

# Regional Industry Focus

# ASEAN Travel & Hospitality

DBS Group Research . Equity

8 Jun 2016

## ASEAN's Tourism Boom

- **Tourism plays an outsized role in ASEAN, accounting for 12.4% of GDP, and is targeted to grow to 15% by 2025 under the ASEAN Tourism Strategic Plan**
- **Thailand's tourism sector, the largest in ASEAN, accounts for over 20% of its GDP and is well positioned for continued expansion**
- **Potential for tourism in Malaysia, Philippines and Indonesia to grow its share of GDP further, while we also see Singapore's hospitality market nearing bottom**
- **Our top picks are Airports of Thailand, Erawan Group, Asia Aviation, Bangkok Airways, Singapore Airlines, and CDL Hospitality Trusts.**

### Part 1 of 3 of "The Great Tourism Drive"

**Travel & Tourism a significant contributor to ASEAN GDP and GDP growth.** Travel and tourism accounted for 12.4% of ASEAN's GDP in 2015, according to the World Travel & Tourism Council, compared to an average of 8.5% in Asia Pacific, and 9.8% globally. The ASEAN Tourism Strategic Plan (ATSP) targets to grow tourism to reach 15% of ASEAN GDP by 2025, and to account for 7% of total employment, from 3.7%.

**Thailand to remain ASEAN's tourism crown jewel.** Tourism directly and indirectly accounted for over 20% of Thailand's GDP in 2015, seeing a 20% y-o-y increase in international tourists to c.30m pax. In 1Q16, international arrivals rose by >15% y-o-y, heralding another strong year for Thai tourism. In the longer term, Thailand's strength as a tourist destination with its multiple cultural attractions, coupled with strong government support for the sector, means that it should continue to shine as a tourism play.

**Room to improve for the rest of ASEAN.** With the exception of Myanmar (5.9%) and Brunei (7.4%), tourism accounts for c.10% or more of total GDP for the other ASEAN nations. We believe that Malaysia, Indonesia and the Philippines have room to further boost tourism's contribution to their economies, by either easing visa requirements further and/or through increasing support, promotions and infrastructure for tourism in their respective countries. Meanwhile, Singapore continues to innovate, especially on new attractions and events, to sustain its tourism sector.

STI :	2,848.09
KLCI :	1,660.62
JCI :	4,933.99
SET :	1,442.42

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#### ASEAN TRAVEL & HOSPITALITY Top Picks

Company	Price	Mkt	Target	Rating	Upside
	7 Jun 16	Cap	Price		
	LCY	US\$m	LCY		%
Airports of Thailand	387.00	15,679	470.00	BUY	21
The Erawan Group	4.64	329	5.70	BUY	23
Asia Aviation	6.05	832	7.15	BUY	18
Bangkok Airways PCL	24.50	1,459	28.30	BUY	16
Singapore Airlines	10.57	9,074	12.50	BUY	18
CDL Hospitality Trusts	1.39	1,014	1.50	BUY	8

Source: DBS Bank, DBS Vickers, AllianceDBS

#### Other ASEAN TRAVEL & HOSPITALITY STOCKS AT A GLANCE

Company	Price	Mkt	Target	Rating	Upside / (Downside)
	7 Jun 16	Cap	Price		
	LCY	US\$m	LCY		%
Central Plaza Hotel	40.50	1,551	45.00	BUY	11
Minor International	41.50	5,181	42.00	BUY	1
Thai Airways	17.40	1,077	16.80	HOLD	(3)
Samui Airport Fund	24.10	649	26.00	BUY	8
Malaysia Airports	6.55	2,676	6.40	HOLD	(2)
Air Asia Bhd	2.60	1,782	2.70	BUY	4
Air Asia X	0.40	403	0.39	HOLD	(1)
Garuda Indonesia	480.00	930	520.00	BUY	8
Ascendas Hospitality	0.68	557	0.80	BUY	19
OUE Hospitality	0.67	880	0.75	BUY	11
Ascott Residence	1.13	1,373	1.28	BUY	13
Far East Hospitality	0.62	813	0.63	HOLD	2

Source: DBS Bank, DBS Vickers, AllianceDBS

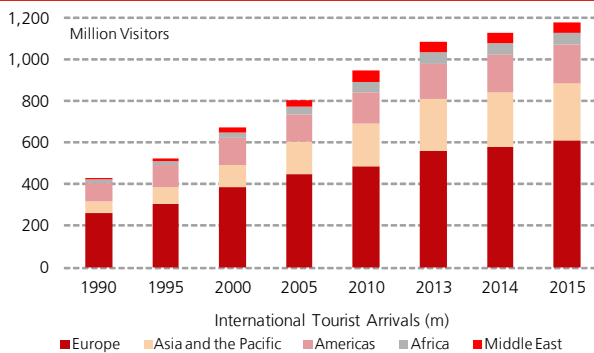
**ASEAN Travel & Leisure**

**Firm tourism growth in Asia**

Asia and the Pacific region is now the second most visited region in the world and also the fastest growing. Boosted by rapid economic growth, growing affluence and a burgeoning middle class fuelling demand for travel, most notably by key source markets – China, the Asia and the Pacific region has been one of the most vibrant tourism markets globally over the past decade.

According to United Nations World Tourism Organization (UNWTO), international arrivals reached 1.18bn in 2015, the number of international visitors grew by 50m (+4.4% y-o-y) with the Asia and the Pacific region reporting the joint strongest growth of 5% (Americas & Europe also recorded a 5% growth) with 13m more international visitors compared to a year ago.

**World tourism growth (1990-2015)**



Source: UNWTO, DBS Bank

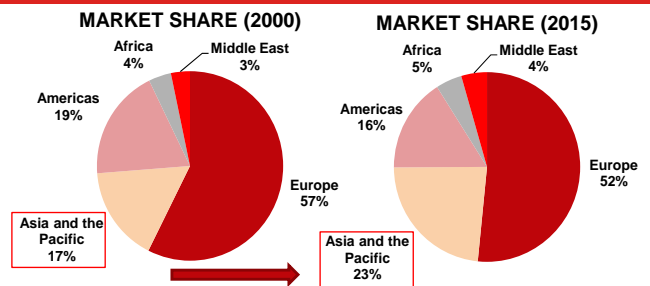
Asia and the Pacific region has seen tourism growing firmly at a CAGR of c.6%-7% since 1995. Over 2010-2014, the region was the fastest growing at 6.4%, higher than the 4.5% growth reported by the global travel industry. As a result of the sustained growth in international visitors, the Asia and the Pacific region has also seen a 6-ppt increase in its market share of global international arrivals to c.23% in 2014 (vs 17% in 2000).

**World tourism growth (1995-2015)**

	1995-2000	2000-2005	2005-2010	2010-2015
World	5.0%	3.7%	3.2%	4.5%
Europe	4.9%	3.2%	1.5%	4.6%
<b>Asia and the Pacific</b>	<b>6.1%</b>	<b>6.9%</b>	<b>5.9%</b>	<b>6.1%</b>
Americas	3.3%	0.8%	2.4%	4.8%
Africa	7.0%	5.8%	7.3%	1.6%
Middle East	12.0%	8.5%	10.2%	-0.6%

Source: UNWTO, DBS Bank

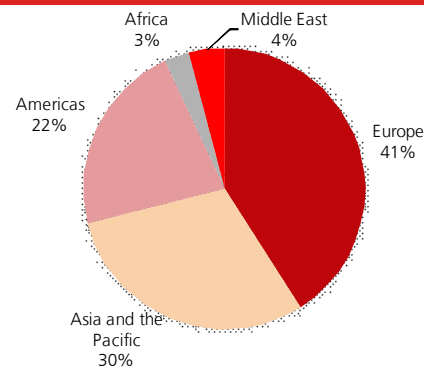
**Market share of Asia and the Pacific region has grown by 6ppts over 15 years**



Source: UNWTO, DBS Bank

International tourism receipts grew by 4% y-o-y to US\$1,245bn in 2014, of which Asia and the Pacific region received US\$377bn (+4.5% y-o-y), or c.30% of 2014 global international tourism receipts. On a per capita basis, we note that international tourist arrivals to Asia and the Pacific region are the second-highest spending (slightly behind the Americas).

**Share of international tourism receipts in 2014**



Source: UNWTO, DBS Bank

**Tourism receipts by region (2013-2014)**

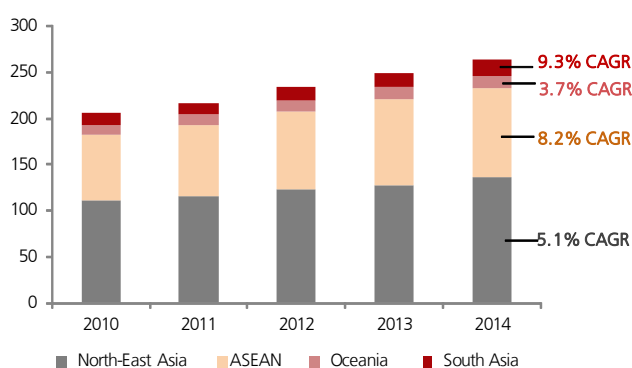
	Receipts (US\$ bn) 2013	Receipts (US\$ bn) 2014	% y-o-y	Receipts Per Capita (US\$ bn) 2014
World	1,197	1,245	4.0%	1,100
Europe	492	509	3.5%	870
<b>Asia and the Pacific</b>	<b>361</b>	<b>377</b>	<b>4.5%</b>	<b>1,430</b>
Americas	264	274	3.7%	1,510
Africa	36	36	2.5%	650
Middle East	45	49	9.1%	970

Source: UNWTO, DBS Bank

Within the greater Asia and Pacific region, most of the growth in tourist arrivals came from ASEAN and North-East. Between 2010 and 2014, international tourist arrivals in ASEAN grew at 8.2% CAGR respectively, outpacing the greater Asia and Pacific region's growth of 6.4% CAGR. North-East Asia also saw good growth of 5.1% CAGR.

Delivering more than 45% of the growth in tourist numbers for the Asia and the Pacific region, we take a deeper look at the importance of tourism for the ASEAN bloc and its key source markets in the following segments.

### South Asia and ASEAN bloc led growth for Asia and the Pacific region between 2010 and 2014



Source: UNWTO, DBS Bank

**Travel & Tourism plays an outsized role in ASEAN's economy.** The economic significance of travel and tourism to the ASEAN bloc is indisputable. Based on statistics published by the WTTC (World Travel and Tourism Council), the travel and tourism segment contributed 12.4% of ASEAN's GDP – above the global average of 9.8% in 2015.

### Tourism contribution for ASEAN and selected regions

Country	Receipts (2015, US\$ bn)	% of GDP
Maldives	2.6	96.5%
Macau	33.2	71.2%
ASEAN	301.8	12.4%
Hong Kong	60.6	19.5%
New Zealand	29.2	17.4%
Australia	132.2	10.8%
China	853.8	7.9%
Japan	326.1	7.9%
India	129.5	6.3%
South Korea	69.5	5.1%
<b>Asia Pacific Average</b>		<b>8.5%</b>
<b>World Average</b>		<b>9.8%</b>

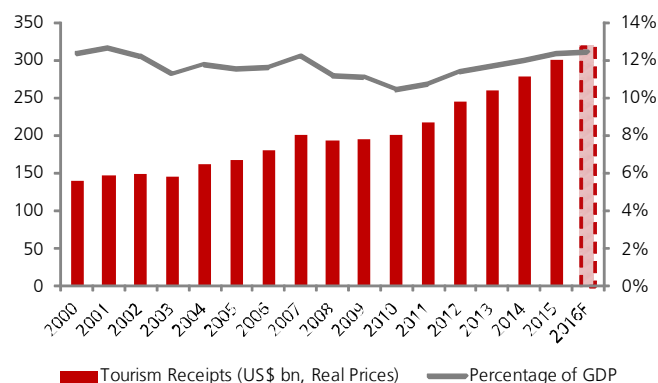
Source: WTTC, DBS Bank

### Tourism's importance in ASEAN

**A critical growth engine.** According to the WTTC, the travel and tourism sector of ASEAN member states generated US\$301.7bn in value added for 2015, which accounted for c.12.4% of regional GDP. In real terms, contributions from ASEAN's travel and tourism sector have almost doubled over the last 15 years, from US\$141.1 bn in 2000, which also represented c.12.4% of regional GDP then.

For 2016, contribution from travel and tourism is expected to post y-o-y growth of 5.2% to US\$317.3bn, which is faster than the projected 4-4.5% GDP growth for ASEAN in 2016.

### Tourism contributes >12% to ASEAN's GDP



Source: WTTC, DBS Bank

**Economic contributions from travel and tourism grew for almost all member nations...** With the exception of Brunei, which saw a decline in real tourism contributions over the last 15 years, while growth observed for the remaining member states ranged between 4.2% and 12.8% CAGR.

Contributions from travel and tourism grew by an average of 6.5% across ASEAN countries, mainly led by developments in frontier markets: Cambodia, Myanmar, Laos and Vietnam, which grew at 15-year CAGRs of 12.8%, 11.2%, 8.7% and 8.7% respectively, as these countries progressed towards more open market structures.

**...with Thailand as the standout beneficiary of ASEAN's travel boom.** Over the last 15 years, Thailand emerged as the clear leader among ASEAN nations, after registering the highest absolute growth in travel and tourism contributions of US\$44.6bn, from just US\$37bn in 2000 to almost US\$82bn in 2015.

On a relative basis among the ASEAN-5, Thai travel and tourism also delivered the strongest cumulative growth of 5.4% p.a. between 2000 and 2015, followed by Malaysia,

## ASEAN Travel & Leisure

Singapore, Philippines and Indonesia at 5.0%, 4.9%, 4.7% and 4.2% respectively.

### Growth in tourism contributions (US\$, 2000 to 2015)

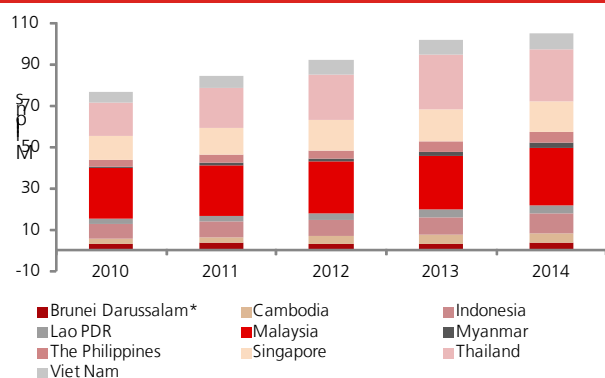
Rank	Member State	Contributions (US\$ bn)		15-yr CAGR
		2000	2015	
1 <sup>st</sup>	Cambodia	0.89	5.4	12.8%
2 <sup>nd</sup>	Myanmar	0.77	3.8	11.2%
3 <sup>rd</sup>	Laos	0.49	1.7	8.7%
4 <sup>th</sup>	Vietnam	7.62	26.7	8.7%
5 <sup>th</sup>	Thailand	36.95	81.6	5.4%
6 <sup>th</sup>	Malaysia	18.81	38.9	5.0%
7 <sup>th</sup>	Singapore	14.01	28.7	4.9%
8 <sup>th</sup>	Philippines	15.68	31.5	4.7%
9 <sup>th</sup>	Indonesia	44.53	82.4	4.2%
10 <sup>th</sup>	Brunei	1.30	1.2	-0.7%

Source: WTTTC, DBS Bank

### International arrivals grew 37% between 2010 and 2014.

Between 2010 and 2014, tourist arrivals into ASEAN grew above the global pace of 4.5%, at 8.2% CAGR to a record of 105m visitors.

### ASEAN's tourist arrivals grew at c.8.2% CAGR



\*adjustments made to Brunei Darussalam statistics

Source: ASEAN Tourism Statistics Database, DBS Bank

**Speed bump in 2014.** According to data compiled by the ASEAN Tourism Statistics Database, tourist arrivals grew by only c.2.8% in 2014- a stark contrast to the annual growth of between 9.8-10.1% registered in the three preceding years.

The weakness was led by the Singapore and Thailand market, which saw a decline in international arrivals of about 3% and 6.7% respectively. The drop in arrivals in Thailand was mainly due to the coup in the country in May 2014, while overall decline in tourist arrivals into ASEAN was also due to the spate of air accidents during the year.

**Impact of currency on arrivals.** While incentives for travel to frontier markets such as Cambodia, Laos, Myanmar and Vietnam tend to be independent of currency movements, we observe a distinctive relationship between demand for travel to non-frontier ASEAN destinations and exchange rate movements of their respective currencies (relative to the USD) - particularly for currency movements that are sustained over a 2-year period.

### Strong correlation between currency movements and arrivals

Non-frontier Member State	Correlation between International Arrivals and:	
	1-yr Currency Movement	2-yr Currency Movements
Brunei	79.7%	84.7%
Indonesia	52.4%	94.6%
Malaysia	68.1%	96.5%
Philippines	59.8%	86.5%
Singapore	72.7%	72.3%
Thailand	67.0%	94.8%

Source: ASEAN Tourism Statistics Database, Bloomberg Finance L.P., DBS Bank

### Significance of tourism among ASEAN countries.

Contributions from the travel and tourism industry to the GDP of the respective ASEAN nations can vary quite widely. For instance, we observe that tourism made the highest single sector-wise contribution to Cambodia's economy, representing c.30% of GDP (up from 15% in 2000), but only makes up c.6% of Myanmar's GDP.

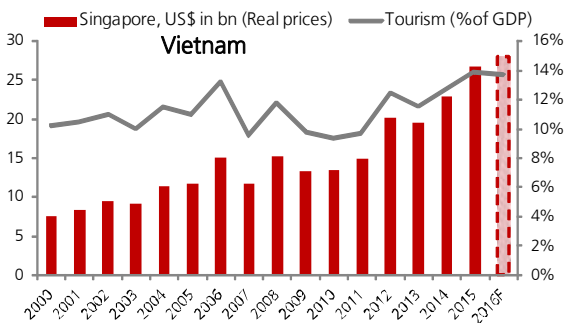
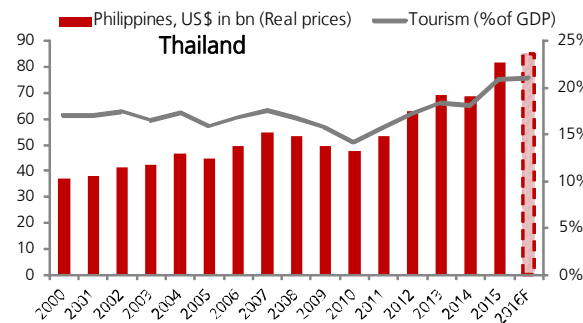
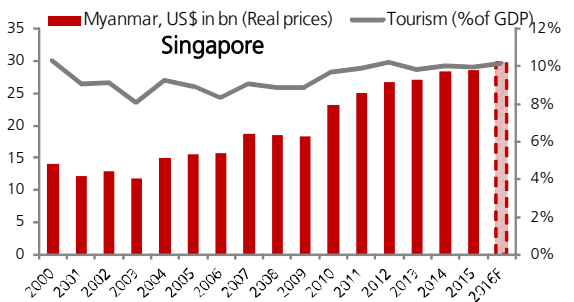
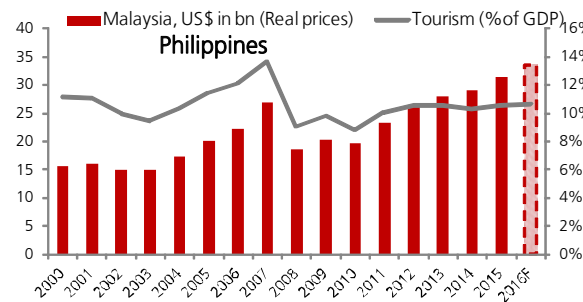
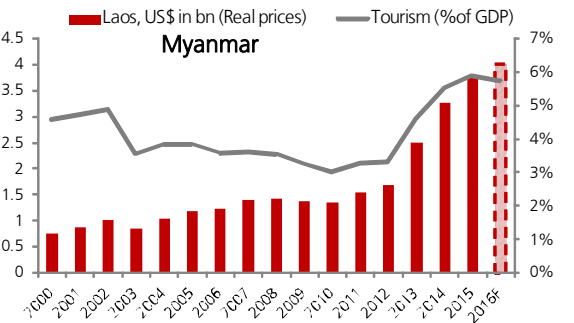
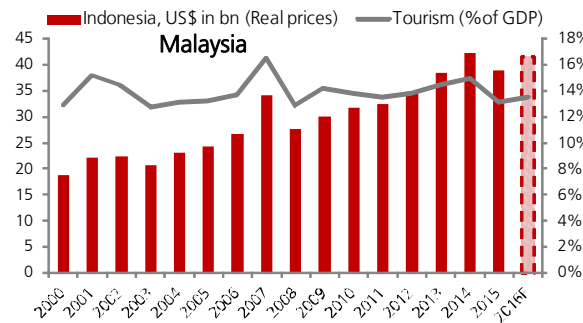
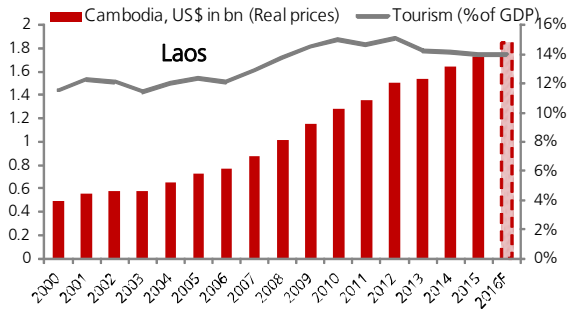
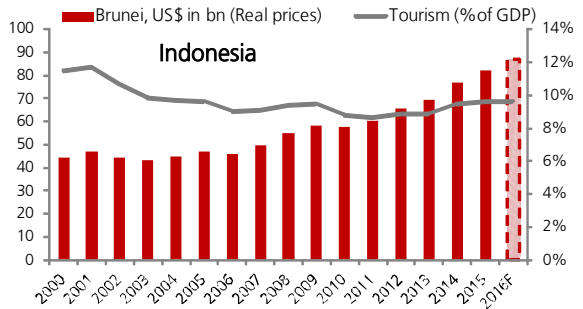
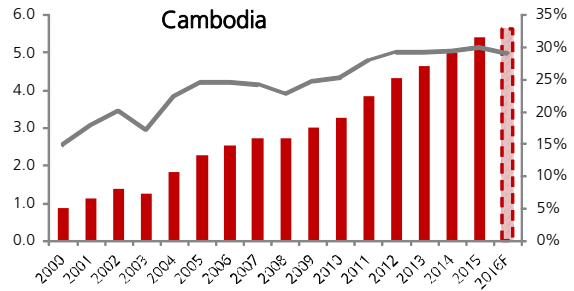
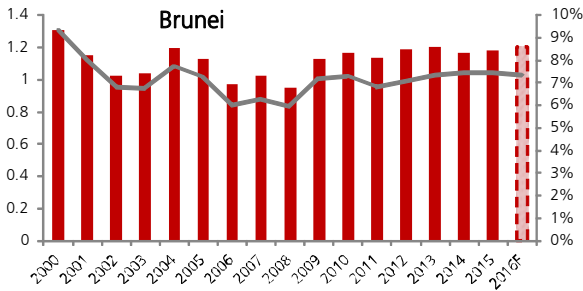
We believe that there is potential for tourism in Malaysia, Philippines and Indonesia to further grow their share of GDP further, while Singapore's hospitality market is likely to be nearing bottom. Thailand, ASEAN's largest tourism market, is our preferred proxy to the region's tourism growth and is well positioned for continued expansion ahead.

### Contribution of tourism to country GDP (2015)

Rank	Member State	Receipts (US\$ bn)	% of GDP
1 <sup>st</sup>	Cambodia	5.42	29.9%
2 <sup>nd</sup>	Thailand	81.6	20.8%
3 <sup>rd</sup>	Laos	1.74	14.0%
4 <sup>th</sup>	Vietnam	26.68	13.9%
5 <sup>th</sup>	Malaysia	38.86	13.1%
6 <sup>th</sup>	Philippines	31.45	10.6%
7 <sup>th</sup>	Singapore	28.69	10.0%
8 <sup>th</sup>	Indonesia	82.36	9.6%
9 <sup>th</sup>	Brunei	1.18	7.4%
10 <sup>th</sup>	Myanmar	3.78	5.9%

Source: WTTTC, DBS Bank

ASEAN economic contribution trends from travel and tourism (2000 to 2016F)



Thailand, US\$ in bn (Real prices) — Tourism (% of GDP)

Vietnam, US\$ in bn (Real prices) — Tourism (% of GDP)

Source: WTTC, DBS Bank

**ASEAN Tourism 2025**

**VISION .** “ By 2025, ASEAN will be a **quality tourism destination** offering a unique, diverse ASEAN experience, and will be committed to **responsible, sustainable, inclusive** and balanced tourism development, so as to contribute **significantly** to the **socio-economic** well-being of ASEAN people. (ASEAN Tourism Strategic Plan 2016 – 2025) ”

**Tourism to remain a core component of ASEAN’s growth.** Prior to 2011, the tourism industry traditionally contributed between 8-13% of ASEAN’s GDP and 2-4% of the region’s total employment, and was thus identified as one of the priority sectors for integration by 2015 under the ASEAN Economic Community pillar.

Integration efforts under the ASEAN Tourism Strategic Plan (ATSP) 2011-2015 have yielded good results - real contribution surged more than 50% over the 5-year period from US\$200.4bn in 2010 to US\$301.7bn in 2015, while tourism’s share of total employment increased from 3.3% in 2010 to 4.1% in 2015 (or 30% growth in tourism jobs from 9.5m to 12.5m respectively). Going forward, we believe the tourism sector should play an increasingly important role in ASEAN’s economy.

**Onward to 2025.** Building on the momentum and achievements of ATSP 2011-2015, the ATSP 2016-2025 has identified ten strategic programs for implementation to deliver the following core strategic objectives:

**General Framework of ATSP 2016-2025**

Strategic Directions	SD1: Enhance competitiveness of ASEAN as a single tourism destination	SD2: Ensure that ASEAN tourism is sustainable and inclusive
Strategic Action Programs	1.1 Intensify promotion and marketing 1.2 Diversify tourism product 1.3 Attract tourism investments 1.4 Raise capacity and capability of human capital 1.5 Implement and expand ASEAN tourism standards for facilities, services and destinations 1.6 Implement and expand connectivity and destination Infrastructure 1.7 Enhance travel facilitation	2.1 Upgrade local communities and public-private sector participation in the tourism value chain 2.2 Ensure safety and security, prioritize protection and management of heritage sites 2.3 Increase responsiveness to environmental protection and climate change

Source: ASEAN Tourism Strategic Plan 2016-2025, DBS Bank

**Goals of ATSP 2016-2025.** If the identified programmes and projects are fully resourced and implemented as planned, anticipated results by 2025 (as highlighted in the ATSP 2016-2025) include:

- (1) Contribution of tourism to GDP expected to rise to 15%, from 12% in 2013
- (2) Tourism’s share of total employment expected to increase to 7%, from 3.7% in 2013
- (3) Increase in per capita spending by international tourists to US\$1,500, from US\$877 in 2013
- (4) Number of accommodation units could increase to 0.60 units per 100 in ASEAN, from 0.52 units per 100 in ASEAN in 2013
- (5) Number of community-based tourism value chain project interventions could increase to over 300, from 43 in 2013

**Targets for ASEAN tourism by 2025**

	2013	2025
Contribution to ASEAN GDP	12%	15%
Share of total employment in ASEAN	3.7%	7%
Per capita spending (US\$)	877	1,500
Average length of stay	6.3	8
Accommodation units (units per 100 in ASEAN)	0.51	0.6

Source: ASEAN Tourism Strategic Plan 2016-2025

**Challenges lie ahead.** Arriving at the US\$1,500 per tourist milestone by 2025 would require the development of quality tourism products and destinations, which could be a challenge for ASEAN in the near term.

Major hurdles to the competitiveness of ASEAN as a single tourism destination also include the limited availability of air, sea and road connectivity infrastructure (existing infrastructure in the less-developed destinations, if any, also often lack quality) and lack of seamlessness in cross-border travel between member countries.

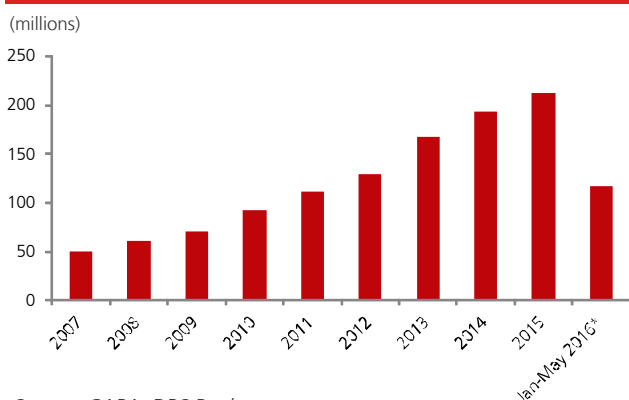
**But still a boon for local aviation and hospitality plays, especially those with exposure to secondary gateways and sub-regional points in ASEAN, over the long term.** Despite near-term impediments, we believe that investments in connectivity and destination infrastructure (i.e. airports, cruise terminals, tourist accommodation and attractions) are necessary to support sustainable and inclusive tourism.

As the ASEAN tourism sector undergoes greater integration and pushes toward higher quality tourism, we expect the local aviation and hospitality sectors, especially those with exposure to secondary gateways and sub-regional points, to see higher yields.

## Growing on ASEAN's open skies

**ASEAN a key beneficiary of the emergence of low cost carriers (LCCs) in the Southeast Asia region.** Led by strong growth in LCC seat capacity which more than quadrupled from 50.3m seats in 2007 to 194.1m seats in 2014 (which implies an impressive growth at 21.3% CAGR over the 7-year period), ASEAN saw a c.69% jump in international tourist arrivals from 62m in 2007 to 105m in 2014.

### Total LCC seats in ASEAN more than quadrupled since 2007

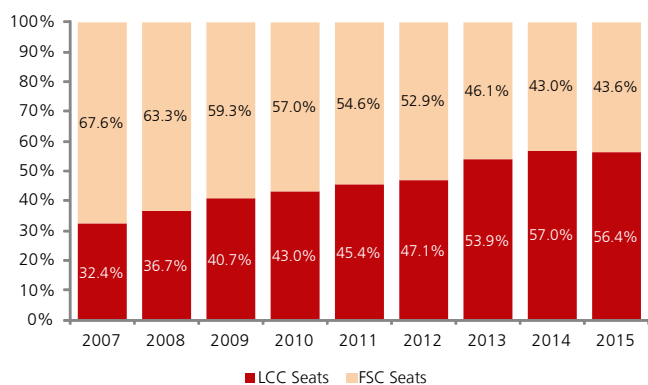


Source: CAPA, DBS Bank

**LCCs preferred for intra-ASEAN air travel...** The Southeast Asia (ASEAN) region has been a key beneficiary of the strong growth in intra-regional travel over the last decade, as the emergence of LCCs led much of the improved connectivity within the ASEAN region.

We observe that since 2007, LCCs have gained traction quickly to replace FSCs as the preferred mode of air travel within ASEAN, especially to secondary or sub-regional points, as the proportion of LCC to FSC seats peaked in 2014 at 57%:43%.

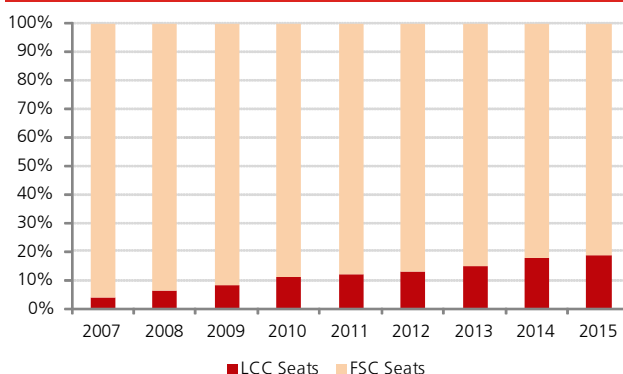
### LCC market share for intra-ASEAN routes



Source: CAPA, DBS Bank

...and have been gaining market share in ex-ASEAN routes. Apart from their stronghold in the intra-ASEAN market, LCCs have been gaining traction in mid- to long-haul flights (ex-ASEAN routes), as evidenced by the steady growth in its market share from 4% in 2007 to 18.6% in 2015, helped by expansion of AAX and Scoot.

### LCC's market share for ex-ASEAN routes climbing steadily



Source: CAPA, DBS Bank

**Mainly as the push for more open skies have extended beyond the intra-ASEAN market.** Over the past decade, ASEAN's push towards the liberalisation of the domestic aviation market through its open skies programme have extended beyond the intra-ASEAN region as member nations have also entered into similar air services arrangements with its dialogue partners to enhance air connectivity with these major markets.

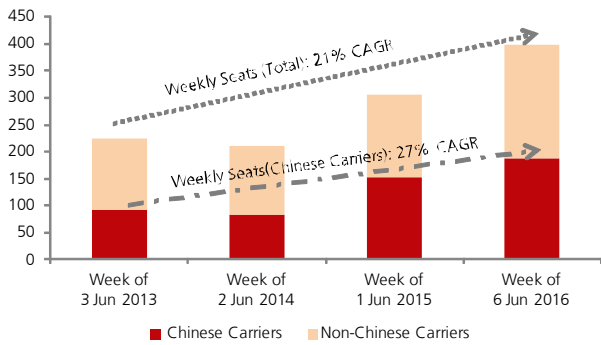
Most notably, the establishment of the open skies agreement between ASEAN and China in 2010 – which is currently in force between China and multiple ASEAN countries, has led to double-digit growth in inbound seat capacity, which has in turn fuelled strong Chinese tourist arrival growth into ASEAN.

### Spike in inbound seat capacity from China into ASEAN.

Weekly seat capacity of inbound flights from China into ASEAN has grown significantly post the establishment of open skies arrangements between China and selected member nations, particularly for Chinese carriers, whose seat capacities appears to have more than doubled from 92,000 weekly seats in June 2013<sup>#</sup> to 188,500 weekly seats in June 2016<sup>#</sup>.

<sup>#</sup> Based on statistics for the week of 3 June 2013, and 6 June 2016 respectively.

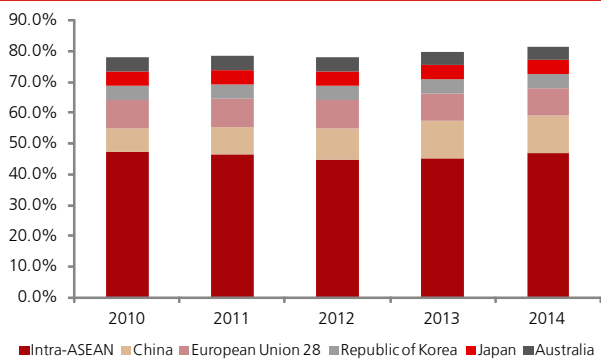
**Weekly inbound seat capacity from China into ASEAN**



Source: CAPA, DBS Bank

**Unsurprisingly, China is now ASEAN’s largest single source market...** Outside of intra-ASEAN arrivals which typically represent the bulk of ASEAN’s international arrivals (or c.46.8% in 2014), China serves as the region’s largest single source market. In 2014, c.12.4% of ASEAN’s tourist arrivals originated from China.

**China - ASEAN’s largest single source market**



Source: ASEAN, DBS Bank

**ASEAN Open Skies achieves full ratification.** After delays from the initial goal of the ASEAN Single Aviation Market by end-2015, ASEAN reached a significant milestone towards the establishment of an ASEAN Economic Community (AEC), as it finally achieved full ratification from its member nations on the ASEAN Open Skies (AOS) Agreements in April 2016.

**But obstacles to actual implementation remain.** While the ratification of AOS agreements signifies member nations’ commitment in moving towards a regional open sky arrangement to support regional economic integration, we reiterate our view that the achievement of this milestone is more significant in theory and could be lacking in economic substance as several obstacles to true 5<sup>th</sup> freedom of the air remain:

Slot restrictions

Despite air agreements translating into unlimited flights among ASEAN airlines, the allocation of these slots is limited by the lack of slot capacity (especially in capital cities) and subject to approval from airports.

- (1) Lack of infrastructural support

**Notwithstanding these near-term challenges, LCCs should be best positioned to benefit as progress is made ahead.** Progress will take time as ongoing efforts to build critical air infrastructure and capacity are still preliminary, but as new facilities and capacity are gradually constructed and deployed, we think that LCCs will be the likely beneficiaries to regional travel, especially given the smaller aircraft type and appeal to more budget-conscious travelers.

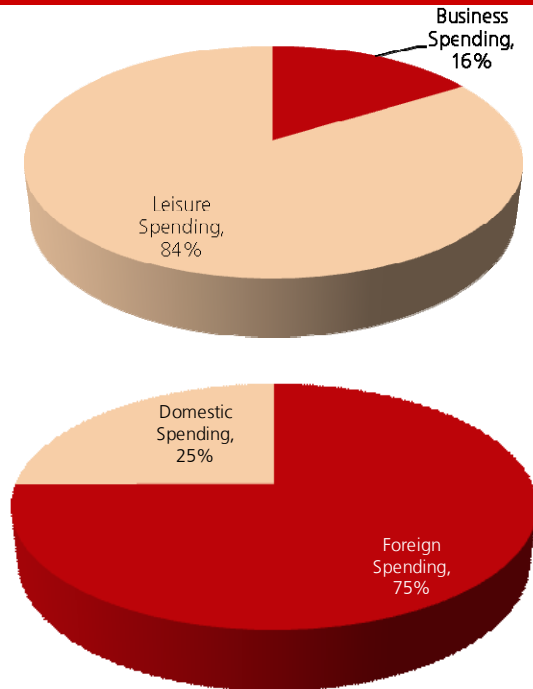


**Focus on Thai tourism**

**Tourism, Thailand's personal goldmine.** Tourism made a remarkable 9.3% (US\$36.4bn) direct contribution to Thai GDP in 2015 (according to WTTC a total contribution of 20.8% to GDP and 15.4% to total employment), while on average maintaining a significantly higher rate of growth (16.2% CAGR from 2010 to 2015 compared to 7.5% growth in GDP), which combined with correlation factor of 0.75, indicates tourism as a critical driver of Thai economy.

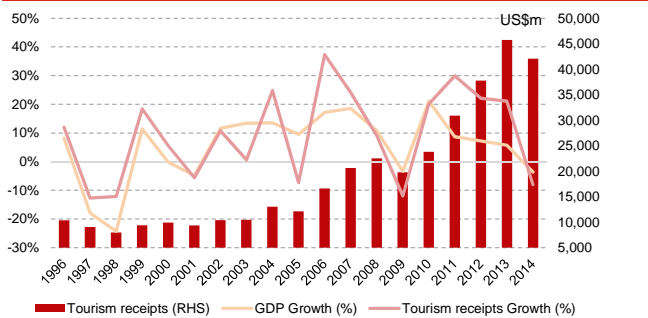
Foreign visitor spending accounted for 75% of direct travel and tourism GDP vs 25% for domestic travel spending. Meanwhile, travel and tourism revenues are mainly fuelled by leisure travel spending from inbound and domestic travellers, accounting for 84% of direct travel and tourism GDP in 2015.

**Thailand: % contribution from travel and tourism to GDP**



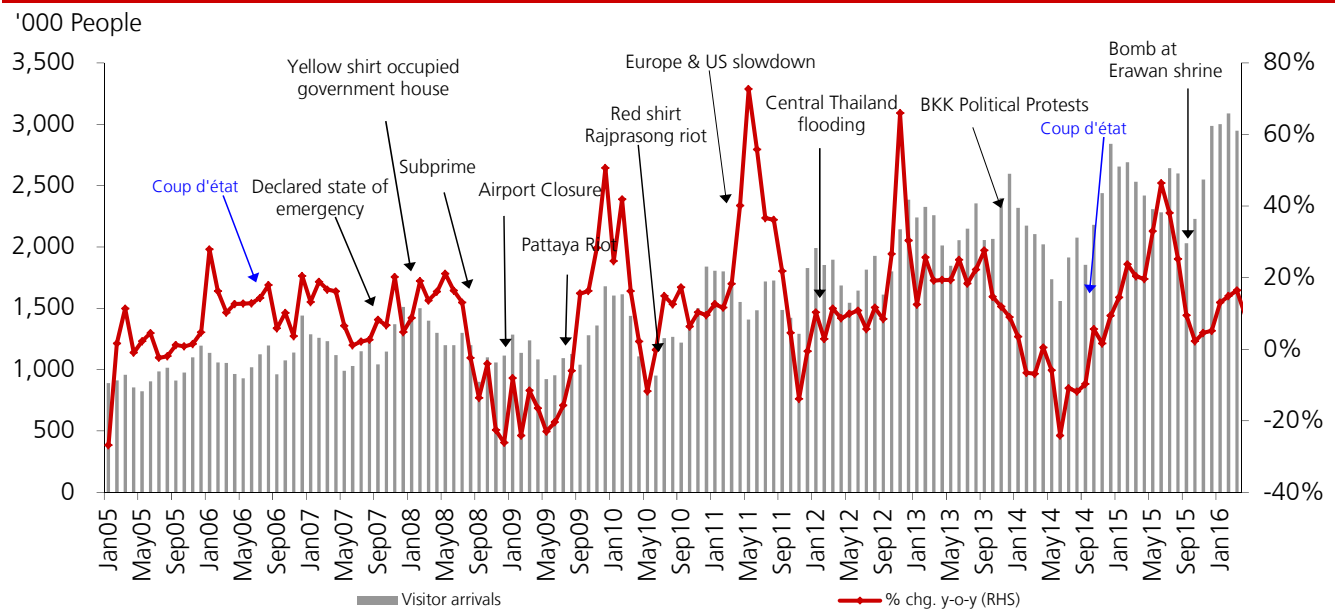
Source: World Travel and Tourism Council, DBS Bank

**Tourism and GDP of Thailand**



Source: World Bank, DBS Bank

**Thailand: International tourist arrivals**



Source: Tourism Authority of Thailand, DBS Vickers

**ASEAN Travel & Leisure**

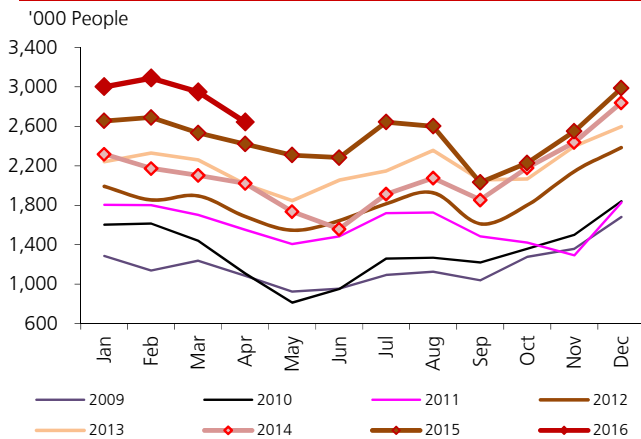
**Thai tourism industry is resilient.** Thailand is well known for its variety of destinations and competitive cost of travelling. Thailand offers cultural, natural, and historical attractions with beautiful beaches and mountains, also with a unique cuisine. Following several unfavourable events in the past such as floods and political unrest, Thailand tourism industry has proved to be resilient as it had recovered fast.

Despite the global financial crisis in 2008-2009 and political turmoil in 2014, international tourist arrivals contracted in those periods by only 3.4% and 4.3% respectively. In 2015, international tourist arrivals to Thailand rebounded by 20.4% y-o-y to 29.9m, thanks to a calmer political situation, government's "2015 Discover Thainess" campaign, and country's competitive tourism offerings.

For 2016, the government is focusing more on revenue and quality tourists by improving management, marketing and services.

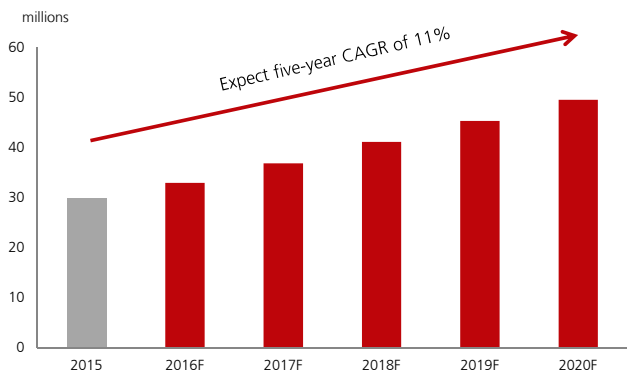
**Expect tourist arrival growth to continue.** In the first four months of 2016, international tourist arrivals to Thailand rose by 13.5% y-o-y to 11.7m. The Department of Thailand Tourism expects the number of international travellers to Thailand to reach 32m (+7% y-o-y) by the end of 2016. In the next five years, The Pacific Asia Travel Association (PATA) estimates international tourists to grow by 10.7% CAGR (2015-2020).

**Thailand: International tourist arrivals to Thailand**



Source: BOT, DBS Vickers

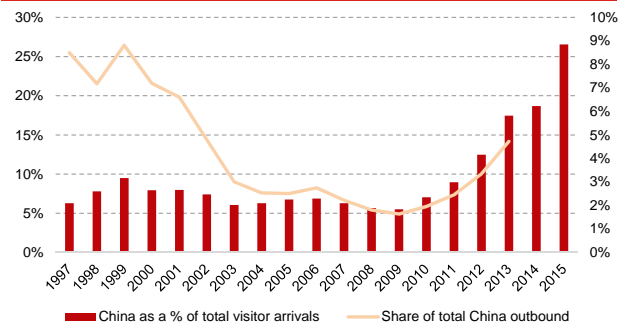
**Thailand: Forecast of international tourists until 2020F**



Source: PATA, DBS Vickers

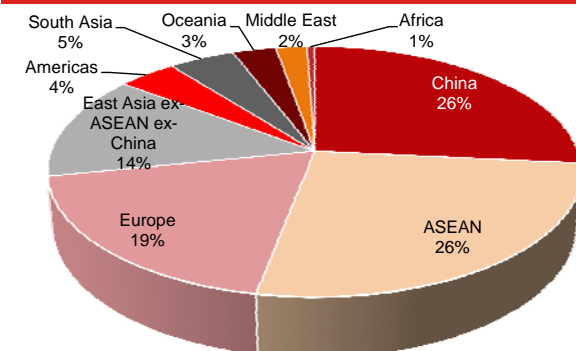
**Explosion of arrivals from China.** Visitors from China have grown exponentially from 2010 onwards (a CAGR of 47.9% from 2010 to 2015), and accounted for 26.5% of total visitors to Thailand in 2015 up from a mere 5.5% in 2009. Prospects also remain positive, given Thailand's historical resilience as a value-for-money leisure and business destination.

**China as a % of total visitor arrivals, 1997-2015**



Source: Tourism Authority of Thailand

**Sources of visitor arrivals to Thailand (2015)**



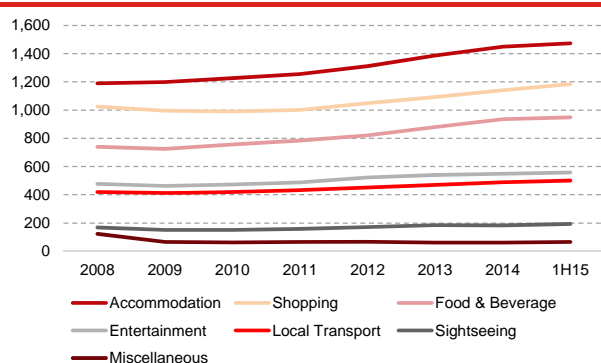
Source: Tourism Authority of Thailand

**Visitors from ASEAN countries have also helped to drive growth.** In recent years, increasing arrivals have largely come from East Asia (including China, Japan and Korea) and ASEAN, which together comprised 66.5% of total visitors to Thailand in 2015 which was only 50% in 2009. We believe that given these trends, international visitor growth to Thailand should continue to be powered by East and SEA regions, especially ASEAN (after China), which has been seeing incremental contribution to total visitors, CAGR of 11.8% from 2010 to 2015.

We note that the majority of visitors from ASEAN are from Thailand’s neighbours - Malaysia (43.6% - a large portion of which are over-land), Laos, (15.3%), Singapore (11.9%) and Vietnam (9.5%), where these countries grew at a significant rate in 2015 as well – 31.9%, 15%, 11% and 34.3% respectively.

**Accommodation, shopping and F&B are major expenditures.** Along with the total average expenditure, we observe that major components such as accommodation (particularly for hotels) expenditures have also been rising (from Bt1,190 in 2008 to Bt1,473 in 1H15).

**Tourism receipts breakdown (Bt per day per capita)**



Source: Tourism Authority of Thailand

**Government’s policy to promote tourism.** Thailand’s government has brought out several policies to attract more international tourists by launching applicant-friendly visa procedures. In 2014, visa-free travel was granted to Chinese and Taiwanese tourists from September to November. Later on, the six-month multiple-entry tourist visas were granted in November 2015 to allow tourists unlimited entries for up to 60 days per stay. Recently, visas on arrival were granted to citizens of 19 countries including China to allow them to enter Thailand as tourists for 15 days.

Additionally, the government is also trying to boost domestic tourism by extending a Bt15,000 tax deduction allowance for this year for those who spend on hotels, tour packages, and travels within the country. Meanwhile, there are also special tax privileges for investments made in tourism and services.

**Thailand: Visa policy for Chinese tourists**

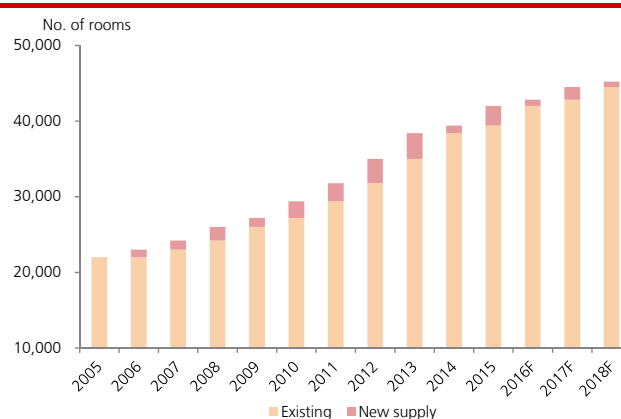
Year	Visa policy
2009	Temporary exempt visa fees
2014	Three-month visa-free travel
2015	Six-month multiple entry tourist visas
2016	Visa on arrival

Source: Thailand’s Immigration Bureau, DBS Vickers

**Airport capacity expansion.** Thailand’s major airport development plans which will cater to growing tourist arrivals are in the pipeline. The new terminal at Phuket airport will double passenger capacity to 12.5m per annum (MAP) and is planned to be opened within this year. Additionally, construction of Suvarnabhumi phase 2 which will increase its capacity from 45 MAP to 60 MAP will start in 2H16.

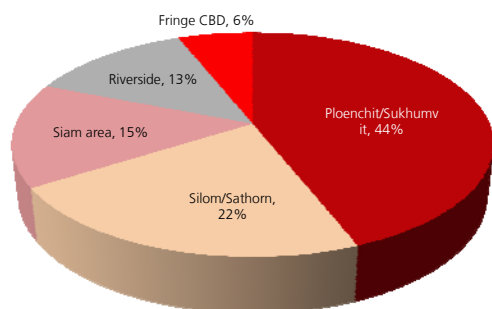
**Rising demand would easily absorb a moderate growth in hotel room supply.** As at the end of 2015, hotel supply was 42,000 keys in Bangkok. CBRE, an international real estate consultant, expects the supply to grow to 48,800 rooms by 2020 (5-year CAGR of 3%). Most of the future supply will be luxury hotels with an average room rate of Bt4,500 to Bt5,500. Tourist arrivals to Bangkok will continue to be strong. Bangkok offers a range of experiences - old charm (palaces and temples) as well as modern shopping, night life, and fine dining. It is also a starting point for international travellers as it is a capital city, before exploring the rest of the country. With a high occupancy rate of almost 75% currently, hotels in Bangkok should be able to increase room rates. China is the biggest source market to Bangkok, followed by Japan, Korea and India. In 2015, the number of Chinese tourists surged 82.5% while Russians were out of Bangkok’s top ten source markets.

**Bangkok: Future supply in downtown Bangkok (2015)**



Source: CBRE, DBS Vickers

**Bangkok: Supply in downtown Bangkok (2015)**



Source: CBRE, DBS Vickers

In Phuket, there were 18,223 hotel rooms as at the end of 2015 and another 3,948 keys (5-year CAGR of 4%) are expected to be added by 2020, according to CBRE. Nevertheless, demand for hotels should continue to grow as Phuket remains a world class resort destination, and new retail complexes and duty free stores, and a new terminal at Phuket airport come on stream. There is a clear change in drivers to the Phuket economy. Chinese tourists are now the top feeder market, followed by Russians, Australians, Koreans, and Malaysians. In 2015, Chinese travellers to Phuket jumped by 34.8% to 1.3m, offsetting a decline from Russian tourists. Additionally, the Tourism Authority of Thailand aims to promote growth in international arrivals to Phuket by targeting first time visitors from European and Eastern European markets.

**Beneficiaries.** Among the hotel operators in Thailand, The Erawan Group (ERW) should benefit the most from Thailand's strong tourism sector as all of its hotels are in Thailand. CENTEL and MINT have other revenue sources from overseas and food segments. Based on the hotels' feeder market by room nights in 2015, the Chinese accounted for 16% for CENTEL, 15% for MINT, and 13% for ERW.

In addition, AOT is also a prime beneficiary of growing travel demand to Thailand given that it owns six major international airports which handle 86% of Thailand's total passenger traffic. Note that Chinese travellers account for 23% of AOT's total passenger movements in FY15.

**Top picks.** Our picks for Thailand's tourism are Airports of Thailand (AOT) and The Erawan Group (ERW). We like AOT for its deemed monopoly profile and exposure to the rising number of tourist arrivals in Thailand. AOT offers a decent ROE of 17.2% compared to the peer average of 11.6%. Meanwhile, ERW has a strong earnings growth on the back of the strong growth in Thailand's tourism activities and its hotel expansion plan, and the key potential share-price re-rating catalysts arising from potential asset divestments. Its earnings are now more resilient given its diversification into lower-end hotel segments.

**Singapore hospitality nearing a bottom**

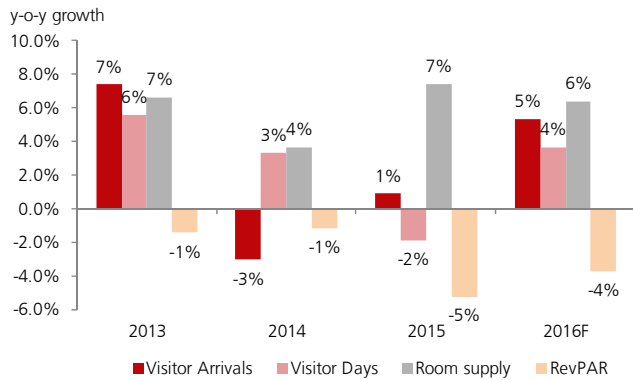
**2016 to remain challenging.** We expect 2016 to remain a challenging year of the Singapore hospitality market. While we project tourist arrivals to increase in 2016 by 5% to 16m, largely on the back of continued rise in Chinese visitor numbers and an increase in conferences which are held biannually, we expect total visitor days to rise only 4% due to shorter average length of stay. In addition, we remain cautious on revenue per available room (RevPAR) outlook as new room supply remains a concern. Approximately 3,930 rooms (6% of existing supply) are due to open in 2016. In addition, corporate demand, which typically generates higher yield per guest, remains soft. Thus, we project a 4% y-o-y drop in 2016 RevPAR to S\$201.

**But potentially more balanced market from 2017.** With supply pressures easing from 2017 due to lack of new land released by the Singapore government for hotel developments over the past two years, there are prospects for a more stable or improving RevPAR outlook. Thus, we believe 2016 may be the bottom in the Singapore hospitality market following a difficult 2014 and 2015 where RevPAR fell 1% and 5% respectively.

**Chinese tourists continue to arrive.** Following an extremely weak 2014 where Chinese tourist arrivals (Singapore's second largest source market) dropped 24% y-o-y to 1.7m as Chinese tour groups avoided Southeast Asia due to the MH370 incident and political situation in Thailand, the number of Chinese visitors recovered in 2015, up 22% y-o-y to 2.1m. We expect the recovery to continue in 2016 and given the 47% growth in Chinese arrivals in 1Q16, we estimate a 20% y-o-y increase this year.

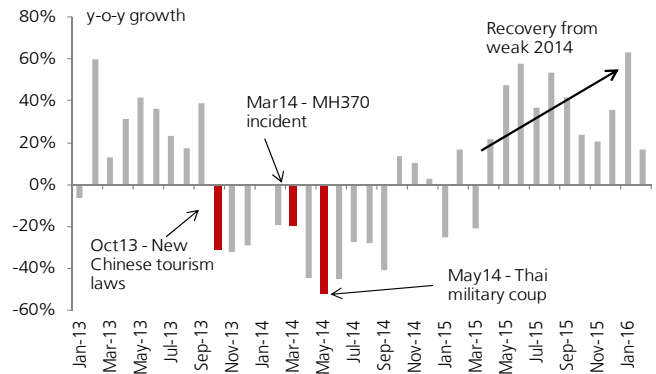
**Earlier-than-expected recovery in Indonesian visitors.** Contrary to our earlier expectations for a flat outlook for visitor arrivals from Indonesia (largest source market) in 2016, arrivals for 1Q16 were robust, rising 11% y-o-y. This may be due to strengthening of the IDR versus SGD, despite airline seat capacity dropping 3% y-o-y in 1Q16. While we had a strong start, we are cautious on being outright bullish as overall seat capacity between Indonesia and Singapore is projected to decline 1-2% y-o-y over 2Q16 and 3Q16, according to data from Centre of Aviation (CAPA) and the IDR has started to weaken again. We now project 4% y-o-y growth in tourist arrivals from Indonesia in 2016.

**Soft RevPAR in 2015 with weakness in 2016**



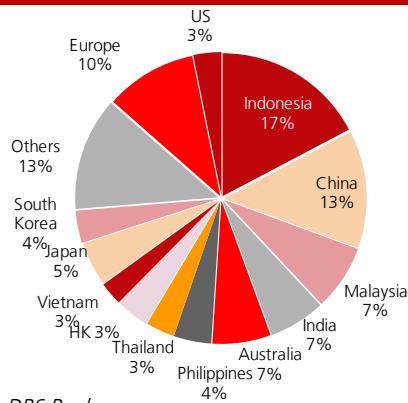
Source: STB, DBS Bank

**Chinese visitor arrivals on a recovery path**



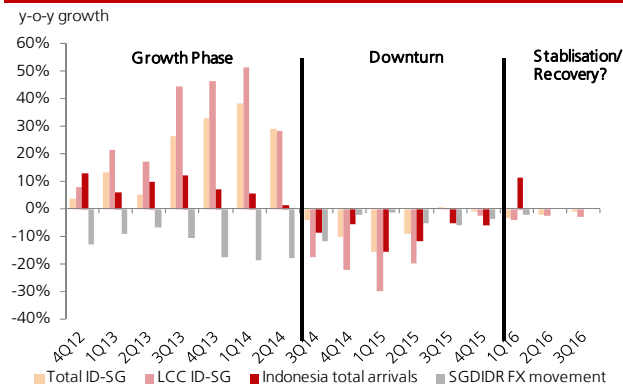
Source: STB, DBS Bank

**Source of Singapore's inbound arrivals**



Source: STB, DBS Bank

**Strong start to Indonesian arrivals but some headwinds**



Source: STB, DBS Bank

**ASEAN Travel & Leisure**

**Greater cultural attractions and sporting events to draw new tourists.** Following the opening of the Singapore Sports Hub in 2014, the variety of sporting attractions and music events/concerts on offer will continue to expand. The Rugby Sevens will be added in 2016. Such yearly events, including the Formula 1 and WTA Women’s finals, should provide a steady stream of visitors each year. The push towards a more diversified base of attractions has also come from the opening of cultural attractions such as the Singapore National Gallery. With a greater mix of sporting and cultural options adding to well-known attractions such as Orchard Road and Singapore Zoo, Singapore’s competitive position against other markets should be enhanced.

**Overall seat capacity to Singapore points to recovery this year.** Based on CAPA’s data, seat capacity between Singapore and the rest of the world is projected to increase 4% y-o-y in 2Q16 and 3Q16. We believe this is supportive of a sustained recovery in Singapore arrivals and underpins our forecast for a 5% increase in tourist arrivals in 2016, higher than the 0-3% growth projected by Singapore Tourism Board (STB). However, given the lower “quality” of tourists coming in, i.e. tour groups which typically stay only 1-2 days in Singapore, we forecast total visitor days to rise only 4% due to a shorter average length of stay.

**Expanding airport capacity points to growth in medium term.** Recent plans to grow the tourism sector include plans to build a new airport terminal (Terminal 5), together with the planned opening of Terminal 4 in 2017, is expected to double the current airport’s capacity to 135m passengers per year by 2020. We believe this points to sustained growth in tourist arrivals into Singapore in the medium term.

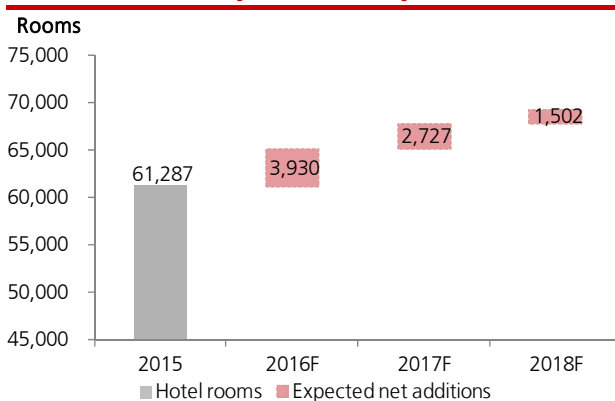
**Pressure from new room supply.** For 2016, while new supply is lower than the 4,237 rooms added in 2015, supply pressures should still persist with 3,930 net new rooms added. Nevertheless, going into 2017, with only 2,727 rooms to be added, the demand and supply situation in Singapore could potentially be more balanced.

**Expansion in 2015 largely in Mid-Tier category with 2016 more evenly balanced.** In 2015, the growth in supply was driven by the Mid-Tier segment which represented 64% of total net new supply in 2015 and 20% of existing Mid-Tier stock. For 2016, the new supply of 3,930 rooms is more evenly spread across all four categories; Economy (20% of new 2016 supply), Mid-Tier (41%), Upscale (22%) and Luxury (17%). Nevertheless, similar to 2015, we expect Mid-Tier and Economy categories to face the greatest pressure on ADR and occupancies.

**Near-term headwinds priced in.** While the Singapore hospitality market faces the challenge of a declining RevPAR in 2016, we believe this has largely been priced in given the significant share price declines over the past year. In addition, we have already imputed RevPAR declines of 2-6% this year for various Singapore-focused hospitality REITs.

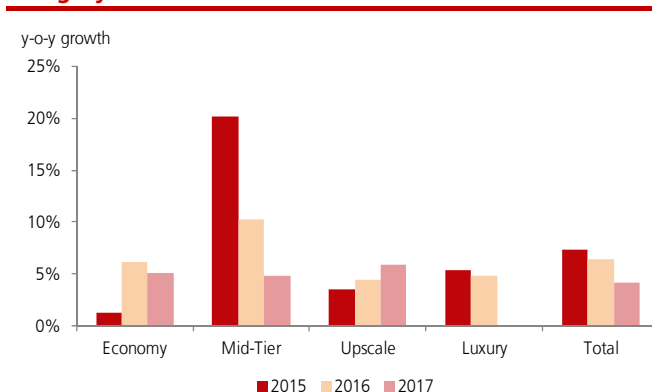
**Top picks.** In addition, as 2017 is likely to see a more balanced Singapore hospitality market given easing supply pressures, we are only 6-9 months away from a potential earnings/DPU recovery. Our top pick within the hospitality space remains **CDREIT (BUY, TP of S\$1.50)** based on cheap valuations. CDREIT’s Singapore properties trade on a implied price per key of S\$500k versus replacement costs of c.S\$700k and recent market transactions of above S\$650k.

**Total room inventory to increase by c.6% in 2016**



Source: CDREIT, DBS Bank

**Majority of supply growth coming from the Mid-Tier category**



Source: CDREIT, DBS Bank

## Risks and concerns

### Threats to security and safety concerns

Perceived threats to security and safety concerns could pose direct challenges to the development of ASEAN's travel and tourism industry.

Mass reported acts of terror in ASEAN over the last year include the January 2016 Jakarta attacks and the deadly blast in Bangkok in August 2015. The latter led to a 26% decline in visitors (from 80,000 to 59,000 arrivals a day) in the weeks following the blast. Post-attack, Thailand's Ministry of Tourism and Sports estimated a loss of US\$149m in contributions from travel and tourism, on a projected 1.33m decline in international arrivals. Other more common form of terrorism includes kidnapping.

Such high-publicity events, coupled with travel alert advisories issued by foreign governments, can bring about a knee-jerk reaction to tourism arrivals and could well affect the ASEAN regional tourism growth.

### Political instability

Tourists are often deterred by political instability, and if sustained, could hamper the attractiveness of the local tourism industry, and be detrimental to the countries' tourism revenues.

For instance, the TAT (Tourism Authority of Thailand) estimated that the political unrests in the first half of 2014 could have cost Thailand c.US\$2.7bn in lost revenues.

### Pandemic

Tourism growth is particularly susceptible to the emergence of pandemics, which often has immediate effects on tourism and hospitality. Over the past decade, we have faced numerous global pandemics from SARS in Hong Kong to H1N1 influenza to Ebola in Africa to MERS in Korea and most recently Zika in Brazil. While diverse in nature and largely contained within their respective regions, these contagion events have historically had serious implications for the tourism industry. For instance, the SARS outbreak in 2002 saw Hong Kong's occupancy rate fell to 15% from 82%.

### Infrastructure Limitation

While the full ratification of the ASEAN Open Skies signifies a big leap towards intra-ASEAN connectivity and potential tourism boost; several infrastructure constraints remain.

### Over-congestion

On the ground, runways and airports' limited capacity issues appear to be prevalent among several ASEAN gateways. Most airports are operating well beyond their design capacity. Planned expansions at several airports, would merely alleviate such congestions and address short-term increases in demand but are not suffice to address long-term projected needs and growth.

For instance, Bangkok's Suvarnabhumi Airport and other major airports such as Jakarta's Soekarno-Hatta International Airport have reached full capacity and delays are fairly frequent. The latter also creates spillover effects which creates obstacles for other smaller airports in the region.

### (1) Slot restrictions

As mentioned previously, a slot allocation is a function of both regulatory approval and air traffic capacity. Allocation of slots is still limited by a lack of landing slot capacity, management of air traffic channels, as well as approvals from airport authorities.

Until the issue of slot congestion is sufficiently alleviated, we think that positive externalities from "unlimited flight capacity" among member nations will likely be lacking in economic substance.

### Accessibility:

Security concerns and stringent immigration policies among ASEAN countries could prove to be a regulatory roadblock as the region moves towards more liberal intra-region travel. The creation of "Schengen" (a treaty which led to the borderless common border) would thus be the ultimate goal but execution could prove to be more difficult.

In fact, security concerns, drugs and illegal immigration issues due to huge income disparity among the ASEAN member countries could derail the ASEAN common visa which gives easier intra-region access. This could be a drag on tourism and the industry, and possibly growth within the region.

Industry Focus

**ASEAN Travel & Leisure**

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## COUNTRY PROFILES

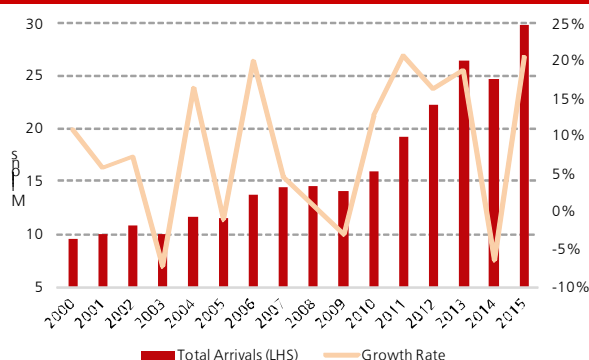


**Thailand – Jewel of Southeast Asia**

**Strong rebound to record 29.9m visitor arrivals in 2015, post political unrest in 2014.** Thailand’s tourism industry has been growing exponentially since the 1960s, and this trajectory has continued even into the 21st century. According to the Tourism Authority of Thailand (TAT), international visitor arrivals grew from 9.5m in 2000 to a record 29.9m in 2015, representing a 7.9% CAGR over 15 years.

Furthermore, Thailand’s tourism industry has proven to be surprisingly resilient - despite the political unrest plaguing the country in 2014 (visitor arrivals declined by 6.5% y-o-y), arrivals rebounded by 20.5% to 29.9m in 2015.

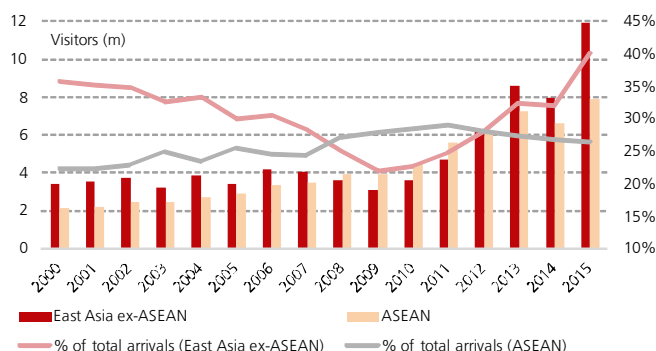
**International visitors to Thailand**



Source: Tourism Authority of Thailand, DBS Bank

**Tourism boom still fuelled by its popularity across East Asia.** Owing to its natural geographical advantage of being located in the heart of the Asia Pacific, much of Thailand’s tourism boom has been fuelled by its continued popularity among East Asians, which made up c.66.5% of Thailand’s total tourist arrivals in 2015 – up from c.58.3% in 2010. The number of East Asian tourists visiting Thailand grew at 8.9% CAGR over the last 15 years, outpacing the country’s rate of arrival growth of 7.9% CAGR.

**Tourists from East Asia represent majority of arrivals**

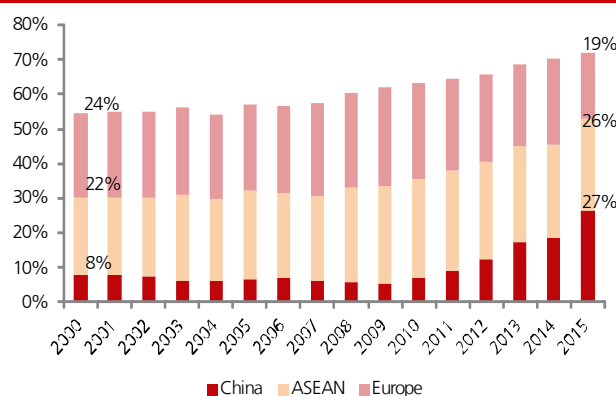


Source: Tourism Authority of Thailand, DBS Bank

**Mainly as the influx of Chinese tourists has been the largest source of growth.** Chinese tourist arrivals into Thailand have grown at a remarkable pace of 17% CAGR over the last 15 years, from under 1m tourists in 2000 to 7.9m in 2015.

Unsurprisingly, the Chinese market accounted for 26.4% of Thailand’s international arrivals in 2015 – a substantial increase from just 7.9% in 2000.

**Thailand’s key source markets**



Source: Tourism Authority of Thailand, DBS Bank

**Arrival growth by source markets (2000 – 2015)**

Country/Country Group	Tourist Arrivals (15-yr CAGR)
<b>Total Arrivals</b>	<b>7.9%</b>
<b>East Asia</b>	<b>8.9%</b>
China	17.0%
ASEAN	9.1%
<b>Europe</b>	<b>6.1%</b>
<b>The Americas</b>	<b>4.2%</b>
<b>South Asia</b>	<b>9.7%</b>
<b>Oceania</b>	<b>6.1%</b>
<b>Middle East</b>	<b>8.9%</b>
<b>Africa</b>	<b>4.4%</b>

Source: Tourism Authority of Thailand, DBS Bank

**There’s something for everyone.** As the only Southeast Asian country that avoided European colonial rule, Thailand boasts a rich history and unique culture, and offers a plethora of experiences catering to diverse needs and preferences across travellers – from immersive cultural and religious experiences to adventure tourism, agro-tourism, wellness retreats and even luxury travel.

It is also home to some of the best islands and beaches. According to TripAdvisor (world’s largest travel site)’s 2016 Travellers’ Choice Awards, a poll based on actual user feedback and preferences, three of the top 5 islands in Asia are located in Thailand.

**ASEAN Travel & Leisure**

**TripAdvisor's 2016 Travellers' Choice Awards for "Top 10 Islands – Asia"**



Source: TripAdvisor LLC, DBS Bank

**New chapter for Thai tourism.** In July 2015, the TAT announced its marketing plan for 2016, which is to focus on the promotion of Thailand as a "Quality Leisure Destination through Thainess". This strategic shift away from decades of focus on quantity (i.e. number of arrivals) will thus place total emphasis on quality (as measured by size of tourist receipts, average length of stay, and quality of visitor experience).

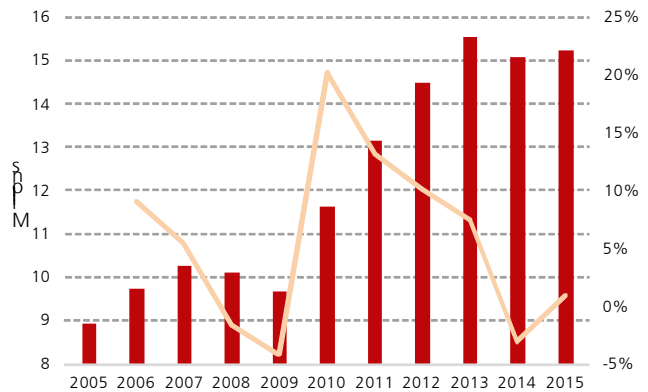
This new initiative comes on the back of the reiteration of the Thai government's stance on the importance of the tourism industry for economic development, job creation, income distribution, enhancing social integration and environmental preservation. It also seeks to encourage more balanced growth between the domestic and international travel market, to bolster the country's resilience to external demand shocks.

The 2016 strategy should see greater concentration on growing targeted niche markets such as golfing, weddings, wellness, female travel, and "halal" tourism.

**Singapore – Urban oasis with multi-faceted appeal**

**Conservative tourism target for 2016.** Citing global economic uncertainties, especially slower growing rates of China and the US, Singapore Tourism Board (STB) has forecast a modest arrivals target of 15.2-15.7m for 2016, which translates to y-o-y growth rates of 0-3% respectively.

**Singapore's visitor arrival growth (2005–2015)**

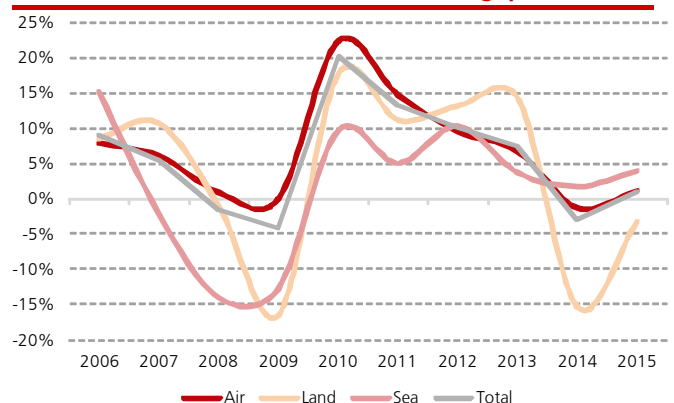


Source: STB, DBS Bank

**Air travel is still the predominant mode of arrival into Singapore.** Over the past decade, growth in air travel as a mode of arrival into Singapore, at 6.6% CAGR, has outpaced that of tourist arrivals (5.2% CAGR).

Air transport has played an increasingly important role in, and is highly correlated to, the growth in tourist arrivals into Singapore. In 2015, almost 78% of visitors arrived in Singapore via air transport, up from 70% in 2005.

**Growth rates of modes of arrival into Singapore**

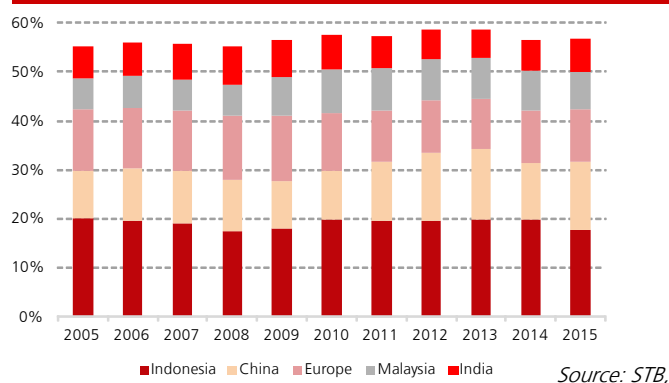


Source: STB, DBS Bank

**Indonesia and China are key source markets.** Indonesia has historically been the key source market for Singapore’s tourism, representing between 18-20% of tourist arrivals over the past decade. While the number of Indonesian tourist arrivals has dipped for two consecutive years in 2014 and 2015, preliminary data from the STB suggests a rebound in January and February 2016, as Indonesian visitors grew 11% y-o-y.

China, which ranks as the second-largest source, has been growing its tourist share steadily from 9.6% in 2005 to almost 14% in 2015. Like Indonesia, tourist arrivals from China have also had a positive start in January and February 2016, growing by c.34% y-o-y.

**Singapore’s key source markets**



DBS Bank

**Beyond attractions.** The completion and opening of various lifestyle hotspots in recent years such as River Safari and Universal Studios Singapore have added to the island’s offerings and positioning as an attractive tourist destination.

Beyond 2016 however, the STB hopes to enhance the tourism appeal of local developments and heritage areas such as the Mandai precinct, Jurong Lake District and Chinatown, to create a more sustainable and original approach to building Singapore’s tourism landscape.

**New attractions and redevelopments from 2015**

Attraction	Location	Est. Completion
Lee Kong Chian Natural History Museum	NUS	2015
Fort Siloso Skywalk	Sentosa	2015
Coney Island	Punggol	2015
Chinatown Street Market (Makeover)	Chinatown	2018
Jurong Lake Gardens	Jurong	2018 (First Phase)
Mandai Nature Project*	Mandai	2020

\*rejuvenation of Mandai into an integrated wildlife and nature heritage precinct

Source: STB, Temasek Holdings, DBS Bank

**More to come at Changi.** Apart from growing capacity and seeking to meet more sophisticated needs, Singapore also aims to redefine air travel through the delivery of creative solutions and signature experiences. In addition to the construction of Terminal 4, the city-state’s plans also include the development of Jewel Changi Airport and the Changi East development (including Terminal 5). Estimated to be completed by mid-2020s, the new developments are expected to double the current airport’s passenger handling capacity to 140m per year by mid-2020s.

**Upcoming developments at Changi Airport**



Terminal 4	Jewel Changi Airport	Changi East Development
Projected passenger handling capacity: 15m passengers p.a.	Projected passenger handling capacity: 15m passengers p.a.	Projected passenger handling capacity: 50m passengers p.a. (in first phase)
Target date of completion: 2017	Target date of completion: 2018	Target date of completion: mid-2020s

Source: STB, DBS Bank

**Strategy ahead.** With near-term outlook clouded by global uncertainties, and competition from neighbouring regions weighing on longer-term prospects, it will be crucial for local tourism industry players in both the public and private sector to reposition for quality, sustainable growth.

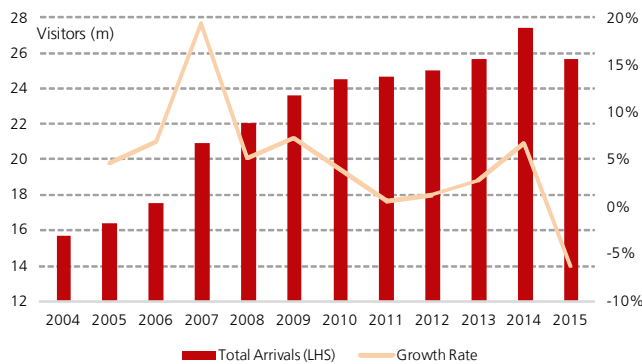
We believe that the additional financing of c.S\$700m allocated to the Tourism Development Fund from 2016 to 2020 announced recently (which can be used to strengthen marketing to new markets and facilitate wider adoption of technology to drive innovation and visitor engagement, etc), coupled with ongoing efforts between the STB and industry participants to curate creative experiences and concepts in the development of attractions, will be positive for Singapore’s tourism sector in the longer term.

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**Malaysia – Potential for more**

**Dip in 2015 arrivals.** Visitor arrivals declined 6.3% y-o-y from 27.4m in 2014 to 25.7m in 2015, partly as the implementation of the new consumption tax effective 1 April 2015 offset the attractiveness of the falling Ringgit.

**Tourist arrivals dip in 2015**



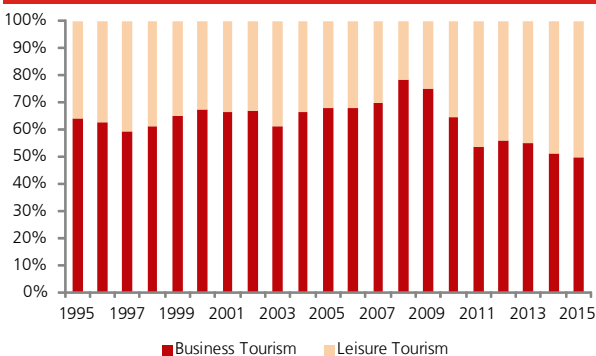
Source: Ministry of Tourism and Culture Malaysia, CAPA, DBS Bank

**Tourism is a key pillar of the Malaysian economy.** Over the last two decades, according to WTTC, Malaysia’s tourism industry has on average accounted for c.13.5% of the country’s GDP, and has directly contributed an average of c.4.8% to total employment.

Given the industry’s role and potential impact on Malaysia’s overall economic activity, it has traditionally received favourable support from the government.

**Leisure has outpaced business tourism growth.** Statistics compiled by WTTC show that over the past two decades, leisure tourism grew at 7.7% CAGR, outpacing business tourism’s growth of 4.7% CAGR, which led to a shift in ratio of business-to-leisure tourism from 64%:36% in 1995 to 50:50 in 2015.

**Tourist expenditure by purpose of visit**

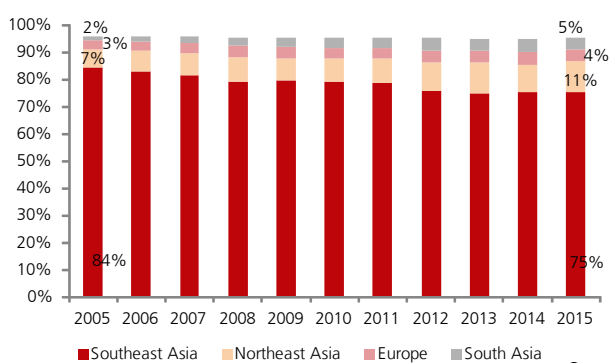


Source: World Travel and Tourism Council, DBS Bank

**Visitors are predominantly ASEAN.** The majority of Malaysia’s arrivals are from within ASEAN. While contribution from ASEAN countries has come off decade highs of c.83% in 2005, intra-ASEAN travel remains a significant source for Malaysia as tourists from the ASEAN bloc continue to represent c.75% of Malaysia’s international arrivals.

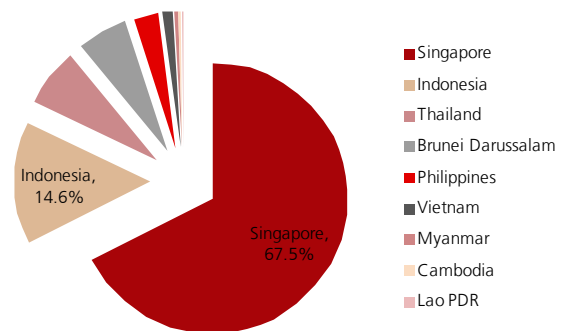
Within the intra-ASEAN visitor pool, Singapore is the largest single source – representing 67.5% of ASEAN arrivals, or c.51% of Malaysia’s total international arrivals in 2015.

**Malaysia’s key source markets**



Source: Ministry of Tourism and Culture Malaysia, DBS Bank

**Singapore is the largest single source**

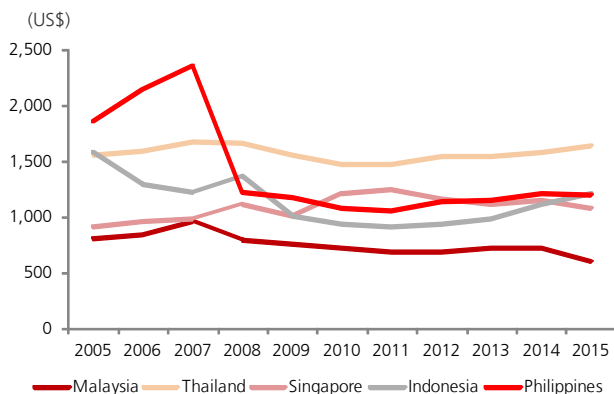


Source: Ministry of Tourism and Culture Malaysia, DBS Bank

**High arrivals, low yield as Malaysia’s per capita foreign expenditure has been on a downtrend.** Based on data compiled by WTTC and the Ministry of Tourism and Culture Malaysia, we observe that Malaysia’s real per capita foreign expenditure (in USD terms) has been on a near-steady decline from 2007 onwards – from US\$963 per capita in 2007 to US\$607 per capita in 2015.

Over the last decade, the real per capita foreign expenditure between Malaysia and ASEAN’s leading tourism market, Thailand, has also widened significantly, from US\$741 in 2005 to US\$1,031 in 2015.

**Malaysia has lowest per capita foreign expenditure**



Source: World Travel and Tourism Council, Tourism Boards of Malaysia, Thailand, Singapore, Indonesia and Philippines, DBS Bank

We believe that this phenomenon (despite ownership of vast tourism resources) is most likely due to the higher composition of more budget-conscious Singapore tourists (who represent >50% of Malaysia’s total arrivals in 2015), coupled with the lack of targeted efforts in marketing its higher-value services and products to key source markets.

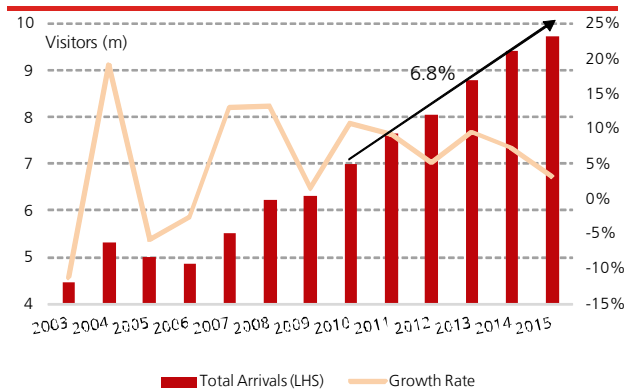
**Vision 2020.** The Tourism Transformation Plan 2020, which provides a roadmap for Malaysia’s tourism industry into 2020, aims to grow tourism receipts to RM168bn, and targets 36m tourist visitors by 2020 – from RM69.1bn and 25.7m in 2015 respectively.

Nearer term, the country hopes to achieve its target of 30.5m in tourist arrivals and receipts of RM103bn in 2016.

**Indonesia – Growing from strength to strength.**

**Another record year for Indonesia...** In 2015, Indonesia continued to extend growth in both tourist arrivals and tourism contribution, to achieve record highs of 9.7m tourist arrivals and contribution of US\$82.4m.

**Record arrivals of 9.7m tourists in 2015**



Source: Central Statistics Agency (BPS) Indonesia, DBS Bank

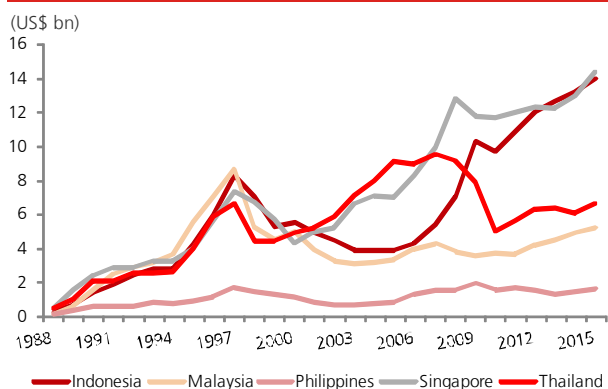
**...as consistent investments into domestic tourism industry bear fruit.**

We believe that the steady arrivals and contributions growth in Indonesia is in part (in addition to the weaker Rupiah vs USD and increased connectivity via a growing network of low cost carriers) a result of consistent capital investments into the country’s tourism sector.

Behind Singapore, which has been investing an average of US\$12.6m p.a. in tourism between 2010 and 2015, Indonesia is ranked a close second in order of the size of average capital invested in its domestic tourism industry.

Indonesia has been steadily increasing its annual tourism sector investments, which saw consecutive y-o-y growth from US\$9.69bn in 2010 to US\$14.0 in 2015, or an average of US\$12.1bn p.a. over the 5-year period.

**Capital investments in tourism industry by ASEAN-5**



Source: World Travel and Tourism Council, DBS Bank

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Based on data from the WTTC, we also estimate that over the past decade, Indonesia’s reinvestment rate (which we define as capital investments relative to contributions received from the tourism industry in the preceding year) was among the highest within the ASEAN-5 group.

**Reinvestment of contributions from tourism (%)**

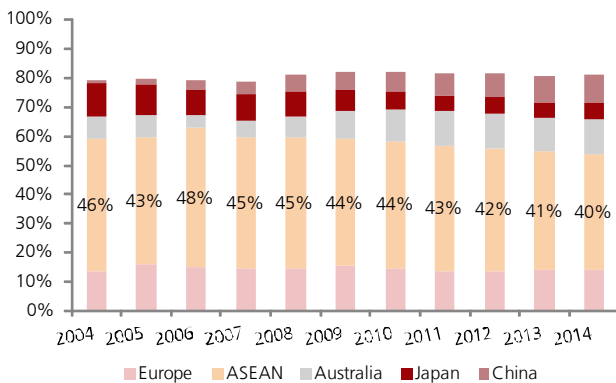
Reinvestment Rate (%)					
Country	2005	2008	2012	2015	10-yr Avg.
Indonesia	9%	14%	19%	18%	16%
Malaysia	15%	11%	12%	12%	13%
Philippines	5%	6%	9%	6%	7%
Singapore	47%	69%	52%	51%	55%
Thailand	20%	17%	12%	10%	14%

Source: World Travel and Tourism Council, DBS Bank

**40% of visitors are from ASEAN – Singapore is largest single source.** While the proportion of intra-ASEAN visitors has come off slightly over the last decade, intra-ASEAN travellers remain the largest source of arrivals for Indonesia.

Similarly, the proportion of arrivals from Singapore has also declined substantially from 31% in 2004 to 18% in 2014, but the city-state still remains the largest single source of arrivals for Indonesia.

**Majority of visitors are from within ASEAN**



Source: Central Statistics Agency (BPS) Indonesia, DBS Bank

**Initiatives for infrastructural and tourism development provide impetus for future growth.** To accelerate the pace of Indonesia’s economic development (according to the Master Plan for Acceleration and Expansion of Economic Development 2011-2025), the Indonesian government identified three main strategic pillars for growth:

- (1) Strengthen national connectivity
- (2) Increase potential of the region through the development of growth centres in the economic corridors
- (3) Increase capacity of Human Resources and Science & Technology

Under the Master Plan, the government will look to enhance facilities at 29 international and 239 domestic airports across the country, and has also earmarked c.30 sites for the development of new airports.

For instance, after years of operating beyond its effective capacity, Indonesia’s largest airport - Soekarno-Hatta International Airport is currently undergoing expansion, and its new Terminal 3 Ultimate is slated to open on schedule in June 2016.

When these new facilities are gradually constructed, deployed and optimised, they should help alleviate the ongoing congestion at Indonesia’s major airports and improve connectivity to underdeveloped regions.

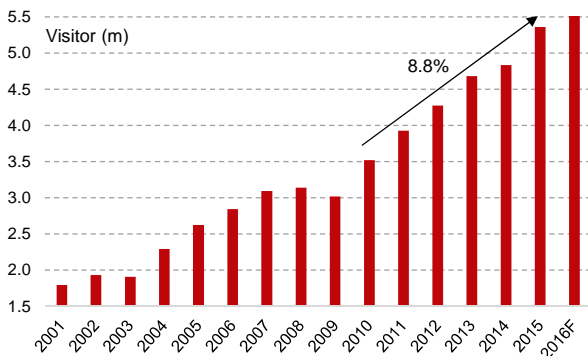
**Bali, the main economic gateway of tourism in Indonesia.** As part of the Master Plan, the Bali-Nusa Tenggara Economic Corridor was also established as the “Gateway for Tourism and National Food Support”, primarily as close to 40% of international arrivals in Indonesia are typically made through Bali, on average.

As the strategic initiatives outlined in the Master Plan have positive implications for Indonesia’s tourism industry over the longer term, we believe that the sector’s contribution to Indonesia’s GDP should gradually grow beyond its 20-year average of 10% in the medium-to-long term.

**Philippines – Reaching new heights**

**Accelerating growth in tourist arrivals to Philippines.** Tourist arrivals to Philippines has grown by a CAGR of 8.8% from 2010 to 2015. Tourist arrivals is expected to accelerate with year 2015 showing an 11.7% y-o-y growth and a y-o-y increase of c.12% expected for 2016, according to the Philippines' Department of Tourism.

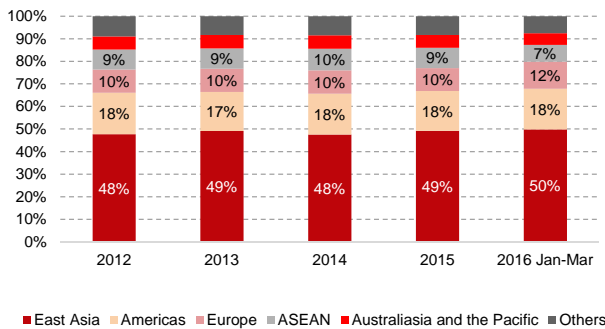
**International arrivals to Philippines**



Source: Philippine Statistics Authority (PSA), DBS Bank

**East Asia is the biggest source...** East Asia led by Korea, Japan and China contribute to c.50% of the arrivals to Philippines. East Asia along with Americas, Europe and ASEAN region give rise to more than 85% of the arrivals to Philippines.

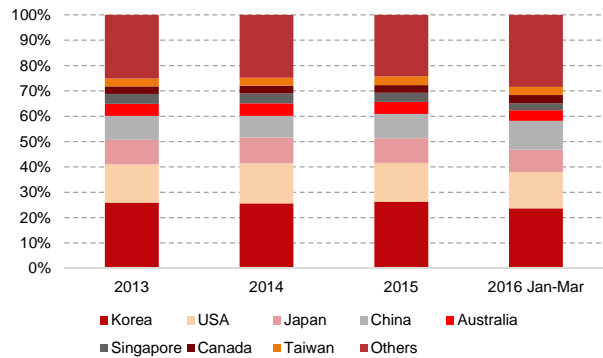
**Philippines' key source regions for tourists**



Source: Philippine Statistics Authority (PSA), DBS Bank

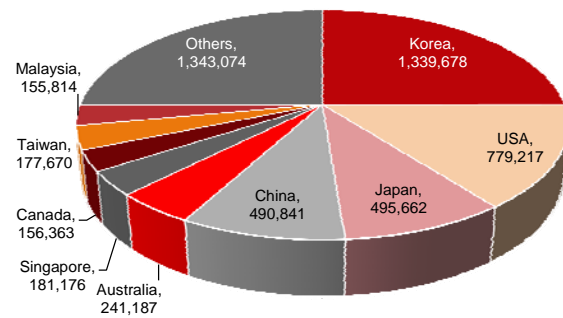
**... with remarkable growth from China.** Among the top 5 source countries, China grew at the highest rate, with 24.3% y-o-y growth in 2015 and 98.3% y-o-y growth in 1Q16. In 2015, other noteworthy growth rates were recorded by Taiwan (24.3%), Korea (14%), UK (15.7%) and Malaysia (11.9%).

**Philippines' key source countries for tourists**



Source: Philippines' Department of Tourism, DBS Bank

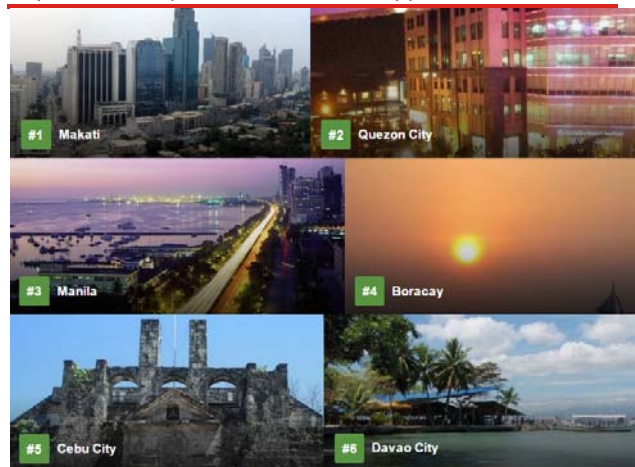
**Composition of arrivals to Philippines in 2015**



Source: Philippine Statistics Authority (PSA), DBS Bank

**Wide variety of attractions.** The top 6 attractions of Philippines according to TripAdvisor vary from shopping destinations such as Makati, to sunny beaches in Boracay to wildlife attractions in Davao.

**TripAdvisor's top 6 attractions of Philippines**



Source: TripAdvisor LLC

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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