

# CTGDF (601888 CH)

## 2Q in line with profit alert; subtle recovery ahead

1H results were reportedly in line with preannouncement, with 1H/2Q revenue growing +29.7%/+38.8% YoY to RMB35.9bn/15.1bn and net profits changing by -1.9%/+13.8% YoY to RMB3.9bn/1.6bn, respectively. We hold our view that near-term earnings expectation is settling, and we envisage 2H momentum to be symmetrical to that of 1H, when visitation momentum to Hainan (7M23: +38% YoY) is likely to hold into the remainder of the year. Meanwhile, efforts in upholding a disciplined pricing promotion is bearing fruit, in our view, with 2Q GPM improving 3.8pp QoQ to 32.8%. We see grounds for GPM to further edge up from here, despite at a subtler pace, underpinned by a diversifying brand mix (even to popular domestic brands) and product mix (beyond traditional cosmetics SKU), albeit external headwinds (forex, procurement price, inventory bottleneck, SKU mix etc). Management pledged to maintain a balance between growth and profitability, and cost control, in our view, will be an integral initiative to this blueprint beyond any rumoured catalysts in airport rental concession and downtown duty-free policy enactment. We are buy-rated.

- **Call takeaway.** Despite global macro challenges, CTGDF remains a major luxury goods procurer, and its scale ensures consistent supply of bestselling products and strong pricing power. As a SOE, the company is poised to benefit from the island-wide duty free initiative. Meanwhile, CTGDF sets offline prices lower than those online to preserve the former's shopping experiences. Longer term, the strategic partnership with Swire Properties should broaden customer base to younger visitors.
- **Earnings change.** We cut 20% of our 2023E Hainan revenue estimates to RMB41bn, while that for airport and online business remains largely unchanged at RMB29bn. We lower our GPM by 1.3ppt to reflect the actual 2Q. We extrapolate 1H GPM to 2H. Going down the P&L, considering also a 2.5pp increase in selling expense ratio, these lead to a 30% cut in our net profits estimate.
- **Valuation.** Instead of averaging from 2020 when we attempted to reflect the potential duty-free spending surge upon a series of policy support, we rebase our average valuation from 2018 inclusive. In our view, this tailwind is becoming less relevant in dictating the company's growth trajectory, when there is presumably no quick fix to the faltering consumption recovery. We now project CTGDF to grow at a more normalised cadence over 2024-25E in tandem with the macro economy. With a refreshed methodology, we bake in an updated 29.0x roll-forward end-24E P/E at -1sd below 5-year average since 2018 to our new TP (from previously 48.0x at average since 2020).

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	67,676	54,433	71,901	82,133	92,902
YoY growth (%)	28.7	(19.6)	32.1	14.2	13.1
Net profit (RMB mn)	9,653.7	5,039.9	6,976.4	9,435.5	11,809.6
YoY growth (%)	57.2	(47.8)	38.4	35.2	25.2
EPS (RMB)	4.9	2.5	3.4	4.6	5.7
Consensus EPS (RMB)	na	na	4.1	5.7	7.1
P/E (x)	55.8	76.3	31.9	23.6	18.8
P/B (x)	18.2	7.9	4.2	3.7	3.3
Yield (%)	0.6	0.4	1.0	1.4	1.7
ROE (%)	37.2	12.9	13.7	16.7	18.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** RMB132.3  
(Previous TP RMB232.0)  
**Up/Downside** 23.0%  
**Current Price** RMB107.5

#### China Consumer

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#### Stock Data

Mkt Cap (RMB mn) 209,893.8  
Avg 3 mths t/o (RMB mn) 2,250.7  
52w High/Low (RMB) 232.80/107.50  
Total Issued Shares (mn) 1952.5  
Source: FactSet

#### Shareholding Structure

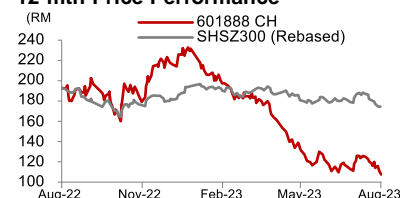
China Tourism Group Corp Ltd 53.3%  
HKSC 11.6%  
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-9.1%	-4.4%
3-mth	-18.2%	-15.4%
6-mth	-45.6%	-40.6%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	71,901	82,133	92,902	80,873	100,549	123,771	-11.1%	-18.3%	-24.9%
Gross Profit	22,831	28,236	33,503	26,999	35,197	44,932	-15.4%	-19.8%	-25.4%
EBIT	10,203	13,831	17,189	15,439	19,305	22,817	-33.9%	-28.4%	-24.7%
Net profit	6,976	9,436	11,810	9,989	12,504	14,851	-30.2%	-24.5%	-20.5%
Gross Margin	31.8%	34.4%	36.1%	33.4%	35.0%	36.3%	-1.6ppt	-0.6ppt	-0.2ppt
EBIT Margin	14.2%	16.8%	18.5%	19.1%	19.2%	18.4%	-4.9ppt	-2.4ppt	0.1ppt
Net Margin	9.7%	11.5%	12.7%	12.4%	12.4%	12.0%	-2.6ppt	-0.9ppt	0.7ppt

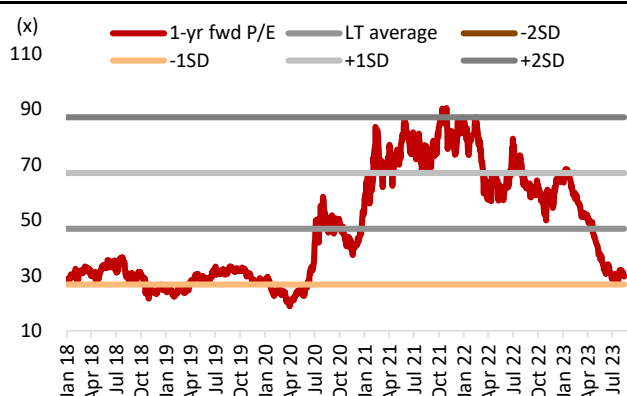
Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	71,901	82,133	92,902	79,169	103,634	121,226	-9.2%	-20.7%	-23.4%
Gross Profit	22,831	28,236	33,503	25,875	36,065	43,399	-11.8%	-21.7%	-22.8%
EBIT	10,203	13,831	17,189	12,800	17,393	21,865	-20.3%	-20.5%	-21.4%
Net profit	6,976	9,436	11,810	8,466	11,564	14,490	-17.6%	-18.4%	-18.5%
Gross Margin	31.8%	34.4%	36.1%	32.7%	34.8%	35.8%	-0.9ppt	-0.4ppt	0.3ppt
EBIT Margin	14.2%	16.8%	18.5%	16.2%	16.8%	18.0%	-2ppt	0.1ppt	0.5ppt
Net Margin	9.7%	11.5%	12.7%	10.7%	11.2%	12.0%	-1ppt	0.3ppt	0.8ppt

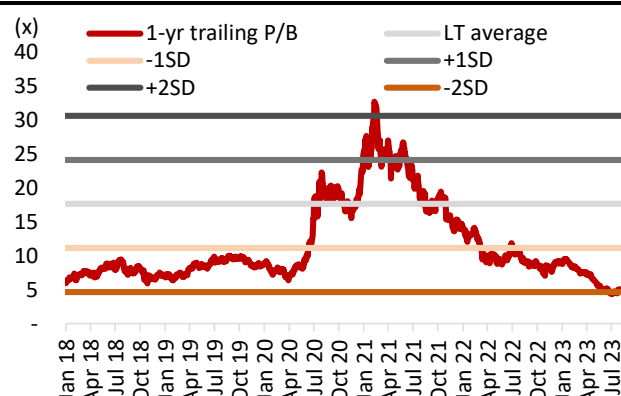
Source: Bloomberg, CMBIGM estimates

Figure 3: CTGDF - 12M forward P/E band



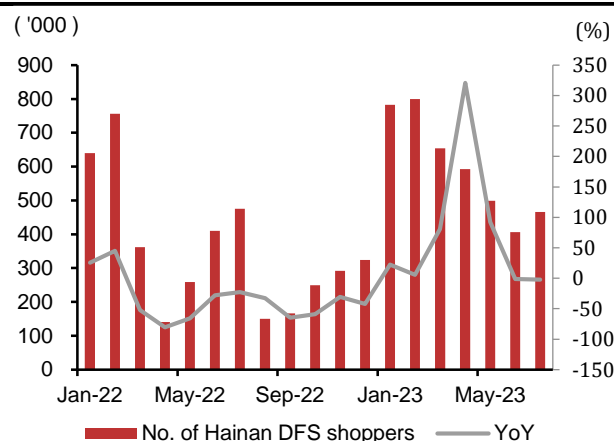
Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: CTGDF - 12M trailing P/B band



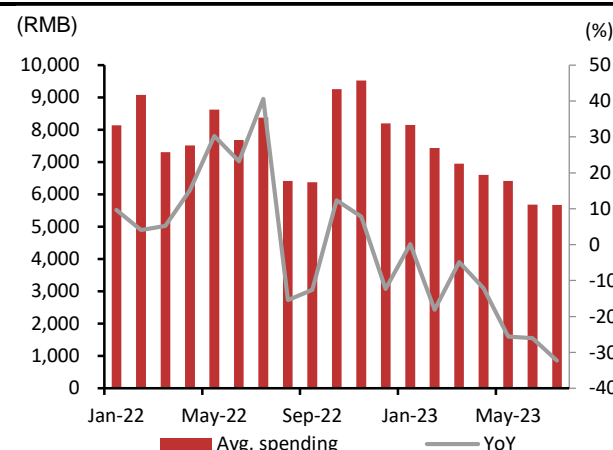
Source: Company data, Bloomberg, CMBIGM estimates

Figure 5: Duty-free shopper volume



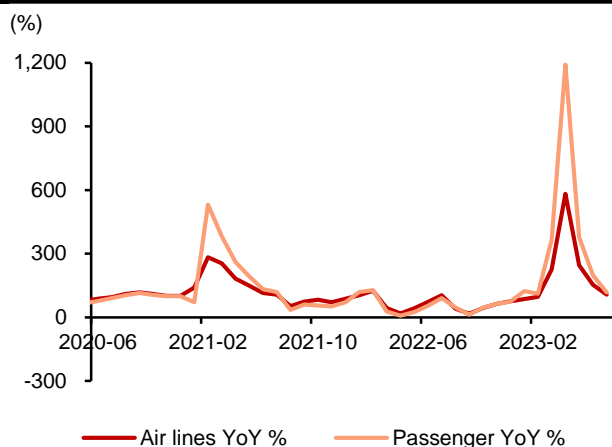
Source: Haikou Customs, CMBIGM estimates

Figure 6: Avg. spending per DFS shopper



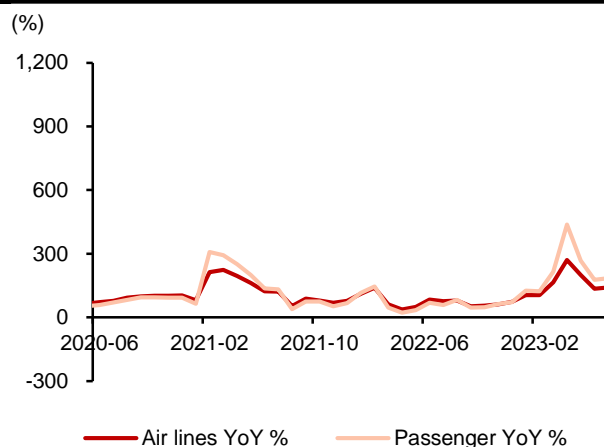
Source: Haikou Customs, CMBIGM estimates

**Figure 7: Sanya Phoenix International Airport air traffic trend**



Source: WIND, CMBIGM estimates

**Figure 8: Haikou Meilan International Airport air traffic trend**



Source: WIND, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	52,597	67,676	54,433	71,901	82,133	92,902
Cost of goods sold	(31,221)	(44,882)	(38,982)	(49,070)	(53,897)	(59,399)
Gross profit	21,376	22,793	15,451	22,831	28,236	33,503
Operating expenses	(11,567)	(7,950)	(7,456)	(12,628)	(14,405)	(16,314)
Selling expense	(8,847)	(3,861)	(4,032)	(8,269)	(9,445)	(10,684)
Admin expense	(1,637)	(2,250)	(2,209)	(2,517)	(2,875)	(3,252)
Others	(1,083)	(1,839)	(1,215)	(1,843)	(2,085)	(2,379)
Operating profit	9,809	14,843	7,669	10,203	13,831	17,189
EBITDA	10,325	15,323	8,241	10,930	14,701	18,204
Depreciation	(207)	(192)	(214)	(342)	(432)	(525)
Goodwill amortisation	(309)	(288)	(358)	(385)	(437)	(490)
EBIT	9,809	14,843	7,669	10,203	13,831	17,189
Net Interest income/(expense)	545	43	(220)	132	76	168
Foreign exchange gain/loss	537	283	(190)	0	0	0
Others	(683)	(84)	168	(200)	(200)	(200)
Pre-tax profit	9,672	14,801	7,617	10,135	13,708	17,156
Income tax	(2,335)	(2,437)	(1,429)	(1,942)	(2,627)	(3,288)
Minority interest	(1,197)	(2,711)	(1,148)	(1,216)	(1,645)	(2,059)
Net profit	6,140	9,654	5,040	6,976	9,436	11,810
Gross dividends	1,952	3,070	1,655	2,291	3,099	3,878

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	30,971	38,542	57,205	61,842	67,535	75,388
Cash & equivalents	14,706	16,856	26,892	24,400	27,408	32,252
Account receivables	129	106	151	200	228	258
Inventories	14,733	19,725	27,926	35,007	37,662	40,642
Prepayment	256	348	398	398	398	398
Other current assets	1,148	1,507	1,838	1,838	1,838	1,838
Non-current assets	10,948	16,932	18,702	21,173	23,361	25,265
PP&E	1,591	1,843	5,434	7,075	8,685	10,264
Deferred income tax	1,512	1,122	1,018	1,018	1,018	1,018
Intangibles	2,449	2,401	2,458	2,488	2,466	2,391
Goodwill	822	822	822	822	822	822
Financial assets at FVTPL	791	992	1,970	1,970	1,970	1,970
Other non-current assets	3,783	9,752	7,000	7,800	8,400	8,800
Total assets	41,919	55,474	75,908	83,015	90,896	100,653
Current liabilities	15,661	17,136	17,480	19,463	20,411	21,492
Short-term borrowings	417	411	109	109	109	109
Account payables	4,327	5,880	7,660	9,642	10,591	11,672
Tax payable	3,671	4,722	2,785	2,785	2,785	2,785
Other current liabilities	7,246	6,122	6,926	6,926	6,926	6,926
Non-current liabilities	79	3,546	4,300	4,300	4,300	4,300
Long-term borrowings	0	0	2,509	2,509	2,509	2,509
Other non-current liabilities	79	3,546	1,791	1,791	1,791	1,791
Total liabilities	15,741	20,682	21,780	23,762	24,711	25,792
Share capital	1,952	1,952	2,069	2,069	2,069	2,069
Capital surplus	3,032	2,921	18,537	19,235	20,179	21,360
Retained earnings	17,648	25,347	27,448	31,436	36,830	43,580
Other reserves	(324)	(602)	519	519	519	519
Total shareholders equity	22,308	29,619	48,573	53,259	59,596	67,527
Minority interest	3,871	5,173	5,554	5,994	6,589	7,334
Total equity and liabilities	41,919	55,474	75,908	83,015	90,896	100,653

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	9,672	14,801	7,617	10,135	13,708	17,156
Depreciation & amortization	(516)	(480)	(572)	(727)	(869)	(1,015)
Tax paid	(2,335)	(2,437)	(1,429)	(1,942)	(2,627)	(3,288)
Change in working capital	(2,888)	(2,955)	(9,045)	(5,146)	(1,735)	(1,929)
Others	4,269	(601)	14	782	1,129	1,344
<b>Net cash from operations</b>	<b>8,202</b>	<b>8,329</b>	<b>(3,415)</b>	<b>3,101</b>	<b>9,605</b>	<b>12,269</b>
<b>Investing</b>						
Capital expenditure	(1,234)	(2,155)	(2,995)	(3,198)	(3,057)	(2,919)
Acquisition of subsidiaries/ investments	(2,065)	(126)	0	0	0	0
Net proceeds from disposal of short-term investments	(542)	(62)	(875)	0	0	0
Others	26	25	64	0	0	0
<b>Net cash from investing</b>	<b>(3,814)</b>	<b>(2,318)</b>	<b>(3,807)</b>	<b>(3,198)</b>	<b>(3,057)</b>	<b>(2,919)</b>
<b>Financing</b>						
Dividend paid	(1,658)	(3,431)	(3,676)	(2,291)	(3,099)	(3,878)
Net borrowings	255	0	4,010	0	0	0
Others	20	(386)	15,121	(104)	(440)	(629)
<b>Net cash from financing</b>	<b>(1,383)</b>	<b>(3,817)</b>	<b>15,455</b>	<b>(2,395)</b>	<b>(3,538)</b>	<b>(4,507)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	12,032	14,858	17,786	26,892	24,400	27,408
Exchange difference	(331)	(196)	873	0	0	0
<b>Cash at the end of the year</b>	<b>14,706</b>	<b>16,856</b>	<b>26,892</b>	<b>24,400</b>	<b>27,408</b>	<b>32,252</b>
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Revenue	8.2%	28.7%	(19.6%)	32.1%	14.2%	13.1%
Gross profit	(13.9%)	6.6%	(32.2%)	47.8%	23.7%	18.7%
Operating profit	44.9%	51.3%	(48.3%)	33.0%	35.6%	24.3%
EBITDA	43.8%	48.4%	(46.2%)	32.6%	34.5%	23.8%
EBIT	44.9%	51.3%	(48.3%)	33.0%	35.6%	24.3%
Net profit	32.6%	57.2%	(47.8%)	38.4%	35.2%	25.2%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Gross profit margin	40.6%	33.7%	28.4%	31.8%	34.4%	36.1%
Operating margin	18.6%	21.9%	14.1%	14.2%	16.8%	18.5%
EBITDA margin	19.6%	22.6%	15.1%	15.2%	17.9%	19.6%
Return on equity (ROE)	29.1%	37.2%	12.9%	13.7%	16.7%	18.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.6)	(0.6)	(0.5)	(0.4)	(0.4)	(0.4)
Current ratio (x)	2.0	2.2	3.3	3.2	3.3	3.5
Receivable turnover days	0.9	0.6	1.0	1.0	1.0	1.0
Inventory turnover days	172.8	160.7	262.2	257.2	252.2	247.2
Payable turnover days	50.6	47.8	71.7	71.7	71.7	71.7
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
P/E	47.8	55.8	76.3	31.9	23.6	18.8
P/E (diluted)	47.8	55.8	76.3	31.9	23.6	18.8
P/B	13.2	18.2	7.9	4.2	3.7	3.3
Div yield (%)	0.7	0.6	0.4	1.0	1.4	1.7

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

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