



## Company Report: Ctrip.com International (CTRP US)

公司报告: 携程旅行网 (CTRP US)

Noah Hudson  
(86755) 2397 6684  
noah.hudson@gjtj.com

11 April 2018

# Operating Margin to Increase in 2018, Maintain "Buy"

2018 年营运利润率将提升, 维持“买入”

- **Ctrip's 4Q17 adjusted operating income beat Bloomberg consensus forecast by 6.7%.** Revenue for the quarter increased 25.9% YoY to RMB6.4 billion. Gross margin was stable at 83.4%, the second highest level in over 11 years. Excluding share based compensation expenses of RMB400 million, adjusted non-GAAP operating income increased 14.0% YoY to RMB907.9 mn on margin of 14.2%. Adjusted non-GAAP diluted earnings per ADS was RMB1.56, which was 49.4% / 40.8% above Bloomberg consensus / our last forecast due to higher-than-expected interest and other income.
- **Ctrip's management expects that non-GAAP operating margin can reach over 20% to 30% in the next one or two years.** For 1Q18, Ctrip's management guides for revenue YoY growth from 9% to 11% and non-GAAP operating profit in the range of RMB800-900 million, implying a non-GAAP operating margin of about 12% to 13%. We forecast 2018-2020 non-GAAP operating income of RMB3.7 bn, RMB6.0 bn and RMB10.5 bn, respectively, reflecting margin of 12.0%, 15.5% and 21.5%, respectively. We forecast 2018-2020 fully diluted earnings per ADS ("EPADS") of RMB2.61, RMB5.44 and RMB10.08, respectively.
- **We maintain our target price at US\$52.00 and maintain our "Buy" investment rating on low current valuation.** Ctrip is trading at 34.7x forward adjusted PE, which is at discounts of 26.0% and 17.2% relative to Ctrip's own average historical forward adjusted PE for the past five years and the past one year, respectively. Our target price is equivalent to 17.9% discount to our DCF derived NAV of US\$63.36.
- **携程 2017 年 4 季度经调整的经营利润高于彭博一致预期 6.7%。**期内收入同比增长 25.9% 至人民币 64 亿元。毛利率稳定在 83.4%，为过去 11 年以来的第二高。去除人民币 4.00 亿元的股权激励费用，经调整非 GAAP 的经营利润同比增长 14.0% 至人民币 9.08 亿元，利润率为 14.2%。全面摊薄非 GAAP 每股 ADS 净利为人民币 1.56 元，高于彭博一致预期 49.4%，高于我们预期 40.8%，主要由于高于预期的利息及其他收入。
- **携程管理层预期非 GAAP 经营利润率能够在未来 1-2 年内达到 20%-30%。**2018 年 1 季度，携程管理层给出的收入指引同比增速为 9-11%，非 GAAP 经营利润指引为人民币 8-9 亿元，对应利润率为 12-13%。我们预计 2018 至 2020 年经调整非 GAAP 营业利润为人民币 37 亿、60 亿和 105 亿元，对应利润率为 12.0%、15.5% 和 21.5%。我们分别预期 2018 至 2020 年全面摊薄每股 ADS 净利为人民币 2.61 元、5.44 元和 10.08 元。
- **我们维持 52.00 美元的目标价，并且在目前较低估值水平下维持“买入”投资评级。**携程目前交易在 34.7 倍动态市盈率，相对于其过去 5 年和 1 年的历史平均交易估值水平分别有 26.0% 和 17.2% 的折让。我们的目标价对我们运用折现现金流方法得出的每股估值 63.36 美元有 17.9% 的折让。

Rating:

**Buy**

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

**US\$52.00**

Revised from 原目标价:

US\$52.00

ADR price ADR 价格:

US\$46.020

### Stock performance

股价表现



Change in ADS Price	1 M	3 M	1 Y
ADS 价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(4.8)	(3.5)	(5.9)
Rel. % to NASDAQ index 相对纳指变动 %	1.3	(1.9)	(26.8)
Avg. ADS price(USD) 平均 ADS 价 (美元)	47.2	46.8	50.4

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	Earnings/ADR	Earnings/ADR	PER	BV/ADR	PBR	DP ADR	Yield	ROE
年结	收入	股东净利	每份 ADR 净利	每份 ADR 净利变	市盈率	每份 ADR 净资产	市净率	每份 ADR 股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2016A	19,228	(1,431)	(3.023)	n.a.	n.a.	151.134	2.1	0	0	(2.4)
2017A	26,780	2,142	4.006	n.a.	72.8	159.677	1.8	0	0	2.7
2018F	31,217	1,594	2.848	(28.9)	102.4	159.450	1.8	0	0	1.8
2019F	38,918	3,487	5.910	107.5	49.3	161.192	1.8	0	0	3.8
2020F	48,800	6,774	10.900	84.4	26.7	168.004	1.7	0	0	6.8
ADR in issue (m)	总 ADR 数 (m)		523.7	Major shareholder 大股东				Baidu (BIDU US)		24.6%
Market cap. (US\$ m)	市值 (US\$ m)		24,098.4	Free float (%) 自由流通比率 (%)						71.0
3 month average vol.	3 个月平均成交股数 ('000)		5,140.7	FY18 Net gearing (%) FY18 净负债/股东资金 (%)						29.2
52 Weeks high/low (US\$)	52 周高/低 (US\$)		60.650 / 42.650	FY18 Est. NAV (US\$) FY18 每 ADR 估值 (美元)						63.4

Source: the Company, Guotai Junan International.

## 4Q17 RESULTS

**Ctrip ("the Company")'s 4Q17 revenue matched our last forecast and was 0.9% above Bloomberg consensus forecast.**

Net revenue for the quarter increased by 25.9% YoY to RMB6.4 bn, driven by healthy organic growth as well as contribution from Skyscanner and Trip.com. Starting from 1Q17, Ctrip began consolidating the results of Skyscanner Holdings ("Skyscanner"), a United Kingdom based leading global travel search site which Ctrip acquired in Dec. 2016. Trip.com is an Asia Pacific-focused one-stop international travel platform newly launched by Ctrip.

**Gross margin was stable at 83.4%, the second highest level for Ctrip in over 11 years.** Ctrip's gross margin for the quarter increased by 5.6 ppt YoY and decreased by 0.1 ppt QoQ to 83.4%, the second highest level for Ctrip since 4Q05, only lower than in 3Q17. The acquisition of Qunar led to sector consolidation and lowered competitive pressure, allowing Ctrip and other competitors to scale back or remove coupon rebate campaigns. The development and implementation of automation technology, including artificial intelligence and chatbots, allowed Ctrip to reduce call center staff numbers while maintaining customer satisfaction. The consolidation of Skyscanner, which has a high gross margin meta-search business model, had also increased Ctrip's overall gross margin level. In addition, many of Ctrip's smaller business units with higher gross margin, such as bus and train ticketing, have been growing fast and now contribute more to total revenue and have increased Ctrip's overall gross margin.

**Adjusted operating income beat Bloomberg consensus forecast by 6.7%.** With operating income margin of 8.0%, Ctrip's operating income for the quarter increased 144.8% YoY to RMB508 million. Excluding share-based compensation expenses of RMB400 million, adjusted non-GAAP operating income increased 14.0% YoY to RMB908 mn on margin of 14.2%.

**Adjusted net income decreased 26.8% YoY to RMB904 mn due to lower operating profit margin, higher effective tax rate and much lower income from affiliates.** Adjusted (excludes share-based compensation expense) diluted earnings per ADS was RMB1.56, which was 49.4% / 40.8% above Bloomberg consensus / our last forecast in part due to higher-than-expected interest and other income. Reported GAAP income was RMB504 mn, compared to RMB645 mn in the same quarter last year. 4Q17 GAAP diluted earnings per ADS was RMB0.88, beating Bloomberg consensus forecast by 386.2% due to non-operating items, including a RMB337 million other income and positive net increase expenses.

**Table-1: Ctrip Results**

RMB million	4Q16A	1Q17A	2Q17A	3Q17A	4Q17A	(% or ppt.)	
						YoY	QoQ
Net Revenue	5,067	6,085	6,416	7,900	6,379	25.9%	(19.2%)
Gross Profit	3,941	4,896	5,292	6,596	5,318	34.9%	(19.4%)
<i>Gross Profit Margin</i>	77.8%	80.5%	82.5%	83.5%	83.4%	5.6 ppt	(0.1) ppt
Operating Income	207	414	645	1,359	508	144.8%	(62.6%)
<i>Operating Margin</i>	4.1%	6.8%	10.1%	17.2%	8.0%	3.9 ppt	(9.2) ppt
Share Based Compensation Expense	(589)	(522)	(528)	(384)	(400)	32.1%	(4.2%)
Non-GAAP Operating Income	797	936	1,173	1,743	908	14.0%	(47.9%)
<i>Non-GAAP Operating Income Margin</i>	15.7%	15.4%	18.3%	22.1%	14.2%	(1.5) ppt	(7.8) ppt
Interest Expense (net)	(93)	(130)	(134)	(47)	13	n.a.	n.a.
Other	(287)	(88)	397	233	337	n.a.	44.3%
Income Tax Expense	(110)	(148)	(529)	(313)	(289)	162.6%	(7.6%)
<i>Effective Tax Rate</i>	(63.9%)	75.8%	60.0%	19.9%	38.1%	22.4 ppt	18.3 ppt
Income from Affiliates	873	27	(27)	32	(98)	n.a.	n.a.
Non-controlling Interest	55	8	(26)	(35)	34	(38.0%)	n.a.
Net Income	645	82	327	1,229	504	(22.0%)	(59.0%)
<i>Net Income Margin</i>	12.7%	1.4%	5.1%	15.6%	7.9%	(4.8) ppt	(7.7) ppt
Share Based Compensation Expense	(589)	(522)	(528)	(384)	(400)	32.1%	(4.2%)
Adj. Non-GAAP Net Income	1,235	604	855	1,613	904	(26.8%)	(44.0%)
<i>Non-GAAP Net Income Margin</i>	24.4%	9.9%	13.3%	20.4%	14.2%	(10.2) ppt	(6.3) ppt
Fully Diluted Earnings per ADS (RMB)	1.18	0.15	0.59	2.10	0.88	(25.4%)	(58.1%)
Non-GAAP Fully Diluted Earnings per ADS (RMB)	2.24	1.09	1.49	2.70	1.56	(30.4%)	(42.2%)

Source: the Company, Guotai Junan International.

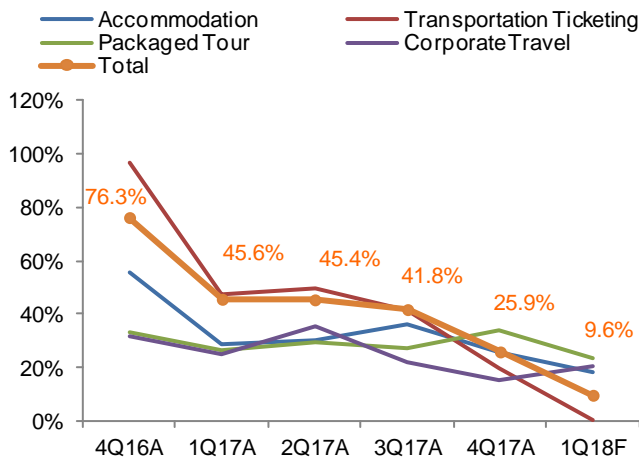
**Accommodation reservation revenue increased by 25.4% YoY, primarily driven by organic growth of reservation volume.** At the end of 3Q17, Ctrip's domestic hotel coverage reached 590,000 hotels, an increase of almost 16% YoY. Ctrip continues to expand into lower-tier cities. The large hotel inventory and high quality of services are still the core competencies of Ctrip's hotel business. In addition, Ctrip further strengthened its presence in alternative accommodation sectors by leading the Series E round for Tujia, China's largest provider for alternative accommodation with transaction volumes growing over 300% YoY in the domestic market in 2017. After months of hard work, Ctrip will be launching the Hyatt Hotel flagship store on Ctrip's website and mobile application. This is the very first online flagship store for both companies and Ctrip will continue to find innovative ways to better serve global hotel chains to capture the growing numbers of urban Chinese customers.

**Transportation revenue increased by 19.6% YoY, benefiting from higher ticketing volume, new business units and also the consolidation of Skyscanner's results.** International flights have been gaining strong momentum with non-China related flight ticket volume in 4Q17 growing rapidly and already accounting for one-third of total international tickets. Ctrip has built the most comprehensive product offering platform in China and also the world, including extensive hotel coverage, train and bus ticketing services. Skyscanner's direct booking revenue in 4Q17 almost doubled compared to the same period a year ago. Particularly, Trip.com benefited from Skyscanner's direct booking initiatives and achieved triple-digit growth in the air ticketing volume in the fifth consecutive quarter. What's more, Skyscanner direct booking engine increased Ctrip's own conversion on Skyscanner by over 50%. In the most recent quarter, Ctrip also launched Trip.com, an APAC-focused one-stop international travel platform. Although it is still on a small scale, Trip.com is growing rapidly in the targeted Asian markets.

**Packaged tour revenue increased steadily by 33.6% YoY due to healthy volume growth of organized tours and self-guided tours.** Ctrip opened over 1,000 Ctrip and Qunar branded franchise stores in 2017 in order to reach potential customers who are not yet comfortable with online transactions, especially with the large ticket size transactions. Total GMV of these stores, including the 5,000 Traveling Bestone branded stores, grew over 30% in 2017. Additionally, the offline stores serve as marketing tools in the covered cities in China. After being launched in 2016, In less than two years, customized tours business increased its conversion by more than 3 times and revenue more than doubled by setting up detailed service standards and effectively managing quality of service.

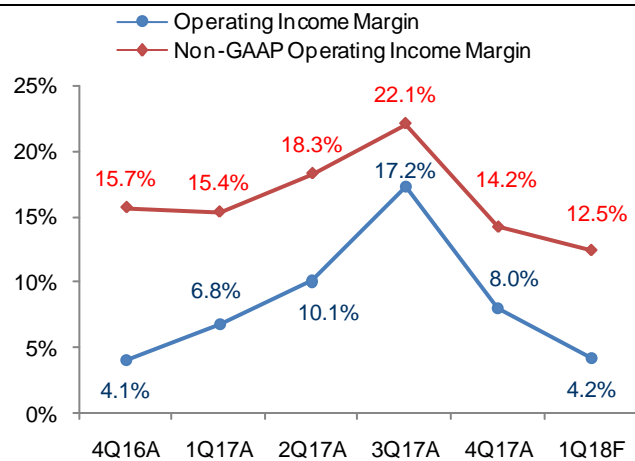
**Ctrip's corporate travel revenue increased 15.3% YoY, mainly due to expansion in travel product coverage.** Corporate travel revenue increased by 1.8% QoQ.

**Figure-1: Ctrip Revenue Growth Breakdown**



Source: the Company, Guotai Junan International.

**Figure-2: Ctrip Operating Income Margin**



Source: the Company, Guotai Junan International.

## RECENT DEVELOPMENTS & OUTLOOK

**Ctrip aims to grow revenue from its international business from 20% of total revenue to 40% to 50% of total revenue in the next 5 years.** In 2017, international revenue, including China outbound travel, accounted for over 20% of Ctrip's total revenue. Ctrip continues to develop its two key overseas platforms, Trip.com and Skyscanner, to further expand into the international market. Skyscanner has accumulated nearly 70 million monthly active users and the platform has begun to generate significant synergies with its direct bookings revenue in 4Q17 having almost doubled YoY. In 4Q17, Ctrip launched Trip.com, an Asia Pacific-focused one-stop international travel platform. Although it is still small in scale, Trip.com is growing rapidly in the targeted Asian markets achieved triple-digit growth in air ticketing volume for the fifth consecutive quarter in 4Q17.

**Ctrip continues to expand its one-stop shopping product and service offerings by adding new features and product lines, as well as collaborating with other platforms.** Ctrip now provides a rental car booking service in more than 6,000 cities across the globe, having access to more than 130,000 rental outlets and inventory of over 7 million cars. The users of Ctrip now can access rail networks in the UK and Korea. Ctrip also announced a strategic partnership with OpenTable, allowing users to discover and make reservations from a selection of tens of thousands of restaurants across North America. Furthermore, Ctrip will be launching Hyatt Hotel flagship store on Ctrip's website and mobile application.

**Ctrip's management aims to achieve total gross merchandise volume ("GMV") CAGR of 30% through to 2020.** Ctrip's 2017 GMV reached RMB 560 billion, reflecting very strong growth of around 30%. Ctrip's management expects that the Company can maintain 30% growth rate in the coming years to achieve RMB 1.2-1.4 trillion GMV in 2020.

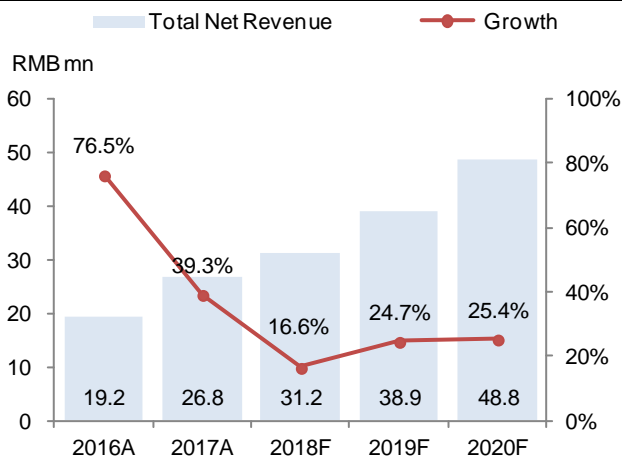
**Ctrip's management guides 1Q18 revenue YoY growth to range from 9% to 11%.** Accommodation and reservation revenue is expected to increase from 18% to 20% YoY in 1Q18. Due to the negative impact of change of the air ticketing booking process, Ctrip forecasts transportation ticketing revenue growth to be flat YoY. For the packaged tour business and corporate travel business, estimated YoY growth rate ranges are 10% to 15% and 20% to 25%, respectively.

**Ctrip CFO expects that non-GAAP operating margin can reach over 20% to 30% in the next one or two years.** Ctrip's non-GAAP operating profit and margin is arrived at after excluding share based compensation expenses. From 2005 through 2011, Ctrip's non-GAAP operating margin stayed within a range of between 39.7% and 45.0%, before declining for three years straight, finding a bottom at 4.7% in 2014. Ctrip's non-GAAP operating margin has increased over the last three years, reaching 9.4%, 10.4% and 17.8% in 2015, 2016 and 2017, respectively. For 1Q18, Ctrip's management guides for non-GAAP operating profit to be in the range of RMB 800-900 million implying a non-GAAP operating margin of about 12% to 13%.

## FORECASTS

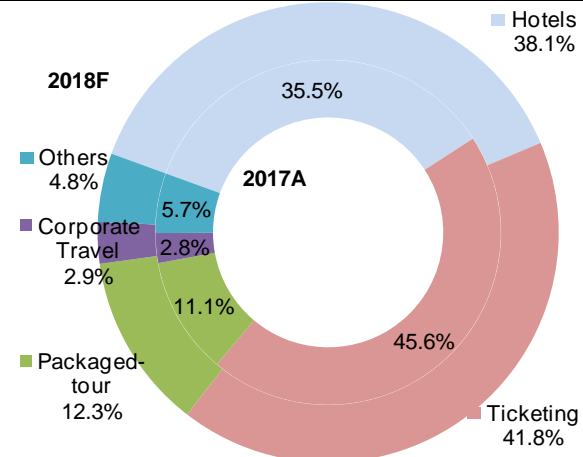
**We revise down Ctrip's 2018 and 2019 revenue forecasts by 8.7% and 9.3%, respectively.** We forecast 2018-2020 net revenue of RMB31.2 bn, RMB38.9 bn and RMB48.8 bn, respectively, equivalent to 22.1% CAGR.

Figure-3: Ctrip Total Net Revenue



Source: the Company, Guotai Junan International.

Figure-4: Ctrip Revenue Breakdown



Source: the Company, Guotai Junan International.

**Excluding share based compensation expense, we forecast 2018-2020 adjusted non-GAAP operating income of RMB3.7 bn, RMB6.0 bn and RMB10.5 bn, respectively, reflecting margin of 12.0%, 15.5% and 21.5%, respectively. We forecast 2018-2020 operating income of RMB1.5 bn, RMB3.5 bn and RMB7.7 bn, respectively, reflecting operating margin of 4.7%, 9.0%, and 15.8%. We have decreased Ctrip's 2018 and 2019 operating income forecasts by 54.8% and 47.1%, respectively. We forecast 2018-2020 net income of RMB1.6 bn, RMB3.5 bn and RMB6.8 bn, respectively. We forecast 2018-2020 fully diluted earnings per ADS ("EPADS") of RMB2.61, RMB5.44 and RMB10.08, respectively.**

**Table-2: Forecast Updates**

(RMB mn)	Old			New			Change (% or ppt)		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Net Revenue	34,185	42,891	n.a.	31,217	38,918	48,800	(8.7%)	(9.3%)	n.a.
Gross Income	28,373	35,600	n.a.	25,754	32,107	40,260	(9.2%)	(9.8%)	n.a.
<i>Gross Income Margin</i>	83.00%	83.00%	n.a.	82.5%	82.5%	82.5%	(0.5) ppt	(0.5) ppt	n.a.
Product Development	-10,504	-12,286	n.a.	(10,472)	(12,432)	(14,397)	(0.3%)	1.2%	n.a.
<i>% of Revenue (Net)</i>	30.70%	28.60%	n.a.	33.5%	31.9%	29.5%	2.8 ppt	3.3 ppt	n.a.
Sales and Marketing	-10,885	-12,854	n.a.	(10,132)	(12,149)	(14,217)	(6.9%)	(5.5%)	n.a.
<i>% of Revenue (Net)</i>	31.80%	30.00%	n.a.	32.5%	31.2%	29.1%	0.7 ppt	1.2 ppt	n.a.
G&A	-3,768	-3,873	n.a.	(3,697)	(4,041)	(3,944)	(1.9%)	4.3%	n.a.
<i>% of Revenue (Net)</i>	11.00%	9.00%	n.a.	11.8%	10.4%	8.1%	0.8 ppt	1.4 ppt	n.a.
Operating Expenses	-25,157	-29,013	n.a.	(24,300)	(28,621)	(32,558)	(3.4%)	(1.3%)	n.a.
<i>% of Revenue (Net)</i>	73.60%	67.60%	n.a.	77.8%	73.5%	66.7%	4.2 ppt	5.9 ppt	n.a.
Operating Income	3,216	6,586	n.a.	1,454	3,486	7,702	(54.8%)	(47.1%)	n.a.
<i>Operating Margin</i>	9.40%	15.40%	n.a.	4.7%	9.0%	15.8%	(4.7) ppt	(6.4) ppt	n.a.
- Share Based Comp.	(2,666)	(3,146)	n.a.	(2,290)	(2,530)	(2,770)	(14.1%)	(19.6%)	n.a.
Adj. Non- GAAP Operating Income	5,882	9,733	n.a.	3,744	6,016	10,472	(36.4%)	(38.2%)	n.a.
<i>Adj. Non-GAAP Operating Margin</i>	17.20%	22.70%	n.a.	12.0%	15.5%	21.5%	(5.2) ppt	(7.2) ppt	n.a.
Net Income	2,613	5,156	n.a.	1,594	3,487	6,774	(39.0%)	(32.4%)	n.a.
<i>Net Income Margin</i>	7.60%	12.00%	n.a.	5.1%	9.0%	13.9%	(2.5) ppt	(3.0) ppt	n.a.
- Share Based Comp.	(2,666)	(3,146)	n.a.	(2,290)	(2,530)	(2,770)	(14.1%)	(19.6%)	n.a.
Adj. Non- GAAP Net Income	5,279	8,302	n.a.	3,884	6,017	9,544	(26.4%)	(27.5%)	n.a.
<i>Adj. Non- GAAP Net Income Margin</i>	15.4%	19.4%	n.a.	12.4%	15.5%	19.6%	(3.0) ppt	(3.9) ppt	n.a.
Earnings per ADS									
Basic (RMB)	4.44	7.96	n.a.	2.85	5.91	10.90	(35.9%)	(25.8%)	n.a.
Fully Diluted (RMB)	4.09	7.39	n.a.	2.61	5.44	10.08	(36.1%)	(26.3%)	n.a.

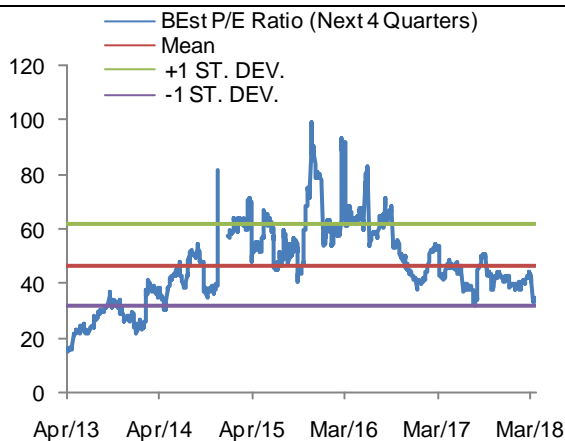
Source: Guotai Junan International.

## VALUATION

**We maintain our target price at US\$52.00 and maintain our "Buy" investment rating on very low current valuation. We think Ctrip's current valuation is very attractive, making for a good entry point. Based on Bloomberg consensus forecasts, Ctrip is trading at 34.7x forward adjusted PE, which is at discounts of 26.0% and 17.2% relative to Ctrip's own average historical forward adjusted PE for the past five years and the past one year, respectively. We expect Ctrip's top-line growth and market share to continue to grow rapidly as Ctrip becomes more profitable over the medium to long term. We expect Ctrip's operating income margin to increase over the next few years, reaching 15.8% by 2020. In addition, with a large cash balance, we expect Ctrip to continue to make strategic investments, both in China and internationally, thereby further expanding its business scale. Our US\$52.00 target price is a 17.9% discount to our DCF derived NAV of US\$63.36.**

**Figure-5: Ctrip 5-Year Historical Forward P/E**

(non-GAAP)

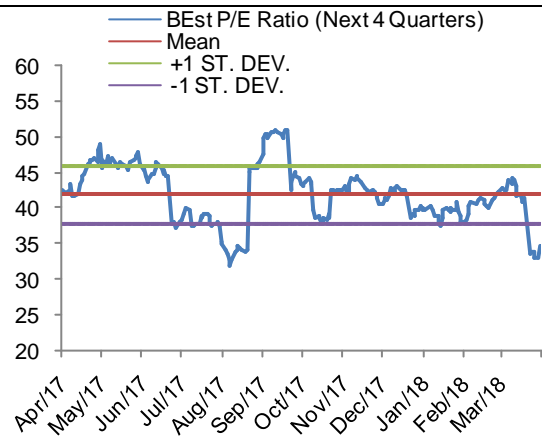


Source: Bloomberg.

Note\*: "Forward" valuations are based on the next four quarters earnings forecasts.

**Figure-6: Ctrip 1-Year Historical Forward P/E**

(non-GAAP)



Source: Bloomberg.

Note\*: "Forward" valuations are based on the next four quarters earnings forecasts.

**Table-3: Peers Comparison**

Company	Stock Code	Cncy	Last price	Mkt. Cap US\$ mil	PE (Adjusted)			PE (GAAP)			ROE(%)	PB
					18F	19F	20F	18F	19F	20F	18F	18F
<b>USA - Listed</b>												
Ctrip.Com	CTRP US	USD	46.020	24,098	45.1	30.8	20.2	103.9	49.9	26.6	1.8	1.8
Booking Holdings	BKNG US	USD	2,077.59	100,324	23.9	20.8	18.1	45.7	42.3	74.8	36.2	7.6
Tripadvisor Inc	TRIP US	USD	40.830	5,675	35.4	30.7	25.0	26.1	26.8	30.4	8.3	3.8
Makemytrip Ltd	MMYT US	USD	35.150	3,566	n.a.	n.a.	n.a.	n.a.	n.a.	313.8	(14.5)	2.9
Expedia Inc	EXPE US	USD	108.490	16,472	23.0	19.2	16.8	32.7	16.9	42.0	13.2	3.4
Travelzoo Inc	TZOO US	USD	6.750	84	28.1	22.9	n.a.	n.a.	8.2	5.2	n.a.	n.a.
Tuniu Corp	TOUR US	USD	6.330	801	n.a.	41.4	23.2	n.a.	n.a.	n.a.	n.a.	1.5
Simple Average					31.1	27.6	20.7	52.1	28.8	82.1	9.0	3.5
Weighted Average					27.7	22.7	18.6	53.1	40.1	67.4	25.9	5.9

Source: Bloomberg, Guotai Junan International.

**Table-4: DCF Analysis**

DCF Assumptions		Calculation	
Perpetual growth rate	3.0%	PV Free Cash Flows to the Firm (RMB mn)	193,648
		PV Terminal Value (RMB mn)	79,025
Risk free rate	2.04%	Enterprise Value (RMB mn)	272,673
Adjusted Beta	1.20	- Debt (RMB mn)	45,537
Market risk premium	12.2%	- Minority Interest	0.2%
Cost of Equity	16.7%	+ Cash & Equivalents (RMB mn)	18,243
		Total NAV (RMB mn)	243,136
Borrowing interest rate	4.0%		
Effective tax rate	26.0%	ADS Outstanding (fully diluted, as at end of 2018, mn)	606
Cost of Debt	3.0%	NAV per ADS (RMB)	401.4
		US\$:RMB	6.33
E/ (D+E)	66%	NAV per ADS (US\$)	63.36
D/ (D+E)	30%		
WACC	12.0%		

Source: Bloomberg, Guotai Junan International.

**Table-5: Target Price Valuation**

	FY17A	FY18F	FY19F	FY20F
Earnings per ADS (RMB GAAP)	4.01	2.85	5.910	10.900
Earnings per ADS (US\$ GAAP)	0.63	0.45	0.93	1.72
PER (GAAP) based on Target Price	82.2	115.6	55.7	30.2

Source: the Company, Guotai Junan International.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F	Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	19,228	26,780	31,217	38,918	48,800	PP&E	5,592	5,616	6,204	7,047	8,144
Cost of Revenues	(4,730)	(4,678)	(5,463)	(6,811)	(8,540)	Investments	20,533	25,574	32,236	37,277	43,939
Product development	(7,687)	(8,259)	(10,472)	(12,432)	(14,397)	Goodwill	56,015	56,246	66,571	76,896	87,220
SG&A	(7,249)	(7,300)	(9,160)	(10,852)	(12,484)	Intangible assets	13,925	13,750	13,576	13,401	13,227
Operating Profit	(1,568)	2,926	1,454	3,486	7,702	Others	2,438	1,636	1,679	1,826	2,059
Interest Income (Expense)	(165)	(299)	(55)	(101)	(203)	Total Non-current Assets	98,502	102,822	120,266	136,447	154,589
Other income	(27)	879	780	1,000	1,000	Cash & Cash Equivalents	18,435	18,243	17,810	14,804	12,662
Income from affiliates	602	(65)	50	200	200	Restricted cash	1,744	1,749	1,753	1,757	1,762
Profit Before Tax	(1,158)	3,441	2,229	4,585	8,699	Short-term investments	14,113	28,130	16,826	14,268	14,268
Income Tax	(478)	(1,281)	(638)	(1,100)	(2,088)	Accounts receivable, net	4,625	4,559	5,315	6,625	8,308
profit After Tax	(1,636)	2,161	1,591	3,484	6,611	Prepayments & other	6,995	6,546	7,631	9,513	11,929
Non-controlling Interest	206	(19)	3	3	162	Total Current Assets	45,911	59,227	49,335	46,968	48,928
Shareholders' Profit / Loss	(1,431)	2,142	1,594	3,487	6,774	Total Assets	144,414	162,048	169,601	183,414	203,518
Basic EPS	(3.023)	4.006	2.848	5.910	10.900	Short term Borrowings	6,887	16,316	14,785	13,897	13,009
Diluted EPS	(3.023)	3.719	2.613	5.445	10.082	Accounts payable	7,279	7,459	8,695	10,840	13,593
						Salary and welfare payable	2,508	3,465	4,039	5,035	6,314
						Advances from customers	8,191	7,868	10,279	14,186	19,576
						Others	5,430	7,052	8,099	9,915	12,280
						Total Current Liabilities	30,295	42,160	45,898	53,873	64,771
						Convertible Note	34,651	29,220	28,364	27,476	26,588
						Other long-term liabilities	3,947	4,195	4,443	4,691	4,939
						Total Non-current Liabilities	38,598	33,416	32,807	32,167	31,527
						Total Liabilities	68,893	75,575	78,705	86,040	96,298
						Total Shareholders' Equity	71,537	84,694	88,654	94,781	104,163
						Minority Interest	3,984	1,779	2,243	2,593	3,057
						Total Equity	75,521	86,473	90,897	97,375	107,220
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2016A	2017F	2018F	2019F	2020F		2016A	2017A	2018F	2019F	2020F
Net Profit	(1,636)	2,161	1,591	3,484	6,611	Gross margin	75.4%	82.5%	82.5%	82.5%	82.5%
Share based compensation	3,560	1,834	2,290	2,530	2,770	Operating margin	-8.2%	10.9%	4.7%	9.0%	15.8%
Equity in gain of affiliates	(602)	65	(50)	(200)	(200)	Net income margin	-4.0%	10.8%	4.4%	9.8%	16.8%
D&A	719	480	168	168	168	Non-GAAP adj. net inc. margin	-7.4%	8.0%	5.1%	9.0%	13.9%
Deferred income tax & other	(177)	(87)	(43)	(74)	(141)	Asset Turnover (x)	0.1	0.2	0.2	0.2	0.3
Change in working capital	3,410	3,497	3,604	5,774	7,772	ROA	-1.1%	1.4%	1.0%	2.0%	3.5%
Cash from Operating Activities	5,273	7,950	7,560	11,682	16,980	Assets/Equity (x)	2.3	2.0	1.9	1.9	1.9
Purchases of PP&E	(683)	(500)	(754)	(1,008)	(1,262)	ROE	-2.4%	2.7%	1.8%	3.8%	6.8%
Cash paid for investments	(5,408)	(5,272)	(16,987)	(15,366)	(16,987)	Net Gearing	39.5%	34.9%	29.2%	29.0%	27.1%
Change in short-term invest.	(5,935)	(14,017)	11,304	2,558	0	Current ratio (x)	1.5	1.4	1.1	0.9	0.8
Others	(7,799)	(2,331)	(811)	(763)	(763)	Debt/equity	55.0%	52.7%	47.5%	42.5%	36.9%
Cash from Investing Activities	(19,825)	(22,120)	(7,249)	(14,579)	(19,012)						
Short term loan proceeds	1,980	9,429	(1,531)	(888)	(888)						
Issuance of convertibles	6,545	(5,430)	(856)	(888)	(888)						
Others	3,765	8,498	161	184	184						
Cash from Financing Activities	12,290	12,496	(2,226)	(1,592)	(1,592)						
Cash at Beg of Year	19,216	18,435	18,243	17,810	14,804						
Net Changes in Cash	(2,263)	(1,674)	(1,915)	(4,488)	(3,624)						
Effect of For-Ex	1,482	1,482	1,482	1,482	1,482						
Cash at End of Year	18,435	18,243	17,810	14,804	12,662						

Source: the Company, Guotai Junan International.

**APPENDIX: Ctrip - Projects & Partnerships**

Project / Investment	Description
Skyscanner Holdings Ltd.	Dec. 2016 - Ctrip acquired Skyscanner Holdings Limited ("Skyscanner"), a leading global travel search site headquartered in Edinburgh, the United Kingdom. The acquisition valued Skyscanner at £1.4 billion. Skyscanner's management team will continue to manage Skyscanner's operations independently as part of the Ctrip group. With the investment in Skyscanner, Ctrip aims to improve its global travel services, especially the international air ticketing business. Skyscanner ranks as one of the top online travel brands serving 60 mn monthly active users and is available in over 30 languages.
Qunar (QUNR US)	Jan. 12, 2016 - Ctrip announced investment of US\$1.3 billion in cash and issued 5.4 mn shares as investment in several non-U.S. investment entities, which acquired a significant minority stake of Qunar (QUNR US). Combined with Ctrip's Oct. 2015 investment in Qunar, this gives Ctrip effective control of Qunar and nearly all of Qunar's economic interest, although Qunar will remain listed on the NASDAQ. Ctrip began consolidating Qunar's results starting from Jan. 2016.
MakeMyTrip Ltd. (MMYT US)	Jan. 7, 2015 - Ctrip invested US\$180 mn in MakeMyTrip Ltd. (MMYT US), India's largest online travel company, via convertible bonds. MakeMyTrip has also granted Ctrip permission to acquire MakeMyTrip shares in the open market, so that combined with shares convertible under the convertible bonds, Ctrip may own up to 26.6% of MakeMyTrip's outstanding shares. One MakeMyTrip director is appointed by Ctrip.
Qunar (QUNR US) - Baidu (BIDU US) share swap	Oct. 26, 2015 - share swap deal whereby Ctrip held approximately 45% interest in Qunar (QUNR US) and Baidu (BIDU US) held approximately 25% interest in Ctrip. Four Ctrip representatives, namely, Ctrip's Chairman, CEO, Co-president and COO were appointed to Qunar's board of directors. Two representatives of Baidu (Chairman/CEO and a vice president) were appointed to Ctrip's board of directors.
eLong (LONG US)	May 22, 2015 - Ctrip announced that it acquired 37.6% equity stake of eLong (LONG US) with a total purchase price of approximately US\$ 400 mn. Ctrip will obtain one seat on eLong's board of directors. The two companies continue to run as two separate operations, each maintaining their own brands and platforms.
Travel Fusion	Jan. 2015 - Ctrip invested in Travel Fusion, a leading online travel company for low-cost carriers. Company expected this strategic relationship to not only help international travel business, but also enhance the efficiency and effectiveness of Company's IT systems by leveraging Travel Fusion's advanced technology.
Beijing Joint Wisdom Information Technology Co., Ltd. (Joint Wisdom)	1Q15 - Ctrip established Joint Wisdom by merging several key subsidiaries, including Brandwisdom.cn with Ctrip Beijing China Software Hotel Information System Co., Ltd. Joint Wisdom has integrated big data and cloud-based technology in three segments: software, information stream and data intelligence products. With the combined strength, Joint Wisdom provides the full set of property management system solutions to cover about 60,000 hotels in China, ranging from hostels to high star ones.
eHi Auto Services (EHIC US) (一嗨租车)	Jan. 21, 2015, Ctrip and eHi expand their business relationship. Ctrip has integrated eHi's chauffeured car services, including airport pick-up and drop-off and other business transportation services, into its corporate and individual service offerings. Ctrip also features and promotes eHi's services on its various channels.
"Young" Mobile Application	2Q14 - Ctrip launched a new mobile app called Young that offers special features tailor-made to college students.
LY.com (Tongcheng)	Ctrip invested US\$200 mn to become the second largest shareholder (about a 30% stake) of Tongcheng Network Technology Share Co., Ltd., a leading local attraction ticket service provider that operates LY.com. The investment is classified as an affiliate under the equity method.
Tuniu.com (TOUR US)	Ctrip bought US\$15 mn worth of Tuniu.com shares as an anchor investor in Tuniu.com's IPO. Tuniu.com specializes in China's leisure package tour business and launched its IPO on the NASDAQ on May 9, 2014.
cn.toursforfun.com (途风)	Dec. 2013 - Ctrip acquired cn.toursforfun.com, an online travel supplier focused on overseas tours and vacation packages and daytrips for Chinese travelers in the United States.
Yongche.com (易到用车)	Dec. 2013 - Ctrip made investment in Beijing-based Dongfang Cheyun, operator of online car rental platform Yongche.com, which offers car rental, high-end chauffeur mobile booking, and mobile taxi booking services.
eHi Auto Services (EHIC US) (一嗨租车)	Dec. 2013 - Ctrip bought slightly less than 20% interest in eHi, classified as an available for sale financial investment. Ctrip became eHi's designated and preferred business partner and integrated access to eHi's online reservation system in its Ctrip Travel mobile application. eHi is China's No. 1 car services provider and No. 2 car rentals provider in terms of market share by



	revenues in 2013, according to Frost & Sullivan. eHi is also the exclusive strategic partner in China of Enterprise, the largest car rental company in the world.
Booking.com Partnership	Aug. 8, 2012 - Ctrip and Booking.com, the world's leading online hotel reservation service and part of the Priceline Group (PCLN US), announced an agreement under which Ctrip can reach Booking.com's global portfolio of over 236,574 participating hotels through Ctrip's hotel reservation services.
Tujia.com	1Q12 - Ctrip made an investment (undisclosed amount) in Tujia.com, which was founded in December 2011. Tujia.com provides online booking for middle and high-end holiday apartments.
Songguo.com	February 2012 - Ctrip made investment (undisclosed amount) in Songguo.com, which launched also in February 2012. Songguo.com is a reservation website for small and medium-size hotels in China that offer budget accommodation. About 80% of the hotel rooms are priced below RMB 200 and Songguo.com requires a partial prepayment in case they miss out on commission from the hotel. Budget hotels are low margin business for Ctrip.
TripTM.com (太美)	April 2012 - Ctrip invested (undisclosed amount) in Trip TM, a four year old ultra-luxury tourism operator. (similar to Ctrip's in-house developed HH Travel). Ctrip's goal is to get half of market share for top-end segment in China.
HHTravel.com (鸿鹄逸游)	March 2012 - Ctrip launched this platform which offers ultra-luxury tour packages for high end travelers, with tours usually costing around US\$10,000.
Smart Choice Hotels (惠选特价酒店)	December 2011 - Launched within Ctrip's main website; discount hotels for budget travelers, users must pre-pay and don't know name of actual hotel until after booking (similar to Hotwire model). Offers discounts up to 50%, but limited with limited number of participating hotels.

Source: the Company, Guotai Junan International.

### Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.  
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793  
 Website: www.gtja.com.hk