

COMPANY NEWS

Carnival Group International [996.HK; HK\$1.37 Not Rated] - A Beneficiary of Growing Tourism Industry In China

Market Cap: US\$2,431m; Free Float: 19.9%; 3-months Average Daily Turnover: US\$1.1m

Analyst: Mark Po

The Company. Carnival Group International [996.HK] (Carnival), through backdoor listing, develops mixed-use commercial, residential and tourism complexes, luxury residences, park-side commercial areas, and serviced apartments.

Rio Carnival (Qingdao) will commence operation by Q3 2015. Due to a slight delay in construction work, the first phase of Rio Carnival (Qingdao) will commence operation in May 2015 vs original schedule of Mar 2015. The whole project is expected to commence operations by Q3 2015. Management highlights that the delay should have limited impact on the group's future operating performance. Management is negotiating with commercial banks regarding re-financing of existing bank loans. After the opening of the Rio Carnival (Qingdao), management believes effective interest costs will decline as the group shifts from project loans to commercial loans.

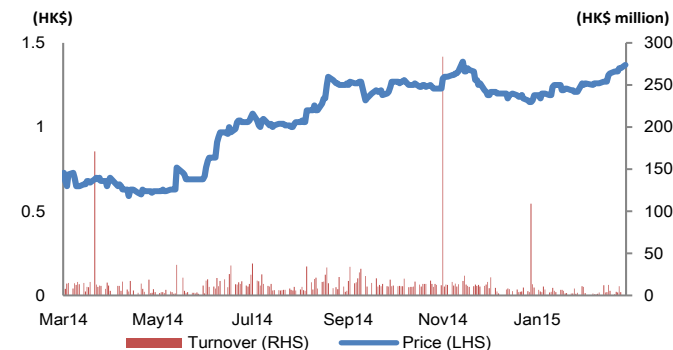
The acquisition of 40% of the equity interest in E-Da World, which owns an integrated theme park, hotel and outlet shopping mall facility in Kaohsiung, is on track. Carnival's management expects the acquisition to be completed in near term without major obstacles.

Exploiting new business opportunity. Carnival's management says they are continually searching for new business opportunities that are complementary to Carnival's existing business development. The group is looking for new business opportunities with limited initial capital outlay and steady cash inflow. The new business opportunities enables Carnival to capture growth potential brought about by the increasing affluence and formidable spending power of population in China and the rapidly growing tourism market in China. We expect the group to disclose more information on the new business opportunities later this year. We also believe that the market will react positively to new business development.

Enlarging shareholder base. CTBC Life Insurance Co., Ltd., in Taiwan subscribed for 220m new shares at HK\$1.13 per share on 18 Nov 2014. Ping An Life Insurance now owns 4.68% stake in Carnival. Management considers Ping An Life Insurance as another important partner in the group's expansion and development strategy, and believes that the group will be able to leverage on Ping An's vast network and customer base, financial resources and investment expertise to support the group's experiential consumption and lifestyle business model in China. Given its unique position, we cannot rule out the possibility of Carnival introducing other strategic partners or investors.

A growing market. According to China National Bureau of Statistics, total number of domestic tourist visits reached over 3.61bn in 2014, growing at a compound annual growth rate (CAGR) of 13.7% from 2009 to 2014. Total domestic tourism revenue grew at an even faster pace, reaching over RMB3.0trn in 2014, representing a CAGR of 24.4% from 2009 to 2014. Carnival is well positioned to capitalise on the China's burgeoning middle-class with increasing disposable

[Carnival Group International]



Key Financials (in HK\$ m)	2011	2012	2013	2014
Revenue	(12.6)	(17.8)	545.3	1,412.9
Change (yoy %)				
Gross Profit	n.a.	n.a.	(1,050.8)	249.4
Gross Margin %	n.a.	n.a.	(192.7)	17.6
Net Profit	(69.5)	(308.0)	(1,485.9)	43.0
Net Margin %	n.a.	n.a.	n.a.	n.a.
EPS (Basic)	(0.06)	(0.07)	(0.32)	0.33
DPS	n.a.	n.a.	n.a.	n.a.
ROE (%)	(2.9)	(9.3)	(44.1)	1.1
Dividend Yield (%)	-	-	-	-
PER (x)	n.a.	n.a.	n.a.	438.8*
PBR (x)	1.82	1.89	5.07	4.11

*: Based on 13,778.9m shares

Source: Bloomberg, Company Data.

incomes and greater willingness to spend time and money on leisure activities.

2014 results. The group's 2014 net profit was about HK\$43.0m vs a net loss of HK\$1,485.9m in 2013. Carnival booked a gross profit of HK\$249.4m and fair value gain on investment properties of HK\$161.1m in 2014. The 2014 results is a non-event as the market focus is mainly on the new development of the group. Carnival granted in total 40,000,000 share options to employees yesterday with an exercise price of HK\$1.37.

Unique exposure to fast growing tourism market in China.

We maintain the view that Carnival is one of the few Hong Kong listed companies with exposure to China's growing tourism market. Due to the lack of historical operating results and listed comparables, it will take time for the market to understand its business model. Rio Carnival (Qingdao) is expected to make a positive contribution in 2015 and report significant growth in 2016 and 2017.

Catalyst: Opening of Rio Carnival (Qingdao), completion of acquisitions, news flow on new business opportunities and introduction of strategic shareholder.

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Room 3501-3507, 35/F, Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Sheung Wan, Hong Kong. General line: 3698-6888.