

Tongcheng-Elong (780 HK)

Moving to 2H20E recovery

Tongcheng-Elong ("TC") delivered better-than-expected 1Q20 results, with revenue/ adj. net profit -44%/-83% YoY, 4%/177% above consensus. Despite 2Q20 guidance soft on government restrictions in Apr, we suggest investors to move into 2H20E recovery, with margin improvement. Mgmt guided TC's revenue drop to narrow to 10% YoY in Jun, and we expect both transportation/ hotel to achieve flat or positive growth in 3Q20E, backed by travel recovery in lower-tier cities and solid hotel. We keep our forecast unchanged, with higher TP of HK\$17 (rolling over to FY21 multiple). Maintain BUY.

- **Strong 1Q20.** 1Q20 revenue dropped 44% YoY, 0%/4% above our estimate/ consensus. Adj. net profit declined 83% YoY, 56%/177% above our estimate/ consensus, for effective cost control. 2Q20E guidance came at -24%-29% YoY (vs. consensus -24%), and bottom line at RMB120mn-RMB170mn (vs. consensus RMB212mn), mainly on government restrictions in high-tier cities in Apr.
- **Recovery trend intact in 2H20E.** TC's transportation/ accommodation revenue declined 45%/53% YoY in 1Q20, in line with our estimate. Given stringent control in Apr in high-tier cities, 2Q20 recovery path was slightly below our expectation. However, we keep positive on its 2H20E recovery, and confident on its positive revenue growth of both transportation and hotel in 3Q20E, mainly on: 1) narrowing revenue decline to <10% YoY in Jun, from -40% YoY in Apr, <-30% YoY in May, as mgmt. estimated; and 2) hotel ADR back to normal in 3Q20E, with continuous positive room night growth. For 2Q20E guidance, hotel rev would decline 28%-33% YoY in 2Q20E, in which domestic market will decline 20%-25% YoY. Room nights in lower tier cities have already turned to positive growth since Apr. ADR drop was the key concern, while take rate would keep stable. Transportation rev would decline 20%-25% YoY in 2Q20E, in which domestic market to decline 15%-20% YoY. Bus tickets business would be new driver for its user expansion.
- **Disciplined expenses ahead.** In 2H20E, mgmt. would focus on accommodation growth and gain share in lower-tier cities during the rebound period. We expect 2H20E adj. net margin up to 17.5%, with effective cost control and higher efficiency.
- **Maintain BUY.** We keep positive on TC's recovery and cost saving in 2H20E. We keep our forecast unchanged, but slightly lifted our TP from HK\$15 to HK\$17 (16x FY21E P/E), by rolling over to FY21 multiple.

Earnings Summary

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	7,393	7,113	10,427	12,254
YoY growth (%)	NA	-3.8	46.6	17.5
Net income (RMB mn)	1,544	1,088	2,012	2,449
EPS (RMB)	0.74	0.52	0.97	1.18
YoY growth (%)	68.6	-29.5	84.9	21.7
Consensus EPS (RMB)	NA	0.50	0.94	1.12
P/E (x)	15.7	22.3	12.1	9.9
P/B (x)	0.9	0.9	0.8	0.7
Yield (%)	0.0	0.0	1.0	2.0
ROE (%)	5.6	4.6	8.2	10.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$17.0
(Previous TP	HK\$15.0)
Up/Downside	+30.7%
Current Price	HK\$13.0

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	27,749
Avg 3 mths t/o (HK\$ mn)	81.81
52w High/Low (HK\$)	19.48/ 8.74
Total Issued Shares (mn)	2,130

Source: Bloomberg

Shareholding Structure

Tencent	22.4%
Ctrip	21.9%
Suzhou Industrial Park	7.8%

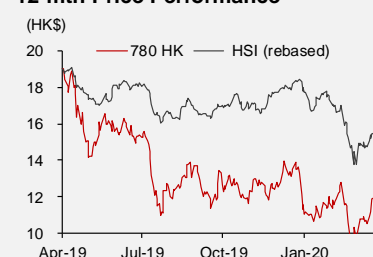
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	20.1%	12.6%
3-mth	2.1%	20.9%
6-mth	-7.7%	1.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. 1Q20E Preview: recovery in sight – 21 Apr 2020
2. Better-than-feared 1Q20 guidance – 27 Mar 2020
3. 3Q19 beat; Expecting 4Q19 to accelerate – 28 Nov 2019
4. 3Q19E Preview: solid results with strong hotel – 22 Oct 2019

Figure 1: 1Q20 financial review

RMB mn	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	QoQ	YoY	Consensus	Diff %
Revenue	1,573	1,783	1,591	2,062	1,956	1,005	-48.6%	-43.6%	962	4%
Operating Profit	35	187	218	347	107	(53)	NA	NA	(129)	-59%
Net profit	(14)	97	199	294	97	(56)	NA	NA	(124)	-55%
Adj. net profit	197	448	346	419	331	78	-76.4%	-82.6%	28	177%
Margin (%)										
Gross Margin	64.6%	72.1%	64.7%	66.9%	70.6%	65.0%			62.0%	
Operating Margin	2.2%	10.5%	13.7%	16.8%	5.5%	-5.2%			-13.4%	
Adj. net margin	12.6%	25.1%	21.7%	20.3%	16.9%	7.8%			2.9%	
Growth (%)										
Revenue (YoY)	NA	17.5%	21.0%	22.3%	24.4%	-43.6%			-46.1%	
Revenue (QoQ)	-6.7%	13.4%	-10.8%	29.6%	-5.1%	-48.6%			-50.8%	
Operating Profit	NA	NA	242.9%	232.2%	201.7%	-128.1%			NA	
Adj. net profit	NA	8.7%	60.0%	33.2%	67.7%	-82.6%			-93.7%	

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Revenue breakdown

RMB mn	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	QoQ	YoY
Total revenue	1,573	1,783	1,591	2,062	1,956	1,005	-49%	-44%
Accommodation reservation	424	489	553	694	622	229	-63%	-53%
Transportation ticketing	1,072	1,259	937	1,140	1,182	687	-42%	-45%
Others	76	35	100	229	153	89	-41%	153%

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	7,113	10,427	12,254	6,769	9,725	11,846	5.1%	7.2%	3.4%
Gross Profit	4,873	7,312	8,602	4,538	6,724	8,241	7.4%	8.7%	4.4%
Operating Profit	731	1,412	1,959	586	1,504	2,037	24.6%	-6.1%	-3.8%
Net profit	1,088	2,012	2,449	1,094	1,999	2,500	-0.5%	0.6%	-2.1%
Adj. EPS (RMB)	0.52	0.97	1.18	0.50	0.94	1.12	4.7%	3.6%	5.3%
Gross Margin	68.5%	70.1%	70.2%	67.0%	69.1%	69.6%	+1.5ppts	+1.0ppts	+0.6ppts
Operating Margin	10.3%	13.5%	16.0%	8.7%	15.5%	17.2%	+1.6ppts	-1.9ppts	-1.2ppts
Net Margin	15.3%	19.3%	20.0%	16.2%	20.6%	21.1%	-0.9ppts	-1.3ppts	-1.1ppts

Source: CMBIS estimates, Bloomberg

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,256	7,393	7,113	10,427	12,254
Accommodation reservation	1,830	4,518	4,356	6,154	6,847
Transportation ticketing	3,233	2,358	2,195	3,661	4,129
Others	193	517	562	612	1,278
COGS	(1,601)	(2,318)	(2,241)	(3,115)	(3,651)
R&D	(1,350)	(1,519)	(1,480)	(2,065)	(2,304)
S&M	(1,841)	(2,246)	(2,126)	(3,067)	(3,443)
Administrative expenses	(935)	(625)	(536)	(768)	(897)
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	731	1,412	1,959
Finance income	10	35	13	13	13
Other income, net	903	(13)	0	0	0
Pre-tax profit	602	882	744	1,425	1,972
Income tax	(67)	(195)	(126)	(242)	(335)
Less: Minority interests	(5)	2	0	0	0
Net profit	530	688	617	1,183	1,637
Adj. net profit	916	1,544	1,088	2,012	2,449

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	602	882	744	1,425	1,972
D&A	297	335	379	384	389
Change in working capital	2,024	(212)	(36)	1,116	675
Others	(629)	497	(253)	(127)	(329)
Net cash from operating	2,361	1,696	960	3,040	3,042
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)	640	2,840	2,842
Exchange difference	1	13	0	0	0
Cash at the beginning of the year	702	3,144	2,271	2,911	5,752
Cash at the end of the year	3,144	2,271	2,911	5,752	8,593
Cash at balance sheet	3,144	2,271	2,911	5,752	8,593

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	9,294	9,792	9,397	9,240	9,256
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	67	93	110
Current assets	7,497	9,691	9,621	13,265	16,568
Account receivable	1,381	2,666	1,851	2,654	3,116
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	2,911	5,752	8,593
Current liabilities	4,534	5,606	4,815	6,761	7,913
Borrowings	20	107	107	107	107
Trade payables	2,569	3,429	3,137	4,361	5,112
Other payables and accruals	1,815	2,035	1,529	2,242	2,635
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	13,769	14,952	16,589
Non-controlling interest	(8)	(5)	(5)	(5)	(5)
Total equity	11,535	13,156	13,774	14,957	16,593

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Accommodation reservation	34.8	61.1	61.2	59.0	55.9
Transportation ticketing	61.5	31.9	30.9	35.1	33.7
Others	3.7	7.0	7.9	5.9	10.4
Total	100.0	100.0	100.0	100.0	101.0
P&L ratios (%)					
Gross Margin	69.5	68.6	68.5	70.1	70.2
PreTax Margin	11.4	11.9	10.5	13.7	16.1
Tax Rate	10.0	17.0	17.0	17.0	17.0
Adj. net margin	17.4	20.9	15.3	19.3	20.0
Balance sheet ratios					
Current ratio (x)	1.7	1.7	2.0	2.0	2.1
Debtors turnover days	67.8	53.4	54.8	54.8	54.8
Creditors turnover days	683.9	517.0	2054.0	1109.9	511.0
Inventory turnover days	0.0	0.0	0.0	0.0	1.0
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	13.9	5.6	4.6	8.2	10.4
ROA	4.8	3.8	3.2	5.7	6.8
Per share data					
Adj. EPS (RMB)	0.4	0.7	0.5	1.0	1.2
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	5.6	6.3	6.6	7.2	8.0

Source: Company data, CMBIS estimates

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