

# Tongcheng Travel (780 HK)

## Clear growth path on resilient travel demand

Tongcheng delivered upbeat 3Q23 results, with topline +61% YoY (3% above consensus) and bottom line 8% above consensus. Despite soft seasonality in 4Q, we expect 4Q23E resilient momentum to continue (forecasting rev +87% YoY, bottom line at RMB470mn), backed by exam-related accommodation demand and share gain in the Golden Week. Looking into 2024E, we see high visibility for TC to deliver >20% topline growth. Long-haul & international tourism recovery would bring further upside. We slightly raise earnings by 4% in FY23E, and keep FY24/25E bottom line unchanged. Maintain BUY with DCF-based TP of HK\$25.1.

■ **Another upbeat quarter.** TC delivered another upbeat quarter, with revenue +61% YoY (3%/4% above consensus/our estimates) and bottom line at RMB621mn (8%/9% above consensus/our estimates, on better-than-expected topline and opex control). By segment, transportation revenue +70% YoY, 5% above our estimates, thanks to rising ticketing volume (air ticket volume >+30% vs. 3Q19), as well as enriched product/service offerings. Hotel revenue +38% YoY, mainly driven by robust room night growth (>100% vs. 3Q19). Others revenue +103% YoY, beating our estimates by 7%.

■ **4Q23E momentum to continue.** Despite soft seasonality in 4Q, we are positive on its continuous recovery with resilient exam-related accommodation and share gain in the Golden Week. We forecast 4Q23E revenue +87% YoY (+44%, vs. 2019), in which hotel/transportation/others +67%/99%/95% YoY (+37%/27%/200% vs. 2019). Hotel revenue may surge +37% (vs. 2019), with room nights +67% (vs. 2019), ADR -7% (vs. 2019, for higher mix from lower-tier cities) and stable take rate at 8-8.5%. International accommodation room nights have recovered to 2019 level. For transportation segment, we forecast revenue +27% (vs. 2019 level), in which ground & air ticketing volume at similar growth and take rate with sequential growth (>3.5%). We forecast adj. net profit at RMB470mn in 4Q23E, with GPM/NPM at 74.5%/17%. Looking into 2024E, we see high visibility for TC to deliver >20% topline growth, backed by resilient travel demand.

■ **Maintain BUY.** To reflect better profit in 2H23E, we raise adj. NP by 4% in FY23E, and keep FY24/25E earnings forecast unchanged. Our DCF-based TP was unchanged at HK\$25.1, implying 24x/21x FY23/24E P/E.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	7,538	6,585	11,562	13,927	16,055
YoY growth (%)	27.1	(13)	75.6	20.5	15.3
Adjusted net profit (RMB mn)	1,308	646	2,186	2,500	2,878
Diluted EPS (RMB)	0.58	0.29	0.97	1.11	1.28
YoY growth (%)	37.1	-50.6	238.2	14.4	15.1
Consensus EPS (RMB)	NA	NA	0.79	0.99	1.17
P/S (x)	4.2	4.8	2.7	2.3	2.0
P/E (x)	23.9	48.3	14.0	12.2	10.6
ROE (%)	4.9	(1)	9.2	9.6	10.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** **HK\$25.10**  
(Previous TP HK\$25.10)  
**Up/Downside** **65.8%**  
**Current Price** **HK\$15.14**

### China Entertainment

#### Sophie HUANG

(852) 3900 0889

sophiehuang@cmbi.com.hk

#### Eason XU

(852) 3900 0849

easonxu@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	34,140.7
Avg 3 mths t/o (HK\$ mn)	58.3
52w High/Low (HK\$)	19.84/14.04
Total Issued Shares (mn)	2255.0
Source: FactSet	

### Shareholding Structure

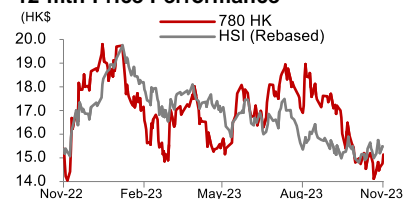
Tencent	21.2%
Trip.com	20.7%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	2.3%	-0.9%
3-mth	-10.4%	-11.0%
6-mth	-1.8%	7.7%

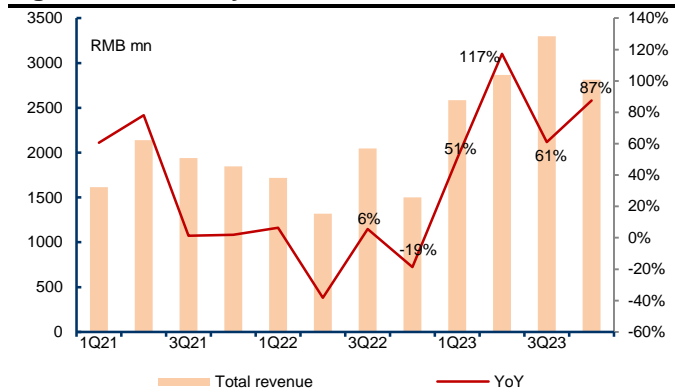
Source: FactSet

### 12-mth Price Performance



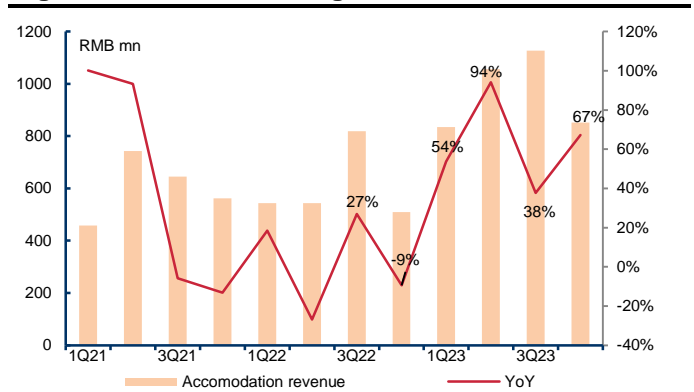
Source: FactSet

Figure 1: Quarterly revenue estimates



Source: Company data, CMBIGM estimates

Figure 2: Hotel business growth estimates



Source: Company data, CMBIGM estimates

Figure 3: 3Q23 financial review

RMB mn	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	1,939	1,846	1,718	1,319	2,048	1,500	2,586	2,866	3,299	15%	61%	3,215	3%	3,187	4%
Operating Profit	280	65	138	(128)	(39)	5	465	417	599	44%	NA	459	30%	515	16%
Net profit	226	27	101	(135)	(94)	(32)	378	360	515	43%	NA	387	33%	402	28%
Adj. net profit	343	250	245	112	252	37	504	592	621	5%	147%	577	8%	570	9%
<b>Margin (%)</b>															
Gross Margin	73.9%	20.5%	72.5%	70.9%	74.0%	72.0%	75.0%	75.5%	76.0%			75.0%		76.0%	
Operating Margin	14.4%	3.5%	8.0%	-9.7%	-1.9%	0.4%	18.0%	14.6%	18.2%			14.3%		16.2%	
Adj. net margin	17.7%	13.6%	14.3%	8.5%	12.3%	2.5%	19.5%	20.7%	18.8%			17.9%		17.9%	
<b>Growth (%)</b>															
Revenue (YoY)	1.3%	1.8%	6.5%	-38.3%	5.6%	-18.8%	50.5%	117.4%	61.1%			57.0%		55.6%	
Revenue (QoQ)	-9.3%	-4.8%	-7.0%	-23.2%	55.3%	-26.8%	72.4%	10.8%	15.1%			12.2%		11.2%	
Operating Profit	-4.4%	-29.6%	-36.0%	NA	NA	NA	237.7%	NA	NA			NA		NA	
Adj. net profit	-7.9%	-18.5%	-17.3%	-73.2%	-26.6%	-85.0%	105.6%	428.9%	146.5%			NA		NA	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Revenue breakdown

RMB mn	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	QoQ	YoY
<b>Total revenue</b>	<b>1,939</b>	<b>1,846</b>	<b>1,718</b>	<b>1,319</b>	<b>2,048</b>	<b>1,500</b>	<b>2,586</b>	<b>2,866</b>	<b>3,299</b>	<b>15%</b>	<b>61%</b>
Accommodation reservation	645	562	543	544	819	509	834	1,055	1,127	7%	38%
Transportation ticketing	1,125	1,075	1,017	620	987	756	1,383	1,495	1,680	12%	70%
Others	170	209	158	156	243	235	369	316	492	56%	103%

Source: Company data, CMBIGM

Figure 5: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	11,562	13,927	16,055	11,517	13,951	16,369	0.4%	-0.2%	-1.9%
Gross Profit	8,721	10,532	12,161	8,643	10,482	12,314	0.9%	0.5%	-1.2%
Operating Profit	1,814	2,134	2,528	1,641	2,135	2,674	10.6%	-0.1%	-5.5%
Adj. net profit	2,186	2,500	2,878	2,121	2,568	3,060	3.0%	-2.6%	-5.9%
Adj. EPS (RMB)	0.97	1.11	1.28	0.79	0.99	1.17	22.7%	12.2%	9.7%
Gross Margin	75.4%	75.6%	75.7%	75.0%	75.1%	75.2%	+0.4ppts	+0.5ppts	+0.5ppts
Operating Margin	15.7%	15.3%	15.7%	14.2%	15.3%	16.3%	+1.4ppts	+0.0ppts	-0.6ppts
Adj. net margin	18.9%	18.0%	17.9%	18.4%	18.4%	18.7%	+0.5ppts	-0.5ppts	-0.8ppts

Source: CMBIGM estimates, Bloomberg

Figure 6: Estimates revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	11,562	13,927	16,055	11,587	13,924	16047	-0.2%	0.0%	0.0%
Gross Profit	8,721	10,532	12,161	8,739	10,529	12155	-0.2%	0.0%	0.0%
Operating Profit	1,814	2,134	2,528	1,713	2,133	2526	5.9%	0.0%	0.0%
Adj. net profit	2,186	2,500	2,878	2,102	2,500	2877	4.0%	0.0%	0.0%
Adj. EPS (RMB)	0.97	1.11	1.28	0.94	1.11	1.28	4.0%	0.0%	0.0%
Gross Margin	75.4%	75.6%	75.7%	75.4%	75.6%	75.7%	-0.0ppts	+0.0ppts	+0.0ppts
Operating Margin	15.7%	15.3%	15.7%	14.8%	15.3%	15.7%	+0.9ppts	+0.0ppts	+0.0ppts
Adj. net margin	18.9%	18.0%	17.9%	18.1%	18.0%	17.9%	+0.8ppts	-0.0ppts	-0.0ppts

Source: CMBIGM estimates, Bloomberg

Figure 7: DCF valuation

DCF Valuation (Rmb mn)										
	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	2,483	2,852	3,297	4,150	5,118	6,191	7,360	8,611	9,928	11,295
Tax	(311)	(365)	(432)	(519)	(640)	(775)	(921)	(1,077)	(1,242)	(1,413)
D&A	394	400	279	290	302	312	321	329	336	342
Change in working capital	(1,391)	(733)	(664)	(677)	(691)	(704)	(719)	(733)	(748)	(763)
CAPEX	(200)	(200)	(200)	(210)	(221)	(232)	(243)	(255)	(268)	(281)
FCF	976	1,955	2,280	3,034	3,868	4,793	5,799	6,875	8,006	9,180
FCF Growth	NA	100%	17%	33%	27%	24%	21%	19%	16%	15%
PV	976	1,702	1,730	2,005	2,226	2,403	2,532	2,615	2,652	25,748
Terminal Value										80,059

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	44,588
minus: Net debt(Rmb mn)	(7,816)
minus: Minority interest(Rmb mn)	0
Equity Value(Rmb mn)	52,405
FX	0.93
Equity Value(HK\$ mn)	56,349
Target Price (HK\$) based on DCF	25.1

		WACC					
Terminal growth rate	~	13%	14%	15%	16%	17%	
	1.5%	27.8	25.4	23.7	21.6	20.1	
	2.0%	28.5	25.9	24.1	21.9	20.4	
	2.5%	29.2	26.4	24.6	22.3	20.6	
	3.0%	30.0	27.1	25.1	22.6	20.9	
	3.5%	30.8	27.7	25.6	23.1	21.3	
	4.0%	31.8	28.5	26.2	23.5	21.6	
4.5%	32.9	29.3	26.9	24.0	22.0		

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Comps table

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Tongcheng Travel	780 HK	4,271	HKD	15	BUY	25	14.0	12.2	10.6	2.7	2.2	1.9	15%
China Internet Giants													
Alibaba	BABA US	197,370	USD	78	BUY	155	8.6	8.0	7.1	1.5	1.4	1.2	11%
Meituan	3690 HK	87,331	HKD	109	BUY	178	28.6	19.0	12.7	2.3	1.9	1.6	50%
Average							8.6	8.0	7.1	1.9	1.6	1.4	30%
OTA													
Ctrip	TCOM US	22,906	USD	35	BUY	46	16.7	14.8	12.6	3.7	3.2	2.8	16%
Booking	BKNG US	109,388	USD	3,135	NA	NA	20.4	18.5	16.2	5.1	4.6	4.2	18%
Expedia	EXPE US	18,936	USD	136	NA	NA	13.7	11.6	9.7	1.5	1.3	1.2	28%
Webjet	WEB AU	1,669	AUD	7	NA	NA	22.4	17.9	15.4	5.6	4.9	4.4	21%
TripAdvisor	TRIP US	2,644	USD	19	NA	NA	18.1	12.7	10.7	1.5	1.4	1.3	27%
Average							18.3	15.1	12.9	3.0	2.6	2.4	22%
Travel agency													
UTour	002707 CH	975	CNY	7	NA	NA	NA	31.7	22.4	2.1	0.8	0.6	259%
Zhangjiajie Tourism	000430 CH	387	CNY	7	NA	NA	NA	NA	NA	NA	NA	NA	NA
Changbai Mountain	603099 CH	547	CNY	15	NA	NA	25.3	21.9	18.8	6.6	5.7	4.9	17%
Average							25.3	26.8	20.6	4.4	3.3	2.7	17%
Hotel													
H World Group	HTHT US	11,524	USD	36	NA	NA	22.4	19.6	16.7	4.0	3.6	3.3	16%
Jinjiang Int Hotels	600754 CH	4,426	CNY	33	NA	NA	25.8	18.1	14.5	2.2	2.0	1.9	33%
BTG Hotels Group	600258 CH	2,544	CNY	16	NA	NA	23.4	18.2	15.2	2.3	2.1	2.0	25%
GreenTree	GHG US	447	USD	4	NA	NA	9.6	9.0	7.4	2.0	1.8	1.6	13%
Average							20.3	16.2	13.4	2.6	2.4	2.2	22%
Average							18.8	16.8	13.9	3.1	2.7	2.4	20%

Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	5,933	7,538	6,585	11,562	13,927	16,055
Cost of goods sold	(1,697)	(1,890)	(1,807)	(2,842)	(3,396)	(3,894)
Gross profit	4,236	5,648	4,778	8,721	10,532	12,161
Operating expenses	(3,916)	(4,953)	(4,917)	(6,906)	(8,398)	(9,633)
Selling expense	(2,131)	(3,036)	(2,801)	(4,416)	(5,306)	(6,037)
Admin expense	(540)	(572)	(701)	(733)	(836)	(931)
Other rental related expenses	(1,246)	(1,344)	(1,414)	(1,757)	(2,256)	(2,665)
Operating profit	364	895	(24)	1,814	2,134	2,528
Other income	65	124	102	0	0	0
Other expense	(140)	(91)	(28)	0	0	0
Gain/loss on financial assets at FVTPL	99	98	154	0	0	0
Other gains/(losses)	21	69	(114)	0	0	0
Net Interest income/(expense)	23	12	(79)	13	13	13
Others	(7)	(33)	(14)	0	0	0
Pre-tax profit	(380)	(875)	117	(1,827)	(2,146)	(2,541)
Income tax	72	161	46	311	365	432
After tax profit	(308)	(714)	164	(1,517)	(1,782)	(2,109)
Minority interest	2	10	18	0	0	0
Net profit	310	723	(146)	1,517	1,782	2,109
Adjusted net profit	954	1,308	646	2,186	2,500	2,878

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	8,830	7,373	9,344	14,224	18,205	22,319
Cash & equivalents	1,804	2,046	4,065	7,836	11,269	14,889
Restricted cash	92	55	55	55	55	55
Account receivables	2,020	1,930	1,620	2,729	3,277	3,771
Financial assets at FVTPL	4,913	3,343	3,604	3,604	3,604	3,604
Non-current assets	10,284	14,133	13,733	13,301	12,849	12,321
PP&E	1,226	1,364	1,446	1,523	1,595	1,592
Right-of-use assets	242,111	217,064	217,064	217,064	217,064	217,064
Deferred income tax	216	175	175	175	175	175
Investment in JVs & assos	221	1,128	1,128	1,128	1,128	1,128
Intangibles	7,481	8,348	7,858	7,318	6,778	6,237
Financial assets at FVTPL	168	828	828	828	828	828
Other non-current assets	(241,138)	(214,774)	(214,766)	(214,735)	(214,718)	(214,703)
Current liabilities	4,234	4,711	4,023	6,554	7,852	9,024
Short-term borrowings	49	20	20	20	20	20
Account payables	3,960	4,496	3,912	6,406	7,678	8,823
Other current liabilities	64	49	58	70	84	101
Contract liabilities	161	147	33	58	70	80
Non-current liabilities	863	1,536	1,536	1,536	1,536	1,536
Long-term borrowings	113	94	94	94	94	94
Convertible bonds	0	0	0	0	0	0
Deferred income	529	497	497	497	497	497
Other non-current liabilities	221	946	946	946	946	946
Share capital	8	8	8	8	8	8
Capital surplus	19,046	19,571	19,980	20,380	20,830	21,330
Other reserves	(2,996)	(3,038)	(3,038)	(3,038)	(3,038)	(3,038)
Total shareholders equity	14,017	15,259	15,504	17,421	19,653	22,261
Minority interest	3	39	22	22	22	22
Total equity and liabilities	19,114	21,506	21,064	25,511	29,041	32,822

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	380	875	(117)	1,827	2,146	2,541
Depreciation & amortization	379	384	389	394	400	279
Tax paid	(72)	(161)	(46)	(311)	(365)	(432)
Change in working capital	(525)	1,328	(424)	1,391	733	664
Others	(935)	(2,747)	(381)	(3,502)	(3,114)	(3,251)
<b>Net cash from operations</b>	<b>(773)</b>	<b>(322)</b>	<b>(580)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>
<b>Investing</b>						
Capital expenditure	(200)	(200)	(200)	(200)	(200)	(200)
Net proceeds from disposal of short-term investments	(247)	(529)	(102)	0	0	0
Others	623	667	381	187	187	187
<b>Net cash from investing</b>	<b>177</b>	<b>(62)</b>	<b>79</b>	<b>(13)</b>	<b>(13)</b>	<b>(13)</b>
<b>Financing</b>						
Net borrowings	(77)	(49)	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	254	(12)	79	(13)	(13)	(13)
<b>Net cash from financing</b>	<b>177</b>	<b>(62)</b>	<b>79</b>	<b>(13)</b>	<b>(13)</b>	<b>(13)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	2,271	1,804	4,318	4,065	7,836	11,269
Exchange difference	(6)	0	0	0	0	0
<b>Cash at the end of the year</b>	<b>1,804</b>	<b>4,318</b>	<b>4,065</b>	<b>7,836</b>	<b>11,269</b>	<b>14,889</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	(19.8%)	27.1%	(12.6%)	75.6%	20.5%	15.3%
Gross profit	(16.5%)	33.3%	(15.4%)	82.5%	20.8%	15.5%
Operating profit	(59.1%)	145.9%	na	na	17.6%	18.5%
Net profit	(56.9%)	133.5%	na	na	17.5%	18.4%
Adj. net profit	(39.4%)	37.1%	(50.6%)	238.2%	14.4%	15.1%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	71.4%	74.9%	72.6%	75.4%	75.6%	75.7%
Operating margin	6.1%	11.9%	(0.4%)	15.7%	15.3%	15.7%
Adj. net profit margin	16.1%	17.4%	9.8%	18.9%	18.0%	17.9%
Return on equity (ROE)	2.3%	4.9%	(0.9%)	9.2%	9.6%	10.1%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.1)	(0.1)	(0.3)	(0.4)	(0.6)	(0.7)
Current ratio (x)	2.1	1.6	2.3	2.2	2.3	2.5
Receivable turnover days	144.1	95.6	98.4	68.6	78.7	80.1
Payable turnover days	1,004.1	816.6	849.4	662.7	757.0	773.3
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	85.8	44.8	na	20.7	17.6	14.9
P/E (diluted)	16.9	34.0	22.5	48.5	14.3	12.5
P/B	2.0	2.3	1.9	2.0	1.8	1.6

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

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## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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