

Trip.com (TCOM US)

Eyes on 2Q21 rebound and overseas recovery

TCOM delivered in-line rev and upbeat earnings in 4Q20 results. Despite new COVID-19 wave, its mid-to-high-end hotels performed well. 1Q21E might see epidemic uncertainty (forecasting rev -36% YoY, and net loss of RMB1.0bn), but we expect rev to rebound in 2Q21E. Mgmt. kept confident on 2021 domestic full recovery, with priority on content & value chain enhancement and low-tier cities penetration. We trimmed its bottom line by 3%/5% in FY21/22E to reflect epidemic drag, but lifted our SOTP-based TP to US\$48 given higher investment valuation.

- 4Q20 beat on margin surprise.** 4Q20 rev/ adj.net profit reached RMB5.0bn/RMB1.1bn, -40.5%/-10% YoY, 0%/466% above consensus. Margin beat on higher GPM (+2ppts YoY) and lighter S&M. We view this result as positive, and we think soft 1Q21E has been well anticipated by the market.
- Hotel recovery track well.** 4Q20 hotel rev declined 24% YoY (vs. our estimate of -27% YoY), mainly on above-industry momentum of mid-to-high-end hotels (room nights with double-digit growth). 1Q21E hotel would be still resilient, and continuously gain share. Mgmt stated that domestic hotels and air ticketing rev have achieved positive YoY growth in 4Q20. Transportation rev declined 51% YoY, and might see some pressure from CNY epidemic in 1Q21E (forecasting -71%, vs. 1Q19). Mgmt reiterated confidence on domestic full recovery in 2021E, backed by well-organized epidemic prevention and vaccine progress. With 20%-30% vaccination rate in UK & US and cases downtrend, we think any overseas recovery signs would directly boost its stock price, given already-low market expectation.
- 2021 priority on content & value chain enhancement and low-tier cities penetration.** In post-epidemic period, mgmt would focus on domestic share gain through strengthening supply chain (e.g. short-distance travel), content (e.g. live streaming) and technology. TCOM will continue to penetrate into lower-tier cities by cross-selling, offline synergies and enriched offerings, with ROI-driven marketing. We forecast its rev to decline 39% QoQ in 1Q21E, and then rebound 80% QoQ in 2Q21E. 1Q21E & FY21E might see some margin volatility, but >20% non-GAAP OPM is achievable in the long run.
- Maintain BUY.** To reflect CNY epidemic impact, we slightly trimmed its bottom line by 3%/5% in FY21/22E, but lifted our TP to US\$48 (27.6x FY22E P/E) with higher investment valuation. Further catalysts: 1) vaccine & overseas recovery; 2) 2Q21E rebound and 3) mid-/high-end hotels momentum.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	35,666	18,316	23,554	36,602	43,131
YoY growth (%)	15.2	(48.6)	28.6	55.4	17.8
Adj. net income (RMB mn)	6,527	(913)	1,917	7,098	8,968
Adj. EPS (RMB)	10.8	(1.5)	3.0	11.9	14.9
YoY growth (%)	16.6	NA	NA	290.9	25.1
Consensus EPS (RMB)	NA	NA	4.1	10.1	13.1
P/E (x)	23.8	NA	84.2	21.6	17.2
P/S (x)	4.3	8.3	6.4	4.1	3.5
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	8.6	(1.2)	0.4	5.2	6.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price US\$48
 (Previous TP US\$45)
Up/Downside +22.7%
Current Price US\$39.1

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	23,592
Avg 3 mths t/o (US\$ mn)	139.63
52w High/Low (US\$)	41.85/ 20.10
Total Issued Shares (mn)	593

Source: Bloomberg

Shareholding Structure

T Rowe Price	6.34%
Morgan Stanley	5.49%
BlackRock	3.53%

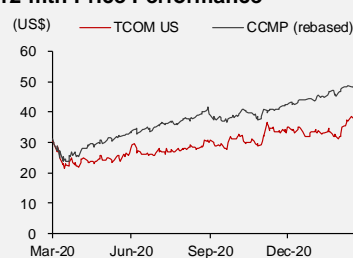
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	24.3%	26.6%
3-mth	20.0%	10.9%
6-mth	30.0%	17.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

Initiation: Recovery in sight – 18 Dec 2020

Figure 1: 4Q20 financial review

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	8,173	8,701	10,499	8,343	4,735	3,162	5,464	4,966	-9.1%	-40.5%	4,943	0%	5,048	-2%
Operating profit	885	1,333	2,242	580	(1,509)	(688)	790	(16)	NA	NA	327	-105%	(177)	-91%
Net profit	4,613	(403)	793	2,008	(5,353)	(476)	1,578	1,004	-36.4%	-50.0%	(429)	NA	(341)	-395%
Adj. net profit	1,750	1,329	2,262	1,186	(2,220)	(1,155)	1,399	1,063	-24.0%	-10.4%	188	466%	182	485%
Adj. EPS (RMB)	2.93	2.25	3.70	1.94	(3.73)	(1.93)	2.32	1.75	-24.6%	-9.8%	0.29	511%	0.27	551%
Margin (%)														
Gross margin	79.2%	79.2%	79.2%	79.2%	74.1%	72.3%	81.1%	81.6%			77.7%		77.1%	
Operating margin	10.8%	15.3%	21.4%	7.0%	-31.9%	-21.8%	14.5%	-0.3%			6.6%		-3.5%	
Adj. net margin	21.4%	15.3%	21.5%	14.2%	-46.9%	-36.5%	25.6%	21.4%			3.8%		3.6%	
Growth (%)														
Revenue (YoY)	20.8%	18.3%	11.7%	10.0%	-42.1%	-63.7%	-48.0%	-40.5%			-40.8%		-39.5%	
Revenue (QoQ)	7.8%	6.5%	20.7%	-20.5%	-43.2%	-33.2%	72.8%	-9.1%			-9.5%		-7.6%	
Operating profit	50.0%	84.1%	51.5%	NA	NA	NA	-64.8%	-103%			-43.7%		NA	
Adj. net profit	-17.6%	19.6%	30.6%	131.2%	NA	NA	-38.2%	-10.4%			-84.2%		-84.7%	

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: 4Q20 revenue breakdown

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY
Revenue (RMB mn)	8,173	8,701	10,499	8,343	4,735	3,162	5,464	4,966	-9.1%	-40.5%
Accommodation reservation	3,019	3,410	4,117	2,968	1,155	1,254	2,479	2,244	-9.5%	-24.4%
Transportation ticketing	3,354	3,407	3,721	3,470	2,393	1,150	1,904	1,699	-10.8%	-51.0%
Packaged tour	1,045	1,051	1,638	800	523	130	326	262	-19.6%	-67.3%
Corporate travel	238	309	335	373	126	162	282	307	8.9%	-17.7%
Others	517	524	688	732	538	466	473	454	-4.0%	-38.0%

Source: Company data

Figure 3: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	23,554	36,602	43,131	25,466	37,237	44,044	-7.5%	-1.7%	-2.1%
Gross Profit	18,275	29,253	34,841	19,949	29,464	34,925	-8.4%	-0.7%	-0.2%
Operating Profit	62	5,132	6,633	2,391	7,077	9,465	-97.4%	-27.5%	-29.9%
Adj. net profit	1,917	7,098	8,968	2,751	6,824	8,563	-30.3%	4.0%	4.7%
EPS (RMB)	3.04	11.87	14.85	4.13	10.14	13.07	-26.5%	17.1%	13.7%
Gross Margin	77.6%	79.9%	80.8%	78.3%	79.1%	79.3%	-0.8ppts	+0.8ppts	+1.5ppts
Operating Margin	0.3%	14.0%	15.4%	9.4%	19.0%	21.5%	-9.1ppts	-5.0ppts	-6.1ppts
Net Margin	8.1%	19.4%	20.8%	10.8%	18.3%	19.4%	-2.7ppts	+1.1ppts	+1.4ppts

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	23,554	36,602	43,131	24,037	38,070	NA	-2.0%	-3.9%	NA
Gross Profit	18,275	29,253	34,841	18,443	30,283	NA	-0.9%	-3.4%	NA
Operating Profit	62	5,132	6,633	(197)	5,195	NA	-131.5%	-1.2%	NA
Adj. net profit	1,917	7,098	8,968	1,984	7,434	NA	-3.4%	-4.5%	NA
EPS (RMB)	3.04	11.87	14.85	2.89	12.11	NA	5.2%	-1.9%	NA
Gross Margin	77.6%	79.9%	80.8%	76.7%	79.5%	NA	+0.9ppts	+0.4ppts	NA
Operating Margin	0.3%	14.0%	15.4%	-0.8%	13.6%	NA	+1.1ppts	+0.4ppts	NA
Net Margin	8.1%	19.4%	20.8%	8.3%	19.5%	NA	-0.1ppts	-0.1ppts	NA

Source: Company data, CMBIS estimates

Figure 5: SOTP valuation

Business (US\$ mn)	'22E Adj. net profit	Methodology	Multiple	Valuation	Stakes	Value
Core business	1087.0	P/E	23.0x	25,002.1	100%	25,002.1
Investment portfolio		Mkt cap				
Tongcheng-Elong Holdings				4,175.3	26.3%	1,099.8
MakeMyTrip				3,612.8	49.0%	1,770.3
China Eastern Airlines				12,430.2	3.0%	369.6
Tuniu				465.0	3.4%	15.8
Huazhu				18,199.0	7.4%	1,346.7
TripAdvisor				7,203.6	5.7%	410.6
Enterprise Value						30,014.8
(+) Net Cash						451.3
Equity Value						30,466.1
Diluted Shares Outstanding (mn)						630.9
Price Target (US\$)						48.3

Source: CMBIS estimates

Figure 6: Peer comparison

Company	Ticker	Mkt cap (USD mn)	Currency	Price	PE			PS			EV/EBITDA			EPS
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	CAGR
Tencent	700 HK	863,313	HKD	698	36.1	29.8	23.3	9.4	7.8	6.5	25.9	21.3	17.3	23%
Alibaba	BABA US	654,254	USD	242	20.2	16.3	13.8	4.6	3.9	3.2	15.0	12.0	10.0	20%
Meituan	3690 HK	275,087	HKD	362	288.7	88.4	55.7	10.2	7.4	6.0	197.6	66.5	35.9	115%
Average					115.0	44.8	31.0	8.1	6.4	5.2	79.5	33.3	21.1	52%
OTA														
Tongcheng	780 HK	4,877	HKD	17	21.0	14.9	11.8	3.6	2.9	2.6	12.5	9.4	7.1	52%
Trip.com	TCOM US	23,580	USD	40	84.2	21.6	17.2	6.4	4.1	3.5	59.4	23.3	15.6	NA
Tuniu	TOUR US	503	USD	4	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Booking	BKNG US	95,052	USD	2,321	57.8	25.1	19.1	10.1	6.7	5.6	34.5	17.5	14.0	74%
Expedia	EXPE US	23,197	USD	161	NA	29.2	18.1	3.1	2.2	1.9	31.1	14.6	10.9	NA
Webjet	WEB AU	1,477	AUD	6	NA	55.4	19.1	28.5	7.1	4.8	NA	23.0	11.5	NA
TripAdvisor	TRIP US	6,654	USD	49	340.3	38.0	26.4	7.5	5.1	4.3	45.9	18.8	14.6	259%
Average					125.8	30.7	18.6	9.9	4.7	3.8	36.7	17.8	12.3	128%
Travel agency														
UTour	002707 CH	913	CNY	6.5	89.3	50.2	NA	1.0	0.5	NA	58.1	18.7	NA	NA
Tempus Global	300178 CH	331	CNY	3.5	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Zhangjiajie Tourism	000430 CH	339	CNY	5.4	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Changbai Mountain	603099 CH	333	CNY	8.1	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Average					89.3	50.2	NA	1.0	0.5	NA	58.1	18.7	NA	NA
Total Average					51.4	28.1	18.6	9.0	5.0	4.5	58.4	24.0	16.2	154%

Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Gross Revenue	35,716	18,327	23,568	36,623	43,156
Accommodation	13,514	7,132	11,200	15,903	19,257
Transportation ticketing	13,952	7,146	7,022	13,324	15,152
Packaged tour	4,534	1,241	1,820	3,276	3,931
Corporate travel	1,255	877	1,293	1,551	1,861
Others	2,461	1,931	2,234	2,569	2,954
Net revenue	35,666	18,316	23,554	36,602	43,131
COGS	(7,372)	(4,031)	(5,280)	(7,349)	(8,290)
Gross profit	28,294	14,285	18,275	29,253	34,841
S&M	(9,151)	(4,246)	(7,066)	(9,663)	(11,387)
Admin.Exp.	(2,638)	(2,886)	(2,355)	(2,452)	(2,804)
R&D	(9,751)	(6,703)	(7,302)	(9,626)	(11,214)
SBC	(1,714)	(1,873)	(1,489)	(2,379)	(2,804)
Operating profit	5,040	(1,423)	62	5,132	6,633
Other income	4,047	198	354	644	947
Pre-tax Income	9,087	(1,225)	416	5,776	7,580
Equity in income of affiliates	(347)	(1,689)	71	74	77
Income Tax	(1,742)	(355)	(83)	(1,155)	(1,516)
Net profit	7,011	(3,247)	428	4,719	6,165
Adj. net profit	6,527	(913)	1,917	7,098	8,968

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	6,998	(3,269)	404	4,695	6,141
D&A	1,450	760	754	752	826
Change in WC	282	(4,543)	3,814	(143)	148
Others	(1,397)	3,562	1,418	2,305	2,727
Operating CF	7,333	(3,490)	6,389	7,609	9,842
Capex	(823)	(550)	(825)	(1,282)	(1,510)
Change in restricted ST investment	15,011	-	-	-	-
Others	(16,601)	(4,622)	(0)	(0)	0
Investing CF	(2,413)	(5,172)	(825)	(1,282)	(1,510)
Equity raised	467	-	-	-	-
Change of Debts	2,067	3,149	-	-	-
Cash from CB raised	(10,048)	-	-	-	-
Others	(1,742)	3,181	-	-	-
Financing CF	(9,256)	6,330	-	-	-
Net change in cash	(4,027)	(2,332)	5,564	6,327	8,331
Cash (beg of yr)	25,774	21,747	19,415	24,979	31,306
FX	309	-	-	-	-
Cash (end of yr)	21,747	19,415	24,979	31,306	39,638

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	132,214	129,238	129,380	129,984	130,746
Fixed asset	6,226	5,868	6,153	6,847	7,696
Long-term investments	51,278	47,943	48,014	48,088	48,165
Intangible assets	71,481	72,697	72,483	72,319	72,155
Others	3,229	2,730	2,730	2,730	2,730
Current assets	67,955	58,011	64,516	77,751	89,541
Cash	19,923	19,415	24,979	31,306	39,638
Restricted cash	1,824	-	-	-	-
Short-term investments	23,058	24,820	24,820	24,820	24,820
Account receivable	7,661	4,119	5,297	8,231	9,699
Others	15,489	9,657	9,420	13,394	15,384
Current liabilities	69,182	58,369	63,124	69,889	73,496
Trade payable	12,294	4,506	8,679	11,075	12,492
Salary and welfare payables	4,829	-	3,345	4,348	5,081
Accrued liabilities	478	-	(796)	(1,883)	(3,165)
Short-term borrowings	30,516	33,665	33,665	33,665	33,665
Others	21,065	20,198	18,230	22,684	25,423
Non-current liabilities	25,284	27,313	27,313	27,313	27,313
Long-term debt	19,537	22,718	22,718	22,718	22,718
Others	5,747	4,595	4,595	4,595	4,595
MI	2,261	1,213	1,189	1,165	1,140
Total Equity	105,703	101,567	103,460	110,534	119,478
Shareholders' equity	103,442	100,354	102,271	109,369	118,338

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Accommodation reservation	37.8	38.9	47.5	43.4	44.6
Transportation ticketing	39.1	39.0	29.8	36.4	35.1
Packaged tour	12.7	6.8	7.7	8.9	9.1
Corporate travel	3.5	4.8	5.5	4.2	4.3
Others	6.9	10.5	9.5	7.0	6.8
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	15.2	(48.6)	28.6	55.4	17.8
Gross profit	14.8	(49.5)	27.9	60.1	19.1
EBIT	93.5	NA	NA	8180.1	29.3
Adj. net profit	19.1	NA	NA	270.3	26.3
P&L ratios (%)					
Operating margin	14.1	(7.8)	0.3	14.0	15.4
Pre-tax margin	25.5	(6.7)	1.8	15.8	17.6
Adj. net margin	18.3	(5.0)	8.1	19.4	20.8
Effective tax rate	(4.9)	(1.9)	(0.4)	(3.2)	(3.5)
Returns (%)					
ROE	8.6	(1.2)	0.4	5.2	6.3
ROA	3.3	(0.5)	1.0	3.4	4.1
Per share					
EPS (RMB)	10.75	(1.52)	3.04	11.87	14.85
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	33.88	32.31	39.59	49.37	61.89

Source: Company data, CMBIS estimates

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