

Trip.com (TCOM US)

Business recovery has greater visibility

Trip.com Group (TCOM) announced (15 Dec) 3Q22 results: net revenue was RMB6.9bn, up 29.0% YoY, 5/6% ahead of our/Bloomberg consensus estimates, and was 66% of the 3Q19 level. Non-GAAP net income was RMB1.0bn, better than our forecast/consensus estimate at RMB742/ 830mn, owing to better-than-expected revenue recovery in domestic market. Although pandemic resurgence brought disruption to TCOM's business recovery in 4Q22, overall business recovery from 2023 onward has greater visibility as pandemic prevention policy has been relaxing. We roll over our valuation to 2023E with a new DCF-based target price of US\$40.0 (was US\$29.7), translating into 35/22x 23/24E PE, and we see support from 81% 21-24E non-GAAP net income CAGR. Future catalysts could come from: 1) relaxation of in-bound quarantine policy, which likely propels recovery of outbound travel that accounts for c.25% of TCOM's pre-COVID revenue generation; 2) stronger-than-expected domestic long-haul travel recovery, aided by release of pent-up demand. Maintain BUY.

- **International business revenue recovery on track.** Management noted that the revenue contribution from international business was 15-20% in 3Q22, and overall recovery of international business is on track. Overall air-ticketing on the global platform increased over 100% YoY in 3Q22, and has recovered to 80-90% of 2019 level. In 3Q22, hotel bookings in TCOM's global platform grew by 45% versus 3Q19, and domestic hotel bookings in non-China markets increased by 300%. Leveraging its deep industry resources and strong operational know how, TCOM is well positioned for international business expansion, especially in the APAC market.
- **Recovery of domestic business has higher visibility.** In 3Q22, TCOM's revenue from transportation-ticketing services was RMB2.6bn, up 44% YoY and reached 70% of the 3Q19 level. Revenue from accommodation reservation business was RMB2.9bn, down 32% YoY and was 71% of the 3Q19 level. Although business recovery in domestic market could be impacted by pandemic resurgence in 4Q22-1Q23, we expect TCOM's domestic business to deliver constant sequential recovery from 2Q23 onwards, aided by the release of pent-up demand. We expect TCOM's domestic business to achieve full recovery in 2023 compared with that in 2019, and estimate TCOM's total revenue to recover to 86% of 2019 level in 2023 (2022E: 56%), with the recovery in outbound travel and robust growth of international business.
- **Long-term margin expansion trend intact.** TCOM's non-GAAP OPM for 3Q22 was 17.5%, 2.3pp better than our forecast, mainly on beat of GPM aided by better-than-expected unleash of operating leverage which was driven by better-than-expected revenue generation. 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. We forecast non-GAAP OPM to recover from 1.3% in 2021 to 5.3/16.4/22.2% for 22/23/24E (2019: 18.9%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	18,327	20,029	19,921	30,696	38,756
YoY growth (%)	(48.7)	9.3	(0.5)	54.1	26.3
Net profit (RMB mn)	(3,207.0)	(550.0)	(1,151.1)	3,172.9	5,904.1
Adjusted net profit (RMB mn)	(913.0)	1,356.0	656.0	4,984.0	8,035.6
Adj. NP (consensus; RMB mn)			1,116	7,353	7,700
P/B (x)	1.2	1.2	1.3	1.3	1.2
ROE (%)	(3.1)	(0.5)	(1.0)	2.8	5.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$40.00
(Previous TP)	US\$29.70)
Up/Downside	16.2%
Current Price	US\$34.41

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Stock Data

Mkt Cap (US\$ mn)	21,128.5
Avg 3 mths t/o (US\$ mn)	27.2
52w High/Low (US\$)	33.70/16.75
Total Issued Shares (mn)	634.1

Source: FactSet

Shareholding Structure

Baidu Entities	10.8%
Morgan Stanley	5.8%

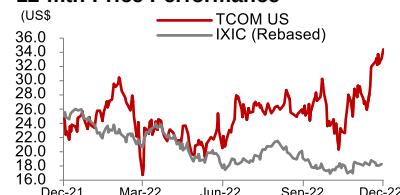
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	20.2%	19.6%
3-mth	28.5%	33.7%
6-mth	50.2%	44.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: TCOM: quarterly financial results

(RMBbn)	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Total revenue	5.5	5.0	4.1	5.9	5.3	4.7	4.1	4.0	6.9
YoY growth (%)	-47.9%	-40.4%	-13.2%	86.5%	-2.2%	-5.7%	0.0%	-31.9%	29.0%
Accommodation reservation	2.5	2.2	1.6	2.5	2.2	1.9	1.5	1.4	2.9
YoY growth (%)	-39.8%	-24.4%	36.8%	95.8%	-11.5%	-14.5%	-8.2%	-44.7%	32.4%
Transportation ticketing	1.9	1.7	1.5	2.1	1.8	1.5	1.7	1.8	2.6
YoY growth (%)	-48.8%	-51.0%	-37.1%	79.7%	-4.6%	-10.8%	10.4%	-14.7%	44.4%
Packaged tour	0.3	0.3	0.2	0.4	0.4	0.2	0.1	0.1	0.4
YoY growth (%)	-80.1%	-67.3%	-67.7%	182.3%	20.2%	-32.4%	-26.6%	-66.8%	-1.3%
Corporate travel	0.3	0.3	0.3	0.4	0.3	0.4	0.2	0.2	0.4
YoY growth (%)	-15.8%	-17.7%	100.0%	140.7%	19.9%	19.5%	-11.9%	-46.2%	9.5%
Others	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.6	0.6
YoY growth (%)	-31.3%	-38.0%	11.9%	31.8%	27.9%	54.8%	8.3%	-8.1%	1.3%
Gross profit	4.4	4.1	3.1	4.7	4.1	3.6	3.0	3.0	5.6
Operating profit	0.8	0.0	-0.8	0.3	-0.2	-0.7	-0.4	-0.2	0.9
Non-GAAP net profit	1.4	1.1	-0.2	0.7	0.5	0.3	0.0	-0.2	1.0
GPM (%)	81.1%	81.6%	74.8%	79.2%	77.1%	76.1%	74.0%	75.6%	81.5%
OPM (%)	14.5%	-0.3%	-19.2%	5.5%	-4.6%	-15.0%	-8.7%	-4.2%	12.4%
Adjusted NPM (%)	25.6%	21.4%	-5.0%	12.4%	9.8%	6.6%	-0.9%	-5.1%	15.0%

Source: Company data, CMBIGM estimates

Revision of forecast and valuation

Key changes in our forecast are set out below:

1) We cut 2022E revenue forecast by 4.9%, to account for stringent-than-expected pandemic prevention policy in the first half of 4Q22, and pandemic resurgence impact in the second half, which impacted people's travel willingness; but we lift 2023/2024E revenue forecast by 3.5/4.2% on greater visibility of business recovery, as pandemic prevention policy has been relaxing, which we believe could support a recovery on long-haul travel and outbound travel in 2023 after pandemic resurgence impact wanes;

2) We cut non-GAAP 2022E non-GAAP net income forecast to RMB0.7bn in 2022E, driven by the cut in revenue forecast, but we lift 2023/2024E non-GAAP net income forecast by 2.0/5.8% on the lift of revenue forecast. We are also expecting slightly better operating margin in 2024E, driven by TCOM's continuously enhanced content ecosystem, which we believe could help optimize sales and marketing expense to revenue ratio over the long-term.

Figure 2: TCOM: forecast revision

RMB bn	Current			Previous			Change (%)		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	19.9	30.7	38.8	21.0	29.7	37.2	-4.9%	3.5%	4.2%
Gross Profit	15.3	23.9	30.7	16.2	23.4	29.7	-5.4%	2.1%	3.4%
Operating Profit	(0.2)	3.2	6.5	0.3	3.3	6.1	-153.4%	-2.2%	5.5%
Non-GAAP net profit	0.7	5.0	8.0	1.2	4.9	7.6	-46.4%	2.0%	5.8%
Gross Margin	77.0%	77.9%	79.2%	77.4%	79.0%	79.9%	-0.3 ppt	-1.0 ppt	-0.6 ppt
Operating Margin	-0.9%	10.5%	16.7%	1.6%	11.1%	16.5%	-2.5 ppt	-0.6 ppt	0.2 ppt
Non-GAAP net margin	3.3%	16.2%	20.7%	5.8%	16.5%	20.4%	-2.5 ppt	-0.2 ppt	0.3 ppt

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB bn	Current			Consensus			Diff (%)		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	19.9	30.7	38.8	19.8	29.6	37.8	0.7%	3.7%	2.6%
Gross Profit	15.3	23.9	30.7	15.2	23.1	29.6	0.7%	3.5%	3.7%
Non-GAAP net profit	0.7	5.0	8.0	1.1	7.4	7.7	-41.2%	-32.2%	4.4%
Gross Margin	77.0%	77.9%	79.2%	77.0%	78.0%	78.4%	0.0 ppt	-0.1 ppt	0.8 ppt
Non-GAAP net margin	3.3%	16.2%	20.7%	5.6%	24.8%	20.4%	-2.3 ppt	-8.6 ppt	0.4 ppt

Source: Bloomberg, CMBIGM estimates

DCF based target price of US\$40.0

We roll over valuation window to 2023, with a new DCF-based target price of US\$40.0 (WACC of 10.5% and terminal growth of 2.0%; both unchanged). Our target price translates into 35.2x 2023E PE and 21.8x 2024E PE (non-GAAP). Our previous DCF-based target price of US\$29.7 translates into 26.7x 2023E PE (non-GAAP).

The 21.8x 2024E PE implied by our target price is largely in line with the current industry average valuation PE multiple of 21.4x (demonstrated in Fig.5), and we see support from 81% 21-24E non-GAAP net income CAGR. TCOM is one of the key beneficiaries of consumption recovery in post pandemic era, in our view, and future catalysts on stock price could come from: 1) relaxation of in-bound quarantine policy, which likely propels recovery of outbound travel that accounts for c.25% of TCOM's pre-COVID revenue generation; 2) stronger-than-expected domestic long-haul travel recovery, aided by release of pent-up demand.

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

(RMBbn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Total revenue	30.7	38.8	44.2	49.7	55.0	60.0	64.2	67.8	70.7	73.0
NPV of FCF	79.7									
Discounted terminal value	76.4									
Total equity valuation	175.5									
No. of shares (diluted, mn)	634									
Valuation per share (USD)	40.0									

Note: we USD:RMB exchange rate of 1:6.925

Source: CMBIGM estimates

Figure 5: Internet valuation comps table

Company	Ticker	Price (LC)	Mkt. Cap (US\$m)	2022E	P/E (x) 2023E	2024E	2022E	P/S (x) 2023E	2024E
Platform									
Alibaba	BABA US	90.1	240,687	12.0	10.3	9.3	1.9	1.7	1.6
Tencent	700 HK	296.0	391,708	23.5	19.6	16.8	4.9	4.4	4.0
Baidu	BIDU US	113.8	41,197	14.1	12.6	11.1	2.3	2.1	1.9
Meituan	3690 HK	168.0	140,712	na	84.0	36.1	4.5	3.5	2.8
JD.com	JD US	58.6	91,472	25.3	22.4	17.5	0.6	0.5	0.5
Average				18.7	29.8	18.2	2.8	2.5	2.1
E-commerce and local life services									
Alibaba	BABA US	90.1	240,687	12.0	10.3	9.3	1.9	1.7	1.6
JD.com	JD US	58.6	91,472	25.3	22.4	17.5	0.6	0.5	0.5
Pinduoduo	PDD US	86.3	113,807	28.0	24.8	20.5	6.1	4.9	4.1
Meituan	3690 HK	168.0	140,712	na	84.0	36.1	4.5	3.5	2.8
VIPShop	VIPS US	12.0	8,092	9.3	9.0	8.5	0.5	0.5	0.5
Average				18.6	30.1	18.4	2.7	2.2	1.9
Games									
Tencent	700 HK	296.0	391,708	23.5	19.6	16.8	4.9	4.4	4.0
NetEase	NTES US	70.9	47,933	14.7	14.4	13.1	3.4	3.2	2.9
Kingsoft	3888 HK	25.4	4,380	NA	51.0	30.6	4.0	3.3	3.0
XD Inc	2400 HK	20.1	1,288	NA	NA	21.9	2.7	2.0	1.6
Average				19.1	28.4	20.6	3.8	3.2	2.9
Social entertainment									
Bilibili	1024 HK	60.0	38,028	na	na	29.8	2.8	2.4	2.1
TME	BILI US	19.8	9,834	na	na	na	3.1	2.6	2.2
Cloud Music	TME US	7.4	13,643	21.7	19.9	17.7	3.4	3.2	3.0
China Lit.	9899 HK	74.5	2,093	na	na	31.8	1.6	1.3	1.1
Bilibili	772 HK	27.2	3,816	20.2	16.7	14.7	3.3	2.9	2.7
Average				21.0	18.3	23.5	2.8	2.5	2.2
Advertising									
Baidu	BIDU US	113.8	41,197	14.1	12.6	11.1	2.3	2.1	1.9
Weibo	WB US	16.4	4,362	8.8	8.3	7.5	2.3	2.3	2.1
Average				11.5	10.5	9.3	2.3	2.2	2.0
Online healthcare									
Ali Health	241 HK	7.3	13,718	NA	NA	NA	3.7	3.1	2.5
JD Health	6618 HK	71.5	30,669	NA	NA	70.9	4.9	3.6	2.8
PA Health	1833 HK	23.0	3,611	na	na	NA	3.7	3.2	2.7
Average				NA	NA	70.9	4.1	3.3	2.7
Overall average				22.3	26.6	21.4	3.4	2.8	2.4

Note: 1) data as at 15 December market close; 2) Alibaba is using FY23-25E forecast (March year-end).

Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	35,716	18,327	20,029	19,921	30,696	38,756
Cost of goods sold	(7,372)	(4,031)	(4,598)	(4,558)	(6,748)	(8,017)
Others	(50)	(11)	(6)	(17)	(25)	(27)
Gross profit	28,294	14,285	15,425	15,346	23,924	30,712
Operating expenses	(23,254)	(15,708)	(16,836)	(15,525)	(20,703)	(24,244)
SG&A expense	(12,584)	(8,041)	(7,844)	(6,966)	(11,042)	(13,013)
R&D expense	(10,670)	(7,667)	(8,992)	(8,559)	(9,661)	(11,231)
Operating profit	5,040	(1,423)	(1,411)	(179)	3,220	6,468
Interest income	2,094	2,187	2,132	1,990	2,054	2,084
Interest expense	(1,677)	(1,716)	(1,565)	(1,478)	(1,427)	(1,478)
Other income/expense	3,630	(273)	373	(730)	0	0
Pre-tax profit	9,087	(1,225)	(471)	(397)	3,847	7,074
Income tax	(1,742)	(355)	(270)	(473)	(769)	(1,415)
Others	(347)	(1,689)	96	(376)	0	150
Minority interest	57	62	95	95	95	95
Net profit	7,055	(3,207)	(550)	(1,151)	3,173	5,904
Adjusted net profit	6,527	(913)	1,356	656	4,984	8,036

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	67,955	58,011	66,108	71,453	86,863	102,927
Cash & equivalents	19,923	18,096	19,818	28,540	38,572	50,108
Restricted cash	1,824	1,319	1,378	1,394	2,149	2,713
Account receivables	7,661	4,119	4,649	4,781	6,139	7,751
Prepayment	12,710	7,855	9,032	7,171	10,437	12,789
Other current assets	25,837	26,622	31,231	29,566	29,566	29,566
Non-current assets	132,214	129,238	125,751	120,652	123,007	122,977
PP&E	6,135	5,780	5,534	5,529	5,569	5,755
Investment in JVs & assos	51,278	47,943	44,961	40,837	42,974	42,631
Intangibles	13,173	13,256	12,960	11,928	11,856	11,785
Goodwill	58,308	59,353	59,353	59,353	59,353	59,353
Other non-current assets	3,320	2,906	2,943	3,005	3,254	3,453
Total assets	200,169	187,249	191,859	192,104	209,869	225,904
Current liabilities	69,182	58,369	66,218	66,382	77,519	84,522
Short-term borrowings	30,516	33,665	39,866	39,866	39,866	39,866
Account payables	12,294	4,506	6,019	6,791	9,784	11,304
Tax payable	1,449	1,217	1,065	1,183	1,539	2,122
Other current liabilities	24,445	18,503	18,868	18,132	25,790	30,669
Accrued expenses	478	478	400	410	540	561
Non-current liabilities	24,142	27,313	15,185	15,018	16,497	17,326
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	3,525	5,004	5,833
Total liabilities	93,324	85,682	81,403	81,399	94,015	101,849
Share capital	6	6	6	6	6	6
Capital surplus	83,614	83,960	93,829	95,264	97,275	99,607
Retained earnings	22,803	19,470	18,823	17,637	20,775	26,644
Other reserves	(2,981)	(3,082)	(2,981)	(2,981)	(2,981)	(2,981)
Total shareholders equity	103,442	100,354	109,677	109,926	115,075	123,276
Minority interest	3,403	1,213	779	779	779	779
Total equity and liabilities	200,169	187,249	191,859	192,104	209,869	225,904

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	8,740	(2,914)	(375)	(773)	3,847	7,224
Depreciation & amortization	1,096	1,217	1,021	836	907	991
Change in working capital	282	(6,934)	177	1,892	6,513	3,039
Others	(2,785)	4,808	1,652	761	1,041	716
Net cash from operations	7,333	(3,823)	2,475	2,717	12,308	11,970
Investing						
Capital expenditure	(823)	(532)	(570)	(567)	(874)	(1,103)
Acquisition of subsidiaries/ investments	(823)	(2,861)	(3,585)	0	0	0
Others	(767)	(428)	7	0	0	0
Net cash from investing	(2,413)	(3,821)	(4,148)	(567)	(874)	(1,103)
Financing						
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)	6,589	(649)	1,233
Net cash from financing	(9,256)	6,025	3,919	6,589	(649)	1,233
Net change in cash						
Cash at the beginning of the year	25,774	21,747	19,415	21,196	29,934	40,721
Exchange difference	309	(713)	(465)	0	0	0
Others	(4,336)	(1,619)	2,246	8,738	10,786	12,100
Cash at the end of the year	21,747	19,415	21,196	29,934	40,721	52,821
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	14.8%	(48.7%)	9.3%	(0.5%)	54.1%	26.3%
Gross profit	14.8%	(49.5%)	8.0%	(0.5%)	55.9%	28.4%
Operating profit	93.5%	na	na	na	na	100.8%
Net profit	534.4%	na	na	na	na	86.1%
Adj. net profit	19.1%	na	na	(51.6%)	659.7%	61.2%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	79.2%	77.9%	77.0%	77.0%	77.9%	79.2%
Operating margin	14.1%	(7.8%)	(7.0%)	(0.9%)	10.5%	16.7%
Adj. net profit margin	18.3%	(5.0%)	6.8%	3.3%	16.2%	20.7%
Return on equity (ROE)	7.4%	(3.1%)	(0.5%)	(1.0%)	2.8%	5.0%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	1.0	1.0	1.0	1.1	1.1	1.2
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	19.9	na	na	na	46.2	24.8
P/B	1.3	1.2	1.2	1.3	1.3	1.2
P/CFPS	23.9	na	70.9	68.2	12.8	13.5

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

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