

Tongcheng Travel (780 HK)

Driving for balanced business growth with more controlled marketing spending

Tongcheng Travel (TC) reported 2Q24 results: total revenue was RMB4.2bn, up 48% YoY, and was inline with Bloomberg consensus estimates; adjusted net income was RMB657mn, up 11% YoY, and was 4% better than consensus, which in our view was driven by efficient sales and marketing expense control. Overall travel demands are likely better than feared in 3Q24, while management guided to scale back user subsidy to drive for balanced and efficient business development amid current macro environment. Outbound travel demand remains a solid driver for long-term revenue and earnings growth for TC, in our view. We believe that the Company is well-positioned to benefit from the rising travel demand in lower tier cities over the long run, aided by enhanced product capability and strategic cooperation with Tencent. We transfer coverage with a BUY rating and a target price of HK\$23.5, which translates into 18.7x adjusted 2024E PE.

■ **Core OTA business delivered solid revenue growth.** In 2Q24, TC's core OTA business reached RMB3.5bn (83% of total revenue), up 23% YoY (1Q24: 23.9% YoY), among which transportation ticketing services/accommodation reservation services/others revenue achieved YoY revenue growth of 16.6%/12.8%/87.3% YoY (1Q24: 25.6%/15.6%/36.0%). Revenue generated from Tourism business reached RMB719mn in 2Q24 and contributed to 16.9% of total revenue. Management highlighted a solid trend in user frequency improvement on its platform: the number of twelve-month accumulated number of travellers served reached 1.86bn in six month ended 30 June 2024, up 30% YoY, compared to annual paying users increase of 4.8% YoY during the same period. Also, the cross-sell ratio between transportation ticketing and other business and products has increased to 12% in 2Q24 (compared to low-single digit range prior to merger of Tongcheng and Elong).

■ **3Q travel demand likely better than feared.** For 3Q24E, we estimate TC to ink total revenue of RMB4.9bn, up 47% YoY, driven by 20% YoY solid revenue growth of Core OTA business, and incremental revenue contribution from the consolidation of Tourism business. Within the Core OTA business, we expect combined revenue growth of 20% YoY for accommodation reservation services and transportation ticketing business, aided by: 1) mid-teens hotel room nights growth and expansion in take rate due to the scaling back of user subsidies; 2) solid transportation ticketing volume growth. We estimate a deceleration in Other revenue to 22% YoY in 3Q24, due to a high base for ads and membership services revenue. However, with proactive scaling back of user subsidies from management and drive for quality growth amid current macro backdrop, we estimate adjusted net profit growth of 33% YoY to RMB826mn in 3Q24E.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	6,585	11,896	17,054	20,323	23,122
YoY growth (%)	(12.6)	80.7	43.4	19.2	13.8
Adjusted net profit (RMB mn)	646.2	2,199.1	2,664.5	3,248.1	3,729.0
Diluted EPS (RMB)	(0.07)	0.68	0.85	1.10	1.27
Consensus EPS (RMB)	na	na	1.07	1.30	1.61
P/E (x)	na	17.4	13.9	10.7	9.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$23.50
(Previous TP)	HK\$25.10)
Up/Downside	79.1%
Current Price	HK\$13.12

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Stock Data

Mkt Cap (HK\$ mn)	30,359.8
Avg 3 mths t/o (HK\$ mn)	141.5
52w High/Low (HK\$)	22.30/12.70
Total Issued Shares (mn)	2314.0

Source: FactSet

Shareholding Structure

Tencent	21.2%
Trip.com	20.7%

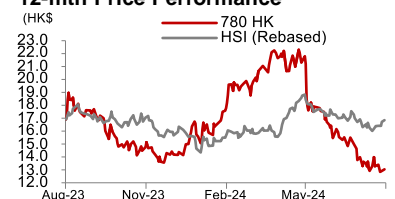
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.7%	-5.2%
3-mth	-39.8%	-32.5%
6-mth	-26.2%	-31.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: TC: CMBI forecast vs Bloomberg consensus

RMB bn	Current			Consensus			Diff (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	17,054	20,323	23,122	17,586	20,895	24,298	-3.0%	-2.7%	-4.8%
Gross profit	11,147	13,329	15,155	11,564	13,863	16,333	-3.6%	-3.8%	-7.2%
Operating profit	2,341	3,044	3,453	2,243	2,905	3,606	4.4%	4.8%	-4.2%
Non-GAAP net profit	2,665	3,248	3,729	2,471	3,013	3,739	7.8%	7.8%	-0.3%
Gross margin	65.4%	65.6%	65.5%	65.8%	66.3%	67.2%	-0.4 ppt	-0.8 ppt	-1.7 ppt
Operating profit margin	13.7%	15.0%	14.9%	12.8%	13.9%	14.8%	1.0 ppt	1.1 ppt	0.1 ppt
Non-GAAP net margin	15.6%	16.0%	16.1%	14.1%	14.4%	15.4%	1.6 ppt	1.6 ppt	0.7 ppt

Source: Bloomberg, CMBIGM estimates

Figure 2: TC: DCF valuation (WACC of 13.0%; terminal growth of 2.0%)

(RMBmn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Total revenue	17,054	20,323	23,122	25,320	27,001	28,301	29,325	30,147	30,819	31,375
NPV of FCF	27,232									
Discounted terminal value	18,843									
Total equity valuation	49,940									
No. of shares (diluted, mn)	2,314									
Valuation per share (HKD)	23.5									

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	7,538	6,585	11,896	17,054	20,323	23,122
Cost of goods sold	(1,890)	(1,807)	(3,158)	(5,907)	(6,994)	(7,968)
Gross profit	5,648	4,778	8,738	11,147	13,329	15,155
Operating expenses	(4,753)	(4,802)	(6,869)	(8,806)	(10,285)	(11,702)
Selling expense	(3,036)	(2,801)	(4,473)	(5,923)	(6,812)	(7,751)
Admin expense	(572)	(701)	(711)	(1,029)	(1,213)	(1,380)
Other rental related expenses	(1,344)	(1,414)	(1,821)	(1,956)	(2,327)	(2,648)
Others	200	114	136	102	67	76
Operating profit	895	(24)	1,869	2,341	3,044	3,453
Interest income	39	58	175	208	200	284
Interest expense	(26)	(137)	(157)	(211)	(211)	(211)
Others	(33)	(14)	(33)	10	12	18
Pre-tax profit	875	(117)	1,854	2,348	3,045	3,544
Income tax	(161)	(46)	(288)	(365)	(473)	(551)
After tax profit	714	(164)	1,566	1,983	2,572	2,993
Minority interest	(10)	(18)	11	20	20	20
Net profit	723	(146)	1,554	1,963	2,552	2,973
Adjusted net profit	1,308	646	2,199	2,665	3,248	3,729
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	7,373	10,384	14,900	17,402	21,398	25,835
Cash & equivalents	2,046	3,547	5,192	6,670	9,480	12,818
Restricted cash	55	88	145	208	248	282
Account receivables	670	888	1,218	1,364	1,626	1,850
Prepayment	1,259	2,697	4,370	5,186	6,071	6,911
Financial assets at FVTPL	3,343	3,163	3,974	3,974	3,974	3,974
Non-current assets	14,133	14,651	16,817	16,476	16,337	16,231
PP&E	1,364	1,598	2,495	2,581	2,639	2,697
Right-of-use assets	217	111	589	589	589	589
Intangibles	8,348	8,581	9,580	9,206	8,882	8,598
Financial assets at FVTPL	828	758	1,039	1,039	1,039	1,039
Other non-current assets	3,376	3,602	3,113	3,061	3,187	3,307
Current liabilities	4,711	6,117	11,887	12,023	13,403	14,868
Short-term borrowings	20	443	2,540	2,540	2,540	2,540
Account payables	2,207	2,522	4,131	4,431	4,896	5,577
Tax payable	2,289	3,040	4,939	4,775	5,690	6,474
Other current liabilities	49	60	166	166	166	166
Contract liabilities	147	51	111	111	111	111
Non-current liabilities	1,536	2,928	1,283	1,316	1,336	1,354
Long-term borrowings	94	1,858	11	11	11	11
Obligations under finance leases	182	88	420	420	420	420
Other non-current liabilities	1,261	982	852	884	905	922
Total liabilities	6,248	9,044	13,170	13,338	14,739	16,222
Share capital	8	8	8	8	8	8
Capital surplus	19,571	19,877	20,116	20,116	20,116	20,116
Other reserves	(4,359)	(4,153)	(2,421)	(447)	1,989	4,817
Total shareholders equity	15,219	15,732	17,703	19,676	22,112	24,940
Minority interest	39	258	844	864	884	904
Total equity and liabilities	15,259	15,990	18,546	20,540	22,996	25,844

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	875	(117)	1,854	2,348	3,045	3,544
Depreciation & amortization	670	840	911	997	1,106	1,177
Tax paid	(184)	(50)	(192)	(365)	(473)	(551)
Change in working capital	202	(1,001)	947	(742)	127	299
Others	275	630	485	395	384	437
Net cash from operations	1,838	302	4,003	2,634	4,189	4,907
Investing						
Capital expenditure	(310)	(515)	(772)	(368)	(433)	(489)
Others	(1,253)	118	(991)	(404)	(446)	(497)
Net cash from investing	(1,563)	(397)	(1,762)	(772)	(879)	(986)
Financing						
Net borrowings	0	0	(2)	(385)	(500)	(583)
Proceeds from share issues	na	0	0	0	0	0
Others	(20)	1,535	(590)	0	0	0
Net cash from financing	(20)	1,535	(592)	(385)	(500)	(583)
Net change in cash						
Cash at the beginning of the year	1,804	2,046	3,547	5,192	6,670	9,480
Exchange difference	(14)	61	(4)	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	2,046	3,547	5,192	6,670	9,480	12,818
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	27.1%	(12.6%)	80.7%	43.4%	19.2%	13.8%
Gross profit	33.3%	(15.4%)	82.9%	27.6%	19.6%	13.7%
Operating profit	134.4%	na	na	25.2%	30.0%	13.4%
Net profit	120.8%	na	na	26.3%	30.0%	16.5%
Adj. net profit	37.1%	(50.6%)	240.3%	21.2%	21.9%	14.8%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	74.9%	72.6%	73.5%	65.4%	65.6%	65.5%
Operating margin	11.9%	(0.4%)	15.7%	13.7%	15.0%	14.9%
Adj. net profit margin	17.4%	9.8%	18.5%	15.6%	16.0%	16.1%
Return on equity (ROE)	4.9%	(0.9%)	9.3%	10.5%	12.2%	12.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.1)	(0.1)	(0.2)	(0.3)	(0.4)
Current ratio (x)	1.6	1.7	1.3	1.4	1.6	1.7
Receivable turnover days	38.8	43.2	32.3	27.6	26.9	27.4
Payable turnover days	406.3	477.6	384.5	264.5	243.4	239.9
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	36.6	ns	17.4	13.9	10.7	9.3
P/E (diluted)	37.3	ns	17.8	14.2	11.0	9.5
P/B	1.8	1.7	1.6	1.4	1.3	1.1
P/CFPS	17.7	ns	8.5	12.3	7.5	6.4

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

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