

China Travel International Investments HK Ltd

In line FY14 results; tourism business and asset optimization drive future growth

China Travel International Investment (CT) is a leading travel agency in Hong Kong. The company also operates theme parks, hotels and provides transportation services. While FY14 results are in line with our estimation, there are some improvements in balance sheet after the associated gain from asset disposal. We are maintaining Neutral rating with PT at HK\$3.0.

- Tourism business and asset optimization drives growth.** Via asset optimization and disposal, CT will focus on the acquisition of scarce natural and cultural scenic spots while selectively developing leisure resorts as well as associated business. CT has commenced a strategy to add 2 to 3 new venues that are a combination of a popular tourist attraction (either scenic or spa) and with a potential to expand into luxury villas (tourism real estate). The Zhuhai OSR and Anji projects are in steady progress and will start pre-sale in 2015.
- Earning adjustment.** The upward revision for FY15 is due to the additional gain of HK\$480m associated with the sale of the power plant in March 2015 offset by the loss of earnings contribution from this associate after March 2015. The downward revision in 2016 is mainly due to the loss of the contribution from the power plant. However, we note that we did not specifically build in additional incomes that can be generated from the cash received from the disposal of the power plant (other than small interest income) and any new projects that can be funded with the new cash would offset the earnings loss in 2016
- Valuation, price and risks.** CT trades at 7.8x 15E P/E, less than half of the travel related peers in China. Our DCF-based price target (Dec-15) of HK\$3.0 implying a CY16E P/E of 13.5x and P/B of 1.0x. The key risk to our rating and PT is 1) High investment in property development draws down cash and may not be as profitable as anticipated; 2) Acquisitions of tourist attractions and hotels in the future may be at an overly high price.

Neutral

0308.HK, 308 HK

Price: HK\$2.30

Price Target: HK\$3.00

Hong Kong
SMID-Caps

Leon Chik, CFA^{AC}

(852) 2800-8590

leon.hk.chik@jpmorgan.com

Bloomberg JPMA CHIK <GO>

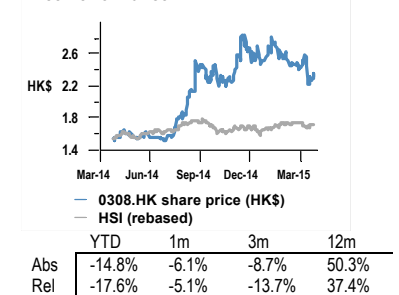
Liwen Yin

(852) 2800-8528

liwen.yin@jpmorgan.com

J.P. Morgan Securities (Asia Pacific) Limited

Price Performance



China Travel International Investments HK Ltd (Reuters: 0308.HK, Bloomberg: 308 HK)

HK\$ in mn, year-end Dec	FY12A	FY13A	FY14A	FY15E	FY16E
Revenue (HK\$ mn)	4,668	4,360	4,475	4,989	5,583
Net Profit (HK\$ mn)	804	1,152	1,739	1,662	1,252
EPS (HK\$)	0.14	0.20	0.31	0.30	0.22
DPS (HK\$)	0.05	0.06	0.10	0.09	0.07
Revenue growth (%)	-	(6.6%)	2.6%	11.5%	11.9%
EPS growth (%)	-	44.1%	51.3%	(4.4%)	(24.7%)
ROCE	8.1%	4.1%	4.0%	4.5%	4.7%
ROE	11.9%	5.9%	5.2%	4.7%	4.9%
P/E (x)	16.2	11.3	7.5	7.8	10.4
P/BV (x)	1.0	0.9	0.8	0.8	0.7
EV/EBITDA (x)	9.9	8.9	7.6	6.2	5.1
Dividend Yield	2.2%	2.6%	4.1%	3.9%	3.0%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	5,614
Market Cap (HK\$ mn)	12,913
Market Cap (\$ mn)	1,665
Price (HK\$)	2.30
Date Of Price	25 Mar 15
Free Float(%)	-
3M - Avg daily vol (mn)	8.89
3M - Avg daily val (HK\$ mn)	22.44
3M - Avg daily val (\$ mn)	2.9
HSI	24,528.23
Exchange Rate	7.75
Price Target End Date	31-Dec-15

See page 10 for analyst certification and important disclosures, including non-US analyst disclosures.

J.P. Morgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

<p>Key catalysts for the stock price:</p> <ul style="list-style-type: none"> • New acquisitions of tourist attraction or hotel projects • New businesses acquired from parent or in conjunction with parent group 	<p>Upside risks to our view:</p> <ul style="list-style-type: none"> • The development and sale of properties could progress faster than expected • Faster pace of growth of tourism related businesses with the new Chairman 	<p>Downside risks to our view:</p> <ul style="list-style-type: none"> • High investment in property development draws down cash and may not be as profitable as anticipated • Acquisitions of tourist attractions and hotels in the future may be at an overly high price
--	---	--

Key financial metrics	FY13	FY14	FY15E	FY16E
Revenues (LC)	4,360	4,475	4,989	5,583
Revenue growth (%)	-6.6%	2.6%	11.5%	11.9%
EBITDA (LC)	1,181	1,248	1,435	1,593
EBITDA margin (%)	27.1%	27.9%	28.8%	28.5%
Tax rate (%)	15%	14%	18%	25%
Net profit (LC)	1,152	1,739	1,662	1,252
EPS (LC)	0.204	0.309	0.295	0.222
EPS growth (%)	43%	51%	-4%	-25%
DPS (LC)	0.060	0.095	0.091	0.068
BVPS (LC)	2.57	2.76	2.96	3.12
Operating cash flow (LC mn)	1,080	2,273	1,057	1,290
Free cash flow (LC mn)	(377)	752	1,307	665
Interest cover (X)	-8	-7	-5	-5
Net margin (%)	18.2%	30.2%	29.2%	19.9%
Sales/assets (X)	0.23	0.21	0.22	0.24
Debt/equity (%)	25.4%	26.0%	23.8%	22.4%
Net debt/equity (%)	NC	NC	NC	NC
ROE (%)	8%	12%	10%	7%

Key model assumptions	FY14	FY15E	FY16E
Tourist attraction (Y/Y gth)	-3%	8%	8%
Travel agency (Y/Y gth)	12%	20%	20%
Hotel (Y/Y gth)	1%	6%	6%

Source: Company, J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
	FY15E	FY16E	FY15E	FY16E
1% chg tourism GPM	0.9%	0.8%	1.7%	1.5%
1% chg agency GPM	0.9%	0.8%	1.7%	1.5%
1% chg hotel GPM	0.9%	0.8%	1.7%	1.5%

Source: J.P. Morgan estimates.

Peer comparison:

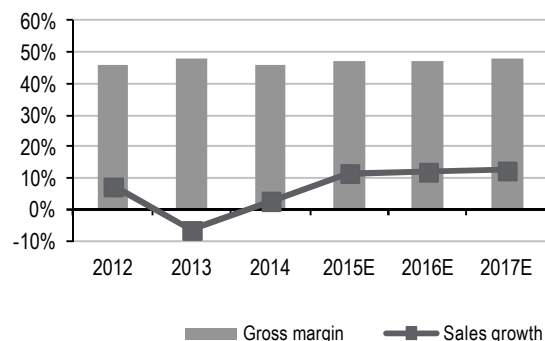
	Code	Price (TP) Local CCY	MCAP US mn	Vol US mn	1W Chg	3M Chg	14 P/E (x)	15e P/E (x)	P/B (x)	14 EV/EBITDA	15e EV/EBITDA	ROE
Ctrip (OW)	CTRP US	59.77 (82)	8,087	7,615	29.3	31.3	60.4	29.4	5.0	259.9	30.4	4.9%
Shangri-La	69 HK	10.78	4,980	8,965	2.3	3.1	29.0	24.0	0.7	13.9	14.1	2.3%
CIT Services	601888 CH	51.36	8,179	6,824	0.0	2.3	34.1	27.3	4.9	19.1	14.4	14.8%
China CYTS	600138 CH	24.94	2,945	2,611	21.8	43.3	49.5	38.9	4.8	18.9	14.8	10.2%
Jinjiang Int'l	600754 CH	27.1	3,196	3,171	-2.8	1.0	43.8	34.7	3.9	22.2	16.7	8.7%
Huangshan Tourism	600054 CH	19.08	999	869	4.6	16.6	39.9	31.7	4.8	1.8	1.1	10.6%
Average				4,014	9	3	34	27	3	74	16	8.2%
China Travel (OW)	308 HK	2.3 (3)	1,666	3	-0.4	-8.7	7.5	7.8	0.8	8.4	6.6	8.2%
Premium/Discount							-78%	-71%	-71%	-89%	-58%	

Source: Company data, Bloomberg estimates for Not Covered (NC) companies, J.P. Morgan estimates (*). Share prices are as of close of Mar 26, 2015

Valuation and price target basis

Our price target is based upon DCF methodology. The nature of the industry leads us to apply a terminal growth of 3.0% (near the middle of the 1.5% to 4% growth rate used for SMID Caps).

Gross margin trend and sales growth



Source: Company, J.P. Morgan estimates.

JPMe vs. consensus, change in estimates

EPS	FY15E	FY16E
JPMe old	0.264	0.287
JPMe new	0.295	0.222
% chg	11.6%	-22.6%
Consensus	0.243	0.293

Source: Bloomberg, J.P. Morgan estimates.

Key highlights from analysts briefing and investors meeting

- **Lower fuel costs should boost.** The decrease of fuel prices in FY14 has contributed to a 1% increase in passenger transportation operation, despite of 2% decrease in passengers serviced.
- **HK tourism should recover in 2015.** The revenue of five hotels in Hong Kong and Macau reported a slight increase, while profit was flat. Average occupation rate remained stable at 89% with average room rates up by 2% to HKD930. Hong Kong hotel business was negatively affected by Occupy Central activity as well as macroeconomic environment and policy. But, under effective cost control management expects business will recover in 2015.
- **Development for Zhuhai development.** Zhuhai OSR is affected by China's frugality policy, macro-economy and intensified market competition. Thus company successfully reduced losses by focusing on developing leisure, business and individual traveler markets as well as cost control. Currently, the total land area for tourism and real estate projects of Zhuhai OSR Phase 2 is around 3.04mn sq.m where around 950k sq.m will be used for real estate development. The preparation for initial development is ongoing and is expected to complete construction and have pre-sale in 2015.
- **New expansion into high traffic scenic spots and tourist attractions.** Management highlights that China tourism is expanding rapidly, especially on the back of government supportive policies, development of the economy and increase in disposable income, etc. Management commented that CT will focus on the acquisition of scarce natural and cultural scenic spots while selectively developing leisure resorts as well as associated business. CT has commenced a strategy to add 2 to 3 new venues that are a combination of a popular tourist attraction (either scenic or spa) and with potential to expand into luxury villas (tourism real estate). Over the past couple of years, the company has acquired Ningxia Shapotou, Anji Lingfeng Mountain Resort, etc. We expect this to continue.
- **Disposal of assets.** CT is devoting efforts to optimize current assets and dispose of low-efficiency assets. In FY14, the company successfully disposed of Mangocity.com and Shanghai Metropark Service Apartment, recording a one-time gain of HKD420mn and HKD418mn, respectively. This disposal helps to strengthen the balance sheet while improving return on equity from 8.2% in FY13 to 11.6% in FY14. Recently the company announced the disposal of its power business for a total consideration of HKD510mn (one-time gain of HKD 480mn) as this is not a core business, with low liquidity; the contract will expire in 2017. In the future, CT will still focus on asset optimization.

FY14 results overview

	FY13A	FY14A	Growth	FY14E	Variance
Turnover	4,359	4475	2.7%	4441	0.8%
Gross profit	2,084	2057	-1.3%	2170	-5.2%
Gross margins	30.1%	46.0%		48.9%	
EBIT	855	796	-6.9%	850	-6.4%
EBIT margins	18.7%	17.8%		19.1%	
Net profit	1,151	1738	51.0%	1459	19.2%
Net margins	15.4%	38.8%		32.8%	
EPS	0.204	0.309		0.259	19.4%

Source : Company; J.P. Morgan estimates

- Sales of HK\$4.47bn were fairly in line with expectations but GPM of 46% was slightly lower than our expectations of 48.9% due in part to lower margins at the theme park operations.
- Net profit was 19% higher than our expectations as the gains on asset disposal (mainly website Mango) was HK\$881m vs our estimate of HK\$680m.
- The strong balance sheet is a key attraction and net cash (including financial assets) rose to HK\$3.9bn (30% of MCAP) at Dec 2014 from HK\$2.3bn at Dec 2013.

Net profits revised up by 12% for FY15E but down 23% for FY16E

Year to Dec (HKDm)	New		Old		Change	
	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Turnover	4,989	5,583	4,926	5,483	1.3%	1.8%
Gross profit	2,348	2,657	2,423	2,712	-3.1%	-2.0%
EBIT	931	1,124	948	1,071	-1.7%	5.0%
Net profit	1,662	1,252	1,489	1,618	11.6%	-22.6%
EPS (HKD)	0.295	0.222	0.264	0.287	11.6%	-22.6%
Assumptions						
Gross margin	32.1%	132.1%	30.8%	130.8%	1.2%	1.2%

Source: J.P. Morgan estimates

The upward revision for FY15 is due to the additional gain of HK\$480m associated with the sale of the power plant in March 2015 offset by the loss of earnings contribution from this associate after March 2015. The downward revision in 2016 is mainly due to the loss of the contribution from the power plant. However, we note that we did not specifically build in additional incomes that can be generated from the cash received from the disposal of the power plant (other than small interest income) and any new projects that can be funded with the new cash would offset the earnings loss in 2016

Valuation and share price analysis

DCF valuation

Our Dec-15 PT of HK\$ 3.0 is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (yield on 10-year government notes in China). We have assumed a beta of 1.2. Accordingly, WACC is assumed at 11.4%. We have estimated free cash flow for China Travel until 2020 and assume a terminal growth rate of 3%. The terminal growth is based on the annual growth rate expected in 2020 (the final year of the estimate period) subject to a minimum of 1.5% and a maximum of 4.5% depending on the nature of the industry and the level of maturity in China.

We also analyzed the DCF price sensitivity to WACC, and the terminal multiple.

Table 1: China Travel – base-case DCF analysis

HK\$ in millions, year-end Dec	2013A	2014A	2015E	2016E	2017E	2018E	2019E	Terminal
Cash flow estimates								
Sales	4,360	4,475	4,989	5,583	6,269	7,065	7,990	9,067
EBIT	699	726	931	1,124	1,276	1,457	1,633	1,837
NOPAT	699	746	819	895	920	1,054	1,177	1,313
Capex, net	(1,235)	(1,653)	230	(597)	(631)	(694)	(766)	(800)
Depreciation	482	522	504	469	475	483	493	506
Change in working capital	24	1,141	(250)	(150)	(4)	(5)	(5)	(6)
Free operating CF (FoCF)	(29)	757	1,303	618	762	841	903	1,018
DCF Parameters			Assumptions					
Liabilities as a % of EV	0%						Terminal growth	3.0%
WACC	11.4%						Risk-free rate	4.2%
Enterprise NPV (10-16E)	9,938						Market risk	6.0%
+ Net cash (debt), 14E	4,413						Beta	1.20
- Minorities (Market value)	(808)						Cost of debt	4.0%
+/- Other items	3,405						Implied exit P/E multiple (x)	6x
= Equity value	16,949							
/ Number of shares	5,635							
= Equity value per share (HK\$)	3.0							

Source: Company data, J.P. Morgan estimates.

Table 2: China Travel – Sensitivity analysis based on WACC and perpetual terminal growth rate

		Terminal growth rate						
		1.5%	2%	2.5%	3.0%	3.5%	4.0%	4.5%
WACC	9.9%	3.2	3.3	3.4	3.5	3.6	3.8	4.0
	10.4%	3.0	3.1	3.2	3.3	3.4	3.6	3.7
	10.9%	2.9	3.0	3.1	3.2	3.3	3.4	3.5
	11.4%	2.8	2.9	2.9	3.0	3.1	3.2	3.3
	11.9%	2.7	2.8	2.8	2.9	3.0	3.0	3.1
	12.4%	2.6	2.7	2.7	2.8	2.8	2.9	3.0
	12.9%	2.5	2.6	2.6	2.7	2.7	2.8	2.9

Source: J.P. Morgan estimates.

Financials

Table 4: China Travel – Revenue mix

Year to Dec (HK\$ million)	2012	2013	2014	2015E	2016E
Tourist attraction	1,765	1,512	1,467	1,584	1,711
YoY	6.0%	-14.4%	-3.0%	8.0%	8.0%
% of total	38%	35%	33%	32%	31%
Travel agency	1,467	1,448	1,619	1,943	2,332
YoY	9.8%	-1.3%	11.8%	20.0%	20.0%
% of total	31%	33%	36%	39%	42%
Golf Club		131	135	138	141
YoY				na	na
% of total			3%	3%	3%
Others			34	30	27
YoY				na	na
% of total			1%	1%	0%
Passenger operations	310	289	291	308	327
YoY	na	na			
% of total	7%	7%	7%	6%	6%
Total	4,668	4,360	4,475	4,989	5,583

Source: Company data, J.P. Morgan estimates

Table 5: China Travel – P&L statement

Year-end 31Dec (HK\$MM)	2012	2013	2014	2015E	2016E	2012
Total Revenues	4,668	4,360	4,475	4,989	5,583	4,668
YoY change (%)	7.2%	-6.6%	2.6%	11.5%	11.9%	7.2%
Cost of Goods Sold	(2,515)	(2,276)	(2,417)	(2,641)	(2,926)	(2,515)
YoY change (%)	11.6%	-9.5%	6.2%	9.3%	10.8%	11.6%
Gross Profit	2,153	2,084	2,058	2,348	2,657	2,153
YoY change (%)	2.5%	-3.2%	-1.3%	14.1%	13.1%	2.5%
Gross Margin	46.1%	47.8%	46.0%	47.1%	47.6%	46.1%
SGA	(1,654)	(1,580)	(1,500)	(1,594)	(1,731)	(1,654)
YoY change (%)	-6.7%	-4.5%	-5.1%	6.3%	8.6%	-6.7%
Other Income/(Expenses)	199	195	167	177	198	199
Operating profit	697	699	726	931	1,124	697
EBITDA	1,164	1,181	1,248	1,435	1,593	1,164
EBITDA margin	24.9%	27.1%	27.9%	28.8%	28.5%	24.9%
Depreciation & Amortization	(467)	(482)	(522)	(504)	(469)	(467)
YoY change (%)	3.0%	3.2%	8.5%	-3.5%	-7.0%	3.0%
EBIT	697	699	726	931	1,124	697
EBIT margin	14.9%	16.0%	12.5%	15.1%	16.6%	14.9%
Net Interest Expense	76	92	110	182	245	76
Exceptional item	165	331	951	906	418	165
Associates	182	357	389	203	141	182
Gains/losses	0	0	0	0	0	0
Net Income Before Taxes	1,120	1,479	2,175	2,222	1,928	1,120
YoY change (%)	25.5%	32.1%	47.0%	2.2%	-13.3%	25.5%
Tax	(218)	(225)	(310)	(398)	(481)	(218)
Effective Tax rate	19.5%	15.2%	14.3%	17.9%	24.9%	19.5%
Minority Interests	(98)	(102)	(126)	(162)	(196)	(98)
Net Income	804	1,152	1,739	1,662	1,252	804
YoY change (%)	15.6%	43.3%	50.9%	-4.4%	-24.7%	15.6%
Net margin	13.3%	18.2%	30.2%	29.2%	19.9%	13.3%

Source: Company data, J.P. Morgan estimates

Table 6: China Travel – Balance sheet

Year-end 31Dec (HK\$MM)	2012	2013	2014	2015E	2016E	2017E
Cash and Cash Equivalents	2,678	1,967	3,327	4,328	4,838	5,628
Inventories	105	143	138	154	173	194
Accounts receivable	258	274	188	210	235	264
Other Current Assets	1,700	2,606	2,884	4,682	5,038	5,331
Total Current Assets	4,741	4,990	6,538	9,374	10,284	11,416
Intangible Assets	0	0	0	0	0	0
Property and Equipment, Net	10,183	11,509	11,698	10,764	10,892	11,048
Other Assets	2,487	2,729	2,715	2,085	2,085	2,085
Non-Current assets	12,669	14,238	14,413	12,849	12,977	13,134
Total Assets	17,410	19,228	20,951	22,223	23,262	24,550
Accounts Payable	336	378	301	335	375	421
Other Accrued Expenses	1,426	1,706	1,623	1,461	1,315	1,315
Taxes Payable	0	0	85	173	255	265
ST and current LT debts	393	512	62	521	521	521
Total Current Liabilities	2,156	2,596	2,071	2,490	2,466	2,523
Long-term Debt	42	20	806	347	347	347
Other Noncurrent Liability	934	1,285	1,441	1,441	1,441	1,441
Noncurrent liabilities	976	1,305	2,247	3,229	3,229	3,229
Total Liabilities	3,132	3,900	4,318	4,278	4,254	4,311
Share capital	566	563	8,967	8,967	8,967	8,967
Reserves and Surplus	12,905	13,930	6,575	7,726	8,592	9,602
Total Shareholders' Equity	13,471	14,493	15,542	16,692	17,559	18,569
Minority Interest	808	834	1,091	1,253	1,449	1,671
Total Shareholders' Equity	14,278	15,327	16,633	17,945	19,007	20,239
Total Liabilities and Equity	17,410	19,228	20,951	22,223	23,262	24,550

Source: Company data, J.P. Morgan estimates

Table 7: China Travel – Cash flow statement

Year-end 31Dec (HK\$ MM)	2012	2013	2014	2015E	2016E	2017E
EBIT	697	699	726	931	1,124	1,276
Depreciation and Amortization	467	482	522	504	469	475
Working Capital Changes	(158)	24	1,141	(250)	(150)	(4)
Net Interest	76	92	110	182	245	277
Tax Paid	(180)	(218)	(225)	(310)	(398)	(481)
Cash Flow From Operations	901	1,080	2,273	1,057	1,290	1,543
Capital expenditures	(624)	(1,235)	(1,653)	(400)	(597)	(631)
Investments and others	(303)	(221)	0	630	0	0
Cash Flow from Investing	(927)	(1,456)	(1,521)	250	(624)	(668)
Free Cash Flow	(26)	(377)	752	1,307	665	874
Dividends	(284)	(282)	(437)	(524)	(449)	(417)
Common issue	(46)	(34)	0	0	0	0
Other Financing	(414)	95	914	0	0	0
Contribution from owner	(102)	(110)	132	218	294	332
Cash Flow from financing	(846)	(331)	609	(306)	(155)	(85)
Change in cash	(872)	(708)	1,360	1,001	510	789
Cash beginning	3,491	2,678	1,967	3,327	4,328	4,838
Foreign exchange changes	60	(4)	0	0	0	0
Cash at end	2,678	1,967	3,327	4,328	4,838	5,628

Source: Company data, J.P. Morgan estimates

Investment Thesis, Valuation and Risks

China Travel International Investments HK Ltd *(Neutral; Price Target: HK\$3.00)*

Investment Thesis

China Travel International Investment (CT) is a leading travel agency in Hong Kong. The company also operates theme parks, hotels and provides transportation services. Positive drivers: (1) Well placed to expand into this high growth sector with its parent, China Travel Services, largest travel agency in China. (2) New management to drive a focused tourism growth strategy. (3) Large land bank in Zhuhai and Shenzhen with attractive development potential. (4) Strong balance sheet

Valuation

Our Dec-15 price target is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (yield on 10-year government notes in China). We assume a beta of 1.0. Accordingly, we assume a WACC of 11.4%. We estimate free cash flow until 2020 and assume a terminal growth rate of 4.0%. The terminal growth is based on the annual growth rate expected in 2015 (the final year of the estimate period) subject to a minimum of 3% and a maximum of 6%, depending on the nature of the industry and the level of maturity in China.

Risks to Rating and Price Target

The key risk to our rating and PT is 1) High investment in property development draws down cash and may not be as profitable as anticipated; 2) Acquisitions of tourist attractions and hotels in the future may be at an overly high price.

China Travel International Investments HK Ltd: Summary of Financials

Income Statement						Cash flow statement					
HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Revenues	4,360	4,475	4,989	5,583	6,269	EBIT	699	726	931	1,124	1,276
% change Y/Y	(6.6%)	2.6%	11.5%	11.9%	12.3%	Depr. & amortization	482	522	504	469	475
Gross Profit	2,084	2,058	2,348	2,657	2,997	Change in working capital	24	1,141	(250)	(150)	(4)
% change Y/Y	(3.2%)	(1.3%)	14.1%	13.1%	12.8%	Taxes	-	-	-	-	-
EBITDA	1,181	1,248	1,435	1,593	1,750	Cash flow from operations	1,080	2,273	1,057	1,290	1,543
% change Y/Y	1.5%	5.7%	15.0%	11.0%	9.9%	Capex	(1,235)	(1,653)	(400)	(597)	(631)
EBIT	699	726	931	1,124	1,276	Net Interest	92	110	182	245	277
% change Y/Y	0.3%	3.7%	28.4%	20.7%	13.5%	Other	(221)	131	651	(27)	(37)
EBIT Margin	16.0%	16.2%	18.7%	20.1%	20.4%	Free cash flow	(233)	526	507	509	697
Net Interest	92	110	182	245	277	Equity raised/(repaid)	(34)	0	0	0	0
Earnings before tax	1,479	2,175	2,222	1,928	2,172	Debt raised/(repaid)	77	356	0	0	0
% change Y/Y	32.1%	47.0%	2.2%	(13.3%)	12.7%	Other	(91)	690	218	294	332
Tax	(225)	(310)	(398)	(481)	(491)	Dividends paid	(282)	(437)	(524)	(449)	(417)
as % of EBT	15.2%	14.3%	17.9%	24.9%	22.6%	Beginning cash	2,678	1,967	3,327	4,328	4,838
Net income (reported)	1,152	1,739	1,662	1,252	1,459	Ending cash	1,967	3,327	4,328	4,838	5,628
% change Y/Y	43.3%	50.9%	(4.4%)	(24.7%)	16.6%	DPS	0.06	0.10	0.09	0.07	0.08
Shares outstanding	5,635	5,635	5,635	5,635	5,635						
EPS (reported)	0.20	0.31	0.30	0.22	0.26						
% change Y/Y	44.1%	51.3%	(4.4%)	(24.7%)	16.6%						
Balance sheet						Ratio Analysis					
HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	1,967	3,327	4,328	4,838	5,628	Gross margin	47.8%	46.0%	47.1%	47.6%	47.8%
Accounts receivable	274	188	210	235	264	EBITDA margin	27.1%	27.9%	28.8%	28.5%	27.9%
Inventories	143	138	154	173	194	Operating margin	16.0%	16.2%	18.7%	20.1%	20.4%
Others	2,606	2,884	4,682	5,038	5,331	Net margin	18.8%	17.6%	15.1%	14.9%	15.7%
Current assets	4,990	6,538	9,374	10,284	11,416	Sales per share growth	(6.1%)	2.9%	11.5%	11.9%	12.3%
LT investments	2,729	2,715	2,085	2,085	2,085	Sales growth	(6.6%)	2.6%	11.5%	11.9%	12.3%
Net fixed assets	11,509	11,698	10,764	10,892	11,048	Net profit growth	43.3%	50.9%	(4.4%)	(24.7%)	16.6%
Total Assets	19,228	20,951	22,223	23,262	24,550	EPS growth	44.1%	51.3%	(4.4%)	(24.7%)	16.6%
Liabilities						Interest coverage (x)	NM	NM	NM	NM	NM
Short-term loans	512	62	521	521	521	Net debt to equity	(9.4%)	(14.8%)	(19.3%)	(20.9%)	(23.5%)
Payables	378	301	335	375	421	Working Capital to Sales	0.5	1.0	1.4	1.4	1.4
Others	1,706	1,708	1,634	1,570	1,580	Sales/assets	0.2	0.2	0.2	0.2	0.3
Total current liabilities	2,596	2,071	2,490	2,466	2,523	Assets/equity	1.3	1.3	1.3	1.3	1.3
Long-term debt	20	806	347	347	347	ROE	5.9%	5.2%	4.7%	4.9%	5.5%
Other liabilities	1,285	1,441	1,441	1,441	1,441	ROCE	4.1%	4.0%	4.5%	4.7%	5.2%
Total Liabilities	3,900	4,318	4,278	4,254	4,311						
Shareholders' equity	14,493	15,542	16,692	17,559	18,569						
BVPS	2.57	2.76	2.96	3.12	3.30						

Source: Company reports and J.P. Morgan estimates.

Analyst Certification: The research analyst(s) denoted by an “AC” on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an “AC” on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. For all Korea-based research analysts listed on the front cover, they also certify, as per KOFIA requirements, that their analysis was made in good faith and that the views reflect their own opinion, without undue influence or intervention.

Important Disclosures

- **Lead or Co-manager:** J.P. Morgan acted as lead or co-manager in a public offering of equity and/or debt securities for China Travel International Investments HK Ltd within the past 12 months.
- **Client:** J.P. Morgan currently has, or had within the past 12 months, the following company(ies) as clients: China Travel International Investments HK Ltd.
- **Client/Investment Banking:** J.P. Morgan currently has, or had within the past 12 months, the following company(ies) as investment banking clients: China Travel International Investments HK Ltd.
- **Investment Banking (past 12 months):** J.P. Morgan received in the past 12 months compensation from investment banking China Travel International Investments HK Ltd.
- **Investment Banking (next 3 months):** J.P. Morgan expects to receive, or intends to seek, compensation for investment banking services in the next three months from China Travel International Investments HK Ltd.

Company-Specific Disclosures: Important disclosures, including price charts and credit opinion history tables, are available for compendium reports and all J.P. Morgan–covered companies by visiting <https://jpmm.com/research/disclosures>, calling 1-800-477-0406, or e-mailing research.disclosure.inquiries@jpmorgan.com with your request. J.P. Morgan’s Strategy, Technical, and Quantitative Research teams may screen companies not covered by J.P. Morgan. For important disclosures for these companies, please call 1-800-477-0406 or e-mail research.disclosure.inquiries@jpmorgan.com.

China Travel International Investments HK Ltd (0308.HK, 308 HK) Price Chart



Date	Rating	Share Price (HK\$)	Price Target (HK\$)
01-Dec-06	OW	2.03	3.00
29-Jan-07	OW	2.76	4.60
12-Jul-07	OW	4.83	--
19-Nov-08	UW	0.98	0.80
07-Apr-09	UW	1.57	1.00
12-May-10	UW	1.74	--
24-Nov-14	N	2.65	3.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Break in coverage Jul 12, 2007 - Nov 19, 2008.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

Explanation of Equity Research Ratings, Designations and Analyst(s) Coverage Universe:

J.P. Morgan uses the following rating system: Overweight [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] Neutral [Over the next six to twelve

months, we expect this stock will perform in line with the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Underweight [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Not Rated (NR): J.P. Morgan has removed the rating and, if applicable, the price target, for this stock because of either a lack of a sufficient fundamental basis or for legal, regulatory or policy reasons. The previous rating and, if applicable, the price target, no longer should be relied upon. An NR designation is not a recommendation or a rating. In our Asia (ex-Australia) and U.K. small- and mid-cap equity research, each stock's expected total return is compared to the expected total return of a benchmark country market index, not to those analysts' coverage universe. If it does not appear in the Important Disclosures section of this report, the certifying analyst's coverage universe can be found on J.P. Morgan's research website, www.jpmorganmarkets.com.

Coverage Universe: Chik, Leon: China Auto Rental Incorporated (0699.HK), China Lesso (2128.HK), China State Construction (3311.HK), China Travel International Investments HK Ltd (0308.HK), Fufeng Group (0546.HK), Haitian International Holdings (1882.HK), Johnson Electric Holdings (0179.HK), Kingboard Chemical (0148.HK), Kingboard Laminates (1888.HK), Lee & Man Paper Manufacturing (2314.HK), New Oriental Education (EDU), Nine Dragons Paper Holdings Ltd (2689.HK), Nord Anglia Education (NORD), PAX Global Technology Ltd (0327.HK), Shenzhen International (2313.HK), Skyworth Digital Holdings (0751.HK), TAL Education Group (XRS), TCL Multimedia (1070.HK), Techtronic Industries (0669.HK), Texhong Textile (2678.HK), VTech Holdings (0303.HK), Wasion Group Holdings Ltd (3393.HK), Xinyi Glass (0868.HK), Xinyi Solar (0968.HK), eHi Car Services Ltd (EHIC)

J.P. Morgan Equity Research Ratings Distribution, as of January 1, 2015

	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	45%	43%	12%
IB clients*	56%	49%	33%
JPMS Equity Research Coverage	45%	48%	7%
IB clients*	75%	67%	52%

*Percentage of investment banking clients in each rating category.

For purposes only of FINRA/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category. Please note that stocks with an NR designation are not included in the table above.

Equity Valuation and Risks: For valuation methodology and risks associated with covered companies or price targets for covered companies, please see the most recent company-specific research report at <http://www.jpmorganmarkets.com>, contact the primary analyst or your J.P. Morgan representative, or email research.disclosure.inquiries@jpmorgan.com.

Equity Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues.

Registration of non-US Analysts: Unless otherwise noted, the non-US analysts listed on the front of this report are employees of non-US affiliates of JPMS, are not registered/qualified as research analysts under NASD/NYSE rules, may not be associated persons of JPMS, and may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Other Disclosures

J.P. Morgan ("JPM") is the global brand name for J.P. Morgan Securities LLC ("JPMS") and its affiliates worldwide. J.P. Morgan Cazenove is a marketing name for the U.K. investment banking businesses and EMEA cash equities and equity research businesses of JPMorgan Chase & Co. and its subsidiaries.

All research reports made available to clients are simultaneously available on our client website, J.P. Morgan Markets. Not all research content is redistributed, e-mailed or made available to third-party aggregators. For all research reports available on a particular stock, please contact your sales representative.

Options related research: If the information contained herein regards options related research, such information is available only to persons who have received the proper option risk disclosure documents. For a copy of the Option Clearing Corporation's Characteristics and Risks of Standardized Options, please contact your J.P. Morgan Representative or visit the OCC's website at <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>

Legal Entities Disclosures

U.S.: JPMS is a member of NYSE, FINRA, SIPC and the NFA. JPMorgan Chase Bank, N.A. is a member of FDIC. **U.K.:** JPMorgan Chase N.A., London Branch, is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and to limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from J.P. Morgan on request. J.P. Morgan Securities plc (JPMS plc) is a member of the London Stock Exchange and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered in England & Wales No. 2711006. Registered Office 25 Bank Street, London, E14 5JP. **South Africa:** J.P. Morgan Equities South Africa Proprietary Limited is a member of the Johannesburg Securities Exchange and is regulated by the Financial Services Board. **Hong Kong:** J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong and/or J.P. Morgan Broking (Hong Kong) Limited (CE

number AAB027) is regulated by the Securities and Futures Commission in Hong Kong. **Korea:** J.P. Morgan Securities (Far East) Ltd, Seoul Branch, is regulated by the Korea Financial Supervisory Service. **Australia:** J.P. Morgan Australia Limited (JPMAL) (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (JPMSAL) (ABN 61 003 245 234/AFS Licence No: 238066) is regulated by ASIC and is a Market, Clearing and Settlement Participant of ASX Limited and CHI-X. **Taiwan:** J.P.Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Bureau. **India:** J.P. Morgan India Private Limited (Corporate Identity Number - U67120MH1992FTC068724), having its registered office at J.P. Morgan Tower, Off. C.S.T. Road, Kalina, Santacruz - East, Mumbai – 400098, is a member of the National Stock Exchange of India Limited (SEBI Registration Number - INB 230675231/INF 230675231/INE 230675231) and Bombay Stock Exchange Limited (SEBI Registration Number - INB 010675237/INF 010675237) and is regulated by Securities and Exchange Board of India. Telephone: 91-22-6157 3000, Facsimile: 91-22-6157 3990 and Website: www.jpmsipl.com. For non local research reports, this material is not distributed in India by J.P. Morgan India Private Limited. **Thailand:** This material is issued and distributed in Thailand by JPMorgan Securities (Thailand) Ltd., which is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission and its registered address is 3rd Floor, 20 North Sathorn Road, Silom, Bangrak, Bangkok 10500. **Indonesia:** PT J.P. Morgan Securities Indonesia is a member of the Indonesia Stock Exchange and is regulated by the OJK a.k.a. BAPEPAM LK. **Philippines:** J.P. Morgan Securities Philippines Inc. is a Trading Participant of the Philippine Stock Exchange and a member of the Securities Clearing Corporation of the Philippines and the Securities Investor Protection Fund. It is regulated by the Securities and Exchange Commission. **Brazil:** Banco J.P. Morgan S.A. is regulated by the Comissao de Valores Mobiliarios (CVM) and by the Central Bank of Brazil. **Mexico:** J.P. Morgan Casa de Bolsa, S.A. de C.V., J.P. Morgan Grupo Financiero is a member of the Mexican Stock Exchange and authorized to act as a broker dealer by the National Banking and Securities Exchange Commission. **Singapore:** This material is issued and distributed in Singapore by or through J.P. Morgan Securities Singapore Private Limited (JPMS) [MCI (P) 199/03/2014 and Co. Reg. No.: 199405335R] which is a member of the Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore (MAS) and/or JPMorgan Chase Bank, N.A., Singapore branch (JPMCB Singapore) which is regulated by the MAS. This material is provided in Singapore only to accredited investors, expert investors and institutional investors, as defined in Section 4A of the Securities and Futures Act, Cap. 289. Recipients of this document are to contact JPMS or JPMCB Singapore in respect of any matters arising from, or in connection with, the document. **Japan:** JPMorgan Securities Japan Co., Ltd. is regulated by the Financial Services Agency in Japan. **Malaysia:** This material is issued and distributed in Malaysia by JPMorgan Securities (Malaysia) Sdn Bhd (18146-X) which is a Participating Organization of Bursa Malaysia Berhad and a holder of Capital Markets Services License issued by the Securities Commission in Malaysia. **Pakistan:** J. P. Morgan Pakistan Broking (Pvt.) Ltd is a member of the Karachi Stock Exchange and regulated by the Securities and Exchange Commission of Pakistan. **Saudi Arabia:** J.P. Morgan Saudi Arabia Ltd. is authorized by the Capital Market Authority of the Kingdom of Saudi Arabia (CMA) to carry out dealing as an agent, arranging, advising and custody, with respect to securities business under licence number 35-07079 and its registered address is at 8th Floor, Al-Faisaliyah Tower, King Fahad Road, P.O. Box 51907, Riyadh 11553, Kingdom of Saudi Arabia. **Dubai:** JPMorgan Chase Bank, N.A., Dubai Branch is regulated by the Dubai Financial Services Authority (DFSA) and its registered address is Dubai International Financial Centre - Building 3, Level 7, PO Box 506551, Dubai, UAE.

Country and Region Specific Disclosures

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by JPMS plc. Investment research issued by JPMS plc has been prepared in accordance with JPMS plc's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. This material does not take into account the specific investment objectives, financial situation or particular needs of the recipient. The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the term "wholesale client" has the meaning given in section 761G of the Corporations Act 2001. **Germany:** This material is distributed in Germany by J.P. Morgan Securities plc, Frankfurt Branch and J.P.Morgan Chase Bank, N.A., Frankfurt Branch which are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months prior.) J.P. Morgan Broking (Hong Kong) Limited is the liquidity provider/market maker for derivative warrants, callable bull bear contracts and stock options listed on the Stock Exchange of Hong Kong Limited. An updated list can be found on HKEx website: <http://www.hkex.com.hk>. **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, JPMorgan Securities Japan Co., Ltd., will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between JPMorgan Securities Japan Co., Ltd., and the customer in advance. Financial Instruments Firms: JPMorgan Securities Japan Co., Ltd., Kanto Local Finance Bureau (kinsho) No. 82 Participating Association / Japan Securities Dealers Association, The Financial Futures Association of Japan, Type II Financial Instruments Firms Association and Japan Investment Advisers Association. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul Branch. **Singapore:** JPMS and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **Taiwan:** This material is issued and distributed in Taiwan by J.P. Morgan Securities (Taiwan Limited). **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by JPMSAL in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. JPMSAL does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of JPMSAL. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of

Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offence. **Dubai:** This report has been issued to persons regarded as professional clients as defined under the DFSA rules. **Brazil:** Ombudsman J.P. Morgan: 0800-7700847 / ouvidoria.jp.morgan@jpmorgan.com.

General: Additional information is available upon request. Information has been obtained from sources believed to be reliable but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively J.P. Morgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMS and/or its affiliates and the analyst's involvement with the issuer that is the subject of the research. All pricing is as of the close of market for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. JPMS distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Periodic updates may be provided on companies/industries based on company specific developments or announcements, market conditions or any other publicly available information. Clients should contact analysts and execute transactions through a J.P. Morgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

"Other Disclosures" last revised November 29, 2014.

Copyright 2015 JPMorgan Chase & Co. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of J.P. Morgan.