

# Tongcheng Travel (780 HK)

## Share gain continued in Golden Week

Despite mixed industrial data for domestic tourism in the Golden Week, we expect TC to continuously gain share, with strong hotel growth and long-haul travel recovery. We forecast TC's room night +100% (vs. 2019), air ticketing volume +30%, and trains volume at single-digit growth in the Golden Week. This trend is largely in line with summer holiday. We keep confident on TC's 3Q23E growth (rev forecast unchanged at +56% YoY, +55% vs. 2019 level), and expect 4Q23E rev +96% YoY (+51% vs. 2019), backed by strong hotel in the Golden Week and resilient demand from exam-related accommodation. Recent price pullback might be triggered by mixed industrial data, profit-taking and market concern on FY24/25E normalization. We reiterated our confidence in TC's resilient growth and profitability ahead, and expect outbound tourism to bring further upside. We keep financials unchanged, with TP at HK\$25.1 (25x FY23E P/E).

- Strong growth in Golden Week, despite mixed industrial data.** According to the Ministry of Culture and Tourism, domestic tourism volume/rev in the Golden Week +4%/+1.5%, vs. 2019 level, in which volume missed expectation. However, we see high visibility for TC to continuously gain share, with eye-catching hotel business and long-haul travel recovery. For hotel, we forecast TC's room night +100% (vs. 2019), with lower-tier cities room night growth higher than high-tier ones. Blend ADR might be slightly lower than 2019 level, for higher ratio of room nights in low-tier cities, while take rate kept relatively stable, in our estimates. For transportation, we forecast air ticketing volume +30% (vs. 2019), while price +16%. Trains volume might be relatively moderate (single-digit-growth vs. 2019) for high base and strategic priority shift to monetization. Trains volume recovery would be better than May Labor Week. We forecast trains rev to surge 90% (vs. 2019). For other business, domestic package tour might recover to 60% of 2019 level, with price +24%, in our estimates. Tourist attractions volume +190% (vs. 2019). For outbound tourism, we estimate international air ticketing volume +4%, price +30%, while hotel room night +14%, ADR +10%.
- Confident on solid 3Q23E, with full-year target intact.** As the majority of transportation rev in the Golden week will be recognized in 3Q23E, we keep confident on TC's 3Q23E growth (rev forecast unchanged at +56% YoY, +55% vs. 2019), in which transportation/ hotel/others rev +67%/31%/90% YoY. For 4Q23E, we forecast rev +96% YoY (+51% vs. 2019), backed by strong hotel in the Golden Week and resilient exam-related accommodation.
- Maintain BUY.** We keep TC's FY23-25E earnings forecast unchanged. Maintain BUY with DCF-based TP at HK\$25.1.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	6,585	11,587	13,924	16,047
YoY growth (%)	(13)	76.0	20.2	15.3
Adj. net income (RMB mn)	646	2,102	2,500	2,877
Adj. EPS (RMB)	0.29	0.94	1.11	1.28
YoY growth (%)	(51)	225.2	19.0	15.1
Consensus EPS (RMB)	NA	0.81	1.00	1.18
P/E (x)	49.3	14.8	12.5	10.8
P/S (x)	4.9	2.8	2.3	2.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** HK\$25.1  
**(Previous TP)** HK\$25.1)  
**Up/Downside** +63.0%  
**Current Price** HK\$15.4

### China Entertainment Sector

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### Stock Data

Mkt Cap (HK\$ mn)	35,181
Avg 3 mths t/o (HK\$ mn)	70.82
52w High/Low (HK\$)	20.40/ 11.62
Total Issued Shares (mn)	2,252

Source: Bloomberg

### Shareholding Structure

Tencent	21.1%
Trip.com	20.6%
T Rowe Price	5.0%

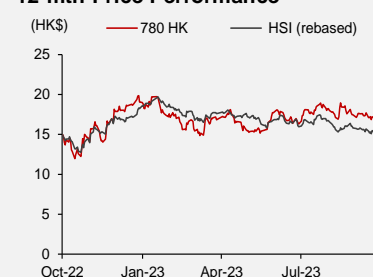
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-8.7%	-5.0%
3-mth	-2.2%	2.7%
6-mth	-6.0%	9.3%

Source: Bloomberg

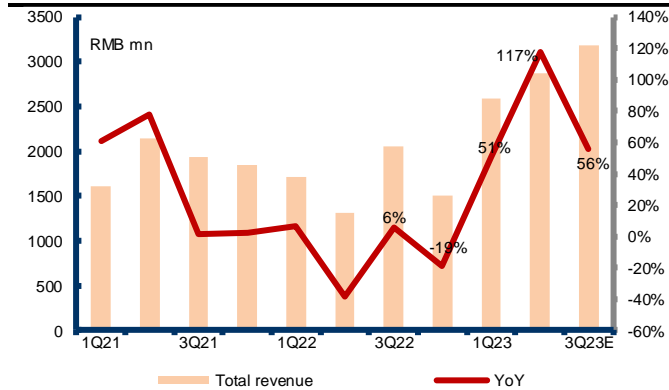
### 12-mth Price Performance



Source: Bloomberg

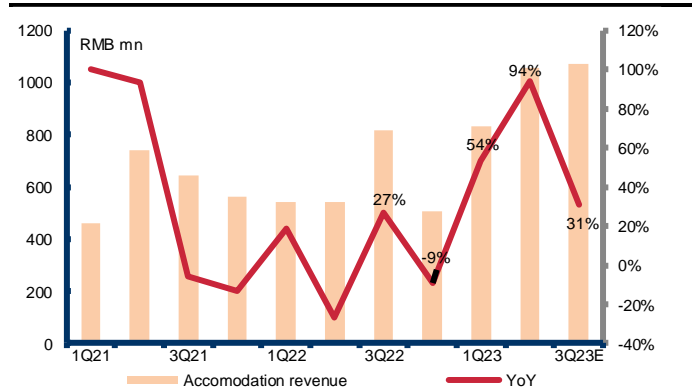
**Auditor: PwC**

Figure 1: Quarterly rev estimates



Source: Company data, CMBIGM estimates

Figure 2: Hotel biz growth estimates



Source: Company data, CMBIGM estimates

Figure 3: 3Q23 financial preview

RMB mn	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	QoQ	YoY	Consensus	Diff %
Revenue	2,138	1,939	1,846	1,718	1,319	2,048	1,500	2,586	2,866	3,187	11%	56%	3,218	-1%
Operating Profit	335	280	65	138	(128)	(39)	5	465	417	515	23%	NA	453	14%
Net profit	291	226	27	101	(135)	(94)	(32)	378	360	402	12%	NA	410	-2%
Adj. net profit	418	343	250	245	112	252	37	504	592	570	-4%	126%	578	-1%
<b>Margin (%)</b>														
Gross Margin	76.4%	73.9%	20.5%	72.5%	70.9%	74.0%	72.0%	75.0%	75.5%	76.0%			74.9%	
Operating Margin	15.7%	14.4%	3.5%	8.0%	-9.7%	-1.9%	0.4%	18.0%	14.6%	16.2%			14.1%	
Adj. net margin	19.5%	17.7%	13.6%	14.3%	8.5%	12.3%	2.5%	19.5%	20.7%	17.9%			18.0%	
<b>Growth (%)</b>														
Revenue (YoY)	78.1%	1.3%	1.8%	6.5%	-38.3%	5.6%	-18.8%	50.5%	117.4%	55.6%			57.1%	
Revenue (QoQ)	32.5%	-9.3%	-4.8%	-7.0%	-23.2%	55.3%	-26.8%	72.4%	10.8%	11.2%			12.3%	
Operating Profit	580.7%	-4.4%	-29.6%	-36.0%	NA	NA	NA	237.7%	424.7%	1419.0%			NA	
Adj. net profit	113.1%	-7.9%	-18.5%	-17.3%	-73.2%	-26.6%	-85.0%	105.6%	428.9%	126.4%			NA	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Revenue breakdown

RMB mn	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	QoQ	YoY
<b>Total revenue</b>	<b>2,138</b>	<b>1,939</b>	<b>1,846</b>	<b>1,718</b>	<b>1,319</b>	<b>2,048</b>	<b>1,500</b>	<b>2,586</b>	<b>2,866</b>	<b>3,187</b>	<b>11%</b>	<b>56%</b>
Accommodation reservation	743	645	562	543	544	819	509	834	1,055	1,075	2%	31%
Transportation ticketing	1,235	1,125	1,075	1,017	620	987	756	1,383	1,495	1,652	11%	67%
Others	160	170	209	158	156	243	235	369	316	460	45%	90%

Source: Company data, CMBIGM estimates

Figure 5: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	11,587	13,924	16,047	11,517	13,951	16,369	0.6%	-0.2%	-2.0%
Gross Profit	8,739	10,529	12,155	8,643	10,482	12,314	1.1%	0.4%	-1.3%
Operating Profit	1,713	2,133	2,526	1,641	2,135	2,689	4.4%	-0.1%	-6.0%
Adj. net profit	2,102	2,500	2,877	2,113	2,551	3,041	-0.5%	-2.0%	-5.4%
Adj. EPS (RMB)	0.94	1.11	1.28	0.81	1.00	1.18	15.3%	10.8%	9.0%
Gross Margin	75.4%	75.6%	75.7%	75.0%	75.1%	75.2%	+0.4ppts	+0.5ppts	+0.5ppts
Operating Margin	14.8%	15.3%	15.7%	14.2%	15.3%	16.4%	+0.5ppts	+0.0ppts	-0.7ppts
Adj. net margin	18.1%	18.0%	17.9%	18.3%	18.3%	18.6%	-0.2ppts	-0.3ppts	-0.7ppts

Source: CMBIGM estimates, Bloomberg

**Figure 6: DCF valuation**

DCF Valuation (Rmb mn)										
	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	2,382	2,852	3,295	4,152	5,124	6,203	7,378	8,637	9,963	11,340
Tax	(293)	(365)	(432)	(511)	(631)	(764)	(909)	(1,064)	(1,227)	(1,397)
D&A	394	400	279	290	302	312	321	329	336	342
Change in working capital	(1,398)	(724)	(663)	(676)	(689)	(703)	(717)	(732)	(746)	(761)
CAPEX	(200)	(200)	(200)	(210)	(221)	(232)	(243)	(255)	(268)	(281)
FCF	885	1,963	2,280	3,045	3,884	4,816	5,830	6,915	8,057	9,242
FCF Growth	NA	122%	16%	34%	28%	24%	21%	19%	17%	15%
PV	885	1,709	1,730	2,012	2,236	2,414	2,546	2,630	2,669	25,922
Terminal Value										80,602

Assumptions	
WACC	14.8%
Tax rate	17.0%
Risk free rate	3.95%
Beta	1.20
Market risk return	13.0%
Cost of equity	14.8%
Debt/Assets	0.0%
Long term growth	3.0%
Debt	0

Equity Value	
PV	44,752
minus: Net debt(Rmb mn)	(7,740)
minus: Minority interest(Rmb mn)	0
Equity Value(Rmb mn)	52,492
FX	0.93
Equity Value(HK\$ mn)	56,443
Target Price (HK\$) based on DCF	25.1

		WACC					
Terminal growth rate	~	13%	14%	15%	16%	17%	
	1.5%	27.9	25.4	23.7	21.6	20.1	
	2.0%	28.5	25.9	24.2	21.9	20.4	
	2.5%	29.3	26.5	24.6	22.3	20.7	
	3.0%	30.0	27.1	25.1	22.7	21.0	
	3.5%	30.9	27.8	25.7	23.1	21.3	
	4.0%	31.9	28.5	26.3	23.5	21.7	
	4.5%	33.0	29.3	26.9	24.0	22.0	

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 7: Comps table**

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Tongcheng Travel	780 HK	4,522	HKD	16	BUY	25	14.8	12.5	10.8	2.8	2.3	2.0	17%
China Internet Giants													
Alibaba	BABA US	218,887	USD	86	BUY	157	9.3	8.7	7.8	1.7	1.5	1.4	11%
Meituan	3690 HK	87,008	HKD	109	BUY	178	29.6	19.3	12.8	2.3	1.9	1.6	51%
Average							9.3	14.0	10.3	2.0	1.7	1.5	31%
OTA													
Ctrip	TCOM US	21,904	USD	34	BUY	46	16.0	13.9	11.9	3.6	3.1	2.7	16%
Booking	BKNG US	108,841	USD	3,049	NA	NA	20.5	18.1	16.1	5.1	4.6	4.2	18%
Expedia	EXPE US	14,405	USD	100	NA	NA	10.0	8.8	7.4	1.1	1.0	1.0	24%
Webjet	WEB AU	1,573	AUD	6	NA	NA	21.6	17.2	14.9	5.4	4.6	4.2	20%
TripAdvisor	TRIP US	2,204	USD	16	NA	NA	16.2	11.0	9.0	1.3	1.2	1.0	32%
Average							16.9	13.8	11.9	2.8	2.5	2.2	22%
Travel agency													
UTour	002707 CH	947	CNY	7	NA	NA	NA	35.0	23.0	1.5	0.7	0.5	156%
Zhangjiajie Tourism	000430 CH	374	CNY	7	NA	NA	NA	NA	NA	NA	NA	NA	NA
Changbai Mountain	603099 CH	453	CNY	12	NA	NA	29.8	23.2	18.9	5.9	4.8	4.1	26%
Average							29.8	29.1	20.9	3.7	2.8	2.3	26%
Hotel													
H World Group	HTHT US	12,072	USD	38	NA	NA	23.9	21.0	17.8	4.2	3.8	3.5	16%
Jinjiang Int Hotels	600754 CH	4,669	CNY	35	NA	NA	25.0	18.6	14.1	2.3	2.1	1.9	34%
BTG Hotels Group	600258 CH	2,476	CNY	16	NA	NA	24.8	17.5	14.4	2.3	2.1	1.9	31%
GreenTree	GHG US	440	USD	4	NA	NA	10.9	10.4	8.9	1.9	1.7	1.6	10%
Average							21.1	16.9	13.8	2.7	2.4	2.2	23%
Average							19.8	17.1	13.6	3.0	2.5	2.3	22%

Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>7,538</b>	<b>6,585</b>	<b>11,587</b>	<b>13,924</b>	<b>16,047</b>
Accommodation reservation	2,409	2,415	3,835	4,956	5,952
Transportation ticketing	4,458	3,379	6,170	7,069	7,856
Others	671	791	1,581	1,898	2,239
<b>COGS</b>	<b>(1,890)</b>	<b>(1,807)</b>	<b>(2,847)</b>	<b>(3,395)</b>	<b>(3,893)</b>
R&D	(1,344)	(1,414)	(1,761)	(2,256)	(2,664)
S&M	(3,036)	(2,801)	(4,530)	(5,305)	(6,034)
Administrative expenses	(572)	(701)	(735)	(835)	(931)
Fair value change	124	102	0	0	0
Other income	98	154	0	0	0
Other gains/(losses).net	69	(114)	0	0	0
<b>Operating profit</b>	<b>895</b>	<b>(24)</b>	<b>1,713</b>	<b>2,133</b>	<b>2,526</b>
Finance income	12	(79)	13	13	13
Other income, net	(33)	(14)	0	0	0
<b>Pre-tax profit</b>	<b>875</b>	<b>(117)</b>	<b>1,726</b>	<b>2,146</b>	<b>2,539</b>
Income tax	(161)	(46)	(293)	(365)	(432)
Less: Minority interests	10	18	0	0	0
Net profit	723	(146)	1,433	1,781	2,108
<b>Adj. net profit</b>	<b>1,308</b>	<b>646</b>	<b>2,102</b>	<b>2,500</b>	<b>2,877</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Profit before tax</b>	<b>875</b>	<b>(117)</b>	<b>1,726</b>	<b>2,146</b>	<b>2,539</b>
D&A	384	389	394	400	279
Change in working capital	1,328	(424)	1,398	724	663
Others	148	354	95	2	(82)
<b>Net cash from operating</b>	<b>2,897</b>	<b>248</b>	<b>3,907</b>	<b>3,637</b>	<b>3,831</b>
Capex & investments	(200)	(200)	(200)	(200)	(200)
ST investments payments	(529)	(102)	0	0	0
ST investments proceeds	0	0	0	0	0
Other	407	(277)	0	0	(0)
<b>Net cash from investing</b>	<b>(322)</b>	<b>(580)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>
Equity raised	0	0	0	0	0
Change of debts	(49)	0	0	0	0
Others	(12)	79	(13)	(13)	(13)
<b>Net cash from financing</b>	<b>(62)</b>	<b>79</b>	<b>(13)</b>	<b>(13)</b>	<b>(13)</b>
<b>Net change in cash</b>	<b>2,513</b>	<b>(253)</b>	<b>3,694</b>	<b>3,424</b>	<b>3,618</b>
Exchange difference	0	0	0	0	0
Cash at the beginning of the year	1,804	4,318	4,065	7,759	11,183
<b>Cash at the end of the year</b>	<b>4,318</b>	<b>4,065</b>	<b>7,759</b>	<b>11,183</b>	<b>14,801</b>
Cash at balance sheet	2,046	4,065	7,759	11,183	14,801

### Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Non-current assets</b>	<b>14,133</b>	<b>13,733</b>	<b>13,301</b>	<b>12,849</b>	<b>12,321</b>
PP&E	1,364	1,446	1,523	1,595	1,592
Investments	1,956	1,956	1,956	1,956	1,956
Land use right	0	16	16	16	16
Intangible assets	8,348	7,858	7,318	6,778	6,237
Deferred income tax assets	175	175	175	175	175
Prepayment & other receivables	9	54	85	102	117
<b>Current assets</b>	<b>7,373</b>	<b>9,344</b>	<b>14,153</b>	<b>18,119</b>	<b>22,230</b>
Account receivable	1,930	1,620	2,735	3,277	3,769
Short-term investments	3,343	3,604	3,604	3,604	3,604
Restricted cash	55	55	55	55	55
Cash and cash equivalent	2,046	4,065	7,759	11,183	14,801
<b>Current liabilities</b>	<b>4,711</b>	<b>4,023</b>	<b>6,567</b>	<b>7,850</b>	<b>9,020</b>
Borrowings	20	20	20	20	20
Trade payables	2,207	2,529	3,986	4,753	5,450
Other payables and accruals	2,437	1,416	2,491	2,994	3,450
Current income taxes liabilities	49	58	70	84	101
<b>Non-current liabilities</b>	<b>1,536</b>	<b>1,536</b>	<b>1,536</b>	<b>1,536</b>	<b>1,536</b>
Borrowings	94	94	94	94	94
Deferred income tax liabilities	497	497	497	497	497
Other payables and accruals	946	946	946	946	946
<b>Total net assets</b>	<b>15,259</b>	<b>15,504</b>	<b>17,337</b>	<b>19,568</b>	<b>22,176</b>
Non-controlling interest	39	22	22	22	22
<b>Total equity</b>	<b>15,219</b>	<b>15,482</b>	<b>17,315</b>	<b>19,546</b>	<b>22,154</b>

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>					
Accommodation reservation	32.0	36.7	33.1	35.6	37.1
Transportation ticketing	59.1	51.3	53.3	50.8	49.0
Others	8.9	12.0	13.6	13.6	14.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>P&amp;L ratios (%)</b>					
Gross Margin	74.9	72.6	75.4	75.6	75.7
PreTax Margin	11.6	-1.8	14.9	15.4	15.8
Tax Rate	17.0	18.0	17.0	17.0	17.0
Adj. net margin	17.4	9.8	18.1	18.0	17.9
<b>Balance sheet ratios</b>					
Current ratio (x)	1.6	2.3	2.2	2.3	2.5
Debtors turnover days	32.5	54.8	54.8	54.8	54.8
Creditors turnover days	3655	3377	1819	1097	511
Inventory turnover days	0.0	0.0	0.0	0.0	0.0
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	4.9	-1.0	8.7	9.7	10.1
ROA	3.5	-0.7	5.7	6.1	6.4
<b>Per share data</b>					
Adj. EPS (RMB)	0.6	0.3	0.9	1.1	1.3
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	6.8	6.9	7.7	8.7	9.9

Source: Company data, CMBIGM estimates

# Disclosures & Disclaimers

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## CMBIGM Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

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