

Tongcheng Travel Holdings Ltd

Bloomberg: 780 HK Equity | Reuters: 0780.HK

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DBS Group Research . Equity

20 May 2022

BUY

Last Traded Price (19 May 2022): HK\$13.40 (HSI : 20,121)
Price Target 12-mth: HK\$20.00 (49% upside) (Prev HK\$23.00)

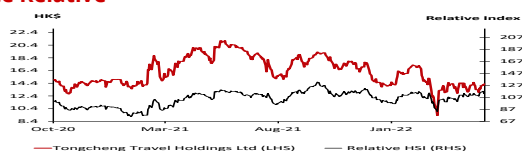
Analyst

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What's New

- 1Q22 revenue increased by 6.5% y-o-y to Rmb1,718m, above market expectation of c.3% growth
- Adjusted net profit decreased by 18% to Rmb250m, better than consensus estimate of c.25% decline
- Revised down FY22F and FY23F earnings by 19% and 12%, factoring in COVID impact in 2Q and higher R&D cost
- Maintain BUY with revised TP of HK\$20

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	5,933	7,538	8,308	11,138
EBITDA	984	1,565	768	1,804
Pre-tax Profit	398	875	749	1,785
Net Profit	328	723	609	1,438
Net Pft (Pre Ex) (core profit)	328	723	1,209	2,038
Net Profit Gth (Pre-ex) (%)	(52.4)	120.8	(15.8)	136.1
EPS (RMB)	0.15	0.33	0.28	0.65
EPS (HK\$)	0.18	0.38	0.32	0.76
EPS Gth (%)	(54.1)	114.4	(15.8)	136.1
Diluted EPS (HK\$)	0.17	0.37	0.31	0.74
DPS (HK\$)	0.00	0.00	0.00	0.00
BV Per Share (HK\$)	7.47	8.03	8.69	9.78
PE (X)	75.2	35.1	41.7	17.7
P/Cash Flow (X)	181.8	13.8	12.3	9.0
P/Free CF (X)	nm	16.6	14.5	10.2
EV/EBITDA (X)	18.5	13.0	23.7	8.5
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.8	1.7	1.5	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	2.4	4.9	3.8	8.2
Core Earnings Rev (%)			(19)	(12)
Consensus EPS (RMB)			0.41	0.72
Other Broker Recs:		B:17	S:0	H:3

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Leading online travel player in lower tier cities

Investment Thesis

Leading online travel agent (OTA) focusing on lower tier cities. Tongcheng Travel is the third-largest online hotel and transportation booking platform in China, with c.87% of users from lower tier cities in China.

Expect online penetration in lower tier cities to grow from the current 25%-30%, given that online travel penetration in tier 1-2 cities is 40%-45%. The solid growth is supported by its strategic partnership with WeChat, which provides c.80% of the company's traffic via WeChat mini programs.

Monetisation potential via cross-selling. We expect profitability to improve from the cross-sales of higher margin accommodation services and value-added services like car hires and hotel dinners.

Valuation:

We derive our TP of HK\$20 based on 18x FY23F adjusted EPS, in line with the historical average.

Where we differ:

More optimistic on long-term growth. We are optimistic about Tongcheng's long-term growth potential, despite the short-term pressure from the COVID-19 outbreak. Its business is more resilient due to its 90% domestic market exposure and lower-tier cities focus.

Key Risks to Our View:

(1) COVID-19 resurgence in China and (2) intensifying competition in lower-tier markets.

At A Glance

Issued Capital (m shrs)	2,218
Mkt Cap (HKm/US\$m)	29,721 / 3,787
Major Shareholders (%)	
Retrieving...	28.8
Ma (Huateng)	8.4
Free Float (%)	62.8
3m Avg. Daily Val. (US\$m)	13.47
GICS Industry: Information Technology / Software & Services	



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Tongcheng Travel Holdings Ltd**WHAT'S NEW****1Q22 results above market expectations, expect steady recovery in 2H22****1Q22 highlights**

- Revenue increased by 6.5% y-o-y to Rmb1,718m, above the market expectation of c.3% growth.
- Segment wise, accommodation reservation services revenue increased by 18% to Rmb543m, driven by higher room nights sold in lower tier cities.
- Transportation ticketing services revenue decreased by 1% to Rmb1,017m; others (including advertising revenue) grew by 20% to Rmb158m.
- Adjusted net profit decreased by 18% to Rmb245m, above the market consensus of a c.25% decline.
- Average MAUs increased by 4.5% to 245m and monthly paying users (MPUs) increased by 16.1% to 31.7m in 1Q22.
- As of Mar 21, 87% of registered users were from lower tier cities; 60% of new paying users on the Weixin platform were from tier 3 or below cities in China.

Outlook

- The outperformance was due to better-than-expected hotel room nights sold in lower tier cities, driven by a higher cross-selling ratio across the transportation and accommodation segments.
- We expect weak performance in 2Q22 caused by the resurgence of COVID. Yet, the company should be able to outpace the market, given its strong advantages in lower tier cities.
- Management remained relatively cautious about travel market recovery in the short term due to the restrictive measures. They expect a steady recovery in 2H22. Management did not share 2Q22 and full-year guidance, given limited visibility.

- We revised down FY22 and FY23 revenue by 12% and 7%, respectively, to reflect slower growth in the ticketing and accommodation segments due to COVID disruptions. We thus revised down our adjusted net profit by 19% and 12% for FY22F and 23F, respectively, incorporating slower growth and increased investments in intelligent travel solutions.

- We believe Tongcheng's long-term growth profile remained intact, supported by the further penetration of the travel market in lower tier cities and improvements in its monetisation rate by cross-selling products. We maintain our BUY rating and revise our TP to HK\$20 based on 18x FY23F adjusted EPS.

Company Background

Tongcheng Travel is the leading online travel agency (OTA) in China with a 10% market share in terms of 2019 GMV after its merger of two independent OTAs in March 2018. TCEL offers a one-stop online travel platform with three types of services: Transportation ticketing (59% of FY20 revenue), accommodation reservation (33% of FY20 revenue), and other travel-related products & services (9% of FY20 revenue). TCEL is currently the sole operator of the "Rail & Flight" and "Hotel" portals in the mobile payment main page of Tencent's WeChat and Mobile QQ, the two biggest social network apps in China in terms of user numbers.

Tongcheng Travel Holdings Ltd

Quarterly / Interim Income Statement (RMBm)

FY Dec	1Q2021	4Q2021	1Q2022	% chg yoy	% chg qoq
Revenue	1,614	1,846	1,718	6.5	(7.0)
Cost of Goods Sold	(409)	(469)	(472)	15.3	0.7
Gross Profit	1,205	1,378	1,246	3.5	(9.5)
Other Oper. (Exp)/Inc	(989)	(1,313)	(1,109)	12.1	(15.6)
Operating Profit	215	65.0	138	(36.0)	112.0
Other Non Opg (Exp)/Inc	(7.4)	(4.6)	13.7	nm	(397.8)
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	3.17	0.15	(9.3)	nm	nm
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	211	60.6	142	(32.7)	134.7
Tax	(42.1)	(33.7)	(44.9)	6.9	33.3
Minority Interest	0.42	4.38	3.91	830.2	(10.9)
Net Profit	170	31.2	101	(40.3)	223.9
Net profit bef Except.	170	31.2	101	(40.3)	223.9
EBITDA	360	263	344	(4.3)	31.1
Margins (%)					
Gross Margins	74.7	74.6	72.5		
Opg Profit Margins	13.3	3.5	8.0		
Net Profit Margins	10.5	1.7	5.9		

Source: Company, DBS HK

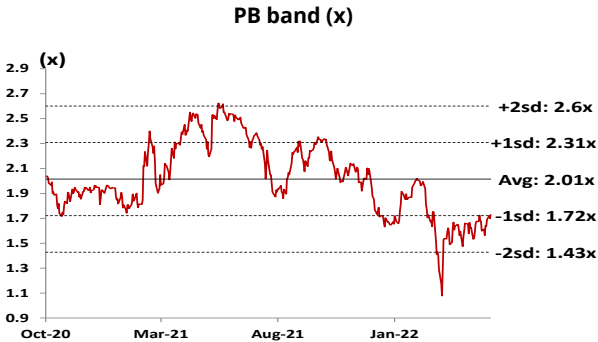
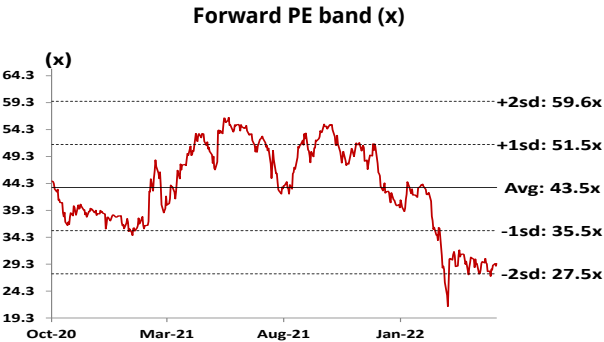
Income Statement (RMB m)

FY Dec	2020A	2021A	% chg vov
Revenue	5,933	7,538	27.1
Cost of Goods Sold	(1,697)	(1,890)	11.4
Gross Profit	4,236	5,648	33.3
Other Opng (Exp)/Inc	(3,854)	(4,753)	23.3
Operating Profit	382	895	134.4
Other Non Opg (Exp)/Inc	(7)	(33)	(356.3)
Associates & JV Inc	0	0	nm
Net Interest (Exp)/Inc	23	12	(45.4)
Exceptional Gain/(Loss)	0	0	nm
Pre-tax Profit	398	875	120.1
Tax	(72)	(161)	124.0
Minority Interest	2	10	379.6
Net Profit	328	723	120.8
Net Profit before Except.	328	723	120.8
EBITDA	984	1,565	59.1
Margins & Ratio			
Gross Margins (%)	71.4	74.9	
Opg Profit Margin (%)	6.4	11.9	
Net Profit Margin (%)	5.5	9.6	

Source: Company, DBS HK

Tongcheng Travel Holdings Ltd

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Tongcheng Travel Holdings Ltd

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Total Gross merchandise volume GMV (m)	166.1	116.4	150.2	172.8	220.1
Transport ticketing services GMV (m)	139.9	96.3	122.6	144.6	180.8
Accommodation reservation services GMV (m)	24.6	19.0	26.1	26.7	37.8

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Accommodation reservation services	2,358	1,945	2,409	2,357	3,662
Transportation ticketing services	4,518	3,471	4,458	5,206	6,508
Others	517	516	671	745	968
Total	7,393	5,933	7,538	8,308	11,138

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	7,393	5,933	7,538	8,308	11,138
Cost of Goods Sold	(2,317)	(1,697)	(1,890)	(2,285)	(2,896)
Gross Profit	5,076	4,236	5,648	6,023	8,242
Other Opg (Exp)/Inc	(4,216)	(3,854)	(4,753)	(5,256)	(6,438)
Operating Profit	860	382	895	768	1,804
Other Non Opg (Exp)/Inc	(13)	(7)	(33)	(32)	(32)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	35	23	12	13	13
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	882	398	875	749	1,785
Tax	(195)	(72)	(161)	(150)	(357)
Minority Interest	2	2	10	10	10
Preference Dividend	0	0	0	0	0
Net Profit	688	328	723	609	1,438
Net Profit before Except.	688	328	723	609	1,438
EBITDA	1,441	984	1,565	768	1,804

Growth

Revenue Gth (%)	40.7	(19.8)	27.1	10.2	34.1
EBITDA Gth (%)	36.9	(31.7)	59.1	(50.9)	134.9
Opg Profit Gth (%)	(376.2)	(55.6)	134.4	(14.2)	134.9
Net Profit Gth (%)	29.8	(52.4)	120.8	(15.8)	136.1

Margins & Ratio

Gross Margins (%)	68.7	71.4	74.9	72.5	74.0
Opg Profit Margin (%)	11.6	6.4	11.9	9.2	16.2
Net Profit Margin (%)	9.3	5.5	9.6	7.3	12.9
ROAE (%)	5.6	2.4	4.9	3.8	8.2
ROA (%)	3.8	1.7	3.6	2.7	5.8
ROCE (%)	5.1	2.2	4.6	3.5	7.6
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

Tongcheng Travel Holdings Ltd

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	1,102	1,226	1,364	1,544	1,724
Invt in Associates & JVs	90	221	1,128	1,128	1,128
Other LT Assets	8,599	8,837	11,641	11,079	10,597
Cash & ST Invt	7,026	6,810	5,444	7,501	10,304
Inventory	0	0	0	0	0
Debtors	2,666	2,020	1,930	2,048	2,243
Other Current Assets	0	0	0	0	0
Total Assets	19,483	19,114	21,506	23,300	25,995
ST Debt	107	49	20	20	20
Creditors	3,429	2,001	2,207	2,427	2,670
Other Current Liab	2,070	2,184	2,485	2,829	3,224
LT Debt	151	319	276	276	276
Other LT Liabilities	575	544	1,261	1,261	1,261
Shareholder's Equity	13,156	14,014	15,219	16,458	18,526
Minority Interests	(5)	3	39	29	19
Total Cap. & Liab.	19,483	19,114	21,506	23,300	25,995
Non-Cash Wkg. Capital	(2,833)	(2,165)	(2,762)	(3,208)	(3,651)
Net Cash/(Debt)	6,768	6,441	5,148	7,206	10,008
Debtors Turn (avg days)	99.9	144.1	95.6	87.4	70.3
Creditors Turn (avg days)	630.6	905.2	629.4	370.1	321.2
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.4	0.3	0.4	0.4	0.5
Current Ratio (x)	1.7	2.1	1.6	1.8	2.1
Quick Ratio (x)	1.7	2.1	1.6	1.8	2.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	117.4	45.1	105.1	105.0	105.0
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	668	661	648	738	896
Dep. & Amort.	566	572	625	630	550
Tax Paid	(283)	(113)	(184)	(150)	(357)
Assoc. & JV Inc/(loss)	13	7	33	32	32
(Pft)/ Loss on disposal of FAs	1	0	0	0	0
Chg in Wkg.Cap.	(1)	(1,179)	202	446	443
Other Operating CF	733	187	515	366	1,245
Net Operating CF	1,696	136	1,838	2,063	2,808
Capital Exp.(net)	(303)	(166)	(310)	(310)	(310)
Other Invt.(net)	(515)	(563)	(2,993)	0	0
Invt in Assoc. & JV	(9)	0	0	0	0
Div from Assoc & JV	0	9	4	4	4
Other Investing CF	(2,129)	(53)	1,737	0	0
Net Investing CF	(2,955)	(773)	(1,563)	(306)	(306)
Div Paid	0	0	0	0	0
Chg in Gross Debt	59	(91)	(57)	0	0
Capital Issues	(40)	0	0	0	0
Other Financing CF	367	261	23	300	300
Net Financing CF	386	170	(34)	300	300
Currency Adjustments	0	0	0	0	0
Chg in Cash	(873)	(467)	241	2,057	2,803
Opg CFPS (RMB)	0.82	0.62	0.74	0.73	1.07
Free CFPS (RMB)	0.68	(0.01)	0.69	0.80	1.13

Source: Company, DBS HK

Tongcheng Travel Holdings Ltd

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	31-May-21	HK\$20.95	HK\$27.00	Buy
2:	24-Aug-21	HK\$15.36	HK\$20.00	Buy
3:	23-Nov-21	HK\$17.34	HK\$25.00	Buy
4:	23-Mar-22	HK\$13.76	HK\$23.00	Buy

Source: DBS HK

Analyst: Tsz Wang Tam

Lilian Lv

Tongcheng Travel Holdings Ltd

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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