

Trip.com Group

4Q profit a strong beat; healthy growth outlook indicated by CNY momentum

Reiterate Rating: BUY | PO: 56.00 USD | Price: 41.91 USD

2023: revs +25% vs. 2019; non-GAAP OpM reached 30%

TCOM concludes 2024 with solid 4Q. 4Q net revs +105% YoY (24% higher than that of 4Q19) and non-GAAP Op margin of 25.6% (vs. 12.3% same time before pandemic), driven solid domestic travel demand and steady recovery of outbound capacity. 2023 net revs totaled RMB44.5b, up 25% vs. 2019, while full-year non-GAAP OpM reached 30%, vs. 19% in 2019. Into 1Q24, co. indicates macro uncertainty remains high but sees New Year and Chinese New Year booking trends as healthy, indicating continued solid leisure travel demand this year. CNY domestic hotel and air ticket bookings were up 50% YoY while outbound bookings recovered to almost 100% of 2019. That said, mgmt. notes industry hotel and air passenger figures were softer before and after peak season, indicating non-holiday demand still fluctuates, especially in business travel segment. For 2024, mgmt. indicates a healthy domestic revs growth and a full outbound revs recovery to be key growth drivers for this year, while expansion of international business is important for longer term sustained growth. We now model 2024 revs growth of 18%, assuming high-single-digit growth domestically. Raise FY24-25E revs by 4-7% and non-GAAP Np by 5-6%. Adjust DCF-based PO of US\$56/HK\$440 following est. changes and reiterate Buy on co.'s solid market leadership in mid-high end & outbound travel segments, overseas expansion potential, improving ROE (US\$224m buyback in 2H23).

4Q23: revs in-line; profit beat on disciplined PD+GA spend

4Q net revenue was RMB10.3b, up 105% YoY or up 24% from 2019, in-line with consensus. Accommodation revs +131% YoY (or +32% from 2019) to RMB3.9b, while transportation revs +86% YoY (or +18% from 2019) to RMB4.1b. Gross margin of 80.5% met consensus of 79.1%, vs. 82.0% in 3Q and 76.1% in 4Q22. Operating margin was 21.3%, much higher than consensus of 13.6% due to effective cost savings on Product Development and G&A expenses. Non-GAAP net profit was RMB2.7b, beating consensus of RMB1.6b, implying a margin of 25.9% (vs. 35.6% in 3Q and 9.9% in 4Q22). Co. announced an incremental US\$300m to its Capital Return Program, implying a total of >US\$550m outstanding balance could be used for share repurchase and dividend payout.

Estimates (Dec) (CNY)	2021A	2022A	2023E	2024E	2025E
Net Income (Adjusted - mn)	(550.00)	1,403	9,635	11,227	13,361
EPS	(0.867)	2.14	14.36	16.63	19.60
EPS Change (YoY)	83.9%	NM	572.5%	15.8%	17.8%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	2.91	3.10	8.19	23.15	20.13
Common EPS (CNY)	(0.867)	2.14	14.36	16.63	19.60
Common Dividend / Share (CNY)	0	0	0	0	0
Valuation (Dec)					
P/E	NM	136.45x	20.70x	18.11x	15.37x
EV / EBITDA*	NM	233.10x	16.79x	14.56x	12.19x
Free Cash Flow Yield*	0.949%	1.05%	2.82%	8.03%	7.05%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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Timestamp: 22 February 2024 05:55PM EST

23 February 2024

Equity

Key Changes

(CNY)	Previous	Current
Price Obj.	US\$50.00	US\$56.00
2023E EPS	13.95	14.36
2024E EPS	15.30	16.63
2025E EPS	18.21	19.60

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Stock Data

Price (ADR / Common)	41.91 USD / 355.60 HKD
Price Objective	56.00 USD / 440.00 HKD
Date Established	23-Feb-2024 / 23-Feb-2024
Investment Opinion	C-1-9 / B-1-9
52-Week Range	30.70 USD-45.30 USD
Market Value (mn)	27,080 USD
Shares Outstanding (mn)	646.1 / 646.1
Average Daily Value (mn)	145.82 USD
Free Float	100.0%
BofA Ticker / Exchange	TCOM / NAS
BofA Ticker / Exchange	TRPCF / HKG
Bloomberg / Reuters	TCOM US / TCOM.OQ
ROE (2023E)	8.1%
Net Dbt to Eqty (Dec-2022A)	25.5%

iQprofileSM Trip.com Group

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(CNY Millions)					
Sales	20,023	20,039	44,510	52,548	59,349
Gross Profit	15,425	15,526	36,389	42,486	48,036
Sell General & Admin Expense	(6,965)	(6,476)	(11,981)	(14,678)	(16,311)
Operating Profit	(1,411)	88	11,324	13,003	15,671
Net Interest & Other Income	940	2,547	(927)	0	0
Associates	NA	NA	NA	NA	NA
Pretax Income	(471)	2,635	10,397	13,003	15,671
Tax (expense) / Benefit	(270)	(682)	(1,750)	(3,001)	(3,534)
Net Income (Adjusted)	(550)	1,403	9,635	11,227	13,361
Average Fully Diluted Shares Outstanding	634	657	671	675	682

Key Cash Flow Statement Data

Net Income	(550)	1,403	9,635	11,227	13,361
Depreciation & Amortization	1,021	866	1,924	2,271	2,565
Change in Working Capital	177	(800)	7,162	857	(4,588)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	1,768	1,063	(12,119)	1,800	2,981
Cash Flow from Operations	2,416	2,532	6,601	16,155	14,319
Capital Expenditure	(570)	(497)	(1,104)	(525)	(593)
(Acquisition) / Disposal of Investments	(2,360)	1,195	0	0	0
Other Cash Inflow / (Outflow)	(1,218)	438	0	0	0
Cash Flow from Investing	(4,148)	1,136	(1,104)	(525)	(593)
Shares Issue / (Repurchase)	7,984	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	3,919	(6,717)	(153)	(160)	(168)
Free Cash Flow	1,846	2,035	5,497	15,629	13,725
Net Debt	31,141	28,851	23,507	8,038	(5,519)
Change in Net Debt	285	(2,615)	(5,344)	(15,469)	(13,557)

Key Balance Sheet Data

Property, Plant & Equipment	5,620	5,204	4,384	2,639	668
Other Non-Current Assets	120,131	125,052	138,159	137,584	135,827
Trade Receivables	4,649	5,486	9,147	8,129	11,383
Cash & Equivalents	19,818	17,000	22,344	37,813	51,370
Other Current Assets	41,641	38,949	40,074	42,113	43,839
Total Assets	191,859	191,691	214,109	228,278	243,086
Long-Term Debt	11,093	13,177	13,177	13,177	13,177
Other Non-Current Liabilities	4,092	4,256	4,256	4,256	4,256
Short-Term Debt	39,866	32,674	32,674	32,674	32,674
Other Current Liabilities	26,352	28,565	40,513	42,391	42,783
Total Liabilities	81,403	78,672	90,620	92,498	92,890
Total Equity	110,456	113,019	123,489	135,779	150,196
Total Equity & Liabilities	191,859	191,691	214,109	228,278	243,086

iQmethodSM - Bus Performance*

Return On Capital Employed	0.4%	1.0%	6.4%	6.6%	7.7%
Return On Equity	-0.5%	1.3%	8.1%	8.7%	9.3%
Operating Margin	-7.0%	0.4%	25.4%	24.7%	26.4%
EBITDA Margin	-1.9%	4.8%	29.8%	29.1%	30.7%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	NM	1.8x	0.7x	1.4x	1.1x
Asset Replacement Ratio	0.6x	0.6x	0.6x	0.2x	0.2x
Tax Rate (Reported)	NM	25.9%	16.8%	23.1%	22.6%
Net Debt-to-Equity Ratio	28.2%	25.5%	19.0%	5.9%	-3.7%
Interest Cover	-0.9x	0.1x	6.2x	5.4x	4.4x

Key Metrics

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Internet/e-Commerce

Company Description

Trip.com was incorporated in 1999 and is a leading consolidator of hotel accommodation and airlines tickets in China. It is one of the best known travel brands for people making hotel and air ticket reservations. It has been expanding its business into other travel products, including booking of ground transportation and local tourist attractions. It acquired Qunar and Skyscanner among other industry companies. Trip.com was listed on the NASDAQ in December 2003.

Investment Rationale

We see Trip.com as a key beneficiary of China's rising travel trend. The firm is the largest online/call-center travel agency by revenue and is well-known for its quality customer services. The rise of outbound travel and fast growth in the low-end market also benefit large and well-known OTAs such as Trip.com. We expect Trip.com to remain an industry leader with exposure to the industry's long-tail growth potential while investing aggressively for user growth.

Stock Data

Shares / Common	1.00
Price to Book Value	1.6x

Key Changes

(CNY)	Previous	Current
Price Obj.	HK\$393.00	HK\$440.00
2023E EPS	13.95	14.36
2024E EPS	15.30	16.63
2025E EPS	18.21	19.60

Price objective basis & risk

Trip.com Group (TCOM / TRPCF)

Our PO of US\$56 (HK\$440/HK share) comprises: 1) US\$50 per share from DCF of the core business based on 11% discount rate, 4% terminal growth, 2) US\$6 per share from various equity investments like MakeMyTrip, Tongcheng eLong, China Lodging, and Tuniu. The stakes in MakeMyTrip, Tuniu and China Lodging are based on market value.

The downside risks to our PO are: (1) Intensifying competition if other industry participants aggressively step up discounts and coupon promotions to compete mainly on pricing. (2) Direct sales from airlines. (3) Short-term demand shocks from macro economic jitters, currency fluctuations that affect outbound travel intention, travel restrictions, fuel surcharges, natural disasters and epidemics. (4) Changes in commission rates. Consolidation among the airlines and hotels could boost the negotiating power of both airlines as well as hotels, and result in reduced commission rates. (5) Margins fail to stabilize due to intensifying price competition. (6) Regulation changes affect the business operations, expenses structure, and capital market events, such as delisting and legal liabilities related to consumer protection matters. (7) Changes in the industry competitive landscape, e.g., groupbuys, verticals and meta search. (8) Loss-making nature of new businesses. (9) Increasing US-China tension.

Analyst Certification

I, Joyce Ju, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Agora	API	API US	Daley Li, CFA
	AiHuiShou	RERE	RERE US	Joyce Ju
	Alibaba Group	BABA	BABA US	Joyce Ju
	Alibaba Group	BABAF	9988 HK	Joyce Ju
	Alibaba Health	ALBHF	241 HK	Miranda Zhuang, CFA
	Baidu.com	BIDU	BIDU US	Miranda Zhuang, CFA
	Baidu.com	BAIDF	9888 HK	Miranda Zhuang, CFA
	Bilibili	BILI	BILI US	Lei Zhang
	Bilibili	BLBLF	9626 HK	Lei Zhang
	CAR Group	CRSLF	CAR AU	Sriharsh Singh
	Chinasoft International	CFTLF	354 HK	Daley Li, CFA
	Cloud Music	XVWJF	9899 HK	Lei Zhang
	Com2uS Corp	XOYAF	078340 KS	Jeehoon Jeong, CFA
	DBAPPSecurity	XDBAF	688023 CH	Daley Li, CFA
	Delhivery	XDVLV	DELHIVER IN	Sachin Salgaonkar
	Dingdong	DDL	DDL US	Joyce Ju
	East Money	XEQTF	300059 CH	Michael Li
	Grab Holdings	GRAB	GRAB US	Sachin Salgaonkar
	Hello Group	MOMO	MOMO US	Lei Zhang
	Hundsun Technologies	XYTGF	600570 CH	Daley Li, CFA
	HYBE	XBGOF	352820 KS	Susie Lee
	iQIYI	IQ	IQ US	Lei Zhang
	JD Health	JDHIF	6618 HK	Miranda Zhuang, CFA
	JD.com	JD	JD US	Joyce Ju
	JD.com	JDCMF	9618 HK	Joyce Ju
	JYP Entertainment	ALNNF	035900 KS	Susie Lee
	Kingdee International Software	KGDEF	268 HK	Daley Li, CFA



APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Kingsoft Corporation	KSFTF	3888 HK	Daley Li, CFA
	Kuaishou	KUASF	1024 HK	Lei Zhang
	Makemytrip Limited	MMYT	MMYT US	Sachin Salgaonkar
	Meituan	MPNGF	3690 HK	Lei Zhang
	Naver Corporation	NHNCF	035420 KS	Susie Lee
	NetEase	NETTF	9999 HK	Lei Zhang
	NetEase, Inc	NTES	NTES US	Lei Zhang
	Nine Entertainment Company	NNMTF	NEC AU	Alice Lei, CFA
	Pinduoduo Inc.	PDD	PDD US	Joyce Ju
	Plan B Media PCL	XMKTF	PLANB TB	Thititthep Nophaket
	PT Bukalapak.com	BKLPF	BUKA IJ	Sachin Salgaonkar
	PVR-Inox Ltd	PVRLF	PVRINOX IN	Sachin Salgaonkar
	REA Group	RPGRF	REA AU	Sriharsh Singh
	Tencent Holdings	TCTZF	700 HK	Miranda Zhuang, CFA
	Tencent Music	TME	TME US	Lei Zhang
	Tencent Music	XWFWF	1698 HK	Lei Zhang
	Tongcheng Travel	TNGCF	780 HK	Janet Yang
	Trip.com Group	TCOM	TCOM US	Joyce Ju
	Trip.com Group	TRPCF	9961 HK	Joyce Ju
	TUHU Car	XTCRF	9690 HK	Miranda Zhuang, CFA
	Venustech	XVCGF	002439 CH	Daley Li, CFA
	Vipshop Holdings	VIPS	VIPS US	Joyce Ju
	Xero Limited	XROLF	XRO AU	Sriharsh Singh
	YG Entertainment	XYEIF	122870 KS	Susie Lee
	YY	YY	YY US	Lei Zhang
	Zomato Limited	XMWRF	ZOMATO IN	Sachin Salgaonkar

NEUTRAL

	AfreecaTV	WNTHF	067160 KS	Susie Lee
	Autohome	ATHM	ATHM US	Miranda Zhuang, CFA
	Autohome	XXYZF	2518 HK	Miranda Zhuang, CFA
	Baozun	BZUN	BZUN US	Joyce Ju
	Coupang	CPNG	CPNG US	Susie Lee
	Glodon Company	XGCOF	002410 CH	Daley Li, CFA
	GoTo Group	GTOFF	GOTO IJ	Sachin Salgaonkar
	Huya	HUYA	HUYA US	Lei Zhang
	Kakao Corp.	DAUCF	035720 KS	Susie Lee
	KE Holdings	BEKE	BEKE US	Miranda Zhuang, CFA
	KE Holdings	XSQRF	2423 HK	Miranda Zhuang, CFA
	Kingsoft Cloud	KC	KC US	Daley Li, CFA
	Kingsoft Cloud	KCLHF	3896 HK	Daley Li, CFA
	Krafton	XKINF	259960 KS	Susie Lee
	NCSOFT	NCSCF	036570 KS	Susie Lee
	Nykkaa	XQQGF	NYKAA IN	Sachin Salgaonkar
	PB Fintech	XPFXF	POLICYBZ IN	Sachin Salgaonkar
	PropertyGuru	PGRU	PGRU US	Sachin Salgaonkar
	Sea Limited	SE	SE US	Sachin Salgaonkar
	Seek Limited	SKLTF	SEK AU	Sriharsh Singh
	Seven West Media	WANHF	SWM AU	Alice Lei, CFA
	The ONE Enterprise	XUFCF	ONEE TB	Thititthep Nophaket
	VGI Public Company Limited	XZQHF	VGI TB	Thititthep Nophaket
	Weimob	WEMXF	2013 HK	Daley Li, CFA
	WiseTech Global Limited	WTCF	WTC AU	Ware Kuo
	XD Inc.	XDNCF	2400 HK	Lei Zhang
	Yonyou Network	XYNIF	600588 CH	Daley Li, CFA

UNDERPERFORM

	Appen Ltd	APPEF	APX AU	Ware Kuo
	BEC World	XBJHF	BEC TB	Thititthep Nophaket
	CJ ENM	CJHOF	035760 KS	Susie Lee
	Douyu	DOYU	DOYU US	Lei Zhang
	Indiamart InterMesh Limited	XEITF	INMART IN	Sachin Salgaonkar
	Info Edge	IFOEF	INFOE IN	Sachin Salgaonkar
	Kakao Games	XKKGF	293490 KS	Susie Lee
	Kingsoft Office	XBKOF	688111 CH	Daley Li, CFA
	Ming Yuan Cloud	XWTAF	909 HK	Daley Li, CFA

APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	NavInfo	XWLHF	002405 CH	Daley Li, CFA
	Netmarble	XLGHF	251270 KS	Susie Lee
	PearlAbyss Corp	XEPAF	263750 KS	Susie Lee
	Ping An Healthcare and Technology	PANHF	1833 HK	Miranda Zhuang, CFA
	Qi An Xin	XQTDF	688561 CH	Daley Li, CFA
	Technology One Limited	THNOF	TNE AU	Ware Kuo
	ThunderSoft	XSTSF	300496 CH	Daley Li, CFA
	Weibo Corporation	WB	WB US	Miranda Zhuang, CFA
	Weibo Corporation	WEIBF	9898 HK	Miranda Zhuang, CFA
	Zee Entertainment Enterprises	XZETF	Z IN	Sachin Salgaonkar
	Zip Co Limited	ZIZTF	ZIP AU	Ware Kuo

RVW

	Dada Nexus	DADA	DADA US	Lei Zhang
	Paytm	XUXBF	PAYTM IN	Sachin Salgaonkar

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$
Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
 $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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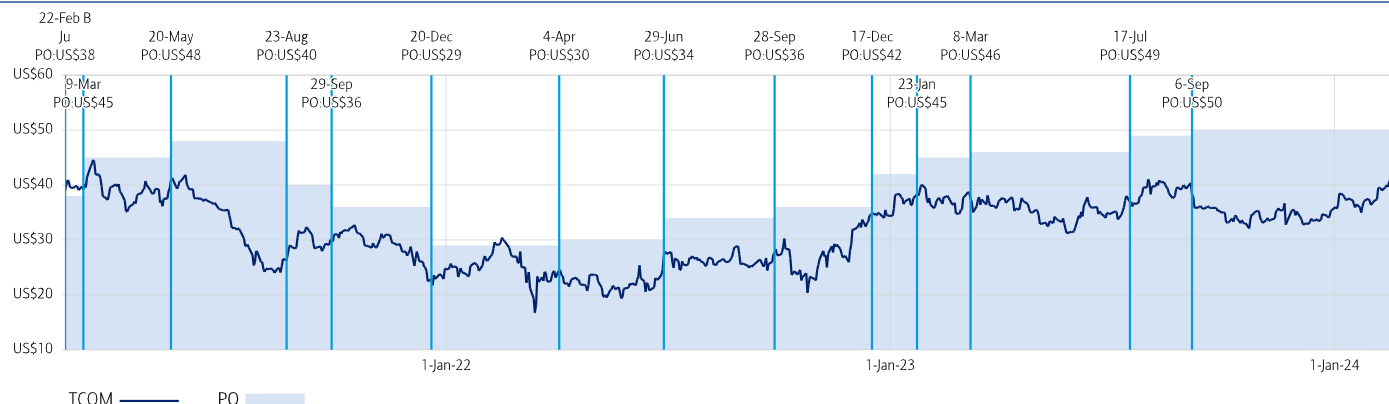
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Disclosures

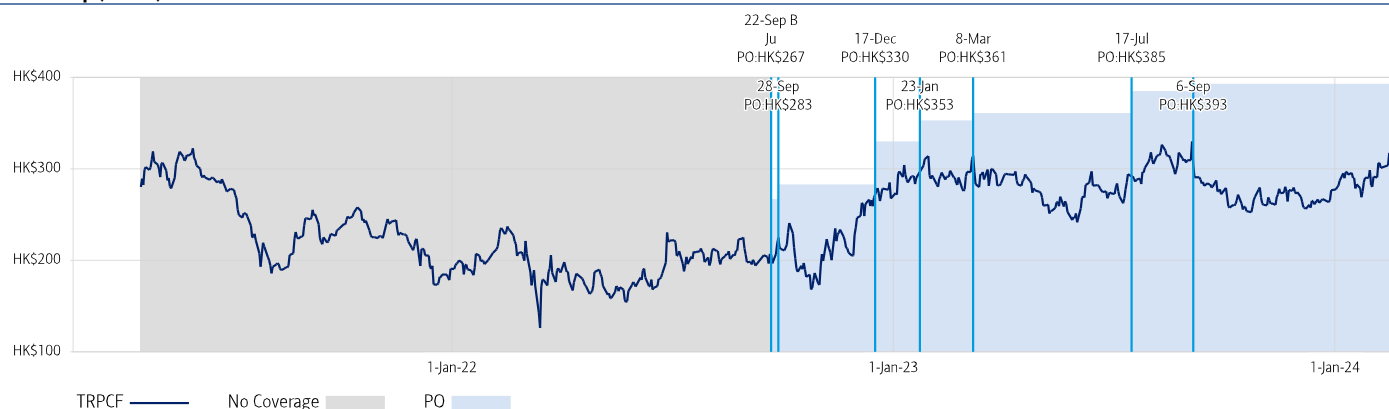
Important Disclosures

Trip.com (TCOM) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Trip.com Group (TRPCF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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The issuer is or was, within the last 12 months, a non-securities business client of BofAS and/or one or more of its affiliates: Trip.com Group.

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