

Tongcheng-Elong (780 HK)

Better-than-feared 1Q20 guidance

Tongcheng-Elong ("TC") delivered in-line 4Q19 results, and better-than-feared 1Q20E guidance with revenue at -42%~-47% YoY and positive earnings. We believe its 1Q20E guidance partly eased market concern on COVID-19, and we keep positive on its secular growth. We cut its earnings by 40%/15% in FY20/21E to reflect COVID-19 hit, with new TP of HK\$15. Suggest to buy on dips.

- **Better-than-feared 1Q20E guidance.** 4Q19 revenue grew 24% YoY, in line with consensus. Adj. net profit surged 68% YoY, in line with our estimates. 1Q20E guidance came at -42%~-47% YoY, with positive earnings (vs. market expectation of loss-making in 1Q20E) on its effective cost control. We view its results as better-than-feared, and we are impressed by its positive earnings 1Q20E guidance, compared to Ctrip's rev guidance at -45%~-50% YoY and non-GAAP operating loss at RMB1.75bn-1.85bn in 1Q20E.
- **Expecting recovery from Mar & effective cost control in 1Q20E.** Mgmt stated booking in Feb declined ~80% YoY, and recovered to 40%-50% YoY drop in Mar, for work resumption and low-tier cities business travel recovery. Comparing with other peers, we believe TC would be more resilient to COVID-19, mainly on: 1) lower exposure to international tourism (<5%); and 2) lower-tier cities to see faster recovery for less travel limitation. Mgmt guided bottom line at around RMB50mn in 1Q20E. We keep confident on a sooner recovery with stabilization of domestic market, travel recovery in lower-tier cities and policy support. We expect its transportation revenue flat in 2Q20E, while overall revenue to see positive YoY growth in 3Q20E.
- **Hotel, paying user, lower-tier cities penetration as 2020 priority.** MAU /MPU grew 18.5%/21.5% YoY in 4Q19, with rising paying ratio and cross-selling ratio. TC will focus on hotel momentum, paying users, and low-tier cities penetration in FY20E. With continuous investment and subsidies on low-tier cities, we expect TC to benefit from industrial consolidation with gain share in long term after COVID-19. Regarding cooperation with Tencent, mgmt stated it's still too early to negotiate since the next 5-year term extends to 2021-2026, and TC cooperated with Tencent based on mutual benefit.
- **Maintain BUY.** We turn more positive on TC's recovery and cost saving in next few quarters. We cut earnings by 40%/15% in FY20/21E, and slightly revised our TP from HK\$17 to HK\$15 (14x FY21E P/E), in line with industry average. Valuation is pretty attractive. With COVID-19 headwinds priced in, we suggest to buy on dips. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	7,393	7,113	10,427	12,254
YoY growth (%)	NA	-3.8	46.6	17.5
Net income (RMB mn)	1,544	1,088	2,012	2,449
EPS (RMB)	0.74	0.52	0.97	1.18
YoY growth (%)	68.6	-29.5	84.9	21.7
Consensus EPS (RMB)	NA	0.66	1.00	1.05
P/E (x)	12.9	18.4	9.9	8.2
P/B (x)	0.9	0.9	0.8	0.7
Yield (%)	0.0	0.0	1.0	2.0
ROE (%)	5.6	4.6	8.2	10.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$15.0
(Previous TP	HK\$17.0)
Up/Downside	+40.2%
Current Price	HK\$10.7

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	22,782
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	

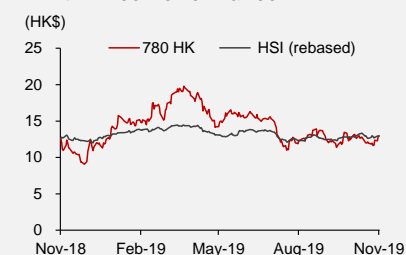
Shareholding Structure

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

1. 3Q19 beat; Expecting 4Q19 to accelerate – 28 Nov 2019
2. 3Q19E Preview: solid results with strong hotel – 22 Oct 2019
3. 2Q19 beat, but alert on 2H19 margin pressure – 20 Aug 2019
4. 2Q19E preview: solid momentum to continue – 25 Jul 2019
5. Strong 1Q19; Focusing more on user value – 16 May 2019

Figure 1: Earnings revision

RMB mn, Dec-YE	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	7,113	10,427	8,501	11,125	-16.3%	-6.3%
Gross Profit	4,873	7,312	6,473	8,580	-24.7%	-14.8%
Operating Profit	731	1,412	1,652	2,298	-55.8%	-38.5%
Net profit	1,088	2,012	1,805	2,365	-39.7%	-14.9%
EPS (RMB)	0.52	0.97	0.87	1.14	-39.7%	-14.9%
Gross Margin	68.5%	70.1%	76.1%	77.1%	-7.6ppts	-7ppts
Operating Margin	10.3%	13.5%	19.4%	20.7%	-9.2ppts	-7.0ppts
Net Margin	15.3%	19.3%	21.2%	21.3%	-5.9ppts	-2.0ppts

Source: Company data, CMBIS estimates

Figure 2: CMBI estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	7,113	10,427	12,254	8,051	10,559	12,082	-11.6%	-1.2%	1.4%
Gross Profit	4,873	7,312	8,602	5,567	7,330	8,341	-12.5%	-0.2%	3.1%
Operating Profit	731	1,412	1,959	1,028	1,826	2,439	-28.9%	-22.7%	-19.7%
Net profit	1,088	2,012	2,449	1,477	2,162	2,395	-26.3%	-6.9%	2.3%
EPS (RMB)	0.52	0.97	1.18	0.66	1.00	1.05	-20.4%	-2.7%	12.3%
Gross Margin	68.5%	70.1%	70.2%	69.1%	69.4%	69.0%	-0.6ppts	+0.7ppts	+1.2ppts
Operating Margin	10.3%	13.5%	16.0%	12.8%	17.3%	20.2%	-2.5ppts	-3.7ppts	-4.2ppts
Net Margin	15.3%	19.3%	20.0%	18.3%	20.5%	19.8%	-3.0ppts	-1.2ppts	+0.2ppts

Source: Company data, Bloomberg

Figure 3: Momo's 4Q19 & FY19 Review

RMB mn	4Q18	1Q19	2Q19	3Q19	4Q19	QoQ	YoY	Consensus	Diff %	FY19	Consensus	Diff %
Revenue	1,573	1,783	1,591	2,062	1,956	-5.1%	24.4%	1,965	0%	7,393	7,393	0%
Operating Profit	35	187	218	347	107	-69.3%	201.7%	261	-59%	860	1,017	-15%
Net profit	(14)	97	199	294	97	-66.9%	NA	224	-57%	688	798	-14%
Adj. net profit	197	448	346	419	331	-21.0%	67.7%	343	-4%	1,544	1,546	0%
Margin (%)												
Gross Margin	64.6%	72.1%	64.7%	66.9%	-20.2%			70.6%		68.6%	68.4%	
Operating Margin	2.2%	10.5%	13.7%	16.8%	5.5%			13.3%		11.6%	13.8%	
Adj. net margin	12.6%	25.1%	21.7%	20.3%	16.9%			17.5%		20.9%	20.9%	
Growth (%)												
Revenue (YoY)	NA	17.5%	21.0%	22.3%	24.4%			25.0%		21.0%	21.0%	
Revenue (QoQ)	-6.7%	13.4%	-10.8%	29.6%	-5.1%			-24.7%		21.0%	21.0%	
Operating Profit	NA	NA	242.9%	232.2%	201.7%			NA		NA	NA	
Adj. net profit	NA	8.7%	60.0%	33.2%	67.7%			73.9%		35.4%	35.4%	

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: 4Q19 revenue breakdown

RMB mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	QoQ	YoY
Total revenue	1,518	1,314	1,686	1,573	1,783	1,591	2,062	1,956	-5%	24%
Accommodation reservation	467	441	516	424	489	553	694	622	-10%	47%
Transportation ticketing	1,001	829	1,122	1,072	1,259	937	1,140	1,182	4%	10%
Others	50	44	49	76	35	100	229	153	-33%	102%

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,256	7,393	7,113	10,427	12,254
Accommodation reservation	1,830	4,518	4,356	6,154	6,847
Transportation ticketing	3,233	2,358	2,195	3,661	4,129
Others	193	517	562	612	1,278
COGS	(1,601)	(2,318)	(2,241)	(3,115)	(3,651)
R&D	(1,350)	(1,519)	(1,480)	(2,065)	(2,304)
S&M	(1,841)	(2,246)	(2,126)	(3,067)	(3,443)
Administrative expenses	(935)	(625)	(536)	(768)	(897)
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	731	1,412	1,959
Finance income	10	35	13	13	13
Other income, net	903	(13)	0	0	0
Pre-tax profit	602	882	744	1,425	1,972
Income tax	(67)	(195)	(126)	(242)	(335)
Less: Minority interests	(5)	2	0	0	0
Net profit	530	688	617	1,183	1,637
Adj. net profit	916	1,544	1,088	2,012	2,449

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	602	882	744	1,425	1,972
D&A	297	335	379	384	389
Change in working capital	2,024	(212)	(36)	1,116	675
Others	(629)	497	(253)	(127)	(329)
Net cash from operating	2,361	1,696	960	3,040	3,042
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)	640	2,840	2,842
Exchange difference	1	13	0	0	0
Cash at the beginning of the year	702	3,144	2,271	2,911	5,752
Cash at the end of the year	3,144	2,271	2,911	5,752	8,593
Cash at balance sheet	3,144	2,271	2,911	5,752	8,593

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	9,294	9,792	9,397	9,240	9,256
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	67	93	110
Current assets	7,497	9,691	9,621	13,265	16,568
Account receivable	1,381	2,666	1,851	2,654	3,116
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	2,911	5,752	8,593
Current liabilities	4,534	5,606	4,815	6,761	7,913
Borrowings	20	107	107	107	107
Trade payables	2,569	3,429	3,137	4,361	5,112
Other payables and accruals	1,815	2,035	1,529	2,242	2,635
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	13,769	14,952	16,589
Non-controlling interest	(8)	(5)	(5)	(5)	(5)
Total equity	11,535	13,156	13,774	14,957	16,593

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Accommodation reservation	34.8	61.1	61.2	59.0	55.9
Transportation ticketing	61.5	31.9	30.9	35.1	33.7
Others	3.7	7.0	7.9	5.9	10.4
Total	100.0	100.0	100.0	100.0	101.0
P&L ratios (%)					
Gross Margin	69.5	68.6	68.5	70.1	70.2
PreTax Margin	11.4	11.9	10.5	13.7	16.1
Tax Rate	10.0	17.0	17.0	17.0	17.0
Adj. net margin	17.4	20.9	15.3	19.3	20.0
Balance sheet ratios					
Current ratio (x)	1.7	1.7	2.0	2.0	2.1
Debtors turnover days	67.8	53.4	54.8	54.8	54.8
Creditors turnover days	683.9	517.0	2054.0	1109.9	511.0
Inventory turnover days	0.0	0.0	0.0	0.0	1.0
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	13.9	5.6	4.6	8.2	10.4
ROA	4.8	3.8	3.2	5.7	6.8
Per share data					
Adj. EPS (RMB)	0.4	0.7	0.5	1.0	1.2
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	5.6	6.3	6.6	7.2	8.0

Source: Company data, CMBIS estimates

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