completed the renovation of the Djalaludin Tantu airport in Gorontalo, North Sulawesi in early May. Gorontalo is also well-known for its beautiful beaches and islands, including the love island resorts.

Figure 16

Pulo Cinta: Indonesia's Maldives?



Source: Pulo Cinta resort

Figure 17

The Djalaludin Tantu airport in Gorontalo



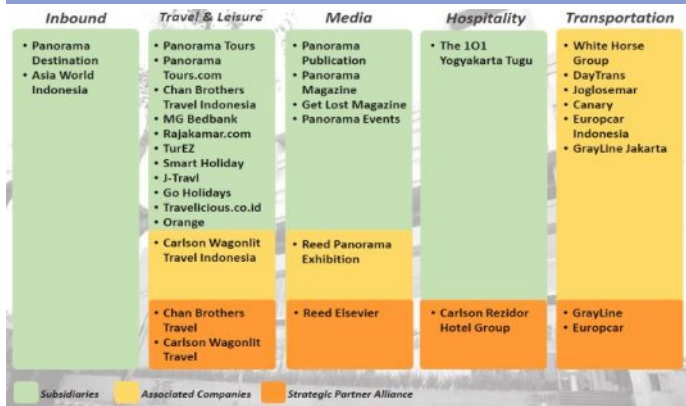
Source: Government of Indonesia

Beneficiaries: Travel services firm Panorama

The share price of Panorama Sentrawisata, which is run by the Tirtawisata family, has already rallied by more than 52% since our last tourism report *Beacon of hope* when we highlighted the company back in October 2015. This performance easily beat the JCI, which rose by 25% during the same period.

Figure 18

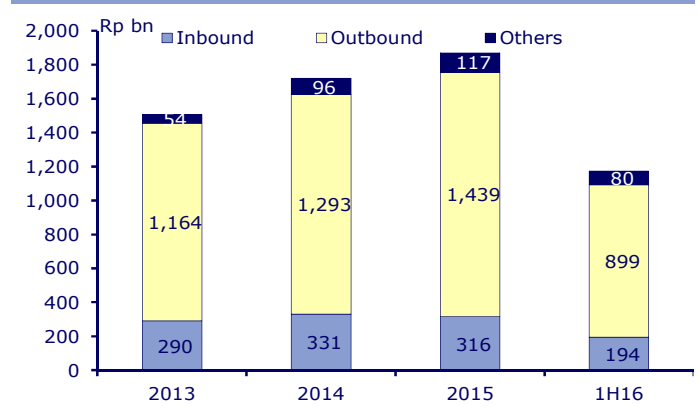
Panorama's five main businesses



Source: Company, CLSA

Figure 19

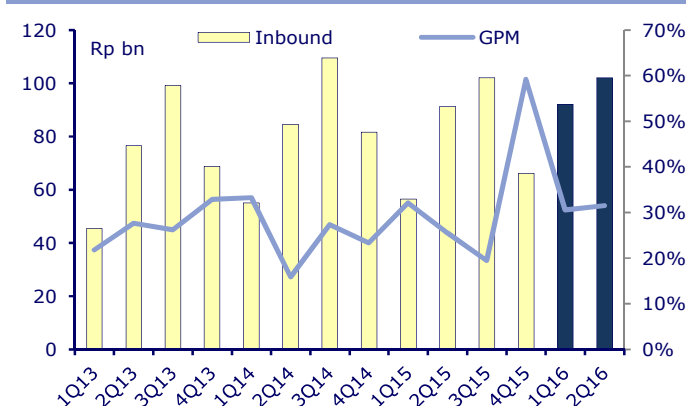
Panorama's revenue breakdown



Source: Company, CLSA

Figure 20

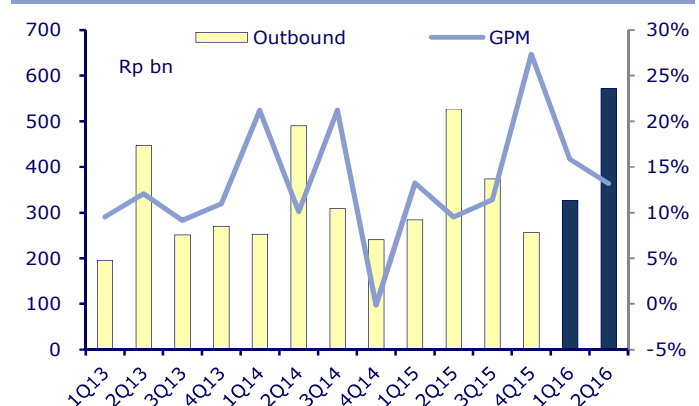
Panorama's inbound – quarterly revenue & GP margin



Source: Company, CLSA

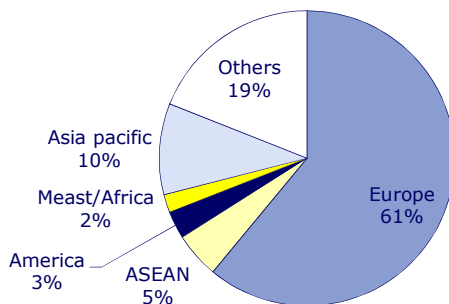
Figure 21

Panorama's outbound – quarterly revenue & GP margin



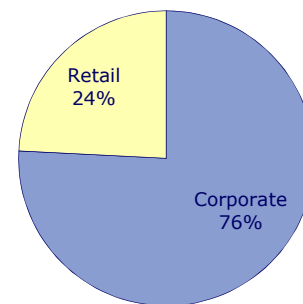
Source: Company, CLSA

Figure 22

Panorama's inbound market, 1H16

Source: Company, CLSA

Figure 23

Panorama's outbound market, 1H16

Source: CLSA

Key growth drivers

- ❑ Panorama will likely be one of the direct beneficiaries of strong foreign tourist arrivals as well as domestic travel demand.
- ❑ The company's inbound segment, which handles foreign-tourist services, **saw 46% YoY visitor growth in 1H16**, outpacing the **overall foreign tourist growth at only 2% YoY**.
- ❑ This is mainly driven by the strong growth of European tourists due to the free-visa policy.
- ❑ The company's focus on European tourists is due to higher-margin clients, as the average spending by European tourists is US\$1,694/trip, higher than Singaporeans at US\$659/trip and the Chinese tourists at US\$1,059/trip.
- ❑ The company's outbound segment, which handles the domestic & outbound travel services and hotel e-commerce business (MG Group), represents 77% of its total revenue.
- ❑ MG Group's hotel wholesaler online business posted 40% YoY room nights growth in 1H16 to 616k vs industry growth of only 15% YoY.

Valuation and key risks

- ❑ Panorama is now trading at a 9x 2017 PE on consensus forecasts, below regional peers like Hotel Shilla (008770 KS) at a 18x 17CL PE and Minor International (MINT TB) at 26x 17CL PE.
- ❑ The key risks are a stronger rupiah may weaken European tourist demand and terrorist attacks on key tourism spots.

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Companies mentioned

Garuda Indonesia (N-R)
Hotel Shilla (008770 KS - 59,400 WON - BUY)
Minor International (MINT TB - BT41.0 - OUTPERFORM)
Panorama Sentra (N-R)

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