

Trip.com (TCOM US)

Resilient travel demand amid peak summer season to ease market concern

Trip.com Group (TCOM) released (27 Aug) 2Q24 results: net revenue was RMB12.8bn, up 13.6% YoY, in line with Bloomberg consensus estimates; non-GAAP operating income (OP) was RMB4.2bn, 6% better than consensus forecast at RMB4.0bn, thanks to better-than-expected cost control on R&D. Excluding the RMB1.1bn impact from equity in income of affiliates, non-GAAP net income of RMB3.9bn was 9% better than consensus. Although facing macro headwinds, as well as a tougher comps in 3Q24 owing to the transportation ticketing business related VAS business adjustment's impact on revenue generation, the likely resilient travel demand generated from high-end customer base during the summer peak season should support resilient revenue growth and decent profitability, in our view. YoY revenue growth is likely to reaccelerate in 4Q24 driven by the wearing off of business adjustment impact, as well as an easier comps. Our DCF-based TP is unchanged at US\$65.8, translating into 20x 2024E PE (Non-GAAP), which we see support from a 23-25E CAGR of 19% for non-GAAP OP. Reiterate BUY.

■ **3Q24 QTD performance remains solid.** Management noted robust business recovery in 2Q24 and highlighted that business growth on its platform remains resilient QTD in 3Q24: 1) Domestic hotel reservations grew by c. 20% YoY in 2Q24, and have delivered double-digit growth YoY QTD in 3Q; 2) outbound air and hotel reservations on TCOM's platform recovered to 100% compared with the 2019 levels in 2Q24, and have reached 110%-120% of the 2019 levels and consistently outperformed the market by 20-30% QTD in 3Q24; 3) Trip.com achieved robust YoY revenue growth of c. 70% in 2Q24, and is expected to deliver robust revenue growth in 3Q24, driven by rapid development of accommodation reservation business, as well as an increase in cross-selling between transportation ticketing and accommodation reservation business. In addition, management noted solid growth in inbound travel revenue: revenue generated from inbound travel accounted for 25% of total Trip.com revenue in 2Q24 (1Q24: 20%), and contributed c. 2.6% of total group-level revenue. For 3Q24E, we estimate TCOM to record revenue of RMB15.6bn, up 13% YoY, inline with Bloomberg consensus.

■ **More efficient-than-expected R&D spend drove a beat on OPM.** TCOM's non-GAAP OPM for 2Q24 was 33.1%, 1.9ppt better than consensus, aided by 2.1ppt better-than-expected R&D expense ratio, thanks to efficient cost control. Management guided to reinvest in sales and marketing expenses to drive international business expansion, while we believe the operating profit generated in relative mature business areas should buffer the incremental investment, and management will keep its focus on ROI and propel efficient business development. For 3Q24E/2024E, we estimate TCOM's non-GAAP OPM to expand to 33.1%/31.5% (3Q23/2023: 32.2%/29.6%), driven by solid revenue growth which in our view should aid the release of operating leverage.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	20,055	44,562	52,791	59,602	65,967
YoY growth (%)	0.1	122.2	18.5	12.9	10.7
Net profit (RMB mn)	1,403.0	9,918.0	14,548.6	15,372.5	17,340.0
Adjusted net profit (RMB mn)	1,294.0	13,071.0	16,447.0	17,458.6	19,384.9
YoY growth (%)	(4.6)	910.1	25.8	6.2	11.0
EPS (Adjusted) (RMB)	1.97	19.48	23.48	24.20	26.87
P/E (x)	139.3	19.8	13.5	12.8	11.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$65.80
Up/Downside 55.4%
Current Price US\$42.34

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Stock Data

Mkt Cap (US\$ mn)	27,821.3
Avg 3 mths t/o (US\$ mn)	40.8
52w High/Low (US\$)	57.05/32.09
Total Issued Shares (mn)	657.1

Source: FactSet

Shareholding Structure

Baidu Entities	10.8%
Morgan Stanley	5.8%

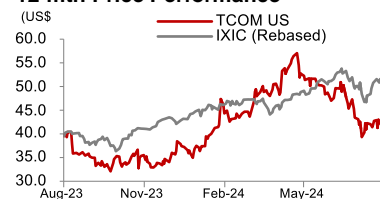
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.3%	-4.4%
3-mth	-19.7%	-23.4%
6-mth	-4.5%	-13.6%

Source: FactSet

12-month Price Performance



Source: FactSet

Results comparison and changes in forecast

Figure 1: TCOM: quarterly financial results

(RMBbn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	Consensus	Diff%	CMBI estimates	Diff%
Total revenue	9.2	11.3	13.8	10.3	11.9	12.8	12.8	0.3%	12.9	-1.1%
YoY growth (%)	123.9%	180.4%	99.4%	105.4%	29.4%	13.6%			14.8%	
Accommodation reservation	3.5	4.3	5.6	3.9	4.5	5.1	5.0	3.7%	5.0	2.4%
YoY growth (%)	140.0%	215.8%	92.5%	131.1%	29.2%	19.9%			17.0%	
Transportation ticketing	4.2	4.8	5.4	4.1	5.0	4.9	5.0	-2.0%	5.0	-3.4%
YoY growth (%)	149.9%	173.1%	104.6%	86.3%	20.3%	1.2%			4.7%	
Packaged tour	0.4	0.7	1.3	0.7	0.9	1.0	1.0	0.1%	1.0	1.4%
YoY growth (%)	211.3%	491.8%	243.2%	329.3%	128.8%	42.0%			40.0%	
Corporate travel	0.4	0.6	0.6	0.6	0.5	0.6	0.6	-0.2%	0.7	-2.6%
YoY growth (%)	100.5%	178.1%	59.7%	128.9%	14.8%	8.4%			11.3%	
Others	0.7	0.9	0.9	1.0	1.0	1.1	1.2	-3.9%	1.2	-7.1%
YoY growth (%)	14.1%	52.0%	42.9%	42.2%	38.6%	31.0%			41.0%	
Gross profit	7.6	9.2	11.3	8.3	9.7	10.5	10.5	0.0%	10.6	-1.2%
Operating profit	2.2	3.0	3.9	2.2	3.3	3.6	3.5	2.2%	3.5	1.7%
Non-GAAP operating profit	2.6	3.5	4.4	2.6	3.8	4.2	4.0	6.4%	4.0	5.9%
Non-GAAP net profit	2.1	3.4	4.9	2.7	4.1	5.0	3.6	39.5%	3.3	51.4%
Expense ratios and margins										
GPM (%)	82.1%	82.0%	82.0%	80.4%	81.1%	81.8%	82.0%	-0.2 ppt	81.9%	-0.1 ppt
OPM (%)	24.3%	26.4%	28.4%	21.3%	27.8%	27.8%	27.3%	0.5 ppt	27.0%	0.8 ppt
Non-GAAP OPM (%)	28.4%	30.8%	32.1%	25.6%	31.6%	33.1%	31.2%	1.9 ppt	30.9%	2.2 ppt
Non-GAAP P&D expense ratio	27.1%	24.2%	24.3%	26.2%	24.3%	20.9%	23.0%	-2.1 ppt	23.9%	-3.0 ppt
Non-GAAP S&M expense ratio	18.7%	20.5%	19.8%	22.2%	19.1%	21.8%	22.0%	-0.2 ppt	21.0%	0.7 ppt
Non-GAAP G&A expense ratio	7.8%	6.5%	5.9%	6.5%	6.1%	6.1%	5.9%	0.2 ppt	6.1%	0.0 ppt
Adjusted NPM (%)	22.4%	30.5%	35.6%	25.9%	34.0%	39.0%	28.0%	11.0 ppt	25.5%	13.5 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: TCOM: forecast revision

RMB bn	Current			Previous			Diff (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	52.8	59.6	66.0	52.8	59.5	65.8	-0.1%	0.2%	0.2%
Gross Profit	43.2	48.5	53.7	42.9	48.2	53.4	0.6%	0.6%	0.6%
Operating Profit	14.5	16.5	18.7	13.9	15.8	17.9	4.7%	4.1%	4.1%
Non-GAAP net profit	16.4	17.5	19.4	13.9	16.9	18.8	18.6%	3.3%	3.4%
Gross Margin	81.8%	81.4%	81.4%	81.3%	81.1%	81.1%	0.5 ppt	0.3 ppt	0.3 ppt
Operating Margin	27.5%	27.7%	28.3%	26.2%	26.6%	27.2%	1.2 ppt	1.0 ppt	1.0 ppt
Non-GAAP net margin	31.2%	29.3%	29.4%	26.3%	28.4%	28.5%	4.9 ppt	0.9 ppt	0.9 ppt

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB bn	CMBI			Consensus			Diff.		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	52.8	59.6	66.0	52.5	60.7	69.2	0.5%	-1.8%	-4.6%
Gross Profit	43.2	48.5	53.7	42.8	49.5	56.3	0.9%	-1.9%	-4.6%
Non-GAAP net profit	16.4	17.5	19.4	14.9	16.9	19.2	10.6%	3.1%	0.9%
Gross Margin	81.8%	81.4%	81.4%	81.5%	81.5%	81.4%	0.3 ppt	0.0 ppt	0.0 ppt
Non-GAAP net margin	31.2%	29.3%	29.4%	28.3%	27.9%	27.8%	2.8 ppt	1.4 ppt	1.6 ppt

Source: Bloomberg, CMBIGM estimates

DCF-based target price of US\$65.8

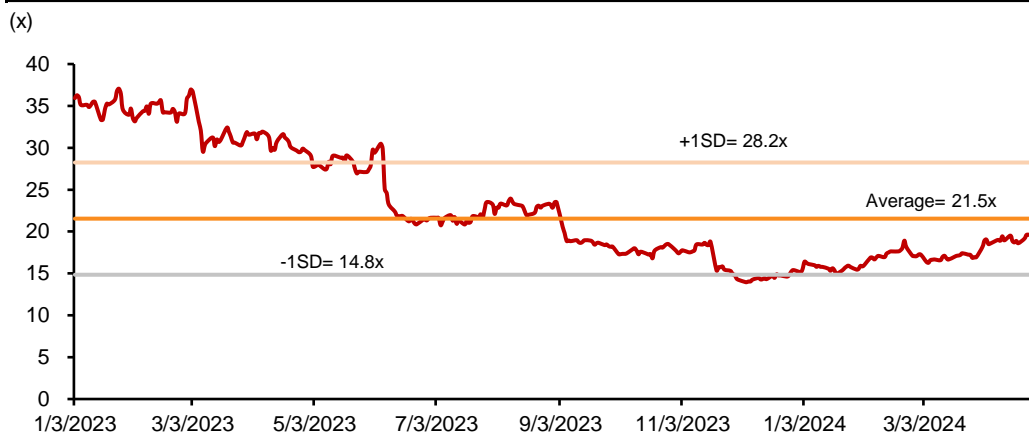
Our DCF-based target price is unchanged at US\$65.8 (WACC of 10.5% and terminal growth of 2.0%; both unchanged), and translates into 20x 24E PE (non-GAAP).

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	52.8	59.6	66.0	71.7	76.8	81.3	85.1	88.4	91.1
NPV of FCF	143.3								
Discounted terminal value	131.5								
Total equity valuation	327.7								
No. of shares (diluted, mn)	700								
Valuation per share (USD)	65.8								

Source: CMBIGM estimates

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

Figure 5: TCOM: one-year forward PE

Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	20,029	20,055	44,562	52,791	59,602	65,967
Cost of goods sold	(4,598)	(4,513)	(8,121)	(9,545)	(11,016)	(12,193)
Others	(6)	(16)	(52)	(56)	(58)	(57)
Gross profit	15,425	15,526	36,389	43,189	48,529	53,716
Operating expenses	(16,836)	(15,438)	(25,065)	(28,687)	(32,035)	(35,064)
SG&A expense	(7,844)	(7,097)	(12,945)	(15,820)	(17,804)	(19,509)
R&D expense	(8,992)	(8,341)	(12,120)	(12,867)	(14,231)	(15,555)
Operating profit	(1,411)	88	11,324	14,502	16,494	18,652
Interest income	2,132	2,046	2,090	2,408	2,740	2,801
Interest expense	(1,565)	(1,514)	(2,067)	(1,888)	(2,248)	(2,248)
Other income/expense	373	2,015	(667)	881	994	1,101
Pre-tax profit	(471)	2,635	10,680	15,902	17,981	20,306
Income tax	(270)	(682)	(1,750)	(3,180)	(3,596)	(4,061)
Others	96	(586)	1,072	1,911	1,072	1,179
Minority interest	95	36	(84)	(84)	(84)	(84)
Net profit	(550)	1,403	9,918	14,549	15,373	17,340
Adjusted net profit	1,356	1,294	13,071	16,447	17,459	19,385
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	66,108	61,435	88,732	125,841	153,062	180,781
Cash & equivalents	19,818	17,000	41,592	76,418	99,850	123,782
Restricted cash	1,378	1,487	2,391	3,695	4,172	4,618
Account receivables	4,649	5,486	11,410	10,558	11,920	13,193
Prepayment	9,032	10,169	12,749	17,421	19,371	21,439
Other current assets	31,231	27,293	20,590	17,748	17,748	17,749
Non-current assets	125,751	130,256	130,405	129,757	129,710	129,697
PP&E	5,534	5,204	5,142	5,617	5,712	5,843
Investment in JVs & assos	44,961	50,177	49,342	49,342	49,342	49,342
Intangibles	12,960	12,742	12,644	11,371	11,179	10,986
Goodwill	59,353	59,337	59,372	59,372	59,372	59,372
Other non-current assets	2,943	2,796	3,905	4,055	4,105	4,155
Total assets	191,859	191,691	219,137	255,598	282,771	310,478
Current liabilities	66,218	61,239	72,411	91,826	101,058	109,096
Short-term borrowings	39,866	32,674	25,857	25,857	25,857	25,857
Account payables	6,019	7,569	16,459	20,999	24,235	26,825
Tax payable	1,065	835	0	4,771	5,394	6,092
Other current liabilities	18,868	19,765	30,095	39,532	44,911	49,713
Accrued expenses	400	396	0	668	661	610
Non-current liabilities	15,185	17,433	23,720	24,104	24,422	24,541
Long-term borrowings	11,093	13,177	19,099	19,099	19,099	19,099
Obligations under finance leases	400	534	477	477	477	477
Other non-current liabilities	3,692	3,722	4,144	4,528	4,846	4,965
Total liabilities	81,403	78,672	96,131	115,931	125,480	133,637
Share capital	6	6	6	6	6	6
Capital surplus	93,829	95,196	97,248	99,575	101,862	104,107
Retained earnings	18,823	20,135	28,806	43,320	58,657	75,963
Other reserves	(2,981)	(3,054)	(3,876)	(4,056)	(4,056)	(4,056)
Total shareholders equity	109,677	112,283	122,184	138,845	156,469	176,019
Minority interest	779	736	822	822	822	822
Total equity and liabilities	191,859	191,691	219,137	255,598	282,771	310,478

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(375)	2,049	11,752	17,813	19,053	21,485
Depreciation & amortization	1,021	875	817	861	907	958
Change in working capital	177	(800)	9,256	15,595	5,919	4,697
Others	1,652	517	179	(2,209)	(2,666)	(3,172)
Net cash from operations	2,475	2,641	22,004	32,060	23,213	23,969
Investing						
Capital expenditure	(570)	(497)	(606)	(718)	(811)	(897)
Acquisition of subsidiaries/ investments	(3,585)	1,039	(5,326)	0	0	0
Others	7	594	11,851	2	3	3
Net cash from investing	(4,148)	1,136	5,919	(716)	(808)	(894)
Financing						
Net borrowings	5,615	4,938	5,721	0	0	0
Proceeds from share issues	7,984	0	0	0	0	0
Others	(9,680)	(11,655)	(8,268)	4,786	1,503	1,301
Net cash from financing	3,919	(6,717)	(2,547)	4,786	1,503	1,301
Net change in cash						
Cash at the beginning of the year	19,415	21,196	18,487	43,983	80,114	104,022
Exchange difference	(465)	231	120	0	0	1
Others	2,246	(2,940)	25,376	36,131	23,909	24,376
Cash at the end of the year	21,196	18,487	43,983	80,114	104,022	128,399
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	9.3%	0.1%	122.2%	18.5%	12.9%	10.7%
Gross profit	8.0%	0.7%	134.4%	18.7%	12.4%	10.7%
Operating profit	na	na	12,768.2%	28.1%	13.7%	13.1%
Net profit	na	na	606.9%	46.7%	5.7%	12.8%
Adj. net profit	na	(4.6%)	910.1%	25.8%	6.2%	11.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	77.0%	77.4%	81.7%	81.8%	81.4%	81.4%
Operating margin	(7.0%)	0.4%	25.4%	27.5%	27.7%	28.3%
Adj. net profit margin	6.8%	6.5%	29.3%	31.2%	29.3%	29.4%
Return on equity (ROE)	(0.5%)	1.3%	8.5%	11.1%	10.4%	10.4%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.0	1.0	1.2	1.4	1.5	1.7
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	139.3	19.8	13.5	12.8	11.3
P/B	1.7	1.8	1.7	1.4	1.3	1.1
P/CFPS	104.0	92.4	9.3	6.3	8.8	8.6

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

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