

Trip.com (TCOM US)

Recovery in sight

We keep positive on TCOM's solid recovery and long-term margin improvement, backed by its sizable users, well-established supply chain, high-tier cities exposure and powerful overseas network. We forecast its domestic business rev up 8% in FY21E (vs. FY19), driven by strong hotel momentum and deeper lower-tier cities penetration. For conservative estimates, we expect international segment still at low-single digit contribution in FY21E. We forecast TCOM to deliver 44% rev CAGR in FY20-22E, and non-GAAP OPM at 20% in FY22E. Initiate with BUY with SOTP-based TP of US\$45.0.

- **OTA leader with first-mover advantage.** TCOM is the world's largest OTA in terms of GMV in 2019, with well-established platform portfolio to cater to different user groups, including Ctrip, Qunar, Skyscanner. Backed by its sizable users, one-stop service offerings, strong supply chain and big data, we forecast TCOM to deliver 44% revenue CAGR during FY20-22E, thanks to solid domestic recovery, strong hotel momentum and user expansion.
- **Riding on the solid domestic recovery.** TCOM is well-positioned to capture domestic OTA recovery (forecasting domestic rev -10% YoY in 4Q20E), and we expect it to continuously strengthen its leadership. With right cutting into corporate travel, we see high visibility for TCOM to enjoy increasing high-end travel demand shifted from the outbound travel, especially for mid-/high-end hotel. We forecast its domestic business to grow 8% in FY21E (vs. FY19), amid super conservative overseas contribution estimates (2%). FY22E would see double-digit growth (vs. FY19) for domestic business, with overseas full recovery (vs. FY19). The competition landscape tends to normalize, and we expect TCOM's powerful supply chain to build high barrier.
- **2021 priority on hotel momentum and low-tier cities penetration.** Given muted overseas business, mgmt. put priority on domestic share gain in 2021, including lower-tier cities penetration and hotel recovery. TCOM will step up low-tier cities expansion by leveraging offline synergy. We expect hotel to be key driver in FY21E (forecasting domestic rev +50% YoY), with rising room nights and gradual ADR pick-up.
- **Initiate with BUY.** We set our SOTP-based TP at **US\$45.0** (implying **24.1x** FY22E P/E), in line with industry average. Key market concerns lie in the domestic competition and overseas uncertainty, but have been well priced in, in our view. Further catalysts: 1) potential solid quarter result; 2) vaccine; 3) lower-tier cities penetration and 4) mid-/high-end hotels momentum.

Earnings Summary

| (YE 31 Dec) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--------------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn) | 30,965 | 35,666 | 18,395 | 24,037 | 38,070 |
| YoY growth (%) | 15.6 | 15.2 | (48.4) | 30.7 | 58.4 |
| Adj. net income (RMB mn) | 5,480 | 6,527 | (1,794) | 1,984 | 7,434 |
| Adj. EPS (RMB) | 9.2 | 10.8 | (2.6) | 2.9 | 12.1 |
| YoY growth (%) | 33.7 | 16.6 | (124.5) | (209.5) | 319.2 |
| Consensus EPS (RMB) | NA | NA | (3.3) | 6.0 | 10.1 |
| P/E (x) | 24.7 | 21.2 | NA | 78.7 | 18.8 |
| P/S (x) | 4.4 | 3.8 | 7.4 | 5.6 | 3.6 |
| ROE (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

| | |
|---------------|----------|
| Target Price | US\$45.0 |
| Up/Downside | +27% |
| Current Price | US\$35.1 |

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Stock Data

| | |
|--------------------------|--------------|
| Mkt Cap (US\$ mn) | 20,840 |
| Avg 3 mths t/o (US\$ mn) | 127.44 |
| 52w High/Low (US\$) | 38.95/ 20.10 |
| Total Issued Shares (mn) | 593 |

Source: Bloomberg

Shareholding Structure

| | |
|----------------|------|
| T Rowe Price | 5.8% |
| Morgan Stanley | 5.0% |
| Credit Suisse | 4.1% |

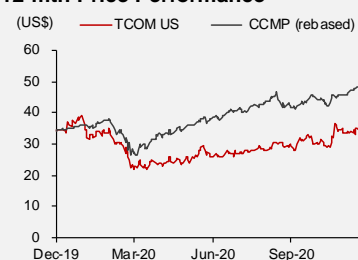
Source: Bloomberg

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 1.7% | -4.2% |
| 3-mth | 19.7% | 4.5% |
| 6-mth | 35.3% | 5.8% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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Investment Thesis

OTA leader with first-mover advantage.

TCOM is the world's largest OTA in terms of GMV in 2019, with well-established platform portfolio to cater to different user groups, including Ctrip, Qunar, Skyscanner. Backed by its sizable users, one-stop service offerings, strong supply chain and big data, we forecast TCOM to deliver 44% revenue CAGR during FY20-22E, thanks to solid domestic recovery, strong hotel momentum and user expansion.

Riding on the solid domestic recovery.

TCOM is well-positioned to capture domestic OTA recovery (forecasting domestic rev -10% YoY in 4Q20E), and we expect it to continuously strengthen its leadership. With right cutting into corporate travel, we see high visibility for TCOM to enjoy increasing high-end travel demand shifted from the outbound travel, especially for mid-/high-end hotel. We forecast its domestic business to grow 8% in FY21E (vs. FY19), amid super conservative overseas contribution estimates (2%). FY22E would see double-digit growth (vs. FY19) for domestic business, with overseas full recovery (vs. FY19). The competition landscape tends to normalize, and we expect TCOM's powerful supply chain to build high barrier.

2021 priority on hotel momentum and low-tier cities penetration.

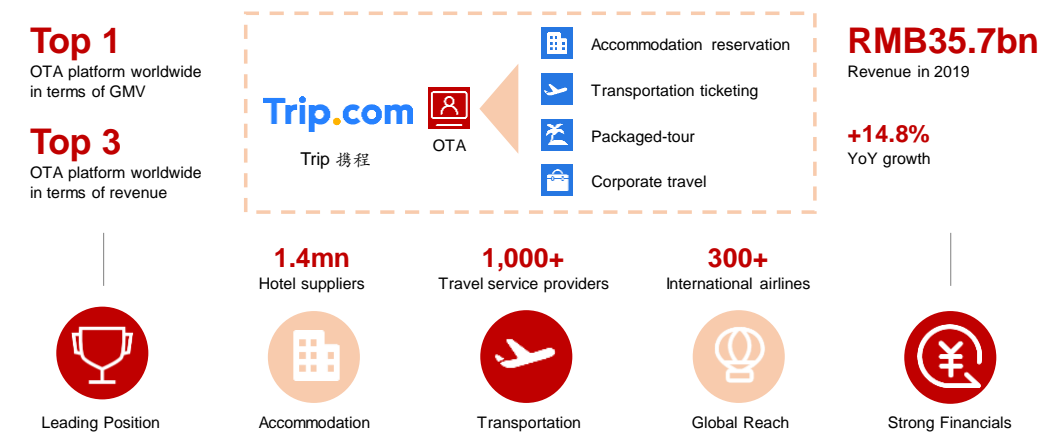
Given muted overseas business, mgmt. put priority on domestic share gain in 2021, including lower-tier cities penetration and hotel recovery. TCOM will step up low-tier cities expansion by leveraging offline synergy. We expect hotel to be key driver in FY21E (forecasting domestic rev +50% YoY), with rising room nights and gradual ADR pick-up.

Initiate with BUY.

We set our SOTP-based TP at US\$45.0 (implying 24.1x FY22E P/E), in line with industry average. Key market concerns lie in the domestic competition and overseas uncertainty, but have been well priced in, in our view. Further catalysts: 1) potential solid quarter result; 2) vaccine; 3) lower-tier cities penetration and 4) mid-/high-end hotels momentum.

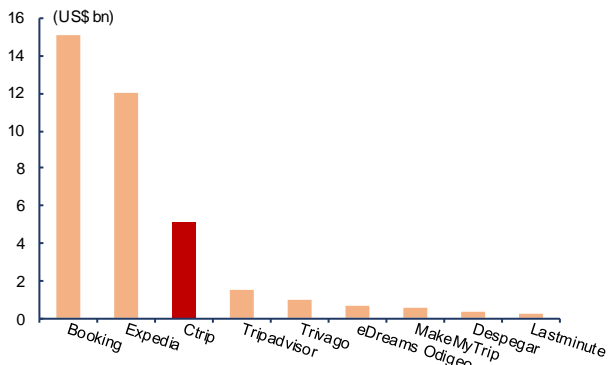
Focus Charts

Figure 1: Overview of TCOM



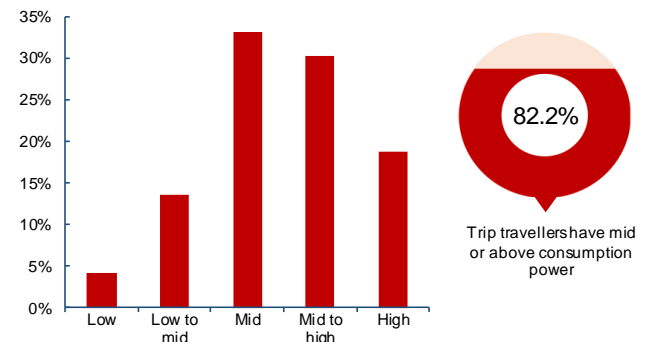
Source: Company data, as of 2019

Figure 2: Leading OTA worldwide by revenue in 2019



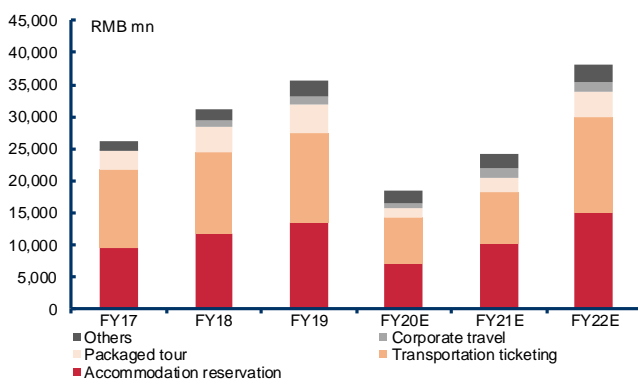
Source: Statista

Figure 3: User structure (by consumption power)



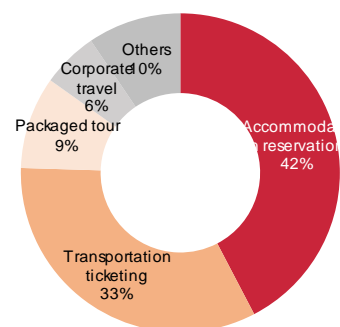
Source: Analysys, based on data in Aug 2020

Figure 4: 44% total revenue CAGR in FY20-21E



Source: Company data, CMBIS estimates

Figure 5: FY21E revenue breakdown



Source: CMBIS estimates

Company Overview

OTA leader with first-mover advantage

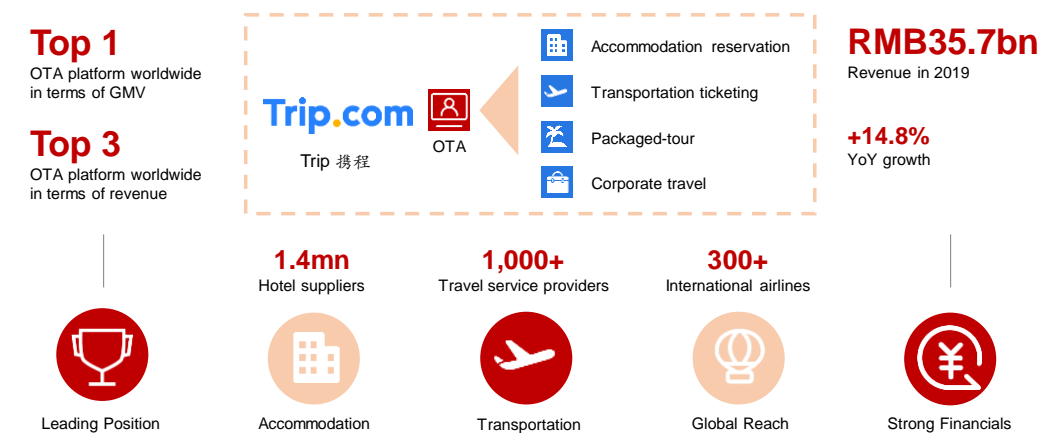
China's dominant OTA leader with first-mover advantage

Founded in 1999, Trip.com Group ("TCOM") is the long-established leader and overseas expansion pioneer among Chinese OTAs. In both 2018 and 2019, TCOM ranked first among OTAs worldwide in terms of GMV. According to Statista, TCOM was the third-largest OTA in terms of revenue in 2019, after Bookings and Expedia. TCOM has well-established platform portfolio to cater to different user groups. Domestically, the Company owns Ctrip, Qunar, and a 22% stake in Tongcheng-elong. TCOM also acquired Skyscanner and a controlling stake in the Indian OTA MakeMyTrip to enhance its international presence.

TCOM offers fully-fledged travel products in accommodation reservation, transportation ticketing, packaged tour, and corporate travel. According to Fastdata, TCOM ranked first in China's accommodation reservation and transportation ticketing markets in terms of room nights and GMV in 1H19, respectively. The Company leverages its leadership in these key segments to cross-sell its packaged tour and corporate travel products, which accounted for 16.2% of the revenue in 2019.

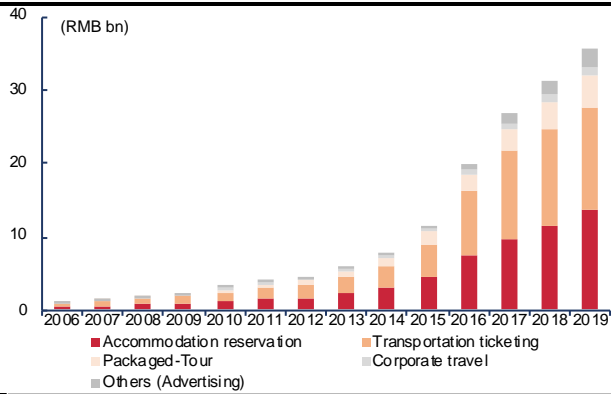
With its first-mover advantage, TCOM develops a massive network of users and suppliers through organic growth and M&A. As of Oct 2019, the Company had accumulated over 400mn users, among which 100mn were international users. On the supply side, the Company cooperated with over 1.4mn hotels and over 1,000 third-party travel service providers, at the end of 2019.

Figure 6: Overview of TCOM



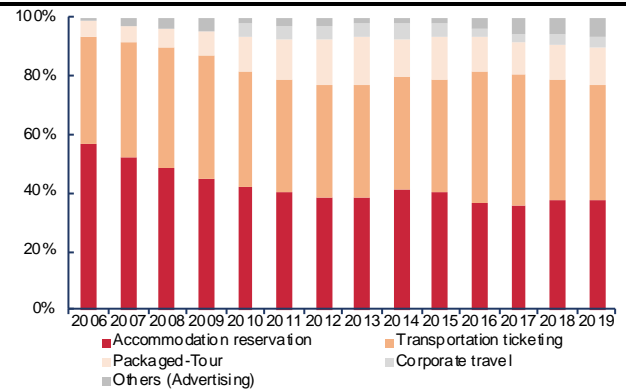
Source: Company data, as of 2019

Figure 7: TCOM's revenue growth in 2006-2019



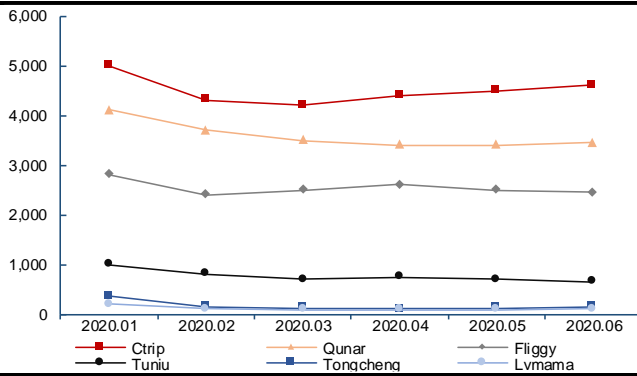
Source: Company data

Figure 8: TCOM's revenue mix in 2006-2019



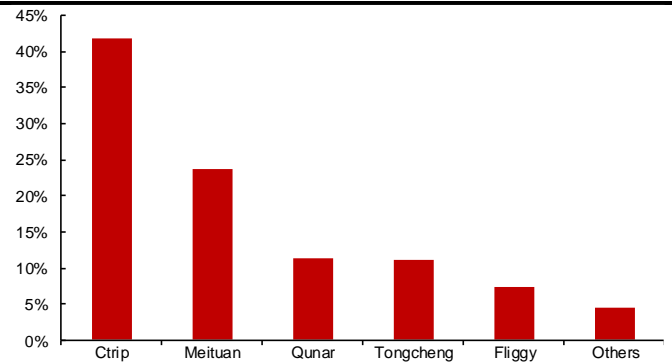
Source: Statista

Figure 9: China's Top 6 OTA App by MAU in 1H20



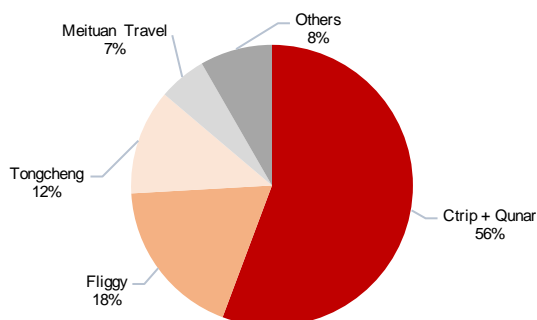
Source: Analysys

Figure 10: 1H20 China OTA accommodation reservation market share by GMV



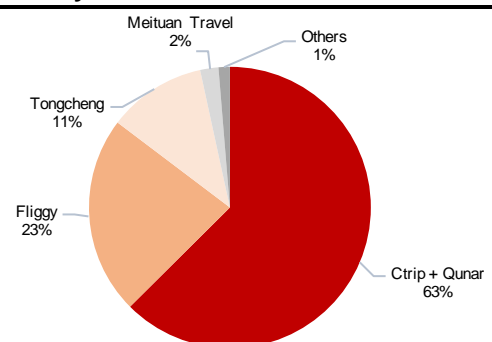
Source: Analysys

Figure 11: 1H19 China OTA market share by GMV



Source: Fastdata

Figure 12: 1H19 China OTA transportation ticketing market share by GMV



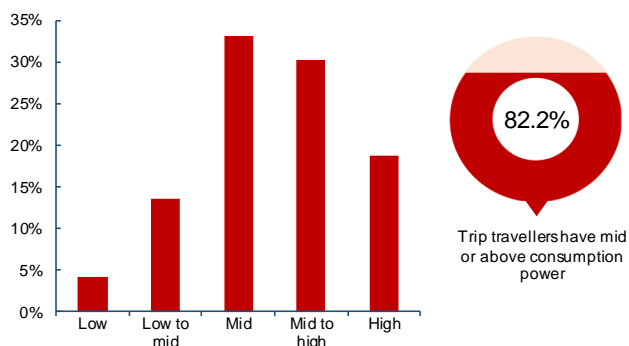
Source: Fastdata

Well-positioned in high-tier cities and business travel

TCOM's development trajectory gives it a strong presence in high-tier cities and business travellers. Most travellers were business travellers during Chinese OTAs' early years, and TCOM attracted them with its superior call centre service. According to Analysys, 82% of its users are consumers with mid-/high-consumption power (based on data in Aug 2020), and around 50% of its users are from mid-/high-tier cities.

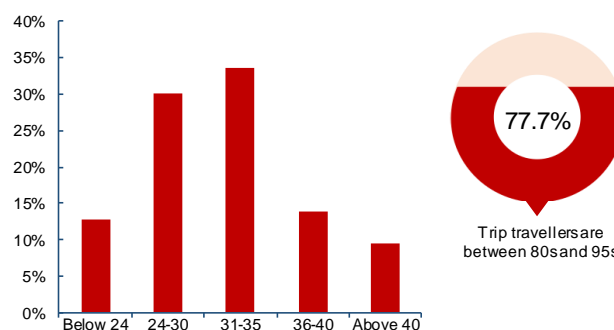
TCOM strengthened its leadership in China's high-end & business travel market by leveraging its well-established global supply chain. High-end hotels would benefit from the demand shift from overseas travel, and air ticketing recovered faster than ground transportation. During the pandemic, TCOM launched "Boss Live Broadcasting" to attract customers for over 1,000 high-star hotels in the APAC region. 58.4% of TCOM's live broadcasting users are post-80s with a stronger purchase power, and high-net-worth users contributed over RMB 500mn GMV.

Figure 13: User structure (by consumption power)



Source: Analysys, based on data in Aug 2020

Figure 14: User structure (by age)



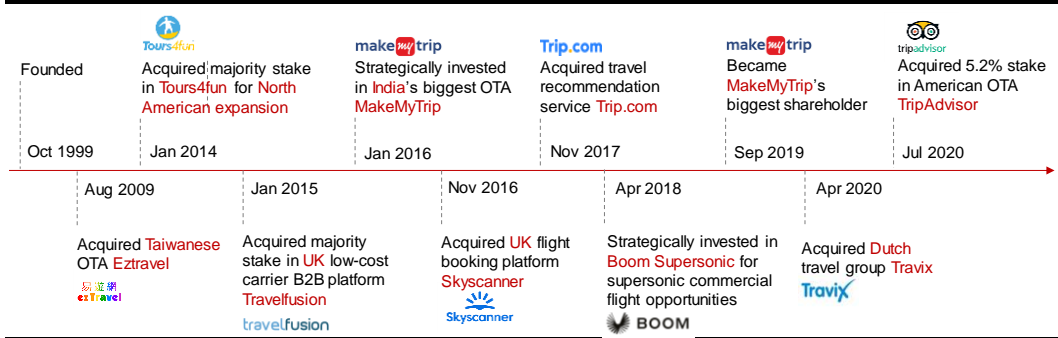
Source: Analysys, based on data in Aug 2020

International travel to expand TAM

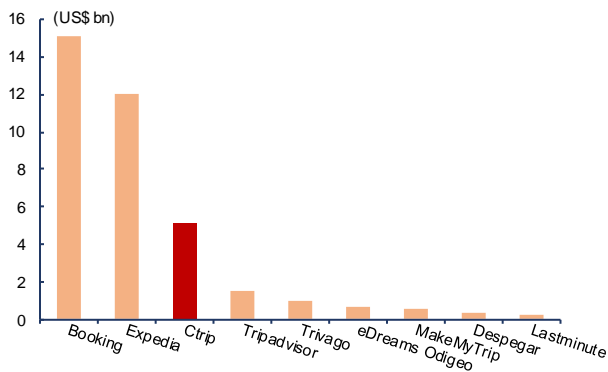
TCOM is a pioneer OTA to explore international tourism. Its outbound and overseas business contributed to 35-40% of its total revenue as of 2Q19, according to the 2Q20 earnings call. As of Nov 2019, TCOM reported over 100mn overseas users in more than 200 countries and regions.

We expect international business to be TCOM's long-term growth driver, despite short-term headwinds from the pandemic. China has become the biggest outbound travel market in 2018, according to UNWTO. In the long run, TCOM's international business will benefit from the strong outbound travelling demand and the higher overseas margin.

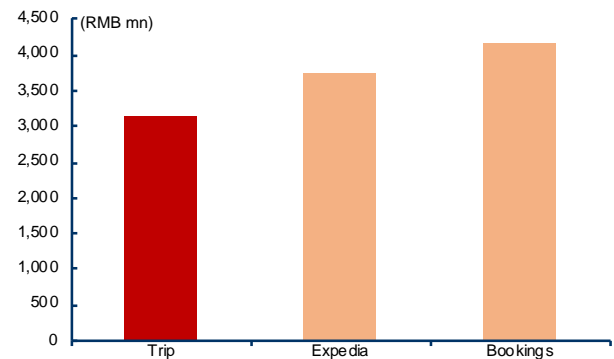
Aligned with TCOM's G2 strategy (Great Quality and Globalization) announced in 2019, the Company has been expanding rapidly overseas through organic growth and M&A. TCOM acquired the metasearch platform Skyscanner in 2016 and rebranded itself from Ctrip to Trip.com in 2017. In Sep 2019, TCOM acquired a controlling interest in MakeMyTrip, a company with 63% share of the Indian OTA market. TCOM targets its own international revenue (excl. Skyscanner) to contribute 40-50% of total revenue in the long run.

Figure 15: TCOM's timeline of overseas expansion

Source: Company website

Figure 16: Leading OTA worldwide by revenue in 2019

Source: Statista

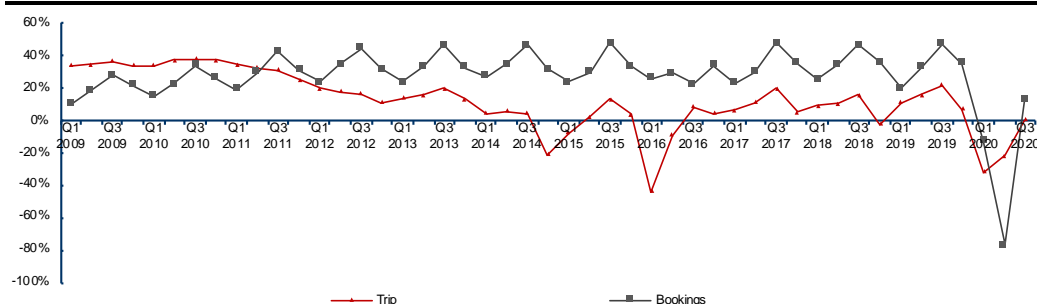
Figure 17: TCOM, Expedia & Bookings rev in 2Q20

Source: Company data

Multi-engines to boost margin improvement

We believe TCOM has substantial upside to improve its operating margin after the temporary COVID-19 headwinds, based on 1) healthy and stable competition; 2) increasing market consolidation; 3) TCOM's improving operating leverage and cross-selling and 4) TCOM's expansion to overseas market with higher OPM. The Company targets non-GAAP OPM of 20%+ in the long term.

Compared to Bookings, TCOM's OPM has been lower for nearly a decade due to the different operating environments. During the COVID-19 period, TCOM's OPM outperformed Bookings' due to better epidemic prevention and control in China and TCOM's disciplined cost control. Compared to Bookings, we believe TCOM has ample potential to increase its OPM with productivity enhancement and overseas expansion after the epidemic.

Figure 18: OPM comparison between TCOM and Bookings

Source: Company data

Investment Summary

Riding on the solid domestic OTA recovery

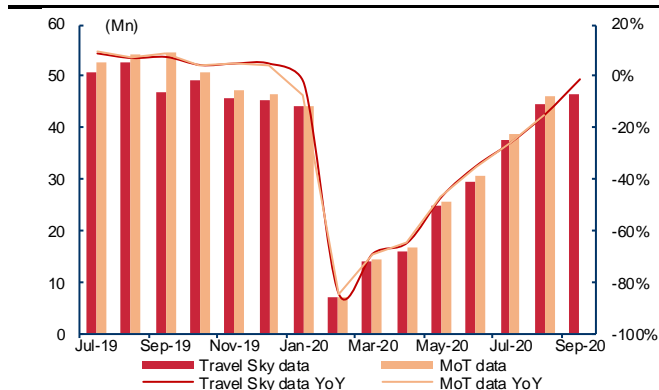
Domestic OTA recovery on track with effective prevention and policy support

Domestic OTA market has seen significant recovery thanks to Chinese government's effective epidemic prevention. The data from Travel Sky, MoT, and China Railway suggest that the domestic flights and railway transportation have recovered to over 90% and 80% of 2019 level as of Oct 2020. Average occupancy across 1-star to 5-star hotels also recovered to 33% in 2Q20 from the low point of 23% in 1Q20, according to the Ministry of Culture and Tourism. Market concern might lie in second wave of COVID-19 in winter, but we expect limited impact ahead given occasional cases.

The central and local governments also actively release policies to support the domestic OTA recovery. In Jul 2020, the Ministry of Culture and Tourism eased the restrictions on cross-provincial travel and raised the maximum tourist number at attractions from 30% of attractions' capacity to 50%. Before the National Day Golden Week, the maximum tourist number was further raised to 75%, and over 20 provinces offered vouchers and subsidies to travelers. Over 1,500 attractions had offered free-entry or discounts, further boosting the holiday travel demand.

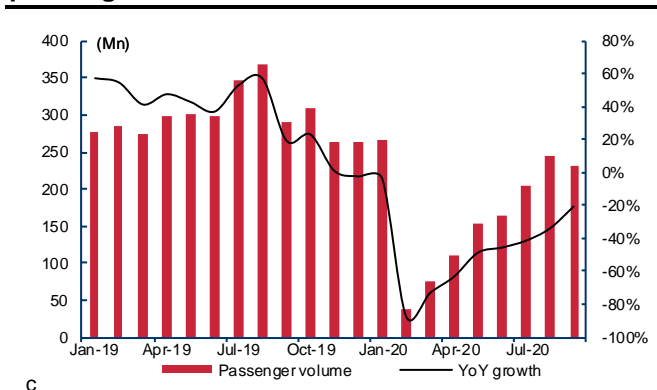
As a result, domestic travel recovery is well on track, led by solid short-haul activities, business travel and Golden Week momentum. TCOM delivered strong growth in Golden Week holiday, with domestic transportation/ hotel volume at double-digit YoY growth (vs. industry -21% YoY). According to MCT, traveler volume in 2020 Golden week has recovered to 79.0% of last year's level, and travel spending has recovered to 69.9%.

Figure 19: China's domestic civil aviation passenger volume

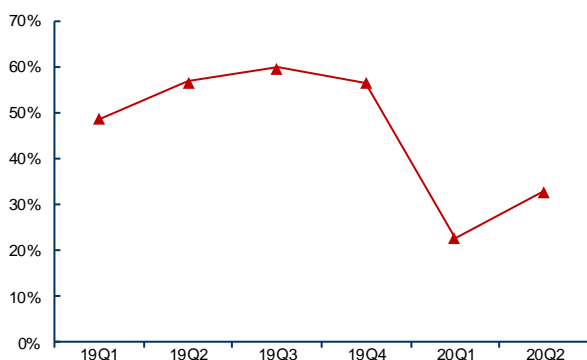


Source: Travel Sky, MoT

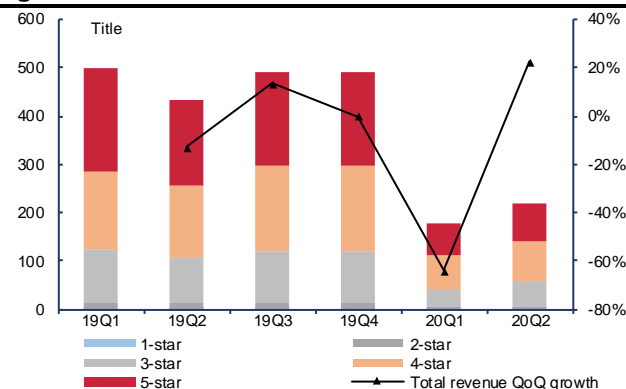
Figure 20: China's domestic railway transportation passenger volume



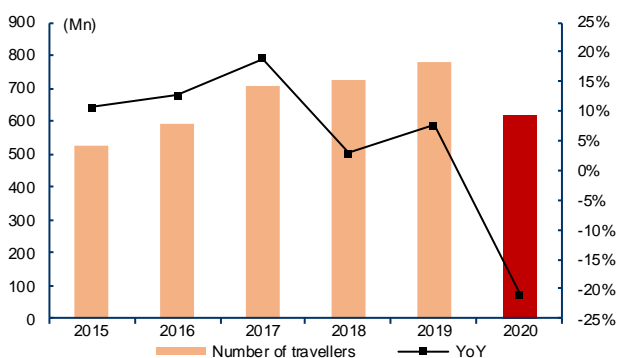
Source: China Railway

Figure 21: Domestic star hotel occupancy rate

Source: Ministry of Culture and Tourism

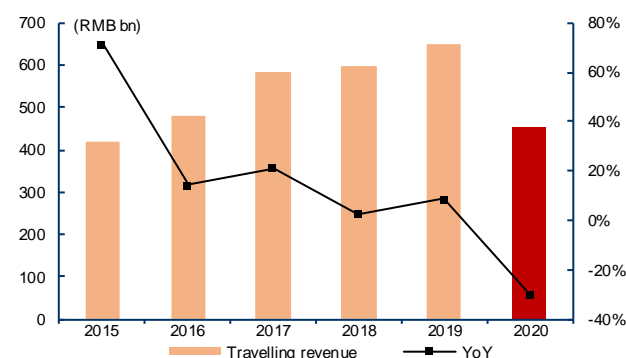
Figure 22: Domestic star hotel revenue trend

Source: Ministry of Culture and Tourism

Figure 23: “10.1” Golden Week traveller number recovered to 79.0% of the 2019 level

Source: Ministry of Culture and Tourism, CNTV

Note: 2020 data is for period 1 Oct 2020 – 7 Oct 2020

Figure 24: “10.1” Golden Week traveller spending recovered to 69.9% of the 2019 level

Source: Ministry of Culture and Tourism, CNTV

Note: 2020 data is for period 1 Oct 2020 – 7 Oct 2020

Figure 25: China's travel restrictions/restriction cancellation

| Date | Regulation | Effect |
|-------------|---|---|
| 26-Jan-2020 | Urgent Notice on the Business Activity Suspension of Tourism Enterprises on the Prevention and Control of the Novel Coronavirus Epidemic <关于全力做好新型冠状病毒感染的肺炎疫情防控工作暂停旅游企业经营活动的紧急通知> | With immediate effect, national travel agencies and OTAs to suspend group travel and “air ticket + hotel” travel packages. |
| 25-Feb-2020 | Guidance for Epidemic Prevention during the Reopening of Tourist Attractions <旅游景区恢复开放疫情防控措施指南> | Tourist attractions in high-risk areas: suspended. Tourist attractions in moderate and low-risk areas: determined by the local government. |
| 13-Apr-2020 | Notice of the National Health Commission on Epidemic Prevention and Safe and Orderly Opening of Tourist Attractions <国家卫生健康委关于做好旅游景区疫情防控和有序开放工作的通知> | Tourist attractions should only reopen outdoors areas, and the indoor areas should temporarily remain close. Tourist attractions should maintain tourist traffic ≤ 30% of its approved capacity. |
| 14-Jul-2020 | Notice on Promoting Tourism Enterprises to Expand Work Resumption <关于推进旅游企业扩大复工复产有关事项的通知> | Resume cross-provincial group travelling and “air ticket + hotel” packages, except for high-risk areas. Outbound/international travelling remain suspended. Tourist attractions should maintain tourist traffic ≤ 50% of its approved capacity. |
| 18-Sep-2020 | Notice on the Opening of Tourist Attractions during the National Day and Mid-Autumn Festival in 2020 <关于做好2020年国庆节、中秋节假期旅游景区开放管理工作的通知> | Tourist attractions should maintain tourist traffic ≤ 75% of its approved capacity. |

Source: Ministry of Culture and Tourism, CMBIS

Well-positioned to capture domestic market recovery

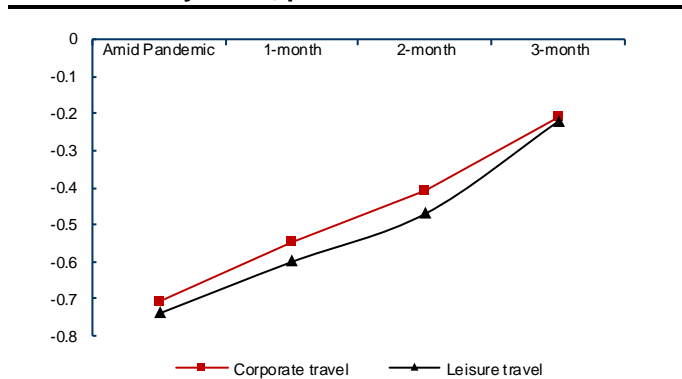
TCOM is well-positioned to capture the strong recovery momentum in domestic OTA market. Backed by its wide user coverage, TCOM can tap into the rising domestic travel demand, coupled with low-tier cities penetration. On the supply side, TCOM can leverage its well-established supply chain to continuously gain share.

TCOM also benefits from its strong presence in the corporate travel market, which is more resilient to COVID-19. Trustdata reported that only 61% of corporate travel was affected by the epidemic in Jan-Feb 2020, while 73% of self-guided tours and 83% of group tours were affected. According to the China Tourism Academy, corporate travel recovered faster than leisure travel. As such, TCOM's corporate travel saw strong recovery momentum in 2Q20, and mgmt. guided 15%-20% YoY decline for this segment in 4Q20E.

On top of that, we see high visibility for TCOM to capture the increasing high-end travel demand shifted from the outbound travel. Based on our cross-check, TCOM's mid-/high-end hotel room nights accounted for around 40% of total room nights, higher than that of Meituan/ Tongcheng (< 30%). We expect TCOM to deliver above-industry hotel recovery, especially in mid-/high-end hotels (double-digit growth in Golden Week holiday).

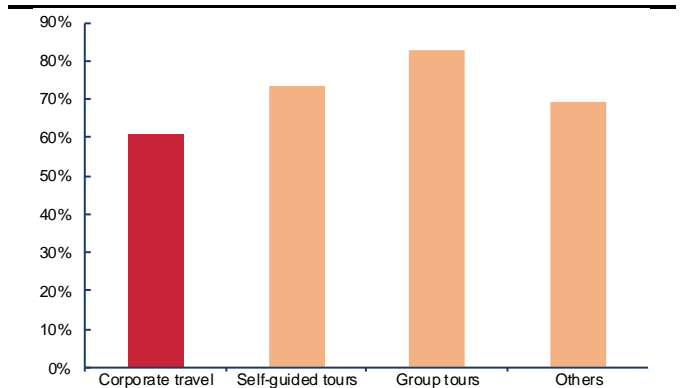
Driven by the factors above, TCOM has witnessed decent recovery across product lines in domestic market. Its **domestic air** bookings achieved positive growth in Aug 2020, outpacing the industry average. Its **domestic hotel** room nights would fully recover in 4Q20E. Although ADR would still reduce by 10% YoY in 4Q20E, the gap tends to narrow sequentially. **Short-haul activities** recovered first, followed by cross-provincial **long-haul travel**, which has picked up substantially in May.

Figure 26: iResearch's forecast of corporate/leisure travel recovery trend, published in Mar 2020



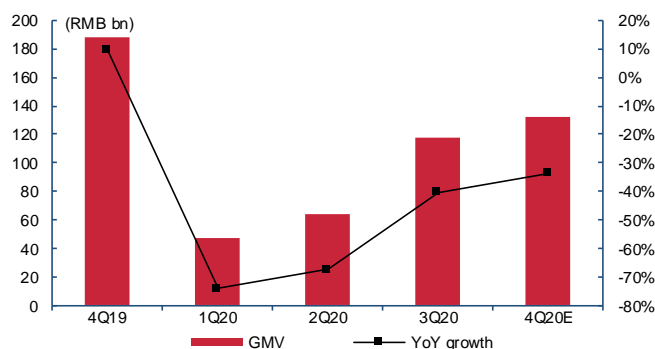
Source: iResearch

Figure 27: Pandemic's impact on different types of tours



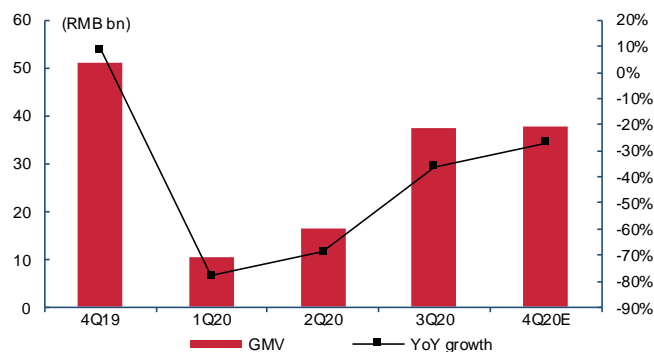
Source : iResearch

Figure 28: Online transportation ticketing GMV estimates in China



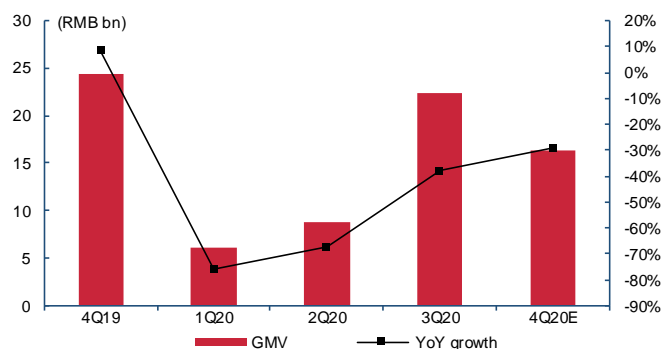
Source: Analysys

Figure 29: Online accommodation reservation GMV estimates in China



Source: Analysys

Figure 30: Online holiday products GMV estimates in China



Source: Analysys

Figure 31: Chinese OTA report for “10.1” Golden Week

| Company | Performance during the 2020 “10.1” Golden Week |
|-----------------|--|
| TCOM | <ul style="list-style-type: none"> Transportation: flight grew 100%+ MoM, railway grew 300%+ MoM, bus grew 200%+ MoM, in terms of order volume Accommodation: pre-sale hotel GMV grew 100%+ MoM Attractions: ticket reservation order volume +100% YoY, car renting +50% YoY, private group travel +100% YoY |
| Tongcheng-eLong | <ul style="list-style-type: none"> Transportation: +27% YoY Accommodation: +43% YoY |
| Meituan | <ul style="list-style-type: none"> Accommodation: comparing the first four days of “10.1” Golden Week with the “5.1” Golden Week, hotel reservation grew 200%+, homestay +144%, in terms of order volume Attractions: daily admission recorded a new high of 5mn on 3 Oct 2020; ticket reservation order volume +61.4% YoY |
| Lvmama | <ul style="list-style-type: none"> Attractions: comparing the first two days of “10.1” Golden Week with the Dragon Boat Festival, the consultation & order volume of red tourism grew 330%+; comparing with the 2019 “10.1” Golden Week, order volume of electronic audio/manual guided tour +35% YoY |

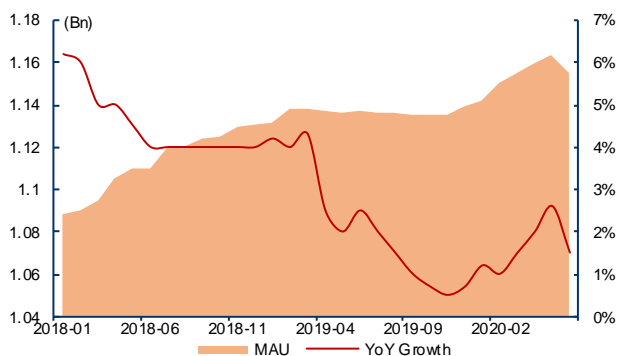
Source: Company data, CMBIS

Beneficiary of industry consolidation in post COVID-19 period

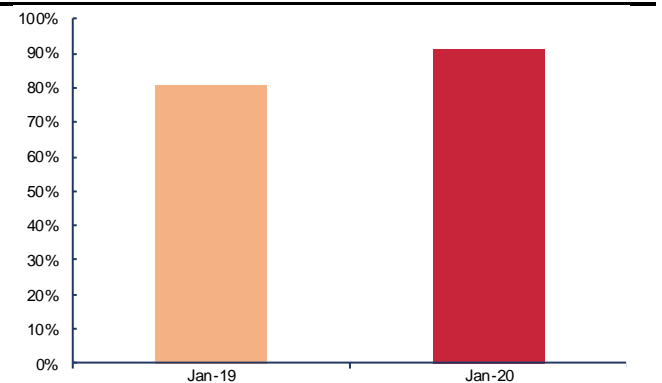
In the long run, we expect OTA market to benefit from structural change in the epidemic, with rising online penetration and consolidation. On the demand side, more customers have built the habit of fulfilling their needs online, especially in the lower-tier cities. On the supply side, attractions and suppliers are more willing to cooperate with OTA, given offline limitations. Smaller OTAs are facing challenges in soft volume and capital chain pressure. Therefore, we believe TCOM can strengthen its leadership in domestic market with its user and supply chain resources.

TCOM has deepened its collaboration with suppliers to capture the domestic recovery trend:

1) TCOM launched Fellow Project (同袍计划) in Feb 2020, offering RMB1bn of supporting fund and RMB10bn of small loans to its business partners. 2) TCOM launched the Renaissance V Project (复兴 V 计划) in Mar 2020 to rekindle customers' confidence in travel with RMB1bn funding. 3) TCOM's Executive Chairman, James Liang, had conducted 40 live streaming sessions to create RMB1.1bn GMV for high-end hotel promotion.

Figure 32: China's Mobile Internet MAU increased amid the pandemic

Source: Questmobile

Figure 33: Travel & transportation industry CR3 concentration rate increased YoY

Source: iResearch

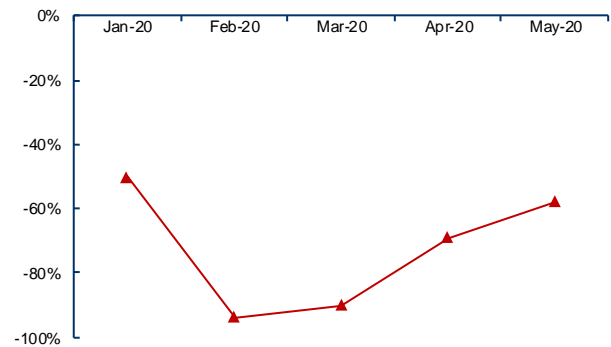
Note: CR3 are Gaode Map, Baidu Map, and TCOM in both years; concentration rate = Top 3 monthly duration/ industry monthly duration

Figure 34: YoY decrease of Chinese travel agency business in 1Q20



Source: Ministry of Culture and Tourism

Figure 35: YoY decrease of Chinese share accommodation in Jan-May 2020



Source: Ministry of Culture and Tourism

Expecting domestic business to grow 8% YoY in FY21E (vs. FY19)

TCOM delivered better-than-expected topline in all segments in 3Q20, with accommodation/ transportation/ packaged tour/ corporate travel/ others -40%/ -49%/ -80%/ -16%/ -31% YoY (vs. guidance of 40%-50%/ 50%-55%/ 80%-85%/ 20%-25% YoY decline).

We expect 4Q20E rev to drop 39% YoY, vs. guidance 37%-42% YoY decline, in which domestic business -10% YoY. By segment, accommodation/ transportation rev would see -27%/ -50% YoY, in our estimates. For conservative estimates, we expect its domestic business rev to grow 8% in FY21E (vs. FY19), given potential risk from second wave of epidemic. In FY22E, we forecast TCOM to continuously gain share, with domestic rev up 11% (vs. FY19).

Stepping up lower-tier cities penetration for user expansion

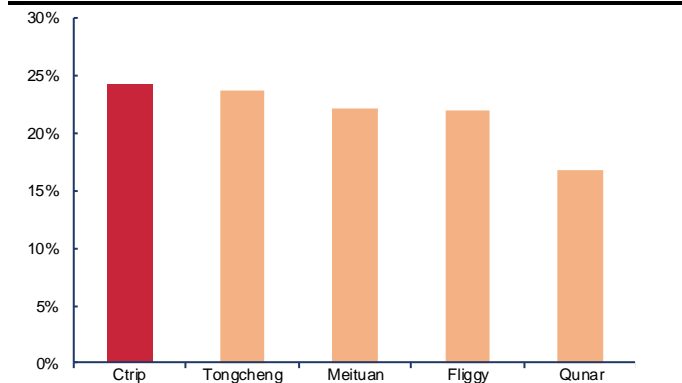
Pioneering high-end biz with more high-tier cities exposure

TCOM has first-mover advantage in high-end hotel market, as TCOM built its reputation of business travel in its call-centre era. Most travellers were business travellers during Chinese OTA's early years, and TCOM attracted them with its superior call centre service. According to TCOM, 90% of the orders from its seed customers were flights and hotels, and 63% of them were Shanghai residents.

OTAs typically put priority on development of high-end hotels, with higher ADR, take rate and profitability. Mid-/High-end hotels contributed over 70% of total hotel market revenue, according to Analysys. On the supply side, high-end hotels value OTAs' ability to bring in stable sales and less sensitive to commission, since they need to maintain their price and membership structure. TCOM enjoys stronger user stickiness in accommodation reservation, with its long-established reputation in business travellers and mid-/high-end consumers.

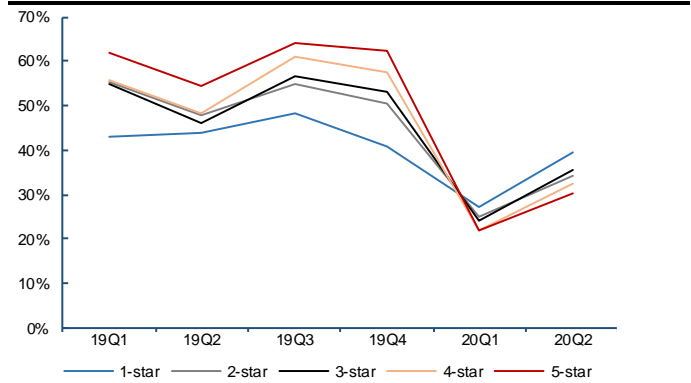
The occupancy rate of high-end hotels dropped more during the epidemic, according to MCT. In response, TCOM launched "Boss Live Broadcasting", where the Chairman James Liang hosted weekly live streaming sessions to promote high-star hotel products. We believe live streaming initiatives can attract effective traffic, enhance hotel brand promotion, and strengthen mutual cooperation. As of 2Q20, the number of hotels designating TCOM as the preferred distributor increased by over 10% QoQ.

Figure 36: User stickiness of accommodation reservation business in 2019



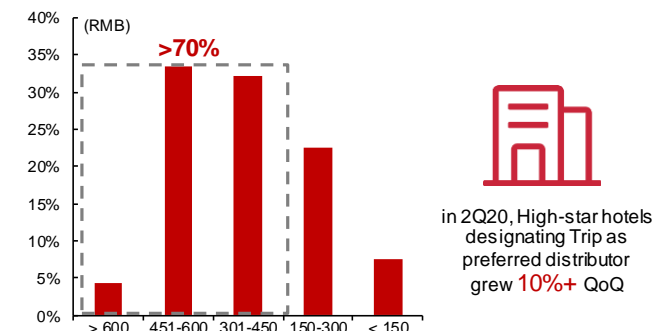
Source: Trustdata

Figure 37: Occupancy of star hotels



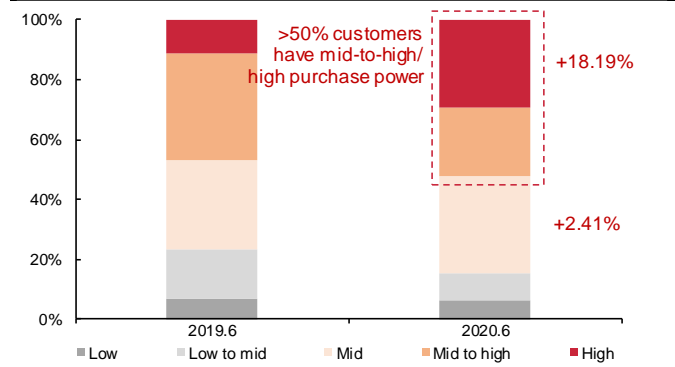
Source: Ministry of Culture and Tourism

Figure 38: Chinese hotel GMV structure by price in 2019-2020



Source: Analysys

Figure 39: Mid-/High-end consumers become key group of hotel market



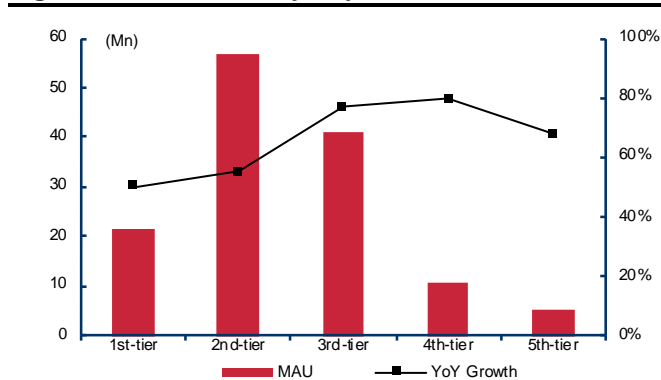
Source: Analysys

Initial fruits from lower-tier cities penetration

We believe lower-tier cities penetration and overseas expansion, will be TCOM's long-term growth engine. Given muted overseas business, mgmt. put priority on domestic share gain in 2021, especially in low-tier cities. We are bullish on low-tier cities momentum, given: 1) faster recovery with less limitation and imported cases; 2) still ample room for online penetration rate, e.g. hotel online penetration rate was only 20% in low-tier cities, far below high-tier cities and overseas market; and 3) higher potential backed by rising purchasing power and improving transportation infrastructure.

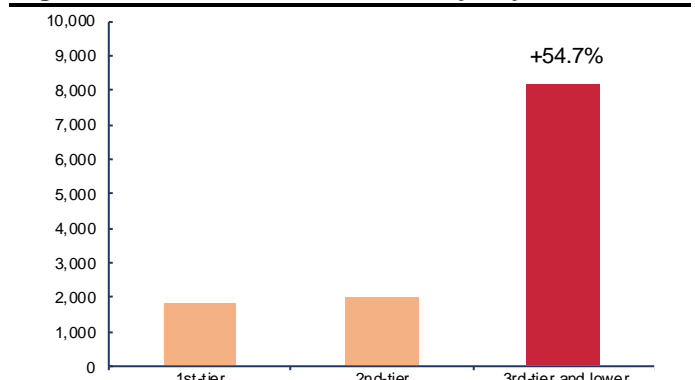
TCOM leveraged offline franchised network, cross-selling, and strategic partners to acquire users in lower-tier cities, and the efforts have born initial fruits. According to the Company, the number of low-star hotels under TCOM's brand grew c.50% YoY in 4Q19, and 60% of TCOM's new users in 2019 lived in tier-2 and tier-3 cities.

Figure 40: OTA MAU by city tier in Jun 2019



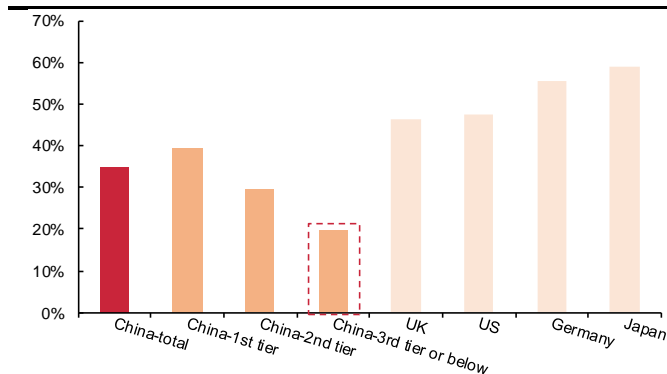
Source: Fastdata

Figure 41: Hotel reservation MAU by city tier in 2019



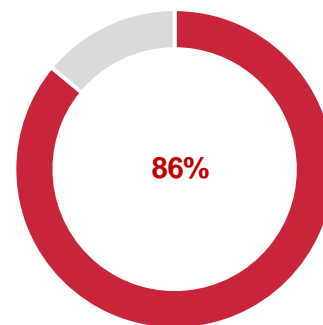
Source: Fastdata

Figure 42: Hotel online penetration rate comparison in 2018



Source: Euromonitor International, iResearch

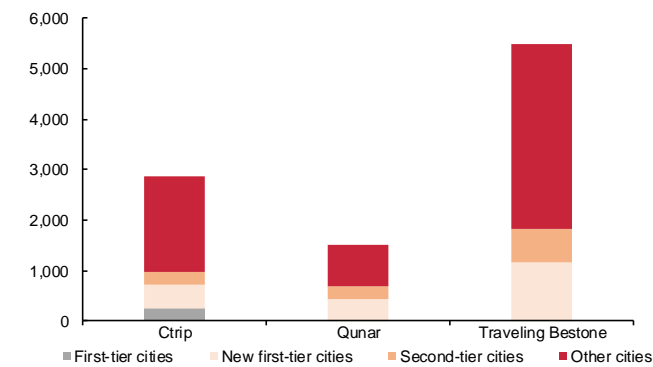
Figure 43: TCOM's offline store coverage of prefecture-level cities in 2019



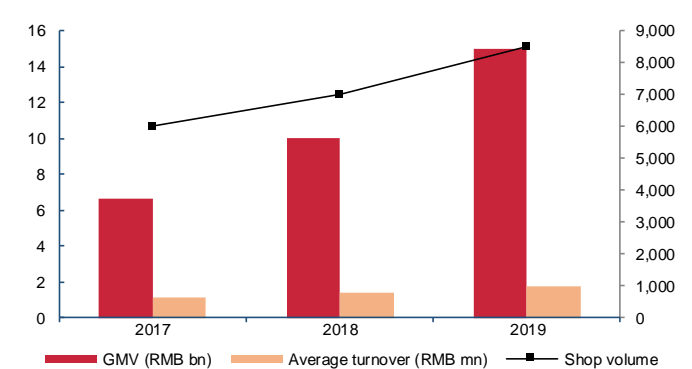
Source: China Tourism Academy

Effective user expansion through offline synergies and cross-selling

TCOM leverages its multiple channels to achieve effective user acquisition and TAM expansion. At the end of 2019, TCOM had been running nearly 8,000 offline stores, covering over 290 prefecture-level cities and over 500 county-level cities. The offline stores enhance TCOM's brand awareness and help TCOM to tap into lower-tier city users, with lower traffic acquisition cost.

Figure 44: TCOM's offline brand stores in 2019

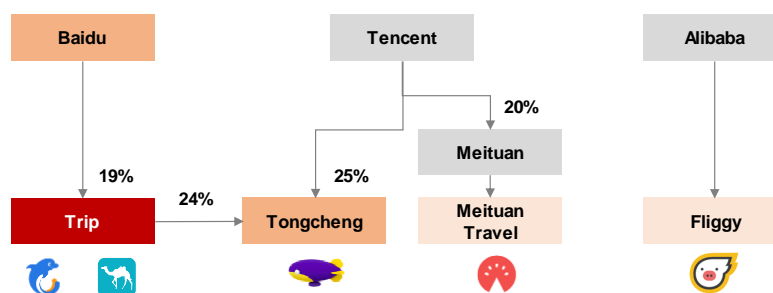
Source: Company data

Figure 45: TCOM offline store expansion

Source: Company data

Apart from offline synergies, we expect TCOM to continuously unlock cross-selling effect, to redirect traffic to accommodation reservation services from transportation. As of Nov 2019, the transportation order volume on TCOM reached 1bn, and 31% of air ticketing users and 22% of railway ticket users had a clear demand for accommodation reservations, according to the Company. TCOM collaborated with 46,000 hotels (c.50% of which were 3-star to 5-star) to offer discounts and ancillary services to its transportation ticketing users. According to the Company, 10mn users can benefit from RMB1.3bn accommodation reservation discount annually on average.

TCOM also leverages its collaboration with strategic partners. TCOM is backed by Baidu, with a 19% stake investment from the search engine giant. In Apr 2020, Ocean Link Partners (鸥翎投资, co-founded by TCOM's James Liang) participated in the privatization of 58.com. The privatization was approved in Sep 2020, and we expect TCOM to benefit from 58.com's abundant traffic from local life services and increase its presence in lower-tier cities. Besides, TCOM also signed a strategic cooperation agreement with JD in Aug 2020, which is beneficial for TCOM to attract more high-income users.

Figure 46: TCOM's collaboration in OTA market

Source: Company data

Higher TAM and margin for overseas tourism, despite short term epidemic pressure

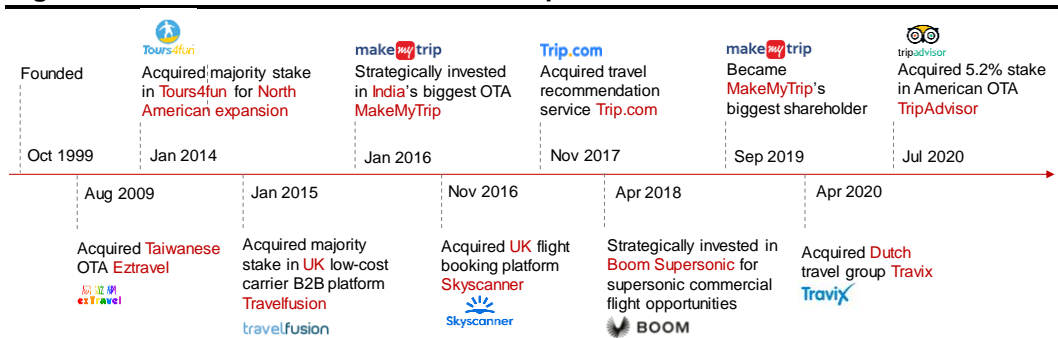
Fully fledged overseas business portfolio for international travel

TCOM is a pioneer OTA in China to explore beyond the domestic market. The Company acquired Skyscanner, a leading global travel search site, in Dec 2016. In Sep 2019, TCOM acquired a controlling interest in MakeMyTrip, a company with a 63% share of the India OTA market. TCOM rebranded itself from Ctrip to Trip.com and announced the G2 strategy (Great Quality and Globalization) in 2019.

Skyscanner operates individually from Ctrip and Qunar, and TCOM's inner synergy has driven its overseas business to grow rapidly. At the end of 2019, TCOM has established a presence in 27 markets and acquired the air ticket agency qualification in 11 markets. The Company built relationships with over 300 domestic flight service suppliers and over 100 international flight service suppliers in 46 countries. TCOM's international air ticketing had achieved positive growth for 12 consecutive quarters in 2019, and Skyscanner contributed to 11% of TCOM's air ticketing revenue in 3Q19.

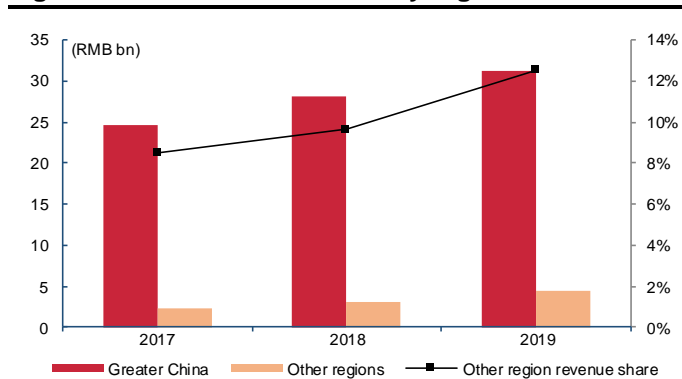
TCOM's overseas business has expanded rapidly through organic growth and M&A. TCOM generated 35-40% of revenue in its outbound and overseas business in 2Q19, according to the Company. As of Oct 2019, TCOM reported having over 100mn overseas users (c. 25% of its total users) in more than 200 countries and regions. TCOM targeted its own international revenue (excl. Skyscanner) to contribute 40-50% of total revenue in the long run.

Figure 47: TCOM's timeline of overseas expansion



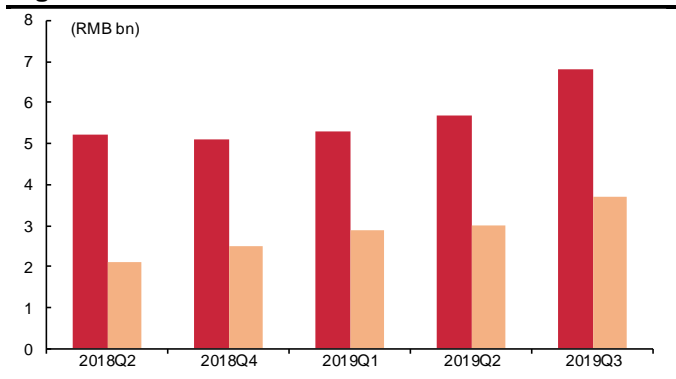
Source: Company website

Figure 48: TCOM revenue mix by region



Source: Company data

Figure 49: TCOM's domestic and overseas revenue



Source: Company data

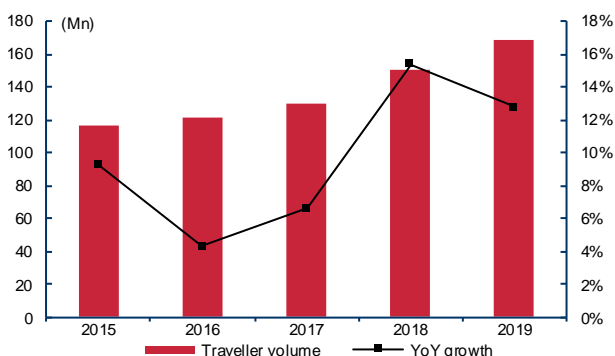
Short-term headwinds from COVID-19

TCOM's outbound travel is suffering short-term headwinds from COVID-19, as many regions and countries are under travel restrictions. Although Macau has reopened the border, the positive impact is limited because Chinese travelers typically put Macau and Hong Kong in a packaged deal, and travelling to the latter remains restricted. As of 2Q20, TCOM reported that this segment remained largely subdued, despite the gradual recovery from the April lows.

We believe the short-term overseas headwinds have already been priced in, and the long-term prospects for China's outbound travel is promising. China's outbound travel industry was prosperous before the pandemic. UNWTO ranked China as the largest tourism outbound market in terms of traveler volume and expenditure in 2018, and Analysys estimated that China's outbound travel had double-digit growth in 2018 and 2019. Some countries and regions are carefully reopening borders, and there is faster-than-expected vaccine progress.

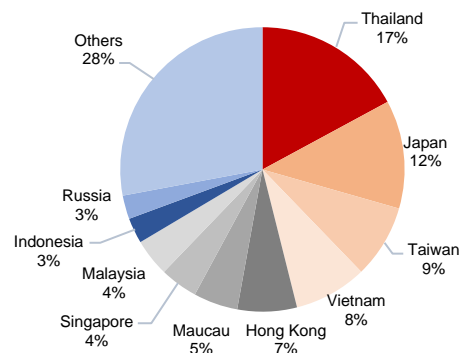
TCOM has taken active measures to soften the blow from the dampened international travel. The Company shifts its short-term focus to the domestic market, transferring majority of its international business staff into domestic business to optimize employee structure. TCOM also leveraged its experience in China's recovery to launch the live streaming "Travel On" Campaign to the SEA market and extended its Renaissance V Project to overseas. TCOM would cooperate with 33,000 hotels in over 180 countries and offer an exclusive 60% discount.

Figure 50: Pre-pandemic outbound travelling trend in China

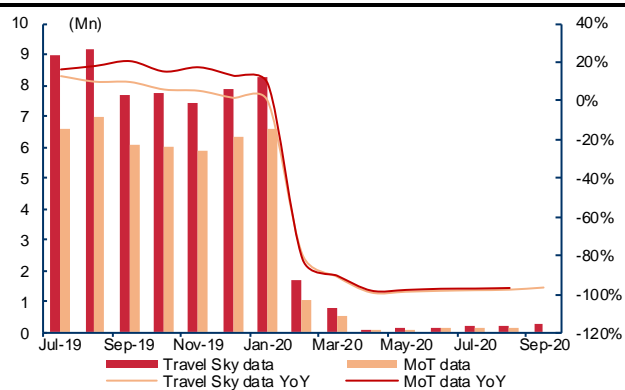


Source: Analysys

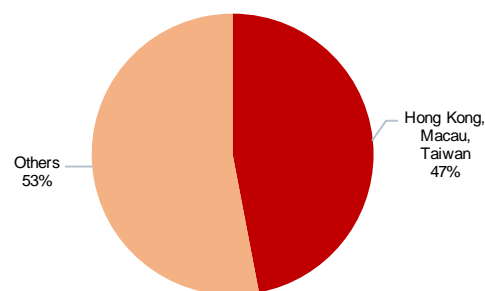
Figure 51: Outbound travel geographic distribution in 2019, by traveller volume



Source: Ministry of Culture and Tourism

Figure 52: China's outbound civil aviation passenger volume


Source: Travel Sky, MoT

Figure 53: Outbound travel geographic distribution in Feb-Jun 2020, by traveller volume


Source: China Tourism Academy

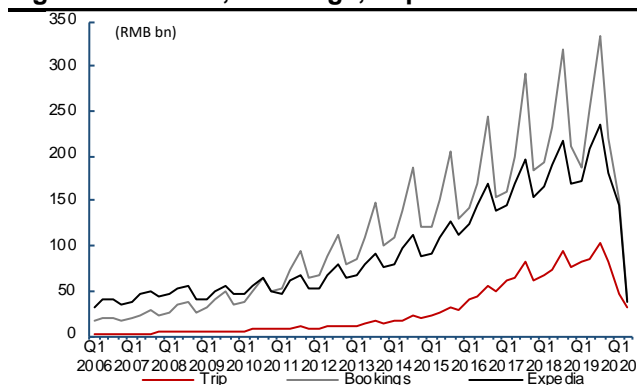
Expecting TAM expansion and margin improvement in the long run

In the long run, we expect TCOM to expand its overseas business, driving up TAM and margin. Outbound contributed 35-40% of total rev, but with >50% of total OP in 2019. In 2018 and 2019, TCOM has been the largest OTA worldwide in terms of GMV. TCOM's revenue growth rate in 2019 was 19%, higher than Booking's 4% and Expedia's 11%. However, the Company's revenue still lagged behind Bookings and Expedia because the domestic OTA commission rate is much lower.

During the epidemic, TCOM has shifted its focus back to the domestic market and the Company's revenue decreased less than Bookings and Expedia with the effective containment in China. We expect TCOM to continue its overseas expansion once overseas epidemic is in clear recovery pace or vaccine is promoted.

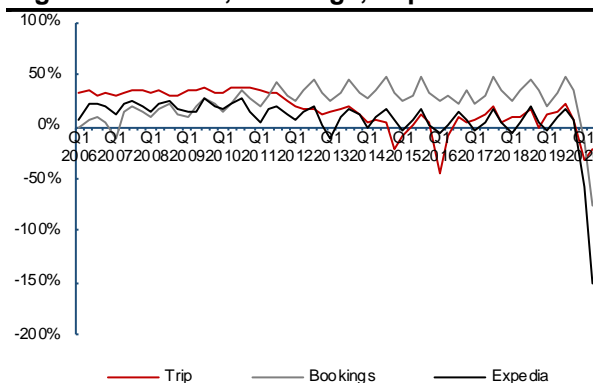
Compared to Bookings, TCOM's OPM has been lower for nearly a decade due to the different operating environments. We believe TCOM has ample room to increase its operating margin after temporary epidemic headwinds, based on 1) rational and moderate subsidies between Chinese OTAs; 2) increasing market consolidation; 3) TCOM's improving operating leverage, cross-selling, and take rate; 4) TCOM's expansion to overseas market with a higher OPM. The Company has reported to target non-GAAP OPM at 20%+ in the long term.

Figure 54: TCOM, Bookings, Expedia's revenue trend



Source: Company data

Figure 55: TCOM, Bookings, Expedia's OPM trend



Source: Company data, CMBIS estimates

We expect TCOM's international business still at low contribution in FY21E, and to full recover in FY22E (vs. FY19). Mgmt are super conservative on 2021 overseas outlook (near zero), given unstable net adds cases in second wave of COVID-19. They do not expect clear recovery signal until at least 2H21E. Accordingly, we forecast TCOM's international business at 2% rev contribution in FY21E. We think market has well anticipated this low expectation, and any vaccine progress or travel restrictions open would unlock its valuation. With 100% recovery assumption in FY22E (vs. FY19), we estimate its non-GAAP OPM will be back to 20% in FY22E.

Financial Analysis

Revenue Breakdown

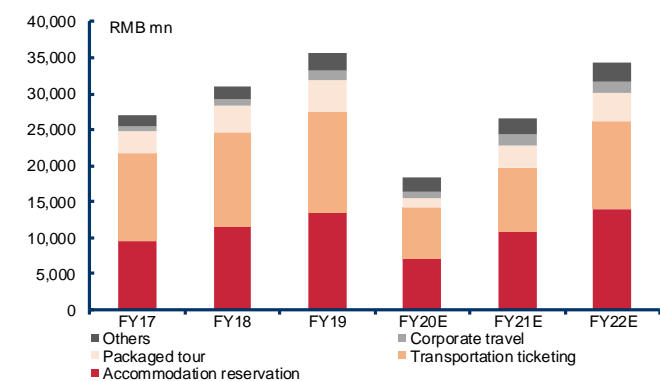
We forecast TCOM revenue to grow at 44%/47% YoY in FY21/22E, after 48% YoY decline in FY20E for COVID-19 drag. Accommodation reservation will become the largest revenue contributor in the long run, followed by transportation ticketing. By segment, we expect accommodation, transportation, packaged tour, corporate travel and others revenue to grow at CAGR of 45%/44%/75%/37%/15% in FY20-22E.

Key topline drivers come from:

- 1) **Accommodation:** forecasting 45%/41% rev/GMV CAGR in FY20-22E, mainly supported by domestic normalization, deeper penetration into low-tier cities and overseas gradual recovery. Domestic room nights would see 33% YoY growth in FY21E, with rising ADR and stable take rate. We expect low-end hotels in 2021 to surpass 2019 level, with faster recovery in low-tier cities.
- 2) **Transportation:** 44% rev CAGR in FY20-22E, in which air ticketing recovered better than ground transportation.

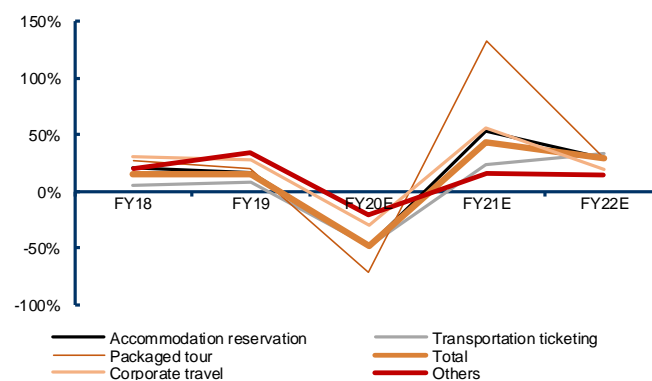
By markets, we expect international business to contribute 2% of total rev in FY21E, and see full recovery in FY22E, with gradual pick up from 2H21E. Domestic market has seen solid recovery, despite recent occasional cases. We expect domestic business to grow 8%/11% in FY21/22E (vs. FY19). In the long run, we expect its enhanced recommendation, big data analytics and livestreaming initiatives to stimulate travel sentiment.

Figure 56: Revenue estimates



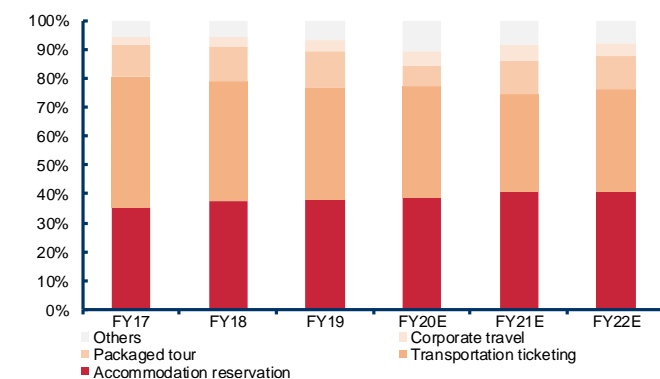
Source: Company data, CMBIS estimates

Figure 57: Revenue growth breakdown



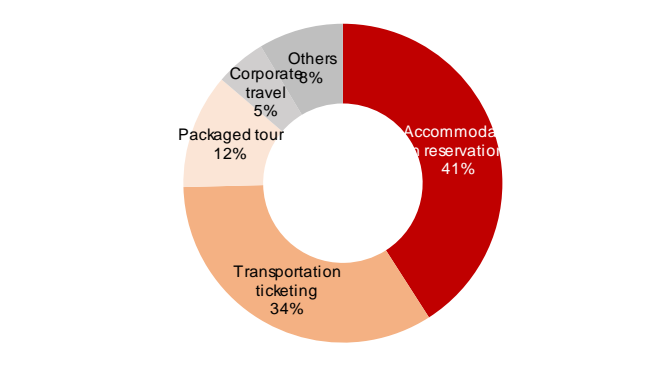
Source: Company data, CMBIS estimates

Figure 58: Revenue breakdown



Source: Company data, CMBIS estimates

Figure 59: FY21E revenue breakdown



Source: Company data, CMBIS estimates

Figure 60: Revenue driver estimates

| Figure 3: Revenue and Profit Estimates | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Gross revenue (RMB mn, Dec-YE) | FY17 | FY18 | FY19 | FY20E | FY21E | FY22E |
| Accommodation reservation | 9,517 | 11,580 | 13,514 | 7,068 | 10,191 | 14,942 |
| Transportation ticketing | 12,221 | 12,947 | 13,952 | 7,174 | 7,977 | 14,858 |
| Packaged tour | 2,970 | 3,772 | 4,534 | 1,323 | 2,255 | 4,059 |
| Corporate travel | 45 | 981 | 1,255 | 876 | 1,367 | 1,640 |
| Others | 1,515 | 1,824 | 2,461 | 1,967 | 2,279 | 2,621 |
| Total | 26,977 | 31,104 | 35,716 | 18,409 | 24,069 | 38,121 |
| | | | | | | |
| % YoY | | FY18 | FY19 | FY20E | FY21E | FY22E |
| Accommodation reservation | | 22% | 17% | -48% | 44% | 47% |
| Transportation ticketing | | 6% | 8% | -49% | 11% | 86% |
| Packaged tour | | 27% | 20% | -71% | 70% | 80% |
| Corporate travel | | 2081% | 28% | -30% | 56% | 20% |
| Others | | 20% | 35% | -20% | 16% | 15% |
| Total | | 15% | 15% | -48% | 31% | 58% |
| | | | | | | |
| % of revenue contribution | FY17 | FY18 | FY19 | FY20E | FY21E | FY22E |
| Accommodation reservation | 35% | 37% | 38% | 38% | 42% | 39% |
| Transportation ticketing | 45% | 42% | 39% | 39% | 33% | 39% |
| Packaged tour | 11% | 12% | 13% | 7% | 9% | 11% |
| Corporate travel | 0% | 3% | 4% | 5% | 6% | 4% |
| Others | 6% | 6% | 7% | 11% | 9% | 7% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |

Source: Company data, CMBIS estimates

Income Statement

TCOM will put priority on domestic share gains and investment in 2021, and deliver decent margin in the long run, in our view. We expect its non-GAAP OPM to pick up at 8% in FY21, and recover to 20% in FY22E.

We expect gross margin at 77%/79% in FY21/22E, and forecast opex ratio to decrease to 71%/59% in FY21/22E from 75% in FY20E, attributable to 1) topline recovery; 2) enhanced productivity and operating leverage in R&D, G&A; and 3) efficient marketing strategy under relatively healthy competitive landscape.

As a result, we forecast its adj. net profit to reach RMB1,984mn/RMB7,434mn in FY21/22E, with adj. net margin up to 8%/20% in FY21/22E. Our FY21E topline/bottom line forecasts are 11%/47% below consensus for super conservative overseas estimates, while FY22E forecasts are higher than consensus for our confidence on its domestic double-digit growth and overseas full recovery (vs. FY19).

Figure 61: Income statement

| RMB mn, Dec-YE | FY17 | FY18 | FY19 | FY20E | FY21E | FY22E |
|--|---------------|---------------|---------------|----------------|---------------|---------------|
| Net revenue | 26,780 | 30,965 | 35,666 | 18,395 | 24,037 | 38,070 |
| Cost of revenue | (4,678) | (6,324) | (7,372) | (4,271) | (5,594) | (7,787) |
| Gross profit | 22,101 | 24,641 | 28,294 | 14,124 | 18,443 | 30,283 |
| Selling and distribution expenses | (8,108) | (9,440) | (9,151) | (4,363) | (7,211) | (10,050) |
| Administrative expenses | (1,987) | (2,203) | (2,638) | (2,897) | (2,404) | (2,551) |
| R&D | (7,246) | (8,686) | (9,751) | (6,516) | (7,451) | (10,012) |
| Operating (loss)/profit | 2,926 | 2,605 | 5,040 | (1,584) | (197) | 5,195 |
| Other expenses | 580 | (684) | 4,047 | (600) | 654 | 944 |
| (Loss)/profit before income tax | 3,506 | 1,921 | 9,087 | (2,183) | 457 | 6,139 |
| Equity in income of affiliates | (65) | (32) | (347) | (2,053) | 69 | 73 |
| Income taxes (expense)/credit | (1,281) | (793) | (1,742) | (334) | (91) | (1,228) |
| (Loss)/profit for the year | 2,142 | 1,112 | 7,011 | (4,592) | 411 | 4,959 |
| Adj. net profit | 3,976 | 5,480 | 6,527 | (1,794) | 1,984 | 7,434 |
| Margin Analysis | | | | | | |
| Gross margin | 83% | 80% | 79% | 77% | 77% | 80% |
| Operating margin | 11% | 8% | 14% | -9% | -1% | 14% |
| Adj. net margin | 15% | 18% | 18% | -10% | 8% | 20% |
| Growth Analysis | | | | | | |
| Revenue | | 16% | 15% | -48% | 31% | 58% |
| Gross profit | | 11% | 15% | -50% | 31% | 64% |
| Operating profit | | -11% | 93% | NA | NA | NA |
| Adj. net profit | | 38% | 19% | NA | NA | 275% |

Source: Company data, CMBIS estimates

Figure 62: CMBIS estimates vs consensus

| RMB mn, Dec-YE | CMBIS | | | Consensus | | | Diff (%) | | |
|------------------|---------|--------|--------|-----------|--------|--------|----------|-----------|----------|
| | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E |
| Revenue | 18,395 | 24,037 | 38,070 | 18,274 | 26,930 | 36,671 | 0.7% | -10.7% | 3.8% |
| Gross Profit | 14,124 | 18,443 | 30,283 | 14,022 | 21,143 | 29,008 | 0.7% | -12.8% | 4.4% |
| Operating Profit | (1,584) | (197) | 5,195 | (204) | 3,210 | 6,884 | 677.0% | -106.1% | -24.5% |
| Adj. net profit | (1,794) | 1,984 | 7,434 | (1,861) | 3,760 | 6,793 | -3.6% | -47.2% | 9.4% |
| EPS (RMB) | (2.64) | 2.89 | 12.11 | (3.30) | 5.97 | 10.11 | -19.9% | -51.6% | 19.8% |
| Gross Margin | 76.8% | 76.7% | 79.5% | 76.7% | 78.5% | 79.1% | +0.0ppts | -1.8ppts | +0.4ppts |
| Operating Margin | -8.6% | -0.8% | 13.6% | -1.1% | 11.9% | 18.8% | -7.5ppts | -12.7ppts | -5.1ppts |
| Net Margin | -9.8% | 8.3% | 19.5% | -10.2% | 14.0% | 18.5% | +0.4ppts | -5.7ppts | +1.0ppts |

Source: Company data, Bloomberg, CMBIS estimates

Balance Sheet

Healthy balance sheet with net cash position in FY20/21/22E

According to our estimates of profit before taxation and change in working capital, TCOM has strong operating cash inflow in supporting CAPEX in the next three years, despite net loss position in FY20E for COVID-19. Therefore, we believe TCOM can stay in net cash position in FY20/21/22E. We expect TCOM to hold RMB11.5bn/RMB14.3bn cash and cash equivalent as of 31 Dec of 2020E and 2021E.

Figure 63: Balance Sheet

| RMB mn, Dec-YE | FY17 | FY18 | FY19 | FY20E | FY21E | FY22E |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Non-current assets | 102,822 | 106,436 | 132,214 | 129,953 | 130,111 | 130,765 |
| Fixed asset | 5,713 | 5,966 | 6,226 | 6,270 | 6,573 | 7,318 |
| Long-term investments | 25,574 | 26,874 | 51,278 | 49,225 | 49,294 | 49,367 |
| Intangible assets | 69,996 | 71,749 | 71,481 | 71,229 | 71,015 | 70,851 |
| Others | 1,539 | 1,847 | 3,229 | 3,229 | 3,229 | 3,229 |
| Current assets | 59,418 | 79,394 | 67,955 | 51,015 | 56,636 | 71,958 |
| Cash | 18,243 | 21,530 | 19,923 | 11,509 | 14,263 | 22,285 |
| Restricted cash | 1,749 | 4,244 | 1,824 | 1,824 | 1,824 | 1,824 |
| Short-term investments | 28,130 | 36,753 | 23,058 | 23,058 | 23,058 | 23,058 |
| Account receivable | 4,749 | 5,668 | 7,661 | 3,949 | 5,163 | 8,177 |
| Others | 6,547 | 11,199 | 15,489 | 10,675 | 12,328 | 16,614 |
| Current liabilities | 42,162 | 68,784 | 69,182 | 52,619 | 56,390 | 64,907 |
| Trade payable | 7,459 | 11,714 | 12,294 | 7,021 | 9,196 | 11,734 |
| Salary and welfare payables | 3,465 | 3,694 | 4,829 | 3,088 | 3,413 | 4,523 |
| Accrued liabilities | 610 | 528 | 478 | 454 | 415 | 360 |
| Short-term borrowings | 16,316 | 36,011 | 30,516 | 30,516 | 30,516 | 30,516 |
| Others | 14,312 | 16,837 | 21,065 | 11,540 | 12,850 | 17,775 |
| Non-current liabilities | 33,463 | 28,313 | 25,284 | 25,284 | 25,284 | 25,284 |
| Long-term debt | 29,220 | 24,146 | 19,537 | 19,537 | 19,537 | 19,537 |
| Others | 4,243 | 4,167 | 5,747 | 5,747 | 5,747 | 5,747 |
| MI | 1,779 | 2,018 | 2,261 | 2,283 | 2,307 | 2,331 |
| Total Equity | 86,615 | 88,733 | 105,703 | 103,052 | 105,060 | 112,519 |
| Shareholders' equity | 84,836 | 86,715 | 103,442 | 100,769 | 102,753 | 110,187 |

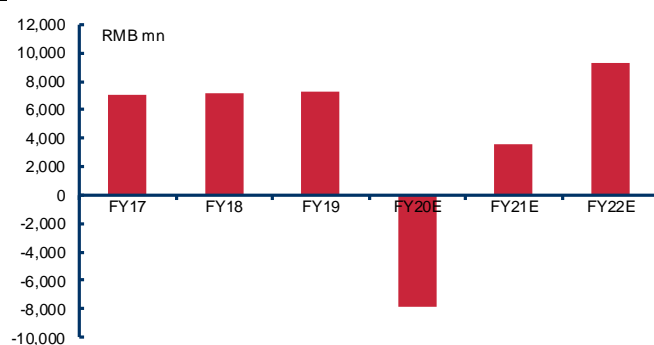
Source: Company data, CMBIS estimates

Cash Flow and Working Capital

Operating cash flow to pick up with travel recovery in post COVID-10 period

TCOM's operating cash flow was negative in FY20E for epidemic drag, but would turn positive since FY21E with domestic normalization and overseas gradual recovery. Leveraging its advantage of huge user base, supply chain and rich overseas operation experience, we expect TCOM to maintain its strong operating cash inflow trend and record RMB3.6bn / RMB9.4bn of operating cash inflow in FY21/22E, respectively.

Figure 64: Operating cash flow projections



Source: Company data, CMBIS estimates

Figure 65: Cash flow and working capital analysis

| RMB mn, Dec-YE | FY17 | FY18 | FY19 | FY20E | FY21E | FY22E |
|------------------------------|-----------------|-----------------|----------------|----------------|---------------|----------------|
| Cash Flow | | | | | | |
| Operating cash flow | 7,069 | 7,115 | 7,333 | (7,862) | 3,597 | 9,356 |
| CAPEX | (471) | (673) | (823) | (552) | (842) | (1,334) |
| Others | (14,780) | (13,405) | (1,590) | 0 | 0 | (0) |
| Investing cash flow | (15,251) | (14,078) | (2,413) | (552) | (842) | (1,334) |
| Proceeds from share issuance | 732 | 677 | 467 | 0 | 0 | 0 |
| Others | 7,287 | 11,249 | (9,723) | 0 | 0 | 0 |
| Financing cash flow | 8,019 | 11,926 | (9,256) | 0 | 0 | 0 |
| Cash at period end | 18,224 | 25,774 | 21,747 | 13,333 | 16,087 | 24,109 |

Source: Company data, CMBIS estimates

Valuation

Investment Thesis

We initiate BUY with SOTP-based TP of **US\$45**, implying **24x** FY22E P/E. We keep confident on TCOM's recovery, and see high visibility for TCOM to continuously strengthen its leadership. TCOM's positive price drivers and catalysts originate from: 1) potential solid quarter result; 2) vaccine progress; 3) international gradual recovery; 4) lower-tier cities penetration and 5) mid-/high-end hotels momentum.

Initiate with BUY

We use SOTP valuation as our primary method, by combining its core OTA business and investments. Taking industry multiple as reference, we apply 23x FY22E P/E to its core OTA business, and mkt cap to its investment portfolio, yielding TP of US\$45.

Our SOTP-based multiple of **24x** FY22E P/E, is in line with industry average. We think our targeted multiple is not demanding, since 1) major overseas OTA comps (e.g. Booking, Expedia, Webjet, Tripadvisor) trade at 27x FY22E P/E, even still under global COVID-19 pressure and uncertain recovery pace; 2) any vaccine progress or international recovery could unlock its profitability and valuation, since we made the super conservative estimates of zero international business and moderate domestic recovery in 2021 (+8% from 2019).

Apart from international recovery pace, key market concern might lie in the competition pressure from Meituan, Tongcheng-elong and margin visibility. We keep confident on its margin outlook (targeting non-GAAP OPM at 20%) in the long run, despite investment in marketing, supply chain enhancement, and low-tier cities penetration in 2021. Regarding the competition from Meituan/Tongcheng-elong, we think TCOM has excelled itself in well-established supply chain network, huge user base, high-end hotel advantages and algorithm optimization.

Figure 66: SOTP valuation

| Business (US\$ mn) | '22E Adj. net profit | Methodology | Multiple | Valuation | Stakes | Value |
|---------------------------------|----------------------|-------------|--------------|-----------|--------|-----------------|
| Core business | 1138.4 | P/E | 23.0x | 26,184.2 | 100% | 26,184.2 |
| Investment portfolio | | Mkt cap | | | | |
| Tongcheng-Elong Holdings | | | | 4,175.3 | 26.3% | 1,099.8 |
| MakeMyTrip | | | | 2,795.8 | 49.0% | 1,370.0 |
| China Eastern Airlines | | | | 11,930.2 | 3.0% | 354.7 |
| Tuniu | | | | 225.0 | 3.4% | 7.7 |
| Huazhu | | | | 15,298.0 | 7.4% | 1,132.1 |
| TripAdvisor | | | | 3,675.6 | 5.7% | 209.5 |
| Enterprise Value | | | | | | 30,357.8 |
| (+) Net Cash | | | | | | 219.4 |
| Equity Value | | | | | | 30,577.3 |
| Diluted Shares Outstanding (mn) | | | | | | 680.0 |
| Price Target (US\$) | | | | | | 45.0 |

Source: CMBIS estimates

Figure 67: Peers valuation

| Company | Ticker | Mkt cap (USD mn) | Currency | Price | PE | | | PS | | | EV/EBITDA | | | FY0-2 EPS CAGR |
|-----------------------|-----------|---------------------|----------|-------|-------|-------|------|------|------|-----|-----------|------|------|-------------------|
| | | | | | FY0 | FY1 | FY2 | FY0 | FY1 | FY2 | FY0 | FY1 | FY2 | |
| China Internet giants | | | | | | | | | | | | | | |
| Tencent | 700 HK | 720,939 | CNY | 583 | 38.4 | 30.7 | 25.4 | 9.8 | 7.9 | 6.6 | 27.0 | 22.4 | 18.6 | 23% |
| Alibaba | BABA US | 708,579 | CNY | 262 | 25.6 | 21.1 | 17.2 | 6.6 | 5.1 | 4.2 | 20.7 | 16.3 | 13.4 | 22% |
| Meituan | 3690 HK | 216,285 | CNY | 285 | 240.1 | 99.1 | 53.1 | 12.4 | 8.2 | 6.1 | 153.2 | 71.3 | 41.1 | 113% |
| Average | | | | | 101.3 | 50.3 | 31.9 | 9.6 | 7.1 | 5.7 | 67.0 | 36.7 | 24.4 | 52% |
| OTA | | | | | | | | | | | | | | |
| Ctrip | TCOM US | 20,840 | CNY | 35 | na | 38.4 | 22.7 | 7.4 | 5.1 | 3.7 | 795.0 | 40.0 | 20.7 | na |
| Tongcheng-elong | 780 HK | 4,175 | CNY | 15 | 27.4 | 14.4 | 11.5 | 4.5 | 3.1 | 2.5 | 17.5 | 9.4 | 7.3 | 55% |
| Tuniu | TOUR US | 225 | CNY | 2 | na | na | na | na | na | na | na | na | na | na |
| Booking | BKNG US | 85,952 | USD | 2,099 | 918.9 | 36.8 | 20.8 | 12.8 | 8.4 | 6.0 | 96.4 | 24.2 | 14.9 | 564% |
| Expedia | EXPE US | 17,680 | USD | 125 | na | 156.8 | 18.6 | 3.3 | 2.2 | 1.7 | na | 19.0 | 10.8 | na |
| Webjet | WEB AU | 1,323 | AUD | 5 | 70.0 | na | 41.2 | 6.0 | 14.8 | 6.0 | 32.5 | na | 19.9 | na |
| TripAdvisor | TRIP US | 3,675 | USD | 27 | na | 59.1 | 22.0 | 6.2 | 3.8 | 2.9 | na | 18.1 | 10.6 | na |
| Average | | | | | 338.8 | 61.1 | 22.8 | 6.7 | 6.2 | 3.8 | 235.4 | 22.1 | 14.1 | 309% |
| Travel agency | | | | | | | | | | | | | | |
| UTour | 002707 CH | 855 | CNY | 6.2 | na | 78.0 | 33.7 | 2.3 | 0.7 | 0.4 | na | 23.1 | 18.3 | na |
| Tempus Global | 300178 CH | 452 | CNY | 4.8 | 8.1 | 6.3 | na | na | na | na | na | na | na | na |
| Zhangjiajie Tourism | 000430 CH | 314 | CNY | 5.1 | na | na | na | na | na | na | na | na | na | na |
| Changbai Mountain | 603099 CH | 352 | CNY | 8.6 | na | na | na | na | na | na | na | na | na | na |
| Average | | | | | 8.1 | 42.1 | 33.7 | 2.3 | 0.7 | 0.4 | na | 23.1 | 18.3 | na |
| Total Average | | | | | 189.8 | 55.8 | 27.0 | 7.1 | 6.0 | 4.1 | 57.9 | 25.5 | 17.2 | 155% |

Source: Bloomberg

Note: Data updated by 17 Dec 2020

Key Investment Risks

Key investment risks may derive from: 1) intensified competition landscape; 2) slower recovery of domestic OTA under occasional COVID-19 cases; 3) uncertainty in overseas epidemic; 4) regulation uncertainty (e.g. Anti-trust law).

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--------------------------------|----------------|----------------|----------------|---------------|---------------|
| Gross Revenue | 31,104 | 35,716 | 18,409 | 24,069 | 38,121 |
| Accommodation | 11,580 | 13,514 | 7,068 | 10,191 | 14,942 |
| Transportation ticketing | 12,947 | 13,952 | 7,174 | 7,977 | 14,858 |
| Packaged tour | 3,772 | 4,534 | 1,323 | 2,255 | 4,059 |
| Corporate travel | 981 | 1,255 | 876 | 1,367 | 1,640 |
| Others | 1,824 | 2,461 | 1,967 | 2,279 | 2,621 |
| Net revenue | 30,965 | 35,666 | 18,395 | 24,037 | 38,070 |
| COGS | (6,324) | (7,372) | (4,271) | (5,594) | (7,787) |
| Gross profit | 24,641 | 28,294 | 14,124 | 18,443 | 30,283 |
| S&M | (9,440) | (9,151) | (4,363) | (7,211) | (10,050) |
| Admin.Exp. | (2,203) | (2,638) | (2,897) | (2,404) | (2,551) |
| R&D | (8,686) | (9,751) | (6,516) | (7,451) | (10,012) |
| SBC | (1,707) | (1,714) | (1,932) | (1,573) | (2,475) |
| Operating profit | 2,605 | 5,040 | (1,584) | (197) | 5,195 |
| Other income/(exp), net | (684) | 4,047 | (600) | 654 | 944 |
| Pre-tax Income | 1,921 | 9,087 | (2,183) | 457 | 6,139 |
| Equity in income of affiliates | (32) | (347) | (2,053) | 69 | 73 |
| Income Tax | (793) | (1,742) | (334) | (91) | (1,228) |
| Net profit | 1,112 | 7,011 | (4,592) | 411 | 4,959 |
| Adj. net profit | 5,480 | 6,527 | (1,794) | 1,984 | 7,434 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|------------------------------------|-----------------|----------------|----------------|---------------|----------------|
| Net income | 1,096 | 6,998 | (4,570) | 435 | 4,984 |
| D&A | 982 | 1,450 | 760 | 754 | 753 |
| Change in WC | 2,123 | 282 | (8,037) | 903 | 1,217 |
| Others | 2,914 | (1,397) | 3,985 | 1,504 | 2,402 |
| Operating CF | 7,115 | 7,333 | (7,862) | 3,597 | 9,356 |
| Capex | (673) | (823) | (552) | (842) | (1,334) |
| Change in restricted ST investment | (8,811) | 15,011 | - | - | - |
| Others | (4,594) | (16,601) | 0 | - | (0) |
| Investing CF | (14,078) | (2,413) | (552) | (842) | (1,334) |
| Equity raised | 677 | 467 | - | - | - |
| Change of Debts | 14,741 | 2,067 | - | - | - |
| Cash from CB raised | (3,297) | (10,048) | - | - | - |
| Others | (195) | (1,742) | - | - | - |
| Financing CF | 11,926 | (9,256) | - | - | - |
| Net change in cash | 5,782 | (4,027) | (8,414) | 2,754 | 8,021 |
| Cash (beg of yr) | 19,992 | 25,774 | 21,747 | 13,333 | 16,087 |
| FX | 819 | 309 | - | - | - |
| Cash (end of yr) | 25,774 | 21,747 | 13,333 | 16,087 | 24,109 |

Balance sheet

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Non-current assets | 106,436 | 132,214 | 129,953 | 130,111 | 130,765 |
| Fixed asset | 5,966 | 6,226 | 6,270 | 6,573 | 7,318 |
| Long-term investments | 26,874 | 51,278 | 49,225 | 49,294 | 49,367 |
| Intangible assets | 71,749 | 71,481 | 71,229 | 71,015 | 70,851 |
| Others | 1,847 | 3,229 | 3,229 | 3,229 | 3,229 |
| Current assets | 79,394 | 67,955 | 51,015 | 56,636 | 71,958 |
| Cash | 21,530 | 19,923 | 11,509 | 14,263 | 22,285 |
| Restricted cash | 4,244 | 1,824 | 1,824 | 1,824 | 1,824 |
| Short-term investments | 36,753 | 23,058 | 23,058 | 23,058 | 23,058 |
| Account receivable | 5,668 | 7,661 | 3,949 | 5,163 | 8,177 |
| Others | 11,199 | 15,489 | 10,675 | 12,328 | 16,614 |
| Current liabilities | 68,784 | 69,182 | 52,619 | 56,390 | 64,907 |
| Trade payable | 11,714 | 12,294 | 7,021 | 9,196 | 11,734 |
| Salary and welfare payables | 3,694 | 4,829 | 3,088 | 3,413 | 4,523 |
| Accrued liabilities | 528 | 478 | 454 | 415 | 360 |
| Short-term borrowings | 36,011 | 30,516 | 30,516 | 30,516 | 30,516 |
| Others | 16,837 | 21,065 | 11,540 | 12,850 | 17,775 |
| Non-current liabilities | 28,313 | 25,284 | 25,284 | 25,284 | 25,284 |
| Long-term debt | 24,146 | 19,537 | 19,537 | 19,537 | 19,537 |
| Others | 4,167 | 5,747 | 5,747 | 5,747 | 5,747 |
| MI | 2,018 | 2,261 | 2,283 | 2,307 | 2,331 |
| Total Equity | 88,733 | 105,703 | 103,052 | 105,060 | 112,519 |
| Shareholders' equity | 86,715 | 103,442 | 100,769 | 102,753 | 110,187 |

Key ratios

| YE 31 Dec | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales mix (%) | | | | | |
| Accommodation reservation | 37.2 | 37.8 | 38.4 | 42.3 | 39.2 |
| Transportation ticketing | 41.6 | 39.1 | 39.0 | 33.1 | 39.0 |
| Packaged tour | 12.1 | 12.7 | 7.2 | 9.4 | 10.6 |
| Corporate travel | 3.2 | 3.5 | 4.8 | 5.7 | 4.3 |
| Others | 5.9 | 6.9 | 10.7 | 9.5 | 6.9 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Growth rate (%) | | | | | |
| Revenue | 15.6 | 15.2 | (48.4) | 30.7 | 58.4 |
| Gross profit | 11.5 | 14.8 | (50.1) | 30.6 | 64.2 |
| EBIT | (11.0) | 93.5 | NA | NA | NA |
| Adj. net profit | 37.8 | 19.1 | NA | NA | 274.7 |
| P&L ratios (%) | | | | | |
| Operating margin | 8.4 | 14.1 | (8.6) | (0.8) | 13.6 |
| Pre-tax margin | 6.2 | 25.5 | (11.9) | 1.9 | 16.1 |
| Adj. net margin | 17.7 | 18.3 | (9.8) | 8.3 | 19.5 |
| Effective tax rate | (2.6) | (4.9) | (1.8) | (0.4) | (3.2) |
| Returns (%) | | | | | |
| ROE | 2.2 | 8.6 | -2.1 | 0.4 | 5.5 |
| ROA | 2.9 | 3.3 | (1.0) | 1.1 | 3.7 |
| Per share | | | | | |
| EPS (RMB) | 9.22 | 10.75 | (2.64) | 2.89 | 12.11 |
| DPS (RMB) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| BVPS (RMB) | 45.42 | 33.88 | 19.61 | 23.42 | 34.93 |

Source: Company data, CMBIS estimates

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