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April 6th, 2024

Booking Holdings Inc (BKNG) Investment Note; Recommendation: Long

Current Price: \$3,601.90 TEV: \$123.08 B NTM P/E: 20x Hold: 3 years Target IRR: 15.1%
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Business Overview

Booking Holdings operates a group of online travel agencies (OTA) that include Booking.com, Priceline, Agoda, KAYAK, and OpenTable (a restaurant reservation platform): together they offer 500k hotels and 2.9M homes/apartments (alts) to travelers. BKNG also offers flight and rental car reservations. Their revenue comprises 44% Agency revenues (they operate as a middleman on behalf of sellers and get paid a commission), 51% Merchant revenues (they buy rooms in bulk and resell them to customers), and 5% Advertising revenue. BKNG has a 30% EBITDA margin and a management team focused on providing consistent shareholder returns through buybacks: bought back \$15 billion (12% Mkt Cap) across 2022 & 2023.

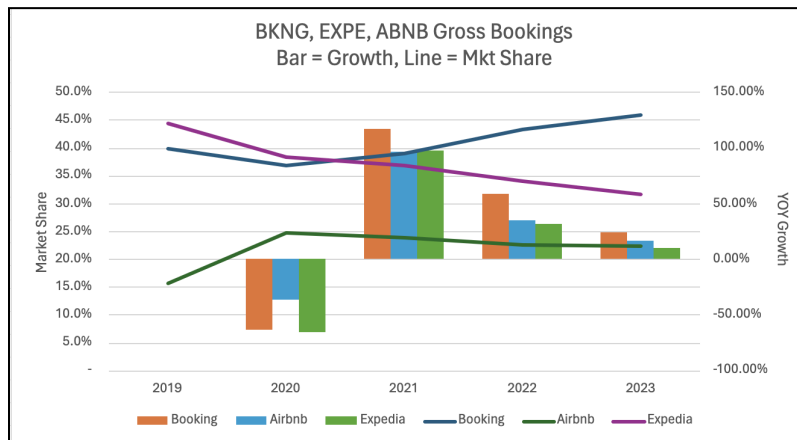
BKNG operates within the highly competitive OTA industry, with its main competitors being Expedia (EXPE), Airbnb (ABNB), and Tripadvisor (TRIP). However, BKNG is differentiated by its global scale (only 20% of revs come from US, strong European & Asian presence) and its appeal to cost-conscious travelers through offers such as Priceline's Best Price Guarantee.

Sentiment and Setup

During 2023 Booking rode strong travel recovery in Europe & China to 25% rev growth and 53% EPS growth and the stock increased 76% in the year. However, in Q4 management released lower than expected guidance, suggesting a normalization in the travel industry away from artificially high double digit 'Covid recovery' growth towards normalized LT high single-digit growth. Despite management sounding confident in BKNG's 2024 outlook relative to 2023's monster year, they guided 8% topline and 14% earnings growth, leading to a downward revision in consensus EPS by 2% for FY'24 and 3% for FY'25. The stock is down about 4% since.

TP1: BKNG is a share winner in a secularly growing industry that deserves a valuation closer to ABNB

a. BKNG has rapidly expanded its alt offerings to compete with ABNB



Despite Booking having outgrown Airbnb post-pandemic, Airbnb still trades at a steep premium at around a 37 FWD P/E compared to Booking's 20. Since Airbnb rose to fame in the late 2010s Booking has rapidly grown its alternative (mostly single-family house or condo) bookings which comprised 33% of gross bookings in 2023, and its alt listings have rapidly grown from around 1 million to 2.9 million since 2019. I believe that the network effects Booking benefits from its scale (2x Airbnb's gross bookings in 2023, strong international presence, particularly in Europe) are an equal if not greater moat than ABNB's focus in alternative housing, a space that Booking has proved it can enter.

Price / Earnings					
Ticker (6)	Company Name	FY End	CY-2022	CY-2023	CY-2024
BKNG_US	Booking Holdings I...	Dec	20.19	23.30	20.58
EXPE	Expedia Group Inc	Dec	39.51	28.40	14.36
ABNB_US	Airbnb Inc	Dec	30.71	18.71	37.67
TRIP	TRIPADVISOR, INC.	Dec	24.08	16.67	18.32
VCSA_US	Vacasa Inc	Dec	NM	NM	NM
TCOM_US	Trip.com Group Lim...	Dec	122.66	12.92	17.90
Average			47.43	20.00	21.76
Median			30.71	18.71	18.32

b. Focus on budget traveling will capture expanding market of low cost travelers

BKNG has its roots in cost-conscious travel, as it was originally founded as priceline.com in 1997 before acquiring booking.com in 2005. Today, BKNG's companies are still known for having the lowest pricing and booking.com has no cancellation fee on most properties whereas on Expedia there is a cancellation fee if you cancel more than 24 hours after booking and Airbnb charges 25% for cancellations within 1 month of the stay. A secular shift towards cost conscious traveling will benefit Booking disproportionately within the travel industry, as compared to ABNB who has focused more on the 'experience' of travel rather than its affordability.

c. Adoption of mobile app and Connected Trip will reduce search engine competition

In 2023, BKNG marketing was 31% of revs, and the majority went towards search engine keyword purchases: because most travelers begin their search on Google, SEO is a very substantial cost for OTAs like BKNG, EXPE, and ABNB. However, in Q4'23 Booking's CEO noted that "our mobile app room nights and total direct room nights continue to increase in our mix." A continued shift from customers searching in browser to searching through Booking's website & mobile app would cut down on this aforementioned competition, which BKNG is well positioned for as its website and app are widely agreed to provide a more seamless experience than Expedia. Booking's mobile app downloads outpace Expedia and Airbnb (Appendix 1) and room nights booked via mobile accounted for 49% of total room nights in '23 vs 44% in '22 and 34% in '21. Also, since 2021 a major focus of Booking has been on developing Connected Trip which aims to more seamlessly integrate room, flight, rental car, and activity bookings into one process (with help from Gen AI, which Booking incorporated into its mobile app this

summer): the release of such a tool would turn Booking into a one stop shop and encourage more travelers to search directly through Booking.

TP2: Low 2024 guidance leaves room for significant beats after a tremendous 2023

Current 2024 guidance of 7-8% gross bookings growth is similar to 2019 and 2018 growth of 8% and 11% on a constant currency basis despite Booking having substantially more growth opportunities today. These include:

1. Average Daily Rate (ADR) growth of ~ 4% today vs. flat in 2019 ^[1]
2. Flights bookings increase of 400% since 2019 with 33% 3Y CAGR
3. Continued room for Covid recovery in Asia and Europe (Appendix 2)
4. Stronger US offerings, particularly in alt accommodations

Even if travel reverberates back to pre-Covid mid single digits growth, which is doubtful as the World Travel & Tourism Council predicts 16.8% YOY growth in the global travel industry for 2024 ^[2] (\$11.1T vs. \$9.5T) Booking is a significantly better company than it was in 2019 so guidance numbers appear stifled. Based on this, I believe that BKNG can reach gross bookings rev growth of 13% in 2024 which is a 5% delta vs consensus estimates in line with guidance of 8%. This puts it closer to Expedia's top line guidance of 10% growth and Airbnb's 12%-14%. For reference, in 2023 BKNG initially guided low-teens % gross bookings growth but ultimately delivered 24%^[3]

Risks & Mitigants:

1. Expansion of Google's direct travel offerings cuts out OTAs

Possible Mitigants: OTAs are one of Google's biggest ad spenders. Expedia (\$6.1B) & Booking (\$6.5B) combined spent around \$12.6B on search engine marketing last year, which is about 5.2% of Google's 2023 ad revenue. Based on 2021-23 Alphabet earnings calls, Travel, Retail, Entertainment, and Finance are Google's top four industries for ad revenue. Cutting out OTAs would cause Google a large hit to ad revenue, by far their strongest segment, so it's likely that the more profitable strategy will be to expand their offerings alongside the OTAs and take advantage of secular industry growth rather than fighting for share.

2. Loss of share in hotel bookings to direct bookings through hotel website

Possible Mitigants: whereas chains like Marriot, Hilton, Hyatt with strong direct bookings (80% direct, 20% OTA^[4]) comprise 60% of the US market, they only comprise about 20% in Europe^[2] which is dominated by smaller, independent hotels or regional chains that rely on OTAs for bookings. This is one reason that Booking's European dominance is better positioned than Expedia's US dominance in the long run. While chains have recently begun expanding their presence in Europe, Tegus calls suggest that size constraints and short tourist seasons still make them unprofitable in many places^[5]

[1] [Deutsche Bank Group](#), Feb 23 2024

[2] [Travel Daily News](#)

[3] [JPM](#), Feb 23 2024

[4] Tegus: Director, Guest Insights at Hilton Worldwide Holdings Inc.

[5] Tegus: Former Employee in Strategy & Acquisitions @ Dalata

Next Research Steps

- 1) Price comparison of ABNB vs BKNG vs EXPE for average traveler
- 2)

Appendix:

1. Top Travel App Downloads, 2022 & 2021 (couldn't find 2023)

10 Most Downloaded Travel Apps in 2022			
United States			
1	Uber 32M	6	Vrbo 16.8M
2	Google Maps 30M	7	Expedia 16.6M
3	Lyft 19.9M	8	Airbnb 13.6M
4	Upside 19.8M	9	Hopper 12.8M
5	Booking.com 17.1M	10	American Airlines 12.3M

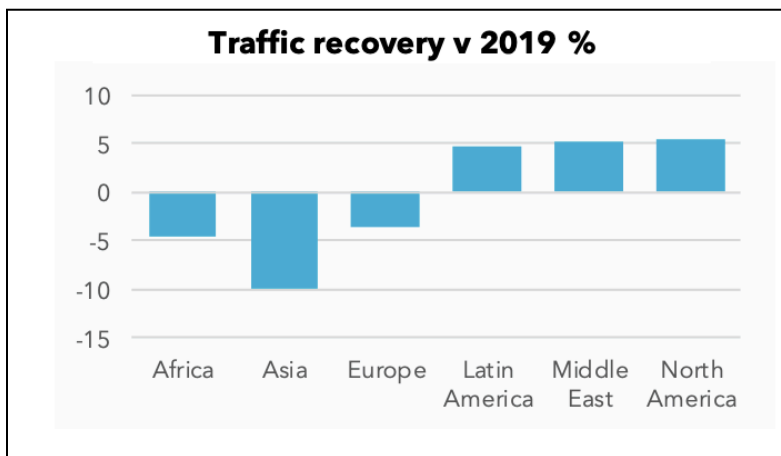
10 Most Downloaded Travel Apps in 2021			
United States			
#1	Uber	#6	Booking.com
#2	Google Maps	#7	Vrbo
#3	Lyft	#8	Google Earth
#4	Hopper	#9	Expedia
#5	Airbnb	#10	American Airlines

10 Most Downloaded Travel Apps in 2022			
Worldwide			
1	Google Maps 113M	6	Where is my Train 46M
2	Uber 107M	7	inDrive 41M
3	Booking.com 80M	8	AutoNavi 37M
4	Airbnb 52M	9	Bolt 36M
5	Google Earth 51M	10	Flightradar24 28M

10 Most Downloaded Travel Apps in 2021			
Worldwide			
#1	Google Maps	#6	DiDi
#2	Uber	#7	Bolt
#3	Booking.com	#8	Lyft
#4	Google Earth	#9	Where is my Train
#5	Airbnb	#10	Grab

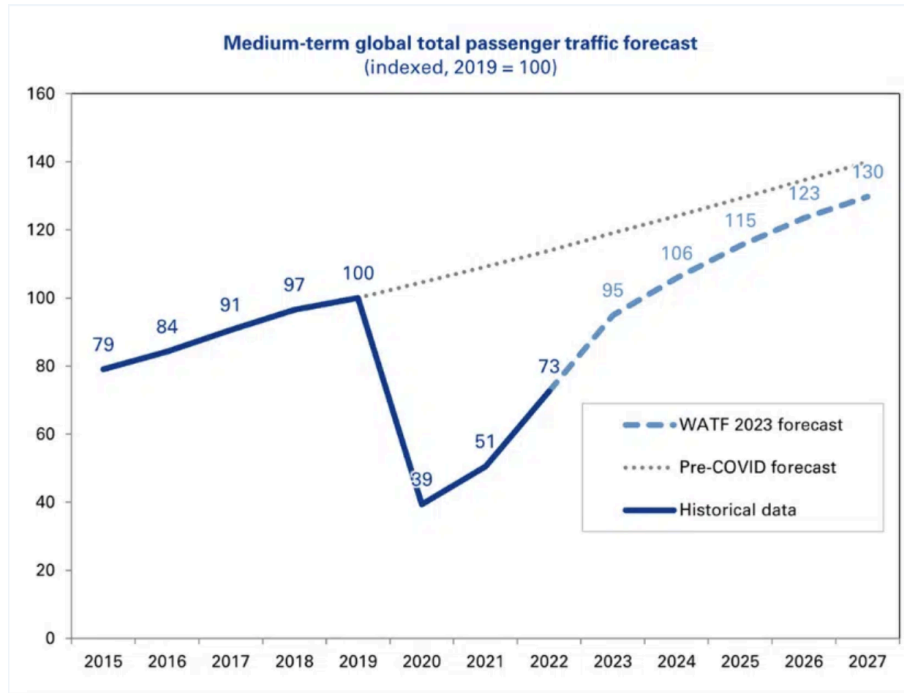
Source: *apptopia*

2. Travel recovery 2023 vs 2019 by region shows room for continued growth in EMEA



Source: *BCD Travel*

3. Projected flight volume growth suggests 6.4% 5Y CAGR



Source: Airports Council International

