Tongcheng Travel (780 HK)

Earnings modestly beat; extreme weather weighs on near-term revenue outlook

BUY (Maintain)

Target Price	**HK$23.70**
(Previous TP	HK$25.00)
Up/Downside	**80.9%**
Current Price	**HK$13.10**

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Tongcheng Travel (TC) reported 2Q26 revenue of RMB5.0bn, up 6.8% YoY, broadly in line with our estimate and 0.8% above Bloomberg consensus. Adjusted NP reached RMB851mn, up 9.8% YoY and 1.4%/0.7% ahead of our estimate/consensus. Core OTA revenue increased 8.4% YoY, while core OTA operating margin reached 26.4%, 0.4ppt above our forecast. Although the impact from elevated energy prices and higher airfares has normalized since 3Q26, extreme weather conditions caused additional disruptions during the summer peak travel season, which are likely to weigh on near-term revenue growth. TC remains cost-disciplined while continuing to maintain selective investments in customer retention and user engagement enhancement. We lower our 2026E revenue/non-GAAP net profit forecasts by 1%/4%, respectively, to reflect the near-term headwinds. Our DCF-based TP is reduced by 5% to HK$23.7, implying 14x 2026E non-GAAP PE. We forecast 8%/9% YoY growth in core OTA operating profit/group-level non-GAAP net profit in 2026E. Despite a challenging macro environment, we believe travel demand remains one of the most resilient consumption categories. Maintain BUY.

- **Core OTA revenue broadly in line with consensus.** In 2Q26, TC's core OTA business generated revenue of RMB4.3bn (87.1% of total revenue), up 8.4% YoY (1Q26: +17.3% YoY), broadly in line with consensus. Revenue from transportation ticketing (TT), accommodation reservation (AR), and Other businesses changed by -2%/+8%/+36% YoY, respectively (1Q26: +6%/+15%/+60%). The rolling 12-month number of travelers served reached 2.04bn as of end-Jun, up 2.7% YoY, while annual paying users (APU) increased 0.9% YoY. On profitability, core OTA OP increased 7% YoY to RMB1.1bn, with OPM reaching 26.4%, 0.4ppt above our forecast.
- **3Q26 outlook: revenue growth likely to moderate further amid weather disruptions.** For 3Q26E, we forecast total revenue of RMB5.8bn, up 5.3% YoY, driven by 6.8% YoY growth in the core OTA segment, partially offset by a 2.5% YoY decline in tourism revenue. Within the core OTA business, we expect TT/AR/Other businesses revenue growth of -2.5%/+5.4% /+34.4% YoY, respectively. We forecast core OTA operating profit to grow 3% YoY in 3Q26E, implying an operating margin of 30.0%, down 1.2ppts YoY due to continued investment in customer retention and user engagement initiatives. We expect total non-GAAP net profit to increase 6.2% YoY to RMB1.13bn in 3Q26E, supported by core OTA revenue growth and the consolidation of Wanda Hotel Management, implying a non-GAAP net margin of 19.4% (3Q25: 19.2%).
- **2026E outlook.** For 2026E, we now forecast the core OTA business to deliver revenue growth of 9.3% YoY (previously: 10.6%), with operating margin moderately revised down to 28.6% (previously: 29.0%). At the group level, we forecast revenue to increase 7.5% YoY to RMB20.8bn, while non-GAAP net profit is expected to reach RMB3.7bn, up 9.2% YoY.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	17,341	19,396	20,847	22,270	23,361
YoY growth (%)	45.8	11.9	7.5	6.8	4.9
Adjusted net profit (RMB mn)	2,785.4	3,403.3	3,716.5	4,060.0	4,367.2
Diluted EPS (RMB)	1.22	1.46	1.55	1.67	1.76
Consensus EPS (RMB)	na	1.47	1.57	1.77	1.97
P/E (x)	12.9	10.9	8.7	7.8	7.3

Source: Company data, Bloomberg, CMBIGM estimates

Stock Data

Mkt Cap (HK$ mn)	31,408.6
Avg 3 mths t/o (HK$ mn)	174.8
52w High/Low (HK$)	25.32/11.99
Total Issued Shares (mn)	2397.6

Source: FactSet

Shareholding Structure

Tencent Holdings Ltd	20.2%
Trip.com Group Ltd	19.7%

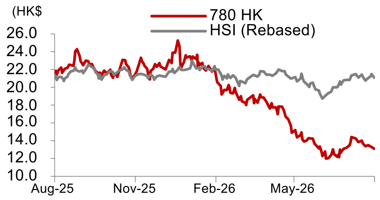
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.5%	-2.7%
3-mth	-12.0%	-11.7%
6-mth	-40.8%	-38.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: TC: quarterly results and comparison with consensus

(RMBmn)	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	2Q26E consensus	Diff%	2Q26E CMBI forecasts	Diff%
Total revenue	**4,377**	**4,669**	**5,509**	**4,840**	**5,006**	**4,987**	**4,947**	**0.8%**	**4,989**	**0.0%**
YoY growth (%)	*13.2%*	*10.0%*	*10.4%*	*14.2%*	*14.4%*	*6.8%*			*6.8%*	
1. Core OTA	**3,792**	**4,008**	**4,609**	**4,062**	**4,450**	**4,344**	**4,329**	**0.4%**	**4,354**	**-0.2%**
YoY growth (%)	*18.4%*	*13.7%*	*14.9%*	*17.5%*	*17.3%*	*8.4%*			*8.6%*	
1.1 Transportation ticketing services	**2,000**	**1,881**	**2,209**	**1,836**	**2,124**	**1,838**	**1,817**	**1.2%**	**1,829**	**0.5%**
YoY growth (%)	*15.2%*	*7.9%*	*9.0%*	*6.5%*	*6.2%*	*-2.3%*			*-2.8%*	
1.2 Accommodation reservation services	**1,190**	**1,371**	**1,579**	**1,310**	**1,364**	**1,481**	**1,475**	**0.4%**	**1,482**	**-0.1%**
YoY growth (%)	*23.3%*	*15.2%*	*14.7%*	*15.4%*	*14.7%*	*8.0%*			*8.1%*	
1.3 Others	**603**	**755**	**821**	**917**	**961**	**1,025**	**1,037**	**-1.1%**	**1,043**	**-1.7%**
YoY growth (%)	*20.0%*	*27.5%*	*34.9%*	*53.0%*	*59.6%*	*35.7%*			*38.0%*	
2. Tourism	**585**	**662**	**900**	**778**	**556**	**643**	**618**	**4.0%**	**635**	**1.2%**
Gross profit	**3,012**	**3,036**	**3,622**	**3,187**	**3,496**	**3,327**	**3,298**	**0.9%**	**3,295**	**1.0%**
Operating profit	**817**	**809**	**1,163**	**348**	**993**	**853**	**906**	**-5.8%**	**894**	**-4.5%**
Core OTA	**1,107**	**1,070**	**1,438**	**1,155**	**1,305**	**1,146**			**1,132**	**1.3%**
Adj. net profit	**788**	**775**	**1,060**	**780**	**941**	**850.9**	**845**	**0.7%**	**839**	**1.4%**
YoY (%)	*41.1%*	*18.0%*	*16.5%*	*18.1%*	*19.4%*	*9.8%*			*8.2%*	
Margin (%)										
GPM	***68.8%***	***65.0%***	***65.7%***	***65.9%***	***69.8%***	***66.7%***	***66.7%***	**0.0 ppt**	***66.0%***	**0.7 ppt**
OPM	***18.7%***	***17.3%***	***21.1%***	***7.2%***	***19.8%***	***17.1%***	***18.3%***	**-1.2 ppt**	***17.9%***	**-0.8 ppt**
Core OTA OPM	***29.2%***	***26.7%***	***31.2%***	***28.4%***	***29.3%***	***26.4%***			***26.0%***	**0.4 ppt**
Adj. NPM	***18.0%***	***16.6%***	***19.2%***	***16.1%***	***18.8%***	***17.1%***	***17.1%***	**0.0 ppt**	***16.8%***	**0.2 ppt**

Source: Company data, Bloomberg

Figure 2: TC: CMBI earnings forecast revision

	Current			Previous forecast			Diff (%)		
RMB mn	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Revenue	20,847	22,270	23,361	21,116	22,416	23,314	-1.3%	-0.7%	0.2%
Gross profit	14,194	15,421	16,226	14,312	15,470	16,130	-0.8%	-0.3%	0.6%
Operating profit	4,011	4,495	4,881	4,296	4,875	5,204	-6.6%	-7.8%	-6.2%
Non-GAAP net profit	3,717	4,060	4,367	3,869	4,379	4,639	-3.9%	-7.3%	-5.9%
Gross margin	68.1%	69.2%	69.5%	67.8%	69.0%	69.2%	0.3 ppt	0.2 ppt	0.3 ppt
Operating profit margin	19.2%	20.2%	20.9%	20.3%	21.7%	22.3%	-1.1 ppt	-1.6 ppt	-1.4 ppt
Non-GAAP net margin	17.8%	18.2%	18.7%	18.3%	19.5%	19.9%	-0.5 ppt	-1.3 ppt	-1.2 ppt

Source: CMBIGM estimates

Figure 3: TC: CMBI forecast vs Bloomberg consensus

	Current			Consensus			Diff (%)		
RMB mn	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Revenue	20,847	22,270	23,361	21,160	23,221	25,338	-1.5%	-4.1%	-7.8%
Gross profit	14,194	15,421	16,226	14,260	15,755	17,262	-0.5%	-2.1%	-6.0%
Operating profit	4,011	4,495	4,881	4,076	4,696	5,240	-1.6%	-4.3%	-6.8%
Non-GAAP net profit	3,717	4,060	4,367	3,827	4,356	4,802	-2.9%	-6.8%	-9.1%
Gross margin	68.1%	69.2%	69.5%	66.0%	66.4%	66.4%	2.1 ppt	2.9 ppt	3.1 ppt
Operating profit margin	19.2%	20.2%	20.9%	18.7%	19.2%	19.2%	0.5 ppt	0.9 ppt	1.7 ppt
Non-GAAP net margin	17.8%	18.2%	18.7%	18.0%	18.4%	18.4%	-0.2 ppt	-0.2 ppt	0.3 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: TC: DCF valuation (WACC of 13.0%; terminal growth of 1.0%; both unchanged)

(RMBmn)	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Total revenue	20,847	22,270	23,361	24,187	24,825	25,322	25,711	26,020
NPV of FCF	26,392							
Discounted terminal value	18,496							
Total equity valuation	52,947							
No. of shares (diluted, mn)	2,398							
Valuation per share (HKD)	23.7							

Source: CMBIGM estimates

Note: 1) HKD: RMB = 1.14:1; 2) our target valuation is based on valuation in 2026E

Risks

1) Greater-than-expected macro-economic headwind; 2) slower-than-expected margin expansion; 3) consumption sentiment weaker than expectation.

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	**11,896**	**17,341**	**19,396**	**20,847**	**22,270**	**23,361**
Cost of goods sold	(3,158)	(6,227)	(6,538)	(6,653)	(6,849)	(7,134)
Gross profit	**8,738**	**11,113**	**12,858**	**14,194**	**15,421**	**16,226**
Operating expenses	**(6,869)**	**(8,690)**	**(9,720)**	**(10,183)**	**(10,927)**	**(11,345)**
Selling expense	(4,473)	(5,621)	(6,281)	(6,800)	(7,220)	(7,503)
Admin expense	(711)	(1,206)	(1,266)	(1,520)	(1,602)	(1,657)
Other rental related expenses	(1,821)	(2,001)	(2,039)	(2,096)	(2,217)	(2,302)
Others	136	138	(134)	233	111	117
Operating profit	**1,869**	**2,423**	**3,137**	**4,011**	**4,495**	**4,881**
Interest income	175	195	172	139	204	257
Interest expense	(157)	(231)	(344)	(238)	(238)	(238)
Others	(33)	11	56	(20)	(21)	(21)
Pre-tax profit	**1,854**	**2,398**	**3,021**	**3,893**	**4,441**	**4,879**
Income tax	(288)	(410)	(612)	(829)	(946)	(1,088)
After tax profit	**1,566**	**1,988**	**2,409**	**3,063**	**3,495**	**3,791**
Minority interest	11	14	38	13	13	13
Net profit	**1,554**	**1,974**	**2,371**	**3,050**	**3,481**	**3,778**
Adjusted net profit	**2,192**	**2,785**	**3,403**	**3,717**	**4,060**	**4,367**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	**14,900**	**18,241**	**20,264**	**23,492**	**27,004**	**30,683**
Cash & equivalents	5,192	8,020	6,506	9,546	12,594	15,889
Restricted cash	145	136	442	475	508	533
Account receivables	1,218	1,728	2,263	2,085	2,227	2,336
Prepayment	4,370	5,450	5,692	6,026	6,314	6,565
Financial assets at FVTPL	3,974	2,907	5,361	5,361	5,361	5,361
Non-current assets	**16,817**	**19,537**	**21,681**	**21,648**	**21,323**	**20,999**
PP&E	2,495	3,147	3,380	3,302	3,373	3,438
Right-of-use assets	589	909	1,451	1,451	1,451	1,451
Intangibles	9,580	10,814	12,857	12,881	12,468	12,063
Financial assets at FVTPL	1,039	957	656	656	656	656
Other non-current assets	3,113	3,709	3,336	3,357	3,375	3,390
Total assets	**31,717**	**37,777**	**41,945**	**45,140**	**48,327**	**51,682**
Current liabilities	**11,887**	**11,597**	**14,737**	**14,773**	**14,960**	**15,078**
Short-term borrowings	2,540	1,359	3,272	3,272	3,272	3,272
Account payables	4,131	4,467	4,522	4,524	4,520	4,566
Tax payable	4,939	5,154	6,027	6,061	6,252	6,324
Other current liabilities	166	342	511	511	511	511
Contract liabilities	111	274	405	405	405	405
Non-current liabilities	**1,283**	**5,218**	**3,636**	**3,663**	**3,691**	**3,712**
Long-term borrowings	11	2,794	828	828	828	828
Obligations under finance leases	420	680	1,007	1,007	1,007	1,007
Other non-current liabilities	852	1,743	1,800	1,828	1,855	1,876
Total liabilities	**13,170**	**16,815**	**18,372**	**18,436**	**18,651**	**18,790**
Share capital	8	8	8	8	8	8
Capital surplus	20,116	20,762	21,405	21,858	21,858	21,858
Other reserves	(2,421)	(768)	1,142	3,806	6,765	9,967
Total shareholders equity	**17,703**	**20,001**	**22,555**	**25,673**	**28,631**	**31,834**
Minority interest	844	961	1,018	1,032	1,045	1,058
Total equity and liabilities	**31,717**	**37,777**	**41,945**	**45,140**	**48,327**	**51,682**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**1,854**	**2,398**	**3,021**	**3,893**	**4,441**	**4,879**
Depreciation & amortization	911	1,083	1,087	1,367	1,220	1,221
Tax paid	(192)	(435)	(629)	(829)	(946)	(1,088)
Change in working capital	911	(688)	(101)	(112)	(234)	(236)
Others	521	613	932	265	220	231
Net cash from operations	**4,003**	**2,970**	**4,311**	**4,584**	**4,701**	**5,007**
Investing						
Capital expenditure	(772)	(403)	(530)	(443)	(431)	(414)
Others	(991)	(431)	(4,168)	(450)	(478)	(492)
Net cash from investing	**(1,762)**	**(834)**	**(4,698)**	**(893)**	**(909)**	**(907)**
Financing						
Net borrowings	(2)	(5)	(1)	(651)	(743)	(806)
Proceeds from share issues	2,500	4,183	0	0	0	0
Others	(3,090)	(3,499)	(1,085)	0	0	0
Net cash from financing	**(592)**	**679**	**(1,085)**	**(651)**	**(743)**	**(806)**
Net change in cash						
Cash at the beginning of the year	3,547	5,192	8,020	6,506	9,546	12,594
Exchange difference	(4)	13	(42)	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	**5,192**	**8,020**	**6,506**	**9,546**	**12,594**	**15,889**

GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	80.7%	45.8%	11.9%	7.5%	6.8%	4.9%
Gross profit	82.9%	27.2%	15.7%	10.4%	8.6%	5.2%
Operating profit	na	29.6%	29.5%	27.8%	12.1%	8.6%
Net profit	na	27.0%	20.1%	28.6%	14.1%	8.5%
Adj. net profit	239.3%	27.1%	22.2%	9.2%	9.2%	7.6%

PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	73.5%	64.1%	66.3%	68.1%	69.2%	69.5%
Operating margin	15.7%	14.0%	16.2%	19.2%	20.2%	20.9%
Adj. net profit margin	18.4%	16.1%	17.5%	17.8%	18.2%	18.7%
Return on equity (ROE)	9.3%	10.5%	11.1%	12.6%	12.8%	12.5%

GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.2)	(0.1)	(0.2)	(0.3)	(0.4)
Current ratio (x)	1.3	1.6	1.4	1.6	1.8	2.0
Receivable turnover days	32.3	31.0	37.5	38.1	35.3	35.6
Payable turnover days	384.5	252.0	250.9	248.1	241.0	232.4

VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	16.2	12.9	10.9	8.7	7.8	7.3
P/E (diluted)	11.8	9.2	7.7	7.3	6.7	6.4
P/B	1.5	1.3	1.2	1.0	1.0	0.9
P/CFPS	8.0	10.0	7.0	6.5	6.4	6.1

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

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