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Universal Travel Group (AMEX : UTA)

STRONG FINANCIAL PERFORMANCE CONTINUES

Core businesses growing at over 20% CAGR, with no LT debt and almost $20M in cash. Kiosk program in full swing.

Strong Buy

Recent Price: **$11.09**

Market Data as of the close, 6-25-09

Market Capitalization (mln)	**$153.9**
Enterprise Value (mln)	**$153.9**
Basic Shares Outstanding (mln)	**13,874**
Fully Diluted Shares (mln)	**16,900**
Avg. Volume (3 month, approx.)	**114,000**
Institutional Ownership (%)	**24.0%**
Insider Ownership (%)	**35.0%**
Exchange	**AMEX**

Balance Sheet Data (as of March 31, 2009)

Shareholders' Equity (000s)	**47,868**
Price/Book Value	**1.29**
Cash (000s)	**19,171**
Net Working Capital (000s)	**32,588**
Long-Term Debt (000s)	**0**
Total Debt to Equity Capital	**0.10**

Company Overview

Universal Travel Group is an integrated travel company operating in the People's Republic of China. The Company operates ticketing, hotel reservation, and packaged travel businesses. The Company serves its customers with advanced Web and Kiosk systems, an industry-leading website, and local franchisees. Universal Travel is an industry leader in the local markets it serves.

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Summary and Investment Opportunity

- **Fundamentals Continue to Improve**

We believe the Company is continuing to execute well while also making good strategic decisions, such as the divestiture of its air shipping business. This strategic move has left the Company completely focused on air ticketing, travel and hotel reservations, and travel package sales, all of which are strategically consistent. The Company has also shown solid organic growth in each of its businesses, as evidenced by revenues and earnings, its recent move into another region of China, and its accelerating kiosk rollout.

- **Current Environment Means Slowing '09 Revenue Growth - To Just 20%+**

Unlike most of the developed world, the Chinese economy is still growing at a healthy 5% - 7% CAGR. As disposable incomes rise, newly middle-class Chinese are travelling in record numbers, leading to a CAGR of over 20% in the domestic Chinese travel industry. Universal Travel is solidly positioned in this industry as a leader in ticketing, hotel reservations, and packaged travel (tour) sales. Overall, we are impressed with the Company's forward-thinking Web and Kiosk based sales systems, and expect UTA to expand market share in the coming quarters and years.

- **Universal Travel is Financially Robust**

In addition to the Company's strong growth prospects and excellent sales and earnings track record, UTA has a very strong balance sheet for a company of its size. UTA has no long-term debt, over US$19 million in cash, and net working capital of over US$32 million. Furthermore, it has a clean capital structure with no toxic instruments.

- **Rating and Investment Conclusion**

Universal Travel has appreciated over 400% since we first initiated coverage in February of this year, and yet despite that, it is still significantly undervalued versus its peer group, and based on standard financial metrics derived from growth rates and trading multiples. At this point, the Company is trading at just under 9x our 2009 earnings estimate and at just 7.5x our 2010 estimate. Given our forecast of sustainable LT growth of over 20% and the Company's solid balance sheet, we believe a multiple on 2009 earnings of at least 15x is warranted. **This leads us to reiterate our Strong Buy rating and set a 6-month price target of $17.50 per share.**

P&L (000s)	FYE 2008A	Q1 '09A	Q2 '09E	Q3'09E	Q4'09E	FYE 2009E	FYE 2010E
Revenues	**76,759**	**17,370**	**19,950**	**26,600**	**23,750**	**87,670**	**101,883**
Revenue Gr.*	*65.1%*	*72.4%*	*39.1%*	*32.7%*	*-12.1%*	*22.6%*	*22.0%*
Gross Profit	**25,203**	**6,349**	**6,620**	**9,571**	**8,591**	**31,131**	**37,286**
Gross Margin	32.8%	36.6%	33.2%	36.0%	36.2%	35.5%	36.6%
S,G,& A Exp.	6,180	1,800	1,950	2,100	2,250	8,100	9,882
Net Income	**14,532**	**3,268**	**3,484**	**5,580**	**4,722**	**17,054**	**20,379**
Net Margin	18.9%	18.8%	17.5%	21.0%	19.9%	19.5%	20.0%
Diluted EPS	**1.13**	**0.21**	**0.22**	**0.35**	**0.29**	**1.07**	**1.25**
Shares Out	12,915	15,641	15,797	15,955	16,115	15,877	16,353

* Growth Rates Calculated Post-Divestiture

Please see analyst certification and required disclosures on page 5 of this report.

Company Overview

Universal Travel Group trades on the American Stock Exchange (AMEX) under the symbol UTA. Based in Shenzhen, China, the company's operates three primary lines of business: air ticketing, tours and packaged travel, and hotel reservations; it recently divested its air cargo business, which was shrinking and had relatively low margins. Although the Company has historically had overall gross margins in the 33% range, we expect an improvement to the 36% - 37% range based on the shipping business divestiture. Air Ticketing is rapidly growing and has almost 95% gross margins, so we could continue to see gross margin improvement in the coming quarters. Given the Company's relatively stable operating expense base, we also believe that there is significant operating leverage in the business, which should lead to ever-improving net margins as the Company continues to grow sales.

Since making its key business acquisitions in 2007 and 2008, the company has developed an integrated offering for Chinese and foreign travelers, that includes a fully-featured Web-based system and a recently-introduced Kiosk system that the Company is aggressively rolling out (now 150 locations). This offering's popularity[1] has been driving the exceptional growth in the Company's highest margin businesses, and we expect the large-scale rollout of its well-received Kiosk system to extend this trend. The Company plans to have between 600 and 1,000 kiosks in operation by the end of this year.

The Company also boasts a seasoned management team that has demonstrated the ability to grow the business while controlling costs, and to successfully acquire and integrate several related enterprises.

Business Progress

Since our last report, the Company has made significant progress on two major initiatives. Firstly, it was able to successfully divest its air cargo business, which was an obvious low-margin distraction for management. The Company sold that business back to its original owners in exchange for completely returning all equity the Company had paid plus issuing a note payable within one year for RMB3,500,000 (US$512,176 as of 6-26-09). This transaction will reduce shares outstanding by 238,095 shares while also eliminating a shrinking, low-margin, non-strategic line of business. We applaud management's decision to make this divestiture as well as the terms under which it was executed.

In addition to simply continuing to grow its core business, the Company has made significant progress with its kiosk program. The Company kiosks sit in shopping malls and business centers and allow the user to complete an entire trip – reservation, booking and payment – all in one transaction. These kiosks help raise the visibility of the Company's brand while also serving a market in which Internet access is not yet as ubiquitous as it is in the more developed economies. When we last wrote about the Company, it had just a handful of pilot deployments – it now has approximately 150, and is on its way to having between 600 and 1,000 by the end of 2009. Although we would like to see a lower CapX for each deployment (currently US$9,000), we are encouraged overall by progress in this initiative and believe that its continue success will positively affect sales and sales growth.

Industrial and National Economic Tailwind

According to the National Bureau of Chinese Statistics, total civil aviation traffic in the PRC has grown at a CAGR of 22.2% for the past five years, the international tourism industry has grown at a CAGR of 24.6%, and the domestic tourism industry has grown at a CAGR of 22.6% during that same period. Although the current economic downturn being experienced by the developed world is forecast to impact the Chinese economy and the international tourism industry, we still believe that rapidly rising incomes within the PRC will keep the domestic travel industry very strong. Given that the international tourism industry is still expected to grow, as China becomes ever-more friendly to outside visitors, these trends bode very well for Universal Travel.

[1] The Company's China Booking Association website (www.cba-hotel.com) receives over 200,000 daily unique visitors.

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Conclusion

Universal Travel is a high-growth company that operates in the PRC, a nation with a strong economy and a very strong travel and tourism industry. In our opinion, UTA represents a solid value with very strong appreciation potential, and should be attractive to investors with an appetite for U.S. traded Chinese companies. We therefore recommend purchase of UTA shares to investors who understand and can tolerate the risks inherent in purchasing U.S. traded shares of Chinese companies, and **rate UTA a Strong Buy, with a 6-month price target of $17.50 per share.**

In closing, please note that the small scope of this report precluded us from discussing many of the specifics regarding the Company's businesses and growth initiatives.

For more in-depth information on UTA, please see the research report authored by J.M Dutton & Associates dated November 19, 2008 at: http://www.investorsinsight.com/r.ashx?2, or visit the Company's website at us.cnutg.com.

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STRONG BUY	We believe the enrolled company will appreciate more than 20% relative to the general market for U.S. equities during the next 12 to 24 months.
BUY	We believe the enrolled company will appreciate more than 10% relative to the general market for U.S. equities during the next 12 to 24 months.
STRONG SPECULATIVE BUY	We believe the enrolled company could appreciate more than 20% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct.
SPECULATIVE BUY	We believe the enrolled company could appreciate more than 10% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct.
NEUTRAL	We expect the enrolled company to trade between -10% and +10% relative to the general market for U.S. equities during the following 12 to 24 months.
SELL	We expect the enrolled company to underperform the general market for U.S. equities by more than 10% during the following 12 to 24 months.

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Analyst Highlight

Brian R. Connell, CEO and Senior Research Analyst
Mr. Connell has over 10 years' experience in the securities industry, as an equity analyst and portfolio manager, and as the founder and CEO of StreetFusion (acquired by CCBN/StreetEvents), a software company serving the institutional investment community. On the sell-side, Mr. Connell served as the technology analyst for Neovest, an Atlanta-based boutique, and as a Senior Analyst - Internet for Preferred Capital Markets, an investment bank based in San Francisco. Mr. Connell has also held the position of Executive Director of Marquis Capital Management, a technology-focused investment management organization.

Mr. Connell holds degrees in Economics and Psychology from Duke University, and is a CFA Charterholder.

Leadership Team

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Equity Research Team

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Universal Travel (AMEX - UTA) Profit and Loss Model

(In thousands, United States Dollars)	FY 2007A*	Mar '08A	Jun '08A	Sep '08A	Dec '08E	FY 2008E	Mar '09A	Jun '09E	Sep '09E	Dec '09E	FY 2009E	FY 2010E
Revenues												
Air ticketing (Shenzhen Yuzhilu Aviation Service)	7,989	1,429	1,937	3,886	5,082	12,334	2,751	3,200	4,900	4,400	15,251	18,606
revenue contribution		*14.2%*	*13.5%*	*17.0%*	*17.3%*	*16.1%*	*15.8%*	*16.0%*	*18.4%*	*18.5%*	*17.4%*	*18.3%*
gross margin	*94.9%*	*94.9%*	*94.9%*	*94.9%*	*95.0%*	*95.0%*	*95.0%*	*95.0%*	*95.0%*	*95.0%*	*94.9%*	*94.9%*
Year-over-year growth rate		*-14.4%*	*5.5%*	*72.7%*	*127.0%*	*54.4%*	*92.5%*	*65.2%*	*26.1%*	*-13.4%*	*23.7%*	*22.0%*
Air Cargo (Speedy Dragon, sold 6/17/09)	20,511	3,124	2,542	2,854	2,418	10,938	1,859	2,300	Divested	Divested	4,159	
revenue contribution		*31.0%*	*17.7%*	*12.5%*	*8.2%*	*14.2%*	*10.7%*	*11.5%*				
gross margin	*18.1%*	*16.5%*	*10.0%*	*17.2%*	*13.7%*	*14.5%*	*13.7%*	*13.7%*				
Year-over-year growth rate		*-41.0%*	*-51.0%*	*-44.3%*	*-50.6%*	*-46.7%*	*-20.0%*	*-20.0%*				
Hotel related (Shanghai LanBao)	2,383	612	1,412	2,540	3,776	8,341	2,517	2,450	3,700	3,350	12,017	14,661
revenue contribution		*6.1%*	*9.8%*	*11.1%*	*12.8%*	*10.9%*	*14.5%*	*12.3%*	*13.9%*	*14.1%*	*13.7%*	*14.4%*
gross margin	*67.9%*	*68.2%*	*64.2%*	*62.8%*	*73.4%*	*68.2%*	*68.2%*	*68.2%*	*68.2%*	*68.2%*	*69.8%*	*69.8%*
Year-over-year growth rate		*N.A.*	*N.A.*	*177.5%*	*156.9%*	*N.A.*	*310.9%*	*73.5%*	*45.6%*	*-11.3%*	*44.1%*	*22.0%*
Travel (Foshan Intl and Xian Golden Net Travel)	13,412	4,911	8,455	13,623	18,159	45,148	10,243	12,000	18,000	16,000	56,243	68,616
revenue contribution		*48.7%*	*58.9%*	*59.5%*	*61.7%*	*58.8%*	*59.0%*	*60.2%*	*67.7%*	*67.4%*	*64.2%*	*67.3%*
gross margin	*13.9%*	*11.3%*	*13.7%*	*15.3%*	*13.3%*	*13.8%*	*13.3%*	*13.3%*	*13.3%*	*13.3%*	*13.7%*	*13.7%*
Year-over-year growth rate		*N.A.*	*N.A.*	*201.3%*	*104.3%*	*N.A.*	*108.6%*	*41.9%*	*32.1%*	*-11.9%*	*24.6%*	*22.0%*
Total Revenues	**44,295**	**10,076**	**14,345**	**22,904**	**29,435**	**76,759**	**17,370**	**19,950**	**26,600**	**23,750**	**87,670**	**101,883**
Year-over-year growth rate (net of divestiture post Q3'09)		*N.A.*	*N.A.*	*78.7%*	*68.2%*	*73.3%*	*72.4%*	*39.1%*	*32.7%*	*-12.1%*	*22.6%*	*22.0%*
Gross Costs												
Air ticketing	411	74	100	196	253	622	145	161	247	222	775	946
Air Cargo	16,795	2,609	2,288	2,363	2,088	9,347	1,604	1,986	Divested	Divested	3,590	
Hotel related	765	195	505	944	1,006	2,650	609	778	1,175	1,064	3,627	4,426
Travel	11,548	4,356	7,292	11,544	15,744	38,937	8,663	10,404	15,607	13,872	48,546	59,226
Total gross cost	29,519	7,233	10,185	15,048	19,090	51,556	11,021	13,330	17,029	15,159	56,539	64,597
Gross Profit	**14,776**	**2,844**	**4,160**	**7,856**	**10,344**	**25,203**	**6,349**	**6,620**	**9,571**	**8,591**	**31,131**	**37,286**
Gross Margin	*33.4%*	*28.2%*	*29.0%*	*34.3%*	*35.1%*	*32.8%*	*36.6%*	*33.2%*	*36.0%*	*36.2%*	*35.5%*	*36.6%*
Selling, general, and administrative expenses	3,230	856	1,252	1,917	2,156	6,180	1,800	1,950	2,100	2,250	8,100	9,882
Stock based compensation	946	110	46	0	0	156	165	0	0	0	165	165
Operating Income	**10,600**	**1,878**	**2,862**	**5,938**	**8,189**	**18,867**	**4,384**	**4,670**	**7,471**	**6,341**	**22,866**	**27,239**
Operating Margin	*23.9%*	*18.6%*	*20.0%*	*25.9%*	*27.8%*	*24.6%*	*25.2%*	*23.4%*	*28.1%*	*26.7%*	*26.1%*	*26.7%*
Total other income (expense)	**(52)**	(34)	(12)	2	(10)	**(59)**	30	35	65	35	**165**	**300**
Income before income taxes	10,548	1,844	2,850	5,927	8,187	18,808	4,414	4,705	7,536	6,376	23,031	27,539
Provision for income taxes	1,852	381	736	1,308	1,851	4,276	1,145	1,221	1,955	1,655	5,976	7,160
Implied Tax Rate	*18%*	*21%*	*26%*	*22%*	*23%*	*23%*	*26%*	*26%*	*26%*	*26%*	*26%*	*26%*
Net income	**8,696**	**1,464**	**2,114**	**4,619**	**6,336**	**14,532**	**3,268**	**3,484**	**5,580**	**4,722**	**17,054**	**20,379**
Net Margin	***19.6%***	***14.5%***	***14.7%***	***20.2%***	***21.5%***	***18.9%***	***18.8%***	***17.5%***	***21.0%***	***19.9%***	***19.5%***	***20.0%***
Net income per common share												
Basic	0.78	0.119	0.172	0.358	0.493	1.13	0.236	0.249	0.394	0.330	1.21	1.43
Diluted	0.77	0.118	0.171	0.374	0.491	1.13	0.209	0.221	0.350	0.293	1.07	1.25
Weighted average common shares outstanding												
Basic (split adjusted, 1:3 reverse)	11,210	12,307	12,307	12,898	12,854	12,854	13,874	14,013	14,153	14,294	14,083	14,224
Diluted (split adjusted, 1:3 reverse)	11,260	12,407	12,362	12,362	12,915	12,915	15,641	15,797	15,955	16,115	15,877	16,353

Universal Travel Group Balance Sheet as of 3/31/2009

(In thousands, United States Dollars)	
Assets	
Current Assets	
Cash and cash equivalents	**19,171**
Accounts receivable, net	12,913
Other receivables and deposits, net	432
Refundable acquisition deposits, net	
Trade deposit	4,568
Advances	439
Escrow deposits	162
Prepaid expenses	196
Total Current Assets	**37,882**
Property, plant & equipment, net	1,474
Intangible assets	280
Goodwill	13,527
Total Assets	**53,162**
Liabilitiies & Equity	
Current Liabilitiies	
Notes payable - bank	0
Note payable - others	0
Accounts payable and accrued expenses	2,912
Customer deposits	1,406
Income tax payable	975
Total current liabilities	5,293
Total liabilities	**5,293**
Stockholders' Equity	
Common stock, 70M auth, 13.874M issued and out.	14
Additional pain-in capital	16,026
Other comprehensive income	1,555
Retained earnings	29,902
Total Stockholders' Equity	**47,869**
Total Liabilities and Stockholders' Equity	**53,162**