

# Tongcheng Travel (780 HK)

## Resilient travel consumption to continue

Tongcheng Travel (“TC”) delivered a strong quarter in 1Q24, with revenue +50% YoY (3% above consensus) and adj. net profit +11% YoY (4% above consensus). We see high visibility for TC to continuously gain share in 2Q24E, with healthy margin profile. For 2Q24E, we forecast total revenue +49% YoY, boosted by booming travel demand in multiple holidays and international business recovery. Core OTA would grow 23.5%, in which hotel/transportation/others revenue +12%/17%/92% YoY, in our estimates. International business would contribute 3%-4% of total revenue in 2Q24E. We keep our full-year financials forecast unchanged, with TP at HK\$26.1.

■ **Another upbeat quarter.** TC delivered another upbeat quarter, with revenue +50% YoY (3% above consensus) and adj. net profit at RMB559mn (+11% YoY, 4% above consensus). Excluding tourism business, Core OTA kept resilient with 24% YoY growth in 1Q24. By segment, transportation revenue +26% YoY, on easy base. Hotel revenue +16% YoY, with strong travel demand during CNY. Others revenue +36% YoY, on ramp-up of advertising, Black whale membership and hotel management business. International business performed well, in which international air ticketing volume/ hotel room nights surged over 260%/150% YoY.

■ **Optimistic on strong momentum in 2Q24E.** For 2Q24E, we expect robust growth to continue (forecasting total revenue +49% YoY), supported by booming travel demand in multiple holidays and international business recovery. Core OTA would grow 23.5% YoY, in our estimates. We expect hotel revenue +12.2% YoY, in which room nights at low-teens YoY growth, stable ADR YoY and take rate slightly improved YoY. Transportation would increase 17% YoY (air ticketing volume +27% YoY), with stable take rate, in our view. For others, we forecast others revenue +92% YoY, on strong ads and hotel management business. In 2Q24E, we are positive on TC’s continuous international expansion, and forecast international business to contribute 3%-4% of total revenue (in which air ticketing/ hotel to contribute around 10%/1%~2%). As 2Q is typically the moderate season for tourism business, we model tourism revenue at RMB720mn in 2Q24E (accounting for 17% of total revenue). For the bottom line, we expect group adj. net profit to be RMB621mn in 2Q24E, suggesting adj. NPM at 14.6% (vs. 14.4% in 1Q24).

■ **Maintain BUY.** We keep our FY24-26E financials estimates unchanged, with DCF-based TP at HK\$26.1, implying 21x FY24E P/E.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	6,585	11,896	17,607	20,257	22,718
YoY growth (%)	(12.6)	80.7	48.0	15.1	12.2
Adjusted net profit (RMB mn)	646.2	2,199.1	2,606.8	3,039.7	3,440.4
Diluted EPS (RMB)	0.29	0.98	1.16	1.35	1.53
YoY growth (%)	-50.6	240.3	18.5	16.6	13.2
Consensus EPS (RMB)	NA	NA	1.17	1.38	1.63
P/E (x)	67.8	19.9	16.8	14.4	12.7
P/S (x)	6.7	3.7	2.5	2.2	2.0
ROE (%)	(0.9)	9.4	10.1	10.7	11.1

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price **HK\$26.10**  
 Up/Downside **23.1%**  
 Current Price **HK\$21.20**

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#### Stock Data

Mkt Cap (HK\$ mn)	48,031.5
Avg 3 mths t/o (HK\$ mn)	205.7
52w High/Low (HK\$)	22.30/13.56
Total Issued Shares (mn)	2255.0

Source: FactSet

#### Shareholding Structure

Tencent	21.2%
Trip.com	20.7%

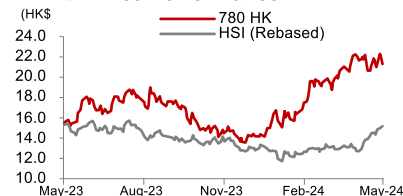
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-3.4%	-19.7%
3-mth	21.7%	0.6%
6-mth	45.9%	30.2%

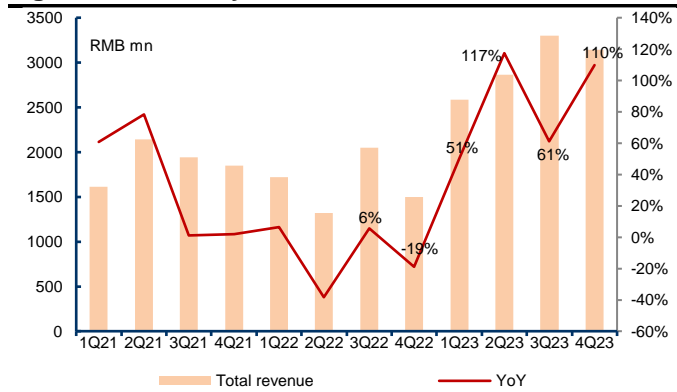
Source: FactSet

#### 12-mth Price Performance



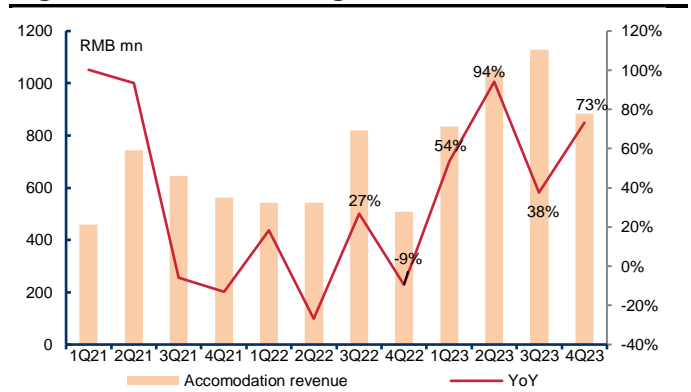
Source: FactSet

Figure 1: Quarterly revenue



Source: Company data, CMBIGM

Figure 2: Hotel business growth



Source: Company data, CMBIGM

Figure 3: 1Q24 financial review

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY	Consensus	Diff %
Revenue	1,718	1,319	2,048	1,500	2,586	2,866	3,299	3,145	3,866	23%	50%	3,745	3%
Operating profit	138	(128)	(39)	5	465	417	599	388	455	17%	-2%	468	-3%
Net profit	101	(135)	(94)	(32)	378	360	515	301	400	33%	6%	339	18%
Adj. net profit	245	112	252	37	504	592	621	483	559	16%	11%	536	4%
<b>Margin (%)</b>													
Gross margin	72.5%	70.9%	74.0%	72.0%	75.0%	75.5%	76.0%	67.6%	65.0%				67.1%
Operating margin	8.0%	-9.7%	-1.9%	0.4%	18.0%	14.6%	18.2%	12.3%	11.8%				12.5%
Adj. net margin	14.3%	8.5%	12.3%	2.5%	19.5%	20.7%	18.8%	15.3%	14.4%				14.3%
<b>Growth (%)</b>													
Revenue (YoY)	6.5%	-38.3%	5.6%	-18.8%	50.5%	117.4%	61.1%	109.6%	49.5%				44.8%
Revenue (QoQ)	-7.0%	-23.2%	55.3%	-26.8%	72.4%	10.8%	15.1%	-4.7%	23.0%				19.1%
Operating profit	-36.0%	NA	NA	NA	237.7%	NA	NA	NA	NA				NA
Adj. net profit	-17.3%	-73.2%	-26.6%	-85.0%	105.6%	428.9%	146.5%	1188.3%	10.9%				6.3%

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Revenue breakdown

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY
<b>Total revenue</b>	<b>1,718</b>	<b>1,319</b>	<b>2,048</b>	<b>1,500</b>	<b>2,586</b>	<b>2,866</b>	<b>3,299</b>	<b>3,145</b>	<b>3,866</b>	<b>23%</b>	<b>50%</b>
Accommodation reservation	543	544	819	509	834	1,055	1,127	882	965	9%	16%
Transportation ticketing	1,017	620	987	756	1,383	1,495	1,680	1,473	1,737	18%	26%
Others	158	156	243	235	369	316	492	789	502	-36%	36%

Source: Company data, CMBIGM

Figure 5: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	17,607	20,257	22,718	17,347	20,670	24,239	1.5%	-2.0%	-6.3%
Gross Profit	11,646	13,479	15,224	11,605	13,937	16,364	0.4%	-3.3%	-7.0%
Operating Profit	2,262	2,723	3,206	2,304	3,003	3,637	-1.8%	-9.3%	-11.9%
Adj. net profit	2,607	3,040	3,440	2,714	3,214	3,826	-3.9%	-5.4%	-10.1%
Adj. EPS (RMB)	1.16	1.35	1.53	1.17	1.38	1.63	-0.6%	-1.9%	-6.3%
Gross Margin	66.1%	66.5%	67.0%	66.9%	67.4%	67.5%	-0.8ppts	-0.9ppts	-0.5ppts
Operating Margin	12.8%	13.4%	14.1%	13.3%	14.5%	15.0%	-0.4ppts	-1.1ppts	-0.9ppts
Adj. net margin	14.8%	15.0%	15.1%	15.6%	15.5%	15.8%	-0.8ppts	-0.5ppts	-0.6ppts

Source: CMBIGM estimates, Bloomberg

**Figure 6: DCF valuation**

DCF Valuation (Rmb mn)									
	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	2,981	3,492	3,975	4,869	5,855	6,922	8,057	9,247	10,475
Tax	(387)	(465)	(547)	(561)	(675)	(798)	(928)	(1,066)	(1,207)
D&A	400	405	411	427	442	455	466	475	484
Change in working capital	(1,542)	(1,022)	(912)	(930)	(948)	(967)	(987)	(1,006)	(1,027)
CAPEX	(200)	(200)	(200)	(210)	(221)	(232)	(243)	(255)	(268)
<b>FCF</b>	<b>1,252</b>	<b>2,210</b>	<b>2,727</b>	<b>3,595</b>	<b>4,453</b>	<b>5,380</b>	<b>6,365</b>	<b>7,395</b>	<b>8,457</b>
FCF Growth	87%	77%	23%	32%	24%	21%	18%	16%	14%
PV	1,252	1,925	2,069	2,376	2,563	2,697	2,779	2,812	27,235
<b>Terminal Value</b>									<b>73,761</b>

Assumptions	
<b>WACC</b>	<b>14.8%</b>
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%
<b>Long term growth</b>	<b>3.0%</b>
Debt	0

		WACC					
		~	13%	14%	15%	16%	17%
<b>Terminal growth rate</b>	1.5%	28.6	26.3	24.6	22.5	21.1	
	2.0%	29.3	26.8	25.1	22.9	21.4	
	2.5%	30.1	27.4	25.6	23.3	21.7	
	3.0%	30.9	28.0	26.1	23.7	22.0	
	3.5%	31.8	28.7	26.7	24.1	22.4	
	4.0%	32.8	29.5	27.3	24.6	22.8	
4.5%	34.0	30.4	28.0	25.2	23.2		

Equity Value	
<b>PV</b>	<b>45,708</b>
minus: Net debt(Rmb mn)	(8,237)
minus: Minority interest(Rmb mn)	0
Equity Value(Rmb mn)	53,944
FX	0.92
<b>Equity Value(HK\$ mn)</b>	<b>58,635</b>
<b>Target Price (HK\$) based on DCF</b>	<b>26.1</b>

Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>7,538</b>	<b>6,585</b>	<b>11,896</b>	<b>17,607</b>	<b>20,257</b>	<b>22,718</b>
Cost of goods sold	(1,890)	(1,807)	(3,158)	(5,961)	(6,778)	(7,495)
<b>Gross profit</b>	<b>5,648</b>	<b>4,778</b>	<b>8,738</b>	<b>11,646</b>	<b>13,479</b>	<b>15,224</b>
<b>Operating expenses</b>	<b>(4,953)</b>	<b>(4,917)</b>	<b>(7,005)</b>	<b>(9,384)</b>	<b>(10,756)</b>	<b>(12,018)</b>
Selling expense	(3,036)	(2,801)	(4,473)	(5,934)	(6,827)	(7,656)
Admin expense	(572)	(701)	(711)	(916)	(1,053)	(1,181)
Other rental related expenses	(1,344)	(1,414)	(1,821)	(2,535)	(2,876)	(3,181)
<b>Operating profit</b>	<b>895</b>	<b>(24)</b>	<b>1,869</b>	<b>2,262</b>	<b>2,723</b>	<b>3,206</b>
Other income	124	102	(32)	0	0	0
Other expense	(91)	(28)	(17)	0	0	0
Gain/loss on financial assets at FVTPL	98	154	123	0	0	0
Other gains/(losses)	69	(114)	63	0	0	0
<b>Net Interest income/(expense)</b>	<b>12</b>	<b>(79)</b>	<b>18</b>	<b>13</b>	<b>13</b>	<b>13</b>
Others	(33)	(14)	(33)	0	0	0
<b>Pre-tax profit</b>	<b>(875)</b>	<b>117</b>	<b>(1,854)</b>	<b>(2,275)</b>	<b>(2,736)</b>	<b>(3,219)</b>
Income tax	161	46	288	387	465	547
<b>After tax profit</b>	<b>(714)</b>	<b>164</b>	<b>(1,566)</b>	<b>(1,888)</b>	<b>(2,271)</b>	<b>(2,672)</b>
Minority interest	10	18	(11)	0	0	0
<b>Net profit</b>	<b>723</b>	<b>(146)</b>	<b>1,554</b>	<b>1,888</b>	<b>2,271</b>	<b>2,672</b>
<b>Adjusted net profit</b>	<b>1,308</b>	<b>646</b>	<b>2,199</b>	<b>2,607</b>	<b>3,040</b>	<b>3,440</b>

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>7,373</b>	<b>9,344</b>	<b>14,805</b>	<b>22,693</b>	<b>27,644</b>	<b>32,826</b>
Cash & equivalents	2,046	4,065	8,256	14,307	18,574	23,137
Restricted cash	55	55	55	55	55	55
Account receivables	1,930	1,620	2,890	4,727	5,411	6,031
Financial assets at FVTPL	3,343	3,604	3,604	3,604	3,604	3,604
<b>Non-current assets</b>	<b>14,133</b>	<b>13,733</b>	<b>13,325</b>	<b>12,940</b>	<b>12,491</b>	<b>12,033</b>
PP&E	1,364	1,446	1,523	1,595	1,661	1,722
Right-of-use assets	217,064	217,064	217,064	217,064	217,064	217,064
Deferred income tax	175	175	175	175	175	175
Investment in JVs & assos	1,128	1,128	1,128	1,128	1,128	1,128
Intangibles	8,348	7,858	7,332	6,792	6,252	5,711
Financial assets at FVTPL	828	828	828	828	828	828
Other non-current assets	(214,774)	(214,766)	(214,725)	(214,641)	(214,617)	(214,595)
<b>Current liabilities</b>	<b>4,711</b>	<b>4,023</b>	<b>7,069</b>	<b>12,234</b>	<b>13,964</b>	<b>15,517</b>
Short-term borrowings	20	20	20	20	20	20
Account payables	4,496	3,912	6,919	12,043	13,742	15,263
Other current liabilities	49	58	70	84	101	121
Contract liabilities	147	33	59	88	101	114
<b>Non-current liabilities</b>	<b>1,536</b>	<b>1,536</b>	<b>1,536</b>	<b>1,536</b>	<b>1,536</b>	<b>1,536</b>
Long-term borrowings	94	94	94	94	94	94
Convertible bonds	0	0	0	0	0	0
Deferred income	497	497	497	497	497	497
Other non-current liabilities	946	946	946	946	946	946
Share capital	8	8	8	8	8	8
Capital surplus	19,571	19,980	20,356	20,806	21,306	21,806
Other reserves	(3,038)	(3,038)	(3,038)	(3,038)	(3,038)	(3,038)
<b>Total shareholders equity</b>	<b>15,259</b>	<b>15,504</b>	<b>17,446</b>	<b>19,784</b>	<b>22,555</b>	<b>25,726</b>
Minority interest	39	22	33	33	33	33
<b>Total equity and liabilities</b>	<b>21,506</b>	<b>21,064</b>	<b>26,051</b>	<b>33,555</b>	<b>38,056</b>	<b>42,780</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	875	(117)	1,854	2,275	2,736	3,219
Depreciation & amortization	384	389	394	400	405	411
Tax paid	(161)	(46)	(288)	(387)	(465)	(547)
Change in working capital	1,328	(424)	1,735	3,244	1,022	912
Others	(2,747)	(381)	(3,863)	(5,732)	(3,898)	(4,194)
<b>Net cash from operations</b>	<b>(322)</b>	<b>(580)</b>	<b>(168)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>
<b>Investing</b>						
Capital expenditure	(200)	(200)	(200)	(200)	(200)	(200)
Net proceeds from disposal of short-term investments	(529)	(102)	32	0	0	0
Others	667	381	150	187	187	187
<b>Net cash from investing</b>	<b>(62)</b>	<b>79</b>	<b>(18)</b>	<b>(13)</b>	<b>(13)</b>	<b>(13)</b>
<b>Financing</b>						
Net borrowings	(49)	0	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	(12)	79	(18)	(13)	(13)	(13)
<b>Net cash from financing</b>	<b>(62)</b>	<b>79</b>	<b>(18)</b>	<b>(13)</b>	<b>(13)</b>	<b>(13)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,804	4,318	4,065	8,256	14,307	18,574
Exchange difference	0	0	0	0	0	0
<b>Cash at the end of the year</b>	<b>4,318</b>	<b>4,065</b>	<b>8,256</b>	<b>14,307</b>	<b>18,574</b>	<b>23,137</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	27.1%	(12.6%)	80.7%	48.0%	15.1%	12.2%
Gross profit	33.3%	(15.4%)	82.9%	33.3%	15.7%	12.9%
Operating profit	145.9%	na	na	21.0%	20.4%	17.7%
Net profit	133.5%	na	na	21.5%	20.3%	17.6%
Adj. net profit	37.1%	(50.6%)	240.3%	18.5%	16.6%	13.2%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	74.9%	72.6%	73.5%	66.1%	66.5%	67.0%
Operating margin	11.9%	(0.4%)	15.7%	12.8%	13.4%	14.1%
Adj. net profit margin	17.4%	9.8%	18.5%	14.8%	15.0%	15.1%
Return on equity (ROE)	4.9%	(0.9%)	9.4%	10.1%	10.7%	11.1%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.1)	(0.3)	(0.5)	(0.7)	(0.8)	(0.9)
Current ratio (x)	1.6	2.3	2.1	1.9	2.0	2.1
Receivable turnover days	95.6	98.4	69.2	79.0	91.3	91.9
Payable turnover days	816.6	849.4	625.9	580.6	694.3	706.3
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	61.3	NA	28.5	23.5	19.5	16.6
P/E (diluted)	33.5	67.8	19.9	16.8	14.4	12.7
P/B	3.2	2.9	2.9	2.5	2.2	2.0

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

# Disclosures & Disclaimers

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## 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

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