

COMPANY RESULTS

Trip.com (9961 HK)

2Q22: COVID-19 Control Measures Envelopes Domestic Recovery; Robust International Travel

Trip.com delivered solid 2Q22 results. Net revenue of Rmb4b for 2Q22 declined 31.8% yoy and was 51% below pre-COVID-19 levels, beating the street's estimates by 13%. Gross margin contracted by 3.6ppt yoy to 75.7%, beating consensus. Non-GAPP operating margin was 3.4%, better than our estimates. Non-GAAP net profit was -Rmb203m, due to losses resulting from the fair value changes in equity securities investments. Maintain BUY with a higher target price of HK\$305.00 (US\$37.00).

2022 RESULTS

Year to 31 Dec (Rmbm)	2021	1Q22	2Q22	QoQ	YoY	UOB	Var	Cons	Var
Revenue	5,892.0	4,111.0	4,016.0	(2.3%)	(31.8%)	3,602.6	11.5%		
Accommodation	2,455.0	1,450.0	1,357.0	(6.4%)	(44.7%)	1,223.9	10.9%		
Transportation ticketing	2,066.0	1,663.0	1,763.0	6.0%	(14.7%)	1,544.5	14.2%		
Packaged tour	367.0	124.0	122.0	(1.6%)	(66.8%)	58.7	107.8%		
Corporate travel	390.0	222.0	210.0	(5.4%)	(46.2%)	210.6	(0.3%)		
Others	614.0	652.0	564.0	(13.5%)	(8.1%)	564.9	(0.2%)		
Net revenue	5,890.0	4,109.0	4,011.0	(2.4%)	(31.9%)	3,600.8	11.4%	3,550	13.0%
Cost of services	(1,223)	(1,067)	(976.0)	8.5%	20.2%	(928.2)	(5.1%)		
Gross profit	4,667.0	3,042.0	3,035.0	(0.2%)	(35.0%)	2,672.6	13.6%	2,628	15.5%
GPM	79.2%	74.0%	75.7%	1.6 ppt	(3.6 ppt)	74.2%	1.4 ppt	74.0%	1.6 ppt
Non-gaap OP	692.0	(136.0)	137.0	200.7%	(80.2%)	(251.3)	154.5%	-517	126.5%
Non-GAAP OPM	11.7%	(3.3%)	3.4%	6.7 ppt	(8.3 ppt)	(7.0%)	10.4 ppt	-14.6%	18.0 ppt
Net profit	(659.0)	(1,001)	43.0	104.3%	106.5%	(501.4)	108.6%		
Non-GAAP NP	728.0	(36.0)	(203.0)	(464%)	(127.9%)	(51.3)	(296.0%)	76	(366.8%)
Non-GAAP NPM	12.4%	(0.9%)	(5.1%)	(4.2ppt)	(17.4 ppt)	(1.4%)	(3.6 ppt)	2.1%	(7.2 ppt)

Source: Trip.com, UOB Kay Hian

RESULTS

• **Better-than-expected 2Q22.** Trip.com's (TCOM) core business segments, namely, accommodation reservation/transportation ticketing/packaged tour/corporate travel, saw -44.7%/-14.7%/-66.8%/-46.2% yoy growths, which was -55.1%/-47.4%/-88.3%/-11.8% vs pre-COVID-19 levels in 2Q19. During 2Q22, domestic hotel reservation increased by over 30% compared with 2Q19, mainly contributed by staycation travel, outpacing the market by 20-25% despite the intense competitive environment. The robust performance of air ticketing reservation was largely driven by the strong recovery in international travel, which reached 90% of 2019's level, on the back of strong recovery momentum in Europe and the US, and the rebound of travel activities in the Asia-Pacific regions.

• **Margin overview.** Gross margin contracted by 3.6ppt yoy to 76% during 2Q22, 3.6ppt below pre-COVID-19 levels. TCOM delivered a non-GAPP operating margin of 3.4%, as the company continued to adopt vigilance in cost control, which resulted in overall SG&A decreasing by 26% yoy, representing 72% of total revenue. During 2Q22, non-GAAP net margin was -5.1%, worsening from the 12.4% reported a year ago primarily due to losses resulting from the fair value changes in equity securities investments.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	18,316.0	20,023.0	19,805.5	32,667.8	39,054.5
EBITDA	(206.0)	(529.4)	814.1	3,450.2	5,628.3
Operating profit	(1,423.0)	(1,411.0)	(23.2)	2,587.0	4,726.3
Net profit (rep./act.)	(3,247.0)	(550.0)	(167.2)	3,043.3	4,608.1
Net profit (adj.)	(913.0)	1,356.0	1,580.3	6,148.7	8,320.7
EPS (Fen)	(150.6)	209.8	244.5	951.5	1,287.6
PE (x)	n.m.	88.1	75.6	19.4	14.4
P/B (x)	1.1	1.1	1.1	1.1	1.0
EV/EBITDA (x)	n.m.	n.m.	178.4	42.1	25.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(17.7)	(2.7)	(0.8)	9.3	11.8
Net debt/(cash) to equity (%)	36.8	27.1	23.6	11.2	3.8
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	n.a.	n.a.	n.a.	2.7	4.0
Consensus net profit	-	-	170	764	1,145
UOBKH/Consensus (x)	-	-	9.27	8.05	7.27

Source: Trip.com, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	HK\$206.00
Target Price	HK\$305.00
Upside	+48.1%
(Previous TP)	HK\$303.00)

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):	641.8
Market cap (HK\$m):	132,201.4
Market cap (US\$m):	16,841.2
3-mth avg daily t'over (US\$m):	23.3
Price Performance (%)	

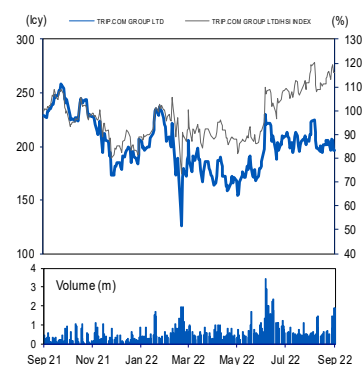
52-week high/low HK\$258.00/HK\$126.20

1mth	3mth	6mth	1yr	YTD
(0.2)	14.6	19.4	(6.7)	8.0

Major Shareholders

	%
Baidu	10.8
Morgan Stanley Investment Management	5.1
Naspers Ltd	5.1
FY22 NAV/Share (RMB)	169.41
FY22 Net Debt/Share (RMB)	40.06

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Guidance and outlook.** The company expects 3Q22 revenue to grow at c.23% yoy or 37% below 3Q19 levels (21% above street estimate). In terms of 3Q22 revenue growth, TCOM has guided for the accommodation/transportation ticketing/package tour/corporate travel/others segments at +28%/+39%/-15%/+1.5%/0% yoy or -32%/-33%/-80%/+1.5%/-16% compared to 3Q19 levels. The company guided gross margin at 79-80% due to a change in business mix. As a larger contribution is expected from international platform Skyscanner compared to domestic travel, gross profit margin is expected to increase to 79-80% in 3Q22, beating our expectation. Non-GAAP operating margin is guided at 15%, while 3Q22 EBITDA is expected to come in at Rmb1.1b-1.2b. The outlook for 4Q22 is relatively sluggish. Compared with 2019's level, TCOM is seeing a decline in revenue of 40% and 38% in 4Q22 and 3Q22 respectively, due to a soft October Golden Week impacted by the continuous implementation of lockdown measures. TCOM does not expect the recovery during the Golden Week to be better than last year's as more than 20% of China's population is currently under COVID-related restrictions, due to the country's stringent zero-COVID policy.

- Strong overseas market.** In 2Q22, international air ticketing revenue saw a 100% yoy growth, with its global brand Trip.com's air-ticketing reservation coming in 300% above pre-COVID19 levels in 2Q22, partially due to the high base. The adjusted EBITDA of some international brands has turned positive, supported by rapid business recovery and improved operational efficiency. Overall international accommodation bookings on global platform increased by more than 40% above 2019's level. TCOM is seeing gradual recovery from overseas, which is expected to recover to 80-90% of pre-pandemic level in 3Q22, accounting for 20% of total revenue. Meanwhile, the company expects domestic market to be adversely affected in 4Q22 due to the extended travel restrictions.

EARNINGS REVISION/RISK

- We raised our 3Q22/2022 revenue forecasts by 17%/2% respectively,** following a better-than-expected guidance from management. On a full-year basis for 2022, our revenue growth is estimated at -1.1%, driven by supportive tailwinds such as the relaxation of lockdown measures and quarantine period mandates. We estimate TCOM's non-GAAP net margin at 17%/8% for 3Q22/2022 as the company's prudent cost control measures should provide meaningful shelter against near-term weakness in top-line growth.

- Risks:** Outbreak of new COVID-19 variants, intermittent lockdown measures in domestic market.

VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of HK\$305.00 (US\$37.00)** as we roll forward our SOTP valuation to 2023. TCOM will be the key beneficiary of the gradual relaxation of China's quarantine measures as well as the recovery in international tourism activities. Our new target price implies 4.2x 2023F EV/sales, against the company's historical average of 7x.

SHARE PRICE CATALYST

- Relaxation of lockdown measures in China, implementation of travel bubbles and easing of overseas travel restrictions.

SOTP VALUATION

Segment (HK\$m)	FY23E Revenue	FY23E NPAT	PE (x)	EV / EBITA	Value	% TCOM Holding	Value to TCOM	HK\$ per share
Core Travel biz								
Travel - accommodation / transport	32,988	5,278	20		105,563	100	105,563	169.9
Travel - package tour/corporate travel/others	7,065	1,130		20	22,608	100	22,608	36.4
Key equity investees (HK\$m) 10% holdco discount							20,014	32.2
Net cash					41,116	100	41,116	66.2
Total							189,302	305.0

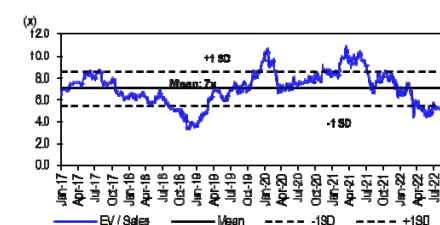
Source: UOB Kay Hian

QUARTERLY MARGINS



Source: Trip.com, UOB Kay Hian

TCOM 12-MONTH FORWARD EV/SALES BAND



Source: Trip.com, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMBm)	2021	2022F	2023F	2024F
Net turnover	20,023	19,806	32,668	39,054
EBITDA	(529)	814	3,450	5,628
Deprec. & amort.	882	837	863	902
EBIT	(1,411)	(23)	2,587	4,726
Total other non-operating income	373	(188)	0	0
Net interest income/(expense)	567	793	750	700
Pre-tax profit	(471)	582	3,337	5,426
Tax	(270)	(309)	(310)	(868)
Minorities	95	38	17	50
Net profit	(550)	(167)	3,043	4,608
Net profit (adj.)	1,356	1,580	6,149	8,321

BALANCE SHEET

Year to 31 Dec (RMBm)	2021	2022F	2023F	2024F
Fixed assets	6,311	6,316	6,664	7,153
Other LT assets	119,440	119,806	120,187	120,584
Cash/ST investment	21,196	25,071	38,365	46,503
Other current assets	15,346	16,564	20,677	23,110
Total assets	191,859	197,324	215,459	226,916
ST debt	39,866	39,866	39,866	39,866
Other current liabilities	26,752	32,422	47,531	54,429
LT debt	11,093	11,093	11,093	11,093
Other LT liabilities	3,692	3,692	3,692	3,692
Shareholders' equity	109,677	109,472	112,499	117,057
Minority interest	779	779	779	779
Total liabilities & equity	191,859	197,324	215,459	226,916

CASH FLOW

Year to 31 Dec (RMBm)	2021	2022F	2023F	2024F
Operating	4,617	5,083	14,886	9,925
Pre-tax profit	(471)	582	3,337	5,426
Tax	(270)	(309)	(310)	(868)
Deprec. & amort.	608	570	601	646
Associates	0	0	0	0
Working capital changes	6,061	4,451	10,996	4,465
Non-cash items	0	0	0	0
Other operating cashflows	(1,312)	(211)	262	256
Investing	1,867	(1,208)	(1,592)	(1,788)
Capex (growth)	(581)	(575)	(949)	(1,134)
Capex (maintenance)	0	0	0	0
Investments	2,448	(633)	(643)	(653)
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	(4,702)	0	0	0
Dividend payments	0	0	0	0
Issue of shares	(959)	0	0	0
Proceeds from borrowings	(5,424)	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	1,681	0	0	0
Net cash inflow (outflow)	1,781	3,875	13,294	8,138
Beginning cash & cash equivalent	19,415	21,196	25,071	38,365
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	21,196	25,071	38,365	46,503

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	(2.6)	4.1	10.6	14.4
Pre-tax margin	(2.4)	2.9	10.2	13.9
Net margin	(2.7)	(0.8)	9.3	11.8
ROA	n.a.	n.a.	1.5	2.1
ROE	n.a.	n.a.	2.7	4.0
Growth				
Turnover	9.3	(1.1)	64.9	19.6
EBITDA	n.a.	n.a.	323.8	63.1
Pre-tax profit	n.a.	n.a.	473.5	62.6
Net profit	n.a.	n.a.	n.a.	51.4
Net profit (adj.)	n.a.	16.5	289.1	35.3
EPS	n.a.	16.5	289.1	35.3
Leverage				
Debt to total capital	31.6	31.6	31.0	30.2
Debt to equity	46.5	46.5	45.3	43.5
Net debt/(cash) to equity	27.1	23.6	11.2	3.8
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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