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11 August 2018

Indonesia
Tourism

Keep calm and travel more

Travelling, Indonesia's new lifestyle

Lifestyles in Indonesia have changed from buying investable things, such as property, and have moved toward travelling. This is shown in weak property sales since the peak in 2014. From a tourism point of view the sector appears to still be enjoying the cycle, supported by growing outbound activity and stronger tourist arrivals driven by better infrastructure building by the government at tourist attractions. As a travel agency firm, Panorama (PANR) remains a proxy. The company's 20% top-line guidance for FY18 seems achievable. The Asian Games in 2H18 should be a boost for its performance.

Outbound: keep calm and travel more

- General lifestyles in Indonesia are changing from buying investable things such as property to travelling. Evidence can be seen in property sales (weak since 2014).
- From a tourism point of view, the sector seems to still be enjoying the cycle.
- During the challenging time since 2014, outbound activity grew 8% and 12% in 2016 and 2017, and another 8% in 1H18. More interestingly, outbound was still up 9% during the 2008 global financial crisis.

Inbound: keep them coming

- Domestically, Indonesia will remain an attractive country for tourism.
- Foreign tourist arrivals reached 7.5m in 1H18, up 13% YoY, 44% of the government's full-year target of 17m (up 22% YoY from 2016's realisation).
- The slower growth in 1H18 was primarily caused by the volcanic mountain eruption in Bali; tourist arrivals there were only up 2% YoY.
- Bali is the no.1 tourist destination, and accounts for 38% of total arrivals. Based on country of origin, most tourists came from Malaysia (17%), followed by China (14%).

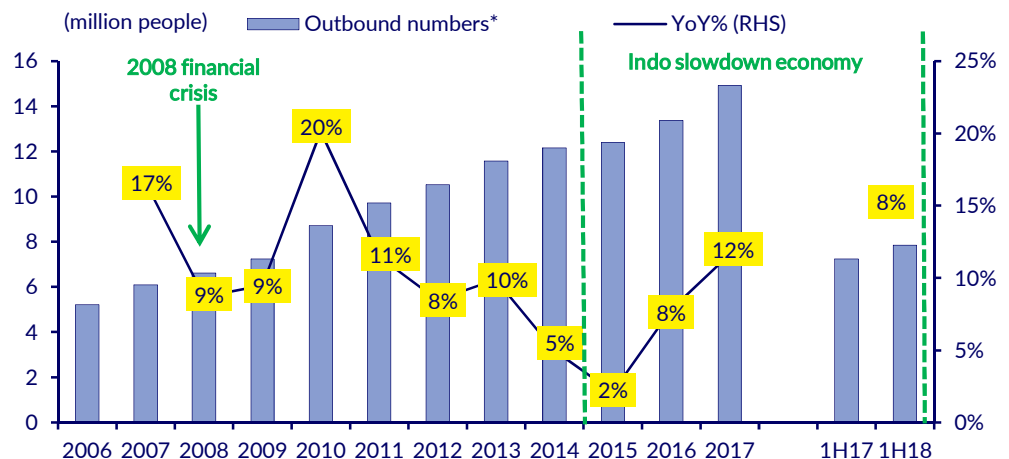
Panorama (PANR IJ) operational highlights: inbound 61% of revenue

- We met with Panorama, a travel agency likely benefiting from tourism sector.
- Operationally, its outbound revenue growth has been decelerating since 2012 and was down 14% in 2017. 1H18 improved by 18% driven by Lebaran.
- Inbound revenue was flat in 1H18 but it expects a pick-up in 2H18 on the back of the Asian Games and summer holidaying in Europe.
- Europe has been PANR's biggest client in past years, at 57% of total inbound in 2017.
- Outbound accounted for 61% of total revenue and inbound was 26% as of 2017.

Tourism proxy: potential margin expansion from inbound business

- As tourism proxy, PANR's management is confident it can achieve 20% revenue and Ebit growth in 2018; its 1H18 revenue already grew 20% YoY.
- PANR posted a net loss of Rp4.8bn in 1H18 versus profit of Rp14.7bn in 1H17.
- There is potential upside if the contribution from inbound picks up because of the tourism story. Inbound carries a higher margin (36%) than outbound (9%).

Indonesia's outbound numbers*



Source: CLSA, BPS *Note: outbound from the top four airports only. Outbound includes business, travel, etc.

Lifestyle in Indonesia has changed

Travelling has become a trend

The tourism sector is still enjoying a good cycle

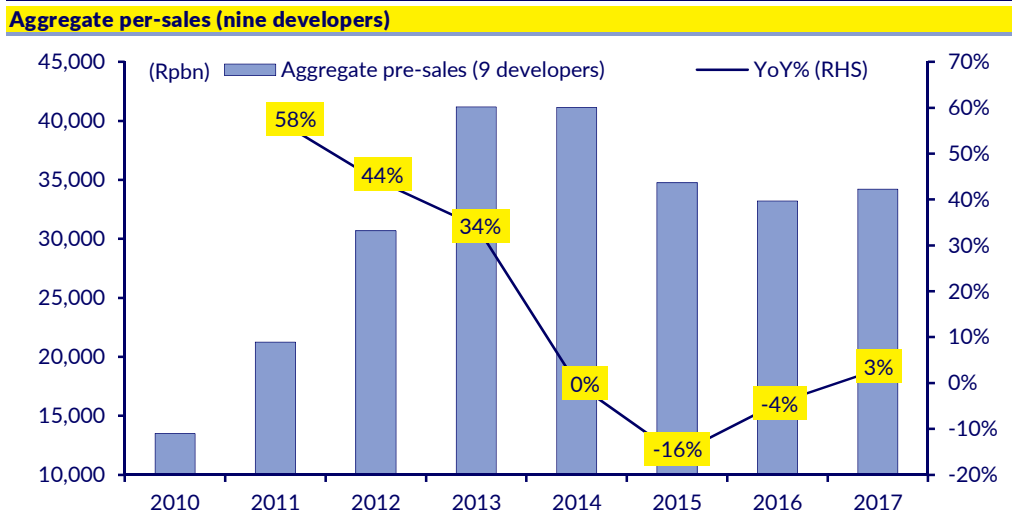
Outbound tourists grew 12% in 2017 and 8% in 1H18

Outbound was still up 8% during the 2008 financial crisis

Keep calm and travel more

General lifestyle in Indonesia has changed from buying investable things such as property into travelling. Evidence is on property sales, which have been subdued since 2014.

Figure 1



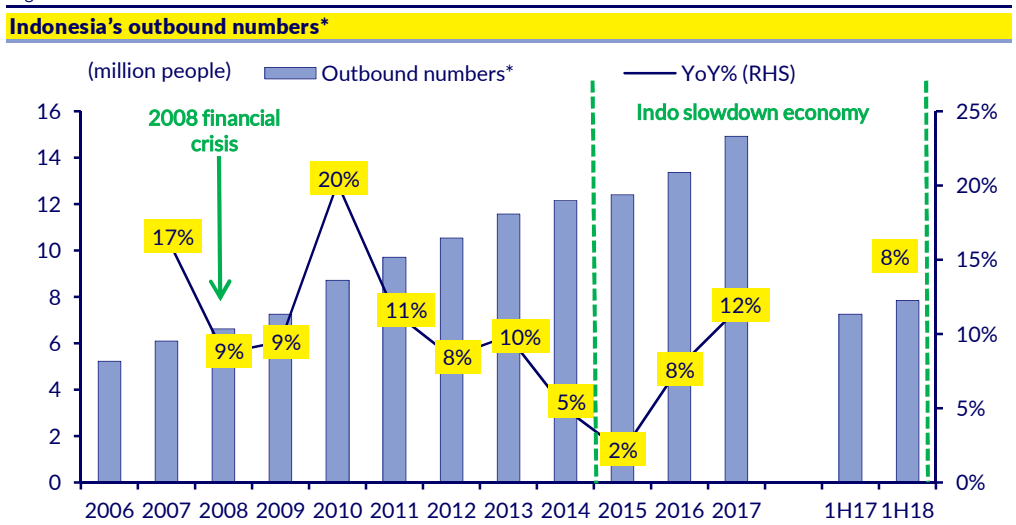
Source: CLSA, 9 property developers

From tourism point of view, the sector seems to still enjoy the good cycle. Indonesia, in this context, is quite a unique country where we saw outbound numbers growing by 9% during 2018's global financial crisis.

According to BPS, the peak was in 2010 where outbound numbers grew 20%, then the growth started to decelerate until it hit the lowest point (2%) in 2015, during economy started to slow down.

But, even during this challenging time, outbound numbers are still up by 8% and 12% in 2016 and 2017 and another 8% in 1H18.

Figure 2

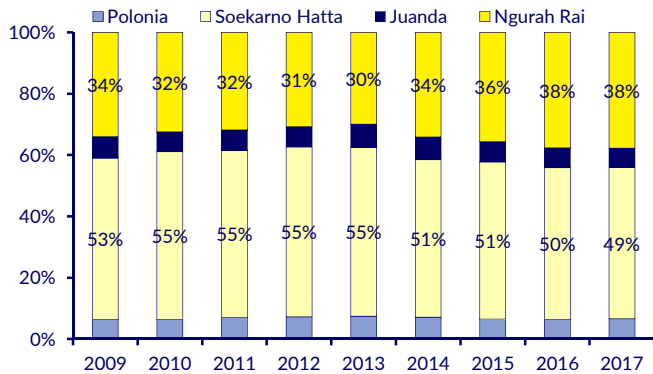


Source: CLSA, BPS *Note: outbound from top 4 airports only. Outbound includes business, travel, etc.

BPS only recorded four top airports; Soekarno-Hatta (Indonesia’s main airport), Ngurah Rai in Bali, Juanda in Surabaya and Polonia in Medan. Both Soekarno-Hatta and Ngurah Rai are the two largest airports for outbound activities.

Figure 3

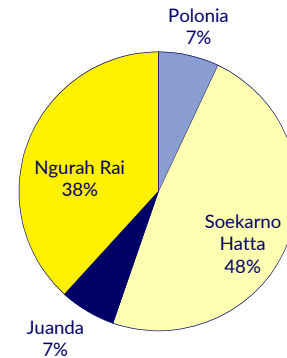
Outbound traffic based from airports



Source: CLSA, BPS

Figure 4

1H18 outbound traffic from airports



Source: CLSA, BPS

Social media has played a role in boosting its travel business

The trend nowadays: 'Instagrammable places'

The power of social media

It has been argued that social media – particularly Instagram - has brought huge support to travel business. Listed travel agency Panorama Sentra (PANR IJ) also agrees on this.

Since the first establishment in late 2010, Instagram has “changed” the travelling industry where it creates new hypes such as ‘instagammable places’.

From this, a lot of Instagram users are inspired to go to places that visited by the photo takers.

Figure 5

'Instagramable' place during trip in 2014 (1)



Source: CLSA

Figure 6

'Instagramable' place during trip in 2014 (2)



Source: CLSA

Indonesia will remain an attractive country for tourism

The current government is seriously about taking care of the tourism sector

Last year Indonesia saw 7.5m tourist arrivals, up 13% YoY

44% of the full-year target

Bali remains the number 1 destination

We are still seeing a pick-up tourist arrivals in Manado

Inbound tourism: keep them coming

Moving to domestic market, Indonesia will remain to be a country that is popular for its exotic and natural view from islands or mountains. This has attracted tourists from around the globe.

Local tourist sector is benefited by the fact that the current government and Tourism Ministry's is committed to boost the sector.

Gov't seriousness on this, coupled with massive development of infrastructure nationwide has resulted to a growing tourism sector. Foreign tourist arrival was up 13% YoY to reach 7.5m in 1H18, 44% of gov't FY target of 17m (+22% YoY from FY16 achievement).

We consider 13% growth is good enough, since we have not passed Asian Games in August/Sept and also the IMF meeting in Bali after that. Plus, we still see 13% growth despite the mount eruption in Bali.

Figure 7

Foreign tourist arrivals: 7.5m in 1H18, up 13% YoY



Source: CLSA, BPS

Note that Bali is the no.1 destination, makes up for 38% of total arrivals. Based on country of origin, most of tourists came from Malaysia (17%), followed by China (14%), and others.

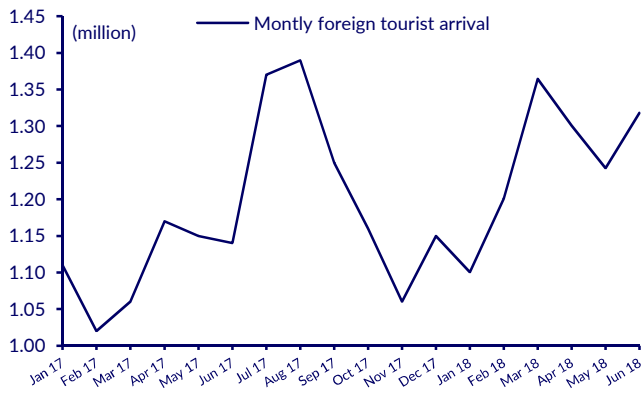
If we compare the tourist arrival growth based on country of origin, tourist from Japan declined the most (-11% YoY). Australia and China were relatively flat. We saw improvement from Timor Leste (89% YoY), Malaysia (30% YoY) and India (16% YoY).

Based on destination, we could still see picking up tourist arrival in Sam Ratulangi in Manado, North Sulawesi). Manado has been the rising star for tourism. Link to our previous report on tourism: *Indonesia Tourism (Wonderful Indonesia)*, for more detail.

Meanwhile, Jakarta and Bali - which are the two biggest contributors - were flat.

Figure 8

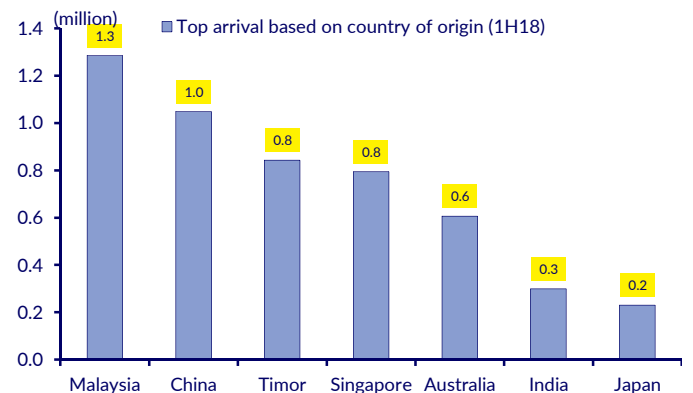
Monthly foreign tourist arrival



Source: CLSA, BPS

Figure 9

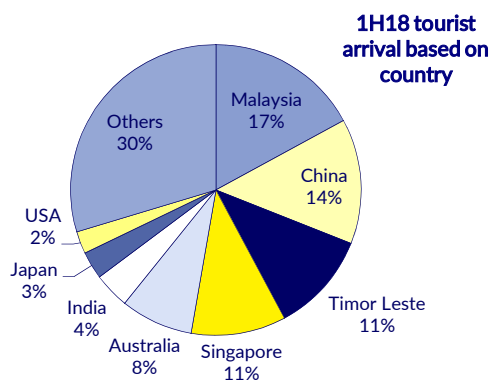
Top arrivals based on country of origin



Source: CLSA, BPS

Figure 10

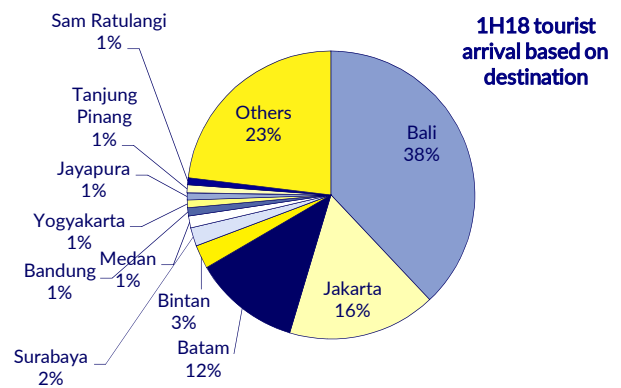
Tourist arrivals based on country of origin



Source: CLSA, BPS

Figure 11

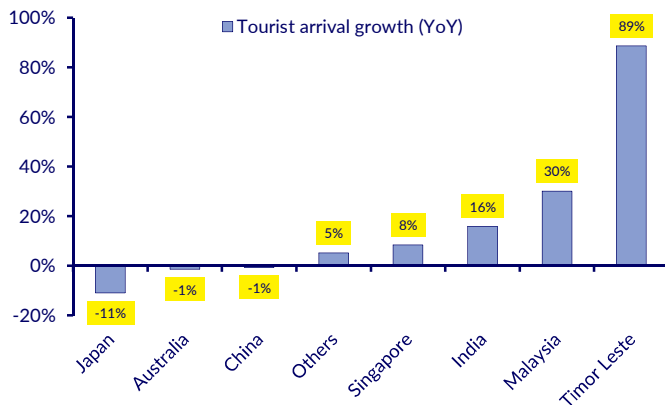
Tourist arrivals based on destination



Source: CLSA, BPS

Figure 12

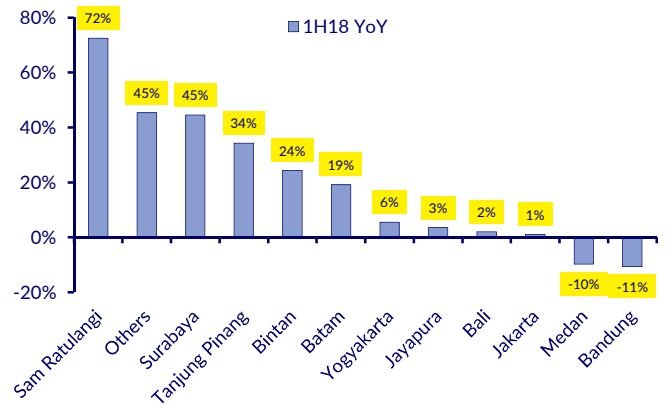
Tourist arrivals based on country growth YoY



Source: CLSA, BPS

Figure 13

Tourist arrivals based on destination growth YoY



Source: CLSA, BPS

Bali is the 50th most visited city worldwide

From city point of view, Bali and Jakarta are ranked 50 and 83 most visited cities in the world, according to Statista. The top 3 are Hong Kong, Bangkok and London.

Figure 14

10 most visited cities (2015-2016)



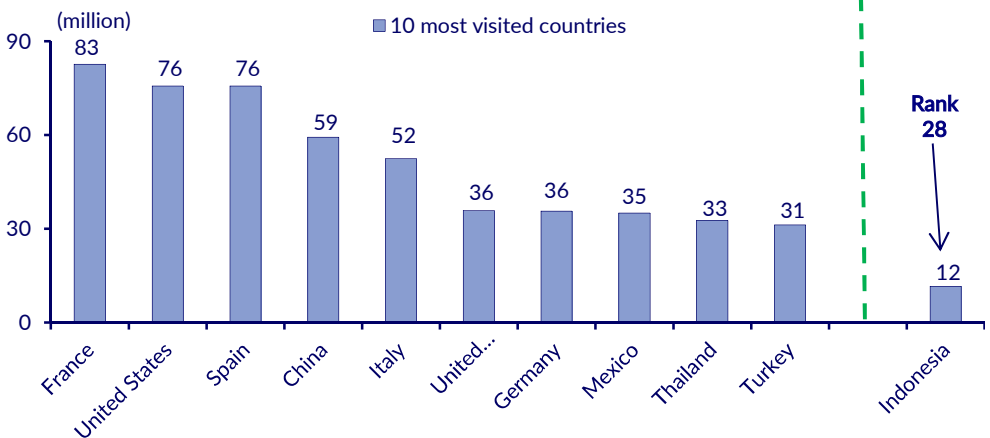
Source: CLSA, Statista

From country of view, Indonesia is ranked 28. The most visited country in the world is France (83m).

Indonesia is the 28th most visited country

Figure 15

10 most visited countries (2016)



Source: CLSA, Statista

Huge support from the government for the new 10 Bali

Progress is more than ok

Silangit Airport has been renovated

Kulon Progo Airport is under construction

Benefiting travel agency PANR

PANR's outbound revenue was up 18% in 1H18

Huge support from the government

Since Jokowi came in power in 2014, the main focus is to create the "10 New Bali". When we talked to PANR, the management stated that the government priority is to develop 4-5 islands first; Lake Toba, Labuan Bajo, Borobudur, Tanjung lesung, and Mandalika.

The management also mentioned that building new airport is the most important thing to boost foreign tourism arrivals.

Progress so far:

- Renovation of Silangit airport near Lake Toba is completed already since late last year. From that, Lake Toba tourists do not have to touchdown Medan airport first, which could save 5-6 hours of travelling time.
- Komodo airport renovation is also completed.
- Kulon Progo Airport in Yogyakarta, which is crucial to boost tourism to that city. One of them is Candi Borobudur. The airport has started construction and it is expected to be done by 2019 (phase 1).
- Serang-Panimban toll road in Banten is currently under construction.

Figure 16

The 10 New Bali				
No	Destination	Location	Important facilities needed be built/revonated	Status
Main priority				
1	Toba Lake	North Sumatra	Silangit airport	Done
2	Labuan Bajo	East Nusa Tenggara	Komodo airport	Done
3	Borobudur	Central Java	Kulon Progo airport	Under construction
4	Tanjung Lesung	Banten	Serang-Panimban toll road	Under construction
5	Mandalika	West Nusa Tenggara	Airports, infra, etc	Under construction
Second priority				
6	Bromo	East Java	Surabaya airport extension	Not yet build
7	Wakatobi	South East Sulawesi	Matahora airport, infra, access	Airport has been renovated
8	Morotai	Maluku	Pitu airport, infra, access	N/A
9	Tanjung Kelayang	Belitung island	Infra, access	N/A
10	Kepulauan Seribu	North Jakarta	Infra, access	N/A

Source: CLSA, Tourism Ministry

Panorama (PANR IJ) operational highlights

As travel agency firm, Panorama is likely to benefit.

Outbound:

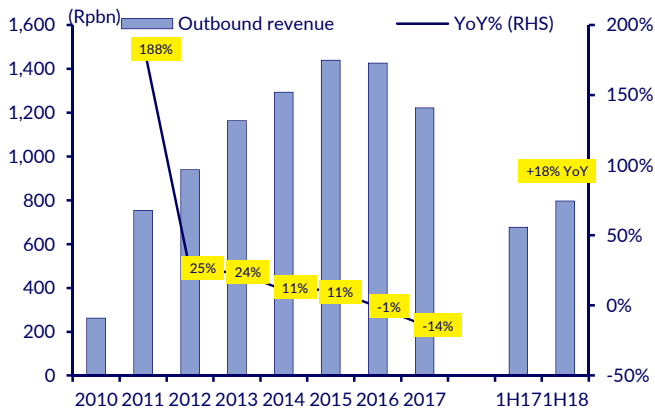
- Operationally, PANR outbound revenue growth has been decelerating since 2012. Outbound revenue in 2017 dropped 14%.
- However, 1H18 has improved (+18% YoY), driven by Lebaran seasonality.

Outbound contributes 66% of total revenue

- Note that outbound is the largest component for its revenue (66% of total revenue in 1H18).

+Figure 17

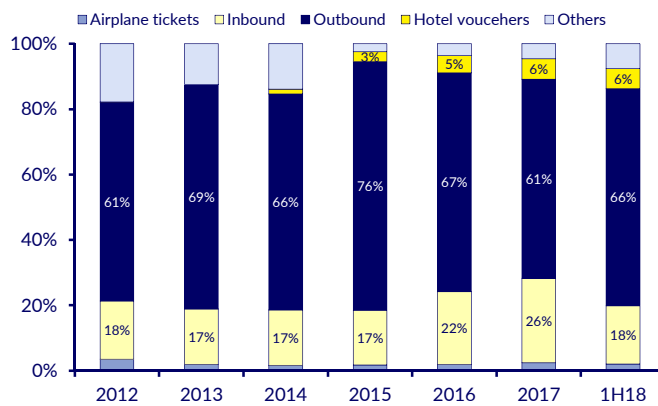
PANR outbound revenue



Source: CLSA, PANR

Figure 18

PANR revenue breakdown



Source: CLSA, PANR

Inbound was flat in 1H18

PANR expects this to pick up in 2H

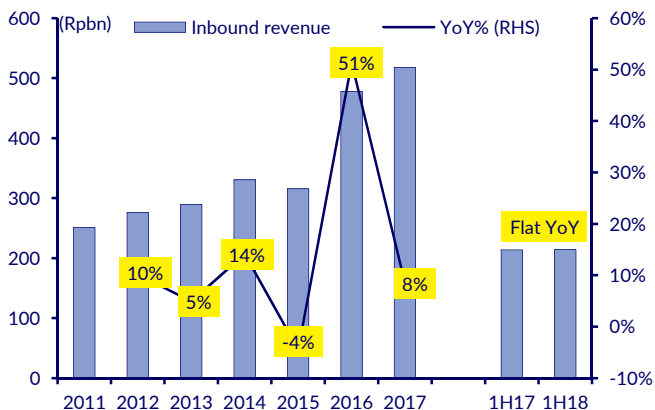
Europe is PANR's biggest client

Inbound:

- The strongest inbound revenue growth was in 2016 (+51% YoY), 2017 was at 8% and 1H18 so far was flat.
- The company is expecting the number to pick up in 2H, on the back of Asian Games, and also summer holiday in Europe.
- Europe has been PANR's biggest client in the past years. As of 2017, Europe contributed for 56% of total inbound tourist. The second biggest in Asia.

Figure 19

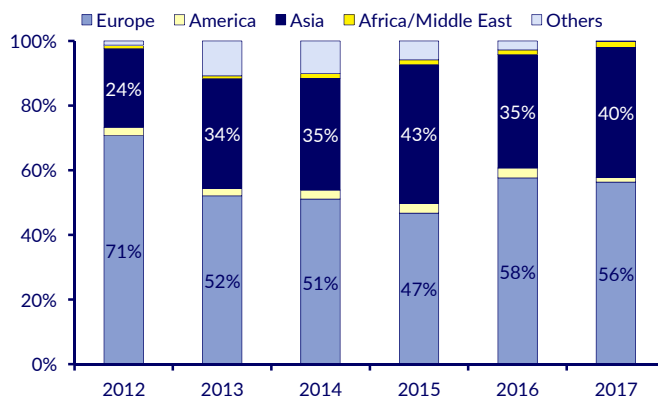
PANR inbound revenue



Source: CLSA, PANR

Figure 20

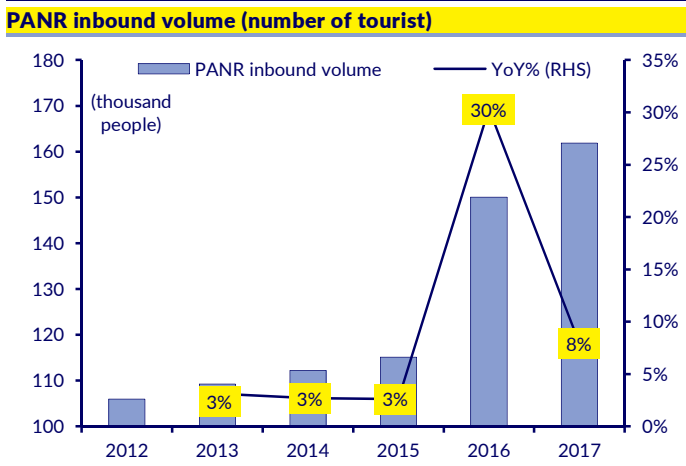
PANR Inbound tourist breakdown by country of origin



Source: CLSA, PANR

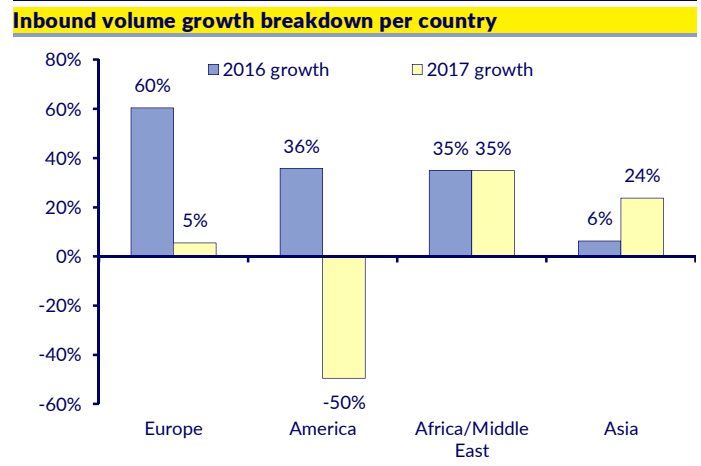
- PANR saw big jump in its inbound volume (number of foreign tourist using PANR service in Indonesia) in 2016. This was driven by Europe (+60% YoY) and also America (36%).
- Asia was stronger in 2017 (+24% YoY), higher than Europe and America.

Figure 21



Source: CLSA, PANR

Figure 22



Source: CLSA, PANR

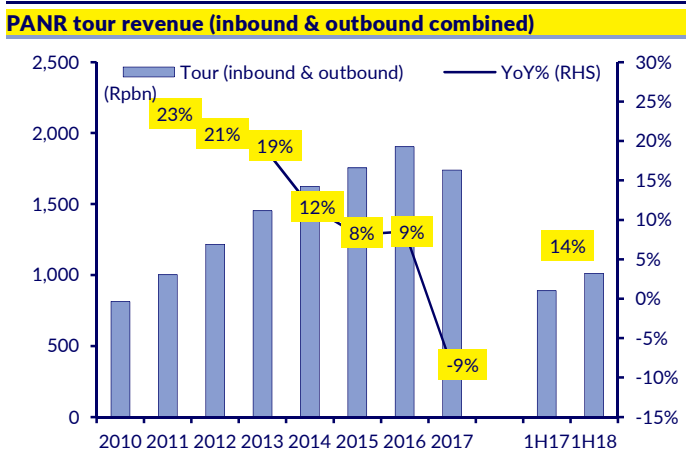
PANR and BAYU have similar revenue growth in 1H18

Comparison to another listed travel agency, Bayu Buaya (BAYU IJ)
Operationally, we could compare the total revenue from inbound and outbound (or so called tour revenue), considering Bayu Buana does not provide the detail.

We could not get market share of PANR or BAYU as competition in travel agency sector is quite fragmented.

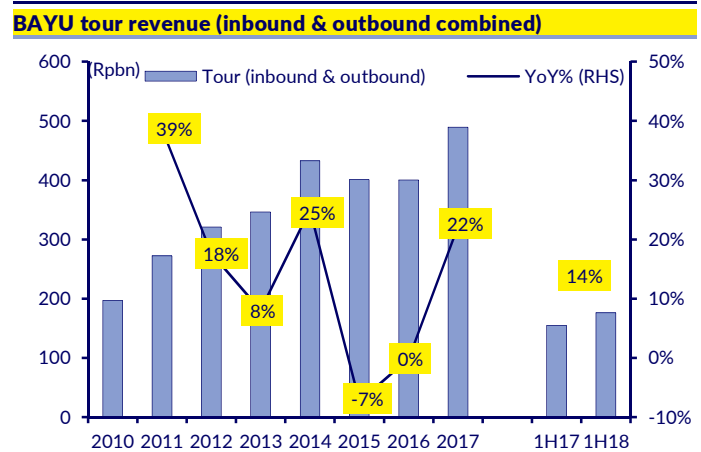
From revenue point of view, both of them have similar tour revenue growth in 1H18 at 14%. Note that BAYU's performance is more fluctuated than PANR.

Figure 23



Source: CLSA, PANR

Figure 24



Source: CLSA, BAYU

PANR has more business travellers but relies heavily on the tour segment

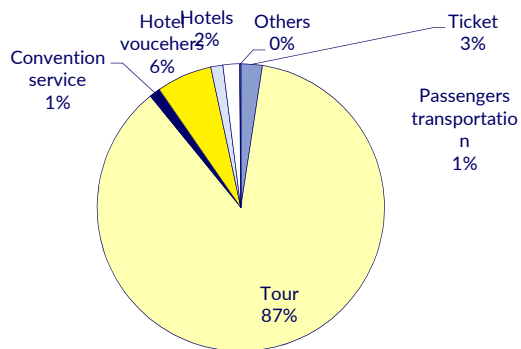
In terms of the size, PANR is a little bit larger (FY17 revenue: Rp2tn, vs Rp1.8tn BAYU). PANR is more diversified as it has businesses from hotel vouchers, hotel (it has been divested recently), tickets, convention service and others. PANR's main business is tour (inbound and outbound), which is 87% of its total revenue.

BAYU does not rely solely on the tour business

BAYU on the other hand, is less diversified. But, it does not rely solely on tour business (only 26% of its total revenue). BAYU generates revenue more from ticket sales (airplane tickets).

Figure 25

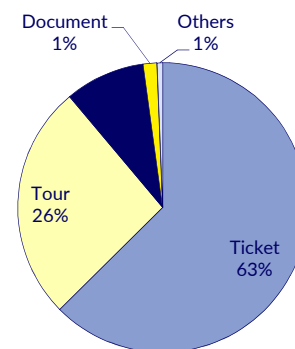
PANR revenue breakdown



Source: CLSA, PANR

Figure 26

BAYU revenue breakdown



Source: CLSA, BAYU

PANR expects 20% revenue growth in 2018

1H revenue grew 20% YoY

Tourism proxy

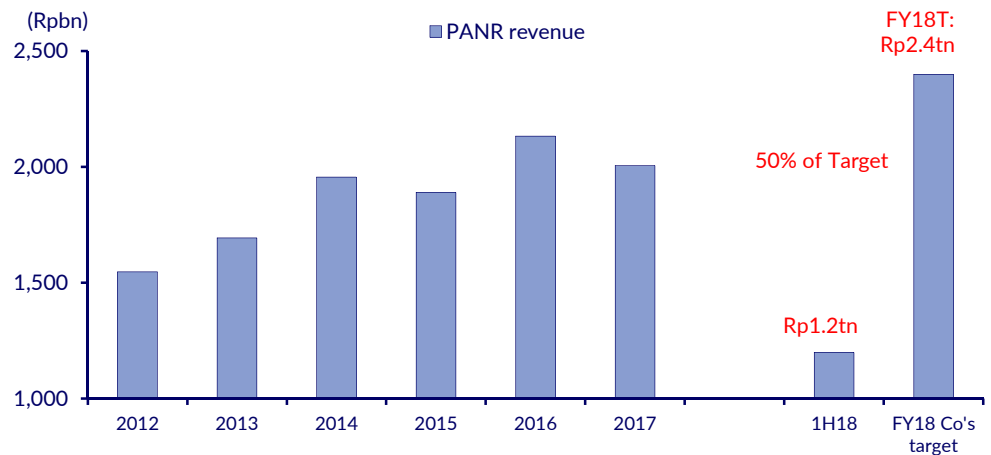
As tourism proxy, PANR's management is confident to achieve 20% revenue (partly from lower base) and EBIT growth target in 2018.

In 1H18, its revenue has already grown 20% YoY to reach Rp1.2tn. The FY18 revenue target is Rp2.4tn (50% of target).

That means, PANR is targeting another 20% YoY growth in 2H18 (from Rp1tn in 2H17 to Rp1.2tn in 2H18).

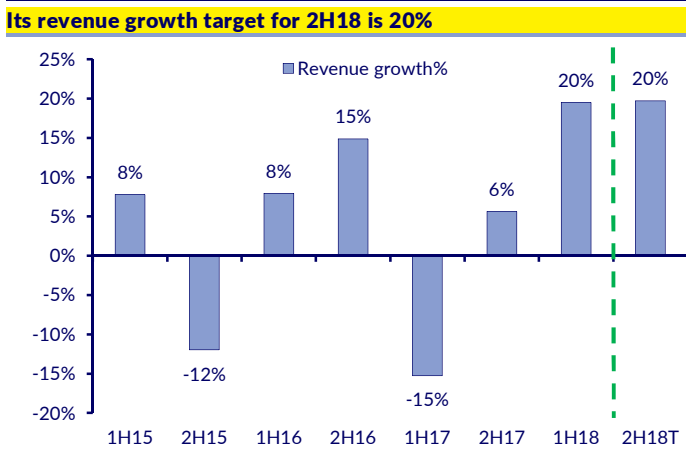
Figure 27

PANR's revenue target



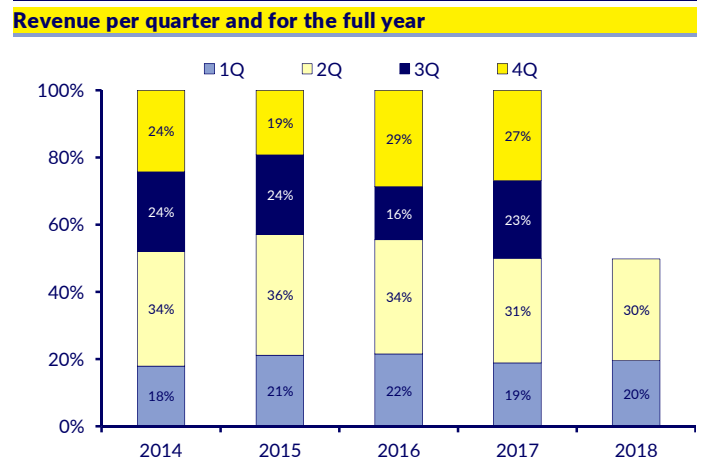
Source: CLSA, PANR

Figure 28



Source: CLSA, PANR

Figure 29



Source: CLSA, PANR

Its 1H18 results saw a weak bottom-line

It was driven by a drop in its gross margin

Also a one-off gain in 1H17

Potential upside if the contribution from inbound picks up

Inbound carries a higher margin than outbound

PANR posted net loss of Rp4.8bn in 1H18, vs profit of Rp14.7bn in 1H18 (FY17: Rp5.3bn). This is on the back of:

- Dropped in gross margin (22% to 20%), despite 20% revenue growth.
- Higher Opex.
- Below Ebit: Interest expense dropped 30% YoY. But there was one off gain from associates in 1H17 of Rp34bn.

Figure 30

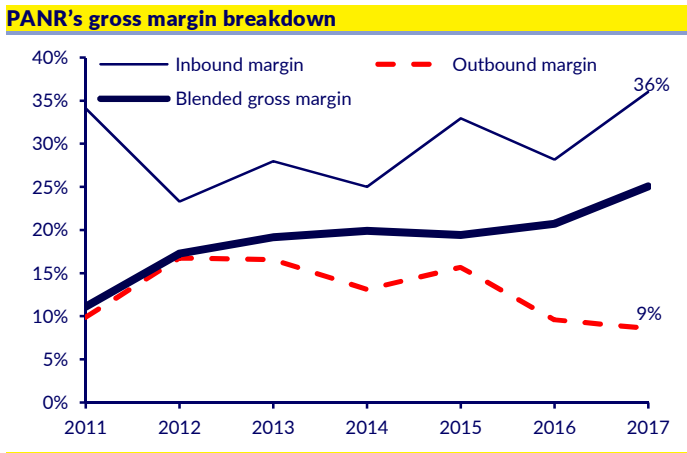
PANR 1H18 results highlight

PANR IJ (Rpbn)	Quarterly					YTD		
	2Q17	1Q18	2Q18	QoQ%	YoY%	6M17	6M18	YoY%
Revenue	625	470	730	55%	17%	1,004	1,200	20%
Gross profit	128	127	120	(5%)	(6%)	225	247	10%
Ebit	17	11	7	(34%)	(59%)	23	18	(23%)
NPAT	2	(10)	5	n/a	203%	15	(5)	n/a
Margins%								
Gross margin	20.4%	26.9%	16.5%			22.4%	20.6%	
Ebit margin	2.8%	2.3%	1.0%			2.3%	1.5%	
Net margin	0.3%	(2.2%)	0.7%			1.5%	(0.4%)	

Source: CLSA, PANR

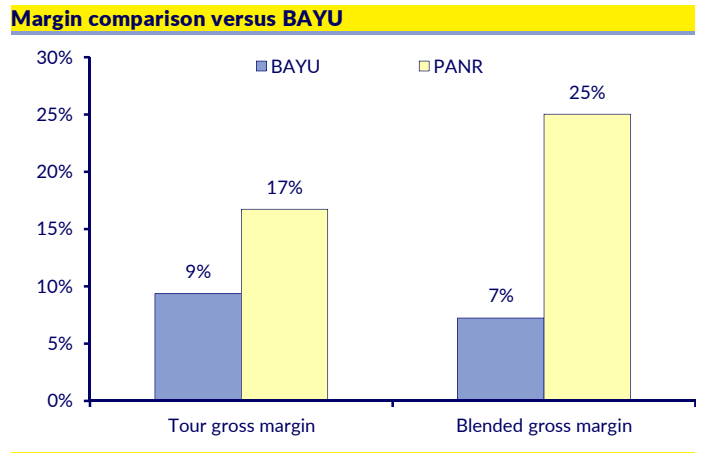
There is potential upside if the contribution from inbound picks up because of the tourism story. Inbound carries higher margin (36%) than outbound (9%).

Figure 31

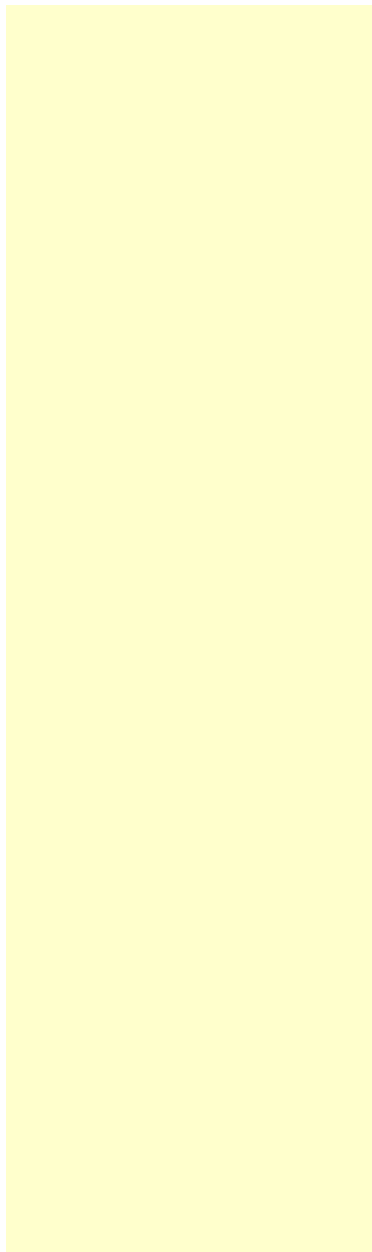


Source: CLSA, PANR

Figure 32



Source: CLSA, PANR, BAYU





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Companies mentioned

Bayu Buana (N-R)

Panorama Sentra (N-R)

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