

Tongcheng-Elong (780 HK)

1Q20E Preview: recovery in sight

We expect Tongcheng-Elong ("TC") to deliver better-than-feared 1Q20E results, with revenue at -44% YoY and positive earnings of RMB50mn. We think TC's above-industry performance would ease market concern on COVID-19, and we keep confident on a sooner recovery with stabilization of domestic market, travel recovery in lower-tier cities and policy support. We keep our forecast unchanged, with TP of HK\$15. Maintain BUY.

- **1Q20E preview: tough times over.** We forecast revenue/GMV to decline 44%/53% YoY in 1Q20E (at midpoint of guidance), and expect adj. net profit at RMB50mn (in line with consensus). We expect its transportation revenue to be flat in 2Q20E, while overall revenue to see positive YoY growth in 3Q20E. We think TC's worst time was over, and recovery in sight.
- **User metrics to fluctuate.** We estimate 1Q20E MAU to decline 27% YoY. Metrics in Feb suffered more, and see gradual improvement from Mar. Number of paying user is estimated to decline 38% YoY in 1Q20E. Paying ratio would see short-term fluctuation, but intact in the long run on cross selling and membership loyalty program.
- **Transportation to see faster recovery.** We expect TC's transportation/accommodation revenue to decline 45%/52% YoY in 1Q20E, while other revenue with positive YoY growth. Transportation's GMV would decline 47% YoY, in which air tickets with 37%/47% revenue/GMV YoY decline and ground transportation with 53%/53% revenue/GMV YoY decline, in our estimates. In terms of accommodation, we expect its GMV to decline 57% YoY in 1Q20E, with decreasing ADR. Take rate would see sequential growth in 1Q20E (transportation/accommodation at ~4%/9%), for light marketing efforts and lower subsidies. After COVID-19, mgmt. guided take rate back to normal, in which transportation/accommodation at 3-3.5%/8.0-8.5%. Comparing with other peers, we believe TC would be more resilient, mainly on: 1) lower exposure to international tourism (<5%); and 2) lower-tier cities to see faster recovery for less travel limitation.
- **Maintain BUY.** We keep positive on TC's recovery and cost saving in next few quarters. With earning forecast unchanged, we keep our TP at HK\$15 (14x FY21E P/E), slightly lower than industry average. With COVID-19 headwinds priced in, we suggest to buy on dips. Maintain BUY.

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	0.66	1.00	1.05
P/E (x)	15.0	21.3	11.5	9.5
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\$15.0
(Previous TP	HK\$15.0)
Up/Downside	+20.8%
Current Price	HK\$12.4

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	26,449
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. Better-than-feared 1Q20 guidance – 27 Mar 2020
2. 3Q19 beat; Expecting 4Q19 to accelerate – 28 Nov 2019
3. 3Q19E Preview: solid results with strong hotel – 22 Oct 2019
4. 2Q19 beat, but alert on 2H19 margin pressure – 20 Aug 2019
5. 2Q19E preview: solid momentum to continue – 25 Jul 2019

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,256	7,393	7,113	10,427	12,254
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
COGS	(1,601)	(2,318)	(2,241)	(3,115)	(3,651)
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
Operating profit	(311)	860	731	1,412	1,959
Finance income	10	35	13	13	13
Other income, net	903	(13)	0	0	0
Pre-tax profit	602	882	744	1,425	1,972
Income tax	(67)	(195)	(126)	(242)	(335)
Less: Minority interests	(5)	2	0	0	0
Net profit	530	688	617	1,183	1,637
Adj. net profit	916	1,544	1,088	2,012	2,449

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	602	882	744	1,425	1,972
D&A	297	335	379	384	389
Change in working capital	2,024	(212)	(36)	1,116	675
Others	(629)	497	(253)	(127)	(329)
Net cash from operating	2,361	1,696	960	3,040	3,042
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
Net cash from investing	(1,400)	(2,955)	(320)	(200)	(200)
Equity raised	1,240	0	0	0	0
Change of debts	(20)	68	0	0	0
Others	260	305	0	0	0
Net cash from financing	1,481	373	0	0	0
Net change in cash	2,441	(886)	640	2,840	2,842
Exchange difference	1	13	0	0	0
Cash at the beginning of the year	702	3,144	2,271	2,911	5,752
Cash at the end of the year	3,144	2,271	2,911	5,752	8,593
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
Non-current assets	9,294	9,792	9,397	9,240	9,256
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
Current assets	7,497	9,691	9,621	13,265	16,568
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
Current liabilities	4,534	5,606	4,815	6,761	7,913
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
Non-current liabilities	729	726	726	726	726
Borrowings	153	133	133	133	133
Deferred income tax liabilities	570	568	568	568	568
Other payables and accruals	7	25	25	25	25
Total net assets	11,528	13,152	13,769	14,952	16,589
Non-controlling interest	(8)	(5)	(5)	(5)	(5)
Total equity	11,535	13,156	13,774	14,957	16,593

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
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
Total	100.0	100.0	100.0	100.0	101.0
P&L ratios (%)					
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
Balance sheet ratios					
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
Returns (%)					
ROE	13.9	5.6	4.6	8.2	10.4
ROA	4.8	3.8	3.2	5.7	6.8
Per share data					
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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