

# Trip.com (TCOM US)

## Strong recovery to sustain in 2Q23

Trip.com Group (TCOM) announced (8 June) 1Q23 results: net revenue was RMB9.2bn, up 124% YoY, 14% ahead of both our forecast and Bloomberg consensus estimates, and was 13% higher than 1Q19 level. Non-GAAP net income was RMB2.1bn, better than our forecast/consensus estimate of RMB1.2/1.3bn, thanks to stronger-than-expected revenue growth and cost saving initiatives. Management noted stronger and more sustainable than expected release of pent-up demand, and expected the robust recovery to sustain in 2Q-3Q23, aided by: 1) arrival of summer peak season; 2) recovery in supply of international flights; 3) its loyal middle to high income user base, as well as enhanced supply chain capabilities and partner relationship. Aided by robust revenue recovery which is likely to drive better than previously expected operating leverage, management guided non-GAAP OPM to be between 20-30% in 2023, ahead of our previous estimate of 19.2%. Our DCF-based TP was lifted by 2% to US\$45.5 to account for near-term stronger-than-expected release of pent-up demand, translating into 19x 24E PE (non-GAAP). Maintain BUY.

- Recovery in outbound travel business on track.** In 1Q23, outbound hotel and air reservation on TCOM's platform recovered to over 40% of those in 1Q19, compared to a 15% recovery in the overall aviation market, which is in line with our expectation, and management attributes the outpacing performance to enhanced supply chain capabilities and partner cooperation. Management noted that capacity of outbound flights has seen steady increase from c. 30% in April to c.50% recently, and is expected to reach 60% in the coming months, which is on track to achieve over 80% recovery by year-end, in our view. We maintain our forecast that TCOM's outbound travel business revenue in 2023 will recover to 50% of that in 2019.
- Release of pent-up demand in domestic travel market stronger-than-expected and likely to sustain.** In 1Q23, TCOM's revenue from transportation-ticketing (TT) services was RMB4.2bn, up 24% compared to 1Q19 level. Revenue from accommodation reservation (AR) business was RMB3.5bn, up 15% compared to 1Q19 level. The strong set of travel data during Labor Day holiday indicated a strong 2Q results for TCOM, in our view, and the strong recovery trend is likely to sustain in 2Q-3Q, given that: 1) arrival of peak summer holiday travel season; 2) TCOM has a larger number of loyal middle to high end user base compared to industry peers. We forecast TCOM to record RMB4.2bn AR revenue in 2Q23, up 23% compared to 2Q19 level, and achieve RMB4.7bn in TT revenue, up 38% compared to 2Q19 level. We lifted TCOM's 2023E total revenue forecast by 26% to RMB42.9bn, indicating 20% growth compared to 2019 level.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	20,029	20,055	42,865	50,425	55,102
YoY growth (%)	9.3	0.1	113.7	17.6	9.3
Net profit (RMB mn)	(550.0)	1,403.0	8,261.6	9,345.9	10,449.3
Adjusted net profit (RMB mn)	1,356.0	1,294.0	8,502.5	11,615.0	12,873.8
Adj. NP (consensus; RMB mn)			5,491	8,329	10,015
EPS (Adjusted) (RMB)	2.14	1.97	12.50	16.58	17.85
P/E (x)	na	79.9	19.7	17.4	15.6
P/B (x)	1.2	1.0	1.3	1.2	1.1
ROE (%)	(0.5)	1.3	7.0	7.3	7.4

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

<b>Target Price</b>	<b>US\$45.50</b>
(Previous TP)	US\$44.60
<b>Up/Downside</b>	<b>29.6%</b>
<b>Current Price</b>	<b>US\$35.12</b>

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#### Stock Data

Mkt Cap (US\$ mn)	23,077.1
Avg 3 mths t/o (US\$ mn)	146.2
52w High/Low (US\$)	40.06/20.36
Total Issued Shares (mn)	657.1

Source: FactSet

#### Shareholding Structure

Baidu Entities	10.8%
Morgan Stanley	5.8%

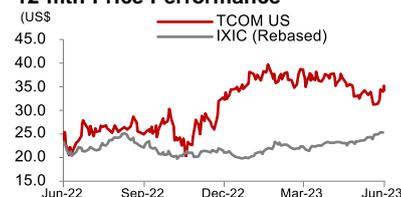
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	6.1%	-2.2%
3-mth	-6.4%	-18.7%
6-mth	8.8%	-10.2%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

- **Margin recovers along with recovery in revenue generation.** TCOM's non-GAAP OPM for 1Q23 was 28.5%, 9.5pp better than our forecast, mainly on: 1) better-than-expected cost saving; 2) better-than-expected revenue generation which propelled better-than-expected operating leverage. The results echoed with our view that TCOM's cost saving measures amid industry headwind should aid strong margin expansion when revenue generation normalizes. Recovery in revenue generation from relative high-margin outbound travel business could aid further margin recovery. We forecast non-GAAP OPM to expand to 29.4% in 2Q23E (2Q19: 19.9%), and estimate it to recover to 25.5% in 2023E (2019: 18.9%; our previous forecast: 19.2%).

**Figure 1: TCOM: quarterly financial results**

(RMBbn)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	1Q23 CMBI estimates	Diff%
<b>Total revenue</b>	<b>4.1</b>	<b>5.9</b>	<b>5.3</b>	<b>4.7</b>	<b>4.1</b>	<b>4.0</b>	<b>6.9</b>	<b>5.0</b>	<b>9.2</b>	<b>8.1</b>	<b>13.7%</b>
YoY growth (%)	-13.2%	86.5%	-2.2%	-5.7%	0.0%	31.9%	29.0%	7.4%	123.9%		
Accommodation reservation	1.6	2.5	2.2	1.9	1.5	1.4	2.9	1.7	3.5	3.0	15.7%
YoY growth (%)	36.8%	95.8%	11.5%	14.5%	-8.2%	44.7%	32.4%	12.0%	140.0%		
Transportation ticketing	1.5	2.1	1.8	1.5	1.7	1.8	2.6	2.2	4.2	3.7	11.8%
YoY growth (%)	-37.1%	79.7%	-4.6%	10.8%	10.4%	14.7%	44.4%	45.4%	149.9%		
Packaged tour	0.2	0.4	0.4	0.2	0.1	0.1	0.4	0.2	0.4	0.4	9.6%
YoY growth (%)	-67.7%	182.3%	20.2%	32.4%	26.6%	66.8%	-1.3%	-7.3%	211.3%		
Corporate travel	0.3	0.4	0.3	0.4	0.2	0.2	0.4	0.3	0.4	0.3	28.9%
YoY growth (%)	100.0%	140.7%	19.9%	19.5%	11.9%	46.2%	9.5%	24.5%	100.5%		
Others	0.6	0.6	0.6	0.7	0.7	0.6	0.6	0.7	0.7	0.7	9.6%
YoY growth (%)	11.9%	31.8%	27.9%	54.8%	8.3%	-8.1%	1.3%	-0.9%	14.1%		
Gross profit	3.1	4.7	4.1	3.6	3.0	3.0	5.6	3.8	7.6	6.4	17.8%
Operating profit	-0.8	0.3	-0.2	-0.7	-0.4	-0.2	0.9	-0.2	2.2	1.2	88.8%
<b>Non-GAAP net profit</b>	<b>-0.2</b>	<b>0.7</b>	<b>0.5</b>	<b>0.3</b>	<b>0.0</b>	<b>-0.2</b>	<b>1.0</b>	<b>0.5</b>	<b>2.1</b>	<b>1.2</b>	<b>76.8%</b>
<b>Margins</b>											
GPM (%)	74.8%	79.2%	77.1%	76.1%	74.0%	75.6%	81.5%	76.1%	82.1%	79.2%	2.9 ppt
OPM (%)	-19.2%	5.5%	-4.6%	15.0%	-8.7%	-4.2%	12.4%	-4.8%	24.3%	14.6%	9.7 ppt
Adjusted NPM (%)	-5.0%	12.4%	9.8%	6.6%	-0.9%	-5.1%	15.0%	9.9%	22.4%	14.4%	8.0 ppt

Source: Company data, CMBIGM estimates

## Revision of forecast and valuation

Key changes in our forecast are set out below:

- We lifted 2023/2024/2025E revenue forecast by 26/18/17%, driven by better-than-expected growth in domestic business, aided by release of pent-up demand;
- We lifted our 2023/2024/2025E non-GAAP net profit by 56/30/18%, driven by the lift in revenue forecast and better-than-expected cost saving.

**Figure 2: TCOM: forecast revision**

RMB bn	Current			Previous			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	42.9	50.4	55.1	34.0	42.9	47.3	26.3%	17.6%	16.6%
Gross Profit	34.7	40.8	44.6	26.9	34.0	37.5	28.9%	19.9%	18.8%
Operating Profit	9.0	11.7	12.8	4.9	8.0	10.0	82.8%	45.8%	27.6%
Non-GAAP net profit	8.5	11.6	12.9	5.5	9.0	10.9	55.6%	29.6%	18.2%
Gross Margin	80.9%	80.9%	80.9%	79.2%	79.3%	79.5%	1.7 ppt	1.6 ppt	1.5 ppt

Operating Margin	21.0%	23.2%	23.2%	14.5%	18.7%	21.2%	6.5 ppt	4.5 ppt	2.0 ppt
Non-GAAP net margin	19.8%	23.0%	23.4%	16.1%	20.9%	23.0%	3.7 ppt	2.1 ppt	0.3 ppt

Source: CMBIGM estimates

**Figure 3: CMBIGM estimates vs consensus**

RMB bn	Current			Consensus			Diff (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	42.9	50.4	55.1	34.6	42.3	48.1	23.9%	19.2%	14.5%
Gross Profit	34.7	40.8	44.6	27.2	33.6	38.2	27.6%	21.6%	16.8%
Non-GAAP net profit	8.5	11.6	12.9	5.5	8.3	10.0	54.9%	39.5%	28.5%
Gross Margin	80.9%	80.9%	80.9%	78.6%	79.3%	79.4%	2.3 ppt	1.6 ppt	1.6 ppt
Non-GAAP net margin	19.8%	23.0%	23.4%	15.9%	19.7%	20.8%	4.0 ppt	3.3 ppt	2.6 ppt

Source: Bloomberg, CMBIGM estimates

**DCF based target price of US\$45.5**

Our DCF-based target price was lifted to US\$45.5 (WACC of 10.5% and terminal growth of 2.0%; both unchanged). Our target price translates into 25.2x 2023E PE and 19.0x 2024E PE (non-GAAP). Our previous DCF-based target price of US\$44.6 translates into 37.1x 2023E PE and 22.6x 2024E PE (non-GAAP).

**Figure 4: TCOM: DCF valuation (WACC of 10.5%, terminal growth of 2.0%)**

(RMBbn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Total revenue	42.9	50.4	55.1	59.5	63.7	67.5	71.0	74.2	77.0	79.5
NPV of FCF	108.3	92.0								
Discounted terminal value	85.2	94.2								
Total equity valuation	212.9	225.6								
No. of shares (diluted, mn)	680	700								
Valuation per share (USD)	45.5									

Source: CMBIGM estimates

Note: Our USD:RMB exchange rate assumption is 1:6.925.

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	18,327	20,029	20,055	42,865	50,425	55,102
Cost of goods sold	(4,031)	(4,598)	(4,513)	(8,136)	(9,572)	(10,461)
Others	(11)	(6)	(16)	(43)	(45)	(44)
<b>Gross profit</b>	<b>14,285</b>	<b>15,425</b>	<b>15,526</b>	<b>34,686</b>	<b>40,808</b>	<b>44,597</b>
<b>Operating expenses</b>	<b>(15,708)</b>	<b>(16,836)</b>	<b>(15,438)</b>	<b>(25,693)</b>	<b>(29,119)</b>	<b>(31,823)</b>
SG&A expense	(8,041)	(7,844)	(7,097)	(14,431)	(16,525)	(17,729)
R&D expense	(7,667)	(8,992)	(8,341)	(11,262)	(12,595)	(14,095)
<b>Operating profit</b>	<b>(1,423)</b>	<b>(1,411)</b>	<b>88</b>	<b>8,993</b>	<b>11,688</b>	<b>12,773</b>
Interest income	2,187	2,132	2,046	1,761	1,750	2,006
Interest expense	(1,716)	(1,565)	(1,514)	(2,114)	(1,978)	(1,978)
Other income/expense	(273)	373	2,015	1,652	0	0
<b>Pre-tax profit</b>	<b>(1,225)</b>	<b>(471)</b>	<b>2,635</b>	<b>10,292</b>	<b>11,460</b>	<b>12,802</b>
Income tax	(355)	(270)	(682)	(2,058)	(2,292)	(2,560)
Others	(1,689)	96	(586)	0	150	180
Minority interest	62	95	36	28	28	28
<b>Net profit</b>	<b>(3,207)</b>	<b>(550)</b>	<b>1,403</b>	<b>8,262</b>	<b>9,346</b>	<b>10,449</b>
<b>Adjusted net profit</b>	<b>(913)</b>	<b>1,356</b>	<b>1,294</b>	<b>8,503</b>	<b>11,615</b>	<b>12,874</b>

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>58,011</b>	<b>66,108</b>	<b>61,435</b>	<b>82,166</b>	<b>105,766</b>	<b>123,973</b>
Cash & equivalents	18,096	19,818	17,083	30,473	49,966	65,643
Restricted cash	1,319	1,378	1,404	3,001	3,530	3,857
Account receivables	4,119	4,649	5,486	8,573	10,085	11,020
Prepayment	7,855	9,032	11,917	14,574	16,640	17,908
Other current assets	26,622	31,231	25,545	25,545	25,545	25,545
<b>Non-current assets</b>	<b>129,238</b>	<b>125,751</b>	<b>130,256</b>	<b>140,744</b>	<b>136,777</b>	<b>136,955</b>
PP&E	5,780	5,534	5,204	5,883	6,342	6,820
Investment in JVs & assos	47,943	44,961	50,177	60,011	55,468	55,102
Intangibles	13,256	12,960	12,825	11,856	11,785	11,713
Goodwill	59,353	59,353	59,337	59,337	59,337	59,337
Other non-current assets	2,906	2,943	2,713	3,657	3,847	3,983
<b>Total assets</b>	<b>187,249</b>	<b>191,859</b>	<b>191,691</b>	<b>222,910</b>	<b>242,543</b>	<b>260,928</b>
<b>Current liabilities</b>	<b>58,369</b>	<b>66,218</b>	<b>57,035</b>	<b>81,645</b>	<b>88,565</b>	<b>93,387</b>
Short-term borrowings	33,665	39,866	28,470	28,470	28,470	28,470
Account payables	4,506	6,019	7,569	11,798	13,497	14,331
Tax payable	1,217	1,065	0	4,117	3,438	3,840
Other current liabilities	18,503	18,868	20,996	36,610	42,490	46,118
Accrued expenses	478	400	0	651	670	628
<b>Non-current liabilities</b>	<b>27,313</b>	<b>15,185</b>	<b>21,637</b>	<b>17,696</b>	<b>18,630</b>	<b>19,154</b>
Long-term borrowings	22,718	11,093	17,381	11,093	11,093	11,093
Obligations under finance leases	618	400	534	534	534	534
Other non-current liabilities	3,977	3,692	3,722	6,069	7,003	7,527
<b>Total liabilities</b>	<b>85,682</b>	<b>81,403</b>	<b>78,672</b>	<b>99,342</b>	<b>107,195</b>	<b>112,541</b>
Share capital	6	6	6	6	6	6
Capital surplus	83,960	93,829	95,067	97,346	99,815	102,440
Retained earnings	19,470	18,823	20,191	28,418	37,729	48,143
Other reserves	(3,082)	(2,981)	(2,981)	(2,981)	(2,981)	(2,981)
<b>Total shareholders equity</b>	<b>100,354</b>	<b>109,677</b>	<b>112,283</b>	<b>122,789</b>	<b>134,569</b>	<b>147,608</b>
Minority interest	1,213	779	736	779	779	779
<b>Total equity and liabilities</b>	<b>187,249</b>	<b>191,859</b>	<b>191,691</b>	<b>222,910</b>	<b>242,543</b>	<b>260,928</b>

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	(2,914)	(375)	2,049	10,292	11,610	12,982
Depreciation & amortization	1,217	1,021	836	943	1,050	1,163
Change in working capital	(6,934)	177	(1,509)	18,866	3,342	2,619
Others	4,808	1,652	446	(197)	(91)	(204)
<b>Net cash from operations</b>	<b>(3,823)</b>	<b>2,475</b>	<b>1,822</b>	<b>29,904</b>	<b>15,911</b>	<b>16,560</b>
<b>Investing</b>						
Capital expenditure	(532)	(570)	(571)	(1,220)	(1,435)	(1,568)
Acquisition of subsidiaries/ investments	(2,861)	(3,585)	0	0	0	0
Others	(428)	7	0	0	0	0
<b>Net cash from investing</b>	<b>(3,821)</b>	<b>(4,148)</b>	<b>(571)</b>	<b>(1,220)</b>	<b>(1,435)</b>	<b>(1,568)</b>
<b>Financing</b>						
Net borrowings	18,209	5,615	(11,396)	0	0	0
Proceeds from share issues	0	7,984	0	0	0	0
Others	(12,184)	(9,680)	7,435	(13,698)	5,547	1,012
<b>Net cash from financing</b>	<b>6,025</b>	<b>3,919</b>	<b>(3,961)</b>	<b>(13,698)</b>	<b>5,547</b>	<b>1,012</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	21,747	19,415	21,196	18,487	33,473	53,496
Exchange difference	(713)	(465)	0	0	0	0
Others	(1,619)	2,246	(2,709)	14,986	20,022	16,004
<b>Cash at the end of the year</b>	<b>19,415</b>	<b>21,196</b>	<b>18,487</b>	<b>33,473</b>	<b>53,496</b>	<b>69,500</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	(48.7%)	9.3%	0.1%	113.7%	17.6%	9.3%
Gross profit	(49.5%)	8.0%	0.7%	123.4%	17.6%	9.3%
Operating profit	na	na	na	10,119.0%	30.0%	9.3%
Net profit	na	na	na	488.9%	13.1%	11.8%
Adj. net profit	na	na	(4.6%)	557.1%	36.6%	10.8%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	77.9%	77.0%	77.4%	80.9%	80.9%	80.9%
Operating margin	(7.8%)	(7.0%)	0.4%	21.0%	23.2%	23.2%
Adj. net profit margin	(5.0%)	6.8%	6.5%	19.8%	23.0%	23.4%
Return on equity (ROE)	(3.1%)	(0.5%)	1.3%	7.0%	7.3%	7.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	1.0	1.0	1.1	1.0	1.2	1.3
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	na	na	79.9	19.7	17.4	15.6
P/B	1.2	1.2	1.0	1.3	1.2	1.1
P/CFPS	na	73.4	90.8	5.7	11.4	11.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

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