

Tongcheng Travel (780 HK)

Continued outperformance during Qingming

The three-day Qingming Festival holiday embraced booming demand, with domestic tourist trips +11.5% and tourism revenue +12.7% (both vs. the 2019 level), according to the Ministry of Culture and Tourism. Tongcheng Travel (TC) kept its strong momentum during the Qingming Festival, with above-industry growth and solid ASP & take rate trends. Its domestic hotel room nights surged 70% YoY, and transportation ticketing volume was resilient at >20% YoY. We think such travel boom should support its 2Q24E momentum, coupled with the upcoming Labour Day holiday and Dragon Boat Festival. We reiterate TC as one of our top picks, for its resilient organic growth, M&A synergies, outbound expansion and capital return. We keep our FY24-26E earnings estimates unchanged, with a DCF-based TP at HK\$26.1.

- Strong momentum during Qingming Festival.** The three-day Qingming Festival holiday embraced booming demand, with 119mn domestic tourist trips (+11.5% vs. the 2019 level) and tourism revenue at RMB54bn (+12.7% vs. the 2019 level), according to the Ministry of Culture and Tourism. The solid industrial data suggests resilient ARPU from traveling consumption. Inbound & outbound trips recovered to 2019 levels, with 1.04mn inbound tourist trips and 992,000 outbound tourist trips. Japan, Thailand and Korea ranked top 3 destinations for outbound travel.
- TC continued to outperform with above-industry growth.** Among OTA players, TC continued to gain share with eye-catching growth during Qingming, with strong momentum in short-haul travel. For accommodation business, TC's domestic hotel room nights surged 70% YoY (on a three-day basis), in which growth in lower-tier cities surpassed that in high-tier cities. Hotel ADR increased 15% YoY, with an improving take rate. International hotel room nights grew 160% YoY (top 3 destinations were Thailand, Malaysia, and Japan), with ADR up 9%-10%. Package tours saw triple-digit growth during Qingming, with domestic orders +150% YoY and ASP +16% YoY. Outbound package tour ASP surged >100% YoY, boosted by bustling attractions (e.g., cherry blossom viewing in Japan, Jeju Island). For transportation business, domestic air ticketing volume rose 20% YoY, while international air ticketing jumped 200% YoY. Meanwhile, train ticket volume was resilient at +25% YoY. Based on TC's data, flower sightseeing, spring outings and exhilarating hikes emerged as top trends for holiday getaways, and Yangtze River Delta gained most popularity during Qingming.
- Maintain BUY.** We keep our earnings estimates unchanged, with a DCF-based TP at HK\$26.1, implying 21x FY24E P/E. TC's stock price saw a three-month rally, and we think its valuation is still not demanding, considering multiple catalysts ahead and high earnings visibility.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	6,585	11,896	17,607	20,257	22,718
YoY growth (%)	(12.6)	80.7	48.0	15.1	12.2
Adjusted net profit (RMB mn)	646.2	2,199.1	2,606.8	3,039.7	3,440.4
Diluted EPS (RMB)	0.29	0.98	1.16	1.35	1.53
YoY growth (%)	(50.6)	240.3	18.5	16.6	13.2
Consensus EPS (RMB)	NA	NA	1.03	1.25	1.36
P/S (x)	6.7	3.7	2.5	2.2	1.9
P/E (x)	67.5	19.4	16.4	14.0	12.4
ROE (%)	(0.9)	9.4	10.1	10.7	11.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$26.10
(Previous TP)	HK\$26.10)
Up/Downside	23.7%
Current Price	HK\$21.10

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Stock Data

Mkt Cap (HK\$ mn)	47,580.5
Avg 3 mths t/o (HK\$ mn)	162.0
52w High/Low (HK\$)	21.10/13.56
Total Issued Shares (mn)	2255.0

Source: FactSet

Shareholding Structure

Tencent	21.2%
Trip.com	20.7%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	8.4%	5.4%
3-mth	40.1%	34.8%
6-mth	37.0%	42.6%

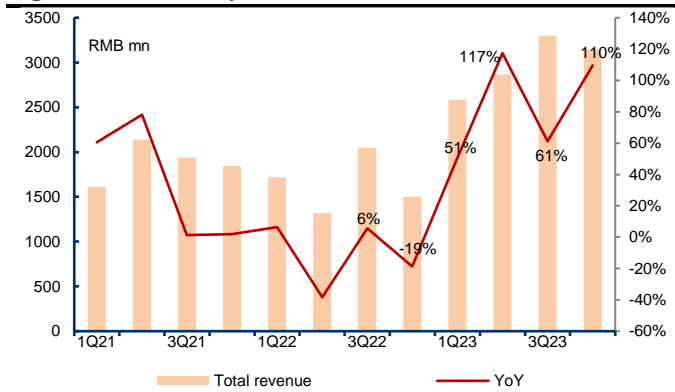
Source: FactSet

12-mth Price Performance



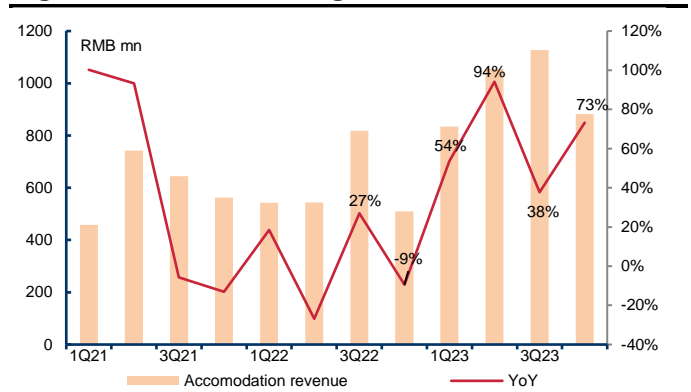
Source: FactSet

Figure 1: Quarterly revenue



Source: Company data, CMBIGM

Figure 2: Hotel business growth



Source: Company data, CMBIGM

Figure 3: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	17,607	20,257	22,718	13,965	16,275	18,593	26.1%	24.5%	22.2%
Gross profit	11,646	13,479	15,224	10,504	12,303	13,916	10.9%	9.6%	9.4%
Operating profit	2,262	2,723	3,206	2,207	2,804	3,084	2.5%	-2.9%	4.0%
Adj. net profit	2,607	3,040	3,440	2,461	2,990	3,861	5.9%	1.6%	-10.9%
Adj. EPS (RMB)	1.16	1.35	1.53	1.03	1.25	1.36	13.2%	8.2%	12.4%
Gross margin	66.1%	66.5%	67.0%	75.2%	75.6%	74.8%	-9.1ppts	-9.1ppts	-7.8ppts
Operating margin	12.8%	13.4%	14.1%	15.8%	17.2%	16.6%	-3.0ppts	-3.8ppts	-2.5ppts
Adj. net margin	14.8%	15.0%	15.1%	17.6%	18.4%	20.8%	-2.8ppts	-3.4ppts	-5.6ppts

Source: Bloomberg, CMBIGM estimates

Figure 4: DCF valuation

DCF Valuation (Rmb mn)										
	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	
EBIT	2,981	3,492	3,975	4,869	5,855	6,922	8,057	9,247	10,475	
Tax	(387)	(465)	(547)	(561)	(675)	(798)	(928)	(1,066)	(1,207)	
D&A	400	405	411	427	442	455	466	475	484	
Change in working capital	(1,542)	(1,022)	(912)	(930)	(948)	(967)	(987)	(1,006)	(1,027)	
CAPEX	(200)	(200)	(200)	(210)	(221)	(232)	(243)	(255)	(268)	
FCF	1,252	2,210	2,727	3,595	4,453	5,380	6,365	7,395	8,457	
FCF Growth	87%	77%	23%	32%	24%	21%	18%	16%	14%	
PV	1,252	1,925	2,069	2,376	2,563	2,697	2,779	2,812	27,235	
Terminal Value										73,761

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	45,708
minus: Net debt(Rmb mn)	(8,237)
minus: Minority interest(Rmb mn)	0
Equity Value(Rmb mn)	53,944
FX	0.92
Equity Value(HK\$ mn)	58,635
Target Price (HK\$) based on DCF	26.1

		WACC					
		~	13%	14%	15%	16%	17%
Terminal growth rate	1.5%	28.6	26.3	24.6	22.5	21.1	
	2.0%	29.3	26.8	25.1	22.9	21.4	
	2.5%	30.1	27.4	25.6	23.3	21.7	
	3.0%	30.9	28.0	26.1	23.7	22.0	
	3.5%	31.8	28.7	26.7	24.1	22.4	
	4.0%	32.8	29.5	27.3	24.6	22.8	
	4.5%	34.0	30.4	28.0	25.2	23.2	

Source: Company data, 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	17,607	20,257	22,718
Cost of goods sold	(1,890)	(1,807)	(3,158)	(5,961)	(6,778)	(7,495)
Gross profit	5,648	4,778	8,738	11,646	13,479	15,224
Operating expenses	(4,953)	(4,917)	(7,005)	(9,384)	(10,756)	(12,018)
Selling expense	(3,036)	(2,801)	(4,473)	(5,934)	(6,827)	(7,656)
Admin expense	(572)	(701)	(711)	(916)	(1,053)	(1,181)
Other rental related expenses	(1,344)	(1,414)	(1,821)	(2,535)	(2,876)	(3,181)
Operating profit	895	(24)	1,869	2,262	2,723	3,206
Other income	124	102	(32)	0	0	0
Other expense	(91)	(28)	(17)	0	0	0
Gain/loss on financial assets at FVTPL	98	154	123	0	0	0
Other gains/(losses)	69	(114)	63	0	0	0
Net Interest income/(expense)	12	(79)	18	13	13	13
Others	(33)	(14)	(33)	0	0	0
Pre-tax profit	(875)	117	(1,854)	(2,275)	(2,736)	(3,219)
Income tax	161	46	288	387	465	547
After tax profit	(714)	164	(1,566)	(1,888)	(2,271)	(2,672)
Minority interest	10	18	(11)	0	0	0
Net profit	723	(146)	1,554	1,888	2,271	2,672
Adjusted net profit	1,308	646	2,199	2,607	3,040	3,440

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	7,373	9,344	14,805	22,693	27,644	32,826
Cash & equivalents	2,046	4,065	8,256	14,307	18,574	23,137
Restricted cash	55	55	55	55	55	55
Account receivables	1,930	1,620	2,890	4,727	5,411	6,031
Financial assets at FVTPL	3,343	3,604	3,604	3,604	3,604	3,604
Non-current assets	14,133	13,733	13,325	12,940	12,491	12,033
PP&E	1,364	1,446	1,523	1,595	1,661	1,722
Right-of-use assets	217,064	217,064	217,064	217,064	217,064	217,064
Deferred income tax	175	175	175	175	175	175
Investment in JVs & assos	1,128	1,128	1,128	1,128	1,128	1,128
Intangibles	8,348	7,858	7,332	6,792	6,252	5,711
Financial assets at FVTPL	828	828	828	828	828	828
Other non-current assets	(214,774)	(214,766)	(214,725)	(214,641)	(214,617)	(214,595)
Current liabilities	4,711	4,023	7,069	12,234	13,964	15,517
Short-term borrowings	20	20	20	20	20	20
Account payables	4,496	3,912	6,919	12,043	13,742	15,263
Other current liabilities	49	58	70	84	101	121
Contract liabilities	147	33	59	88	101	114
Non-current liabilities	1,536	1,536	1,536	1,536	1,536	1,536
Long-term borrowings	94	94	94	94	94	94
Convertible bonds	0	0	0	0	0	0
Deferred income	497	497	497	497	497	497
Other non-current liabilities	946	946	946	946	946	946
Share capital	8	8	8	8	8	8
Capital surplus	19,571	19,980	20,356	20,806	21,306	21,806
Other reserves	(3,038)	(3,038)	(3,038)	(3,038)	(3,038)	(3,038)
Total shareholders equity	15,259	15,504	17,446	19,784	22,555	25,726
Minority interest	39	22	33	33	33	33
Total equity and liabilities	21,506	21,064	26,051	33,555	38,056	42,780

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	875	(117)	1,854	2,275	2,736	3,219
Depreciation & amortization	384	389	394	400	405	411
Tax paid	(161)	(46)	(288)	(387)	(465)	(547)
Change in working capital	1,328	(424)	1,735	3,244	1,022	912
Others	(2,747)	(381)	(3,863)	(5,732)	(3,898)	(4,194)
Net cash from operations	(322)	(580)	(168)	(200)	(200)	(200)
Investing						
Capital expenditure	(200)	(200)	(200)	(200)	(200)	(200)
Net proceeds from disposal of short-term investments	(529)	(102)	32	0	0	0
Others	667	381	150	187	187	187
Net cash from investing	(62)	79	(18)	(13)	(13)	(13)
Financing						
Net borrowings	(49)	0	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	(12)	79	(18)	(13)	(13)	(13)
Net cash from financing	(62)	79	(18)	(13)	(13)	(13)
Net change in cash						
Cash at the beginning of the year	1,804	4,318	4,065	8,256	14,307	18,574
Exchange difference	0	0	0	0	0	0
Cash at the end of the year	4,318	4,065	8,256	14,307	18,574	23,137
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	27.1%	(12.6%)	80.7%	48.0%	15.1%	12.2%
Gross profit	33.3%	(15.4%)	82.9%	33.3%	15.7%	12.9%
Operating profit	145.9%	na	na	21.0%	20.4%	17.7%
Net profit	133.5%	na	na	21.5%	20.3%	17.6%
Adj. net profit	37.1%	(50.6%)	240.3%	18.5%	16.6%	13.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	74.9%	72.6%	73.5%	66.1%	66.5%	67.0%
Operating margin	11.9%	(0.4%)	15.7%	12.8%	13.4%	14.1%
Adj. net profit margin	17.4%	9.8%	18.5%	14.8%	15.0%	15.1%
Return on equity (ROE)	4.9%	(0.9%)	9.4%	10.1%	10.7%	11.1%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.3)	(0.5)	(0.7)	(0.8)	(0.9)
Current ratio (x)	1.6	2.3	2.1	1.9	2.0	2.1
Receivable turnover days	95.6	98.4	69.2	79.0	91.3	91.9
Payable turnover days	816.6	849.4	625.9	580.6	694.3	706.3
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	33.4	67.5	19.4	16.4	14.0	12.4
P/S	5.9	6.7	3.7	2.5	2.2	1.9
P/B	3.1	2.9	2.8	2.5	2.2	1.9

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

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