

Tongcheng-Elong (780 HK)

Looking into 2H22E recovery

Tongcheng-Elong delivered upbeat 1Q22 results, with rev/ adj. net profit +6%/-17% YoY, 4%/12% above consensus. Mgmt. guided 2Q22E rev to decline 40-45% YoY, with adj. net profit at RMB50-100mn. We view the guidance as forgivable, despite topline/ bottom line midpoint 18%/42% below consensus. We believe soft 2Q22E (due to lockdown disruptions) is well priced in recent stock price, and expect 2H22E to see gradual rebound (Sep to reach 2021 level, and 4Q22E to achieve positive growth), with relaxation of travel restrictions after 2Q22 epidemic. Given TC's lower exposure in high-tier cities, we expect TC to deliver above-industry growth, and see faster-than-peers rebound ahead. For the full year, we estimate FY22E topline/bottom line will drop 10%/19% YoY (adj. NPM at 15.4%). We trimmed TC's FY22-24E earnings forecast by 21-27% to reflect COVID-19 resurgence impact, but we believe LT fundamentals remain intact. Adjust TP to HK\$18.

- Upbeat 1Q22 results with solid CNY rebound.** 1Q22 rev/adj. net profit +6%/-17% YoY, 4%/12% above consensus, attributable to business recovery in Jan and Feb. By segment, accommodation/ transportation/ others rev +18%/-1%/+20% YoY, vs. our estimates of +12%/-3%/+0% YoY. OPM improved to 8% (vs. 3.5% in 4Q21) thanks to S&M scale-back to cope with epidemic from Mar, despite GPM contraction to 72.5% (vs. 75% in 4Q21). As such, adj. NP recorded RMB245mn (adj. NPM at 14.3%), approaching high end guidance.
- Looking beyond soft 2Q22E on epidemic resurgence.** Mgmt guided 2Q22E rev to decline 40-45%, with adj. net profit at RMB50-100mn. 2Q22E would be the worst quarter in 2022, as lockdowns and travel restrictions dampened travel momentum. By segment, we expect accommodation rev to drop 38% YoY in 2Q22E, with lower ADR but higher take rate (>9%, with lighter subsidies and more VAS). We believe transportation would suffer more, and forecast rev to drop 48% YoY in 2Q22E, with stable take rate. Looking ahead, we expect Jul & Aug to see gradual recovery, and Sep to reach 2021 level, with stabilization of COVID cases and lockdown relaxation. 4Q22E might see positive rev growth if the epidemic does not worsen. We forecast FY22E topline/bottom line to decline 10%/19% YoY (adj. NPM at 15.4%). Given TC's lower exposure in high-tier cities, we expect TC to deliver above-industry growth, and see faster-than-peers rebound ahead.
- Maintain BUY.** We slightly trimmed TC's FY22-24E earnings forecast by 21-27% to reflect temporary travel restrictions, but expect LT fundamentals to remain intact. Maintain BUY with new TP at HK\$18 (24x FY23E P/E).

Earnings Summary

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	7,538	6,807	8,202	9,536
YoY growth (%)	27.1	-9.7	20.5	16.3
Adj. net income (RMB mn)	1,296	1,049	1,421	1,718
Adj. EPS (RMB)	0.59	0.47	0.64	0.78
YoY growth (%)	35.9	-19.0	35.4	20.9
Consensus EPS (RMB)	NA	0.39	0.67	0.87
P/E (x)	19.8	24.5	18.1	15.0
P/B (x)	1.3	1.2	1.2	1.1
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	5.0	3.0	4.6	5.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$18.0
 (Previous TP) HK\$20.0
Up/Downside +34.3%
Current Price HK\$13.4

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	31,455
Avg 3 mths t/o (HK\$ mn)	105.51
52w High/Low (HK\$)	21.35/ 9.00
Total Issued Shares (mn)	2,218

Source: Bloomberg

Shareholding Structure

Tencent	21.47%
Trip.com	20.94%
T Rowe Price	6.02%

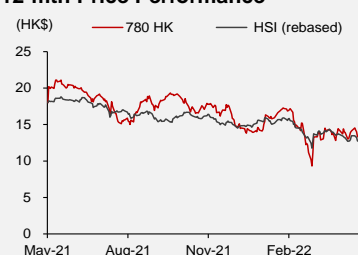
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-3.6%	4.2%
3-mth	-17.4%	1.1%
6-mth	-22.2%	-0.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Looking beyond 3M22E epidemic – 23 March 2022
- Moving into 3Q22 rebound – 23 Nov 2021
- China Internet: Embracing a new normal of regulation – 8 Nov 2021

Figure 1: 1Q22 financial review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY	Consensus	Diff %
Revenue	1,005	1,200	1,915	1,813	1,614	2,138	1,939	1,846	1,718	-7%	6%	1,656	4%
Operating Profit	(53)	49	293	92	215	335	280	65	138	112%	-36%	136	1%
Net profit	(56)	55	248	80	170	291	226	27	101	277%	-40%	98	3%
Adj. net profit	78	196	373	307	296	398	351	250	245	-2%	-17%	219	12%
Margin (%)													
Gross Margin	65.0%	72.3%	72.0%	73.7%	74.7%	76.4%	73.9%	20.5%	72.5%			74.0%	
Operating Margin	-5.2%	4.1%	15.3%	5.1%	13.3%	15.7%	14.4%	3.5%	8.0%			8.2%	
Adj. net margin	7.8%	16.3%	19.5%	16.9%	18.4%	18.6%	18.1%	13.6%	14.3%			13.2%	
Growth (%)													
Revenue (YoY)	-43.6%	-24.6%	-7.2%	-7.3%	60.6%	78.1%	1.3%	1.8%	6.5%			2.6%	
Revenue (QoQ)	-48.6%	19.4%	59.5%	-5.3%	-11.0%	32.5%	-9.3%	-4.8%	-7.0%			-36.9%	
Operating Profit	-128.1%	-77.5%	-15.6%	-13.4%	-509.0%	580.7%	-4.4%	-29.6%	-36.0%			-42.2%	
Adj. net profit	-82.6%	-43.2%	-11.1%	-7.2%	279.5%	103.0%	-5.6%	-18.5%	-17.3%			-26.0%	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: Revenue breakdown

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY
Total revenue	1,005	1,200	1,915	1,813	1,614	2,138	1,939	1,846	1,718	-7%	6%
Accommodation reservation	229	384	685	647	459	743	645	562	543	-3%	18%
Transportation ticketing	687	726	1,055	1,003	1,023	1,235	1,125	1,075	1,017	-5%	-1%
Others	89	90	175	162	132	160	170	209	158	-25%	20%

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	6,807	8,202	9,536	8,368	10,791	12,793	-18.7%	-24.0%	-25.5%
Gross Profit	5,067	6,124	7,123	6,213	8,029	9,528	-18.4%	-23.7%	-25.2%
Operating Profit	542	893	1,191	879	1,606	2,212	-38.4%	-44.4%	-46.2%
Adj. net profit	1,049	1,421	1,718	1,355	1,950	2,395	-22.5%	-27.1%	-28.3%
Adj. EPS (RMB)	0.47	0.64	0.78	0.39	0.67	0.87	21.4%	-4.0%	-11.3%
Gross Margin	74.4%	74.7%	74.7%	74.2%	74.4%	74.5%	+0.2ppts	+0.3ppts	+0.2ppts
Operating Margin	8.0%	10.9%	12.5%	10.5%	14.9%	17.3%	-2.5ppts	-4.0ppts	-4.8ppts
Adj. net margin	15.4%	17.3%	18.0%	16.2%	18.1%	18.7%	-0.8ppts	-0.7ppts	-0.7ppts

Source: CMBIGM estimates, Bloomberg

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	6,807	8,202	9,536	8,760	10,539	12,104	-22.3%	-22.2%	-21.2%
Gross Profit	5,067	6,124	7,123	6,563	7,912	9,082	-22.8%	-22.6%	-21.6%
Operating Profit	542	893	1,191	751	1,201	1,553	-27.8%	-25.7%	-23.3%
Adj. net profit	1,049	1,421	1,718	1,446	1,837	2,169	-27.4%	-22.6%	-20.8%
EPS (RMB)	0.47	0.64	0.78	0.65	0.83	0.98	-27.4%	-22.6%	-20.8%
Gross Margin	74.4%	74.7%	74.7%	74.9%	75.1%	75.0%	-0.5ppts	-0.4ppts	-0.3ppts
Operating Margin	8.0%	10.9%	12.5%	8.6%	11.4%	12.8%	-0.6ppts	-0.5ppts	-0.3ppts
Net Margin	15.4%	17.3%	18.0%	16.5%	17.4%	17.9%	-1.1ppts	-0.1ppts	+0.1ppts

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	5,933	7,538	6,807	8,202	9,536
Accommodation reservation	1,945	2,409	2,208	2,637	3,314
Transportation ticketing	3,471	4,458	3,747	4,457	4,893
Others	516	671	852	1,108	1,330
COGS	(1,697)	(1,890)	(1,740)	(2,078)	(2,414)
R&D	(1,246)	(1,344)	(1,280)	(1,493)	(1,736)
S&M	(2,131)	(3,036)	(2,730)	(3,207)	(3,624)
Administrative expenses	(522)	(572)	(515)	(532)	(572)
Fair value change	65	124	0	0	0
Other income	99	98	0	0	0
Other gains/(losses).net	21	69	0	0	0
Operating profit	382	895	542	893	1,191
Finance income	23	12	13	13	13
Other income, net	(7)	(33)	0	0	0
Pre-tax profit	398	875	555	906	1,204
Income tax	(72)	(161)	(94)	(154)	(205)
Less: Minority interests	2	10	0	0	0
Net profit	328	723	461	752	999
Adj. net profit	954	1,296	1,049	1,421	1,718

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before tax	398	875	555	906	1,204
D&A	379	384	389	394	400
Change in working capital	(525)	336	(184)	454	451
Others	(188)	148	413	374	322
Net cash from operating	136	1,904	1,267	2,281	2,582
Capex & investments	(200)	(200)	(200)	(200)	(200)
ST investments payments	(247)	(124)	0	0	0
ST investments proceeds	0	0	0	0	0
Other	(326)	130	0	0	0
Net cash from investing	(773)	(194)	(200)	(200)	(200)
Equity raised	0	0	0	0	0
Change of debts	(77)	0	0	0	0
Others	254	(12)	(13)	(13)	(13)
Net cash from financing	177	(12)	(13)	(13)	(13)
Net change in cash	(461)	1,698	1,054	2,068	2,369
Exchange difference	(6)	0	0	0	0
Cash at the beginning of the year	2,271	1,804	3,503	4,557	6,625
Cash at the end of the year	1,804	3,503	4,557	6,625	8,994
Cash at balance sheet	1,804	3,503	4,557	6,625	8,994

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	10,284	9,918	9,456	9,003	8,544
PP&E	1,226	1,313	1,395	1,472	1,543
Investments	389	389	389	389	389
Land use right	0	16	16	16	16
Intangible assets	7,481	6,961	6,421	5,881	5,341
Deferred income tax assets	216	216	216	216	216
Prepayment & other receivables	6	57	52	62	72
Current assets	8,830	10,154	11,046	13,442	16,128
Account receivable	2,020	1,792	1,630	1,958	2,275
Short-term investments	4,913	4,767	4,767	4,767	4,767
Restricted cash	92	92	92	92	92
Cash and cash equivalent	1,804	3,503	4,557	6,625	8,994
Current liabilities	4,234	4,393	4,042	4,833	5,612
Borrowings	49	49	49	49	49
Trade payables	2,001	2,646	2,437	2,909	3,379
Other payables and accruals	2,120	1,621	1,464	1,763	2,050
Current income taxes liabilities	64	77	93	111	134
Non-current liabilities	863	863	863	863	863
Borrowings	113	113	113	113	113
Deferred income tax liabilities	529	529	529	529	529
Other payables and accruals	221	221	221	221	221
Total net assets	14,017	15,063	15,844	16,996	18,445
Non-controlling interest	3	(7)	(7)	(7)	(7)
Total equity	14,014	15,070	15,851	17,003	18,452

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Accommodation reservation	32.8	32.0	32.4	32.1	34.7
Transportation ticketing	58.5	59.1	55.0	54.3	51.3
Others	8.7	8.9	12.5	13.5	13.9
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross Margin	71.4	74.9	74.4	74.7	74.7
PreTax Margin	6.7	11.6	8.2	11.0	12.6
Tax Rate	17.0	17.0	17.0	17.0	17.0
Adj. net margin	16.1	17.2	15.4	17.3	18.0
Balance sheet ratios					
Current ratio (x)	2.1	2.3	2.7	2.8	2.9
Debtors turnover days	57.3	54.8	54.8	54.8	54.8
Creditors turnover days	2876.6	2196.2	1829.7	1104.5	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	2.4	5.0	3.0	4.6	5.6
ROA	1.7	3.6	2.3	3.5	4.2
Per share data					
Adj. EPS (RMB)	0.4	0.6	0.5	0.6	0.8
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	6.3	6.8	7.2	7.7	8.3

Source: Company data, CMBIGM estimates

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