

CTGDF (601888 CH)

Still the crown jewel among reopening plays

Owing to a **weak but expected** 4Q earnings, CTGDF's recent share price has pulled back by 10%+ to its pre-reopening level. While lockdown risk has already behind us, we again see buying opportunity when earnings momentum, in our view, troughed, and subsequently picks up within 1H23E. Our call is further supported by channel check findings in which 1) YTD DF sales still tracking 20%+, 2) inelastic procurement demand from reseller given the prevailing logistic bottleneck and less favorable rebate policy with Korea DF, and 3) a very disciplined discount policy. We are buyers of CTGDF, and believe the stock would see a relief rally towards result season driven by management's 2023 outlook and sentiment recovery towards the 5.1 Golden week.

- **We raise 2023E revenue by 9%**, mainly driven by 1) a net 9% higher airport DF revenue of RMB16.6bn (offset by lower online revenue), which we assert offline foot traffic and spending per visitor to generally recover to c55% of 2019, and 2) Hainan offshore revenue of RMB62.3bn, in which we assume CTGDF to share 78% of Hainan government's target of RMB80bn. These, however, were mitigated by a 0.2pp ramp up in opex ratio, and hence a muted net profits change. Our 2023E forecasts remain c25% below consensus.
- **4Q was below us but momentum has been normalizing.** Although net profits came in below us/ consensus, revenue has showed a 29% sequential QoQ improvement. While results details were not available, we expect the quarter's GPM to show similar trend given 1) discounts has started to narrow from mid-Dec in view of better foot traffic upon the removal of social distancing policy, and 2) a rising contribution from accessories of which a higher GPM is supported by better pricing dynamics. Meanwhile, these were likely eroded by start-up costs induced by the new Haikou shopping mall.
- **Valuation.** Our earnings is little changed. Our TP is still based on 50.0x end-23E P/E, which represents its average since June 2020, when market started to re-rate the stock for a series of policy tailwind. We believe our methodology has appropriately priced-in the recent market sentiment about China's gradual reopening progress.
- **Positive catalysts:** domestic and overseas acquisition, sentiment recovery towards 5.1 Golden week.

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	52,597	67,676	54,463	80,043	103,441
YoY growth (%)	8.2	28.7	(19.5)	47.0	29.2
Net income (RMB mn)	6,140	9,654	5,025	9,957	12,822
EPS (RMB)	3.1	4.9	2.6	5.1	6.6
YoY growth (%)	32.6	57.2	(47.9)	98.1	28.8
Consensus EPS (RMB)	n.a	n.a	4.0	6.3	8.5
P/E (x)	n.a	n.a	80.8	40.8	31.7
P/B (x)	n.a	n.a	12.3	10.2	8.4
Div Yield (%)	n.a	n.a	0.4	0.8	1.0
ROE (%)	27.5	32.6	15.3	25.1	26.5
Net gearing (%)	54.6	47.3	57.4	55.8	57.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (maintain)

Target Price **RMB255.0**
 (Previous TP **RMB256.0**)
 Up/Downside **+22.6%**
 Current Price **RMB208.0**

China Consumer

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Stock Data

Mkt Cap (RMB mn) 418,659
 Avg 3 mths t/o (RMB mn) 2,516
 52w High/Low (RMB) 240.0/153.4
 Total Issued Shares (mn) 1,952
 Source: Wind

Shareholding Structure

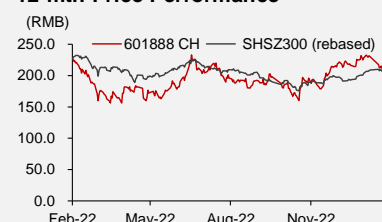
China Travel Group 53.3%
 HKSC 9.8%
 CSFC 3.0%
 Source: Wind

Share Performance

	Absolute	Relative
1-mth	-11.0%	-3.6%
3-mth	3.8%	-4.1%
6-mth	3.9%	6.3%

Source: Wind

12-mth Price Performance



Source: Wind

Related Reports

1. [CTGDF \(601888 CH\) – At the forefront of China's reopening](#) – 20 Dec 2022
2. [CTGDF \(601888 CH\) – A weak 3Q on Sanya's lockdown: resilient online sales made up the gap but unavoidably diluted GPM](#) - 4 Nov 2022
3. [Lockdown in Sanya likely represents yet another entry opportunity](#) – 9 Aug 2022

Figure 1: Earnings revision

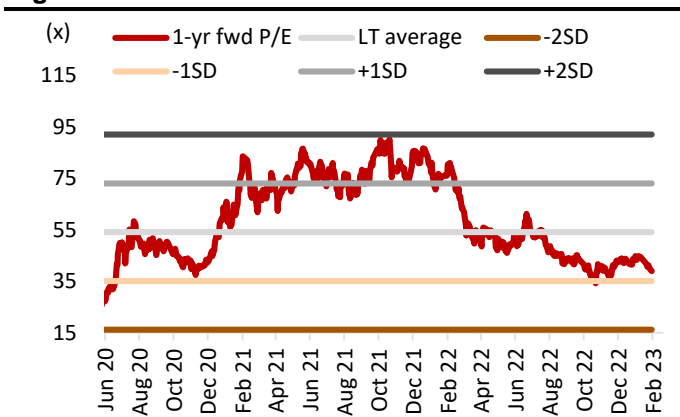
RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	54,463	80,043	103,441	57,080	73,409	101,991	-4.6%	9.0%	1.4%
Gross Profit	16,213	27,324	36,573	18,035	25,487	36,770	-10.1%	7.2%	-0.5%
EBIT	8,127	15,467	19,753	10,454	15,207	20,124	-22.3%	1.7%	-1.8%
Net profit	5,025	9,957	12,822	6,831	10,001	13,249	-26.4%	-0.4%	-3.2%
Gross Margin	29.8%	34.1%	35.4%	31.6%	34.7%	36.1%	-1.8ppt	-0.6ppt	-0.7ppt
EBIT Margin	14.9%	19.3%	19.1%	18.3%	20.7%	19.7%	-3.4ppt	-1.4ppt	-0.6ppt
Net margin	9.2%	12.4%	12.4%	12.0%	13.6%	13.0%	-2.7ppt	-1.2ppt	-0.6ppt

Source: Company data, CMBIGM estimates

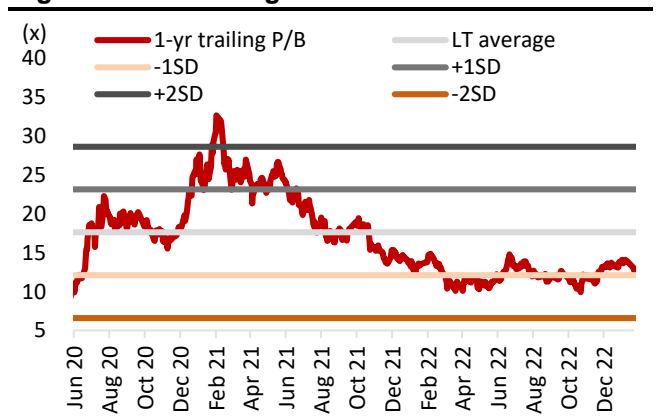
Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	54,463	80,043	103,441	54,463	100,462	128,487	0.0%	-20.3%	-19.5%
Gross Profit	16,213	27,324	36,573	16,500	36,577	47,647	-1.7%	-25.3%	-23.2%
EBIT	8,127	15,467	19,753	8,200	19,486	24,994	-0.9%	-20.6%	-21.0%
Net profit	5,025	9,957	12,822	5,025	13,479	17,348	0.0%	-26.1%	-26.1%
Gross Margin	29.8%	34.1%	35.4%	30.3%	36.4%	37.1%	-0.5ppt	-2.3ppt	-1.7ppt
EBITs margin	14.9%	19.3%	19.1%	15.1%	19.4%	19.5%	-0.1ppt	-0.1ppt	-0.4ppt
Net margin	9.2%	12.4%	12.4%	9.2%	13.4%	13.5%	0ppt	-1ppt	-1.1ppt

Source: Company data, CMBIGM estimates

Figure 3: 12M forward P/E band

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: 12M trailing P/B band

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	52,597	67,676	54,463	80,043	103,441
Airport, online and others	22,635	16,204	11,510	17,761	25,589
Hainan offshore	29,961	51,472	42,953	62,281	77,852
Gross profit	21,376	22,793	16,213	27,324	36,573
D&A	(516)	(480)	(542)	(647)	(754)
Selling expenses	(8,847)	(3,861)	(4,357)	(6,804)	(10,34)
Administration expenses	(1,637)	(2,250)	(2,070)	(2,641)	(3,414)
Other operating expenses	(568)	(1,360)	(1,117)	(1,765)	(2,308)
EBIT	9,809	14,843	8,127	15,467	19,753
EBITDA	10,325	15,323	8,669	16,114	20,508
Finance costs, net	545	43	(260)	(104)	(55)
Non-operating income	(676)	(245)	(265)	(300)	(300)
Total investment gains/(loss)	(7)	161	-	-	-
Pre-tax profit	9,672	14,801	7,602	15,063	19,398
Income tax	(2,335)	(2,437)	(1,265)	(2,507)	(3,229)
Less: Minority interests	(1,197)	(2,711)	(1,312)	(2,599)	(3,347)
Net profit	6,140	9,654	5,025	9,957	12,822

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	6,140	9,654	5,025	9,957	12,822
D&A	516	480	542	647	754
Change in working capital	(2,888)	(2,955)	5,253	(2,576)	(2,112)
Others	4,435	1,151	1,051	2,226	2,914
Net cash fr. operating act.	8,202	8,329	11,872	10,254	14,379
Capex & investments	(1,234)	(2,155)	(2,358)	(2,191)	(2,026)
Associated companies	(1,542)	(62)	-	-	-
Others	(1,039)	(101)	(169)	-	-
Net cash fr. investing act.	(3,814)	(2,318)	(2,526)	(2,191)	(2,026)
Equity raised	-	-	-	-	-
Change of Debts	255	-	-	-	-
Dividend paid	(1,658)	(3,431)	(1,598)	(3,166)	(4,078)
Others	20	(386)	(446)	(1,027)	(1,370)
Net cash fr. financing act.	(1,383)	(3,817)	(2,044)	(4,193)	(5,447)
Net change in cash	3,005	2,194	7,301	3,870	6,906
Cash at the beginning of the year	12,032	14,858	16,856	24,158	28,027
Exchange difference	(331)	(196)	-	-	-
Cash at the end of the year	14,706	16,856	24,158	28,027	34,933
Less: pledged cash	50	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	10,948	16,932	16,932	18,788	20,332
PP&E/Fixed assets	1,591	1,843	1,843	2,714	3,537
Intangible assets	2,449	2,401	2,401	2,346	2,267
Construction-in-progress	1,233	290	290	1,330	2,130
Other non-current assets	5,676	12,397	12,397	12,397	12,397
Current assets	30,971	38,542	38,542	39,721	48,062
Cash	14,706	16,856	16,856	24,158	28,027
Account receivable	129	106	106	85	125
Prepayments	256	348	348	348	348
Other current assets	15,881	21,232	21,232	15,130	19,561
Current liabilities	15,661	17,136	17,136	16,267	18,163
Borrowings	417	411	411	411	411
Account payables	4,327	5,880	5,880	5,011	6,907
Other payables	7,246	6,122	6,122	6,122	6,122
Tax payables	3,671	4,722	4,722	4,722	4,722
Non-current liabilities	79	3,546	3,546	3,546	3,546
Borrowings	-	-	-	-	-
Deferred tax liabilities	74	55	55	55	55
Other non-current liabilities	5	3,491	3,491	3,491	3,491
Minority Interest	3,871	5,173	5,173	5,778	6,977
Total net assets	26,179	34,791	34,791	38,695	46,685
Shareholders' equity	22,308	29,619	29,619	32,918	39,708

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Airport, online and others	43.0	23.9	21.1	22.2	24.7
Hainan offshore	57.0	76.1	78.9	77.8	75.3
P&L ratios (%)					
Gross margin	40.6	33.7	29.8	34.1	35.4
Operating margin	18.6	21.9	14.9	19.3	19.1
Pre-tax margin	18.4	21.9	14.0	18.8	18.8
Net margin	11.7	14.3	9.2	12.4	12.4
Balance sheet analysis					
Current ratio (x)	0.5	0.4	0.6	0.6	0.6
Net receivable days	0.9	0.6	0.6	0.6	0.6
Net payable days	50.6	47.8	47.8	47.8	47.8
Inventory turnover days	172.8	160.7	130.0	125.0	120.0
Net debt to equity (%)	54.6	47.3	57.4	55.8	57.9
Returns (%)					
ROE	27.5	32.6	15.3	25.1	26.5
ROA	14.6	17.4	8.6	14.6	15.9
Dividend yield	0.5	0.8	0.4	0.8	1.0
Per share					
EPS (RMB)	3.1	4.9	2.6	5.1	6.6
DPS (RMB)	1.0	1.6	0.8	1.6	2.1
BVPS (RMB)	11.4	15.2	16.9	20.3	24.8

Source: Company data, CMBIGM estimates

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