

Tongcheng-Elong (780 HK)

3Q19 beat; Expecting 4Q19 to accelerate

Tongcheng-Elong ("TC") delivered strong 3Q19 results, with topline/bottom line growth of 22%/33% YoY, 6%/7% above consensus. Mgmt guided revenue acceleration in 4Q19E. User metrics trends well in 3Q19, and we keep confident on its long-term user expansion and enhanced monetization. We maintain our TP of **HK\$19.71**, with earnings estimates barely changed.

- **3Q19 all-round beat.** 3Q19 revenue grew 22% YoY, 3%/6% higher than CMBI/ consensus. Non-GAAP net profit grew 33% YoY, 5%/7% above CMBI/ consensus. 4Q19E revenue was guided to accelerate to 25%-30 YoY. Mgmt prioritized topline growth over margin expansion in 2020E, and we keep confident on its user expansion and hotel momentum, despite competition from Meituan.
- **User metrics trend well.** 3Q19 MAU grew 13% YoY to 234mn (+28% QoQ) for strong seasonality, in line with our estimate. Paying user reached 29.8mn in 3Q19, up 32% YoY (3% above our estimate, with paying ratio at 12.7%). We expect its MAU/paying user to grow 10%/30% YoY in 4Q19E. Apart from Tencent traffic, user upside might derive from: 1) multi-channel apps (e.g. Douyin, Baidu); and 2) pre-installment.
- **Strong hotel momentum to continue.** Transportation revenue grew only 2% YoY for seasonality and 12306 impact, while accommodation revenue surged 34.5% YoY in 3Q19 (room nights +40% YoY). We expect its transportation revenue to grow 12% YoY in 4Q19E, in which take rate is up to 3% and 12306 impact is priced in. We expect strong momentum of accommodation to continue, with revenue up 40% YoY in 4Q19E (with room nights ~60% YoY). Accommodation take rate would remain intact at 8.5% in 4Q19E, in our view. Market concern lies in competition landscape in lower-tier cities. We view the hotel market in low-tier cities still in fast growing pace for low user penetration, and competition from Meituan poses limited impact on TC's accommodation growth.
- **Maintain BUY.** We maintain our TP of **HK\$19.71**, with earnings estimates barely changed. Our TP represents **17.5x** FY20E P/E, in line with industry average. The stock is trading at 15.0x/11.6x FY19/20E P/E. Valuation is attractive, given its strong 4Q19E and solid FY20E outlook. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	5,256	7,466	9,445	11,710
YoY growth (%)	NA	NA	26.5	24.0
Net income (RMB mn)	916	1,552	2,005	2,489
EPS (RMB)	0.44	0.75	0.97	1.20
YoY growth (%)	NA	69.5	29.2	24.1
P/E (x)	25.3	15.0	11.6	9.3
P/B (x)	2.9	2.7	2.4	2.1
Yield (%)	0.0	0.0	0.0	1.0
ROE (%)	13.9	7.9	11.6	13.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$19.7
(Previous TP	HK\$19.7)
Up/Downside	+51.5%
Current Price	HK\$13.0

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	27,597
Avg 3 mths t/o (HK\$ mn)	34.4
52w High/Low (HK\$)	20.0/8.9
Total Issued Shares (mn)	2,122
Source: Bloomberg	

Shareholding Structure

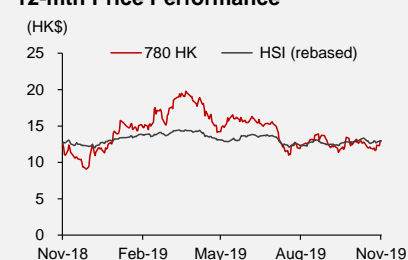
Tencent	22.4%
Ctrip	21.9%
Suzhou Industrial Park	7.8%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	4.0%	3.1%
3-mth	8.7%	3.8%
6-mth	-8.9%	-7.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- 3Q19E Preview: solid results with strong hotel – 22 Oct 2019
- 2Q19 beat, but alert on 2H19 margin pressure – 20 Aug 2019
- 2Q19E preview: solid momentum to continue – 25 Jul 2019
- Strong 1Q19; Focusing more on user value – 16 May 2019

Figure 1: Peers comparison

Company	Ticker	Mkt cap (USD mn)	Currency	Price	PE			PS			EV/EBITDA			EPS CAGR
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	
OTA														
Ctrip	CTRP US	19,683	USD	33.5	25.3	21.1	17.0	3.9	3.4	2.9	22.7	17.9	13.9	22%
Tongcheng-eLong	780 HK	3,525	HKD	13.0	16.1	12.9	10.6	3.3	2.7	2.3	11.1	8.2	6.5	23%
Tuniu	TOUR US	302	USD	2.3	NA	43.0	20.8	0.9	0.9	0.9	NA	17.3	NA	NA
Booking	BKNG US	79,253	USD	1,893.5	18.5	16.6	14.7	5.3	4.9	4.5	13.1	12.3	11.1	12%
Expedia	EXPE US	14,531	USD	100.3	16.5	14.5	12.4	1.2	1.1	1.0	8.1	7.6	6.7	15%
Webjet	WEB AU	1,136	AUD	12.4	19.7	16.5	14.2	4.5	3.9	3.5	13.5	10.4	9.1	15%
TripAdvisor	TRIP US	4,052	USD	29.1	16.7	15.5	13.5	2.6	2.5	2.3	7.6	7.1	6.6	11%
Average					18.8	20.0	14.7	3.1	2.8	2.5	12.7	11.5	9.0	17%
Average(excluding Tuniu)					18.8	16.2	13.7	3.5	3.1	2.8	12.7	10.6	9.0	17%
Traditional Travel Agency														
UTour	002707 CH	647	CNY	5.2	19.7	16.3	13.5	0.4	0.3	0.3	15.1	13.4	12.4	21%
Tempus Global	300178 CH	431	CNY	4.9	14.6	11.5	8.9	NA	NA	NA	NA	NA	NA	28%
Zhangjiajie Tourism	000430 CH	283	CNY	4.9	70.1	61.4	61.4	4.7	4.6	4.4	NA	NA	NA	7%
Changbai Mountain	603099 CH	318	CNY	8.4	25.1	19.5	17.8	4.2	3.5	2.9	12.2	9.9	8.6	19%
Average					32.4	27.2	25.4	3.1	2.8	2.5	13.7	11.7	10.5	19%
Total Average					24.2	22.6	18.6	3.1	2.8	2.5	12.9	11.6	9.4	17%
Total Average(excluding Tuniu)					24.2	20.6	18.4	3.3	3.0	2.7	12.9	10.8	9.4	17%

Source: Bloomberg

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	2,519	5,256	7,466	9,445	11,710
Accommodation reservation	2,362	1,830	4,923	6,322	7,889
Transportation ticketing	61	3,233	2,288	2,847	3,520
Others	96	193	254	276	301
COGS	(812)	(1,601)	(1,880)	(2,253)	(2,678)
R&D	(522)	(1,350)	(1,598)	(1,729)	(2,084)
S&M	(1,095)	(1,841)	(2,496)	(3,252)	(4,071)
Administrative expenses	(97)	(935)	(358)	(376)	(458)
Fair value change	1	79	0	0	0
Other income	13	33	0	0	0
Other gains/(losses).net	23	48	0	0	0
Operating profit	29	(311)	1,134	1,835	2,419
Finance income	10	10	13	13	13
Other income, net	95	903	0	0	0
Pre-tax profit	134	602	1,147	1,848	2,432
Income tax	60	(67)	(195)	(314)	(413)
Less: Minority interests	(1)	(5)	0	0	0
Net profit	196	530	952	1,534	2,018
Adj. net profit	193	916	1,552	2,005	2,489

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before tax	134	602	1,147	1,848	2,432
D&A	84	297	335	379	384
Change in working capital	554	2,024	(394)	392	618
Others	(52)	(629)	(390)	(628)	(827)
Net cash from operating	720	2,361	893	2,305	3,020
Capex & investments	(392)	(338)	(200)	(200)	(200)
ST investments payments	(1,673)	(2,246)	0	0	0
ST investments proceeds	1,520	0	0	0	0
Other	3	1,183	0	0	0
Net cash from investing	(542)	(1,400)	(200)	(200)	(200)
Equity raised	0	1,240	0	0	0
Change of debts	190	(20)	0	0	0
Others	(4)	260	0	0	0
Net cash from financing	186	1,481	0	0	0
Net change in cash	364	2,441	693	2,105	2,820
Exchange difference	(1)	1	0	0	0
Cash at the beginning of the year	339	702	3,144	3,837	5,942
Cash at the end of the year	702	3,144	3,837	5,942	8,762
Cash at balance sheet	702	3,144	3,837	5,942	8,762

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	924	9,294	9,185	9,017	8,846
PP&E	442	934	1,029	1,120	1,207
Investments	63	101	101	101	101
Land use right	0	16	16	16	16
Intangible assets	309	7,962	7,732	7,462	7,192
Deferred income tax assets	62	250	250	250	250
Prepayment & other receivables	49	31	56	68	80
Current assets	1,844	7,497	8,587	11,119	14,428
Account receivable	735	1,381	1,778	2,206	2,694
Short-term investments	236	2,831	2,831	2,831	2,831
Restricted cash	171	141	141	141	141
Cash and cash equivalent	702	3,144	3,837	5,942	8,762
Current liabilities	1,578	4,534	4,562	5,393	6,513
Borrowings	20	20	20	20	20
Trade payables	1,115	2,569	2,631	3,155	3,750
Other payables and accruals	437	1,815	1,754	2,031	2,518
Current income taxes liabilities	6	131	157	188	226
Non-current liabilities	6,522	729	729	729	729
Borrowings	172	153	153	153	153
Deferred income tax liabilities	0	570	570	570	570
Other payables and accruals	6,349	7	7	7	7
Total net assets	(5,337)	11,528	12,480	14,014	16,032
Non-controlling interest	5	(8)	(8)	(8)	(8)
Total equity	(5,332)	11,535	12,487	14,022	16,040

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Accommodation reservation	93.8	34.8	65.9	66.9	67.4
Transportation ticketing	2.4	61.5	30.7	30.1	30.1
Others	3.8	3.7	3.4	2.9	2.6
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross Margin	67.8	69.5	74.8	76.1	77.1
PreTax Margin	3.9	11.4	15.4	19.6	20.8
Tax Rate	-45.0	10.0	17.0	17.0	17.0
Adj. net margin	7.6	17.4	20.8	21.2	21.3
Balance sheet ratios					
Current ratio (x)	1.2	1.7	1.9	2.1	2.2
Debtors turnover days	103.1	68.7	62.0	54.8	54.8
Creditors turnover days	457.8	593.0	561.8	1118.3	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
Returns (%)					
ROE	-3.7	13.9	7.9	11.6	13.4
ROA	7.1	4.8	5.5	8.1	9.3
Per share data					
Adj. EPS (RMB)	0.0	0.4	0.7	1.0	1.2
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	0.0	5.6	6.0	6.8	7.7

Source: Company data, CMBIS estimates

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