

### SECTOR UPDATE

## Online Travel Agencies – China

Modest Recovery Seen During Dragon Boat Festival 2022

The Dragon Boat festival delivered a slightly better recovery than the Labour Day holiday with total revenue/tourist numbers recovering to 65.6%/86.8% of pre-COVID-19 levels respectively. This was in conjunction with the relaxation of lockdown measures towards end-May 22 as well as supportive regulatory policies in stimulating domestic consumption. We still prefer Trip.com as it is a key beneficiary of the recovery of international travel. Maintain OVERWEIGHT on the OTA sector.

### WHAT'S NEW

- Key statistics for Dragon Boat Festival 2022.** The Ministry of Cultural and Tourism (MCT) reported 79.6m total domestic tourists during the three-day Dragon Boat festival holiday, down 10.7% yoy and recovering to 86.8% of pre-pandemic levels (Labour Day: 66.8%). Total domestic tourism revenue was Rmb25.8b, down 12.2% yoy and recovering to 65.6% of pre-pandemic levels (Labour Day recovery: 42.9%). According to the MCT, camping and thematic tourism were some of the more popular choices among tourists during the holidays as: a) merchants launched various cultural activities such as a dumpling wrapping experience and dragon boat rafting, etc in conjunction with the Dragon Boat Festival; and b) there was a surge in demand for family tours as Children's Day fell on 1 June.
- Dragon Boat festival tourism data overview of Tongcheng-Travel...** According to Tongcheng-Travel's (TT) 2022 Dragon Boat Festival Tourism report, domestic hotel room nights and domestic flight ticketing ASP saw meaningful recoveries of +31%/+48% respectively vs the recent Labour Day holiday. Low-risk regions like Shenzhen, Guangzhou, Chengdu, Xi'an and Chongqing were tourist hotspots this year while Beijing was ranked seventh following the lifting of its lockdown measures at end-May 22. As Shanghai and Beijing have gradually lifted their lockdown measures, TT's train booking period has been extended to 15 days in advance since 1 June, up from five days previously.
- ...and Trip.com.** According to Trip.com's (TCOM) 2022 Dragon Boat festival Tourism report, short-haul travel remained tourists' top preference despite the modest recovery in cross-provincial travel during the period. Total tourism reservation volume grew more than 3x as compared with the Tomb Sweeping holiday, with hotel and ticketing businesses recording double-digit growth. TCOM's homestay reservations volume rose to 10% above pre-pandemic levels; this was modestly above that of the Labour Day holiday and also 57% above that of the Tomb Sweeping holiday. TCOM noted that tourism activities in Shanghai had begun to see a promising pace of recovery, with over 40 tourism spots recording ticket sales of >40,000 on the first day of the holiday.
- Our take on the Dragon Boat festival performance.** We believe domestic tourism has begun to show signs of modest recovery as the gradual relaxation of COVID-19 containment measures has had a positive spillover effect on the overall industry. Having said that, we expect online travel agencies' (OTA) 2Q22 performance to hit a trough, followed by a meaningful qoq recovery in 3Q22 on stronger seasonality and easing of lockdown measures.

## OVERWEIGHT (Maintained)

### STOCK PICKS

Company	Ticker	Rec	Share Price	Target Price
Trip.com	9961 HK	BUY	181.20	271.00

Source: Bloomberg, UOB Kay Hian

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### PEER COMPARISON

Company	Ticker	Rec	Price @ 6 Jun 22 (lcu)	Target Price (lcu)	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	181.20	271.00	49.6	14,823.7	74.5	21.9	0.8	0.8	76.6	27.9	0.8
Tongcheng -Elong	780 HK	BUY	15.00	17.50	16.7	4,241.6	36.3	21.6	1.8	1.6	22.0	12.0	4.0

Source: Bloomberg, UOB Kay Hian

### STOCK IMPACT

#### • Guidance for TT and TCOM:

- i) TT has guided for its top-line to decline 40-45% yoy in 2Q22, which implies a 23% decline vs 2Q19. Breaking down by business segment, accommodation reservation is expected to decline 35-40% yoy (17% below 2Q19); transportation ticketing is guided to decline 45-50% yoy (32% below 2Q19) as the pandemic (in March) had a more pronounced impact on the transportation segment; the Others segment is guided to drop by 20-25% yoy (25% below 2Q19). TT has stated that it will implement disciplined cost control measures in terms of S&M and G&A spending with adjusted net profit guidance of Rmb50m-100m. The company has lowered its full-year 2022 guidance to 5-10% growth from the previous 15-20% growth, but maintains its adjusted net margin target of 15-16% due to the impact of the lockdown measures.
- ii) TCOM expects 1Q22 revenue to decline by 52-53% to Rmb3.8b vs 1Q19 (-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 digits 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 by mid-teens compared with pre-COVID-19 levels, with high-star hotels facing more apparent declines than low-star hotels. The overall hotel blended take rate has continued to trend down (vs pre-COVID-19 level), as the company continues to penetrate into lower tier cities and offer promotions for short-haul travel. 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 ascribe 2022E 22x PE and 22x EV/EBITA respectively to the company's accommodation+transportation ticketing and package tour+corporate travel segment. 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\$17.50** based on 25x 2025F PE, with 0.7x PEG on the back of 37% EPS CAGR from 2023-26. 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.

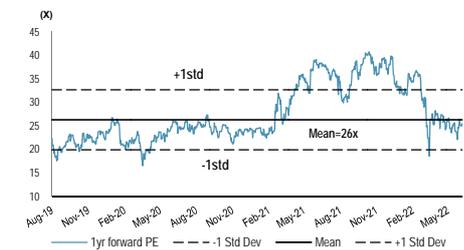
### SECTOR CATALYST AND RISK

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

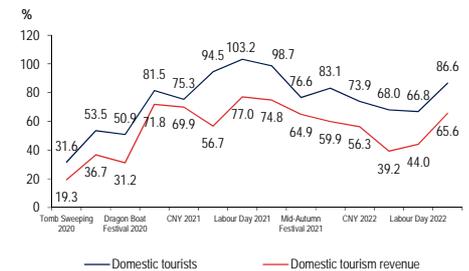
### TRIP.COM 12-MONTH FORWARD EV/SALES BAND



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



### DOMESTIC TOURISM RECOVERY TREND



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