

Trip.com (TCOM US)

Solid business growth momentum continues

Trip.com Group (TCOM) released (19 Nov) 3Q24 results: total revenue was RMB15.9bn, up 16% YoY, 2% better than Bloomberg consensus estimates; non-GAAP operating income (OP) was RMB5.5bn, 6% better than consensus thanks to more optimized-than-expected sales and marketing spend. Excluding equity in income of affiliates (RMB558mn), non-GAAP net income of RMB5.4bn was 13% ahead of consensus. Domestic business volume growth was more resilient than we had previously expected, and outbound business recovery was well on track. The incremental investment in international expansion of Trip.com should aid long-term revenue and earnings growth. Taken into account the combined impact from a more positive earnings outlook aided by better-than-expected revenue growth, and a rollover of valuation period to 2025E, our DCF-based TP is lifted by 8% to US\$71.0, which translates into 21.3x/20.7x 2024E/2025E PE (non-GAAP), and we see support coming from a 23-25E CAGR of 19% for non-GAAP OP. Maintain BUY.

■ **4Q24 QTD bookings and revenue growth remain solid.** Management noted solid booking volume growth in 3Q24 and noted that the growth on its platform remains resilient QTD in 4Q24: 1) Domestic hotel reservations grew by mid-to-high-teens YoY in 3Q24, and the robust growth trend sustained in 4Q QTD, driven by solid booking volume growth of mid-tier and high-star hotels; and this has also contributed to a YoY stabilization trend for TCOM's hotel average daily rate (ADR) in 4Q, better than the industry level; 2) domestic air tickets volume grew by mid-to-high single digit (MHSD) YoY in 3Q and the trend has sustained in 4Q QTD, which we believe should translate into MHSD YoY revenue growth in 4Q as impact from VAS business adjustment has fully dissipated; 2) outbound air and hotel reservations on TCOM's platform recovered to 120% of the 2019 level in 3Q24, 40ppts ahead of industry average at ~80% level, and TCOM consistently has outperformed the market by c.40ppts QTD; 3) Trip.com achieved robust YoY revenue growth of c. 60% in 3Q24, aided by strong YoY growth of 60% for air tickets and hotel reservations, with contribution to total revenue rising to c. 9% (3Q23: 7%). For 4Q24E, we estimate TCOM to record revenue of RMB12.4bn, up 20% YoY, 2% ahead of consensus.

■ **More efficient-than-expected S&M spend drove a beat on OPM.** TCOM's non-GAAP OPM for 3Q24 was 34.4%, 1.5ppts better than consensus, mainly driven by better-than-expected sales and marketing (S&M) spend, of which the non-GAAP expense ratio came in at 21.1% in 3Q24, 1.5ppts better than consensus. We are estimating a 27.0% non-GAAP S&M ratio for 4Q24E, driven by elevated brand marketing-related investment for Trip.com in regions that are at an early stage of business expansion, such as Australia and Southeast Asia. We expect Trip.com to sustain a contribution profit breakeven status for some time, and will reinvest the incremental profit generated back to drive business expansion and revenue growth. We are constructive on Trip.com's global expansion, especially in the Asian market, as the current online penetration remains low, and TCOM has established strong supply chain and customer services capabilities to aid business expansion. Trip.com business should also enjoy a better-than-domestic business' OPM profile at steady state, in our view, given higher AOV for international hotels and higher take rate for international ticketing business. For 4Q24E/2024E, we estimate TCOM's non-GAAP OPM to reach 20.7%/30.3% (4Q23/2023: 25.6%/29.6%).

BUY (Maintain)

Target Price **US\$71.00**
 (Previous TP) US\$65.80
Up/Downside **15.8%**
Current Price **US\$61.32**

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Stock Data

Mkt Cap (US\$ mn)	40,292.9
Avg 3 mths t/o (US\$ mn)	100.9
52w High/Low (US\$)	68.43/32.76
Total Issued Shares (mn)	657.1

Source: FactSet

Shareholding Structure

Baidu Entities	10.8%
Morgan Stanley	5.8%

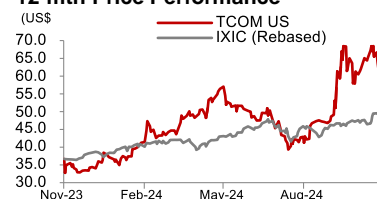
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.1%	-1.5%
3-mth	42.9%	35.9%
6-mth	7.9%	-4.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	20,055	44,562	52,985	60,765	67,886
YoY growth (%)	0.1	122.2	18.9	14.7	11.7
Net profit (RMB mn)	1,403.0	9,918.0	16,216.7	15,680.5	18,044.7
Adjusted net profit (RMB mn)	1,294.0	13,071.0	16,811.7	17,807.3	20,149.2
YoY growth (%)	(4.6)	910.1	28.6	5.9	13.2
EPS (Adjusted) (RMB)	1.97	19.48	24.00	24.68	27.93
P/E (x)	205.3	29.2	17.8	18.4	16.0

Source: Company data, Bloomberg, CMBIGM estimates

Results comparison and changes in forecast

Figure 1: TCOM: quarterly financial results

(RMBbn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	3Q24E Consensus	Diff%
Total revenue	9.2	11.3	13.8	10.3	11.9	12.8	15.9	15.6	1.6%
YoY growth (%)	123.9%	180.4%	99.4%	105.4%	29.4%	13.6%	15.5%		
Accommodation reservation	3.5	4.3	5.6	3.9	4.5	5.1	6.8	6.8	0.1%
YoY growth (%)	140.0%	215.8%	92.5%	131.1%	29.2%	19.9%	21.7%		
Transportation ticketing	4.2	4.8	5.4	4.1	5.0	4.9	5.7	5.5	2.1%
YoY growth (%)	149.9%	173.1%	104.6%	86.3%	20.3%	1.2%	5.3%		
Packaged tour	0.4	0.7	1.3	0.7	0.9	1.0	1.6	1.6	-3.0%
YoY growth (%)	211.3%	491.8%	243.2%	329.3%	128.8%	42.0%	17.3%		
Corporate travel	0.4	0.6	0.6	0.6	0.5	0.6	0.7	0.6	1.1%
YoY growth (%)	100.5%	178.1%	59.7%	128.9%	14.8%	8.4%	11.0%		
Others	0.7	0.9	0.9	1.0	1.0	1.1	1.2	1.0	19.9%
YoY growth (%)	14.1%	52.0%	42.9%	42.2%	38.6%	31.0%	40.9%		
Gross profit	7.6	9.2	11.3	8.3	9.7	10.5	13.1	13.0	0.8%
Operating profit	2.2	3.0	3.9	2.2	3.3	3.6	5.0	4.7	6.0%
Non-GAAP operating profit	2.6	3.5	4.4	2.6	3.8	4.2	5.5	5.2	6.0%
Non-GAAP net profit	2.1	3.4	4.9	2.7	4.1	5.0	5.4	4.8	13.3%
Expense ratio and margins									
GPM (%)	82.1%	82.0%	82.0%	80.4%	81.1%	81.8%	82.2%	82.9%	-0.7 ppt
OPM (%)	24.3%	26.4%	28.4%	21.3%	27.8%	27.8%	31.5%	30.2%	1.3 ppt
Non-GAAP OPM (%)	28.4%	30.8%	32.1%	25.6%	31.6%	33.1%	34.4%	32.9%	1.4 ppt
Non-GAAP P&D expense ratio	27.1%	24.2%	24.3%	26.2%	24.3%	20.9%	21.5%	21.8%	-0.2 ppt
Non-GAAP S&M expense ratio	18.7%	20.5%	19.8%	22.2%	19.1%	21.8%	21.1%	22.5%	-1.5 ppt
Non-GAAP G&A expense ratio	7.8%	6.5%	5.9%	6.5%	6.1%	6.1%	5.3%	5.5%	-0.2 ppt
Adjusted NPM (%)	22.4%	30.5%	35.6%	25.9%	34.0%	39.0%	34.0%	30.5%	3.5 ppt

Source: Company data, Bloomberg, CMBIGM

Figure 2: TCOM: forecast revision

RMB bn	Current			Previous			Diff (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	53.0	60.8	67.9	52.8	59.6	66.0	0.4%	2.0%	2.9%
Gross profit	43.2	49.5	55.3	43.2	48.5	53.7	-0.1%	2.0%	2.9%
Operating profit	13.9	16.6	19.3	14.5	16.5	18.7	-3.9%	0.8%	3.6%
Non-GAAP net profit	16.8	17.8	20.1	16.4	17.5	19.4	2.2%	2.0%	3.9%
Gross margin	81.5%	81.4%	81.4%	81.8%	81.4%	81.4%	-0.3 ppt	0.0 ppt	0.0 ppt
Operating margin	26.3%	27.4%	28.5%	27.5%	27.7%	28.3%	-1.2 ppt	-0.3 ppt	0.2 ppt
Non-GAAP net margin	31.7%	29.3%	29.7%	31.2%	29.3%	29.4%	0.6 ppt	0.0 ppt	0.3 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	53.0	60.8	67.9	52.3	60.3	68.8	1.2%	0.8%	-1.3%
Gross Profit	43.2	49.5	55.3	42.8	49.2	56.4	0.8%	0.5%	-2.0%
Non-GAAP net profit	16.8	17.8	20.1	16.8	18.4	21.0	-0.2%	-3.1%	-4.1%
Gross Margin	81.5%	81.4%	81.4%	81.8%	81.6%	82.0%	-0.4 ppt	-0.2 ppt	-0.6 ppt
Non-GAAP net margin	31.7%	29.3%	29.7%	32.2%	30.5%	30.5%	-0.5 ppt	-1.2 ppt	-0.9 ppt

Source: Bloomberg, CMBIGM estimates

DCF-based target price of US\$71.0

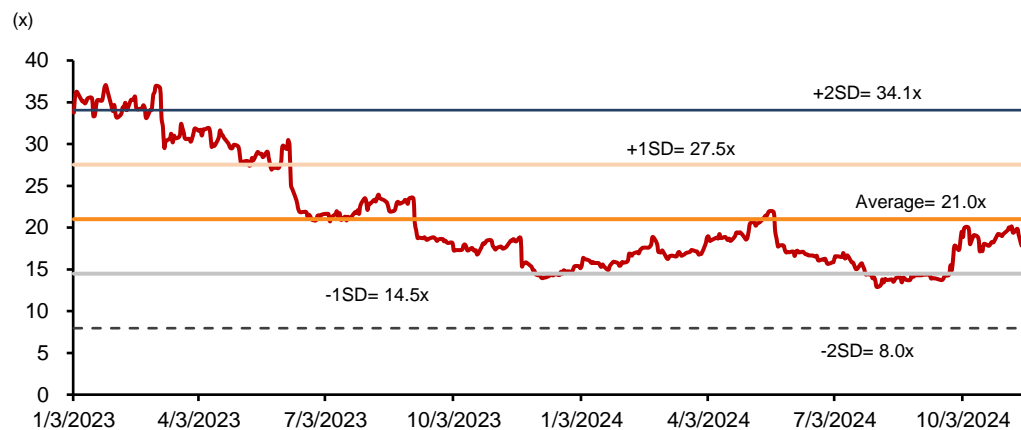
We roll over our valuation to 2025E, and raise earnings forecast over 2024-2026E and over the long term. Our DCF-based target price is thus lifted to US\$71.0 (WACC of 10.5% and terminal growth of 2.0%; both unchanged), and translates into 21.3x/20.7x 2024E/2025E PE (non-GAAP).

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	53.0	60.8	67.9	74.3	80.0	85.1	89.4	93.2	96.4
NPV of FCF	151.1								
Discounted terminal value	140.7								
Total equity valuation	347.0								
No. of shares (diluted, mn)	700								
Valuation per share (USD)	71.0								

Source: CMBIGM estimates

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

Figure 5: TCOM: one-year forward PE over the past two years

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	52,985	60,765	67,886
Cost of goods sold	(4,598)	(4,513)	(8,121)	(9,765)	(11,231)	(12,548)
Others	(6)	(16)	(52)	(57)	(59)	(59)
Gross profit	15,425	15,526	36,389	43,163	49,476	55,279
Operating expenses	(16,836)	(15,438)	(25,065)	(29,222)	(32,848)	(35,955)
SG&A expense	(7,844)	(7,097)	(12,945)	(15,990)	(18,522)	(20,491)
R&D expense	(8,992)	(8,341)	(12,120)	(13,232)	(14,327)	(15,465)
Operating profit	(1,411)	88	11,324	13,941	16,627	19,324
Interest income	2,132	2,046	2,090	2,352	2,954	2,868
Interest expense	(1,565)	(1,514)	(2,067)	(1,888)	(2,248)	(2,158)
Other income/expense	373	2,015	(667)	2,361	1,032	1,153
Pre-tax profit	(471)	2,635	10,680	16,766	18,366	21,187
Income tax	(270)	(682)	(1,750)	(2,934)	(3,673)	(4,237)
Others	96	(586)	1,072	2,469	1,072	1,179
Minority interest	95	36	(84)	(84)	(84)	(84)
Net profit	(550)	1,403	9,918	16,217	15,681	18,045
Adjusted net profit	1,356	1,294	13,071	16,812	17,807	20,149

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	66,108	61,435	88,732	128,216	156,583	186,126
Cash & equivalents	19,818	17,000	41,592	78,677	102,680	127,984
Restricted cash	1,378	1,487	2,391	3,709	4,254	4,752
Account receivables	4,649	5,486	11,410	10,597	12,153	13,577
Prepayment	9,032	10,169	12,749	17,485	19,749	22,063
Other current assets	31,231	27,293	20,590	17,748	17,748	17,749
Non-current assets	125,751	130,256	130,405	129,759	129,726	129,737
PP&E	5,534	5,204	5,142	5,619	5,729	5,883
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	257,975	286,309	315,863
Current liabilities	66,218	61,239	72,411	92,481	102,533	111,607
Short-term borrowings	39,866	32,674	25,857	25,857	25,857	25,857
Account payables	6,019	7,569	16,459	21,484	24,707	27,606
Tax payable	1,065	835	0	4,401	5,510	6,356
Other current liabilities	18,868	19,765	30,095	40,056	45,785	51,161
Accrued expenses	400	396	0	684	674	627
Non-current liabilities	15,185	17,433	23,720	24,202	24,511	24,676
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	4,626	4,935	5,100
Total liabilities	81,403	78,672	96,131	116,683	127,044	136,283
Share capital	6	6	6	6	6	6
Capital surplus	93,829	95,196	97,248	99,533	101,860	104,164
Retained earnings	18,823	20,135	28,806	44,988	60,634	78,643
Other reserves	(2,981)	(3,054)	(3,876)	(4,056)	(4,056)	(4,056)
Total shareholders equity	109,677	112,283	122,184	140,471	158,443	178,758
Minority interest	779	736	822	822	822	822
Total equity and liabilities	191,859	191,691	219,137	257,975	286,309	315,863

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(375)	2,049	11,752	19,235	19,438	22,366
Depreciation & amortization	1,021	875	817	861	909	962
Change in working capital	177	(800)	9,256	16,147	6,232	5,335
Others	1,652	517	179	(2,005)	(2,702)	(3,289)
Net cash from operations	2,475	2,641	22,004	34,238	23,877	25,374
Investing						
Capital expenditure	(570)	(497)	(606)	(721)	(826)	(923)
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	(718)	(824)	(920)
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)	4,883	1,494	1,348
Net cash from financing	3,919	(6,717)	(2,547)	4,883	1,494	1,348
Net change in cash						
Cash at the beginning of the year	19,415	21,196	18,487	43,983	82,386	106,933
Exchange difference	(465)	231	120	0	0	1
Others	2,246	(2,940)	25,376	38,403	24,547	25,802
Cash at the end of the year	21,196	18,487	43,983	82,386	106,933	132,736
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	9.3%	0.1%	122.2%	18.9%	14.7%	11.7%
Gross profit	8.0%	0.7%	134.4%	18.6%	14.6%	11.7%
Operating profit	na	na	12,768.2%	23.1%	19.3%	16.2%
Net profit	na	na	606.9%	63.5%	(3.3%)	15.1%
Adj. net profit	na	(4.6%)	910.1%	28.6%	5.9%	13.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	77.0%	77.4%	81.7%	81.5%	81.4%	81.4%
Operating margin	(7.0%)	0.4%	25.4%	26.3%	27.4%	28.5%
Adj. net profit margin	6.8%	6.5%	29.3%	31.7%	29.3%	29.7%
Return on equity (ROE)	(0.5%)	1.3%	8.5%	12.3%	10.5%	10.7%
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	205.3	29.2	17.8	18.4	16.0
P/B	2.6	2.6	2.4	2.1	1.8	1.6
P/CFPS	153.2	136.2	13.6	8.7	12.7	11.9

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

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