

SECTOR UPDATE

Online Travel Agencies – China

Tomb Sweeping Holiday 2022; Still Not Out of The Woods Yet

Domestic tourism during the four-day Tomb Sweeping holiday in China was weaker than expected as local confirmed COVID-19 cases triggered intermittent lockdown measures across several provinces. At this juncture, we think the “Zero-COVID” policy will continue to dampen the domestic tourism recovery pace. We prefer Trip.com due to its better-than-expected recovery for international travel (from Europe and US). Maintain OVERWEIGHT on the OTA sector.

WHAT'S NEW

- Key statistic for Tomb Sweeping holiday.** The Ministry of Cultural and Tourism (MCT) reported 75.4m total domestic tourists during the four-day Tomb Sweeping holiday, down 26.2% yoy and recovering to 68% of pre-pandemic levels. Total domestic tourism revenue was Rmb18.8b, down 30.9% yoy, and recovering to 39.2% of pre-pandemic levels. According to the MCT, tourist visitations this year mainly focused on short-distance travel with garden camping, flower seeing and outdoor recreation activities among the most popular destination choices due to the lockdown in various cities such as Shanghai and Shenzhen. Cities like Chongqing, Xian, Urumqi and other Western regions were also popular destinations during the four-day holiday.
- Tongcheng-Travel's tomb-sweeping tourism data overview.** According to Tongcheng-Travel's (TT) 2022 Tomb-Sweeping Consumer Tourism Spending report, short-haul travelling as well as self-driving tours remained as top choices among tourists (similar to 2021's Tomb Sweeping holiday). In terms of tourist activities, flower viewing and camping were among the popular choices. During the four-day holiday, domestic hotel bookings accounted for 67% of the total accommodation reservations made, with average booking window narrowing to just 1.6 days. 91% of the tourists preferred intra-provincial travel whereas the remaining went for cross-provincial travelling. TT saw ASPs for flight ticket plunge 40% yoy to a three-year low.
- Trip.com's tomb-sweeping tourism data overview.** Trip.com's (TCOM) 2022 Tomb Sweeping Holiday Insights saw rural area tourism grow 20% yoy, recovering to 92% of pre-pandemic level as tourists from Beijing, Guangzhou and Hangzhou were among the top 3 tourists to the lower tier cities. This year, sightseeing was one of the most popular activities for tourists vs last year as tourists preferred locations such as Tier 1 cities like Shanghai, Beijing and Guangzhou.
- Our take on the Tomb Sweeping holiday performance.** Aside from the flight ASP performance (provided by TT) and rural area tourism performance (provided by TCOM), we notice the OTA players did not provide a clear picture of their overall operating metrics unlike last year. We note the recent border reopenings in Southeast Asia as well as continued recovery in travel in the European region. According to International Air Transport Association (IATA), Europe's air passenger numbers had recovered to 40% of pre-COVID-19 levels during 2021 and is expected to reach 86% by 2022, underpinned by restriction-free measures within the EU countries as well as the upcoming Qatar Fifa World Cup 2022 which could spur cross-border travel demand. As such, we prefer TCOM at this juncture due to the lack of re-rating catalysts in the domestic tourism sector.

OVERWEIGHT (Maintained)

STOCK PICKS

Company	Ticker	Rec	Target Price	Share Price
Trip.com	9961 HK	BUY	271.00	187.40

Source: Bloomberg, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Price @ 6 Apr 2022 (lcu)	Target Price (lcu)	Upside/ (Downside) to TP (%)	Market Cap (US\$m)	PE 2022F	PE 20223F	P/B 2022F	P/B 20223F	EV/EBITDA 2022F	EV/EBITDA 20223F	ROE 2022F
Trip.com	9961 HK	BUY	187.40	271.00	44.6	15,242.2	77.1	22.6	0.8	0.8	76.6	27.9	1.2
Tongcheng Travel	780 HK	BUY	14.02	20.00	42.7	3,967.6	24.2	15.9	1.6	1.4	17.0	11.1	5.9

Source: Bloomberg, UOB Kay Hian

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STOCK IMPACT

• Guidance and outlook for TT and TCOM:

- TT has guided for its top-line to grow 0-5% in 1Q22, with its midpoint being 7% below 1Q19's level. Management mentioned that travel demand in Jan-Feb 22 saw a good recovery trend with double-digit volume growth from hotel bookings and a 15% yoy growth in transport. However, this was disrupted in mid-March due to an outbreak of COVID-19 cases, with its transport business seeing a yoy decline in March. TT expects 1Q22 adjusted net profit to reach Rmb200m-250m, down 24% yoy with adjusted net margin of 13.6%. TT expects full-year 2022 revenue to grow 15-20% yoy, with a net margin of 16-17%.
- TCOM expects 1Q22 revenue to decline 52-53% vs 1Q19 to Rmb3.8b (-6% yoy vs 1Q21). The company's international flight ticketing reservation saw a 200% yoy growth in 2M22, mainly attributed to rapid growth from the European region. Domestic air ticketing also grew at high single digit yoy but was disrupted by the recent pandemic outbreak in Mar 22. Meanwhile, domestic hotel reservations climbed 20% yoy in 2M22, close to full recovery from 2M19. In terms of average daily rate (ADR), TCOM guided it had declined mid-teens compared to pre-COVID-19 level with high-star hotels facing more apparent declines than low-star hotels. The overall hotel blended take rate continue to trend down (vs pre-COVID-19 level), as the company continues to penetrate into lower tier cities and offer promotions for short-haul travelling. Riding on the positive recovery from corporate travel demand, TCOM guided it will take this opportunity to promote corporate travel which should contribute meaningfully to its blended take rate (given the high ASP nature). In terms of overseas business (Trip.com+Skyscanner accounted for 12-13% of 2019 revenue), management guided that it sees Skyscanner recovering to 40-50% of 2019 level, mostly attributed to promising progress from the European region.

EARNING REVISION/RISK

- Our forecasts for TCEL and Trip.com remain unchanged.

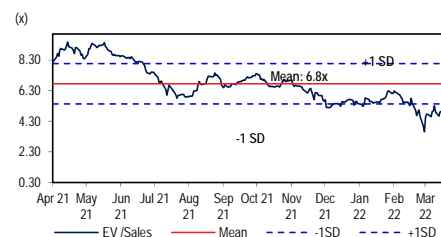
VALUATION/RECOMMENDATION

- Maintain BUY on Trip.com (9961 HK) with an unchanged target price of HK\$271.00 (US\$33.00)** as we ascribed 2022E 22x PE and 22x EV/EBITA respectively to the company's accommodation+ transportation ticketing and package tour+corporate travel segment respectively. TCOM is our top pick in the OTA sector due to its higher exposure to international business which saw positive recovery as compared with domestic travel. Our target price implies 6x 2022F EV/sales, against the company's historical average of 6.8x.
- Maintain BUY on Tongcheng-Travel (780 HK) with an unchanged target price of HK\$20.00**, based on 35x 2022F PE, with 0.9x PEG on the back of 40% EPS CAGR from 2022-25. The company is the key proxy to the resilient domestic tourism performance in the absence of overseas revenue. However due to the recent spike in COVID-19 cases and China's "Zero-Covid" policy, we think the domestic tourism sector will continue to face an uneven recovery path.

SECTOR CATALYST AND RISK

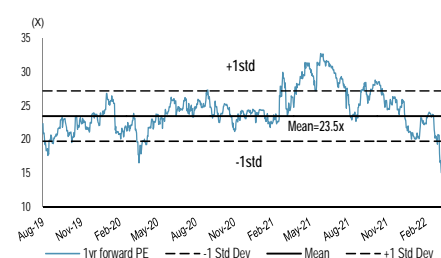
- Sector catalysts:** Uplift of domestic travel restrictions, continued penetration of domestic offline and lower-tier cities travel market.
- Risks:** Movement restrictions/cross border travelling ban remaining intact in China and Hong Kong, another outbreak of a new COVID-19 variant.

TRIP.COM 12-MONTH FORWARD EV/SALES BAND



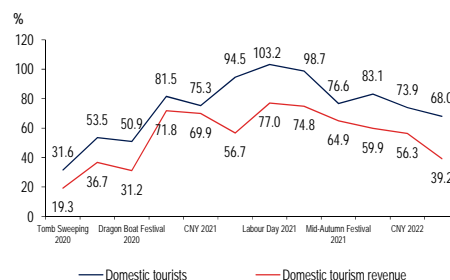
Source: Bloomberg, UOB Kay Hian

TONGCHENG-TRAVEL 12-MONTH FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

DOMESTIC TOURISM RECOVERY TREND



Source: Ministry of Cultural and Tourism, UOB Kay Hian

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