

# Tongcheng-Elong (780 HK)

## Earnings intact despite mixed 3Q guidance

Tongcheng-Elong ("TC") delivered upbeat 2Q20 but soft 3Q20 guidance. 2Q20 revenue/ adj. net profit declined 25%/43% YoY, 2%/20% above consensus. Despite 3Q20 topline guidance soft on high base, we keep positive on its above-industry recovery pace, with earnings intact in 2H20E. We expect 3Q20E rev to decline 7% YoY, and 4Q20E rev to achieve positive growth. We adjusted our earnings by -3%/0%/+2% YoY in FY20/21/22E, and slightly lifted our TP to HK\$19, to reflect industrial valuation rebound. Maintain BUY.

- Solid 2Q20, while 3Q topline guidance soft on high base.** 2Q20 revenue dropped 25% YoY, 0%/2% above our estimate/ consensus. Non-GAAP net profit declined 43% YoY, 19%/20% above our estimate/ consensus, for effective cost control. 3Q20E rev guidance came in at -5% to -10% YoY (vs. consensus -4%), and bottom line at RMB300mn-RMB400mn (vs. consensus RMB355mn). As we stated in our preview report, 3Q20E would see decent recovery from both lines, but its topline might be partly dragged given high base in 3Q19 with pre-purchase business (9% of total rev). If excluding overseas business and pre-purchase factor, 3Q20E topline guidance suggests 0-5% YoY growth.
- Short-term recovery pace to be affected by ADR trend.** TC's transportation/ accommodation revenue declined 31%/23% YoY in 2Q20 (vs. our estimate of -33%/-21%). Looking ahead, we expect hotel rev down 17% YoY in 3Q20E (0-5% YoY growth if excluding international business and pre-purchase factor), in which hotel room nights to achieve double-digit YoY growth while take rate back to normal. ADR would still decline YoY in 2H20E. Lower-tier cities would recover faster, with room nights +30% YoY in 3Q20E. For transportation, we expect its rev down 0-5% YoY (0%-5% YoY growth if excluding international business). 3Q20 air ticketing volume would grow 10% YoY, given higher user safety awareness and lower price. Ground transportation rev would still see 0-5% YoY decline. We estimate its transportation take rate to normalize in 3Q20E, and margin intact YoY. Bus tickets business would be new driver for its user expansion.
- Maintain BUY.** 3Q20E topline might be partly dragged by high base, but earnings will stay intact, in our view. We keep positive on TC's recovery and disciplined expenses in 2H20E. We trimmed our topline forecast but kept our earnings estimate barely changed. We slightly lifted our TP from HK\$17 to HK\$19 (18x FY21E P/E), with higher industrial multiple.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	7,393	6,334	9,504	11,211
YoY growth (%)	NA	-14.3	50.1	18.0
Adj. net income (RMB mn)	1,544	1,057	2,009	2,496
Adj. EPS (RMB)	0.74	0.51	0.97	1.20
YoY growth (%)	68.6	-31.6	90.1	24.2
Consensus EPS (RMB)	NA	0.50	0.93	1.13
P/E (x)	19.2	28.1	14.8	11.9
P/B (x)	0.6	0.6	0.5	0.5
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	5.6	4.4	8.2	10.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$19.0**  
 (Previous TP **HK\$17.0**)  
 Up/Downside **+19%**  
 Current Price **HK\$15.9**

### China Internet Sector

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### Stock Data

Mkt Cap (HK\$ mn)	34,749
Avg 3 mths t/o (HK\$ mn)	101.81
52w High/Low (HK\$)	16.48/ 8.74
Total Issued Shares (mn)	2,156

Source: Bloomberg

### Shareholding Structure

Tencent	22.4%
Ctrip	21.9%
Suzhou Industrial Park	7.8%

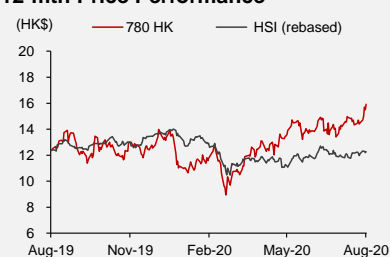
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	13.1%	10.1%
3-mth	15.0%	6.0%
6-mth	31.8%	39.6%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

Auditor: PwC

### Related Reports

- Solid recovery ahead - 28 Jul 2020
- Moving to 2H20E recovery - 22 May 2020
- 1Q20E Preview: recovery in sight - 21 Apr 2020
- Better-than-feared 1Q20 guidance - 27 Mar 2020

**Figure 1: 2Q20 financial review**

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	1,783	1,591	2,062	1,956	1,005	1,200	19.4%	-24.6%	1,171	2%	1,202	0%
Operating Profit	187	218	347	107	(53)	49	NA	NA	33	47%	35	41%
Net profit	97	199	294	97	(56)	55	NA	NA	35	57%	36	52%
Adj. net profit	448	346	419	331	78	196	151%	-43%	164	20%	165	19%
<b>Margin (%)</b>												
Gross Margin	72.1%	64.7%	66.9%	70.6%	65.0%	72.3%			68.7%		70.0%	
Operating Margin	10.5%	13.7%	16.8%	5.5%	-5.2%	4.1%			2.9%		2.9%	
Adj. net margin	25.1%	21.7%	20.3%	16.9%	7.8%	16.3%			14.0%		13.7%	
<b>Growth (%)</b>												
Revenue (YoY)	17.5%	21.0%	22.3%	24.4%	-43.6%	-24.6%			-26.4%		-26.4%	
Revenue (QoQ)	13.4%	-10.8%	29.6%	-5.1%	-48.6%	19.4%			16.5%		16.5%	
Operating Profit	NA	242.9%	232.2%	201.7%	-128.1%	-77.5%			NA		-84.7%	
Adj. net profit	8.7%	60.0%	33.2%	67.7%	-82.6%	-43.2%			-52.5%		-52.5%	

Source: Company data, Bloomberg, CMBIS estimates

**Figure 2: Revenue breakdown**

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY
<b>Total revenue</b>	<b>1,783</b>	<b>1,591</b>	<b>2,062</b>	<b>1,956</b>	<b>1,005</b>	<b>1,200</b>	<b>19%</b>	<b>-25%</b>
Accommodation reservation	489	553	694	622	229	384	68%	-31%
Transportation ticketing	1,259	937	1,140	1,182	687	726	6%	-23%
Others	35	100	229	153	89	90	1%	-10%

Source: Company data

**Figure 3: CMBIS estimates vs consensus**

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	6,334	9,504	11,211	6,483	9,469	11,384	-2.3%	0.4%	-1.5%
Gross Profit	4,423	6,773	7,985	4,464	6,625	7,998	-0.9%	2.2%	-0.2%
Operating Profit	693	1,409	2,016	582	1,458	1,966	19.1%	-3.4%	2.6%
Adj. net profit	1,057	2,009	2,496	1,072	1,994	2,435	-1.4%	0.7%	2.5%
Adj. EPS (RMB)	0.51	0.97	1.20	0.50	0.93	1.13	2.7%	3.9%	6.2%
Gross Margin	69.8%	71.3%	71.2%	68.8%	70.0%	70.3%	+1.0ppts	+1.3ppts	+1.0ppts
Operating Margin	10.9%	14.8%	18.0%	9.0%	15.4%	17.3%	+2.0ppts	-0.6ppts	+0.7ppts
Adj. net margin	16.7%	21.1%	22.3%	16.5%	21.1%	21.4%	+0.1ppts	+0.1ppts	+0.9ppts

Source: CMBIS estimates, Bloomberg

**Figure 4: Earnings revision**

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	6,334	9,504	11,211	7,113	10,427	12,254	-11.0%	-8.9%	-8.5%
Gross Profit	4,423	6,773	7,985	4,873	7,312	8,602	-9.2%	-7.4%	-7.2%
Operating Profit	693	1,409	2,016	731	1,412	1,959	-5.1%	-0.2%	2.9%
Adj. net profit	1,057	2,009	2,496	1,088	2,012	2,449	-2.9%	-0.1%	1.9%
Adj. EPS (RMB)	0.51	0.97	1.20	0.52	0.97	1.18	-2.9%	-0.1%	1.9%
Gross Margin	69.8%	71.3%	71.2%	68.5%	70.1%	70.2%	+1.3ppts	+1.1ppts	+1.0ppts
Operating Margin	10.9%	14.8%	18.0%	10.3%	13.5%	16.0%	+0.7ppts	+1.3ppts	+2.0ppts
Adj. net margin	16.7%	21.1%	22.3%	15.3%	19.3%	20.0%	+1.4ppts	+1.8ppts	+2.3ppts

Source: CMBIS estimates

**Figure 5: Peer valuation**

Company	Ticker	Mkt cap (USD mn)	Currency	Price	PE			PS			EV/EBITDA			FY20-22E
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	EPS CAGR
<b>OTA</b>														
Tongcheng-Elong	780 HK	4,428	HKD	15.9	28.1	14.8	11.9	4.7	3.2	2.7	21.0	10.6	8.5	51%
Ctrip	CTRP US	18,166	USD	30.6	NA	25.2	19.6	6.5	3.9	3.2	NA	22.0	16.6	NA
Tuniu	TOUR US	133	USD	1.1	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Booking	BKNG US	79,655	USD	1,945.3	103.7	28.0	19.0	10.4	6.9	5.5	53.0	18.8	13.4	167%
Expedia	EXPE US	14,248	USD	100.9	NA	78.0	19.4	2.5	1.7	1.3	NA	15.1	9.6	NA
Webjet	WEB AU	904	AUD	3.6	49.7	NA	26.4	4.3	9.4	4.2	23.0	NA	13.0	66%
TripAdvisor	TRIP US	3,302	USD	24.6	NA	42.3	20.5	5.0	3.1	2.5	NA	14.3	9.6	NA
Average					60.5	37.7	19.5	5.6	4.7	3.2	32.4	16.1	11.8	116%
<b>Traditional Travel Agency</b>														
UTour	002707 CH	1,218	CNY	9.2	368.0	50.5	41.4	1.5	0.6	0.6	48.5	19.0	27.3	25%
Tempus Global	300178 CH	418	CNY	4.7	7.9	6.1	NA	NA	NA	NA	NA	NA	NA	NA
Zhangjiajie Tourism	000430 CH	325	CNY	5.5	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Changbai Mountain	603099 CH	339	CNY	8.7	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Average					187.9	28.3	41.4	1.5	0.6	0.6	48.5	19.0	27.3	25%
<b>Total Average</b>					<b>111.5</b>	<b>35.0</b>	<b>22.6</b>	<b>5.0</b>	<b>4.1</b>	<b>2.9</b>	<b>36.4</b>	<b>16.6</b>	<b>14.0</b>	<b>77%</b>

Source: CMBIS estimates, Bloomberg

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>5,256</b>	<b>7,393</b>	<b>6,334</b>	<b>9,504</b>	<b>11,211</b>
Accommodation reservation	1,830	4,518	4,035	5,701	6,343
Transportation ticketing	3,233	2,358	1,736	3,191	3,590
Others	193	517	562	612	1,278
<b>COGS</b>	<b>(1,601)</b>	<b>(2,318)</b>	<b>(1,911)</b>	<b>(2,731)</b>	<b>(3,225)</b>
R&D	(1,350)	(1,519)	(1,317)	(1,882)	(2,108)
S&M	(1,841)	(2,246)	(1,931)	(2,778)	(3,038)
Administrative expenses	(935)	(625)	(481)	(704)	(824)
Fair value change	79	106	0	0	0
Other income	33	89	0	0	0
Other gains/(losses).net	48	(20)	0	0	0
<b>Operating profit</b>	<b>(311)</b>	<b>860</b>	<b>693</b>	<b>1,409</b>	<b>2,016</b>
Finance income	10	35	13	13	13
Other income, net	903	(13)	0	0	0
<b>Pre-tax profit</b>	<b>602</b>	<b>882</b>	<b>706</b>	<b>1,422</b>	<b>2,029</b>
Income tax	(67)	(195)	(120)	(242)	(345)
Less: Minority interests	(5)	2	0	0	0
Net profit	530	688	586	1,180	1,684
<b>Adj. net profit</b>	<b>916</b>	<b>1,544</b>	<b>1,057</b>	<b>2,009</b>	<b>2,496</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profit before tax</b>	<b>602</b>	<b>882</b>	<b>706</b>	<b>1,422</b>	<b>2,029</b>
D&A	297	335	379	384	389
Change in working capital	2,024	(212)	(422)	1,051	625
Others	(629)	497	(240)	(125)	(349)
<b>Net cash from operating</b>	<b>2,361</b>	<b>1,696</b>	<b>542</b>	<b>2,973</b>	<b>3,039</b>
Capex & investments	(338)	(200)	(200)	(200)	(200)
ST investments payments	(2,246)	(2,148)	0	0	0
ST investments proceeds	0	0	0	0	0
Other	1,183	(607)	(120)	0	0
<b>Net cash from investing</b>	<b>(1,400)</b>	<b>(2,955)</b>	<b>(320)</b>	<b>(200)</b>	<b>(200)</b>
Equity raised	1,240	0	0	0	0
Change of debts	(20)	68	0	0	0
Others	260	305	0	0	0
<b>Net cash from financing</b>	<b>1,481</b>	<b>373</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net change in cash</b>	<b>2,441</b>	<b>(886)</b>	<b>222</b>	<b>2,773</b>	<b>2,839</b>
Exchange difference	1	13	0	0	0
Cash at the beginning of the year	702	3,144	2,271	2,493	5,266
<b>Cash at the end of the year</b>	<b>3,144</b>	<b>2,271</b>	<b>2,493</b>	<b>5,266</b>	<b>8,105</b>
Cash at balance sheet	3,144	2,271	2,493	5,266	8,105

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>9,294</b>	<b>9,792</b>	<b>9,387</b>	<b>9,228</b>	<b>9,243</b>
PP&E	934	1,102	1,193	1,280	1,280
Investments	101	329	329	329	329
Land use right	16	0	16	16	16
Intangible assets	7,962	7,860	7,590	7,320	7,320
Deferred income tax assets	250	201	201	201	201
Prepayment & other receivables	31	7	57	82	97
<b>Current assets</b>	<b>7,497</b>	<b>9,691</b>	<b>8,971</b>	<b>12,506</b>	<b>15,774</b>
Account receivable	1,381	2,666	1,619	2,382	2,810
Short-term investments	2,831	4,541	4,645	4,645	4,645
Restricted cash	141	213	213	213	213
Cash and cash equivalent	3,144	2,271	2,493	5,266	8,105
<b>Current liabilities</b>	<b>4,534</b>	<b>5,606</b>	<b>4,186</b>	<b>6,025</b>	<b>7,093</b>
Borrowings	20	107	107	107	107
Trade payables	2,569	3,429	2,676	3,824	4,515
Other payables and accruals	1,815	2,035	1,362	2,043	2,410
Current income taxes liabilities	131	35	42	50	60
<b>Non-current liabilities</b>	<b>729</b>	<b>726</b>	<b>726</b>	<b>726</b>	<b>726</b>
Borrowings	153	133	133	133	133
Deferred income tax liabilities	570	568	568	568	568
Other payables and accruals	7	25	25	25	25
<b>Total net assets</b>	<b>11,528</b>	<b>13,152</b>	<b>13,738</b>	<b>14,918</b>	<b>16,602</b>
Non-controlling interest	(8)	(5)	(5)	(5)	(5)
<b>Total equity</b>	<b>11,535</b>	<b>13,156</b>	<b>13,742</b>	<b>14,923</b>	<b>16,607</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Accommodation reservation	34.8	61.1	63.7	60.0	56.6
Transportation ticketing	61.5	31.9	27.4	33.6	32.0
Others	3.7	7.0	8.9	6.4	11.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>101.0</b>
<b>P&amp;L ratios (%)</b>					
Gross Margin	69.5	68.6	69.8	71.3	71.2
PreTax Margin	11.4	11.9	11.1	15.0	18.1
Tax Rate	10.0	17.0	17.0	17.0	17.0
Adj. net margin	17.4	20.9	16.7	21.1	22.3
<b>Balance sheet ratios</b>					
Current ratio (x)	1.7	1.7	2.1	2.1	2.2
Debtors turnover days	67.8	53.4	54.8	54.8	54.8
Creditors turnover days	683.9	517.0	2103.6	1114.4	511.0
Inventory turnover days	0.0	0.0	0.0	0.0	1.0
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	13.9	5.6	4.4	8.2	10.7
ROA	4.8	3.8	3.1	5.9	7.2
<b>Per share data</b>					
Adj. EPS (RMB)	0.4	0.7	0.5	1.0	1.2
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	5.6	6.3	6.6	7.2	8.0

Source: Company data, CMBIS estimates

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