

CTGDF (601888 CH)

Earnings expectation is settling

- **2Q pre-announced.** After market close last Friday (7 July), CTGDF pre-announced major financial data for its 1H23 results. Revenue came in at RMB35.9bn, up 29.7% YoY, when net profits reported at RMB3.9bn, down 1.9% YoY. This implies 2Q23 revenue and net profits to be RMB15.1bn and RMB1.6bn, up 38.8% and 14.3% YoY, respectively. In the announcement, the Company also disclosed that its 1H gross margin has improved by 7.8% HoH, when that of 2Q has gone up by 3.67% QoQ.
- **Our view.** The RMB32.4bn sales achieved by Hainan operators for 1H23 should have given a good gauge to what CTGDF could attain over the same period. Meanwhile, we estimate Hainan contributed approximately RMB9-10bn revenue to CTGDF for the quarter, and this should slightly track below us. Separately, net profit was a small miss on a few potential factors including 1) lower than expected GPM of 32.6% (although it continued to climb QoQ, it was still below 2Q22), 2) a weakening RMB which inflated its procurement cost, 3) any bottleneck in accessories SKU which saw insufficient inventory in 1Q, and 4) a rising earnings contribution from airport DFS with lower profitability. Despite these, investor expectation on full-year net profit has already edged down to approximately RMB7-8bn. All else constant, if 1H momentum was to extend into 2H, we think the Company's earnings downcycle could approach to its end. In other words, we believe any share price rally in the near term would mainly be valuation-driven.
- **Key long-term initiatives.** While a diverted travel traffic (to overseas) and a faltering consumption sentiment were the known drags to CTGDF's performance, we continue to see a few key positive for the Company to sustain its domestic leadership. These include 1) the new Haikou DF mall, when its sales have 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.
- **Valuation.** Our TP is based on 48.0x end-23E P/E, which represents its average since 2020, when market started to re-rate the stock for a series of policy tailwinds. Our TP and earnings estimates are under review.

Earnings Summary

(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
EBIT (RMB mn)	14,843	7,669	15,439	19,305	22,817
EBITDA (RMB mn)	15,323	8,241	16,166	20,174	23,831
Net profit (RMB mn)	9,653.7	5,039.9	9,988.8	12,504.4	14,851.2
EPS (Reported) (RMB)	4.94	2.53	4.83	6.04	7.18
Consensus EPS (RMB)	na	na	4.04	5.35	6.89
P/E (x)	55.8	76.3	22.7	18.1	15.3
P/B (x)	18.2	7.9	4.1	3.6	3.1
Yield (%)	0.6	0.4	1.4	1.8	2.1
ROE (%)	37.2	12.9	19.2	21.0	21.6
Net gearing (%)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB232.00
(Previous TP)	RMB232.00)
Up/Downside	111.6%
Current Price	RMB109.66

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Stock Data

Mkt Cap (RMB mn)	214,111.2
Avg 3 mths t/o (RMB mn)	2,300.8
52w High/Low (RMB)	232.80/109.66
Total Issued Shares (mn)	1952.5

Source: FactSet

Shareholding Structure

China Tourism Group Corp Ltd	53.3%
HKSC	10.9%

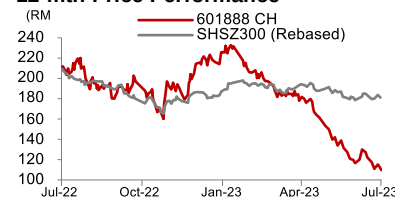
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-5.9%	-7.2%
3-mth	-39.7%	-35.3%
6-mth	-51.2%	-49.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	52,597	67,676	54,433	80,873	100,549	123,771
Cost of goods sold	(31,221)	(44,882)	(38,982)	(53,874)	(65,352)	(78,839)
Gross profit	21,376	22,793	15,451	26,999	35,197	44,932
Operating expenses	(11,567)	(7,950)	(7,456)	(11,559)	(15,892)	(22,115)
Selling expense	(8,847)	(3,861)	(4,032)	(6,874)	(10,055)	(14,853)
Admin expense	(1,637)	(2,250)	(2,209)	(2,426)	(3,016)	(3,713)
Others	(1,083)	(1,839)	(1,215)	(2,259)	(2,821)	(3,550)
Operating profit	9,809	14,843	7,669	15,439	19,305	22,817
EBITDA	10,325	15,323	8,241	16,166	20,174	23,831
Depreciation	(207)	(192)	(214)	(342)	(432)	(525)
Goodwill amortisation	(309)	(288)	(358)	(385)	(437)	(490)
EBIT	9,809	14,843	7,669	15,439	19,305	22,817
Net Interest income/(expense)	545	43	(220)	(49)	(89)	(32)
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	15,190	19,016	22,584
Income tax	(2,335)	(2,437)	(1,429)	(2,911)	(3,644)	(4,328)
Minority interest	(1,197)	(2,711)	(1,148)	(2,290)	(2,867)	(3,405)
Net profit	6,140	9,654	5,040	9,989	12,504	14,851
Gross dividends	1,952	3,070	1,655	3,280	4,106	4,877

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	30,971	38,542	57,205	65,198	74,700	86,652
Cash & equivalents	14,706	16,856	26,892	24,345	26,607	30,264
Account receivables	129	106	151	225	279	344
Inventories	14,733	19,725	27,926	38,392	45,577	53,808
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	86,371	98,061	111,917
Current liabilities	15,661	17,136	17,480	20,407	22,662	25,312
Short-term borrowings	417	411	109	109	109	109
Account payables	4,327	5,880	7,660	10,586	12,841	15,492
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	24,706	26,962	29,612
Share capital	1,952	1,952	2,069	2,069	2,069	2,069
Capital surplus	3,032	2,921	18,537	19,536	20,787	22,272
Retained earnings	17,648	25,347	27,448	33,158	40,306	48,795
Other reserves	(324)	(602)	519	519	519	519
Total shareholders equity	22,308	29,619	48,573	55,282	63,680	73,654
Minority interest	3,871	5,173	5,554	6,382	7,419	8,651
Total equity and liabilities	41,919	55,474	75,908	86,371	98,061	111,917

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	9,672	14,801	7,617	15,190	19,016	22,584
Depreciation & amortization	(516)	(480)	(572)	(727)	(869)	(1,015)
Tax paid	(2,335)	(2,437)	(1,429)	(2,911)	(3,644)	(4,328)
Change in working capital	(2,888)	(2,955)	(9,045)	(7,613)	(4,984)	(5,645)
Others	4,269	(601)	14	963	1,295	1,544
Net cash from operations	8,202	8,329	(3,415)	4,902	10,812	13,140
Investing						
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
Net cash from investing	(3,814)	(2,318)	(3,807)	(3,198)	(3,057)	(2,919)
Financing						
Dividend paid	(1,658)	(3,431)	(3,676)	(3,280)	(4,106)	(4,877)
Net borrowings	255	0	4,010	0	0	0
Others	20	(386)	15,121	(971)	(1,386)	(1,688)
Net cash from financing	(1,383)	(3,817)	15,455	(4,251)	(5,492)	(6,565)
Net change in cash						
Cash at the beginning of the year	12,032	14,858	17,786	26,892	24,345	26,607
Exchange difference	(331)	(196)	873	0	0	0
Cash at the end of the year	14,706	16,856	26,892	24,345	26,607	30,264
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	8.2%	28.7%	(19.6%)	48.6%	24.3%	23.1%
Gross profit	(13.9%)	6.6%	(32.2%)	74.7%	30.4%	27.7%
Operating profit	44.9%	51.3%	(48.3%)	101.3%	25.0%	18.2%
EBITDA	43.8%	48.4%	(46.2%)	96.2%	24.8%	18.1%
EBIT	44.9%	51.3%	(48.3%)	101.3%	25.0%	18.2%
Net profit	32.6%	57.2%	(47.8%)	98.2%	25.2%	18.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	40.6%	33.7%	28.4%	33.4%	35.0%	36.3%
Operating margin	18.6%	21.9%	14.1%	19.1%	19.2%	18.4%
EBITDA margin	19.6%	22.6%	15.1%	20.0%	20.1%	19.3%
Return on equity (ROE)	29.1%	37.2%	12.9%	19.2%	21.0%	21.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Current ratio (x)	2.0	2.2	3.3	3.2	3.3	3.4
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
YE 31 Dec						
P/E	47.8	55.8	76.3	22.7	18.1	15.3
P/E (diluted)	47.8	55.8	76.3	22.7	18.1	15.3
P/B	13.2	18.2	7.9	4.1	3.6	3.1
Div yield (%)	0.7	0.6	0.4	1.4	1.8	2.1

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

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