

Tongcheng Travel (780 HK)

Better recovery ahead with China reopening

We turned more positive on TC's recovery ahead, backed by faster-than-expected reopening. TC would deliver upbeat 4Q22E, with better-than-feared topline and positive earnings (vs. prior -RMB51mn). With upcoming CNY Festival, travel data recovered to 70-80% of 2019 level. We see high visibility for TC to continuously gain share in FY23E, as its railway ticketing already recovered to 2019 level and air ticketing surpassed 2019 level YTD. Looking ahead, we expect rising travel frequency and long-haul travel recovery to boost TC's mid-term momentum, while outbound tourism to bring further upside. We lifted its earnings by 11-13% in FY22-24E, with higher TP at HK\$23.1 (31.8x FY23E P/E).

- **Expecting upbeat 4Q22E.** Given faster-than-expected reopening, we expect TC to see upbeat topline and bottom line in 4Q22E. We forecast its rev -21% YoY in 4Q22E (vs. prior -24% YoY), in which Dec recovered better than Nov with rising travel demand post reopening. We forecast hotel rev -10% YoY (vs. prior guidance at 10-15% decline), with room nights -20% YoY, ADR < RMB200, but take rate >9% (on lower subsidies and deeper VAS penetration). Transportation rev would decline 33% YoY in our estimates (vs. guidance at 30-35% decline), for better recovery of air ticketing and long-haul travel. Bus ticketing growth might slightly slow down, for focus shift to rev contribution from orders. Other biz rev +10% YoY with resilient PMS and M&A, in our estimates. For the bottom line, we expect 4Q22E to deliver adj. net profit of RMB12mn (vs. prior net loss of RMB51mn), with better topline and cost discipline.
- **More bullish on FY23E recovery with reopening and travel rebound.** With upcoming CNY Festival, travel data recovered to 70-80% of 2019 level. We believe TC would continuously outperform peers. Transportation would rebound ahead of hotel, in which railway ticketing recovered to 2019 level and air ticketing surpassed 2019 level YTD. Hotel biz would see rebound from Mar, in our view. Looking ahead, we expect rising travel frequency and long-haul travel recovery post reopening to boost TC's mid-term momentum, while outbound tourism would bring further upside. As such, we lifted FY23E rev forecast by 6% (rev +32.5% YoY in FY23E) to reflect better travel recovery.
- **Margin improvement trend intact.** Market concerns might lie on rising competition with higher S&M after reopening. However, we believe competition landscape has been stable already, and TC would conduct ROI-driven marketing strategy despite higher S&M budget. OTA segment would see limited threat from Douyin currently thanks to supply chain barrier. Considering continuously disciplined expenses, we expect adj. NPM up 7.5ppts YoY to 17% in FY23E, implying earnings of +137% YoY.
- **Maintain BUY.** We raised TC's FY22-24E earnings forecast by 11-13% to reflect better recovery. Maintain BUY with new DCF-based TP at HK\$23.1.

Earnings Summary

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	7,538	6,545	8,674	10,175
YoY growth (%)	27.1	(13)	32.5	17.3
Adj. net income (RMB mn)	1,296	621	1,472	1,776
Adj. EPS (RMB)	0.59	0.28	0.66	0.80
YoY growth (%)	35.9	(52)	137.1	20.6
Consensus EPS (RMB)	NA	0.21	0.53	0.71
P/E (x)	30.1	62.8	26.5	21.9
P/S (x)	4.9	5.7	4.3	3.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$23.1**
 (Previous TP **HK\$17.1**)
 Up/Downside **+23.5%**
 Current Price **HK\$18.7**

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	41,299
Avg 3 mths t/o (HK\$ mn)	104.19
52w High/Low (HK\$)	20.05/ 9.00
Total Issued Shares (mn)	2,240

Source: Bloomberg

Shareholding Structure

Tencent	21.26%
Trip.com	20.74%
T Rowe Price	4.97%

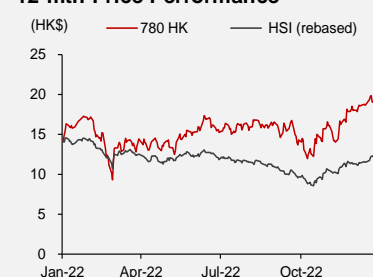
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	4.2%	-7.1%
3-mth	31.2%	0.1%
6-mth	22.9%	14.8%

Source: Bloomberg

12-mth Price Performance



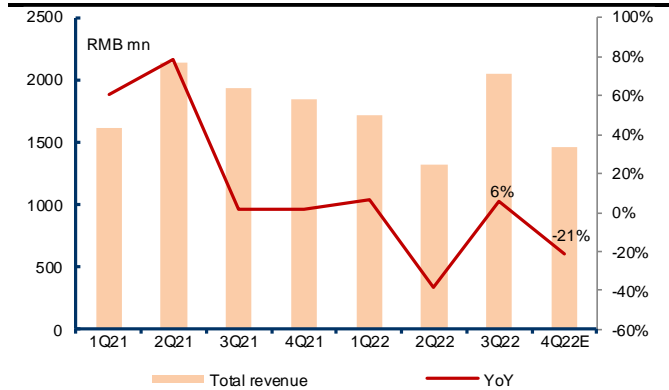
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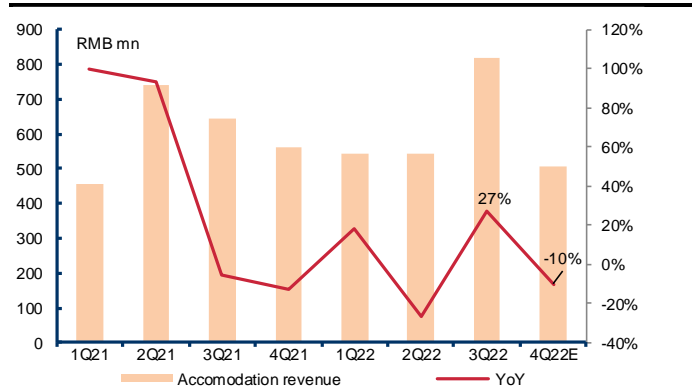
- Factoring in 4Q22E epidemic resurgence – 23 Nov 2022
- Recovery in sight – 26 Oct 2022

Figure 1: Quarterly rev estimates



Source: Company data, CMBIGM estimates

Figure 2: Hotel biz growth estimates



Source: Company data, CMBIGM estimates

Figure 3: 4Q22E financial preview

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E	QoQ	YoY	Consensus	Diff %
Revenue	1,614	2,138	1,939	1,846	1,718	1,319	2,048	1,460	-29%	-21%	1,432	2%
Operating Profit	215	335	280	65	138	(128)	(39)	(123)	NA	NA	(164)	NA
Net profit	170	291	226	27	101	(135)	(94)	(140)	NA	NA	(185)	NA
Adj. net profit	296	418	343	250	245	112	252	12	-95%	-95%	(47)	NA
Margin (%)												
Gross Margin	74.7%	76.4%	73.9%	20.5%	72.5%	70.9%	74.0%	72.0%			71.4%	
Operating Margin	13.3%	15.7%	14.4%	3.5%	8.0%	-9.7%	-1.9%	-8.4%			-11.5%	
Adj. net margin	18.4%	19.5%	17.7%	13.6%	14.3%	8.5%	12.3%	0.8%			-3.3%	
Growth (%)												
Revenue (YoY)	60.6%	78.1%	1.3%	1.8%	6.5%	-38.3%	5.6%	-20.9%			-22.4%	
Revenue (QoQ)	-11.0%	32.5%	-9.3%	-4.8%	-7.0%	-23.2%	55.3%	-28.7%			-30.1%	
Operating Profit	-509.0%	580.7%	-4.4%	-29.6%	-36.0%	NA	NA	NA			NA	
Adj. net profit	279.5%	113.1%	-7.9%	-18.5%	-17.3%	-73.2%	-26.6%	-95.1%			NA	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Revenue breakdown

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E	QoQ	YoY
Total revenue	1,614	2,138	1,939	1,846	1,718	1,319	2,048	1,460	-29%	-21%
Accommodation reservation	459	743	645	562	543	544	819	506	-38%	-10%
Transportation ticketing	1,023	1,235	1,125	1,075	1,017	620	987	725	-27%	-33%
Others	132	160	170	209	158	156	243	229	-5%	10%

Source: Company data, CMBIGM

To factor in better recovery after reopening, we raised TC's FY23E earnings forecast by 13% (suggesting topline/ bottom line of +32.5%/137% YoY in FY23E, vs. prior +26%/133% YoY). We expect rising travel frequency and long-haul travel recovery to boost TC's mid-term momentum, while cross-border tourism to bring further upside (~5% rev mix).

Our DCF-based TP is lifted from HK\$17.1 to HK\$23.1 (implying 31.8x/26.4x FY23/24E P/E), considering earnings adjustment and higher multiple after sector re-rating. Our TP-implied multiple of 31.8x FY23E P/E is still below that of TCOM (32.6x), hence we think it is not demanding. 31.8x FY23E P/E was higher than industrial average of 24x, but we think TC deserves premium multiple given its above-industrial growth (69% earnings CAGR in FY22-24E) and better margin outlook.

Figure 5: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	6,545	8,674	10,175	6,569	8,815	10,843	-0.4%	-1.6%	-6.2%
Gross Profit	4,761	6,442	7,600	4,790	6,555	8,131	-0.6%	-1.7%	-6.5%
Operating Profit	26	955	1,261	(112)	1,014	1,592	NA	-5.8%	-20.8%
Adj. net profit	621	1,472	1,776	564	1,331	1,815	10.1%	10.6%	-2.2%
Adj. EPS (RMB)	0.28	0.66	0.80	0.21	0.53	0.71	34.8%	25.5%	12.2%
Gross Margin	72.7%	74.3%	74.7%	72.9%	74.4%	75.0%	-0.2ppts	-0.1ppts	-0.3ppts
Operating Margin	0.4%	11.0%	12.4%	-1.7%	11.5%	14.7%	+2.1ppts	-0.5ppts	-2.3ppts
Adj. net margin	9.5%	17.0%	17.5%	8.6%	15.1%	16.7%	+0.9ppts	+1.9ppts	+0.7ppts

Source: CMBIGM estimates, Bloomberg

Figure 6: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	6,545	8,674	10,175	6,489	8,189	9355	0.9%	5.9%	8.8%
Gross Profit	4,761	6,442	7,600	4,719	6,073	6975	0.9%	6.1%	9.0%
Operating Profit	26	955	1,261	(50)	752	1053	NA	27.0%	19.7%
Adj. net profit	621	1,472	1,776	558	1,304	1604	11.2%	12.9%	10.7%
EPS (RMB)	0.28	0.66	0.80	0.25	0.59	0.72	11.2%	12.9%	10.7%
Gross Margin	72.7%	74.3%	74.7%	72.7%	74.2%	74.6%	+0.0ppts	+0.1ppts	+0.1ppts
Operating Margin	0.4%	11.0%	12.4%	-0.8%	9.2%	11.3%	+1.2ppts	+1.8ppts	+1.1ppts
Net Margin	9.5%	17.0%	17.5%	8.6%	15.9%	17.1%	+0.9ppts	+1.1ppts	+0.3ppts

Source: Company data, CMBIGM estimates

Figure 7: DCF valuation

DCF Valuation (Rmb mn)										
	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	1,624	1,980	2,574	3,269	4,063	4,951	5,926	6,976	8,088	9,248
Tax	(165)	(217)	(261)	(331)	(412)	(502)	(600)	(707)	(820)	(937)
D&A	394	400	420	436	454	469	483	495	505	514
Change in working capital	(614)	(470)	(479)	(489)	(498)	(508)	(519)	(529)	(539)	(550)
CAPEX	(200)	(200)	(210)	(221)	(232)	(243)	(255)	(268)	(281)	(295)
FCF	1,039	1,493	2,044	2,665	3,375	4,167	5,035	5,967	6,952	7,979
FCF Growth	NA	44%	37%	30%	27%	23%	21%	19%	17%	15%
PV	1,039	1,301	1,550	1,761	1,943	2,089	2,198	2,269	2,303	22,381
Terminal Value										69,592

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	38,835
minus: Net debt(Rmb mn)	(6,387)
minus: Minority interest(Rmb mn)	0
Equity Value(Rmb mn)	45,222
FX	0.87
Equity Value(HK\$ mn)	51,979
Target Price (HK\$) based on DCF	23.1

		WACC					
Terminal growth rate	~	13%	14%	15%	16%	17%	
	1.5%	25.7	23.4	21.8	19.9	18.5	
	2.0%	26.3	23.9	22.2	20.2	18.7	
	2.5%	26.9	24.4	22.7	20.5	19.0	
	3.0%	27.7	25.0	23.1	20.9	19.3	
	3.5%	28.5	25.6	23.6	21.3	19.6	
	4.0%	29.4	26.3	24.2	21.7	19.9	
	4.5%	30.4	27.0	24.8	22.1	20.3	

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			FY22-24 EPS
							FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	CAGR
Tongcheng Trave 780 HK																
China Internet Giants																
Alibaba	BABA US	309,788	USD	117	BUY	156	15.1	12.9	11.1	2.4	2.1	1.9	16.0	13.2	11.3	11%
Meituan	3690 HK	129,685	HKD	164	BUY	216	NA	63.2	29.9	4.0	3.2	2.5	NA	NA	37.9	338%
Average							15.1	12.9	11.1	3.2	2.6	2.2	16.0	13.2	24.6	11%
OTA																
Ctrip	TCOM US	24,085	USD	38	BUY	40	NA	32.6	19.4	8.1	5.4	4.1	NA	41.6	22.2	228%
Booking	BKNG US	89,268	USD	2,301	NA	NA	23.7	19.4	16.6	5.3	4.7	4.2	17.6	14.9	12.8	23%
Expedia	EXPE US	16,560	USD	106	NA	NA	14.6	11.5	9.4	1.4	1.3	1.2	12.5	9.8	8.2	28%
Webjet	WEB AU	1,761	AUD	7	NA	NA	52.3	23.8	19.1	7.6	6.0	5.3	35.7	17.7	14.5	54%
TripAdvisor	TRIP US	3,002	USD	21	NA	NA	35.0	15.2	11.2	2.0	1.8	1.6	19.9	12.4	8.7	75%
Average							31.4	20.5	15.1	4.9	3.8	3.3	21.5	19.3	13.3	45%
Travel agency																
UTour	002707 CH	1,371	CNY	9	NA	NA	NA	NA	NA	11.6	1.5	0.8	NA	NA	57.7	NA
Zhangjiajie Tourism	000430 CH	473	CNY	8	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Changbai Mountair	603099 CH	380	CNY	10	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Average							NA	NA	NA	11.6	1.5	0.8	NA	NA	57.7	NA
Hotel																
H World Group	HTHT US	15,108	USD	48	NA	NA	NA	46.5	29.7	7.3	5.5	4.7	NA	46.6	29.6	NA
Jinjiang Int Hotels	600754 CH	8,013	CNY	57	NA	NA	NA	33.6	22.9	4.8	3.6	3.1	NA	26.3	18.6	283%
BTG Hotels Group	600258 CH	3,965	CNY	24	NA	NA	NA	31.3	22.1	5.0	3.4	2.9	NA	28.0	19.7	NA
GreenTree	GHG US	403	USD	4	NA	NA	NA	10.7	7.5	2.6	2.0	1.8	NA	7.8	5.7	NA
Average							NA	30.5	20.5	4.9	3.6	3.1	NA	27.2	18.4	NA
Average							33.9	24.0	17.3	5.2	3.4	2.9	20.4	21.8	20.6	38%

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	5,933	7,538	6,545	8,674	10,175
Accommodation reservation	1,945	2,409	2,412	3,006	3,594
Transportation ticketing	3,471	4,458	3,348	4,647	5,355
Others	516	671	785	1,021	1,225
COGS	(1,697)	(1,890)	(1,784)	(2,232)	(2,575)
R&D	(1,246)	(1,344)	(1,263)	(1,579)	(1,852)
S&M	(2,131)	(3,036)	(2,877)	(3,348)	(3,877)
Administrative expenses	(522)	(572)	(595)	(560)	(610)
Fair value change	65	124	0	0	0
Other income	99	98	0	0	0
Other gains/(losses).net	21	69	0	0	0
Operating profit	382	895	26	955	1,261
Finance income	23	12	13	13	13
Other income, net	(7)	(33)	0	0	0
Pre-tax profit	398	875	39	968	1,274
Income tax	(72)	(161)	(7)	(165)	(217)
Less: Minority interests	2	10	0	0	0
Net profit	328	723	32	803	1,057
Adj. net profit	954	1,296	621	1,472	1,776

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before tax	398	875	39	968	1,274
D&A	379	384	389	394	400
Change in working capital	(525)	336	(157)	614	470
Others	(188)	148	588	353	299
Net cash from operating	136	1,904	866	2,494	2,658
Capex & investments	(200)	(200)	(200)	(200)	(200)
ST investments payments	(247)	(124)	0	0	0
ST investments proceeds	0	0	0	0	0
Other	(326)	130	0	0	0
Net cash from investing	(773)	(194)	(200)	(200)	(200)
Equity raised	0	0	0	0	0
Change of debts	(77)	0	0	0	0
Others	254	(12)	(13)	(13)	(13)
Net cash from financing	177	(12)	(13)	(13)	(13)
Net change in cash	(461)	1,698	653	2,281	2,445
Exchange difference	(6)	0	0	0	0
Cash at the beginning of the year	2,271	1,804	3,503	4,155	6,436
Cash at the end of the year	1,804	3,503	4,155	6,436	8,882
Cash at balance sheet	1,804	3,503	4,155	6,436	8,882

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	10,284	9,918	9,457	9,007	8,549
PP&E	1,226	1,313	1,395	1,472	1,543
Investments	389	389	389	389	389
Land use right	0	16	16	16	16
Intangible assets	7,481	6,961	6,421	5,881	5,341
Deferred income tax assets	216	216	216	216	216
Prepayment & other receivables	6	57	54	67	77
Current assets	8,830	10,154	10,620	13,377	16,168
Account receivable	2,020	1,792	1,606	2,082	2,428
Short-term investments	4,913	4,767	4,767	4,767	4,767
Restricted cash	92	92	92	92	92
Cash and cash equivalent	1,804	3,503	4,155	6,436	8,882
Current liabilities	4,234	4,393	4,047	5,150	5,976
Borrowings	49	49	49	49	49
Trade payables	2,001	2,646	2,497	3,125	3,605
Other payables and accruals	2,120	1,621	1,407	1,865	2,188
Current income taxes liabilities	64	77	93	111	134
Non-current liabilities	863	863	863	863	863
Borrowings	113	113	113	113	113
Deferred income tax liabilities	529	529	529	529	529
Other payables and accruals	221	221	221	221	221
Total net assets	14,017	15,063	15,416	16,619	18,126
Non-controlling interest	3	(7)	(7)	(7)	(7)
Total equity	14,014	15,070	15,423	16,626	18,133

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Accommodation reservation	32.8	32.0	36.8	34.7	35.3
Transportation ticketing	58.5	59.1	51.2	53.6	52.6
Others	8.7	8.9	12.0	11.8	12.0
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross Margin	71.4	74.9	72.7	74.3	74.7
PreTax Margin	6.7	11.6	0.6	11.2	12.5
Tax Rate	17.0	17.0	18.0	17.0	17.0
Adj. net margin	16.1	17.2	9.5	17.0	17.5
Balance sheet ratios					
Current ratio (x)	2.1	2.3	2.6	2.6	2.7
Debtors turnover days	57.3	54.8	54.8	54.8	54.8
Creditors turnover days	2985	2293	1888	1101	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
Returns (%)					
ROE	2.4	5.0	0.2	5.0	6.1
ROA	1.7	3.6	0.2	3.8	4.5
Per share data					
Adj. EPS (RMB)	0.4	0.6	0.3	0.7	0.8
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	6.3	6.8	7.0	7.5	8.2

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

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CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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