

Hong Kong

ADD (no change)

Consensus ratings*: Buy 11 Hold 2 Sell 0

Current price:	HK\$230.4
Target price:	HK\$275.0 ▲
Previous target:	HK\$257.0
Up/downside:	19.4%
CGI / Consensus:	14.2%

Reuters:	9961.HK
Bloomberg:	9961 HK
Market cap:	US\$18,840m
	HK\$147,860m

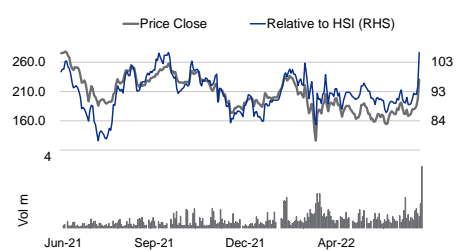
Average daily turnover:	US\$12.99m
	HK\$101.9m

Current shares o/s:	71,346m
Free float:	70.0%

*Source: Bloomberg

Key changes in this note

- FY22F EPS decreased by 26.9%.
- FY23F EPS decreased by 6.4%.
- FY24F EPS increased by 1.9%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	38.5	30.7	-17.4
Relative (%)	30.2	27.3	6

Major shareholders

	% held
Baidu Holdings Limited	21.1
The Priceline Group Inc.	8.9

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Trip.com

Recovery on the way

- Trip.com reported 1Q22 revenue of Rmb4.1bn, flat yoy, recovering to 50.3% of 1Q19 revenue; and a non-GAAP net loss of Rmb36m, narrowing by 82.4% yoy, above our expectation because of better revenue growth.
- However, because of the Omicron situation in several cities, we now expect total revenue to drop by 40% yoy and its gross margin to be stable qoq in 2Q22F.
- We expect the domestic travel market to recover gradually in 2H22F, along with the government's related policy relaxation measures, and Trip.com's revenue to be yoy flattish in 3Q22F.
- Reiterate Add with a new DCF-based TP of HK\$275, given large revenue recovery and margin improvement potential once the pandemic situation improves.

1Q22 results above expectation

1Q22 revenue for accommodation, packaged tours and corporate travel fell by 8.2%, 26.6% and 11.9% yoy, respectively, but revenue for transportation ticketing and others showed stronger resilience, with growth of 10.4% and 8.3% yoy, respectively. The 1Q22 revenue recovery in accommodation, transportation ticketing, packaged tours and corporate travel was 48.0%, 49.6%, 11.9%, and 93.3%, respectively, of the 1Q19 level. Its gross margin was 74.0%, down 0.8% pts yoy and down 5.3% pts compared to that in 1Q19. The 1Q22 GAAP product development, sales and marketing, and administrative expenses ratios fell by 6.1%, 2.7% and 2.4% yoy, respectively.

Domestic pandemic hurt 2Q22F results, but silver lining in 2H22F

Owing to the serious Omicron outbreak and lockdown measures in Apr–May, we still see downside risks for our full-year forecasts because of likely weak 2Q22F results. We now expect total revenue to drop by 40% yoy and the gross margin to be stable qoq in 2Q22F. Management noted that the domestic travel market recovered in the past two weeks after Shanghai and Beijing lifted the lockdown policy. The Chinese government announced a reduction in the hotel quarantine period for travelers from overseas to China from 14+7 days to 7+3 days, indicating some relaxation in the pandemic-related policy. The government also relaxed the restrictions for domestic package tours across provincial boundaries. We expect the domestic travel market to recover gradually in 2H22F and Trip.com's revenue to be yoy flattish in 3Q22F.

Overseas market rebound sets an example of strong travel demand

So far in 2022, many overseas countries have removed travel restrictions, and the travel market has seen a significant recovery. According to management, in overseas markets, air ticket bookings on Trip.com surpassed the 2019 level, with over 150% growth in 1Q22, gaining market share in all of its key markets. In 1Q22, overall hotel bookings on Trip.com's global platforms increased by over 25% above the 2019 level. The recovery momentum in Europe, the US and Asia remained robust, and Trip.com's international brands showed further improvement in Apr–May. We expect Trip.com to continue to gain market share in overseas markets. Skyscanner's revenue was back to the 50% of the 2019 level in 1Q22, and management expects it to fully recover by the end of 2022.

Reiterate Add with a new DCF-based TP of HK\$275

We cut our FY22–23F net profit forecasts by 26.9% and 6.4%, respectively, to reflect the impact of the pandemic-control measures, but we raised our FY24F net profit forecast by 1.9% due to a likely travel market recovery. We adjusted up our DCF-based TP to HK\$275 (risk-free rate: 4.0%, beta: 1.2, WACC: 10.1%) and reiterate our Add rating, given a large revenue recovery and margin improvement potential once the pandemic situation improves. Positive catalysts are a stronger domestic travel recovery and better expenses control. Risks include a further pandemic rebound and travel restrictions that could hurt Trip.com's revenue growth trend.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	18,327	20,029	18,127	24,358	30,859
Operating EBITDA (Rmbm)	143	2	(967)	2,124	4,176
Net Profit (Rmbm)	(3,247)	(550)	(609)	2,443	4,415
Core EPS (Rmb)	(1.52)	2.12	1.60	6.44	9.60
Core EPS Growth	(113%)		(25%)	304%	49%
FD Core P/E (x)	NA	93.1	123.4	30.6	20.5
DPS (Rmb)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	586	41,124	NA	34	15
P/FCFE (x)	18.4	491.2	NA	102.7	41.0
Net Gearing	12.0%	0.2%	1.7%	0.6%	(2.0%)
P/BV (x)	1.18	1.15	1.14	1.10	1.04
ROE	(0.90%)	1.29%	0.93%	3.65%	5.21%
% Change In Core EPS Estimates			(26.9%)	(6.4%)	1.9%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Recovery on the way

We expect 2Q22F accommodation revenue to drop by 51% yoy

Management expects domestic industry hotel bookings in Apr–May to be as low as 20%–30% of the 2019 level. But management said hotel booking volume rebounded quickly in June and was back to the 2019 level in the past two weeks. In addition, in late May, bookings recovered to the pre-COVID level of 2019 in areas that were less affected by the Omicron outbreak, such as south and west China. But the Company's average daily rate (ADR) was still down by over 20% compared with the 2019 level, so management expects more than a 20% gap between booking volume and revenue. International hotel booking volume recovered even faster, but the ADR of overseas markets was down 30–40% compared with the 2019 level.

We expect 2Q22F transportation revenue to drop by 27% yoy

The recovery in transportation ticketing was slower than hotel bookings. In Apr–May, domestic passenger volume dropped by about 80% compared with the 2019 level. In recent weeks, industry flight passenger volume recovered to about 50% of the 2019 level and Trip.com outperform the industry by 10–20%.

Figure 1: Trip.com results review

(Rmb m)	1Q21	1Q22	yoy %	1Q19	1Q22	yoy %
Accommodation reservation	1,580.0	1,450.0	-8.2%	3,019.0	1,450.0	-52.0%
Transportation ticketing	1,506.0	1,663.0	10.4%	3,354.0	1,663.0	-50.4%
Packaged tour	169.0	124.0	-26.6%	1,045.0	124.0	-88.1%
Corporate Travel	252.0	222.0	-11.9%	238.0	222.0	-6.7%
Others	602.0	652.0	8.3%	517.0	652.0	26.1%
Total Revenue	4,109.0	4,111.0	0.0%	8,173.0	4,111.0	-49.7%
Business Tax and Related Surcharge	(1.0)	(2.0)	100.0%	(9.0)	(2.0)	-77.8%
Net Revenue	4,108.0	4,109.0	0.0%	8,164.0	4,109.0	-49.7%
Cost of Revenue	(1,034.0)	(1,067.0)	3.2%	(1,689.0)	(1,067.0)	-36.8%
Gross Profit	3,074.0	3,042.0	-1.0%	6,475.0	3,042.0	-53.0%
GPM	74.8%	74.0%	-0.8% pts	79.3%	74.0%	-5.3% pts
Product development (Non-GAAP)	(2,074.0)	(1,867.0)	-10.0%	(2,293.0)	(1,867.0)	-18.6%
As % of revenue	-50.5%	-45.4%	5.1% pts	-28.1%	-45.4%	-17.4% pts
Sales and marketing (Non-GAAP)	(930.0)	(825.0)	-11.3%	(2,184.0)	(825.0)	-62.2%
As % of revenue	-22.6%	-20.1%	2.6% pts	-26.8%	-20.1%	6.7% pts
General and administrative (Non-GAAP)	(563.0)	(486.0)	-13.7%	(628.0)	(486.0)	-22.6%
As % of revenue	-13.7%	-11.8%	1.9% pts	-7.7%	-11.8%	-4.1% pts
Income/(loss) from operations (Non-GAAP)	(493.0)	(136.0)	-72.4%	1,370.0	(136.0)	-109.9%
EBIT margin (Non-GAAP)	-12.0%	-3.3%	8.7% pts	16.8%	-3.3%	-20.1% pts
Interest Income	418.0	591.0	41.4%	487.0	591.0	21.4%
Interest Expense	(407.0)	(341.0)	-16.2%	(441.0)	(341.0)	-22.7%
Other (expense)/income	2,508.0	(707.0)	-128.2%	4,616.0	(707.0)	-115.3%
Income/(loss) before income tax	1,732.0	(816.0)	-147.1%	5,547.0	(816.0)	-114.7%
Income tax (expense)/benefit	(41.0)	14.0	-134.1%	(677.0)	14.0	-102.1%
Equity income of affiliates	74.0	(199.0)	-368.9%	(283.0)	(199.0)	-29.7%
Less: Net loss attributable to noncontrolling interests	15.0	12.0	-20.0%	26.0	12.0	-53.8%
Net income attributable to shareholders (GAAP)	1,780.0	(989.0)	-155.6%	4,613.0	(989.0)	-121.4%
Share-based compensation	294.0	223.0	-24.1%	485.0	223.0	-54.0%
Fair value changes of investments, net of tax	(2,278.0)	730.0	-132.0%	(3,348.0)	730.0	-121.8%
Net income attributable to shareholders (Non-GAAP)	(204.0)	(36.0)	-82.4%	1,750.0	(36.0)	-102.1%
Net profit margin (Non-GAAP)	-5.0%	-0.9%	4.1% pts	21.4%	-0.9%	-22.3% pts

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Trip.com earnings revisions

(Rmb m)	FY22F			FY23F			FY24F		
	Old	New	% change	Old	New	% change	Old	New	% change
Net revenue	19,527	18,122	-7.2%	26,256	24,350	-7.3%	32,931	30,849	-6.3%
GP margin	75.8%	75.3%	-0.5 ppts	77.6%	77.1%	-0.5 ppts	78.7%	78.7%	0.0 ppts
Operating margin (Non-GAAP)	0.6%	0.1%	-0.5 ppts	13.4%	12.9%	-0.5 ppts	15.4%	16.9%	1.5 ppts
Net income (GAAP)	-233	-609	160.9%	2,726	2,443	-10.4%	4,297	4,415	2.7%
Net income (non-GAAP)	1,398	1,023	-26.9%	4,409	4,127	-6.4%	6,034	6,152	1.9%
EPS (non-GAAP)	2.18	1.60	-26.9%	6.88	6.44	-6.4%	9.42	9.60	1.9%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: Our forecasts versus consensus

(Rmb m)	CGI forecasts			BBG consensus			Diff.		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Net revenue	18,122	24,350	26,256	20,140	30,941	38,370	-10.0%	-21.3%	-19.6%
GP margin	75.3%	77.1%	77.6%	75.9%	77.6%	78.3%	-0.6%	-0.5%	0.4%
Operating margin (Non-GAAP)	0.1%	12.9%	13.4%	-1.4%	13.1%	16.1%	1.5%	-0.2%	0.9%
Net income (GAAP)	(609)	2,443	2,726	(490)	3,342	5,578	24.3%	-26.9%	-20.9%
Net income (non-GAAP)	1,023	4,127	4,409	1,289	5,316	7,367	-20.7%	-22.4%	-16.5%
EPS (non-GAAP)	1.60	6.44	6.88	1.71	7.62	10.72	-6.5%	-15.5%	-10.5%

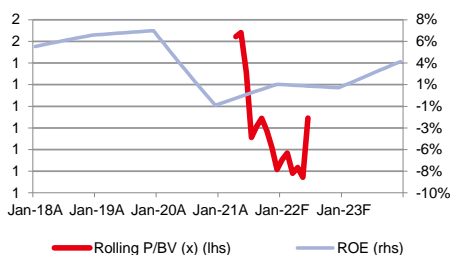
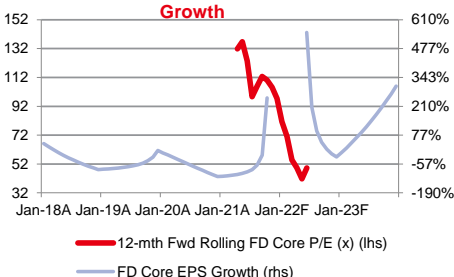
SOURCES: CGIS RESEARCH ESTIMATES, BLOOMBERG

Figure 4: Trip.com DCF valuation

DCF valuation (Rmb m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F
EBIT (non-GAAP)	19.4	3,140.7	5,222.7	6,267.3	7,520.7	9,024.9	10,829.9	12,995.8	15,595.0	18,714.0	21,521.1	24,749.3	28,461.7
Taxes	236.3	-781.1	-1,438.2	-1,725.9	-2,071.0	-2,485.2	-2,982.3	-3,578.7	-4,294.5	-5,153.4	-5,926.4	-6,815.4	-7,837.7
NOPAT	255.7	2,359.6	3,784.5	4,541.4	5,449.7	6,539.6	7,847.6	9,417.1	11,300.5	13,560.6	15,594.7	17,933.9	20,624.0
NOPAT growth		823.0%	60.4%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	15.0%	15.0%	15.0%
D&A	744.7	767.0	790.0	805.8	822.0	838.4	855.2	872.3	889.7	907.5	925.7	944.2	963.1
Funds from operation	1,000.3	3,126.6	4,574.6	5,347.3	6,271.7	7,378.0	8,702.7	10,289.4	12,190.2	14,468.1	16,520.4	18,878.1	21,587.1
Change in net working Capital	1,941.1	2,219.7	2,544.3	2,595.2	2,647.1	2,700.1	2,754.1	2,809.1	2,865.3	2,922.6	2,981.1	3,040.7	3,101.5
Cash flow from operation	2,941.5	5,346.3	7,118.9	7,942.5	8,918.8	10,078.1	11,456.8	13,098.5	15,055.6	17,390.8	19,501.5	21,918.8	24,688.6
Capex	-910.7	-938.0	-966.2	-985.5	-1,005.2	-1,025.3	-1,045.8	-1,066.7	-1,088.1	-1,109.8	-1,132.0	-1,154.7	-1,177.8
Free cash flow from operation	2,030.8	4,408.3	6,152.7	6,957.0	7,913.6	9,052.8	10,411.0	12,031.8	13,967.5	16,280.9	18,369.4	20,764.1	23,510.8
FCF growth		515.4%	117.1%	39.6%	13.1%	13.8%	14.4%	15.0%	15.6%	16.1%	16.6%	12.8%	13.0%
Terminal free cash flow	340,267.3						Assumptions						
Total discounted free cash flow	72,741.3						Risk free						
Present value of terminal free cash flow	105,004.2						Market Risk Premium						
							Beta						
Total present value of forecasted free cash flows	177,745.5						Cost of equity						
Less: Net Debt	31,461.3						3.0%						
Equity Value	146,284.2						Cost of debt (after tax)						
No. of shares (millions)	640.9						30%						
Per share Equity Value (Rmb)	228.30						WACC						
Exchange rate	0.83						Terminal growth						
Target price (HK\$)	275.00						3.0%						

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth


Profit & Loss

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	18,316	20,023	18,122	24,350	30,849
Gross Profit	14,285	15,425	13,645	18,771	24,284
Operating EBITDA	143	2	(967)	2,124	4,176
Depreciation And Amortisation	(1,566)	(1,413)	(745)	(767)	(790)
Operating EBIT	(1,423)	(1,411)	(1,712)	1,357	3,386
Financial Income/(Expense)	471	567	667	767	867
Pretax Income/(Loss) from Assoc.	(1,689)	96	100	100	100
Non-Operating Income/(Expense)	(273)	373	100	1,000	1,500
Profit Before Tax (pre-EI)	(2,914)	(375)	(845)	3,224	5,853
Exceptional Items					
Pre-tax Profit	(2,914)	(375)	(845)	3,224	5,853
Taxation	(355)	(270)	236	(781)	(1,438)
Exceptional Income - post-tax					
Profit After Tax	(3,269)	(645)	(609)	2,443	4,415
Minority Interests	22	95	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	(3,247)	(550)	(609)	2,443	4,415
Recurring Net Profit	(913)	1,356	1,023	4,127	6,152
Fully Diluted Recurring Net Profit	(913)	1,356	1,023	4,127	6,152

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	143	2	(967)	2,124	4,176
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(6,934)	177	1,941	2,220	2,544
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	4,684	3,861	4,300	4,334	4,331
Net Interest (Paid)/Received	(1,716)	(1,565)	(1,565)	(1,565)	(1,565)
Tax Paid					
Cashflow From Operations	(3,823)	2,475	3,708	7,113	9,486
Capex	(532)	(570)	(911)	(938)	(966)
Disposals Of FAs/subsidiaries	530	50	0	0	0
Acq. Of Subsidiaries/investments	(3,819)	(3,627)	(4,496)	(4,946)	(5,440)
Other Investing Cashflow	0	(1)	0	0	0
Cash Flow From Investing	(3,821)	(4,148)	(5,407)	(5,884)	(6,406)
Debt Raised/(repaid)	14,089	1,930	0	0	0
Proceeds From Issue Of Shares	0	7,984	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	0	0	0	0	0
Preferred Dividends					
Other Financing Cashflow	(8,064)	(5,995)	0	0	0
Cash Flow From Financing	6,025	3,919	0	0	0
Total Cash Generated	(1,619)	2,246	(1,698)	1,230	3,079
Free Cashflow To Equity	6,445	257	(1,698)	1,230	3,079
Free Cashflow To Firm	(5,928)	(108)	(133)	2,795	4,644

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	44,235	50,762	49,064	50,293	53,373
Total Debtors	4,119	4,649	5,346	6,148	7,071
Inventories					
Total Other Current Assets	9,657	10,697	10,911	11,129	11,352
Total Current Assets	58,011	66,108	65,321	67,571	71,795
Fixed Assets	5,780	5,534	5,700	5,871	6,047
Total Investments	47,943	44,961	49,457	54,403	59,843
Intangible Assets	72,697	72,399	72,399	72,399	72,399
Total Other Non-Current Assets	2,818	2,857	2,865	2,873	2,881
Total Non-current Assets	129,238	125,751	130,421	135,546	141,170
Short-term Debt	33,665	39,866	39,866	39,866	39,866
Current Portion of Long-Term Debt					
Total Creditors	12,111	13,554	15,135	16,975	19,124
Other Current Liabilities	12,593	12,798	14,078	15,486	17,034
Total Current Liabilities	58,369	66,218	69,078	72,326	76,024
Total Long-term Debt	22,718	11,093	11,093	11,093	11,093
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4,595	4,092	4,092	4,092	4,092
Total Non-current Liabilities	27,313	15,185	15,185	15,185	15,185
Total Provisions	0	0	0	0	0
Total Liabilities	85,682	81,403	84,263	87,511	91,209
Shareholders' Equity	100,354	109,677	110,800	115,026	121,278
Minority Interests	1,213	779	679	579	479
Total Equity	101,567	110,456	111,479	115,605	121,757

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(48.7%)	9.3%	(9.5%)	34.4%	26.7%
Operating EBITDA Growth	(98%)	(99%)	(48467%)	N/A	97%
Operating EBITDA Margin	0.8%	0.0%	(5.3%)	8.7%	13.5%
Net Cash Per Share (Rmb)	(20.22)	(0.31)	(2.96)	(1.04)	3.77
BVPS (Rmb)	167.0	171.1	172.9	179.5	189.2
Gross Interest Cover	(0.83)	(0.90)	(1.09)	0.87	2.16
Effective Tax Rate	0.0%	0.0%	0.0%	24.2%	24.6%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	117.6	79.9	100.6	86.1	78.4
Inventory Days	-	-	-	-	-
Accounts Payables Days	762.7	417.7	539.8	519.7	531.5
ROIC (%)	(2.18%)	(2.01%)	(2.45%)	2.00%	5.13%
ROCE (%)	0.49%	0.45%	0.32%	2.24%	3.43%
Return On Average Assets	(1.93%)	(0.64%)	(0.66%)	0.84%	1.71%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Accommodation reservation booking volume yoy (%)	-35.6%	10.0%	-15.0%	20.0%	15.0%
Transportation ticketing booking volume yoy (%)	-40.1%	-3.0%	-3.0%	20.0%	15.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Distribution of stock ratings and investment banking clients for quarter ended on 31 Mar 2022		
632 companies under coverage for quarter ended on 31 Mar 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

Spitzer Chart for stock being researched (2 year data)

Trip.com (9961 HK)

RECOMMENDATION FRAMEWORK

Stock Ratings Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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