

Tongcheng Travel (780 HK)

Travel demand remains resilient

Tongcheng Travel (TC) reported 3Q24 results: total revenue was RMB5.0bn, up 51% YoY (2Q24: +48% YoY), 3% better than Bloomberg consensus estimates; adjusted net income was RMB910mn, up 47% YoY, 11% better than consensus. OPM of core OTA businesses improved to 31.1% in 3Q24 (3Q23: 25.2%), driven by optimization of marketing strategies. Booking volume growth of TC's transportation ticketing and accommodation reservation business is likely to be more resilient than our previous expectation, and TC is optimizing its marketing spending, as well as optimizing subsidies it provided for customers amid a more stabilized competitive landscape, which in our view could drive ongoing YoY margin expansion for core OTA business in 4Q24E. We lift 2024E revenue/non-GAAP net income forecasts by 1%/3% to factor in the positive impact. Our DCF-based TP remains unchanged at HK\$23.5, which translates into 18x/16x adjusted 2024E/2025E PE. Maintain BUY.

- Core OTA business delivered solid revenue growth.** In 3Q24, TC's core OTA business reached RMB4.0bn (80% of total revenue), up 22% YoY (2Q24: 23% YoY), 2% better than consensus, among which transportation ticketing services/ accommodation reservation services/others revenue achieved revenue growth of 21%/22%/24% YoY (2Q24: 17/13/87%). Revenue generated from Tourism business reached RMB979mn in 3Q24 and contributed to 20% of total revenue. The number of twelve-month accumulated number of travellers served reached 1.88bn as of end-Sep 2024, up 20% YoY, compared to annual paying users (APU) increase of 3% YoY during the same period. Also, the cross-sell ratio between transportation ticketing and other business and products increased to 12% in 3Q24 (3Q23: 10%).
- 4Q travel demand may remain resilient.** For 4Q24E, we estimate TC to ink total revenue of RMB4.1bn, up 30% YoY, driven by 19% YoY solid revenue growth of Core OTA business, and incremental revenue contribution from the consolidation of Tourism business. Within the Core OTA business, we expect 18%/23% YoY revenue growth for transportation ticketing/accommodation reservation business, aided by: 1) high-teen hotel room nights growth and expansion in take rate due to the scaling back of user subsidies; 2) solid transportation ticketing volume growth of c. 15-20% YoY.
- Optimization of marketing strategies drove an improvement in core OTA margin, and is likely to sustain.** TC's overall OPM reached 19.6% in 3Q24, up from 18.2% in 3Q23, among which OPM of core OTA business improved to 31.1% (3Q23: 25.2%), thanks to robust revenue growth which aided unleashing of operating leverage, and optimization of marketing strategies. TC is optimizing its marketing spending and shifting more resources towards its app channel, which should aid user base expansion and engagement improvement for the high-quality user group. With the initiative to proactively scaling back user subsidies likely to sustain in 4Q24, we are expecting the YoY margin expansion trend of core OTA business to sustain, and forecast overall non-GAAP net profit of RMB610mn in 4Q24, translating into 15.0% non-GAAP net margin.

BUY (Maintain)

Target Price HK\$23.50
Up/Downside 32.8%
Current Price HK\$17.70

China Internet

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Ye TAO, CFA
 franktao@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	40,957.9
Avg 3 mths t/o (HK\$ mn)	213.6
52w High/Low (HK\$)	22.30/12.70
Total Issued Shares (mn)	2314.0

Source: FactSet

Shareholding Structure

Tencent	21.2%
Trip.com	20.7%

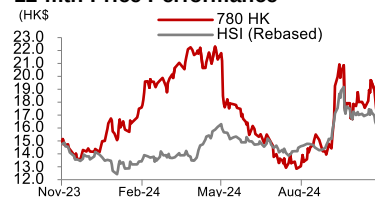
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.9%	4.9%
3-mth	35.7%	21.3%
6-mth	-16.9%	-17.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	6,585	11,896	17,179	20,384	23,197
YoY growth (%)	(12.6)	80.7	44.4	18.7	13.8
Adjusted net profit (RMB mn)	646.2	2,199.1	2,735.7	3,232.5	3,696.6
Diluted EPS (RMB)	0.29	0.96	1.18	1.39	1.58
Consensus EPS (RMB)	N/A	N/A	1.13	1.28	1.54
P/E (x)	N/A	23.8	18.3	14.9	12.7

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: TC: quarterly results and comparison with consensus

(RMBmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	3Q24E consensus	Diff%
Total revenue	2,586	2,866	3,299	3,145	3,866	4,245	4,991	4,846	3.0%
YoY growth (%)	50.5%	117.4%	61.1%	109.6%	49.5%	48.1%	51.3%		
1. Core OTA	2,586	2,866	3,299	2,845	3,203	3,526	4,013	3,930	2.1%
YoY growth (%)	50.5%	117.4%	61.1%	89.6%	23.9%	23.0%	21.6%		
1.1 Transportation ticketing services	1,383	1,495	1,680	1,473	1,737	1,743	2,027	1,991	1.8%
YoY growth (%)	35.9%	141.2%	70.3%	94.9%	25.6%	16.6%	20.6%		
1.2 Accommodation reservation services	834	1,055	1,127	882	965	1,191	1,378	1,328	3.7%
YoY growth (%)	53.6%	94.2%	37.7%	73.2%	15.6%	12.8%	22.2%		
1.3 Others	369	316	492	489	502	592	609	611	-0.4%
YoY growth (%)	134.1%	103.3%	102.8%	108.1%	36.0%	87.3%	23.7%		
2. Tourism				300	663	719	979	916	6.9%
Gross profit	1,941	2,163	2,460	2,175	2,515	2,744	3,165	3,132	1.0%
Operating profit	465	417	599	388	455	517	977	760	28.6%
Adj. operating profit	513	584	643	480	527	659	1,040		
Adj. net profit	504	592	621	483	558	657	910	822	10.8%
YoY (%)	105.6%	428.9%	146.5%	1188.3%	10.9%	10.9%	46.6%		
Margin (%)									
GPM	75.0%	75.5%	74.5%	69.2%	65.0%	64.6%	63.4%	64.6%	-1.2 ppt
OPM	18.0%	14.6%	18.2%	12.3%	11.8%	12.2%	19.6%	15.7%	3.9 ppt
Adj. OPM	19.8%	20.4%	19.5%	15.3%	13.6%	15.5%	20.8%		
Adj. NPM	19.5%	20.7%	18.8%	15.3%	14.4%	15.5%	18.2%	17.0%	1.3 ppt

Source: Company data, Bloomberg

Figure 2: TC: CMBI forecast vs previous forecast

RMB bn	Current			Previous forecast			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	17,179	20,384	23,197	17,054	20,323	23,122	0.7%	0.3%	0.3%
Gross profit	11,067	13,454	15,294	11,147	13,329	15,155	-0.7%	0.9%	0.9%
Operating profit	2,433	3,060	3,512	2,341	3,044	3,453	3.9%	0.5%	1.7%
Non-GAAP net profit	2,736	3,233	3,697	2,665	3,248	3,729	2.7%	-0.5%	-0.9%
Gross margin	64.4%	66.0%	65.9%	65.4%	65.6%	65.5%	-0.9 ppt	0.4 ppt	0.4 ppt
Operating profit margin	14.2%	15.0%	15.1%	13.7%	15.0%	14.9%	0.4 ppt	0.0 ppt	0.2 ppt
Non-GAAP net margin	15.9%	15.9%	15.9%	15.6%	16.0%	16.1%	0.3 ppt	-0.1 ppt	-0.2 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: TC: CMBI forecast vs Bloomberg consensus

RMB bn	Current			Previous forecast			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	17,179	20,384	23,197	17,191	20,054	22,966	-0.1%	1.6%	1.0%
Gross profit	11,067	13,454	15,294	11,240	13,227	15,317	-1.5%	1.7%	-0.1%
Operating profit	2,433	3,060	3,512	2,325	2,913	3,516	4.6%	5.0%	-0.1%
Non-GAAP net profit	2,736	3,233	3,697	2,604	3,081	3,753	5.1%	4.9%	-1.5%
Gross margin	64.4%	66.0%	65.9%	65.4%	66.0%	66.7%	-1.0 ppt	0.0 ppt	-0.8 ppt
Operating profit margin	14.2%	15.0%	15.1%	13.5%	14.5%	15.3%	0.6 ppt	0.5 ppt	-0.2 ppt
Non-GAAP net margin	15.9%	15.9%	15.9%	15.1%	15.4%	16.3%	0.8 ppt	0.5 ppt	-0.4 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: TC: DCF valuation (WACC of 13.0%; terminal growth of 2.0%)

(RMBmn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Total revenue	17,179	20,384	23,197	25,409	27,106	28,421	29,460	30,296	30,979	31,548
NPV of FCF	27,078									
Discounted terminal value	18,683									
Total equity valuation	49,824									
No. of shares (diluted, mn)	2,314									
Valuation per share (HKD)	23.5									

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	7,538	6,585	11,896	17,179	20,384	23,197
Cost of goods sold	(1,890)	(1,807)	(3,158)	(6,113)	(6,931)	(7,902)
Gross profit	5,648	4,778	8,738	11,067	13,454	15,294
Operating expenses	(4,753)	(4,802)	(6,869)	(8,634)	(10,393)	(11,782)
Selling expense	(3,036)	(2,801)	(4,473)	(5,784)	(6,875)	(7,819)
Admin expense	(572)	(701)	(711)	(1,024)	(1,243)	(1,385)
Other rental related expenses	(1,344)	(1,414)	(1,821)	(1,984)	(2,336)	(2,649)
Others	200	114	136	158	61	70
Operating profit	895	(24)	1,869	2,433	3,060	3,512
Interest income	39	58	175	208	206	284
Interest expense	(26)	(137)	(157)	(211)	(211)	(211)
Others	(33)	(14)	(33)	3	12	18
Pre-tax profit	875	(117)	1,854	2,432	3,068	3,604
Income tax	(161)	(46)	(288)	(378)	(521)	(613)
After tax profit	714	(164)	1,566	2,054	2,546	2,991
Minority interest	(10)	(18)	11	20	20	20
Net profit	723	(146)	1,554	2,034	2,526	2,971
Adjusted net profit	1,308	646	2,199	2,736	3,233	3,697

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	7,373	10,384	14,900	17,640	21,412	25,819
Cash & equivalents	2,046	3,547	5,192	6,866	9,474	12,792
Restricted cash	55	88	145	209	248	283
Account receivables	670	888	1,218	1,374	1,631	1,856
Prepayment	1,259	2,697	4,370	5,216	6,085	6,914
Financial assets at FVTPL	3,343	3,163	3,974	3,974	3,974	3,974
Non-current assets	14,133	14,651	16,817	16,484	16,343	16,237
PP&E	1,364	1,598	2,495	2,583	2,640	2,698
Right-of-use assets	217	111	589	589	589	589
Intangibles	8,348	8,581	9,580	9,208	8,886	8,603
Financial assets at FVTPL	828	758	1,039	1,039	1,039	1,039
Other non-current assets	3,376	3,602	3,113	3,065	3,189	3,308
Total assets	21,506	25,035	31,717	34,125	37,755	42,056
Current liabilities	4,711	6,117	11,887	12,212	13,376	14,844
Short-term borrowings	20	443	2,540	2,540	2,540	2,540
Account payables	2,207	2,522	4,131	4,585	4,851	5,532
Tax payable	2,289	3,040	4,939	4,810	5,708	6,495
Other current liabilities	49	60	166	166	166	166
Contract liabilities	147	51	111	111	111	111
Non-current liabilities	1,536	2,928	1,283	1,316	1,336	1,354
Long-term borrowings	94	1,858	11	11	11	11
Obligations under finance leases	182	88	420	420	420	420
Other non-current liabilities	1,261	982	852	885	905	923
Total liabilities	6,248	9,044	13,170	13,528	14,712	16,198
Share capital	8	8	8	8	8	8
Capital surplus	19,571	19,877	20,116	20,116	20,116	20,116
Other reserves	(4,359)	(4,153)	(2,421)	(390)	2,035	4,831
Total shareholders equity	15,219	15,732	17,703	19,733	22,159	24,955
Minority interest	39	258	844	864	884	904
Total equity and liabilities	21,506	25,035	31,717	34,125	37,755	42,056

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	875	(117)	1,854	2,432	3,068	3,604
Depreciation & amortization	670	840	911	999	1,108	1,179
Tax paid	(184)	(50)	(192)	(378)	(521)	(613)
Change in working capital	202	(1,001)	947	(597)	(64)	313
Others	275	630	485	395	394	407
Net cash from operations	1,838	302	4,003	2,851	3,984	4,889
Investing						
Capital expenditure	(310)	(515)	(772)	(370)	(434)	(491)
Others	(1,253)	118	(991)	(408)	(447)	(498)
Net cash from investing	(1,563)	(397)	(1,762)	(778)	(881)	(989)
Financing						
Net borrowings	0	0	(2)	(399)	(495)	(582)
Proceeds from share issues	na	0	0	0	0	0
Others	(20)	1,535	(590)	0	0	0
Net cash from financing	(20)	1,535	(592)	(399)	(495)	(582)
Net change in cash						
Cash at the beginning of the year	1,804	2,046	3,547	5,192	6,866	9,474
Exchange difference	(14)	61	(4)	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	2,046	3,547	5,192	6,866	9,474	12,792
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	27.1%	(12.6%)	80.7%	44.4%	18.7%	13.8%
Gross profit	33.3%	(15.4%)	82.9%	26.6%	21.6%	13.7%
Operating profit	134.4%	na	na	30.1%	25.8%	14.8%
Net profit	120.8%	na	na	30.9%	24.2%	17.6%
Adj. net profit	37.1%	(50.6%)	240.3%	24.4%	18.2%	14.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	74.9%	72.6%	73.5%	64.4%	66.0%	65.9%
Operating margin	11.9%	(0.4%)	15.7%	14.2%	15.0%	15.1%
Adj. net profit margin	17.4%	9.8%	18.5%	15.9%	15.9%	15.9%
Return on equity (ROE)	4.9%	(0.9%)	9.3%	10.9%	12.1%	12.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.1)	(0.1)	(0.2)	(0.3)	(0.4)
Current ratio (x)	1.6	1.7	1.3	1.4	1.6	1.7
Receivable turnover days	38.8	43.2	32.3	27.5	26.9	27.4
Payable turnover days	406.3	477.6	384.5	260.2	248.5	239.8
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	50.1	ns	23.8	18.3	14.9	12.7
P/E (diluted)	28.3	56.6	17.2	13.9	11.9	10.5
P/B	2.4	2.3	2.1	1.9	1.7	1.5
P/CFPS	24.2	ns	11.7	15.4	10.8	8.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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