

# Tongcheng-Elong (780 HK)

## Looking beyond 3M22E epidemic

Tongcheng-Elong delivered upbeat 4Q21, with rev/ adj. net profit +2%/-19% YoY, 3%/7% above consensus. Mgmt. guided 1Q22E rev +0% to +5% YoY and adj. net profit at RMB200-250mn. We view the guidance acceptable, despite topline/bottom line midpoint 3%/8% below consensus. We believe soft 1Q22E (due to weak Mar) is well priced in recent stock price, and expect 2H22E to see rebound, with relaxation of travel restrictions after Mar epidemic. Mgmt kept positive on 2022 momentum under government dynamic & effective control. For the full year, FY22E topline/bottom line was estimated at +16%/12% (adj. NPM at 16.5%). We trimmed TC's FY22-23E earnings forecast by 9-11% to reflect COVID-19 resurgence impact, but LT fundamentals remain intact. Maintain TP at HK\$20.

- 4Q21 beat.** 4Q21 rev/adj. net profit +2%/-19% YoY, 3%/7% above consensus. By segment, accommodation/ transportation rev -13%/+7% YoY. With COVID-19 resurgence in Mar, mgmt. guided 1Q22E rev +0% to +5% YoY, midpoint 3% below consensus. 1Q22E adj. net profit guidance was at RMB200-250mn (midpoint 8% below consensus), limited by travel restrictions and soft season.
- Looking into 2H22E rebound.** Looking ahead, 1Q22E momentum might be dragged by epidemic & travel restrictions in Mar. We estimate 1Q22E rev to grow 2% YoY, with transportation/hotel/other rev -3%/+12%/+0% YoY. For hotel, we expect 1Q22E room night to decline QoQ (+20% YoY in Jan & Feb), while take rate to rise 2ppts YoY (with lighter subsidies in soft season). ADR drop would narrow (single-digit-decline). For transportation, we expect short-term pressure from Mar epidemic, with take rate remains stable YoY. 1Q22E would be an investment season, and we forecast its adj. NPM at 13%, in which S&M/rev ratio would be close to 40%. We suggest to look beyond epidemic in Mar, and expect upcoming gradual recovery from 2Q22E, with potential relaxation of travel restrictions. We forecast FY22E topline/bottom line to grow 16%/12% YoY (adj. NPM at 16.5%).
- Maintain BUY.** We slightly trimmed TC's FY22-23E earnings forecast by 9-11% to reflect temporary travel restrictions, but LT fundamentals remain intact. Maintain TP at HK\$20 (25x FY22E P/E).

### Earnings Summary

(YE 31 Dec)	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	5,933	7,538	8,760	10,539
YoY growth (%)	-19.8	27.1	16.2	20.3
Adj. net income (RMB mn)	954	1,296	1,446	1,837
Adj. EPS (RMB)	0.43	0.59	0.65	0.83
YoY growth (%)	-38.2	35.9	11.5	27.0
Consensus EPS (RMB)	NA	NA	0.66	0.94
P/E (x)	26.0	19.2	17.2	13.5
P/B (x)	1.4	1.3	1.2	1.1
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	2.4	5.0	4.0	5.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** HK\$20.0  
 (Previous TP) HK\$20.0  
**Up/Downside** +42.9%  
**Current Price** HK\$13.34

### China Internet Sector

**Sophie Huang**  
 (852) 3900 0889  
 sophiehuang@cmbi.com.hk

**Eason Xu**  
 (852) 3900 0849  
 easonxu@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	29,587
Avg 3 mths t/o (HK\$ mn)	100.05
52w High/Low (HK\$)	21.35/ 9.00
Total Issued Shares (mn)	2,218

Source: Bloomberg

### Shareholding Structure

Tencent	21.47%
Trip.com	20.95%
T Rowe Price	5.04%

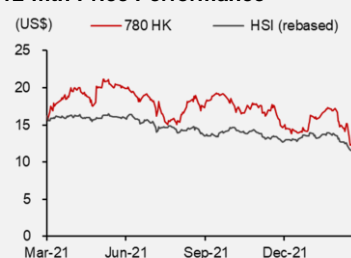
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-22.6%	-12.0%
3-mth	-9.0%	-3.4%
6-mth	-23.0%	-13.4%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

- Moving into 3Q22 rebound – 23 Nov 2021
- China Internet: Embracing a new normal of regulation – 8 Nov 2021
- Looking beyond 3Q21E headwinds- 24 Aug 2021

**Figure 1: 4Q21 financial review**

RMB mn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	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	1,846	-5%	2%	1,793	3%
Operating Profit	218	347	107	(53)	49	293	92	215	335	280	65	-77%	-30%	86	-25%
Net profit	199	294	97	(56)	55	248	80	170	291	226	27	-88%	-66%	69	-61%
Adj. net profit	346	419	331	78	196	373	307	296	398	351	250	-29%	-19%	235	7%
<b>Margin (%)</b>															
Gross Margin	64.7%	66.9%	70.6%	65.0%	72.3%	72.0%	73.7%	74.7%	76.4%	73.9%	20.5%			74.0%	
Operating Margin	13.7%	16.8%	5.5%	-5.2%	4.1%	15.3%	5.1%	13.3%	15.7%	14.4%	3.5%			4.8%	
Adj. net margin	21.7%	20.3%	16.9%	7.8%	16.3%	19.5%	16.9%	18.4%	18.6%	18.1%	13.6%			13.1%	
<b>Growth (%)</b>															
Revenue (YoY)	21.0%	22.3%	24.4%	-43.6%	-24.6%	-7.2%	-7.3%	60.6%	78.1%	1.3%	1.8%			-1.1%	
Revenue (QoQ)	-10.8%	29.6%	-5.1%	-48.6%	19.4%	59.5%	-5.3%	-11.0%	32.5%	-9.3%	-4.8%			-7.6%	
Operating Profit	242.9%	232.2%	201.7%	-128.1%	-77.5%	-15.6%	-13.4%	-509.0%	580.7%	-4.4%	-29.6%			-6.7%	
Adj. net profit	60.0%	33.2%	67.7%	-82.6%	-43.2%	-11.1%	-7.2%	279.5%	103.0%	-5.6%	-18.5%			-23.5%	

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 2: Revenue breakdown**

RMB mn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY
<b>Total revenue</b>	<b>1,591</b>	<b>2,062</b>	<b>1,956</b>	<b>1,005</b>	<b>1,200</b>	<b>1,915</b>	<b>1,813</b>	<b>1,614</b>	<b>2,138</b>	<b>1,939</b>	<b>1,846</b>	<b>-5%</b>	<b>2%</b>
Accommodation reservation	553	694	622	229	384	685	647	459	743	645	562	-13%	-13%
Transportation ticketing	937	1,140	1,182	687	726	1,055	1,003	1,023	1,235	1,125	1,075	-4%	7%
Others	100	229	153	89	90	175	162	132	160	170	209	23%	29%

Source: Company data, CMBIGM estimates

**Figure 3: CMBIGM estimates vs consensus**

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	8,760	10,539	12,104	9,500	11,778	14,721	-7.8%	-10.5%	-17.8%
Gross Profit	6,563	7,912	9,082	6,992	8,675	10,778	-6.1%	-8.8%	-15.7%
Operating Profit	751	1,201	1,553	1,155	1,826	2,351	-35.0%	-34.2%	-33.9%
Adj. net profit	1,446	1,837	2,169	1,526	2,146	2,891	-5.3%	-14.4%	-25.0%
Adj. EPS (RMB)	0.65	0.83	0.98	0.66	0.94	0.96	-1.4%	-11.5%	1.9%
Gross Margin	74.9%	75.1%	75.0%	73.6%	73.7%	73.2%	+1.3ppts	+1.4ppts	+1.8ppts
Operating Margin	8.6%	11.4%	12.8%	12.2%	15.5%	16.0%	-3.6ppts	-4.1ppts	-3.1ppts
Adj. net margin	16.5%	17.4%	17.9%	16.1%	18.2%	19.6%	+0.4ppts	-0.8ppts	-1.7ppts

Source: CMBIGM estimates, Bloomberg

**Figure 4: Earnings revision**

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	8,760	10,539	12,104	9,771	11,481	NA	-10.3%	-8.2%	NA
Gross Profit	6,563	7,912	9,082	7,177	8,508	NA	-8.6%	-7.0%	NA
Operating Profit	751	1,201	1,553	962	1,431	NA	-22.0%	-16.1%	NA
Adj. net profit	1,446	1,837	2,169	1,621	2,028	NA	-10.8%	-9.4%	NA
EPS (RMB)	0.65	0.83	0.98	0.73	0.92	NA	-10.8%	-9.4%	NA
Gross Margin	74.9%	75.1%	75.0%	73.4%	74.1%	NA	+1.5ppts	+1.0ppts	NA
Operating Margin	8.6%	11.4%	12.8%	9.8%	12.5%	NA	-1.3ppts	-1.1ppts	NA
Net Margin	16.5%	17.4%	17.9%	16.6%	17.7%	NA	-0.1ppts	-0.2ppts	NA

Source: Company data, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>5,933</b>	<b>7,538</b>	<b>8,760</b>	<b>10,539</b>	<b>12,104</b>
Accommodation reservation	1,945	2,409	3,015	3,852	4,677
Transportation ticketing	3,471	4,458	4,892	5,578	6,097
Others	516	671	852	1,108	1,330
<b>COGS</b>	<b>(1,697)</b>	<b>(1,890)</b>	<b>(2,197)</b>	<b>(2,627)</b>	<b>(3,022)</b>
R&D	(1,246)	(1,344)	(1,647)	(1,918)	(2,203)
S&M	(2,131)	(3,036)	(3,513)	(4,121)	(4,599)
Administrative expenses	(522)	(572)	(652)	(672)	(726)
Fair value change	65	124	0	0	0
Other income	99	98	0	0	0
Other gains/(losses).net	21	69	0	0	0
<b>Operating profit</b>	<b>382</b>	<b>895</b>	<b>751</b>	<b>1,201</b>	<b>1,553</b>
Finance income	23	12	13	13	13
Other income, net	(7)	(33)	0	0	0
<b>Pre-tax profit</b>	<b>398</b>	<b>875</b>	<b>764</b>	<b>1,214</b>	<b>1,566</b>
Income tax	(72)	(161)	(130)	(206)	(266)
Less: Minority interests	2	10	0	0	0
Net profit	328	723	634	1,008	1,300
<b>Adj. net profit</b>	<b>954</b>	<b>1,296</b>	<b>1,446</b>	<b>1,837</b>	<b>2,169</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Profit before tax</b>	<b>398</b>	<b>875</b>	<b>764</b>	<b>1,214</b>	<b>1,566</b>
D&A	379	384	389	394	400
Change in working capital	(525)	336	409	572	527
Others	(188)	148	565	429	349
<b>Net cash from operating</b>	<b>136</b>	<b>1,904</b>	<b>2,256</b>	<b>2,816</b>	<b>3,108</b>
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
<b>Net cash from investing</b>	<b>(773)</b>	<b>(194)</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>
Equity raised	0	0	0	0	0
Change of debts	(77)	0	0	0	0
Others	254	(12)	(13)	(13)	(13)
<b>Net cash from financing</b>	<b>177</b>	<b>(12)</b>	<b>(13)</b>	<b>(13)</b>	<b>(13)</b>
<b>Net change in cash</b>	<b>(461)</b>	<b>1,698</b>	<b>2,043</b>	<b>2,603</b>	<b>2,895</b>
Exchange difference	(6)	0	0	0	0
Cash at the beginning of the year	2,271	1,804	3,503	5,546	8,149
<b>Cash at the end of the year</b>	<b>1,804</b>	<b>3,503</b>	<b>5,546</b>	<b>8,149</b>	<b>11,045</b>
Cash at balance sheet	1,804	3,503	5,546	8,149	11,045

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>10,284</b>	<b>9,918</b>	<b>9,470</b>	<b>9,019</b>	<b>8,563</b>
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	66	79	91
<b>Current assets</b>	<b>8,830</b>	<b>10,154</b>	<b>12,488</b>	<b>15,509</b>	<b>18,777</b>
Account receivable	2,020	1,792	2,083	2,500	2,873
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	5,546	8,149	11,045
<b>Current liabilities</b>	<b>4,234</b>	<b>4,393</b>	<b>5,102</b>	<b>6,104</b>	<b>7,016</b>
Borrowings	49	49	49	49	49
Trade payables	2,001	2,646	3,076	3,678	4,231
Other payables and accruals	2,120	1,621	1,883	2,266	2,602
Current income taxes liabilities	64	77	93	111	134
<b>Non-current liabilities</b>	<b>863</b>	<b>863</b>	<b>863</b>	<b>863</b>	<b>863</b>
Borrowings	113	113	113	113	113
Deferred income tax liabilities	529	529	529	529	529
Other payables and accruals	221	221	221	221	221
<b>Total net assets</b>	<b>14,017</b>	<b>15,063</b>	<b>16,240</b>	<b>17,808</b>	<b>19,708</b>
Non-controlling interest	3	(7)	(7)	(7)	(7)
<b>Total equity</b>	<b>14,014</b>	<b>15,070</b>	<b>16,247</b>	<b>17,815</b>	<b>19,715</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Accommodation reservation	32.8	32.0	34.4	36.6	38.6
Transportation ticketing	58.5	59.1	55.8	52.9	50.4
Others	8.7	8.9	9.7	10.5	11.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>P&amp;L ratios (%)</b>					
Gross Margin	71.4	74.9	74.9	75.1	75.0
PreTax Margin	6.7	11.6	8.7	11.5	12.9
Tax Rate	17.0	17.0	17.0	17.0	17.0
Adj. net margin	16.1	17.2	16.5	17.4	17.9
<b>Balance sheet ratios</b>					
Current ratio (x)	2.1	2.3	2.4	2.5	2.7
Debtors turnover days	57.3	54.8	54.8	54.8	54.8
Creditors turnover days	3362.9	2632.8	1824.7	1098.8	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
<b>Returns (%)</b>					
ROE	2.4	5.0	4.0	5.9	6.9
ROA	1.7	3.6	3.0	4.3	5.0
<b>Per share data</b>					
Adj. EPS (RMB)	0.4	0.6	0.7	0.8	1.0
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	6.3	6.8	7.3	8.0	8.9

Source: Company data, CMBIGM estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## 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

## CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.