

# Tongcheng-Elong (780 HK)

## 2Q21E rebound in sight

Tongcheng-Elong ("TC") delivered better-than-feared 4Q20 results, with revenue/adj. net profit -7%/-7% YoY, 0%/7% above consensus. Mgmt guided 1Q21E rev down 10-15% (vs. 1Q19), midpoint 2.5% above consensus. Despite small wave in CNY, travel data in Mar saw V-shaped rebound, and mgmt. showed confidence in upcoming holiday performance. We think the market has well anticipated 1Q21E drag by epidemic uncertainty, and we suggest to move into 2Q21E rebound. We keep our earnings forecast unchanged, and maintain TP of HK\$21.0.

- **4Q20 margin beat.** TC 4Q20 rev/ adj. net profit declined 7%/ 7% YoY, 0%/7% above consensus. 1Q21E guidance beat 2.5%. We view this result as better-than-feared, and suggest to buy on dips as TC is one of the few names with attractive valuation, high recovery visibility, and low regulation risk.
- **Expecting 2Q21E rebound.** Mgmt stated that travel data in Jan & Feb 2021 was below expectation, as government ramped up COVID-19 restrictions (e.g. "stay-in-cities" advice in CNY). Low-tier cities hotel and short-distance travel are still resilient. Mgmt guided 1Q21E rev down 10-15% (vs. 1Q19) and bottom line at RMB220mn-270mn. We estimate transportation/ hotel rev +38%/+92% YoY (or -19%/-10%, vs. 1Q19) in 1Q21E. We think soft 1Q21E has been well priced in, and expect to see 2Q21E rebound, as V-shaped recovery in Mar was faster than expected, according to mgmt. We forecast 2Q20E to see positive rev growth (vs. 2Q19), and upcoming holiday & vaccine progress could be further catalysts.
- **Eyes on MPU and hotel expansion.** Mgmt reiterated its MPU priority in 2021, targeting APU at 200mn in FY21E (+30%, vs. FY19). User acquisition would derive from: 1) offline promotions, e.g. QR code and bus ticketing; and 2) branding and multichannel marketing (e.g. cooperation with Kuaishou). Then, we expect further cross-selling to bring LT value (cross-selling ratio at 11%, targeting 14-15% in FY21E). Hotel expansion would be another key focus, given stronger demand from supply chain under COVID-19. Lower tier cities have contributed over 60% room nights, and we forecast domestic room nights +40% in FY21E, vs. FY19. 2021E ADR would be still below 2019 level, but VAS enrichment could boost rev growth.
- **Maintain BUY.** We keep our earnings forecast and TP at HK\$21 unchanged. Valuation at 14x FY22E P/E is attractive. Suggest to look beyond 4Q20 & 1Q21E. Vaccine progress and 2Q21E rebound could be further catalysts.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,933	8,563	10,659	13,063
YoY growth (%)	(19.8)	44.3	24.5	22.5
Adj. net income (RMB mn)	954	1,517	2,136	2,776
Adj. EPS (RMB)	0.43	0.68	0.96	1.25
YoY growth (%)	(38.2)	59.0	40.8	30.0
Consensus EPS (RMB)	NA	0.74	1.00	1.09
P/E (x)	30.2	19.0	13.5	10.4
P/B (x)	1.4	1.3	1.1	1.0
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	2.4	4.7	8.2	10.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$21.0**  
 (Previous TP **HK\$21.0**)  
 Up/Downside **+34.6%**  
 Current Price **HK\$15.7**

### China Internet Sector

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### Stock Data

Mkt Cap (HK\$ mn)	35,329
Avg 3 mths t/o (HK\$ mn)	159.98
52w High/Low (HK\$)	19.20/ 9.65
Total Issued Shares (mn)	2,192

Source: Bloomberg

### Shareholding Structure

Tencent	21.7%
Trip.com	21.2%
Suzhou Industrial Park	6.9%

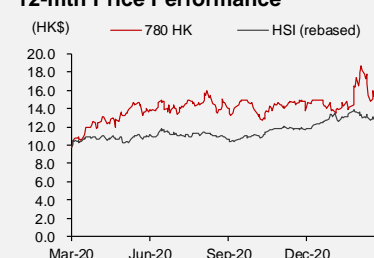
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-4.9%	0.5%
3-mth	11.9%	1.5%
6-mth	16.8%	-3.5%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: PwC**

### Related Reports

1. Moving into 2021 recovery – 3 Mar 2021
2. NDR takeaways: 2021 Priority on MPU and hotel – 7 Dec 2020
3. Solid recovery; Moving into 2021 outlook – 24 Nov 2020

**Figure 1: 4Q20 financial review**

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	1,783	1,591	2,062	1,956	1,005	1,200	1,915	1,813	-5.3%	-7.3%	1,811	0%	1,810	0%
Operating Profit	187	218	347	107	(53)	49	293	92	-68.5%	-13.4%	168	-45%	255	-64%
Net profit	97	199	294	97	(56)	55	248	80	-67.9%	-18.1%	134	-41%	216	-63%
Adj. net profit	448	346	419	331	78	196	373	307	-17.5%	-7.2%	288	7%	287	7%
<b>Margin (%)</b>														
Gross Margin	72.1%	64.7%	66.9%	70.6%	65.0%	72.3%	72.0%	73.7%			71.5%		71.0%	
Operating Margin	10.5%	13.7%	16.8%	5.5%	-5.2%	4.1%	15.3%	5.1%			9.3%		14.1%	
Adj. net margin	25.1%	21.7%	20.3%	16.9%	7.8%	16.3%	19.5%	16.9%			15.9%		15.9%	
<b>Growth (%)</b>														
Revenue (YoY)	17.5%	21.0%	22.3%	24.4%	-43.6%	-24.6%	-7.2%	-7.3%			-7.4%		-7.5%	
Revenue (QoQ)	13.4%	-10.8%	29.6%	-5.1%	-48.6%	19.4%	59.5%	-5.3%			-5.4%		-5.5%	
Operating Profit	NA	242.9%	232.2%	201.7%	-128.1%	-77.5%	-15.6%	-13.4%			57.5%		139.3%	
Adj. net profit	8.7%	60.0%	33.2%	67.7%	-82.6%	-43.2%	-11.1%	-7.2%			-13.1%		-13.3%	

Source: Company data, Bloomberg, CMBIS estimates

**Figure 2: Revenue breakdown**

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY
<b>Total revenue</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>1,915</b>	<b>1,813</b>	<b>-5%</b>	<b>-7%</b>
Accommodation reservation	489	553	694	622	229	384	685	647	-5%	4%
Transportation ticketing	1,259	937	1,140	1,182	687	726	1,055	1,003	-5%	-15%
Others	35	100	229	153	89	90	175	162	-7%	6%

Source: Company data, CMBIS estimates

**Figure 3: CMBIS estimates vs consensus**

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	8,563	10,659	13,063	8,712	10,718	11,361	-1.7%	-0.5%	15.0%
Gross Profit	6,072	7,622	9,426	6,139	7,593	7,966	-1.1%	0.4%	18.3%
Operating Profit	816	1,582	2,333	1,091	1,836	2,414	-25.2%	-13.8%	-3.4%
Adj. net profit	1,517	2,136	2,776	1,578	2,187	2,471	-3.8%	-2.3%	12.3%
Adj. EPS (RMB)	0.68	0.96	1.25	0.74	1.00	1.09	-7.1%	-3.2%	14.9%
Gross Margin	70.9%	71.5%	72.2%	70.5%	70.8%	70.1%	+0.5ppts	+0.7ppts	+2.0ppts
Operating Margin	9.5%	14.8%	17.9%	12.5%	17.1%	21.2%	-3.0ppts	-2.3ppts	-3.4ppts
Adj. net margin	17.7%	20.0%	21.3%	18.1%	20.4%	21.8%	-0.4ppts	-0.4ppts	-0.5ppts

Source: CMBIS estimates, Bloomberg

**Figure 4: Earnings revision**

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	8,563	10,659	13,063	8,569	10,667	NA	-0.1%	-0.1%	NA
Gross Profit	6,072	7,622	9,426	6,077	7,628	NA	-0.1%	-0.1%	NA
Operating Profit	816	1,582	2,333	817	1,583	NA	-0.1%	-0.1%	NA
Adj. net profit	1,517	2,136	2,776	1,518	2,137	NA	0.0%	-0.1%	NA
Adj. EPS (RMB)	0.68	0.96	1.25	0.68	0.96	NA	0.0%	-0.1%	NA
Gross Margin	70.9%	71.5%	72.2%	70.9%	71.5%	NA	-0.0ppts	-0.0ppts	NA
Operating Margin	9.5%	14.8%	17.9%	9.5%	14.8%	NA	-0.0ppts	-0.0ppts	NA
Adj. net margin	17.7%	20.0%	21.3%	17.7%	20.0%	NA	+0.0ppts	+0.0ppts	NA

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>7,393</b>	<b>5,933</b>	<b>8,563</b>	<b>10,659</b>	<b>13,063</b>
Accommodation reservation	2,358	1,945	3,021	4,122	5,228
Transportation ticketing	4,518	3,471	4,981	5,751	6,734
Others	517	516	562	786	1,101
<b>COGS</b>	<b>(2,318)</b>	<b>(1,697)</b>	<b>(2,491)</b>	<b>(3,037)</b>	<b>(3,637)</b>
R&D	(1,519)	(1,246)	(1,696)	(2,004)	(2,404)
S&M	(2,246)	(2,131)	(2,923)	(3,251)	(3,801)
Administrative expenses	(625)	(522)	(638)	(785)	(888)
Fair value change	106	65	0	0	0
Other income	89	99	0	0	0
Other gains/(losses).net	(20)	21	0	0	0
<b>Operating profit</b>	<b>860</b>	<b>382</b>	<b>816</b>	<b>1,582</b>	<b>2,333</b>
Finance income	35	23	13	13	13
Other income, net	(13)	(7)	0	0	0
<b>Pre-tax profit</b>	<b>882</b>	<b>398</b>	<b>829</b>	<b>1,595</b>	<b>2,346</b>
Income tax	(195)	(72)	(141)	(271)	(399)
Less: Minority interests	2	2	0	0	0
Net profit	688	328	688	1,324	1,947
<b>Adj. net profit</b>	<b>1,544</b>	<b>954</b>	<b>1,517</b>	<b>2,136</b>	<b>2,776</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Profit before tax</b>	<b>882</b>	<b>398</b>	<b>829</b>	<b>1,595</b>	<b>2,346</b>
D&A	335	379	384	389	394
Change in working capital	(212)	(525)	1,016	709	786
Others	409	(188)	560	283	44
<b>Net cash from operating</b>	<b>1,696</b>	<b>136</b>	<b>2,930</b>	<b>3,246</b>	<b>3,969</b>
Capex & investments	(301)	(200)	(200)	(200)	(200)
ST investments payments	(2,148)	(247)	0	0	0
ST investments proceeds	0	0	0	0	0
Other	(506)	(326)	130	0	(0)
<b>Net cash from investing</b>	<b>(2,955)</b>	<b>(773)</b>	<b>(70)</b>	<b>(200)</b>	<b>(200)</b>
Equity raised	0	0	0	0	0
Change of debts	68	(77)	0	0	0
Others	305	254	(13)	(13)	(13)
<b>Net cash from financing</b>	<b>373</b>	<b>177</b>	<b>(13)</b>	<b>(13)</b>	<b>(13)</b>
<b>Net change in cash</b>	<b>(886)</b>	<b>(461)</b>	<b>2,847</b>	<b>3,033</b>	<b>3,756</b>
Exchange difference	13	(6)	0	0	0
Cash at the beginning of the year	3,144	2,271	1,804	4,652	7,685
<b>Cash at the end of the year</b>	<b>2,271</b>	<b>1,804</b>	<b>4,652</b>	<b>7,685</b>	<b>11,441</b>
Cash at balance sheet	2,271	1,804	4,652	7,685	11,441

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>9,792</b>	<b>10,284</b>	<b>9,916</b>	<b>9,475</b>	<b>9,030</b>
PP&E	1,102	1,226	1,313	1,395	1,472
Investments	329	389	389	389	389
Land use right	0	0	16	16	16
Intangible assets	7,860	7,481	6,941	6,402	5,862
Deferred income tax assets	201	216	216	216	216
Prepayment & other receivables	7	6	75	91	109
<b>Current assets</b>	<b>9,691</b>	<b>8,830</b>	<b>11,667</b>	<b>15,205</b>	<b>19,532</b>
Account receivable	2,666	2,020	2,156	2,662	3,232
Short-term investments	4,541	4,913	4,767	4,767	4,767
Restricted cash	213	92	92	92	92
Cash and cash equivalent	2,271	1,804	4,652	7,685	11,441
<b>Current liabilities</b>	<b>5,606</b>	<b>4,234</b>	<b>5,455</b>	<b>6,686</b>	<b>8,060</b>
Borrowings	107	49	49	49	49
Trade payables	3,429	2,001	3,487	4,252	5,091
Other payables and accruals	2,035	2,120	1,841	2,292	2,808
Current income taxes liabilities	35	64	77	93	111
<b>Non-current liabilities</b>	<b>726</b>	<b>863</b>	<b>863</b>	<b>863</b>	<b>863</b>
Borrowings	133	113	113	113	113
Deferred income tax liabilities	568	529	529	529	529
Other payables and accruals	25	221	221	221	221
<b>Total net assets</b>	<b>13,152</b>	<b>14,017</b>	<b>15,265</b>	<b>17,132</b>	<b>19,639</b>
Non-controlling interest	(5)	3	3	3	3
<b>Total equity</b>	<b>13,156</b>	<b>14,014</b>	<b>15,262</b>	<b>17,129</b>	<b>19,636</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Accommodation reservation	31.9	32.8	35.3	38.7	40.0
Transportation ticketing	61.1	58.5	58.2	54.0	51.6
Others	7.0	8.7	6.6	7.4	8.4
<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	68.6	71.4	70.9	71.5	72.2
PreTax Margin	11.9	6.7	9.7	15.0	18.0
Tax Rate	17.0	17.0	17.0	17.0	17.0
Adj. net margin	20.9	16.1	17.7	20.0	21.3
<b>Balance sheet ratios</b>					
Current ratio (x)	1.7	2.1	2.1	2.3	2.4
Debtors turnover days	50.1	57.3	54.8	54.8	54.8
Creditors turnover days	427.5	3190.7	1880.0	1122.9	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
<b>Returns (%)</b>					
ROE	5.6	2.4	4.7	8.2	10.6
ROA	3.8	1.7	3.4	5.7	7.3
<b>Per share data</b>					
Adj. EPS (RMB)	0.7	0.4	0.7	1.0	1.3
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	5.9	6.3	6.9	7.7	8.9

Source: Company data, CMBIS estimates

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