

Tongcheng-Elong (780 HK)

2Q19 beat, but alert on 2H19 margin pressure

SUMMARY. We are positive on TC's long-term user expansion, enhanced monetization and margin improvement, despite short-term negative impact from 12306 waiting list features. We maintain our TP of **HK\$19.71**, with earnings estimates barely changed.

- **2Q19 beat; but conservative on 2H19E margin.** Tongcheng-Elong ("TC") delivered solid 2Q19 results, with revenue/ adj. net profit +21%/ 60% YoY, 1%/ 12% above our estimates, mainly on lower-than-expected S&M expenses. 2Q19E was a soft quarter for weak seasonality, and we expect 2H19E to pick up in terms of user metrics and take rate. In terms of net profit, however, we expect lower net profit in 2H19E than 1H19, given 1) heavier marketing efforts will be put to enhance paying ratio and loyalty in 2H19E, as mgmt. guided; and 2) 12306 competition is yet to be over.
- **Enhanced monetization with paying user acceleration.** 2Q19 MAU grew 15% YoY to 182mn, but declined 9% QoQ for weak seasonality. As stated in our previous preview report, paying users accelerated to 27.7mn in 2Q19, up 54% YoY, with paying ratio up to 15% (vs. 11% in 2Q18). Looking ahead, we expect both MAU and MPU to achieve sequential growth in 3Q19, mainly on stronger seasonality and heavier S&M efforts on cross selling and membership loyalty program.
- **Take rate to pick up in 2H19E.** Strong momentum of accommodation continued, up 25% YoY in 2Q19 (> 40% YoY, excluding distribution channel factor). Accommodation take rate remained intact at 8.5% in 2Q19. Market concern lies on its transportation deceleration (+13% YoY) dragged by 12306 waiting list features (排队候补功能). 12306 competition had more impact on its take rate and attach rate, rather than GMV growth. 2Q19 transportation saw weak take rate (< 3%, in which air ticket was 3.5% and ground transportation was < 3%), primarily due to 1) heavier 12306 impact on soft season; and 2) more traffic for cross-selling. We expect 3Q19 take rate up to pick up to over 3%, and to peak at 4Q19 (> 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. Stock price might bear near-term volatility for market concern on 12306 competition, but we remain positive on TC's secular growth.

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)	24.0	14.2	11.0	8.8
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)
Current Price	HK\$12.3
Up/Downside	+60.2%

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	26,002
Avg 3 mths t/o (HK\$ mn)	70.3
52w High/Low (HK\$)	20.0/8.9
Total Issued Shares (mn)	2,110

Source: Bloomberg

Shareholding Structure

Tencent	22.6%
Ctrip	22.0%
Tiancheng Jiahua	7.9%

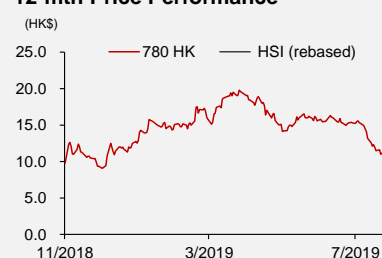
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-19.9%	-12.4%
3-mth	-21.0%	-16.1%
6-mth	-16.4%	-10.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- 2Q19E preview: solid momentum to continue – 25 Jul 2019
- Strong 1Q19; Focusing more on user value – 16 May 2019
- Solid FY18; From OTA to ITA – 21 Mar 2019

Figure 1: 2Q19 financial review

RMB mn, Dec-YE	2Q18	2Q19	YoY
Revenue	1,314	1,591	21%
Accommodation reservation	441	553	25%
Transportation ticketing	829	937	13%
Others	44	100	128%
Cost of revenue	(371)	(561)	51%
Gross profit	944	1,030	9%
Gross margin	72%	65%	
Service development expenses	(318)	(352)	11%
Selling and marketing expenses	(464)	(407)	-12%
Administrative expenses	(134)	(100)	-25%
Fair value change on investments measured at fair value through profit or loss	19	26	38%
Other income	7	14	84%
Other gains/(losses), net	9	8	-11%
Operating (loss)/profit	64	218	243%
Finance income	3	10	272%
Finance costs	1	(4)	-617%
Share of results of associates	(3)	(3)	17%
(Loss)/profit before income tax	65	222	243%
Income taxes (expense)/credit	(97)	(24)	-76%
(Loss)/profit for the year	(33)	198	-706%
Non-controlling interest	(0)	(1)	4204%
Net profit	199	(33)	-116%
Net margin	15%	-2%	
Adj. net profit	216	346	60%
Adj. net margin	16%	22%	

Source: Company data, Bloomberg

Figure 2: CMBI earnings revision

Rmb mn, Mar-YE	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	7,466	9,445	11,710	7,466	9,445	11,710	0.0%	0.0%	0.0%
Gross Profit	5,586	7,192	9,032	5,608	7,192	9,032	-0.4%	0.0%	0.0%
Operating Profit	1,134	1,835	2,419	1,156	1,835	2,419	-1.9%	0.0%	0.0%
Net profit	1,552	2,005	2,489	1,571	2,005	2,489	-1.2%	0.0%	0.0%
Adj. EPS (RMB)	0.75	0.97	1.20	0.76	0.97	1.20	-1.2%	0.0%	0.0%
Gross Margin	74.8%	76.1%	77.1%	75.1%	76.1%	77.1%	-0.3ppts	+0.0ppts	+0.0ppts
Operating Margin	15.2%	19.4%	20.7%	15.5%	19.4%	20.7%	-0.3ppts	+0.0ppts	+0.0ppts
Net Margin	20.8%	21.2%	21.3%	21.0%	21.2%	21.3%	-0.2ppts	+0.0ppts	+0.0ppts

Source: Company data, CMBIS estimates

Figure 3: 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	7,708	9,651	11,402	-3.1%	-2.1%	2.7%
Gross Profit	5,586	7,192	9,032	5,678	7,251	8,608	-1.6%	-0.8%	4.9%
Operating Profit	1,134	1,835	2,419	1,040	1,810	2,433	9.0%	1.4%	-0.6%
Net profit	1,552	2,005	2,489	1,552	2,030	2,472	0.0%	-1.2%	0.7%
Adj. EPS (RMB)	0.75	0.97	1.20	0.75	0.96	1.10	-0.2%	0.2%	8.6%
Gross Margin	74.8%	76.1%	77.1%	73.7%	75.1%	75.5%	+1.2ppts	+1.0ppts	+1.6ppts
Operating Margin	15.2%	19.4%	20.7%	13.5%	18.7%	21.3%	+1.7ppts	+0.7ppts	-0.7ppts
Net Margin	20.8%	21.2%	21.3%	20.1%	21.0%	21.7%	+0.7ppts	+0.2ppts	-0.4ppts

Source: Company data, Bloomberg

Figure 4: 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	19,439	USD	35.1	25.2	21.2	16.5	3.7	3.2	2.7	23.8	17.4	13.3	24%
Tongcheng-eLong	780 HK	3,314	HKD	12.3	14.8	11.5	10.0	3.0	2.4	2.0	10.9	7.3	5.6	21%
Tuniu	TOUR US	440	USD	3.4	NA	79.7	NA	1.4	1.3	1.2	NA	NA	NA	NA
Booking	BKNG US	82,196	USD	1,933.5	19.0	16.7	14.6	5.4	5.0	4.5	13.7	12.5	11.3	14%
Expedia	EXPE US	19,162	USD	130.8	19.0	16.0	13.8	1.6	1.4	1.3	9.0	8.0	7.2	17%
Webjet	WEB AU	1,199	AUD	13.1	20.9	15.0	13.0	4.7	3.8	3.5	14.5	10.4	9.1	27%
TripAdvisor	TRIP US	5,352	USD	38.4	20.3	17.7	15.5	3.3	3.0	2.8	9.7	8.7	7.9	14%
Average					19.9	25.4	13.9	3.3	2.9	2.6	13.6	10.7	9.1	20%
Average(excluding Tuniu)					19.9	16.3	13.9	3.6	3.1	2.8	13.6	10.7	9.1	20%
Traditional Travel Agency														
UTour	002707 CH	641	CNY	5.1	18.0	15.2	12.9	0.3	0.3	0.3	13.2	11.2	12.0	18%
Tempus Global	300178 CH	437	CNY	5.0	9.3	7.2	6.0	0.6	0.5	0.4	NA	NA	NA	25%
Zhangjiajie Tourism	000430 CH	310	CNY	5.4	63.5	51.4	43.9	4.0	3.6	3.2	17.8	14.6	12.5	20%
Changbai Mountain	603099 CH	350	CNY	9.3	29.4	24.0	20.8	4.9	4.5	4.1	14.3	12.5	9.9	19%
Average					30.1	24.5	20.9	2.5	2.2	2.0	15.1	12.8	11.5	21%
Total Average					23.9	25.1	16.7	3.0	2.6	2.4	14.1	11.4	9.9	20%
Total Average(excluding Tuniu)					23.9	19.6	16.7	3.2	2.8	2.5	14.1	11.4	9.9	20%

Source: Bloomberg, CMBIS estimates

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

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