COMPANY RESULTS

Trip.com (9961 HK)

2Q24: Strong Earnings Beat; Outbound And International Travel Remains As Key Catalyst

TCOM delivered a strong 2Q24 earnings beat. 2Q24 net revenue rose 13.5% yoy to Rmb12.8b and was 47% above 2019 levels, in line with consensus estimates. Non-GAAP net profit was Rmb5b, with net margin expanding 8.5ppt yoy to 39%, beating our and consensus estimates. TCOM guided for 3Q24 revenue growth of 11-16% yoy to Rmb15.3b-16b, in line with consensus estimates. Maintain BUY with a lower target price of HK$534.00 (US$68.00).

2Q24 RESULTS

Year to 31 Dec (Rmbm)	2Q23	1Q24	2Q24	QoQ	YoY	UOB	Var	Cons	Var
Revenue	11,262	11,921	12,788	7.3%	13.5%	13,001	(1.6%)		
Accommodation	4,285	4,496	5,136	14.2%	19.9%	5,064	1.4%		
Transportation	4,814	5,000	4,871	(2.6%)	1.2%	5,063	(3.8%)		
Packaged tour	722	883	1,025	16.1%	42.0%	1,032	(0.7%)		
Corporate travel	584	511	633	23.9%	8.4%	642	(1.5%)		
Others	857	1,031	1,123	8.9%	31.0%	1,200	(6.4%)		
Net revenue	11,247	11,905	12,772	7.3%	13.6%	12,984	(1.6%)	12,750	0.2%
Gross profit	9,240	9,667	10,460	8.2%	13.2%	10,640	(1.7%)	10,456	0.0%
GPM	82.2%	81.2%	81.9%	0.7 ppt	(0.3 ppt)	81.9%	(0.0 ppt)	82%	(0.1 ppt)
Non-gaap OP	3,474	3,765	4,229	12.3%	21.7%	4,030.9	4.9%		
Non-GAAP OPM	30.9%	31.6%	33.1%	1.5 ppt	2.2 ppt	31.0%	2.1 ppt		
Non-GAAP NP	3,434	4,055	4,985	22.9%	45.2%	3,631	37.3%	3,574	39.5%
Non-GAAP NPM	30.5%	34.1%	39.0%	5.0 ppt	8.5 ppt	28.0%	11.1 ppt	28%	11.0 ppt

Source: Trip.com, UOB Kay Hian

RESULTS

- **Solid top-line growth momentum.** Trip.com's (TCOM) core business segments, namely accommodation/transportation ticketing/packaged tour/corporate travel, saw 20%/1%/42%/8% yoy growth respectively, which were 51%/43%/-3%/105% vs pre-COVID-19 levels (2Q19). In 2Q24, domestic hotel bookings rose by 20% yoy. Transportation ticketing revenue inched up by 1% yoy and was 43% above pre-COVID-19 levels, dragged by lower domestic air ticketing value added services (VAS) revenue (-20% yoy), which includes travel insurance. TCOM's outbound travel outpaced the industry's level by 20-30%, with hotel and air ticket booking fully recovering to 100% of 2019's level. International tourism revenue soared 70% yoy in 2Q24, spurred by 76% revenue growth from the APAC region. Boosted by visa-free policies, Trip.com registered a 150% yoy spike in inbound travel booking in 1H24, accounting for 25% of international tourism revenue.

- **3Q24 and 2024 outlooks remain intact.** 3Q24 revenue is guided to grow 11-16% yoy to Rmb15.3b-16b, bolstered by robust volume growth amid the summer holidays, partially dragged by a decline in domestic hotel average daily rate (ADR) and average airfares. Overall 2024 revenue growth target remains solid at 15-20% yoy. In view of the better-than-expected net margin expansion in 1H24, full-year 2024 operating margin is guided to remain stable yoy at 29-30%. Personnel-related expenses are estimated to grow by mid to high single digit yoy, reflecting increased salary. Sales & marketing (S&M) ratio is projected at 23%, and TCOM remains committed to investing in Trip.com in 2H24.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	20,039.0	44,510.0	52,558.6	61,196.5	68,973.2
EBITDA	963.0	12,176.7	15,569.2	18,088.6	20,848.7
Operating profit	88.0	11,324.0	14,723.5	17,171.0	19,849.7
Net profit (rep./act.)	1,403.0	9,918.0	15,127.0	14,473.5	16,078.7
Net profit (adj.)	1,294.0	13,071.0	17,055.7	17,368.5	19,341.7
EPS (Fen)	196.5	1,955.8	2,479.1	2,314.4	2,577.3
PE (x)	170.4	17.1	13.5	14.5	13.0
P/B (x)	1.9	1.8	1.6	1.5	1.4
EV/EBITDA (x)	208.8	16.5	12.9	11.1	9.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	7.0	22.3	28.8	23.7	23.3
Net debt/(cash) to equity (%)	24.4	0.8	(11.7)	(22.3)	(31.4)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	1.3	8.5	11.7	10.0	10.1
Consensus net profit	-	-	15,013	16,983	19,192
UOBKH/Consensus (x)	-	-	1.14	1.02	1.01

Source: Trip.com, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK$366.40
Target Price	HK$534.00
Upside	+45.7%
(Previous TP	*HK$556.00)*

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$m):	236,749.3
Market cap (US$m):	30,352.5
3-mth avg daily t'over (US$m):	72.3

Price Performance (%)

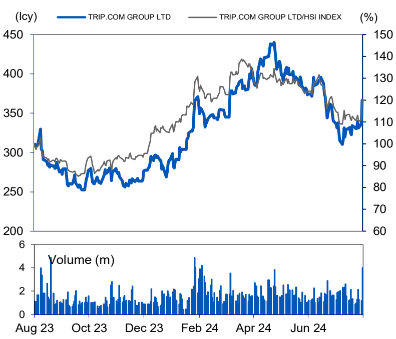
52-week high/low HK$440.00/HK$252.60

1mth	3mth	6mth	1yr	YTD
7.8	(11.9)	1.2	17.6	32.0

Major Shareholders	%
Baidu Holdings Ltd	9.5
Naspers Ltd	5.1
T Rowe Price Group Inc	4.8

FY24 NAV/Share (RMB)	207.37
FY24 Net Cash/Share (RMB)	24.29

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Meaningful margin expansion in 2Q24.** Gross margin remains flattish yoy at 82% in 2Q24, anchored by a yoy hike in overseas air ticket ADR and offset by a yoy decline in domestic air ticket ADR. Non-GAAP operating margin was 33.1% (2Q19: 20%) as TCOM remains vigilant in cost control. Sales and marketing as a share of revenue stood at 21.8% (2Q23: 20.5%, 2Q19: 24%). In 2Q24, non-GAAP net margin expanded 8.5ppt yoy to 39%, propelled by increased efficiency from leveraging on AI Agent.

- **3Q24 guidance segmental breakdown.** We forecast accommodation/transportation booking revenue to rise 23%/3% yoy and reach Rmb6.8b/Rmb5.5b respectively. Domestic hotel booking volume is projected to grow 15% yoy in 3Q24, while hotel ADR remains under pressure with a high single digit yoy decline. Domestic hotel occupancy dropped 1-2ppt yoy in Jul-Aug 24, better than the industry's 10ppt yoy decline. Hotel take rate remains stable at 8-10% due to normalised subsidies given the stabilised competitive landscape. Domestic transportation booking is forecasted to grow at mid to high single digit yoy, outpacing mid single digit yoy growth in the number of passengers as reported by Civil Aviation Administration of China (CAAC). The gap between transportation ticketing volume and revenue is attributed to the normalised commission rate of 1-2% vs 3% in 2023 due to lower contribution from VAS revenue in 2Q/3Q24, with the impact to phase out in 4Q24. Packaged tour and corporate travel are forecasted to rise 21%/10% yoy respectively. Gross margin is expected to improve sequentially to 83% thanks to strong seasonality in 3Q24. Non-GAAP operating margin is guided to remain flattish sequentially at 33%, with S&M ratio to remain stable at 23%.

- **Resilient 2Q24 outbound and international tourism…** In 2Q24, outbound hotel and air ticketing booking recovered to 100% of 2019 levels. Outbound and hotel, air ticketing and packaged tour revenue recovered to 100%/115%/50% of 2019 levels respectively. Outbound air ticketing revenue rose by over 40% yoy in 2Q24, dragged by a 20% yoy decline in air ticketing ADR. With this, overall outbound travel revenue in 2Q24 recovered to 90% of 2019 levels, implying a 60-70% yoy growth. Meanwhile, Trip.com's overseas business development in local markets such as Southeast Asia, Japan, Korea, Europe and the US led to a 70% yoy revenue growth for Trip.com in 2Q24. Meanwhile, Skyscanner delivered low single digit yoy growth in 2Q24.

- **…sustains into 3Q24**. TCOM expects overall outbound revenue to recover to 100% of 2019 levels in 3Q23, implying a 40% yoy growth. International tourism revenue is guided to surge 60-70% yoy in 3Q24. Amid the summer holidays, outbound hotel booking recovered to 120% of 2019 levels and grew 80% yoy. Outbound air ticketing revenue recovered to 120% of 2019 levels as transportation booking recovered to 115% of 2019 levels. Air ticketing ADR grew by high single digit above 2019 levels (vs 30% growth in 3Q23), implying a 15% yoy decline. Outbound packaged tour recovered to 60-70% of 2019 levels (vs 50% in 2Q24).

EARNINGS REVISION/RISK

- We lower our 3Q24/2024 revenue forecasts by 3%/2% respectively. We raise our 3Q24/2024 earnings forecasts by 2%/11% in view of profitability improvement of TCOM.

- **Risks:** Softer travel consumption spending power; normalised domestic travel demand.

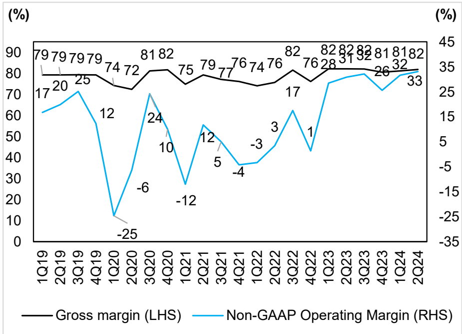
VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of HK$534.00 (US$68.00).** TCOM stands to benefit from robust inbound, outbound and international travel. Our new target price implies 21.4x 2025F PE, in line with global peers.

SHARE PRICE CATALYST

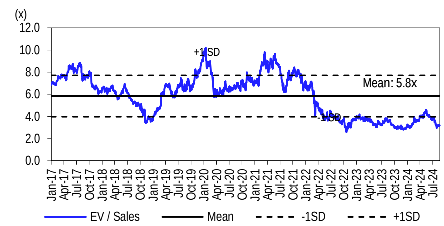
- Recovery of outbound travel and robust inbound travel; benefitting from visa-free policies.

QUARTERLY MARGINS



Source: Trip.com, UOB Kay Hian

12-MONTH FORWARD EV/SALES BAND



Source: Trip.com, UOB Kay Hian

SOTP VALUATION

Segment (HK$m)	FY25F Revenue	FY25F NPAT	PE (x)	EV / EBITA	Value	% Tcom holding	Value to Tcom	HK$ per share
Core Travel biz								
Travel - accommodation/transport	52,460	11,751	18		211,517	100%	211,517	307.4
Travel - package tour/corporate travel/others	14,334	3,211		18	57,795	100%	57,795	84.0
Key equity investees (HK$m) 10% holdco discount							23,481	34.1
Net cash					74,791	100%	74,791	108.7
Total							367,584	534.0

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	44,510	52,559	61,196	68,973
EBITDA	12,177	15,569	18,089	20,849
Deprec. & amort.	853	846	918	999
EBIT	11,324	14,724	17,171	19,850
Total other non-operating income	(667)	726	100	0
Net interest income/(expense)	23	363	0	700
Pre-tax profit	10,680	15,813	17,271	20,550
Tax	(1,750)	(3,140)	(3,520)	(4,521)
Minorities	(84)	(57)	22	50
Net profit	9,918	15,127	14,474	16,079
Net profit (adj.)	13,071	17,056	17,369	19,342

BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	5,783	6,501	7,355	8,316
Other LT assets	124,622	125,026	125,447	125,888
Cash/ST investment	43,983	61,046	78,847	97,611
Other current assets	27,001	30,806	34,165	37,373
Total assets	219,137	241,126	263,563	286,936
ST debt	25,857	25,857	25,857	25,857
Other current liabilities	47,031	53,836	61,821	69,166
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	137,368	151,820	167,848
Minority interest	822	822	822	822
Total liabilities & equity	219,137	241,126	263,563	286,936

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	22,004	19,029	19,995	21,164
Pre-tax profit	10,680	15,813	17,271	20,550
Tax	(1,750)	(3,140)	(3,520)	(4,521)
Deprec. & amort.	590	587	664	751
Associates	0	0	1	2
Working capital changes	1,517	3,000	4,626	4,136
Non-cash items	0	0	1	2
Other operating cashflows	10,967	2,770	953	247
Investing	5,919	(1,967)	(2,194)	(2,400)
Capex (growth)	(1,104)	(1,304)	(1,519)	(1,712)
Capex (maintenance)	0	0	1	2
Investments	7,023	(663)	(675)	(689)
Proceeds from sale of assets	0	0	1	2
Others	0	0	0	0
Financing	(2,547)	0	0	0
Dividend payments	0	0	1	2
Issue of shares	9,901	0	0	0
Proceeds from borrowings	5,922	0	0	0
Loan repayment	0	0	1	2
Others/interest paid	(18,370)	0	(2)	(4)
Net cash inflow (outflow)	25,376	17,063	17,802	18,764
Beginning cash & cash equivalent	18,487	43,983	61,046	78,847
Changes due to forex impact	120	0	0	0
Ending cash & cash equivalent	43,983	61,046	78,847	97,611

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	27.4	29.6	29.6	30.2
Pre-tax margin	24.0	30.1	28.2	29.8
Net margin	22.3	28.8	23.7	23.3
ROA	4.8	6.6	5.7	5.8
ROE	8.5	11.7	10.0	10.1
Growth				
Turnover	122.1	18.1	16.4	12.7
EBITDA	1,164.5	27.9	16.2	15.3
Pre-tax profit	305.3	48.1	9.2	19.0
Net profit	606.9	52.5	(4.3)	11.1
Net profit (adj.)	910.1	30.5	1.8	11.4
EPS	895.5	26.8	(6.6)	11.4
Leverage				
Debt to total capital	26.8	24.5	22.8	21.0
Debt to equity	36.8	32.7	29.6	26.8
Net debt/(cash) to equity	0.8	(11.7)	(22.3)	(31.4)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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