

Tongcheng Travel (780 HK)

Riding on faster recovery pace

We are more bullish on TC's recovery and above-industrial growth in FY23E, backed by pent-up travel demand. Recent price correction creates good entry point to accumulate, in our view, due to: 1) stronger 1Q23E guidance (forecasting rev +44% YoY); 2) Ching Ming and May Labor Day to be short-term catalysts; and 3) manageable impact from Douyin's competition. We raised FY23-25E earnings by 15-16%, to reflect faster recovery pace (on strong local hotel, business travel, etc.). Higher cross-selling, long-haul travel recovery and outbound tourism would bring further upside. Maintain BUY with higher TP at HK\$24.3 (28x FY23E P/E).

■ **Upbeat 4Q22.** As stated in our preview report, TC delivered another upbeat quarter in 4Q22 despite the virus outbreak, with rev -19% YoY (3% above consensus/ our estimates) and bottom line at RMB37mn (largely above consensus of RMB3mn, on better topline and disciplined S&M). By segment, hotel rev -9% YoY (in line), while transportation ticketing rev -30% YoY (4% above our estimates). With faster-than-expected reopening, we expect rising travel demand post reopening to boost 2023 rebound.

■ **1Q23E to see stronger recovery on pent-up travel demand.** We turn more positive on TC's 2023 recovery pace, boosted by pent-up travel demand and its outperformance with low-tier cities penetration. In Jan & Feb, TC's train ticket volume nearly fully recovered to 2019 level (vs. 85% of 2019 level for the whole industry) and the air ticket volume increased by >30% compared with 2019 (vs. 75% for industry). Hotel room nights in Feb surged by >100% (vs. 2019 level), per mgmt. Given stronger recovery in Jan & Feb, we forecast 1Q23E rev +44% YoY, in which transportation/ hotel/others rev +34%/45%/100%. Hotel would see decent rebound, with room nights >+60% YoY, ADR >RMB200. Hotel take rate might be slightly diluted by higher subsidies (forecasting 8.6% in 1Q23E). Looking into FY23E, we raised topline by 20%, suggesting rev +58% YoY in FY23E. We expect Ching Ming and May Labor Day to be short-term catalysts. In the mid to long run, higher cross-selling, long-haul travel recovery and outbound tourism would bring further upside.

■ **High visibility for margin expansion, with limited competition impact.** Market concerns lie on Douyin's competition and higher S&M after reopening. Compared to in-store biz, we think hotel biz could be more defensive on its supply chain barrier and relatively-low frequency. As such, we expect limited financial impact from Douyin's threat, as well as higher subsidies (lower hotel take rate). Coupled with ROI-driven marketing and continuously disciplined expenses, we expect adj. NPM to rise 6.5ppts YoY to 16.3% in FY23E, implying earnings of +163% YoY.

■ **Maintain BUY.** We raised TC's FY23-25E earnings forecast by 15-16% to reflect better recovery. Maintain BUY with new DCF-based TP at HK\$24.3.

Earnings Summary

(YE 31 Dec)	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	6,585	10,394	12,271	13,887
YoY growth (%)	(13)	57.9	18.1	13.2
Adj. net income (RMB mn)	646	1,698	2,061	2,381
Adj. EPS (RMB)	0.29	0.76	0.92	1.06
YoY growth (%)	(51)	162.7	21.4	15.5
Consensus EPS (RMB)	NA	0.58	0.74	0.74
P/E (x)	49.7	18.1	14.9	12.9
P/S (x)	4.7	2.9	2.5	2.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$24.3
(Previous TP	HK\$23.1)
Up/Downside	+56.4%
Current Price	HK\$15.5

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	32,770
Avg 3 mths t/o (HK\$ mn)	96.14
52w High/Low (HK\$)	20.40/ 11.62
Total Issued Shares (mn)	2,241

Source: Bloomberg

Shareholding Structure

Tencent	21.25%
Trip.com	20.73%
T Rowe Price	4.97%

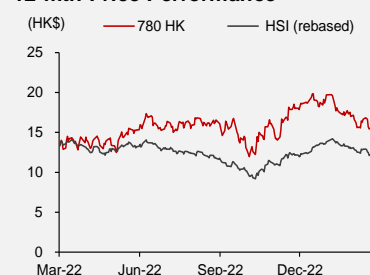
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-10.8%	-5.3%
3-mth	-16.0%	-16.7%
6-mth	-6.4%	-11.0%

Source: Bloomberg

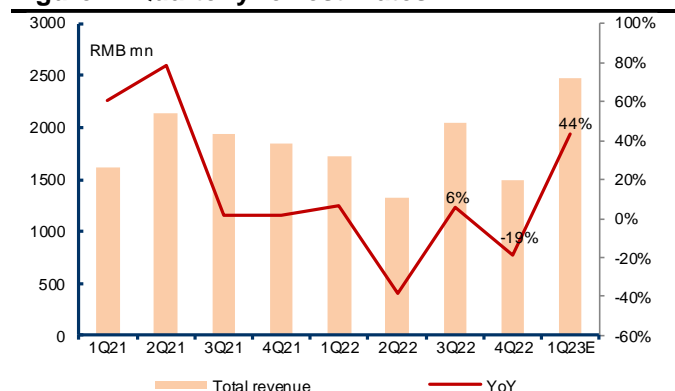
12-mth Price Performance



Source: Bloomberg

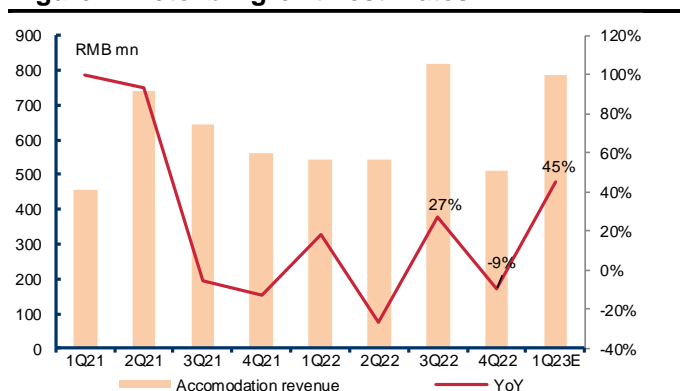
Auditor: PwC

Figure 1: Quarterly rev estimates



Source: Company data, CMBIGM estimates

Figure 2: Hotel biz growth estimates



Source: Company data, CMBIGM estimates

Figure 3: 4Q22 financial review

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	1,614	2,138	1,939	1,846	1,718	1,319	2,048	1,500	-27%	-19%	1,453	3%	1,460	3%
Operating Profit	215	335	280	65	138	(128)	(39)	5	NA	NA	(141)	NA	(123)	NA
Net profit	170	291	226	27	101	(135)	(94)	(32)	NA	NA	(166)	NA	(140)	NA
Adj. net profit	296	418	343	250	245	112	252	37	-85%	-85%	3	NA	12	203%
Margin (%)														
Gross Margin	74.7%	76.4%	73.9%	20.5%	72.5%	70.9%	74.0%	72.0%			71.6%		72.0%	
Operating Margin	13.3%	15.7%	14.4%	3.5%	8.0%	-9.7%	-1.9%	0.4%			-9.7%		-8.4%	
Adj. net margin	18.4%	19.5%	17.7%	13.6%	14.3%	8.5%	12.3%	2.5%			0.2%		0.8%	
Growth (%)														
Revenue (YoY)	60.6%	78.1%	1.3%	1.8%	6.5%	-38.3%	5.6%	-18.8%			-21.3%		-20.9%	
Revenue (QoQ)	-11.0%	32.5%	-9.3%	-4.8%	-7.0%	-23.2%	55.3%	-26.8%			-29.1%		-28.7%	
Operating Profit	-509.0%	580.7%	-4.4%	-29.6%	-36.0%	NA	NA	NA			NA		NA	
Adj. net profit	279.5%	113.1%	-7.9%	-18.5%	-17.3%	-73.2%	-26.6%	-85.0%			NA		-95.1%	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Revenue breakdown

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	QoQ	YoY
Total revenue	1,614	2,138	1,939	1,846	1,718	1,319	2,048	1,500	-27%	-19%
Accommodation reservation	459	743	645	562	543	544	819	509	-38%	-9%
Transportation ticketing	1,023	1,235	1,125	1,075	1,017	620	987	756	-23%	-30%
Others	132	160	170	209	158	156	243	235	-3%	12%

Source: Company data, CMBIGM

To factor in better recovery from Feb, we raised TC's FY23E earnings forecast by 15% (suggesting topline/ bottom line of +58%/163% YoY in FY23E, vs. prior +32.5%/137% YoY). Ching Ming and May Labor Day would be short-term catalysts to boost sector sentiment. In the mid-to-long term, we expect higher cross-selling and long-haul travel recovery to bring further upside.

Our DCF-based TP is lifted from HK\$23.1 to HK\$24.3 (implying 28x/23x FY23/24E P/E), considering earnings adjustment. Our TP-implied multiple of 28x FY23E P/E is still below that of TCOM (29.4x), hence we think it is not demanding. 28x FY23E P/E is higher than industrial average of 24x, but we think TC deserves premium multiple given its above-industrial growth and better margin outlook.

Figure 5: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	10,394	12,271	13,887	8,917	10,958	12,809	16.6%	12.0%	8.4%
Gross Profit	7,752	9,200	10,429	6,621	8,195	9,543	17.1%	12.3%	9.3%
Operating Profit	1,227	1,604	1,930	1,019	1,534	1,979	20.3%	4.6%	-2.5%
Adj. net profit	1,698	2,061	2,381	1,368	1,807	2,173	24.1%	14.1%	9.6%
Adj. EPS (RMB)	0.76	0.92	1.06	0.58	0.74	0.74	30.9%	23.2%	42.4%
Gross Margin	74.6%	75.0%	75.1%	74.3%	74.8%	74.5%	+0.3ppts	+0.2ppts	+0.6ppts
Operating Margin	11.8%	13.1%	13.9%	11.4%	14.0%	15.5%	+0.4ppts	-0.9ppts	-1.6ppts
Adj. net margin	16.3%	16.8%	17.1%	15.3%	16.5%	17.0%	+1.0ppts	+0.3ppts	+0.2ppts

Source: CMBIGM estimates, Bloomberg

Figure 6: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	10,394	12,271	13,887	8,674	10,175	NA	19.8%	20.6%	NA
Gross Profit	7,752	9,200	10,429	6,442	7,600	NA	20.3%	21.1%	NA
Operating Profit	1,227	1,604	1,930	955	1,261	NA	28.4%	27.2%	NA
Adj. net profit	1,698	2,061	2,381	1,472	1,776	NA	15.3%	16.0%	NA
EPS (RMB)	0.76	0.92	1.06	0.66	0.79	NA	15.3%	16.0%	NA
Gross Margin	74.6%	75.0%	75.1%	74.3%	74.7%	NA	+0.3ppts	+0.3ppts	NA
Operating Margin	11.8%	13.1%	13.9%	11.0%	12.4%	NA	+0.8ppts	+0.7ppts	NA
Net Margin	16.3%	16.8%	17.1%	17.0%	17.5%	NA	-0.6ppts	-0.7ppts	NA

Source: Company data, CMBIGM estimates

Figure 7: DCF valuation

DCF Valuation (Rmb mn)										
	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	1,896	2,323	2,699	3,468	4,357	5,363	6,477	7,688	8,982	10,342
Tax	(211)	(275)	(330)	(386)	(484)	(596)	(720)	(855)	(999)	(1,150)
D&A	394	400	279	290	302	312	321	329	336	342
Change in working capital	(1,112)	(573)	(517)	(528)	(538)	(549)	(560)	(571)	(583)	(594)
CAPEX	(200)	(200)	(200)	(210)	(221)	(232)	(243)	(255)	(268)	(281)
FCF	767	1,675	1,930	2,634	3,416	4,298	5,275	6,336	7,469	8,659
FCF Growth	NA	118%	15%	37%	30%	26%	23%	20%	18%	16%
PV	767	1,459	1,464	1,741	1,966	2,155	2,303	2,410	2,474	24,286
Terminal Value										75,515

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	41,024
minus: Net debt(Rmb mn)	(7,049)
minus: Minority interest(Rmb mn)	0
Equity Value(Rmb mn)	48,074
FX	0.88
Equity Value(HK\$ mn)	54,629
Target Price (HK\$) based on DCF	24.3

		WACC					
Terminal growth rate	~	13%	14%	15%	16%	17%	
	1.5%	27.0	24.6	22.9	20.8	19.4	
	2.0%	27.7	25.1	23.4	21.2	19.6	
	2.5%	28.4	25.7	23.8	21.5	19.9	
	3.0%	29.2	26.3	24.3	21.9	20.2	
	3.5%	30.0	26.9	24.9	22.3	20.6	
	4.0%	31.0	27.7	25.4	22.8	20.9	
	4.5%	32.1	28.5	26.1	23.2	21.3	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Comps table

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			EV/EBIT		
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Tongcheng	780 HK	4,227	HKD	15	BUY	24	18.1	14.9	12.9	2.9	2.5	2.2	NA	25.7	17.0
China Internet Giants															
Alibaba	BABA US	215,801	USD	82	BUY	156	10.7	9.4	8.2	1.7	1.5	1.4	10.2	8.2	7.0
Meituan	3690 HK	99,982	HKD	127	BUY	216	NA	50.5	24.2	3.2	2.5	2.0	NA	97.2	29.0
Average							10.7	9.4	8.2	2.4	2.0	1.7	10.2	52.7	18.0
OTA															
Ctrip	TCOM US	23,347	USD	36	BUY	45	29.4	18.7	16.1	4.7	3.8	3.4	31.1	19.5	16.7
Booking	BKNG US	90,948	USD	2,416	NA	NA	18.7	16.2	14.4	4.5	4.1	3.7	14.2	12.3	11.1
Expedia	EXPE US	14,067	USD	92	NA	NA	9.6	8.0	6.8	1.1	1.0	0.9	10.2	8.5	7.4
Webjet	WEB AU	1,702	AUD	7	NA	NA	51.2	23.3	18.7	7.4	5.9	5.2	34.7	17.2	14.1
TripAdvisor	TRIP US	2,604	USD	18	NA	NA	16.0	11.6	9.5	1.5	1.4	1.3	13.7	9.4	7.4
Average							18.4	15.6	13.1	3.9	3.2	2.9	20.8	13.4	11.4
Travel agency															
UTour	002707 CH	1,205	CNY	8	NA	NA	NA	NA	NA	10.2	1.3	0.7	NA	NA	50.8
Zhangjiajie Tourism	000430 CH	449	CNY	8	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Changbai Mountair	603099 CH	350	CNY	9	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Average							NA	NA	NA	10.2	1.3	0.7	NA	NA	50.8
Hotel															
H World Group	HTHT US	15,375	USD	48	NA	NA	NA	44.2	29.1	7.6	5.6	4.8	NA	44.4	29.6
Jinjiang Int Hotels	600754 CH	8,153	CNY	59	NA	NA	NA	33.7	23.4	4.9	3.6	3.1	NA	26.9	18.8
BTG Hotels Group	600258 CH	3,748	CNY	23	NA	NA	NA	31.7	21.9	4.8	3.4	2.9	NA	28.2	19.7
GreenTree	GHG US	425	USD	4	NA	NA	NA	11.4	7.2	2.8	2.1	1.8	NA	8.7	5.5
Average							NA	30.2	20.4	5.0	3.7	3.2	NA	27.1	18.4
Average							22.6	20.8	16.3	4.5	3.0	2.6	19.0	18.3	15.1

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	7,538	6,585	10,394	12,271	13,887
Accommodation reservation	2,409	2,415	3,143	3,919	4,494
Transportation ticketing	4,458	3,379	5,670	6,455	7,155
Others	671	791	1,581	1,898	2,239
COGS	(1,890)	(1,807)	(2,642)	(3,071)	(3,459)
R&D	(1,344)	(1,414)	(1,850)	(2,184)	(2,472)
S&M	(3,036)	(2,801)	(4,012)	(4,675)	(5,222)
Administrative expenses	(572)	(701)	(663)	(736)	(805)
Fair value change	124	102	0	0	0
Other income	98	154	0	0	0
Other gains/(losses).net	69	(114)	0	0	0
Operating profit	895	(24)	1,227	1,604	1,930
Finance income	12	(79)	13	13	13
Other income, net	(33)	(14)	0	0	0
Pre-tax profit	875	(117)	1,240	1,617	1,943
Income tax	(161)	(46)	(211)	(275)	(330)
Less: Minority interests	10	18	0	0	0
Net profit	723	(146)	1,029	1,342	1,612
Adj. net profit	1,308	646	1,698	2,061	2,381

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before tax	875	(117)	1,240	1,617	1,943
D&A	384	389	394	400	279
Change in working capital	1,328	(424)	1,112	573	517
Others	148	354	260	182	121
Net cash from operating	2,897	248	3,217	3,047	3,191
Capex & investments	(200)	(200)	(200)	(200)	(200)
ST investments payments	(529)	(102)	0	0	0
ST investments proceeds	0	0	0	0	0
Other	407	(277)	0	0	(0)
Net cash from investing	(322)	(580)	(200)	(200)	(200)
Equity raised	0	0	0	0	0
Change of debts	(49)	0	0	0	0
Others	(12)	79	(13)	(13)	(13)
Net cash from financing	(62)	79	(13)	(13)	(13)
Net change in cash	2,513	(253)	3,004	2,834	2,978
Exchange difference	0	0	0	0	0
Cash at the beginning of the year	1,804	4,318	4,065	7,069	9,903
Cash at the end of the year	4,318	4,065	7,069	9,903	12,880
Cash at balance sheet	2,046	4,065	7,069	9,903	12,880

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	14,133	13,733	13,295	12,839	12,308
PP&E	1,364	1,446	1,523	1,595	1,592
Investments	1,956	1,956	1,956	1,956	1,956
Land use right	0	16	16	16	16
Intangible assets	8,348	7,858	7,318	6,778	6,237
Deferred income tax assets	175	175	175	175	175
Prepayment & other receivables	9	54	79	92	104
Current assets	7,373	9,344	13,212	16,477	19,833
Account receivable	1,930	1,620	2,484	2,915	3,294
Short-term investments	3,343	3,604	3,604	3,604	3,604
Restricted cash	55	55	55	55	55
Cash and cash equivalent	2,046	4,065	7,069	9,903	12,880
Current liabilities	4,711	4,023	6,024	7,041	7,948
Borrowings	20	20	20	20	20
Trade payables	2,207	2,529	3,699	4,299	4,842
Other payables and accruals	2,437	1,416	2,235	2,638	2,986
Current income taxes liabilities	49	58	70	84	101
Non-current liabilities	1,536	1,536	1,536	1,536	1,536
Borrowings	94	94	94	94	94
Deferred income tax liabilities	497	497	497	497	497
Other payables and accruals	946	946	946	946	946
Total net assets	15,259	15,504	16,933	18,725	20,838
Non-controlling interest	39	22	22	22	22
Total equity	15,219	15,482	16,911	18,704	20,816

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Accommodation reservation	32.0	36.7	30.2	31.9	32.4
Transportation ticketing	59.1	51.3	54.5	52.6	51.5
Others	8.9	12.0	15.2	15.5	16.1
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross Margin	74.9	72.6	74.6	75.0	75.1
PreTax Margin	11.6	-1.8	11.9	13.2	14.0
Tax Rate	17.0	18.0	17.0	17.0	17.0
Adj. net margin	17.4	9.8	16.3	16.8	17.1
Balance sheet ratios					
Current ratio (x)	1.6	2.3	2.2	2.3	2.5
Debtors turnover days	32.5	54.8	54.8	54.8	54.8
Creditors turnover days	3395	3105	1774	1087	511
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
Returns (%)					
ROE	4.9	-1.0	6.4	7.5	8.2
ROA	3.5	-0.7	4.2	4.8	5.2
Per share data					
Adj. EPS (RMB)	0.6	0.3	0.8	0.9	1.1
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	6.8	6.9	7.5	8.3	9.3

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

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CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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