

Tongcheng Travel (780 HK)

Solid momentum continued during CNY holiday

As one of our top picks, Tongcheng Travel (TC) continued to perform well in the CNY holiday, with resilient transportation (domestic air ticket/train ticket volume +30%/15% YoY) and strong hotel growth (domestic room nights +30% YoY). Given a longer holiday period, more travellers took short-haul multi-city tours. Despite macro uncertainty, air ticket ADR and accommodation ADR achieved positive growth. Outbound tourism saw notable growth on a low base and capacity recovery, in which international air ticket orders/room nights surged 6x/4x YoY. Decent CNY data may support a good start for FY24E, and we expect such momentum to continue in upcoming holidays in 1H24E (e.g. Qingming, Labor Day). We reiterate our confidence in TC's FY24E outlook, and maintain FY23-25E estimates unchanged, with DCF-based TP of HK\$25.1.

■ **Solid travel demand continued during CNY holiday.** We are positive on TC's continuous market share gains in FY24E. During the CNY holiday, transportation performed well, attributable to a longer holiday period (vs. 2023) and ramp-up of demand for short-haul multi-city tours. Volume of domestic air ticket/train ticket/vehicle ticket/car rental rose 30%/15%/35%/20% YoY during the CNY. Air ticket ADR grew 15% YoY, despite macro challenges. For accommodation, strong momentum continued, with domestic room nights resilient at +30% YoY (low-tier cities share >50%) and ADR improved by 5% YoY. Domestic tourism attraction and package tour volume grew 20%/60% YoY, with ADR +6%/+170%~180% YoY.

■ **Outbound tourism on fast-growing trajectory.** TC prioritized outbound business expansion in 2024E, with air ticketing development as one of its focuses. Thanks to a low base and improving supply, TC's international air ticket volume /room nights surged 6x/4x YoY during the CNY holiday. Air ticketing ADR may see short-term fluctuations for international air capacity recovery and strategic subsidies, while hotel ADR was up 18% YoY and package tour ADR at triple-digit growth.

■ **Optimistic on FY24E outlook.** We reiterate our confidence in TC's FY24E outlook, with topline growth >20% YoY and NPM at 18%. Outbound tourism and upcoming consolidation of package tour business may bring further upside. Decent CNY data would support a good start for FY24E, and we suggest focusing on: 1) pick-up demand of transportation during the Spring Migration until early Mar; 2) accommodation resilience post CNY; 3) upcoming holidays in 1H24E (e.g. Qingming, Labor Day); and 4) overseas rebound.

■ **Maintain BUY.** Our FY23-25E estimates remain unchanged, with DCF-based TP of HK\$25.1, implying 21x FY24E 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	(12.6)	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	0.80	0.95	1.18
P/S (x)	4.9	5.6	3.2	2.7	2.3
P/E (x)	27.9	56.6	16.4	14.3	12.4
ROE (%)	4.9	(0.9)	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 **42.8%**
Current Price **HK\$17.58**

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)	39,462.5
Avg 3 mths t/o (HK\$ mn)	71.1
52w High/Low (HK\$)	18.96/13.56
Total Issued Shares (mn)	2255.0
Source: FactSet	

Shareholding Structure

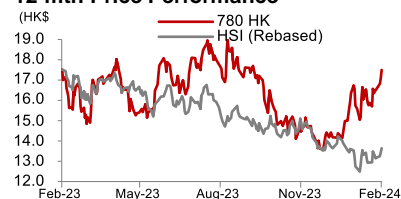
Tencent	21.1%
Trip.com	20.6%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	5.5%	2.5%
3-mth	20.9%	31.9%
6-mth	-0.8%	11.3%

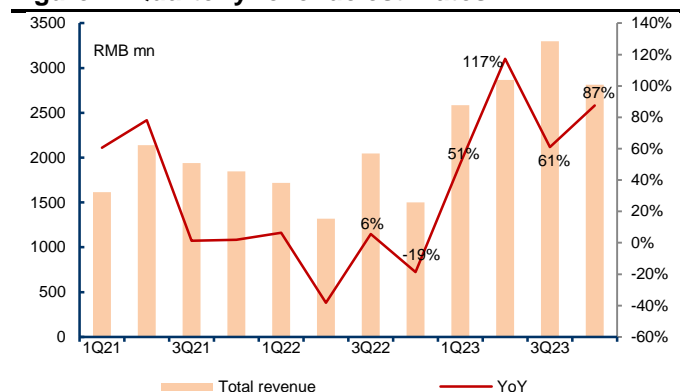
Source: FactSet

12-mth Price Performance



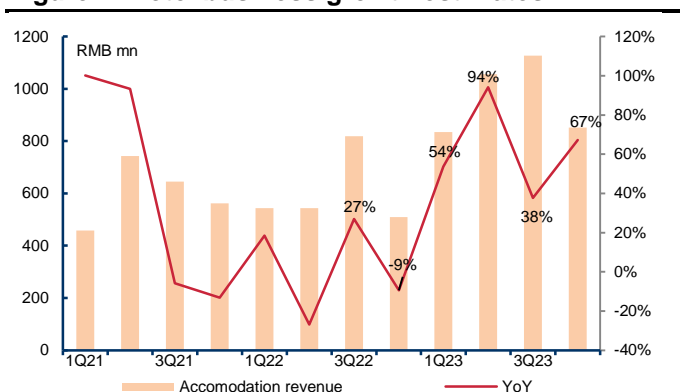
Source: FactSet

Figure 1: Quarterly revenue estimates



Source: Company data, CMBIGM estimates

Figure 2: Hotel business growth estimates



Source: Company data, CMBIGM estimates

Figure 3: 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	11,596	13,965	16,280	-0.3%	-0.3%	-1.4%
Gross profit	8,721	10,532	12,161	8,692	10,504	12,307	0.3%	0.3%	-1.2%
Operating profit	1,814	2,134	2,528	1,816	2,199	2,800	-0.1%	-3.0%	-9.7%
Adj. net profit	2,186	2,500	2,878	2,176	2,452	2,984	0.4%	2.0%	-3.6%
Adj. EPS (RMB)	0.97	1.11	1.28	0.85	1.01	1.23	14.1%	10.6%	4.2%
Gross margin	75.4%	75.6%	75.7%	75.0%	75.2%	75.6%	+0.5ppts	+0.4ppts	+0.1ppts
Operating margin	15.7%	15.3%	15.7%	15.7%	15.7%	17.2%	+0.0ppts	-0.4ppts	-1.5ppts
Adj. net margin	18.9%	18.0%	17.9%	18.8%	17.6%	18.3%	+0.1ppts	+0.4ppts	-0.4ppts

Source: CMBIGM estimates, Bloomberg

Figure 4: 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

Source: Company data, Bloomberg, CMBIGM estimates

WACC						
	~	13%	14%	15%	16%	17%
Terminal growth rate	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

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

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
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)
Net cash from operations	(773)	(322)	(580)	(200)	(200)	(200)
Investing						
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
Net cash from investing	177	(62)	79	(13)	(13)	(13)
Financing						
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)
Net cash from financing	177	(62)	79	(13)	(13)	(13)
Net change in cash						
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
Cash at the end of the year	1,804	4,318	4,065	7,836	11,269	14,889
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	85.8	44.8	na	23.8	20.3	17.2
P/E (diluted)	16.9	34.0	22.5	56.0	16.5	14.5
P/B	2.0	2.3	1.9	2.3	2.1	1.8

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

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

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.