

Trip.com (TCOM US)

Release of pent-up demand as expected

Trip.com Group (TCOM) announced (21 Nov) 3Q23 results: net revenue was RMB13.7bn, up 99% YoY, in line with both our forecast and Bloomberg consensus expectation, and was 31% higher than 3Q19 level. Non-GAAP operating income (OP) was RMB4.4bn, 6% better than our forecast, thanks to a better-than-expected GPM driven by better-than-expected operating leverage, and more efficient-than-expected sales and marketing spend. Recovery of outbound travel business on QTD basis in 4Q23 is slightly slower than our previous expectation owing to the slower-than-expected recovery in international flights in the short term, while TCOM's outbound travel business is on track to see full recovery in 2024 given that consumer demand remains healthy. Management is confident about the long-term development of international business, and targets for 20% revenue contribution from pure international business over a 3-5-year horizon. We maintain DCF-based target price of US\$45.8, which translates into 21.9x 2024E PE; maintain BUY. Outbound travel and international business remain long-term revenue and earnings growth drivers for TCOM, in our view.

- **3Q23 revenue came in line with our expectation...** TCOM's 3Q23 revenue was in line with our estimation. By segment, in 3Q23, TCOM's revenue from transportation-ticketing (TT) services was RMB5.4bn, up 44% compared to 3Q19 level. Revenue from accommodation reservation (AR) business was RMB5.6bn, up 36% compared to 3Q19 level. Both our 4Q23/2023E revenue forecasts for TCOM remain largely unchanged at RMB10.3bn/44.5bn, representing growth of 23/25% compared to the 4Q19/2019 level.
- **...while non-GAAP OPM was better than expected.** TCOM's non-GAAP OPM for 3Q23 was 32.2%, 1.7ppt better than our forecast, thanks to: 1) a better-than-expected GPM driven by better-than-expected operating leverage; and 2) more efficient-than-expected S&M spend propelled by strong pent-up demand. We forecast non-GAAP OPM to expand to 18.2% in 4Q23E (4Q19: 12.3%), and estimate it to recover to 27.9% in 2023E (2019: 18.9%; our previous forecast: 26.7%), aided by robust revenue growth, and operating efficiency improvement of the loss-making international business, while we forecast a slight decline to 25.2% in 2024E, to factor in TCOM's incremental investment to drive outbound and international business development.
- **Pace of recovery for outbound travel business slightly slower than expected in 4Q23, but long-term recovery on track.** In 3Q23, outbound hotel and air reservations on TCOM's platform recovered to over 80% of those in 3Q19, in line with our expectation, compared to a 50% recovery in the overall aviation market, while management expects outbound travel revenue recovery to stay at around 80%+ level of 4Q19 in 4Q23 (vs. our previous expectation of a full recovery by year-end) due to a slightly slower-than-expected recovery in international flights. However, the robust development of international business and domestic business could help offset the near-term headwind of outbound business recovery, and we expect a full recovery of TCOM's outbound travel business in 1Q-2Q24.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	20,029	20,055	44,476	51,172	56,526
Net profit (RMB mn)	(550.0)	1,403.0	9,608.3	8,402.5	10,133.7
Adjusted net profit (RMB mn)	1,356.0	1,294.0	11,885.1	10,551.7	12,451.2
Adj. NP (consensus; RMB mn)			10,016	11,295	13,304
EPS (Adjusted) (RMB)	2.14	1.97	17.48	15.07	17.26
P/E (x)	na	79.9	17.8	20.4	16.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$45.80
Up/Downside 24.9%
Current Price US\$36.67

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Stock Data

Mkt Cap (US\$ mn)	24,095.6
Avg 3 mths t/o (US\$ mn)	51.9
52w High/Low (US\$)	41.36/25.95
Total Issued Shares (mn)	657.1

Source: FactSet

Shareholding Structure

Baidu Entities	10.8%
Morgan Stanley	5.8%

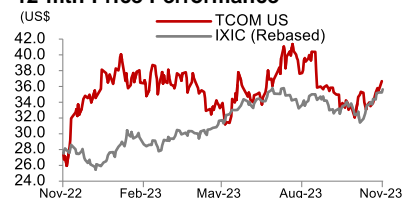
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	14.3%	3.9%
3-mth	-2.7%	-8.1%
6-mth	10.3%	-2.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: TCOM: quarterly financial results

(RMBbn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	CMBI estimates	Diff%
Total revenue	4.1	4.0	6.9	5.0	9.2	11.3	13.8	13.7	0.5%
YoY growth (%)	0.0%	-31.9%	29.0%	7.4%	123.9%	180.4%	99.4%	98.4%	
Accommodation reservation	1.5	1.4	2.9	1.7	3.5	4.3	5.6	5.6	-0.9%
YoY growth (%)	-8.2%	-44.7%	32.4%	-12.0%	140.0%	215.8%	92.5%	94.2%	
Transportation ticketing	1.7	1.8	2.6	2.2	4.2	4.8	5.4	5.3	1.3%
YoY growth (%)	10.4%	-14.7%	44.4%	45.4%	149.9%	173.1%	104.6%	102.1%	
Packaged tour	0.1	0.1	0.4	0.2	0.4	0.7	1.3	1.4	-2.0%
YoY growth (%)	-26.6%	-66.8%	-1.3%	-7.3%	211.3%	491.8%	243.2%	250.1%	
Corporate travel	0.2	0.2	0.4	0.3	0.4	0.6	0.6	0.6	3.1%
YoY growth (%)	-11.9%	-46.2%	9.5%	-24.5%	100.5%	178.1%	59.7%	54.9%	
Others	0.7	0.6	0.6	0.7	0.7	0.9	0.9	0.8	6.7%
YoY growth (%)	8.3%	-8.1%	1.3%	-0.9%	14.1%	52.0%	42.9%	33.9%	
Gross profit	3.0	3.0	5.6	3.8	7.6	9.2	11.3	11.0	2.4%
Operating profit	-0.4	-0.2	0.9	-0.2	2.2	3.0	3.9	3.7	6.6%
Non-GAAP net profit	0.0	-0.2	1.0	0.5	2.1	3.4	4.9	3.2	51.4%
Margins									
GPM (%)	74.0%	75.6%	81.5%	76.1%	82.1%	82.0%	82.0%	80.4%	1.5 ppt
OPM (%)	-8.7%	-4.2%	12.4%	-4.8%	24.3%	26.4%	28.4%	26.8%	1.6 ppt
Adjusted NPM (%)	-0.9%	-5.1%	15.0%	9.9%	22.4%	30.5%	35.6%	23.6%	12.0 ppt

Source: Company data, CMBIGM estimates

Figure 2: TCOM: forecast revision

RMB bn	Current			Previous			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	44.5	51.2	56.5	44.4	51.7	56.5	0.2%	-1.0%	0.0%
Gross Profit	36.2	40.9	45.2	36.0	41.6	45.2	0.6%	-1.6%	0.0%
Operating Profit	10.5	10.7	12.5	9.9	11.2	12.5	6.0%	-4.2%	0.0%
Non-GAAP net profit	11.9	10.6	12.5	9.7	11.1	12.6	22.2%	-4.6%	-1.0%
Gross Margin	81.4%	79.9%	79.9%	81.1%	80.4%	79.9%	0.3 ppt	-0.5 ppt	0.0 ppt
Operating Margin	23.6%	21.0%	22.2%	22.3%	21.7%	22.2%	1.3 ppt	-0.7 ppt	0.0 ppt
Non-GAAP net margin	26.7%	20.6%	22.0%	21.9%	21.4%	22.2%	4.8 ppt	-0.8 ppt	-0.2 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	44.5	51.2	56.5	44.5	52.1	59.8	-0.2%	-1.8%	-5.5%
Gross Profit	36.2	40.9	45.2	36.1	41.8	48.0	0.3%	-2.3%	-5.9%
Non-GAAP net profit	11.9	10.6	12.5	10.0	11.3	13.3	18.7%	-6.6%	-6.4%
Gross Margin	81.4%	79.9%	79.9%	81.0%	80.3%	80.3%	0.4 ppt	-0.3 ppt	-0.4 ppt
Non-GAAP net margin	26.7%	20.6%	22.0%	22.5%	21.7%	22.2%	4.2 ppt	-1.0 ppt	-0.2 ppt

Source: Bloomberg, CMBIGM estimates

DCF based target price of US\$45.8

Our DCF-based target price is lifted to US\$45.8 (WACC of 10.5% and terminal growth of 2.0%; both unchanged). Our target price translates into 18.1x 2023E PE and 21.9x 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	44.5	51.2	56.5	61.5	65.9	69.9	73.4	76.4	79.0	81.3
NPV of FCF	112.7	94.6								
Discounted terminal value	84.1	92.9								
Total equity valuation	215.7	230.2								
No. of shares (diluted, mn)	680	700								
Valuation per share (USD)	45.8									

Source: CMBIGM estimates

Note: Our USD:RMB exchange rate assumption is 1:7.2.

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	18,327	20,029	20,055	44,476	51,172	56,526
Cost of goods sold	(4,031)	(4,598)	(4,513)	(8,219)	(10,224)	(11,295)
Others	(11)	(6)	(16)	(50)	(52)	(52)
Gross profit	14,285	15,425	15,526	36,207	40,895	45,179
Operating expenses	(15,708)	(16,836)	(15,438)	(25,718)	(30,160)	(32,642)
SG&A expense	(8,041)	(7,844)	(7,097)	(13,577)	(16,869)	(18,184)
R&D expense	(7,667)	(8,992)	(8,341)	(12,142)	(13,291)	(14,457)
Operating profit	(1,423)	(1,411)	88	10,489	10,735	12,537
Interest income	2,187	2,132	2,046	1,937	1,922	2,246
Interest expense	(1,716)	(1,565)	(1,514)	(2,110)	(2,293)	(2,293)
Other income/expense	(273)	373	2,015	336	0	0
Pre-tax profit	(1,225)	(471)	2,635	10,652	10,364	12,491
Income tax	(355)	(270)	(682)	(1,726)	(2,073)	(2,498)
Others	(1,689)	96	(586)	721	150	180
Minority interest	62	95	36	(39)	(39)	(39)
Net profit	(3,207)	(550)	1,403	9,608	8,403	10,134
Adjusted net profit	(913)	1,356	1,294	11,885	10,552	12,451

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	58,011	66,108	61,435	88,835	115,609	134,093
Cash & equivalents	18,096	19,818	17,000	36,160	59,361	74,915
Restricted cash	1,319	1,378	1,487	3,113	3,582	3,957
Account receivables	4,119	4,649	5,486	8,895	10,234	11,305
Prepayment	7,855	9,032	10,169	15,122	16,887	18,371
Other current assets	26,622	31,231	27,293	25,545	25,545	25,545
Non-current assets	129,238	125,751	130,256	142,618	137,104	137,814
PP&E	5,780	5,534	5,204	5,978	6,454	6,978
Investment in JVs & assos	47,943	44,961	50,177	62,266	56,289	56,526
Intangibles	13,256	12,960	12,742	11,511	11,265	11,020
Goodwill	59,353	59,353	59,337	59,337	59,337	59,337
Other non-current assets	2,906	2,943	2,796	3,526	3,758	3,954
Total assets	187,249	191,859	191,691	231,453	252,713	271,907
Current liabilities	58,369	66,218	61,239	86,643	95,779	101,675
Short-term borrowings	33,665	39,866	32,674	32,674	32,674	32,674
Account payables	4,506	6,019	7,569	11,917	14,416	15,474
Tax payable	1,217	1,065	835	3,451	3,109	3,747
Other current liabilities	18,503	18,868	19,765	37,943	44,864	49,102
Accrued expenses	478	400	396	658	716	678
Non-current liabilities	27,313	15,185	17,433	20,132	21,539	22,221
Long-term borrowings	22,718	11,093	13,177	13,177	13,177	13,177
Obligations under finance leases	618	400	534	534	534	534
Other non-current liabilities	3,977	3,692	3,722	6,421	7,828	8,510
Total liabilities	85,682	81,403	78,672	106,775	117,317	123,896
Share capital	6	6	6	6	6	6
Capital surplus	83,960	93,829	95,196	97,282	99,631	102,149
Retained earnings	19,470	18,823	20,135	29,708	38,076	48,175
Other reserves	(3,082)	(2,981)	(3,054)	(3,054)	(3,054)	(3,054)
Total shareholders equity	100,354	109,677	112,283	123,942	134,659	147,275
Minority interest	1,213	779	736	736	736	736
Total equity and liabilities	187,249	191,859	191,691	231,453	252,713	271,907

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(2,914)	(375)	2,049	11,373	10,514	12,671
Depreciation & amortization	1,217	1,021	875	959	1,037	1,122
Change in working capital	(6,934)	177	(800)	17,042	6,032	3,341
Others	4,808	1,652	517	707	623	366
Net cash from operations	(3,823)	2,475	2,641	30,081	18,206	17,500
Investing						
Capital expenditure	(532)	(570)	(497)	(1,102)	(1,268)	(1,401)
Acquisition of subsidiaries/ investments	(2,861)	(3,585)	1,039	0	0	0
Others	(428)	7	594	2	3	3
Net cash from investing	(3,821)	(4,148)	1,136	(1,100)	(1,266)	(1,398)
Financing						
Net borrowings	18,209	5,615	4,938	0	0	0
Proceeds from share issues	0	7,984	0	0	0	0
Others	(12,184)	(9,680)	(11,655)	(8,194)	6,729	(173)
Net cash from financing	6,025	3,919	(6,717)	(8,194)	6,729	(173)
Net change in cash						
Cash at the beginning of the year	21,747	19,415	21,196	18,487	39,273	62,943
Exchange difference	(713)	(465)	231	0	0	0
Others	(1,619)	2,246	(2,940)	20,786	23,670	15,929
Cash at the end of the year	19,415	21,196	18,487	39,273	62,943	78,872
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(48.7%)	9.3%	0.1%	121.8%	15.1%	10.5%
Gross profit	(49.5%)	8.0%	0.7%	133.2%	12.9%	10.5%
Operating profit	na	na	na	11,819.2%	2.3%	16.8%
Net profit	na	na	na	584.8%	(12.5%)	20.6%
Adj. net profit	na	na	(4.6%)	818.5%	(11.2%)	18.0%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	77.9%	77.0%	77.4%	81.4%	79.9%	79.9%
Operating margin	(7.8%)	(7.0%)	0.4%	23.6%	21.0%	22.2%
Adj. net profit margin	(5.0%)	6.8%	6.5%	26.7%	20.6%	22.0%
Return on equity (ROE)	(3.1%)	(0.5%)	1.3%	8.1%	6.5%	7.2%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	1.0	1.0	1.0	1.0	1.2	1.3
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	na	79.9	17.8	20.4	16.9
P/B	1.2	1.2	1.0	1.4	1.3	1.2
P/CFPS	na	73.4	53.0	6.0	10.2	10.7

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

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