

Tongcheng-Elong (780 HK)

Looking beyond 3Q21E headwinds

Tongcheng-Elong (“TC”) delivered upbeat 2Q21 but soft guidance. 2Q21 revenue/ adj. net profit +78%/+103% YoY, 0%/7% above consensus. Mgmt. guided 3Q21E rev -10% to -5% vs. 3Q19, midpoint 30% below consensus. 3Q21E adj. net profit guidance at RMB300-350mn, midpoint 29% below consensus. We are prudent on 3Q21E momentum due to stricter travel restrictions, but 4Q21E would see rev rebound. We trimmed TC’s FY21-23E earnings forecast by 10-23% to reflect dampened travelling demand and lowered TP to HK\$20.

- 2Q21 beat, while guidance missed.** 2Q21 rev/adj. net profit +78%/+103% YoY, 0%/7% above consensus. By segment, accommodation/transportation rev +93%/+70% YoY. 2Q21 rev suggests +34% vs. 2Q19, as pent-up travelling demand was released with COVID temporarily under control. With COVID-19 resurgence since mid Jul, mgmt. guided 3Q21E rev -10% to -5% vs. 3Q19, midpoint 30% below consensus. 3Q21E adj. net profit guidance was at RMB300-350mn (midpoint 29% below consensus), as stricter travel restrictions dampened the traditional peak summer season.
- Looking into 4Q21E recovery, despite soft 3Q21E momentum.** TC’s 2Q21 MAU/MPU/APU +58.3%/+79.6%/+20% YoY, thanks to innovative products, emerging channels and offline initiatives. TC renewed Tencent agreement (78.1% of 2Q21 MAU from mini programs), and reiterated 200mn APU target by 2021E. Looking ahead, we see limited visibility on 2H21E momentum with lingering epidemic & flood and softer consumption sentiment. We estimate transportation & hotel rev -7% (vs. 3Q19) in 3Q21E. For hotel, we expect 3Q21E room night to maintain positive growth (vs. 3Q19), and take rate to be higher than 2Q21. Backed by pent-up demand, we expect reaccelerating growth in 4Q21E and intact long-term fundamentals.
- Long-term upside from lower-tier cities and cross-selling.** TC has ample upside from lower-tier penetration (20% penetration rate for accommodation) and cross-selling (50% bus vending machine users are new to TC). Despite COVID-19 pressure, mgmt. guided stable NPM backed by rising hotel rev mix, disciplined cost control and operating leverage. We forecast FY22E rev +25% YoY, with adj. NPM at 17.7%.
- Maintain BUY.** We trimmed TC’s FY21/22/23E earnings forecast by 10-23% to reflect softer travelling demand with multiple headwinds, and lowered TP to HK\$20 (21x FY22E P/E). Suggest close monitor of COVID-19 in China.

Earnings Summary

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,933	7,856	9,795	11,550
YoY growth (%)	-19.8	32.4	24.7	17.9
Adj. net income (RMB mn)	954	1,360	1,729	2,132
Adj. EPS (RMB)	0.43	0.61	0.78	0.96
YoY growth (%)	-38.2	42.5	27.2	23.3
Consensus EPS (RMB)	NA	0.71	1.00	1.17
P/E (x)	30.5	21.4	16.8	13.6
P/B (x)	1.4	1.3	1.2	1.1
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	2.4	3.6	5.8	7.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$20.0
 (Previous TP) HK\$21.0
Up/Downside +33.3%
Current Price HK\$15.8

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	34,993
Avg 3 mths t/o (HK\$ mn)	115.63
52w High/Low (HK\$)	21.35/ 12.50
Total Issued Shares (mn)	2,212

Source: Bloomberg

Shareholding Structure

Tencent	21.5%
Trip.com	21.0%
Suzhou Industrial Park	4.8%

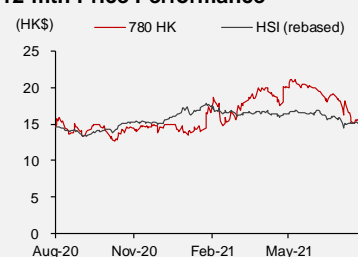
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-14.0%	-4.1%
3-mth	-22.6%	-11.3%
6-mth	-5.6%	15.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Looking into 2Q21E recovery acceleration – 18 May 2021
- 2Q21E rebound in sight – 24 Mar 2021
- Moving into 2021 recovery – 3 Mar 2021

Figure 1: 2Q21 financial review

RMB mn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY	Consensus	Diff %
Revenue	1,591	2,062	1,956	1,005	1,200	1,915	1,813	1,614	2,138	32%	78%	2,131	0%
Operating Profit	218	347	107	(53)	49	293	92	215	335	55%	581%	268	25%
Net profit	199	294	97	(56)	55	248	80	170	291	72%	432%	220	32%
Adj. net profit	346	419	331	78	196	373	307	296	398	34%	103%	372	7%
Margin (%)													
Gross Margin	64.7%	66.9%	70.6%	65.0%	72.3%	72.0%	73.7%	74.7%	76.4%			73.3%	
Operating Margin	13.7%	16.8%	5.5%	-5.2%	4.1%	15.3%	5.1%	13.3%	15.7%			12.6%	
Adj. net margin	21.7%	20.3%	16.9%	7.8%	16.3%	19.5%	16.9%	18.4%	18.6%			17.5%	
Growth (%)													
Revenue (YoY)	21.0%	22.3%	24.4%	-43.6%	-24.6%	-7.2%	-7.3%	60.6%	78.1%			77.5%	
Revenue (QoQ)	-10.8%	29.6%	-5.1%	-48.6%	19.4%	59.5%	-5.3%	-11.0%	32.5%			32.0%	
Operating Profit	242.9%	232.2%	201.7%	-128.1%	-77.5%	-15.6%	-13.4%	-509.0%	580.7%			444.0%	
Adj. net profit	60.0%	33.2%	67.7%	-82.6%	-43.2%	-11.1%	-7.2%	279.5%	103.0%			89.8%	

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Revenue breakdown

RMB mn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY
Total revenue	1,591	2,062	1,956	1,005	1,200	1,915	1,813	1,614	2,138	32%	78%
Accommodation reservation	553	694	622	229	384	685	647	459	743	62%	93%
Transportation ticketing	937	1,140	1,182	687	726	1,055	1,003	1,023	1,235	21%	70%
Others	100	229	153	89	90	175	162	132	160	22%	78%

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	8,563	10,659	13,063	8,695	10,820	12,972	-1.5%	-1.5%	0.7%
Gross Profit	6,072	7,622	9,426	6,181	7,707	9,291	-1.8%	-1.1%	1.5%
Operating Profit	816	1,582	2,333	899	1,604	2,406	-9.2%	-1.4%	-3.0%
Adj. net profit	1,517	2,136	2,776	1,514	2,116	2,716	0.2%	0.9%	2.2%
Adj. EPS (RMB)	0.68	0.96	1.25	0.71	0.95	1.16	-3.0%	1.6%	7.8%
Gross Margin	70.9%	71.5%	72.2%	71.1%	71.2%	71.6%	-0.2ppts	+0.3ppts	+0.5ppts
Operating Margin	9.5%	14.8%	17.9%	10.3%	14.8%	18.5%	-0.8ppts	+0.0ppts	-0.7ppts
Adj. net margin	17.7%	20.0%	21.3%	17.4%	19.6%	20.9%	+0.3ppts	+0.5ppts	+0.3ppts

Source: CMBIS estimates, Bloomberg

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	7,856	9,795	11,550	8,563	10,659	13,062.53	-8.3%	-8.1%	-11.6%
Gross Profit	5,716	7,194	8,561	6,072	7,622	9,425.94	-5.9%	-5.6%	-9.2%
Operating Profit	627	1,092	1,557	816	1,582	2,332.75	-23.2%	-31.0%	-33.3%
Adj. net profit	1,360	1,729	2,132	1,517	2,136	2,775.82	-10.4%	-19.0%	-23.2%
EPS (RMB)	0.61	0.78	0.96	0.68	0.96	1.25	-10.4%	-19.0%	-23.2%
Gross Margin	72.8%	73.4%	74.1%	70.9%	71.5%	0.72	+1.8ppts	+1.9ppts	+2.0ppts
Operating Margin	8.0%	11.2%	13.5%	9.5%	14.8%	0.18	-1.6ppts	-3.7ppts	-4.4ppts
Net Margin	17.3%	17.7%	18.5%	17.7%	20.0%	0.21	-0.4ppts	-2.4ppts	-2.8ppts

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	7,393	5,933	7,856	9,795	11,550
Accommodation reservation	2,358	1,945	2,853	3,793	4,485
Transportation ticketing	4,518	3,471	4,442	5,215	5,964
Others	517	516	562	786	1,101
COGS	(2,318)	(1,697)	(2,140)	(2,601)	(2,989)
R&D	(1,519)	(1,246)	(1,556)	(1,841)	(2,102)
S&M	(2,246)	(2,131)	(2,946)	(3,536)	(4,170)
Administrative expenses	(625)	(522)	(588)	(725)	(732)
Fair value change	106	65	0	0	0
Other income	89	99	0	0	0
Other gains/(losses).net	(20)	21	0	0	0
Operating profit	860	382	627	1,092	1,557
Finance income	35	23	13	13	13
Other income, net	(13)	(7)	0	0	0
Pre-tax profit	882	398	640	1,105	1,570
Income tax	(195)	(72)	(109)	(188)	(267)
Less: Minority interests	2	2	0	0	0
Net profit	688	328	531	917	1,303
Adj. net profit	1,544	954	1,360	1,729	2,132

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	882	398	640	1,105	1,570
D&A	335	379	384	389	394
Change in working capital	(212)	(525)	612	611	529
Others	409	(188)	624	449	308
Net cash from operating	1,696	136	2,369	2,742	3,068
Capex & investments	(301)	(200)	(200)	(200)	(200)
ST investments payments	(2,148)	(247)	0	0	0
ST investments proceeds	0	0	0	0	0
Other	(506)	(326)	130	0	(0)
Net cash from investing	(2,955)	(773)	(70)	(200)	(200)
Equity raised	0	0	0	0	0
Change of debts	68	(77)	0	0	0
Others	305	254	(13)	(13)	(13)
Net cash from financing	373	177	(13)	(13)	(13)
Net change in cash	(886)	(461)	2,286	2,529	2,855
Exchange difference	13	(6)	0	0	0
Cash at the beginning of the year	3,144	2,271	1,804	4,090	6,620
Cash at the end of the year	2,271	1,804	4,090	6,620	9,475
Cash at balance sheet	2,271	1,804	4,090	6,620	9,475

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	9,792	10,284	9,906	9,462	9,011
PP&E	1,102	1,226	1,313	1,395	1,472
Investments	329	389	389	389	389
Land use right	0	0	16	16	16
Intangible assets	7,860	7,481	6,941	6,402	5,862
Deferred income tax assets	201	216	216	216	216
Prepayment & other receivables	7	6	64	78	90
Current assets	9,691	8,830	10,877	13,858	17,112
Account receivable	2,666	2,020	1,928	2,379	2,779
Short-term investments	4,541	4,913	4,767	4,767	4,767
Restricted cash	213	92	92	92	92
Cash and cash equivalent	2,271	1,804	4,090	6,620	9,475
Current liabilities	5,606	4,234	4,812	5,889	6,829
Borrowings	107	49	49	49	49
Trade payables	3,429	2,001	2,996	3,641	4,185
Other payables and accruals	2,035	2,120	1,689	2,106	2,483
Current income taxes liabilities	35	64	77	93	111
Non-current liabilities	726	863	863	863	863
Borrowings	133	113	113	113	113
Deferred income tax liabilities	568	529	529	529	529
Other payables and accruals	25	221	221	221	221
Total net assets	13,152	14,017	15,108	16,568	18,431
Non-controlling interest	(5)	3	3	3	3
Total equity	13,156	14,014	15,105	16,565	18,428

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Accommodation reservation	31.9	32.8	36.3	38.7	38.8
Transportation ticketing	61.1	58.5	56.5	53.2	51.6
Others	7.0	8.7	7.2	8.0	9.5
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross Margin	68.6	71.4	72.8	73.4	74.1
PreTax Margin	11.9	6.7	8.1	11.3	13.6
Tax Rate	17.0	17.0	17.0	17.0	17.0
Adj. net margin	20.9	16.1	17.3	17.7	18.5
Balance sheet ratios					
Current ratio (x)	1.7	2.1	2.3	2.4	2.5
Debtors turnover days	50.1	57.3	54.8	54.8	54.8
Creditors turnover days	427.5	3190.7	1845.7	1098.4	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	5.6	2.4	3.6	5.8	7.4
ROA	3.8	1.7	2.7	4.2	5.3
Per share data					
Adj. EPS (RMB)	0.7	0.4	0.6	0.8	1.0
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	5.9	6.3	6.8	7.5	8.3

Source: Company data, CMBIS estimates

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