

China Online Travel Industry Report

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Industry Definition

Online Travel is a relatively new industry in China with different types of market players, which makes defining the online travel industry an important task before diving into our analysis. We categorize the industry players into the groups below (with comparable well-known firms):

- Airline / hotel / tourism (direct online booking: Air China, Hyatt etc)
- Traditional travel agents (brick and mortar booking)
- Internet conglomerates (Alibaba, Baidu)
- Global online travel business (Expedia, bookings.com, etc.)
- **Online travel agents or “OTA”(Expedia)**
- **Online travel marketplaces (Kayak)**
- User generated content (“UGC”) travel review sites (TripAdvisor)

The goal of this report is to recommend an implementable industry investment idea to perspective investors. Therefore, our definition of the online industry universe is limited to the 4 major public companies which are in the OTA and travel marketplace spaces as well as certain private companies that are expected to go public in the near term. The reason is twofold: 1) three out of the four China online travel companies hold significant market share in the industry; 2) our universe allows perspective investors to focus solely on China’s online travel business, without concerning other businesses or geographic segments.

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Industry thesis

The Chinese online travel industry has grown at an impressive rate in recent years and is projected to continue the trend. **We believe this industry is attractive based on multiple macro tailwinds, however, short term competition remains stiff and our valuation model indicates that it is already valuation rich, therefore we issued a marketweight rating on this industry.**

- **Growth of the overall Chinese travel market:** China's transformation into a consumption-driven economy will create a large upper middle class population with more spending power beyond their basic living needs, therefore, benefiting China's travel/transportation/hotel industry.
- **Increasing market share:** China's online travel industry will continue to grab market share from traditional offline businesses with the rise of PC/mobile penetration rates and increasing user traffic driven strategic investors of , amongst other players.
- **Heavy competition may bring negative impact short term but benefit the industry long term:** We have seen an industrywide convergence in business models. Large OTAs have started to explore marketplace businesses and current "marketplace model" leader Qunar has initiated its own direct sales business. These initiatives lead to increased competition within the industry. These moves result from industry leaders placing more emphasis on market share instead of profit creation. We believe this trend will continue into 2015 and impact profits negatively in the short term. **However, we also believe increased competition will drive faster online adoption rate.** Looking into 2015, several leading online travel companies issue strong revenue guides, indicating an industry wide re-acceleration. Small to medium OTA agents will find themselves in a difficult spot to compete with the industry leaders in terms of price and user traffic. After the industry consolidates, the remaining players will enjoy tremendous network effects with increased bargaining and pricing powers.
- **Valuation is rich, but not enough to support an "overweight" rating:** we used a DCF analysis as our main valuation method, with results showing the industry is currently undervalued by 0.51% as of March 30, 2015. However, due to the nature of a growth industry, much of the value is derived from the terminal value, which makes the valuation highly sensitive to terminal growth and discount rate assumptions. Given the uncertain nature of the DCF valuation, and the bright growth prospects and changing competition dynamics, it is also hard to justify an underweight rating.
- **Picking the individual winner(s) of this industry is a better play than underweighting/overweighting the industry. So stay tuned for the company reports.**

Key Risk Considerations

In order to value the industry, a reasonable amount of assumptions are built into our model based on best estimates. When there are assumptions, inevitably there are risks associated. We break down these risks into downside risks and upside risks:

Key downside risks:

- **Intensifying competition:** Though we factored in a short-term margin decline in our model, competition may still be stiffer than expected, leading to slower than expected margin recovery. One of the China internet giants, Alibaba, also rolled out its own travel marketplace, posing a potential threat to the existing players.
- **Soft Chinese economy:** Our travel market growth rate is adjusted to China GDP growth; a softening Chinese economy could slow down travel industry growth as well.
- **Uncontrollable events:** Events such as pandemics and political unrests can negatively impact the travel industry.

Key upside risks:

- **Faster than expected mobile penetration rate:** Our model expects fast growth in online travel penetration rate, however, mobile device shipments may lead to a more explosive period of growth, driving the online penetration rates even higher, therefore enhancing the industry value.
- **Faster industry consolidation and strategic cooperation:** Both indicate less competition, cheaper traffic acquisition and more pricing powers, driving up the industry value. In China, the “big 3” Baidu, Alibaba and Tencent become strategic investors in lots of the emerging names in the internet sector, online travel industry is no exception. We have seen a strategic merger between two bitter rivals “Didi” and “Kuaidi” in the mobile-app-based transportation industry. The deal was facilitated by Tencent and Alibaba. As the competition intensifies in the online travel industry and all players are burning cash, a major strategic alliance between industry leaders is not impossible.
- **Strong growth in User Generated Content (UGC) business:** UGC business is still in its early stage in China. However, a strong UGC business means more organic traffic and more advertisement revenues, benefiting the industry.

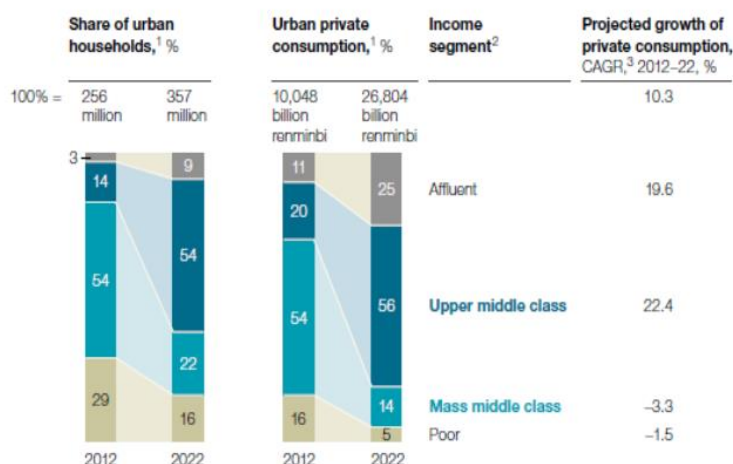
Growth of China Travel Market

We remain positive on the growth of the Chinese travel market despite a slowdown in the overall economy. While it is true that we may not see another year of double digit growth, the economy is in a state of transition from a government led infrastructure spending model to a private consumption model, which will lead to above GDP level growth in the Chinese travel space for the next 5-8 years.

China GDP growth: After a decade of fast growth, China's economy is slowing down while undergoing an economic structural change. Local governments carry a tremendous amount of debt and a strong RMB environment no longer provides a "cheap labor" advantage. According to *Economic Outlook*, China's GDP will slow down to 7.33% in 2015, and 5.14% by 2020.

A consumption driven economy: By 2022, more than 75 percent of China's urban population will earn between 60,000 to 229,000 RMB (\$9,000 to \$34,000) annually, while total private consumption will increase from 10,084 billion RMB in 2012 to 26,804 billion by 2022. Of this population, 14% of urban households are classified as upper middle class (household incomes in the 106,000 to 229,000 RMB range) in 2012, while the mass middle class (household incomes between 60,000 and 106,000 RMB) accounted for 54%. By 2022, the upper middle class will account for 54% of urban households and 56% of urban private consumption. The mass middle class share will dwindle to 22% of urban households.

The magnitude of China's middle-class growth is transforming the nation.



¹Figures may not sum to 100%, because of rounding; data for 2022 are projected.

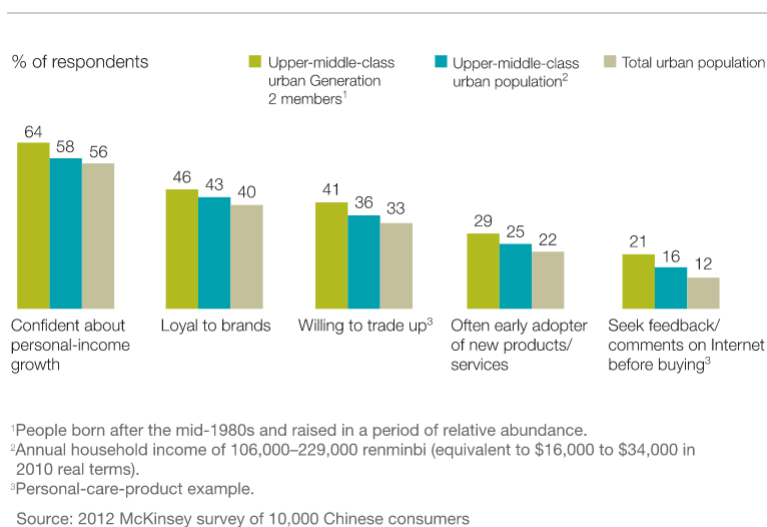
²Defined by annual disposable income per urban household, in 2010 real terms; affluent, >229,000 renminbi (equivalent to >\$34,000); upper middle class, 106,000 to 229,000 renminbi (equivalent to \$16,000 to \$34,000); mass middle class, 60,000 to 106,000 renminbi (equivalent to \$9,000 to \$16,000); poor, <60,000 renminbi (equivalent to <\$9,000).

³Compound annual growth rate.

1

¹ McKinsey Insights & Publications, *Mapping China's Middle Class*

According to the McKinsey's research, the current generation of Chinese consumers is the most Westernized to date. Prone to regard expensive products as intrinsically superior to less expensive ones, they are happy to try new expensive products, such as specialized travel packages. They are also more likely than previous generations to check the Internet for other people's usage experiences or comments, which bodes well for related UGC travel sites.



2

In another BCG survey of more than 4,000 consumers in seven countries, only about one-quarter of US and European respondents said that they planned to trade up—to increase spending in a particular category or service—on vacations, whereas more than one-third of Chinese intended to do so, the highest trading category among Chinese respondents.

Model inputs: McKinsey projects a 2012-2022 CAGR of 10.3% for overall private spending and 22.4% CAGR for upper middle class spending. From 2012 to 2015, the market grew at a pace of 15%, 10% and 9.65%, respectively, with a diminishing premium to the GDP growth. Therefore we believe the market will continue to grow at a diminishing premium to the GDP growth rate for the period between 2016 and 2022, at a CAGR of 9.0%, lower than the McKinsey projected private spending CAGR.

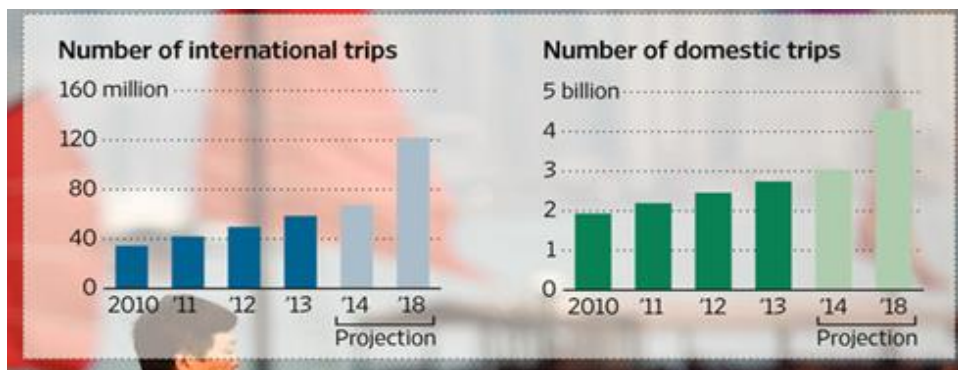
All non % units in million RMB

² McKinsey Insights & Publications, *Mapping China's Middle Class*

International travel becomes a new driver

According to CITM research, in 2013, 97 million Chinese tourists travelled abroad, up 14 million on 2012, according to figures from the Tourism Administration of China, who also predict that this figure will pass the 100 million mark in 2014³. The number of Chinese outbound travellers in the first three months of 2014 was estimated by the Chinese Tourism Academy as 26.4 million, an increase of 17 per cent, compared with the same period in 2013.

CITM research shows that online is a priority for Chinese travellers during all stages of their holiday, whether planning, booking or travelling. Internet penetration in China climbed to 45.8 percent at the end of last year from 42.1 percent in 2012. China ended the year with 618 million internet users with 500 million accessing it via a mobile device⁴, according to the China Internet Network Information. More than 90 per cent of internet users reportedly have a social media account.³



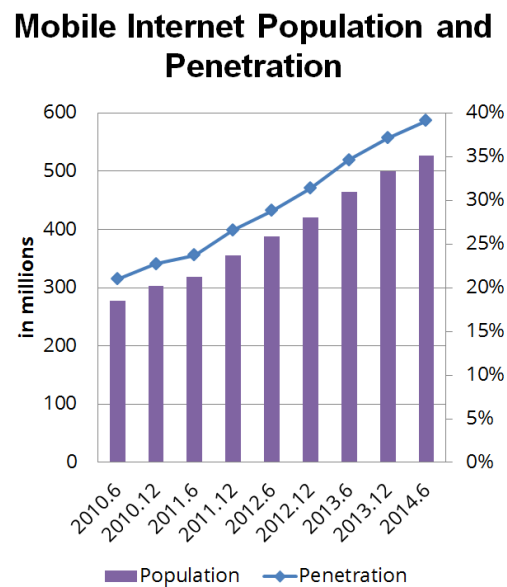
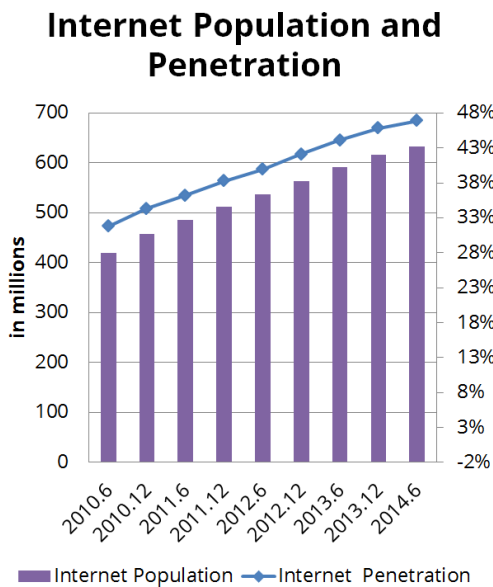
With a more relaxing visa policy for China passport holders, we should see an increasing number of foreign travelers (as well as frequency), therefore benefiting the online travel industry.

³ CITM research, hotels.com

⁴ Euromonitor International

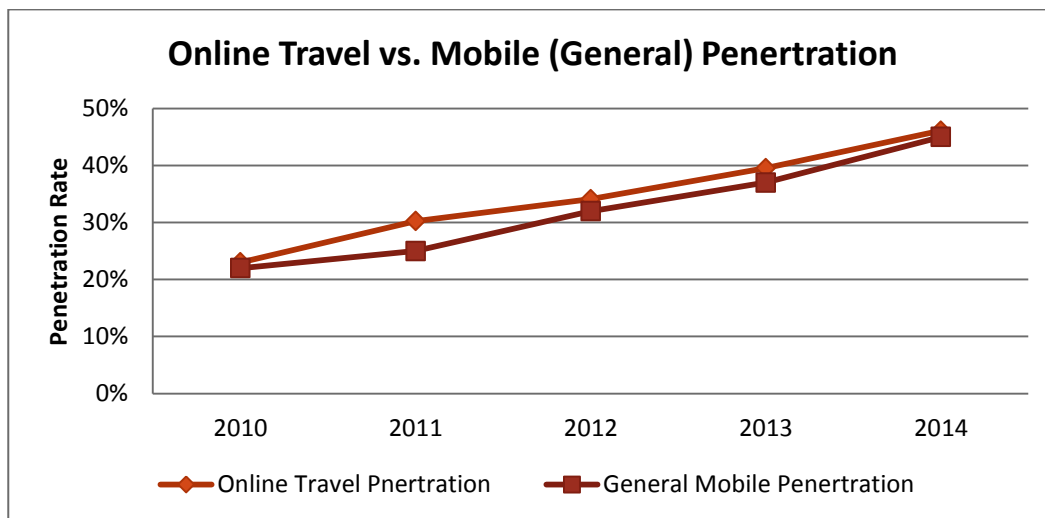
Online penetration

There have been significant infrastructure improvements in terms of internet accessibility. Internet penetration rate increases from 33% to 48% in the span of four years from 2010. On the mobile side, penetration rates grew at an even faster rate, nearly doubling since 2010.



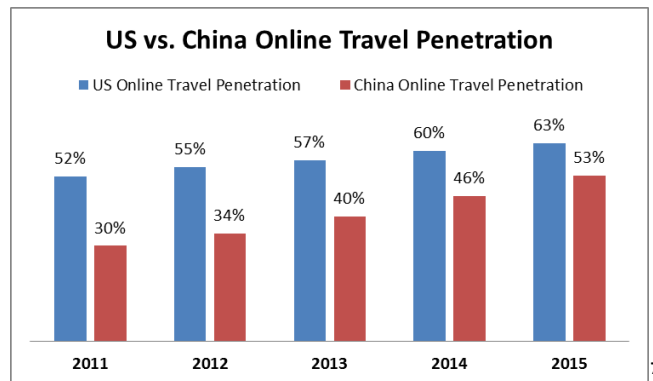
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The growth of mobile internet is crucial to the online travel penetration rate, **because mobile bookings fit the nature of the traveling behaviors**. Traveling means people are on the road, therefore using mobile devices to book flights and hotels make much more sense than PC devices. Additionally, we find a very close correlation between the online travel penetration rate and general mobile internet penetration rate.



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If we compare the Chinese online travel industry to its counterparts in the U.S., we see that China's industry is still fairly under-penetrated in comparison to the US, indicating that there are still more room for growth. We also notice that China's penetration rate is increasing at a higher speed than that of the U.S., indicating a faster shift in user behavior.



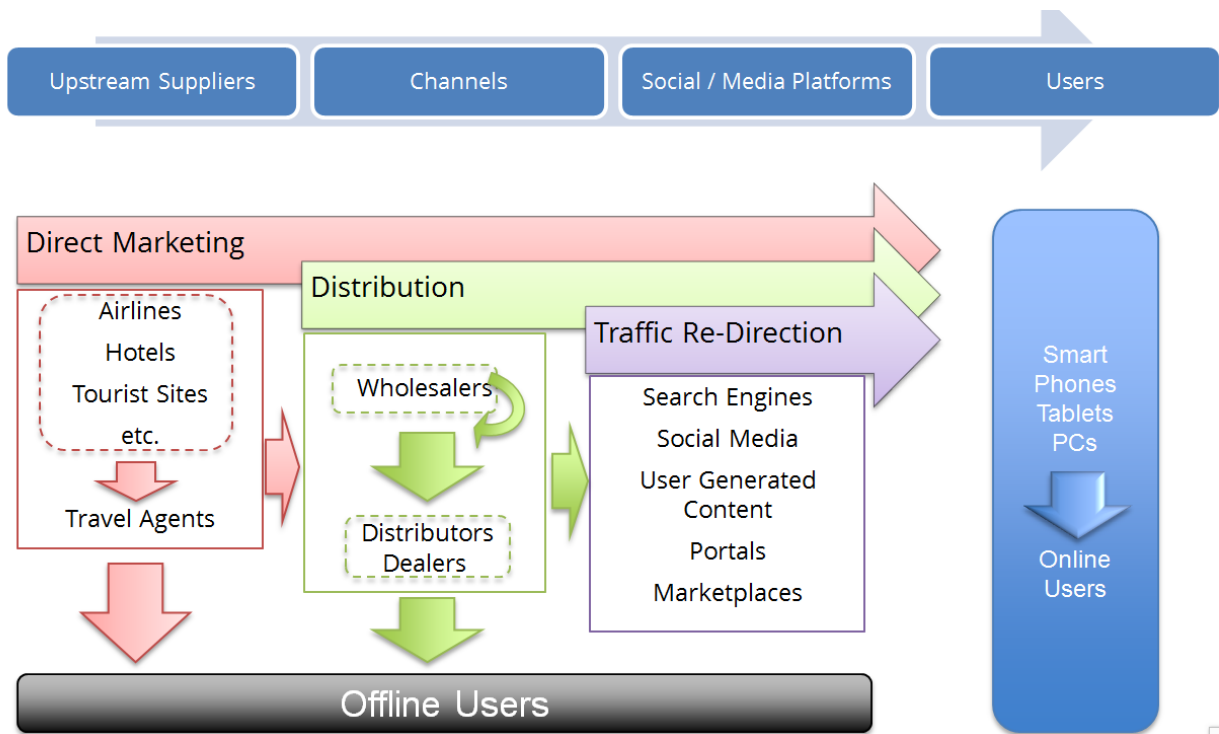
Model inputs: Online penetration rate is adjusted by the mobile device penetration rate.

⁶ PhoCusWright, iResearch

⁷ PhoCusWright, Expedia & JP Morgan (penetration in air-ticket and accommodations)

Online Travel Business Travel

The following chart provides a clear high level view of how the industry works.

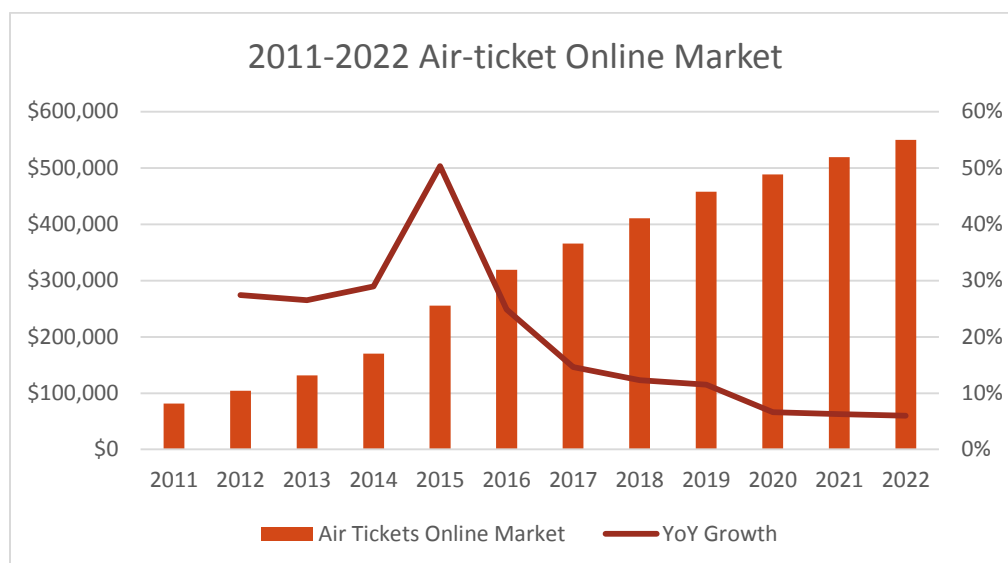


- **Upstream suppliers:** Airlines, hotels and tourist sites are the original suppliers of wholesalers and distributors. Suppliers usually also have their own direct sales channel (eg. Airline websites and hotel websites); more frequently, airlines and hotels will distribute their inventories to travel agents (wholesalers/dealers) to boost revenues.
- **Channels:** Most of the companies in our universe fall into this category along with a mass number of tradition travel agents. Distributors usually book a large block of suppliers' inventories at a discount and redistribute to end consumers at a mark-up.
- **Social/Media platforms:** Some of the traffic of the OTAs comes from social/media platforms including online travel marketplaces, UGC, search engines and online portals. Some of the companies in our universe have business operations in this category (Qunar, Tuiniu, Ctrip). Social platforms are very important components of the online travel ecosystem because of its traffic redirection abilities.

Travel tickets

The flight ticket online market grew to 170 bn RMB with a YoY growth rate of 29.7%. Qunar is the dominated player in this market in terms of flight ticket traffic. Airline direct channel sales account for around 20% of the market share. OTAs' market shares are increasing due to its volume advantage, pressuring traditional travel agents. As competition intensifies, we will see further consolidation in this market.

All non % units in million RMB



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Model Inputs: Growth of number of flight tickets sold remains in a stable growth phase; however, we believe this growth will gradually come down as China's economy slows. Flight ticket prices have historically been very stable and we believe it will continue to remain that way. The online penetration rate is in line with the overall travel space. We expect the total number of air tickets sold will increase at a steady rate (40 million per year) as the country's consumer economy takes off. We don't expect the average price per ticket will either drop or rise significantly because the airlines are already operating at a thin margin level to prevent the price drop. On the other hand, competition among major airline groups will keep the price from going up.

In 2015, we expect the air ticket online booking market to grow significantly (50%\$) fueled by faster adoption of mobile booking and aggressive marketing activities among the major players. The growth rate will slow down as the online penetration rate reaches a higher level.

In terms of online market penetration rate, we believe it will gradually increase to 85% market share and stays around 85% in the long run. The reason that the online penetration rate won't reach 100% is because of corporate travel and phone booking. China corporate travel accounts for over 10% of the total market in 2013 and it is growing at an above average rate. We believe around 15% of the booking will still go through corporate channels in the long run, leaving 85% of the market share for online booking.

Within the online booking universe, airlines still take around 25% of the market. The rest 75% of the market belongs to Ctrip and Qunar (a marketplace for smaller OTAs). eLong and TongCheng account for a small fraction of the market. We expect the airline channel will

⁸ 2011-2014 data from iResearch

gradually shrink to 10% given the enhancing network effect of Ctrip and Qunar (here Qunar's traffic redirection counts toward Qunar's volume).

Airline Ticket Analysis					40	41	39	40	39	40	40	41	2012-2022 CAGR
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Total no. of air tickets sold (in mm)	306	331	366	400	440	481	520	560	599	638	679	719	8.9%
YoY Growth		8.2%	10.6%	9.3%	10.0%	9.3%	8.2%	7.6%	7.0%	6.6%	6.3%	6.0%	
Average price per ticket	1,157	1,121	1,100	880	880	885	890	895	900	900	900	900	
Online penetration	23.1%	28.1%	42.0%	60.0%	66.0%	75.0%	79.0%	82.0%	85.0%	85.0%	85.0%	85.0%	
Ctrip no. of tickets sold (in mm)	27.7	36.2	47.6	65	85.0	110.0	147.4	170.2	190.0				
eLong no. of tickets sold (in mm)	2.3	2.4	3	3	3.5	3.8	4.2	4.5	4.8				
Tongcheng no. of tickets sold (in mm)	1	1.2	1.4	1.4	1.6	1.8	2.0	2.2	2.5				
Qunar no. of tickets sold (in mm)	15	24.6	51.1	83.9	115.0	160.0	200.0	230.0	260.0				
Total no. of tickets sold (in mm)	46	64.4	103.1	153.3									
Total penetration of universe companies	15%	19%	28%	38%									

Sources: Company Data and TravelSky

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Ctrip no. of tickets sold (% of online mkt)	39.2%	38.9%	31.0%	27.1%	29.3%	30.5%	35.9%	37.1%	37.3%			
eLong no. of tickets sold (% of online mkt)	3.3%	2.6%	2.0%	1.3%	1.2%	1.1%	1.0%	1.0%	0.9%			
Tongcheng no. of tickets sold (% of online mkt)	1.4%	1.3%	0.9%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%			
Qunar no. of tickets sold (% of online mkt)	21.2%	26.5%	33.2%	35.0%	39.60%	44.4%	48.7%	50.1%	51.1%			
Others	34.9%	30.7%	32.9%	36.1%	29.4%	23.5%	14.0%	11.3%	10.2%			

Hotels

The hotel online market grew to 70 bn RMB with a YoY growth rate of 43%. There is less contribution from hotel direct sales because the hotel industry is more fragmented than the airline industry. Competition is extremely intense in the space and as competition intensifies, we will see further consolidation in this market.

All non % units in million RMB



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⁹ 2011-2014 data from iResearch

Model Inputs: Growth of number of hotel nights sold remains in a stable growth phase, however, a faster online reservation adoption rate (thanks to the intensified competition) will power the growth re-acceleration in 2015. After 2015, we assume that hotel nights sold growth rate will be in line with 2011-2014 growth rates with a slight decline due to the slowdown of the Chinese economy. We also assume a steady increase on room prices to reflect the rising property market in China.

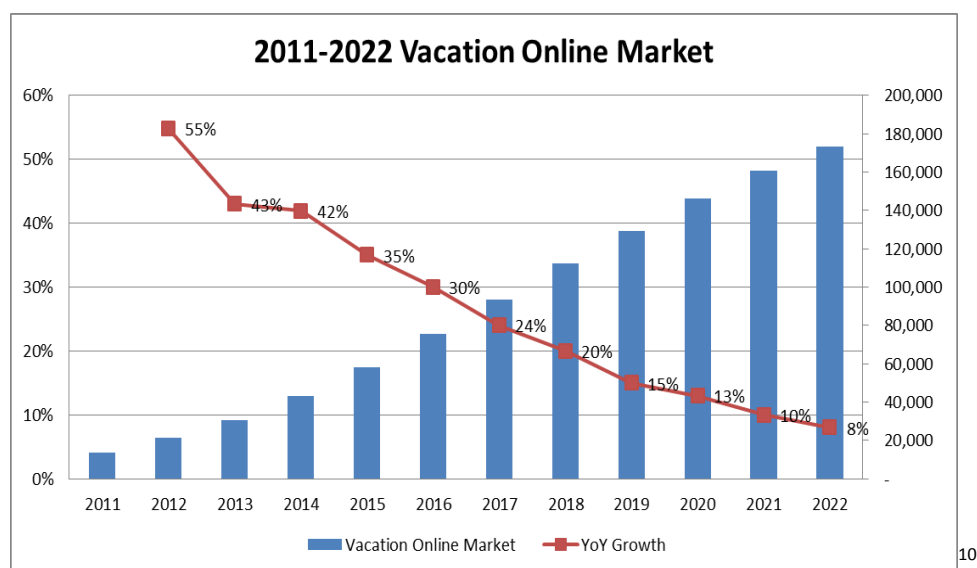
The hotel penetration rate is lower than the air ticket segment. However, as the main battle field of the OTA price war (air-ticket coupons/missions are regulated by the China Government), we have seen an acceleration in the adoption of the online booking method. We expect the penetration rate will reach 85% in 2022. Just like the case in air-ticket segment, we expect corporate travel and phone line bookings make up the rest 15%.

Hotel Analysis												
	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Hotel room nights sold (in mm)	422.0	436.0	462.0	490.0	519.4	546.9	574.8	603.0	631.3	659.7	688.8	717.7
YoY Growth		3.3%	6.0%	6.1%	6.0%	5.3%	5.1%	4.9%	4.7%	4.5%	4.4%	4.2%
Average price per hotel night	464	409	443	420	420	430	440	450	460	460	460	460
Online penetration	16.3%	22.3%	23.7%	40.0%	50.0%	65.0%	70.0%	75.0%	82.0%	83.0%	84.0%	85.0%
Ctrip room nights sold (in mm)	21.5	28.1	40.3	75.4	100.0	140.0	160.0	180.0	210.0			
eLong room nights sold (in mm)	6.3	9.2	25.5	33	39.0	44.4	50.7	57.8	65.8			
Tongcheng room nights sold (in mm)	4.1	8.2	15	23	20.8	28.4	32.2	31.7	36.2			
Qunar room nights sold (in mm)	2.1	7.4	16.1	32.1	55.0	90.0	120.0	140.0	170.0			
Total room nights sold (in mm)	34	52.9	96.9	163.5								
Total penetration of universe companies	8%	12%	21%	33%								
Sources: Company Data and TravelSky												
	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020	2021	2022
Ctrip room nights sold (in % online mtk share)	31.2%	28.9%	36.8%	38.5%	38.5%	39.4%	39.8%	39.8%	40.6%			
eLong room nights sold (in % online mtk share)	9.2%	9.5%	23.3%	16.8%	15.01%	12.50%	12.59%	12.77%	12.72%			
Tongcheng room nights sold (in % online mtk share)	6.0%	8.4%	13.7%	11.7%	8.00%	8.00%	8.00%	7.00%	7.00%			
Qunar room nights sold (in % online mtk share)	3.1%	7.6%	14.7%	16.4%	21.18%	25.3%	29.8%	31.0%	32.8%			
Others	50.6%	45.6%	11.6%	16.6%	17.3%	14.8%	9.8%	9.5%	6.9%			

Packaged tours

The vacation online market grew to 43 billion RMB with a YoY growth rate of 34.9%. This is a sector that directly benefits from the rise of the Chinese middle class and private spending. According to Euromonitor Research, the number of international trips taken by Chinese travelers will double in four years. We believe the online vacation market has a bright future prospect, driven by increasing demand for car rentals, tourist sites and vacation houses.

All non % units in million RMB

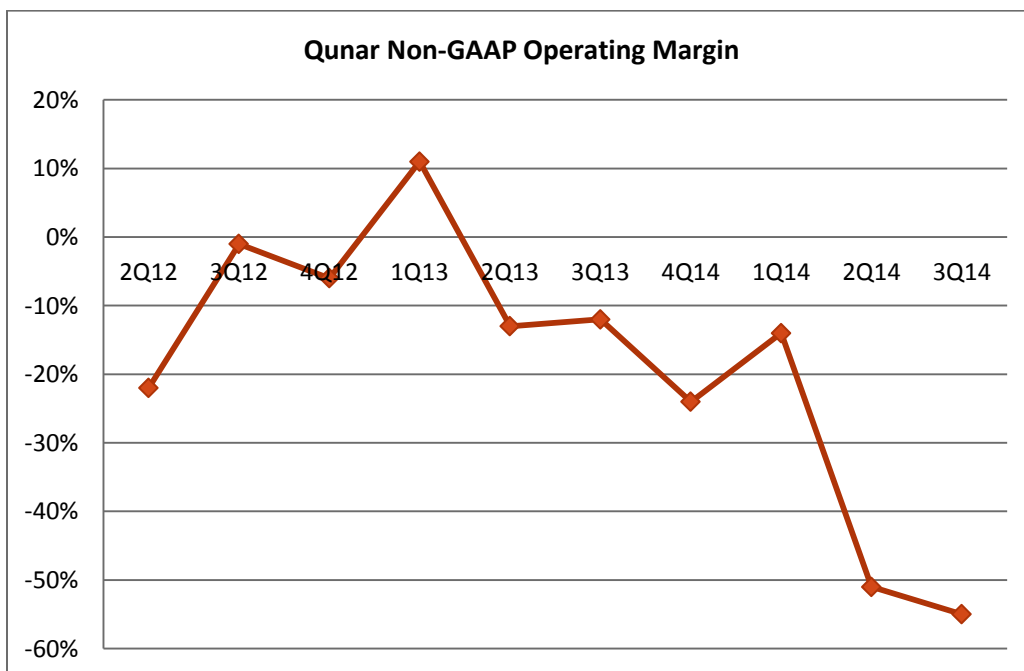


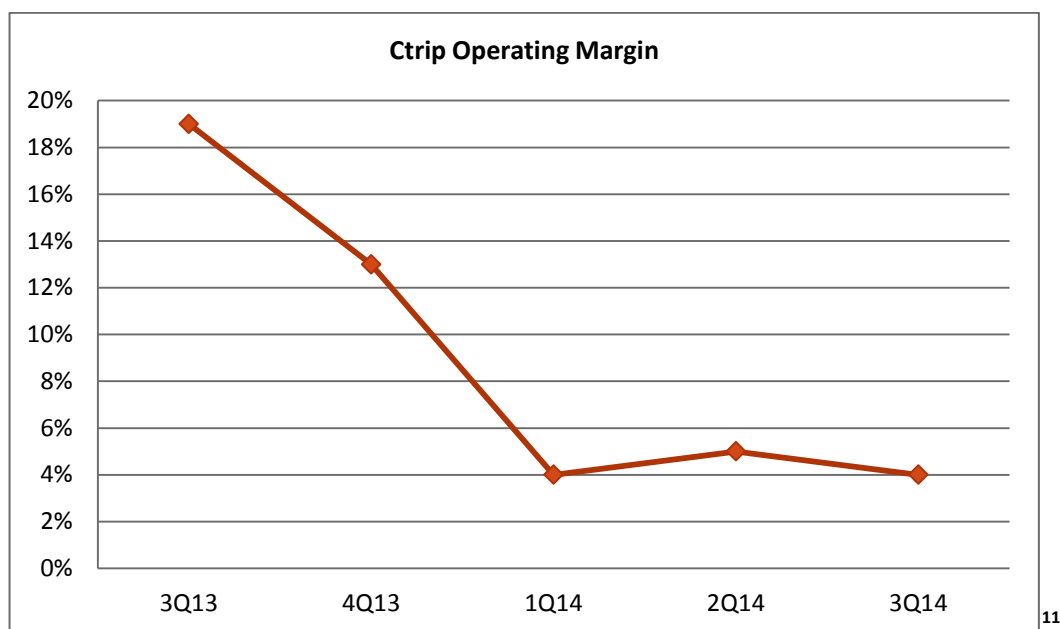
Model Inputs: The 2012-2022 CAGR growth should be slightly higher than the upper middle class spending growth (adjusted by its small base in 2011 and higher online penetration during the period).

¹⁰ 2011-2014 data from iResearch

Industry analysis

- **Bargaining power of suppliers**
 - **Inventory suppliers (airlines, hotels etc): Medium – High**
 - We believe after a series of industry consolidations, remaining players will each have more concentrated market shares, thereby gaining pricing power over its inventory providers.
 - **Traffic suppliers: Medium**
 - Players in this industry have been aggressively acquiring user traffic through social/media platforms
 - Almost all major players accept strategic investments from at least one of China's internet conglomerates, which should benefit traffic growth
- **Barriers to entry: High**
 - In the OTA and marketplace space, it is very hard for new players to enter as existing leaders have already formed strong networks
- **Substitutes: Low**
 - Traditional offline businesses serve as online substitutes, however, offline business do not have structural advantages (cost and scale) when competing with the online giants
- **Bargaining power of customers: Low**
 - During the period of price wars, consumer loyalty are low and their behaviors are more price driven
- **Competition: High (Let the graphs do the talking)**





Major players

Online travel in China is a young and growing industry. There is a mix of publicly traded and private companies in the industry. Fortunately, 4 of the top 5 online travel companies are public, which allows us to build a database with more complete and accurate information.

Public Listed Companies

Company Name	Ticker	Model	Close Price**	Market Cap*	2014 FY P/E
Ctrip	CTRP	OTA	\$58.90	\$8,060	186
Qunr	QUNR	Market Place	\$40.39	\$4,700	-25
Tuniu	TOUR	OTA	\$13.29	\$487	-8
Elong	LONG	OTA	\$16.66	\$625	-150

*: in US\$ mn **: As of 03/30/2015

Ctrip.com (CTRP.N)



Unit in RMB mm	2010	2011	2012	2013	2014E
Revenue	2,881	3,498	4,159	5,387	6,874
EBIT	1,054	1,066	655	838	433
OCF	1,550	1,851	1,654	2,453	1,082

¹¹ Company Data

Ctrip.com International, Ltd. is a leading travel service provider of accommodation reservation, transportation ticketing, packaged tours, and corporate travel management in China. Ctrip aggregates hotel and flight information to enable business and leisure travelers to make informed and cost-effective bookings. Ctrip also helps customer's book vacation packages and guided tours. In addition, Ctrip corporate travel management services help corporate clients effectively manage their travel requirements.



<i>Unit in RMB mm</i>	2010	2011	2012	2013	2014
Revenue	358	482	586	744	1,164
EBIT	47	49	(66)	(178)	83
OCF	85	98	134	52	64

eLong, Inc. (Nasdaq: LONG - News) is a leader in mobile and online accommodations reservations in China offering consumers a network of more than 400,000 properties worldwide. eLong technology enables travelers to book hotels, guesthouses, apartments and other accommodations, as well as air and train tickets, through convenient mobile and tablet applications (m.eLong.com), websites (www.eLong.com), 24 hour customer service, and easy to use tools such as destination guides, maps and user reviews. eLong's largest shareholders are Expedia, Inc. (Nasdaq: EXPE) and Tencent Holdings Ltd. (HKSE: 0700).



<i>Unit in RMB mm</i>	2010	2011	2012	2013	2014
Revenue	124	262	502	851	1,713
EBIT	(4)	(42)	(76)	(153)	(1,412)
OCF	5	(19)	4	(60)	N/A

Qunar, founded in May 2005 and headquartered in Beijing, is the world's most popular Chinese travel platform. According to iResearch in January 2013, its website has around 75 million monthly visits. According to CNNIC's "2012 Chinese Online Travel Consumption Report," Qunar has the largest market share of travel mobile app users in China.



Tuniu (TOUR.N)

<i>Unit in RMB mm</i>	2011	2012	2013	2014E
Revenue	772	1,120	1,962	3,533
EBIT	(100)	(113)	(97)	(451)
OCF	N/A	15	117	(95)

Tuniu (Nasdaq:TOUR) is a leading online leisure travel company in China that offers a large selection of packaged tours, including organized and self-guided tours, as well as travel-related services for leisure travelers through its website tuniu.com and mobile platform. Tuniu has over 550,000 stock keeping units (SKUs) of packaged tours, covering over 140 countries worldwide and all the popular tourist attractions in China. Tuniu provides one-stop leisure travel solutions and a compelling customer experience through its online platform and offline service network, including approximately 650 tour advisors, a 24/7 call center and 75 regional service centers.

Valuation

Our DCF analysis indicates that the industry is overvalued by 1.45% (however, highly sensitive to the discount rate and the terminal growth rate). In previous discussions, we have already covered the major assumptions in terms of market size and revenues. Below are the rationales for the major operation and valuation assumptions:

- **Operating margin:** Assume negative margin in 2015 due to competition, then gradually recover to a mature margin of 32% by 2022 as the industry consolidates and competition eases (refer to operating margins of Baidu/Tencent/Alibaba)
- **FCF/EBIT:** Refer to Chinese online commission-based businesses, the FCF/EBIT fluctuates around 75%.
- **Discount rate:** Long term risk free rate of 2.2%, 1.1 beta and 7% China equity premium.
- **Terminal growth rate:** For the next 15 years following 2022, we expect the industry to grow roughly in line with GDP; cash flows after 2037 become very insignificant when discounted back to PV.

Total Travel Market Size												
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Market Size	2,250,000	2,590,000	2,850,000	3,140,000	3,423,542	3,714,201	4,000,194	4,284,208	4,564,824	4,840,530	5,112,384	5,377,819
YoY Growth		15.0%	10.0%	9.0%	9.0%	8.5%	7.7%	7.1%	6.6%	6.0%	5.6%	5.2%
Sources: iResearch					19,350	19,952	19,752	17,349	15,522	13,493	13,358	12,942
					39,064	43,792	24,179	26,463	34,629	13,751	14,251	14,479
					85,552	63,513	46,630	45,030	47,374	30,235	30,765	31,146
Industry Model												
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Online Travel Market Size	130,500	170,940	219,450	282,286	425,890	552,843	643,154	731,767	829,105	886,398	944,592	1,002,990
YoY Growth		31.0%	28.4%	28.6%	50.9%	29.8%	16.3%	13.8%	13.3%	6.9%	6.6%	6.2%
Online Penetration Rate	5.8%	6.6%	7.7%	9.0%	12.4%	14.9%	16.1%	17.1%	18.2%	18.3%	18.5%	18.7%
Air-ticket	81,770	104,200	131,830	170,000	255,552	319,065	365,695	410,724	458,098	488,333	519,098	550,244
YoY Growth		27.4%	26.5%	29.0%	50.3%	24.9%	14.6%	12.3%	11.5%	6.6%	6.3%	6.0%
Hotel	31,930	39,740	48,540	70,010	109,074	152,866	177,045	203,508	238,137	251,888	266,139	280,619
YoY Growth		24.5%	22.1%	44.2%	55.8%	40.1%	15.8%	14.9%	17.0%	5.8%	5.7%	5.4%
Vacation Package	13,690	21,190	30,300	43,000	62,350	82,302	102,054	119,404	134,926	148,419	161,777	174,719
YoY Growth		55%	43%	42%	45%	32%	24%	17%	13%	10%	9%	8%
Others	3,110	5,810	8,780	(724)	(1,086)	(1,390)	(1,640)	(1,870)	(2,057)	(2,242)	(2,421)	(2,591)
YoY Growth		87%	51%	-108%	50%	28%	18%	14%	10%	9%	8%	7%
OTA Model Revenue	7,860	9,320	11,570	14,350	22,146	27,842	33,444	40,247	47,259	51,411	55,731	60,179
Commission Ratio	6.0%	5.5%	5.3%	5.1%	5.2%	5.0%	5.2%	5.5%	5.7%	5.8%	5.9%	6.0%
Ctrip Revenue	3,498	4,159	5,387	6,874								
eLong Revenue	358	482	586	744								
Tongcheng Revenue	218	336	510	647								
Tuniu Revenue	39	56	98	177								
Qunar Revenue	262	502	851	1,713								
Online Travel Universe Revenue	4,375	5,535	7,432	10,155	17,053	21,561	26,755	32,198	37,807	41,129	44,585	48,144
YoY Growth		26.5%	34.3%	36.6%	67.9%	26.4%	24.1%	20.3%	17.4%	8.8%	8.4%	8.0%
Online Travel Universe Market Share	55.7%	59.4%	64.2%	70.8%	77.0%	78.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
Operating Margin Assumption					0.0%	4.5%	9.0%	15.0%	20.0%	23.0%	25.0%	25.0%
EBIT					-	970	2,408	4,830	7,561	9,460	11,146	12,036
FCF EBIT Ratio					75%	75%	75%	75%	75%	75%	75%	75%
FCF					-	728	1,806	3,622	5,671	7,095	8,360	9,027
PV of FCF					-	602	1,361	2,483	3,537	4,027	4,317	4,242
Sources: iResearch, Company Data & TravelSky												
					IT Risk Free Rate		2.2%	DCF		Industry Value		92,465
					China ADR Premium		7.0%			Total Market Cap		92,000
					Beta		1.1			Over/Under Valuation		0.51%
					Discount Rate Used		9.9%			Over/Under Valuation		3.6%
					Terminal Growth Rate		4.0%			2019 P/E		18.0
										Valuation		95,274
										PEG		0.8

Sensitivity Table

Terminal Growth Rate	Discount Rate					
0.51%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%
3.0%	5.54%	-12.37%	-25.69%	-35.96%	-44.09%	-50.68%
3.5%	13.00%	-7.34%	-22.15%	-33.37%	-42.15%	-49.19%
4.0%	21.96%	-1.47%	-18.09%	-30.46%	-39.99%	-47.55%
4.5%	32.90%	5.46%	-13.41%	-27.15%	-37.58%	-45.74%
5.0%	46.58%	13.78%	-7.95%	-23.38%	-34.87%	-43.73%

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