

Tongcheng-Elong (780 HK)

3Q19E Preview: solid results with strong hotel

We expect Tongcheng-Elong ("TC") to deliver solid 3Q19E results in Nov. We forecast its topline/bottom line to grow 20%/33% YoY in 3Q19E. User metrics trends well in 3Q19E, and we keep confident on its long-term user expansion and enhanced monetization. We maintain our TP of **HK\$19.71**, with earnings estimates barely changed.

- **3Q19E preview: topline surprise with solid earnings.** We forecast a 20% YoY revenue growth to RMB2.0bn in 3Q19E (3% above consensus), and expect adj. net profit up 33% YoY to RMB399mn (in line with consensus). We expect solid financials in 2H19E despite 12306 impact, and 4Q19E revenue might see acceleration. Multiple headwinds are already priced in, in our view, and we think recent OTA regulation poses limited impact on leaders.
- **User metrics on track.** We estimate 3Q19E MAU to grow 13% YoY to 233mn (+28% QoQ) for strong seasonality. Number of paying user is estimated to reach 28.9mn in 3Q19E, up 28% YoY (+4% QoQ), with paying ratio at 12.4%. Both MAU and MPU trend well in 3Q19E, mainly on stronger seasonality, heavier S&M efforts on cross selling and membership loyalty program.
- **Strong hotel to offset soft transportation.** We expect strong momentum of accommodation to continue, with revenue up 33% YoY in 3Q19E (room nights over 45% YoY). Accommodation take rate would remain intact at 8.5% in 3Q19E, in our view. Market concern lies in its transportation deceleration dragged by 12306 waiting list features (排队候补功能). We expect its transportation revenue to grow 3% YoY, in which air tickets performed well but ground transportation softened again. We expect 3Q19E take rate to pick up to over 3%, and to peak at 4Q19E (> 3.5%), thanks to 1) stronger demand from ticket-grabbing for earlier Chinese New Year; and 2) enriched VAS products (e.g. Huixing system "慧行").
- **Maintain BUY.** We maintain our TP of **HK\$19.71**, with earnings estimates barely changed. Our TP represents **22.4x** FY19E P/E, in line with industry average. User metrics and strong hotel performance should offset its soft transportation in 3Q19E. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	5,256	7,466	9,445	11,710
YoY growth (%)	NA	NA	26.5	24.0
Net income (RMB mn)	916	1,552	2,005	2,489
EPS (RMB)	0.44	0.75	0.97	1.20
YoY growth (%)	NA	69.5	29.2	24.1
P/E (x)	26.5	16.4	12.1	9.8
P/B (x)	2.9	2.7	2.4	2.1
Yield (%)	0.0	0.0	0.0	1.0
ROE (%)	13.9	7.9	11.6	13.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$19.7
(Previous TP	HK\$19.7)
Up/Downside	+48.1%
Current Price	HK\$13.3

China Internet Sector

Sophie Huang
 (852) 3900 0889
 sophiehuang@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	28,308
Avg 3 mths t/o (HK\$ mn)	37.4
52w High/Low (HK\$)	20.0/8.9
Total Issued Shares (mn)	2,122
Source: Bloomberg	

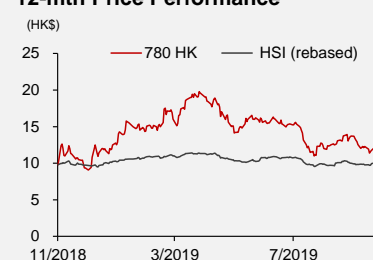
Shareholding Structure

Tencent	22.6%
Ctrip	22.0%
Tiancheng Jiahua	7.9%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-1.9%	-2.9%
3-mth	-12.5%	-5.8%
6-mth	-31.4%	-23.1%
Source: Bloomberg		

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. 2Q19 beat, but alert on 2H19 margin pressure – 20 Aug 2019
2. 2Q19E preview: solid momentum to continue – 25 Jul 2019
3. Strong 1Q19; Focusing more on user value – 16 May 2019

Figure 1: CMBI estimates vs consensus

Rmb mn, Mar-YE	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	7,466	9,445	11,710	7,484	9,151	10,773	-0.2%	3.2%	8.7%
Gross Profit	5,586	7,192	9,032	5,351	6,680	7,875	4.4%	7.7%	14.7%
Operating Profit	1,134	1,835	2,419	1,068	1,729	2,294	6.2%	6.2%	5.4%
Net profit	1,552	2,005	2,489	1,460	1,863	2,275	6.3%	7.6%	9.4%
Adj. EPS (RMB)	0.75	0.97	1.20	0.67	0.87	1.07	11.6%	10.8%	12.2%
Gross Margin	74.8%	76.1%	77.1%	71.5%	73.0%	73.1%	+3.3ppts	+3.1ppts	+4.0ppts
Operating Margin	15.2%	19.4%	20.7%	14.3%	18.9%	21.3%	+0.9ppts	+0.5ppts	-0.6ppts
Net Margin	20.8%	21.2%	21.3%	19.5%	20.4%	21.1%	+1.3ppts	+0.9ppts	+0.1ppts

Source: Company data, CMBIS estimates, Bloomberg

Figure 2: Peers comparison

Company	Ticker	Mkt cap (USD mn)	Currency	Price	PE			PS			EV/EBITDA			EPS CAGR
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	
OTA														
Ctrip	CTRP US	17,288	USD	29.4	24.4	17.9	14.4	3.4	2.9	2.5	20.3	15.5	12.1	30%
Tongcheng-eLong	780 HK	3,609	HKD	13.3	16.4	12.1	9.8	3.4	2.8	2.4	13.2	9.1	7.2	26%
Tuniu	TOUR US	401	USD	3.1	NA	50.5	29.3	1.3	1.2	1.1	NA	40.6	NA	NA
Booking	BKNG US	85,599	USD	2,013.5	19.7	17.3	15.0	5.6	5.2	4.7	14.3	13.0	11.7	15%
Expedia	EXPE US	19,761	USD	136.0	19.8	16.7	14.5	1.6	1.5	1.3	9.2	8.2	7.4	17%
Webjet	WEB AU	996	AUD	10.7	17.0	14.6	12.4	3.9	3.4	3.0	11.7	9.1	7.9	17%
TripAdvisor	TRIP US	5,212	USD	37.4	19.8	17.3	15.1	3.2	3.0	2.8	9.5	8.6	7.6	15%
Average					19.8	21.2	16.0	3.2	2.8	2.6	13.0	14.9	9.0	20%
Average(excluding Tuniu)					19.8	16.3	13.8	3.5	3.1	2.8	13.0	10.6	9.0	20%
Traditional Travel Agency														
UTour	002707 CH	629	CNY	5.1	19.0	15.7	13.4	0.3	0.3	0.3	13.3	11.1	10.3	19%
Tempus Global	300178 CH	497	CNY	5.7	10.7	8.2	6.8	0.7	0.6	0.5	NA	NA	NA	25%
Zhangjiajie Tourism	000430 CH	295	CNY	5.2	66.2	57.3	49.1	4.1	3.6	3.1	17.3	14.2	12.2	16%
Changbai Mountain	603099 CH	347	CNY	9.2	28.3	22.3	19.5	4.7	4.1	3.6	14.0	11.7	10.0	21%
Average					31.0	25.9	22.2	2.5	2.1	1.9	14.9	12.3	10.8	20%
Total Average					24.3	22.9	18.3	2.9	2.6	2.3	13.6	14.1	9.6	20%
Total Average(excluding Tuniu)					24.3	20.1	17.2	3.1	2.7	2.4	13.6	11.2	9.6	20%

Source: Bloomberg

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	2,519	5,256	7,466	9,445	11,710
Accommodation reservation	2,362	1,830	4,923	6,322	7,889
Transportation ticketing	61	3,233	2,288	2,847	3,520
Others	96	193	254	276	301
COGS	(812)	(1,601)	(1,880)	(2,253)	(2,678)
R&D	(522)	(1,350)	(1,598)	(1,729)	(2,084)
S&M	(1,095)	(1,841)	(2,496)	(3,252)	(4,071)
Administrative expenses	(97)	(935)	(358)	(376)	(458)
Fair value change	1	79	0	0	0
Other income	13	33	0	0	0
Other gains/(losses).net	23	48	0	0	0
Operating profit	29	(311)	1,134	1,835	2,419
Finance income	10	10	13	13	13
Other income, net	95	903	0	0	0
Pre-tax profit	134	602	1,147	1,848	2,432
Income tax	60	(67)	(195)	(314)	(413)
Less: Minority interests	(1)	(5)	0	0	0
Net profit	196	530	952	1,534	2,018
Adj. net profit	193	916	1,552	2,005	2,489

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before tax	134	602	1,147	1,848	2,432
D&A	84	297	335	379	384
Change in working capital	554	2,024	(394)	392	618
Others	(52)	(629)	(390)	(628)	(827)
Net cash from operating	720	2,361	893	2,305	3,020
Capex & investments	(392)	(338)	(200)	(200)	(200)
ST investments payments	(1,673)	(2,246)	0	0	0
ST investments proceeds	1,520	0	0	0	0
Other	3	1,183	0	0	0
Net cash from investing	(542)	(1,400)	(200)	(200)	(200)
Equity raised	0	1,240	0	0	0
Change of debts	190	(20)	0	0	0
Others	(4)	260	0	0	0
Net cash from financing	186	1,481	0	0	0
Net change in cash	364	2,441	693	2,105	2,820
Exchange difference	(1)	1	0	0	0
Cash at the beginning of the year	339	702	3,144	3,837	5,942
Cash at the end of the year	702	3,144	3,837	5,942	8,762
Cash at balance sheet	702	3,144	3,837	5,942	8,762

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	924	9,294	9,185	9,017	8,846
PP&E	442	934	1,029	1,120	1,207
Investments	63	101	101	101	101
Land use right	0	16	16	16	16
Intangible assets	309	7,962	7,732	7,462	7,192
Deferred income tax assets	62	250	250	250	250
Prepayment & other receivables	49	31	56	68	80
Current assets	1,844	7,497	8,587	11,119	14,428
Account receivable	735	1,381	1,778	2,206	2,694
Short-term investments	236	2,831	2,831	2,831	2,831
Restricted cash	171	141	141	141	141
Cash and cash equivalent	702	3,144	3,837	5,942	8,762
Current liabilities	1,578	4,534	4,562	5,393	6,513
Borrowings	20	20	20	20	20
Trade payables	1,115	2,569	2,631	3,155	3,750
Other payables and accruals	437	1,815	1,754	2,031	2,518
Current income taxes liabilities	6	131	157	188	226
Non-current liabilities	6,522	729	729	729	729
Borrowings	172	153	153	153	153
Deferred income tax liabilities	0	570	570	570	570
Other payables and accruals	6,349	7	7	7	7
Total net assets	(5,337)	11,528	12,480	14,014	16,032
Non-controlling interest	5	(8)	(8)	(8)	(8)
Total equity	(5,332)	11,535	12,487	14,022	16,040

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Accommodation reservation	93.8	34.8	65.9	66.9	67.4
Transportation ticketing	2.4	61.5	30.7	30.1	30.1
Others	3.8	3.7	3.4	2.9	2.6
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross Margin	67.8	69.5	74.8	76.1	77.1
PreTax Margin	3.9	11.4	15.4	19.6	20.8
Tax Rate	-45.0	10.0	17.0	17.0	17.0
Adj. net margin	7.6	17.4	20.8	21.2	21.3
Balance sheet ratios					
Current ratio (x)	1.2	1.7	1.9	2.1	2.2
Debtors turnover days	103.1	68.7	62.0	54.8	54.8
Creditors turnover days	457.8	593.0	561.8	1118.3	511.0
Inventory turnover days	0.0	0.0	0.0	0.0	0.0
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	-3.7	13.9	7.9	11.6	13.4
ROA	7.1	4.8	5.5	8.1	9.3
Per share data					
Adj. EPS (RMB)	0.0	0.4	0.7	1.0	1.2
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	0.0	5.6	6.0	6.8	7.7

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.