3 Mar 2021

CMB International Securities | Equity Research | Company Update

Tongcheng-Elong (780 HK)

Moving into 2021 recovery

BUY (Maintain)

Target Price	**HK$21.0**
(Previous TP	HK$19.0)
Up/Downside	**+20.7%**
Current Price	**HK$17.3**

We expect Tongcheng-Elong ("**TC**") to deliver 4Q20E revenue/ adj. net profit of -8%/-13% YoY, 2%/3% below consensus. As stated in our previous report, TC's recovery pace slowed down amid China's new COVID-19 wave since mid-Nov. We think the market has also well anticipated 1Q21E drag by epidemic uncertainty, and we suggest to move into 2021 recovery. We cut our earnings forecast by 4%/20%/13% in FY20/21/22E to factor in conservative 4Q20E & 1Q21E, but raised our TP to HK$21.0 by rolling over to FY22E multiple (18x FY22E P/E).

- **Look beyond soft 4Q20 & 1Q21E.** We expect TC to deliver soft 4Q20E, with revenue/ adj. net profit -8%/-13% YoY, 2%/3% below consensus. By segment, we expect hotel rev up 2% YoY in 4Q20E (in line with guidance of +2% to 7% YoY), in which hotel room night is estimated to grow 20% YoY while take rate will remain solid at 9%. ADR would still decline in 4Q20E (forecasting -20% YoY). Lower-tier cities would recover faster, with room nights up over 50% YoY in 4Q20E. Transportation would suffer more amid the recurrence of COVID-19, and we expect its rev down 15% YoY. We forecast TC's bottom line at RMB287mn in 4Q20E, with adj. net margin at 16% (-1ppt YoY), mainly for heavier S&M. 1Q21E might still see pressure, as government ramped up COVID-19 restrictions (e.g. "stay-in-cities" advice in CNY). Hotel would be more resilient for rising short-distance travel, while transportation recovery might be partly disrupted. We think soft 4Q20 & 1Q21E have been well priced in, and suggest to move into 2021 momentum, with faster-than-expected vaccine progress ahead.

- **Prioritizing MPU and hotel growth in 2021.** Despite moderate transportation, mgmt. put priority on domestic hotel recovery in 2021, and we forecast domestic room nights +40%, vs. FY19. TC would also focus more on user acquisition, through: 1) offline promotions, e.g. QR code and bus ticketing; and 2) branding, e.g. sponsorship for hot variety shows and dramas. It targets APU at 200mn in FY21E (+30%, vs. FY19), with S&M/rev ratio down 3-4ppts. Therefore, we forecast adj. net margin to be slightly lower in FY21E than in FY19, and it would pick up to 20% in FY22E.

- **Maintain BUY.** We cut our earnings forecast by 4%/20%/13% in FY20/21/22E to factor in epidemic impact, but raised our TP to HK$21.0 by rolling over to FY22E multiple. Valuation at 15x FY22E P/E is attractive. Vaccine progress and faster domestic recovery could be further catalysts.

Earnings Summary

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	7,393	5,929	8,569	10,667
YoY growth (%)	NA	(19.8)	44.5	24.5
Adj. net income (RMB mn)	1,544	934	1,518	2,137
Adj. EPS (RMB)	0.70	0.42	0.68	0.96
YoY growth (%)	68.6	(39.5)	62.5	40.8
Consensus EPS (RMB)	NA	0.45	0.78	1.02
P/E (x)	20.7	34.2	21.0	14.9
P/B (x)	2.8	2.7	2.6	2.4
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	5.6	3.5	4.9	8.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

China Internet Sector

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Stock Data

Mkt Cap (HK$ mn)	38,006
Avg 3 mths t/o (HK$ mn)	135.22
52w High/Low (HK$)	19.20/ 8.74
Total Issued Shares (mn)	2,182

Source: Bloomberg

Shareholding Structure

Tencent	21.8%
Trip.com	21.3%
Suzhou Industrial Park	6.9%

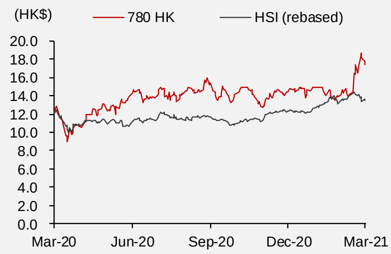
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	26.7%	24.3%
3-mth	22.5%	10.5%
6-mth	15.2%	-1.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. NDR takeaways: 2021 Priority on MPU and hotel – 7 Dec 2020
2. Solid recovery; Moving into 2021 outlook – 24 Nov 2020
3. Earnings intact despite mixed 3Q guidance – 31 Aug 2020

Figure 1: 4Q20E financial preview

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20E	QoQ	YoY	Consensus	Diff %
Revenue	1,783	1,591	2,062	1,956	1,005	1,200	1,915	1,810	-5.5%	-7.5%	1,842	-2%
Operating Profit	187	218	347	107	(53)	49	293	255	-12.9%	139.3%	159	61%
Net profit	97	199	294	97	(56)	55	248	216	-12.9%	121.9%	134	61%
Adj. net profit	448	346	419	331	78	196	373	287	-22.9%	-13.3%	295	-3%
Margin (%)												
Gross Margin	72.1%	64.7%	66.9%	70.6%	65.0%	72.3%	72.0%	71.0%			71.3%	
Operating Margin	10.5%	13.7%	16.8%	5.5%	-5.2%	4.1%	15.3%	14.1%			8.6%	
Adj. net margin	25.1%	21.7%	20.3%	16.9%	7.8%	16.3%	19.5%	15.9%			16.0%	
Growth (%)												
Revenue (YoY)	*17.5%*	*21.0%*	*22.3%*	*24.4%*	*-43.6%*	*-24.6%*	*-7.2%*	*-7.5%*			*-5.9%*	
Revenue (QoQ)	*13.4%*	*-10.8%*	*29.6%*	*-5.1%*	*-48.6%*	*19.4%*	*59.5%*	*-5.5%*			*-3.8%*	
Operating Profit	*NA*	*242.9%*	*232.2%*	*201.7%*	*-128.1%*	*-77.5%*	*-15.6%*	*139.3%*			*48.6%*	
Adj. net profit	*8.7%*	*60.0%*	*33.2%*	*67.7%*	*-82.6%*	*-43.2%*	*-11.1%*	*-13.3%*			*-11.0%*	

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Revenue breakdown

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20E	QoQ	YoY
Total revenue	**1,783**	**1,591**	**2,062**	**1,956**	**1,005**	**1,200**	**1,915**	**1,810**	**-5%**	**-8%**
Accommodation reservation	489	553	694	622	229	384	685	635	-7%	2%
Transportation ticketing	1,259	937	1,140	1,182	687	726	1,055	1,007	-5%	-15%
Others	35	100	229	153	89	90	175	168	-4%	10%

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

	CMBIS			Consensus			Diff (%)		
RMB mn, Dec-YE	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	5,929	8,569	10,667	5,996	8,787	10,803	-1.1%	-2.5%	-1.3%
Gross Profit	4,143	6,077	7,628	4,241	6,191	7,650	-2.3%	-1.8%	-0.3%
Operating Profit	545	817	1,583	499	1,161	1,838	9.3%	-29.6%	-13.9%
Adj. net profit	934	1,518	2,137	962	1,689	2,260	-2.9%	-10.1%	-5.4%
Adj. EPS (RMB)	0.42	0.68	0.96	0.45	0.78	1.02	-5.3%	-12.2%	-5.9%
Gross Margin	69.9%	70.9%	71.5%	70.7%	70.4%	70.8%	-0.8ppts	+0.5ppts	+0.7ppts
Operating Margin	9.2%	9.5%	14.8%	8.3%	13.2%	17.0%	+0.9ppts	-3.7ppts	-2.2ppts
Adj. net margin	15.7%	17.7%	20.0%	16.0%	19.2%	20.9%	-0.3ppts	-1.5ppts	-0.9ppts

Source: CMBIS estimates, Bloomberg

Figure 4: Earnings revision

	New			Old			Diff (%)		
RMB mn, Dec-YE	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	5,929	8,569	10,667	6,038	9,248	10,926	-1.8%	-7.3%	-2.4%
Gross Profit	4,143	6,077	7,628	4,222	6,549	7,778	-1.9%	-7.2%	-1.9%
Operating Profit	545	817	1,583	588	1,273	1,959	-7.4%	-35.8%	-19.2%
Adj. net profit	934	1,518	2,137	970	1,896	2,449	-3.7%	-20.0%	-12.7%
Adj. EPS (RMB)	0.42	0.68	0.96	0.47	0.91	1.18	-9.8%	-25.0%	-18.2%
Gross Margin	69.9%	70.9%	71.5%	69.9%	70.8%	71.2%	-0.0ppts	+0.1ppts	+0.3ppts
Operating Margin	9.2%	9.5%	14.8%	9.7%	13.8%	17.9%	-0.6ppts	-4.2ppts	-3.1ppts
Adj. net margin	15.7%	17.7%	20.0%	16.1%	20.5%	22.4%	-0.3ppts	-2.8ppts	-2.4ppts

Source: CMBIS estimates

Figure 5: peer comparison

Company	Ticker	Mkt cap (USD mn)	Currency	Price	PE			PS			EV/EBITDA			EPS CAGR
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
Tencent	700 HK	863,313	HKD	698	36.1	29.8	23.3	9.4	7.8	6.5	25.9	21.3	17.3	23%
Alibaba	BABA US	654,254	USD	242	20.2	16.3	13.8	4.6	3.9	3.2	15.0	12.0	10.0	20%
Meituan	3690 HK	275,087	HKD	362	288.7	88.4	55.7	10.2	7.4	6.0	197.6	66.5	35.9	115%
Average					115.0	44.8	31.0	8.1	6.4	5.2	79.5	33.3	21.1	52%
OTA														
TC	**780 HK**	**4,877**	**HKD**	**17**	**21.0**	**14.9**	**11.8**	**3.6**	**2.9**	**2.6**	**12.5**	**9.4**	**7.1**	**52%**
Ctrip	TCOM US	23,580	USD	40	61.1	25.4	19.7	5.9	4.1	3.5	59.4	23.3	15.6	NA
Tuniu	TOUR US	503	USD	4	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Booking	BKNG US	95,052	USD	2,321	57.8	25.1	19.1	10.1	6.7	5.6	34.5	17.5	14.0	74%
Expedia	EXPE US	23,197	USD	161	NA	29.2	18.1	3.1	2.2	1.9	31.1	14.6	10.9	NA
Webjet	WEB AU	1,477	AUD	6	NA	55.4	19.1	28.5	7.1	4.8	NA	23.0	11.5	NA
TripAdvisor	TRIP US	6,654	USD	49	340.3	38.0	26.4	7.5	5.1	4.3	45.9	18.8	14.6	259%
Average					120.1	31.3	19.0	9.8	4.7	3.8	36.7	17.8	12.3	128%
Travel agency														
UTour	002707 CH	913	CNY	6.5	89.3	50.2	NA	1.0	0.5	NA	58.1	18.7	NA	NA
Tempus Global	300178 CH	331	CNY	3.5	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Zhangjiajie Tourism	000430 CH	339	CNY	5.4	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Changbai Mountain	603099 CH	333	CNY	8.1	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Average					89.3	50.2	NA	1.0	0.5	NA	58.1	18.7	NA	NA
Total Average					**47.6**	**28.6**	**18.9**	**8.9**	**5.0**	**4.5**	**58.4**	**24.0**	**16.2**	**154%**

Source: Company data, Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**5,256**	**7,393**	**5,929**	**8,569**	**10,667**
Accommodation reservation	1,830	2,358	1,933	3,021	4,122
Transportation ticketing	3,233	4,518	3,474	4,981	5,751
Others	193	517	522	568	795
COGS	**(1,601)**	**(2,318)**	**(1,786)**	**(2,493)**	**(3,039)**
R&D	(1,350)	(1,519)	(1,233)	(1,697)	(2,005)
S&M	(1,841)	(2,246)	(1,912)	(2,925)	(3,253)
Administrative expenses	(935)	(625)	(453)	(638)	(786)
Fair value change	79	106	0	0	0
Other income	33	89	0	0	0
Other gains/(losses).net	48	(20)	0	0	0
Operating profit	**(311)**	**860**	**545**	**817**	**1,583**
Finance income	10	35	13	13	13
Other income, net	903	(13)	0	0	0
Pre-tax profit	**602**	**882**	**558**	**830**	**1,596**
Income tax	(67)	(195)	(95)	(141)	(271)
Less: Minority interests	(5)	2	0	0	0
Net profit	530	688	463	689	1,325
Adj. net profit	**916**	**1,544**	**934**	**1,518**	**2,137**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	**602**	**882**	**558**	**830**	**1,596**
D&A	297	335	379	384	389
Change in working capital	2,024	(212)	(576)	901	704
Others	(629)	497	(190)	76	(202)
Net cash from operating	**2,361**	**1,696**	**265**	**2,331**	**2,759**
Capex & investments	(338)	(200)	(200)	(200)	(200)
ST investments payments	(2,246)	(2,148)	0	0	0
ST investments proceeds	0	0	0	0	0
Other	1,183	(607)	(120)	0	0
Net cash from investing	**(1,400)**	**(2,955)**	**(320)**	**(200)**	**(200)**
Equity raised	1,240	0	0	0	0
Change of debts	(20)	68	0	0	0
Others	260	305	0	0	0
Net cash from financing	**1,481**	**373**	**0**	**0**	**0**
Net change in cash	**2,441**	**(886)**	**(55)**	**2,131**	**2,559**
Exchange difference	1	13	0	0	0
Cash at the beginning of the year	702	3,144	2,271	2,216	4,347
Cash at the end of the year	**3,144**	**2,271**	**2,216**	**4,347**	**6,906**
Cash at balance sheet	3,144	2,271	2,216	4,347	6,906

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**9,294**	**9,792**	**9,384**	**9,221**	**9,238**
PP&E	934	1,102	1,193	1,280	1,280
Investments	101	329	329	329	329
Land use right	16	0	16	16	16
Intangible assets	7,962	7,860	7,590	7,320	7,320
Deferred income tax assets	250	201	201	201	201
Prepayment & other receivables	31	7	54	75	91
Current assets	**7,497**	**9,691**	**8,589**	**11,364**	**14,429**
Account receivable	1,381	2,666	1,515	2,158	2,664
Short-term investments	2,831	4,541	4,645	4,645	4,645
Restricted cash	141	213	213	213	213
Cash and cash equivalent	3,144	2,271	2,216	4,347	6,906
Current liabilities	**4,534**	**5,606**	**3,924**	**5,489**	**6,716**
Borrowings	20	107	107	107	107
Trade payables	2,569	3,429	2,501	3,490	4,255
Other payables and accruals	1,815	2,035	1,275	1,842	2,293
Current income taxes liabilities	131	35	42	50	60
Non-current liabilities	**729**	**726**	**726**	**726**	**726**
Borrowings	153	133	133	133	133
Deferred income tax liabilities	570	568	568	568	568
Other payables and accruals	7	25	25	25	25
Total net assets	**11,528**	**13,152**	**13,615**	**14,304**	**15,629**
Non-controlling interest	(8)	(5)	(5)	(5)	(5)
Total equity	**11,535**	**13,156**	**13,619**	**14,308**	**15,633**

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Accommodation reservation	34.8	31.9	32.6	35.2	38.6
Transportation ticketing	61.5	61.1	58.6	58.1	53.9
Others	3.7	7.0	8.8	6.6	7.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
P&L ratios (%)					
Gross Margin	69.5	68.6	69.9	70.9	71.5
PreTax Margin	11.4	11.9	9.4	9.7	15.0
Tax Rate	10.0	17.0	17.0	17.0	17.0
Adj. net margin	17.4	20.9	15.7	17.7	20.0
Balance sheet ratios					
Current ratio (x)	1.7	1.7	2.2	2.1	2.1
Debtors turnover days	67.8	49.0	54.8	54.8	54.8
Creditors turnover days	683.9	466.9	2093.6	1134.1	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	13.9	5.6	3.5	4.9	8.9
ROA	4.8	3.8	2.5	3.6	6.0
Per share data					
Adj. EPS (RMB)	0.4	0.7	0.4	0.7	1.0
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	5.2	5.9	6.1	6.5	7.1

Source: Company data, CMBIS estimates

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