

Trip.com (TCOM US)

Lead industry recovery amid release of strong travel demand

Trip.com Group (TCOM) released (22 Feb) 4Q23 results: net revenue was RMB10.3bn, up 105% YoY, in line with Bloomberg consensus estimates, and was 24% higher than the 4Q19 level. Non-GAAP operating income (OP) was RMB2.6bn, 43% better than consensus, thanks to more efficient-than-expected S&M spend, as well as stronger-than-expected operating efficiency improvement. Aided by strong supply chain capabilities, well-established brand effect, and a loyal high-end customer base, TCOM leads outbound travel industry recovery amid the release of strong travel demand. Further recovery of TCOM's outbound travel business, as well as rapid development of pure international business could help TCOM unlock long-term earnings growth potential, in our view. To account for growth in travel demand, which has beaten our prior expectation, and its better OPM outlook backed by TCOM's strong brand awareness and efficient marketing spend, we lift our DCF-based TP by 7% to USD49.0. BUY.

■ **Recovery of outbound travel business during CNY holiday better than expected and likely to support upbeat 1Q results.** In 4Q23, outbound hotel and air reservations on TCOM's platform recovered to over 80% of the 4Q19 level, compared to the industry average recovery rate of 60%. TCOM highlighted that the number of outbound travel bookings for flights and hotels during the CNY holiday on its platform has surpassed the 2019 level (vs around 70% recovery rate for the industry), with popular Southeast Asia travel destinations (ie., Singapore, Thailand, and Malaysia) seeing combined order growth of over 30%. Backed by strong supply chain capabilities and brand recognition, management remains confident in its outbound travel business outgrowing the overall market in 2024. We forecast 1Q24 revenue of RMB11.6bn, up 26% YoY, and 8% higher than consensus.

■ **More efficient-than-expected sales and marketing spend drove a beat on OPM.** TCOM's non-GAAP OPM for 4Q23 was 25.6%, 7.4ppt better than our forecast, aided by efficient cost control. Management guided an increase in investment to support user acquisition of Trip.com in the global market to drive long-term revenue and earnings growth, while it will remain focused on overall marketing efficiency. We forecast non-GAAP OPM to decline to 27.2%/27.5% in 1Q24E/2024E (1Q23/2023: 28.5%/29.6%) owing to incremental investment to support business expansion of Trip.com, and to recover to 27.8% in 2025E, driven by the unleashing of operating leverage aided by solid revenue growth. We estimate revenue generation from international business (Trip.com & Skyscanner) to contribute 19% of total revenue in 2024E, and we see room for long-term margin of Trip.com business to exceed the domestic level, given potentially greater average order value and take rate.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	20,055	44,562	52,350	58,231	63,653
YoY growth (%)	0.1	122.2	17.5	11.2	9.3
Net profit (RMB mn)	1,403.0	9,918.0	10,144.0	11,634.0	13,244.4
Adjusted net profit (RMB mn)	1,294.0	13,071.0	12,133.2	13,672.1	15,408.6
Adj. NP (consensus; RMBmn)			11,866	14,051	16,743
EPS (Adjusted) (RMB)	1.97	19.48	17.32	18.95	21.36
P/E (x)	79.9	16.8	19.3	16.9	14.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$49.00
 (Previous TP) US\$45.80
Up/Downside 16.9%
Current Price US\$41.91

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Stock Data

Mkt Cap (US\$ mn) 27,538.8
 Avg 3 mths t/o (US\$ mn) 132.8
 52w High/Low (US\$) 41.91/31.21
 Total Issued Shares (mn) 657.1
 Source: FactSet

Shareholding Structure

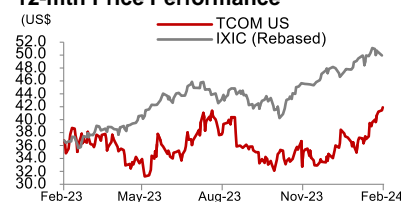
Baidu Entities 10.8%
 Morgan Stanley 5.8%
 Source: HKEx

Share Performance

	Absolute	Relative
1-mth	19.9%	18.2%
3-mth	20.0%	9.9%
6-mth	10.1%	-4.5%

Source: FactSet

12-month Price Performance



Source: FactSet

Figure 1: TCOM: quarterly financial results

(RMBbn)	1Q23	2Q23	3Q23	4Q23	CMBI estimates	Diff%	Consensus	Diff%
Total revenue	9.2	11.3	13.8	10.3	10.3	0.8%	10.2	1.3%
YoY growth (%)	123.9%	180.4%	99.4%	105.4%				
Accommodation reservation	3.5	4.3	5.6	3.9	3.9	0.2%	3.9	-0.4%
YoY growth (%)	140.0%	215.8%	92.5%	131.1%				
Transportation ticketing	4.2	4.8	5.4	4.1	4.1	-0.1%	4.1	-0.2%
YoY growth (%)	149.9%	173.1%	104.6%	86.3%				
Packaged tour	0.4	0.7	1.3	0.7	0.6	8.3%	0.7	6.5%
YoY growth (%)	211.3%	491.8%	243.2%	329.3%				
Corporate travel	0.4	0.6	0.6	0.6	0.7	-2.7%	0.6	11.4%
YoY growth (%)	100.5%	178.1%	59.7%	128.9%				
Others	0.7	0.9	0.9	1.0	0.9	4.8%	0.9	5.0%
YoY growth (%)	14.1%	52.0%	42.9%	42.2%				
Gross profit	7.6	9.2	11.3	8.3	8.1	2.2%	8.1	3.0%
Operating profit	2.2	3.0	3.9	2.2	1.4	61.3%	1.4	59.7%
Non-GAAP operating profit	2.6	3.5	4.4	2.6	1.9	42.0%	1.8	43.3%
Non-GAAP net profit	2.1	3.4	4.9	2.7	1.5	79.6%	1.6	69.6%
Margins								
GPM (%)	82.1%	82.0%	82.0%	80.4%	79.3%	1.1 ppt	79.1%	1.3 ppt
OPM (%)	24.3%	26.4%	28.4%	21.3%	13.3%	8.0 ppt	13.5%	7.8 ppt
Adjusted NPM (%)	22.4%	30.5%	35.6%	25.9%	14.5%	11.4 ppt	15.4%	10.4 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: TCOM: forecast revision

RMBbn	Current			Previous			Diff (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	52.3	58.2	63.7	51.2	56.5	-	2.3%	3.0%	-
Gross Profit	41.8	46.5	50.9	40.9	45.2	-	2.3%	3.0%	-
Operating Profit	12.4	14.1	15.8	10.7	12.5	-	15.5%	12.8%	-
Non-GAAP net profit	12.1	13.7	15.4	10.6	12.5	-	15.0%	9.8%	-
Gross margin	79.9%	79.9%	79.9%	79.9%	79.9%	-	0.0 ppt	0.0 ppt	-
Operating margin	23.7%	24.3%	24.9%	21.0%	22.2%	-	2.7 ppt	2.1 ppt	-
Non-GAAP net margin	23.2%	23.5%	24.2%	20.6%	22.0%	-	2.6 ppt	1.5 ppt	-

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB bn				Consensus					
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	52.3	58.2	63.7	51.7	59.4	68.0	1.2%	-1.9%	-6.4%
Gross profit	41.8	46.5	50.9	41.4	47.6	54.4	1.2%	-2.2%	-6.4%
Non-GAAP net profit	12.1	13.7	15.4	11.9	14.1	16.7	2.3%	-2.7%	-8.0%
Gross margin	79.9%	79.9%	79.9%	79.9%	80.2%	80.0%	0.0 ppt	-0.2 ppt	-0.1 ppt
Non-GAAP net margin	23.2%	23.5%	24.2%	22.9%	23.7%	24.6%	0.2 ppt	-0.2 ppt	-0.4 ppt

Source: Bloomberg, CMBIGM estimates

DCF based target price of US\$49.0

We introduce 2026E financial forecast, and roll over our valuation to 2024E. Our DCF-based target price is lifted to US\$49.0 (WACC of 10.5% and terminal growth of 2.0%; both unchanged). Our target price translates into 20.4x 2024E PE (non-GAAP). Our previous target price of US\$45.8 translates into 21.9x 2024E PE.

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

(RMBbn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Total revenue	52.3	58.2	63.7	68.5	72.6	76.3	79.4	82.0	84.2
NPV of FCF	111.8								
Discounted terminal value	94.4								
Total equity valuation	247.0								
No. of shares (diluted, mn)	700								
Valuation per share (USD)	49.0								

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

Source: CMBIGM estimates

Risks

1) Slower-than-expected recovery in outbound travel; 2) slower-than-expected margin expansion.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	20,029	20,055	44,562	52,350	58,231	63,653
Cost of goods sold	(4,598)	(4,513)	(8,121)	(10,459)	(11,635)	(12,720)
Others	(6)	(16)	(52)	(56)	(56)	(55)
Gross profit	15,425	15,526	36,389	41,835	46,539	50,878
Operating expenses	(16,836)	(15,438)	(25,065)	(29,441)	(32,403)	(35,043)
SG&A expense	(7,844)	(7,097)	(12,945)	(15,740)	(17,452)	(18,889)
R&D expense	(8,992)	(8,341)	(12,120)	(13,701)	(14,951)	(16,154)
Operating profit	(1,411)	88	11,324	12,394	14,136	15,836
Interest income	2,132	2,046	2,090	2,099	2,027	2,299
Interest expense	(1,565)	(1,514)	(2,067)	(2,100)	(1,952)	(1,952)
Other income/expense	373	2,015	(667)	392	436	477
Pre-tax profit	(471)	2,635	10,680	12,785	14,648	16,660
Income tax	(270)	(682)	(1,750)	(2,557)	(2,930)	(3,332)
Others	96	(586)	1,072	0	0	0
Minority interest	95	36	(84)	(84)	(84)	(84)
Net profit	(550)	1,403	9,918	10,144	11,634	13,244
Adjusted net profit	1,356	1,294	13,071	12,133	13,672	15,409

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	66,108	61,435	88,732	107,581	127,449	150,734
Cash & equivalents	19,818	17,000	40,864	58,423	75,054	95,111
Restricted cash	1,378	1,487	3,119	3,664	4,076	4,456
Account receivables	4,649	5,486	11,410	10,470	11,646	12,731
Prepayment	9,032	10,169	15,591	17,275	18,925	20,687
Other current assets	31,231	27,293	17,748	17,748	17,748	17,749
Non-current assets	125,751	130,256	130,405	140,182	141,353	140,961
PP&E	5,534	5,204	5,142	6,483	7,044	7,644
Investment in JVs & assos	44,961	50,177	49,342	57,585	58,231	57,288
Intangibles	12,960	12,742	12,644	11,265	11,019	10,773
Goodwill	59,353	59,337	59,372	59,372	59,372	59,372
Other non-current assets	2,943	2,796	3,905	5,477	5,687	5,884
Total assets	191,859	191,691	219,137	247,762	268,802	291,695
Current liabilities	66,218	61,239	72,411	90,804	97,249	103,900
Short-term borrowings	39,866	32,674	25,857	25,857	25,857	25,857
Account payables	6,019	7,569	16,459	14,747	15,940	17,426
Tax payable	1,065	835	0	3,835	4,394	4,998
Other current liabilities	18,868	19,765	30,095	45,632	50,360	54,983
Accrued expenses	400	396	0	732	698	636
Non-current liabilities	15,185	17,433	23,720	21,740	22,497	23,165
Long-term borrowings	11,093	13,177	19,099	13,177	13,177	13,177
Obligations under finance leases	400	534	477	477	477	477
Other non-current liabilities	3,692	3,722	4,144	8,086	8,843	9,511
Total liabilities	81,403	78,672	96,131	112,544	119,746	127,065
Share capital	6	6	6	6	6	6
Capital surplus	93,829	95,196	97,230	99,419	101,657	104,022
Retained earnings	18,823	20,135	30,018	40,127	51,726	64,936
Other reserves	(2,981)	(3,054)	(5,070)	(5,070)	(5,070)	(5,070)
Total shareholders equity	109,677	112,283	122,184	134,482	148,320	163,893
Minority interest	779	736	822	736	736	736
Total equity and liabilities	191,859	191,691	219,137	247,762	268,802	291,695

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(375)	2,049	11,752	12,785	14,648	16,660
Depreciation & amortization	1,021	875	959	1,039	1,127	1,222
Change in working capital	177	(800)	6,643	17,648	3,619	3,805
Others	1,652	517	586	(66)	(389)	(666)
Net cash from operations	2,475	2,641	19,940	31,407	19,005	21,022
Investing						
Capital expenditure	(570)	(497)	(1,104)	(1,297)	(1,443)	(1,577)
Acquisition of subsidiaries/ investments	(3,585)	1,039	0	0	0	0
Others	7	594	2	3	3	3
Net cash from investing	(4,148)	1,136	(1,102)	(1,295)	(1,440)	(1,574)
Financing						
Net borrowings	5,615	4,938	(6,817)	0	0	0
Proceeds from share issues	7,984	0	0	0	0	0
Others	(9,680)	(11,655)	13,475	(12,008)	(522)	989
Net cash from financing	3,919	(6,717)	6,658	(12,008)	(522)	989
Net change in cash						
Cash at the beginning of the year	19,415	21,196	18,487	43,983	62,087	79,130
Exchange difference	(465)	231	0	0	0	0
Others	2,246	(2,940)	25,496	18,104	17,043	20,436
Cash at the end of the year	21,196	18,487	43,983	62,087	79,130	99,567
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	9.3%	0.1%	122.2%	17.5%	11.2%	9.3%
Gross profit	8.0%	0.7%	134.4%	15.0%	11.2%	9.3%
Operating profit	na	na	12,768.2%	9.4%	14.1%	12.0%
Net profit	na	na	606.9%	2.3%	14.7%	13.8%
Adj. net profit	na	(4.6%)	910.1%	(7.2%)	12.7%	12.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	77.0%	77.4%	81.7%	79.9%	79.9%	79.9%
Operating margin	(7.0%)	0.4%	25.4%	23.7%	24.3%	24.9%
Adj. net profit margin	6.8%	6.5%	29.3%	23.2%	23.5%	24.2%
Return on equity (ROE)	(0.5%)	1.3%	8.5%	7.9%	8.2%	8.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.0	1.0	1.2	1.2	1.3	1.5
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	na	79.9	16.8	19.3	16.9	14.8
P/B	1.2	1.0	1.4	1.5	1.3	1.2
P/CFPS	73.4	53.0	8.9	6.6	11.3	10.2

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

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