

Australian tourism

Leveraging a global population, locally

21 July 2017

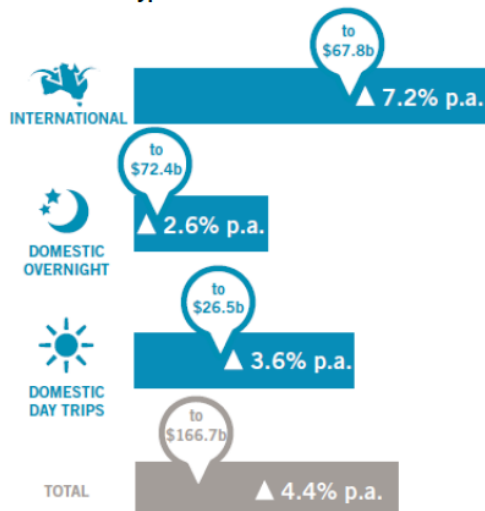
Sydney Airport (ASX: SYD) reported on 20 July that June 2017 international traffic increased by a significant 9.7% YoY. This prompted us to look at Australian tourism as an investment thematic.

Australian tourism and the experience economy

In the report 'Tourism Forecasts 2016', Tourism Research Australia paints a buoyant picture for local tourism. In particular, they highlight a number of key messages:

Key tourism industry targets are being met and total visitor expenditure is forecast to see continued strength:

Total visitor expenditure (real terms) – Annual growth by visitor type 2015-16 to 2024-25



International visitors to drive growth in total spend:

While domestic tourism expenditure is on track for moderate growth, inbound visitor spend is forecast to grow more strongly and increase its share of total visitor spend from 31 percent in 2014-15 to 41 percent in 2024-25.

INTERNATIONAL ARRIVALS			
2015-16	2016-17	2017-18	2024-25
7.8m	8.3m	8.8m	12.3m
▲ 9.3%	▲ 6.7%	▲ 5.9%	▲ 5.6% p.a.

Australian residents continue to trade overseas travel for domestic travel:

Holiday travel is forecast to drive growth in domestic tourism in 2016-17 and 2017-18, largely due to the lower value of the Australian dollar.

DOMESTIC DAY TRIPS			
2015-16	2016-17	2017-18	2024-25
186m	194m	202m	257m
▲ 9.7%	▲ 4.5%	▲ 4.2%	▲ 4.3% p.a.

China to overtake New Zealand as our largest international tourism market:

- By 2017-18, China is expected to be the largest source of both inbound arrivals and inbound expenditure, overtaking New Zealand as our largest international market – two years earlier than previously forecast;
- In terms of visitor numbers, China is expected to contribute 43 percent of total growth from 2014-15 to 2024-25 and 60 percent in terms of expenditure;
- The forecast double-digit growth in inbound arrivals from China will be sustained by its growing middle-income class. This class is geographically spread over different tiers of Chinese cities, which themselves are in various stages of economic and social development.

As more international visitors come to Australia; as more locals take domestic breaks; as we all look for and are willing to pay more for unique activities and experiences, there are a raft of companies poised to benefit.

Large 'cap ASX-listed stocks which we believe offer investors exposure to the Australian tourism thematic include:

Sydney Airport (ASX: SYD)

SYD (previously Macquarie Airports) was established in April 2002. It owns and operates Sydney Airport, the largest airport by passenger traffic in Australia. SYD's asset portfolio has undergone significant changes, with its interests now consolidated in the Sydney Airport asset through a listed stapled trust structure. Sydney Airport has three major terminals (two domestic and one international) and services in excess of 35 million passengers annually.

The Star Entertainment Group (ASX: SGR)

SGR (previously Echo Entertainment) demerged from Tabcorp in June 2011. It owns and operates three casinos across Australia's eastern sea board. The Star, located in Sydney (NSW) is its flagship property while its two other casinos are located in Queensland. These include Treasury located in Brisbane and Jupiters located on the Gold Coast. SGR was also recently awarded the Queens Wharf development in Brisbane with its consortium partners Chow Tai Fook and Far East Consortium. The \$3bn development is expected to be completed in 2022 and adds to the offering of the Treasury casino.

Scentre Group (ASX: SCG)

SCG owns, manages, and develops the largest and arguably highest quality retail property portfolio in Australia. The group was formed from the spinoff of Westfield Group's Australian and New Zealand business and Westfield Retail Trust in June 2014. They own a property portfolio comprising interests in 43 shopping centres in Australia and New Zealand, with total assets of \$29bn and assets under management of \$40.7bn. The portfolio generates annual retail sales of \$22bn, with approximately 12,500 retailers and 555m customer visits annually.

Mantra Group (ASX: MTR)

MTR is the second largest accommodation operator in Australia. The company's portfolio consists of over 19,500 rooms in more than 125 properties in Australia, New Zealand and Bali. The company maintains a diversified property portfolio, ranging from luxury resorts to serviced apartments in CBD and leisure destinations, under three core brands: Peppers, Mantra and BreakFree. It employs a number of operating structures including leases, management-letting-rights, management agreements, and marketing service agreements; the company does not own the underlying real estate properties.

Webjet Limited (ASX: WEB)

WEB's core business is operating one of Australia's most visited B2C Online Travel Agents (OTA). They sell domestic and international flights and also offer accommodation, car rental, travel insurance, cruises and package bookings. WEB also operates the Zuji brand a consumer OTA in Australia, Hong Kong and Singapore; and a growing B2B business focussed via its organic brand Lots of Hotels on the Middle East; and through its acquired brand Sun Hotels on Europe.

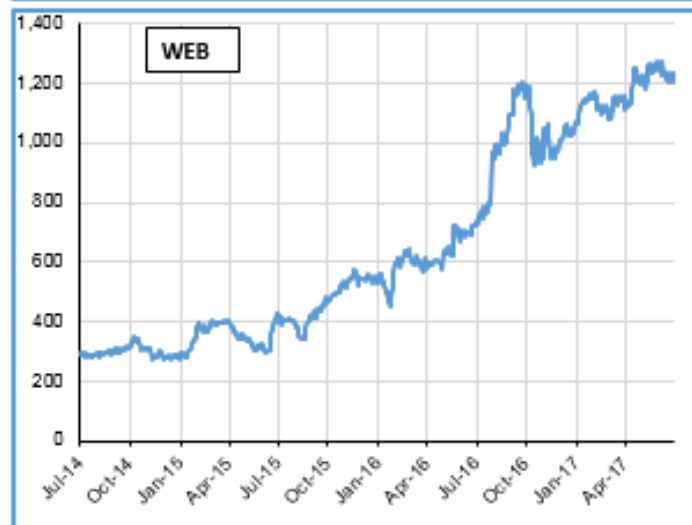
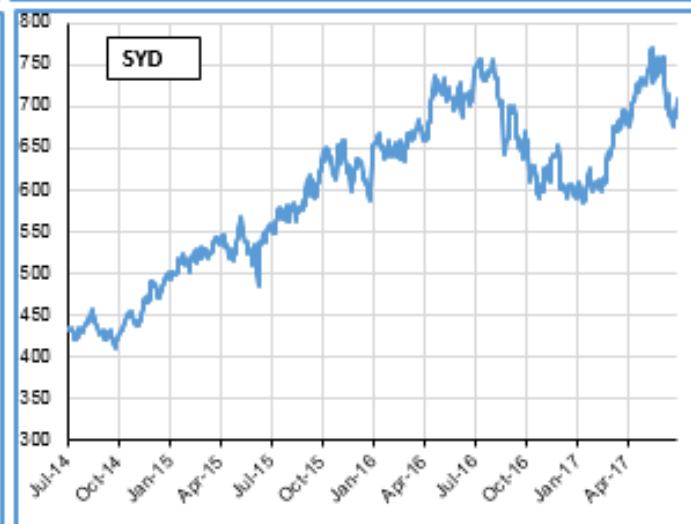
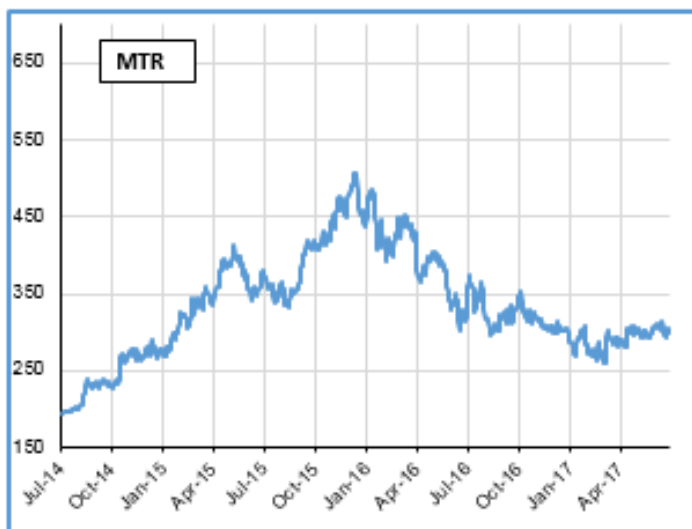
Our top picks in the Australian tourism thematic are:

*Mantra Group (MTR) + 16.3%,
Scentre Group (SCG) + 16.1%
Star Entertainment (SGR) +13.1%*

Share price ranking (by total return)

Security	Name	Share Price (A\$)	Target Price (A\$)	Capital upside / (downside) (%)	FY18E DY (%)	Total Return (%)
MTR	Mantra Group	3.12	3.5	12.2%	4.2%	16.3%
SCG	Scentre Group	4.11	4.55	10.7%	5.4%	16.1%
SGR	The Star Entertainment Group	5.2	5.73	10.2%	2.9%	13.1%
SYD	Sydney Airports	7.02	6.97	-0.7%	5.3%	4.6%
WEB	Webjet Limited	12.03	12.03	0.0%	2.0%	2.0%

Source: IRESS, compiled by State One Stockbroking



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