

China Consumer Discretionary

Hengqin-Macau masterplan to drive long-term growth, benefiting cultural tourism, gaming and duty-free markets

The masterplan for the Guangdong-Macau Intensive Cooperation Zone in Hengqin will create conditions to diversify Macau's industries and inject key impetus into the long-term development of the two regions. We recommend China Tourism Group Duty Free Corporation (601888 CH, BUY).

Guangdong-Macau joint construction, management and sharing system by 2024E

The Central Committee of the Communist Party of China and the State Council recently issued their masterplan for the construction of the Guangdong-Macau Intensive Cooperation Zone in Hengqin. It aims that by 2024, the Guangdong-Macau joint construction, co-management and sharing system would be running smoothly, and the number of Macau residents living and working in the zone have increased substantially. This is the initial structure for the integrated development of Hengqin-Macau, achieved through close coordination with the Macau economy. By 2035E, it is hoped that the success of the plan would fully demonstrate the "one country, two systems" policy and boost the zone's economic strength and tech competitiveness.

Our take on the masterplan

The intention behind the construction of the Hengqin New District is to create conditions for diversified development of Macau's industries and to inject a key impetus for the long-term development of Guangdong and Macau. Hengqin is located at the southern end of Zhuhai and, with an area of about 106 sq km, is significantly larger than the 33-sq-km Macau. It is separated from Macau by a waterway with a bridge. It has inherent advantages of Guangdong-Macau cooperation and is an important platform to develop the moderately diversified economy of Macau. The cooperation zone is a customs-control area between the "first border" and the "second border" of Hengqin Island and has a total area of ~106 sq km. The border between Hengqin and Macau is set as the first border and the border between Hengqin and other areas within the customs territory of the mainland is set as the second border. The first border promotes cooperative inspection and a one-time customs clearance on the basis of mutual agreement and safety. The second border imposes no restrictions on the entry and exit of personnel and is subject to tax policies for items entering the mainland via the second border in the cooperation zone.

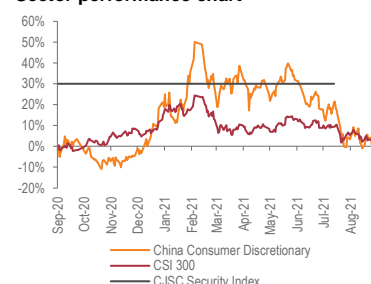
New potential for Hengqin duty-free area, cultural tourism and other markets

1) In terms of tax exemption, customs control at the first and second borders, and the Hengqin non-exempt (bonded) goods list policy will be adjusted, except for goods that are not exempt (bonded) and specified by national laws and administrative regulations. In addition, other goods and articles are exempted from (bonded) entry duty. At the same time, the authorities will continue to improve the corporate income tax system and eligible industrial enterprises in the cooperation zone will be taxed at a reduced rate of 15%.

2) Development plans include culture and tourism, exhibitions and commerce industries. The initiative would help to build a high-level Hengqin International Leisure Tourism Island, support the construction of Macau's World Tourism and Leisure Center and develop tourism industries such as leisure and vacation facilities, conferences and exhibitions, sports events and tourism, and major health industries such as leisure and health, rehabilitation and medical care in the cooperation zone. It would also strengthen the development and utilization of tourism resources in the surrounding islands and promote the free travel of yachts in Guangdong, Hong Kong and Macau. Enterprise

OUTPERFORM (maintain)

Sector performance chart



Source: BigData

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income tax is exempted on income obtained by newly-added overseas direct investments into tourism, modernization services and high-tech industrial companies established in the cooperation zone.

Investment ideas and risks

This masterplan is conducive to the fast development of Hengqin. We would watch the duty-free, Macau cultural tourism and gaming sectors.

1) Hengqin Port has advanced facilities. The total construction area of the joint customs clearance building and transportation platform is 450,000 sq m. The designed daily customs clearance volume is 222,000 visits and annual customs clearance volume is 80m. New industries would promote infrastructure interconnections. China Tourism Group Duty Free and Zhuhai Duty Free both have duty-free shops at the Hengqin port. We recommend China Tourism Group Duty Free Corporation (601888 CH, BUY).

2) With the gradual progress of Hengqin-Macau integration and economic diversification, Macau's cultural tourism would transition from single-industry gaming to include more diversity.

Other related stocks (not rated): Gree Real Estate, Sands China, Galaxy Entertainment Group and SJM Holdings

Risks include: operating risks of tax-free projects, increased competition in tax-free industries, and bidding risks.

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Ratings Definitions			
Investment Ratings			
Category	Description	Ratings	System
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		Neutral	Expected relative return over stock price between -10% and 10%
		Sell	Expected relative return over stock price below -10%
Industry investment ratings	within 6 months from the report issuance date, increase or decrease relative to the Index of the jurisdiction of the Industry in the same period	Outperform	Expected increase of industry index over 5%
		Neutral	Expected increase of industry index between -5% and 5%
		Underperform	Expected increase of industry index below -5%
Jurisdictions	Index Used for Ratings Definitions		
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China-Hong Kong	Hang Seng Index		
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