

CTGDF (601888 CH)

3Q prelim rev/np +28%/93%; estimates unchanged

CTGDF reported preliminary 3Q financial data with revenue increasing by +27.9% YoY to RMB15.0bn, gross margins expanding to 34.3% (1Q/2Q: 28.8%/32.5%), and net profits growing +93.1% to RMB1.3bn. The quarter's revenue was apparently flattish compared to that of 2Q, and that should not come in as a surprise to the market given the trajectory we observed in the visitation momentum to Hainan (6M: 30.3% YoY vs 8M: 38.6% YoY). Other than that, a slightly lower pre-tax margin of 10.8% (2Q: 11.9%) caught our attention and that was probably owing to higher revenue shares to airports. All in all, when consensus expectation is tapering, we continue to argue that earnings risk is incrementally contained, and our implied 4Q revenue/net profits of RMB21bn/1.7bn should look intact on a seasonally stronger festival travelling and spending.

- **Major 10.1 Golden week indicators were a mixed bag...** A total of 826mn people travelled domestically between the 8 days of 29 Sep to 6 Oct, 104% of pre-COVID but is below government target of 113%. In dollar terms, tourism revenue of RMB753bn stood at 102% of pre-COVID level. Each traveller spent 4% less vs pre-COVID and yet 5% more vs the 5.1 holiday this year. Our TMT team noted that long-haul travel has increased to 51% of the mix, compared to 35% in 2022.
- **... but those of Hainan looked well-expected.** A total of 4.3mn tourists to the Island during the break, 107% of pre-COVID and 133% of the level seen in the 5.1 holiday this year. The number of DF shoppers per day is 3% less, and each shopper spent 3% less compared to 5.1.
- **Earnings change.** We largely maintain our forecasts for now and wait for further details at full results release on 27 Oct. In our model, we continue to assume RMB46bn Hainan DFS revenue (including Haitang Bay).
- **Valuation.** We maintain our average valuation from 2018 inclusive. In our view, there is presumably no quick fix to the flatering consumption recovery, and now we project CTGDF to grow at a more normalised cadence over 2024-25E in tandem with the macro economy. With no major changes to our earnings forecasts, our revised TP is based on an updated 27.5x (from previously 29.0x) end-24E P/E which still benchmarks to -1sd below 5-year average since 2018.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	67,676	54,433	71,920	82,281	93,576
YoY growth (%)	28.7	(19.6)	32.1	14.4	13.7
Net profit (RMB mn)	9,653.7	5,039.9	6,907.7	9,355.3	11,801.8
YoY growth (%)	57.2	(47.8)	37.1	35.4	26.2
EPS (Reported) (RMB)	4.94	2.53	3.34	4.52	5.70
Consensus EPS (RMB)	na	na	3.69	5.08	6.41
P/E (x)	55.8	76.3	30.1	22.2	17.6
P/B (x)	18.2	7.9	3.9	3.5	3.1
Yield (%)	0.6	0.4	1.1	1.5	1.9
ROE (%)	37.2	12.9	13.6	16.6	18.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB124.4
 (Previous TP RMB132.3)
Up/Downside 23.9%
Current Price RMB100.4

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Stock Data

Mkt Cap (RMB mn) 196,031.0
 Avg 3 mths t/o (RMB mn) 1,909.4
 52w High/Low (RMB) 232.80/100.40
 Total Issued Shares (mn) 1952.5
 Source: FactSet

Shareholding Structure

China Tourism Group Corp Ltd 53.3%
 HKSC 11.6%

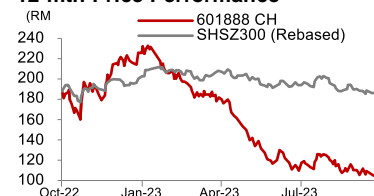
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.4%	-6.1%
3-mth	-8.4%	-5.1%
6-mth	-44.8%	-38.3%

Source: FactSet

12-month Price Performance



Source: FactSet

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Figure 1: Earnings revision

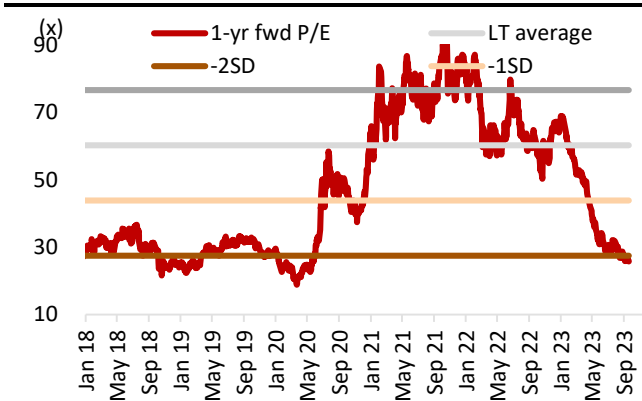
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	71,920	82,281	93,576	71,920	82,281	93,576	0.0%	0.0%	0.0%
Gross Profit	22,839	28,302	33,803	22,839	28,302	33,803	0.0%	0.0%	0.0%
EBIT	10,103	13,716	17,181	10,103	13,716	17,181	0.0%	0.0%	0.0%
Net profit	6,908	9,355	11,802	6,908	9,355	11,802	0.0%	0.0%	0.0%
Gross Margin	31.8%	34.4%	36.1%	31.8%	34.4%	36.1%	0ppt	0ppt	0ppt
EBIT Margin	14.0%	16.7%	18.4%	14.0%	16.7%	18.4%	0ppt	0ppt	0ppt
Net Margin	9.6%	11.4%	12.6%	9.6%	11.4%	12.6%	0ppt	0ppt	0ppt

Source: CMBIGM estimates

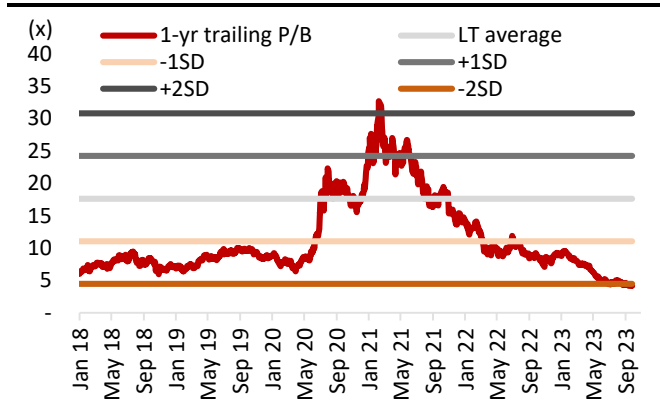
Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	71,920	82,281	93,576	73,926	95,559	114,741	-2.7%	-13.9%	-18.4%
Gross Profit	22,839	28,302	33,803	23,696	32,770	40,459	-3.6%	-13.6%	-16.5%
EBIT	10,103	13,716	17,181	11,082	15,255	19,347	-8.8%	-10.1%	-11.2%
Net profit	6,908	9,355	11,802	7,566	10,426	13,235	-8.7%	-10.3%	-10.8%
Gross Margin	31.8%	34.4%	36.1%	32.1%	34.3%	35.3%	-0.3ppt	0.1ppt	0.9ppt
EBIT Margin	14.0%	16.7%	18.4%	15.0%	16.0%	16.9%	-0.9ppt	0.7ppt	1.5ppt
Net Margin	9.6%	11.4%	12.6%	10.2%	10.9%	11.5%	-0.6ppt	0.5ppt	1.1ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: CTGDF - 12M forward P/E band

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: CTGDF - 12M trailing P/B band

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	52,597	67,676	54,433	71,920	82,281	93,576
Cost of goods sold	(31,221)	(44,882)	(38,982)	(49,081)	(53,980)	(59,773)
Gross profit	21,376	22,793	15,451	22,839	28,302	33,803
Operating expenses	(11,567)	(7,950)	(7,456)	(12,736)	(14,586)	(16,622)
Selling expense	(8,847)	(3,861)	(4,032)	(8,271)	(9,462)	(10,761)
Admin expense	(1,637)	(2,250)	(2,209)	(2,517)	(2,880)	(3,275)
Others	(1,083)	(1,839)	(1,215)	(1,948)	(2,243)	(2,585)
Operating profit	9,809	14,843	7,659	10,103	13,716	17,181
EBITDA	10,325	15,323	8,231	10,830	14,585	18,196
Depreciation	(207)	(192)	(214)	(342)	(432)	(525)
Goodwill amortisation	(309)	(288)	(358)	(385)	(437)	(490)
EBIT	9,809	14,843	7,659	10,103	13,716	17,181
Net Interest income/(expense)	545	43	(220)	132	75	164
Foreign exchange gain/loss	537	283	(190)	0	0	0
Others	(683)	(84)	178	(200)	(200)	(200)
Pre-tax profit	9,672	14,801	7,617	10,035	13,591	17,145
Income tax	(2,335)	(2,437)	(1,429)	(1,923)	(2,605)	(3,286)
Minority interest	(1,197)	(2,711)	(1,148)	(1,204)	(1,631)	(2,057)
Net profit	6,140	9,654	5,040	6,908	9,355	11,802
Gross dividends	1,952	3,070	1,655	2,268	3,072	3,876

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	30,971	38,542	57,205	61,794	67,441	75,346
Cash & equivalents	14,706	16,856	26,892	24,343	27,258	31,955
Account receivables	129	106	151	200	229	260
Inventories	14,733	19,725	27,926	35,014	37,719	40,895
Prepayment	256	348	398	398	398	398
Other current assets	1,148	1,507	1,838	1,838	1,838	1,838
Non-current assets	10,948	16,932	18,702	21,173	23,361	25,265
PP&E	1,591	1,843	5,434	7,075	8,685	10,264
Deferred income tax	1,512	1,122	1,018	1,018	1,018	1,018
Intangibles	2,449	2,401	2,458	2,488	2,466	2,391
Goodwill	822	822	822	822	822	822
Financial assets at FVTPL	791	992	1,970	1,970	1,970	1,970
Other non-current assets	3,783	9,752	7,000	7,800	8,400	8,800
Total assets	41,919	55,474	75,908	82,967	90,802	100,611
Current liabilities	15,661	17,136	17,480	19,465	20,427	21,566
Short-term borrowings	417	411	109	109	109	109
Account payables	4,327	5,880	7,660	9,644	10,607	11,745
Tax payable	3,671	4,722	2,785	2,785	2,785	2,785
Other current liabilities	7,246	6,122	6,926	6,926	6,926	6,926
Non-current liabilities	79	3,546	4,300	4,300	4,300	4,300
Long-term borrowings	0	0	2,509	2,509	2,509	2,509
Other non-current liabilities	79	3,546	1,791	1,791	1,791	1,791
Total liabilities	15,741	20,682	21,780	23,765	24,727	25,866
Share capital	1,952	1,952	2,069	2,069	2,069	2,069
Capital surplus	3,032	2,921	18,537	19,228	20,164	21,344
Retained earnings	17,648	25,347	27,448	31,397	36,744	43,490
Other reserves	(324)	(602)	519	519	519	519
Total shareholders equity	22,308	29,619	48,573	53,213	59,496	67,422
Minority interest	3,871	5,173	5,554	5,990	6,580	7,324
Total equity and liabilities	41,919	55,474	75,908	82,967	90,802	100,611

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	9,672	14,801	7,617	10,035	13,591	17,145
Depreciation & amortization	(516)	(480)	(572)	(727)	(869)	(1,015)
Tax paid	(2,335)	(2,437)	(1,429)	(1,923)	(2,605)	(3,286)
Change in working capital	(2,888)	(2,955)	(9,045)	(5,152)	(1,771)	(2,069)
Others	4,269	(601)	14	782	1,130	1,348
Net cash from operations	8,202	8,329	(3,415)	3,015	9,476	12,123
Investing						
Capital expenditure	(1,234)	(2,155)	(2,995)	(3,198)	(3,057)	(2,919)
Acquisition of subsidiaries/ investments	(2,065)	(126)	0	0	0	0
Net proceeds from disposal of short-term investments	(542)	(62)	(875)	0	0	0
Others	26	25	64	0	0	0
Net cash from investing	(3,814)	(2,318)	(3,807)	(3,198)	(3,057)	(2,919)
Financing						
Dividend paid	(1,658)	(3,431)	(3,676)	(2,268)	(3,072)	(3,876)
Net borrowings	255	0	4,010	0	0	0
Others	20	(386)	15,121	(96)	(432)	(632)
Net cash from financing	(1,383)	(3,817)	15,455	(2,365)	(3,505)	(4,507)
Net change in cash						
Cash at the beginning of the year	12,032	14,858	17,786	26,892	24,343	27,258
Exchange difference	(331)	(196)	873	0	0	0
Cash at the end of the year	14,706	16,856	26,892	24,343	27,258	31,955
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	8.2%	28.7%	(19.6%)	32.1%	14.4%	13.7%
Gross profit	(13.9%)	6.6%	(32.2%)	47.8%	23.9%	19.4%
Operating profit	44.9%	51.3%	(48.4%)	31.9%	35.8%	25.3%
EBITDA	43.8%	48.4%	(46.3%)	31.6%	34.7%	24.8%
EBIT	44.9%	51.3%	(48.4%)	31.9%	35.8%	25.3%
Net profit	32.6%	57.2%	(47.8%)	37.1%	35.4%	26.2%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	40.6%	33.7%	28.4%	31.8%	34.4%	36.1%
Operating margin	18.6%	21.9%	14.1%	14.0%	16.7%	18.4%
EBITDA margin	19.6%	22.6%	15.1%	15.1%	17.7%	19.4%
Return on equity (ROE)	29.1%	37.2%	12.9%	13.6%	16.6%	18.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.6)	(0.5)	(0.4)	(0.4)	(0.4)
Current ratio (x)	2.0	2.2	3.3	3.2	3.3	3.5
Receivable turnover days	0.9	0.6	1.0	1.0	1.0	1.0
Inventory turnover days	172.8	160.7	262.2	257.2	252.2	247.2
Payable turnover days	50.6	47.8	71.7	71.7	71.7	71.7
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	47.8	55.8	76.3	30.1	22.2	17.6
P/E (diluted)	47.8	55.8	76.3	30.1	22.2	17.6
P/B	13.2	18.2	7.9	3.9	3.5	3.1
Div yield (%)	0.7	0.6	0.4	1.1	1.5	1.9

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

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