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Indonesia

Hotels & Leisure

Beacon of hope

Tourism boost: more ad money & free visas for 92 countries

The government finally approved free visas for tourists from 45 countries in June and will give free visas to another 47 countries this month. The government is also increasing ads in foreign media and doubling its tourism budget in 2016. Let us not forget the rupiah is still falling too. All of these factors will provide a significant boost to the sector, which we think has reached its bottom on declining growth in 2Q15. We are positive on airlines like Garuda, aviation services firms Cardig Aero Service, and tourism service firm Panorama.

Light at the end of the tunnel: growth rate to recover in 2H15

- 2Q15 foreign tourist arrivals only grew 3% QoQ and 1% YoY, the slowest pace over the last 10 quarters. However, January-August tourist arrivals reached 6.3m visitors, on target to beat the 10m foreign visitor target.
- The government has increased its ad efforts in international media. It also pledges Rp5.6t for tourism spending in 2016, more than double its 2015 amount.

Visas for all: free visas for tourists from 92 countries

- President Jokowi signed government regulations in June to give free visas to tourists from 45 countries, aiming to get an additional US\$1bn from such move.
- European countries are the biggest recipient of the free visa initiative with a total of 17 countries. Europeans are big spenders, averaging US\$1,694/person in 2014, 30% higher than the average spending of all foreign tourists.
- The government will also give additional free visas to tourists from 47 countries by October as it aims to crack its 10m foreign tourist goal in 2015.

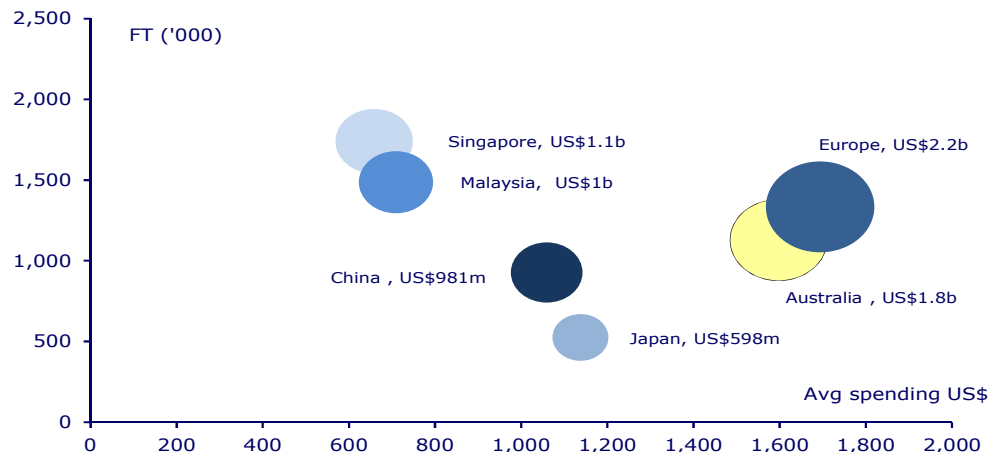
Ports play: government builds special airports & seaports for tourism

- Three airports designated to exotic tourism destinations, such as the Derawan and Riau islands, were completed in 3Q15, clearing infrastructure hurdles and will help to attract more visitors.
- The government is building four marina ports for cruise ships and yachts in places like Bali and Banyuwangi in order to attract more visitors.

How to play: airlines and tourism services firms

- Although we think hoteliers will still suffer due to oversupply, we think Rupiah depreciation will continue to boost tourist volume.
- Garuda Indonesia (GIAA IJ) is likely to benefit due to its strong brand equity and large network as well as airline services firm Cardig Aero Services (CASS IJ).
- Indonesia's largest tourism services firm, Panorama Sentrawisata (PANR IJ), will also benefit from such initiatives due to its huge exposure with European tourists.

Indonesia's foreign tourists average spending versus visitor volume in 2014

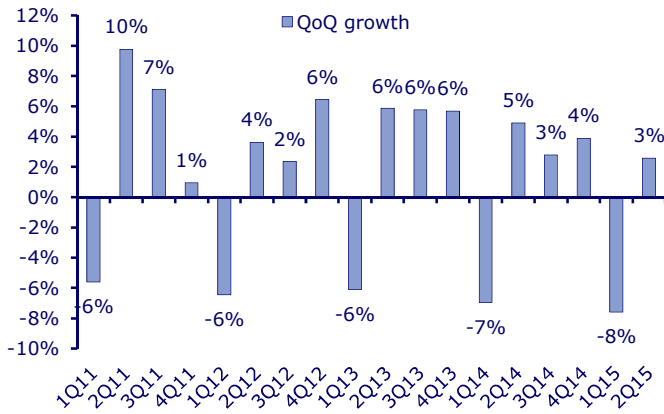


Source: CLSA, Centre of statistical bureau

Rock bottom: ready to fly

Figure 1

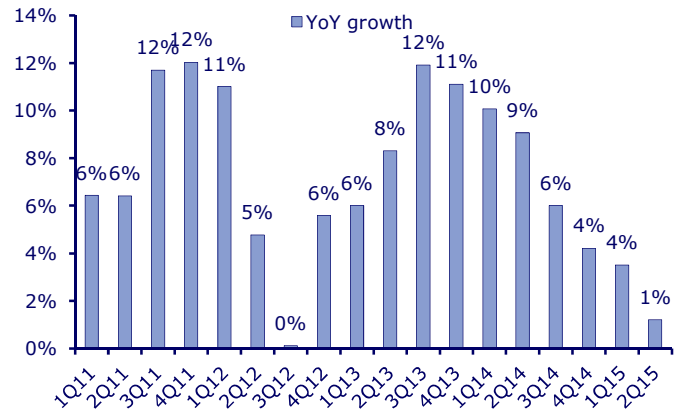
Indonesia foreign tourist arrival QoQ growth



Source: CLSA, BPS

Figure 2

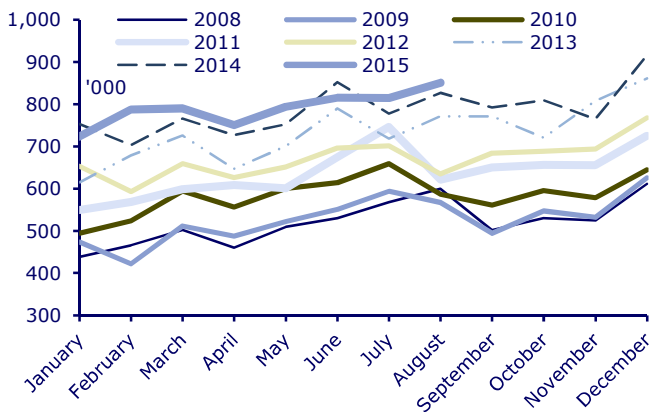
Indonesia foreign tourist arrival YoY growth



Source: CLSA, BPS

Figure 3

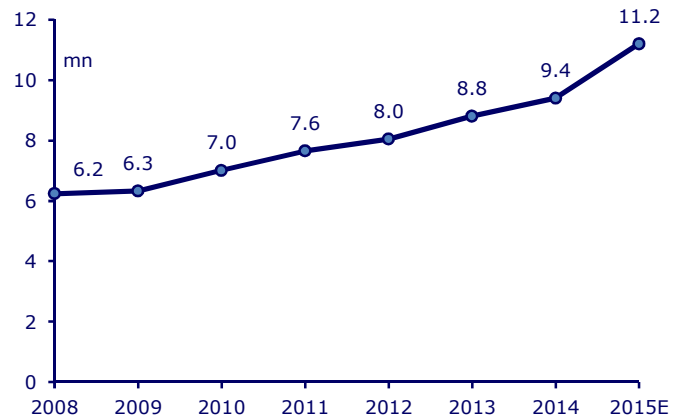
Indonesia foreign tourist arrivals, monthly basis



Source: CLSA, BPS

Figure 4

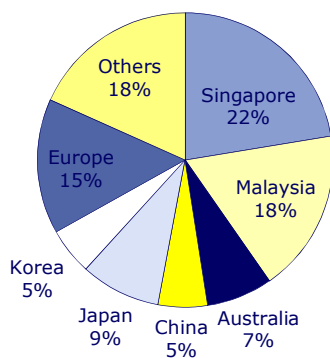
Indonesia foreign tourist arrivals, yearly basis



Source: CLSA, BPS

Figure 5

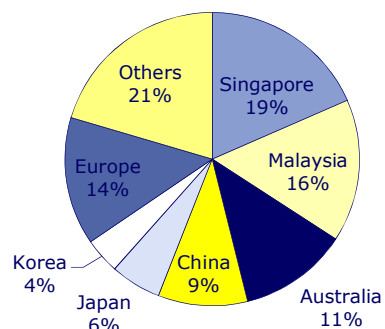
Indonesia foreign tourist arrivals by country, 2008



Source: CLSA, BPS

Figure 6

Indonesia foreign tourist arrivals by country, 2014



Source: CLSA, BPS

Figure 7

World Bank Tourism Competitiveness Index, 2015

	Prioritization of T&T	International Openness	Price Competitiveness	Air transport	Ground & ports	Tourist service	Natural resources	Cultural resources & Business travel
Indonesia	5.61	3.55	6.11	3.81	3.27	3.07	4.36	3.12
Malaysia	4.71	3.85	5.76	4.46	4.5	4.43	4.09	2.95
Thailand	4.95	3.7	5.06	4.57	3.41	5.7	4.47	2.79
Philippines	5.26	4.05	5.28	2.77	3.02	3.77	3.39	1.71
Vietnam	3.73	2.68	5.3	2.72	3.14	2.95	3.61	2.79
Mexico	5.16	3.48	4.88	3.64	3.39	4.47	5.18	4.92
Puerto Rico	4.99	1.6	4.82	3.05	5.49	5.4	2.28	1.32
Dominican Reps	5.79	3.24	4.02	2.82	3.58	4.63	2.59	1.51
Brazil	4.05	2.59	4.51	3.64	2.36	4.69	6.01	5.31
Argentina	4.54	2.77	3.97	2.55	2.63	4.64	4.08	4.37
Morocco	5.27	2.56	4.94	2.86	3.48	4.44	3.11	2.51
Eqypt	4.56	2.17	6.19	2.93	2.84	3.6	2.45	2.4
Tanzania	4.83	3.25	4.87	1.94	2.56	2.7	4.91	1.54
South Africa	4.88	2.38	4.99	3.28	3.59	5.02	4.28	3.39

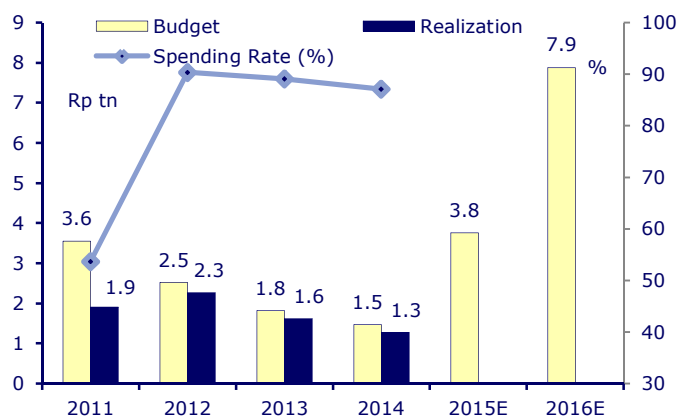
Source: World Bank

Bigger budget: new beginning for Indonesian tourism

The ministry finally realized it needs to spend big to attract more investors. Thus, it decided to spend more than 3x its 2014 tourism promotion budget in 2015 and plans to quadruple the 2015 promotional budget in 2016.

Figure 8

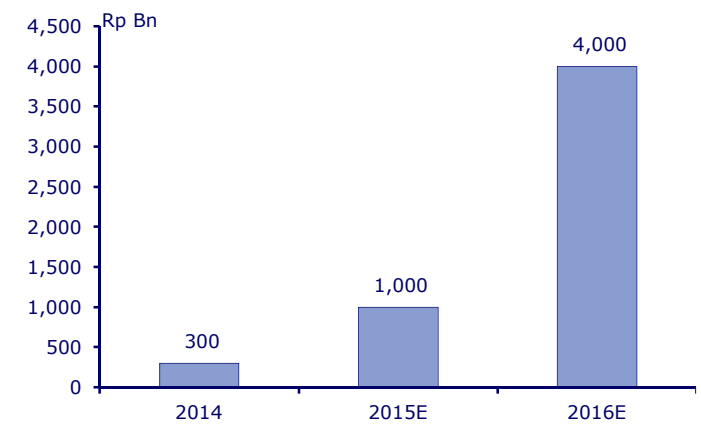
Indonesia tourism budget 2011-2016E



Source: CLSA, Government of Indonesia

Figure 9

Indonesia tourism promotion budget 2014-2016E

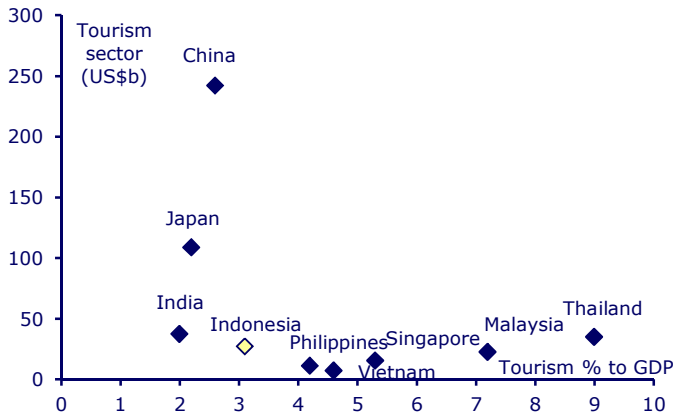


Source: CLSA, Government of Indonesia

Visas for all

Figure 10

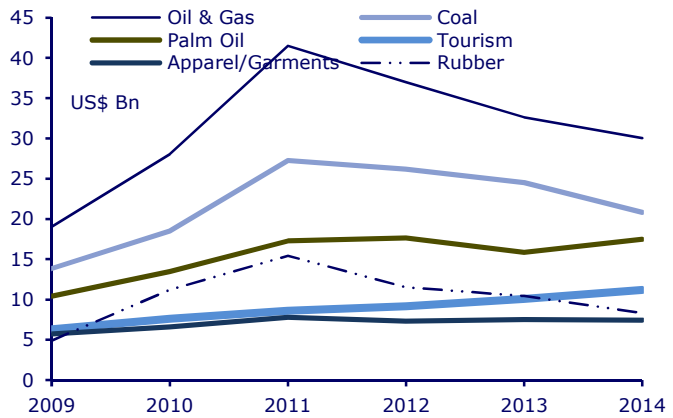
Asia: tourism sector percentage of GDP, 2013



Source: World Economic Forum, CLSA

Figure 12

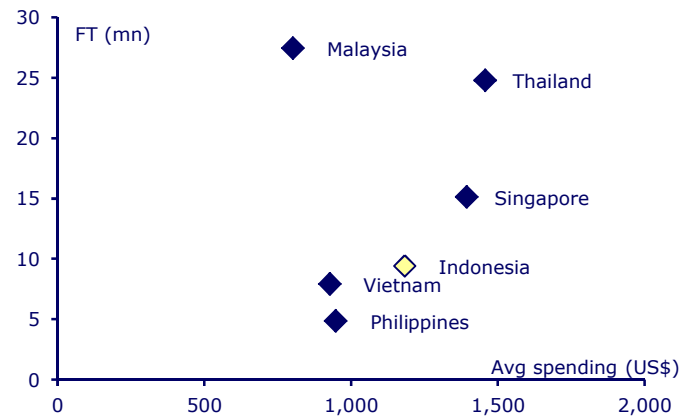
Indonesia's top six industries US dollar revenue contribution



Source: BPS, CLSA

Figure 11

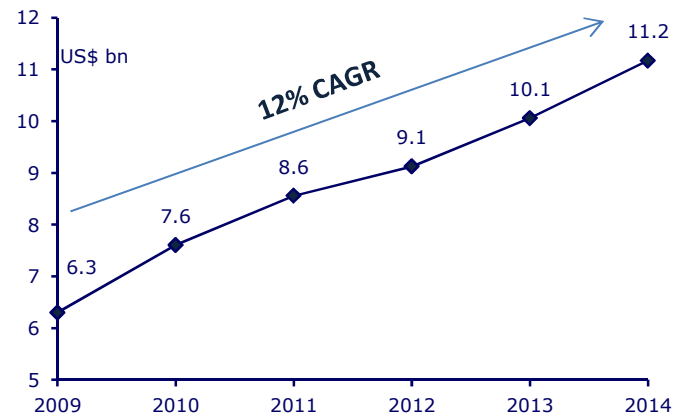
ASEAN country average foreign spending versus visitors, 2014



Source: CLSA, ASEAN countries official tourism websites

Figure 13

Indonesia US dollar receipts from foreign tourist

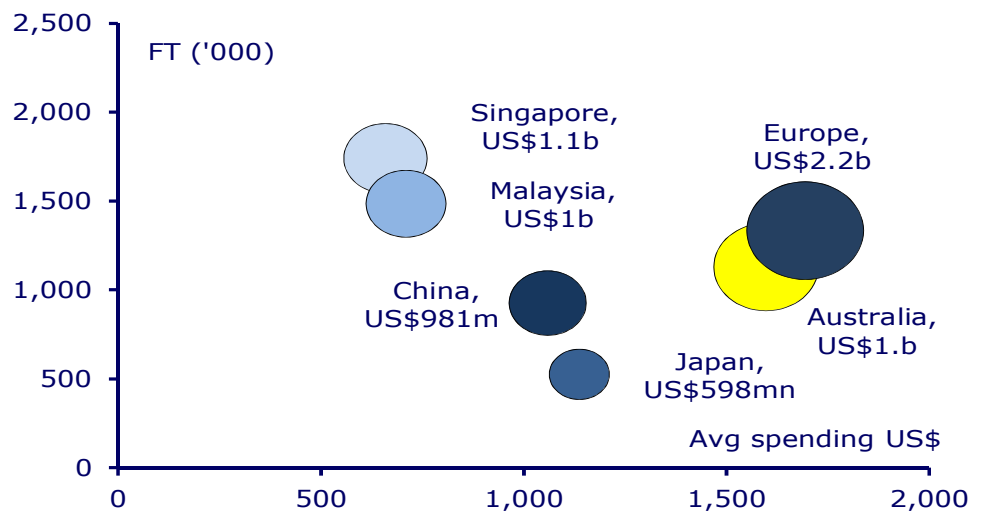


Source: BPS, CLSA

European and Australian tourists are the two biggest spenders in Indonesia

Figure 14

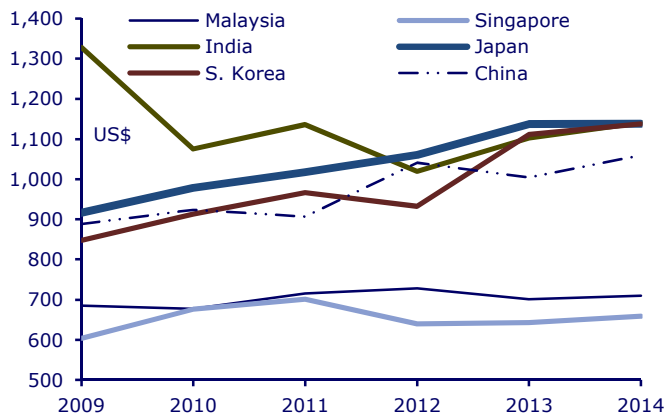
Indonesia's average FT spending & total spending versus total FT visitors, 2014



Source: CLSA, ASEAN countries official tourism websites

Figure 15

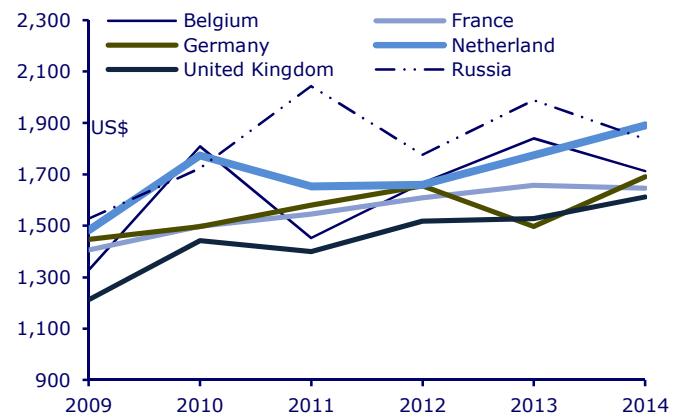
Average spending by Asian tourist in Indonesia



Source: CLSA, BPS

Figure 16

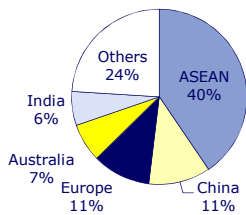
Average spending by European tourist in Indonesia



Source: CLSA, BPS

Figure 17

Singapore FT profile, 2014



Source: CLSA, ASEAN countries official tourism websites

Figure 18

Malaysia FT profile, 2014

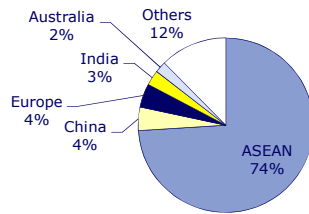


Figure 19

Philippines FT profile, 2014

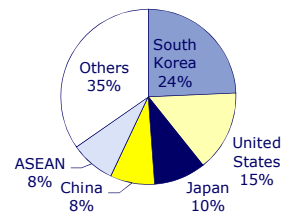
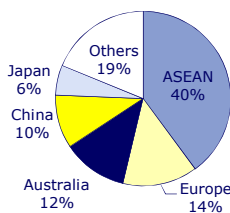


Figure 20

Indonesia FT profile, 2014



Source: CLSA, ASEAN country official tourism websites

Figure 21

Vietnam FT profile, 2014

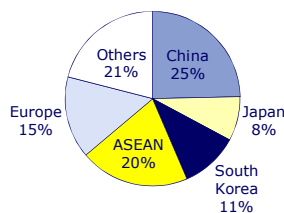


Figure 22

Thailand FT profile, 2014

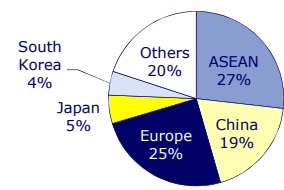


Figure 23

Free visa list: 45 countries

Europe	Asia & Oceania	America	Africa & M. East
Russia	China	United States	South Africa
United Kingdom	South Korea	Canada	Oman
Germany	Japan	Mexico	Bahrain
France	New Zealand	Chile	Kuwait
Netherland	Thailand	Peru	United Arab Emirates
Italy	Malaysia	Ecuador	Qatar
Spain	Singapore		Morocco
Switzerland	Brunei		
Belgium	Philippines		
Sweden	Vietnam		
Austria	Lao		
Denmark	Myanmar		
Norway	Cambodia		
Finland	Hong Kong		
Poland	Macao		
Hungary			
Czech			

Source: Government of Indonesia

Our sensitivity analysis shows that every 10% increase in visitors from Europe to add 0.3% to the total foreign tourist arrivals. If we assume flat average spending for European visitors, a 10% increase in volume will contribute about 25-26% of the total additional US dollars to Indonesia from foreign tourist spending.

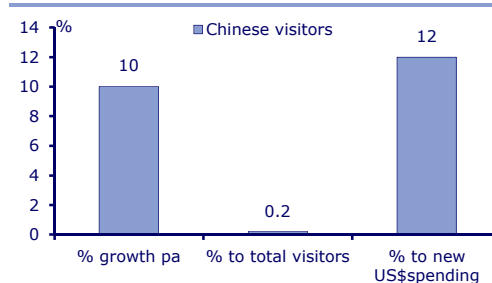
This means, if we assume overall tourist grow to be 8.3% (10% grow for European tourists and 8% for other tourists) and flat average spending, European tourists alone could contribute an additional US\$225m a year.

On the other hand, for every 10% increase of visitors from China, it would add 0.2% in additional volume to total tourists. If we assume the same scenario as above, Chinese visitors could contribute 12% of the additional US dollars to Indonesia from spending, or less than US\$100m a year.

Europeans and Chinese are two main targets for the free visa initiative

Figure 24

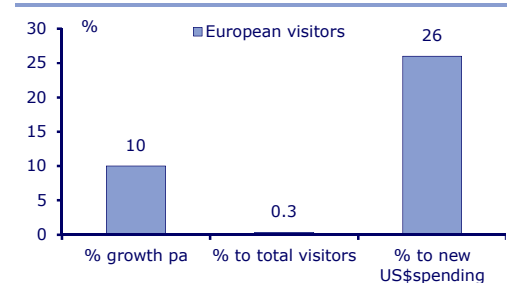
Chinese tourist impact on tourism revenue



Source: CLSA

Figure 25

European tourist impact on tourism revenue



Source: CLSA

It is important to note the number of tourists from China has been increasing at a 19% Cagr over the last five years, easily the highest growth rate among all countries. Meanwhile, European tourists only grew a 6% Cagr over the same period.

Ports play

The government’s ability to complete the development of some small airports is also good news for Indonesian tourism. A lack of infrastructure has been an issue for tourists to reach some of Indonesia’s beautiful tourism spots, causing some of the spots to be unable to attract large amounts of visitors.

The government recently inaugurated the Maratua airport on Maratua Island, a part of the Derawan islands cluster. Derawan is the world’s third best dive destination off the coast of Kalimantan. It is the home of the world’s largest and most diverse jellyfish lake as well as the home for green giant turtles.

Figure 26

Map of the Derawan islands



Source: www.antourtravel.com

Figure 27

A photo of the Derawan islands



Figure 28

Derawan is home to giant turtles



None of Indonesia’s ports have the capacity to cater to large cruise ships

Two more new airports in the Riau islands and in Miangas, North Sulawesi are expected to be completed in 2015. The government expects Indonesia to have 299 airports over the next 15 years, meaning there will be additional 62 new airports, most likely to cater to tourist demand to visit Indonesia’s tourist locations.

On the seaport front, the government is pushing for the development of four marina ports, including Banyuwangi and Tanjung Benoa, for yachts and cruise ships, given none of Indonesia’s ports have a facilities to cater large cruise ships.

Figure 29

Aerial photo of Banyuwangi coastal



Source: Antara news

Figure 30

Tanjung Benoa port of Bali



Source: Government of Indonesia

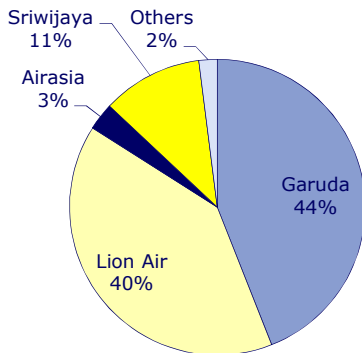
How to play

There are three companies we think could benefit from the surge of foreign tourist arrivals.

Garuda: expanding in a crowded market

Figure 31

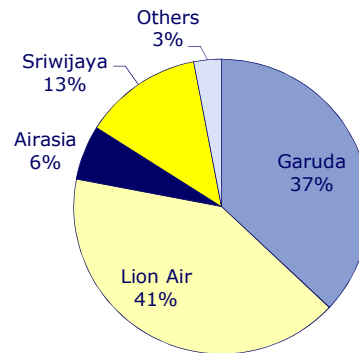
Domestic airline market share, 1H15



Source: Ministry of transportation, Garuda, CLSA

Figure 32

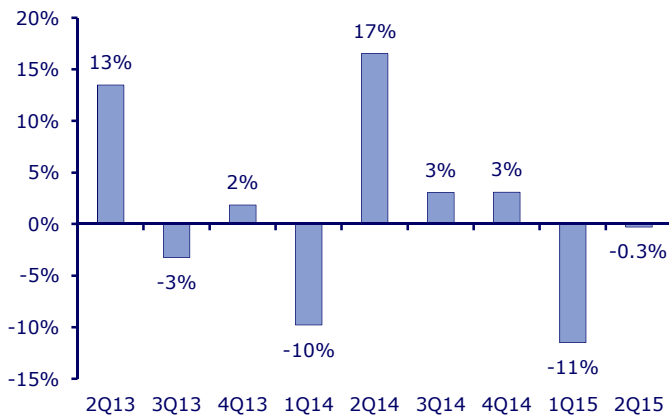
Domestic airline market share, 2014



Source: Ministry of transportation, Garuda, CLSA

Figure 33

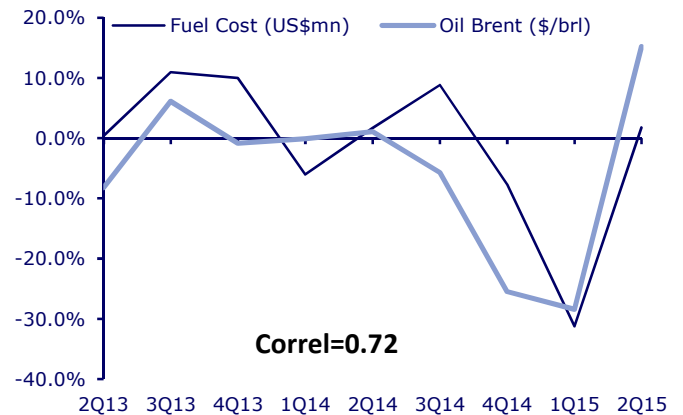
Garuda's revenue-schedule flight segment, QoQ growth



Source: Company data, CLSA

Figure 34

Garuda's fuel cost vs the Brent oil price, QoQ growth



Source: Company data, Bloomberg, CLSA

Key growth drivers

- Garuda is adding more to its fleet to cater to demand. The company is adding up to 16 additional planes this year: six Boeing 737-800NGs, three CRJ-1000s, three ATR 72-600s, three Boeing 777ERs, two Airbus 330-300s and two A320-200s.
- Serving the middle kingdom. The company has severed the Beijing-Jakarta routes three times a week since January 2015.
- Fuel costs have been declining by 35% since 3Q15. The company's fuel cost to the overall cost also shrunk to 30% in 1H15 versus 38% in 3Q14.

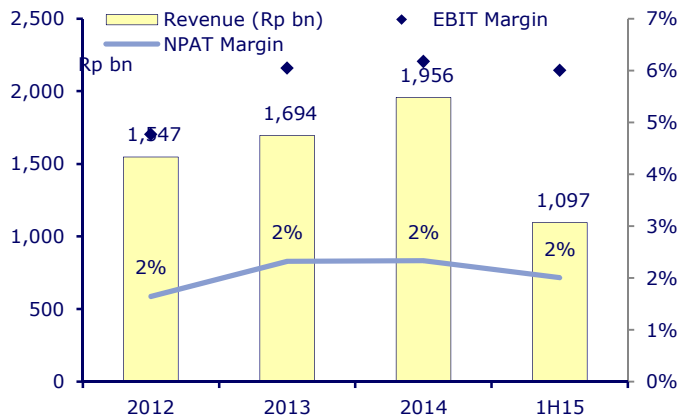
Valuation and risks

- Garuda is now trading at a 3.5x 2016 EV/Ebitda, relatively cheap compared to regional rival Air Asia Berhad (AIRA MK) at a 7.6x 2016 EV/Ebitda or Cathay Pacific (293 HK) at 5.4x.
- The key risks are weaker than expected air traveller demand and a stronger oil price.

Panorama: European tourist play

Figure 35

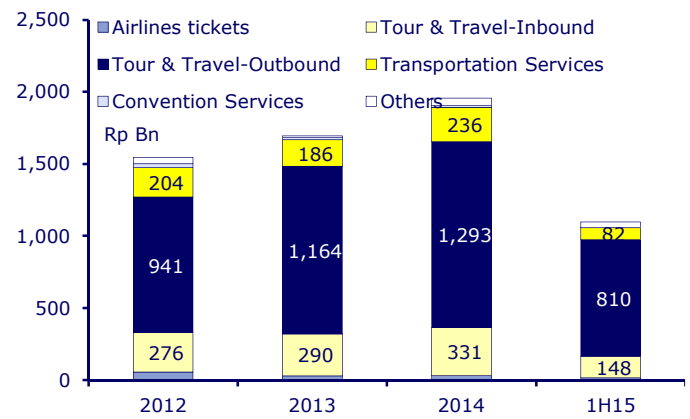
Panorama's revenue, Ebit, and net margin



Source: Company data, CLSA

Figure 36

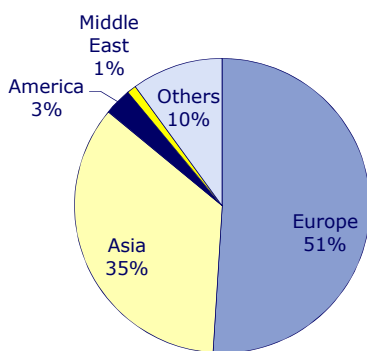
Panorama's revenue breakdown



Source: Company data, CLSA

Figure 37

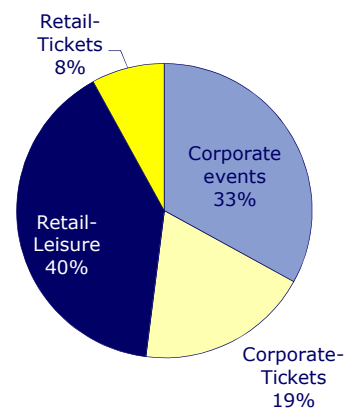
Panorama's inbound market, FY2014



Source: Company data, CLSA

Figure 38

Panorama's outbound market, FY2014



Source: Company data, CLSA

Key growth drivers

- ❑ The company's main market for inbound are Europeans, the biggest spenders among foreign tourist in Indonesia. The company should benefit from the surge of incoming Europeans to Indonesia given 17 European countries are part of the 45 countries to receive free visas.
- ❑ There is also a plan to give free visas to all Schengen member countries starting this month.
- ❑ The company's outbound market remained robust in 1H15 despite a slowing economy. Its 1H15 revenue already reached 62% of FY14, on target to beat last year's revenue. The outbound market usually handles domestic tourist travelling abroad and within the country, including corporate events.

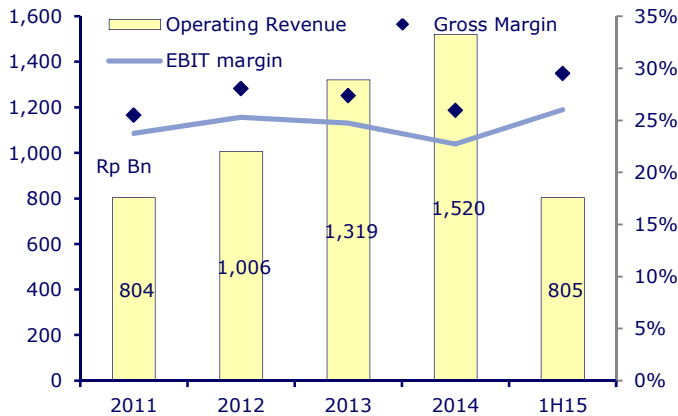
Valuation and key risks

- ❑ Panorama is now trading at a 5.3x 2016 PE, relatively cheap compare to regional peers like Minor International (MINT TB) at a 21x 2016 PE and Hotel Shilla (008770 KS) at 21.6x 2016 PE
- ❑ The key risks are weaker than expected European tourist demand, and a domestic tour and travel market slow down.

Cardig Aero Services: little gemstone in the runway

Figure 39

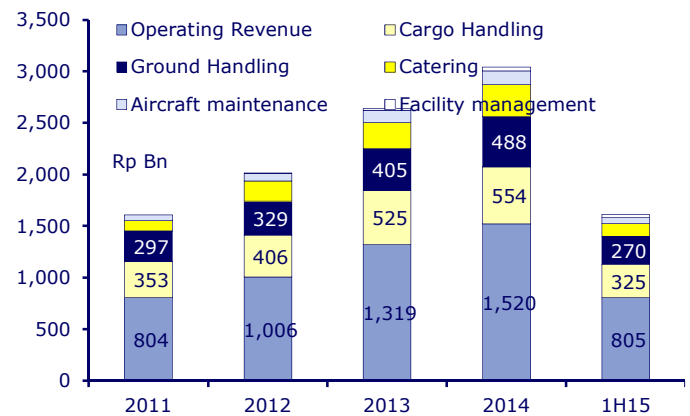
Cardig's revenue, gross and Ebit margins



Source: Company data, CLSA

Figure 40

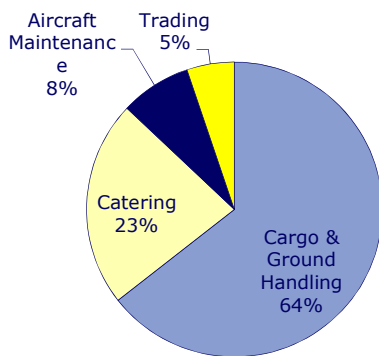
Cardig's revenue breakdown



Source: Company data, CLSA

Figure 41

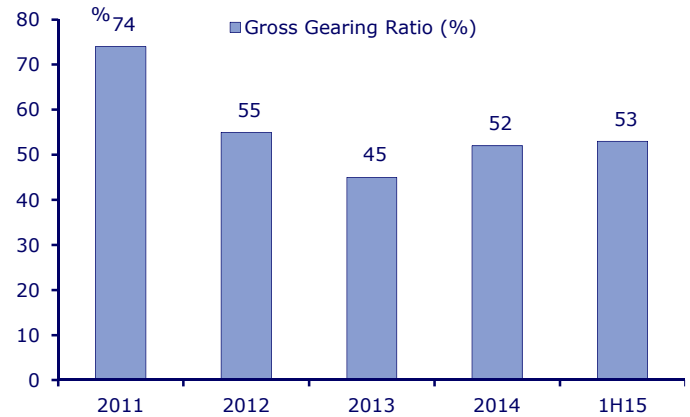
Cardig's direct cost breakdown, 1H15



Source: Company data, CLSA

Figure 42

Cardig's gearing ratio



Source: Company data, CLSA

Key growth drivers

- ❑ The majority of Cardig's clients in ground handling and airport services are foreign airlines, including Singapore Airlines and Etihad Airways. Thus, an increase in foreign tourist volume will increase its revenue.
- ❑ It has just expanding its in-flight catering facilities from only 6,000 packages per day to 20,000 per day, causing a decline in its utilization rate from 99% to 31% in 2014. We expect utilization to increase as tourist volume rises.
- ❑ The company is not directly affected by the volatility of the oil price.

Valuation and key risks

- ❑ The company is now trading at 20x trailing PE with a trailing ROE of 35% while regional peers SATS Ltd is trading at a 19x 2016 PE and an ROE of only 14%.
- ❑ Weaker than expected air travel demand, clients dropping service contracts, losing focus on its core businesses, and diversifying into consumer-related and retail businesses are all risks.

Companies mentioned

AirAsia (AIRA MK - RM1.26 - BUY)
Cardig Aero Service (N-R)
Cathay Pacific (N-R)
Etihad Airways (N-R)
Garuda Indonesia (N-R)
Hotel Shilla (008770 KS - 115,000 WON - BUY)
Lion Air (N-R)
Minor International (MINT TB - BT27.8 - BUY)
Panorama Sentra (N-R)
SATS (N-R)
SIA (N-R)
Sriwijaya (N-R)

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In the case of US stocks, the recommendation is relative to the expected return for the S&P500 of 10%. Exceptions may be made depending upon prevailing market conditions. We define as "Double Baggers" stocks we expect to yield 100% or more (including dividends) within three years at the time the stocks are introduced to our "Double Bagger" list. "High Conviction" Ideas are not necessarily stocks with the most upside/downside, but those where the Research Head/Strategist believes there is the highest likelihood of positive/negative returns. The list for each market is monitored weekly.

Overall rating distribution for CLSA/CLSA Americas only /CA Taiwan only Universe:

Overall rating distribution :Buy / Outperform - CLSA:

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Investment banking clients as a % of rating category: Buy / Outperform - CLSA: 1.51%; CLSA Americas only: 0.00%; CA Taiwan only: 0.00%, Underperform / Sell - CLSA: 0.98%; CLSA Americas only: 0.00%; CA Taiwan only: 0.00%, Restricted - CLSA: 0.00%; CLSA Americas only: 0.00%; CA Taiwan only: 0.00% . Data as of 30 June 2015.

There are no numbers for Hold/Neutral as CLSA/CLSA Americas/CA Taiwan do not have such investment rankings.

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