

# Tongcheng Travel (780 HK)

## Recovery on good track

Tongcheng delivered upbeat 2Q22 results, with rev/ adj. net profit -38%/-73% YoY, 5%/49% above consensus. Mgmt. guided 2Q22E rev to grow at 5%-10% YoY (midpoint 15% above consensus), with adj. net profit at RMB300-350mn (midpoint 7% above consensus). The better-than-expected guidance was mainly on strong hotel recovery since mid-June. We expect accommodation rev to grow 22% YoY in 3Q22E, with take rate >9%. 2Q22 would be the ADR trough, and we expect ADR up to RMB200 in 3Q22E. Transportation would still decline, and forecast rev to drop 2% YoY in 3Q22E, with stable take rate. Given TC's lower exposure in high-tier cities, we expect TC to deliver above-industry growth, and see faster-than-peers rebound ahead. For the full year, we estimate FY22E topline/bottom line will drop 7%/27% YoY (adj. NPM at 13.4%). We lifted TC's FY23-24E earnings forecast by 1-2% to reflect better recovery, and adjust TP to HK\$20.

- 2Q22 beat.** 2Q22 rev/adj. net profit -38%/-73% YoY, 5%/49% above consensus. By segment, accommodation/ transportation rev -27%/-50% YoY, vs. our estimates of -38%/-48% YoY. Hotel beat on better-than-feared room nights and rising take rate (at 11%, with higher VAS mix). Adj. NP recorded RMB112mn (adj. NPM at 8.5%), ahead of high-end guidance, backed by opex efficiency.
- Better-than-expected 3Q22E recovery amid epidemic resurgence.** Mgmt guided 3Q22E rev to grow 5-10%, with adj. net profit at RMB300-350mn. Despite epidemic resurgence (e.g. Hainan), TC recovered faster than expected (on lower exposure in high-tier cities), especially on hotel momentum. We expect accommodation rev to grow 22% YoY in 3Q22E, with take rate of >9%. 2Q22 would be the ADR trough, and we expect ADR up to RMB200 in 3Q22E. Room nights in Jul recovered to 2021 level (flat YoY), and continued to grow in Aug. Transportation would still decline, and forecast rev to drop 2% YoY in 3Q22E, with stable take rate. Other rev +22% YoY, in our estimate. Looking ahead, we expect TC to deliver above-industry growth in 2H22E, backed by solid hotel growth and stronger monetization. 4Q22E should see better recovery, with stabilization of COVID cases and potential lockdown relaxation. We forecast FY22E topline/bottom line to decline 7%/27% YoY (adj. NPM at 13.4%).
- Maintain BUY.** We lifted TC's FY23-24E earnings forecast by 1-2% to reflect better recovery. Maintain BUY with new TP of HK\$20 (26x FY23E P/E).

### Earnings Summary

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	7,538	7,039	8,417	9,694
YoY growth (%)	27.1	(6.6)	19.6	15.2
Adj. net income (RMB mn)	1,296	943	1,444	1,737
Adj. EPS (RMB)	0.59	0.43	0.65	0.78
YoY growth (%)	35.9	(27.3)	53.1	20.3
Consensus EPS (RMB)	NA	0.39	0.68	0.90
P/E (x)	24.4	33.5	21.9	18.2
P/B (x)	1.3	1.2	1.2	1.1
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	5.0	2.3	4.7	5.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

Target Price **HK\$20.0**  
 (Previous TP **HK\$18.0**)  
 Up/Downside **+20.5%**  
 Current Price **HK\$16.6**

### China Internet Sector

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### Stock Data

Mkt Cap (HK\$ mn)	35,816
Avg 3 mths t/o (HK\$ mn)	74.67
52w High/Low (HK\$)	19.50/ 9.00
Total Issued Shares (mn)	2,222
Source: Bloomberg	

### Shareholding Structure

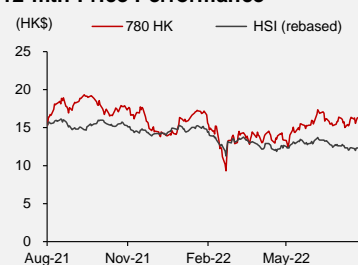
Tencent	21.43%
Trip.com	20.91%
T Rowe Price	5.97%
Source: Bloomberg	

### Share Performance

	Absolute	Relative
1-mth	0.6%	4.7%
3-mth	19.2%	24.9%
6-mth	-4.6%	16.7%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: PwC**

### Related Reports

- Looking into 2H22E recovery 2022 – 20 May 2022
- Looking beyond 3M22E epidemic – 23 March 2022
- Moving into 3Q22 rebound – 23 Nov 2021

**Figure 1: 2Q22 financial review**

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	QoQ	YoY	Consensus	Diff %
Revenue	1,005	1,200	1,915	1,813	1,614	2,138	1,939	1,846	1,718	1,319	-23%	-38%	1,251	5%
Operating Profit	(53)	49	293	92	215	335	280	65	138	(128)	-193%	-138%	0	NA
Net profit	(56)	55	248	80	170	291	226	27	101	(135)	-234%	-146%	(9)	1388%
Adj. net profit	78	196	373	307	296	418	351	250	245	112	-54%	-73%	75	49%
<b>Margin (%)</b>														
Gross Margin	65.0%	72.3%	72.0%	73.7%	74.7%	76.4%	73.9%	20.5%	72.5%	70.9%			71.5%	
Operating Margin	-5.2%	4.1%	15.3%	5.1%	13.3%	15.7%	14.4%	3.5%	8.0%	-9.7%			0.0%	
Adj. net margin	7.8%	16.3%	19.5%	16.9%	18.4%	19.5%	18.1%	13.6%	14.3%	8.5%			6.0%	
<b>Growth (%)</b>														
Revenue (YoY)	-43.6%	-24.6%	-7.2%	-7.3%	60.6%	78.1%	1.3%	1.8%	6.5%	-38.3%			-41.5%	
Revenue (QoQ)	-48.6%	19.4%	59.5%	-5.3%	-11.0%	32.5%	-9.3%	-4.8%	-7.0%	-23.2%			-99.9%	
Operating Profit	-128.1%	-77.5%	-15.6%	-13.4%	-509.0%	580.7%	-4.4%	-29.6%	-36.0%	-138.4%			-103.1%	
Adj. net profit	-82.6%	-43.2%	-11.1%	-7.2%	279.5%	113.1%	-5.6%	-18.5%	-17.3%	-73.2%			-82.0%	

Source: Company data, Bloomberg

**Figure 2: Revenue breakdown**

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	QoQ	YoY
<b>Total revenue</b>	<b>1,005</b>	<b>1,200</b>	<b>1,915</b>	<b>1,813</b>	<b>1,614</b>	<b>2,138</b>	<b>1,939</b>	<b>1,846</b>	<b>1,718</b>	<b>1,319</b>	<b>-23%</b>	<b>-38%</b>
Accommodation reservation	229	384	685	647	459	743	645	562	543	544	0%	-27%
Transportation ticketing	687	726	1,055	1,003	1,023	1,235	1,125	1,075	1,017	620	-39%	-50%
Others	89	90	175	162	132	160	170	209	158	156	-1%	-3%

Source: Company data, CMBIGM estimates

**Figure 3: CMBIGM estimates vs consensus**

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,039	8,417	9,694	6,941	9,589	11,537	1.4%	-12.2%	-16.0%
Gross profit	5,202	6,288	7,243	5,052	7,118	8,648	3.0%	-11.7%	-16.2%
Operating profit	419	921	1,213	548	1,327	1,813	-23.5%	-30.6%	-33.1%
Adj. net profit	943	1,444	1,737	1,058	1,741	2,176	-10.8%	-17.0%	-20.2%
Adj. EPS (RMB)	0.43	0.65	0.78	0.39	0.68	0.90	10.4%	-3.7%	-12.6%
Gross margin	73.9%	74.7%	74.7%	72.8%	74.2%	75.0%	+1.1ppts	+0.5ppts	-0.2ppts
Operating margin	6.0%	10.9%	12.5%	7.9%	13.8%	15.7%	-1.9ppts	-2.9ppts	-3.2ppts
Adj. net margin	13.4%	17.2%	17.9%	15.2%	18.2%	18.9%	-1.8ppts	-1.0ppts	-0.9ppts

Source: CMBIGM estimates, Bloomberg

**Figure 4: Earnings revision**

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,039	8,417	9,694	6,807	8,202	9,536	3.4%	2.6%	1.7%
Gross profit	5,202	6,288	7,243	5,067	6,124	7,123	2.7%	2.7%	1.7%
Operating profit	419	921	1,213	542	893	1,191	-22.7%	3.1%	1.9%
Adj. net profit	943	1,444	1,737	1,049	1,421	1,718	-10.1%	1.6%	1.1%
EPS (RMB)	0.43	0.65	0.78	0.47	0.64	0.78	-9.5%	1.8%	0.5%
Gross margin	73.9%	74.7%	74.7%	74.4%	74.7%	74.7%	-0.5ppts	+0.0ppts	+0.0ppts
Operating margin	6.0%	10.9%	12.5%	8.0%	10.9%	12.5%	-2.0ppts	+0.0ppts	+0.0ppts
Net margin	13.4%	17.2%	17.9%	15.4%	17.3%	18.0%	-2.0ppts	-0.1ppts	-0.1ppts

Source: Company data, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>5,933</b>	<b>7,538</b>	<b>7,039</b>	<b>8,417</b>	<b>9,694</b>
Accommodation reservation	1,945	2,409	2,440	2,852	3,472
Transportation ticketing	3,471	4,458	3,747	4,457	4,893
Others	516	671	852	1,108	1,330
<b>COGS</b>	<b>(1,697)</b>	<b>(1,890)</b>	<b>(1,837)</b>	<b>(2,128)</b>	<b>(2,451)</b>
R&D	(1,246)	(1,344)	(1,323)	(1,532)	(1,764)
S&M	(2,131)	(3,036)	(2,928)	(3,291)	(3,684)
Administrative expenses	(522)	(572)	(532)	(544)	(582)
Fair value change	65	124	0	0	0
Other income	99	98	0	0	0
Other gains/(losses).net	21	69	0	0	0
<b>Operating profit</b>	<b>382</b>	<b>895</b>	<b>419</b>	<b>921</b>	<b>1,213</b>
Finance income	23	12	13	13	13
Other income, net	(7)	(33)	0	0	0
<b>Pre-tax profit</b>	<b>398</b>	<b>875</b>	<b>432</b>	<b>934</b>	<b>1,226</b>
Income tax	(72)	(161)	(78)	(159)	(208)
Less: Minority interests	2	10	0	0	0
Net profit	328	723	354	775	1,018
<b>Adj. net profit</b>	<b>954</b>	<b>1,296</b>	<b>943</b>	<b>1,444</b>	<b>1,737</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Profit before tax</b>	<b>398</b>	<b>875</b>	<b>432</b>	<b>934</b>	<b>1,226</b>
D&A	379	384	389	394	400
Change in working capital	(525)	336	(71)	405	434
Others	(188)	148	446	364	315
<b>Net cash from operating</b>	<b>136</b>	<b>1,904</b>	<b>1,274</b>	<b>2,257</b>	<b>2,584</b>
Capex & investments	(200)	(200)	(200)	(200)	(200)
ST investments payments	(247)	(124)	0	0	0
ST investments proceeds	0	0	0	0	0
Other	(326)	130	0	0	0
<b>Net cash from investing</b>	<b>(773)</b>	<b>(194)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>
Equity raised	0	0	0	0	0
Change of debts	(77)	0	0	0	0
Others	254	(12)	(13)	(13)	(13)
<b>Net cash from financing</b>	<b>177</b>	<b>(12)</b>	<b>(13)</b>	<b>(13)</b>	<b>(13)</b>
<b>Net change in cash</b>	<b>(461)</b>	<b>1,698</b>	<b>1,061</b>	<b>2,044</b>	<b>2,371</b>
Exchange difference	(6)	0	0	0	0
Cash at the beginning of the year	2,271	1,804	3,503	4,564	6,608
<b>Cash at the end of the year</b>	<b>1,804</b>	<b>3,503</b>	<b>4,564</b>	<b>6,608</b>	<b>8,978</b>
Cash at balance sheet	1,804	3,503	4,564	6,608	8,978

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>10,284</b>	<b>9,918</b>	<b>9,459</b>	<b>9,004</b>	<b>8,545</b>
PP&E	1,226	1,313	1,395	1,472	1,543
Investments	389	389	389	389	389
Land use right	0	16	16	16	16
Intangible assets	7,481	6,961	6,421	5,881	5,341
Deferred income tax assets	216	216	216	216	216
Prepayment & other receivables	6	57	55	64	74
<b>Current assets</b>	<b>8,830</b>	<b>10,154</b>	<b>11,121</b>	<b>13,474</b>	<b>16,149</b>
Account receivable	2,020	1,792	1,699	2,008	2,312
Short-term investments	4,913	4,767	4,767	4,767	4,767
Restricted cash	92	92	92	92	92
Cash and cash equivalent	1,804	3,503	4,564	6,608	8,978
<b>Current liabilities</b>	<b>4,234</b>	<b>4,393</b>	<b>4,227</b>	<b>4,950</b>	<b>5,699</b>
Borrowings	49	49	49	49	49
Trade payables	2,001	2,646	2,572	2,980	3,431
Other payables and accruals	2,120	1,621	1,513	1,810	2,084
Current income taxes liabilities	64	77	93	111	134
<b>Non-current liabilities</b>	<b>863</b>	<b>863</b>	<b>863</b>	<b>863</b>	<b>863</b>
Borrowings	113	113	113	113	113
Deferred income tax liabilities	529	529	529	529	529
Other payables and accruals	221	221	221	221	221
<b>Total net assets</b>	<b>14,017</b>	<b>15,063</b>	<b>15,738</b>	<b>16,913</b>	<b>18,381</b>
Non-controlling interest	3	(7)	(7)	(7)	(7)
<b>Total equity</b>	<b>14,014</b>	<b>15,070</b>	<b>15,744</b>	<b>16,920</b>	<b>18,388</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Accommodation reservation	32.8	32.0	34.7	33.9	35.8
Transportation ticketing	58.5	59.1	53.2	53.0	50.5
Others	8.7	8.9	12.1	13.2	13.7
<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	71.4	74.9	73.9	74.7	74.7
PreTax Margin	6.7	11.6	6.1	11.1	12.7
Tax Rate	17.0	17.0	18.0	17.0	17.0
Adj. net margin	16.1	17.2	13.4	17.2	17.9
<b>Balance sheet ratios</b>					
Current ratio (x)	2.1	2.3	2.6	2.7	2.8
Debtors turnover days	57.3	54.8	54.8	54.8	54.8
Creditors turnover days	2876.6	2196.2	1784.9	1099.4	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	2.4	5.0	2.3	4.7	5.8
ROA	1.7	3.6	1.7	3.6	4.3
<b>Per share data</b>					
Adj. EPS (RMB)	0.4	0.6	0.4	0.7	0.8
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	6.3	6.8	7.1	7.6	8.3

Source: Company data, CMBIGM estimates

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