TUNIU DECLINES AS HNA DEAL UNDERSCORES CHINA TRAVEL COMPETITION

News / Finance

Tuniu Corp. ended a two-day gain as investors bet a US$500 million investment from HNA Tourism Group Co. won't be enough to turn the company profitable amid competition in China's online travel-booking industry.

The American depositary receipts declined 0.8 percent to US$15.59 in New York on Monday after erasing a gain of as much as 7.2 percent. Trading volume of two million was more than five times of the three-month daily average. The Bloomberg China-U.S. Equity Index increased for a fourth straight day.

The HNA deal comes less than a month after Ctrip.com International Ltd. and Qunar Cayman Islands Ltd. agreed to a partnership that sets them up to become China's dominant online travel service. Investors, through mergers and acquisitions, are tapping into China's burgeoning industry, which Goldman Sachs Group estimates will more than triple to US$200 billion by 2020. Smaller companies like Tuniu will face an "uphill battle" as well-heeled companies including Baidu Inc. and Tencent Holdings Ltd. become increasingly involved, according to Brendan Ahern, a managing director at Krane Fund Advisors LLC.

"There's not really a lot of hope that the company reaches profitability in the short term," Ahern, who manages the best-performing Chinese technology-company exchange-traded fund, said about Tuniu by phone on Monday.

Ahern, who said the he thought Tuniu did have a toehold on the Chinese online travel market, said the company was still "a distant third" after Qunar and Ctrip. His China Internet fund invests in all three companies.

Premium Offered

The tourism unit of HNA Group Co., which also owns China's fourth-largest airline, will invest in Tuniu by purchasing newly-issued stock for the equivalent of US$16.50 per ADR, according to a joint statement. That's a premium of about 5 percent to Friday's closing price. HNA will become the largest shareholder with more than a 24 percent stake.

Tuniu has been unprofitable since at least 2012 and posted a record net loss of 433.7 million yuan (US$68.2 million) in the third quarter this year, data compiled by Bloomberg show. The deal with HNA Tourism is expected to be completed in December.

Tuniu's widening quarterly losses and new partnership with HNA underscored the fierce competitive nature of the online tourism industry as companies burn cash to gain market share. Under the terms of a share-swap agreement in October, Ctrip will get a 45 percent voting interest in its long-time rival Qunar, while Baidu Inc., which controls Qunar, will own 25 percent of Ctrip.

Qunar, Ctrip

Credit Suisse Group AG analysts led by Evan Zhou said in a report on Monday that competition in packaged tour and outbound travel "remains elevated, as funding continues to be injected into the sector" and Tuniu's profitability may remain "suppressed" in the coming quarters.

The partnership will give Tuniu access to HNA's premium airlines and hotels resources at a preferential rate, according to the statement. Tuniu is expected to acquire at least US$100 million in products and services sourced from HNA over the next two years, it said.

Qunar rallied 9.8 percent to US$40.09. Ctrip slid 1 percent to US$110.60. The Bloomberg gauge of Chinese ADRs added 0.9 percent to 124.17.

The Deutsche X-trackers Harvest CSI 300 China A-Shares ETF, the biggest U.S. exchange-traded fund investing in mainland shares, slumped 1.2 percent to US$37.40. The loss followed the Shanghai Composite Index, which fell 0.6 percent amid concern that the restart of initial public offerings may flood the market and dilute prices. Traders pulled US$106 million out of the fund last week, most since the five-day period ended on July 17.

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