

COMPANY RESULTS

Trip.com (9961 HK)

4Q23: Earnings Beat; Strong 1Q24 Expected

TCOM delivered a strong earnings beat for 4Q23. 4Q23 net revenue soared 105.5% yoy to Rmb10.3b and was 24% above the 2019 level, in line with consensus estimates. Non-GAAP net profit was Rmb2.7b with a margin of 26%, beating our and consensus estimates. TCOM guided for 1Q24 revenue growth of 26% yoy, 9% above consensus estimates. TCOM upsized its Capital Return Program by US\$300m and currently has US\$581m remaining in the program. Maintain BUY. Target price: HK\$433.00 (US\$53.00).

4Q23 RESULTS

Year to 31 Dec (Rmbm)	4Q22	3Q23	4Q23	qoq	yoy	UOB	Var	Cons	Var
Revenue	5,031	13,751	10,338	(24.8%)	105.5%	10,378.6	(0.4%)		
Accommodation	1,689	5,589	3,903	(30.2%)	131.1%	3,950.4	(1.2%)		
Transportation	2,204	5,367	4,106	(23.5%)	86.3%	4,154.0	(1.2%)		
Packaged tour	164	1,328	704	(47.0%)	329.3%	688.8	2.2%		
Corporate travel	277	591	634	7.3%	128.9%	595.6	6.5%		
Others	697	876	991	13.1%	42.2%	989.7	0.1%		
Net revenue	5,027	13,740	10,325	(24.9%)	105.4%	10,370.3	(0.4%)	10,207	1.2%
Gross profit	3,828	11,273	8,315	(26.2%)	117.2%	8,347.9	(0.4%)	8,075	3.0%
GPM	76.1%	82.0%	80.5%	(1.5 ppt)	4.4 ppt	80.5%	0.0 ppt	79.1%	1.4 ppt
Non-gaap OP	70	4,418	2,647	(40.1%)	3,681.4%	1,918.4	38.0%	1,348	96.3%
Non-GAAP OPM	1.4%	32.2%	25.6%	(6.5 ppt)	24.2 ppt	18.5%	7.1 ppt	13.2%	12 ppt
Non-GAAP NP	498	4,897	2,675	(45.4%)	437.1%	1,615.9	65.5%	1,577	69.6%
Non-GAAP NPM	9.9%	35.6%	25.9%	(9.7 ppt)	16 ppt	15.6%	10.3 ppt	15.4%	11 ppt

Source: Trip.com, UOB Kay Hian

RESULTS

- Top-line growth momentum remains intact.** Trip.com's (TCOM) core business segments, namely accommodation/transportation ticketing/packaged tour/corporate travel, saw 131%/86%/329%/129% yoy growth, which was 32%/18%/-12%/70% vs pre-COVID-19 levels (4Q19). In 4Q23, domestic hotel bookings soared by 130% yoy, 60% above pre-COVID-19 levels. Transportation ticketing revenue surged by 86% yoy and was 18% above pre-COVID-19 levels. In 4Q23, air ticket bookings on the company's global online travel agency (OTA) platform surged by over 70% yoy. Outbound hotel and air reservations recovered to 80% vs pre-COVID-19 levels, compared to the industry-wide recovery rate of over 60% in terms of international air passenger volume for the same period.
- 1Q24 anchored by stellar performance during Spring Festival.** During the Spring Festival, TCOM's domestic hotel and air ticket bookings surged by 60% and 50% yoy, while its outbound hotel and air ticketing bookings surpassed 2019 levels, outpacing the industry's recovery in flight capacity to 70% of 2019 levels, mainly facilitated by visa-free policies offered to Chinese travellers. TCOM anticipates a stronger yoy growth in the first half of 1Q24 given the low base and a softer second half of 1Q24 due to the high base effect in 2023. Given robust demand for long-haul international travel during the Spring Festival, Skyscanner maintains teens yoy growth while Trip.com is expected to deliver mid-double-digit yoy growth in 1Q24. According to TCOM, its consumption per capita in the travel segment has maintained the growing momentum since 1Q23 (when tracking started).

KEY FINANCIALS

Year to 31 Dec (RMBm)	2022	2023	2024F	2025F	2026F
Net turnover	20,039.0	44,510.0	53,627.4	62,602.1	71,486.2
EBITDA	963.0	12,176.7	13,516.2	16,196.8	19,735.9
Operating profit	88.0	11,324.0	12,668.3	15,274.4	18,727.2
Net profit (rep./act.)	1,403.0	9,918.0	10,381.3	12,120.0	15,203.2
Net profit (adj.)	1,294.0	13,071.0	12,840.8	14,991.1	18,481.7
EPS (Fen)	196.5	1,955.8	1,761.3	2,056.3	2,535.1
PE (x)	155.0	15.6	17.3	14.8	12.0
P/B (x)	1.8	1.6	1.6	1.4	1.3
EV/EBITDA (x)	189.7	15.0	13.5	11.3	9.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	7.0	22.3	19.4	19.4	21.3
Net debt/(cash) to equity (%)	24.4	0.8	(11.3)	(22.2)	(31.9)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	1.3	8.5	8.2	8.7	10.0
Consensus net profit	-	-	11,767	11,866	14,051
UOBKH/Consensus (x)	-	-	1.09	1.26	1.32

Source: Trip.com, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$331.40
Target Price	HK\$433.00
Upside	+30.7%
(Previous TP)	HK\$420.00

COMPANY DESCRIPTION

Trip.com is the largest online travel agency (OTA) in China. It offers direct booking for a range of travel products including hotel reservations, airline ticketing, packaged tours, and corporate travel.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	9961 HK
Shares issued (m):	646.1
Market cap (HK\$m):	214,134.0
Market cap (US\$m):	27,378.3
3-mth avg daily t'over (US\$m):	48.5

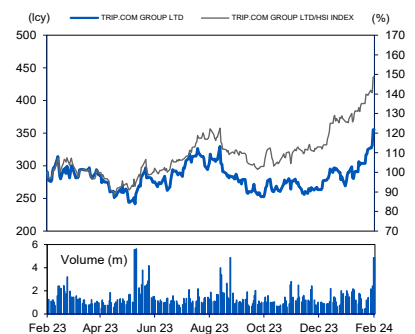
Price Performance (%)

52-week high/low	HK\$331.40/HK\$241.60
1mth	18.9
3mth	20.2
6mth	12.6
1yr	16.6
YTD	19.4

Major Shareholders

Baidu Holdings Ltd	9.5
Naspers Ltd	5.1
T Rowe Price Group Inc	4.8
FY24 NAV/Share (RMB)	193.87
FY24 Net Cash/Share (RMB)	22.97

PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- 4Q23 margin overview.** Gross margin grew 4.4ppt yoy to 80.5% in 4Q23, 1ppt above pre-COVID-19 levels, but declined sequentially due to higher proportion of packaged tour revenue and decline in air ticket ADR. Non-GAAP operating margin was 25.6% (4Q19: 12.3%) as TCOM remained vigilant in cost control. Sales and marketing as a share of revenue fell to 22% (4Q22: 22%, 4Q19: 29%) as a result of improved marketing efficiencies given enhanced conversion and internal cross-selling initiatives. In 4Q23, non-GAAP net margin was 26%, up from 14% in 4Q19.
- 1Q24 guidance breakdown.** We expect accommodation/transportation booking revenue to rise 27%/21% yoy and reach Rmb4.4b/Rmb5b respectively. In 1Q24, packaged tour and corporate travel are forecasted to rise 120%/13% yoy. Gross margin and non-GAAP operating margin are estimated at 80% and 27% respectively. Thus far in 1Q24, TCOM domestic hotel booking grew 15-20% yoy, outpacing industry's growth of 10% yoy. Domestic hotel take rate remains stable at 8-10%, while air ticketing price remains 20% above 2019 levels. However, domestic air ticketing VAS revenue growth will be slower than growth in air ticketing booking, due to a shift of focus to cross-selling. TCOM's outbound hotel and air ticketing booking recovered to 90% of 2019 levels, and accounted for mid-teens of respective segment revenue contribution. Outbound packaged tour gradually recovered to 40-50% and 60% of 2019 levels in 4Q23 and 1Q24 respectively.
- 2024 growth trajectory outlook remains optimistic.** Overall revenue growth target remains intact at 15-20% yoy. 2Q-3Q24 growth momentum is projected to be softer but set to accelerate in 4Q24 due to base effect. Gross margin is guided at 80% in 2024, down slightly from 82% in 2023 given normalisation in air ticketing ADR. G&A expenses grew 5-10% yoy due to increased personnel costs. S&M ratio is guided to ramp up yoy to 24-25%, translating to non-GAAP operating margin of 27-28% in 2024. Over the next 3-5 years, TCOM reckons overall revenue would double revenue contribution from Trip.com. It is projected to grow from 7% in 2023 to 15-20% over the next 3-5 years with mid-to-high double-digit CAGR. Trip.com's contribution margin has achieved break-even while profitability is expected to improve gradually along with scale expansion. Non-GAAP operating margin is currently stabilising at 27-28%, while TCOM is likely to achieve non-GAAP operating margin of above 30% in the long term.
- Ample potential for growth in inbound tourism.** Inbound travel is typically seen to contribute 1-3% of total GDP for developed countries. In contrast, China's current level is below 0.5%. If China achieves the global average of 1-2%, this could unlock market potential of Rmb1.5t to Rmb2t. Recognising this potential, China has prioritised inbound travel in its 14th 5-year plan, implementing measures such as a visa-free policy for citizens of various nations.

### EARNINGS REVISION/RISK

- We raised our 1Q24/2024 revenue forecasts by 8%/4% in view of strong travel momentum during the Spring Festival. We raise our 1Q24/2024 earnings by 15%/7% respectively due to gradual improvement in profitability of Trip.com. We forecast TCOM's 1Q24/2024 revenue to grow 27%/21% yoy and non-GAAP net margin at 23%/24% despite elevated marketing investment in overseas markets.
- Risks:** Softer travel consumption spending power; normalised domestic travel demand.

### VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of HK\$433.00 (US\$53.00).** TCOM stands to benefit from strong outbound and international travel demand amid the normalised pace in domestic travel activities. Our new target price implies 1.2x 2024F PEG over the next three years, in line with 1.2x before the pandemic.

### SHARE PRICE CATALYST

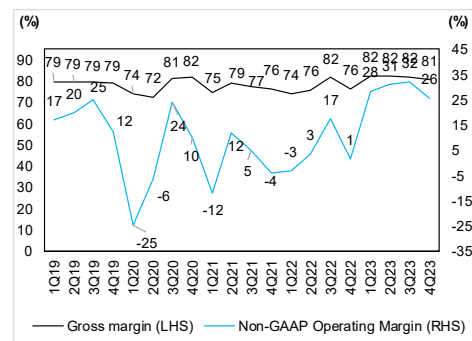
- Implementation of travel bubbles and increased outbound flight capacity.

### SOTP VALUATION

Segment (HK\$m)	FY24E Revenue	FY24E NPAT	PE (x)	EV / EBITA	Value	% Tcom holding	Value to Tcom	HK\$ per share
Core Travel biz								
Accommodation/transport	47,871	11,086	18		199,539	100%	199,539	273.7
Package tour/corporate travel/others	11,730	2,782		16	44,509	100%	44,509	61.1
Key equity investees (HK\$m) 10% holdco discount							18,764	25.7
Net cash					52,650	100%	52,650	72.2
<b>Total</b>							<b>315,462</b>	<b>433.0</b>

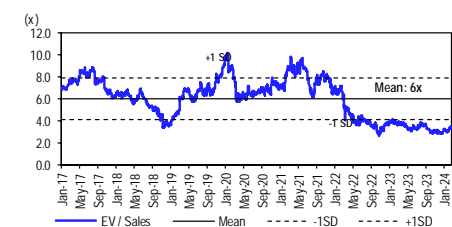
Source: UOB Kay Hian

### QUARTERLY MARGINS



Source: Trip.com, UOB Kay Hian

### 12-MONTH FORWARD EV/SALES BAND



Source: Trip.com, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMBm)	2023	2024F	2025F	2026F
Net turnover	44,510	53,627	62,602	71,486
EBITDA	12,177	13,516	16,197	19,736
Deprec. & amort.	853	848	922	1,009
EBIT	11,324	12,668	15,274	18,727
Total other non-operating income	(667)	100	0	0
Net interest income/(expense)	23	0	200	700
<b>Pre-tax profit</b>	<b>10,680</b>	<b>12,768</b>	<b>15,474</b>	<b>19,427</b>
Tax	(1,750)	(2,809)	(3,404)	(4,274)
Minorities	(84)	22	50	50
<b>Net profit</b>	<b>9,918</b>	<b>10,381</b>	<b>12,120</b>	<b>15,203</b>
Net profit (adj.)	13,071	12,841	14,991	18,482

### CASH FLOW

Year to 31 Dec (RMBm)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>17,742</b>	<b>17,921</b>	<b>19,362</b>	<b>21,350</b>
Pre-tax profit	10,680	12,768	15,474	19,427
Tax	(1,750)	(2,809)	(3,404)	(4,274)
Deprec. & amort.	590	589	669	760
Associates	0	0	1	2
Working capital changes	1,517	6,714	6,370	5,188
Non-cash items	0	0	1	2
Other operating cashflows	6,705	659	253	247
<b>Investing</b>	<b>(1,252)</b>	<b>(1,993)</b>	<b>(2,229)</b>	<b>(2,463)</b>
Capex (growth)	(1,104)	(1,331)	(1,553)	(1,774)
Capex (maintenance)	0	0	1	2
Investments	(148)	(663)	(675)	(689)
Proceeds from sale of assets	0	0	1	2
Others	0	0	0	0
<b>Financing</b>	<b>9,006</b>	<b>0</b>	<b>0</b>	<b>0</b>
Dividend payments	0	0	1	2
Issue of shares	9,901	0	0	0
Proceeds from borrowings	(895)	0	0	0
Loan repayment	0	0	1	2
Others/interest paid	0	0	(2)	(4)
<b>Net cash inflow (outflow)</b>	<b>25,496</b>	<b>15,928</b>	<b>17,134</b>	<b>18,887</b>
Beginning cash & cash equivalent	18,487	43,983	59,911	77,045
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	43,983	59,911	77,045	95,931

### BALANCE SHEET

Year to 31 Dec (RMBm)	2023	2024F	2025F	2026F
Fixed assets	5,783	6,525	7,409	8,423
Other LT assets	124,622	125,026	125,447	125,888
Cash/ST investment	43,983	59,911	77,045	95,931
Other current assets	27,001	31,100	34,555	38,077
<b>Total assets</b>	<b>219,137</b>	<b>240,309</b>	<b>262,204</b>	<b>286,068</b>
ST debt	25,857	25,857	25,857	25,857
Other current liabilities	47,031	57,844	67,669	76,379
LT debt	19,099	19,099	19,099	19,099
Other LT liabilities	4,144	4,144	4,144	4,144
Shareholders' equity	122,184	132,543	144,613	159,767
Minority interest	822	822	822	822
<b>Total liabilities &amp; equity</b>	<b>219,137</b>	<b>240,309</b>	<b>262,204</b>	<b>286,068</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	27.4	25.2	25.9	27.6
Pre-tax margin	24.0	23.8	24.7	27.2
Net margin	22.3	19.4	19.4	21.3
ROA	4.8	4.5	4.8	5.5
ROE	8.5	8.2	8.7	10.0
<b>Growth</b>				
Turnover	122.1	20.5	16.7	14.2
EBITDA	1,164.5	11.0	19.8	21.9
Pre-tax profit	305.3	19.6	21.2	25.5
Net profit	606.9	4.7	16.7	25.4
Net profit (adj.)	910.1	(1.8)	16.7	23.3
EPS	895.5	(9.9)	16.7	23.3
<b>Leverage</b>				
Debt to total capital	26.8	25.2	23.6	21.9
Debt to equity	36.8	33.9	31.1	28.1
Net debt/(cash) to equity	0.8	(11.3)	(22.2)	(31.9)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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