

# Tongcheng Travel (780 HK)

## 2Q23E V-shaped rebound to continue

TC delivered upbeat 1Q23 and solid guidance. We keep positive on TC's V-shaped recovery in 2Q23E, and expect it to continuously deliver above-industrial growth in the long run. Market concerns on competition and macro challenges have partly priced in recent price softness. We suggest to look into its 2Q23E acceleration, with rev +108% YoY. Compared to ecommerce/lifestyle peers, we think TC would be more resilient to macro uncertainty, on its exposure in lower-tier cities, higher cross-selling and Tencent traffic support. We raised FY23-25E earnings by 5-10%, to reflect faster recovery pace (on strong hotel, business travel, etc.). Maintain BUY with TP at HK\$24.5 (27x/22x FY23/24E P/E).

- **Another upbeat quarter.** TC delivered another strong quarter in 1Q23, with rev +51% YoY (4%/5% above consensus/ our estimates) and bottom line at RMB504mn (+106% YoY, 20% above consensus, on better topline and other gains). By segment, hotel rev +54% YoY (6% above our estimates), while transportation ticketing rev +36% YoY (largely in line). Given strong travel data during China Ming Festival and Labor Day holiday, we expect 2Q23E to continuously rebound.
- **2Q23E acceleration ahead, with faster recovery pace.** We expect 2Q23E rev to accelerate to +108% YoY (+72% vs. 2019 level), with low base and and strong pent-up travel demand. Strong momentum of hotel biz would continue (forecasting +75% YoY, +72% vs. 2019 level), in which room nights >+120% vs. 2019 level, ADR +20% YoY. Given higher user subsidies in holiday, we expect 2Q23E hotel take rate to slightly fall to 8.3% (vs. 8.8% in 1Q23). For transportation segment, we expect rev +130% YoY (+52% vs. 2019 level), in which ground/ air ticketing rev +93%/22% vs. 2019 level. Transportation take rate would be stable at 3-3.5%. We forecast other rev +132% YoY in 2Q23E. To reflect better recovery pace, we raised FY23E rev by 5.5%, suggesting +66.6% YoY. We expect adj. NPM at 17% in FY23E (vs. prior 16.3%), factoring in more disciplined costs and ROI-driven marketing (forecasting S&M/rev ratio at 39% in FY23E).
- **Manageable impact from competition and macro challenges.** Such strong results and guidance should be partly anticipated by the market, while the debates lie on macro challenges, Douyin's competition, higher S&M and long-term growth potential. Compared to ecommerce/lifestyle peers, we think TC would be more resilient to macro uncertainty, on its exposure in lower-tier cities, higher cross-selling and Tencent traffic support. For competition, we have already adjusted hotel take rate to reflect higher subsidies, and hotel biz should be more defensive on its supply chain barrier and relatively low frequency. We keep positive on its secular growth, with rising online penetration of hotel biz.
- **Maintain BUY.** We raised TC's FY23-25E earnings forecast by 5-10% to reflect better recovery. Maintain BUY with new DCF-based TP at HK\$24.5 (higher earnings but diluted by FX change impact).

### Earnings Summary

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	6,585	10,968	12,960	14,608
YoY growth (%)	(13)	66.6	18.2	12.7
Adj. net income (RMB mn)	646	1,863	2,208	2,495
Adj. EPS (RMB)	0.29	0.83	0.98	1.11
YoY growth (%)	(51)	188.3	18.5	13.0
Consensus EPS (RMB)	N/A	0.65	0.85	1.09
P/E (x)	48.6	16.5	13.9	12.3
P/S (x)	4.6	2.8	2.4	2.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$24.5
(Previous TP	HK\$24.3)
Up/Downside	+61.2%
Current Price	HK\$15.2

### China Internet Sector

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### Stock Data

Mkt Cap (HK\$ mn)	35,420
Avg 3 mths t/o (HK\$ mn)	77.06
52w High/Low (HK\$)	20.40/ 11.62
Total Issued Shares (mn)	2,242

Source: Bloomberg

### Shareholding Structure

Tencent	21.24%
Trip.com	20.72%
T Rowe Price	4.97%

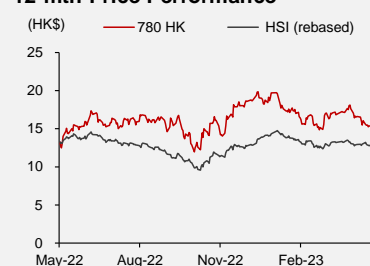
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-12.6%	-9.8%
3-mth	-7.0%	-1.8%
6-mth	0.3%	-9.0%

Source: Bloomberg

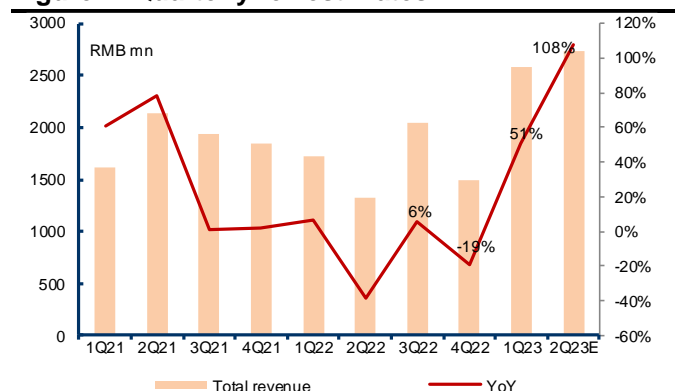
### 12-mth Price Performance



Source: Bloomberg

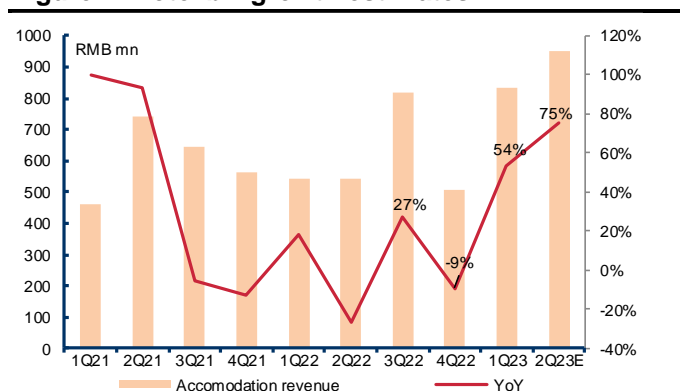
Auditor: PwC

Figure 1: Quarterly rev estimates



Source: Company data, CMBIGM estimates

Figure 2: Hotel biz growth estimates



Source: Company data, CMBIGM estimates

Figure 3: 1Q23 financial review

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	QoQ	YoY	Consensus	Diff %
Revenue	1,614	2,138	1,939	1,846	1,718	1,319	2,048	1,500	2,586	72%	51%	2,489	4%
Operating Profit	215	335	280	65	138	(128)	(39)	5	465	8381%	238%	299	55%
Net profit	170	291	226	27	101	(135)	(94)	(32)	378	NA	274%	231	64%
Adj. net profit	296	418	343	250	245	112	252	37	504	1245%	106%	418	20%
<b>Margin (%)</b>													
Gross Margin	74.7%	76.4%	73.9%	20.5%	72.5%	70.9%	74.0%	72.0%	75.0%			74.2%	
Operating Margin	13.3%	15.7%	14.4%	3.5%	8.0%	-9.7%	-1.9%	0.4%	18.0%			12.0%	
Adj. net margin	18.4%	19.5%	17.7%	13.6%	14.3%	8.5%	12.3%	2.5%	19.5%			16.8%	
<b>Growth (%)</b>													
Revenue (YoY)	60.6%	78.1%	1.3%	1.8%	6.5%	-38.3%	5.6%	-18.8%	50.5%			44.9%	
Revenue (QoQ)	-11.0%	32.5%	-9.3%	-4.8%	-7.0%	-23.2%	55.3%	-26.8%	72.4%			65.9%	
Operating Profit	-509.0%	580.7%	-4.4%	-29.6%	-36.0%	NA	NA	NA	237.7%			NA	
Adj. net profit	279.5%	113.1%	-7.9%	-18.5%	-17.3%	-73.2%	-26.6%	-85.0%	105.6%			NA	

Source: Company data, Bloomberg

Figure 4: Revenue breakdown

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	QoQ	YoY
<b>Total revenue</b>	<b>1,614</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>72%</b>	<b>51%</b>
Accommodation reservation	459	743	645	562	543	544	819	509	834	64%	54%
Transportation ticketing	1,023	1,235	1,125	1,075	1,017	620	987	756	1,383	83%	36%
Others	132	160	170	209	158	156	243	235	369	57%	134%

Source: Company data, CMBIGM

To factor in better recovery, we raised TC's FY23E earnings forecast by 10% (suggesting topline/ bottom line of +67%/188% YoY in FY23E, vs. prior ++58%/163% YoY). In the mid-to-long term, we expect higher cross-selling, long-haul travel recovery and higher online penetration of hotel to bring further upside.

Our DCF-based TP is slightly lifted to HK\$24.5 (implying 27x/22x FY23/24E P/E), considering earnings adjustment (but diluted by FX change). Our TP-implied multiple of 27x FY23E P/E is in line with that of TCOM, hence we think it is not demanding. 27x FY23E P/E is higher than industrial average, but we think TC deserves premium multiple given its above-industrial growth and better margin outlook.

**Figure 5: CMBIGM estimates vs consensus**

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	10,968	12,960	14,608	10,230	12,522	15,053	7.2%	3.5%	-3.0%
Gross Profit	8,188	9,725	10,978	7,575	9,293	11,195	8.1%	4.7%	-1.9%
Operating Profit	1,425	1,781	2,067	1,192	1,801	2,363	19.5%	-1.1%	-12.5%
Adj. net profit	1,863	2,208	2,495	1,509	1,995	2,533	23.4%	10.7%	-1.5%
Adj. EPS (RMB)	0.83	0.98	1.11	0.65	0.85	1.09	27.8%	14.9%	1.6%
Gross Margin	74.7%	75.0%	75.1%	74.1%	74.2%	74.4%	+0.6ppts	+0.8ppts	+0.8ppts
Operating Margin	13.0%	13.7%	14.1%	11.7%	14.4%	15.7%	+1.3ppts	-0.6ppts	-1.6ppts
Adj. net margin	17.0%	17.0%	17.1%	14.8%	15.9%	16.8%	+2.2ppts	+1.1ppts	+0.3ppts

Source: CMBIGM estimates, Bloomberg

**Figure 6: Earnings revision**

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	10,968	12,960	14,608	10,394	12,271	13887	5.5%	5.6%	5.2%
Gross Profit	8,188	9,725	10,978	7,752	9,200	10429	5.6%	5.7%	5.3%
Operating Profit	1,425	1,781	2,067	1,227	1,604	1930	16.2%	11.0%	7.1%
Adj. net profit	1,863	2,208	2,495	1,698	2,061	2381	9.7%	7.1%	4.8%
EPS (RMB)	0.83	0.98	1.11	0.76	0.92	1.06	9.7%	7.1%	4.8%
Gross Margin	74.7%	75.0%	75.1%	74.6%	75.0%	75.1%	+0.1ppts	+0.1ppts	+0.1ppts
Operating Margin	13.0%	13.7%	14.1%	11.8%	13.1%	13.9%	+1.2ppts	+0.7ppts	+0.3ppts
Net Margin	17.0%	17.0%	17.1%	16.3%	16.8%	17.1%	+0.6ppts	+0.2ppts	-0.1ppts

Source: Company data, CMBIGM estimates

## Figure 7: DCF valuation

DCF Valuation (Rmb mn)										
	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	2,094	2,500	2,836	3,630	4,545	5,575	6,713	7,947	9,261	10,639
Tax	(244)	(305)	(354)	(424)	(531)	(651)	(784)	(928)	(1,081)	(1,242)
D&A	394	400	279	290	302	312	321	329	336	342
Change in working capital	(1,289)	(608)	(527)	(538)	(548)	(559)	(570)	(582)	(593)	(605)
CAPEX	(200)	(200)	(200)	(210)	(221)	(232)	(243)	(255)	(268)	(281)
FCF	755	1,786	2,034	2,749	3,547	4,446	5,437	6,511	7,654	8,851
FCF Growth	NA	137%	14%	35%	29%	25%	22%	20%	18%	16%
PV	755	1,556	1,543	1,816	2,041	2,229	2,374	2,476	2,535	24,827
Terminal Value										77,197

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	42,153
minus: Net debt(Rmb mn)	(7,391)
minus: Minority interest(Rmb mn)	0
Equity Value(Rmb mn)	49,544
FX	0.90
Equity Value(HK\$ mn)	55,049
Target Price (HK\$) based on DCF	24.5

WACC						
	~	13%	14%	15%	16%	17%
Terminal growth rate	1.5%	27.2	24.8	23.1	21.0	19.5
	2.0%	27.9	25.3	23.5	21.4	19.8
	2.5%	28.6	25.9	24.0	21.7	20.1
	3.0%	29.4	26.5	24.5	22.1	20.4
	3.5%	30.2	27.1	25.0	22.5	20.7
	4.0%	31.2	27.9	25.6	22.9	21.1
	4.5%	32.3	28.7	26.3	23.4	21.5

Source: Company data, Bloomberg, CMBIGM estimates

## Figure 8: Comps table

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			EV/EBIT		
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
<b>Tongcheng Travel 780 HK</b>															
		4,340	HKD	15	BUY	24.5	16.5	13.9	12.3	2.8	2.4	2.1	22.0	14.7	11.2
<b>China Internet Giants</b>															
Alibaba	BABA US	214,452	USD	83	BUY	157	10.0	8.9	8.1	1.6	1.5	1.3	8.4	7.3	6.5
Meituan	3690 HK	103,950	HKD	130	BUY	168	50.3	26.0	15.9	2.6	2.1	1.8	NA	32.6	17.8
Average							10.0	8.9	8.1	2.1	1.8	1.5	8.4	20.0	12.2
<b>OTA</b>															
Ctrip	TCOM US	21,297	USD	33	BUY	45	27.1	17.8	14.7	4.3	3.5	3.1	28.1	18.4	15.2
Booking	BKNG US	97,412	USD	2,637	NA	NA	19.3	16.9	15.0	4.7	4.2	3.9	14.7	12.7	11.2
Expedia	EXPE US	13,947	USD	94	NA	NA	10.1	8.4	7.2	1.1	1.0	0.9	10.1	8.3	7.2
Webjet	WEB AU	1,904	AUD	8	NA	NA	26.7	21.5	20.8	6.6	5.8	5.4	19.4	15.7	15.8
TripAdvisor	TRIP US	2,224	USD	16	NA	NA	13.5	10.2	8.2	1.3	1.2	1.1	9.8	7.6	6.0
Average							19.3	15.0	13.2	2.9	2.5	2.2	16.4	12.6	11.1
<b>Travel agency</b>															
UTour	002707 CH	1,036	CNY	7	NA	NA	NA	40.3	24.5	1.2	0.7	0.5	79.9	33.4	15.8
Zhangjiajie Tourism	000430 CH	420	CNY	7	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Changbai Mountain	603099 CH	362	CNY	10	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Average							NA	40.3	24.5	1.2	0.7	0.5	79.9	33.4	15.8
<b>Hotel</b>															
H World Group	HTHT US	12,729	USD	40	NA	NA	31.5	22.9	19.4	4.5	4.0	3.6	33.7	24.8	20.4
Jinjiang Int Hotels	600754 CH	6,393	CNY	47	NA	NA	28.8	20.4	17.2	3.0	2.6	2.4	25.7	17.7	15.0
BTG Hotels Group	600258 CH	3,185	CNY	20	NA	NA	27.8	19.2	14.1	2.8	2.5	2.2	26.9	18.6	14.9
GreenTree	GHG US	447	USD	4	NA	NA	10.0	6.7	6.5	1.9	1.5	1.4	12.1	8.0	7.8
Average							24.5	17.3	14.3	3.0	2.6	2.4	24.6	17.3	14.5
Average							20.5	17.6	14.2	3.0	2.5	2.3	18.9	15.6	12.8

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>10,968</b>	<b>12,960</b>	<b>14,608</b>
Accommodation reservation	2,409	2,415	3,621	4,374	4,938
Transportation ticketing	4,458	3,379	5,766	6,689	7,431
Others	671	791	1,581	1,898	2,239
<b>COGS</b>	<b>(1,890)</b>	<b>(1,807)</b>	<b>(2,780)</b>	<b>(3,235)</b>	<b>(3,630)</b>
R&D	(1,344)	(1,414)	(1,832)	(2,229)	(2,571)
S&M	(3,036)	(2,801)	(4,233)	(4,938)	(5,493)
Administrative expenses	(572)	(701)	(697)	(778)	(847)
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>1,425</b>	<b>1,781</b>	<b>2,067</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>1,438</b>	<b>1,794</b>	<b>2,080</b>
Income tax	(161)	(46)	(244)	(305)	(354)
Less: Minority interests	10	18	0	0	0
Net profit	723	(146)	1,194	1,489	1,726
<b>Adj. net profit</b>	<b>1,308</b>	<b>646</b>	<b>1,863</b>	<b>2,208</b>	<b>2,495</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>1,438</b>	<b>1,794</b>	<b>2,080</b>
D&A	384	389	394	400	279
Change in working capital	1,328	(424)	1,289	608	527
Others	148	354	193	122	75
<b>Net cash from operating</b>	<b>2,897</b>	<b>248</b>	<b>3,559</b>	<b>3,228</b>	<b>3,314</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>3,346</b>	<b>3,015</b>	<b>3,101</b>
Exchange difference	0	0	0	0	0
Cash at the beginning of the year	1,804	4,318	4,065	7,411	10,426
<b>Cash at the end of the year</b>	<b>4,318</b>	<b>4,065</b>	<b>7,411</b>	<b>10,426</b>	<b>13,527</b>
Cash at balance sheet	2,046	4,065	7,411	10,426	13,527

### 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>13,299</b>	<b>12,844</b>	<b>12,313</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	83	97	109
<b>Current assets</b>	<b>7,373</b>	<b>9,344</b>	<b>13,688</b>	<b>17,162</b>	<b>20,648</b>
Account receivable	1,930	1,620	2,618	3,076	3,462
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	7,411	10,426	13,527
<b>Current liabilities</b>	<b>4,711</b>	<b>4,023</b>	<b>6,339</b>	<b>7,419</b>	<b>8,344</b>
Borrowings	20	20	20	20	20
Trade payables	2,207	2,529	3,892	4,529	5,082
Other payables and accruals	2,437	1,416	2,358	2,787	3,141
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>17,098</b>	<b>19,037</b>	<b>21,263</b>
Non-controlling interest	39	22	22	22	22
<b>Total equity</b>	<b>15,219</b>	<b>15,482</b>	<b>17,076</b>	<b>19,015</b>	<b>21,241</b>

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>					
Accommodation reservation	32.0	36.7	33.0	33.8	33.8
Transportation ticketing	59.1	51.3	52.6	51.6	50.9
Others	8.9	12.0	14.4	14.6	15.3
<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	74.7	75.0	75.1
PreTax Margin	11.6	-1.8	13.1	13.8	14.2
Tax Rate	17.0	18.0	17.0	17.0	17.0
Adj. net margin	17.4	9.8	17.0	17.0	17.1
<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	3523	3239	1773	1084	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	7.3	8.2	8.6
ROA	3.5	-0.7	4.8	5.2	5.5
<b>Per share data</b>					
Adj. EPS (RMB)	0.6	0.3	0.8	1.0	1.1
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	6.8	6.9	7.6	8.5	9.5

Source: Company data, CMBIGM estimates

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