

# Tongcheng-Elong (780 HK)

## Solid 3Q20E ahead

We expect Tongcheng-Elong ("TC") to deliver solid 3Q20E, with revenue/ adj. net profit -8%/-14% YoY, 1%/0% above consensus. Given strong golden week holiday travel data, we keep positive on its above-industry recovery pace, with lower-tier cities focus. Earnings would be intact, but 4Q20E topline growth might be dragged by high comps and potential second wave of epidemic. We slightly cut our earnings forecast by 8.1%/1.5%/1.3% in FY20/21/22E to factor in conservative 4Q20E, with unchanged TP of HK\$19 (18x FY21E P/E). Maintain BUY.

- Solid 3Q20 ahead.** We expect TC to deliver solid 3Q20, with revenue/ adj. net profit -8%/-14% YoY, 1%/0% above consensus. If excluding overseas business and pre-purchase factor, 3Q20E topline suggests 0%-5% YoY growth. By segment, we expect hotel rev down 9% YoY in 3Q20E (better than previous guidance of -15%-20% YoY), in which hotel room nights is estimated to achieve double-digit YoY growth while take rate will remain solid at 9%. ADR would still decline YoY in 2H20E (-25% YoY in 3Q20E). Lower-tier cities would recover faster, with room nights over +25% YoY in 3Q20E. For transportation, we expect its rev down 6% YoY (0%-5% YoY growth if excluding international business). 3Q20 air ticketing volume would grow 10% YoY, given higher user safety awareness and lower price. Ground transportation rev would still see 8% YoY decline. We estimate its transportation take rate to normalize in 3Q20E, and margin intact YoY. Bus tickets business would be new driver for its user expansion.
- Strong growth backed by Golden Week momentum.** TC delivered strong growth in Golden Week holiday, with transportation/ hotel volume over +20%/+44% YoY (vs. industry -21% YoY). By segment, air/train volume grew 25%/10% YoY. Given faster recovery in low-tier cities, we see high visibility for TC to continuously gain share. 2H20E adj. net margin would keep stable at 20%, despite heavier S&M efforts (rising S&M/Rev ratio) for hotel cooperation and bus tickets expansion. 4Q20E topline growth might be dragged by multiple factors: 1) high comps with early CNY in 2020, overseas business and pre-purchase hotel; and 2) potential second wave of epidemic.
- Maintain BUY.** We keep positive on TC's recovery and ROI-driven expenses in 2H20E, but 4Q20E topline growth might see pressure from high comps and potential second wave of epidemic. Accordingly, we slightly cut our earnings forecast by 8.1%/1.5%/1.3% in FY20/21/22E, with unchanged TP of HK\$19.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	7,393	6,113	9,330	11,017
YoY growth (%)	NA	-17.3	52.6	18.1
Adj. net income (RMB mn)	1,544	971	1,979	2,464
Adj. EPS (RMB)	0.74	0.47	0.95	1.19
YoY growth (%)	68.6	-37.1	103.8	24.5
Consensus EPS (RMB)	NA	0.49	0.91	1.12
P/E (x)	18.0	28.7	14.1	11.3
P/B (x)	0.4	0.4	0.4	0.4
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	5.6	3.7	8.1	10.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$19.0
(Previous TP	HK\$19.0)
Up/Downside	+35%
Current Price	HK\$14.1

### China Internet Sector

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### Stock Data

Mkt Cap (HK\$ mn)	31,576
Avg 3 mths t/o (HK\$ mn)	98.81
52w High/Low (HK\$)	16.48/ 8.74
Total Issued Shares (mn)	2,169

Source: Bloomberg

### Shareholding Structure

Tencent	22.4%
Ctrip	21.9%
Suzhou Industrial Park	7.8%

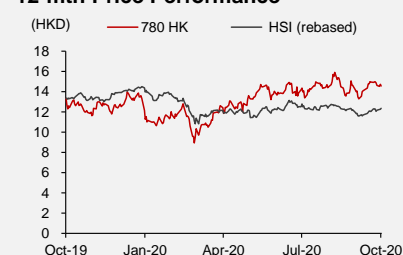
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	0.8%	0.4%
3-mth	3.8%	5.9%
6-mth	18.7%	17.5%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

- Earnings intact despite mixed 3Q guidance – 31 Aug 2020
- Solid recovery ahead - 28 Jul 2020
- Moving to 2H20E recovery – 22 May 2020

**Figure 1: 3Q20E financial preview**

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20E	QoQ	YoY	Consensus	Diff %
Revenue	1,783	1,591	2,062	1,956	1,005	1,200	1,901	58.4%	-7.8%	1,881	1%
Operating Profit	187	218	347	107	(53)	49	247	402.3%	-28.9%	244	1%
Net profit	97	199	294	97	(56)	55	228	316.6%	-22.5%	224	2%
Adj. net profit	448	346	419	331	78	196	359	83.2%	-14.3%	360	0%
<b>Margin (%)</b>											
Gross Margin	72.1%	64.7%	66.9%	70.6%	65.0%	72.3%	70.0%			70.2%	
Operating Margin	10.5%	13.7%	16.8%	5.5%	-5.2%	4.1%	13.0%			13.0%	
Adj. net margin	25.1%	21.7%	20.3%	16.9%	7.8%	16.3%	18.9%			19.2%	
<b>Growth (%)</b>											
Revenue (YoY)	17.5%	21.0%	22.3%	24.4%	-43.6%	-24.6%	-7.8%			-8.8%	
Revenue (QoQ)	13.4%	-10.8%	29.6%	-5.1%	-48.6%	19.4%	58.4%			56.7%	
Operating Profit	NA	242.9%	232.2%	201.7%	-128.1%	-77.5%	-28.9%			-29.6%	
Adj. net profit	8.7%	60.0%	33.2%	67.7%	-82.6%	-43.2%	-14.3%			-14.1%	

Source: Company data, Bloomberg, CMBIS estimates

**Figure 2: Revenue breakdown**

RMB mn	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20E	QoQ	YoY
<b>Total revenue</b>	<b>1,573</b>	<b>1,783</b>	<b>1,591</b>	<b>2,062</b>	<b>1,956</b>	<b>1,005</b>	<b>1,200</b>	<b>1,901</b>	<b>58%</b>	<b>-8%</b>
Accommodation reservation	424	489	553	694	622	229	384	630	64%	-9%
Transportation ticketing	1,072	1,259	937	1,140	1,182	687	726	1,070	47%	-6%
Others	76	35	100	229	153	89	90	201	123%	-12%

Source: Company data, CMBIS estimates

**Figure 3: CMBIS estimates vs consensus**

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	6,113	9,330	11,017	6,212	9,272	11,179	-1.6%	0.6%	-1.4%
Gross Profit	4,264	6,646	7,844	4,328	6,493	7,866	-1.5%	2.3%	-0.3%
Operating Profit	590	1,373	1,977	546	1,485	2,030	8.0%	-7.5%	-2.6%
Adj. net profit	971	1,979	2,464	1,049	2,019	2,502	-7.4%	-2.0%	-1.5%
Adj. EPS (RMB)	0.47	0.95	1.19	0.49	0.91	1.12	-3.8%	4.4%	5.8%
Gross Margin	69.7%	71.2%	71.2%	69.7%	70.0%	70.4%	+0.1ppts	+1.2ppts	+0.8ppts
Operating Margin	9.7%	14.7%	17.9%	8.8%	16.0%	18.2%	+0.9ppts	-1.3ppts	-0.2ppts
Adj. net margin	15.9%	21.2%	22.4%	16.9%	21.8%	22.4%	-1.0ppts	-0.6ppts	+0.0ppts

Source: CMBIS estimates, Bloomberg

**Figure 4: Earnings revision**

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	6,113	9,330	11,017	6,334	9,504	11,211	-3.5%	-1.8%	-1.7%
Gross Profit	4,264	6,646	7,844	4,423	6,773	7,985	-3.6%	-1.9%	-1.8%
Operating Profit	590	1,373	1,977	693	1,409	2,016	-14.9%	-2.5%	-1.9%
Adj. net profit	971	1,979	2,464	1,057	2,009	2,496	-8.1%	-1.5%	-1.3%
Adj. EPS (RMB)	0.47	0.95	1.19	0.51	0.97	1.20	-8.3%	-1.7%	-1.1%
Gross Margin	69.7%	71.2%	71.2%	69.8%	71.3%	71.2%	-0.1ppts	-0.1ppts	+0.0ppts
Operating Margin	9.7%	14.7%	17.9%	10.9%	14.8%	18.0%	-1.2ppts	-0.1ppts	-0.1ppts
Adj. net margin	15.9%	21.2%	22.4%	16.7%	21.1%	22.3%	-0.8ppts	+0.1ppts	+0.1ppts

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>5,256</b>	<b>7,393</b>	<b>6,113</b>	<b>9,330</b>	<b>11,017</b>
Accommodation reservation	1,830	4,518	3,815	5,527	6,150
Transportation ticketing	3,233	2,358	1,736	3,191	3,590
Others	193	517	562	612	1,278
<b>COGS</b>	<b>(1,601)</b>	<b>(2,318)</b>	<b>(1,850)</b>	<b>(2,684)</b>	<b>(3,173)</b>
R&D	(1,350)	(1,519)	(1,272)	(1,847)	(2,071)
S&M	(1,841)	(2,246)	(1,937)	(2,734)	(2,986)
Administrative expenses	(935)	(625)	(466)	(691)	(810)
Fair value change	79	106	0	0	0
Other income	33	89	0	0	0
Other gains/(losses).net	48	(20)	0	0	0
<b>Operating profit</b>	<b>(311)</b>	<b>860</b>	<b>590</b>	<b>1,373</b>	<b>1,977</b>
Finance income	10	35	13	13	13
Other income, net	903	(13)	0	0	0
<b>Pre-tax profit</b>	<b>602</b>	<b>882</b>	<b>603</b>	<b>1,386</b>	<b>1,990</b>
Income tax	(67)	(195)	(102)	(236)	(338)
Less: Minority interests	(5)	2	0	0	0
Net profit	530	688	500	1,150	1,652
<b>Adj. net profit</b>	<b>916</b>	<b>1,544</b>	<b>971</b>	<b>1,979</b>	<b>2,464</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profit before tax</b>	<b>602</b>	<b>882</b>	<b>603</b>	<b>1,386</b>	<b>1,990</b>
D&A	297	335	379	384	389
Change in working capital	2,024	(212)	(500)	1,069	618
Others	(629)	497	(205)	(113)	(336)
<b>Net cash from operating</b>	<b>2,361</b>	<b>1,696</b>	<b>379</b>	<b>2,961</b>	<b>3,000</b>
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
<b>Net cash from investing</b>	<b>(1,400)</b>	<b>(2,955)</b>	<b>(320)</b>	<b>(200)</b>	<b>(200)</b>
Equity raised	1,240	0	0	0	0
Change of debts	(20)	68	0	0	0
Others	260	305	0	0	0
<b>Net cash from financing</b>	<b>1,481</b>	<b>373</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net change in cash</b>	<b>2,441</b>	<b>(886)</b>	<b>59</b>	<b>2,761</b>	<b>2,800</b>
Exchange difference	1	13	0	0	0
Cash at the beginning of the year	702	3,144	2,271	2,330	5,091
<b>Cash at the end of the year</b>	<b>3,144</b>	<b>2,271</b>	<b>2,330</b>	<b>5,091</b>	<b>7,891</b>
Cash at balance sheet	3,144	2,271	2,330	5,091	7,891

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>9,294</b>	<b>9,792</b>	<b>9,385</b>	<b>9,227</b>	<b>9,242</b>
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	55	81	95
<b>Current assets</b>	<b>7,497</b>	<b>9,691</b>	<b>8,753</b>	<b>12,289</b>	<b>15,513</b>
Account receivable	1,381	2,666	1,564	2,339	2,763
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	2,330	5,091	7,891
<b>Current liabilities</b>	<b>4,534</b>	<b>5,606</b>	<b>4,053</b>	<b>5,921</b>	<b>6,978</b>
Borrowings	20	107	107	107	107
Trade payables	2,569	3,429	2,589	3,758	4,442
Other payables and accruals	1,815	2,035	1,314	2,006	2,369
Current income taxes liabilities	131	35	42	50	60
<b>Non-current liabilities</b>	<b>729</b>	<b>726</b>	<b>726</b>	<b>726</b>	<b>726</b>
Borrowings	153	133	133	133	133
Deferred income tax liabilities	570	568	568	568	568
Other payables and accruals	7	25	25	25	25
<b>Total net assets</b>	<b>11,528</b>	<b>13,152</b>	<b>13,652</b>	<b>14,803</b>	<b>16,454</b>
Non-controlling interest	(8)	(5)	(5)	(5)	(5)
<b>Total equity</b>	<b>11,535</b>	<b>13,156</b>	<b>13,657</b>	<b>14,807</b>	<b>16,459</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Accommodation reservation	34.8	61.1	62.4	59.2	55.8
Transportation ticketing	61.5	31.9	28.4	34.2	32.6
Others	3.7	7.0	9.2	6.6	11.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>101.0</b>
<b>P&amp;L ratios (%)</b>					
Gross Margin	69.5	68.6	69.7	71.2	71.2
PreTax Margin	11.4	11.9	9.9	14.9	18.1
Tax Rate	10.0	17.0	17.0	17.0	17.0
Adj. net margin	17.4	20.9	15.9	21.2	22.4
<b>Balance sheet ratios</b>					
Current ratio (x)	1.7	1.7	2.2	2.1	2.2
Debtors turnover days	67.8	49.7	54.8	54.8	54.8
Creditors turnover days	683.9	473.8	2129.3	1115.0	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
<b>Returns (%)</b>					
ROE	13.9	5.6	3.7	8.1	10.6
ROA	4.8	3.8	2.7	5.8	7.1
<b>Per share data</b>					
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	7.1	7.9

Source: Company data, CMBIS estimates

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