

Tongcheng Travel (780 HK)

Expecting inline 1Q results; solid full-year earnings growth outlook unchanged

For 1Q25E, we expect Tongcheng Travel (TC) would record revenue of RMB4.35bn, up 12% YoY, and ink non-GAAP net profit of RMB737mn, up 32% YoY, both inline with Bloomberg consensus. We reiterate our positive view on TC given its robust earnings growth outlook and we believe its business growth is mainly driven by domestic demand and is relatively immune to the impact of tariffs and geopolitical conflicts. Our 25%/18% YoY growth forecast for core OTA OP/total non-GAAP NP in 2025E remains unchanged, and we see supporting factors coming from: 1) resilient travel demand for both domestic and outbound travel, and TC's ability to achieve further operating efficiency improvement through refined marketing strategies and optimization in user subsidies provided; 2) international business turnaround from the loss-making stage and contribution of profits. Our 2025-2027E financial forecast and DCF-based target price of HK\$24.0 are both unchanged. BUY.

■ **1Q25 results preview: expecting solid core OTA business revenue and earnings growth.** For 1Q25E, we estimate TC could ink total revenue of RMB4.35bn, up 12% YoY (1ppt lower than our previous forecast), among which we are anticipating 17% YoY revenue growth for core OTA business (unchanged), and 11% YoY decline in Tourism business (wider than the 5% YoY decline in our previous forecast). We are expecting more severe impact on Tourism business in 1Q25 as outbound tourism business for the elder customers in popular Southeast Asia tourist destinations looks likely to take longer to recover than we previously expected. However, as overall travel demand remains resilient, and the travel demand in the affected regions could be replaced by other popular destinations, we expect the recovery to be more back-loaded this year and our 2025E forecast for both Tourism revenue and group-level revenue remains unchanged.

■ **Overall travel demand remains resilient.** For the Qingming Festival in 2025, according to Ministry of Culture and Tourism, the no. of tourists reached 126mn nationwide, up 6.3% YoY, and total tourism income reached RMB57.5bn, up 6.7% YoY. Per National Immigration Administration, the average daily no. of entries and exits through ports nationwide reached 2.07mn during the festival, up 19.7% YoY. These data demonstrated resilient travel demand, in our view, and this could sustain in 2Q25.

■ **Valuation and key risks.** Our DCF-based valuation derives a TP of HK\$24.0 per share (WACC of 13.0%; terminal growth of 1.0%), translating into 15.6x 2025E PE. Key risks: 1) more severe-than-expected macro headwinds weighs on revenue growth; 2) slower-than-expected pace in margin expansion.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	11,896	17,341	19,804	22,186	24,015
YoY growth (%)	80.7	45.8	14.2	12.0	8.2
Adjusted net profit (RMB mn)	2,192.1	2,785.4	3,299.0	3,792.6	4,201.7
Diluted EPS (RMB)	0.95	1.22	1.43	1.64	1.80
Consensus EPS (RMB)	na	na	1.36	1.62	1.84
P/E (x)	30.5	24.3	18.4	15.7	14.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$24.00
Up/Downside 7.1%
Current Price HK\$22.40

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Stock Data

Mkt Cap (HK\$ mn)	51,531.0
Avg 3 mths t/o (HK\$ mn)	298.7
52w High/Low (HK\$)	22.40/12.70
Total Issued Shares (mn)	2300.5

Source: FactSet

Shareholding Structure

Tencent	21.2%
Trip.com	20.7%

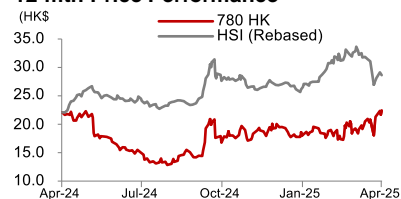
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	18.5%	34.9%
3-mth	23.3%	14.4%
6-mth	31.6%	26.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: TC: quarterly results and forecast

(RMBmn)	1Q24	2Q24	3Q24	4Q24	1Q25E	2Q25E
Total revenue	3,866	4,245	4,991	4,238	4,345	4,718
YoY growth (%)	49.5%	48.1%	51.3%	34.8%	12.4%	11.1%
1. Core OTA	3,203	3,526	4,013	3,457	3,755	4,035
YoY growth (%)	23.9%	23.0%	21.6%	20.2%	17.2%	14.4%
1.1 Transportation ticketing services	1,737	1,743	2,027	1,723	1,974	1,961
YoY growth (%)	25.6%	16.6%	20.6%	17.0%	13.7%	12.5%
1.2 Accommodation reservation services	965	1,191	1,378	1,135	1,192	1,353
YoY growth (%)	15.6%	12.8%	22.2%	28.6%	23.5%	13.6%
1.3 Others	502	592	609	599	590	721
YoY growth (%)	36.0%	87.3%	23.7%	14.8%	17.5%	21.7%
2. Tourism	663	719	979	780	590	683
Gross profit	2,515	2,744	3,165	2,690	2,834	3,077
Operating profit	455	517	977	474	686	709
Adj. net profit	558	657	910	660	737	756
YoY (%)	10.9%	10.9%	46.6%	36.8%	32.0%	15.1%
Margin (%)						
GPM	65.0%	64.6%	63.4%	63.5%	65.2%	65.2%
OPM	11.8%	12.2%	19.6%	11.2%	15.8%	15.0%
Adj. NPM	14.4%	15.5%	18.2%	15.6%	17.0%	16.0%

Source: Company data, CMBIGM estimates

Figure 2: TC: DCF valuation (WACC of 13.0%; terminal growth of 1.0%)

(RMBmn)	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Total revenue	19,804	22,186	24,015	25,376	26,401	27,188	27,809	28,308	28,720
NPV of FCF	25,716								
Discounted terminal value	17,175								
Total equity valuation	51,556								
No. of shares (diluted, mn)	2,300								
Valuation per share (HKD)	24.0								

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	6,585	11,896	17,341	19,804	22,186	24,015
Cost of goods sold	(1,807)	(3,158)	(6,227)	(6,888)	(7,616)	(8,149)
Gross profit	4,778	8,738	11,113	12,916	14,570	15,866
Operating expenses	(4,802)	(6,869)	(8,690)	(9,747)	(10,854)	(11,725)
Selling expense	(2,801)	(4,473)	(5,621)	(6,423)	(7,191)	(7,784)
Admin expense	(701)	(711)	(1,206)	(1,225)	(1,322)	(1,407)
Other rental related expenses	(1,414)	(1,821)	(2,001)	(2,217)	(2,474)	(2,678)
Others	114	136	138	119	133	144
Operating profit	(24)	1,869	2,423	3,169	3,716	4,142
Interest income	58	175	195	217	290	368
Interest expense	(137)	(157)	(231)	(232)	(232)	(232)
Others	(14)	(33)	11	12	18	19
Pre-tax profit	(117)	1,854	2,398	3,165	3,791	4,295
Income tax	(46)	(288)	(410)	(541)	(686)	(820)
After tax profit	(164)	1,566	1,988	2,624	3,105	3,475
Minority interest	(18)	11	14	14	14	14
Net profit	(146)	1,554	1,974	2,610	3,091	3,461
Adjusted net profit	646	2,192	2,785	3,299	3,793	4,202

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	10,384	14,900	18,241	21,651	25,470	29,443
Cash & equivalents	3,547	5,192	8,020	10,724	13,618	16,882
Restricted cash	88	145	136	156	174	189
Account receivables	888	1,218	1,728	1,973	2,210	2,393
Prepayment	2,697	4,370	5,450	6,065	6,735	7,247
Financial assets at FVTPL	3,163	3,974	2,907	2,733	2,733	2,733
Non-current assets	14,651	16,817	19,537	16,858	16,651	16,448
PP&E	1,598	2,495	3,147	2,573	2,609	2,645
Right-of-use assets	111	589	909	909	909	909
Intangibles	8,581	9,580	10,814	8,877	8,575	8,292
Financial assets at FVTPL	758	1,039	957	957	957	957
Other non-current assets	3,602	3,113	3,709	3,541	3,599	3,644
Total assets	25,035	31,717	37,777	38,509	42,121	45,891
Current liabilities	6,117	11,887	11,597	12,288	12,861	13,291
Short-term borrowings	443	2,540	1,359	1,359	1,359	1,359
Account payables	2,522	4,131	4,467	4,822	5,179	5,378
Tax payable	3,040	4,939	5,154	5,490	5,707	5,937
Other current liabilities	60	166	342	342	342	342
Contract liabilities	51	111	274	274	274	274
Non-current liabilities	2,928	1,283	5,218	2,558	2,688	2,788
Long-term borrowings	1,858	11	2,794	0	0	0
Obligations under finance leases	88	420	680	680	680	680
Other non-current liabilities	982	852	1,743	1,878	2,008	2,108
Total liabilities	9,044	13,170	16,815	14,846	15,550	16,079
Share capital	8	8	8	8	8	8
Capital surplus	19,877	20,116	20,762	20,628	20,628	20,628
Other reserves	(4,153)	(2,421)	(768)	2,053	4,947	8,173
Total shareholders equity	15,732	17,703	20,001	22,688	25,583	28,809
Minority interest	258	844	961	975	989	1,003
Total equity and liabilities	25,035	31,717	37,777	38,509	42,121	45,891

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(117)	1,854	2,398	3,165	3,791	4,295
Depreciation & amortization	840	911	964	1,026	1,075	1,121
Tax paid	(50)	(192)	(410)	(541)	(686)	(820)
Change in working capital	(1,001)	947	286	(89)	(261)	(209)
Others	630	485	(268)	383	389	421
Net cash from operations	302	4,003	2,970	3,944	4,308	4,808
Investing						
Capital expenditure	(515)	(772)	(292)	(329)	(366)	(394)
Others	118	(991)	(543)	(415)	(462)	(495)
Net cash from investing	(397)	(1,762)	(834)	(745)	(828)	(888)
Financing						
Net borrowings	0	(2)	(374)	(495)	(586)	(656)
Proceeds from share issues	0	0	0	0	0	0
Others	1,535	(590)	1,053	0	0	0
Net cash from financing	1,535	(592)	679	(495)	(586)	(656)
Net change in cash						
Cash at the beginning of the year	2,046	3,547	5,192	8,020	10,724	13,618
Exchange difference	61	(4)	13	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	3,547	5,192	8,020	10,724	13,618	16,882
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(12.6%)	80.7%	45.8%	14.2%	12.0%	8.2%
Gross profit	(15.4%)	82.9%	27.2%	16.2%	12.8%	8.9%
Operating profit	na	na	29.6%	30.8%	17.3%	11.5%
Net profit	na	na	27.0%	32.2%	18.4%	12.0%
Adj. net profit	(50.6%)	239.3%	27.1%	18.4%	15.0%	10.8%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	72.6%	73.5%	64.1%	65.2%	65.7%	66.1%
Operating margin	(0.4%)	15.7%	14.0%	16.0%	16.7%	17.2%
Adj. net profit margin	9.8%	18.4%	16.1%	16.7%	17.1%	17.5%
Return on equity (ROE)	(0.9%)	9.3%	10.5%	12.2%	12.8%	12.7%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.1)	(0.2)	(0.4)	(0.5)	(0.5)
Current ratio (x)	1.7	1.3	1.6	1.8	2.0	2.2
Receivable turnover days	43.2	32.3	31.0	34.1	34.4	35.0
Payable turnover days	477.6	384.5	252.0	246.1	239.6	236.4
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	30.5	24.3	18.4	15.7	14.1
P/E (diluted)	72.6	22.1	17.4	14.7	12.9	11.7
P/B	3.0	2.7	2.4	2.1	1.9	1.7
P/CFPS	ns	15.0	18.1	13.4	12.4	11.2

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

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