

# Tongcheng-Elong (780 HK)

## Solid recovery ahead

We expect Tongcheng-Elong ("TC") to deliver solid 2Q20E results in mid-Aug, with revenue/Non GAAP net profit decline of 24%/52% YoY, 3%/1% above consensus. We believe TC will see margin surprise for its cost control and higher productivity. With reboot of trans-provincial group tourism, we expect both transportation and hotel to see further gradual recovery in 2H20E, backed by continuous lower-tier cities penetration and solid hotel. 3Q20E topline might be partly dragged by high base, but earnings will stay intact. We keep our forecast unchanged and TP of HK\$17. Maintain BUY.

- **Expecting solid 2Q20.** We expect TC's revenue/Non GAAP net profit to drop 24% YoY/ 52% YoY in 2Q20E (at the high end of guidance), despite BJ short-term outbreak in Jun. If excluding two negative factors of BJ restriction (4% of sales) and international tourism (5%), 2Q20E topline could see a narrower 15% YoY decline in our estimate. Thanks to effective cost control, we expect margin surprise in TC 2Q2E results. 2Q20E MAU will drop 7% YoY (with lower mix of Wechat traffic), but is expected to achieve positive growth in 3Q20E. MPU recovery lagged behind MAU. With reboot of trans-provincial group tourism and easing BJ restriction, we expect TC to continuously deliver above-industry growth and profitability in 2H20E.
- **Further recovery ahead in 2H20E, despite high comps.** TC could see 45-50% drop YoY in 2Q20E GMV. By segment, transportation/ accommodation/ others rev are estimated to decline 33%/21%/10% YoY. Hotel room nights would drop 5-10% YoY, while ADR would decline 20% YoY, bringing take rate up to 9% (less S&M) in 2Q20E. Looking ahead, we expect hotel room nights to achieve positive growth in 3Q20E, while take rate back to normal. ADR was still the key concern. Lower-tier cities would recover faster, with room nights +20% YoY in Jun, and we expect further leisure trip recovery with supportive policy. For transportation, air ticketing volume recovered 80%, with better trend than ground transport (50-60%) given higher user safety awareness and lower price. We estimate its transportation volume to see positive growth from Jul, and take rate back to 3.5% in 3Q20E (vs. 4.0% in 2Q20E). 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).
- **Maintain BUY.** We keep positive on TC's better-than-industry recovery and productivity enhancement in 2H20E. We maintain our forecast unchanged, with TP of HK\$17 (16x FY21E P/E).

### Earnings Summary

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	7,393	7,113	10,427	12,254
YoY growth (%)	NA	-3.8	46.6	17.5
Net income (RMB mn)	1,544	1,088	2,012	2,449
EPS (RMB)	0.74	0.52	0.97	1.18
YoY growth (%)	68.6	-29.5	84.9	21.7
Consensus EPS (RMB)	NA	0.49	0.93	1.12
P/E (x)	15.7	22.3	12.1	9.9
P/B (x)	0.9	0.9	0.8	0.7
Yield (%)	0.0	0.0	1.0	2.0
ROE (%)	5.6	4.6	8.2	10.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$17.0
(Previous TP	HK\$17.0)
Up/Downside	+24.1%
Current Price	HK\$13.7

### China Internet Sector

**Sophie Huang**  
 (852) 3900 0889  
 sophiehuang@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	29,649
Avg 3 mths t/o (HK\$ mn)	81.81
52w High/Low (HK\$)	19.48/ 8.74
Total Issued Shares (mn)	2,130
Source: Bloomberg	

### Shareholding Structure

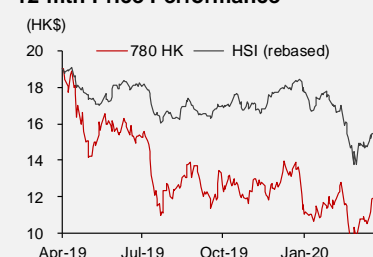
Tencent	22.4%
Ctrip	21.9%
Suzhou Industrial Park	7.8%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	20.1%	12.6%
3-mth	2.1%	20.9%
6-mth	-7.7%	1.3%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

1. Moving to 2H20E recovery – 22 May 2020
2. 1Q20E Preview: recovery in sight – 21 Apr 2020
3. Better-than-feared 1Q20 guidance – 27 Mar 2020

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**Figure 1: 2Q20E financial preview**

RMB mn	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20E	QoQ	YoY	Consensus	Diff %
Revenue	1,573	1,783	1,591	2,062	1,956	1,005	1,202	19.6%	-24.4%	1,171	3%
Operating Profit	35	187	218	347	107	(53)	35	NA	-84.0%	33	5%
Net profit	(14)	97	199	294	97	(56)	36	NA	-81.9%	35	3%
Adj. net profit	197	448	346	419	331	78	165	111.3%	-52.3%	164	1%
<b>Margin (%)</b>											
Gross Margin	64.6%	72.1%	64.7%	66.9%	70.6%	65.0%	70.0%			68.7%	
Operating Margin	2.2%	10.5%	13.7%	16.8%	5.5%	-5.2%	2.9%			2.9%	
Adj. net margin	12.6%	25.1%	21.7%	20.3%	16.9%	7.8%	13.7%			14.0%	
<b>Growth (%)</b>											
Revenue (YoY)	NA	17.5%	21.0%	22.3%	24.4%	-43.6%	-24.4%			-26.4%	
Revenue (QoQ)	-6.7%	13.4%	-10.8%	29.6%	-5.1%	-48.6%	19.6%			16.5%	
Operating Profit	NA	NA	242.9%	232.2%	201.7%	-128.1%	-84.0%			-84.7%	
Adj. net profit	NA	8.7%	60.0%	33.2%	67.7%	-82.6%	-52.3%			-52.5%	

Source: Company data, Bloomberg, CMBIS estimates

**Figure 2: Revenue breakdown**

RMB mn	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20E	QoQ	YoY
<b>Total revenue</b>	<b>1,573</b>	<b>1,783</b>	<b>1,591</b>	<b>2,062</b>	<b>1,956</b>	<b>1,005</b>	<b>1,202</b>	<b>20%</b>	<b>-24%</b>
Accommodation reservation	424	489	553	694	622	229	370	62%	-33%
Transportation ticketing	1,072	1,259	937	1,140	1,182	687	742	-42%	-21%
Others	76	35	100	229	153	89	90	-41%	-10%

Source: Company data, CMBIS estimates

**Figure 3: CMBIS estimates vs consensus**

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	7,113	10,427	12,254	6,585	9,448	11,368	8.0%	10.4%	7.8%
Gross Profit	4,873	7,312	8,602	4,482	6,536	7,910	8.7%	11.9%	8.8%
Operating Profit	731	1,412	1,959	553	1,490	1,968	32.2%	-5.2%	-0.5%
Net profit	1,088	2,012	2,449	985	1,891	2,341	10.5%	6.4%	4.6%
Adj. EPS (RMB)	0.52	0.97	1.18	0.49	0.93	1.12	7.7%	3.7%	5.7%
Gross Margin	68.5%	70.1%	70.2%	68.1%	69.2%	69.6%	+0.4ppts	+0.9ppts	+0.6ppts
Operating Margin	10.3%	13.5%	16.0%	8.4%	15.8%	17.3%	+1.9ppts	-2.2ppts	-1.3ppts
Net Margin	15.3%	19.3%	20.0%	15.0%	20.0%	20.6%	+0.3ppts	-0.7ppts	-0.6ppts

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>7,113</b>	<b>10,427</b>	<b>12,254</b>
Accommodation reservation	1,830	4,518	4,356	6,154	6,847
Transportation ticketing	3,233	2,358	2,195	3,661	4,129
Others	193	517	562	612	1,278
<b>COGS</b>	<b>(1,601)</b>	<b>(2,318)</b>	<b>(2,241)</b>	<b>(3,115)</b>	<b>(3,651)</b>
R&D	(1,350)	(1,519)	(1,480)	(2,065)	(2,304)
S&M	(1,841)	(2,246)	(2,126)	(3,067)	(3,443)
Administrative expenses	(935)	(625)	(536)	(768)	(897)
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>731</b>	<b>1,412</b>	<b>1,959</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>744</b>	<b>1,425</b>	<b>1,972</b>
Income tax	(67)	(195)	(126)	(242)	(335)
Less: Minority interests	(5)	2	0	0	0
Net profit	530	688	617	1,183	1,637
<b>Adj. net profit</b>	<b>916</b>	<b>1,544</b>	<b>1,088</b>	<b>2,012</b>	<b>2,449</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>744</b>	<b>1,425</b>	<b>1,972</b>
D&A	297	335	379	384	389
Change in working capital	2,024	(212)	(36)	1,116	675
Others	(629)	497	(253)	(127)	(329)
<b>Net cash from operating</b>	<b>2,361</b>	<b>1,696</b>	<b>960</b>	<b>3,040</b>	<b>3,042</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>640</b>	<b>2,840</b>	<b>2,842</b>
Exchange difference	1	13	0	0	0
Cash at the beginning of the year	702	3,144	2,271	2,911	5,752
<b>Cash at the end of the year</b>	<b>3,144</b>	<b>2,271</b>	<b>2,911</b>	<b>5,752</b>	<b>8,593</b>
Cash at balance sheet	3,144	2,271	2,911	5,752	8,593

### 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>9,397</b>	<b>9,240</b>	<b>9,256</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	67	93	110
<b>Current assets</b>	<b>7,497</b>	<b>9,691</b>	<b>9,621</b>	<b>13,265</b>	<b>16,568</b>
Account receivable	1,381	2,666	1,851	2,654	3,116
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	2,911	5,752	8,593
<b>Current liabilities</b>	<b>4,534</b>	<b>5,606</b>	<b>4,815</b>	<b>6,761</b>	<b>7,913</b>
Borrowings	20	107	107	107	107
Trade payables	2,569	3,429	3,137	4,361	5,112
Other payables and accruals	1,815	2,035	1,529	2,242	2,635
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>13,769</b>	<b>14,952</b>	<b>16,589</b>
Non-controlling interest	(8)	(5)	(5)	(5)	(5)
<b>Total equity</b>	<b>11,535</b>	<b>13,156</b>	<b>13,774</b>	<b>14,957</b>	<b>16,593</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Accommodation reservation	34.8	61.1	61.2	59.0	55.9
Transportation ticketing	61.5	31.9	30.9	35.1	33.7
Others	3.7	7.0	7.9	5.9	10.4
<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	68.5	70.1	70.2
PreTax Margin	11.4	11.9	10.5	13.7	16.1
Tax Rate	10.0	17.0	17.0	17.0	17.0
Adj. net margin	17.4	20.9	15.3	19.3	20.0
<b>Balance sheet ratios</b>					
Current ratio (x)	1.7	1.7	2.0	2.0	2.1
Debtors turnover days	67.8	53.4	54.8	54.8	54.8
Creditors turnover days	683.9	517.0	2054.0	1109.9	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	4.6	8.2	10.4
ROA	4.8	3.8	3.2	5.7	6.8
<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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**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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