

Ctrip.com International (CTRP US)

Buy: Expect limited impact from China Consumer Association investigation

- China Consumer Association probe should have minimal impact
- Higher-than-expected organic demand for VASs
- Maintain Buy and DCF-based TP of USD58

We believe reaction to China Consumer Association probe is overdone. Ctrip shares fell 4% last night after the company received a letter from China Consumer Association, alleging that Ctrip is inappropriately cross-selling insurance products and hotel coupons together with air tickets. We believe that the market has overreacted to the news and see two reasons why the China Consumer Association's allegation falls short: (1) Users can freely cancel the cross-sold products by simply unticking the options. (2) Consumers are informed of the exact products that they are purchasing during checkout. They can go back to edit the selection if they don't want to include certain products. In our view, the likely outcome of the investigation is that Ctrip and other online travel service providers (including airlines' official sales channels) will make the cancellation options even more obvious but the value-added services (VASs) will still be ticked by default as it doesn't violate consumer protection rights.

Diversified value-added services and higher-than-expected organic demand.

Ctrip offers a diversified VAS portfolio, including but not limited to insurance products, hotel coupons, airport pickup/drop-off services, low-price parking, and VIP lounge tickets. The organic demand for these VASs has been higher than the market had expected. The top 3 VAS products are insurance, hotel coupons and airport pickup/drop-off, which should contribute over half of VAS income. With increasing weather fluctuations and flight delays, consumers tend to purchase flight delay or cancellation insurance to protect against these events. Also, if someone is travelling, it's very likely that he or she might need accommodation, and hotel coupons can be partially redeemed for hotel reservations. Airport pickup/drop-off is gaining in popularity as a result of fare reductions and inconvenient public transportation. According to the company, the proportion of new customers who select VASs is not significantly higher than the proportion of repeat customers who are aware of the cancellation options. The company is also working hard to offer more and more useful VASs.

Maintain Buy rating and DCF-based TP of USD58. We continue to expect Ctrip to be the go-to travel services provider for Chinese travellers, given its unmatched breadth of products and services, and strong execution. Our DCF-based TP of USD58 implies 55x/33x 2017e/2018e PE, on the back of 49% adjusted 2017-20e EPS CAGR. See page 3 for risks.

EQUITIES INTERNET

China



MAINTAIN BUY

TARGET PRICE (USD)

58.00

PREVIOUS TARGET (USD)

58.00

SHARE PRICE (USD)

47.15

(as of 19 Apr 2017)

UPSIDE/DOWNSIDE

+23.0%

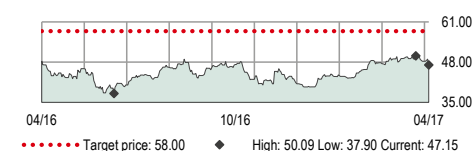
MARKET DATA

Market cap (USDm)	23,463	Free float	96%
Market cap (USDm)	23,463	BBG	CTRP US
3m ADTV (USDm)	318	RIC	CTRP.O

FINANCIALS AND RATIOS (CNY)

Year to	12/2016a	12/2017e	12/2018e	12/2019e
HSBC EPS	4.50	7.24	12.03	17.75
HSBC EPS (prev)	-	-	-	-
Change (%)	-	-	-	-
Consensus EPS	-4.28	2.45	6.71	11.36
PE (x)	72.2	44.8	27.0	18.3
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	-	49.7	23.1	13.2
ROE (%)	3.1	5.5	9.9	13.3

52-WEEK PRICE (USD)



Source: Thomson Reuters IBES, HSBC estimates

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Financials & valuation: Ctrip.com International

Buy

Financial statements

Year to	12/2016a	12/2017e	12/2018e	12/2019e
Profit & loss summary (CNYm)				
Revenue	19,228	28,095	36,454	45,526
EBITDA	-1,000	2,859	5,891	9,221
Depreciation & amortisation	-568	-550	-614	-703
Operating profit/EBIT	-1,568	2,310	5,277	8,518
Net interest	-165	-340	639	758
PBT	-1,158	1,801	5,825	9,186
HSBC PBT	2,401	4,904	8,963	13,321
Taxation	-478	-468	-726	-1,231
Net profit	-1,431	1,164	4,825	7,612
HSBC net profit	2,129	4,267	7,962	11,748

Cash flow summary (CNYm)

Cash flow from operations	-8,904	8,310	12,156	16,332
Capex	-769	-1,124	-1,458	-1,821
Cash flow from investment	-684	-1,124	-1,458	-1,821
Dividends	0	0	0	0
Change in net debt	5,919	-6,078	-6,009	-14,511
FCF equity	-1,367,656	4,251	7,651	10,466

Balance sheet summary (CNYm)

Intangible fixed assets	69,940	69,940	69,940	69,940
Tangible fixed assets	8,030	8,604	9,448	10,566
Current assets	45,911	56,806	67,571	87,171
Cash & others	34,292	40,370	46,379	60,890
Total assets	144,414	155,882	167,492	188,209
Operating liabilities	27,016	35,156	43,219	51,845
Gross debt	41,538	41,538	41,538	41,538
Net debt	7,246	1,168	-4,841	-19,352
Shareholders' funds	75,521	78,849	82,396	94,487
Invested capital	96,865	100,193	103,740	115,831

Ratio, growth and per share analysis

Year to	12/2016a	12/2017e	12/2018e	12/2019e
Y-o-y % change				
Revenue	76.4	46.1	29.8	24.9
EBITDA	-243.4		106.0	56.5
Operating profit	-511.6		128.5	61.4
PBT	-140.4		223.4	57.7
HSBC EPS	-45.9	61.0	66.1	47.5

Ratios (%)

Revenue/IC (x)	0.3	0.3	0.4	0.4
ROIC	-3.0	1.7	4.5	6.7
ROE	3.1	5.5	9.9	13.3
ROA	-1.2	0.9	3.2	4.5
EBITDA margin	-5.2	10.2	16.2	20.3
Operating profit margin	-8.2	8.2	14.5	18.7
EBITDA/net interest (x)		8.4		
Net debt/equity	9.6	1.5	-5.9	-20.5
Net debt/EBITDA (x)	-7.2	0.4	-0.8	-2.1
CF from operations/net debt		711.5		

Per share data (CNY)

EPS Rep (diluted)	-3.02	1.98	7.29	11.50
HSBC EPS (diluted)	4.50	7.24	12.03	17.75
DPS	0.00	0.00	0.00	0.00
Book value	159.55	154.08	155.53	167.54

Valuation data

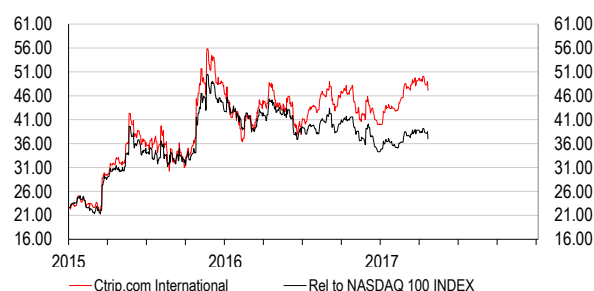
Year to	12/2016a	12/2017e	12/2018e	12/2019e
EV/sales	7.7	5.1	3.7	2.7
EV/EBITDA		49.7	23.1	13.2
EV/IC	1.5	1.4	1.3	1.1
PE*	72.2	44.8	27.0	18.3
PB	2.0	2.1	2.1	1.9
FCF yield (%)	-969.6	3.0	5.4	7.4
Dividend yield (%)	0.0	0.0	0.0	0.0

* Based on HSBC EPS (diluted)

Issuer information

Share price (USD)	47.15	Free float	96%
Target price (USD)	58.00	Sector	Internet
Reuters (Equity)	CTRP.O	Country	China
Bloomberg (Equity)	CTRP US	Analyst	Chi Tsang, CFA
Market cap (USDm)	23,463	Contact	+852 2822 2590

Price relative



Source: HSBC

Note: Priced at close of 19 Apr 2017

Valuation and risks

We value Ctrip using a DCF methodology. Our DCF assumes a WACC of 10% (unchanged), based on Ctrip's latest 2-year adjusted beta of 1.4 (unchanged) vs. the S&P 500, our current house view of a 2.5% risk-free rate (unchanged), and a 6% equity risk premium for China (unchanged). To be conservative, we apply a minority discount of 20% to the net present value. Our TP of USD58 is based on ADR shares of 677m on a fully diluted basis. With upside of 23%, we reiterate our Buy rating on the stock.

Key downside risks include: (1) Slower-than-expected margin recovery; (2) worse-than-expected synergies with Qunar; (3) RMB depreciation; and (4) poor execution of internationalization.

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From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

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For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

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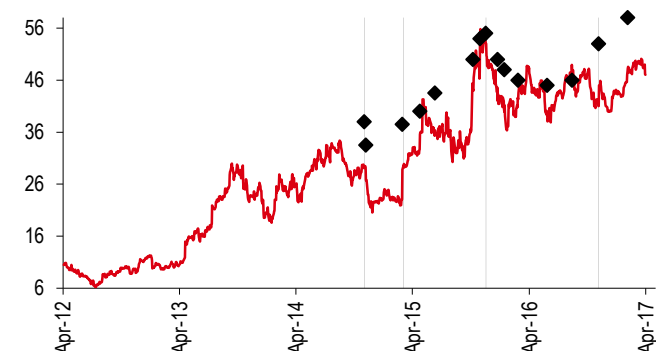
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Hold	40%	(25% of these provided with Investment Banking Services)
Sell	15%	(17% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see "Stock ratings and basis for financial analysis" above.

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Share price and rating changes for long-term investment opportunities

CTrip.com International (CTRP.O) share price performance USD Vs HSBC rating history



Source: HSBC

Rating & target price history

From	To	Date	Analyst
N/A	Overweight (V)	21 Nov 2014	Chi Tsang
Overweight (V)	Buy	24 Mar 2015	Chi Tsang
Buy	Hold	07 Dec 2015	Alice Cai
Hold	Buy	24 Nov 2016	Chi Tsang
Target price	Value	Date	Analyst
Price 1	38.00	21 Nov 2014	Chi Tsang
Price 2	33.50	26 Nov 2014	Chi Tsang
Price 3	37.50	20 Mar 2015	Chi Tsang
Price 4	40.00	14 May 2015	Chi Tsang
Price 5	43.50	30 Jun 2015	Alice Cai
Price 6	50.00	28 Oct 2015	Alice Cai
Price 7	54.00	19 Nov 2015	Alice Cai
Price 8	55.00	07 Dec 2015	Alice Cai
Price 9	50.00	13 Jan 2016	Alice Cai
Price 10	48.00	03 Feb 2016	Alice Cai
Price 11	46.00	17 Mar 2016	Alice Cai
Price 12	45.00	16 Jun 2016	Alice Cai
Price 13	46.00	02 Sep 2016	Chi Tsang
Price 14	53.00	24 Nov 2016	Chi Tsang
Price 15	58.00	23 Feb 2017	Chi Tsang

Source: HSBC

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Company	Ticker	Recent price	Price date	Disclosure
CTRP.COM INTERNATIONAL	CTRP.O	47.02	20 Apr 2017	7

Source: HSBC

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