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Outbound Chinese Tourist Growth Drivers

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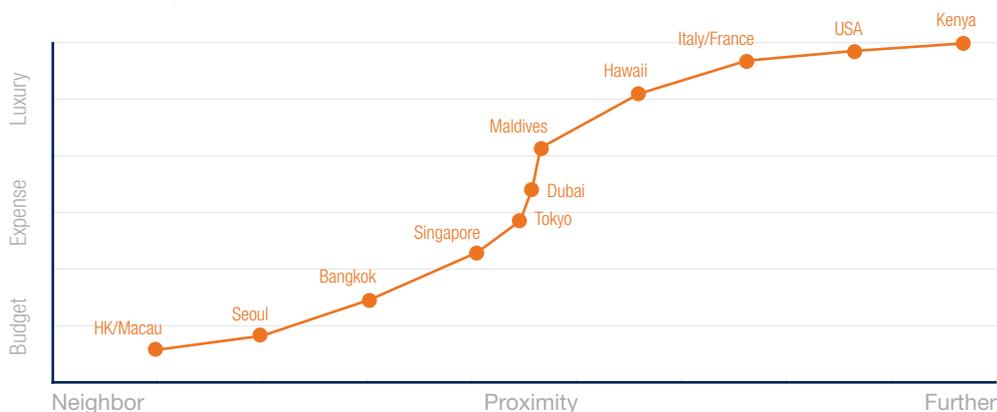
Chinese Outbound Tourist Growth Drivers

Multiple Reasons to Get on Board

Compared to the Japanese and Koreans of past, we view the current Chinese boom as being supported by newer secular growth drivers that are deeply rooted in social & cultural phenomenon, such as: 1) visa easing across countries; 2) a shrinking language gap; 3) domestic pollution/toxicity weighing on popular consciousness; 4) shortage of domestic tourist locations; 5) spending reallocation from material to “experience” purchases; 6) social media “show-off” effects; 7) movies and popular media; 8) burgeoning wedding market; 9) unaffordable property delaying mortgages; 10) the search for genuine products; 11) luxury sophistication; and 12) rising individual travelers.

Moving Up the Travel Learning Curve

Source: CLSA (January 2015)



Chinese travelers tend to first travel to neighbors, but may venture further from home in seeking new experiences.

Movies like “Lost in Thailand,” a budget copycat film of “Hangover” that cost USD 2 million to produce and generated official box office figures of USD 200 million, have imparted a considerable impact vis-à-vis the explosion of Chinese travelers. The film was particularly effective in opening up a new market segment to the grass-roots young Chinese mass consumer by penetrating 50 million official viewers in theaters and 200 million+ online/pirate viewers who had previously never considered travelling abroad as an imminent demand. A similar trend is evidenced in the significant popularity of various TV reality shows on the travels and adventures of celebrities with their families, with ages ranging from childhood to over 80 years old.

We think destinations with a modest base of Chinese travelers (between 1.5 million and 5 million annually) may benefit the most from the incremental growth of traffic, such as Malaysia (1.6 million), Taiwan (3.2 million), Thailand (3.8 million), and South Korea (3.9 million, but over 6 million in 2014 according to the Korea Tourism Organization).

Chinese Tourist Destinations Between 1.5 and 5 Million Visitors to Benefit The Most

Source: Euromonitor, Mirae Asset Global Investments (2013)

Country	Chinese Travelers (millions)	Compound Annual Growth Rate (CAGR)	
	2013	00-07	07-13
Hong Kong	40.7	22%	17%
Macau	18.6	N/A	4%
South Korea	3.9	17%	30%
Thailand	3.8	3%	27%
Taiwan	3.2	28%	53%
Others	25.3	9%	22%
Total	95.7	22%	15%

The Chinese traveler will cast their net wider as time goes on and incomes grow.

Sand Castles in Paradise

Source: Instagram, Mirae Asset Global Investments (2013)



Films and social media will increasingly inspire new travelers to flock to exotic destinations.

Those Who Stand to Gain

Within the context of this impressive rise of Chinese travelers, our on-the-ground research-driven investment process has enabled us to selectively identify several winners from this multi-year trend. We provide our perspective on each business model that we think will come out ahead and provide several factors to support our conclusions.

Integrated Resort Casinos

We remain positive on Macau Casinos, as we believe that Macau's future lies in Beijing's ambitions of building Macau into a "homegrown Vegas" and Hengqin into an "Orlando for Chinese." These high-profile developments are occurring in the wider picture of the Guangdong Province Economic Special Zone, which is undergoing large-scale projects in infrastructure (such as bridges and high speed rails) coupled to accommodative business policy. We think both mass and non-gaming segments would experience secular growth on the back of concerted efforts to attract demand through expansions of appealing supply.

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Factors:

1. Highest efficiencies, profitability, and cash flow generation (in absolute and growth terms)
2. Pricing power that can counter inflation
3. Oligopoly/duopoly market structure that serves to limit internal and external competition for a “moat-like” protective business environment
4. Favorable policy in concert with strong governmental interest alongside infrastructure investment
5. Diversification toward non-gaming clients and tourism destination positioning for wider economic development

Airports

We are positive on underserved Chinese-oriented airports, such as in Malaysia and Sydney, Australia, given their respective lower bases of Sino tourism. We like Malaysian airports for several reasons, despite several accidents in 2014 (which we consider a short term headwind): 1) well-situated world’s leading low cost carrier (LCC) destination; 2) solid retail and KLIA Aeropolis potential as the airport city center; 3) ownership synergy from Istanbul’s Sabiha Gokcen Airport (housing one of the world’s fastest growing LCC – Pegasus); 4) a narrowing long-term fee gap against the wider region; 5) free cash flow harvest after the new KLIA2 terminal opens.

Factors:

1. Premium value in long term concession (30-50 years) and stable “real” cash flows
2. Monopolistic infrastructure asset ownership to capture the tourism boom (led by Chinese and intra-ASEAN countries from a low base)
3. Beneficiary of regional LCC wave & fierce competition
4. Rising retail expenditures

Luxury Hotel Managers

Within luxury hotels we like those who exhibit unique leadership in brand management among Asian players, such as Minor International. More specifically, we recognize Minor International’s pioneering focus in membership and geographic diversification, as well as its strategic focus on Chinese and Russian customers.

Factors:

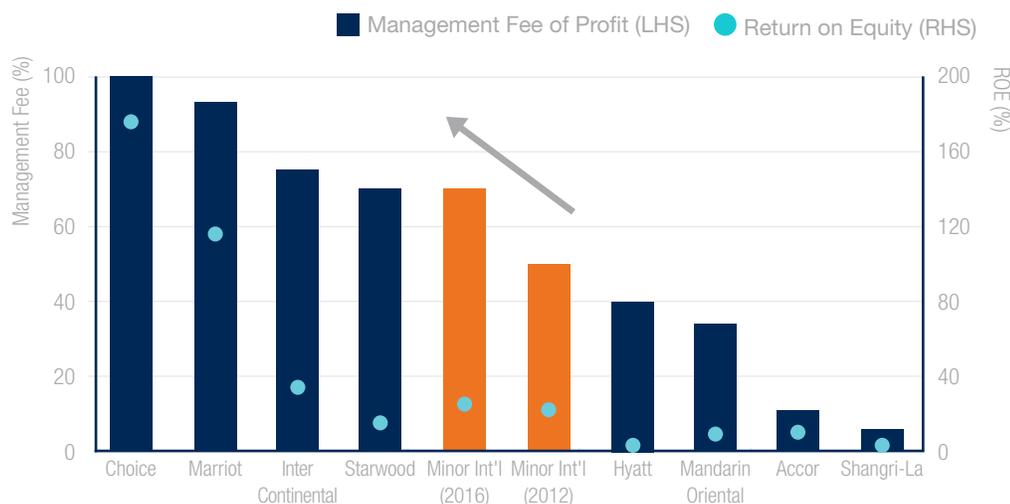
1. Higher non-room consumption (food and beverage, spa, and mixed use activity) vs. traditional 5 star hotels
2. Light on assets and flexible in geographic diversification
3. Established brand equity and pricing power
4. Membership value and destination cross-selling ability

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Luxury Hotel Profitability and Return Profile Spectrum

Source: Company Disclosures, Bloomberg, Mirae Asset Global Investments' Estimates (2014)



Minor International can seize on opportunities to gain a firmer foothold in management fees.

Sleeping on a Feather

Source: Minor International, Mirae Asset Global Investments (2014)



The Four Seasons Resort in Chiang Mai offers guests residence villas in local Thai décor.

Duty Free Shops

Duty free shops are symbiotic with vacations as tourists often seek novelty and luxury items while abroad

Duty free shops are symbiotic with vacations as tourists often seek novelty and luxury items while abroad, which can be easily accessed in proximate locations.

Factors:

1. High efficiencies and returns requiring lower capital expenditures for faster payback
2. Oligopoly/duopoly market structure with limited competition
3. Duty free shops are a direct travelling traffic beneficiary
4. Execution barriers in the form of brand sourcing and inventory management

The Not So Lucky...

In contrast, we are cautious about business models such as online travel agencies, which we believe face low entry barriers and severe competition. Cruise lines and airlines remain sensitive to the volatility of oil prices and foreign exchange movements. And lastly, asset heavy 5 star hotels and landlords confront low returns and are slow to react to the fast-changing demands of evolving consumers.

Investment principles

We identify the sustainable competitiveness of companies

What does it mean to us?

We believe companies that have strong moats will have stable earnings growth and cash flow, and share prices will rise as these companies add considerable value each year. This tenet drives our investment ideas, not short-term trading profits.

How do we apply it?

Sustainable competitiveness scorecards: We thoroughly analyze 30 factors for each company to identify the competitiveness of the company for the long term. This scorecard includes six main categories, which are: Barriers to Entry, Competitive Dynamics, Sustainability of Returns, Management Track Record, Reliance on Outside Support, and Ownership of Distribution/Production Supply Chain.

Extensive company meetings and research trips: Third party research is useful for us to know the consensus, but it cannot be the sole input when making investment decisions. We have investment professionals around the globe; we frequently hold meetings in our offices and conduct numerous on-site visits and meetings.

We assess investment risks with expected return

What does it mean to us?

We constantly monitor the changes in regulation, competitive environments, and managements strategies. We do not fall in love with our holdings, and will exit a position when the investment thesis is no longer valid. The potential upside and downside and our conviction drives the sizing of our positions.

How do we apply it?

In addition to risk analysis done by research team, where we quantify the upside and downside to earnings and valuation, our risk team monitors various parameters including sector volatility and liquidity, and gives active feedback to the research team. Our risk team is aided with a range of third-party risk management systems such as Factset, Axioxa, Thomson Reuters, and Bloomberg POMS/AIM.

We invest with a long term perspective

What does it mean to us?

Many of our investors are investing with us for their retirement, or even for their children. Long-term does not mean only three to five years for us. Our goal is to find companies that can last and prosper in the next several decades and invest in them – these are companies with high terminal values.

How do we apply it?

Analysts and portfolio managers are evaluated by their long-term performance. To add a new position into a fund, we spend considerable time researching and evaluating it. We're not looking to rush in based on a news headline, we are more concerned with generating solid, long-term, well researched ideas.

We value a team based approach in decision making

What does it mean to us?

We do not rely on any single star portfolio manager or star analyst. We believe in sharing information and analysis among ourselves. We rely on our collective knowledge and invest in long-term ideas.

How do we apply it?

We openly discuss and examine key ideas in Investment Committee meetings where investment professionals participate.

We share our research notes globally on MARS (Mirae Asset Research System) online, over email and we have regular video conference calls with other overseas offices.

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