

# Trip.com (TCOM US)

## Revenue recovery underway

While revenue recovery of Trip.com (TCOM)'s domestic business remained under pandemic impact in 3Q22, pure international businesses (Trip.com & Skyscanner) were rolling back on track. We remain positive on TCOM's unique proposition value in China market with sticky high-end consumer and business user base, strong supply chain capability as well as deep industry resources. We think the situation that the country is addressing pandemic prevention has already priced in, future catalyst on stock price could come from: 1) potential relaxation of travel restrictions, especially on outbound travel (c. 25% of TCOM's total revenue in 2019), which we currently expect could resume in scale in 2023; 2) stronger than expected growth from pure international business; and 3) cost control further stabilize bottom-line. On a 2021-2024E net revenue CAGR of 22.9%, we forecast non-GAAP net profit CAGR of 77.6%. Our DCF-based target price values TCOM at USD29.7 per ADS. We are transferring coverage with a BUY rating.

- Domestic business remains near-term profit focus.** Driven by normalization of travel activities and release of pent-up demand, TCOM's domestic business has seen fast recovery since June 2022, although was impacted by pandemic resurgence again since mid-August. According to TCOM, compared with the same period in 2019, domestic hotel booking volume has fully recovered in June, and up 20% in July 2022. Although the growth was impacted by pandemic resurgence in August 2022, booking volume maintained positive growth. Domestic business remains TCOM's near term revenue and profit focus, in our view, and the strict pandemic prevention policy leaves room for pent-up demand recovery in 2023E. We forecast TCOM's total revenue to recover to 59/83% of 2019 level in 22/23E.
- Pure international business continues recovery trend.** TCOM's pure international business (around 10% of total revenue in 2019) is seeing an ongoing recovery trend since major countries relaxed their travel restrictions worldwide, and with TCOM allocating more resources to aid international expansion. Per Management, revenue in Europe and US markets have already surpassed the pre-pandemic level in 2Q22, and both air-ticket and hotel bookings on TCOM's global platform increased by over 100% yoy in 2Q22. We estimate TCOM's pure international business revenue to recover to 80-90% of pre pandemic level in 3Q22 (70-80% in 2Q22).
- Cost control aids stable margin profile.** TCOM's long-term OPM expansion remains on track, in our view, driven by increase in revenue contribution from high-margin outbound travel business, and margin improvement of pure international business, which is still loss-making at the current stage. Cost optimization initiatives amid pandemic should enable a strong earnings elasticity after pandemic impact wanes and when revenue growth back on track. We forecast non-GAAP OPM to recover from 1.3% in 2021 to 7.8/17.0/22.0% for 22/23/24E (2019: 18.9%).

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	18,327	20,029	20,957	29,672	37,183
YoY growth (%)	(48.7)	9.3	4.6	41.6	25.3
Net profit (RMB mn)	(3,207.0)	(550.0)	(229.6)	3,133.5	5,549.7
Adjusted net profit (RMB mn)	(913.0)	1,356.0	1,223.7	4,884.2	7,594.8
Adj. NP (Consensus) (RMB mn)	(913.0)	1,356.0	1,077.0	5,255.9	7,778.5
EPS (Adjusted) (RMB)	(1.52)	2.14	1.93	7.70	11.98
P/E (x)	na	na	na	33.1	18.7
ROE (%)	(3.1)	(0.5)	(0.2)	2.8	4.6

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	US\$29.70
Up/Downside	31.3%
Current Price	US\$22.62

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### Stock Data

Mkt Cap (US\$ mn)	14,343.6
Avg 3 mths t/o (US\$ mn)	26.2
52w High/Low (US\$)	31.20/16.75
Total Issued Shares (mn)	634.1

Source: FactSet

### Shareholding Structure

Baidu Entities	10.8%
Morgan Stanley	5.8%

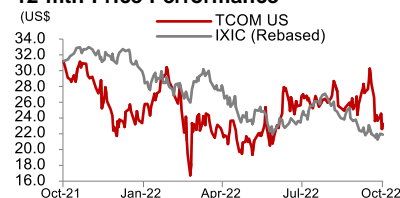
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-15.3%	-9.4%
3-mth	-14.7%	-5.0%
6-mth	2.7%	29.4%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

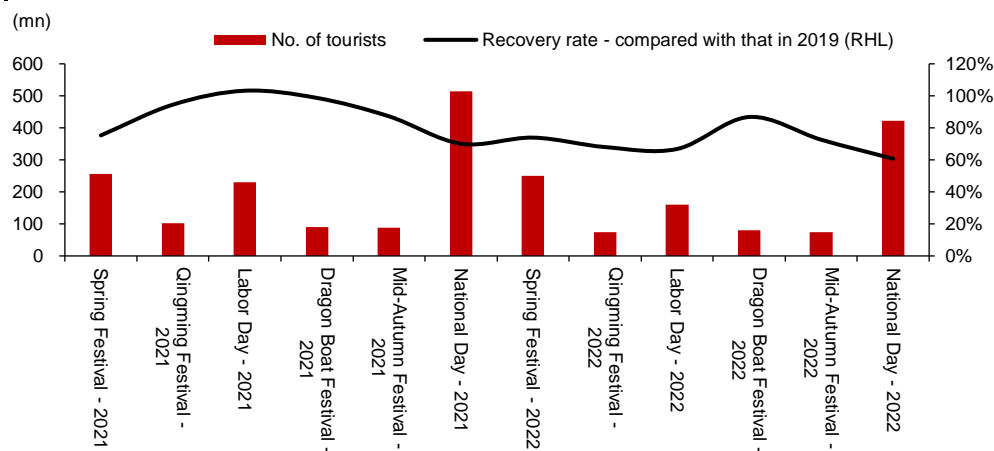
## Recovery of long-haul travel likely still takes time

Our analysis of consumption data gathered during the National Day Golden Week holiday identifies that travel demand still centred relatively more on local and short-haul travel during 2022's Golden Week Holiday, leaving room for pent up demand recovery in 2023. We think the situation that China is addressing pandemic prevention has already priced in, future catalyst on TCOM's stock price could come from: 1) potential relaxation of travel restrictions, especially on outbound travel (c. 25% of TCOM's total revenue in 2019), which we currently expect could resume in scale in 2023; 2) stronger than expected growth from pure international business; and 3) cost control further stabilize bottom-line. For TCOM's international business, TCOM is seeing an ongoing recovery trend since major countries relaxed their travel restrictions worldwide, and with TCOM allocating more resources to aid international expansion.

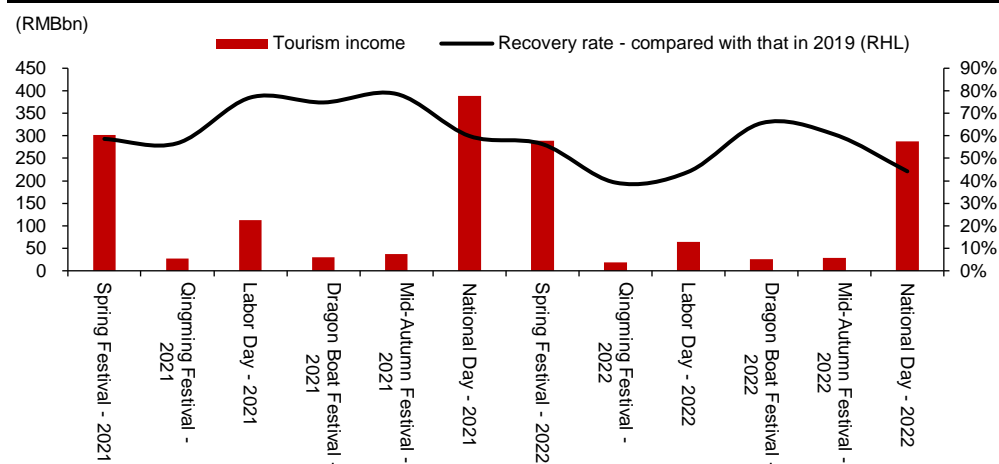
Per data published (7 October) by the Ministry of Culture and Tourism of China, the total number of tourists over the National Day holiday reached 422mn, down 18.2% YoY, and was 60.7% of that in the comparable period in 2019 (2022 Mid-Autumn Festival: 72.6%). Tourism income reached RMB287.2bn, down 26.2% YoY, and was 44.2% of that in 2019 (2022 Mid-Autumn Festival: 60.6%).

Data from Trip.com Group revealed an increase in share of local travel booking orders and rising trend of consumption segmentation. Per Trip.com, during this year's National Day holiday, local and short-haul travel booking orders accounted for 65% of total, compared to that of c.50% in that of 2021, while average spending per tourist for local and short haul travel increased by c.30% YoY.

**Figure 1: Domestic tourism volume and recovery rate**



Source: Ministry of Culture and Tourism, CMBIGM estimates

**Figure 2: Domestic tourism income and recovery rate**

Source: Ministry of Culture and Tourism, CMBIGM estimates

## DCF valuation of USD29.7 per ADS

Our DCF method (WACC of 10.5%, terminal growth of 2.0%) values TCOM at US\$29.7 per ADS, translating into 26.7x 2023E PE under non-GAAP.

**Figure 3: TCOM: DCF valuation, WACC of 10.5%, terminal growth of 2.0%**

(RMBbn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
NPV of FCF	63.2	69.4	68.4	65.6	62.2	58.7	52.2	45.8
Discounted terminal value	58.0	64.1						
Total TCOM valuation	121.2	133.6						
No. of ADS (Diluted) (mn)	634.1	634.1						
Valuation per ADS (USD)	29.7							

Note: our target price is based on weighted average of three month valuation in 2022E and nine month valuation in 2023E  
 Source: CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	35,716	18,327	20,029	20,957	29,672	37,183
Cost of goods sold	(7,372)	(4,031)	(4,598)	(4,734)	(6,229)	(7,471)
Others	(50)	(11)	(6)	(8)	(12)	(15)
<b>Gross profit</b>	<b>28,294</b>	<b>14,285</b>	<b>15,425</b>	<b>16,214</b>	<b>23,431</b>	<b>29,698</b>
<b>Operating expenses</b>	<b>(23,254)</b>	<b>(15,708)</b>	<b>(16,836)</b>	<b>(15,879)</b>	<b>(20,139)</b>	<b>(23,565)</b>
SG&A expense	(12,584)	(8,041)	(7,844)	(7,290)	(10,678)	(12,600)
R&D expense	(10,670)	(7,667)	(8,992)	(8,589)	(9,462)	(10,965)
<b>Operating profit</b>	<b>5,040</b>	<b>(1,423)</b>	<b>(1,411)</b>	<b>335</b>	<b>3,292</b>	<b>6,133</b>
Interest income	2,094	2,187	2,132	2,335	1,933	1,976
Interest expense	(1,677)	(1,716)	(1,565)	(1,478)	(1,427)	(1,478)
Other income/expense	3,630	(273)	373	(188)	0	0
<b>Pre-tax profit</b>	<b>9,087</b>	<b>(1,225)</b>	<b>(471)</b>	<b>1,004</b>	<b>3,798</b>	<b>6,631</b>
Income tax	(1,742)	(355)	(270)	(572)	(760)	(1,326)
Others	(347)	(1,689)	96	(757)	0	150
Minority interest	57	62	95	95	95	95
<b>Net profit</b>	<b>7,055</b>	<b>(3,207)</b>	<b>(550)</b>	<b>(230)</b>	<b>3,134</b>	<b>5,550</b>
<b>Adjusted net profit</b>	<b>6,527</b>	<b>(913)</b>	<b>1,356</b>	<b>1,224</b>	<b>4,884</b>	<b>7,595</b>

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>67,955</b>	<b>58,011</b>	<b>66,108</b>	<b>68,233</b>	<b>83,258</b>	<b>98,796</b>
Cash & equivalents	19,923	18,096	19,818	25,631	36,037	47,552
Restricted cash	1,824	1,319	1,378	796	1,039	1,264
Account receivables	7,661	4,119	4,649	4,694	6,528	8,143
Prepayment	12,710	7,855	9,032	7,544	10,088	12,271
Other current assets	25,837	26,622	31,231	29,566	29,566	29,566
<b>Non-current assets</b>	<b>132,214</b>	<b>129,238</b>	<b>125,751</b>	<b>122,597</b>	<b>121,104</b>	<b>120,503</b>
PP&E	6,135	5,780	5,534	5,555	5,567	5,713
Investment in JVs & assos	51,278	47,943	44,961	42,961	41,541	40,902
Intangibles	13,173	13,256	12,960	11,704	11,407	11,111
Goodwill	58,308	59,353	59,353	59,353	59,353	59,353
Other non-current assets	3,320	2,906	2,943	3,024	3,235	3,424
<b>Total assets</b>	<b>200,169</b>	<b>187,249</b>	<b>191,859</b>	<b>190,830</b>	<b>204,362</b>	<b>219,299</b>
<b>Current liabilities</b>	<b>69,182</b>	<b>58,369</b>	<b>66,218</b>	<b>63,991</b>	<b>71,497</b>	<b>77,858</b>
Short-term borrowings	30,516	33,665	39,866	39,866	39,866	39,866
Account payables	12,294	4,506	6,019	7,054	9,031	10,534
Tax payable	1,449	1,217	1,065	286	334	544
Other current liabilities	24,445	18,503	18,868	16,596	22,047	26,690
Accrued expenses	478	478	400	189	218	224
<b>Non-current liabilities</b>	<b>24,142</b>	<b>27,313</b>	<b>15,185</b>	<b>15,148</b>	<b>16,124</b>	<b>16,940</b>
Long-term borrowings	19,537	22,718	11,093	11,093	11,093	11,093
Obligations under finance leases	749	618	400	400	400	400
Other non-current liabilities	3,856	3,977	3,692	3,655	4,631	5,447
<b>Total liabilities</b>	<b>93,324</b>	<b>85,682</b>	<b>81,403</b>	<b>79,139</b>	<b>87,621</b>	<b>94,799</b>
Share capital	6	6	6	6	6	6
Capital surplus	83,614	83,960	93,829	95,328	97,279	99,524
Retained earnings	22,803	19,470	18,823	18,559	21,657	27,172
Other reserves	(2,981)	(3,082)	(2,981)	(2,981)	(2,981)	(2,981)
<b>Total shareholders equity</b>	<b>103,442</b>	<b>100,354</b>	<b>109,677</b>	<b>110,912</b>	<b>115,961</b>	<b>123,721</b>
Minority interest	3,403	1,213	779	779	779	779
<b>Total equity and liabilities</b>	<b>200,169</b>	<b>187,249</b>	<b>191,859</b>	<b>190,830</b>	<b>204,362</b>	<b>219,299</b>

<b>CASH FLOW</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	8,740	(2,914)	(375)	247	3,798	6,781
Depreciation & amortization	1,096	1,217	1,021	1,065	1,132	1,213
Change in working capital	282	(6,934)	177	(785)	3,128	2,564
Others	(2,785)	4,808	1,652	726	990	718
<b>Net cash from operations</b>	<b>7,333</b>	<b>(3,823)</b>	<b>2,475</b>	<b>1,255</b>	<b>9,049</b>	<b>11,276</b>
<b>Investing</b>						
Capital expenditure	(823)	(532)	(570)	(596)	(844)	(1,058)
Acquisition of subsidiaries/ investments	(823)	(2,861)	(3,585)	0	0	0
Others	(767)	(428)	7	(1)	(1)	(2)
<b>Net cash from investing</b>	<b>(2,413)</b>	<b>(3,821)</b>	<b>(4,148)</b>	<b>(597)</b>	<b>(846)</b>	<b>(1,060)</b>
<b>Financing</b>						
Net borrowings	2,067	18,209	5,615	0	0	0
Proceeds from share issues	0	0	7,984	0	0	0
Others	(11,323)	(12,184)	(9,680)	4,575	2,445	1,525
<b>Net cash from financing</b>	<b>(9,256)</b>	<b>6,025</b>	<b>3,919</b>	<b>4,575</b>	<b>2,445</b>	<b>1,525</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	25,774	21,747	19,415	21,196	26,428	37,076
Exchange difference	309	(713)	(465)	0	0	0
Others	(4,336)	(1,619)	2,246	5,232	10,648	11,741
<b>Cash at the end of the year</b>	<b>21,747</b>	<b>19,415</b>	<b>21,196</b>	<b>26,428</b>	<b>37,076</b>	<b>48,816</b>
<b>GROWTH</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Revenue	14.8%	(48.7%)	9.3%	4.6%	41.6%	25.3%
Gross profit	14.8%	(49.5%)	8.0%	5.1%	44.5%	26.7%
Operating profit	93.5%	na	na	na	882.3%	86.3%
Net profit	534.4%	na	na	na	na	77.1%
Adj. net profit	19.1%	na	na	(9.8%)	299.1%	55.5%
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Gross profit margin	79.2%	77.9%	77.0%	77.4%	79.0%	79.9%
Operating margin	14.1%	(7.8%)	(7.0%)	1.6%	11.1%	16.5%
Adj. net profit margin	18.3%	(5.0%)	6.8%	5.8%	16.5%	20.4%
Return on equity (ROE)	7.4%	(3.1%)	(0.5%)	(0.2%)	2.8%	4.6%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	1.0	1.0	1.0	1.1	1.2	1.3
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
P/E	19.9	na	na	na	33.1	18.7
P/B	1.3	1.2	1.2	0.9	0.9	0.8
P/CFPS	23.9	na	70.9	157.7	12.7	10.2

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

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