

Tongcheng-Elong (780 HK)

Looking into 2Q21E recovery acceleration

Tongcheng-Elong ("TC") delivered upbeat 1Q21 results, with revenue/ adj. net profit +61%/+279% YoY, 4%/22% above consensus. Mgmt guided 2Q21E rev up 30-35% (vs. 2Q19), midpoint 6% above consensus. We turn more positive on its 2Q21E rebound and domestic travel recovery, backed by strong momentum in Qingming Festival & Labor Day and lower-tier cities penetration. We believe TC would be a defensive name amid sector de-rating, given its better outlook, low regulation risk and attractive valuation. We keep our earnings forecast unchanged, and maintain TP of HK\$21.0.

- **1Q21 strong beat.** TC 1Q21 rev/ adj. net profit +61%/+279% YoY, 4%/22% above consensus. By segment, accommodation/ transportation rev +100%/+49% YoY. 1Q21E rev suggests -9.5% (vs. 2Q19), beat on ticketing and other revenues. We expect this eye-catching result would drive its price up, backed by strong V-shaped recovery from Mar and upcoming summer holiday. Mgmt stated limited impact from Anhui cases.
- **Higher visibility with 2Q21E strong rebound.** During Qingming & Labor Day, TC achieved solid rebound for all segments, boosting 2Q21E room nights. Mgmt guided 2Q21E rev up 30-35% (vs. 2Q19) and bottom line at RMB350mn-400mn, midpoint 6%/14% above consensus. By segment, transportation/ hotel rev +32%/+27% (vs. 2Q19) in 2Q21E, in our estimates. For hotel, we expect 2Q21E room nights +70% (vs. 2Q19), in which lower-tier cities room nights grow >100%. 2Q21E ADR decline would narrow to -5% to -10% (vs. 2Q19) due to low-tier cities penetration, while take rate remains flat at 8.5-9%. We reiterated our confidence on TC's domestic rebound, coupled with multiple catalysts (e.g. upcoming Tencent agreement renewal, summer holiday, vaccine progress).
- **Still ample room for user expansion.** Mgmt would step up user acquisition through: 1) offline promotions; 2) branding and multichannel marketing; and 3) initiatives (e.g. air ticket blind box). MAU hit record high in Apr, with 20-25% from its own apps. Moreover, the repurchase rate of new bus ticketing/hotel users reached 25%/35%. We see high visibility for TC to achieve its target APU at 200mn in FY21E.
- **Maintain BUY.** We keep our earnings forecast and TP at HK\$21 unchanged. Valuation at 13.5x FY22E P/E is attractive, in our view. Suggest to look into 2Q21E recovery acceleration.

Earnings Summary

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,933	8,563	10,659	13,063
YoY growth (%)	(19.8)	44.3	24.5	22.5
Adj. net income (RMB mn)	954	1,517	2,136	2,776
Adj. EPS (RMB)	0.43	0.68	0.96	1.25
YoY growth (%)	(38.2)	59.0	40.8	30.0
Consensus EPS (RMB)	NA	0.74	1.00	1.09
P/E (x)	30.2	19.0	13.5	10.4
P/B (x)	1.4	1.3	1.1	1.0
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	2.4	4.7	8.2	10.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$21.0**
 (Previous TP **HK\$21.0**)
 Up/Downside **+16.7%**
 Current Price **HK\$18.0**

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	39,461
Avg 3 mths t/o (HK\$ mn)	200.27
52w High/Low (HK\$)	20.50/ 12.50
Total Issued Shares (mn)	2,197

Source: Bloomberg

Shareholding Structure

Tencent	21.7%
Trip.com	21.1%
Suzhou Industrial Park	4.8%

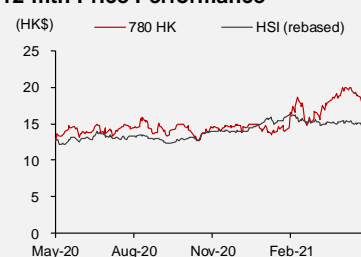
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-6.8%	-3.7%
3-mth	21.7%	33.5%
6-mth	20.2%	13.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. 2Q21E rebound in sight – 24 Mar 2021
2. Moving into 2021 recovery – 3 Mar 2021
3. NDR takeaways: 2021 Priority on MPU and hotel – 7 Dec 2020

Figure 1: 1Q21 financial review

RMB mn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	QoQ	YoY	Consensus	Diff %
Revenue	1,591	2,062	1,956	1,005	1,200	1,915	1,813	1,614	-11%	61%	1,549	4%
Operating Profit	218	347	107	(53)	49	293	92	215	133%	NA	15	1386%
Net profit	199	294	97	(56)	55	248	80	170	113%	NA	60	182%
Adj. net profit	346	419	331	78	196	373	307	296	-4%	279%	243	22%
Margin (%)												
Gross Margin	64.7%	66.9%	70.6%	65.0%	72.3%	72.0%	73.7%	74.7%			71.5%	
Operating Margin	13.7%	16.8%	5.5%	-5.2%	4.1%	15.3%	5.1%	13.3%			0.9%	
Adj. net margin	21.7%	20.3%	16.9%	7.8%	16.3%	19.5%	16.9%	18.4%			15.7%	
Growth (%)												
Revenue (YoY)	21.0%	22.3%	24.4%	-43.6%	-24.6%	-7.2%	-7.3%	60.6%			54.1%	
Revenue (QoQ)	-10.8%	29.6%	-5.1%	-48.6%	19.4%	59.5%	-5.3%	-11.0%			-14.6%	
Operating Profit	242.9%	232.2%	201.7%	-128.1%	-77.5%	-15.6%	-13.4%	-509.0%			-127.5%	
Adj. net profit	60.0%	33.2%	67.7%	-82.6%	-43.2%	-11.1%	-7.2%	279.5%			211.7%	

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Revenue breakdown

RMB mn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	QoQ	YoY
Total revenue	1,591	2,062	1,956	1,005	1,200	1,915	1,813	1,614	-11%	61%
Accommodation reservation	553	694	622	229	384	685	647	459	-29%	100%
Transportation ticketing	937	1,140	1,182	687	726	1,055	1,003	1,023	2%	49%
Others	100	229	153	89	90	175	162	132	-19%	48%

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	8,563	10,659	13,063	8,695	10,820	12,972	-1.5%	-1.5%	0.7%
Gross Profit	6,072	7,622	9,426	6,181	7,707	9,291	-1.8%	-1.1%	1.5%
Operating Profit	816	1,582	2,333	899	1,604	2,406	-9.2%	-1.4%	-3.0%
Adj. net profit	1,517	2,136	2,776	1,514	2,116	2,716	0.2%	0.9%	2.2%
Adj. EPS (RMB)	0.68	0.96	1.25	0.71	0.95	1.16	-3.0%	1.6%	7.8%
Gross Margin	70.9%	71.5%	72.2%	71.1%	71.2%	71.6%	-0.2ppts	+0.3ppts	+0.5ppts
Operating Margin	9.5%	14.8%	17.9%	10.3%	14.8%	18.5%	-0.8ppts	+0.0ppts	-0.7ppts
Adj. net margin	17.7%	20.0%	21.3%	17.4%	19.6%	20.9%	+0.3ppts	+0.5ppts	+0.3ppts

Source: CMBIS estimates, Bloomberg

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	7,393	5,933	8,563	10,659	13,063
Accommodation reservation	2,358	1,945	3,021	4,122	5,228
Transportation ticketing	4,518	3,471	4,981	5,751	6,734
Others	517	516	562	786	1,101
COGS	(2,318)	(1,697)	(2,491)	(3,037)	(3,637)
R&D	(1,519)	(1,246)	(1,696)	(2,004)	(2,404)
S&M	(2,246)	(2,131)	(2,923)	(3,251)	(3,801)
Administrative expenses	(625)	(522)	(638)	(785)	(888)
Fair value change	106	65	0	0	0
Other income	89	99	0	0	0
Other gains/(losses).net	(20)	21	0	0	0
Operating profit	860	382	816	1,582	2,333
Finance income	35	23	13	13	13
Other income, net	(13)	(7)	0	0	0
Pre-tax profit	882	398	829	1,595	2,346
Income tax	(195)	(72)	(141)	(271)	(399)
Less: Minority interests	2	2	0	0	0
Net profit	688	328	688	1,324	1,947
Adj. net profit	1,544	954	1,517	2,136	2,776

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	882	398	829	1,595	2,346
D&A	335	379	384	389	394
Change in working capital	(212)	(525)	1,016	709	786
Others	409	(188)	560	283	44
Net cash from operating	1,696	136	2,930	3,246	3,969
Capex & investments	(301)	(200)	(200)	(200)	(200)
ST investments payments	(2,148)	(247)	0	0	0
ST investments proceeds	0	0	0	0	0
Other	(506)	(326)	130	0	(0)
Net cash from investing	(2,955)	(773)	(70)	(200)	(200)
Equity raised	0	0	0	0	0
Change of debts	68	(77)	0	0	0
Others	305	254	(13)	(13)	(13)
Net cash from financing	373	177	(13)	(13)	(13)
Net change in cash	(886)	(461)	2,847	3,033	3,756
Exchange difference	13	(6)	0	0	0
Cash at the beginning of the year	3,144	2,271	1,804	4,652	7,685
Cash at the end of the year	2,271	1,804	4,652	7,685	11,441
Cash at balance sheet	2,271	1,804	4,652	7,685	11,441

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	9,792	10,284	9,916	9,475	9,030
PP&E	1,102	1,226	1,313	1,395	1,472
Investments	329	389	389	389	389
Land use right	0	0	16	16	16
Intangible assets	7,860	7,481	6,941	6,402	5,862
Deferred income tax assets	201	216	216	216	216
Prepayment & other receivables	7	6	75	91	109
Current assets	9,691	8,830	11,667	15,205	19,532
Account receivable	2,666	2,020	2,156	2,662	3,232
Short-term investments	4,541	4,913	4,767	4,767	4,767
Restricted cash	213	92	92	92	92
Cash and cash equivalent	2,271	1,804	4,652	7,685	11,441
Current liabilities	5,606	4,234	5,455	6,686	8,060
Borrowings	107	49	49	49	49
Trade payables	3,429	2,001	3,487	4,252	5,091
Other payables and accruals	2,035	2,120	1,841	2,292	2,808
Current income taxes liabilities	35	64	77	93	111
Non-current liabilities	726	863	863	863	863
Borrowings	133	113	113	113	113
Deferred income tax liabilities	568	529	529	529	529
Other payables and accruals	25	221	221	221	221
Total net assets	13,152	14,017	15,265	17,132	19,639
Non-controlling interest	(5)	3	3	3	3
Total equity	13,156	14,014	15,262	17,129	19,636

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Accommodation reservation	31.9	32.8	35.3	38.7	40.0
Transportation ticketing	61.1	58.5	58.2	54.0	51.6
Others	7.0	8.7	6.6	7.4	8.4
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross Margin	68.6	71.4	70.9	71.5	72.2
PreTax Margin	11.9	6.7	9.7	15.0	18.0
Tax Rate	17.0	17.0	17.0	17.0	17.0
Adj. net margin	20.9	16.1	17.7	20.0	21.3
Balance sheet ratios					
Current ratio (x)	1.7	2.1	2.1	2.3	2.4
Debtors turnover days	50.1	57.3	54.8	54.8	54.8
Creditors turnover days	427.5	3190.7	1880.0	1122.9	511.0
Inventory turnover days	0.0	0.0	0.0	0.0	0.0
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	5.6	2.4	4.7	8.2	10.6
ROA	3.8	1.7	3.4	5.7	7.3
Per share data					
Adj. EPS (RMB)	0.7	0.4	0.7	1.0	1.3
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	5.9	6.3	6.9	7.7	8.9

Source: Company data, CMBIS estimates

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