

COMPANY RESULTS

Tongcheng Travel Holdings (780 HK)

1Q22: Above Expectations; Cautiously Optimistic For 2H22

TT's 1Q22 results were above expectations. Revenue grew 6.5% yoy to Rmb1.7b, 3.8% above the street's estimates. Across the three business segments, only transportation ticketing reported negative yoy growth, while the rest exceeded pre-COVID-19 levels. Gross margin declined 2.1ppt yoy to 72.5%, in line with our and consensus expectations. Adjusted net profit declined 18% yoy to Rmb245m, 11.7% above consensus estimates. Maintain BUY with a lower target price of HK\$17.50.

1Q22 RESULTS

(Rmbm)	1Q21	4Q21	1Q22	qoq % chg	yoy % chg	UOB	Var	Cons	Var
Total Revenue	1,614	1,846	1,718	(7.0%)	6.5%	1,699	1.1%	1,656	3.8%
Transportation ticketing	1,023	1,075	1,017	(5.4%)	(0.6%)	972	4.6%		
Accommodation reservation	459	562	543	(3.4%)	18.4%	514	5.7%		
Others	132	209	158	(24.6%)	19.6%	213	(26.1%)		
Cost of services	(409)	(469)	(472)	0.7%	15.3%	(408)	15.6%		
Gross profit	1,205	1,378	1,246	(9.5%)	3.5%	1,291	(3.5%)	1,225	1.8%
Operating expenses	(1,033)	(1,353)	(1,177)	(13.0%)	13.9%	(1,164)	1.1%		
Non gaap Operating profit	273	236	234	(0.9%)	(14.2%)	197	18.6%	136	72.4%
Non-GAAP OPM	17%	13%	14%	0.8 ppt	(3.3 ppt)	12%	2.0 ppt		
Net profit	170	31	101	223.9%	(40.3%)	105	(3.2%)	98	3.1%
Non-GAAP net profit	299	250	245	(2.1%)	(18.0%)	237	3.4%	219	11.7%
GPM	74.7%	74.6%	72.5%	(2.1 ppt)	(2.1 ppt)	76.0%	-3 ppt	74.0%	(1.4 ppt)
Non-GAAP NPM	18.5%	13.6%	14.3%	0.7 ppt	(4.3 ppt)	13.9%	0 ppt	13.2%	1.0 ppt

Source: Tongcheng Travel, Bloomberg, UOB Kay Hian

RESULTS

- Better-than-expected top-line performance.** Tongcheng Travel Holdings' (TT) 1Q22 revenue growth of 6.5% yoy beat management's previous guidance of a 0-5% growth. Transportation ticketing revenue saw a mild drop of 0.6% (1Q21: -7%) to Rmb1,017m, which can be attributed to the lockdown measures imposed in Shenzhen and Shanghai in early-Mar 22. TT saw bus ticketing volume spiking 170% yoy in 1Q22 vs a 150% yoy increase in 1Q21. The accommodation reservation segment saw a revenue growth of 18% yoy (1Q21: +100%) to Rmb543m due to the increase in cross-selling from the transportation business. In 1Q22, TT registered a 10% yoy growth in room nights sold in the lower-tier cities with absolute amount surpassing the pre-pandemic level as overall domestic room nights sold was 5% higher than 1Q21. Average daily rate (ADR) saw a yoy decline during 1Q22. Revenue from other segments rose 20% yoy to Rmb158m (1Q21: +48%) due to an increase in revenue from value added service (VAS) and advertising services.
- 2Q22 guidance.** TT has guided for its top-line to decline 40-45% yoy in 2Q22, with its midpoint being 18% below street's estimate and implies a 23% decline vs 2Q19. The weaker guidance was given in tandem with the domestic tourism industry being affected by the lockdown measures which management described it as "more severe than 2020". TT expects 2Q22 adjusted net profit to reach Rmb50m-100m, a growth of 80% yoy with adjusted net margin of 6% (2Q21: 18.6%).

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	5,933	7,538	7,116	10,239	12,609
EBITDA	789	1,242	986	1,855	2,840
Operating profit	382	895	849	1,680	2,636
Net profit (rep./act.)	328	723	642	1,378	2,188
Net profit (adj.)	954	1,299	1,085	1,825	2,636
EPS (Fen)	43.7	57.8	48.3	81.2	117.3
PE (x)	26.4	20.0	23.9	14.2	9.8
P/B (x)	1.8	1.7	1.6	1.4	1.2
EV/EBITDA (x)	30.2	19.2	24.1	12.8	8.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	5.5	9.6	9.0	13.5	17.4
Net debt/(cash) to equity (%)	(11.7)	(12.7)	(11.4)	(24.0)	(35.9)
Interest cover (x)	n.a.	n.a.	16.4	n.a.	n.a.
ROE (%)	2.4	4.9	4.1	8.0	11.3
Consensus net profit	-	-	1,355	1,950	2,395
UOBKH/Consensus (x)	-	-	0.80	0.94	1.10

Source: Tongcheng Travel Holdings Limited, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$13.40
Target Price	HK\$17.50
Upside	+30.6%
(Previous TP)	HK\$20.00

COMPANY DESCRIPTION

Tongcheng-Elong is a one-stop OTA for users' travel needs by offering a comprehensive and innovative selection of products and services covering nearly all aspects of travel, including transportation ticketing, accommodation reservation and various ancilla

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	780 HK
Shares issued (m):	2,218.3
Market cap (HK\$m):	29,724.8
Market cap (US\$m):	3,788.0
3-mth avg daily t'over (US\$m):	13.6

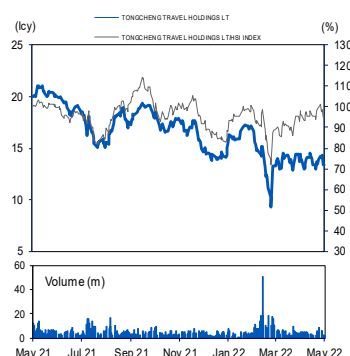
Price Performance (%)

52-week high/low	HK\$21.10/HK\$9.31			
1mth	3mth	6mth	1yr	YTD
(2.2)	(22.0)	(25.1)	(33.7)	(7.2)

Major Shareholders

Trip.com	20.9
Tencent Holdings Investment Arm	14.0
Tencent	7.5
FY22 NAV/Share (Rmb)	7.41
FY22 Net Cash/Share (Rmb)	0.84

PRICE CHART



Source: Bloomberg

ANALYST(S)

Oong Chun Sung
+603 2147 1988
chunsung@uobkayhian.com

Julia Pan Meng Yao
+8621 5404 7225 ext 808
juliapan@uobkayhian.com

STOCK IMPACT

- Operating metrics and margin performance.** In 1Q22, 87% of TT's users were residing in non-first-tier cities, vs 81% in 4Q21 and 86.4% in 1Q21. 84.1% of the new paying users on the Weixin platform were from tier-3 and below cities, vs 80.7% in 4Q21 and 83% in 1Q21. Both monthly active users (MAU) and monthly paying users (MPU) registered 4.5%/16.1% yoy growth to 244.8m/31.7m respectively with total paying ratio edging up slightly by 1.2ppt yoy to 12.9%. Gross merchandise value (GMV) saw a 2.7% yoy decrease to Rmb32.4b as a result of the pandemic's impact on product prices and volume. Gross margin contracted 2.1ppt yoy to 72.5% as a result of a rise in the cost of pre-purchased inventory. Adjusted net margin contracted 4.3ppt yoy to 14.3%, better than management's guidance of 13.6%.
- Revenue guidance by segment.** In terms of revenue guidance by segment, accommodation reservation is expected to grow 35-40% yoy (17% below 2Q19), while transportation ticketing is guided to decline 45-50% yoy (32% below 2Q19) as the pandemic (in March) had a more pronounced impact on the transportation segment. The others segment is guided to drop 20-25% yoy. Management guided that hotel ADR will continue to be on a downtrend due to product mix shift towards lower-tier cities as well as pricing pressure as a result of the pandemic. As near-term visibility remains uncertain, management is cautiously optimistic that 3Q22 revenue should be flattish yoy and expects to see positive yoy growth in 4Q22. For full-year 2022, TT expects top-line to decline 5-10% yoy with adjusted net margin target of 15-16%.
- Near-term outlook.** TT guided that it had implemented discipline cost control measures in terms of sales & marketing (S&M) spending since Mar 22. As majority of the S&M spendings are discretionary, management expects stringent spending coupled with stable G&A spending (mostly fixed basis) as the company does not plan to expand its workforce and will prioritise maintaining overall margin performance. Moving forward, the company expects its blended take-rate for hotels to remain relatively steady as the company reduced its coupon offerings coupled with the increasing demand for non-room VAS.
- Current outlook for domestic tourism sector.** The Shanghai city mayor had on 17 May announced Shanghai had achieved "Dynamic Covid-Zero" status in 16 districts. As shops and banks have resumed operations (with strict SOPs) since the third week of May, we reckon the lockdown measures should be lifted in stages. With lockdown uncertainty still lingering in major cities like Shanghai and Beijing, we think lower-tier cities offer relatively safe travelling options due to lower COVID-19 transmission risk (as well as lower risk of lockdown) and should anchor the tourism sector's near-term recovery. We think there is still ample room for growth for lower-tier cities given that the online penetration rates from lower-tier cities remain low (ie hotel and bus ticketing stand at only 25% and low single digits), and TT should continue to benefit from users growth via its investment in ticket vending and hotel QR code scanning.

EARNINGS REVISION/RISK

- We lower our 2Q22 revenue estimate by 49% as we expect that 2Q22 should be the trough level in 2022 given that some of the cities had gradually allowed businesses to resume operations. We estimate 2Q22 adjusted net profit margin of 9% which is around the trough level in 1Q20 (8%) during the first pandemic outbreak in China.**
- Risks:** Prolonged travel restrictions will impact the domestic tourism industry.

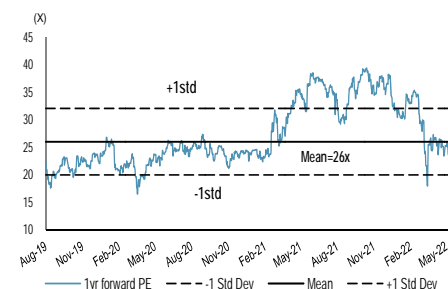
VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of HK\$17.50**, pegged at 25x 2023F PE. Our target price implies PEG of 0.7x and EPS CAGR of 37% from 2023-26. TT currently trades at 24x 12-month forward PE, 0.4SD below its historical mean of 26x.

SHARE PRICE CATALYST

- Catalysts:** a) Positive progress in vaccination, b) implementation of travel bubbles with relatively low-risk countries, and c) easing of travel restrictions.

12-MONTH FORWARD PE



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	7,538	7,116	10,239	12,609
EBITDA	1,242	986	1,855	2,840
Deprec. & amort.	346	138	175	204
EBIT	895	849	1,680	2,636
Total other non-operating income	0	0	0	0
Associate contributions	(33)	14	0	0
Net interest income/(expense)	12	(60)	0	0
Pre-tax profit	875	802	1,680	2,636
Tax	(161)	(164)	(302)	(448)
Minorities	10	4	0	0
Net profit	723	642	1,378	2,188
Net profit (adj.)	1,299	1,085	1,825	2,636

CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Operating	1,838	124	2,688	3,311
Pre-tax profit	875	802	1,680	2,636
Tax	(161)	(164)	(302)	(448)
Deprec. & amort.	329	334	339	345
Working capital changes	591	(1,300)	530	331
Other operating cashflows	205	452	441	447
Investing	(1,563)	(200)	(200)	(200)
Capex (growth)	(200)	(200)	(200)	(200)
Investments	1,162	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(2,525)	0	0	0
Financing	(20)	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Others/interest paid	(20)	0	0	0
Net cash inflow (outflow)	255	(76)	2,488	3,111
Beginning cash & cash equivalent	1,804	2,046	1,970	4,458
Changes due to forex impact	(14)	0	0	0
Ending cash & cash equivalent	2,046	1,970	4,458	7,568

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	1,364	1,450	1,531	1,607
Other LT assets	12,769	11,477	9,268	9,277
Cash/ST investment	2,046	1,970	4,458	7,568
Other current assets	5,328	5,979	8,658	8,891
Total assets	21,506	20,876	23,915	27,342
ST debt	20	20	20	20
Other current liabilities	4,692	3,154	4,370	5,162
LT debt	94	94	94	94
Other LT liabilities	1,443	1,261	1,261	1,261
Shareholders' equity	15,219	16,304	18,127	20,763
Minority interest	39	43	43	43
Total liabilities & equity	21,506	20,876	23,915	27,342

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	16.5	13.9	18.1	22.5
Pre-tax margin	11.6	11.3	16.4	20.9
Net margin	9.6	9.0	13.5	17.4
ROA	3.6	3.0	6.2	8.5
ROE	4.9	4.1	8.0	11.3
Growth				
Turnover	27.1	(5.6)	43.9	23.1
EBITDA	57.5	(20.6)	88.1	53.1
Pre-tax profit	120.1	(8.3)	109.5	56.9
Net profit	120.8	(11.2)	114.5	58.8
Net profit (adj.)	36.2	(16.5)	68.2	44.4
EPS	32.2	(16.5)	68.2	44.4
Leverage				
Debt to total capital	0.7	0.7	0.6	0.5
Debt to equity	0.7	0.7	0.6	0.5
Net debt/(cash) to equity	(12.7)	(11.4)	(24.0)	(35.9)
Interest cover (x)	n.a.	16.4	n.a.	n.a.

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W