

CTGDF (601888 CH)

Looking past the weak 2Q; earnings risk diminishing as consensus is subtly edging down; upgrade to BUY

We believe the worst for CTGDF is likely over, upon signs of re-opening in Shanghai from June onwards and the gradual rollout of pro-growth policies. While domestic travelling, in our view, might not stand at the forefront to see immediate benefits from the re-opening, expectation of travel resumption has been building up towards 3Q with reference to the cases over past few years. From here, we see scope for travelling demand to recover sequentially into 4Q, particularly when the quarter is seasonally clustered with festivals and shopping campaigns that catalyze leisure spending. Earnings-wise, 2Q should look dismal given a c.90% decline in airport traffic to Shanghai Airport and that to Hainan, in our view, unlikely to look significantly better. City-wise lockdown could also represent a temporary hiccup in delivery logistics for online sales. That said, our channel check suggested that margins have been holding relatively well during 5.1, as contrasted to our previous expectation that underpinned our HOLD rating. Consider also when consensus gradually edges towards our below-market estimates (we were 6%+ below), CTGDF's risk-reward is turning more favorable to us. We recommend investors to look past the weak 2Q, which is gradually being priced-in, and we upgraded CTGDF to BUY with a higher TP of RMB232 (from RMB192).

- **Earnings revisions.** We cut our 2022E revenue by c.17% as a result of 1) a 19% cut in 2022E revenue of Shanghai Airport/ Sunrise; and 2) an 18% cut in 2022E Hainan offshore duty-free related revenue which now stands at RMB67bn (from RMB81bn). Separately, we raised our 2022/23E GPM by 1.5/1.3pp. These in aggregate explain a 12% cut in our 2022E net profits. We are still c.6% below consensus.
- **Hainan's duty-free related sales target.** We also lowered our forecast from the official RMB100bn to RMB80bn, based on an 80%+ market share (2021: c.90%) that CTGDF could achieve on the island.
- **Valuation.** Our new TP is now based on 46.5x (up from 34.0x) end-22E P/E which represents 2-year average (up from -1sd below average) since mid-2020. We raise our target multiple to reflect the potential and imminent re-rating which will likely be fueled by the sequentially recovering, though bumpy, domestic tourist traffic.

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	52,597	67,676	80,343	118,452	164,665
YoY growth (%)	8.2	28.7	18.7	47.4	39.0
Net income (RMB mn)	6,140	9,654	9,745	13,990	19,355
EPS (RMB)	3.1	4.9	5.0	7.2	9.9
YoY growth (%)	32.6	57.2	0.9	43.6	38.4
Consensus EPS (RMB)	n.a	n.a	5.4	7.5	9.5
P/E (x)	n.a	37.7	37.3	26.0	18.8
P/B (x)	n.a	12.3	10.0	7.9	6.2
Div yield (%)	n.a	0.8	0.9	1.2	1.7
ROE (%)	27.5	32.6	26.9	30.5	32.8
Net gearing (%)	54.6	32.8	44.6	45.3	49.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Up)

Target Price	RMB232.0
(Previous TP)	RMB192.0)
Up/Downside	+25.6%
Current Price	RMB184.8

China Consumer Sector

Joseph Wong
(852) 3900 0838
josephwong@cmbi.com.hk

Zheng Xiaohui
zhengxiaohui@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	360 817
Avg 3 mths t/o (RMB mn)	2,388
52w High/Low (RMB)	343.3/ 156.1
Total Issued Shares (mn)	1,952

Source: Wind

Shareholding Structure

China Travel Group	53.3%
HKSC	9.8%
CSFC	3.0%

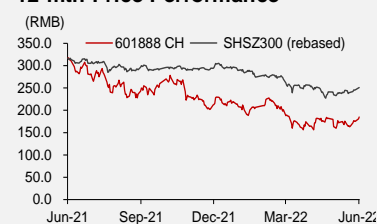
Source: Wind

Share Performance

	Absolute	Relative
1-mth	12.6%	5.6%
3-mth	-1.8%	2.2%
6-mth	-13.2%	-2.2%

Source: Wind

12-mth Price Performance



Source: Wind

Related Reports

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2. [“Management initiatives may not fully dispel uncertainty over the planned margins recovery: down to HOLD”](#) – 8 Mar 2022

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	80,343	118,452	164,665	97,310	130,893	175,788	-17.4%	-9.5%	-6.3%
Gross profit	26,760	40,901	59,999	30,929	43,554	61,660	-13.5%	-6.1%	-2.7%
EBIT	15,164	21,392	29,560	17,460	22,624	29,151	-13.1%	-5.4%	1.4%
Net profit	9,745	13,990	19,355	11,044	14,641	18,910	-11.8%	-4.4%	2.4%
EPS (RMB)	4.99	7.17	9.91	5.66	7.50	9.68	-11.8%	-4.4%	2.4%
Gross margin	33.31%	34.53%	36.44%	31.78%	33.27%	35.08%	1.5ppt	1.3ppt	1.4ppt
EBIT margin	18.87%	18.06%	17.95%	17.94%	17.28%	16.58%	0.9ppt	0.8ppt	1.4ppt
Net margin	12.13%	11.81%	11.75%	11.35%	11.19%	10.76%	0.8ppt	0.6ppt	1ppt

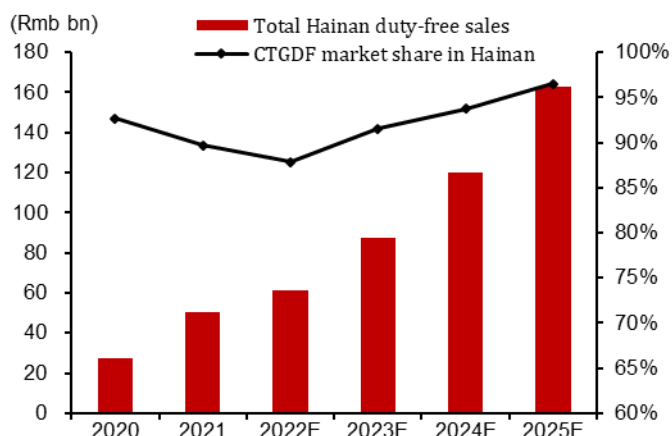
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	80,343	118,452	164,665	78,612	107,284	132,773	2.2%	10.4%	24.0%
Gross profit	26,760	40,901	59,999	27,866	39,352	50,167	-4.0%	3.9%	19.6%
Operating profit	15,164	21,392	29,560	15,400	21,381	27,560	-1.5%	0.1%	7.3%
Net profit	9,745	13,990	19,355	10,404	14,711	18,519	-6.3%	-4.9%	4.5%
EPS (RMB)	4.99	7.17	9.91	5.37	7.54	9.47	-7.0%	-4.9%	4.7%
Gross margin	33.31%	34.53%	36.44%	35.45%	36.68%	37.78%	-2.1ppt	-2.2ppt	-1.3ppt
Operating margin	18.87%	18.06%	17.95%	19.59%	19.93%	20.76%	-0.7ppt	-1.9ppt	-2.8ppt
Net margin	12.13%	11.81%	11.75%	13.23%	13.71%	13.95%	-1.1ppt	-1.9ppt	-2.2ppt

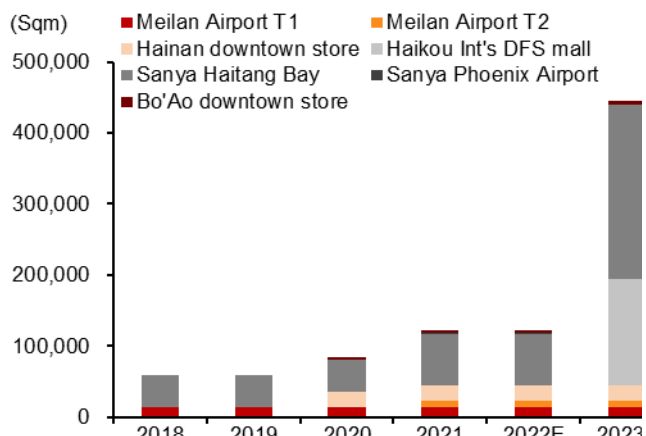
Source: Company data, CMBIGM estimates

Figure 3: CTGDF's market share in Hainan



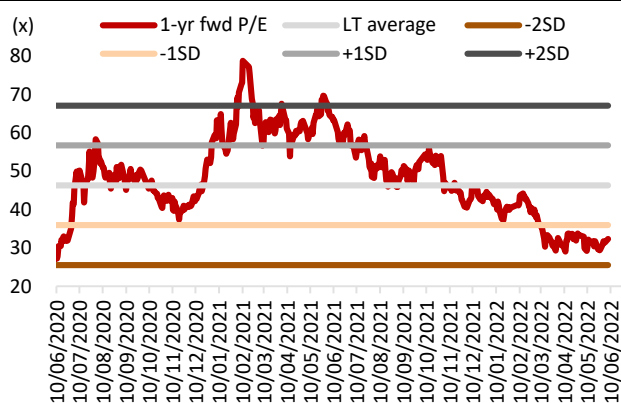
Source: Hainan government, CMBIGM estimates

Figure 4: CTGDF space expansion in Hainan



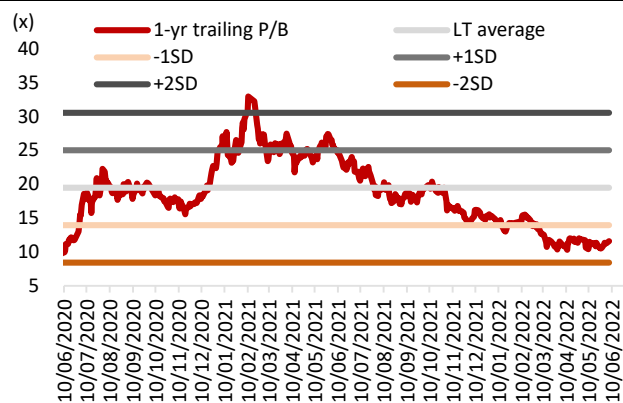
Source: Company data, CMBIGM

Figure 5: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM

Figure 6: 12M trailing P/B band



Source: Company data, Bloomberg, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	52,597	67,676	80,343	118,45	175,78
Duty-paid sales	19,708	24,006	27,317	34,146	47,560
Duty-free sales	32,361	42,936	53,026	84,306	128,22
Gross profit	21,376	22,793	26,760	40,901	61,660
D&A	(516)	(480)	(542)	(647)	(754)
Selling expenses	(8,847)	(3,861)	(6,427)	(11,845)	(21,095)
Administration expenses	(1,637)	(2,250)	(2,651)	(3,909)	(5,801)
Other operating expenses	(568)	(1,360)	(1,975)	(3,107)	(4,859)
EBIT	9,809	14,843	15,164	21,392	29,151
EBITDA	10,325	15,323	15,706	22,039	29,906
Finance costs, net	545	43	(181)	117	166
Non-operating income	(676)	(245)	-	-	(406)
Total investment gains/(loss)	(7)	161	-	-	163
Pre-tax profit	9,672	14,801	14,983	21,510	29,074
Income tax	(2,335)	(2,437)	(2,494)	(3,580)	(4,840)
Less: Minority interests	(1,197)	(2,711)	(2,744)	(3,940)	(5,325)
Net profit	6,140	9,654	9,745	13,990	18,910

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	6,140	9,654	9,745	13,990	18,910
D&A	516	480	542	647	754
Change in working capital	(2,888)	(2,955)	1,558	(4,386)	(4,816)
Others	4,435	1,151	2,484	3,561	4,733
Net cash fr. operating act.	8,202	8,329	14,329	13,812	19,580
Capex & investments	(1,234)	(2,155)	(2,358)	(2,191)	(2,026)
Associated companies	(1,542)	(62)	-	-	-
Others	337	338	339	340	340
Net cash fr. investing act.	(3,814)	(2,318)	(2,358)	(2,191)	(2,027)
Equity raised	-	-	-	-	-
Change of Debts	255	-	-	-	-
Dividend paid	(1,658)	(3,431)	(3,099)	(4,449)	(6,013)
Others	20	(386)	(1,218)	(1,743)	(2,439)
Net cash fr. financing act.	(1,383)	(3,817)	(4,317)	(6,192)	(8,452)
Net change in cash	3,005	2,194	7,655	5,429	9,102
Cash at the beginning of the year	12,032	14,858	16,856	24,511	27,800
Exchange difference	(331)	(196)	-	-	-
Cash at the end of the year	14,706	16,856	24,511	29,940	36,902
Less: pledged cash	50	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	10,948	16,932	18,788	20,332	22,093
Fixed asset	1,591	1,843	2,714	3,537	4,312
Prepaid lease payments	357	357	357	357	357
Interest in JV	254	254	254	254	254
Other non-current assets	8,747	14,478	15,463	16,184	17,170
Current assets	30,971	38,542	45,778	58,733	76,740
Cash	14,706	16,856	24,511	29,940	36,902
Account receivable	129	106	126	186	275
Prepayments	256	348	348	348	348
Other current assets	15,881	21,232	20,793	28,260	39,215
Current liabilities	15,661	17,136	18,276	21,416	26,208
Borrowings	417	411	411	411	411
Obligations under finance	4,327	5,880	7,020	10,160	14,952
Other payables	7,246	6,122	6,122	6,122	6,122
Tax payables	3,671	4,722	4,722	4,722	4,722
Non-current liabilities	79	3,546	3,546	3,546	3,546
Borrowings	-	-	-	-	-
Deferred income	74	55	55	55	55
Others	5	3,491	3,491	3,491	3,491
Minority Interest	3,871	5,173	6,439	8,257	10,968
Total net assets	26,179	34,791	42,704	54,062	71,003
Shareholders' equity	26,179	34,791	42,704	54,062	71,003

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Duty-paid sales	37.5	35.5	34.0	28.8	27.1
Duty-free sales	61.5	63.4	66.0	71.2	72.9
P&L ratios (%)					
Gross margin	40.6	33.7	33.3	34.5	35.1
Operating margin	18.6	21.9	18.9	18.1	16.6
Pre-tax margin	18.4	21.9	18.6	18.2	16.5
Net margin	11.7	14.3	12.1	11.8	10.8
Effective tax rate	(24.1)	(16.5)	(16.6)	(16.6)	(16.6)
Balance sheet analysis					
Current ratio (x)	0.5	0.4	0.5	0.5	0.5
Net receivable days	0.9	0.6	0.6	0.6	0.6
Net payable days	50.6	47.8	47.8	47.8	47.8
Inventory turnover days	172.8	160.7	130.0	125.0	120.0
Net debt to equity (%)	54.6	32.8	44.6	45.3	44.3
Returns (%)					
ROE	27.5	32.6	26.9	30.5	31.5
ROA	14.6	17.4	15.1	17.7	19.1
Dividend yield	0.5	0.8	0.9	1.2	1.8
Per share					
EPS (RMB)	3.1	4.9	5.0	7.2	9.7
DPS (RMB)	1.0	1.6	1.6	2.3	3.1
BVPS (RMB)	11.4	15.2	18.6	23.5	30.7

Source: Company data, CMBIGM estimates

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CMB International Global Markets Limited

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

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