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CTGDF (601888 CH)

A weak 3Q on Sanya's lockdown; resilient online sales made up the gap but unavoidably diluted GPM

- **Sanya's lockdown weighed on CTGDF's 3Q results as we expected,** with recurring net profits standing at RMB656mn, down ~45%, as we exclude non-core Beijing airport rental concession and Hainan tax cut impact. Despite this, revenue of the quarter rose 8% QoQ to RMB11.7bn, when online sales with Sunrise Shanghai made up most of the offline hiccups. The change in sales mix also led to an almost 10pp/11pp QoQ decline in GPM/ OPM to 24.7%/ 12.5%, respectively.
- **Key takeaways from management calls.**

  1) Forex impact: management has taken a few initiatives to mitigate the adverse impact from a strengthening USD (against RMB). This includes enriching forex reserves, extending payments (dominated in foreign currencies), and cost sharing with suppliers.

  2) Synergy with Swire Property: A piece of land was jointly acquired for the expansion of Haitang Bay Phase 1, and both CTGDF and Swire will work out the expansion of Haitang Bay Phase 2&3 together.

  3) The opening of the Haikou DFS mall on 28 Oct: with a total of 280k sq m, the mall covers 800+ global luxury brands and 25 of them, including YSL, Prada, Burberry, BV, Moncler, etc., had their first footstep in Hainan. On the other hand, according to our survey, customer could enjoy 20% for every 2 cosmetic items purchased. For other popular brands like Shisedo, La Mer, Dior, discount ranges from 28-32% off MSRP.
- **Earnings change.** To reflect the 3Q results, we cut our 2022/23E revenue by 16.6%/ 23.8%, GPM by 1.6/0.9pp, leading to an average 23% cut in net profits for the periods. Our current forecast implies 4Q22E revenue/ net profits to be RMB17.7bn/2.2bn, with a 37% GPM, barring any unexpected lockdown for the quarter. For now, we assume Hainan will generate RMB54bn/75bn sales from duty-free operators (DF plus non-DF) in 2022/23 and CTGDF will share ~80%/~77% of it.
- **Valuation.** Our revised TP is based on an unchanged 45.0x roll-forward end-23E P/E which still represents 2-year average since 2020.

Earnings summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	52,597	67,676	57,080	73,409	101,991
YoY growth (%)	8.2	28.7	(15.7)	28.6	38.9
Net income (RMB mn)	6,140	9,654	6,830	9,976	13,224
EPS (RMB)	3.1	4.9	3.5	5.1	6.7
YoY growth (%)	32.6	57.2	(29.3)	46.1	32.6
Consensus EPS (RMB)	n.a	n.a	4.0	6.0	8.0
P/E (x)	n.a	n.a	52.2	35.7	27.0
P/B (x)	n.a	n.a	10.4	8.7	7.1
Div Yield (%)	n.a	n.a	0.6	0.9	1.2
ROE (%)	27.5	32.6	20.0	24.3	26.4
Net gearing (%)	54.6	32.8	49.5	52.0	53.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB230.0
(Previous TP	RMB253.0)
Up/Downside	+25.6%
Current Price	RMB182.6

China Consumer -
Duty free and travelling

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Stock Data

Mkt Cap (RMB mn)	376,810
Avg 3 mths t/o (RMB mn)	1,970
52w High/Low (RMB)	237.8/ 153.6
Total Issued Shares (mn)	1,952

Source: Wind

Shareholding Structure

China Travel Group	53.3%
HKSC	9.8%
CSFC	3.0%

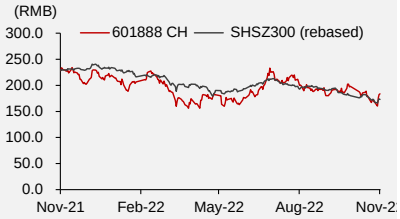
Source: Wind

Share Performance

	Absolute	Relative
1-mth	-7.4%	-3.5%
3-mth	8.2%	2.2%
6-mth	0.9%	11.0%

Source: Wind

12-mth Price Performance



Source: Wind

Related Reports

1. Lockdown in Sanya likely represents yet another entry opportunity – 9 Aug 2022
2. Looking past the weak 2Q; earnings risk diminishing as consensus is subtly edging down; upgrade to BUY – 8 Jun 2022
3. 1Q22 below market although GPM rebounded on strong 2M22 momentum; keep Hold on fluid COVID situation – 26 Apr 2022

Figure 1: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	57,080	73,409	101,991	68,404	96,391	134,166	-16.6%	-23.8%	-24.0%
Gross Profit	18,035	25,487	36,770	23,764	34,381	49,554	-24.1%	-25.9%	-25.8%
EBIT	10,454	15,207	20,124	14,345	19,802	27,229	-27.1%	-23.2%	-26.1%
Net profit	6,830	9,976	13,224	8,952	12,969	17,858	-23.7%	-23.1%	-25.9%
Gross Margin	31.6%	34.7%	36.1%	34.7%	35.7%	36.9%	-3.1ppt	-0.9ppt	-0.9ppt
EBIT Margin	18.3%	20.7%	19.7%	21.0%	20.5%	20.3%	-2.7ppt	0.2ppt	-0.6ppt
Net Margin	12.0%	13.6%	13.0%	13.1%	13.5%	13.3%	-1.1ppt	0.1ppt	-0.3ppt

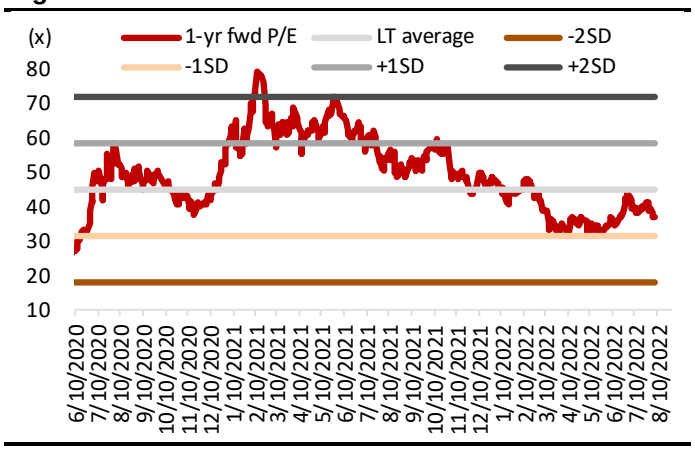
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	57,080	73,409	101,991	66,781	100,462	128,487	-14.5%	-26.9%	-20.6%
Gross Profit	18,035	25,487	36,770	23,021	36,577	47,647	-21.7%	-30.3%	-22.8%
Operating Profit	10,454	15,207	20,124	12,542	19,486	24,994	-16.6%	-22.0%	-19.5%
Net profit	6,830	9,976	13,224	8,357	13,479	17,348	-18.3%	-26.0%	-23.8%
Gross Margin	31.6%	34.7%	36.1%	34.5%	36.4%	37.1%	-2.9ppt	-1.7ppt	-1ppt
Operating Margin	18.3%	20.7%	19.7%	18.8%	19.4%	19.5%	-0.5ppt	1.3ppt	0.3ppt
Net Margin	12.0%	13.6%	13.0%	12.5%	13.4%	13.5%	-0.5ppt	0.2ppt	-0.5ppt

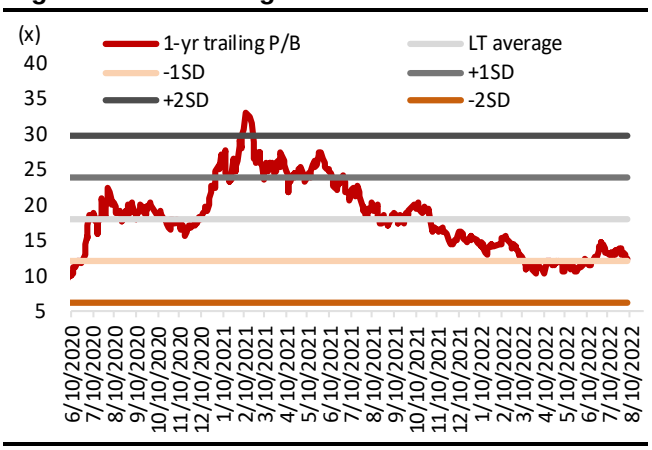
Source: Company data, CMBIGM estimates

Figure 3: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM

Figure 4: 12M trailing P/B band



Source: Company data, Bloomberg, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**52,597**	**67,676**	**57,080**	**73,409**	**101,99**
Duty-paid sales	19,708	24,006	22,832	28,540	32,821
Duty-free sales	32,361	42,936	34,248	44,868	69,170
Gross profit	**21,376**	**22,793**	**18,035**	**25,487**	**36,770**
D&A	(516)	(480)	(542)	(647)	(754)
Selling expenses	(8,847)	(3,861)	(3,996)	(5,652)	(10,19
Administration expenses	(1,637)	(2,250)	(1,884)	(2,422)	(3,366)
Other operating expenses	(568)	(1,360)	(1,159)	(1,558)	(2,327)
EBIT	**9,809**	**14,843**	**10,454**	**15,207**	**20,124**
EBITDA	**10,325**	**15,323**	**10,996**	**15,854**	**20,878**
Finance costs, net	545	43	(181)	131	209
Non-operating income	(676)	(245)	228	-	-
Total investment gains/(loss)	(7)	161	-	-	-
Pre-tax profit	**9,672**	**14,801**	**10,501**	**15,339**	**20,333**
Income tax	(2,335)	(2,437)	(1,748)	(2,553)	(3,385)
Less: Minority interests	(1,197)	(2,711)	(1,923)	(2,809)	(3,724)
Net profit	**6,140**	**9,654**	**6,830**	**9,976**	**13,224**

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	**6,140**	**9,654**	**6,830**	**9,976**	**13,224**
D&A	516	480	542	647	754
Change in working capital	(2,888)	(2,955)	4,868	(1,360)	(2,802)
Others	4,435	1,151	1,663	2,417	3,252
Net cash fr. operating act.	**8,202**	**8,329**	**13,902**	**11,681**	**14,429**
Capex & investments	(1,234)	(2,155)	(2,358)	(2,191)	(2,026)
Associated companies	(1,542)	(62)	-	-	-
Others	337	338	(54)	-	-
Net cash fr. investing act.	**(3,814)**	**(2,318)**	**(2,412)**	**(2,191)**	**(2,026)**
Equity raised	-	-	-	-	-
Change of Debts	255	-	-	-	-
Dividend paid	(1,658)	(3,431)	(2,172)	(3,172)	(4,205)
Others	20	(386)	(776)	(1,121)	(1,533)
Net cash fr. financing act.	**(1,383)**	**(3,817)**	**(2,947)**	**(4,293)**	**(5,739)**
Net change in cash	**3,005**	**2,194**	**8,543**	**5,196**	**6,664**
Cash at the beginning of the year	12,032	14,858	16,856	25,400	30,596
Exchange difference	(331)	(196)	-	-	-
Cash at the end of the year	**14,706**	**16,856**	**25,400**	**30,596**	**37,260**
Less: pledged cash	50	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	**10,948**	**16,932**	**18,788**	**20,332**	**21,603**
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	16,680
Current assets	**30,971**	**38,542**	**41,453**	**49,172**	**60,904**
Cash	14,706	16,856	25,400	30,596	37,260
Account receivable	129	106	89	115	160
Prepayments	256	348	348	348	348
Other current assets	15,881	21,232	15,616	18,113	23,136
Current liabilities	**15,661**	**17,136**	**16,371**	**17,534**	**19,801**
Borrowings	417	411	411	411	411
Obligations under finance	4,327	5,880	5,115	6,278	8,545
Other payables	7,246	6,122	6,122	6,122	6,122
Tax payables	3,671	4,722	4,722	4,722	4,722
Non-current liabilities	**79**	**3,546**	**3,546**	**3,546**	**3,546**
Borrowings	-	-	-	-	-
Deferred income	74	55	55	55	55
Others	5	3,491	3,491	3,491	3,491
Minority Interest	**3,871**	**5,173**	**6,060**	**7,356**	**9,075**
Total net assets	**26,179**	**34,791**	**40,283**	**48,383**	**59,120**
Shareholders' equity	**26,179**	**34,791**	**40,283**	**48,383**	**59,120**

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Duty-paid sales	37.5	35.5	40.0	38.9	32.2
Duty-free sales	61.5	63.4	60.0	61.1	67.8
P&L ratios (%)					
Gross margin	40.6	33.7	31.6	34.7	36.1
Operating margin	18.6	21.9	18.3	20.7	19.7
Pre-tax margin	18.4	21.9	18.4	20.9	19.9
Net margin	11.7	14.3	12.0	13.6	13.0
Effective tax rate	(24.1)	(16.5)	(16.6)	(16.6)	(16.6)
Balance sheet analysis					
Current ratio (x)	0.5	0.4	0.6	0.6	0.6
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	49.5	52.0	53.8
Returns (%)					
ROE	27.5	32.6	20.0	24.3	26.4
ROA	14.6	17.4	11.3	14.4	16.0
Dividend yield	0.5	0.8	0.7	1.0	1.3
Per share					
EPS (RMB)	3.1	4.9	3.5	5.1	6.8
DPS (RMB)	1.0	1.6	1.1	1.6	2.2
BVPS (RMB)	11.4	15.2	17.5	21.0	25.6

Source: Company data, CMBIGM estimates

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