China Transport, Leisure and Beauty

Virtual tour takeaways: Finding growth in a tougher environment

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Recap of UBS Transport, Leisure and Beauty Virtual Tour (21-23 Sep)

We hosted 10 meetings ahead of Golden Week to discuss the latest trends in cargo, shipping, hotels, duty-free, beauty & home and personal care (HPC), and logistics. Our key takeaways are below. The team's full coverage universe can be found in Figure 2.

Leisure: expert is cautious on hotel segment; airport DFS continues to recover

Key takeaways: 1) The expert's hotel blended RevPAR improved by ~4% YoY in July-August, led by prime locations and leading brands, while lower-tier cities remained pressured by supply growth and same-brand cannibalisation; business travel is stabilising; 2) supply growth and market rents have moderated, while the expert is more positive on the upper-midscale segment; 3) SH Airport's duty-free sales continue to recover, with inbound stores and overseas travellers becoming new growth drivers, while CDF is executing faster than Dufry in new store opening; 4) beauty remains the largest category, although luxury goods and domestic brands are gaining share; discounting levels narrowed YoY.

Cargo: Airfreight growth slows; intra-Asia shipping is resilient

Key takeaways: **1) Air cargo:** US-bound e-commerce and rapidly growing AI hardware shipments should provide partial support, benefiting carriers with stronger Yangtze River Delta exposure; however, Europe routes' volume growth has slowed following the removal of de minimis tax exemptions, and Q4 peak-season rates are unlikely to reach past highs. **2) Logistics:** Yiwu's regulatory floor price has lifted parcel prices, but franchisees remain loss-making after system cost increases, while weak market growth and headquarters' volume targets continue to constrain profitability. **3) Shipping:** Rates are likely to diverge, with trans-Pacific and Asia-Europe rates facing normalisation and longer-term capacity pressure, while intra-Asia routes remain relatively resilient on strong ASEAN demand and tighter feeder-vessel supply. **4) Ports:** Recent congestion at Chinese ports appears mainly event-driven, although highly utilised gateway ports remain vulnerable to weather and network disruptions.

Beauty and HPC: Category leaders outperform; global expansion in focus

We spoke with three beauty and personal care companies. Key takeaways are: 1) While the broader beauty market remains challenging, growth continues to be concentrated in select premium and niche categories, including body care, hair care, premium skincare and facial oils, where differentiated products, stronger brand equity and category leadership are supporting resilient demand, reinforcing our view that premium beauty continues to outperform the mass segment (link). 2) Premiumisation remains a key growth driver, as companies continue to upgrade core categories and expand into higher-value segments while leveraging omnichannel distribution and brand-building capabilities. 3) Int'l expansion is becoming an increasingly important strategic focus, with companies actively pursuing overseas market entry, partnerships and M&A opportunities, particularly in SEA, as they seek to diversify and build long-term global franchises. 4) Within HPC, higher pulp costs could weigh on margins until Q227-Q327E.

Figure 1: Most and least preferred companies

Most preferred	Least preferred
China Merchants Port, CEA Logistics, ZTO, J&T Express, Softcare, Ruoyuchen	Air China, China Eastern, Bluemoon

Source: UBS estimates

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Figure 2: Our team's coverage

Company	Ticker	Rating	Close price (LC)	Price Target (LC)	EPS (LC)		PE (x)		PB (x)		EV/EBITDA (x)		ROE (%)	
					2026E	2027E	2026E	2027E	2026E	2027E	2026E	2027E	2026E	2027E
Lodging Sector														
H World	HTHT.O	Buy	44 55	62 40	17 74	20.59	16	14	7.8	7 7	10	9	47%	56%
BTG Hotels	600258 SS	Sell	11 06	11 30	0 79	0 83	14	13	1,0	0 9	5	5	7%	7%
Shangri-La	0069 HK	Neutral	3 84	4 29	0 05	0.05	10	9	0.3	0 3	4	4	3%	4%
Atour	ATAT.O	Buy	32.84	51 50	15.56	19.53	14	11	6.6	5 2	9	7	53%	52%
Jin Jiang	600754 SS	Neutral	17.94	26 50	1.09	1.29	16	14	1.2	1 1	11	11	7%	8%
Average							**14**	**12**	**3.4**	**3.0**	**8**	**7**	**24%**	**25%**
Duty Free														
CTG Duty Free	601888 SS	Buy	50 27	77 56	2 19	2 45	23	20	1.8	1 7	12	11	8%	9%
CTG Duty Free-H	1880 HK	Buy	43.64	70 61	2.19	2.45	17	15	1.3	1 3	8	7	8%	9%
Average							**20**	**18**	**1.6**	**1.5**	**10**	**9**	**8%**	**9%**
Yiwu CCC	**600415.SH**	**Buy**	**10.87**	**18.96**	**0.92**	**1.10**	**12**	**10**	**2.4**	**2.2**	**7**	**6**	**21%**	**23%**
Airports														
BCIA	0694 HK	Neutral	1 35	1 95	0 00	0 03	250	40	0 4	0 4	8	6	0%	1%
GBIA	600004 SS	Neutral	7 88	8 10	0 30	0.34	26	23	0.9	0 9	6	4	3%	4%
Shanghai International Airport	600009 SS	Buy	23 18	40 10	1 17	1 42	20	16	1.3	1 2	10	10	7%	8%
Shenzhen Airport	000089 SZ	Neutral	6.71	6.80	0.44	0.38	15	18	1.1	1.1	8	8	8%	6%
Average							**78**	**24**	**0.9**	**0.9**	**8**	**7**	**4%**	**5%**
Airlines														
China Eastern Air	600115 SH	Sell	3 25	3 28	0 14	0 21	23 79	15 65	1.6	1 5	8	7	7%	10%
China Eastern Air-H	0670 HK	Sell	2 33	1 85	0 14	0.21	14.78	9.57	1.0	0 9	7	6	7%	10%
Spring Airlines	601021 SH	Neutral	38 50	45 90	1 70	2 66	22 8	14 6	2.0	1 8	11	9	9%	13%
TravelSky Technology	0696 HK	Neutral	9 25	9 30	0 77	0 83	10 5	9 5	0.9	0 9	4	3	9%	9%
Air China	601111 SH	Sell	5 71	5 10	0 29	0.47	19 7	12 2	1,9	1 7	8	8	10%	15%
Air China-H	0753 HK	Sell	3 56	3 30	0 29	0 47	10 6	6.5	1.0	0 9	7	6	10%	15%
China Southern	600029 SH	Neutral	4 79	6 50	0 27	0 38	17 6	12 6	2.1	1 8	7	7	13%	16%
China Southern-H	1055 HK	Neutral	2 78	4 10	0 27	0 38	8.9	6.2	1.1	0 9	6	6	13%	16%
Eastern Air Logistics	601156 SH	Buy	18 32	23 10	1 90	2.09	9.6	8.8	1.4	1 3	5	4	15%	15%
Average							**15**	**11**	**1**	**1**	**7**	**6**	**10%**	**13%**
Logistics														
STO	002468 SZ	Buy	14.98	21 00	1.39	1.59	11	9	1.8	1 5	5	4	18%	17%
YTO	600233 SH	Buy	18.09	25 50	1.71	1.95	11	9	1.5	1 4	6	5	16%	16%
ZTO Express	ZTO.N	Buy	20 45	26 60	13 46	14 40	10	9	1.5	1 4	6	5	16%	15%
J&T Express	1519.HK	Buy	9 22	14 20	0 08	0 10	16	12	2.8	2 3	8	6	20%	21%
Yunda	002120 SZ	Sell	6 93	7 40	0 71	0 82	10	9	0.9	0 9	5	4	10%	11%
Full Truck Alliance	YMM.N	Buy	8 63	13 36	4 96	5.76	12	10	1.4	1 3	5	3	12%	13%
Average							**12**	**10**	**2**	**1**	**6**	**5**	**15%**	**15%**
Aerospace														
Avic (Chengdu) Uas	688297 CH	Neutral	39 80	50 32	0 57	0.65	70	61	4.2	4 0	52	44	6%	7%
AviChina Industry & Technology	2357 HK	Buy	3 09	5 00	0 32	0 38	8	7	0,6	0 5	7	6	7%	8%
Average							**39**	**34**	**2**	**2**	**29**	**25**	**7%**	**7%**
Cosmetics Sector														
Giant Biogene	2367.HK	Neutral	23.10	32.20	1.79	1.93	11	10	1.9	1.7	7	6	18%	17%
Botanee	300957.SZ	Neutral	32 39	34 50	1 50	1.71	22	19	2.1	2 0	11	10	10%	11%
Bloomage	688363.SH	Neutral	34 03	40 00	0 80	0 88	42	39	2.2	2 1	25	21	5%	6%
Marubi	603983.SH	Neutral	28 86	28 20	0 66	0 78	44	37	3.2	3 1	31	26	7%	9%
Shanghai Jahwa	600315 SH	Sell	18 72	14 30	0 48	0.56	39	33	1.7	1 7	44	36	5%	5%
Shanghai Chicmax	2145.HK	Neutral	21 96	24 70	1 16	1.29	16	15	2.5	2 3	9	8	16%	16%
Mao Geping	1318.HK	Neutral	45 64	50 50	2 95	3 45	13	11	3.3	2 7	8	7	28%	26%
Average							**27**	**23**	**2**	**2**	**19**	**16**	**0**	**0**
Medical Aesthetics Sector														
Imeik	300896 SZ	Neutral	92 96	104 60	4 03	4 10	23	23	3.3	3 0	18	17	15%	14%
Huadong Medicine	000963 SZ	Buy	26 58	42 00	1 96	2.09	14	13	1.7	1 6	8	7	13%	13%
Average							**18**	**18**	**3**	**2**	**13**	**12**	**14%**	**13%**
Household and Personal Care Sector														
Hengan	1044 HK	Buy	19 84	33 20	2 01	1 99	9	9	0.9	0 9	4	4	10%	10%
Blue Moon	6993 HK	Sell	2 52	1 84	0 03	0 02	89	122	1.8	2 0	54	44	2%	2%
Average							**9**	**65**	**1**	**1**	**4**	**24**	**6%**	**6%**

Source: UBS estimates. Note: Price as of 13 Oct.

1. Leisure

Hotel expert call takeaways

According to the expert: 1) The expert's hotel sample recorded roughly 4% YoY RevPAR growth in July-August combined. July was affected by adverse weather, while revenue and RevPAR increased by about 5% YoY in August. Hotels in prime Shanghai locations, selected South China markets and leading brands outperformed, while some lower-tier cities remained under pressure from supply growth and same-brand cannibalisation. 2) Business travel demand has started to stabilise and recover, with further improvement expected next year. 3) Growth in new hotel supply has slowed. 4) Market rents have declined YoY, while rental escalation terms have become more favourable. 5) Leading hotel groups, including H World and Atour, require a relatively high proportion of centralised supply-chain procurement. The expert was satisfied with their supply-chain services and noted that procurement prices had not increased this year. 6) In terms of

brand preference, the expert favours HanTing, JI Hotel, Intercity Hotel and Atour brands. The expert is also more positive on the upper-midscale segment, believing that consumers aged 30-50 remain willing to pay a premium for better product quality, sleep experience and service consistency.

Duty-free expert call takeaways

According to the expert: 1) Shanghai Airport's duty-free sales recovery continued, with average monthly sales expected to improve further in Q326 versus Q226. CDF may have already exceeded Terminal 2's year-ago sales, while Dufry has recovered to about 60% of Terminal 1's year-ago level. 2) Operationally, CDF has executed faster in launching domestic brands, Apple and other new categories, supported by its local supply chain, brand partnerships and more efficient decision-making. Dufry's sales and store openings were initially constrained by limited funding support from headquarters, management changes, its limited experience with local customs procedures and lengthy internal approvals, although operations have since stabilised. 3) Effective discounting is deeper than during the Sunrise era. The expert estimates CDF's blended selling price at 77% of the list price, versus 82-83% for Dufry. Discount levels are expected to remain broadly stable, with Dufry continuing to benchmark its prices against CDF and relying more on samples, bundles and gifts rather than aggressive price cuts. 4) Beauty remains the largest duty-free category at Shanghai Airport, although luxury goods and domestic brands are gaining share. The expert estimates beauty accounted for 55-60% of sales in 2026, down from over 70% in 2024-25. Given its higher sales productivity, beauty's share at Shanghai Airport is expected to remain above that in Hainan. 5) CDF's Apple store has meaningfully lifted GMV and average ticket size, while Dufry is also expected to open an Apple store by year-end. Both operators plan to introduce more luxury brands, although the process from initial negotiations to store opening typically takes six to 12 months. Store openings at the satellite concourse could also be slower than expected. 6) Inbound stores' share of Shanghai Airport duty-free sales has increased from 38% to 54-55%, surpassing outbound stores for the first time. Overseas travellers' sales contribution also rose from 4% previously to 10% in H126 and exceeded 10% after July. The recovery in inbound traffic is becoming a new sales growth driver; however, while foreign travellers have shown strong interest in domestic food products and local brands, international beauty brands remain the largest contributor to GMV.

2. Transport

Air Cargo Logistics Expert Takeaways

Industry-wide cargo growth has slowed significantly; Q4 e-commerce peak season unlikely to replicate previous years' elevated freight rates

According to the expert:

1) Full-year air cargo volume YoY growth is expected to be around 10%, below expert's expectations at the beginning of the year. Cross-border e-commerce's share of export capacity has declined from about 70% to around 60%.

2) Following Europe's removal of the de minimis tax exemption policy, e-commerce volumes to Europe saw a sharp decline in July, with peak volume drops exceeding 50%. The expert expects volumes to remain subdued in the near term. Spot rates on Europe routes are now significantly below long-term contract rates. Industry participants expect contract rates on European routes to decline by 20-30% YoY next year, while the proportion of long-term contracts is also expected to decrease.

3) To support freight rates on Europe routes, airlines have cut Europe capacity by at least 30%, reallocating most of the capacity to trans-Pacific routes. As a result, US-bound capacity surged 30% MoM in August. The expert expects Q4 e-commerce volumes to the US to continue growing YoY, supporting freight rates at relatively high levels. However, given the more ample supply environment, rates are unlikely to reach the extreme highs seen in previous years, when they exceeded Rmb60/kg.

AI hardware is growing rapidly and is expected to increase further in Q4

According to the expert:

1) AI hardware has expanded rapidly since the beginning of the year and currently accounts for approximately 10-15% of non-e-commerce cargo volumes. Volumes are expected to grow by an additional 20-30% QoQ in Q4.

2) AI-related goods are highly concentrated in: the Yangtze River Delta region, particularly Suzhou, covering products such as optical modules and memory modules; South China, primarily consisting of servers, networking equipment, and related hardware.

3) AI hardware manufacturers are generally less sensitive to freight rates and are willing to pay an estimated 10% premium over ordinary products. They prioritise flexible capacity solutions rather than fixed long-term contracts and typically require direct flights.

4) Eastern Air Logistics is expected by the expert to outperform China Southern Logistics and Air China Cargo over the next 12 months. The primary reason is its strong presence in the Yangtze River Delta, which is a key sourcing region for AI hardware, allowing it to benefit more directly from incremental AI-related cargo volume growth.

Express Delivery Expert Takeaways

Regulatory-driven price hike in Yiwu

We invited an express delivery franchisee from the city of Yiwu to share recent industry developments, focusing on the implementation of anti-involution policies. The views expressed below are those of the expert.

On 18 September 2026, a State Post Bureau-led push imposed a floor price of Rmb1.35/parcel in Yiwu, despite resistance from some e-commerce participants. Headquarters paid Rmb3m in deposits, with fines (Rmb5,000 + Rmb1/parcel) for undercutting prices or poaching clients. Prices rose from about Rmb1.0-1.1 to Rmb1.35, but a simultaneous Rmb0.1 increase in system costs has left franchisees operating at a loss; an additional Rmb0.1 hike would likely be needed to achieve full-year profitability. Low-margin e-commerce sellers face elevated cost pressure and could face business closures.

Franchisees remain caught between headquarters' volume KPI targets and weak market conditions. Raising prices could risk losing clients, while reporting competitors for violations could alienate large customers, potentially creating a challenging competitive dynamic. Cost-saving efforts (such as the use of AI in back-office functions) may offer only marginal relief, and autonomous vehicles remain limited to point-to-point transfers. Ultimately, long-term competitiveness still hinges on scale, compliance and mergers, although the current pause in price competition is slowing industry consolidation.

T.S. Line and shipping expert

Constructive outlook for intra-Asia freight rates despite long-haul headwinds

We invited an expert from a top-tier container liner and an IR manager from T.S. Line to share their views on the recent container shipping market and its outlook. Both speakers are positive on the intra-Asia shipping rates in Q4. The shipping expert foresees a normalisation of port congestion levels in late October and a steady decline in trans-Pacific shipping freight rates. Management from T.S. Line believes intra-Asia freight rates will remain more resilient than those on long-haul routes following the normalisation of Red Sea shipping traffic and the substantial delivery of new container vessels expected in 2027F.

Trans-Pacific freight rates may ease after the National Day holiday

Port congestion at major ports in East China has resulted in vessel waiting times of approximately 3 to 10 days in September, primarily due to the disruptions caused by typhoons in August. At the same time, transit restrictions through the Panama Canal, which have been in place since August, have further supported elevated freight rates on the trans-Pacific lane. Looking ahead, the expert expects congestion at major Chinese ports and trans-Pacific freight rates to moderate from current historical highs after the



National Day holiday, as seasonal demand on trans-Pacific routes begins to fade. In contrast, strong demand from ASEAN markets in Q4 is likely to keep intra-Asia freight rates elevated. Notably, Shanghai to Southeast Asia shipping rates have already increased by more than 30% in September.

Concerns over Red Sea route normalisation and potential industry oversupply

Top-tier container shipping companies have initiated a new wave of capital expenditure in recent months, placing newbuild orders for large containerships with aggregate investment exceeding US$15bn. According to industry experts, these investment decisions are primarily driven by carriers' strategic objectives of defending market share and further enhancing economies of scale. Contrary to investors' prevailing concerns about container shipping overcapacity going forward, the expert highlights that effective capacity remains tight under current operating conditions and believes that incentives for shipping lines to fully restore services through the Red Sea remain limited in the near term, as a normalisation of transit routes could exert downward pressure on freight rates. Nevertheless, a gradual recovery of Red Sea transits could occur by 2027, assuming geopolitical tensions ease over the coming quarters. In the event of a recovery in Red Sea shipping routes, both industry experts and major liners expect the Asia-Europe trade lane to face the greatest downside risk to freight rates, reflecting the return of substantial effective vessel capacity. By contrast, intra-Asia freight rates are expected to be more resilient, supported by the relatively tight supply-demand balance in the feeder vessel market.

Will port congestion become the new normal?

China's port congestion is primarily driven by temporary, event-driven factors

We recently spoke with a port industry expert to discuss the recent congestion at Chinese ports and the outlook for 2027-28. In the expert's view, port congestion in China during 2026 has been driven mainly by temporary, event-specific factors. First, the impact of extreme weather events and the rerouting of vessels around the Red Sea have disrupted normal sailing schedules, leading to vessel bunching and concentrated arrivals at Chinese ports. Second, regulatory authorities have raised safety and operational requirements. Preparations for typhoon events and the criteria for resuming operations after weather-related disruptions have become more stringent. Third, ongoing port automation and digitalisation upgrades can temporarily weigh on operating efficiency, as certain berths and equipment need to be taken offline during the implementation phase.

Supply and demand across China's port sector to remain broadly balanced

The expert expects supply and demand across China's port sector to remain broadly balanced over the next few years. Major gateway ports serving international trade are likely to gradually unlock additional capacity in line with projected throughput growth. Expansion decisions are typically driven by long-term demand growth and strategic planning considerations, rather than by short-term congestion.

Port congestion could re-emerge in 2027-28F

The expert expects port congestion to remain largely localised and event-driven over the next few years. In practice, some degree of congestion may be difficult to avoid, particularly during periods of extreme weather, vessel bunching or disruptions to international shipping networks. Given the continued uncertainty surrounding the frequency and severity of extreme weather events, the expert believes it is difficult to rule out the possibility that adverse weather conditions could lead to more pronounced congestion episodes. In addition, several major gateway ports in China already operate at relatively high utilisation levels on a sustained basis. As a result, their ability to absorb and recover from large-scale disruptions is generally more limited than that of less heavily utilised ports.

3. Beauty & HPC

Forest Cabin (2657.HK, not covered)

Despite a challenging beauty market characterised by industry polarisation, intensifying traffic competition and softer promotional spending from international brands, Forest Cabin maintained solid growth, with revenue and net profit increasing over 40% in H126 while maintaining a 15-20% net margin target. The company remains a key beneficiary of domestic premium skincare upgrade trends, supported by its leadership in the facial oil category, a high-margin product mix and nearly two decades of premium brand building, according to the company. Management is reinforcing top-line growth through core category upgrades (facial oils), expansion into whitening and anti-ageing segments, and selective premium extensions, while maintaining a balanced omnichannel model across offline retail, content e-commerce and traditional e-commerce. Looking ahead, the company targets Rmb10bn of revenue by 2030 through a combination of organic growth, sub-brand incubation and disciplined M&A.

Little Dream Garden (not listed)

According to the company's prospectus, China's skincare and personal care market, measured by retail sales value, is projected to expand at a 6.5% CAGR over 2024-29F. Against this backdrop, the company has built a high-growth category matrix spanning body care (+60.7% YoY), hair care (+496.1% YoY) and facial care (+3.4% YoY), delivering Rmb1.9bn of revenue (+76.7% YoY) and Rmb147.7m of adjusted net profit (+197.2% YoY) as of Sep 2025. Internationally, the company has established an early foothold in Southeast Asia and believes there is additional growth potential in Western markets.

Hengan (1044.HK)

Hengan expects its FY26 revenue decline to moderate from the 6% contraction recorded in H126 to a low- to mid-single-digit decline for the full year. Net profit is likely to fall by more than 10% due to rising raw material costs, a high base in 2H25, and increased promotional spending. By segment, tissue products (around 60% of group revenue) returned to positive YoY growth in Q326, driven by robust demand for premium offerings. However, with wood pulp accounting for approximately 70% of tissue production costs, the sharp rise in pulp prices since Q226 is expected to continue weighing on margins throughout 2026F. Management indicated that meaningful raw material cost relief and, consequently, a noticeable recovery in gross margin are unlikely before Q2-Q327. Meanwhile, sanitary napkin sales remain constrained by weakness in traditional channels, which still account for around 50% of segment revenue, despite continued double-digit growth in new retail and e-commerce channels. The diaper business is expected to return to positive growth in H226F, supported by steady expansion in adult care products and a narrowing decline in premium baby diapers. The company is also actively pursuing overseas M&A and partnership opportunities to accelerate international expansion and progress toward its long-term target of deriving 50% of revenue from overseas markets.

Valuation Method and Risk Statement

Key downside risks facing China's travel, lodging and leisure sector include: 1) continued economic sluggishness; 2) slower-than-expected growth in peak season tourist traffic; 3) bad weather affecting travel; 4) earthquakes, air accidents, epidemics and other disasters; and 5) China loosening policies limiting entry into the duty-free industry. Upside risks include: 1) consumer confidence and consumption power recovering faster than expected; 2) the introduction of policies extending public holidays and annual leave; and 3) faster-than-expected international route and flight capacity expansion.

We believe airlines face the following downside risks: systemic market risks, rising international oil prices, the economy suffering a hard landing, business volume growth continuing to undershoot our expectations, an irrational price war, the substitution effect of HSR exceeding our expectations, and emergencies such as wars, pandemic outbreaks and terrorist attacks. All these risks combine to make our estimates statistically less reliable, but we have factored them into our forecasts to the best of our ability. Upside risks to China's airline sector include a stronger-than-expected yield hike, which could be driven by more favourable supply-demand dynamics, and traffic growth from capacity expansion more than offsetting yield pressure.

We believe the main downside risks faced by China's hotel sector and hotel companies include: 1) continued economic sluggishness; 2) slower-than-expected growth in peak season tourist traffic; 3) bad weather affecting travel; and 4) earthquakes, air accidents, epidemics or other disasters. Main upside risks include a better-than-expected macroeconomy and domestic tourism business growth.