



China Travel & Leisure

Online travel booking industry - A primer

This graphics-rich report takes an in-depth look into the development of China's online travel agency (OTA) market, discussing structural trends and growth drivers, analyzing profit pools across different travel verticals, presenting detailed comparison of the key players domestically (Trip.com, Tongcheng Travel, Meituan (covered by China internet analyst Ronald Keung)) and abroad (Booking.com, Expedia (covered by Americas internet analyst Eric Sheridan)). Our key takeaways:

- Compared to other internet verticals, travel booking has **lower consumption frequency and higher online penetration rate**, but we expect further growth riding on addressable market size expansion, driven by more travel demand and increasing income allocation to tourism spending. OTAs have been trying to capture this upside by expanding into **less-penetrated lower-tier cities in China and/or overseas markets**.
- We expect ongoing cannibalization of the offline travel booking market from rising online penetration, but more balanced growth between OTA and other online direct sale channels driven by **market consolidation and**

rising chain penetration (hotels), ongoing regulatory control (transportation). We project China total OTA GMV would reach Rmb1.9trn or US\$0.27trn in FY25E (+34% CAGR from FY22E).

- As internet giants shift their focus to other verticals, travel **take rate has started to stabilize** and trended better from time to time. Looking ahead, we expect hotel take rate to remain steady benefiting from hotel **RevPAR upside on tighter supply following hotel closure since 2019. Air ticketing take rate would fall gradually given the fixed-fee structure** such that OTAs revenues would be driven purely by traffic, not sharing in any potential upside from airfare increase upon international borders reopening.
- **As a full-service provider, we expect Trip.com to maintain its dominance** with ~50% domestic market share and overseas upside, expanding its content and turning more active in penetrating lower-tier cities.
- **Tongcheng should have an edge over Meituan** on cross-provincial, long-haul travel with its strength in air/ground transportation.

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Key takeaways

- Compared to other internet verticals (e.g., food delivery, consumer retail), travel booking has **lower consumption frequency and higher online penetration rate**. But we expect further growth riding on addressable market size expansion, i.e., China's travel booking industry to reach Rmb5.7trn or US\$0.82trn in FY25E (vs. Rmb4.6trn or US\$0.67trn in FY19 before the pandemic and Rmb2.4trn or US\$0.35trn in FY22E), driven by more travel (6.9bn domestic tourists in FY25E) and increasing income allocation to tourism spending (12% of disposable income in China in FY25E, still below 21% in the US). OTA operators have been trying to capture this upside by expanding into **less-penetrated lower-tier cities in China and/or overseas markets**. The US, Europe and Asia (ex-China) travel booking markets are each no smaller than China's, but tapping into these markets could involve challenges arising from regulation, local protection, and competition by entrenched players.
- It took US/Europe ~20 years to bring online travel booking penetration to 50+%. It only took China 6-7 years, which helps explain why China's OTA industry significantly outpaced overall travel booking growth (+25% vs. +6% CAGR in 2015-19). We expect ongoing cannibalization of the offline travel booking market from rising online penetration, but more balanced growth between OTA and other online direct sale channels (34% vs. 35% CAGR in FY22-25E) driven by different drivers in each segment, i.e., **market consolidation and rising chain penetration (hotels), ongoing regulatory control (transportation)**. Upside would come from promoting and cross-selling new services, e.g., packaged tours, attraction ticketing. We project China's total OTA GMV would reach Rmb1.9trn or US\$0.27trn in FY25E. With 4-5% blended take rate (8% for hotels/attractions, 2-3% for air/ground transportation), OTA revenues would grow +32% CAGR to Rmb85bn in FY22-25E, off a low base due to the pandemic.
- Take rates for OTA operators in China are below those in overseas countries (12-14%) due to intense competition from internet giants (Meituan, Alibaba) for legacy reasons. As they shift their focus to other verticals, e.g., local delivery, grocery services with higher consumption frequency and lower online penetration, travel **take rate has started to stabilize** and trended better from time to time. Looking ahead, we expect hotel take rate to remain steady benefiting from hotel **RevPAR upside on tighter supply following -25% hotel closure since 2019. Air ticketing take rate would fall gradually given the fixed-fee structure** such that OTA's revenues would be driven purely by traffic, not sharing any potential upside from airfare increase upon international borders reopening.
- Trip.com has been losing market share to Tongcheng and Meituan (covered by Ronald Keung) given its limited exposure to lower-tier cities and border closure amid COVID19 (34% of FY19 revenue for outbound or overseas travelers). After expanding its contents and turning more active in penetrating lower-tier cities, its GMV share has stabilized over the past several quarters. **As a full-service provider, we expect Trip.com to maintain its dominance** with ~50% market share domestically and upside from overseas, as it has been accelerating its expansion into overseas markets where take rates are generally higher. Trip.com captured more GMV than Booking.com and Expedia (covered by Eric Sheridan) in 2019 before the pandemic but only achieved 1/3 to 1/2 of their revenues.

- Tongcheng and Meituan would remain predominantly local operators and could continue to leverage their large user base (Meituan's 693mn transaction users on its delivery service network in FY21) and strategic partnership (i.e., TCEL/Tencent's agreement to bring traffic from Wechat) to expand into lower-tier cities. Payback period is relatively short, i.e., they can cover their initial customer acquisition costs as long as their users take on one single trip. TCEL should have an edge over Meituan on cross-provincial, long-haul travel with its strength in air/ground transportation (vs. Meituan on local services).

Travel industry overview and key trends

We have highlighted the seven key desires of Chinese consumers in a number of our prior reports ([Dual Circulation](#), [Six fresh ideas](#)). Travel is mainly driven by their desires of 行 Mobility and 娱 Having fun, which we believe will become increasingly important with rising disposable income not only among the middle-class but also rural cohorts. In this section, we look into the recent developments of travel industry in China, and highlight key themes that could shape the travel industry in China in the mid-to-longer term.

China travel a Rmb7.6trn or US\$1.1trn market before the pandemic. Consistently growing at double-digit %

- **6bn domestic tourists in China growing at ~10% CAGR with upside in frequency of travels** - Not accounting for corporate travelers, the number of domestic leisure tourists reached 6bn in 2019 before the pandemic and growing consistently at over 10% over the past decade. Comparing Chinese travel frequency with the Americans' (4.3x vs. 7x a year), we see scope for continued outpaced growth, especially among the rural residents who only travel on an average 2.9x each year. As people get wealthier, they also tend to travel further as reflected by stronger airline/railway traffic growth (+10%/+9% in FY16-19 CAGR vs. -6% for motorway public transportation). Dividing the number of outbound travelers (155mn in 2019) by China's population shows that outbound travels remain very much under-penetrated. Only ~10% of mainland Chinese travel abroad every year, consistent with the number of passports issued (~200mn).
- **Travel behavior unlikely to be permanently affected by the pandemic. Rebound sharply once the situation is under control** - Despite concerns that the pandemic may affect consumers' travel behavior, past resurgences in China suggest that the recovery could be swift once the COVID19 situation comes under control, especially for short-haul, intra-provincial travel as reflected by national subway ridership. Long-haul travel, proxied by air traffic, could lag somewhat. One of the potential constraints however could be air seat capacity, as some airlines in overseas markets had difficulty recruiting sufficient pilots and on-the-ground staffs to fulfill strong demand recovery ([Exhibit 6](#), see our [airline initiation report](#) for more details). We forecast +4% airline capacity CAGR in FY19-25E vs. +7% for demand.
- **Chinese allocate more disposable income in tourism and tend to spend 5-6 times more abroad** - Before the

pandemic, Chinese tourists spent on average Rmb4.1k or US\$588 in tourism, growing at 13% CAGR in FY16-19 outpacing +9% for disposable income. This however has halved over last 2-3 years on fewer travel frequency and shorter trips since the pandemic as highlighted above. As travel policies gradually normalizes ahead, we expect strong recovery led by more overseas travels for which each person spends on average 5-6 times more than that domestically. Inbound tourist also spent 6-7 times at Rmb6-7k per trip prior to the viral outbreak.

- **Rmb7.6trn or US\$1.1trn travel industry including Rmb4.6trn (US\$0.67trn) in travel booking industry, led by ground transportation. More evenly breakdown between air ticketing and hotel booking** - China's travel industry has grown at 12% CAGR to Rmb7.6trn or US\$1.1trn in FY19 before the pandemic, including Rmb4.6trn (US\$0.67trn) in travel booking and Rmb3trn (US\$0.43trn) mostly in travel retail. Given higher frequency of daily travels, most travel booking revenue came from ground transportation (37% of total) although it has been growing slowly at +3% CAGR in FY16-19 dragged by decline in motorway (-4%) given rising private car ownership across the country. Air ticketing and packaged tours grew at +10% CAGR driven by more long-haul travels as mentioned above. Hotel demand (+7%) has been skewed toward mid-to-upscale segment as reflected by +9% CAGR in market size (vs. +4% in economy hotels).

Long-term secular trends shaping future travel industry development

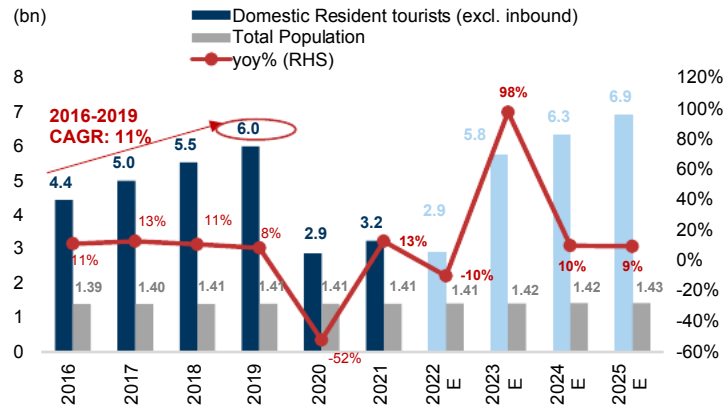
Despite near-term uncertainties arising from the viral situation, we are positive on long-term, secular growth of China's travel industry given the following trends:

- **Income growth and consumption upgrade especially among rural cohorts** - As discussed in great details in our dual circulation report ([3 Dec, 2020](#)), we believe income growth and consumption upgrade will remain one of the key policy objectives by the central government in the upcoming 14th Five Year Plan. Beside the expanding middle class, the rural cohort (including rural residents and migrated workers) presents significant growth potential, as it represents 56% of China's total population and 63% of workforce, and contributes to 39%/37% of the country's income/spending pool ([Exhibit 18](#)). Our surveys and historical data (see our [dual circulation report](#)) suggest they are inclined to spending more in dining out and leisure domestic travel if income increases.
- **Experience-seeking and personalized travel demand among younger generation** - In China, 251mn or 18% of total population are Gen Z, or the younger generation born during 1995-2009. This group of people tend to prefer personalized experiences, with a survey conducted by *Travel Daily* showing that the majority of the respondents (65%) choose self-guided tours over standard packaged tours (16%). When picking their travel they prioritize personal interest and their popularity, and pay less attention to the overall costs, ease and time constraints in commuting to the destinations. To draw more interest from this group of travelers, OTAs, hotel and other resource providers cater more to young consumers' preference by incorporating more user-generated contents (UGC) such as livestreaming on their platforms. RED and Douyin - both UGC platforms - are among the most commonly used apps for travel decision-making ([Exhibit 23](#)).

- **Affordable transportation ticket prices encourage more domestic travels** - In China, high-speed railway (HSR) ticket prices are charged based on miles traveled. Beijing-Shanghai HSR, one of the busiest routes, never had its base rate adjusted since its first day of operation in 2011 until Dec-2020, when its price ceiling was lifted by +8% for second class seats to Rmb598, and by +2% for first class seats to Rmb957, implying merely 0.8% and 0.3% CAGR in 2011-20 ([Exhibit 25](#)), well below China's average CPI growth of 1.6% during the period. Similarly, big-3 Chinese airlines' domestic average passenger yield actually dropped during 2011-16 (-6% CAGR) and remained steady during 2016-19. Even if air fare were raised by +5% CAGR as we project, average yield would still be below the previous peak level in 2021.
- **Strong recovery of outbound travel. More demand to go to other Asian locations besides HK/Macau** - Since China launched its Individual Visit Scheme (IVS) in 2003 allowing Chinese residents from 49 cities to visit HK/Macau individually by visas (without having to go through group tour or business visas), Chinese's outbound travels has increased from 20mn to 155mn in 2019. Given current low penetration (i.e., 11% of total population), we expect stronger growth in Chinese outbound vs. domestic travels. According to a survey conducted by Mastercard and Ctrip in 2019, the growth rate of outbound travels for residents in lower-tier cities well exceeded those in top-tier cities partly due to a low base as shown in [Exhibit 28](#). In recent years, more travelers choose to visit other Asian locations outside of HK/Macau, including Thailand (+57% CAGR to 2.9mn in FY16-19), Vietnam (+91% CAGR to 0.8mn), Japan (+65% CAGR to 2.1mn) and Korea (+107% CAGR to 0.7mn).
- **Rising chain hotel penetration. Expansion into mid-to-upscale segment. RevPar upside on supply shortage as demand recovers** - Globally, brands have been taking share of the hotel markets over the past 2-3 decades. The trend has also started to accelerate in China since 2016, when chain hotel penetration has risen from 19% to 35% last year as (1) customers care and are more willing to pay extra for better quality hotels for hygiene concern; (2) more independent hotels have struggled to fill up their rooms and try to take advantage of chain hotels' branding, corporate relationships and customer loyalty programs to improve their occupancy and room rates, in view of the demand volatility amid the pandemic. Upgrade of accommodation offerings (i.e., mid-to-upscale hotel rooms accounted for 41% of total hotel rooms last year, up from 31% in 2016) has supported RevPar increase tracking more inline with GDP growth. We expect further upside as hotel supply has shrunk by ~30%. We currently assume China's average hotel RevPar would exceed 2019 levels by 10% in 2023E with shorter length of stays. We could see +34% upside vs. our base case forecast, if travelers maintain their length of stays as prior to the pandemic ([Exhibit 30](#)).
- **Air flight delivery and airport capacity expansion to support rising travel demand** - One of the bottlenecks for China's air travel growth historically was airport capacity constraint. Launches of high-speed railways had helped to address such issue. Based on project and flight delivery schedule, we expect accelerated growth in both air flight and airport capacity growth to +5% CAGR in 2022-25E. Construction of larger airports could cover a larger base of population and hinterland, and increased connectivity and flight network would provide better accessibility to air travel in the longer term.

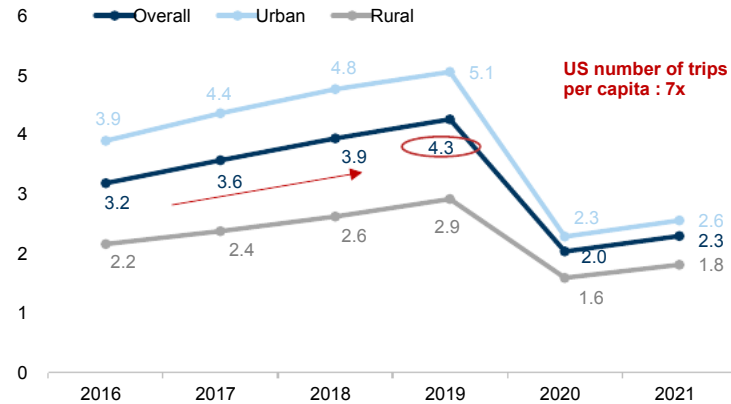
6bn domestic tourists in China. Consistently grew at 10% CAGR over 2016-19. Upside vs. US in frequency of travel

Exhibit 1: Growth of domestic tourists outpaced population growth



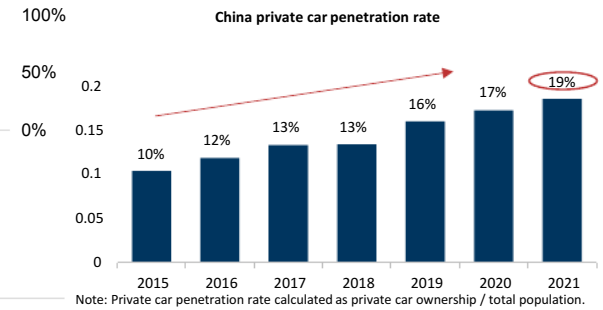
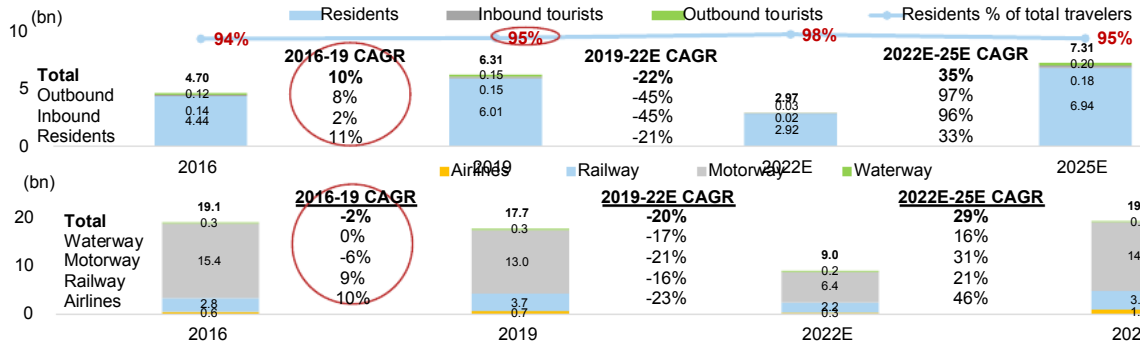
Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 2: Number of trips per capita per year increased, but still low compared with the US



Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 3: Domestic resident tourists accounted for 95% of tourists in China, with only 3%/2% inbound/outbound tourists; Total passenger traffic declined by -2% CAGR during 2016-19 dragged by motorway



Note: Private car penetration rate calculated as private car ownership / total population.

Source: CEIC, Goldman Sachs Global Investment Research

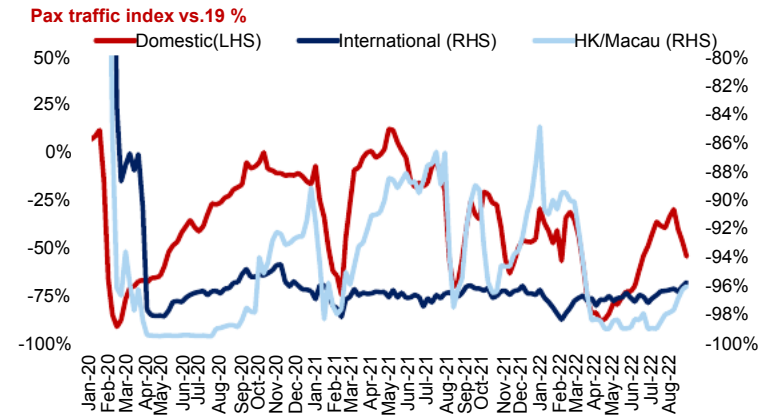
COVID19 has a bigger impact on inter-provincial travel. To recover swiftly when the viral situation is under control.

Exhibit 4: China national subway ridership – short-haul trips were less impacted by COVID outbreak



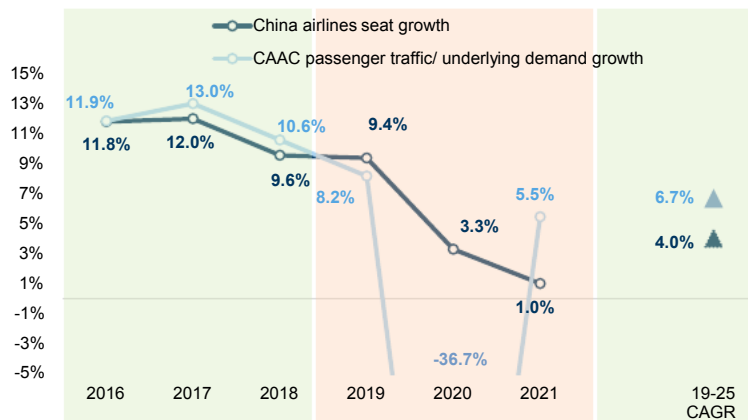
Source: Ministry of Transport of the People's Republic of China, Compiled by Goldman Sachs Global Investment Research

Exhibit 5: Airline traffic more volatile – inter-provincial trips were more impacted, but could also rebound swiftly when COVID situation comes under control



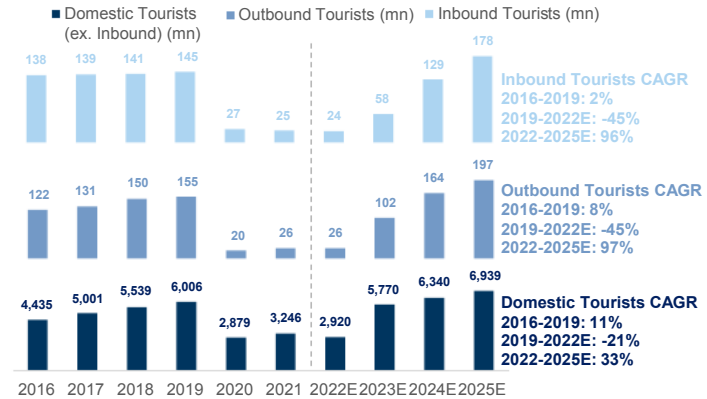
Source: TravelSky, Goldman Sachs Global Investment Research

Exhibit 6: Airline capacity could potentially limit traffic growth in the longer term



Source: CAAC, Company data, Gao Hua Securities Research, Goldman Sachs Global Investment Research

Exhibit 7: We expect the number of domestic resident tourists could largely recover in 2023E

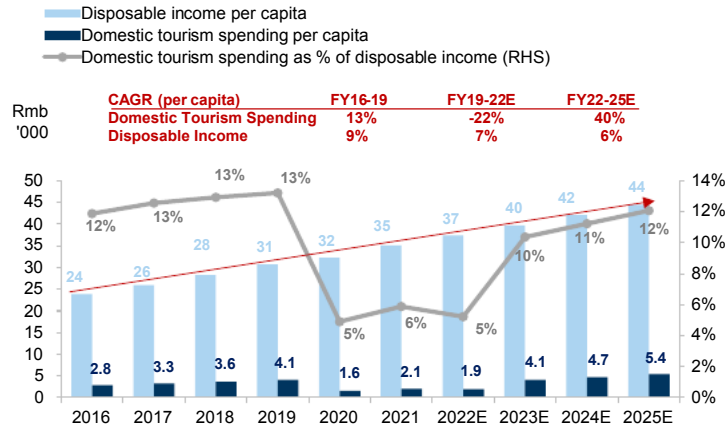


Source: CEIC, Goldman Sachs Global Investment Research

Mainland Chinese to allocate more disposable income in tourism. Resilience in domestic per-capita travel spending.

Exhibit 8: Continuous growth of disposable income per capita to support swift recovery of domestic travel spending per capita

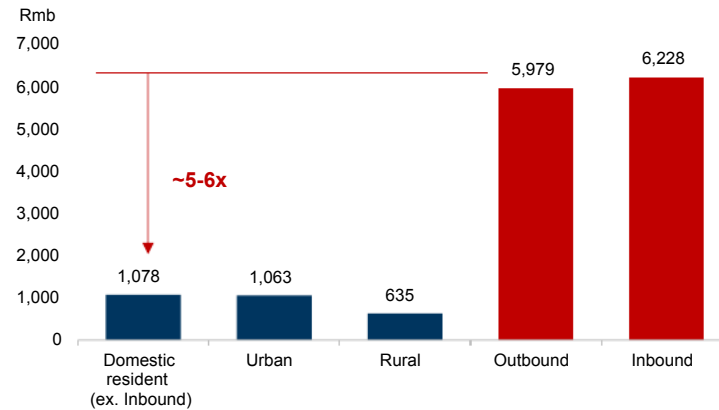
Resident domestic tourism spending vs disposable income



Source: CEIC, Goldman Sachs Global Investment Research

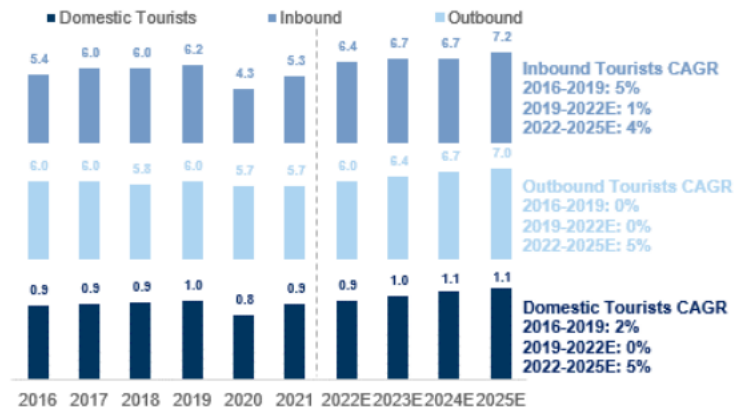
Exhibit 9: Inbound and outbound travellers on average spent 5-6x per trip compared to domestic travellers

Travel spending per capita per trip in 2019



Source: CEIC, Goldman Sachs Global Investment Research

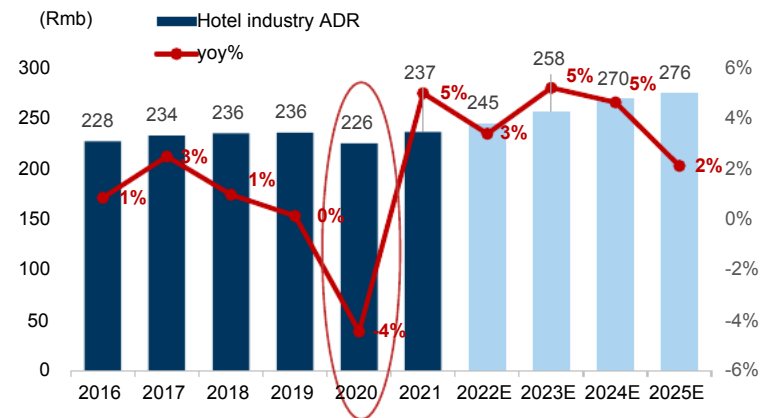
Exhibit 10: Travel spending per capita per trip for residents, inbound and outbound tourist



Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 11: Travel spending per capita dropped in 2020 mainly due to more short-haul trips

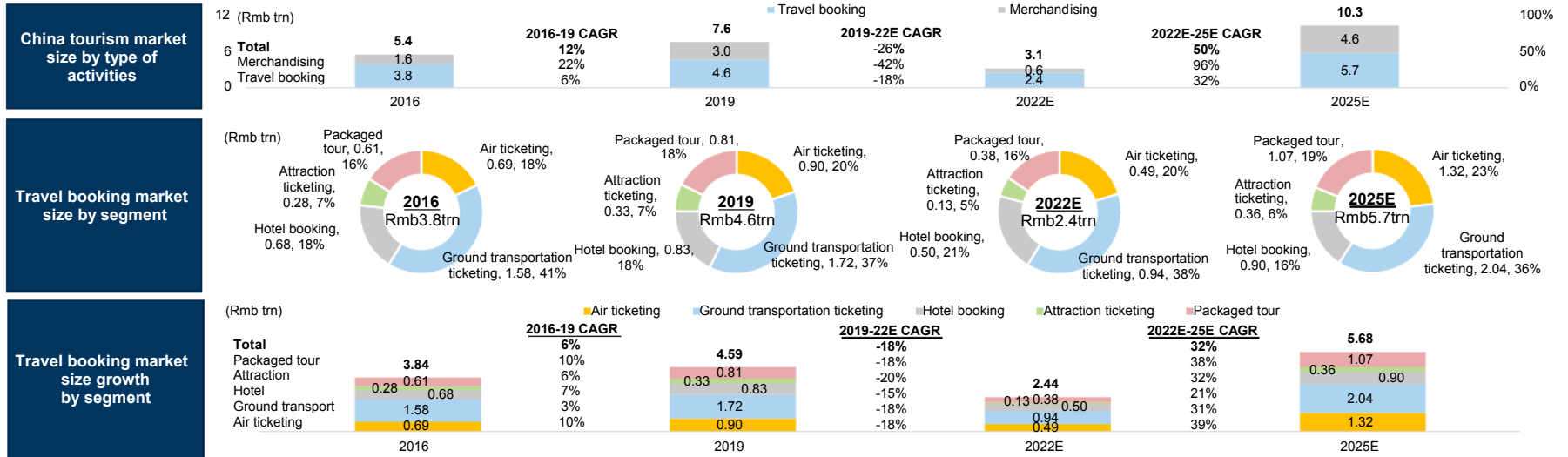
Hotel Industry ADR



Source: Company data, Goldman Sachs Global Investment Research

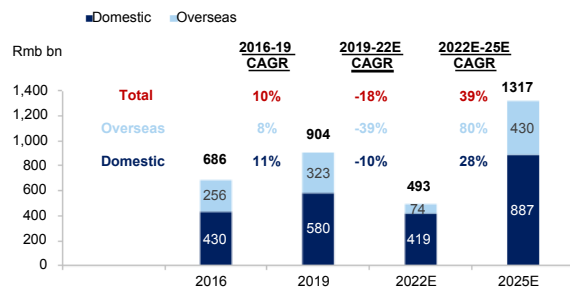
Rmb4.6trn or US\$0.67trn travel booking industry, mostly in air ticket and ground transportation. Hotel segment showed more resilience. We expect the market to reach Rmb5.7trn or US\$0.82trn in FY25E.

Exhibit 12: Travel market and travel booking market size



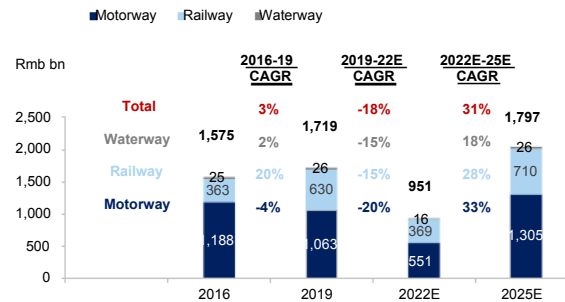
Source: CEIC, Company data, Goldman Sachs Global Investment Research

Exhibit 13: Air ticket booking market size



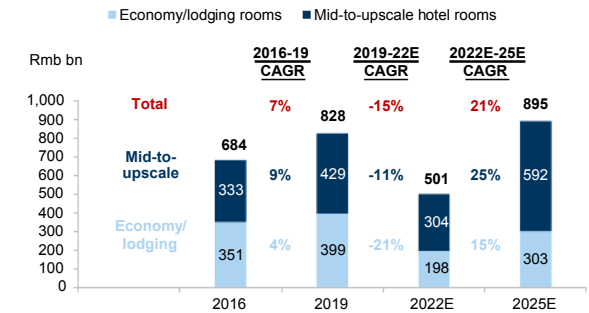
Source: CEIC, Company data, Goldman Sachs Global Investment Research

Exhibit 14: Ground transportation market size



Source: CEIC, Company data, Goldman Sachs Global Investment Research

Exhibit 15: Hotel market size

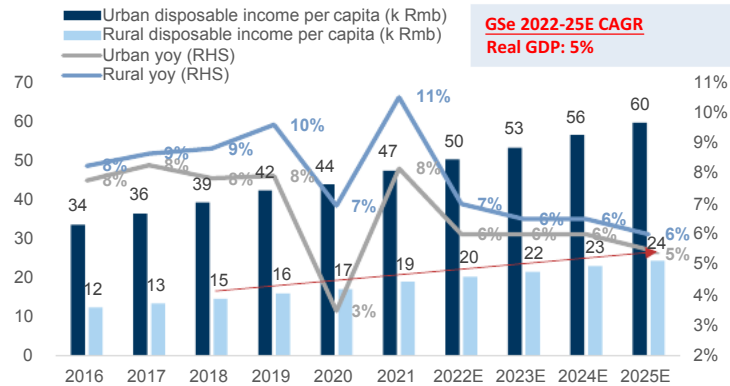


Source: CEIC, Company data, Goldman Sachs Global Investment Research

Long-term secular trends:

I. Income growth and consumption upgrade especially among rural cohorts

Exhibit 16: We expect rural disposable income growth to continue outpacing urban's



Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 17: Tourism spending as % of disposable income to bounce back sharply from 5.2% in FY22E to 12.1% in FY25E

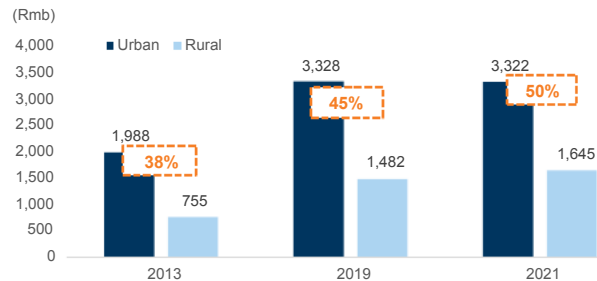


Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 18: Rural cohort (including rural residents and migrated workers) presents significant growth potential, as it represents 56% of China's total population and 63% of workforce, and contributes to 39%/37% of the country's income/spending pool

China's total population, working population & disposable income pool breakdown

Urban vs. rural spending gap in education, culture & entertainment



Data as of 2019

Source: NBS, Xinhua, CEIC, Goldman Sachs Global Investment Research

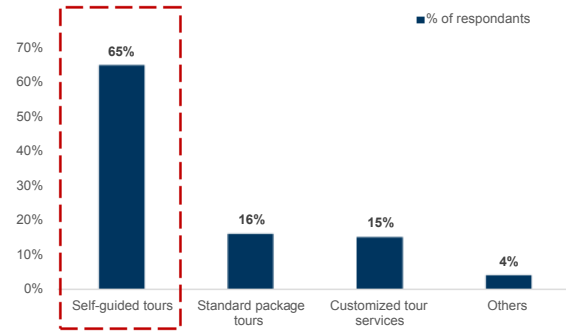
Working Population	% of total	Population (Hukou-based)	% of total	Disposable Income per Capita (RMB)	Aggregate Income (RMB bn)	% of total	PCE per Capita (RMB)	Aggregate Expenditure (RMB bn)	% of total	PCE as % of disposable income
289mn	37%	623mn	44%	42,400	26,416	61%	28,112	17,514	63%	66%
291mn	38%	291mn	21%	48,015	13,961	32%	13,408	10,469	37%	63%
194mn	25%	490mn	35%	5,645	2,766	6%				
775mn		1,404mn		30,733	43,144		19,934	27,984		

Urban
Migrants
Farmers

Reside in Urban: 135mn
Reside in Rural: 156mn

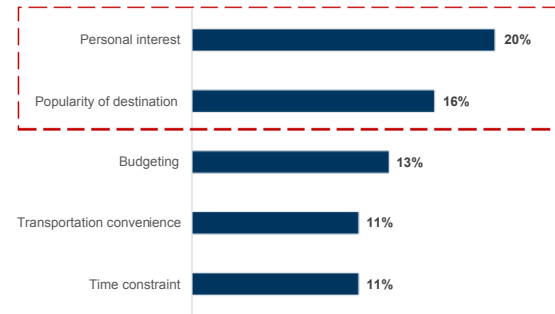
II. Experience-seeking and personalized travel demand among younger generation

Exhibit 19: Gen Z travelers mostly prefer self-guided tours (65% of respondents) rather than standard packaged tour (16% of respondents)



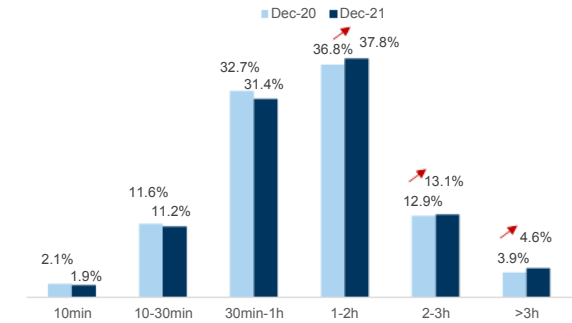
Source: Mafengwo, Travel Daily, Data compiled by Goldman Sachs Global Investment Research

Exhibit 20: Personal interest & Popularity of destination are Gen Z travelers' top priorities (as % of respondents)



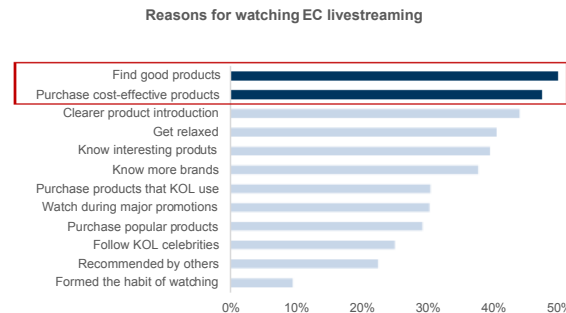
Source: Mafengwo, Travel Daily, Data compiled by Goldman Sachs Global Investment Research

Exhibit 21: More time spent on short-video watching
User profile by time spent on short-video watching



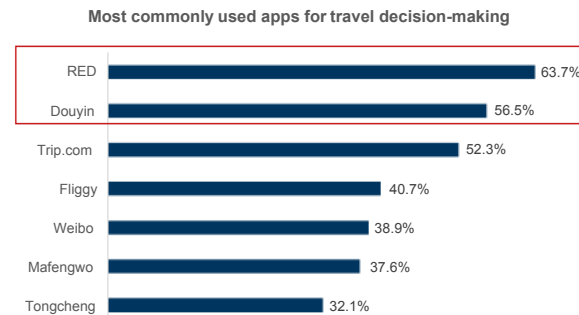
Source: Fastdata, Goldman Sachs Global Investment Research

Exhibit 22: Finding good/cheap products is the key motivation for watching livestreaming
Reasons for watching EC livestreaming



Source: BDR, Goldman Sachs Global Investment Research

Exhibit 23: UGC as new travel decision-making platform
Most commonly used apps for travel decision-making in 1H2020



Source: BDR, Goldman Sachs Global Investment Research

Exhibit 24: Trip.com appears to be the leader in travel livestreaming platforms

Examples of different types of travel livestreaming

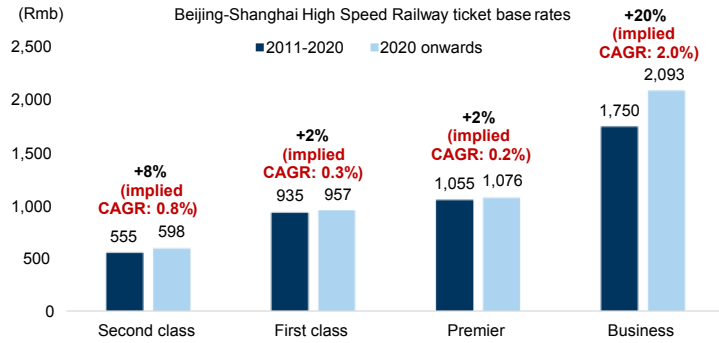
Type	OTA + Boss	OTP + BOSS	Short-video Platform + KOL	Short-video Platform + OTA Livestreamer
Example				
	Trip.com - BOSS Livestreaming	Fliggy - "Fliggy Buy" Livestreaming	Douyin KOL - Ding Zhen	Douyin - Trip.com official account
Platform	Trip.com - <i>Livestreaming</i>	Taobao - <i>Livestreaming</i>	Douyin	Douyin
Operator	Trip.com	Fliggy & TSP operators	Sichuan Culture and Tourism Bureau	Trip.com
Livestreamer	James Liang	Hotel and airline BOSS	KOL	Trip.com livestreamer
Topicality	Relatively high - Boss IP 'James Liang' ~5mn viewers	Relatively low ~0.5mn viewers	High - KOL IP ~8mn fans on Douyin	Low <100 viewers
Frequency	Mostly for holiday presale	Mostly for holiday presale	Irregular	Daily
Function	Boost sales and marketing	Boost sales and marketing	Travel publicity	Boost sales
Products	Packaged hotels, air tickets, etc.	Packaged hotels, air tickets, etc.	n.a.	Hotels at discounts
Revenue	High	Relatively high	n.a.	Relatively low

Source: Ctrip, Fliggy, Douyin, Data compiled by Goldman Sachs Global Investment Research

III. Affordable transportation prices for domestic travel

Exhibit 25: Beijing-Shanghai HSR prices had been unchanged for 10 years

Beijing-Shanghai HSR ticket base rates

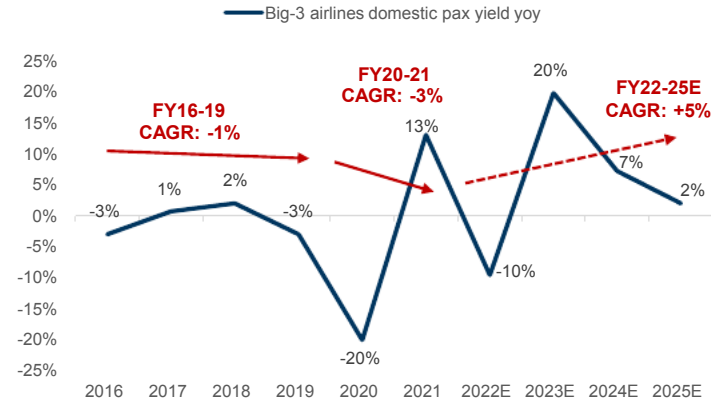


Note: Base rates from 2020 onwards are rates ceilings for variable prices, 2011-2020 base rates are fixed rates

Source: Ministry of Transport, Data compiled by Goldman Sachs Global Investment Research

Exhibit 26: Big-3 airlines domestic air ticket avg. prices largely not increased

Big-3 airlines domestic pax yield trend

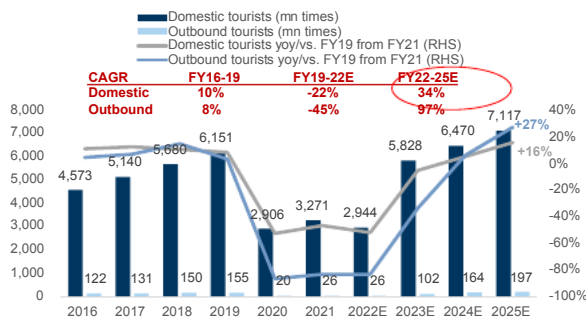


Source: Company data, Goldman Sachs Global Investment Research

IV. Outbound travel growth to outpace domestic travel upon border reopening

Exhibit 27: We forecast outbound tourists to exceed pre-COVID levels by 27% (vs. 16% for domestic) in FY25E

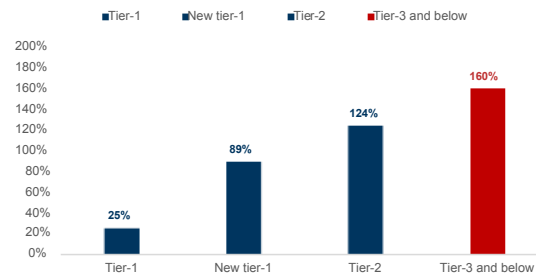
China domestic and outbound tourists trend



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 28: Growing outbound travel demands esp. in lower-tier cities

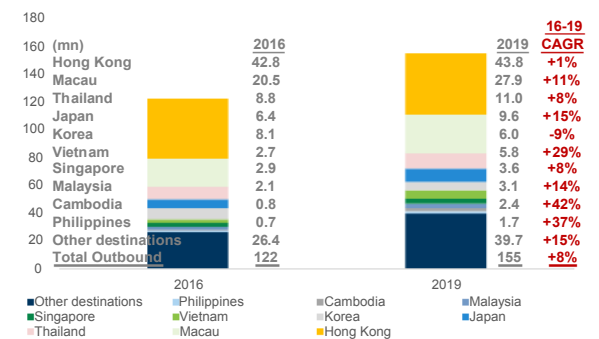
Outbound tourists 2016-2019 CAGR - By city tiers



Source: 2019 China Cross-Border Travel Consumption Report by Trip.com and Mastercard

Exhibit 29: China outbound travel key destinations breakdown – Asia accounts for 70% in total

China total outbound tourists by destinations

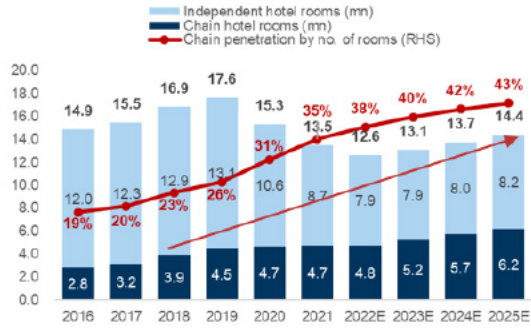


Source: CEIC, Goldman Sachs Global Investment Research

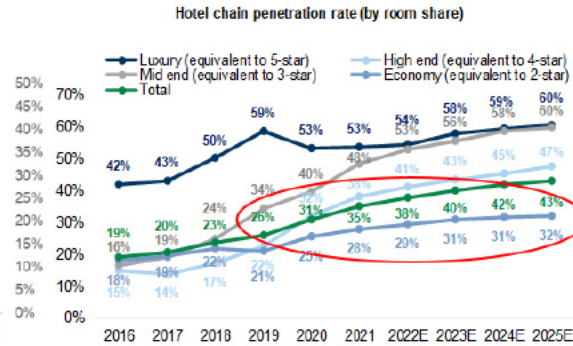
V. Hotel: Rising chain hotel penetration. Expansion into mid-to-upscale segment. Potential RevPAR upside on hotel closure.

Exhibit 30: Hotel: Rising chain hotel penetration. Expansion into mid-to-upscale segment. Potential RevPAR upside on hotel closure

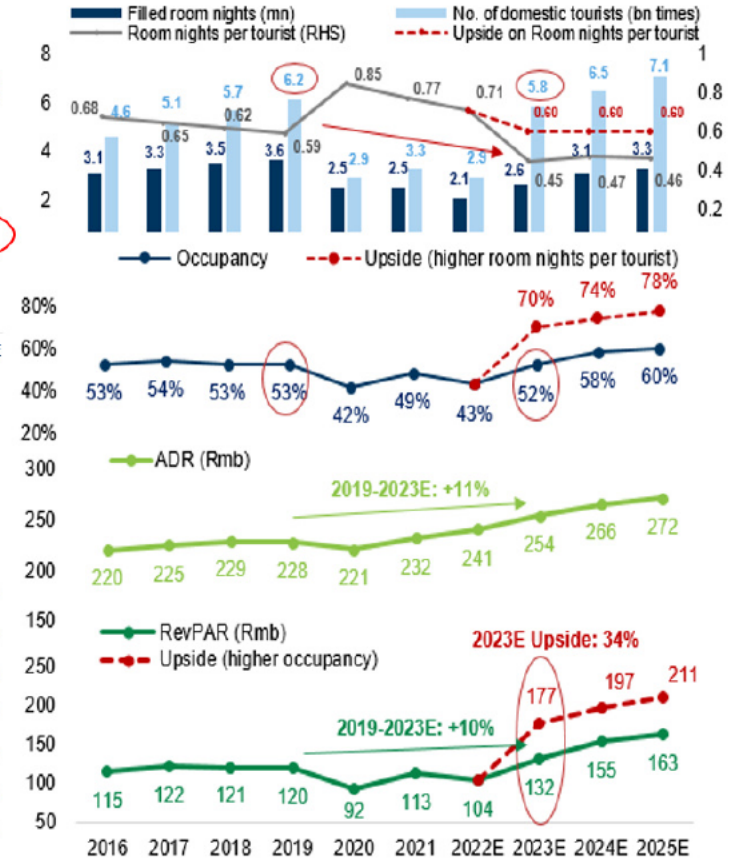
We forecast chain hotel penetration to rise to 43% in FY25E (vs. 35% in FY21) ...



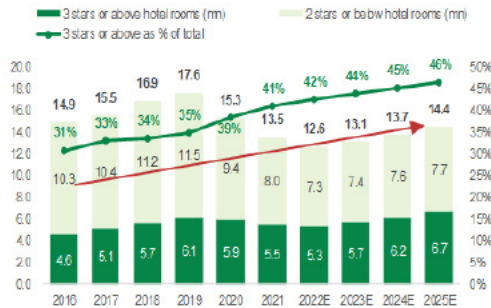
... still low in economy and mid-end segments



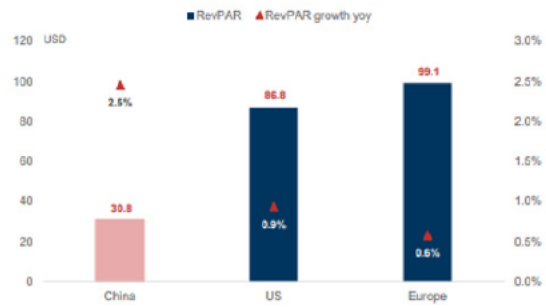
Upside to hotel occupancy and RevPar if travelers keep similar length of stays as before the pandemic



Upgrade of accommodation offerings with 46% as mid-to-upscale in FY25E (vs. 41% in FY21) ...



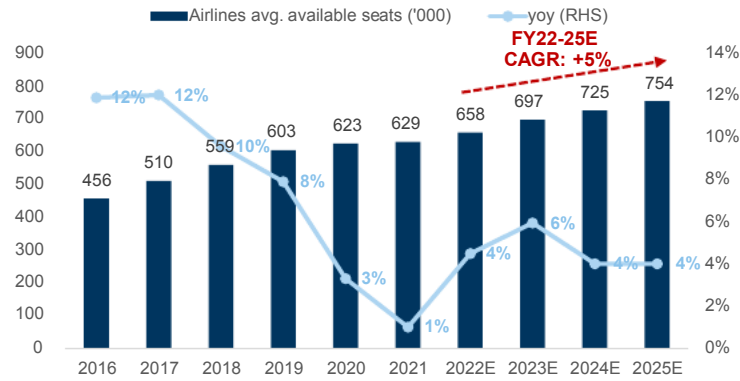
China's RevPAR is still much below those in developed countries (2019)



Source: Inttie, STR, CEIC, Goldman Sachs Global Investment Research

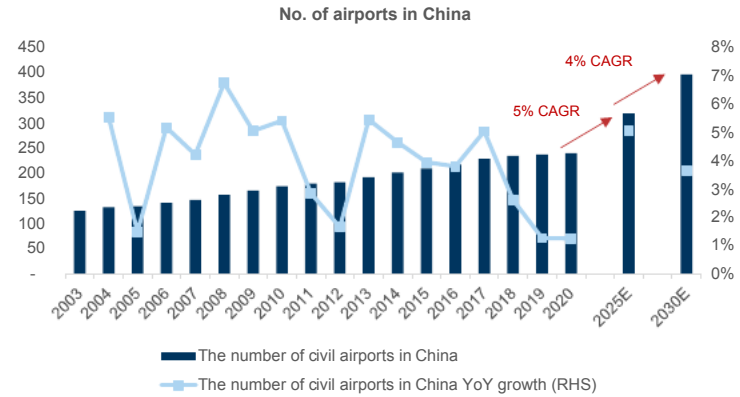
VI. Air flight and airport capacity growth to support more traveling

Exhibit 31: We expect China airlines' seat capacity to grow at a CAGR of 5% in 22-25E...
Domestic airlines avg. available seats trend



Source: CAAC, Goldman Sachs Global Investment Research

Exhibit 32: ...and similar growth rate for no. of civil airports in China
No. of airports in China from 2003 to 2030E



Source: CAAC, Goldman Sachs Global Investment Research

Online travel booking industry development; profit pool analysis

The travel industry was initially digitalized in the 1960s with American Airlines, in partnership with IBM, introducing the Semi-Automated Business Research Environment (SABRE) platform which served as an electronic reservation system for their agents to use. The platform was later adopted for other travel services such as hotel bookings and was opened up for travel agents and the public for self-service ticket purchases, while online travel sites started to proliferate with the establishment of Travelocity (launched by Sabre), Expedia (launched by Microsoft), Booking.com, Priceline, etc. in the US/Europe. Over the past two decades, online travel agencies (OTA) have become an increasingly popular way for people to book travel services, similar to the development of other internet verticals (e.g., e-commerce, local services) on increasing internet penetration ([Exhibit 36](#)).

In China, Ctrip.com was one of the first to set up an online travel site in 1999, followed by others, e.g., Elong as a city life information website in the same year, Tongcheng focusing on travel services in 2004, Qunar as China's first travel search engine in 2005, and Fliggy rebranded from Taobao/Alitrip in 2014. Besides airline ticket booking, OTAs have also expanded into hospitality, ground transportation, car rental and other travel-related segments. As shown in [Exhibit 40](#), many of the Chinese OTAs are either established, controlled or have strategic relationships with the internet giants. Trip.com has also been more pro-active in pursuing M&A by, for example, acquiring Qunar in China, and took on equity interests in other travel resources (e.g., BTG, Huazhu, China Eastern Airline) or overseas OTA (e.g., Makemytrip).

Diving into market size and drivers of different segments; a comparison of various OTA business models

Like other internet verticals, China's OTA industry has gone through rapid growth through rising online penetration. Take rates vary by segment and have been driven by bargaining power, competition, regulation and business models, etc, which we discuss in more detail below:

- **Outsized online travel booking market growth is driven by the faster increase in online penetration in China vs. overseas. We expect further expansion by cross-selling new services and penetrating into lower-tier cities:** It took China only 6-7 years to bring its online travel booking penetration from ~20% to 50+%, a much faster pace than in the US/Europe, where it took almost ~20 years, and explains why China's OTA growth has significantly outpaced that of the overall travel booking industry (+25% vs. +6% CAGR in 2016-19). While we see scope for a further increase vs. 60-80% in other developed countries, lower consumption frequency and a higher online penetration rate suggests that China's OTA market may not grow as quickly as other internet verticals in the country (e.g., local services, consumer retail, etc). To capture further upside, OTA operators are expanding into lower-tier cities, overseas markets, and/or promoting/cross-selling new services, e.g., packaged tours and attraction ticketing, where online penetration is lower ([Exhibit 34](#)). Putting the numbers into perspective, China's travel booking industry was worth Rmb4.6trn (US\$0.67trn) in

2019. At 43% online penetration, the online travel booking market was Rmb1.95trn or US\$0.28trn of this. Amid the pandemic, this figure dropped sharply to Rmb1.2trn (US\$0.18trn) in 2021. We expect it to exceed pre-Covid levels in FY23 and reach Rmb2.97trn (US\$0.43trn) by FY25E.

- **OTA captures more than half of online travel booking GMV. We expect it to grow more inline with direct online channels going forward:** Over the past several years, OTA has been a major growth driver for China's online travel booking industry, capturing 64% or Rmb1.25trn (US\$0.18trn) of the Rmb1.95trn (US\$0.28trn) market in FY19 before the pandemic, by our estimate (up from 58% in FY15). Looking ahead, we expect more balanced growth between OTA and online direct sales channels (+34% to Rmb1.92trn (US\$0.28trn) vs. +35% to Rmb1.05trn (US\$0.15trn) in 2022-25E), driven by market consolidation/rising chain penetration in the hotel segment (i.e., more hotels in China are joining large chain hotel groups which themselves have upgraded their digital platforms and accumulated a sizeable membership base) and ongoing regulatory controls in the air ticket and ground transportation segments that would cap upside for the OTAs. Of the Rmb1.25trn (US\$0.18trn) OTA market in 2019, air ticketing and ground transportation contributed the most (38% and 24%), since many consumers book their air and railway tickets online these days with over 80% penetration, followed by hotels (19%), packaged tours (14%) and attraction ticketing (5%).
- **China OTA's take rates are lower than those overseas due to regulation and greater competition historically:** Compared to the US/Europe where the industry is dominated by a few top players (e.g., Booking.com, Expedia), online travel booking in China has historically more competitive with more new entrants. As such, its take rates (net of rebates and commissions, etc) tend to be lower than those overseas. Take hotel as an example - Trip.com and Tongcheng Elong charge 8-11% in China vs. the 15-17% by Booking.com in the US. [Exhibit 42](#) summarizes the competitive situation in China's OTA industry over the past decade. The operators have been adjusting their business models and launching various promotions, especially during 2012-15. Meanwhile, take rates for air ticketing have declined, from ~4-5% to ~2-3%, due to regulations: (1) the State-owned Assets Supervision and Administration (SASAC) requires airlines to increase their direct sales % to 50% within 3 years from 2015; (2) the Civil Aviation Administration of China (CAAC) capped air ticket commissions at a fixed amount per ticket (i.e., ~Rmb5-10 for an economy class ticket); (3) CAAC also tightened regulations on cross-selling of other products (e.g., insurance) for air ticketing. That said, as the internet giants (e.g., Meituan, Alibaba) seek to expand and shift their focus to other verticals (e.g., Meituan on local delivery services), together with more strategic alliances formed among the key players (e.g., the Ctrip/Qunar merger; Tongcheng/Tencent and Tongcheng/Trip.com cooperation agreements), the market has become less competitive, which is also reflected by a stabilization in take rates ([Exhibit 43](#)). We believe the worst is over in terms of competitive intensity. The OTAs future take rates will be driven more by changes in revenue mix and demand/supply dynamics (e.g., peak season during the Golden Week holiday). By segment, we expect air ticketing take rates to fall gradually given this segment's fixed-fee structure, such that the OTA cannot share potential upside from fare increases. For hotels and ground transportation, take rates should trend more inline with GMV since the OTAs either charge a commission based on room rates (for hotels) or a

service fee for ancillary value-added services or a commission from insurance agents.

■ **Business models affect pricing power and economics. China OTAs mostly adopt an agency or merchant model:**

Similar to overseas operators, China OTAs mainly adopt either (1) an agency model – OTAs aggregate and pass on customer reservation details to tourism resource providers (e.g., hotels, airlines, etc) and receive commissions from them; (2) merchant model – OTAs pre-purchase inventories from Travel Service Providers (TSPs) and sell them to end-customers with a mark-up without bearing inventory risk in most cases. Under the merchant model, because OTAs control the inventories and usually receive advanced payment from customers, they enjoy better pricing power with fewer cancellations. Besides the above two, some OTAs (e.g., Fliggy, Meituan, Trip.com) have also adopted the Online Travel Platform (OTP) model, allowing tourism resource providers to sell their products through their own online stores on the OTA's platform. Take rates for this model are typically lower, as the OTAs have less bargaining and pricing power. [Exhibit 47](#) sets out the key differences of the various models adopted by the OTAs.

Profit-sharing and economics by OTAs or direct sales channels

In the travel services industry, the key market participants include travel resource providers (hotel, transportation, attractions, retail, etc.), travel agents (B2B/B2C, online/offline), content platforms (social media), and supporting services companies (payment, finance & insurance, technology, etc.) ([Exhibit 46](#)). OTAs take a portion of the customer's travel spending along with travel resource and other services providers. Below, we lay out how the economics are split among the key participants when a customer books a hotel under different models.

- **Hotel booked through an OTA:** In this example ([Exhibit 49](#)) where a customer spends Rmb255 to book a lease-and-owned (L/O) hotel room and Rmb10 on cancellation insurance, with a take rate of say 8%, the OTA would receive Rmb21. After deducting the costs of the room, sales & marketing and other overhead expenses, we estimate the OTA would retain EBITDA of Rmb5, representing 2% share of the customer's spending. The hotel operator would retain Rmb43 in EBITDA or 16% of the total spending, while the others (e.g., insurance agents, payment platforms, KOLs) would each take 0.4-4%.
- **Room booked directly through the hotel:** If a customer books a room directly with a franchise hotel, the room typically would cost about 10% more reflecting the better quality with upfront renovations (e.g., Rmb281 in this case). The chain hotel group would take 11% for commission and reservation fees. Netting this out from all the costs, it would retain Rmb50 in EBITDA. In another scenario where the hotel is independently run, with no chain hotel or other middlemen involved, the hotel owner would get to retain more profit.

From a hotel investor's perspective, there are both pros and cons to deciding whether to (1) run an online booking site itself; (2) sell its rooms through the OTAs; or (3) join a chain hotel group ([Exhibit 48](#)). If selling the room through an OTA, the 8% commission would cut out a portion of the hotel's profit, although in theory, it would help to maximize RevPar through better

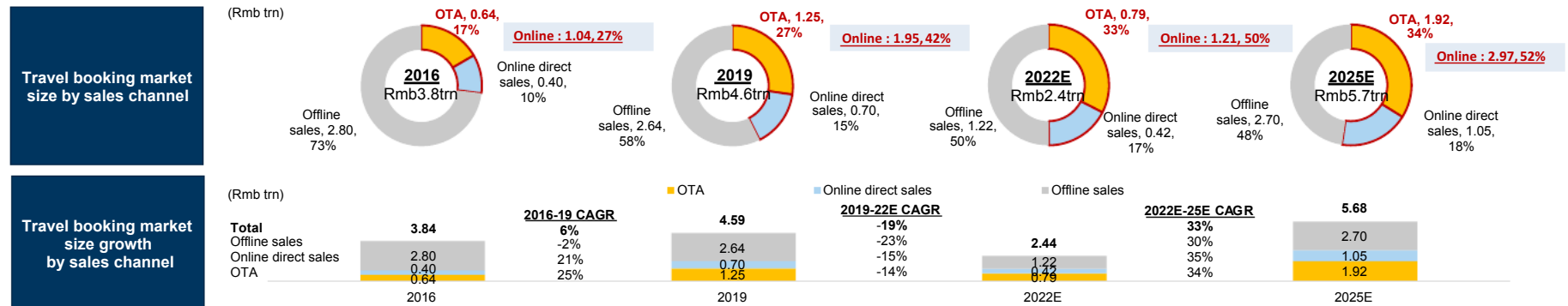
promotion of the rooms and improving occupancy rates.

If the hotel operator opts for (3), it would have to spend initial capex to upgrade its rooms to the required standards (e.g., Rmb50-60k per room) and also pay higher recurring fees to the chain hotel group (i.e., 11% of revenue). But this would drive higher RevPar such that the initial investment could in theory be paid back in 4-5 years and also enhance the hotel's long-term competitiveness as a member of a chain hotel, leveraging on its strong industry connection, customer relationship/membership, digitalization support, etc. Post the Covid outbreak, travelers may be more willing to pay extra for hygiene and quality, and hence chain hotel take-up may accelerate.

Online travel booking industry growth driven by rising online penetration, captured by OTA and direct sales, at the expense of offline channels

Exhibit 33: It took China only 6-7 years to bring its online travel booking penetration from ~20% to 50+%, a much faster pace than in the US/Europe, where it took almost ~20 years, and explains why China's OTA growth has significantly outpaced that of the overall travel booking industry (+25% vs. +6% CAGR in 2016-19)

Travel booking market size and growth



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 34: Online booking penetration at 50%; air, railway ticketing and hotel booking more penetrated; waterway/ground transportation less so

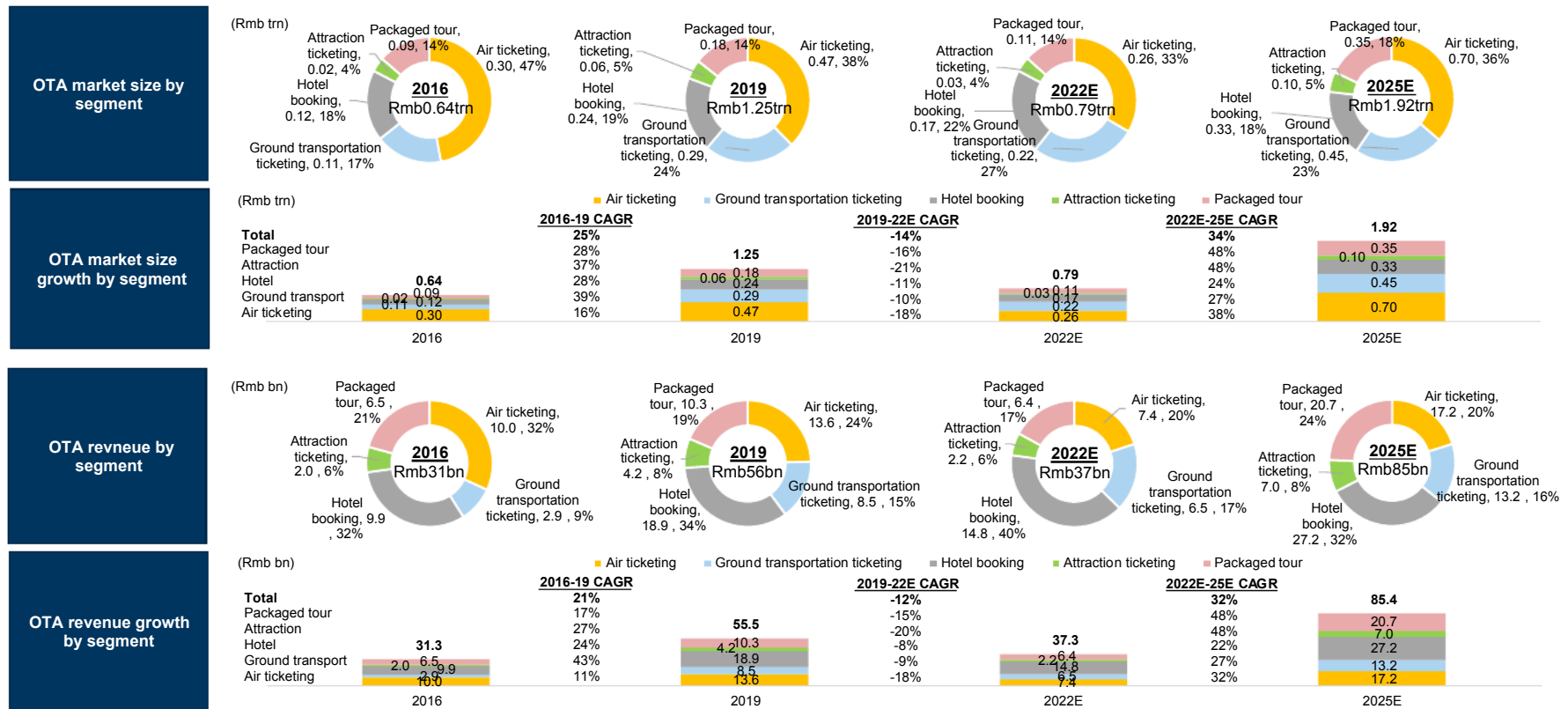


Source: Company data, Goldman Sachs Global Investment Research

OTAs generate the most revenue from hotel bookings after accounting for take rate differences, ground transportation the least

Exhibit 35:

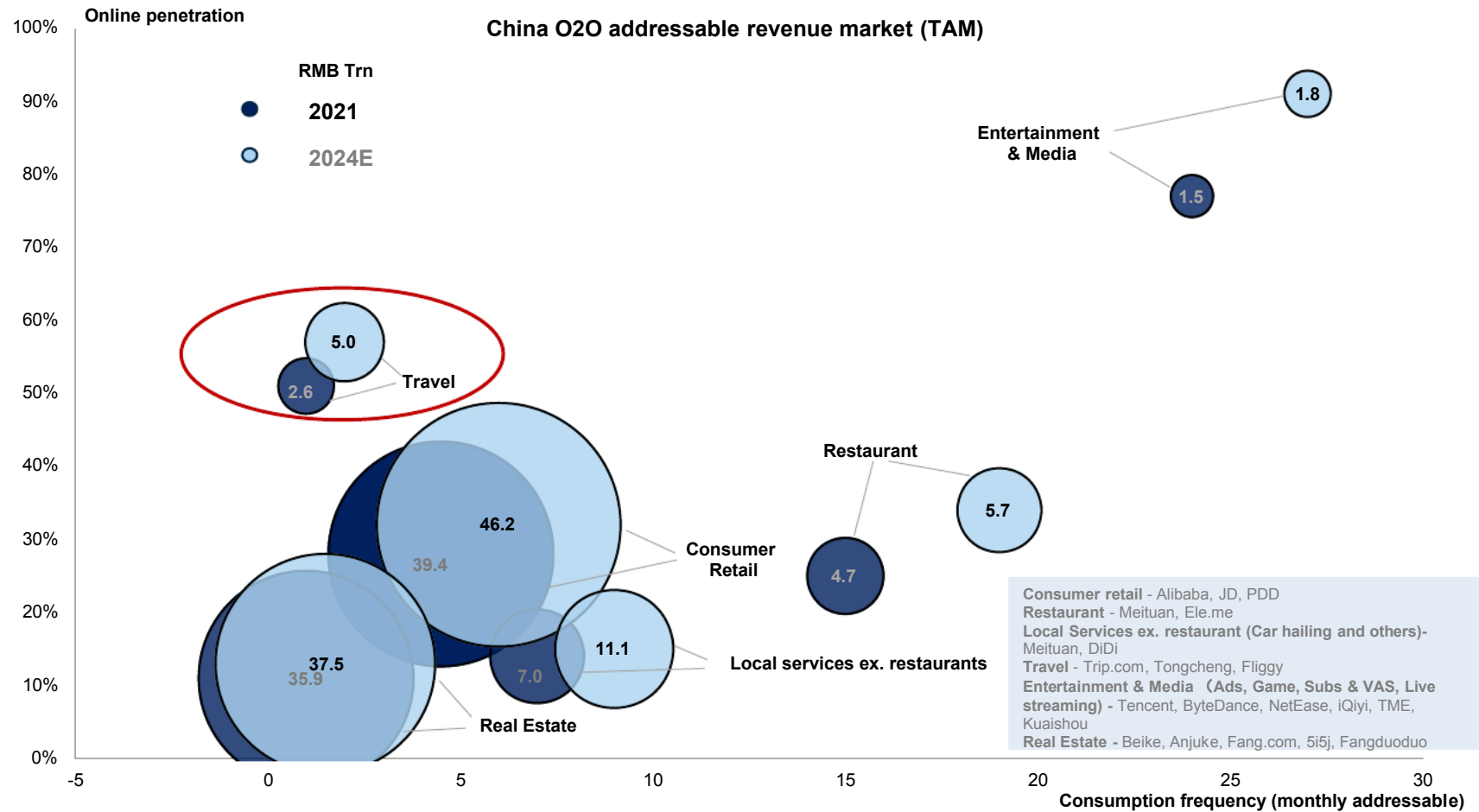
OTA market size breakdown by segment; OTA revenue (market size x take rate) breakdown by segment



Source: Company data, Goldman Sachs Global Investment Research

Consumption frequency of travel lower than other categories, but online penetration relatively high; less scope for online market growth

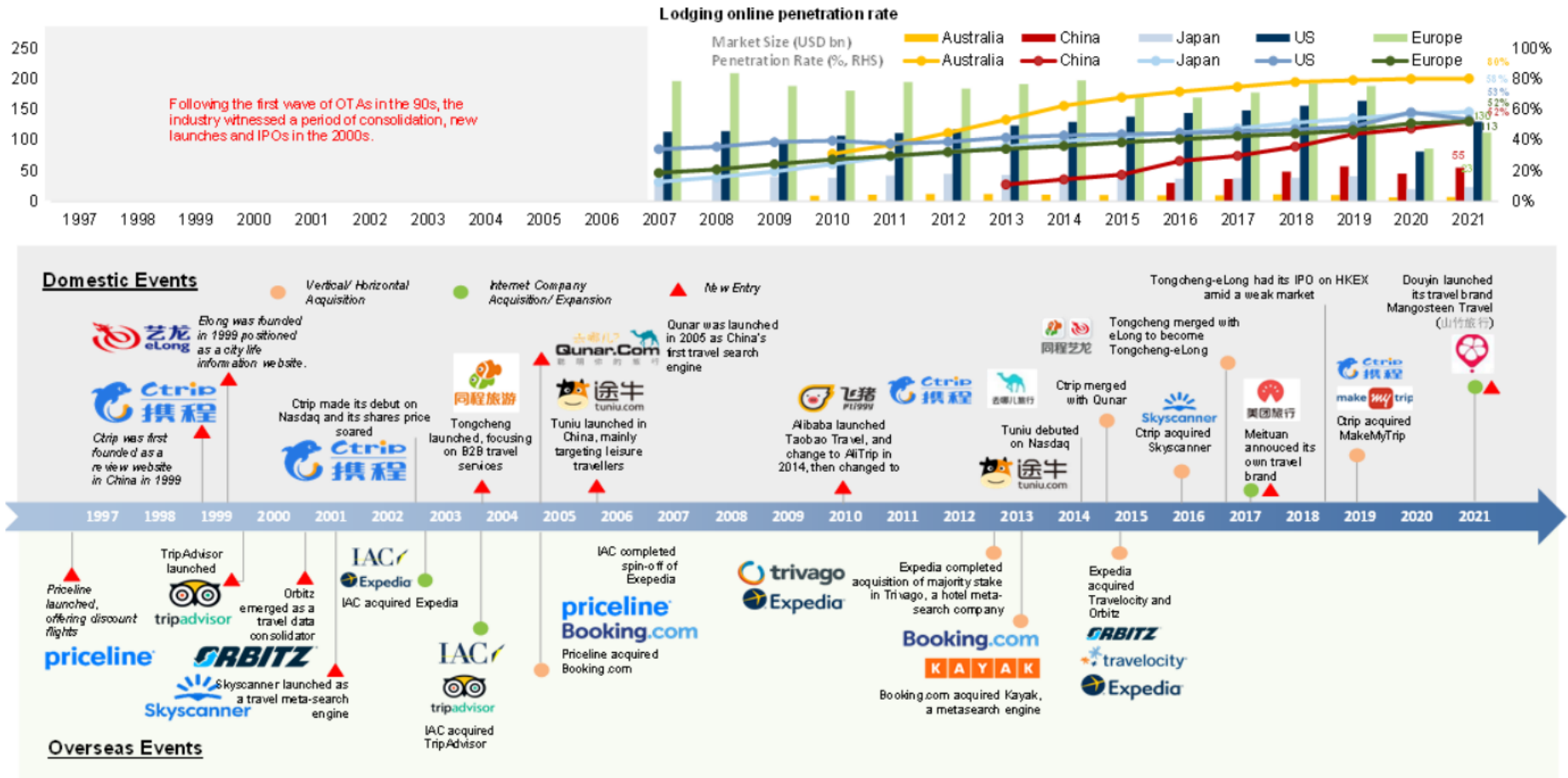
Exhibit 36: The travel market has relatively higher online penetration and lower consumption frequency compared with other internet verticals



Source: QuestMobile, CIC, Gartner, NBS, PwC, Company data, Goldman Sachs Global Investment Research

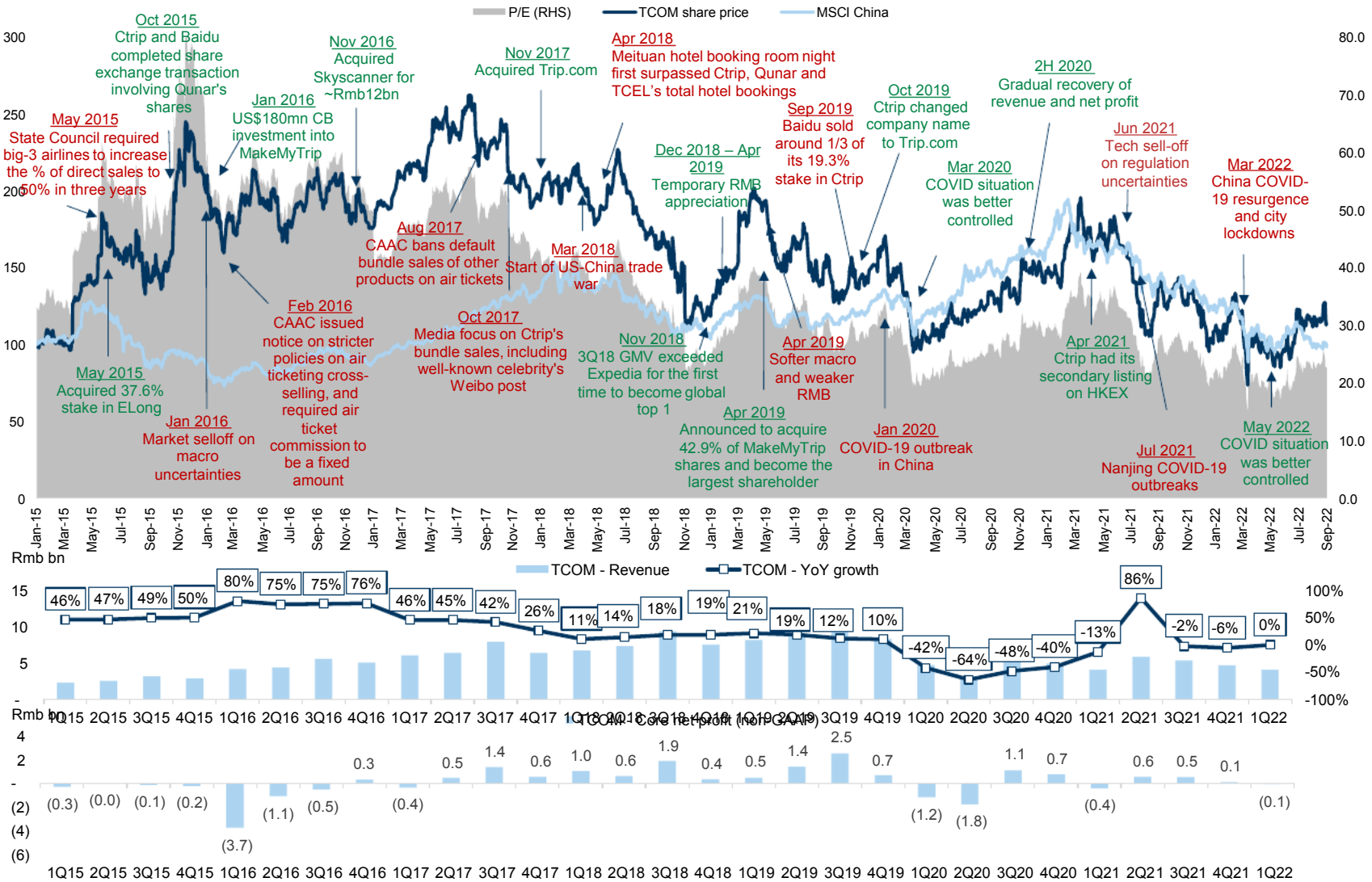
A long history since the early 2000s, China's online travel penetration only took 6-7 years to catch up with developed countries; a more competitive market with new entrants, especially the internet giants

Exhibit 37: That said, as the internet giants (e.g., Meituan, Alibaba) seek to expand and shift their focus to other verticals (e.g., Meituan on local delivery services), together with more strategic alliances formed among the key players (e.g., the Ctrip/Qunar merger; Tongcheng/Tencent and Tongcheng/Trip.com cooperation agreements), the market has become less competitive



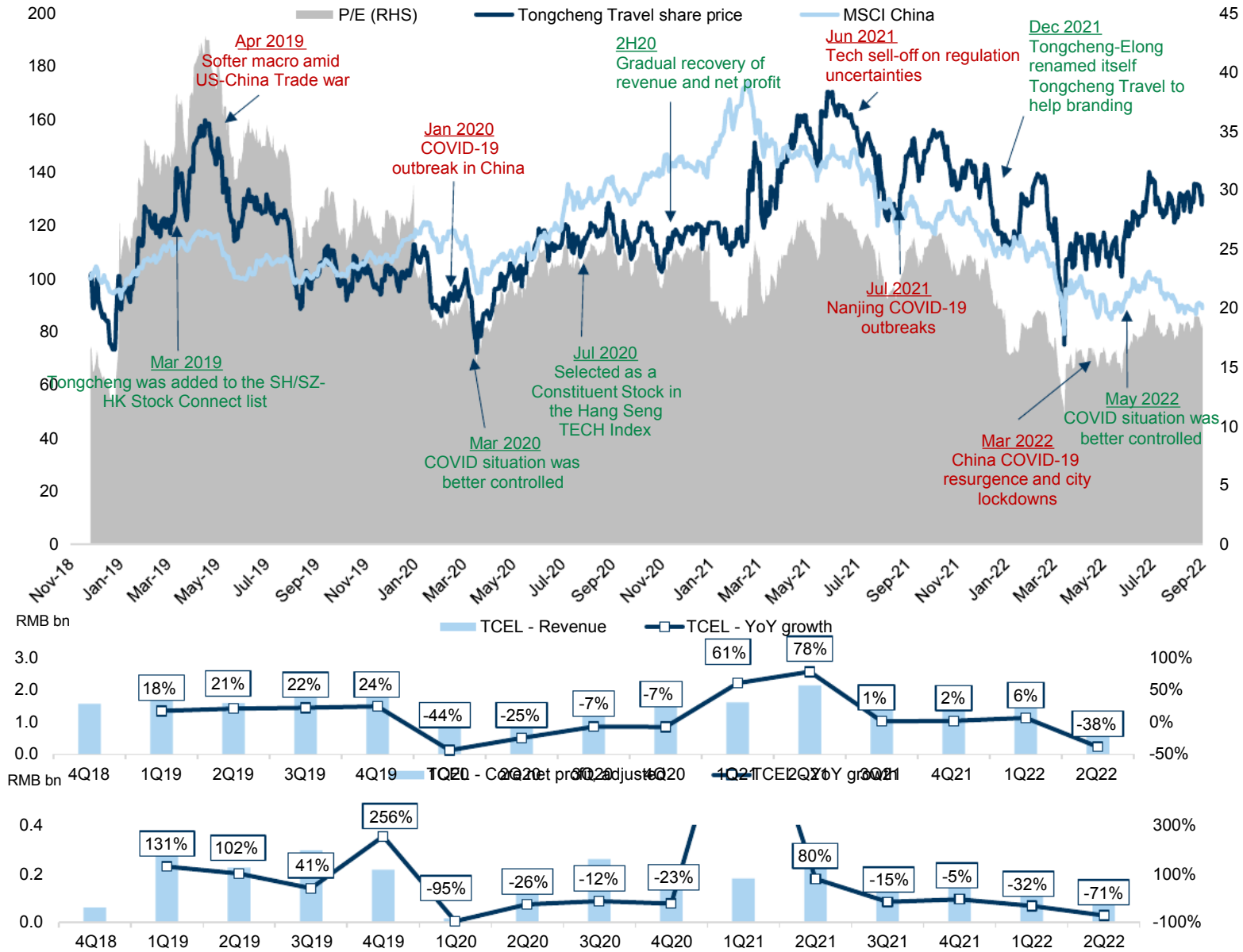
Source: Company data, compiled by Goldman Sachs Global Investment Research

Exhibit 38: Trip.com's historical share performance and key events



Source: Company data, compiled by Goldman Sachs Global Investment Research

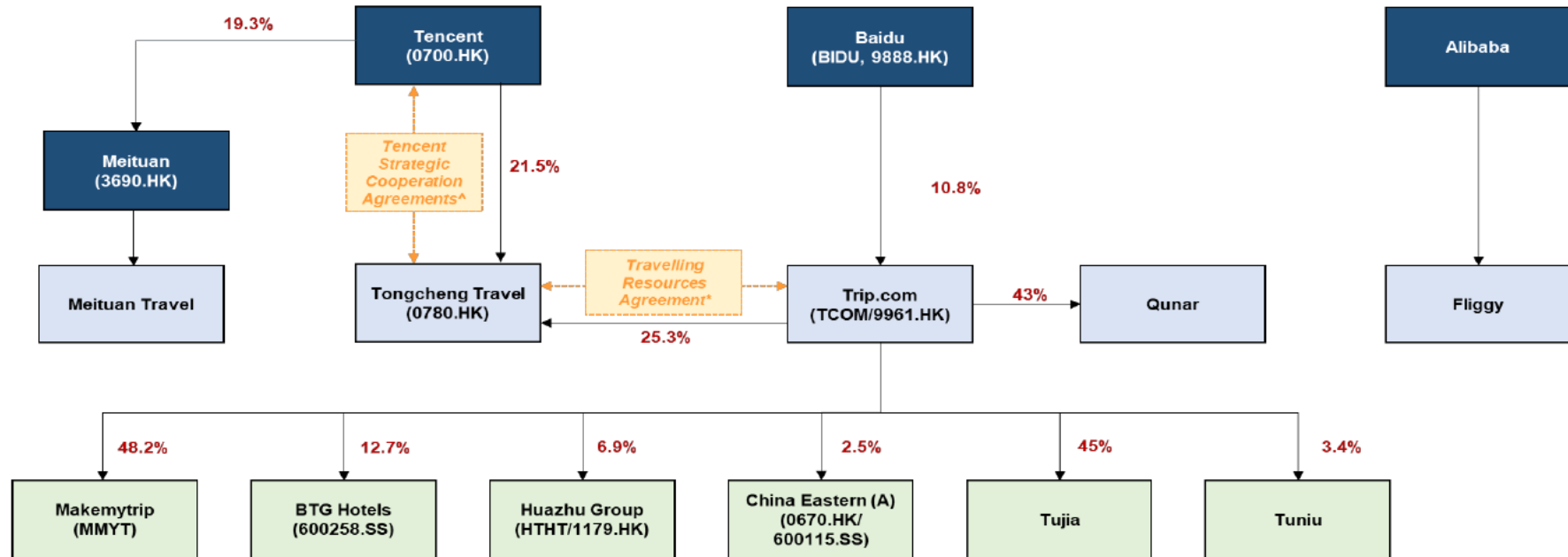
Exhibit 39: Tongcheng Travel historical share performance and key events



Source: Company data, compiled by Goldman Sachs Global Investment Research

Strategic partnerships among competitors and across verticals

Exhibit 40: Shareholdings of key OTA platforms in China



Participant	Agreement	Duration	Details	TCEL benefits
^Tencent	Tencent Cooperation Agreement	2021.7.31-2024.7.31	i) Tencent to provide user traffic to TCEL via its key services, channels, products and tools; ii) Both parties will engage in advertising and marketing promotion services with each other for 3-yr term; iii) Both parties will consider cooperating with each other in priority on expiry.	Over 81% of TCEL's MAU is from WeChat mini-program
*Trip.com	Trip.com Travelling Resources Sales Framework Agreement	2021.1.1-2023.12.31	TCEL provides travel booking services to Trip.com	70-80% of TCEL's room nights is supplied by Trip.com
	Trip.com Travelling Resources Provision Framework Agreement	2021.1.1-2023.12.31	Trip.com provides travel booking services to TCEL	

Agreement and annual transaction amount cap refer to appendix.

Source: Company data, compiled by Goldman Sachs Global Investment Research

China OTAs have a relatively higher GMV scale than global players, but lower take rates

Exhibit 41: Global OTA at a glance

	Trip.com TCOM/9961.HK	TCEL 0780.HK	Meituan 3690.HK	Booking.com BKNG	Expedia EXPE	MakeMyTrip MMYT
Market cap (USD bn)	16.1/15.8	4.6	120.4	75.7	16.0	2.1
Average MAUs (mn) (1Q22)	~150 (FY21)	~245	~360	Booking.com >100 Agoda >60 Priceline ~40 KAYAK ~45	Expedia >90 hotels.com ~60 travelocity ~12 Cheapflights ~9 Orbitz ~8	MakeMyTrip ~40 Goibibo ~17 Redbus ~16
Geographical exposure (FY19)	China domestic ~66% Outbound ~24% Int'l ~10%	China domestic ~95% Int'l ~5%	Mostly China domestic	US ~10% Others ~90%	US ~57% Others ~43%	India ~93% ASEAN ~4% Others ~2%
	FY19	FY19	FY19	FY19	FY19	FY19
GMV by segments (USD bn)	Total	125.2	24.0	13.6	96.4	5.4
	- Accommodation	26.7	3.8	11.3	90.6	1.5
	- Air ticketing	71.2	9.8	1.2	2.2	3.2
	- Ground	18.5	9.8	n.a.	n.a.	0.7
	- Other travel	8.7	0.7	1.1	3.7	-
By business model (USD bn)	Agency	Mostly agency model	Agency model >95%	Mostly agency model	70.7	Mostly agency model
	Merchant				25.8	47.9
Revenue by segments (USD mn)	Total	5,169	1,011	994	15,066	645
	- Accommodation	1,956	313	834	13,925	352
	- Transportation	2,019	654	122	22	294
	- Other travel	838	n.a.	185	1,623	n.a.
	- Others	356	44	37	934	1,103
By business model (USD mn)	Agency	Mostly agency model	Agency model >95%	Mostly agency model	10,117	Mostly agency model
	Merchant				3,830	6,763
Accommodation segment	Room nights (mn)	461	102	392	844	27
	- Higher-end	216	n.a.	50	n.a.	n.a.
	- Lower-end	246	n.a.	342	n.a.	n.a.
	ADR (USD)	58	38	24	107	57
	- Higher-end	90	n.a.	54	n.a.	n.a.
- Lower-end	29	n.a.	22	n.a.	n.a.	
Transportation segment	Air tickets sold (mn)	374	87	n.a.	8	39
	Air ticket price	141	112	n.a.	273	81
	Ground tickets sold (mn)	898	n.a.	n.a.	n.a.	63
Ground ticket price	11	n.a.	n.a.	n.a.	12	
Take rate (%)	Overall	3.8%	4.5%	7.3%	14%	12%
	- Accommodation	7.3%	8.2%	7.4%	15%	23%
	- Air tickets	2.2%	3.6%	3.0%	1%	7%
	- Ground transportation	2.7%	3.1%	n.a.	n.a.	8%
	- Other travel	4.9%	n.a.	11.5%	5%	n.a.
Take rate % by business model	Agency	Mostly agency model	Mostly agency model	Mostly agency model	14%	6%
	Merchant				15%	14%
Non-GAAP EBITDA margin (2019)	22.0%	27.3%	Overall 7.4%	38.9%	15.0%	-26.1%
Non-GAAP EBIT margin (2019)	18.9%	17.6%	Overall 3.1%; Hotel 18.3%	37.6%	10.1%	-22.7%
Core earnings (USD bn) (2019)	0.74	0.16	0.67	4.46	0.94	-0.17
P/E (FY23E)	22.5x	22.3x	34.7x	16.8x	14.1x	32.6 (25E)

Market caps and share prices for P/E are as of Sep 6, 2022; All take rates refer to net take rates (gross take rates deducts coupon rates); For Trip.com, total GMV excludes Skyscanner; high-end room nights include int'l room nights; For TCEL, total revenue refers to combined revenue excl. B2B business and inventory-risk taking business; Transportation take rates include cross-selling product prices; EBIT and EBITDA margin refers to non-GAAP margins.

Source: QuestMobile, TravelWeekly, SimilarWeb, Datastream, Company data, Goldman Sachs Global Investment Research

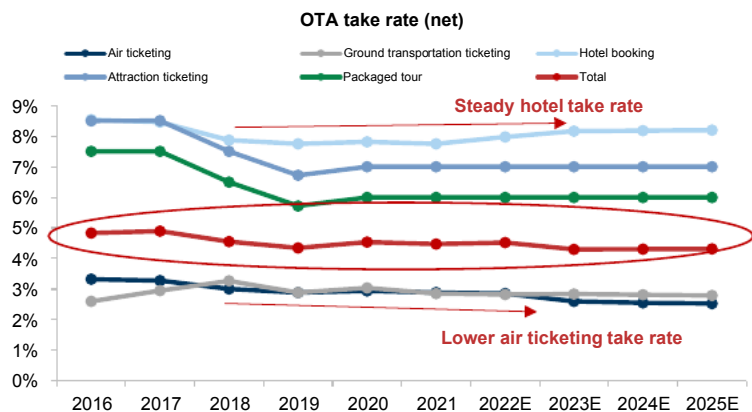
Exhibit 42: China OTA price war timeline

Timeline	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Business model	Mostly agency model			Emerging of OTP model with wholesalers selling directly on platform						Mix of agency, merchant, OTP			
Take rate - Hotel	~15%			~7-8%	Ctrip ~7-8%; Qunar -ve; Elong ~8%; Meituan ~5%			~8-10%					
Take rate - Transportation	Transportation: Blended 4-5% take rate					SASAC - Lifting direct sales and lowering distribution		Fixed ticket fee, Blended ~2-3% (Incl. VAS)					
Ctrip	"Best rate promise"		Announced USD500mn budget for hotel promotion		1. Reported first quarter loss in 11 years of listing; 2. Invest USD200mn in online ticketing site LY.com (Tongcheng)		1. National Tourism Administration issued 'Opinions on Combatting Unreasonable Low-cost Tours' that explicitly prohibits travel agencies from providing unreasonably low-cost products; 2. Ctrip acquired 37.6% equity stake in Elong; 3. Ctrip and Qunar announced share swap and merger;		Expansion into overseas market through investment in Trip.com, Skyscanner and MakeMyTrip		Penetrate into lower-tier cities		
Qunar	1. 'Name your own price' - Customers initiate price and hotels bid for order, up to 70% discount ; 2. 'Night sales' - All unbooked hotel rooms are sold at a discount everyday after 6pm			1. Set up attraction ticketing team to expand in attraction ticket market; 2. Reported Rmb1.85bn in FY14;									
Elong	"Lower-than Ctrip rate"; ~10% hotel refund		Announced to provide '10%+1 dollar' discount for the same product on Ctrip Group buy		Reported losses for 5 consecutive quarters		Tongcheng split into Tongcheng Travel and TongchengNetwork		Tongcheng Network and Elong announced to merge		1. Growing transportation business scale backed by Tencent traffic support; 2. Increasing cross-selling to hotel booking;		
Tongcheng	Mainly provided discounted air tickets		1. 'Best air ticket price'; 2. Announced Rmb90mn for promotion		Launched '1-Yuan' program that offered attraction tickets and hotel rooms at Rmb1 each		Rebranded to Fligg		Focusing on outbound travel and younger customers		Travel destination alliance and content-focused strategy		
Fliggy	Known as <i>Taobao Travel</i> , Mainly provided discounted air tickets			Participated in Double-11 promotion		Rebranded to <i>Alitrip</i> and launched 'Travel instalment' for 9 periods with 0% interest rate		Gaining online hotel booking market share esp. in lower-tier cities		Foray into high-end hotel booking market		Further gained market share benefiting from growing local demand amid pandemic	
Meituan				Mainly provided hotel group-buy products									

Source: TravelDaily.cn, compiled by Goldman Sachs Global Investment Research

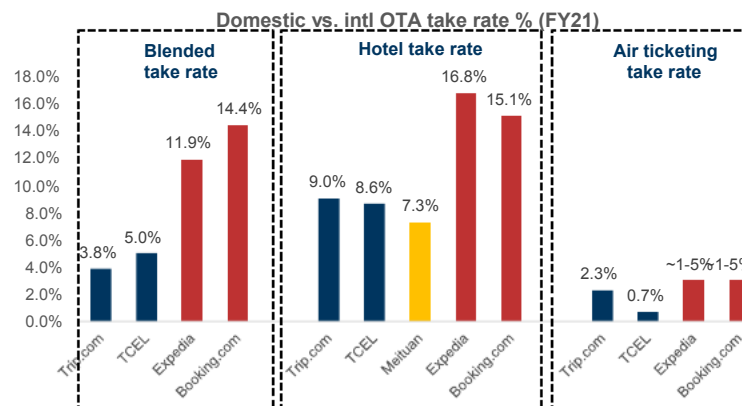
Exhibit 43: ...the market has become less competitive, which is also reflected by a stabilization in take rates

China OTA take rate trend



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 44: Hotel take rates for domestic OTAs are below that of overseas competitors



Source: Company data, compiled by Goldman Sachs Global Investment Research

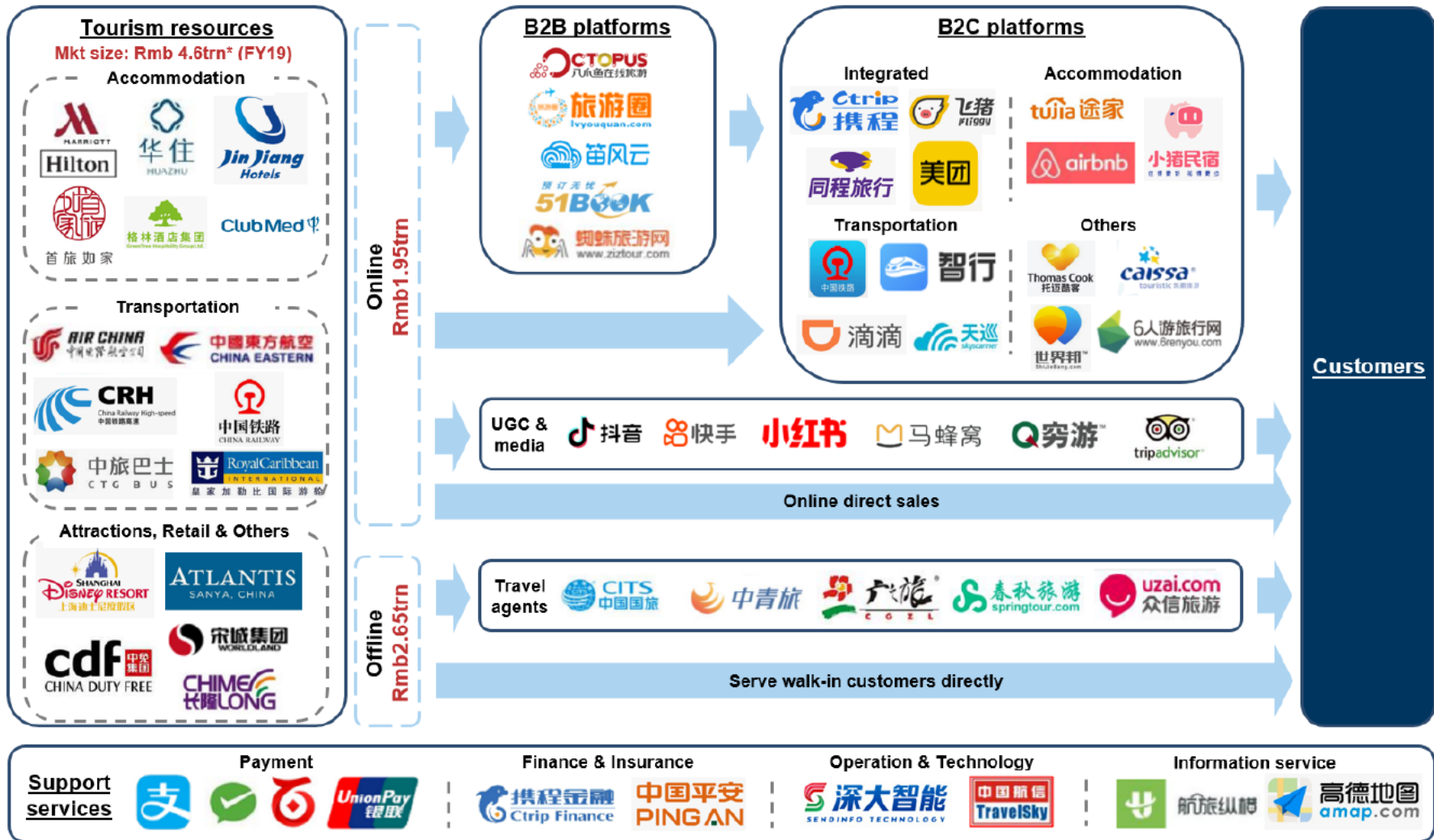
Exhibit 45: Travel take rate summary by segments (FY21)

Segment	Basic commission		Ancillary VAS	Overall take rate %	Monetization
Hotel	% of hotel ADR		- % Commission on travel insurance; - Coupon selling revenue;	Net ~8-10% on Gross ~10-15% on	Hotel + VAS - Promotion Hotel + VAS
Airline	Fixed fee	~Rmb5-10 per economy class ticket ~Rmb50 per business class ticket	- % Commission on travel insurance; - Service selling markup (eg. VIP lounge, priority boarding, etc);	~3% on	Air ticket + VAS
Transportation	Train	Nil	- % Commission on travel insurance; - Service fee (eg. travel solutions, etc)	~3% on	VAS
	Bus	% of ticket price or fixed fee per ticket	- Coupon selling revenue	~2-3% on	Bus ticket + VAS
	Ferry	% of ticket price	Limited	~2-3% on	Ferry ticket + VAS
Attraction tickets	% of ticket price		Nil	~4-6% on	Attraction tickets
Package tour	Each product category refers to above			~6% on	Hotel + Tickets + VAS

Data as of 2021 unless specified

Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 46: Market participants along the value chain: Tourism resource providers, travel agents, content platforms, finance/payment



Note: *Market size refers to travel booking only; All market size data refers to FY19.

Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 47: Business models affect pricing power and economics; China OTAs mostly adopt the agency or merchant models

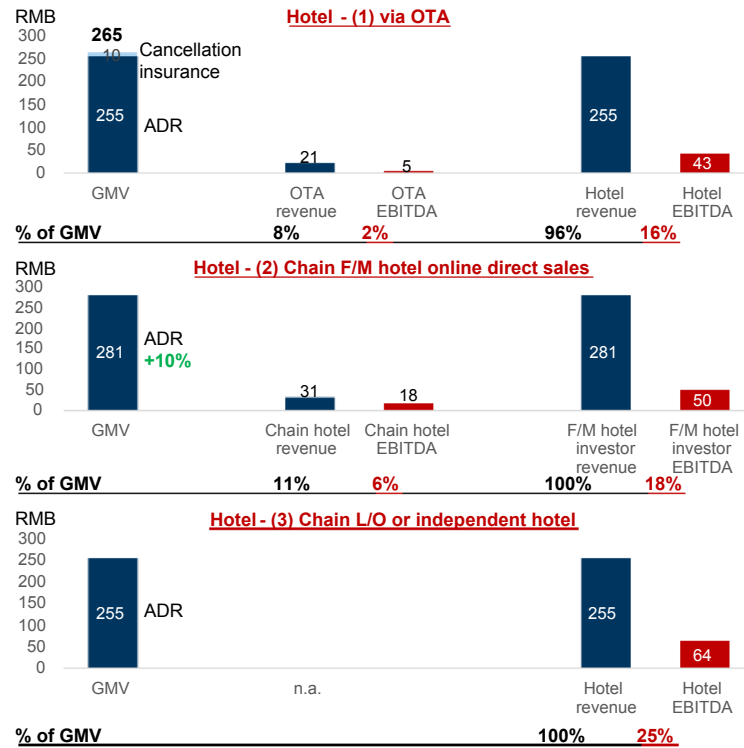
Business model	Monetization	Platforms		Relative competitiveness regarding:								
		Domestic	Int'l	Inventory Risk^	Pricing Power	Customer Acquisition Cost	Customer Conversion Rate	Blended Take Rate	Cancellation Rate	Customer Service Provider		
OTA	Agency	OTAs pass reservations booked by customers to TSPs suppliers (i.e., hotels, airlines, etc.) and receive commissions and ticketing fees from suppliers	Commission on transactions completed	Trip.com (10-15% GMV); Tongcheng-Elong (>90% GMV); Tuniu;	Expedia (45-55% Group GMV), Booking.com (70-80% Group GMV);	X	Relatively low	Relatively high	Relatively high	10~15%	Relatively low	OTA
	Merchant	OTAs prepurchase from TSPs suppliers at a discount (i.e., hotels, airlines, etc.) and sell to customers with a mark-up	Price markups	Trip.com (70-80% GMV); Tongcheng-Elong (<10% GMV); Tuniu; etc;	Expedia (45-55% Group GMV), Booking.com (20-30% Group GMV); Agoda, Priceline;	√/X	High	Relatively high	Relatively high	18~25%	Low (More prepayment required)	OTA
	Advertising	Advertisers pay for ads placement based on number of clicks the ad receives	Advertising fees	Qunar	Kayak.com							
	CPM	Advertisers pay for ads placement based on every 1,000 impressions the ad receives	Advertising fees	WeChat Moments ads, etc;	TripAdvisor	X	Low	Relatively low	Low (High user base)	~3%	Relatively high	TSPs suppliers
	CPA	Advertisers only pay when the user completes the desired transaction, eg. a purchase, download, or free trial	Advertising fees	Searching engine ads, etc	Google ads							
OTP		Platform for TSPs suppliers (i.e., hotel and airlines operators, B2C agencies, etc.) to operate own online stores and connect to customers	System fees, services fees, etc	Fliggy; Meituan, Trip.com (5-10% GMV);	n.a.	X	Relatively low	High (Relatively low user base)	Relatively high (Private domain traffic)	3~8%	Relatively low	TSPs suppliers
UGC		Platform for users to curate any form of content (eg., images, videos, texts) to share experiences, promote products, etc.	Advertising fees, commission on transactions, etc	Mafengwo, Douyin, Kuaishou, RED;	YouTube, Facebook;	X	Low	Low (High user base)	High for livestreaming	2~4.5%	High	TSPs suppliers

Note: TSPs stand for Travel Services Products; OTA short for Online-Travel-Agency; OTP short for Online-Travel-Platform; UGC short for User-Generated-Content; CPC stands for Cost Per Click; CPM stands for Cost Per Mile (1,000 impressions); CPA stands for Cost Per Acquisition/Action; Take rate for advertising model refers to TripAdvisor; Take rate for OTP model refers to Fliggy; Take rate for UGC model refers to Douyin; ^For inventory risk, Trip.com only has limited merchant business carrying inventory risks during peak holiday seasons; Overseas operators i.e., Booking.com, Expedia, does not bear inventory risk since they are allowed to return unsold room nights in advance under a put-back provision; Blended take rates refer to gross take rates.

Data as of 2021 unless specified

Source: Company data, data compiled by Goldman Sachs Global Investment Research

Exhibit 48: Travel booking by type key participants and profitability summary

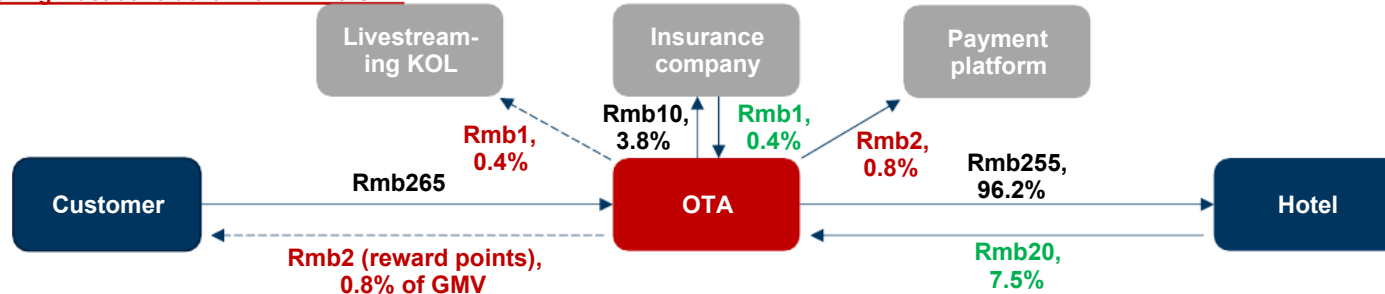


	Join OTA online network	Join chain hotel network	Stay independent & offline
Upfront costs	nil	Rmb60k/room	nil
Regular costs as % of revenue	8%	11% gross (8% net, excl. manager fee)	nil
RevPAR upside vs. before	10-20%	20-30%	nil
ADR example (Rmb)	255	281 (+10%)	255
Occupancy	69% (+15%)	69% (+15%)	60%
RevPAR (Rmb)	176 (+15%)	194 (+27%)	153
Payback period	n.a.	4-5 years	n.a.

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 49: Illustrative example of economics by model type – L/O hotel booking via OTA; OTA takes 2%, hotels 17% after deducting costs

Hotel booking illustrative dollar flow 1 - via OTA



Note: Dollar amount in green color denotes cash inflow for OTA, red color denotes outflow

Hotel booking bill summary (Rmb)	
Original ADR	300
Promotional discount @ 15%	(45)
Final price	255
Optional: Cancellation insurance	10
Total amount to pay	265
Benefits upon completion of the trip	
Reward points	200
Equivalent to cash amount	2
Equivalent discount level	0.8%

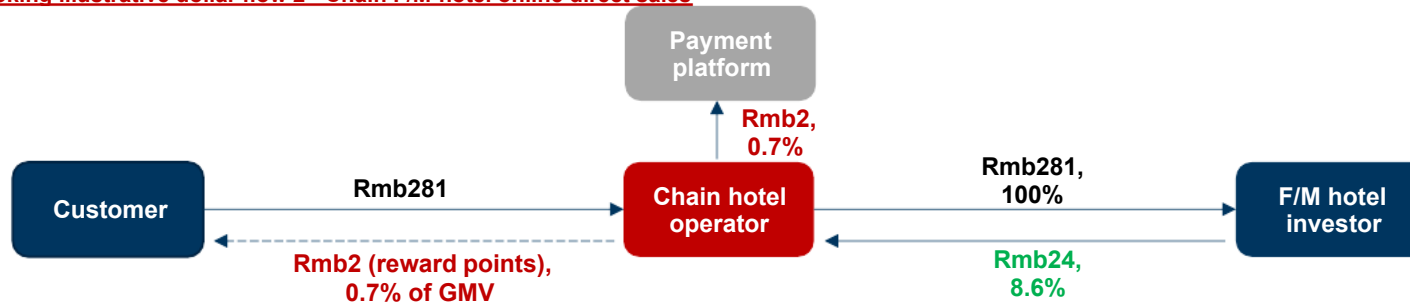
Profitability analysis (Rmb)	
GMV	265
Hotel ADR post discount	255
Insurance	10
Blended take rate	8%
Hotel ADR	8%
Insurance	10%
Revenue	21
Hotel ADR	20
Insurance	1
Cost of services (COS)	(5)
Handling fee to payment platform	(2)
Other COS	(3)
Gross profit	16
Gross margin	75%
Product development expense	(4)
As % of revenue	20%
S&M expense	(5)
As % of revenue	25%
Reward points	(2)
Others (livestreaming etc)	(3)
G&A expense	(1)
As % of revenue	5%
EBITDA	5
EBITDA margin	25%

Profitability analysis (Rmb)	
Revenue/ADR post discount	255
Cost of goods & services	(153)
Gross profit	102
Gross margin	40%
S&M expense	(38)
As % of revenue	15%
Traffic fee to OTA	(20)
Others	(18)
G&A expense	(20)
As % of revenue	8%
EBITDA	43
EBITDA margin	17%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 50: Illustrative example of economics by model type – direct booking of franchise hotels; chain hotel brands take 6%, hotels 18% after costs

Hotel booking illustrative dollar flow 2 - Chain F/M hotel online direct sales



Note: Dollar amount in green color denotes cash inflow for chain hotel operator, red color denotes outflow

Hotel booking bill summary (Rmb)	
Original ADR	330
Promotional discount @ 15%	(50)
Total amount to pay	281
Benefits upon completion of the trip	
Reward points	200
Equivalent to cash amount	2
Equivalent discount level	0.7%

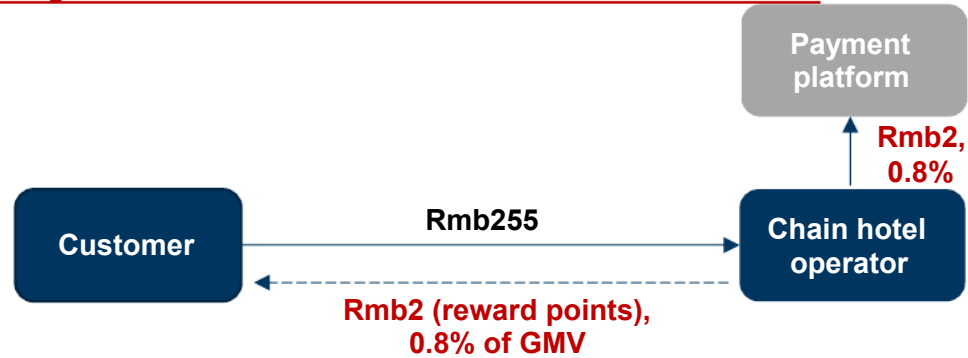
Profitability analysis (Rmb)	
ADR post discount	281
F/M take rate	11%
Chain hotel revenue	31
Cost of services (COS)	(9)
Handling fee to payment platform	(2)
Hotel manager fees	(7)
As % of ADR	3%
Gross profit	22
Gross margin	71%
S&M expense	(3)
As % of revenue	15%
Reward points	(2)
Others	(1)
G&A expense	(1)
As % of revenue	5%
EBITDA	18
EBITDA margin	57%

Profitability analysis (Rmb)	
Revenue/ADR post discount	281
Cost of goods & services	(168)
Gross profit	112
Gross margin	40%
S&M expense	(42)
As % of revenue	15%
Net F/M fees (excl. manager fee)	(24)
Others	(18)
G&A expense	(20)
As % of revenue	8%
EBITDA	50
EBITDA margin	18%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 51: Illustrative example of economics by model type – L/O hotels direct booking; hotels retain all 25% after deducting costs

Hotel booking illustrative dollar flow 3 - Chain L/O hotel online direct sales



Note: Dollar amount in green color denotes cash inflow for chain hotel operator, red color denotes outflow

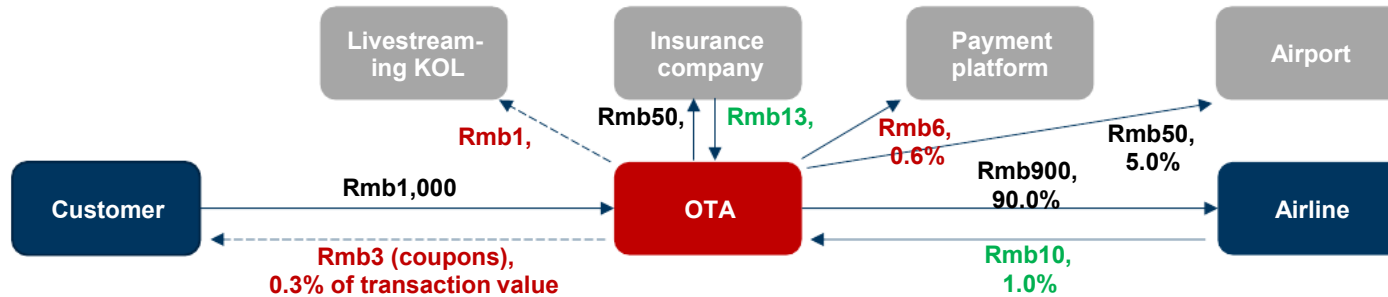
Hotel booking bill summary (Rmb)	
Original ADR	300
Promotional discount @ 15%	(45)
Total amount to pay	255
Benefits upon completion of the trip	
Reward points	200
Equivalent to cash amount	2
Equivalent discount level	0.8%

Profitability analysis (Rmb)	
Revenue/ADR post discount	255
Cost of goods & services	(153)
Handling fee to payment platform	(2)
Others	(151)
Gross profit	102
Gross margin	40%
S&M expense	(18)
As % of revenue	7%
G&A expense	(20)
As % of revenue	8%
EBITDA	64
EBITDA margin	25%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 52: Illustrative example of economics by model type – air ticket booking via OTA highly regulated; OTA takes a fixed Rmb10-15 per ticket; no leverage to upside from air ticket price increases

Air ticket booking illustrative dollar flow



Note: Dollar amount in green color denotes cash inflow for OTA, red color denotes outflow

Air ticket booking bill summary (Rmb)	
Air ticket	800
Airport construction surcharge	50
Jet fuel surcharge	100
Complementary benefits	
Pick-up and drop-off coupon	0
Car rental coupon	0
Airport F&B coupon	0
Final price	950
Optional: Accident insurance	50
Total amount to pay	1,000

Profitability analysis (Rmb)	
GMV	850
Air ticket	800
Insurance	50
Blended take rate	3%
Air ticket	1%
Insurance	25%
Revenue	23
Air ticket	10
Insurance	13
Cost of services (COS)	(7)
Handling fee to payment platform	(6)
Other COS	(1)
Gross profit	16
<i>Gross margin</i>	70%
Product development expense	(6)
<i>As % of revenue</i>	25%
S&M expense	(6)
<i>As % of revenue</i>	25%
Complementary benefits	(3)
Livestreaming costs (optional)	(1)
Others	(2)
G&A expense	(1)
<i>As % of revenue</i>	5%
EBITDA	3
EBITDA margin	15%

Profitability analysis (Rmb)	
Air ticket	800
Jet fuel surcharge	100
Total revenue	900
Cost of goods & services excl. D&A	(648)
Gross profit	252
<i>Gross margin</i>	28%
SG&A expense	(72)
<i>As % of revenue</i>	8%
Traffic fee to OTA	(10)
Others	(62)
EBITDA	180
EBITDA margin	20%

Source: Company data, Goldman Sachs Global Investment Research

Comparative analysis of OTAs

China's OTA industry went through a competitive stage during 2013-15, followed by market consolidation among major operators (e.g., mergers between Ctrip/Qunar, Tongcheng/Elong), and then a stage of relatively stable competitive landscape over the last 4-5 years. Among the top 3 players, Trip.com (including Ctrip and Qunar) is a full-service provider offering hospitality, airline, ground transportation, packaged tour booking services, that took up a 53% GMV market share in China's OTA industry last year. Tongcheng, as the second largest OTA operator in China with 17% GMV market share last year, also provides various online travel booking services but has greater focus in the transportation segment. Meituan captures 3-4% GMV share, providing mostly hotel booking services in lower-tier cities, more as complementary services to its intra-city on-demand and local delivery services.

We expect Trip.com to maintain its market dominance supported by its strong branding and cross-selling capability which enhances customers' stickiness especially those in high-tier cities. Tongcheng and Meituan have first-mover advantages and should continue to outperform in the lower-tier cities, leveraging on their strategic partnerships (i.e., Tongcheng/Tencent) or extensive networks (i.e., Meituan's delivery services). In this section, we analyze the three OTA operators (also including Fliggy in selective sections) by their differences in terms of size, business mix, customer profile, overseas exposure, business strategies, etc. Discussion of their competitive advantages, business challenges and growth opportunities are laid out in [Exhibit 81](#).

(1) Operational metrics

- **Size and business mix** - Trip.com's GMV of US\$125bn in 2019 ranked it the largest OTA operator globally, surpassing Expedia's US\$108bn and Booking.com's US\$96bn, although its revenue of US\$5.2bn in 2019 was less than half of Booking.com's US\$15bn and Expedia's US\$12bn due to lower take rates (3.8%, vs. 14.5%/9.9%) in China for legacy reasons discussed earlier. Compared to the other two operators, Trip.com has more breadth both segmentally (accommodation, transportation, packaged tours etc) and geographically for its overseas exposure which used to represent 34% of its total GMV before the pandemic. On the other hand, both Tongcheng Elong and Meituan operate purely within China - the former generating 81% of its US\$24bn GMV in 2019 from transportation booking, while the contribution from accommodation booking had shrunk from 25% in 2016 to 16% in 2019 after the company strategically reduced its room nights with inventory risk and/or relatively low margins. Meituan only stepped into the travel booking segment in 2018 as an extension of its local dining and food delivery services. Prior to the pandemic, it generated US\$14bn travel-related GMV representing 14% of its total GMV in 2019, the majority of which was for accommodation booking. After taking into account revenue mix and hence blended take rate differences (Trip.com 3.8%, TCEL 4.5%, Meituan 7.3%), Tongcheng and Meituan's travel booking revenues were similar in size at ~US\$1bn, one-fifth of Trip's

US\$5.2bn in 2019.

- **Market share trends** - Since its establishment as the first OTA in China over two decades ago, Trip.com (Ctrip back then) has maintained its dominance by capturing roughly half of the market GMV in both the transportation and hospitality segments, but has faced increasing competition from TCEL and Meituan in recent years. For example, TCEL's market share has risen from 9% in 2015 to 17% last year, led by transportation booking (from 8% to 22%) benefiting from its cooperation with Tencent as its sole OTA partner on WeChat and Mobile QQ portals ([Exhibit 53](#)). Meituan is small and only captures 4% GMV share in the OTA market due to its focus in the lower-tier cities where its average hotel ADR is only half of Trip.com's (Rmb196 vs. Rmb322 ADR in 2021). However, it actually handles more room nights (45% vs. 34% for Trip in 2021) supported by its sizeable membership base (~330mn vs. ~145mn MAU for Trip in 2021). [Exhibit 54](#) sets out the operators' market share across various segments. If we exclude the other smaller operators and only track the relative market share among the three companies ([Exhibit 53](#)), Trip.com's share dropped sharply in 2020 due to border closure from the COVID19 outbreak. TCEL and Meituan gained due to the greater resilience of short-haul travel demand in the lower-tier cities.
- **Less customer acquisition costs and shorter investment payback for TCEL and Meituan for more lower-tier city exposure** - Compared to Trip.com, TCEL and Meituan generally incur lower customer acquisition costs, leveraging on traffic flow they gather and cross-sell from other popular apps or those with strategic partnership (e.g., WeChat on social media, Meituan on food delivery services). By our estimate, their acquisition costs average at around Rmb10-15 per user vs. Rmb40 for Trip.com. Taking into account less travel spending in the lower-tier cities to which TCEL/Meituan are more exposed, we estimate the two companies can cover their initial customer acquisition costs as long as their users take on one single trip - anything incremental will flow through to their bottomlines financially. It would take slightly longer for Trip.com to cover the investment ([Exhibit 74](#)).
- **Loyalty program and customer support** - To stay competitive and better serve its customers, all three companies have loyalty programs, offering their premium customers 10-20% price discounts off on their hotel room as well as other add-on benefits (e.g., VIP lounge access, dining coupons). [Exhibit 75](#) is a side-by-side comparison of the offerings. Among them, Trip.com appears to offer the most benefits as more of its clientele are higher income earners and/or frequent corporate travelers. This translates to higher user stickiness and payment conversion rate ([Exhibit 59](#)). TCEL also provides selective privileges for booking air or ground transportation tickets. On the other hand, Meituan's offerings are more limited, e.g., coupons for local food delivery, in-store dining, and its customer support is directly managed by the hotels since it operates as a platform business model. The three operators have around 145mn, 257mn and 330mn monthly active users (MAUs) respectively in FY21. TCEL also discloses that it has 31mn monthly paying and 199mn annual paying users, implying that they pay for TCEL's services 6-7 times each year.
- **Trip.com leads in overseas expansion** - To diversify its domestic exposure given it is already dominant in China and to

capture potential upside from markets outside of China, Trip.com (formerly Ctrip, rebranded as Trip.com in 2019) stepped up its overseas expansion 6-7 years ago through the acquisitions of Skyscanner (one of the largest global travel metasearch platforms based in the UK) in 2016, Trip.com (a US-based OTA platform formerly known as Gogobot) in 2017, and raised its equity stake in MakeMyTrip to 49% (India's largest online travel portal) in 2019. These expansions drove its 34% international travel booking revenue (incl. Chinese outbound and overseas travelers) from Rmb5.1bn in 2016 to Rmb12.1bn in 2019, representing 34% of its total revenue (vs. 26% in 2016). In the longer run, the group targets to bring its overseas revenue contribution further up to 40-50%. As for the other two operators, they focus more domestically, with less than 5% of Tongcheng's revenue coming from overseas markets, while Meituan is a pure domestic player focusing on intra-city travel demand.

- **Strategic partnerships and connected transactions between Trip.com and TCEL, and between TCEL and Tencent** - As discussed in an earlier section ([Exhibit 40](#)), China OTAs and internet companies have equity ownership, formed strategic partnerships and signed agreements among themselves for sales and marketing, sourcing inventory and securing better deals from travel resource providers. For instance, Trip.com and TCEL agree to share certain accommodation rooms, and transportation ticket supplies to make them available for booking on both platforms in order for Trip.com to gain more bargaining power from suppliers on product procurement. Separately, TCEL and Tencent have signed a five-year cooperative agreement lasting till July 2024, through which Tencent will provide traffic support to TCEL. The two parties will also engage in various marketing and promotion services with each other for 3 years. Please see [Exhibit 83](#) for more details and fees agreed.

(2) Financial performance

- **TCEL's revenue has been more resilient since the COVID19 outbreak. Trip.com is more leveraged to international reopening which we expect to come through in 2Q23** - Trip.com's revenue used to grow steadily at +23% CAGR on rising online booking penetration during 2016-19, but had fallen almost by half in 2020 amid the COVID19 outbreak driven by a -80% yoy decline in international travel booking revenue. Compared to several countries, China was able to better control the viral situation early on in 2H20-1H21, but given several viral resurgences and tightened travel restrictions imposed by the government, the domestic travel trend has been choppy, affecting both Trip.com and TCEL's revenue ytd (Trip.com flat yoy in 1Q22/TCEL -19% yoy in 1H22). Looking ahead, assuming China will gradually reopen its international border from 2Q23E, we expect a sharper revenue recovery for Trip.com +65%/+32% yoy in FY23/24E (vs. +39%/+19% for TCEL). Our China internet team forecasts +40%/+25% yoy revenue growth for Meituan, though this is more driven by rising penetration of its food delivery services.
- **Take rates likely stay below overseas OTAs'. Potential upside to come mostly from hotels and packaged tours, since ground transportation is highly regulated** - OTAs' revenue mix does not necessarily track closely with GMV because of the differences in take rates by segments (e.g., 8-10% for hotels, 2-3% for ground transportation). As a full

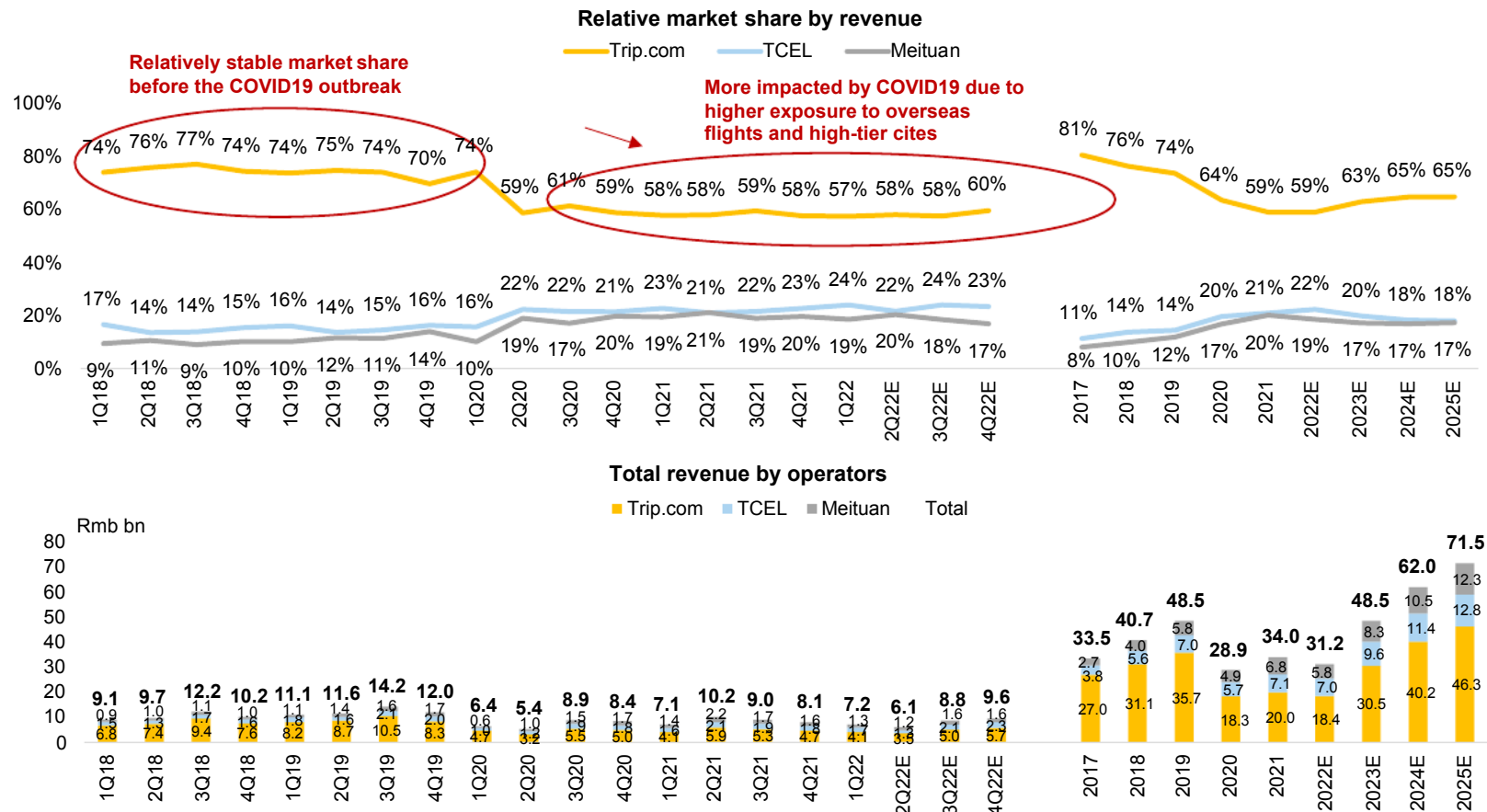
service provider, Trip.com's revenue is split fairly evenly between the accommodation (38%) and transportation (39%) segments. TCEL focuses more on transportation (61%), while Meituan more on accommodation (84% of travel-related revenue). Although take rates can vary from time to time (e.g., TCEL's 2Q22 hotel take rate exceeded 11% on the cutback in rebate amid the COVID outbreak), we do not anticipate take rates in China to catch up with overseas for as long as the market stays competitive. As discussed in the previous section, we see more upside from hotels, packaged tours and tourist attraction ticket booking segments for which the China OTAs can take revenue shares, as opposed to air ticketing and ground transportation, where they cannot share any revenue or commissions are based on fixed rates (e.g., Rmb5-10 per economy class air ticket).

- **Comparable EBIT margin, but the cost structures are different** - Prior to the pandemic, the two OTA companies' EBIT margins were comparable (Trip.com 18.9%; TCEL's 17.6% in 2019), but their cost structures are fairly different. Specifically, Trip.com's gross margin was much higher at 79.3% (vs. 69.0% for TCEL) which we believe could be attributed to (1) its greater exposure to higher-spending customers particularly in top-tier cities; (2) higher revenue mix from the more profitable hotel booking segment for better take rates. Below their gross profit lines, Trip.com incurred more in product development (27.3% of revenue vs. 18.1% for TCEL) for its diversified products and bundled packages to fulfill its more sophisticated customer needs. Unlike TCEL which sources over 80% of its active users through WeChat mini-programs ([Exhibit 66](#)), Trip.com has to invest more for the ongoing development of its platforms. Trip.com's G&A expense ratio is higher, as it hires more staff (33.7k vs. 5.3k for TCEL as of 2021) concentrated in a few cities (46% in Suzhou, 12% in Beijing). On the flipside, TCEL incurs more in sales & marketing expenses (29.6% vs. 25.7% for Trip.com in 2021) for portal and advertising fees paid to Tencent based on the agreements they signed as mentioned above. Compared to other OTA overseas (e.g., Booking.com, Expedia, MakeMyTrip), Trip.com and TCEL's 25-30% sales and marketing expense ratios do not look excessive. These overseas companies generally spend 40-60% of revenue in sales & marketing, for example ([Exhibit 80](#)).
- **Trip.com's net profit distorted by contribution from associate investments** - The transition of TCEL's EBIT (17.6% in 2019) to net margin (15.3%) is more straight forward without much associate investments. We forecast its core earnings, excluding non-cash and one-off items, to more than double from Rmb0.7bn in FY22E to Rmb1.9bn in FY24E. As for Trip.com, it recognizes earnings contributions from its equity interests in BTG, TCEL, MakeMyTrip and Tujia etc as associate incomes, which based on our estimates, would add Rmb763/984mn in FY23/24E representing about one-third of the group's earnings growth in the respective years. If we strip it out, we forecast its earnings would grow from Rmb994mn in FY22E to Rmb7.4bn in FY24E, exceeding its FY19 earnings of Rmb6.9bn.
- **Strong balance sheets at net cash positions given limited capex requirement** - Similar to other internet or online platform companies, China's OTA does not need to incur much capex (Rmb500-600mn for Trip.com, Rmb300-400mn for TCEL in 2021). Not surprisingly, their balance sheets are strong. Trip.com had Rmb12.5bn net cash at end-FY21 (Rmb63.9bn cash and Rmb51.4bn total debt) representing 11% of its market cap. Tongcheng has been in net cash since

its merger in 2018, i.e., Rmb1.8bn at end-FY21 including Rmb2.1bn cash and Rmb0.3bn total debt. Much of their residual cashflow has been deployed for investments and/or acquisitions. Trip.com spent Rmb6.9bn for long-term investment last year for example.

Meituan and Tongcheng Elong gained revenue shares at the expense of Trip.com. Trip's share slipped given overseas exposure, but stabilized in recent quarters

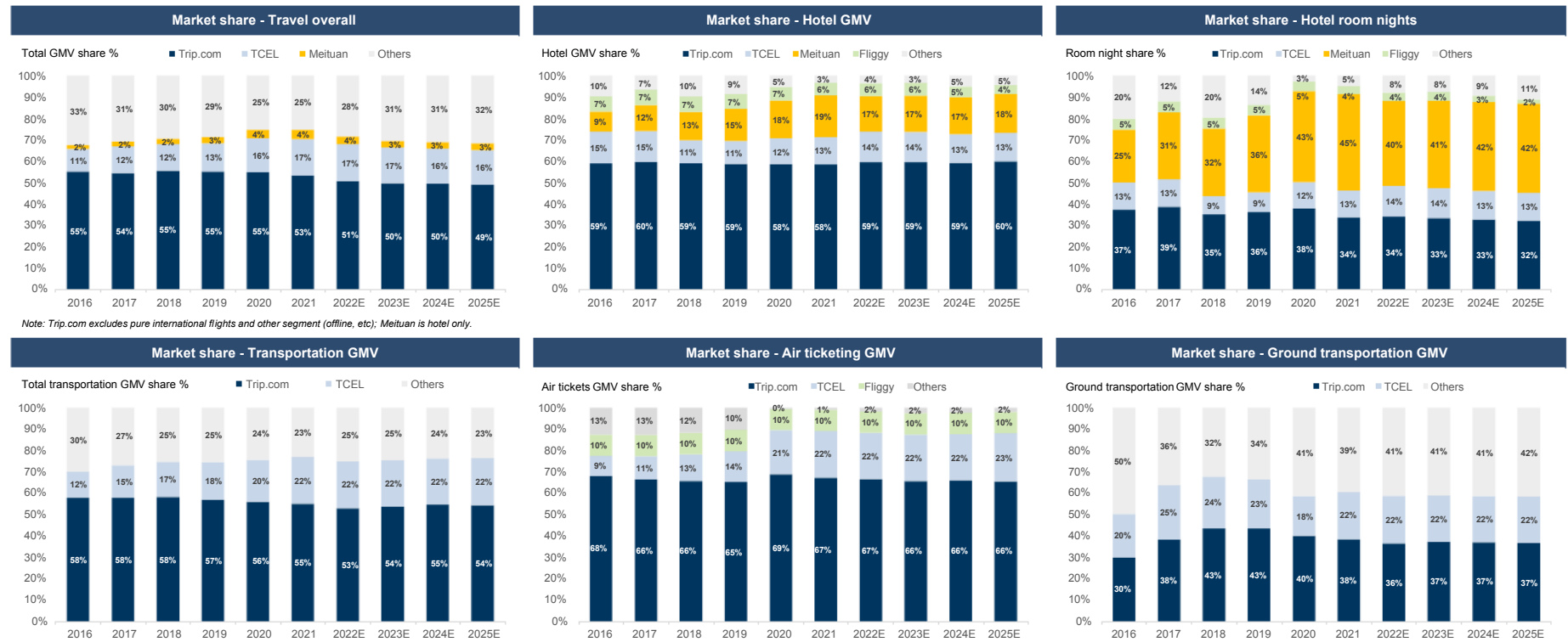
Exhibit 53: TCEL's market share has risen from 9% in 2015 to 17% last year, led by transportation booking (from 8% to 22%) benefiting from its cooperation with Tencent as its sole OTA partner on WeChat and Mobile QQ portals



Source: Company data, Goldman Sachs Global Investment Research

GMV market share - Trip.com steady and remains dominant. Meituan gains on cheaper hotels. TCEL's strength lies in transportation

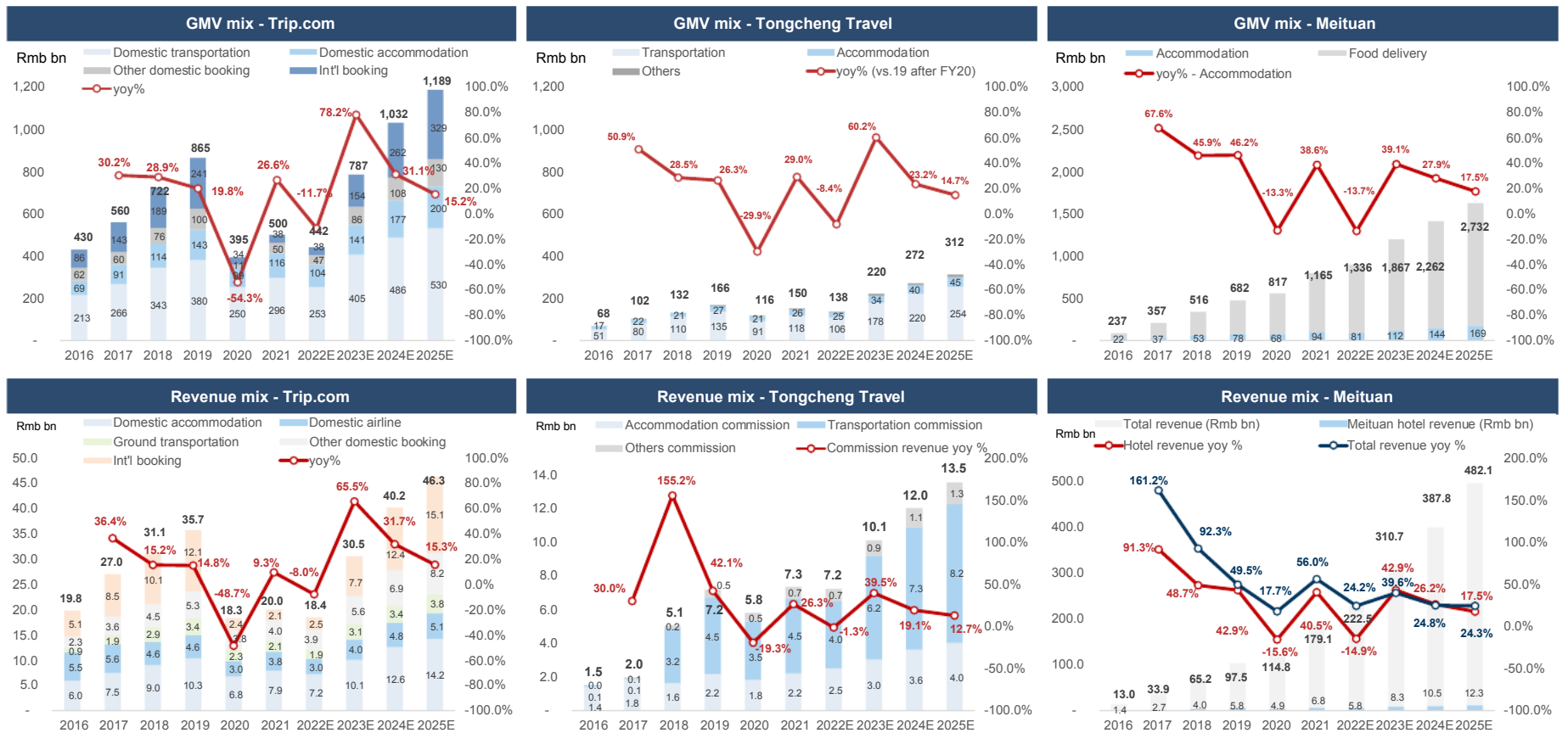
Exhibit 54: Meituan is small and only captures 4% GMV share in the OTA market for its focus on the lower-tier cities where its average hotel RevPar is only half of Trip.com's (Rmb188 vs. Rmb365 ADR in 2021). However, it actually handles more room nights (45% vs. 34% for Trip in 2021) supported by its sizeable membership base (360mn vs. ~150mn MAU for Trip in 2021)
 OTA market share by segments



Source: Company data, Goldman Sachs Global Investment Research

Company profiles: Trip.com is a full-service online travel product provider; TCEL focuses more on transportation booking; Meituan only engages in hotel booking due to its focus on local services

Exhibit 55: On the other hand, both Tongcheng Elong and Meituan operate purely within China - the former generating 82% of its US\$24bn GMV in 2019 from transportation bookings, while contribution from accommodation bookings had shrunk from 25% in 2016 to 16% in 2019 after the company strategically reduced its room nights with inventory risk and/or relatively low margins. Meituan only stepped into the travel booking segment in 2018 as an extension of its local dining and food delivery services.
OTA GMV/revenue mix comparison

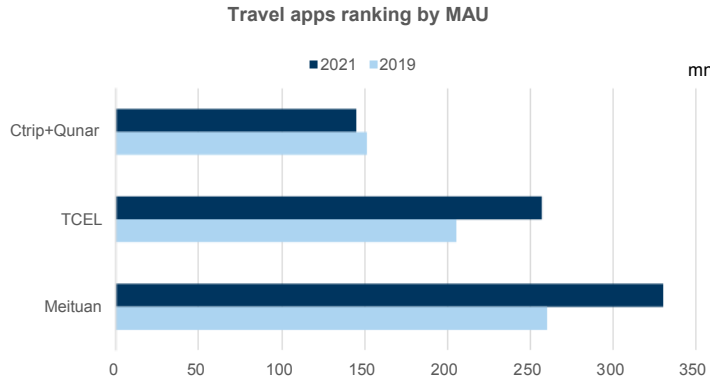


Trip.com GMV excl. Skyscanner GMV; Trip.com gross revenue includes Skyscanner revenue; TCEL gross revenue refers to commission-based revenue, excl. gross-up revenue over commission for inventory risk-taking accommodation reservation.

Source: Company data, Goldman Sachs Global Investment Research

User profile: Trip.com has more exposure to users in higher-tiered cities; TCEL and Meituan more focused on lower-tier cities and have larger user base

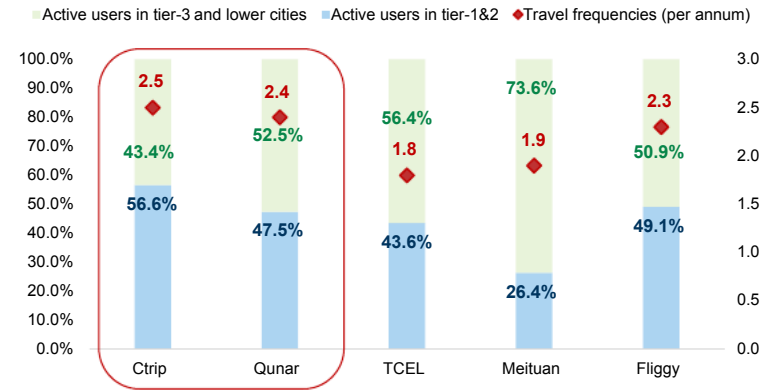
Exhibit 56: Meituan's hotel users are mostly converted from its large food delivery user base. TCEL backed by WeChat and QQ traffic support



Note: Meituan MAU refers to platform total; Meituan travel MAU on Dec 2021 was 48mn.

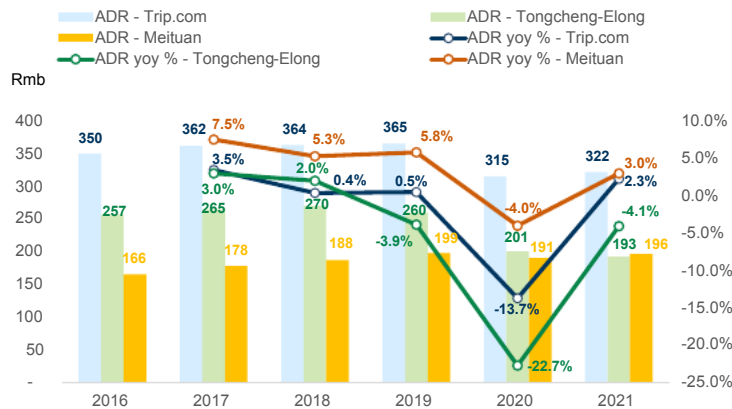
Source: Fastdata

Exhibit 57: Trip has more users in higher-tier cities and they typically travel more frequently (FY19)



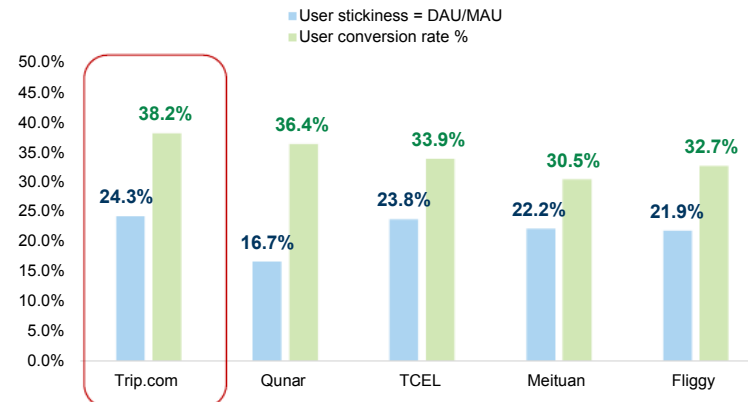
Source: MobTech

Exhibit 58: Trip.com commands higher room rates vs. Meituan and TCEL



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 59: It also has higher user stickiness and payment conversion rate %

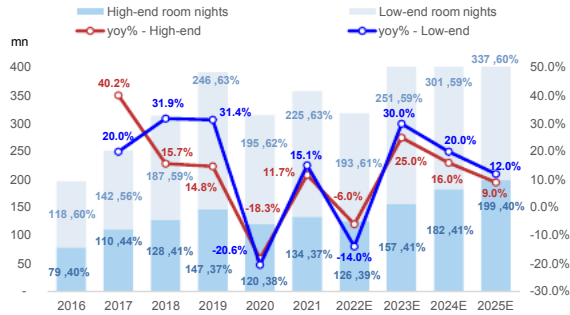


Data as of 2019

Source: MobTech

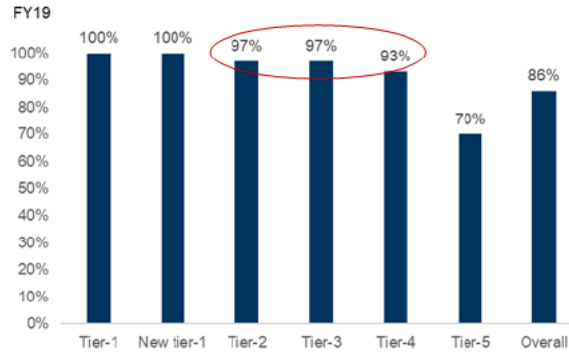
Strategy: Trip.com to maintain its leadership in high-tier cities. Gradually expand into lower-tier cities and overseas markets through M&A and leveraging on booking.com relationship

Exhibit 60: Trip.com expanding into lower-tier cities where its hotel room nights outpaced in 2018-19



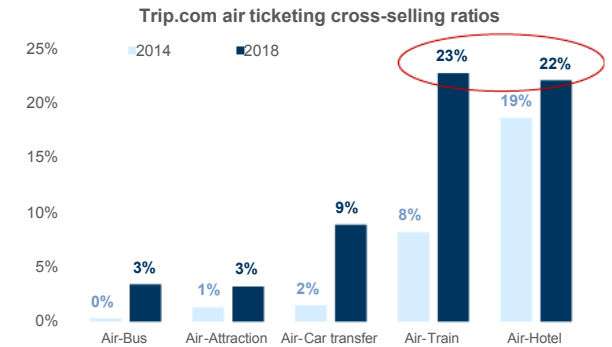
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 61: Trip.com trying to penetrate into lower-tier markets by setting up offline agency stores



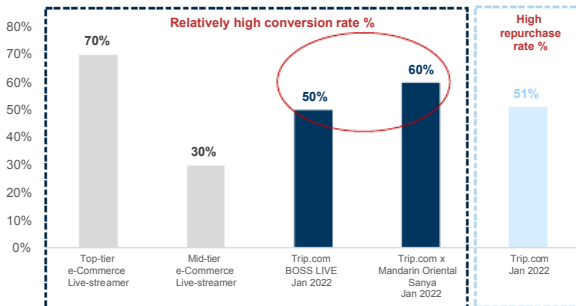
Source: Company data

Exhibit 62: As a full-service provider, it has been able to cross-sell various services



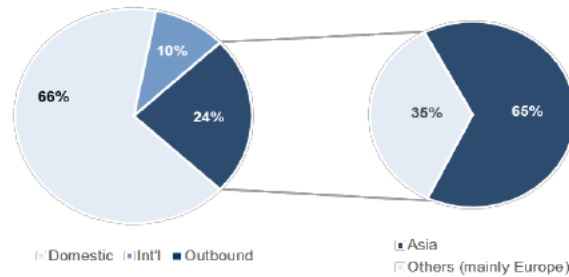
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 63: It also utilizes live streaming to attract customers and enhance repurchase rate



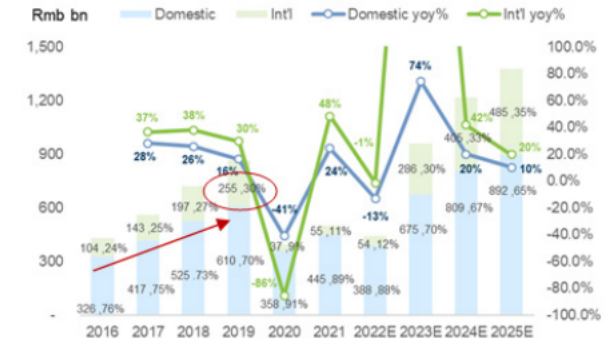
Source: Company data

Exhibit 64: Trip.com – 34% of revenue contributed from overseas (FY19)



Source: Company data, Goldman Sachs Global Investment Research

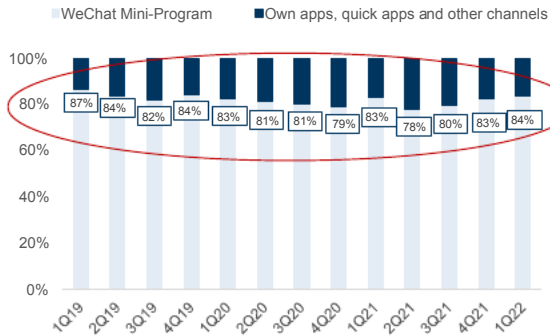
Exhibit 65: Trip.com's International GMV % has been rising over the years



Source: Company data, Goldman Sachs Global Investment Research

Strategy: TCEL – Leverages on Tencent’s partnership and WeChat user traffic to further penetrate into lower-tier cities. Increasing cross-selling and users conversion.

Exhibit 66: Over 80% of TCEL’s monthly active users (MAUs) are from WeChat mini programs



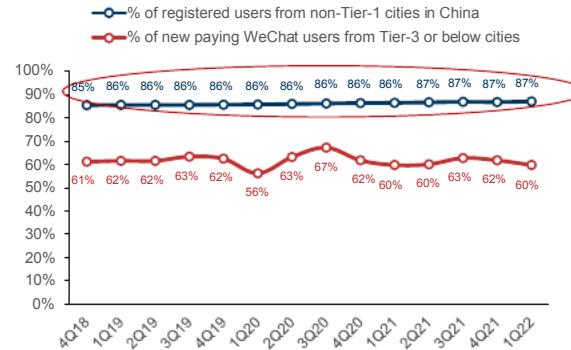
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 69: Gradual increase in cross-selling rates between transportation and hotel room bookings



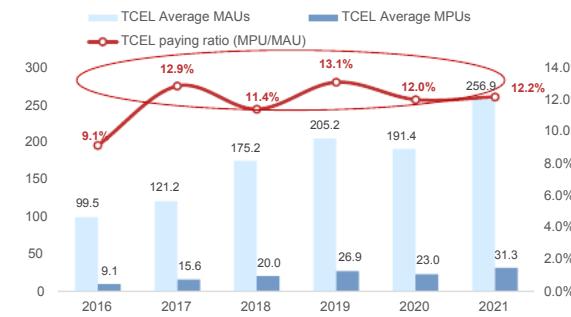
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 67: Close to 90% of registered users are in non-tier 1 cities. ~60% of new paying users from Tier-3 or below cities



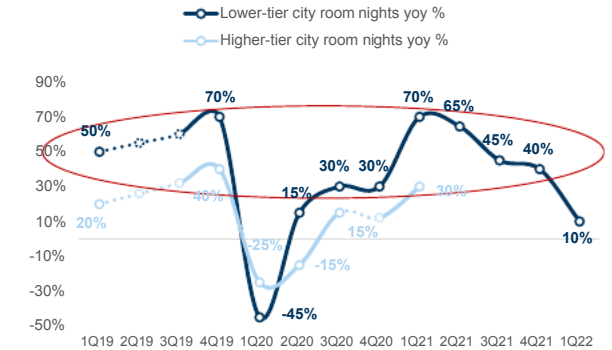
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 70: Steady 12-13% conversion ratio from active to paying users



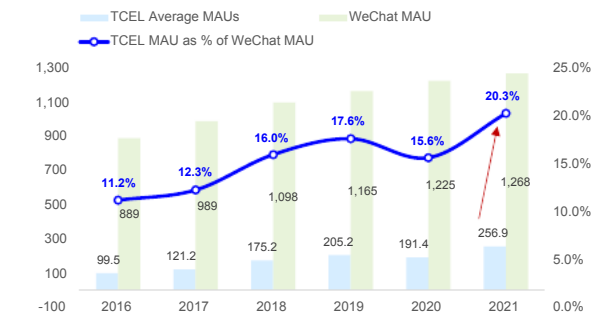
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 68: Hotel room bookings in lower-tier cities outpaces that of higher-tiered ones



Source: Company data, Goldman Sachs Global Investment Research

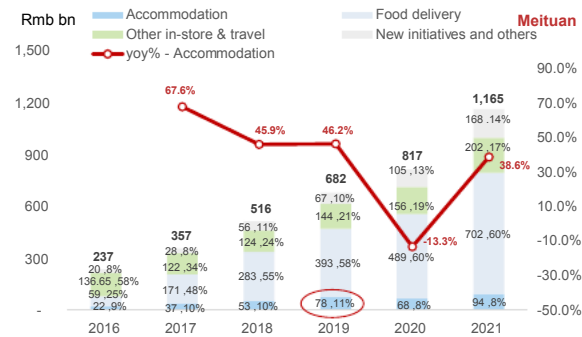
Exhibit 71: Much scope to acquire more users. TCEL’s active users only represented ~20% of WeChat’s user base in FY21



Source: Company data, Goldman Sachs Global Investment Research

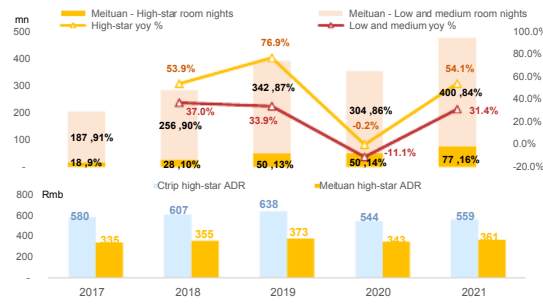
vs. Meituan – Trip.com defending higher-tier travel market with membership offerings. TCEL has limited direct competition as it caters to different travel demands.

Exhibit 72: Meituan leverages on its 691mn user base from food delivery to cross-sell hotel booking business



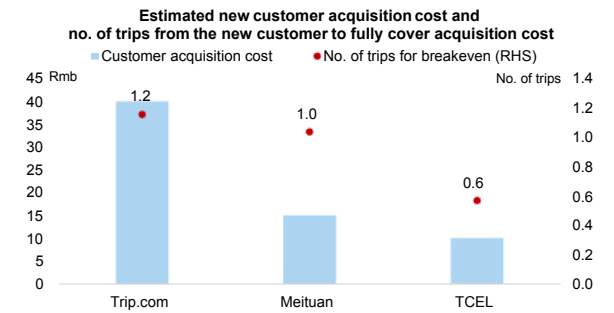
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 73: Meituan's ADR still much lower than Trip.com



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 74: It takes TCEL/Meituan 0.6/1.0 trip to cover their acquisition costs but 1.2 trips for Trip.com



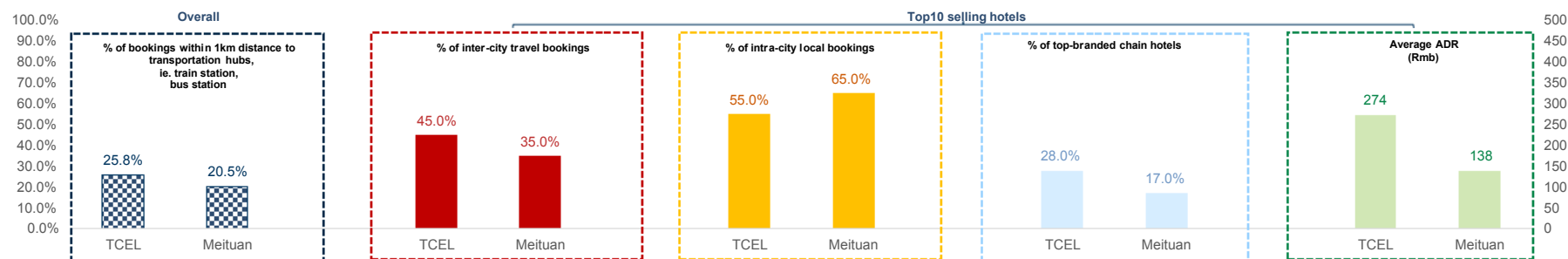
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 75: Trip.com defends its premium segment with full-coverage membership offerings with exclusive business and outbound travel benefits

Top-level membership benefits		Trip.com - Black Diamond VIP	TCEL - Platinum VIP	Meituan - Black Gold VIP
Accommodation	Booking discounts	At least 15% off	At least 20% off	At least 10% off
	Room upgrade	Unlimited	Unlimited	n.a.
	Free dining	Free breakfast - Unlimited	Free breakfast - Unlimited	n.a.
	MICE	Free - 8 times per annum	n.a.	n.a.
Transportation	Air	VIP lounge access	12 times per annum	4,800 miles redeem 1 time, 2 times per annum
		Dining discount	20% off	n.a.
		Fast check-in	Unlimited	18 airports
	Train	VIP lounge access	12 times per annum	1,200 miles redeem 1 time, 6 times per annum
		Free cancellation	12 times per annum	n.a.
	Bus & car rental	Car rental discount	Up to 12% off	n.a.
		Bus tickets discount	Free services fee - 12 times per annum	n.a.
		Instant confirmation	12 time per annum	n.a.
Other services	Currency exchange	Preferential exchange rate for 45 currencies	n.a.	n.a.
	Co-branded card	Starbucks, MSH China healthcare Plan, Godiva gift box, etc	Online mile-store discounts, etc	16 coupons for 6 local services , inclu. bike-sharing, food delivery, in-store dining, online supermarket, etc
	Customer services	7*24	7*24	n.a.
	Miles redemption	1 Mile redeem RMB1	100 Mile redeem RMB1	n.a.

Source: Ctrip App, Tongcheng Travel App, Meituan App, Goldman Sachs Global Investment Research

Exhibit 76: Meituan vs. TCEL - TCEL focuses more on long-haul travels with its strength in transportation. Meituan on short-haul from food delivery users



Note: % of bookings within 1km distance to transportation hubs refers to all hotel sold in the city; Sample includes 400 hotels covering 20 cities covering tier-2/3/4/5; Intra-city travel bookings refer to hotels around long-distance transportation hubs, ie. Train station, bus station, etc; Inter-city local bookings refer to hotels around municipal government, hospitals, universities, CBD, etc; Top-branded hotels include brands under Huazhu, Jinjiang, BTG, GreenTree, Atour, Hilton, Marriott, etc.

Source: Tongcheng Travel App, Meituan App, Goldman Sachs Global Investment Research

Exhibit 77: Global OATs business model summary

	Trip.com TCOM/9961.HK	Tongcheng Travel 0780.HK	Meituan 3690.HK	Fliggy Under BABA/9988.HK	Booking.com BKNG	Expedia EXPE	MakeMyTrip MMYT	TripAdvisor TRIP	
Platform portfolio									
Channels	<ul style="list-style-type: none"> - Mobile apps: Ctrip, Trip.com; - Websites: Ctrip, Qunar, Trip.com, Skyscanner; (Online channel takes 90%+ total transaction orders) - Offline: 6k offline stores operated under an asset-light model covering 300 cities in China; 	<ul style="list-style-type: none"> - Tencent-based platforms (80%+ of total MAUs): <ol style="list-style-type: none"> 1) WeChat mini programs & WeChat Wallet portals; 2) QQ Wallet portals; 3) WeChat-based advertisement; - Mobile apps: Tongcheng Travel, Elong Hotel; - Websites: ly.com, elong.com; 	<ul style="list-style-type: none"> - Tencent-based platforms: <ol style="list-style-type: none"> 1) WeChat mini programs & WeChat Wallet portals; 2) QQ Wallet portals; - Mobile apps: Meituan, Dianping; 	<ul style="list-style-type: none"> - Alibaba-based platforms: <ol style="list-style-type: none"> 1) Taobao; 2) amap.com; 3) DingTalk; 4) Alipay; 5) Ele.me; - Mobile apps: Fliggy; - Websites; 	<ul style="list-style-type: none"> - Mobile apps and websites 	<ul style="list-style-type: none"> - Mobile apps and websites 	<ul style="list-style-type: none"> - Mobile apps and websites; - Call centers; - Franchisee-owned travel stores; - Travel agents' network; 	<ul style="list-style-type: none"> - Mobile apps and websites; 	
Business model	Accommodation	<ul style="list-style-type: none"> - Mainly agency model, with no inventory risk taken: <ol style="list-style-type: none"> 1) Guaranteed allotment: Hotel guarantees a specified number of available rooms every day for instant confirmations to customers; 2) On-request: Subject to room availability of hotels at the time booking; 	<ul style="list-style-type: none"> - Mainly agency model, small portion of merchant with inventory risk taken: <ol style="list-style-type: none"> 1) Agency: Mainly guaranteed allotment arrangements allowing instant booking; 2) Merchant: Prepurchase room rights from accommodation suppliers for resale with inventory risk taken; 					<ul style="list-style-type: none"> - Agency model, with no inventory risk taken 	
	Transportation	<ul style="list-style-type: none"> - Mostly agency model for tickets booking: <ol style="list-style-type: none"> 1) Air tickets: Agency model for domestic airlines and major intl airlines; 2) Ground: Agency model; 	<ul style="list-style-type: none"> - Agency model for tickets booking, and some ancillary services, eg. On train-meals pre-order and delivery; 	<ul style="list-style-type: none"> - Agency model, with no inventory risk taken 	<ul style="list-style-type: none"> - e-Commerce platform, providing platform for branded hotels, standalone hotel owners, airlines travel agencies, etc to open online stores; - Agency model (Fliggy Self-operated flagship store) with no inventory risk taken; 	<ul style="list-style-type: none"> - Agency: Substantially all agency revenue is from Booking.com agency accommodation reservations; (61% of total revenue; 66% of gross bookings) - Merchant: Include transactions of accommodation bookings, rental car, and airline bookings; (34% of total revenue; 34% of gross bookings) - Advertising: KAYAK and OpenTable. (5% of total revenue) (FY21) 	<ul style="list-style-type: none"> - Agency: Provide post-booking services for hotel bookings, but not for air ticket bookings; (27% of total revenue; 47% of gross bookings) - Merchant (But do not bear inventory risk): Majority transaction relates to lodging bookings; (64% of total revenue; 53% of gross bookings) - Advertising (9% of total revenue) (FY21) 	<ul style="list-style-type: none"> - Agency model, with no inventory risk taken 	<ul style="list-style-type: none"> - Mostly advertising, small portion of merchant
	Other travel	<ul style="list-style-type: none"> - Mixed 	<ul style="list-style-type: none"> - Agency model 					<ul style="list-style-type: none"> - Package: 'Principal' model with services obligation assumed, ie., airline cancellation; 	
	Others	<ul style="list-style-type: none"> - Advertising and TSPs merchants 	<ul style="list-style-type: none"> - Advertising and TSPs merchants 	<ul style="list-style-type: none"> - Advertising 	<ul style="list-style-type: none"> - Advertising 			<ul style="list-style-type: none"> - Advertising and TSPs merchants 	

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 78: Global OATs business model summary

	Trip.com TCOM/9961.HK	Tongcheng Travel 0780.HK	Meltuan 3690.HK	Fliggy Under BABA/9988.HK	Booking.com BKNG	Expedia EXPE	MakeMyTrip MMYT	TripAdvisor TRIP
Monetization method	Accommodation	1) Commissions recognized when reservation is non-cancellable; 2) Monthly incentive commissions based on performance targets completed;	1) Commissions for bookings under agency model; 2) Room rates for pre-purchased room nights, revenue recognized on a gross basis and pre-purchase price as cost;	- Commissions (% of GTV) from merchants for vouchers, coupons, tickets and reservations sold;			- Hotels (without packages): 1) Commissions from hotel suppliers; 2) Convenience fees from travelers; - Hotels outside India: Net commissions from other OTA and aggregators;	
	Transportation	1) Commissions (except for train tickets) on tickets booking and travel insurance; 2) Service fees from ancillary value-added travel products and services, eg. airport VIP lounge and priority boarding services, bus ticket pick-up;	1) Commissions (except for train tickets) on tickets booking and travel insurance; - Domestic air ticket: Fixed amount commissions and discretionary incentives; - Int'l air ticket: Fixed amount or %-of-ticket price commissions with discretionary rebates or incentives; 2) Service fees from ancillary value-added travel products and services, eg. airport VIP lounge and priority boarding services, meals order, expedited tickets issuing, etc;	- Commissions (% of GTV) on tickets booking and travel insurance	- Initial deposit for online travel store setup; - Annual fee from online travel store; - Commissions (% of GTV) on reservations; - Advertising placement fees on platforms, etc.	- Agency: Mostly commissions from Booking.com accommodation reservations; - Merchant: 1) Reservation commissions and net transaction revenue (i.e., the amount charged to travelers less the amount owed to travel service providers); 2) Credit card processing rebates and customer processing fees; 3) Ancillary fees (ie. travel-related insurance); - Advertising: 1) KAYAK: a) sending referrals to OTCs and travel service providers; and b) advertising placements on platforms; 2) OpenTable: a) restaurant reservation services (fees paid by restaurants for diners seated through OpenTable's online reservation service); b) subscription fees for restaurant management services.	- Air ticketing: 1) Booking commissions, incentives from airlines, customers service fee; 2) GDS fees; - Bus ticketing: 1) Commissions and fees from bus operators; 2) Net convenience fees from travelers; - Package: 1) Gross air tickets fare and hotels room rates; 2) Commissions for non-hotel products; - Other travel: Fees from rail tickets, car hire, experiences and third-party;	- Hotels: 1) Hotel auction revenue; 2) B2B: Advertising fees based on subscription, or CPC-based; - Display & platform: Display advertising fees based on impressions; - Experiences: Merchant model, charge booking fares from traveler and remit to TSPs when booked experience occurred (Revenue record on net basis); - Dining: Transaction fees (or per seated diner fees) from customers; subscription fees from B2B advertising services;
	Other travel	- Package tour & In-destination activities: 1) Commissions for transportation and accommodations; 2) Service fees for ancillary services, eg. visa services, tour guides, virtual assistance, in-destination activities; - Corporate travel: Commissions, services fees incl. cost saving analysis, travel management solutions, etc;	- Attraction tickets, packaged tours: Commissions;	- Domestic attraction tickets and excursion package tickets: Commissions (% of GTV);			- Advertising: 1) CPC-based advertising fees; 2) Subscription-based for Vrbo/stodging revenue for rent over a fixed term (typically one year).	
	Others	- Advertising fees, service fees incl. consumer financing, supply-chain financing, digital solutions, etc.	- CPM-based advertising fees, etc	- CPM/CPC-based advertising fees, or annual subscription ads plans;				- Advertising fees, etc
Monetization rate %	- Accommodation (gross): 14.4% - Transportation (Commission + cross-sell): ~Rmb8.9 1) Air: 2.2% take rate (Domestic: 1.8%; Int'l: 3.0%) 2) Railway: 2.9%; 3) Bus: 3.3%; 4) Car rental: 1.0%; - Package tour & In-destination activities: ~6% - Corporate travel: ~4%	- Accommodation: ~8.2% for agency-model; - Transportation: 1) Air tickets~3.6%; 2) Ground tickets~3.1%; - Other travel: ~5.6%;	- Hotel booking: 7.4%; - In-store & travel: 11.5%;	1. Booking commission: - Hotel booking: Domestic: 5.5%~8%; Int'l: 6%~8% - Attraction tickets: 3%; - Package tours: 3% - Car rental: 2%; - Air tickets: 1.5%; - Ground transportation & car rental: 2%; - Tourism shopping: 5%; 2. System commission: 0.5%	- Overall: 15.6%; - Accommodation: 15.9% 1) Bookings.com: 13-15%; 2) Agoda: ~15%); - Agency: ~14.3% - Merchant: ~14.9%	- Overall: 11.2% - Accommodation: Overall 15-30%; 1) Branded hotels: 10-15%; 2) Independent hotels: 15-30%; - Airfare booking: >=USD2 per tickets; - Vacation packages (incl. car rental): ~5%; - Agency: ~6.5% - Merchant: ~14.1%	- Hotel & package: 18%~23%; - Air tickets: 7%~8%; - Bus tickets: 8%~9%;	- Accommodation: ~3%

1.Monetization rates and geographical exposure refer to FY19; 2.Domestic railway business take rate includes cross-selling products; Take rate for pure train ticket booking in 0%;

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 79: Global OTAs at a glance

	Trip.com	Tongcheng Travel	Meituan	Booking.com	Expedia	MakeMyTrip
	TCOM/9961.HK	0780.HK	3690.HK	BKNG	EXPE	MMYT
Market cap (USD bn)	16.1/15.8	4.6	120.4	75.7	16.0	2.1
Average MAUs (mn) (1Q22)	~150 (FY22)	~245	~360	Booking.com >100 Agoda >60 Priceline ~40 KAYAK ~45	Expedia >90 hotels.com ~60 travelocity ~12 Cheapflights ~9 Orbitz ~8	MakeMyTrip ~40 Goibibo ~17 Redbus ~16
APUs (mn)	135 (FY18)	199 (FY21)	691 (FY21 Overall)	n.a.	n.a.	n.a.
Market share % (Online travel GMV)	FY21 53% of China domestic market (Incl. Ctrip and Qunar)	FY21 17%	FY21 4%	FY19 - US: ~71%; - Europe: 68.5% (Booking.com solely ~67.7%; Agoda~0.8%)	FY19 - US: ~21%; - Europe: 16.3% (Expedia solely ~12.8%);	FY21 India: ~60%
Market share % (Online hotel booking GMV)	FY21 58% of China domestic market (Incl. Ctrip and Qunar)	FY21 13%	FY21 19%	n.a.	n.a.	n.a.
Market share % (Online hotel booking room nights)	FY21 34% of China domestic market (Incl. Ctrip and Qunar)	FY21 13%	FY21 45%	n.a.	n.a.	n.a.
Geographical exposure (FY19)	China domestic ~66% Outbound ~24% Int'l ~10%	China domestic ~95% Int'l ~5%	Mostly China domestic	US ~10% Others ~90%	US ~57% Others ~43%	India ~93% ASEAN ~4% Others ~2%
No. of employees	33,732 in total: - 9,702 in customer service centers; - 4,381 in sales and marketing;	6,070 in total: - 1,983 in user and TSP services; - 1,081 in sales and marketing;	100,033 in total (excl. delivery drivers)	20,300 in total: - ~3k in customer services;	14,800 in total	3,256 in total: - 1.1k in technology development & support; - 1.3k in sales and marketing;
Connections	- 480+ cooperated global airline covering 2,600 airports; - 9,000+ domestic air routes; - 1.2mn global accommodation listings; - 310k+ global in-destination activities; - 30k+ other ecosystem partners; - 200+ markets coverage.	- 730+ cooperated airline operators; - 9,000+ domestic air routes; - 2.1mn contracted lodging facilities; - 400k bus routes and 710 ferry routes; - 8k domestic attractions tickets.	- 0.6mn active hotel booking merchants	- 1mn available hotel bookings; - 30k+ contracted chain hotels bookings;	- 2.4mn accommodation properties; - 400k+ hotels, motels, and resorts; - 220+ countries coverage for accommodation; - Flight offering 34 markets ; - In-destination tours & activities cover 840+ cities;	- 3m lodging properties available, incl. 2m online bookable alternative accommodations listings and ~875k hotels; - 70+ countries coverage; - 500+ airlines, dozens of cruise lines and thousands of car rentals

Source: Company data, Bloomberg, iResearch, SimilarWeb, Data compiled by Goldman Sachs Global Investment Research

Exhibit 80: Global OTAs at a glance

		Trip.com			Tongcheng Travel			Meituan			Booking.com			Expedia			MakeMyTrip			
		TCOM/9961.HK			0780.HK			3690.HK			BKNG			EXPE			MMYT			
		FY19	% of total	yoy %	FY19	% of total	yoy %	FY19	% of total	yoy %	FY19	% of total	yoy %	FY19	% of total	yoy %	FY19	% of total	yoy %	
GMV by segments (USD bn)	Total	125.2	100.0%	19.8%	24.0	100.0%	26.3%	13.6	100.0%	42.8%	96.4	100.0%	4.0%	107.9	100.0%	8.2%	5.4	100.0%	18.6%	
	- Accommodation	26.7	21.3%	24.8%	3.8	16.0%	26.2%	11.3	83.0%	46.2%	90.6	93.9%	8.2%	40.7	37.7%	20.5%	1.5	27.8%	9.1%	
	- Air ticketing	71.2	56.9%	13.7%	9.8	40.8%	22.2%				2.2	2.3%	-2.6%	34.8	32.2%	-1.4%	3.2	59.0%	18.9%	
	- Ground	18.5	14.8%	29.4%	9.8	40.8%	22.3%	1.2	9.2%	32.6%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.7	13.1%	44.1%	
	- Other travel	8.7	7.0%	33.3%	0.7	2.7%	n.a.	1.1	7.9%	23.5%	3.7	3.8%	-45.5%	32.5	30.1%	5.5%	-	-	-	
GMV by business model (USD bn)	Agency	Mostly agency model			Agency model >95%			Mostly agency model			70.7	73.3%	-4.4%	60.0	55.6%	5.0%	Mostly agency model			
	Merchant	Mostly agency model			Agency model >95%			Mostly agency model			25.8	26.7%	37.1%	47.9	44.4%	12.4%	Mostly agency model			
Revenue by segments (USD mn)	Total	5,169	100.0%	14.8%	1,011	100.0%	24.7%	994	100.0%	43.1%	15,066	100.0%	3.7%	12,067	100.0%	7.5%	645	100.0%	15.1%	
	- Accommodation	1,956	37.8%	16.7%	313	31.0%	28.8%	834	83.9%	42.9%	13,925	92.4%	3.6%	8,472	70.2%	9.9%	352	54.5%	12.1%	
	- Transportation	2,019	39.1%	7.8%	654	64.7%	39.8%	122	12.3%	32.6%	22	0.1%	-2.6%	869	7.2%	-1.4%	294	45.5%	18.9%	
	- Other travel	838	16.2%	21.8%	n.a.	n.a.	n.a.				185	1.2%	-45.5%	1,623	13.4%	5.5%	n.a.	n.a.	n.a.	
	- Others	356	6.9%	34.9%	44	4.3%	168.3%	37	3.8%	32.6%	934	6.2%	29.5%	1,103	9.1%	1.0%	n.a.	n.a.	n.a.	
Revenue by business model (USD mn)	Agency	Mostly agency model			Agency model >95%			Mostly agency model			10,117	67.2%	-3.5%	3,882	32.2%	4.9%	Mostly agency model			
	Merchant	Mostly agency model			Agency model >95%			Mostly agency model			3,830	25.4%	28.2%	6,763	56.0%	10.4%	Mostly agency model			
Accommodation (USD mn)	Room nights (mn)	461	100.0%	24.6%	102	100.0%	31.3%	392	100.0%	38.2%	844	100.0%	11.1%	389	100.0%	10.6%	27	100.0%	21.4%	
	- Higher-end	216	46.7%	17.6%	n.a.	n.a.	n.a.	50	12.8%	76.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
	- Lower-end	246	53.3%	31.4%	n.a.	n.a.	n.a.	342	87.2%	33.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
	ADR (USD)	58	n.m.	0.2%	38	n.m.	-3.9%	24	n.m.	5.3%	107	n.m.	-2.6%	105	n.m.	8.9%	57	n.m.	-10.2%	
	- Higher-end	90	n.m.	3.1%	n.a.	n.m.	n.a.	54	n.m.	5.0%	n.a.	n.m.	n.a.	n.a.	n.m.	n.a.	n.a.	n.m.	n.a.	
- Lower-end	29	n.m.	3.0%	n.a.	n.m.	n.a.	22	n.m.	1.7%	n.a.	n.m.	n.a.	n.a.	n.m.	n.a.	n.a.	n.m.	n.a.		
Transportation (USD mn)	Air tickets sold (mn)	374	n.m.	8.9%	87	n.m.	27.3%	n.a.	n.m.	n.a.	8	n.m.	0.0%	n.a.	n.m.	n.a.	39	n.m.	18.4%	
	Air ticket price	141	n.m.	0.1%	112	n.m.	-4.0%	n.a.	n.m.	n.a.	273	n.m.	-2.6%	n.a.	n.m.	n.a.	81	n.m.	0.4%	
	Ground tickets sold (mn)	898	n.m.	22.4%	n.a.	n.m.	n.a.	n.a.	n.m.	n.a.	n.a.	n.m.	n.a.	n.a.	n.m.	n.a.	63	n.m.	56.7%	
	Ground ticket price	11	n.m.	4.0%	n.a.	n.m.	n.a.	n.a.	n.m.	n.a.	n.a.	n.m.	n.a.	n.a.	n.m.	n.a.	12	n.m.	-7.2%	
Take rate by segment (%)	Overall	3.8%	n.m.	-0.1 ppt	4.5%	n.m.	0.5 ppt	7.3%	n.m.	0.0 ppt	14.5%	n.m.	-0.1 ppt	9.9%	n.m.	0.0 ppt	11.8%	n.m.	-0.4 ppt	
	- Accommodation	7.3%	n.m.	-0.5 ppt	8.2%	n.m.	0.3 ppt	7.4%	n.m.	-0.2 ppt	15.4%	n.m.	-0.7 ppt	20.8%	n.m.	-2.0 ppt	23.2%	n.m.	0.6 ppt	
	- Air tickets	2.2%	n.m.	-0.1 ppt	3.6%	n.m.	-0.1 ppt	n.a.	n.m.	n.a.	1.0%	n.m.	n.a.	2.5%	n.m.	n.a.	7.3%	n.m.	-0.2 ppt	
	- Ground transportation	2.7%	n.m.	-0.3 ppt	3.1%	n.m.	-0.5 ppt	3.0%	n.m.	0.0 ppt	n.a.	n.m.	n.a.	n.a.	n.m.	n.a.	8.3%	n.m.	-0.7 ppt	
	- Other travel	4.9%	n.m.	-0.4 ppt	n.a.	n.m.	n.a.	11.5%	n.m.	1.9 ppt	5.0%	n.m.	n.a.	5.0%	n.m.	n.a.	n.a.	n.m.	n.a.	
Take rate % by business model	Agency	Mostly agency model			Mostly agency model			Mostly agency model			14.3%	n.m.	0.1 ppt	6.5%	n.m.	0.0 ppt	Mostly agency model			
	Merchant	Mostly agency model			Mostly agency model			Mostly agency model			14.9%	n.m.	-1.0 ppt	14.1%	n.m.	-0.3 ppt	Mostly agency model			
Costs (as % of revenue) & margins (2019)																				
	Non-GAAP EBITDA margin (2019)	22.0%			27.3%			Overall 7.4%			38.9%			15.0%			-26.1%			
	Non-GAAP EBIT margin (2019)	18.9%			17.6%			Overall 3.1%; Hotel 18.3%			37.6%			10.1%			-22.7%			
	Core earnings (USD bn) (2019)	0.74			0.16			0.67			4.46			0.94			-0.17			
	P/E (FY23E)	22.5x			22.3x			34.7x			16.8x			14.1x			32.6 (25E)			

Market caps and share prices for P/E are as of Sep 6, 2022; All take rates refer to net take rates (gross take rates deducts coupon rates); For Trip.com, total GMV excludes Skyscanner; high-end room nights include int'l room nights; For TCEI, total revenue refers to combined revenue excl. B2B business and inventory-risk taking business; Transportation take rates include cross-selling product prices; EBIT and EBITDA margin refers to non-GAAP margins.






























Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 81: OTA competition summary

	Trip.com TCOM/9961.HK	TCEL 0780.HK	Meituan 3690.HK	Fliggy Under BABA/9988.HK
Competitive Advantages	<p>1.Largest OTA in China over decades and globally from 2018 to 2021 with comprehensive travel product services;</p> <p>2.Sustained competitive moat in business travel and high-end leisure travel with higher stickiness;</p> <p>3.Biggest 24*7 global customer services centers providing comprehensive pre-travel, aftersale, and emergency support;</p> <p>4.First-mover in expanding outbounds travel and overseas travel markets;</p>	<p>1.Deepened engagement in Tencent ecosystem with broad user base (sole operator of "Rail&Flight" and "Hotel" portals in WeChat and Mobile QQ);</p> <p>2.Alliance with Trip.com to secure hotel and transportation products supplies (~60%+ room nights from Ctrip);</p> <p>3.Strengthened market position in lower-tier cities esp. in transportation booking market with proprietary Huixing System providing all-in-one transportation solutions;</p>	<p>1.Leader in service e-commerce with tremendous user base from food-delivery and in-store dining services;</p> <p>2.Strengthened market position in hotel bookings in lower-tier cities targeting increasing intra-city local demand;</p> <p>3.Experienced sales & marketing team with demonstrated execution capabilities in lower-tier cities market expansion;</p>	<p>1.Relatively lower customer acquisition cost benefiting from broad user base from Alibaba ecosystem;</p> <p>2.Platform business model enables deepen engagement in membership benefits esp. with all-scale hotel brands;</p> <p>3.Payment and digitalization solutions support from Alibaba Cloud;</p> <p>4.Accumulated customer awareness among younger generations and outbound travel supplies;</p>
Challenges	<p>1.Lower penetration in lower-tier cities which potentially require higher acquisition costs;</p> <p>2.Fierce competition with overseas dominance i.e. Bookings, Expedia, etc which have accumulated brand awareness and supplier tie-ups;</p>	<p>1.High reliance on traffic from Tencent and lower customer stickiness on self-owned apps;</p> <p>2.High reliance on TSP supplies from Ctrip;</p>	<p>1.Lack of higher-tier travel services supplies in high-tier cities;</p> <p>2.Lack of long-haul transportation services to create synergy for cross-provincial and business travel demands;</p>	<p>1.Relatively narrower TSP supplies;</p> <p>2.Decelerating traffic conversion from Alibaba ecosystem with growing online travel penetration;</p>
Opportunities	<p>1.Increasing domestic travel frequencies (FY19 5.2/2.8 times per annum for urban and rural residents in FY19 vs. 3.9/2.2 in FY16);</p> <p>2.Premiumization and experience-seeking travel demand esp. in higher-tier cities (Ctrip high-end hotel booked ADR FY16-19 CAGR ~2%);</p> <p>3.Consumption upgrade esp. among rural cohorts (Lower-end hotel room nights takes 63% in FY21 vs. 56% in FY17);</p> <p>4.Accumulating more users in lower-tier cities via offline agency stores (80% new customers acquired from offline channel in FY21);</p> <p>5.Growing outbound travel demand esp. short-haul travel (esp. ASEAN, Hong Kong and Macau group tour) in lower-tier cities;</p>	<p>1.Accumulating more users in lower-tier cities (~775mn working population) by WeChat and QQ (1.8bn uses) with relatively lower acquisition costs (<RMB10 vs. ~RMB80 for independent apps);</p> <p>2. Increasing payment conversion rate (currently MPU/MAU~12%) and cross-selling rate from transportation business to higher-margin hotel services (currently ~30%);</p> <p>3.Cooperation with sister companies and Tencent ecosystem to provid comprehensive travel services;</p> <p>4.Growing outbound travel demand in lower-tier cities;</p>	<p>1.Further penetration into lower-tier cities (total~1bn population in tier-3 and lower cities) by food delivery business;</p> <p>2.Encouraging customer demand in different consumption scenarios including local accomodation, short-haul travel, etc;</p> <p>3.Increasing user conversion to hotel booking from food delivery and other deveopling new initiatives (eg. Meituan Grocery, community e-commerce, bike-sharing, etc.)</p>	<p>1.Increasing user conversion from Alibaba ecosystem;</p> <p>2."Super Destination" initiative providing exclusive customized destination travel package to capture more younger consumer groups;</p> <p>3.Tailoring user content offerings to differentiate from other OTAs (eg. KOL livestreaming, IP collaboration, etc.) ;</p> <p>4.Growing outbound travel demand esp. in lower-tier cities;</p>
Strategy	<p>1.Continue to increase TSPs offerings and upgrade content capabilities including live streaming to improve user engagements;</p> <p>2.Continue to penetrate into lower-tier cities through offline franchise agency stores (~5k in 2021);</p> <p>3.Continue expanding global network;</p>	<p>1.Continue to elevate brand recognition as a single brand and grow user base and loyalty;</p> <p>2.Maintain and enhance competitive position in lower-tier cities travel market;</p> <p>3.Transfer from OTA to ITA (Intelligent Travel Assistant) to provide users with intelligent combo travel booking solutions;</p>	<p>1.Continue to expand higher-tier hotel services through launch of Hotel+X, etc;</p> <p>2.Continue to expand other travel services supplies, eg. transportation ticketing, travel attraction ticketing, etc;</p>	<p>1.Develop the alliance of diverse travel destinations and enhancing TSP supply chain and monetization capability;</p> <p>2.Strengthen the PGC contents to increase cusomter stickiness;</p>

Source: Goldman Sachs Global Investment Research

Exhibit 82: Global OTAs business portfolio

Trip.com						
Domestic platforms	Overseas platforms	Technology	Hotels	Car rental	Tour operators	Tour operators
 Ctrip Leading OTA platform Fully owned	 Trip.com Leading OTA platform Fully owned	 travelfusion Travel aggregator	 首旅如家 BTG Hotels Group Chinese hotel group with mainly economic hotel brands	 一嗨eHi eHi Car Services Car rental	 Tours4fun The World's Local Adventures for Less Outbound packaged tours	 中國東方航空 CHINA EASTERN One of the Chinese top3 airlines
 去哪儿旅行 Qunar Leading OTA platform Fully consolidated	 Skyscanner Airline Metasearch 100% stake	 云迹科技 YUNJI Technology Service robots and IoT	 华住 H World Group Economic hotel chain c.9% ownership	 唐人街 TangRen World Overseas ride-hailing service	 世纪明德 MIND EDUCATION Student summer camp travel	
 同程艺龙 Tongcheng Hotel booking Merged in Dec 2017 c. 25% ownership	 make my trip Leading Indian OTA platform Public company, c.49% owned	 晶赞科技 Zamplus Big data solutions	 ATOUR Hotel chain with mid-end to luxury hotel brands	 摩拜单车 mobike Bike-hailing platform	 途鹰假期 Ctour Holiday US travel wholesaler	
 途牛 Tuniu.com Packaged tours for leisure travel	 永安旅遊 WING ON TRAVEL Hong Kong travel service provider 90% stake		 开元酒店集团 NEW CENTURY HOTELS GROUP Hotel chain with mid-end to luxury hotel brands	 易到用车 Yongche Inc Ride-hailing platform	 縱橫集團 Universal Vision US travel operator	
 旅游百事通 TRAVELING BESTONE Offline travel agency chain 100% stake	 易遊網 ezTravel Taiwan travel service provider		 有家民宿 Youjia Homestay Homestays, mid-scale to high-end			
 智行 Zhixing Railway Tickets Train ticketing platform Controlling interest			 tujia 途家 Vacation rental booking platform with multiple brands			

Tongcheng Travel (0780.HK)	Expedia (EXPE)	Booking Holdings (BKNG)	TripAdvisor (TRIP)
Hotel: i HOTEL, Bolin Hotel	Full-service: Expedia, Travelocity, Hotwire CheapTickets, Ebookers, MrJet	Full-service: Booking.com, Priceline, Agoda	Full-service: TripAdvisor, Viator
Hotel Property Management System provider: Jintian'e		Car rentals: Rentalcars.com	Homestays: Niumba
Meituan (3690.HK)	Hotel booking: Hotels.com, Wotif, Lastminute	Restaurants booking: Opentable	Hotel booking: Jetsetter
Full-service: Meituan Travel	Meta-search: Trivago, Orbitz	Meta-search: Kayak	Restaurant booking: Thefork,
Homestays: Meituan Minsu	Hotel back-end platform: Alice	MakeMyTrip (MMYT)	Cruise booking: CruiseCritic
Hotel: Meituan Hotel, Eastern Crown	Vacation rentals: Vrbo	Full-service: MakeMyTrip, Goibibo	Flight booking: SeatGuru
Meta-search: Kuxun.cn	Car rentals: CarRentals.com	Ride-hailing & bus & train booking:	Booking management software:
Hotel Property Management System provider: BeyondHost			Travel design: Reco
			Vacation rentals: FlipKey, HolidayLettings, HouseTrip, VacationHomeRentals

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 83: Connected transaction agreements details with Tencent and Trip.com

Participant	Agreement	Duration	Details	TCEL Benefits	
	Tencent Cooperation Agreement	2021.8.1-2024.7.31	i) Tencent to provide user traffic to TCEL via its key services, channels, products and tools; ii) Engage in advertising and marketing promotion services with each other for 3-yr term; iii) Both parties will consider cooperating with each other in priority on expiry.	Over 81% of TCEL's MAU is from WeChat mini-program	
Tencent	Annual payment caps	Actual amount	Proposed annual caps		
	(Rmb mn)	5MFY21	5MFY21	FY22	FY23
	Traffic support service fee payable by TCEL to Tencent	159	210	540	580
	Advertising and marketing promotion service fee payable by TCEL to Tencent	297	336	608	777
	Advertising and marketing promotion service fee receivable by TCEL from Tencent	10	55	66	79
					55
Participant	Agreement	Duration	Details	TCEL Benefits	
	1. Trip.com Travelling Resources Sales Framework Agreement	2021.1.1-2023.12.31	TCEL and Trip.com agree to share certain accommodation rooms, transportation ticket supplies which are available to book on both platforms; Through the agreement, TCEL will · have access to Trip.com's large user base; · expand variety of TSPs offered on TCEL platform; Trip.com will · have more bargaining power against suppliers for larger scale of procurement;	70-80% of TCEL's room nights is supplied by Trip.com	
	2. Trip.com Travelling Resources Provision Framework Agreement	2021.1.1-2023.12.31			
Trip.com	Annual payment caps	Actual amount	Proposed annual caps		
	(Rmb mn)	FY21	FY21	FY22	FY23
	Agreement-1.				
	System maintenance fee payable to Trip.com for offering TCEL's products on Trip.com's platform	16	27	35	45
	Agreement-2.				
System maintenance fee payable to Trip.com for offering its products on TCEL's platform	151	325	460	650	n.a.
	Agreement-2.				
Commission receivable from Trip.com for selling Trip.com's products on TCEL's platform	1,575	3,250	4,300	6,000	n.a.

Source: Company data, Goldman Sachs Global Investment Research

Regulation

Regulation is one of the “top of the mind” issues for investors in the internet industry. As our internet team has highlighted in their prior report on [17 July, 2021](#), China has expanded its comprehensive regulatory approach to managing internet platforms to create a more favorable environment for the country’s long-term sustainable development. For OTAs, regulators mainly focus on promoting fair competition, preventing monopolistic behaviors (e.g., regulating unreasonably low prices and rate parity) and protecting customer interests (e.g., regulating bundled sales, price discrimination), similar to the policies adopted in the US/Europe. The government has also conducted a review of overseas listing and cybersecurity issues (see [Exhibit 84](#) for details).

- **Regulation of unreasonably low prices:** As mentioned in a previous section, China’s OTA operators had stepped up on pricing discounts to compete for customers during 2013-15. Some of them were even offering tourist attraction tickets at a mere Rmb1 and/or sold their hotel rooms at below cost (i.e., negative take rate). To regulate such irrational competition, the China National Tourism Administration (CNTA) issued [Opinions on Cracking Down on Unreasonable Low-cost Tours](#) in 2015, banning travel agencies from providing travel services at unreasonably low prices. The [Anti-unfair Competition Law](#) (first version effective since Dec-93) and [Anti-Monopoly Law](#) (first version effective since Aug-08), which were already in place, also prohibited market participants from selling services at prices below costs. In Oct-20, the Ministry of Culture and Tourism issued another directive for online travel agencies, i.e., [Interim Provisions on the Administration of Online Tourism Business Services](#), reiterating that the OTAs cannot provide travel services at unreasonably low prices. These series of regulations have helped to promote a relatively benign competitive environment in China’s OTA industry in recent years.
- **Regulation on bundled sales:** The Civil Aviation Administration of China (CAAC)’s [announcement in early Feb 2016](#) requiring commissions charged on air tickets to be set at a fixed amount (i.e., ~Rmb5-10 for an economy class ticket) instead of a percentage has prevented the OTAs from sharing any potential upside from fare increases. The operators tried to make up for this by selling more value-added services (e.g., insurance products, VIP lounge access) as a default option on purchases of air tickets, which led to customer complaints. The CAAC addressed this by [issuing another notice](#) in Aug 2017 to prohibit this practice. [E-Commerce Law](#) (effective on Jan-19) also required that online merchants not add on goods or services as a default option. Although VAS remains one of the key revenue drivers for OTAs on air or train ticket sales, customers can opt out of them if they choose to.
- **Regulation on price discrimination:** Price discrimination was another area that customers filed complaints about against the OTAs. In the past, the operators could for the same products (e.g., hotel or air tickets) charge existing members higher prices than those offered to new customers as part of customer acquisition costs. The [Interim Provisions on the Administration of Online Tourism Business Services](#) issued on 20 Aug 2020 stipulated that OTAs cannot

utilize big data analysis to set unfair trading conditions based on customers' consumption records and travel preferences. In Jun 2021, the State Administration for Market Regulation (SAMR) also issued *Provisions on Administrative Penalties for Price Violations (Draft)*, stating that operators using big data to analyze past transactional habits and set different prices for the same product could be fined up to 0.1-0.5% of their total annual revenue in the prior year. We believe the OTAs will continue facing regulatory scrutiny on their pricing setting mechanisms going forward.

- **Regulation on rate parity and restricted transaction choices:** Rate parity in the hotel industry refers to the practice of selling equal rates across different distribution channels. This places hotel's direct sales channels (e.g., own website, apps) and OTAs on an equal playing field. Rate parity used to be adopted by major OTA operators (e.g., Booking.com, Expedia) in Europe before 2015, until a number of countries (i.e., France, Germany, Italy, etc.) banned it in order to promote competition. In China, the Anti-monopoly Commission of the State Council also issued *Anti-Monopoly Rules aimed at Internet Platforms* in Feb-21 stipulating online platforms that require equal or better prices or quantities than other competing platforms, taking advantage of their sizes and bargaining power, may be considered to be involved in a monopoly. The authority also deems OTAs' demanding exclusivity with hotels as market misbehavior.
- **Review overseas listing and cybersecurity issues:** In Feb-22, the Cyberspace Administration of China (CAC) and other regulatory authorities jointly issued *Amended Cybersecurity Review Measures*, requiring online platforms with over 1mn users applying for overseas listing report to the Cybersecurity Review Office (CSRO) for cybersecurity review. Such review will evaluate the potential risk of data leakage. We believe such regulation may not have much impact on listed OTA operators, since Trip.com has already been listed on Nasdaq since 2003 (hence not a new application to be listed overseas) and Tongcheng/Meituan do not have plans to be listed abroad.

Taking market dominance, historical market practices, M&A and the above factors into consideration, we believe OTAs may face higher regulatory risk in general vs. the other travel-related industries we cover. In terms of market dominance, Trip.com and Tongcheng captured only 18%/5.8% of China travel booking market share last year but their shares would be lifted to 53%/17% if we narrow the scope to the online travel booking market. The Chinese airline industry has a lower market concentration with the big-3 airlines taking up 56% of market share by RPK in 2021. The hotel industry is highly fragmented given relatively low chain hotel penetration. Jinjiang/Huazhu/BTG take up only 6.8%/5.4%/3.5% of market share respectively by the number of domestic hotel rooms in 2021. Trip.com has also been more active in pursuing M&A (both domestic and overseas) to strengthen its market leadership. Among hotel names, more notable M&A includes H World's acquisition of Deutsche Hospitality in 2019, Jinjiang's acquisition of Louvre Hotel in 2014, and BTG's acquisition of Home Inns Group in 2016. In terms of market practices, OTA had received more customer complaints related to monopolistic misbehaviors (e.g., bundled sales, price discrimination, etc.) over the years.

Exhibit 84: Internet companies banned from exerting monopolistic behaviors, e.g., price discrimination, unreasonable charges; review of overseas listing and cybersecurity issues

Date	Regulation	Details
Dec-93	Anti-unfair Competition Law	Operators must not sell goods at prices below cost with the aim of crowding out competitors
Aug-08	Anti-Monopoly Law	Dominating companies in the market are prohibited from selling at a price lower than its cost.
Sep-15	Opinions on Cracking Down on Unreasonable Low-cost Tours	Travel agencies cannot advertise travel services at unreasonably low prices
Feb-16	Notice on Issues Concerning the Handling Charges of Domestic Air Passenger Transport Sales Agents	Air ticket commission should be a fixed amount per ticket instead of a % of sales value. Travel agencies cannot conduct unregulated cross-selling for air ticketing
Aug-17	Notice on Regulating Internet Air Ticket Sales	<u>Online platforms cannot set as a default option for customers to purchase other products (e.g., insurance) when they purchase air tickets</u>
Jan-18	Anti-unfair Competition Law (amendment)	Operators shall not make false or misleading marketing statements about the performance, function, quality, sales status, user evaluation, and honors of their products, so as to deceive and mislead consumers.
Jan-19	E-Commerce Law	E-commerce operators who cross-sell goods or services shall draw the attention of consumers and cannot set the purchase of those goods or services as a default option
Oct-19	<i>Interim Provisions on the Administration of Online Tourism Business Services (draft)</i>	<i>Refer to official announcement below</i>
Jan-20	<i>Anti-Monopoly Law (draft)</i>	<i>Refer to official announcement below</i>
Oct-20	Interim Provisions on the Administration of Online Tourism Business Services (official)	Discourages <u>irrational low pricing, unreasonable charges, price discrimination of existing/new users</u> , etc.
Nov-20	<i>Anti-Monopoly Rules aimed at Internet platforms (draft)</i>	<i>Refer to official announcement below</i>
Feb-21	Anti-Monopoly Rules aimed at Internet platforms (official)	Identifies monopolistic practices using 3 major criteria : 1) Definitions of relevant markets when identifying monopolistic behavior, both in terms of product verticals and geography; 2) A monopoly agreement (written or otherwise) or other collusive behavior (e.g. setting previously agreed prices). <u>Importantly, platforms that require merchants to provide products at equal/better prices/quantities than other competing platforms may be considered involved in a monopoly.</u> Platforms that require merchants to solely transact on its platform may be considered as market misbehavior. 3) Determining market dominance is based on market share of transaction GMV, # of transactions, revenues, users, time spent etc. and a qualitative assessment (e.g. influence on the market, technology). Concentration of business operators involved in VIE structures is in scope of the anti-monopoly review.
Jul-21	Opinions on Cracking Down on Illegal Securities Activities	Focus on : 1) information security, confidentiality and file management, 2) amendments to laws and regulations regarding overseas equity raising and listing , and 3) clarification of the responsibilities of domestic regulations.
Jul-21	Provisions on Administrative Penalties for Price Violations (draft)	E-commerce platform operators use big data, algorithms and other technical measures to set different prices for the same product under same transaction conditions based on the transaction habits of consumers could be fined up to 0.1-0.5% of annual sales
Jul-21	<i>Amended Cybersecurity Review Measures (draft)</i>	<i>Refer to official announcement below</i>
Sep-21	Data Security Law	Requires: 1) different departments that oversee industrial, telco, transportation, finance, natural resources, health, education, and technology to take responsibility for data security supervision of their respective industries (under the leadership of the CAC); 2) establish graded data protection; and 3) full regulatory coverage of all major steps in data flow from collection, processing, transmission (local or cross-border), and transaction.
Oct-21	<i>Anti-Monopoly Law (draft)</i>	<i>Refer to official announcement below</i>
Feb-22	Amended Cybersecurity Review Measures (official)	Enable the Cybersecurity Review Office (CSRO, affiliated with the Cybersecurity Administration of China, or CAC) to conduct a review of companies that possess the personal information of over 1mn users during their foreign listing process , or on foreign listing behaviors considered to affect or potentially affect national security.
Aug-22	Anti-Monopoly Law (amendment)	Reiterate that dominating companies in the market are prohibited from selling at a price lower than its cost. Market participants are prohibited from using competitive advantages in data, algorithms, technology, capital and platform rules to eliminate or limit competition.

Source: Xinhua net, National People's Congress, Company data, compiled by Goldman Sachs Global Investment Research

Exhibit 85: OTA related regulations in China vs. overseas (as of 2021)

	China	Europe (ex. UK)	UK	US	Purpose of regulation
Pricing related					
Rate parity	Platforms that require merchants to provide products at equal/better prices/quantities than other competing platforms may be considered involved in a monopoly; HK required removal of wide rate parity clause	Rate parity clauses are banned in most European countries, except in the UK	n.a.	n.a.	Support fair competition
Price discrimination	Cannot set unfair transaction conditions based on tourists' spending history or travel records etc. collected from big data	Cannot charge a higher price just due to nationality or country of residence	n.a.	n.a.	Protect customers with reasonable and transparent pricing
Irregular pricing of goods and services	Setting unreasonable charges on top of transaction prices may be considered as market misbehavior	n.a.	n.a.	n.a.	Protect customers with reasonable and transparent pricing
Discount claims	Cannot advertise travel services at unreasonably low prices	Ensure that price comparisons presented as discounts represent genuine savings	Be clear about discounts and only promote deals that are actually available at the time	Advertising must tell the truth and not mislead consumers.	Protect customers with reasonable and transparent pricing
Hidden charges	n.a.	Display the total price (including fees and taxes) in a clear and prominent way	Display all compulsory charges such as taxes, booking or resort fees in the headline price	Advertising must tell the truth and not mislead consumers.	Protect customers with reasonable and transparent pricing
Transaction related					
Restricted transaction choices	Requiring merchants to solely transact on its platform may be considered as market misbehavior	n.a.	n.a.	n.a.	Support fair competition
Bundled sales	The default option of additional services (e.g. VIP airport lounge, travel insurance) must be unselected (i.e. opt-in)	n.a.	n.a.	n.a.	Protect customers with transparent travel product information
Pressure selling	Provide accurate travel information. No false advertising.	Not present an offer as being time-limited if the same price will still be available afterwards	Not give a false impression about availability of a hotel.	New York Attorney General fined OTA company Fareportal US\$2.6mn for dishonest and predatory advertising behavior (e.g. false urgency around availability)	Protect customers with transparent travel product information
Search results	n.a.	Clarify how results are ranked and whether commissions have influenced the list of results	Make search results clearer so that how a hotel is ranked is explained to consumers.	Advertising must tell the truth and not mislead consumers.	Protect customers with transparent travel product information
Public reviews	Cannot remove customers' reasonable online reviews or force customers to make reviews. Make the customers reviews public to the society	n.a.	n.a.	n.a.	Protect customers with transparent travel product information
Cyber security and data privacy					
Cyber security and data privacy	OTAs should gain the consent of travelers before collecting their travel information. Personal Information Protection Law to protect proper usage of individuals' information. Make sure the information on the platform does no harm to national security and public interest	Users must give an affirmative consent before their data can be used. General Data Protection Regulation to enhance individuals' rights over their personal data	Data Protection Act includes the importance of organizations to be more responsible with information and improving the confidentiality	Various laws and regulations to protect personal data and privacy	Protect customers' data privacy

Source: Gov.cn, Phocuswire, Federal Trade Commission, compiled by Goldman Sachs Global Investment Research

Exhibit 86: We see higher regulatory risk for OTAs vs. hotels and airlines, taking market dominance, historical market practices and past M&A into consideration

Regulatory risks for OTAs vs. hotels and airlines

	OTA		Hotel				Airlines			
	Trip.com	Tongcheng-Elong	Huazhu	Jinjiang	BTG	Greentree	China Eastern Airlines	Air China	China Southern Airlines	Spring Airlines
Overseas listing										
% of revenue contributed by VIEs	2019: 27% 2020: 36% 2021: 30%	Has VIE (no revenue disclosure)	2021: <1%	No VIE (SOE)	No VIE (SOE)	Around <1%	No VIE (SOE)	No VIE (SOE)	No VIE (SOE)	No VIE
ADR listing	Yes	No	Yes	No	No	Yes	No	No	No	No
Cyber security and data privacy										
No. of users (2021)	~150mn MAU	257mn MAU	193mn members	182mn members	133mn members	69mn members	48mn members	72mn members	60mn members (2020)	60mn members
User coverage (MAU or total members % of total population)	15%	18%	14%	13%	9%	5%	3%	5%	4%	4%
Anti-trust										
1) Market dominance										
Market share	18.0% (by GMV, based on China travel booking market size in 2021)	5.8% (by GMV, based on China travel booking market size in 2021)	5.4% (by domestic no. of hotel rooms in 2021)	6.8% (by domestic no. of hotel rooms in 2021)	3.5% (by domestic no. of hotel rooms in 2021)	2.5% (by domestic no. of hotel rooms in 2021)	16.7% (by RPK in 2021)	16.0% (by RPK in 2021)	23.3% (by RPK in 2021)	5.3% (by RPK in 2021)
Impact on China's economy and society										
GMV (Rmb bn, 2021)	619	150	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
GMV % of GDP (2021)	0.5%	0.1%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Revenue (Rmb bn, 2021)	20.0	7.5	12.8	11.3	6.2	1.2	67.1	74.5	101.6	11.0
Revenue % of GDP (2021)	0.02%	0.01%	0.01%	0.01%	0.01%	0.00%	0.06%	0.07%	0.09%	0.01%
2) Market misbehavior										
Bundled sales	Reported cases of bundling other products (e.g. insurance, hotel coupons) with travel bookings without properly informing customers	Reported cases of bundling other products (e.g. hotel coupons) with travel bookings without properly informing customers	n.a.	n.a.	n.a.	n.a.	Reported cases of bundling other products (e.g. insurance) with air ticket bookings without properly informing customers	Reported cases of bundling other products (e.g. insurance) with air ticket bookings without properly informing customers	Required OTA platforms to stop bundle sales of its air tickets with other products	n.a.
Price discrimination	Reported cases of showing different prices for different customers	Reported cases of showing different prices for different customers	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Restricted transaction choices	Reported cases of requiring its merchants (e.g. hotels) to solely transact on its platform	Reported cases of requiring its merchants (e.g. hotels) to solely transact on its platform	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Irregular pricing of goods and services	Reported cases of high charges of air tickets cancellation	Reported cases of high charges of air/train tickets cancellation	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3) Propensity to acquire assets										
Past acquisitions	Merger with Qunar; investment in multiple travel-related companies including Tongcheng-Elong	Merger between Tongcheng and eLong; investment in hotel property management system companies	Acquisition of Deutsche Hospitality (DH)	Acquisition of Plateno Group, Radisson Hospitality, Groupe du Louvre, etc.	Acquisition of Home Inns Group	Acquisition of restaurant chains (Daniang Dumpling, Bellagio), Argyle Hotel Management	Acquisition of Shanghai Airlines; minority stake in Air France-KLM	Acquisition of Shenzhen Airlines. Proposed acquisition of Shandong Airlines	Merged with China Northern Airlines, China Xinjiang Airlines	n.a.

Source: Company data, data compiled by Goldman Sachs Global Investment Research

Overseas expansion and strategies

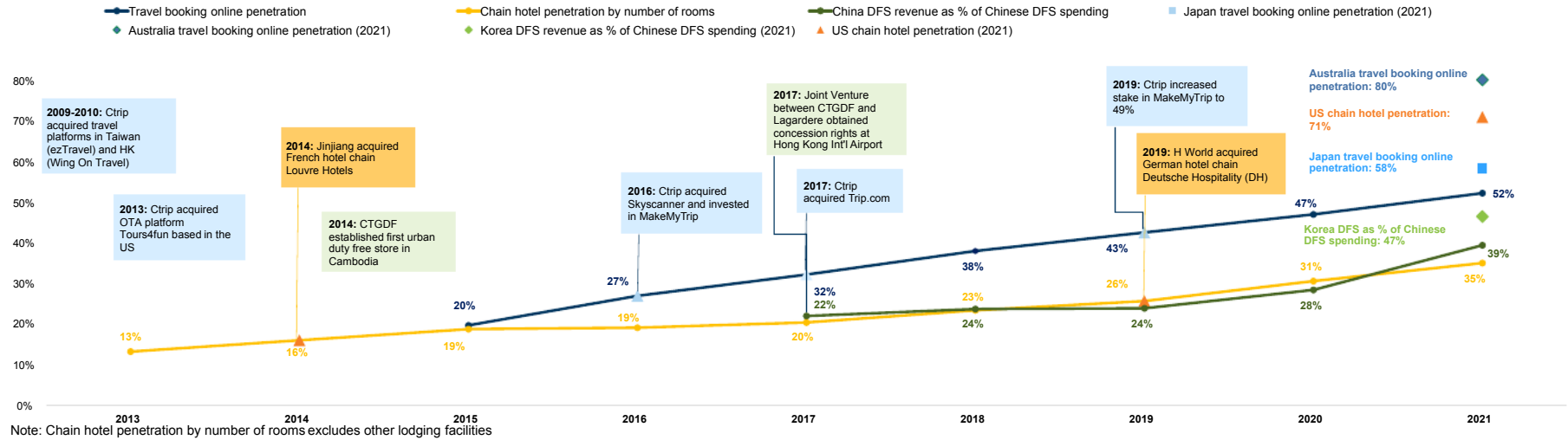
With Chinese outbound travel growth consistently outpacing that of domestic travel, we find an increasing number of China travel companies are pursuing overseas expansion. In this section, we summarize overseas exposure and strategies of travel names we cover, potential upside by better understanding potential addressable market sizes, and our observation on their timing of going abroad.

- **Overseas exposure by companies** - Among the travel names we cover, FTG has the highest overseas exposure with 71% of its revenue coming from Club Med outside of mainland China before the pandemic. Airports/airlines are also fairly exposed for international traffic, the revenue of which accounted for 74%/33% of total revenue for Shanghai International Airport and Guangzhou Baiyun Airport respectively, and 35%/35%/34%/26% for Air China/Spring Airlines/China Eastern Airline/China Southern Airline respectively in 2019. Among the OTA, Trip.com is the only one more actively pursuing overseas expansion. Travel booking by mainland Chinese in overseas markets and Skyscanner together added up to 34% of Trip.com's revenue. The two hotel names - Jinjiang (27% in 2019, via Louvre Hotel in France) and H World (12% in 2021 after Deutsche Hospitality was acquired in 2019) - also have exposure. CTGDF generated 8% of its revenue from its duty-free stores in HK/Macau and Cambodia.
- **Stepping up in expanding abroad** - Most of our covered companies have been pursuing overseas expansion through both organically and M&A. Trip.com targets to increase its overseas revenue contribution from 34% in 2019 to ~40-50% over time by (1) focusing on accumulating more resources in countries particularly in Asia where more mainland Chinese travel to; (2) diverting online traffic and businesses from Skyscanner (a mega search website) to Trip.com's own platform in Europe. The US market is too competitive and hence is not the company's focus. As its strategic partner, TCEL will continue to cooperate with Trip.com to serve their customers' travel needs abroad. In the hotel space, H-World (previously Huazhu) recently had its name changed and made senior executive hires, highlighting its commitment to growing internationally, beside improving operating efficiency of Deutsche Hospitality which has 37 hotels in the pipeline as of 1H22. Jinjiang seeks to build its presence in Asian (e.g., India, South Korea, Oceania, etc.), and may consider acquiring the Radisson brand from its parentco in the future. As for CTGDF, besides upgrading and setting up more new stores, it plans to allocate part of the US\$2bn cash proceed from HK IPO to acquire 2-3 travel retail operators in countries where Chinese tourists often travel, such as Japan, Sri Lanka, etc. On the flipside, FTG will leverage on Club Med's established brand name in Europe/Asia, bringing it back to the China market with 7 Club Med scheduled for opening during 2022-24. They target Club Med to generate similar revenue vs. its overseas markets by 2030.
- **Accelerate overseas expansion in anticipation of market slowdown further down the road** - As shown in Exhibit 87, _____ by tracking domestic market penetration for each sector (i.e., online travel booking penetration for OTA, hotel chain penetration for hotel, and China DFS revenue as % of Chinese DFS spending for duty-free shop) and the timeline of

overseas expansion, we notice that selective companies we cover tended to accelerate their investments abroad when domestic market penetration reaches around 20-30%. For example, Ctrip acquired Skyscanner in 2016 and Trip.com in 2017 when online travel booking penetration reached 27%/32% respectively. Jinjiang invested in Louvre Hotel in 2014 when chain hotel penetration was at 16%, followed by H World in Deutsche Hospitality in 2019 when chain hotel penetration was at 26%. This does not imply that the markets would slow drastically once penetrations hit these levels. We believe the companies tried to prepare ahead to expand their addressable market sizes.

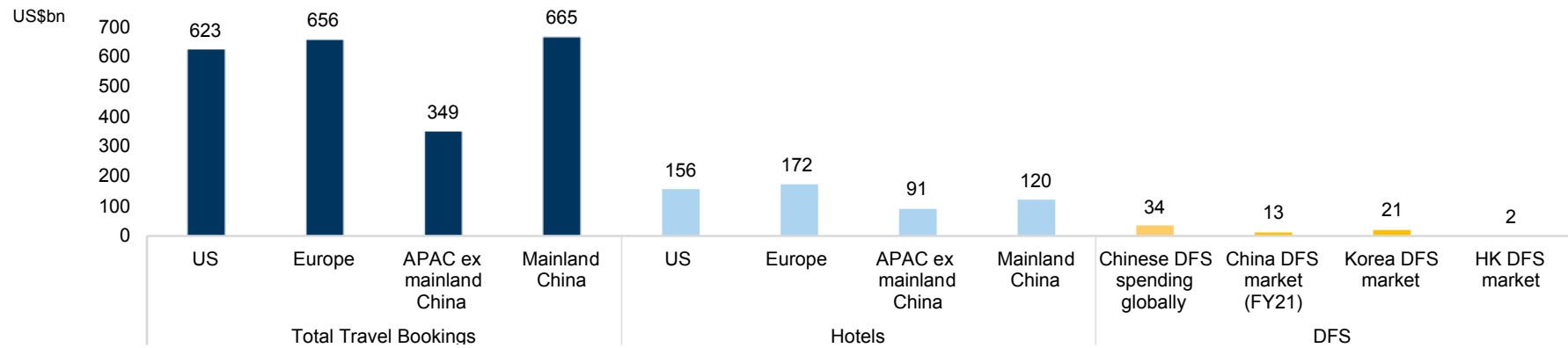
- **Sizeable addressable markets in US/Europe to present opportunities, but also operational challenges and execution risks** - To gauge the potential upside from overseas expansion, we summarize in [Exhibit 88](#) the relative sizes of travel booking, hotels and duty-free industries in China vs. overseas. China has strong travel demand given its huge population. The size of its travel booking industry is actually no less than those of the US/Europe (i.e., US\$665bn vs. US\$623bn/656bn in 2019 according to Euromonitor). The hotel market is smaller for lower ADR and RevPar, so is China's duty free market which only took up 24% of the US\$34bn Chinese duty-free spending globally since over half is captured by Korea for daigou purchases. While these figures suggest much potential upside and hence it is strategically sensible for Chinese companies to expand abroad, we see potential challenges considering that (1) many of these overseas markets are already fairly penetrated and dominated by local players (e.g., US's chain hotel penetration exceeded 70% and the top-6 players control over 90% of the existing room inventory there); (2) local protection and regulation may make it difficult for Chinese players to enter the market (e.g., cabotage regulation in airline industry); (3) customers may have different and more sophisticated needs in developed countries.

Exhibit 87: Select travel companies overseas expansion summary



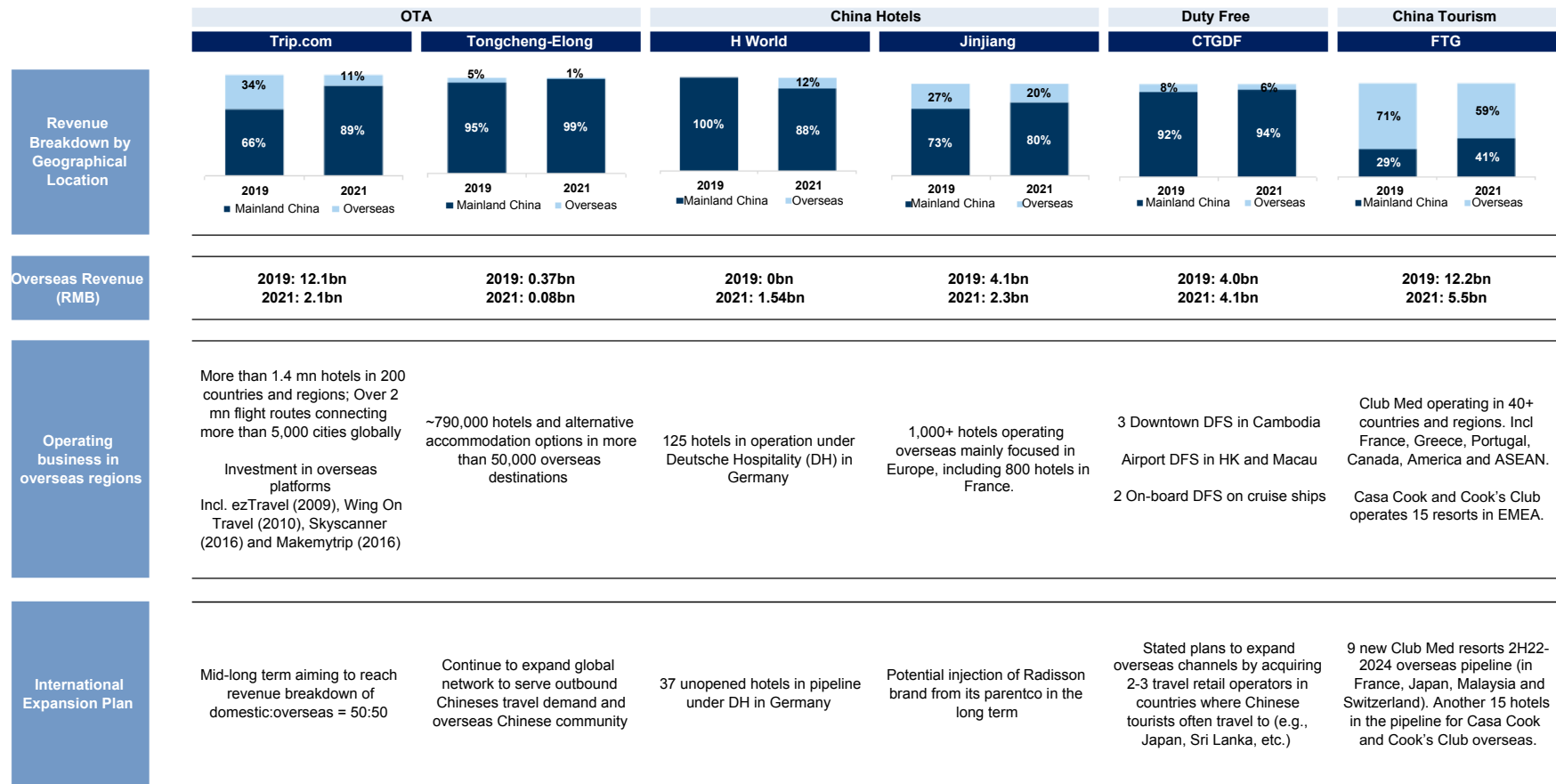
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 88: Select travel related market TAMs 2019



Source: Euromonitor, Inttie, Company data, Goldman Sachs Global Investment Research

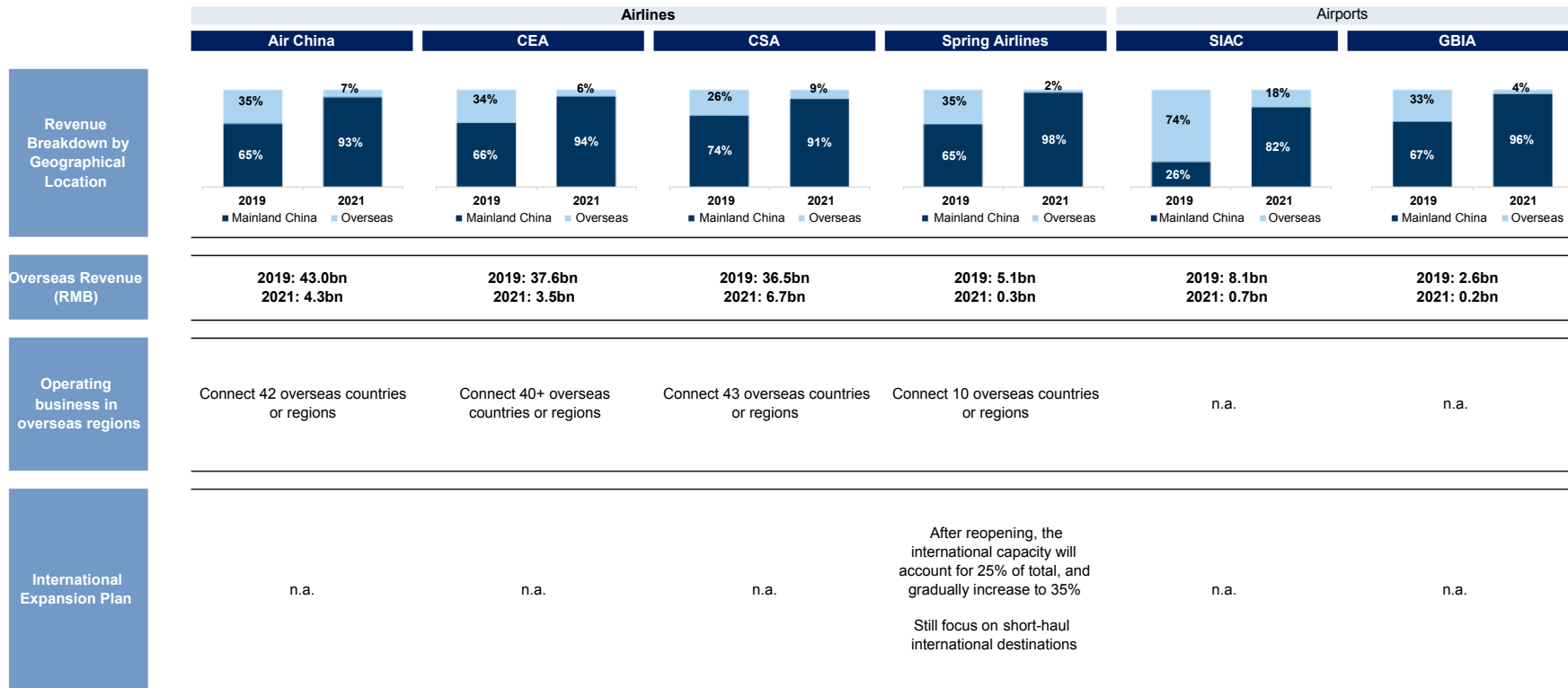
Exhibit 89: Travel companies overseas exposure summary - part 1/2



Note (1): CTGDF overseas revenue contribution refers to Hong Kong, Macau and overseas. □

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 90: Travel companies overseas exposure summary - part 2/2



Note(1): Airlines revenue breakdown refers to passenger revenues. SIAC and GBIA revenue breakdown are per Gse.

Source: Company data, Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

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