

# CTGDF (601888 CH)

## Looking past the weak 2Q; earnings risk diminishing as consensus is subtly edging down; upgrade to BUY

We believe the worst for CTGDF is likely over, upon signs of re-opening in Shanghai from June onwards and the gradual rollout of pro-growth policies. While domestic travelling, in our view, might not stand at the forefront to see immediate benefits from the re-opening, expectation of travel resumption has been building up towards 3Q with reference to the cases over past few years. From here, we see scope for travelling demand to recover sequentially into 4Q, particularly when the quarter is seasonally clustered with festivals and shopping campaigns that catalyze leisure spending. Earnings-wise, 2Q should look dismal given a c.90% decline in airport traffic to Shanghai Airport and that to Hainan, in our view, unlikely to look significantly better. City-wise lockdown could also represent a temporary hiccup in delivery logistics for online sales. That said, our channel check suggested that margins have been holding relatively well during 5.1, as contrasted to our previous expectation that underpinned our HOLD rating. Consider also when consensus gradually edges towards our below-market estimates (we were 6%+ below), CTGDF's risk-reward is turning more favorable to us. We recommend investors to look past the weak 2Q, which is gradually being priced-in, and we upgraded CTGDF to BUY with a higher TP of RMB232 (from RMB192).

- **Earnings revisions.** We cut our 2022E revenue by c.17% as a result of 1) a 19% cut in 2022E revenue of Shanghai Airport/ Sunrise; and 2) an 18% cut in 2022E Hainan offshore duty-free related revenue which now stands at RMB67bn (from RMB81bn). Separately, we raised our 2022/23E GPM by 1.5/1.3pp. These in aggregate explain a 12% cut in our 2022E net profits. We are still c.6% below consensus.
- **Hainan's duty-free related sales target.** We also lowered our forecast from the official RMB100bn to RMB80bn, based on an 80%+ market share (2021: c90%) that CTGDF could achieve on the island.
- **Valuation.** Our new TP is now based on 46.5x (up from 34.0x) end-22E P/E which represents 2-year average (up from -1sd below average) since mid-2020. We raise our target multiple to reflect the potential and imminent re-rating which will likely be fueled by the sequentially recovering, though bumpy, domestic tourist traffic.

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	52,597	67,676	80,343	118,452	164,665
YoY growth (%)	8.2	28.7	18.7	47.4	39.0
Net income (RMB mn)	6,140	9,654	9,745	13,990	19,355
EPS (RMB)	3.1	4.9	5.0	7.2	9.9
YoY growth (%)	32.6	57.2	0.9	43.6	38.4
Consensus EPS (RMB)	n.a	n.a	5.4	7.5	9.5
P/E (x)	n.a	37.7	37.3	26.0	18.8
P/B (x)	n.a	12.3	10.0	7.9	6.2
Div yield (%)	n.a	0.8	0.9	1.2	1.7
ROE (%)	27.5	32.6	26.9	30.5	32.8
Net gearing (%)	54.6	32.8	44.6	45.3	49.5

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Up)

Target Price	RMB232.0
(Previous TP)	RMB192.0)
Up/Downside	+25.6%
Current Price	RMB184.8

### China Consumer Sector

**Joseph Wong**  
 (852) 3900 0838  
 josephwong@cmbi.com.hk

**Zheng Xiaohui**  
 zhengxiaohui@cmbi.com.hk

### Stock Data

Mkt Cap (RMB mn)	360 817
Avg 3 mths t/o (RMB mn)	2,388
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%

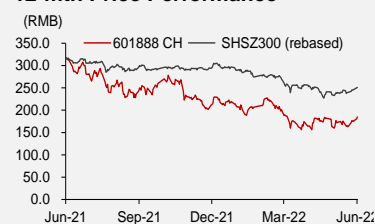
Source: Wind

### Share Performance

	Absolute	Relative
1-mth	12.6%	5.6%
3-mth	-1.8%	2.2%
6-mth	-13.2%	-2.2%

Source: Wind

### 12-mth Price Performance



Source: Wind

Auditor: PricewaterhouseCoopers

### Related Reports

1. [1Q22 below market although GPM rebounded on strong 2M22 momentum; keep Hold on fluid COVID situation](#) – 26 Apr 2022
2. ["Management initiatives may not fully dispel uncertainty over the planned margins recovery; down to HOLD"](#) – 8 Mar 2022

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	80,343	118,452	164,665	97,310	130,893	175,788	-17.4%	-9.5%	-6.3%
Gross profit	26,760	40,901	59,999	30,929	43,554	61,660	-13.5%	-6.1%	-2.7%
EBIT	15,164	21,392	29,560	17,460	22,624	29,151	-13.1%	-5.4%	1.4%
Net profit	9,745	13,990	19,355	11,044	14,641	18,910	-11.8%	-4.4%	2.4%
EPS (RMB)	4.99	7.17	9.91	5.66	7.50	9.68	-11.8%	-4.4%	2.4%
Gross margin	33.31%	34.53%	36.44%	31.78%	33.27%	35.08%	1.5ppt	1.3ppt	1.4ppt
EBIT margin	18.87%	18.06%	17.95%	17.94%	17.28%	16.58%	0.9ppt	0.8ppt	1.4ppt
Net margin	12.13%	11.81%	11.75%	11.35%	11.19%	10.76%	0.8ppt	0.6ppt	1ppt

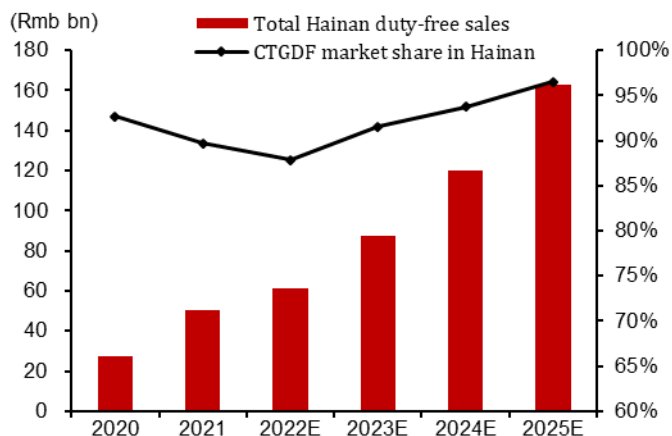
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	80,343	118,452	164,665	78,612	107,284	132,773	2.2%	10.4%	24.0%
Gross profit	26,760	40,901	59,999	27,866	39,352	50,167	-4.0%	3.9%	19.6%
Operating profit	15,164	21,392	29,560	15,400	21,381	27,560	-1.5%	0.1%	7.3%
Net profit	9,745	13,990	19,355	10,404	14,711	18,519	-6.3%	-4.9%	4.5%
EPS (RMB)	4.99	7.17	9.91	5.37	7.54	9.47	-7.0%	-4.9%	4.7%
Gross margin	33.31%	34.53%	36.44%	35.45%	36.68%	37.78%	-2.1ppt	-2.2ppt	-1.3ppt
Operating margin	18.87%	18.06%	17.95%	19.59%	19.93%	20.76%	-0.7ppt	-1.9ppt	-2.8ppt
Net margin	12.13%	11.81%	11.75%	13.23%	13.71%	13.95%	-1.1ppt	-1.9ppt	-2.2ppt

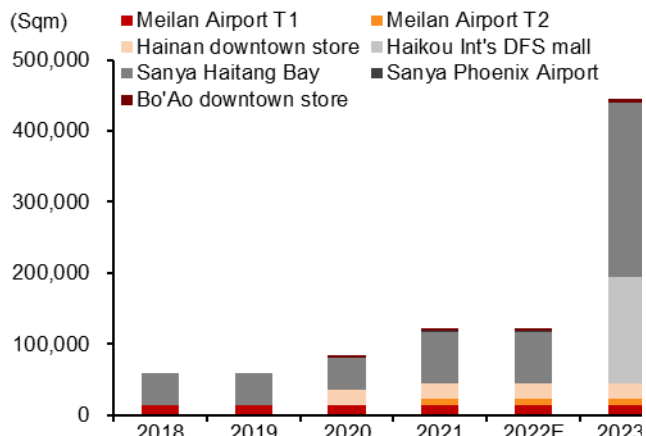
Source: Company data, CMBIGM estimates

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



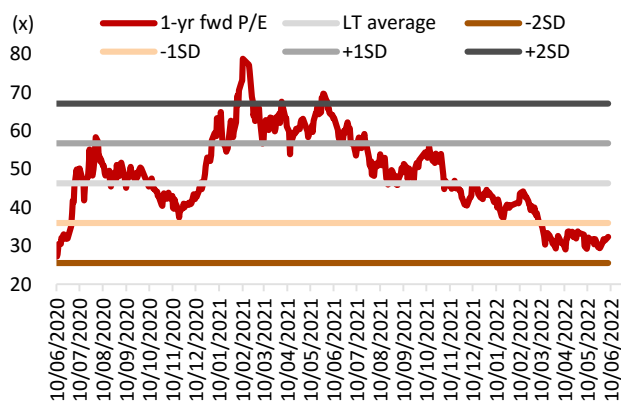
Source: Hainan government, CMBIGM estimates

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



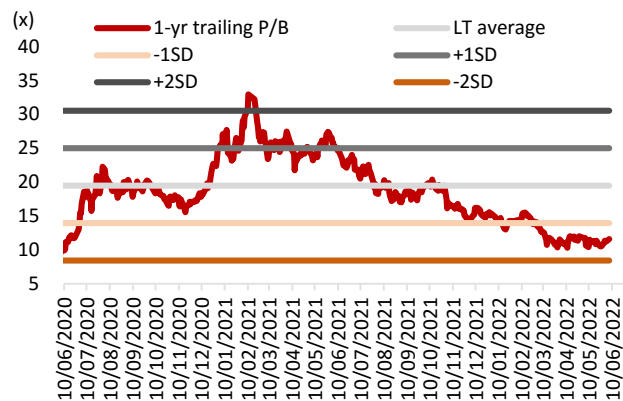
Source: Company data, CMBIGM

**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>80,343</b>	<b>118,45</b>	<b>175,78</b>
Duty-paid sales	19,708	24,006	27,317	34,146	47,560
Duty-free sales	32,361	42,936	53,026	84,306	128,22
<b>Gross profit</b>	<b>21,376</b>	<b>22,793</b>	<b>26,760</b>	<b>40,901</b>	<b>61,660</b>
D&A	(516)	(480)	(542)	(647)	(754)
Selling expenses	(8,847)	(3,861)	(6,427)	(11,845)	(21,095)
Administration expenses	(1,637)	(2,250)	(2,651)	(3,909)	(5,801)
Other operating expenses	(568)	(1,360)	(1,975)	(3,107)	(4,859)
<b>EBIT</b>	<b>9,809</b>	<b>14,843</b>	<b>15,164</b>	<b>21,392</b>	<b>29,151</b>
<b>EBITDA</b>	<b>10,325</b>	<b>15,323</b>	<b>15,706</b>	<b>22,039</b>	<b>29,906</b>
Finance costs, net	545	43	(181)	117	166
Non-operating income	(676)	(245)	-	-	(406)
Total investment gains/(loss)	(7)	161	-	-	163
<b>Pre-tax profit</b>	<b>9,672</b>	<b>14,801</b>	<b>14,983</b>	<b>21,510</b>	<b>29,074</b>
Income tax	(2,335)	(2,437)	(2,494)	(3,580)	(4,840)
Less: Minority interests	(1,197)	(2,711)	(2,744)	(3,940)	(5,325)
<b>Net profit</b>	<b>6,140</b>	<b>9,654</b>	<b>9,745</b>	<b>13,990</b>	<b>18,910</b>

### 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>9,745</b>	<b>13,990</b>	<b>18,910</b>
D&A	516	480	542	647	754
Change in working capital	(2,888)	(2,955)	1,558	(4,386)	(4,816)
Others	4,435	1,151	2,484	3,561	4,733
<b>Net cash fr. operating act.</b>	<b>8,202</b>	<b>8,329</b>	<b>14,329</b>	<b>13,812</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>(2,358)</b>	<b>(2,191)</b>	<b>(2,027)</b>
Equity raised	-	-	-	-	-
Change of Debts	255	-	-	-	-
Dividend paid	(1,658)	(3,431)	(3,099)	(4,449)	(6,013)
Others	20	(386)	(1,218)	(1,743)	(2,439)
<b>Net cash fr. financing act.</b>	<b>(1,383)</b>	<b>(3,817)</b>	<b>(4,317)</b>	<b>(6,192)</b>	<b>(8,452)</b>
<b>Net change in cash</b>	<b>3,005</b>	<b>2,194</b>	<b>7,655</b>	<b>5,429</b>	<b>9,102</b>
Cash at the beginning of the year	12,032	14,858	16,856	24,511	27,800
Exchange difference	(331)	(196)	-	-	-
<b>Cash at the end of the year</b>	<b>14,706</b>	<b>16,856</b>	<b>24,511</b>	<b>29,940</b>	<b>36,902</b>
Less: pledged cash	50	-	-	-	-

### 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>18,788</b>	<b>20,332</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	15,463	16,184	17,170
<b>Current assets</b>	<b>30,971</b>	<b>38,542</b>	<b>45,778</b>	<b>58,733</b>	<b>76,740</b>
Cash	14,706	16,856	24,511	29,940	36,902
Account receivable	129	106	126	186	275
Prepayments	256	348	348	348	348
Other current assets	15,881	21,232	20,793	28,260	39,215
<b>Current liabilities</b>	<b>15,661</b>	<b>17,136</b>	<b>18,276</b>	<b>21,416</b>	<b>26,208</b>
Borrowings	417	411	411	411	411
Obligations under finance	4,327	5,880	7,020	10,160	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>6,439</b>	<b>8,257</b>	<b>10,968</b>
<b>Total net assets</b>	<b>26,179</b>	<b>34,791</b>	<b>42,704</b>	<b>54,062</b>	<b>71,003</b>
<b>Shareholders' equity</b>	<b>26,179</b>	<b>34,791</b>	<b>42,704</b>	<b>54,062</b>	<b>71,003</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Duty-paid sales	37.5	35.5	34.0	28.8	27.1
Duty-free sales	61.5	63.4	66.0	71.2	72.9
<b>P&amp;L ratios (%)</b>					
Gross margin	40.6	33.7	33.3	34.5	35.1
Operating margin	18.6	21.9	18.9	18.1	16.6
Pre-tax margin	18.4	21.9	18.6	18.2	16.5
Net margin	11.7	14.3	12.1	11.8	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	44.6	45.3	44.3
<b>Returns (%)</b>					
ROE	27.5	32.6	26.9	30.5	31.5
ROA	14.6	17.4	15.1	17.7	19.1
Dividend yield	0.5	0.8	0.9	1.2	1.8
<b>Per share</b>					
EPS (RMB)	3.1	4.9	5.0	7.2	9.7
DPS (RMB)	1.0	1.6	1.6	2.3	3.1
BVPS (RMB)	11.4	15.2	18.6	23.5	30.7

Source: Company data, CMBIGM estimates

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## CMB International Global Markets Limited

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

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