

# CTGDF (601888 CH)

## Overseas travel a lingering headwind to valuation despite operation turnaround

CTGDF's shares have been a laggard and are c.30% behind its re-opening peers, on an assumption that international travel is set to recover and likely takes the wallet shares from domestic travelers. With year-to-date overseas travel recovery tracking c.30% of that in 2019, however, we think year-end recovery rate should reasonably reach 70%+, slightly lower than a 90% ballpark estimates from talks we held with investors. Meanwhile, despite a just-in-line 1Q results, we think GPM should continue to improve sequentially, driven by 1) an increasing higher-margin airport sales mix, 2) a better inventory mix with sufficient stocks on popular hard-luxury/ fashion items, and 3) a consistently well-disciplined discount policy. Beyond these, during the earnings call, management remains upbeat on the outlook, and discussed a few positive operation updates. These mainly included 1) the new Haikou DF mall, when its sales has already surpassed one-third of that of Sanya Haitang Bay with positive net profits contribution, 2) the joint collaboration with CNSC (49% acquired by CTGDF in March this year) which should yield operational synergy aside from that of Hainan and 3) possible overseas M&A. We remain buyer of CTGDF.

- **1Q23 largely in-line with us.** The 24% revenue growth was driven by the sales ramp-up of offline premises especially that from the Haikou mall. GPM of 26.3% has sequentially recovered, despite unfavourable forex impact on procurement cost and smaller rebates from brand owners. Net profits was down 10% YoY to RMB2.3bn but that already represented a strong recovery as it equaled to the total net profits of 2Q-4Q22.
- **Earnings change.** Our forecasts are little changed. We think consensus downside risk is moderating, when 2023 net profits estimates are gradually edging towards ours (from 30% above us to now approximately 10%).
- **Valuation.** Our TP is based on an updated 48.0x (from previously 50.0x) end-23E P/E, which still represents its average since 2020, when market started to re-rate the stock for a series of policy tailwind. We believe our methodology has appropriately priced-in the recent market sentiment about China's gradual re-opening progress.

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	67,676	54,433	80,873	100,549	123,771
YoY growth (%)	28.7	(19.6)	48.6	24.3	23.1
Net income (RMB mn)	9,654	5,040	9,989	12,504	14,851
EPS (RMB)	4.9	2.5	4.8	6.0	7.2
YoY growth (%)	57.2	(48.9)	91.0	25.2	18.8
Consensus EPS (RMB)	n.a	n.a	5.3	6.8	8.2
P/E (x)	n.a	n.a	31.0	24.8	20.9
P/B (x)	n.a	n.a	5.6	4.9	4.2
Div Yield (%)	n.a	n.a	1.1	1.3	1.6
ROE (%)	32.6	10.4	18.1	19.6	20.2
Net gearing (%)	47.3	44.8	35.2	33.7	33.6

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (maintain)**

Target Price **RMB232.0**  
 (Previous TP **RMB255.0**)  
 Up/Downside **+53.8%**  
 Current Price **RMB149.9**

### China Consumer

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

### Stock Data

Mkt Cap (RMB mn) 314,317  
 Avg 3 mths t/o (RMB mn) 2,247  
 52w High/Low (RMB) 240.0/151.0  
 Total Issued Shares (mn) 1,953  
 Source: Wind

### Shareholding Structure

China Travel Group 53.3%  
 HKSC 9.8%  
 CSFC 3.0%  
 Source: Wind

### Share Performance

	Absolute	Relative
1-mth	-15.9%	-12.3%
3-mth	-29.3%	-25.3%
6-mth	-24.2%	-27.3%

Source: Wind

### 12-mth Price Performance



Source: Wind

### Related Reports

1. [CTGDF \(601888 CH\) – Still the crown jewel among reopening plays](#) – 14 Feb 2023
2. [CTGDF \(601888 CH\) – At the forefront of China's reopening](#) – 20 Dec 2022
3. [CTGDF \(601888 CH\) – A weak 3Q on Sanya's lockdown: resilient online sales made up the gap but unavoidably diluted GPM](#) - 4 Nov 2022
4. [Lockdown in Sanya likely represents yet another entry opportunity](#) – 9 Aug 2022

**Figure 1: Earnings revision**

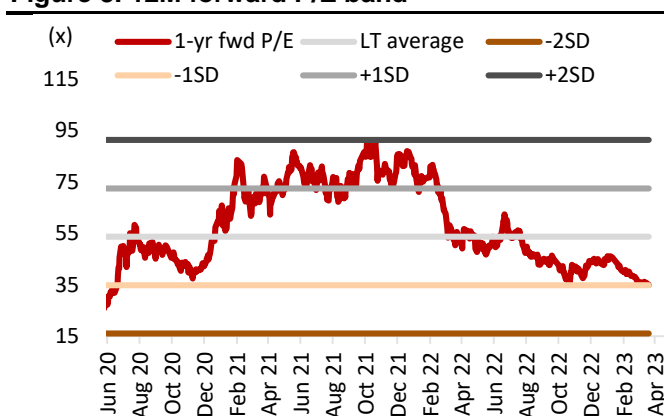
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	80,873	100,549	123,771	80,043	103,441	NA	1.0%	-2.8%	NA
Gross Profits	26,999	35,197	44,932	27,324	36,573	NA	-1.2%	-3.8%	NA
EBIT	15,439	19,305	22,817	15,467	19,753	NA	-0.2%	-2.3%	NA
Net profits	9,989	12,504	14,851	9,957	12,822	NA	0.3%	-2.5%	NA
Gross Margins	33.4%	35.0%	36.3%	34.1%	35.4%	NA	-0.8ppt	-0.4ppt	NA
EBIT Margins	19.1%	19.2%	18.4%	19.3%	19.1%	NA	-0.2ppt	0.1ppt	NA
Net margins	12.4%	12.4%	12.0%	12.4%	12.4%	NA	-0.1ppt	0ppt	NA

Source: Company data, CMBIGM estimates

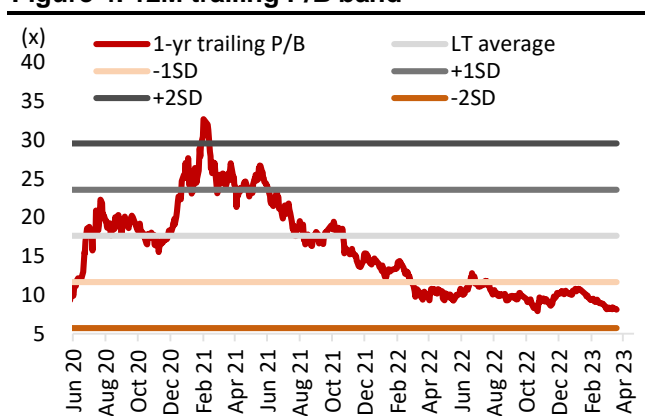
**Figure 2: CMBIGM estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	80,873	100,549	123,771	88,634	117,346	143,162	-8.8%	-14.3%	-13.5%
Gross Profit	26,999	35,197	44,932	31,346	42,648	53,053	-13.9%	-17.5%	-15.3%
EBIT	15,439	19,305	22,817	16,721	22,485	28,142	-7.7%	-14.1%	-18.9%
Net profit	9,989	12,504	14,851	11,031	14,936	18,838	-9.4%	-16.3%	-21.2%
Gross Margin	33.4%	35.0%	36.3%	35.4%	36.3%	37.1%	-2ppt	-1.3ppt	-0.8ppt
EBITs margin	19.1%	19.2%	18.4%	18.9%	19.2%	19.7%	0.2ppt	0ppt	-1.2ppt
Net margin	12.4%	12.4%	12.0%	12.4%	12.7%	13.2%	-0.1ppt	-0.3ppt	-1.2ppt

Source: Company data, CMBIGM estimates

**Figure 3: 12M forward P/E band**

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 4: 12M trailing P/B band**

Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>67,676</b>	<b>54,433</b>	<b>80,873</b>	<b>100,54</b>	<b>123,77</b>
Airport, online and others	16,204	16,482	25,844	31,763	35,725
Hainan offshore	51,472	37,951	55,029	68,786	88,047
<b>Gross profit</b>	<b>22,793</b>	<b>15,451</b>	<b>26,999</b>	<b>35,197</b>	<b>44,932</b>
D&A	(480)	(572)	(727)	(869)	(1,015)
Selling expenses	(3,861)	(4,032)	(6,874)	(10,05)	(14,85)
Administration expenses	(2,250)	(2,209)	(2,426)	(3,016)	(3,713)
Other operating expenses	(1,360)	(969)	(1,532)	(1,951)	(2,535)
<b>EBIT</b>	<b>14,843</b>	<b>7,669</b>	<b>15,439</b>	<b>19,305</b>	<b>22,817</b>
<b>EBITDA</b>	<b>15,323</b>	<b>8,241</b>	<b>16,166</b>	<b>20,174</b>	<b>23,831</b>
Finance costs, net	43	(220)	(49)	(89)	(32)
Non-operating income	(245)	(287)	(200)	(200)	(200)
Total investment gains/(loss)	161	455	-	-	-
<b>Pre-tax profit</b>	<b>14,801</b>	<b>7,617</b>	<b>15,190</b>	<b>19,016</b>	<b>22,584</b>
Income tax	(2,437)	(1,429)	(2,911)	(3,644)	(4,328)
Less: Minority interests	(2,711)	(1,148)	(2,290)	(2,867)	(3,405)
<b>Net profit</b>	<b>9,654</b>	<b>5,040</b>	<b>9,989</b>	<b>12,504</b>	<b>14,851</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Net income</b>	<b>9,654</b>	<b>5,040</b>	<b>9,989</b>	<b>12,504</b>	<b>14,851</b>
D&A	480	572	727	869	1,015
Change in working capital	(2,955)	(9,045)	(7,613)	(4,984)	(5,645)
Others	1,151	18	1,799	2,423	2,919
<b>Net cash fr. operating act.</b>	<b>8,329</b>	<b>(3,415)</b>	<b>4,902</b>	<b>10,812</b>	<b>13,140</b>
Capex & investments	(2,155)	(2,995)	(3,198)	(3,057)	(2,919)
Associated companies	(62)	(875)	-	-	-
Others	(101)	64	-	-	-
<b>Net cash fr. investing act.</b>	<b>(2,318)</b>	<b>(3,807)</b>	<b>(3,198)</b>	<b>(3,057)</b>	<b>(2,919)</b>
Equity raised	-	-	-	-	-
Change of Debts	-	4,010	-	-	-
Dividend paid	(3,431)	(3,676)	(3,280)	(4,106)	(4,877)
Others	(386)	15,121	(971)	(1,386)	(1,688)
<b>Net cash fr. financing act.</b>	<b>(3,817)</b>	<b>15,455</b>	<b>(4,251)</b>	<b>(5,492)</b>	<b>(6,565)</b>
<b>Net change in cash</b>	<b>2,194</b>	<b>8,233</b>	<b>(2,547)</b>	<b>2,263</b>	<b>3,656</b>
Cash at the beginning of the year	14,858	17,786	26,892	24,345	26,607
Exchange difference	(196)	873	-	-	-
<b>Cash at the end of the year</b>	<b>16,856</b>	<b>26,892</b>	<b>24,345</b>	<b>26,607</b>	<b>30,264</b>
Less: pledged cash	-	-	-	-	-

### Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Non-current assets</b>	<b>16,932</b>	<b>18,702</b>	<b>21,173</b>	<b>23,361</b>	<b>25,265</b>
PP&E/Fixed assets	1,843	5,434	7,075	8,685	10,264
Intangible assets	2,401	2,458	2,488	2,466	2,391
Construction-in-progress	2,890	1,852	2,652	3,252	3,652
Other non-current assets	9,797	8,958	8,958	8,958	8,958
<b>Current assets</b>	<b>38,542</b>	<b>57,205</b>	<b>65,198</b>	<b>74,700</b>	<b>86,652</b>
Cash	16,856	26,892	24,345	26,607	30,264
Account receivable	106	151	225	279	344
Prepayments	348	398	398	398	398
Other current assets	21,232	29,764	40,230	47,415	55,646
<b>Current liabilities</b>	<b>17,136</b>	<b>17,480</b>	<b>20,407</b>	<b>22,662</b>	<b>25,312</b>
Borrowings	411	109	109	109	109
Account payables	5,880	7,660	10,586	12,841	15,492
Other payables	6,122	6,926	6,926	6,926	6,926
Tax payables	4,722	2,785	2,785	2,785	2,785
<b>Non-current liabilities</b>	<b>3,546</b>	<b>4,300</b>	<b>4,300</b>	<b>4,300</b>	<b>4,300</b>
Borrowings	-	2,509	2,509	2,509	2,509
Deferred tax liabilities	55	49	49	49	49
Other non-current liabilities	3,491	1,742	1,742	1,742	1,742
Minority Interest	5,173	5,554	6,382	7,419	8,651
<b>Total net assets</b>	<b>34,791</b>	<b>54,127</b>	<b>61,664</b>	<b>71,099</b>	<b>82,305</b>
<b>Shareholders' equity</b>	<b>29,619</b>	<b>48,573</b>	<b>55,282</b>	<b>63,680</b>	<b>82,305</b>

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>					
Airport, online and others	23.9	30.3	32.0	31.6	28.9
Hainan offshore	76.1	69.7	68.0	68.4	71.1
<b>P&amp;L ratios (%)</b>					
Gross margin	33.7	28.4	33.4	35.0	36.3
Operating margin	21.9	14.1	19.1	19.2	18.4
Pre-tax margin	21.9	14.0	18.8	18.9	18.2
Net margin	14.3	9.3	12.4	12.4	12.0
<b>Balance sheet analysis</b>					
Current ratio (x)	0.4	0.5	0.4	0.4	0.3
Net receivable days	0.6	1.0	1.0	1.0	1.0
Net payable days	47.8	71.7	71.7	71.7	71.7
Inventory turnover days	160.7	262.2	257.2	252.2	247.2
Net debt to equity (%)	47.3	44.8	35.2	33.7	33.6
<b>Returns (%)</b>					
ROE	32.6	10.4	18.1	19.6	20.2
ROA	17.4	6.6	11.6	12.8	13.3
Dividend yield	n.a	n.a	1.0	1.2	1.5
<b>Per share</b>					
EPS (RMB)	4.9	2.5	4.8	6.0	7.2
DPS (RMB)	1.6	0.8	1.6	2.0	2.4
BVPS (RMB)	15.2	24.4	26.7	30.8	35.6

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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