

# CTGDF (601888 CH)

## 1Q22 below market although GPM rebounded on strong 2M22 momentum; keep Hold on fluid COVID situation

- 1Q net profits came in at RMB 2.56bn, down 10% YoY and was slightly below market consensus considering the result only tracked c.22% of consensus FY estimate. CTGDF previously announced RMB 2.4bn net profits for Jan-Feb. This implies net profits for March was only RMB160mn. We believe this was mainly attributable to Hainan's operation closure in March.
- Despite the soft performance of March, gross margins improved to 34% in 1Q22 when that compared to only 28% in 4Q21, thanks to the narrowing discount after management pledged to adhere to more disciplined promotions along with competitors. GPM looks to have troughed. That said, whether 1Q's momentum could extend further into coming quarters remains the "known unknown" to us especially when the supply chain of Sunrise Shanghai's online business was unexpectedly disrupted by the city's lockdown. We will keep watching the trajectory.
- Trading at -2SD below average, earnings cut looks to be the major event to drive share price performance from here. Our 2022 forecast is still c.6% below consensus after trimming 3% of our 2022E net profits to reflect the 1Q results. Our new TP of RMB192 (from RMB212) is based on an updated 34x (from 36.5) end-22E P/E which still represents -1sd below 3-year average.

### Key highlights from management call:

- Covid impact** was overall under control in Hainan so far, according to management, while a major uncertainty for the business is the covid situation and policy in other regions in China, such as Shanghai.
- Key expansion project:** the Haikou International Duty Free City has its investment promotion phase completed by 1Q22 and entered into the construction phase, which, however, has to be suspended due to difficulty for construction teams to travel to Hainan from Shanghai given the city's current lockdowns. The target opening of the City, though, remained Sep 30, 2022 as previously planned.
- Online business development:** an integrated online platform connecting online and offline, domestic and overseas, and duty-free and taxed businesses has been established, which is endowed with a potential customer portfolio made of c.22mn subscribers on CTGDF's wechat mini-program. Management indicated online business is currently and will be a key focus for the company in the next 3-5 years.

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	52,597	67,676	97,310	130,893	175,788
YoY growth (%)	8.2	28.7	43.8	34.5	34.3
Net income (RMB mn)	6,140	9,654	11,044	14,641	18,910
EPS (RMB)	3.1	4.9	5.7	7.5	9.7
YoY growth (%)	32.6	57.2	14.4	32.6	29.2
Consensus EPS (RMB)	n.a	n.a	6.0	8.2	9.3
P/E (x)	n.a	n.a	30.7	23.1	17.9
P/B (x)	n.a	n.a	9.1	7.2	5.6
Div Yield (%)	n.a	n.a	1.0	1.4	1.8
ROE (%)	27.5	32.6	29.7	31.1	31.5
Net gearing (%)	54.6	32.8	37.3	40.2	44.3

Source: Company data, Bloomberg, CMBIGM estimates

### HOLD (Maintain)

Target Price	RMB192.0
(Previous TP)	RMB212)
Up/Downside	+10.6%
Current Price	RMB173.5

### China Consumer Sector

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### Stock Data

Mkt Cap (RMB mn)	409,491
Avg 3 mths t/o (RMB mn)	2,279
52w High/Low (RMB)	343.3/ 156.1
Total Issued Shares (mn)	1,952

Source: Wind

### Shareholding Structure

China Travel Group	53.3%
HKSC	9.8%
CSFC	3.0%

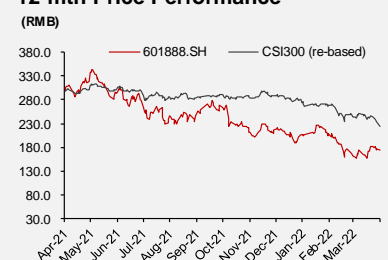
Source: Wind

### Share Performance

	Absolute	Relative
1-mth	2.6%	13.4%
3-mth	-8.0%	12.2%
6-mth	-34.5%	-11.4%

Source: Wind

### 12-mth Price Performance



Source: Wind

Auditor: PricewaterhouseCoopers

### Related Reports

- "Management initiatives may not fully dispel uncertainty over the planned margins recovery; down to HOLD" – 8 Mar 2022
- "CTGDF (601888 CH) – At near term trough; Shares likely mean-revert on sequentially better 4Q tourist traffic; Initiate at Buy" – 15 Sep 2021

### Other takeaways:

- **Logistic system:** Phase I of the company's own logistic center in Hainan has been completed by 1Q22, with an area of 50,000m<sup>2</sup> while Phase-II will have 40,000m<sup>2</sup>. The new logistic system would help the company speed up its shipment and improve its operating efficiency, and the benefit would start to emerge from May, according to management.
- **Business development with luxury brands** had to slow down in Mar-Apr due to travel restrictions for people from/to Shanghai, where many brands have their China headquarter, though some luxury houses have been making recruitment in Hainan already.
- **Inventory increased** c.6.2% YoY in 1Q22, mainly due to the company's intention to ensure sufficient SKUs to sell considering the current tumultuous global macro-economic and geo-political environment, while only a very small portion is made of stock aged 1 year+.
- The **rate of visitation** to CTGDF's stores was relatively low so far despite a high purchasing rate (c.70-80%) and management expected to attract more visitations through various measures that would improve shopping experience including expansion of operating space of stores, more efficient payment and easier delivery.
- **Overseas channel expansion** will be another key focus for the company in the next 3-5 years. Stores in Hong Kong Airport, Hong Kong city, Macau Airport and Cambodia continued to make positive net profit in 1Q22, and Macau city duty-free shop opened in the quarter. CTGDF planned to continue to expand its footprint overseas, focusing on SEA first, or regions/countries with a higher presence of Chinese travelers.

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	97,310	130,893	175,788	98,392	138,324	NA	-1.1%	-5.4%	NA
Gross Profit	30,929	43,554	61,660	31,092	47,767	NA	-0.5%	-8.8%	NA
EBIT	17,460	22,624	29,151	18,062	26,033	NA	-3.3%	-13.1%	NA
Net profit	11,044	14,641	18,910	11,346	16,571	NA	-2.7%	-11.6%	NA
EPS (RMB)	5.66	7.50	9.68	5.81	8.49	NA	-2.7%	-11.6%	NA
Gross Margin	31.78%	33.27%	35.08%	31.60%	34.53%	NA	0.2ppt	-1.3ppt	NA
EBIT Margin	17.94%	17.28%	16.58%	18.36%	18.82%	NA	-0.4ppt	-1.5ppt	NA
Net Margin	11.35%	11.19%	10.76%	11.53%	11.98%	NA	-0.2ppt	-0.8ppt	NA

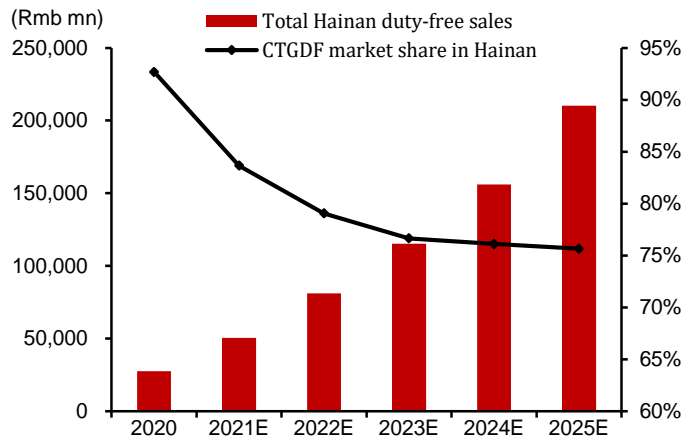
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	97,310	130,893	175,788	87,032	115,711	138,200	11.8%	13.1%	27.2%
Gross Profit	30,929	43,554	61,660	32,290	43,871	55,569	-4.2%	-0.7%	11.0%
Operating Profit	17,460	22,624	29,151	17,345	23,152	27,869	0.7%	-2.3%	4.6%
Net profit	11,044	14,641	18,910	11,896	16,339	18,796	-7.2%	-10.4%	0.6%
EPS (RMB)	5.66	7.50	9.68	6.01	8.25	9.33	-5.8%	-9.1%	3.8%
Gross Margin	31.78%	33.27%	35.08%	37.10%	37.91%	40.21%	-5.3ppt	-4.6ppt	-5.1ppt
Operating Margin	17.94%	17.28%	16.58%	19.93%	20.01%	20.17%	-2ppt	-2.7ppt	-3.6ppt
Net Margin	11.35%	11.19%	10.76%	13.67%	14.12%	13.60%	-2.3ppt	-2.9ppt	-2.8ppt

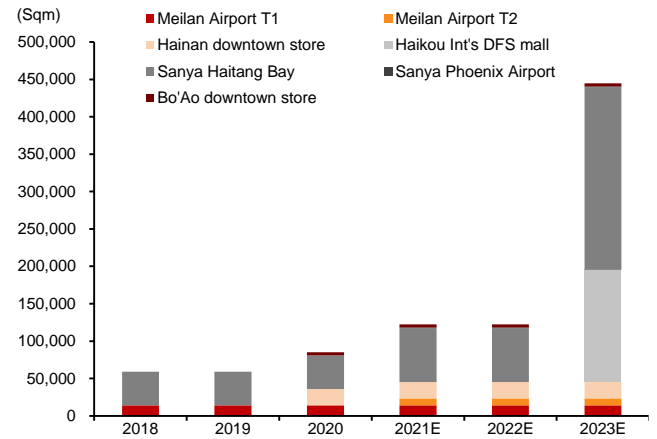
Source: Company data, CMBIGM estimates

**Figure 3: CTGDF's market share in Hainan**



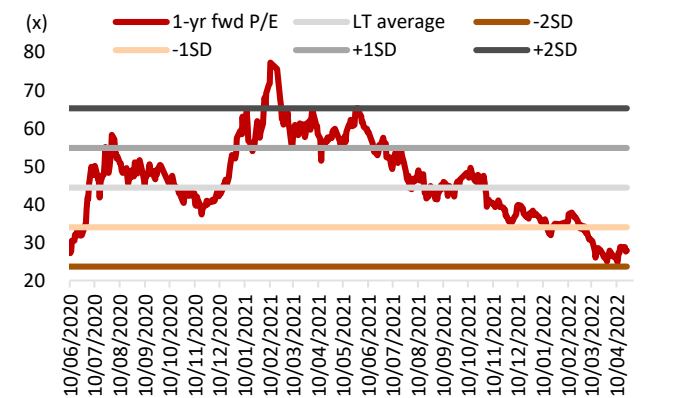
Source: Hainan government, CMBIGM

**Figure 4: CTGDF space expansion in Hainan**



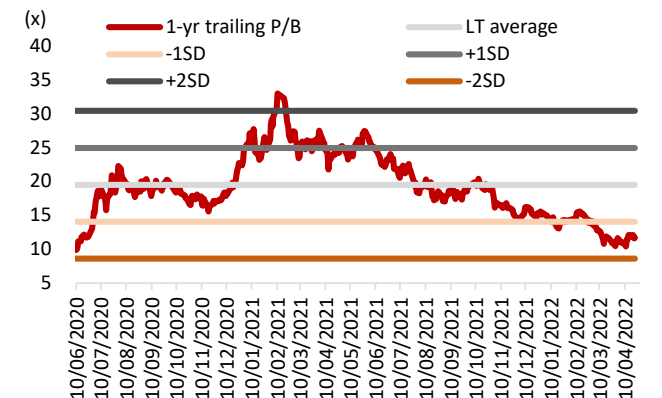
Source: CMBIGM

**Figure 5: 12M forward P/E band**



Source: Company data, Bloomberg, CMBIGM

**Figure 6: 12M trailing P/B band**



Source: Company data, Bloomberg, CMBIGM

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>52,597</b>	<b>67,676</b>	<b>97,310</b>	<b>130,89</b>	<b>175,78</b>
Duty-paid sales	19,708	24,006	33,086	41,357	47,560
Duty-free sales	32,361	42,936	64,225	89,536	128,22
<b>Gross profit</b>	<b>21,376</b>	<b>22,793</b>	<b>30,929</b>	<b>43,554</b>	<b>61,660</b>
D&A	(516)	(480)	(542)	(647)	(754)
Selling expenses	(8,847)	(3,861)	(7,201)	(12,435)	(21,095)
Administration expenses	(1,637)	(2,250)	(3,211)	(4,319)	(5,801)
Other operating expenses	(568)	(1,360)	(2,515)	(3,528)	(4,859)
<b>EBIT</b>	<b>9,809</b>	<b>14,843</b>	<b>17,460</b>	<b>22,624</b>	<b>29,151</b>
<b>EBITDA</b>	<b>10,325</b>	<b>15,323</b>	<b>18,002</b>	<b>23,271</b>	<b>29,906</b>
Finance costs, net	545	43	(181)	75	166
Non-operating income	(676)	(245)	(460)	(352)	(406)
Total investment gains/(loss)	(7)	161	163	163	163
<b>Pre-tax profit</b>	<b>9,672</b>	<b>14,801</b>	<b>16,981</b>	<b>22,510</b>	<b>29,074</b>
Income tax	(2,335)	(2,437)	(2,827)	(3,747)	(4,840)
Less: Minority interests	(1,197)	(2,711)	(3,110)	(4,123)	(5,325)
<b>Net profit</b>	<b>6,140</b>	<b>9,654</b>	<b>11,044</b>	<b>14,641</b>	<b>18,910</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>10,948</b>	<b>16,932</b>	<b>18,951</b>	<b>20,659</b>	<b>22,093</b>
Fixed asset	1,591	1,843	2,714	3,537	4,312
Prepaid lease payments	357	357	357	357	357
Interest in JV	254	254	254	254	254
Other non-current assets	8,747	14,478	15,626	16,510	17,170
<b>Current assets</b>	<b>30,971</b>	<b>38,542</b>	<b>47,642</b>	<b>59,965</b>	<b>76,740</b>
Cash	14,706	16,856	21,790	27,800	36,902
Account receivable	129	106	152	205	275
Prepayments	256	348	348	348	348
Other current assets	15,881	21,232	25,352	31,612	39,215
<b>Current liabilities</b>	<b>15,661</b>	<b>17,136</b>	<b>19,953</b>	<b>22,698</b>	<b>26,208</b>
Borrowings	417	411	411	411	411
Obligations under finance	4,327	5,880	8,696	11,442	14,952
Other payables	7,246	6,122	6,122	6,122	6,122
Tax payables	3,671	4,722	4,722	4,722	4,722
<b>Non-current liabilities</b>	<b>79</b>	<b>3,546</b>	<b>3,546</b>	<b>3,546</b>	<b>3,546</b>
Borrowings	-	-	-	-	-
Deferred income	74	55	55	55	55
Others	5	3,491	3,491	3,491	3,491
<b>Minority Interest</b>	<b>3,871</b>	<b>5,173</b>	<b>6,608</b>	<b>8,510</b>	<b>10,968</b>
<b>Total net assets</b>	<b>26,179</b>	<b>34,791</b>	<b>43,759</b>	<b>55,647</b>	<b>71,003</b>
<b>Shareholders' equity</b>	<b>26,179</b>	<b>34,791</b>	<b>43,759</b>	<b>55,647</b>	<b>71,003</b>

Source: Company data, CMBIGM estimates

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Net income</b>	<b>6,140</b>	<b>9,654</b>	<b>11,044</b>	<b>14,641</b>	<b>18,910</b>
D&A	516	480	542	647	754
Change in working capital	(2,888)	(2,955)	(2,054)	(4,169)	(4,816)
Others	4,435	1,151	2,687	3,623	4,733
<b>Net cash fr. operating act.</b>	<b>8,202</b>	<b>8,329</b>	<b>12,219</b>	<b>14,742</b>	<b>19,580</b>
Capex & investments	(1,234)	(2,155)	(2,358)	(2,191)	(2,026)
Associated companies	(1,542)	(62)	-	-	-
Others	337	338	339	340	340
<b>Net cash fr. investing act.</b>	<b>(3,814)</b>	<b>(2,318)</b>	<b>(2,359)</b>	<b>(2,192)</b>	<b>(2,027)</b>
Equity raised	-	-	-	-	-
Change of Debts	255	-	-	-	-
Dividend paid	(1,658)	(3,431)	(3,512)	(4,656)	(6,013)
Others	20	(386)	(1,415)	(1,884)	(2,439)
<b>Net cash fr. financing act.</b>	<b>(1,383)</b>	<b>(3,817)</b>	<b>(4,927)</b>	<b>(6,540)</b>	<b>(8,452)</b>
<b>Net change in cash</b>	<b>3,005</b>	<b>2,194</b>	<b>4,934</b>	<b>6,010</b>	<b>9,102</b>
Cash at the beginning of the year	12,032	14,858	16,856	21,790	27,800
Exchange difference	(331)	(196)	-	-	-
<b>Cash at the end of the year</b>	<b>14,706</b>	<b>16,856</b>	<b>21,790</b>	<b>27,800</b>	<b>36,902</b>
Less: pledged cash	50	-	-	-	-

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Duty-paid sales	37.5	35.5	34.0	31.6	27.1
Duty-free sales	61.5	63.4	66.0	68.4	72.9
<b>P&amp;L ratios (%)</b>					
Gross margin	40.6	33.7	31.8	33.3	35.1
Operating margin	18.6	21.9	17.9	17.3	16.6
Pre-tax margin	18.4	21.9	17.5	17.2	16.5
Net margin	11.7	14.3	11.3	11.2	10.8
Effective tax rate	(24.1)	(16.5)	(16.6)	(16.6)	(16.6)
<b>Balance sheet analysis</b>					
Current ratio (x)	0.5	0.4	0.5	0.5	0.5
Net receivable days	0.9	0.6	0.6	0.6	0.6
Net payable days	50.6	47.8	47.8	47.8	47.8
Inventory turnover days	172.8	160.7	130.0	125.0	120.0
Net debt to equity (%)	54.6	32.8	37.3	40.2	44.3
<b>Returns (%)</b>					
ROE	27.5	32.6	29.7	31.1	31.5
ROA	14.6	17.4	16.6	18.2	19.1
Dividend yield	0.6	0.9	1.0	1.4	1.8
<b>Per share</b>					
EPS (RMB)	3.1	4.9	5.7	7.5	9.7
DPS (RMB)	1.0	1.6	1.8	2.4	3.1
BVPS (RMB)	11.4	15.2	19.0	24.1	30.7

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