

Tongcheng-Elong (780 HK)

Solid recovery; Moving into 2021 outlook

Tongcheng-Elong delivered upbeat 3Q20 results but soft 4Q20 rev guidance. 3Q20 revenue/ adj. net profit -7% YoY/-11% YoY, 1%/1% above consensus. 4Q20 rev guidance missed 5%, while adj. net profit guidance beat 8%. Mgmt guided 33% YoY paying users growth in 2021E (vs. 2019), coupled with faster growth of hotel. We slightly trimmed earnings by 0%/4%/1% in FY20/21/22E with unchanged TP at HK\$19 (19x FY21E P/E) for higher industry multiple.

- **Upbeat 3Q20, while 4Q20 rev guidance is soft.** 3Q20 revenue -7% YoY, 1%/1% above our estimate/ consensus. Non-GAAP net profit -11% YoY, 4%/1% above our estimate/ consensus. 4Q20E guidance came in at -5% to 0% YoY (vs. consensus +2% YoY), and bottom line was stated at RMB300mn-RMB350mn (vs. consensus RMB301mn). As we estimated in preview report, 4Q20E topline growth would be dragged by: 1) high comps with early CNY, overseas business and pre-purchase hotel; and 2) occasional COVID-19 cases. 4Q20E earnings keep intact for its disciplined expenses.
- **Above-industry recovery with strong presence in lower-tier cities.** TC's transportation/ hotel rev -1%/-7% YoY in 3Q20 (vs. our estimate of -6%/-9%). In 3Q20, lower-tier cities recovered faster, with room nights nearly +30% YoY. For transportation, TC recorded over 80% YoY in bus ticketing and over 20% in domestic air ticketing volume. With stable traffic on Weixin and diversified marketing channels, TC's MAU +5% YoY and MPU +60% QoQ (fully recovered YoY). Offline channels contributed 11% of MPU in 3Q.
- **Looking beyond 4Q20E; expecting stronger 2021 than 2019.** For 4Q20E, TC guided rev -5% to 0% YoY (+3% to 8% YoY if excluding international & pre-purchase), with hotel growth of 2% to 7% YoY (10% to 15% YoY with the exclusion), driven by recovering travel, cross-selling, offline user acquisition, and narrowed ADR decrease. Transportation rev -5% to -10% YoY (0% to +15% YoY with the exclusion), dragged by decreased VAS revenue in cross-selling and time difference in CNY. Other rev +5% to 10%, driven by recovering ads and new business. Mgmt guided 33% paying users growth in 2021E (vs. 2019), coupled with faster growth of hotel.
- **Maintain BUY.** We slightly trimmed earnings by 0%/4%/1% in FY20/21/22E with unchanged TP at HK\$19 (19x FY21E P/E), in line with industry average multiple. Despite short-term topline drag, we keep positive on TC's better-than-industry recovery and productivity enhancement in the long run.

Earnings Summary

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	7,393	6,038	9,248	10,926
YoY growth (%)	NA	-18.3	53.2	18.1
Adj. net income (RMB mn)	1,544	970	1,896	2,449
Adj. EPS (RMB)	0.74	0.47	0.91	1.18
YoY growth (%)	68.6	-37.2	95.5	29.1
Consensus EPS (RMB)	NA	0.47	0.91	1.11
P/E (x)	18.0	28.7	14.7	11.4
P/B (x)	0.4	0.4	0.4	0.3
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	5.6	3.7	7.5	10.5
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	+30%
Current Price	HK\$14.6

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	31,708
Avg 3 mths t/o (HK\$ mn)	111.04
52w High/Low (HK\$)	16.48/ 8.74
Total Issued Shares (mn)	2,169

Source: Bloomberg

Shareholding Structure

Tencent	22.0%
Trip.com	21.4%
Suzhou Industrial Park	7.7%

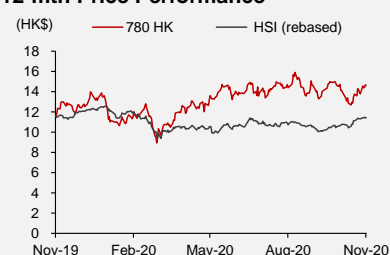
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.0%	-6.0%
3-mth	-0.1%	-4.6%
6-mth	10.7%	2.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. Solid 3Q20E ahead – 22 Oct 2020
2. Earnings intact despite mixed 3Q guidance – 31 Aug 2020
3. Solid recovery ahead – 28 Jul 2020

Figure 1: 3Q20 financial review

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY	Consensus	Diff %
Revenue	1,783	1,591	2,062	1,956	1,005	1,200	1,915	59.5%	-7.2%	1,901	1%
Operating Profit	187	218	347	107	(53)	49	293	495.8%	-15.6%	252	16%
Net profit	97	199	294	97	(56)	55	248	353.0%	-15.7%	232	7%
Adj. net profit	448	346	419	331	78	196	373	89.9%	-11.1%	367	1%
Margin (%)											
Gross Margin	72.1%	64.7%	66.9%	70.6%	65.0%	72.3%	72.0%			70.5%	
Operating Margin	10.5%	13.7%	16.8%	5.5%	-5.2%	4.1%	15.3%			13.2%	
Adj. net margin	25.1%	21.7%	20.3%	16.9%	7.8%	16.3%	19.5%			19.3%	
Growth (%)											
Revenue (YoY)	17.5%	21.0%	22.3%	24.4%	-43.6%	-24.6%	-7.2%			-7.8%	
Revenue (QoQ)	13.4%	-10.8%	29.6%	-5.1%	-48.6%	19.4%	59.5%			58.4%	
Operating Profit	NA	242.9%	232.2%	201.7%	-128.1%	-77.5%	-15.6%			-27.5%	
Adj. net profit	8.7%	60.0%	33.2%	67.7%	-82.6%	-43.2%	-11.1%			-12.4%	

Source: Company data, Bloomberg

Figure 2: Revenue breakdown

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY
Total revenue	1,783	1,591	2,062	1,956	1,005	1,200	1,915	60%	-7%
Accommodation reservation	489	553	694	622	229	384	685	78%	-1%
Transportation ticketing	1,259	937	1,140	1,182	687	726	1,055	45%	-7%
Others	35	100	229	153	89	90	175	94%	-24%

Source: Company data

Figure 3: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	6,038	9,248	10,926	6,116	9,121	11,111	-1.3%	1.4%	-1.7%
Gross Profit	4,222	6,549	7,778	4,267	6,386	7,818	-1.1%	2.6%	-0.5%
Operating Profit	588	1,273	1,959	527	1,496	2,064	11.6%	-14.9%	-5.1%
Adj. net profit	970	1,896	2,449	1,011	2,003	2,475	-4.1%	-5.3%	-1.1%
Adj. EPS (RMB)	0.47	0.91	1.18	0.47	0.91	1.11	-0.4%	0.2%	6.0%
Gross Margin	69.9%	70.8%	71.2%	69.8%	70.0%	70.4%	+0.1ppts	+0.8ppts	+0.8ppts
Operating Margin	9.7%	13.8%	17.9%	8.6%	16.4%	18.6%	+1.1ppts	-2.6ppts	-0.6ppts
Adj. net margin	16.1%	20.5%	22.4%	16.5%	22.0%	22.3%	-0.5ppts	-1.5ppts	+0.1ppts

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	6,038	9,248	10,926	6,113	9,330	11,017	-1.2%	-0.9%	-0.8%
Gross Profit	4,222	6,549	7,778	4,264	6,646	7,844	-1.0%	-1.5%	-0.8%
Operating Profit	588	1,273	1,959	590	1,373	1,977	-0.3%	-7.3%	-0.9%
Adj. net profit	970	1,896	2,449	971	1,979	2,464	-0.1%	-4.2%	-0.6%
Adj. EPS (RMB)	0.47	0.91	1.18	0.47	0.95	1.19	-0.1%	-4.2%	-0.6%
Gross Margin	69.9%	70.8%	71.2%	69.7%	71.2%	71.2%	+0.2ppts	-0.4ppts	-0.0ppts
Operating Margin	9.7%	13.8%	17.9%	9.7%	14.7%	17.9%	+0.1ppts	-1.0ppts	-0.0ppts
Adj. net margin	16.1%	20.5%	22.4%	15.9%	21.2%	22.4%	+0.2ppts	-0.7ppts	+0.0ppts

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,256	7,393	6,038	9,248	10,926
Accommodation reservation	1,830	4,518	3,755	5,474	6,091
Transportation ticketing	3,233	2,358	1,721	3,162	3,557
Others	193	517	562	612	1,278
COGS	(1,601)	(2,318)	(1,816)	(2,699)	(3,148)
R&D	(1,350)	(1,519)	(1,256)	(1,831)	(2,054)
S&M	(1,841)	(2,246)	(1,917)	(2,759)	(2,961)
Administrative expenses	(935)	(625)	(461)	(686)	(804)
Fair value change	79	106	0	0	0
Other income	33	89	0	0	0
Other gains/(losses).net	48	(20)	0	0	0
Operating profit	(311)	860	588	1,273	1,959
Finance income	10	35	13	13	13
Other income, net	903	(13)	0	0	0
Pre-tax profit	602	882	601	1,286	1,972
Income tax	(67)	(195)	(102)	(219)	(335)
Less: Minority interests	(5)	2	0	0	0
Net profit	530	688	499	1,067	1,637
Adj. net profit	916	1,544	970	1,896	2,449

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	602	882	601	1,286	1,972
D&A	297	335	379	384	389
Change in working capital	2,024	(212)	(539)	1,118	577
Others	(629)	497	(204)	(79)	(329)
Net cash from operating	2,361	1,696	339	2,927	2,944
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
Net cash from investing	(1,400)	(2,955)	(320)	(200)	(200)
Equity raised	1,240	0	0	0	0
Change of debts	(20)	68	0	0	0
Others	260	305	0	0	0
Net cash from financing	1,481	373	0	0	0
Net change in cash	2,441	(886)	19	2,727	2,744
Exchange difference	1	13	0	0	0
Cash at the beginning of the year	702	3,144	2,271	2,290	5,017
Cash at the end of the year	3,144	2,271	2,290	5,017	7,761
Cash at balance sheet	3,144	2,271	2,290	5,017	7,761

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	9,294	9,792	9,384	9,227	9,241
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	54	81	94
Current assets	7,497	9,691	8,690	12,208	15,360
Account receivable	1,381	2,666	1,541	2,332	2,741
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	2,290	5,017	7,761
Current liabilities	4,534	5,606	3,990	5,925	6,924
Borrowings	20	107	107	107	107
Trade payables	2,569	3,429	2,543	3,779	4,408
Other payables and accruals	1,815	2,035	1,298	1,988	2,349
Current income taxes liabilities	131	35	42	50	60
Non-current liabilities	729	726	726	726	726
Borrowings	153	133	133	133	133
Deferred income tax liabilities	570	568	568	568	568
Other payables and accruals	7	25	25	25	25
Total net assets	11,528	13,152	13,651	14,718	16,355
Non-controlling interest	(8)	(5)	(5)	(5)	(5)
Total equity	11,535	13,156	13,656	14,723	16,360

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Accommodation reservation	34.8	61.1	62.2	59.2	55.7
Transportation ticketing	61.5	31.9	28.5	34.2	32.6
Others	3.7	7.0	9.3	6.6	11.7
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross Margin	69.5	68.6	69.9	70.8	71.2
PreTax Margin	11.4	11.9	10.0	13.9	18.0
Tax Rate	10.0	17.0	17.0	17.0	17.0
Adj. net margin	17.4	20.9	16.1	20.5	22.4
Balance sheet ratios					
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	2156.2	1107.0	511.0
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	13.9	5.6	3.7	7.5	10.5
ROA	4.8	3.8	2.7	5.4	7.1
Per share data					
Adj. EPS (RMB)	0.4	0.7	0.5	0.9	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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