

WHEN AND WHERE WILL WE SEE CHINESE TRAVELERS AGAIN?

Oliver Wyman Chinese Traveler Point of View

April 2021



CONFIDENTIALITY

Our clients' industries are extremely competitive, and the maintenance of confidentiality with respect to our clients' plans and data is critical. Oliver Wyman rigorously applies internal confidentiality practices to protect the confidentiality of all client information.

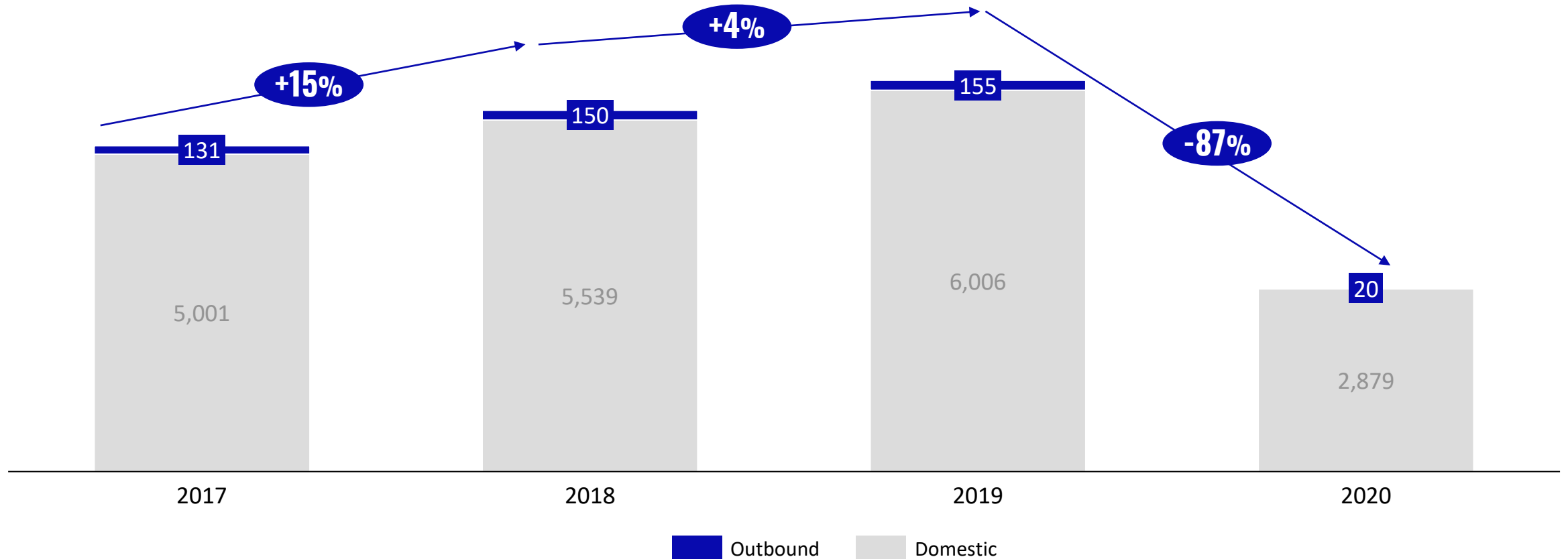
Similarly, our industry is very competitive. We view our approaches and insights as proprietary and therefore look to our clients to protect our interests in our proposals, presentations, methodologies and analytical techniques. Under no circumstances should this material be shared with any third party without the prior written consent of Oliver Wyman.

© Oliver Wyman

155 MN INT'L TRIPS IN 2019 AND ONLY 20 MN IN 2020, WHEN WILL WE BE BACK TO 155 MN?

Number of trips by Chinese travelers, 2017 – 2020

MN

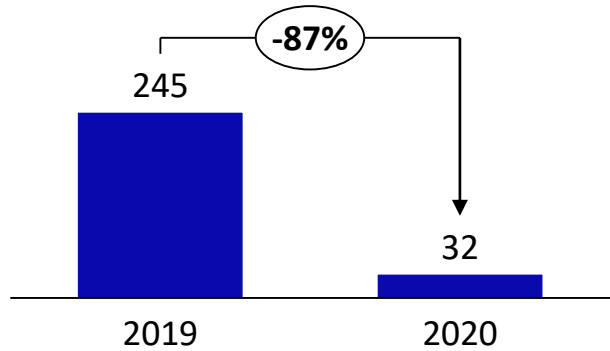


Source: CEIC, Government databases, World Tourism Organization, Statista, Oliver Wyman analysis

~USD 200 BN SAVINGS TRAPPED IN CHINA READY TO BE UNLEASHED

Chinese outbound tourism expenditure, 2019 & 2020

USD BN

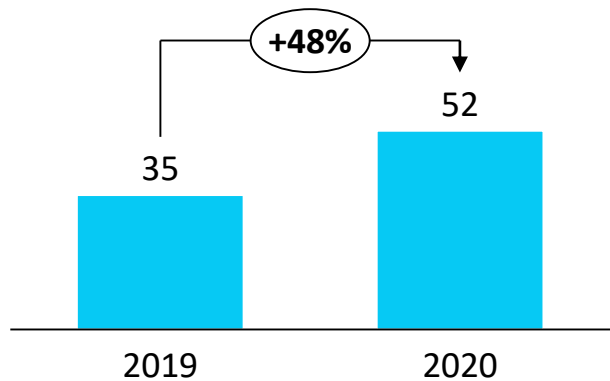


↓ USD 213 BN

of tourism expenditure from Chinese in 2020

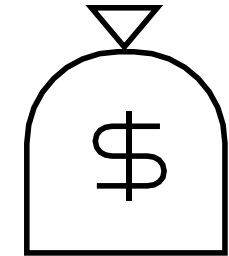
Luxury goods market in mainland China, 2019 & 2020

USD BN



↑ USD 17 BN

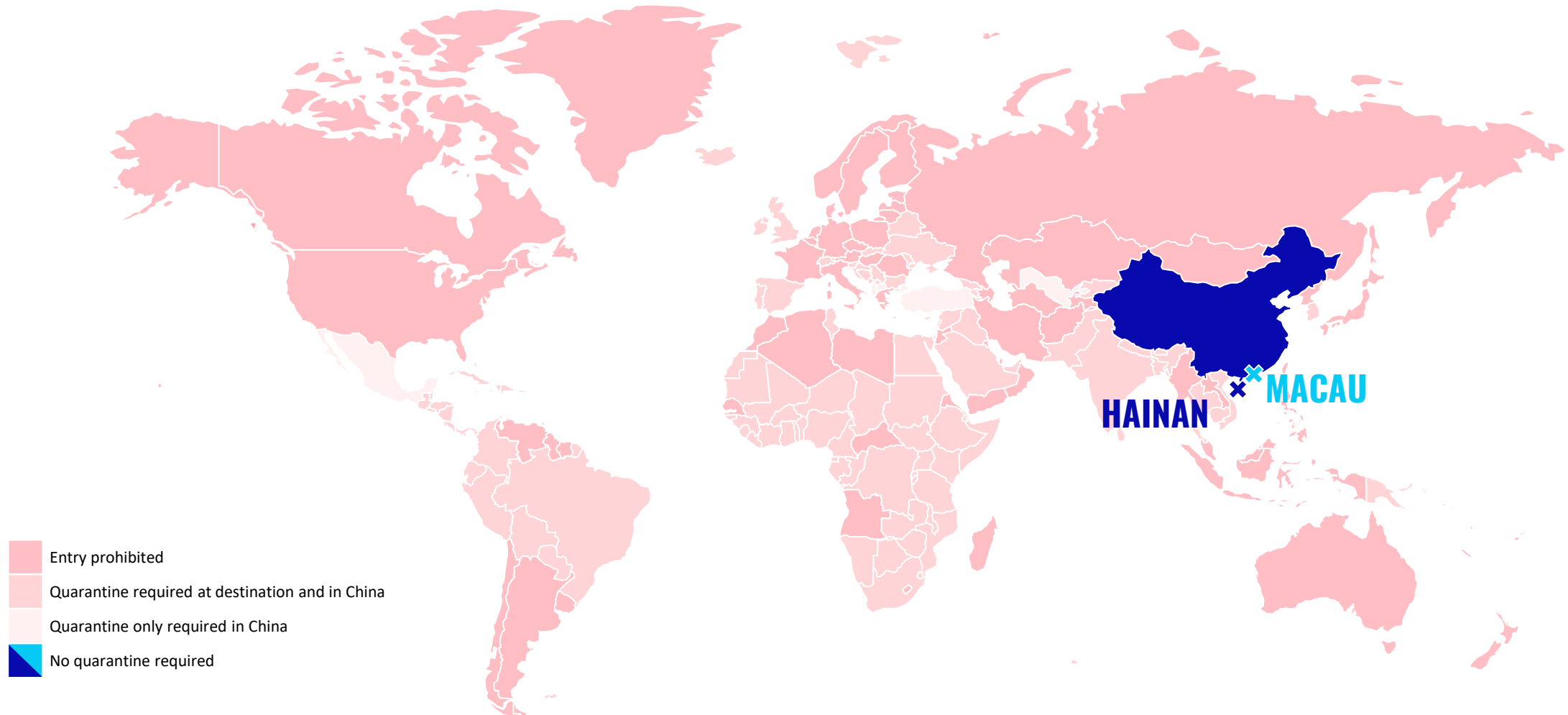
of Chinese luxury spending reshored to China in 2020



~USD 200 BN

savings to be unleashed once international travel resumes

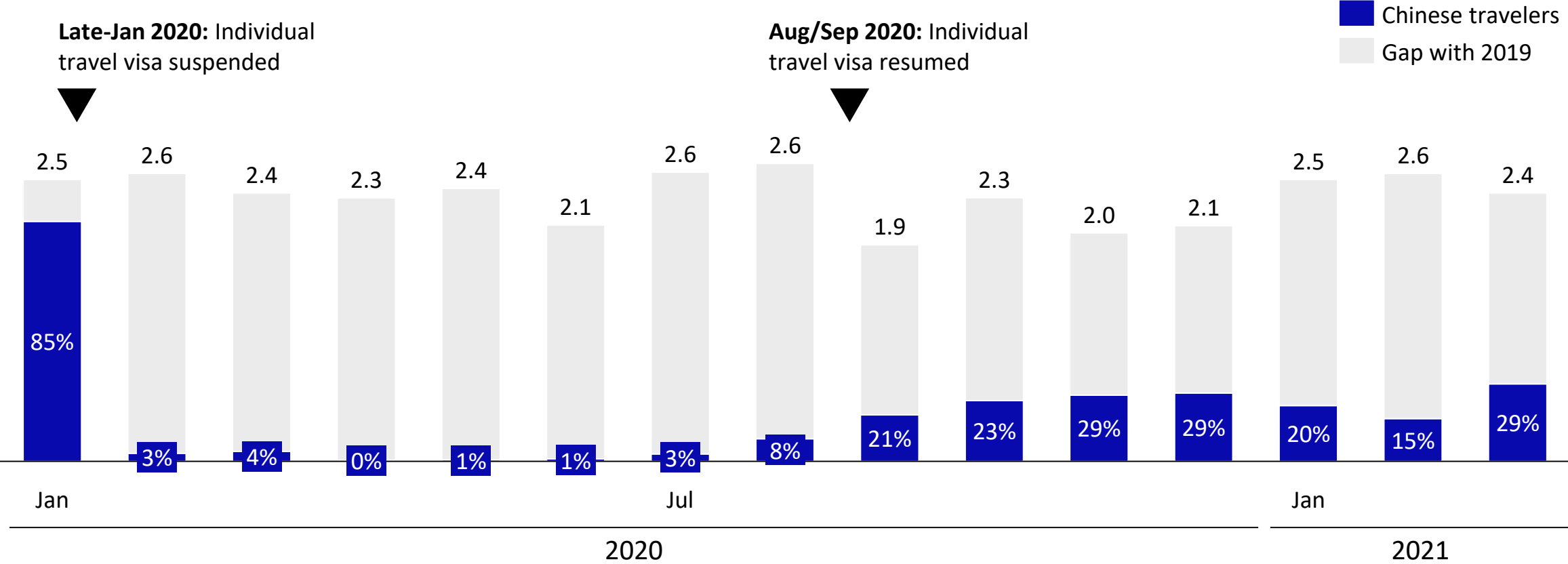
ONLY MAINLAND CHINA (INCL. HAINAN) AND MACAU WITHOUT QUARANTINE



Source: Government announcements

EVEN WITH BORDER REOPENING, THEY MIGHT NOT RETURN RIGHT AWAY

Chinese travelers to Macau by month
MN



Source: Macau Statics and Census Service

FORECAST BASED ON PANDEMIC NAVIGATOR AND CONSUMER SENTIMENTS



Oliver Wyman COVID-19 Pandemic Navigator

Global pandemic forecasts and scenarios

- *When will herd immunity be achieved?*
- *When will borders reopen?*
- *Under what restrictions?*

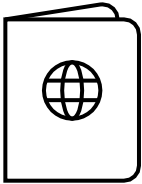
Chinese Traveler Survey 2021

Chinese consumers' sentiments on traveling

- *Are Chinese travelers willing to travel?*
- *When will they start traveling?*
- *Are they willing to go through quarantine?*
- *Where will they go?*

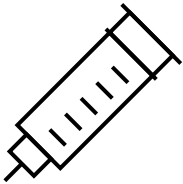
OUR TRAVEL RECOVERY MODEL CONSIDERS BORDER OPENING, TRAVEL ELIGIBILITY AND CONSUMER SENTIMENTS

Key factors influencing recovery rate



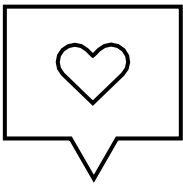
Can I travel?

X



Under what restrictions?

X



Do I want to travel?

=

Recovery rate
by quarter
by destination

Entry restrictions

Vaccination requirement

Quarantine rules

Time to travel

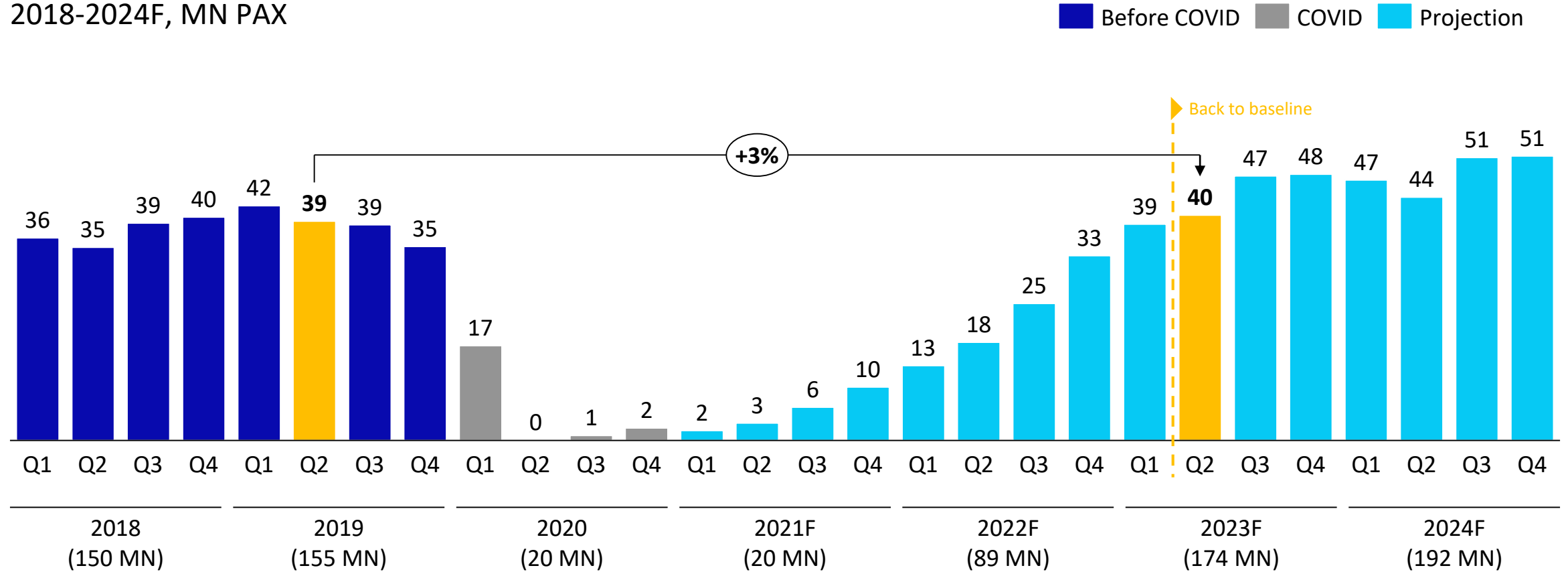
Deterrence by quarantine

A view from an airplane window showing the wing and a sunset over a city. The sun is low on the horizon, casting a warm glow over the city below. The wing of the airplane is visible on the left side of the frame.

**BACK AT 2019 LEVEL
BY Q2 2023**

2 MORE YEARS TO GET BACK TO 2019 LEVEL

Number of outbound trips by Chinese travelers
2018-2024F, MN PAX

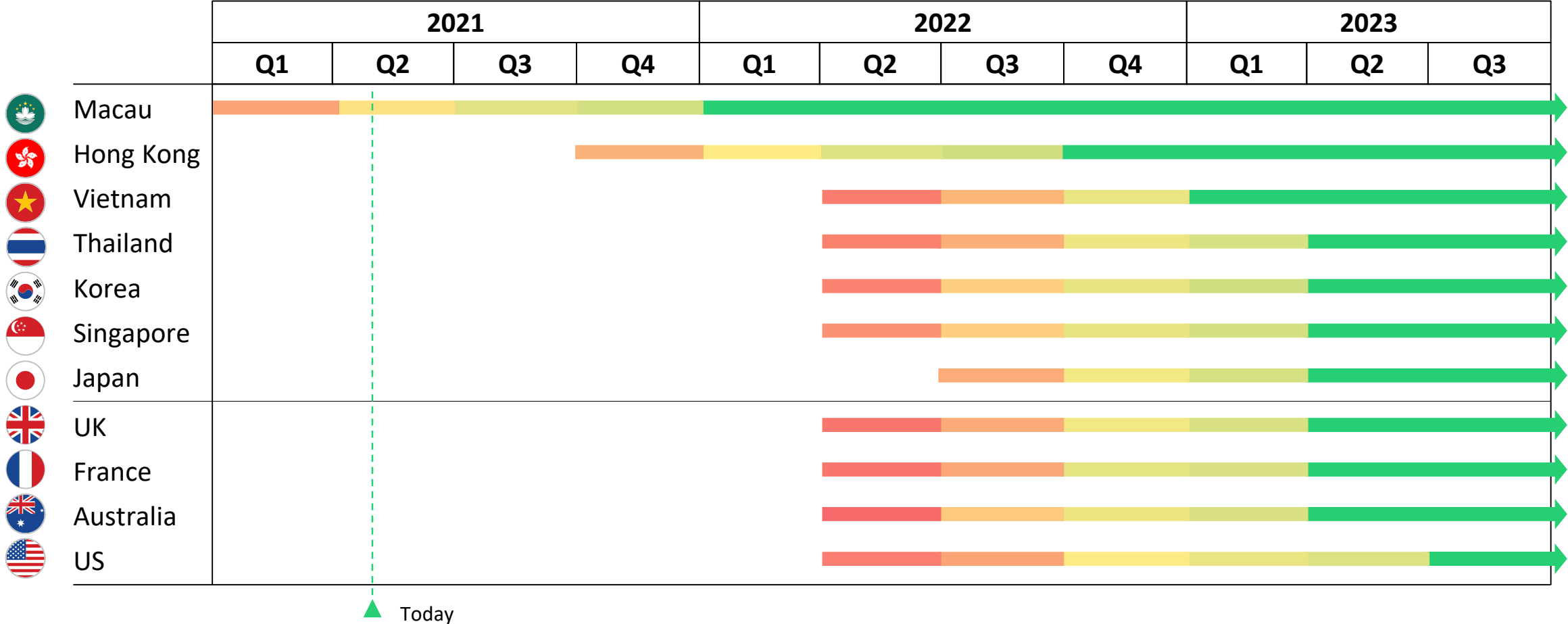


Source: Chinese traveler recovery dashboard (Apr 26)

MACAU WILL BE LEADING THE RECOVERY, FOLLOWED BY HONG KONG

Recovery timeline by destination

0% 99% of baseline Travel resumes Back to normal



Source: Oliver Wyman pandemic panel, Oliver Wyman analysis

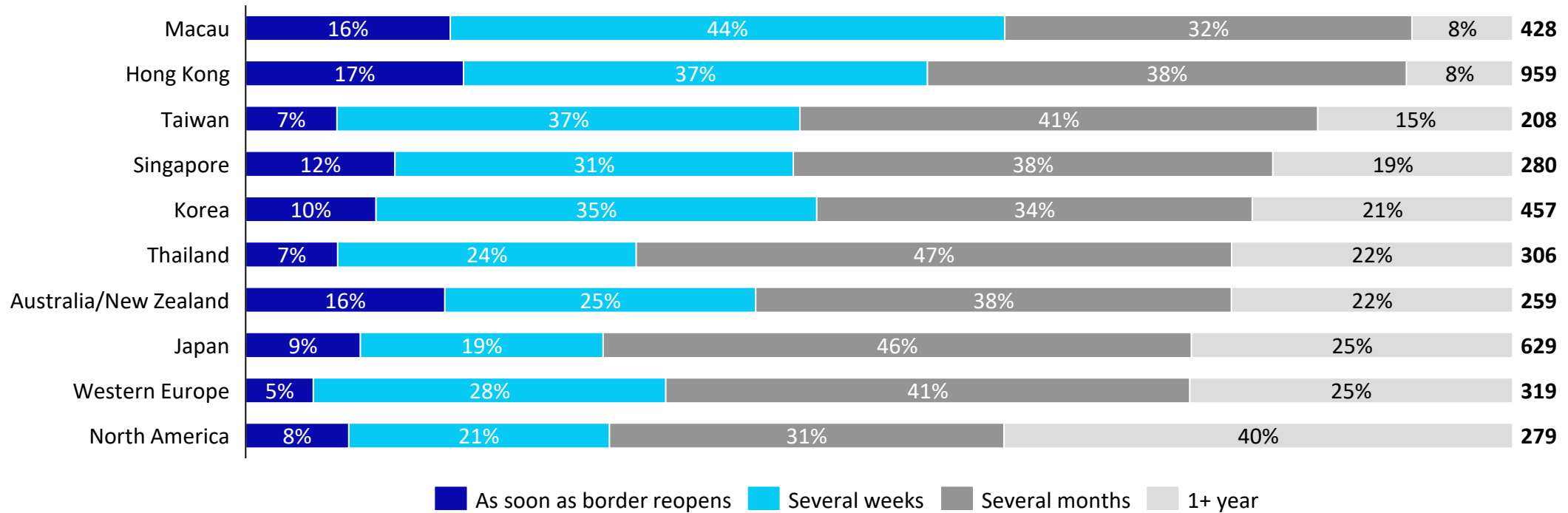


CHINESE ARE EAGER TO TRAVEL BUT THE MAJORITY IS CAUTIOUS

Question: Assume China has now resumed travel with these destinations, what would be your attitude towards traveling to these destinations?

% of travelers who visited the destinations in 2019 and plan to revisit

Plan for traveling after border reopens



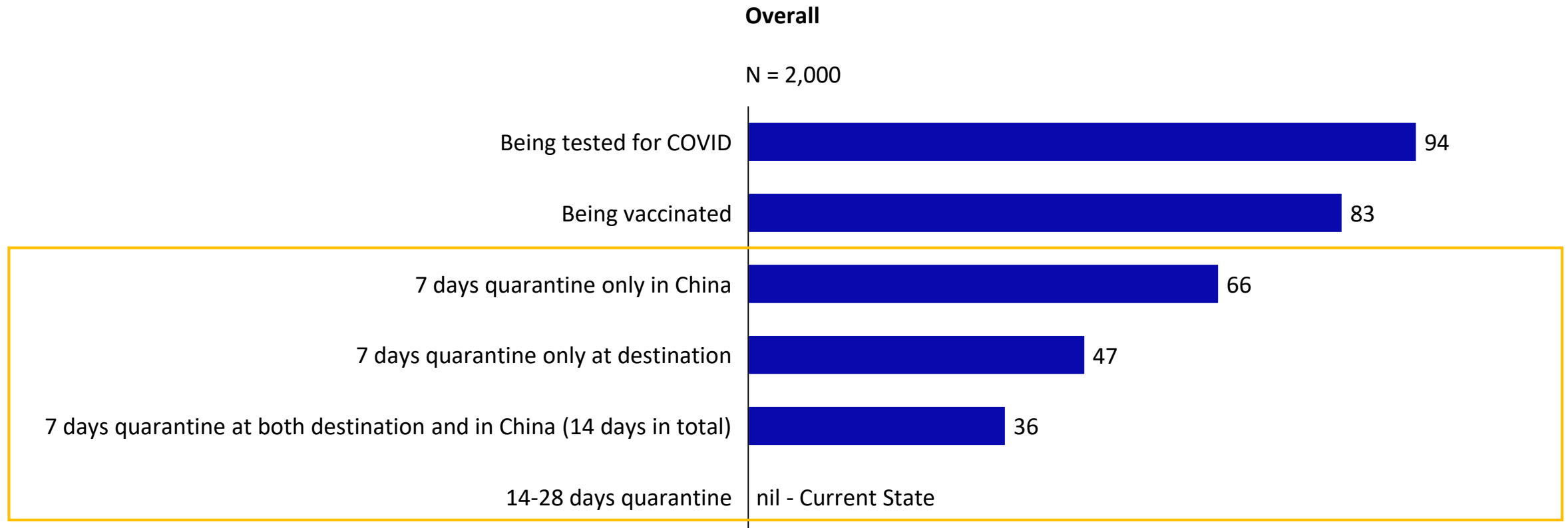
N = 2,000, weighted

Source: Consumer survey, Oliver Wyman analysis



QUARANTINE DETERS THEM FROM TRAVEL

Question: Will you still travel internationally if there are certain requirements to do so? Are you willing to...
% of respondents, % pt. difference



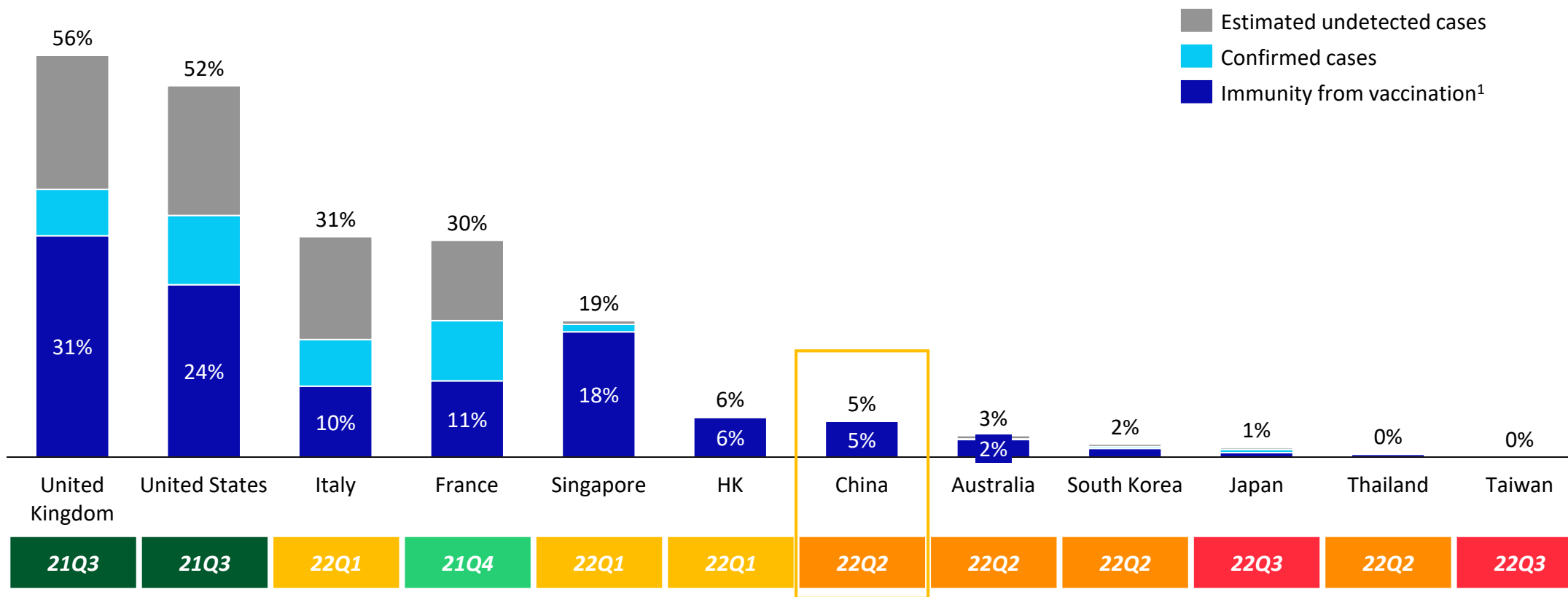
Source: Consumer survey, Oliver Wyman analysis



HERD IMMUNITY IS REQUIRED TO WAIVE QUARANTINE REQUIREMENTS; YET CHINA LAGS BEHIND

% population with immunity by natural infection or effective vaccination by country/region

Data as of April 23rd, 2021



Est. time to reach herd immunity

1. Immunity from vaccination means fully vaccination (taken 2 doses of vaccines)

Source: Oliver Wyman pandemic panel



THE EARLY TRAVELERS

YOUNGER TRAVELERS AND BIG SHOPPERS WILL TRAVEL FIRST

Characteristics of the first travelers



YOUNGER

**BIG
SPENDER**



**PREFER
SHOPPING**

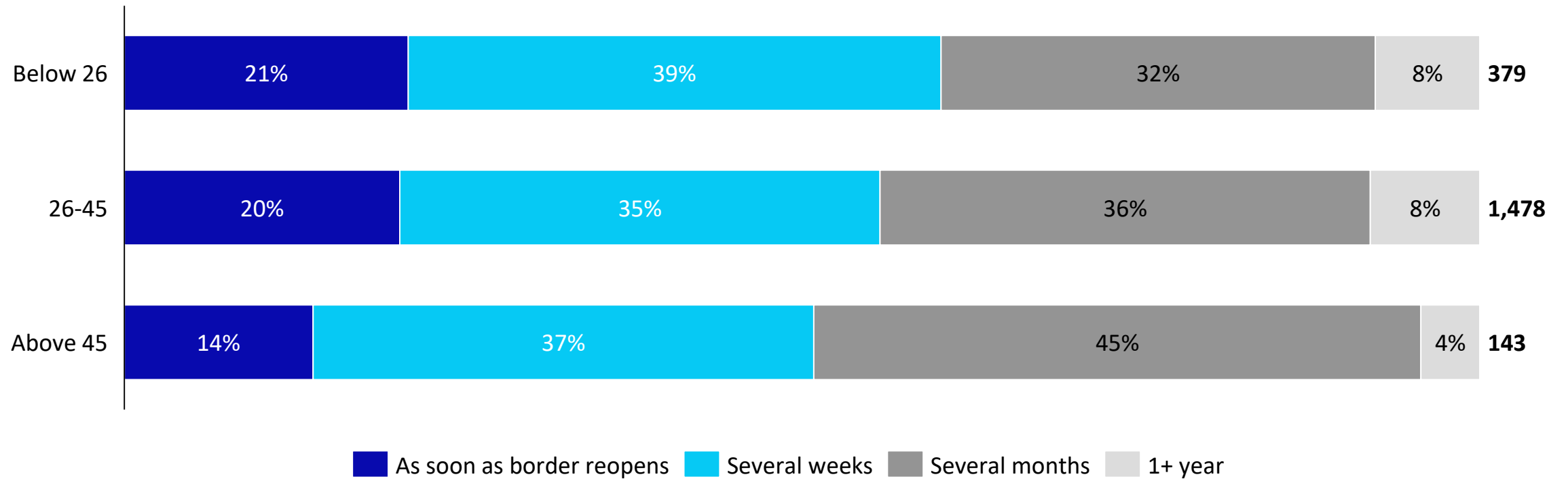
**PREFER SELF
TRAVEL**



YOUNGER TRAVELERS ARE MORE EAGER TO TRAVEL

Plan for traveling after border reopens

% of travelers who plan to travel, by age group



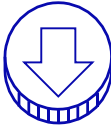
N = 2,000, weighted

Source: Consumer survey, Oliver Wyman analysis

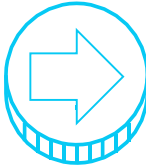
EARLY TRAVELERS ARE MORE EAGER TO SPEND MORE ON THEIR NEXT TRIP

Question: Would you plan to spend more on your next international trip?

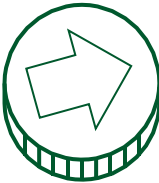
% of respondents



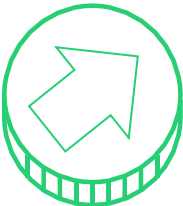
SPEND LESS



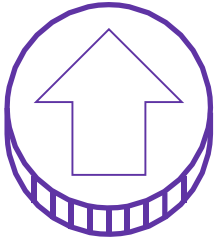
SPEND THE SAME



**SPEND MORE
+10-30%**



**SPEND MORE
+30-80%**



**SPEND MORE
80%+**

As soon as border opens
(N = 384)



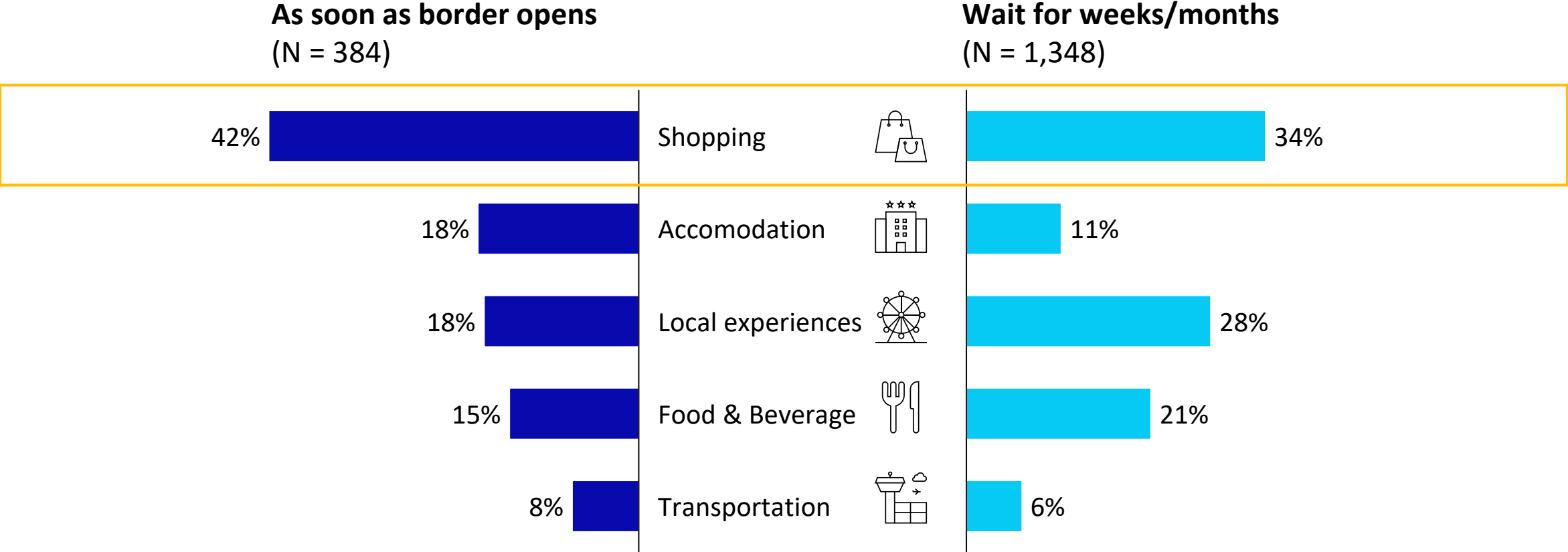
Wait for weeks/months
(N = 1,348)



N = 1,732; weighted
Source: Consumer survey, Oliver Wyman analysis

EARLY TRAVELERS CAN'T WAIT TO SHOP

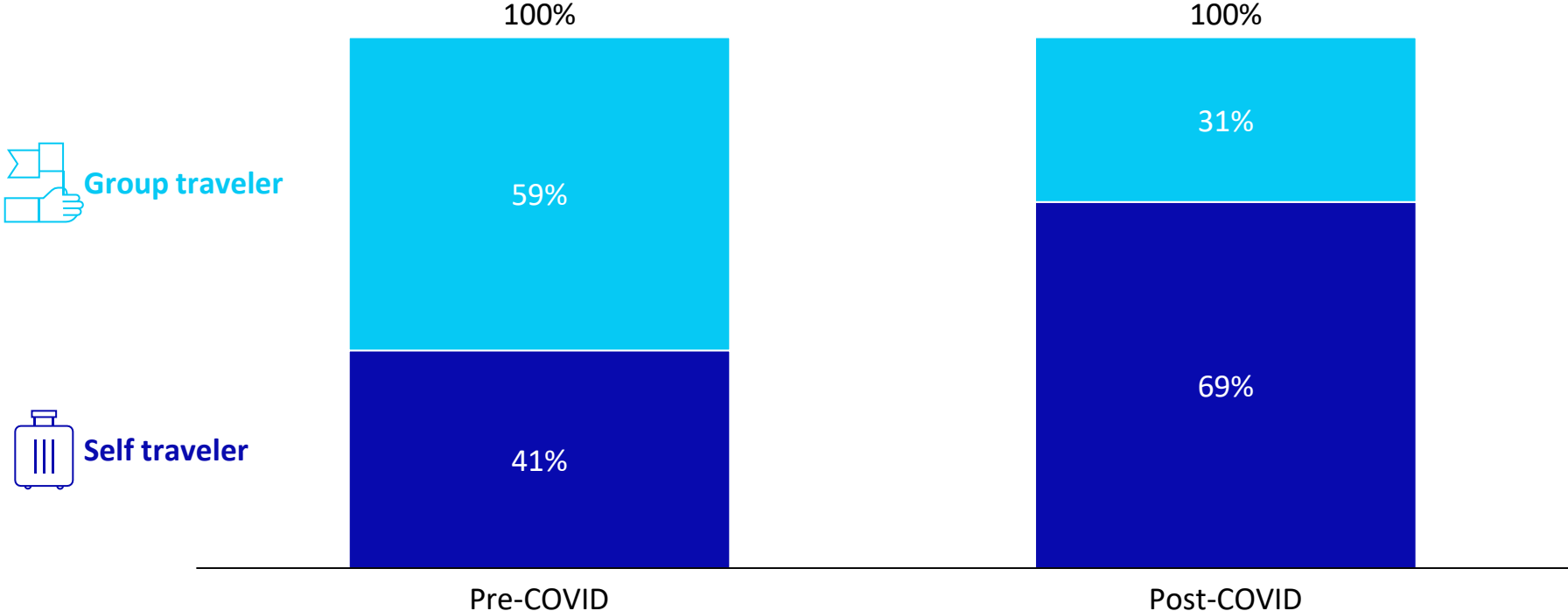
For the next international travel, which of the following is the top categories on which you will spend more money?
% respondents



N = 1,864; weighted
Source: Consumer survey, Oliver Wyman analysis

BIG SHIFT TO SELF-TRAVEL

Travel preference towards group travel vs. self travel Pre- and post-COVID



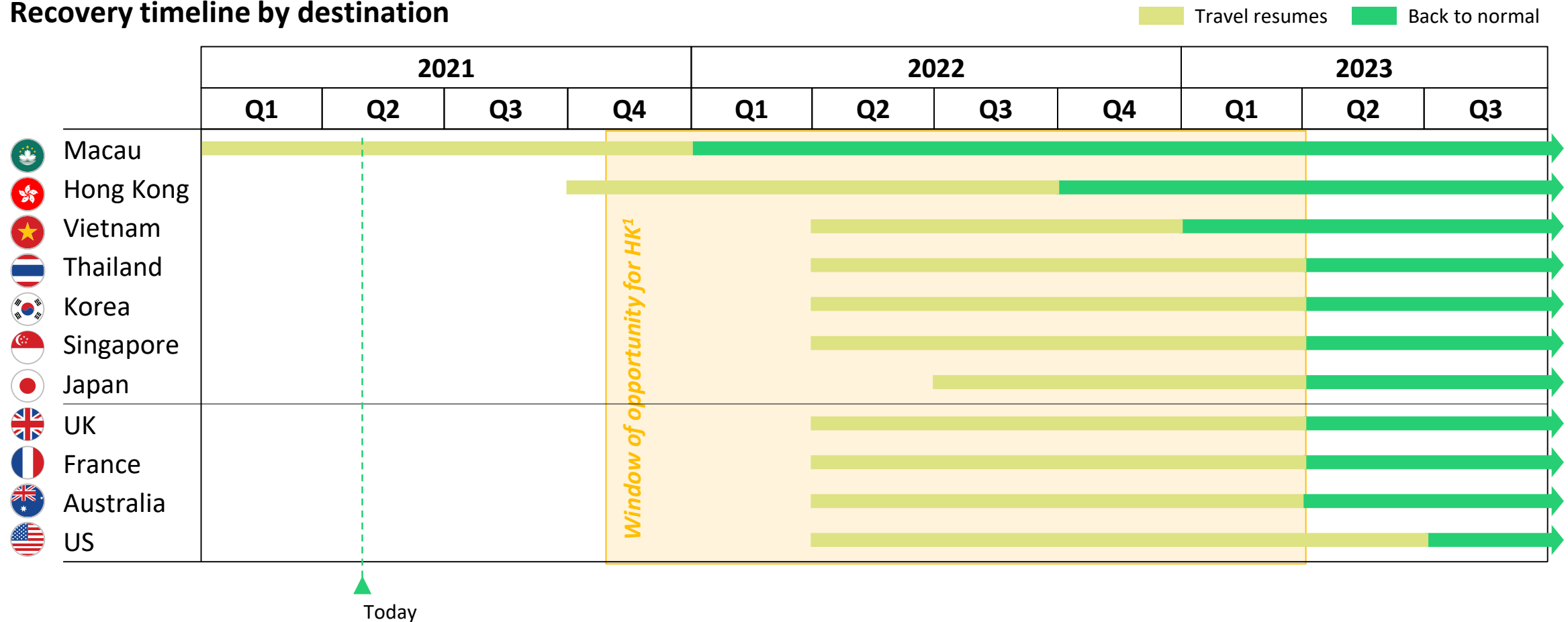
Question: Has your preference on taking group travel tour vs. self tour changed for your next international travel?
N = 2,000, weighted
Source: Consumer survey, Oliver Wyman analysis



**PICK-UP OF
SHORT-HAUL TRAVEL**

HONG KONG HAS A SHORT WINDOW TO REBUILD BEFORE THE REST OF THE WORLD

Recovery timeline by destination



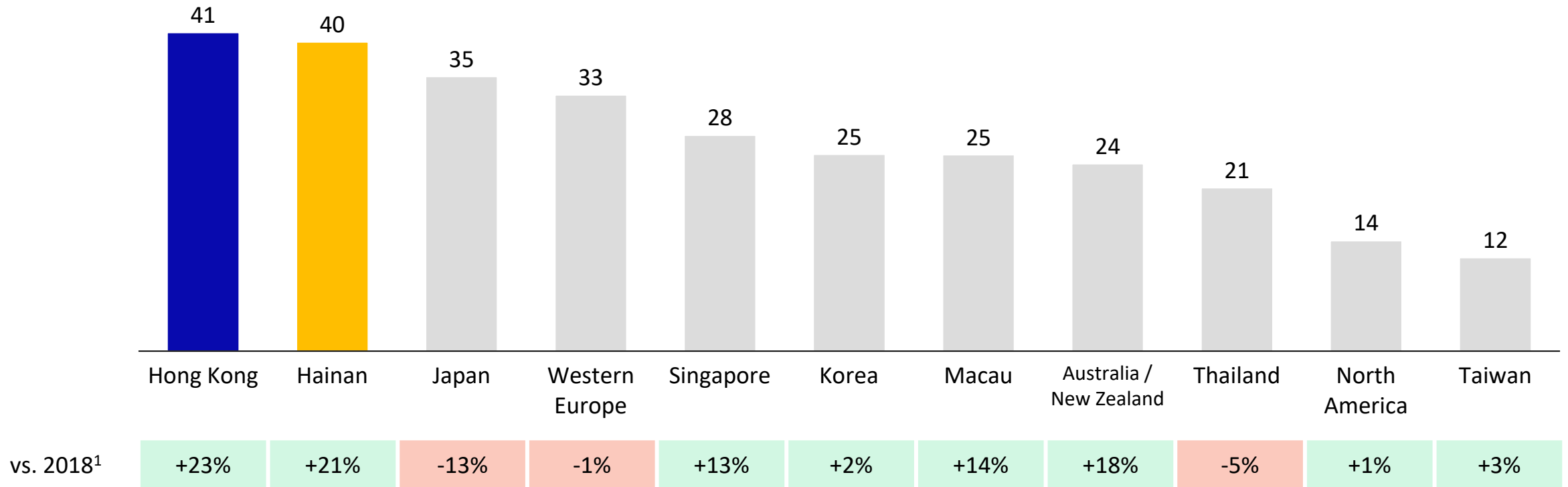
1. Assume Hong Kong will waive quarantine requirements for travelers from Mainland China in mid-May, and subsequently China will waive re-entry quarantine requirements in late-Q3/early-Q4 after several months of zero infections in Hong Kong, with increased vaccination rate in China

Source: HK Government

HONG KONG REMAINS A TOP DESTINATION, BUT IS CHALLENGED BY HAINAN

Question: Assume the pandemic is fully under control and China has resumed travel with the entire world, what would be your top destination to visit?

Top 3 locations, % of respondents

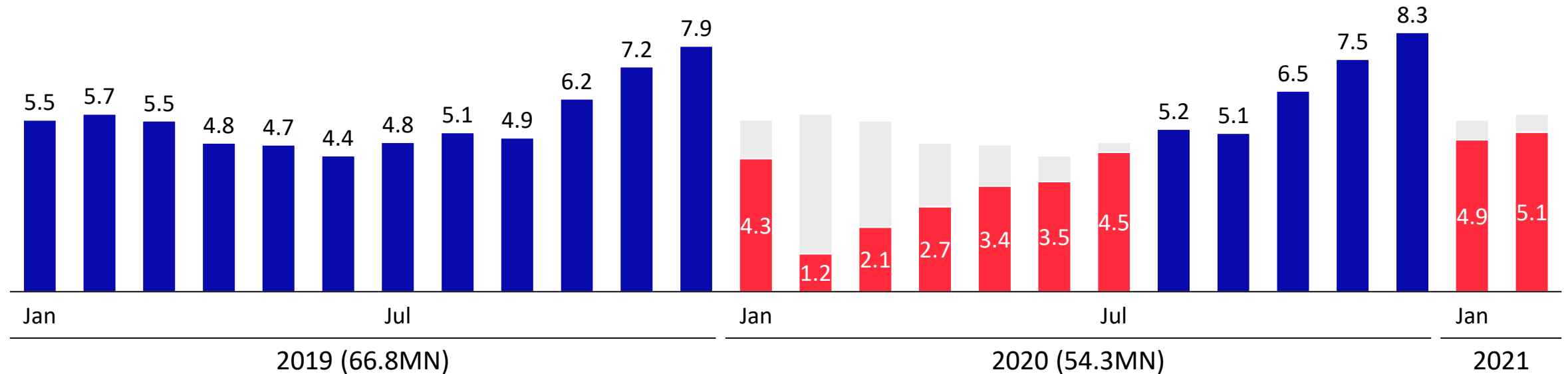
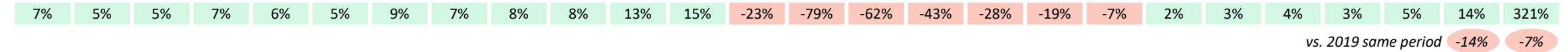


N = 2,000; weighted; 1. Except Hainan (2019)
Source: Consumer survey, Oliver Wyman analysis

HAINAN HAS BEEN BACK AT 2019 LEVEL SINCE AUGUST, EXCEPT CNY DUE TO REGIONAL OUTBREAK IN MAINLAND

Chinese travelers to Hainan by month MN

YoY growth

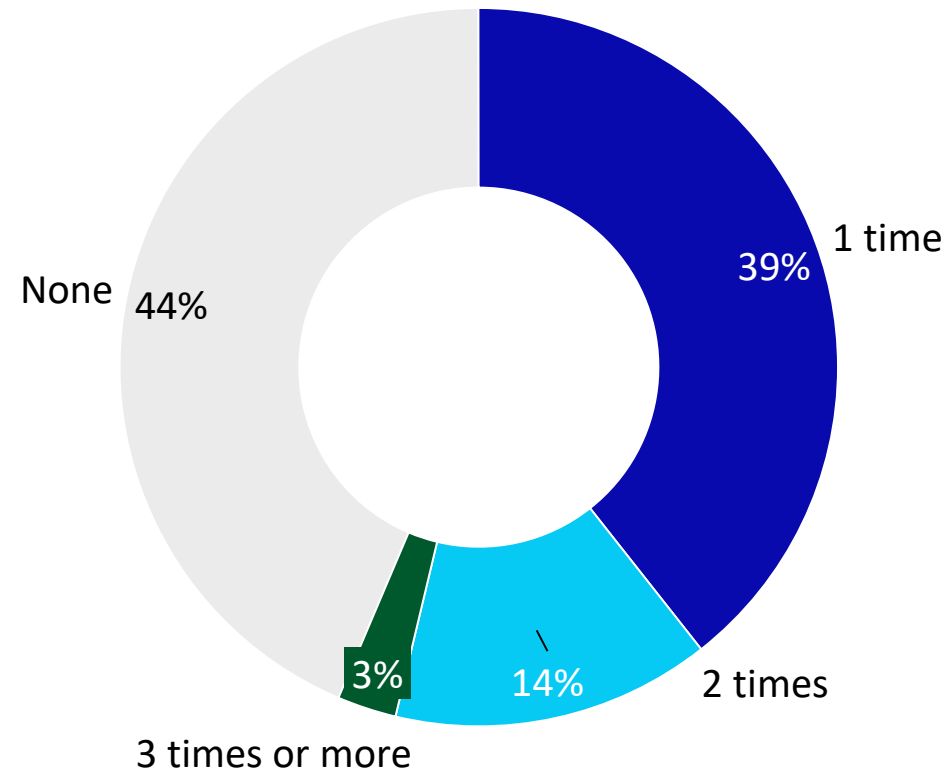


■ Gap from 2019 level

Source: Hainan Tourism Board

ALMOST 60% OF 2019 INT'L TRAVELERS HAVE BEEN TO HAINAN IN 2020

Question: How many times have you been to Hainan in the past 12 months?



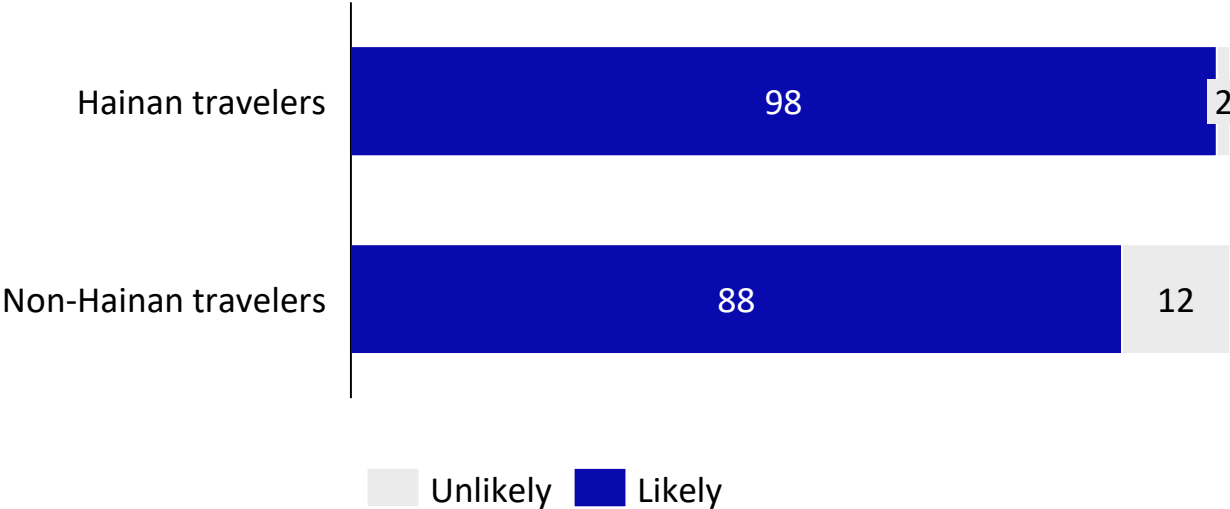
N = 2,000, weighted
Source: Consumer survey, Oliver Wyman analysis

HAINAN IS A WELCOMED ALTERNATIVE TO INT'L TRAVEL, AND IS HERE TO STAY

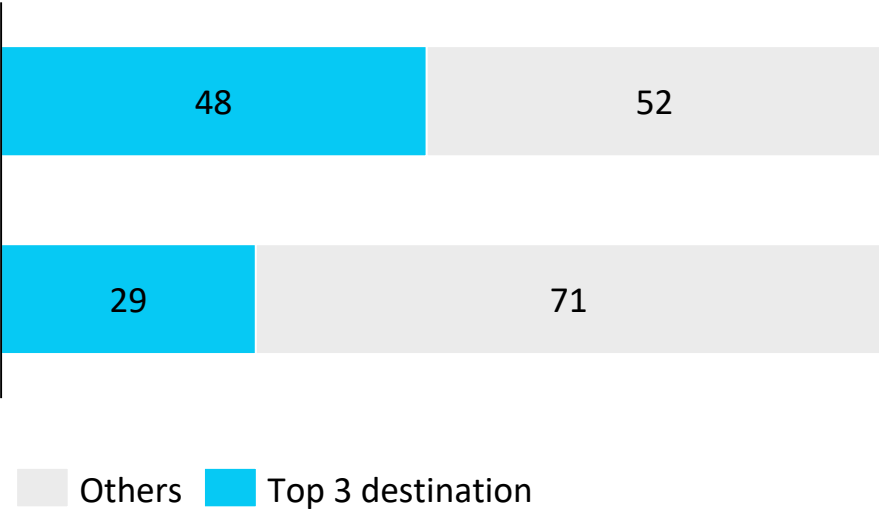
Willingness to travel to Hainan

% respondents

If borders are still closed...
% willing to travel to Hainan as an alternative of international travel



If borders are reopened...
% respondents who ranked Hainan as their top 3 destinations



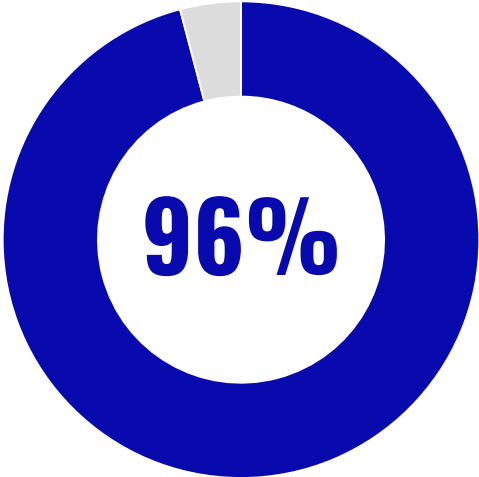
Question: If travel ban is still in effect In the foreseeable future, how likely will you travel to Hainan as an alternative to international travel?
 Question: Assume the pandemic is fully under control and China has resumed travel with the entire world, what would be your top destination to visit?
 N = 2,000, weighted
 Source: Consumer survey, Oliver Wyman analysis

HAINAN DUTY-FREE IS HIGHLY ATTRACTIVE TO CHINESE INT'L TRAVELER

Hainan Offshore Duty-Free Policy change in July 2020

	Old policy	New policy
Quota per visit	RMB 8,000	RMB 100,000
Yearly quota	RMB 30,000	RMB 100,000
Categories	38	45
Perfume	8 units per trip	No restrictions
Cosmetics	12 units per trip	30 units per trip
Liquor	Not allowed	1.5L per trip
Mobile phone	Not allowed	4 units per trip
Other categories	Vary	No restrictions

% of Chinese int'l travelers who shopped in Hainan duty-free stores



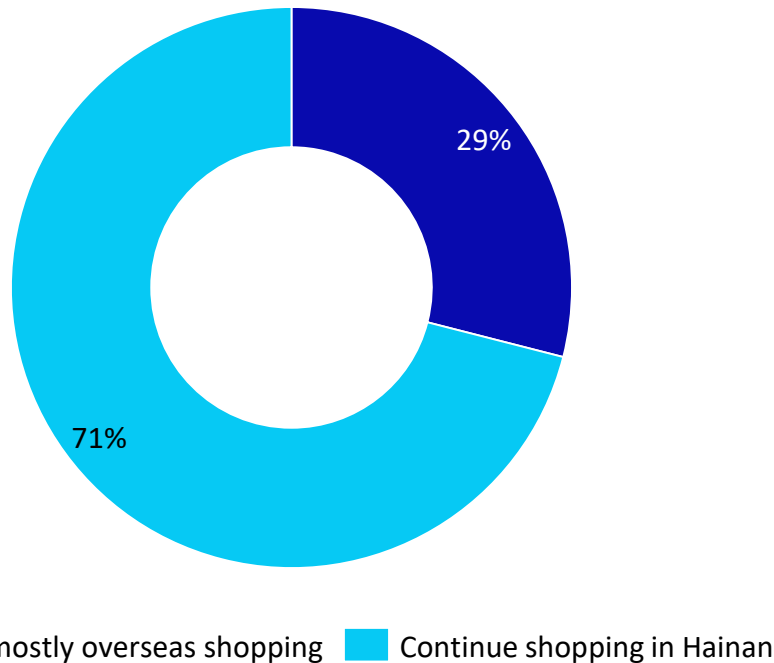
Source: Consumer survey, Government, Oliver Wyman Analysis

~70% OF INT'L TRAVELERS SEE IT AS A LONG-TERM SHOPPING PARADISE

Preference for shopping when int'l travel resumes – Overseas vs. Hainan

% respondents, by household income

N = 2,000¹



Question: Do you think you would substitute your overseas shopping with Hainan when travel resumes?
1. Weighted
Source: Consumer survey, Oliver Wyman analysis

Top rationale for...

Continue shopping in Hainan

1	Lower travel expense	54%
2	Better shopping experience	20%
3	Support for local tourism	13%

Revert to mostly overseas shopping

1	More choices for brands/styles	39%
2	Better shopping experience	23%
3	Lower prices at overseas destinations	15%

THE REAL SIZE OF HAINAN IS STILL DEPENDENT ON BRANDS' SUPPORT

Comparison of Sanya CDF Mall and Hong Kong Harbour City¹



Sanya CDF Duty Free Mall



Hong Kong Harbour City

Sales Area

72K sqm

185K sqm

Sales Volume

10.4 BN RMB (2019)

33.6 BN RMB (2018)

of Beauty Brands

58

323

Selected Beauty Brands

ESTÉE LAUDER GIORGIO ARMANI YVES SAINT LAURENT
Dior LANCÔME CHANEL

ESTÉE LAUDER GIORGIO ARMANI YVES SAINT LAURENT
Dior LANCÔME CHANEL

of Fashion & Accessories Brands

196

335

Luxury Brands only at Harbour City

Selected Fashion & Accessories Brands

BVLGARI TIFFANY & CO. HERMÈS Cartier
PRADA (Watch only) GUCCI

BVLGARI TIFFANY & CO. HERMÈS LV CHANEL ROLEX
PRADA GUCCI Dior GIORGIO ARMANI

Bank of America predicts Hainan could capture 30% of Mainland China's luxury spending by 2030 if brands would support

¹ As of December 2020

Source: Bank of America, Meituan App, Harbour City Website, Oliver Wyman analysis

QUALIFICATIONS, ASSUMPTIONS AND LIMITING CONDITIONS

This report is for the exclusive use of the Oliver Wyman client named herein. This report is not intended for general circulation or publication, nor is it to be reproduced, quoted or distributed for any purpose without the prior written permission of Oliver Wyman. There are no third party beneficiaries with respect to this report, and Oliver Wyman does not accept any liability to any third party.

Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been independently verified, unless otherwise expressly indicated. Public information and industry and statistical data are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information. The findings contained in this report may contain predictions based on current data and historical trends. Any such predictions are subject to inherent risks and uncertainties. Oliver Wyman accepts no responsibility for actual results or future events.

The opinions expressed in this report are valid only for the purpose stated herein and as of the date of this report. No obligation is assumed to revise this report to reflect changes, events or conditions, which occur subsequent to the date hereof.

All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of the client. This report does not represent investment advice nor does it provide an opinion regarding the fairness of any transaction to any and all parties.

