

Tongcheng Travel (780 HK)

4Q earnings beat; likely another year of solid earnings growth ahead

Tongcheng Travel (TC) reported 4Q24 results: total revenue was RMB4.2bn, up 35% YoY (3Q24: 51% YoY), 5% better than Bloomberg consensus estimates, due to the beat in revenue of accommodation reservation and Tourism business; adjusted NP was RMB660mn, up 37% YoY, and was 7% better than consensus. OPM of core OTA businesses improved to 28.4% in 4Q24 (4Q23: 23.6%), driven by optimization of marketing strategies. For 2024, total revenue grew 46% YoY to RMB17.3bn, and non-GAAP net profit reached RMB2.8bn, up 27% YoY. Looking into 2025, although Tourism business likely faces some short-term headwinds, core OTA business could still deliver solid earnings growth, driven by: 1) resilient travel demand for both domestic and outbound travel, and TC's ability to drive for further operating efficiency improvement through refined marketing strategies and optimization in user subsidy provided; 2) international business turnaround from loss-making stage and start to contribute profits. We are looking for 25%/18% YoY growth for core OTA OP/total non-GAAP NP. Accounting for better-than-expected operating efficiency improvement, we lift 25/26E net profit forecasts by 2/3%, and revise up our DCF-based TP to HK\$24.0, which translates into 16x 2025E PE (non-GAAP). Maintain BUY.

■ Core OTA business delivered in line with consensus revenue growth.

In 4Q24, TC's core OTA business reached RMB3.5bn (82% of total revenue), up 20% YoY (3Q24: 22% YoY), and was in line with consensus, among which transportation ticketing services/ accommodation reservation services/others revenue achieved YoY revenue growth of 17%/29%/15% YoY (3Q24: 21%/22%/24%). The number of twelve-month accumulated number of travellers served reached 1.93bn by end-Dec, up 9% YoY, compared to annual paying users (APU) increase of 1.5% YoY during the same period. The cross-sell ratio between transportation ticketing and other business and products was largely stable QoQ at 12% in 4Q24, while TC targets to increase to 13-15% in the medium term.

■ 1Q25 outlook: healthy OTA business revenue growth driven by accommodation reservation.

For 1Q25E, we estimate TC to ink total revenue of RMB4.4bn, up 13% YoY, driven by 17% YoY revenue growth of Core OTA segment. Within the Core OTA business, we are looking for 14%/24% YoY revenue growth for transportation ticketing/accommodation reservation (AR) business. We see support for the robust revenue growth of AR to come from: 1) 12% YoY growth in hotel room night growth; and 2) increase in hotel take rate aided by optimization in user subsidy.

■ Expecting solid earnings growth in 2025E driven by operating efficiency improvement.

Driven by optimization in user subsidy and unleashing of operating leverage aided by solid revenue growth, OPM of core OTA business expanded to 26.9% in 2024 (2023: 25.4%), and we expect this positive trajectory to sustain in 2025 amid the backdrop of a stabilized industry competitive landscape. Combined with the impact of reversal of loss-making international business to profitability stage driven by user subsidy optimization, we are anticipating 25% YoY growth for OP of core OTA business, and expecting a further OPM expansion to 28.5% in 2025E. Our 2025E revenue is inline with consensus while non-GAAP NP forecast is 5% ahead of consensus.

BUY (Maintain)

Target Price **HK\$24.00**
 (Previous TP) **HK\$23.50**
Up/Downside **30.6%**
Current Price **HK\$18.38**

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Stock Data

Mkt Cap (HK\$ mn)	42,283.1
Avg 3 mths t/o (HK\$ mn)	192.6
52w High/Low (HK\$)	22.30/12.70
Total Issued Shares (mn)	2300.5

Source: FactSet

Shareholding Structure

Tencent	21.2%
Trip.com	20.7%

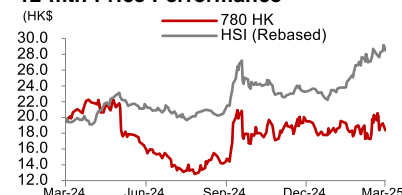
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.6%	-4.4%
3-mth	-5.6%	-23.2%
6-mth	24.4%	-6.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	11,896	17,341	19,804	22,186	24,015
YoY growth (%)	80.7	45.8	14.2	12.0	8.2
Adjusted net profit (RMB mn)	2,192.1	2,785.4	3,299.0	3,792.6	4,201.7
Diluted EPS (RMB)	0.95	1.22	1.43	1.64	1.80
Consensus EPS (RMB)	na	na	1.31	1.56	1.61
P/E (x)	24.7	19.7	14.9	12.7	11.4

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: TC: quarterly results and comparison with consensus

(RMBmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	4Q24E consensus	Diff%	4Q24E CMBI forecasts	Diff%
Total revenue	2,586	2,866	3,299	3,145	3,866	4,245	4,991	4,238	4,040	4.9%	4,076	4.0%
YoY growth (%)	50.5%	117.4%	61.1%	109.6%	49.5%	48.1%	51.3%	34.8%				
1. Core OTA	2,586	2,866	3,299	2,877	3,203	3,526	4,013	3,457	3,450	0.2%	3,437	0.6%
YoY growth (%)	50.5%	117.4%	61.1%	91.8%	23.9%	23.0%	21.6%	20.2%				
1.1 Transportation ticketing services	1,383	1,495	1,680	1,473	1,737	1,743	2,027	1,723	1,740	-1.0%	1,731	-0.5%
YoY growth (%)	35.9%	141.2%	70.3%	94.9%	25.6%	16.6%	20.6%	17.0%				
1.2 Accommodation reservation services	834	1,055	1,127	882	965	1,191	1,378	1,135	1,092	4.0%	1,083	4.8%
YoY growth (%)	53.6%	94.2%	37.7%	73.2%	15.6%	12.8%	22.2%	28.6%				
1.3 Others	369	316	492	522	502	592	609	599	618	-3.0%	623	-3.8%
YoY growth (%)	134.1%	103.3%	102.8%	122.0%	36.0%	87.3%	23.7%	14.8%				
2. Tourism				267	663	719	979	780	590	32.2%	639	22.1%
Gross profit	1,941	2,163	2,460	2,175	2,515	2,744	3,165	2,690	2,638	2.0%	2,642	1.8%
Operating profit	465	417	599	388	455	517	977	474	559	15.1%	483	-1.9%
Adj. net profit	504	592	621	483	558	657	910	660	615	7.4%	610	8.2%
YoY (%)	105.6%	428.9%	146.5%	1188.3%	10.9%	10.9%	46.6%	36.8%				
Margin (%)												
GPM	75.0%	75.5%	74.5%	69.2%	65.0%	64.6%	63.4%	63.5%	65.3%	-1.8 ppt	64.8%	-1.4 ppt
OPM	18.0%	14.6%	18.2%	12.3%	11.8%	12.2%	19.6%	11.2%	13.8%	-2.6 ppt	11.9%	-0.7 ppt
Adj. NPM	19.5%	20.7%	18.8%	15.3%	14.4%	15.5%	18.2%	15.6%	15.2%	0.4 ppt	15.0%	0.6 ppt

Source: Company data, Bloomberg

We cut 2025E/2026E revenue forecasts by 3/4% due to short-term headwinds of Tourism business, as outbound package tour business to some of the popular destinations in Southeast Asia was hurt in 1Q25, although the business was seeing some recovery trend, it likely takes time to recover. However, we lift our 2025E/2026E non-GAAP net profit forecasts by 2/3% considering better-than-expected operating efficiency improvement.

Figure 2: TC: CMBI forecast vs previous forecast

RMB bn	Current			Previous forecast			Diff (%)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Revenue	19,804	22,186	24,015	20,384	23,197	-	-2.8%	-4.4%	-
Gross profit	12,916	14,570	15,866	13,454	15,294	-	-4.0%	-4.7%	-
Operating profit	3,169	3,716	4,142	3,060	3,512	-	3.5%	5.8%	-
Non-GAAP net profit	3,299	3,793	4,202	3,233	3,697	-	2.1%	2.6%	-
Gross margin	65.2%	65.7%	66.1%	66.0%	65.9%	-	-0.8 ppt	-0.3 ppt	-
Operating profit margin	16.0%	16.7%	17.2%	15.0%	15.1%	-	1.0 ppt	1.6 ppt	-
Non-GAAP net margin	16.7%	17.1%	17.5%	15.9%	15.9%	-	0.8 ppt	1.2 ppt	-

Source: Bloomberg, CMBIGM estimates

Figure 3: TC: CMBI forecast vs Bloomberg consensus

RMB bn	Current			Consensus			Diff (%)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Revenue	19,804	22,186	24,015	19,813	22,613	22,709	-0.1%	-1.9%	5.8%
Gross profit	12,916	14,570	15,866	12,997	14,942	15,288	-0.6%	-2.5%	3.8%
Operating profit	3,169	3,716	4,142	3,104	3,748	3,646	2.1%	-0.9%	13.6%
Non-GAAP net profit	3,299	3,793	4,202	3,147	3,695	3,776	4.8%	2.6%	11.3%
Gross margin	65.2%	65.7%	66.1%	65.6%	66.1%	67.3%	-0.4 ppt	-0.4 ppt	-1.3 ppt
Operating profit margin	16.0%	16.7%	17.2%	15.7%	16.6%	16.1%	0.3 ppt	0.2 ppt	1.2 ppt
Non-GAAP net margin	16.7%	17.1%	17.5%	15.9%	16.3%	16.6%	0.8 ppt	0.8 ppt	0.9 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: TC: DCF valuation (WACC of 13.0%; terminal growth of 1.0%)

(RMBmn)	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Total revenue	19,804	22,186	24,015	25,376	26,401	27,188	27,809	28,308	28,720
NPV of FCF	25,716								
Discounted terminal value	17,175								
Total equity valuation	51,556								
No. of shares (diluted, mn)	2,300								
Valuation per share (HKD)	24.0								

Source: Bloomberg, CMBIGM estimates

Note: our assumption for terminal growth has been lowered to 1.0% (was 2.0%), while assumption for WACC remains unchanged.

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	6,585	11,896	17,341	19,804	22,186	24,015
Cost of goods sold	(1,807)	(3,158)	(6,227)	(6,888)	(7,616)	(8,149)
Gross profit	4,778	8,738	11,113	12,916	14,570	15,866
Operating expenses	(4,802)	(6,869)	(8,690)	(9,747)	(10,854)	(11,725)
Selling expense	(2,801)	(4,473)	(5,621)	(6,423)	(7,191)	(7,784)
Admin expense	(701)	(711)	(1,206)	(1,225)	(1,322)	(1,407)
Other rental related expenses	(1,414)	(1,821)	(2,001)	(2,217)	(2,474)	(2,678)
Others	114	136	138	119	133	144
Operating profit	(24)	1,869	2,423	3,169	3,716	4,142
Interest income	58	175	195	217	290	368
Interest expense	(137)	(157)	(231)	(232)	(232)	(232)
Others	(14)	(33)	11	12	18	19
Pre-tax profit	(117)	1,854	2,398	3,165	3,791	4,295
Income tax	(46)	(288)	(410)	(541)	(686)	(820)
After tax profit	(164)	1,566	1,988	2,624	3,105	3,475
Minority interest	(18)	11	14	14	14	14
Net profit	(146)	1,554	1,974	2,610	3,091	3,461
Adjusted net profit	646	2,192	2,785	3,299	3,793	4,202
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	10,384	14,900	18,241	21,651	25,470	29,443
Cash & equivalents	3,547	5,192	8,020	10,724	13,618	16,882
Restricted cash	88	145	136	156	174	189
Account receivables	888	1,218	1,728	1,973	2,210	2,393
Prepayment	2,697	4,370	5,450	6,065	6,735	7,247
Financial assets at FVTPL	3,163	3,974	2,907	2,733	2,733	2,733
Non-current assets	14,651	16,817	19,537	16,858	16,651	16,448
PP&E	1,598	2,495	3,147	2,573	2,609	2,645
Right-of-use assets	111	589	909	909	909	909
Intangibles	8,581	9,580	10,814	8,877	8,575	8,292
Financial assets at FVTPL	758	1,039	957	957	957	957
Other non-current assets	3,602	3,113	3,709	3,541	3,599	3,644
Total assets	25,035	31,717	37,777	38,509	42,121	45,891
Current liabilities	6,117	11,887	11,597	12,288	12,861	13,291
Short-term borrowings	443	2,540	1,359	1,359	1,359	1,359
Account payables	2,522	4,131	4,467	4,822	5,179	5,378
Tax payable	3,040	4,939	5,154	5,490	5,707	5,937
Other current liabilities	60	166	342	342	342	342
Contract liabilities	51	111	274	274	274	274
Non-current liabilities	2,928	1,283	5,218	2,558	2,688	2,788
Long-term borrowings	1,858	11	2,794	0	0	0
Obligations under finance leases	88	420	680	680	680	680
Other non-current liabilities	982	852	1,743	1,878	2,008	2,108
Total liabilities	9,044	13,170	16,815	14,846	15,550	16,079
Share capital	8	8	8	8	8	8
Capital surplus	19,877	20,116	20,762	20,673	20,673	20,673
Other reserves	(4,153)	(2,421)	(768)	2,053	4,947	8,173
Total shareholders equity	15,732	17,703	20,001	22,734	25,628	28,854
Minority interest	258	844	961	975	989	1,003
Total equity and liabilities	25,035	31,717	37,777	38,554	42,166	45,936

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(117)	1,854	2,398	3,165	3,791	4,295
Depreciation & amortization	840	911	964	1,026	1,075	1,121
Tax paid	(50)	(192)	(410)	(541)	(686)	(820)
Change in working capital	(1,001)	947	286	(89)	(261)	(209)
Others	630	485	(268)	383	389	421
Net cash from operations	302	4,003	2,970	3,944	4,308	4,808
Investing						
Capital expenditure	(515)	(772)	(292)	(329)	(366)	(394)
Others	118	(991)	(543)	(415)	(462)	(495)
Net cash from investing	(397)	(1,762)	(834)	(745)	(828)	(888)
Financing						
Net borrowings	0	(2)	(374)	(495)	(586)	(656)
Proceeds from share issues	0	0	0	0	0	0
Others	1,535	(590)	1,053	0	0	0
Net cash from financing	1,535	(592)	679	(495)	(586)	(656)
Net change in cash						
Cash at the beginning of the year	2,046	3,547	5,192	8,020	10,724	13,618
Exchange difference	61	(4)	13	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	3,547	5,192	8,020	10,724	13,618	16,882
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(12.6%)	80.7%	45.8%	14.2%	12.0%	8.2%
Gross profit	(15.4%)	82.9%	27.2%	16.2%	12.8%	8.9%
Operating profit	na	na	29.6%	30.8%	17.3%	11.5%
Net profit	na	na	27.0%	32.2%	18.4%	12.0%
Adj. net profit	(50.6%)	239.3%	27.1%	18.4%	15.0%	10.8%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	72.6%	73.5%	64.1%	65.2%	65.7%	66.1%
Operating margin	(0.4%)	15.7%	14.0%	16.0%	16.7%	17.2%
Adj. net profit margin	9.8%	18.4%	16.1%	16.7%	17.1%	17.5%
Return on equity (ROE)	(0.9%)	9.3%	10.5%	12.2%	12.8%	12.7%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.1)	(0.2)	(0.4)	(0.5)	(0.5)
Current ratio (x)	1.7	1.3	1.6	1.8	2.0	2.2
Receivable turnover days	43.2	32.3	31.0	34.1	34.4	35.0
Payable turnover days	477.6	384.5	252.0	246.1	239.6	236.4
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	24.7	19.7	14.9	12.7	11.4
P/E (diluted)	58.9	17.9	14.1	11.9	10.5	9.5
P/B	2.4	2.2	2.0	1.7	1.5	1.4
P/CFPS	ns	12.2	14.6	10.9	10.1	9.0

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

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