

Tongcheng-Elong (780 HK)

Moving into 3M22E rebound

Tongcheng-Elong delivered upbeat 3Q21 but soft guidance. 3Q21 rev/ adj. net profit +1%/-9% YoY, 2%/27% above consensus. Mgmt. guided lower-than-expected 4Q21E rev -3% to +2% YoY and adj. net profit at RMB220-270mn (midpoint 36% below consensus). We are prudent on 4Q21& 1Q22E momentum due to strict travel restrictions, but 3M22E would see gradual rebound, with relaxation of travel restrictions after Olympics and Two Sessions. Upcoming HK-China reopening could be short-term catalyst to boost sector sentiment. We trimmed TC's FY21-23E earnings forecast by 5-6% to reflect COVID-19 resurgence impact, but LT fundamentals remain intact. Maintain TP at HK\$20 based on higher FY22E P/E (23x FY22E PE) for sector re-rating.

- 3Q21 beat, while guidance missed.** 3Q21 rev/adj. net profit +1%/-9% YoY, 2%/27% above consensus. By segment, accommodation/ transportation rev -6%/+7% YoY. With COVID-19 resurgence during Jul to Nov, mgmt. guided 4Q21E rev -3% to +2% YoY (or -5% to -10% vs. 3Q19), midpoint 21% below consensus. 4Q21E adj. net profit guidance was at RMB220-270mn (midpoint 36% below consensus), limited by travel restrictions and soft season.
- Moving into 3M22E rebound, despite soft 4Q21 & 1Q22E.** Looking ahead, 4Q21& 1Q22E momentum might be dragged by lingering epidemic & travel restrictions. We estimate 4Q21E rev -1% YoY, with transportation/hotel rev -6%/+2% YoY. For hotel, we expect 4Q21E room night to maintain positive growth, with take rate stable at 9%. ADR would see temporary pressure (-15%-20% YoY). For transportation, we expect solid demand ahead, with take rate slightly above 3.5%. 4Q21E would be an investment season, and we forecast its adj. NPM at 14% (-3ppts YoY). We suggest to look beyond 4Q21 & 1Q22E headwinds, and upcoming HK-China reopening would be short-term catalyst. Although outbound travel only contributes ~5% of total rev for TC (in 2019), we expect the gradual reopening to boost OTA sector sentiment. Backed by pent-up demand, we expect V-shape recovery from 3M22E, with relaxation of travel restrictions after Olympics and Two Sessions. We forecast FY22E topline/bottom line +30%/25% (adj. NPM at 16.6%), with long-term fundamentals intact.
- Maintain BUY.** We slightly trimmed TC's FY21/22/23E earnings forecast by 5-6% to reflect temporary travel restrictions, but LT fundamentals stay intact. Maintain TP at HK\$20 (23x FY22E P/E, vs. prior 21x FY22E P/E).

Earnings Summary

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,933	7,486	9,771	11,481
YoY growth (%)	-19.8	26.2	30.5	17.5
Adj. net income (RMB mn)	954	1,298	1,621	2,028
Adj. EPS (RMB)	0.43	0.59	0.73	0.92
YoY growth (%)	-38.2	36.0	24.9	25.1
Consensus EPS (RMB)	NA	0.63	0.86	1.08
P/E (x)	33.4	24.5	19.6	15.7
P/B (x)	1.4	1.3	1.2	1.1
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	2.4	3.2	5.1	6.9
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\$20.0)
Up/Downside	+15.3%
Current Price	HK\$17.3

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	38,403
Avg 3 mths t/o (HK\$ mn)	88.50
52w High/Low (HK\$)	21.35/ 13.24
Total Issued Shares (mn)	2,215

Source: Bloomberg

Shareholding Structure

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

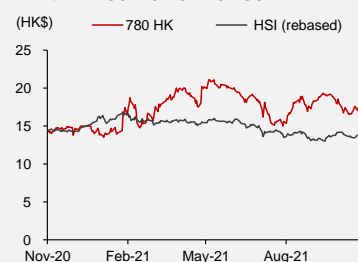
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-3.7%	0.1%
3-mth	14.6%	13.7%
6-mth	-11.3%	0.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- China Internet: Embracing a new normal of regulation – 8 Nov 2021
- Looking beyond 3Q21E headwinds- 24 Aug 2021
- Looking into 2Q21E recovery acceleration – 18 May 2021

Figure 1: 3Q21 financial review

RMB mn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	QoQ	YoY	Consensus	Diff %
Revenue	1,591	2,062	1,956	1,005	1,200	1,915	1,813	1,614	2,138	1,939	-9%	1%	1,905	2%
Operating Profit	218	347	107	(53)	49	293	92	215	335	280	-16%	-4%	217	29%
Net profit	199	294	97	(56)	55	248	80	170	291	226	-22%	-9%	178	27%
Adj. net profit	346	419	331	78	196	373	307	296	398	351	-12%	-6%	308	14%
Margin (%)														
Gross Margin	64.7%	66.9%	70.6%	65.0%	72.3%	72.0%	73.7%	74.7%	76.4%	73.9%			73.6%	
Operating Margin	13.7%	16.8%	5.5%	-5.2%	4.1%	15.3%	5.1%	13.3%	15.7%	14.4%			11.4%	
Adj. net margin	21.7%	20.3%	16.9%	7.8%	16.3%	19.5%	16.9%	18.4%	18.6%	18.1%			16.2%	
Growth (%)														
Revenue (YoY)	21.0%	22.3%	24.4%	-43.6%	-24.6%	-7.2%	-7.3%	60.6%	78.1%	1.3%			-0.5%	
Revenue (QoQ)	-10.8%	29.6%	-5.1%	-48.6%	19.4%	59.5%	-5.3%	-11.0%	32.5%	-9.3%			-10.9%	
Operating Profit	242.9%	232.2%	201.7%	-128.1%	-77.5%	-15.6%	-13.4%	-509.0%	580.7%	-4.4%			-25.9%	
Adj. net profit	60.0%	33.2%	67.7%	-82.6%	-43.2%	-11.1%	-7.2%	279.5%	103.0%	-5.6%			-17.2%	

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Revenue breakdown

RMB mn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	QoQ	YoY
Total revenue	1,591	2,062	1,956	1,005	1,200	1,915	1,813	1,614	2,138	1,939	-9%	1%
Accommodation reservation	553	694	622	229	384	685	647	459	743	645	-13%	-6%
Transportation ticketing	937	1,140	1,182	687	726	1,055	1,003	1,023	1,235	1,125	-9%	7%
Others	100	229	153	89	90	175	162	132	160	170	6%	-3%

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	7,486	9,771	11,481	7,953	10,340	12,633	-5.9%	-5.5%	-9.1%
Gross Profit	5,440	7,177	8,508	5,893	7,580	9,311	-7.7%	-5.3%	-8.6%
Operating Profit	552	962	1,431	1,003	1,535	2,060	-45.0%	-37.3%	-30.5%
Adj. net profit	1,298	1,621	2,028	1,412	1,947	2,488	-8.1%	-16.7%	-18.5%
Adj. EPS (RMB)	0.59	0.73	0.92	0.63	0.86	1.08	-7.4%	-14.5%	-15.2%
Gross Margin	72.7%	73.4%	74.1%	74.1%	73.3%	73.7%	-1.4ppts	+0.1ppts	+0.4ppts
Operating Margin	7.4%	9.8%	12.5%	12.6%	14.8%	16.3%	-5.2ppts	-5.0ppts	-3.8ppts
Adj. net margin	17.3%	16.6%	17.7%	17.8%	18.8%	19.7%	-0.4ppts	-2.2ppts	-2.0ppts

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	7,486	9,771	11,481	7,856	9,795	11,550	-4.7%	-0.2%	-0.6%
Gross Profit	5,440	7,177	8,508	5,716	7,194	8,561	-4.8%	-0.2%	-0.6%
Operating Profit	552	962	1,431	627	1,092	1,557	-11.9%	-11.9%	-8.1%
Adj. net profit	1,298	1,621	2,028	1,360	1,729	2,132	-4.6%	-6.2%	-4.9%
EPS (RMB)	0.59	0.73	0.92	0.61	0.78	0.96	-4.6%	-6.2%	-4.9%
Gross Margin	72.7%	73.4%	74.1%	72.8%	73.4%	0.74	-0.1ppts	-0.0ppts	-0.0ppts
Operating Margin	7.4%	9.8%	12.5%	8.0%	11.2%	0.13	-0.6ppts	-1.3ppts	-1.0ppts
Net Margin	17.3%	16.6%	17.7%	17.3%	17.7%	0.18	+0.0ppts	-1.1ppts	-0.8ppts

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	7,393	5,933	7,486	9,771	11,481
Accommodation reservation	2,358	1,945	2,455	3,762	4,485
Transportation ticketing	4,518	3,471	4,407	5,215	5,964
Others	517	516	625	793	1,031
COGS	(2,318)	(1,697)	(2,046)	(2,595)	(2,972)
R&D	(1,519)	(1,246)	(1,482)	(1,837)	(2,089)
S&M	(2,246)	(2,131)	(2,843)	(3,654)	(4,259)
Administrative expenses	(625)	(522)	(562)	(723)	(728)
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	552	962	1,431
Finance income	35	23	13	13	13
Other income, net	(13)	(7)	0	0	0
Pre-tax profit	882	398	565	975	1,444
Income tax	(195)	(72)	(96)	(166)	(246)
Less: Minority interests	2	2	0	0	0
Net profit	688	328	469	809	1,199
Adj. net profit	1,544	954	1,298	1,621	2,028

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	882	398	565	975	1,444
D&A	335	379	384	389	394
Change in working capital	(212)	(525)	492	724	515
Others	409	(188)	650	493	351
Net cash from operating	1,696	136	2,187	2,747	2,950
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)	2,104	2,534	2,737
Exchange difference	13	(6)	0	0	0
Cash at the beginning of the year	3,144	2,271	1,804	3,909	6,442
Cash at the end of the year	2,271	1,804	3,909	6,442	9,179
Cash at balance sheet	2,271	1,804	3,909	6,442	9,179

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	9,792	10,284	9,903	9,462	9,010
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	61	78	89
Current assets	9,691	8,830	10,606	13,675	16,800
Account receivable	2,666	2,020	1,839	2,374	2,762
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	3,909	6,442	9,179
Current liabilities	5,606	4,234	4,601	5,875	6,790
Borrowings	107	49	49	49	49
Trade payables	3,429	2,001	2,865	3,633	4,161
Other payables and accruals	2,035	2,120	1,610	2,101	2,468
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	15,046	16,398	18,157
Non-controlling interest	(5)	3	3	3	3
Total equity	13,156	14,014	15,043	16,395	18,154

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Accommodation reservation	31.9	32.8	32.8	38.5	39.1
Transportation ticketing	61.1	58.5	58.9	53.4	52.0
Others	7.0	8.7	8.3	8.1	9.0
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross Margin	68.6	71.4	72.7	73.4	74.1
PreTax Margin	11.9	6.7	7.5	10.0	12.6
Tax Rate	17.0	17.0	17.0	17.0	17.0
Adj. net margin	20.9	16.1	17.3	16.6	17.7
Balance sheet ratios					
Current ratio (x)	1.7	2.1	2.3	2.3	2.5
Debtors turnover days	50.1	57.3	54.8	54.8	54.8
Creditors turnover days	427.5	3190.7	1901.3	1096.4	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	3.2	5.1	6.9
ROA	3.8	1.7	2.4	3.7	4.9
Per share data					
Adj. EPS (RMB)	0.7	0.4	0.6	0.7	0.9
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	5.9	6.3	6.8	7.4	8.2

Source: Company data, CMBIS estimates

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