

### SECTOR UPDATE

## Online Travel Agencies – China

Disappointing Labour Day 2022 Tourism Data

The five-day-long weekend in conjunction with the Labour Day holiday in China delivered disappointing tourism data, with domestic tourists and tourism revenue recovering to 66.8/42.9% (2021 recovery: 103.2/77%) of pre-pandemic levels. We remain cautious on the domestic tourism recovery pace with the “Zero-COVID” policy hindering consumer spending and activities. We prefer Trip.com as it benefits from the recovery of international travel (from Europe and the US). Maintain OVERWEIGHT.

### WHAT'S NEW

- Key statistics for Labour Day 2022.** The Ministry of Cultural and Tourism (MCT) reported 160m domestic tourists in total during the five-day Labour Day holiday, down by 30.2% yoy and recovering to 66.8% of pre-pandemic levels. Total domestic tourism revenue was Rmb64.7b, declining by 42.9% yoy, and recovering to 44% of pre-pandemic levels. According to the MCT, the provincial tourism department had jointly promoted local-tradition thematic tourism activities including entrance ticket discounts in Chongqing and Guizhou. Short-haul travel remained a popular choice among the tourists and this year, most of the tourists preferred to go camping and sight-seeing as compared to visiting national monuments and museums in conjunction with the 100th anniversary celebration for the establishment of the CCP last year.
- Tongcheng-Travel's Labour Day tourism data overview.** According to Tongcheng-Travel's (TT) 2022 Labour Day tourism report, tourist hotspots this year were mainly located within Chengdu, Chongqing, and Pearl River Delta as these places had relatively low risk of COVID-19 infections. In conjunction with warmer weather, camping and sight-seeing were among the popular choices by the tourists which drove up prices for homestay accommodations. Overall, flight ticketing and hotel ASP (average selling price) saw 25% and 50% yoy decline as tourists opted for short-haul traveling with shorter staying periods.
- Trip.com's Labour Day tourism data overview.** According to Trip.com's (TCOM) 2022 Labour Day tourism report, tourists still preferred short-haul traveling to low COVID-19 risk areas such as Guangzhou, Chengdu, Shenzhen and Chongqing. The demand for camping remains strong and accounted for 54% of the total tourism bookings which drove hotel and homestay reservation volume up by 144% yoy. TCOM undertook online-offline initiatives by introducing “treasure hunt” interactive activities on TCOM's app to promote visitations to various camp sites. Due to the absence of outbound traveling, domestic tourism bookings accounted for 40% of TCOM's total bookings, up 10ppt vs 2020 and 2021.
- Our take on the Labour Day performance.** The domestic tourism performance remains weak in our view. However, with the recent pandemic cases brought under control, we are cautiously optimistic that domestic tourism in 2H22 should see a gradual improvement once the lockdown measures are lifted. Meanwhile, for the international tourism segment, Booking Holdings had recently announced a 129% yoy spike in total bookings in 1Q22 to US\$27.3b, 7.5% above pre-pandemic levels. The company sees the easing of travel restrictions in Asia and Europe as well as the upcoming Summer Holiday as key catalysts for 2Q22. As such, we prefer TCOM at this juncture due to the lack of re-rating catalysts in the domestic tourism sector.

### PEER COMPARISON

Company	Ticker	Rec	Price @ 5 May 2022 (HK\$)	Target Price (HK\$)	Upside/(Downside) to TP (%)	Market Cap (US\$m)	----- PE ----- 2022F (x)	20223F (x)	----- P/B ----- 2022F (x)	20223F (x)	----- EV/EBITDA ----- 2022F (x)	20223F (x)	ROE 2022F (%)
Trip.com	9961 HK	BUY	182.10	271.00	48.8	14,889.3	74.9	22.0	0.8	0.8	49.6	18.1	1.2
Tongcheng -Elong	780 HK	BUY	14.04	20.00	42.5	3,967.7	24.2	20.2	1.6	1.5	10.8	8.9	5.9

Source: Bloomberg, UOB Kay Hian

## OVERWEIGHT (Maintained)

### STOCK PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
Trip.com	9961 HK	BUY	182.10	271.00

Source: Bloomberg, UOB Kay Hian

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### STOCK IMPACT

• **1Q22 operating data and guidance for TT and TCOM.** According to the Civil Aviation of China, the total air passengers recorded a 25.3% yoy decline in 1Q22, down by 53% from pre-COVID-19 levels as travel demand was dampened by the lockdown measures as well as the tragedy in Mar 22. Meanwhile, for train passenger volume, 1Q22 reported a 13.5% yoy decline, slightly better than the 20% decline in 4Q21 and recovering to 55.2% of pre-pandemic levels. In terms of company guidance:

- i) TT has guided for its top-line to grow 0-5% in 1Q22, with its midpoint being 7% below 1Q19's level. The company had previously mentioned an uneven recovery path in the domestic tourism sector due to the disruption in mid-March with its transport business seeing a yoy decline. 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%.
- ii) TCOM expects 1Q22 revenue to decline by 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 levels with high-star hotels facing more apparent declines than low-star hotels. The overall hotel blended take rate continued to trend down (vs pre-COVID-19 levels), as the company continues to penetrate into lower tier cities and offer promotions for short-haul travelling. 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 levels, mostly attributed to promising progress from the European region.

### EARNING REVISION/RISK

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

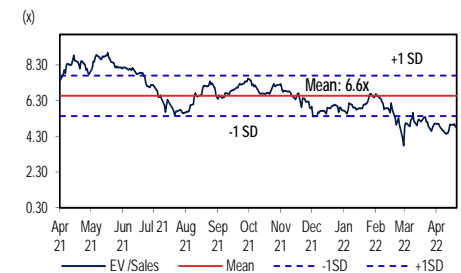
### VALUATION/RECOMMENDATION

- **Maintain BUY on Trip.com (9961 HK) with an unchanged target price of HK\$271.00 (US\$33.00)** as we ascribe 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.

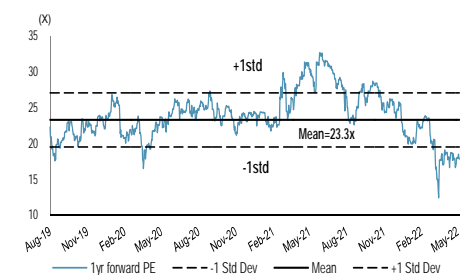
### SECTOR CATALYST AND RISK

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

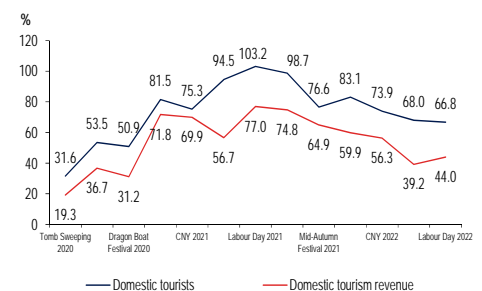
### TRIP.COM 12-MONTH FORWARD EV/SALES BAND



### TONGCHENG-TRAVEL 12-MONTH FORWARD PE BAND



### DOMESTIC TOURISM RECOVERY TREND



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