

Tongcheng Travel (780 HK)

Factoring in 4Q22E epidemic resurgence

Tongcheng delivered better-than-feared 3Q22 results, with in-line rev and upbeat margin. We are more prudent on its 4Q22E momentum, given stricter control on Oct Golden Week and epidemic outbreak. We forecast 4Q22E rev -24% YoY (vs. prior -10% YoY), in which hotel/transportation -13%/-34% YoY. 4Q22E might see net loss position for the first time (forecasting -RMB51mn), for unadjusted S&M (ads budget invested in Oct & Nov before outbreak, while Dec budget prepared for CNY unchanged). Stock price might bear ST pressure for soft 4Q22E and cloudy 1Q23E, but TC's LT fundamentals kept intact. To factor in Covid impact, we trimmed its FY22-24E earnings forecast by 8%-31%, with new TP at HK\$17.1. We are positive on its LT share gain with deeper penetration into lower tier cities, leveraging Tencent traffic and enriched offerings.

- **3Q22 beat on margin.** 3Q22 result came out with in-line rev (+6% YoY) and upbeat bottom line (5%/13% above consensus/ our estimate). Hotel rev kept resilient at +27% YoY, vs. our estimate of +25%. We think such momentum is attributable to its lower exposure in high-tier cities. Transportation rev -12% YoY, largely in line. 3Q22 adj. NP reached RMB252mn, with NPM at 12.3% (vs. our estimate of 11%), on better opex control.
- **Epidemic resurgence to dampen 4Q22E recovery and margin.** With rising cases in multiple areas and tightening travel limit, we turned more prudent on 4Q22E momentum (forecasting rev -24% YoY, vs. prior -10% YoY). Stricter control dampened travel momentum in Oct Golden Week. The decline of Nov rev narrowed after 20th CPC, but recovery pace slowed down for epidemic outbreak (net adds up to >20,000 per day). For 4Q22E, we forecast hotel rev -13% YoY, with room nights/ADR down 22% /single-digit YoY. Transportation would suffer more, forecasting rev to drop 34% YoY in 4Q22E. As the ads budget was allocated before the unexpected outbreak, 4Q22E was estimated to record a net loss at RMB51mn (vs. prior adj. NP of RMB231mn).
- **Long-term fundamentals intact.** Despite soft rev and loss position for the first time in 4Q22E, we keep positive on TC's long-term fundamentals and gain share. In early Nov, the Chinese government tends to optimize Covid policies with shorter quarantine ("5+3") and removal of cut-off mechanism for inbound flight. Although rising cases disrupted later, we think further policy would balance "development" demand if cases stabilized. On a 12-month horizon, we believe TC would benefit from potential lockdown relaxation.
- **Maintain BUY.** We trimmed TC's FY22/23/24E earnings forecast by 31%/9.7%/7.7% to reflect epidemic resurgence impact. Maintain BUY with new TP at HK\$17.1 (implying 26.7x FY23E P/E).

Earnings Summary

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	7,538	6,489	8,189	9,355
YoY growth (%)	27.1	-13.9	26.2	14.2
Adj. net income (RMB mn)	1,296	558	1,304	1,604
Adj. EPS (RMB)	0.59	0.25	0.59	0.72
YoY growth (%)	35.9	-56.9	133.5	23.0
Consensus EPS (RMB)	NA	0.29	0.61	0.79
P/E (x)	23.1	53.7	23.0	18.7
P/S (x)	4.0	4.7	3.7	3.2
ROE (%)	5.0	-0.2	4.0	5.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$17.1
(Previous TP) HK\$18.2
Up/Downside +16.3%
Current Price HK\$14.7

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	35,867
Avg 3 mths t/o (HK\$ mn)	75.32
52w High/Low (HK\$)	18.02/ 9.00
Total Issued Shares (mn)	2,228

Source: Bloomberg

Shareholding Structure

Tencent	21.38%
Trip.com	20.85%
T Rowe Price	5.94%

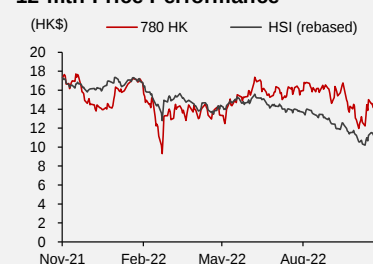
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Share Performance

	Absolute	Relative
1-mth	12.3%	3.0%
3-mth	1.1%	11.1%
6-mth	20.1%	34.4%

Source: Bloomberg

12-mth Price Performance



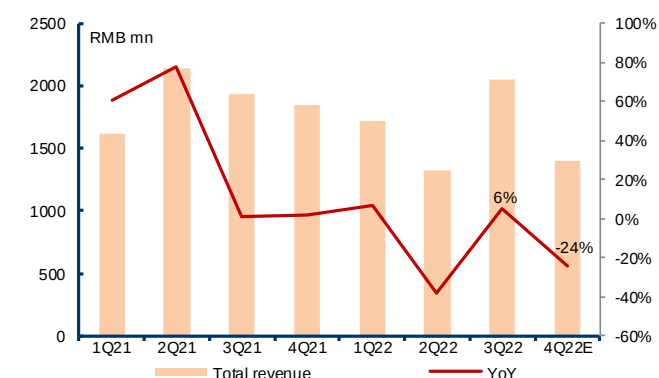
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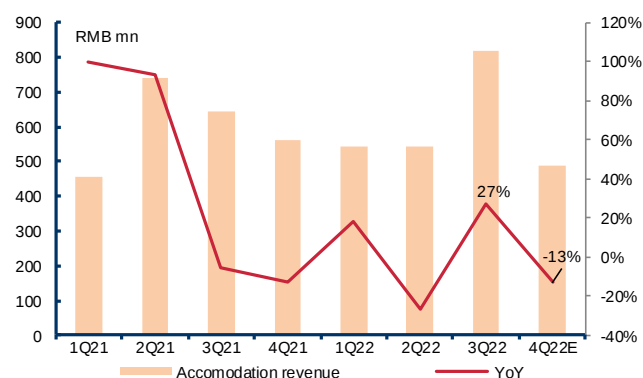
1. Recovery in sight – 26 Oct 2022

Figure 1: Quarterly rev estimates



Source: Company data, CMBIGM estimates

Figure 2: Hotel biz growth estimates



Source: Company data, CMBIGM estimates

Figure 3: 3Q22 financial review

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	1,614	2,138	1,939	1,846	1,718	1,319	2,048	55%	6%	2,046	0%	2,031	1%
Operating Profit	215	335	280	65	138	(128)	(39)	NA	NA	181	NA	119	NA
Net profit	170	291	226	27	101	(135)	(94)	NA	NA	115	NA	58	NA
Adj. net profit	296	418	343	250	245	112	252	125%	-27%	239	5%	223	13%
Margin (%)													
Gross Margin	74.7%	76.4%	73.9%	20.5%	72.5%	70.9%	74.0%			73.5%		74.0%	
Operating Margin	13.3%	15.7%	14.4%	3.5%	8.0%	-9.7%	-1.9%			8.8%		5.9%	
Adj. net margin	18.4%	19.5%	17.7%	13.6%	14.3%	8.5%	12.3%			11.7%		11.0%	
Growth (%)													
Revenue (YoY)	60.6%	78.1%	1.3%	1.8%	6.5%	-38.3%	5.6%			5.5%		4.7%	
Revenue (QoQ)	-11.0%	32.5%	-9.3%	-4.8%	-7.0%	-23.2%	55.3%			55.2%		54.0%	
Operating Profit	-509.0%	580.7%	-4.4%	-29.6%	-36.0%	NA	NA			-35.5%		-57.4%	
Adj. net profit	279.5%	113.1%	-7.9%	-18.5%	-17.3%	-73.2%	-26.6%			-30.2%		-36.7%	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Revenue breakdown

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	QoQ	YoY
Total revenue	1,005	1,200	1,915	1,813	1,614	2,138	1,939	1,846	1,718	1,319	2,048	55%	6%
Accommodation reservation	229	384	685	647	459	743	645	562	543	544	819	51%	27%
Transportation ticketing	687	726	1,055	1,003	1,023	1,235	1,125	1,075	1,017	620	987	59%	-12%
Others	89	90	175	162	132	160	170	209	158	156	243	56%	43%

Source: Company data, CMBIGM

To factor in 4Q22E epidemic impact, we cut TC's FY22E earnings forecast by 31% (suggesting topline/ bottom line -14%/-57% YoY in FY22E, vs. prior -11%/-37% YoY). Under a conservative estimate, we also trimmed FY23-24E earnings by 7.7%-9.7%, to reflect slower recovery with Covid uncertainty. Our TP was adjusted to HK\$17.1 from HK\$18.2, implying 26.7x FY23E P/E. Stock might react negatively for soft 4Q22E guidance, but downside is limited. We expect TC to bear pressure for 1-2 quarters, and then to gradually rebound for potential cases stabilization and rev acceleration from 2Q23E.

Figure 5: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	6,489	8,189	9,355	6,875	9,104	11,235	-5.6%	-10.1%	-16.7%
Gross Profit	4,719	6,073	6,975	5,019	6,765	8,419	-6.0%	-10.2%	-17.1%
Operating Profit	(50)	752	1,053	318	1,206	1,768	-115.7%	-37.7%	-40.4%
Adj. net profit	558	1,304	1,604	825	1,541	1,988	-32.3%	-15.4%	-19.3%
Adj. EPS (RMB)	0.25	0.59	0.72	0.29	0.61	0.79	-14.2%	-3.1%	-7.9%
Gross Margin	72.7%	74.2%	74.6%	73.0%	74.3%	74.9%	-0.3ppts	-0.1ppts	-0.4ppts
Operating Margin	-0.8%	9.2%	11.3%	4.6%	13.3%	15.7%	-5.4ppts	-4.1ppts	-4.5ppts
Adj. net margin	8.6%	15.9%	17.1%	12.0%	16.9%	17.7%	-3.4ppts	-1.0ppts	-0.5ppts

Source: CMBIGM estimates, Bloomberg

Figure 6: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	6,489	8,189	9,355	6,726	8,417	9,694	-3.5%	-2.7%	-3.5%
Gross Profit	4,719	6,073	6,975	4,964	6,288	7,243	-4.9%	-3.4%	-3.7%
Operating Profit	(50)	752	1,053	258	921	1,213	-119.5%	-18.4%	-13.2%
Adj. net profit	558	1,304	1,604	811	1,444	1,737	-31.1%	-9.7%	-7.7%
EPS (RMB)	0.25	0.59	0.72	0.37	0.65	0.78	-31.1%	-9.7%	-7.7%
Gross Margin	72.7%	74.2%	74.6%	73.8%	74.7%	74.7%	-1.1ppts	-0.5ppts	-0.2ppts
Operating Margin	-0.8%	9.2%	11.3%	3.8%	10.9%	12.5%	-4.6ppts	-1.8ppts	-1.3ppts
Net Margin	8.6%	15.9%	17.1%	12.1%	17.2%	17.9%	-3.4ppts	-1.2ppts	-0.8ppts

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	5,933	7,538	6,489	8,189	9,355
Accommodation reservation	1,945	2,409	2,395	2,833	3,418
Transportation ticketing	3,471	4,458	3,333	4,366	4,750
Others	516	671	761	989	1,187
COGS	(1,697)	(1,890)	(1,770)	(2,116)	(2,380)
R&D	(1,246)	(1,344)	(1,252)	(1,490)	(1,703)
S&M	(2,131)	(3,036)	(2,926)	(3,300)	(3,658)
Administrative expenses	(522)	(572)	(590)	(531)	(561)
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	(50)	752	1,053
Finance income	23	12	13	13	13
Other income, net	(7)	(33)	0	0	0
Pre-tax profit	398	875	(37)	765	1,066
Income tax	(72)	(161)	7	(130)	(181)
Less: Minority interests	2	10	0	0	0
Net profit	328	723	(31)	635	885
Adj. net profit	954	1,296	558	1,304	1,604

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before tax	398	875	(37)	765	1,066
D&A	379	384	389	394	400
Change in working capital	(525)	336	(175)	482	368
Others	(188)	148	615	422	369
Net cash from operating	136	1,904	785	2,193	2,384
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	572	1,980	2,171
Exchange difference	(6)	0	0	0	0
Cash at the beginning of the year	2,271	1,804	3,503	4,075	6,055
Cash at the end of the year	1,804	3,503	4,075	6,055	8,226
Cash at balance sheet	1,804	3,503	4,075	6,055	8,226

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	10,284	9,918	9,457	9,004	8,543
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	53	63	71
Current assets	8,830	10,154	10,526	12,882	15,321
Account receivable	2,020	1,792	1,593	1,969	2,236
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	4,075	6,055	8,226
Current liabilities	4,234	4,393	4,015	4,883	5,526
Borrowings	49	49	49	49	49
Trade payables	2,001	2,646	2,478	2,962	3,332
Other payables and accruals	2,120	1,621	1,395	1,761	2,011
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	15,353	16,388	17,723
Non-controlling interest	3	(7)	(7)	(7)	(7)
Total equity	14,014	15,070	15,360	16,395	17,730

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Accommodation reservation	32.8	32.0	36.9	34.6	36.5
Transportation ticketing	58.5	59.1	51.4	53.3	50.8
Others	8.7	8.9	11.7	12.1	12.7
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross Margin	71.4	74.9	72.7	74.2	74.6
PreTax Margin	6.7	11.6	-0.6	9.3	11.4
Tax Rate	17.0	17.0	18.0	17.0	17.0
Adj. net margin	16.1	17.2	8.6	15.9	17.1
Balance sheet ratios					
Current ratio (x)	2.1	2.3	2.6	2.6	2.8
Debtors turnover days	57.3	54.8	54.8	54.8	54.8
Creditors turnover days	2887	2205	1809	1086	511
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	-0.2	4.0	5.2
ROA	1.7	3.6	-0.2	3.0	3.9
Per share data					
Adj. EPS (RMB)	0.4	0.6	0.3	0.6	0.7
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	6.3	6.8	6.9	7.4	8.0

Source: Company data, CMBIGM estimates

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