

Tongcheng Travel (780 HK)

More bullish on 2H23E momentum

Given low base and pent-up travel demand, TC delivered eye-catching 2Q23 results, with rev 4% above consensus and bottom line 23% above consensus. We turned more bullish on TC's 2H23E momentum, backed by strong travel demand and its share gain. We forecast 3Q23E rev +56% YoY (8% above consensus), with adj. NPM at 18%. Upcoming Mid-Autumn Festival and National Day Golden Week would be short-term catalysts to boost sector sentiment. We believe OTA would be more resilient to macro, and Douyin's competition would be manageable. We see high visibility for TC to deliver 20% YoY growth in FY24E, with long-haul travel and outbound tourism recovery. We raised FY23-25E earnings by 13-15%, to reflect faster recovery pace (on strong local hotel, short-haul travel, etc.). Maintain BUY with higher TP at HK\$25.1 (25x FY23E P/E).

- **2Q23 all-round beat.** TC delivered another upbeat quarter, with rev +117% YoY (4%/5% above consensus/our estimates) and bottom line at RMB592mn (23% above consensus, on better topline and GPM). By segment, hotel rev +94% YoY (11% above our estimate), while transportation rev +141% YoY (5% above our estimates).
- **Riding on continuous pent-up travel demand in 2H23E.** We are more bullish on TC's 2H23E recovery pace, with pent-up travel demand, effective user expansion and its outperformance with low-tier cities penetration. We forecast 3Q23E rev +56% YoY (+55% vs. 2019 level; 8% above consensus), in which transportation/ hotel/others rev +67%/31%/90% YoY. Hotel solid momentum would continue, with room nights >+50% YoY, ADR up to >RMB220 (sequential growth). Its take rate might be slightly diluted by higher summer subsidies and limited competition (forecasting 8.3% in 3Q23E), but largely anticipated by the market. TC will slightly increase its S&M (e.g. cooperation with Huawei) to boost orders and acquire users in 2H23E. As such, we expect 3Q23E adj. NPM at 18% (vs. 20.7% in 2Q23), suggesting adj. NP at RMB570mn (14% above consensus).
- **Solid growth visibility into 2024E.** We believe OTA would be more resilient to macro. Given its supply chain barrier and relatively low frequency, TC would see limited and manageable impact from Douyin's competition. Looking into FY24E, we forecast its rev +20% YoY, with intact margin. Outbound tourism might bring further upside.
- **Maintain BUY.** We raised TC's FY23-25E earnings forecast by 13-15% to reflect better recovery. Maintain BUY with new 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	0.84	0.99	1.18
P/E (x)	55.0	16.6	13.9	12.1
P/S (x)	5.5	3.1	2.6	2.2
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\$24.5)
Up/Downside	+45.9%
Current Price	HK\$17.2

China Entertainment Sector

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Stock Data

Mkt Cap (HK\$ mn)	38,264
Avg 3 mths t/o (HK\$ mn)	71.01
52w High/Low (HK\$)	20.40/ 11.62
Total Issued Shares (mn)	2,251

Source: Bloomberg

Shareholding Structure

Tencent	21.2%
Trip.com	20.6%
T Rowe Price	5.0%

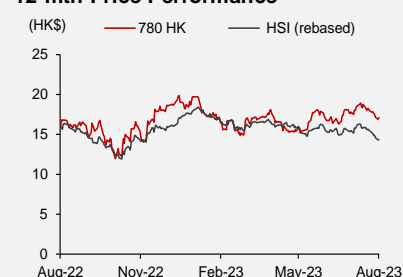
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-5.1%	2.8%
3-mth	9.6%	21.0%
6-mth	1.9%	18.7%

Source: Bloomberg

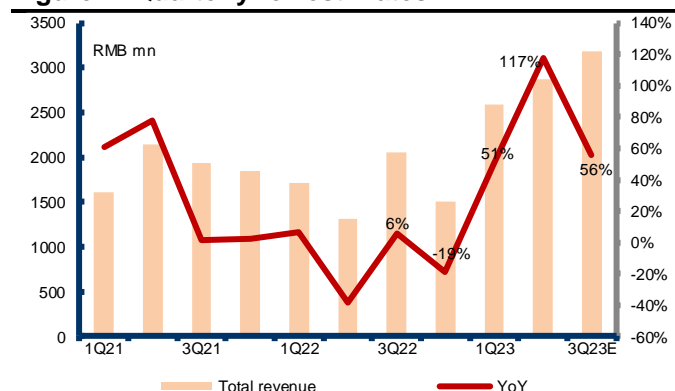
12-mth Price Performance



Source: Bloomberg

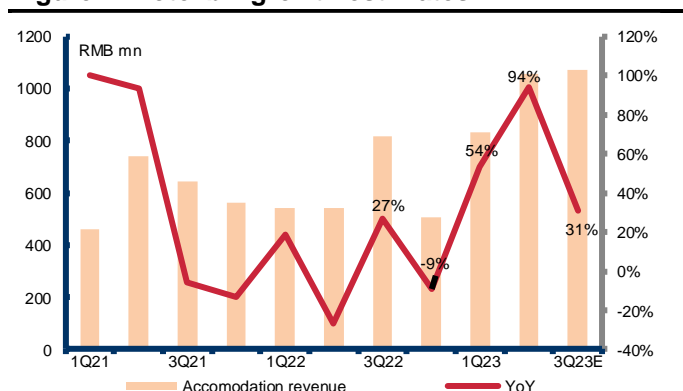
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Figure 1: Quarterly rev estimates



Source: Company data, CMBIGM estimates

Figure 2: Hotel biz growth estimates



Source: Company data, CMBIGM estimates

Figure 3: 2Q23 financial review

RMB mn	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	QoQ	YoY	Consensus	Diff %
Revenue	2,138	1,939	1,846	1,718	1,319	2,048	1,500	2,586	2,866	11%	117%	2,746	4%
Operating Profit	335	280	65	138	(128)	(39)	5	465	417	-10%	NA	387	8%
Net profit	291	226	27	101	(135)	(94)	(32)	378	360	-5%	NA	313	15%
Adj. net profit	418	343	250	245	112	252	37	504	592	18%	429%	480	23%
Margin (%)													
Gross Margin	76.4%	73.9%	20.5%	72.5%	70.9%	74.0%	72.0%	75.0%	75.5%			74.8%	
Operating Margin	15.7%	14.4%	3.5%	8.0%	-9.7%	-1.9%	0.4%	18.0%	14.6%			14.1%	
Adj. net margin	19.5%	17.7%	13.6%	14.3%	8.5%	12.3%	2.5%	19.5%	20.7%			17.5%	
Growth (%)													
Revenue (YoY)	78.1%	1.3%	1.8%	6.5%	-38.3%	5.6%	-18.8%	50.5%	117.4%			59.8%	
Revenue (QoQ)	32.5%	-9.3%	-4.8%	-7.0%	-23.2%	55.3%	-26.8%	72.4%	10.8%			83.1%	
Operating Profit	580.7%	-4.4%	-29.6%	-36.0%	NA	NA	NA	237.7%	424.7%			NA	
Adj. net profit	113.1%	-7.9%	-18.5%	-17.3%	-73.2%	-26.6%	-85.0%	105.6%	428.9%			NA	

Source: Company data, Bloomberg

Figure 4: Revenue breakdown

RMB mn	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	QoQ	YoY
Total revenue	2,138	1,939	1,846	1,718	1,319	2,048	1,500	2,586	2,866	11%	117%
Accommodation reservation	743	645	562	543	544	819	509	834	1,055	27%	94%
Transportation ticketing	1,235	1,125	1,075	1,017	620	987	756	1,383	1,495	8%	141%
Others	160	170	209	158	156	243	235	369	316	-14%	103%

Source: Company data, CMBIGM

To factor in 2Q23 stronger momentum and better guidance, we raised TC's FY23-25E earnings forecast by 13%-15% (suggesting topline/ bottom line of +76%/225% YoY in FY23E). Upcoming Mid-Autumn Festival and National Day Golden Week would be short-term catalysts to boost sector sentiment. In the long term, long-haul travel recovery, outbound tourism and other services will bring further upside.

Our DCF-based TP is lifted from HK\$24.5 to HK\$25.1 (implying 25x/21x FY23/24E P/E), considering earnings adjustment. 25x FY23E P/E is slightly higher than industrial average of 23x, but we think TC deserves premium multiple given its resilience on macro, above-industrial growth and high visibility on earnings.

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	11,039	13,463	15,707	5.0%	3.4%	2.2%
Gross Profit	8,739	10,529	12,155	8,253	10,071	11,799	5.9%	4.5%	3.0%
Operating Profit	1,713	2,133	2,526	1,508	2,031	2,540	13.6%	5.0%	-0.5%
Adj. net profit	2,102	2,500	2,877	1,906	2,358	2,826	10.3%	6.0%	1.8%
Adj. EPS (RMB)	0.94	1.11	1.28	0.84	0.99	1.18	11.1%	12.5%	8.2%
Gross Margin	75.4%	75.6%	75.7%	74.8%	74.8%	75.1%	+0.7ppts	+0.8ppts	+0.6ppts
Operating Margin	14.8%	15.3%	15.7%	13.7%	15.1%	16.2%	+1.1ppts	+0.2ppts	-0.4ppts
Adj. net margin	18.1%	18.0%	17.9%	17.3%	17.5%	18.0%	+0.9ppts	+0.4ppts	-0.1ppts

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	11,587	13,924	16,047	10,968	12,960	14,608	5.6%	7.4%	9.9%
Gross Profit	8,739	10,529	12,155	8,188	9,725	10,978	6.7%	8.3%	10.7%
Operating Profit	1,713	2,133	2,526	1,425	1,781	2,067	20.2%	19.8%	22.2%
Adj. net profit	2,102	2,500	2,877	1,863	2,208	2,495	12.8%	13.2%	15.3%
EPS (RMB)	0.94	1.11	1.28	0.83	0.98	1.11	12.8%	13.2%	15.3%
Gross Margin	75.4%	75.6%	75.7%	74.7%	75.0%	75.1%	+0.8ppts	+0.6ppts	+0.6ppts
Operating Margin	14.8%	15.3%	15.7%	13.0%	13.7%	14.1%	+1.8ppts	+1.6ppts	+1.6ppts
Net Margin	18.1%	18.0%	17.9%	17.0%	17.0%	17.1%	+1.2ppts	+0.9ppts	+0.8ppts

Source: Company data, CMBIGM estimates

Figure 7: DCF valuation

DCF Valuation (Rmb mn)										
	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	2,382	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 8: Comps table

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	CAGR
Tongcheng Travel	780 HK	4,878	HKD	17	BUY	25	16.6	13.9	12.1	3.1	2.6	2.2	17%
China Internet Giants													
Alibaba	BABA US	225,271	USD	89	BUY	157	9.8	9.2	8.4	1.7	1.6	1.4	12%
Meituan	3690 HK	101,095	HKD	127	BUY	172	39.4	23.5	15.7	2.6	2.1	1.8	57%
Average							9.8	9.2	8.4	2.2	1.9	1.6	34%
OTA													
Ctrip	TCOM US	24,360	USD	38	BUY	46	20.7	17.2	14.3	4.2	3.5	3.1	19%
Booking	BKNG US	108,932	USD	3,052	NA	NA	20.7	18.3	16.1	5.2	4.7	4.2	18%
Expedia	EXPE US	15,493	USD	108	NA	NA	10.8	9.4	8.1	1.2	1.1	1.0	24%
Webjet	WEB AU	1,867	AUD	8	NA	NA	25.0	20.0	17.2	6.1	5.3	4.8	20%
TripAdvisor	TRIP US	2,135	USD	15	NA	NA	14.9	10.4	8.5	1.2	1.1	1.0	31%
Average							18.4	15.1	12.8	2.9	2.6	2.3	22%
Travel agency													
UTour	002707 CH	1,086	CNY	8	NA	NA	NA	37.8	26.1	1.6	0.8	0.6	177%
Zhangjiajie Tourism	000430 CH	415	CNY	7	NA	NA	NA	NA	NA	NA	NA	NA	NA
Changbai Mountain	603099 CH	473	CNY	13	NA	NA	32.5	24.5	19.4	6.1	4.8	4.1	30%
Average							32.5	31.2	22.7	3.8	2.8	2.3	103%
Hotel													
H World Group	HTHT US	13,739	USD	43	NA	NA	29.9	25.4	21.4	4.8	4.4	4.0	20%
Jinjiang Int Hotels	600754 CH	5,747	CNY	44	NA	NA	28.1	19.4	15.6	2.8	2.4	2.2	34%
BTG Hotels Group	600258 CH	2,808	CNY	18	NA	NA	26.8	18.4	15.2	2.6	2.3	2.1	30%
GreenTree	GHG US	590	USD	6	NA	NA	13.3	9.4	9.0	2.5	2.1	1.9	21%
Average							24.5	18.1	15.3	3.2	2.8	2.6	26%
Average							22.7	18.7	15.0	3.3	2.8	2.5	24%

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	7,538	6,585	11,587	13,924	16,047
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
COGS	(1,890)	(1,807)	(2,847)	(3,395)	(3,893)
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
Operating profit	895	(24)	1,713	2,133	2,526
Finance income	12	(79)	13	13	13
Other income, net	(33)	(14)	0	0	0
Pre-tax profit	875	(117)	1,726	2,146	2,539
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
Adj. net profit	1,308	646	2,102	2,500	2,877

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before tax	875	(117)	1,726	2,146	2,539
D&A	384	389	394	400	279
Change in working capital	1,328	(424)	1,398	724	663
Others	148	354	95	2	(82)
Net cash from operating	2,897	248	3,907	3,637	3,831
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)
Net cash from investing	(322)	(580)	(200)	(200)	(200)
Equity raised	0	0	0	0	0
Change of debts	(49)	0	0	0	0
Others	(12)	79	(13)	(13)	(13)
Net cash from financing	(62)	79	(13)	(13)	(13)
Net change in cash	2,513	(253)	3,694	3,424	3,618
Exchange difference	0	0	0	0	0
Cash at the beginning of the year	1,804	4,318	4,065	7,759	11,183
Cash at the end of the year	4,318	4,065	7,759	11,183	14,801
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
Non-current assets	14,133	13,733	13,301	12,849	12,321
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
Current assets	7,373	9,344	14,153	18,119	22,230
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
Current liabilities	4,711	4,023	6,567	7,850	9,020
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
Non-current liabilities	1,536	1,536	1,536	1,536	1,536
Borrowings	94	94	94	94	94
Deferred income tax liabilities	497	497	497	497	497
Other payables and accruals	946	946	946	946	946
Total net assets	15,259	15,504	17,337	19,568	22,176
Non-controlling interest	39	22	22	22	22
Total equity	15,219	15,482	17,315	19,546	22,154

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
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
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
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
Balance sheet ratios					
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
Returns (%)					
ROE	4.9	-1.0	8.7	9.7	10.1
ROA	3.5	-0.7	5.7	6.1	6.4
Per share data					
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

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