

# Tongcheng Travel (780 HK)

## Robust travel demand in FY24E

We expect Tongcheng Travel (TC) to deliver solid 4Q23E results, with revenue +87% YoY and NPM at 17% (in line with prior estimates). During the New Year's Eve holiday, TC saw eye-catching growth, attributable to well-performed accommodation and in-line transportation. The strong CNY momentum may continue for a longer period with strong return-home demand, in our view. Looking into FY24E, we see high visibility for TC to deliver >20% of topline growth with 18% NPM. Outbound expansion and packaged tour would bring further upside. We expect its outbound business to contribute 5% of revenue (back to 2019 level) in FY24E vs. 1% in FY23E. Our FY23-25E estimates remain unchanged, with DCF-based TP of HK\$25.1.

- **Expecting solid 4Q23E.** We expect TC to deliver solid 4Q23E results, backed by continuous recovery along with resilient exam-related accommodation. We expect 4Q23E revenue to increase +87% YoY (+44%, vs.2019), in which accommodation/transportation/others +67%/98%/95% YoY (+37%/27%/200% vs. 2019). The strong momentum of accommodation may continue, with room nights +67% (vs. 2019) and relatively stable take rate at 8%-8.5%. We expect adj. NP to be at RMB470mn in 4Q23E (adj. NPM at 17%).
- **Eye-catching growth during the NYE holiday.** TC's accommodation performed well during the NYE holiday, with domestic room nights reaching a record high (on monthly basis) by +100% YoY, and ADR +10-15% YoY. International accommodation saw decent recovery, with hotel room nights +250% YoY. Transportation business was largely In-line, driven by rising train volume/ car rental orders (+30%/80% YoY), and solid air ticket growth (+10-15% YoY). For outbound travel, air ticket volume surged 5x YoY on low base.
- **Robust travel demand in FY24E, with share gain and outbound expansion.** Looking into FY24E, we see high visibility for TC to deliver >20% topline growth with 18% NPM, backed by resilient travel demand, cross-selling penetration, international expansion and rising hotel management. We expect its outbound business to contribute 5% of revenue (back to 2019 level) in FY24E vs. 1% in FY23E, by expanding air tickets volume (in SEA, Japan, the US, etc) with competitive pricing. For international hotel, TC accesses hotel inventories by cooperating with various OTA platforms (e.g. Trip.com, Expedia). Furthermore, the acquisition of packaged tour business will enrich its product portfolio, and may bring positive earnings contribution ahead (with low margin), while our estimates have not factored in yet.
- **Maintain BUY.** Our FY23-25E estimates remain unchanged, with DCF-based TP of HK\$25.1, implying 24x/21x FY23/24E P/E.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	7,538	6,585	11,562	13,927	16,055
YoY growth (%)	27.1	(12.6)	75.6	20.5	15.3
Adjusted net profit (RMB mn)	1,308	646	2,186	2,500	2,878
Diluted EPS (RMB)	0.58	0.29	0.97	1.11	1.28
YoY growth (%)	37.1	-50.6	238.2	14.4	15.1
Consensus EPS (RMB)	NA	NA	0.80	0.95	1.18
P/S (x)	4.4	5.0	2.9	2.4	2.1
P/E (x)	24.8	50.3	14.5	12.7	11.0
ROE (%)	4.9	(0.9)	9.2	9.6	10.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** **HK\$25.10**  
 (Previous TP) HK\$25.10)  
**Up/Downside** **59.7%**  
**Current Price** **HK\$15.72**

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### Stock Data

Mkt Cap (HK\$ mn)	37,387.9
Avg 3 mths t/o (HK\$ mn)	58.1
52w High/Low (HK\$)	19.74/13.56
Total Issued Shares (mn)	2255.0
Source: FactSet	

### Shareholding Structure

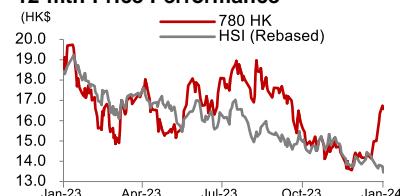
Tencent	21.2%
Trip.com	20.7%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	15.0%	21.7%
3-mth	6.3%	18.2%
6-mth	-8.4%	12.1%

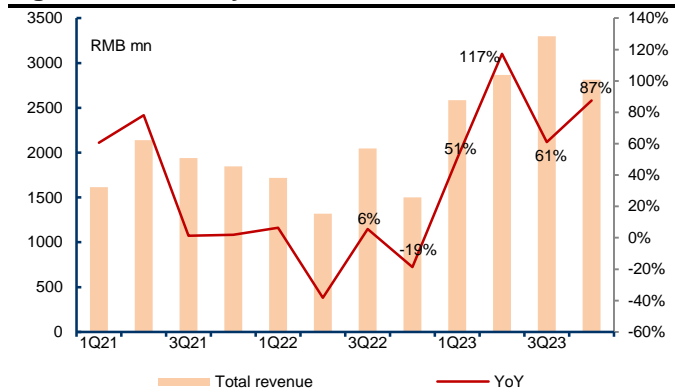
Source: FactSet

### 12-mth Price Performance



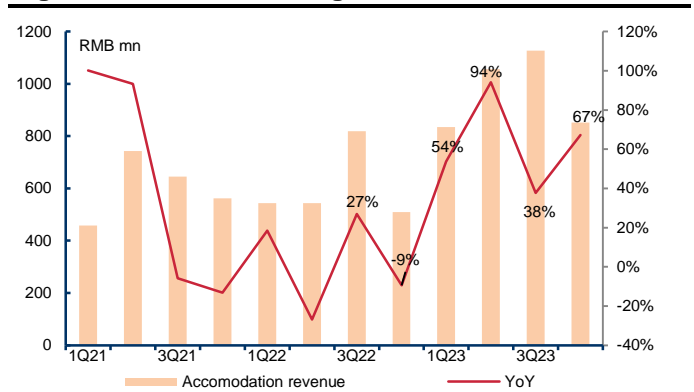
Source: FactSet

Figure 1: Quarterly revenue estimates



Source: Company data, CMBIGM estimates

Figure 2: Hotel business growth estimates



Source: Company data, CMBIGM estimates

Figure 3: 4Q23E financial preview

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23E	QoQ	YoY	Consensus	Diff %
Revenue	1,718	1,319	2,048	1,500	2,586	2,866	3,299	2,811	-15%	87%	2,826	-1%
Operating Profit	138	(128)	(39)	5	465	417	599	333	-44%	5968%	361	-8%
Net profit	101	(135)	(94)	(32)	378	360	515	263	-49%	NA	277	-5%
Adj. net profit	245	112	252	37	504	592	621	470	-24%	1155%	471	0%
<b>Margin (%)</b>												
Gross Margin	72.5%	70.9%	74.0%	72.0%	75.0%	75.5%	76.0%	75.1%			74.9%	
Operating Margin	8.0%	-9.7%	-1.9%	0.4%	18.0%	14.6%	18.2%	11.8%			12.8%	
Adj. net margin	14.3%	8.5%	12.3%	2.5%	19.5%	20.7%	18.8%	16.7%			16.7%	
<b>Growth (%)</b>												
Revenue (YoY)	6.5%	-38.3%	5.6%	-18.8%	50.5%	117.4%	61.1%	87.4%			88.4%	
Revenue (QoQ)	-7.0%	-23.2%	55.3%	-26.8%	72.4%	10.8%	15.1%	-14.8%			-14.3%	
Operating Profit	-36.0%	NA	NA	NA	237.7%	NA	NA	NA			NA	
Adj. net profit	-17.3%	-73.2%	-26.6%	-85.0%	105.6%	428.9%	146.5%	1154.8%			1157.5%	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Revenue breakdown

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23E	QoQ	YoY
<b>Total revenue</b>	<b>1,718</b>	<b>1,319</b>	<b>2,048</b>	<b>1,500</b>	<b>2,586</b>	<b>2,866</b>	<b>3,299</b>	<b>2,811</b>	<b>-15%</b>	<b>87%</b>
Accommodation reservation	543	544	819	509	834	1,055	1,127	852	-24%	67%
Transportation ticketing	1,017	620	987	756	1,383	1,495	1,680	1,499	-11%	98%
Others	158	156	243	235	369	316	492	459	-7%	95%

Source: Company data, CMBIGM

Figure 5: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	11,562	13,927	16,055	11,598	13,979	16,285	-0.3%	-0.4%	-1.4%
Gross Profit	8,721	10,532	12,161	8,694	10,514	12,311	0.3%	0.2%	-1.2%
Operating Profit	1,814	2,134	2,528	1,819	2,217	2,819	-0.3%	-3.8%	-10.3%
Adj. net profit	2,186	2,500	2,878	2,177	2,444	2,970	0.4%	2.3%	-3.1%
Adj. EPS (RMB)	0.97	1.11	1.28	0.80	0.95	1.18	22.4%	17.1%	8.5%
Gross Margin	75.4%	75.6%	75.7%	75.0%	75.2%	75.6%	+0.5ppts	+0.4ppts	+0.1ppts
Operating Margin	15.7%	15.3%	15.7%	15.7%	15.9%	17.3%	+0.0ppts	-0.5ppts	-1.6ppts
Adj. net margin	18.9%	18.0%	17.9%	18.8%	17.5%	18.2%	+0.1ppts	+0.5ppts	-0.3ppts

Source: CMBIGM estimates, Bloomberg

Figure 6: DCF valuation

DCF Valuation (Rmb mn)										
	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	2,483	2,852	3,297	4,150	5,118	6,191	7,360	8,611	9,928	11,295
Tax	(311)	(365)	(432)	(519)	(640)	(775)	(921)	(1,077)	(1,242)	(1,413)
D&A	394	400	279	290	302	312	321	329	336	342
Change in working capital	(1,391)	(733)	(664)	(677)	(691)	(704)	(719)	(733)	(748)	(763)
CAPEX	(200)	(200)	(200)	(210)	(221)	(232)	(243)	(255)	(268)	(281)
FCF	976	1,955	2,280	3,034	3,868	4,793	5,799	6,875	8,006	9,180
FCF Growth	NA	100%	17%	33%	27%	24%	21%	19%	16%	15%
PV	976	1,702	1,730	2,005	2,226	2,403	2,532	2,615	2,652	25,748
Terminal Value										80,059

Assumptions	
WACC	14.8%
Tax rate	17.0%
Risk free rate	3.95%
Beta	1.20
Market risk return	13.0%
Cost of equity	14.8%
Debt/Assets	0.0%
Long term growth	3.0%
Debt	0

Equity Value	
PV	44,588
minus: Net debt(Rmb mn)	(7,816)
minus: Minority interest(Rmb mn)	0
Equity Value(Rmb mn)	52,405
FX	0.93
Equity Value(HK\$ mn)	56,349
Target Price (HK\$) based on DCF	25.1

		WACC					
Terminal growth rate	~	13%	14%	15%	16%	17%	
	1.5%	27.8	25.4	23.7	21.6	20.1	
	2.0%	28.5	25.9	24.1	21.9	20.4	
	2.5%	29.2	26.4	24.6	22.3	20.6	
	3.0%	30.0	27.1	25.1	22.6	20.9	
	3.5%	30.8	27.7	25.6	23.1	21.3	
	4.0%	31.8	28.5	26.2	23.5	21.6	
4.5%	32.9	29.3	26.9	24.0	22.0		

Source: Company data, Bloomberg, CMBIGM estimates

Figure 7: Comps table

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
<b>Tongcheng Travel</b>	780 HK	4,781	HKD	16	BUY	25	14.5	12.7	11.0	2.9	2.4	2.1	15%
<b>China Internet Giants</b>													
Alibaba	BABA US	182,720	USD	72	BUY	148	8.1	7.6	6.9	1.4	1.3	1.2	10%
Meituan	3690 HK	59,001	HKD	74	BUY	162	19.6	13.6	9.1	1.5	1.3	1.1	45%
Average							8.1	7.6	6.9	1.5	1.3	1.1	28%
<b>OTA</b>													
Ctrip	TCOM US	24,063	USD	37	BUY	46	14.6	14.6	12.3	3.9	3.3	2.9	9%
Booking	BKNG US	122,198	USD	3,502	NA	NA	22.8	20.5	18.0	5.7	5.2	4.7	19%
Expedia	EXPE US	20,634	USD	149	NA	NA	14.9	12.5	10.6	1.6	1.5	1.4	27%
Webjet	WEB AU	1,850	AUD	7	NA	NA	23.3	18.0	15.3	5.8	5.0	4.5	22%
TripAdvisor	TRIP US	2,708	USD	20	NA	NA	18.0	12.7	10.9	1.5	1.4	1.3	25%
Average							18.7	15.6	13.4	3.2	2.8	2.6	20%
<b>Travel agency</b>													
UTour	002707 CH	1,019	CNY	7	NA	NA	NA	31.6	22.6	2.3	0.9	0.6	243%
Changbai Mountain	603099 CH	1,317	CNY	36	NA	NA	60.1	52.1	44.5	15.6	13.6	11.6	17%
Average							60.1	41.9	33.6	9.0	7.2	6.1	17%
<b>Hotel</b>													
H World Group	HTHT US	10,526	USD	33	NA	NA	18.6	17.0	14.8	3.5	3.2	3.0	13%
Jinjiang Int Hotels	600754 CH	4,074	CNY	30	NA	NA	23.4	16.6	13.3	2.0	1.9	1.7	33%
BTG Hotels Group	600258 CH	2,465	CNY	16	NA	NA	22.5	17.7	14.8	2.2	2.0	1.9	24%
GreenTree	GHG US	325	USD	3	NA	NA	7.4	7.6	6.7	1.4	1.3	1.2	5%
Average							18.0	14.7	12.4	2.3	2.1	1.9	19%
Average							21.2	19.0	15.9	3.7	3.2	2.8	19%

Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	5,933	7,538	6,585	11,562	13,927	16,055
Cost of goods sold	(1,697)	(1,890)	(1,807)	(2,842)	(3,396)	(3,894)
Gross profit	4,236	5,648	4,778	8,721	10,532	12,161
Operating expenses	(3,916)	(4,953)	(4,917)	(6,906)	(8,398)	(9,633)
Selling expense	(2,131)	(3,036)	(2,801)	(4,416)	(5,306)	(6,037)
Admin expense	(540)	(572)	(701)	(733)	(836)	(931)
Other rental related expenses	(1,246)	(1,344)	(1,414)	(1,757)	(2,256)	(2,665)
Operating profit	364	895	(24)	1,814	2,134	2,528
Other income	65	124	102	0	0	0
Other expense	(140)	(91)	(28)	0	0	0
Gain/loss on financial assets at FVTPL	99	98	154	0	0	0
Other gains/(losses)	21	69	(114)	0	0	0
Net Interest income/(expense)	23	12	(79)	13	13	13
Others	(7)	(33)	(14)	0	0	0
Pre-tax profit	(380)	(875)	117	(1,827)	(2,146)	(2,541)
Income tax	72	161	46	311	365	432
After tax profit	(308)	(714)	164	(1,517)	(1,782)	(2,109)
Minority interest	2	10	18	0	0	0
Net profit	310	723	(146)	1,517	1,782	2,109
Adjusted net profit	954	1,308	646	2,186	2,500	2,878
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	8,830	7,373	9,344	14,224	18,205	22,319
Cash & equivalents	1,804	2,046	4,065	7,836	11,269	14,889
Restricted cash	92	55	55	55	55	55
Account receivables	2,020	1,930	1,620	2,729	3,277	3,771
Financial assets at FVTPL	4,913	3,343	3,604	3,604	3,604	3,604
Non-current assets	10,284	14,133	13,733	13,301	12,849	12,321
PP&E	1,226	1,364	1,446	1,523	1,595	1,592
Right-of-use assets	242,111	217,064	217,064	217,064	217,064	217,064
Deferred income tax	216	175	175	175	175	175
Investment in JVs & assos	221	1,128	1,128	1,128	1,128	1,128
Intangibles	7,481	8,348	7,858	7,318	6,778	6,237
Financial assets at FVTPL	168	828	828	828	828	828
Other non-current assets	(241,138)	(214,774)	(214,766)	(214,735)	(214,718)	(214,703)
Current liabilities	4,234	4,711	4,023	6,554	7,852	9,024
Short-term borrowings	49	20	20	20	20	20
Account payables	3,960	4,496	3,912	6,406	7,678	8,823
Other current liabilities	64	49	58	70	84	101
Contract liabilities	161	147	33	58	70	80
Non-current liabilities	863	1,536	1,536	1,536	1,536	1,536
Long-term borrowings	113	94	94	94	94	94
Convertible bonds	0	0	0	0	0	0
Deferred income	529	497	497	497	497	497
Other non-current liabilities	221	946	946	946	946	946
Share capital	8	8	8	8	8	8
Capital surplus	19,046	19,571	19,980	20,380	20,830	21,330
Other reserves	(2,996)	(3,038)	(3,038)	(3,038)	(3,038)	(3,038)
Total shareholders equity	14,017	15,259	15,504	17,421	19,653	22,261
Minority interest	3	39	22	22	22	22
Total equity and liabilities	19,114	21,506	21,064	25,511	29,041	32,822

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	380	875	(117)	1,827	2,146	2,541
Depreciation & amortization	379	384	389	394	400	279
Tax paid	(72)	(161)	(46)	(311)	(365)	(432)
Change in working capital	(525)	1,328	(424)	1,391	733	664
Others	(935)	(2,747)	(381)	(3,502)	(3,114)	(3,251)
<b>Net cash from operations</b>	<b>(773)</b>	<b>(322)</b>	<b>(580)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>
<b>Investing</b>						
Capital expenditure	(200)	(200)	(200)	(200)	(200)	(200)
Net proceeds from disposal of short-term investments	(247)	(529)	(102)	0	0	0
Others	623	667	381	187	187	187
<b>Net cash from investing</b>	<b>177</b>	<b>(62)</b>	<b>79</b>	<b>(13)</b>	<b>(13)</b>	<b>(13)</b>
<b>Financing</b>						
Net borrowings	(77)	(49)	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	254	(12)	79	(13)	(13)	(13)
<b>Net cash from financing</b>	<b>177</b>	<b>(62)</b>	<b>79</b>	<b>(13)</b>	<b>(13)</b>	<b>(13)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	2,271	1,804	4,318	4,065	7,836	11,269
Exchange difference	(6)	0	0	0	0	0
<b>Cash at the end of the year</b>	<b>1,804</b>	<b>4,318</b>	<b>4,065</b>	<b>7,836</b>	<b>11,269</b>	<b>14,889</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	(19.8%)	27.1%	(12.6%)	75.6%	20.5%	15.3%
Gross profit	(16.5%)	33.3%	(15.4%)	82.5%	20.8%	15.5%
Operating profit	(59.1%)	145.9%	na	na	17.6%	18.5%
Net profit	(56.9%)	133.5%	na	na	17.5%	18.4%
Adj. net profit	(39.4%)	37.1%	(50.6%)	238.2%	14.4%	15.1%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	71.4%	74.9%	72.6%	75.4%	75.6%	75.7%
Operating margin	6.1%	11.9%	(0.4%)	15.7%	15.3%	15.7%
Adj. net profit margin	16.1%	17.4%	9.8%	18.9%	18.0%	17.9%
Return on equity (ROE)	2.3%	4.9%	(0.9%)	9.2%	9.6%	10.1%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.1)	(0.1)	(0.3)	(0.4)	(0.6)	(0.7)
Current ratio (x)	2.1	1.6	2.3	2.2	2.3	2.5
Receivable turnover days	144.1	95.6	98.4	68.6	78.7	80.1
Payable turnover days	1,004.1	816.6	849.4	662.7	757.0	773.3
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	85.8	44.8	na	22.5	19.2	16.2
P/E (diluted)	16.9	34.0	22.5	52.9	15.6	13.7
P/B	2.0	2.3	1.9	2.2	2.0	1.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

# Disclosures & Disclaimers

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