

COMPANY UPDATE

Ctrip.com International (CTRP)

Buy

1Q08: slower 2Q guidance unfortunate, but not thesis changing**What's changed**

Ctrip reported 1Q08 results on May 14/15. Total net revenue was Rmb340 mn (or US\$48.4 mn), up 47% yoy and down 4% qoq, above our forecast of Rmb332 mn (or US\$46.8 mn) and consensus estimate of US\$46.5 mn, as air-ticketing exceeded our forecast by 10%, while hotel came in slower than expected. Hotel revenue grew 28% yoy, air-ticketing up 68% yoy and package tours revenue was up 67% yoy. Gross margin of 80% was above our estimates of 79%, and operating margin came in line at 32%. GAAP EPS of US\$0.20 was above our estimate of US\$0.19 (consensus US\$0.18). Ctrip guided for 2Q net revenue growth of 30% yoy, versus our forecast of 49% yoy growth and 2008 guidance of 35% yoy.

Implications

Given that Ctrip noted the underlying hotel market has grown approximately 10% yoy so far in 2008 and airline has grown about 11% yoy, we believe the company has demonstrated its execution capability in a challenging environment and continued to make market share gains. We believe the underlying travel market in 2008 is/will be impacted by abnormal events such as the bad weather that occurred in 1Q and recent earthquake, changes in holiday schedules, the Olympics, and the softer economy. We view these events as being disruptive near term, but not thesis changing. We continue to believe the core value for Ctrip resides in its market opportunity in a consolidating the travel agency/resource industry, market share gains, and consistent solid execution. We expect Ctrip will not be affected long-term by non-recurring natural disasters. We maintain our revenue and GAAP EPS estimates for CTRP.

Valuation

Our 12-m TP remains US\$67, based on 34X (35X previously) 2009E non-GAAP EPS estimate of US\$1.97. Our DCF model suggests US\$63 valuation.

Key risks

Faster-than-expected margin erosion due to competition.

INVESTMENT LIST MEMBERSHIP

Asia Pacific Buy List

Coverage View: Neutral

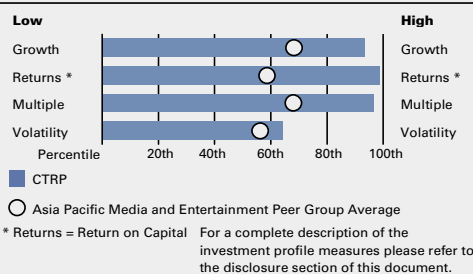
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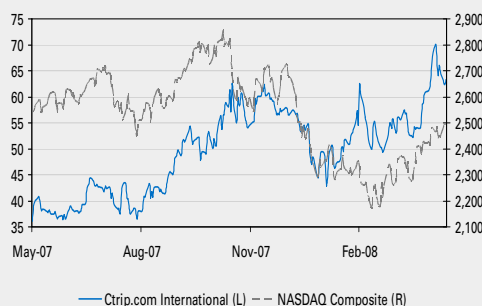
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Investment Profile: Ctrip.com International

Key data	Current
Price (\$)	63.33
12 month price target (\$)	67.00
Market cap (\$ mn / US\$ mn)	4,170.6 / 4,170.6
Foreign ownership (%)	--

	12/07	12/08E	12/09E	12/10E
EPS (\$ New)	0.80	1.13	1.76	2.49
EPS revision (%)	0.0	0.1	(0.4)	(0.0)
EPS growth (%)	(14.9)	41.9	55.2	41.5
EPS (dil) (Rmb) New	5.84	7.38	10.69	14.46
P/E (X)	79.3	55.9	36.0	25.4
P/B (X)	20.1	16.1	12.9	10.5
EV/EBITDA (X)	45.7	44.6	27.7	18.5
Dividend yield (%)	0.5	1.0	2.0	3.6
ROE (%)	32.2	30.9	35.8	39.2

Price performance chart

Share price performance (%)	3 month	6 month	12 month
Absolute	27.9	8.7	75.7
Rel. to NASDAQ Composite	19.5	15.1	79.2

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 5/14/2008 close.

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Ctrip.com International: Summary financials

Profit model (Rmb mn)	12/07	12/08E	12/09E	12/10E	Balance sheet (Rmb mn)	12/07	12/08E	12/09E	12/10E
Total revenue	1,199.1	1,738.8	2,487.0	3,319.0	Cash & equivalents	1,071.0	1,796.5	2,540.3	3,403.4
Cost of goods sold	(149.3)	(221.4)	(381.0)	(547.8)	Accounts receivable	260.7	232.2	328.1	437.8
SG&A	(317.1)	(463.0)	(666.4)	(877.1)	Inventory	0.0	0.0	0.0	0.0
R&D	(154.6)	(249.5)	(368.2)	(517.7)	Other current assets	227.2	125.6	172.1	228.2
Other operating profit/(expense)	(86.9)	(123.8)	(126.3)	(128.8)	Total current assets	1,547.6	2,143.0	3,029.3	4,058.1
EBITDA	430.6	578.2	850.8	1,162.7	Net PP&E	267.2	295.4	330.6	373.7
Depreciation & amortization	(26.3)	(21.0)	(31.9)	(43.9)	Net intangibles	14.6	14.6	14.6	14.6
EBIT	404.3	557.2	818.9	1,118.8	Total investments	0.0	0.0	0.0	0.0
Interest income	16.7	26.4	43.7	59.8	Other long-term assets	360.6	360.6	360.6	360.6
Interest expense	0.0	0.0	0.0	0.0	Total assets	2,124.9	2,748.5	3,670.0	4,741.9
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	296.4	442.9	645.6	867.3
Others	35.3	30.4	27.4	24.4	Short-term debt	162.2	242.3	353.2	474.5
Pretax profits	456.3	613.9	889.9	1,203.0	Other current liabilities	213.7	248.8	405.1	622.2
Income tax	(58.0)	(110.5)	(160.2)	(216.5)	Total current liabilities	672.0	933.8	1,403.6	1,963.8
Minorities	0.0	0.0	0.0	0.0	Long-term debt	0.0	0.0	0.0	0.0
Net income pre-preferred dividends	398.3	503.4	729.7	986.5	Other long-term liabilities	2.8	2.8	2.8	2.8
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	2.8	2.8	2.8	2.8
Net income (pre-exceptionals)	485.2	627.2	856.0	1,115.3	Total liabilities	674.8	936.6	1,406.4	1,966.6
Post-tax exceptionals	(86.9)	(123.8)	(126.3)	(128.8)	Common stock & premium	2.7	2.7	2.7	2.7
Net income	398.3	503.4	729.7	986.5	Other common equity	1,447.4	1,809.2	2,260.8	2,772.6
EPS (basic, pre-except) (Rmb)	7.37	9.52	13.00	16.94	Total common equity	1,450.1	1,812.0	2,263.5	2,775.3
EPS (basic, post-except) (Rmb)	6.05	7.64	11.08	14.98	Minority interest	0.0	0.0	0.0	0.0
EPS (diluted, post-except) (Rmb)	5.84	7.38	10.69	14.46	Total liabilities & equity	2,124.9	2,748.5	3,670.0	4,741.9
DPS (\$)	0.28	0.61	1.29	2.31	BVPS (\$)	2.91	4.08	5.45	7.00
Dividend payout ratio (%)	35.0	54.3	73.6	92.9					
Free cash flow yield (%)	1.8	2.4	3.4	4.4					
Growth & margins (%)	12/07	12/08E	12/09E	12/10E	Ratios	12/07	12/08E	12/09E	12/10E
Sales growth	53.7	45.0	43.0	33.5	ROE (%)	32.2	30.9	35.8	39.2
EBITDA growth	62.9	34.3	47.2	36.7	ROA (%)	22.3	20.7	22.7	23.5
EBIT growth	58.4	37.8	47.0	36.6	ROACE (%)	119.2	151.6	490.7	NM
Net income growth	65.6	26.4	45.0	35.2	Inventory days	NM	NM	NM	NM
EPS growth	(18.7)	26.4	45.0	35.2	Receivables days	60.6	51.7	41.1	42.1
Gross margin	87.5	87.3	84.7	83.5	Payable days	626.1	609.4	521.4	504.0
EBITDA margin	35.9	33.3	34.2	35.0	Net debt/equity (%)	(84.0)	(107.3)	(118.7)	(127.9)
EBIT margin	33.7	32.0	32.9	33.7	Interest cover - EBIT (X)	NM	NM	NM	NM
Cash flow statement (Rmb mn)	12/07	12/08E	12/09E	12/10E	Valuation	12/07	12/08E	12/09E	12/10E
Net income pre-preferred dividends	398.3	503.4	729.7	986.5	P/E (analyst) (X)	79.3	55.9	36.0	25.4
D&A add-back	26.3	21.0	31.9	43.9	P/B (X)	20.1	16.1	12.9	10.5
Minorities interests add-back	(0.0)	0.0	0.0	0.0	EV/EBITDA (X)	45.7	44.6	27.7	18.5
Net (inc)/dec working capital	192.7	239.7	333.3	363.6	Dividend yield (%)	0.5	1.0	2.0	3.6
Other operating cash flow	(224.3)	6.3	(268.7)	(294.7)					
Cash flow from operations	479.8	894.2	952.5	1,228.1					
Capital expenditures	(126.8)	(49.2)	(67.1)	(86.9)					
Acquisitions	(1.6)	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	(141.2)	0.0	0.0	0.0					
Cash flow from investments	(269.6)	(49.2)	(67.1)	(86.9)					
Dividends paid (common & pref)	(72.2)	(119.5)	(141.6)	(278.2)					
Inc/(dec) in debt	0.0	0.0	0.0	0.0					
Common stock issuance (repurchase)	88.0	0.0	0.0	0.0					
Other financing cash flows	0.5	0.0	0.0	0.0					
Cash flow from financing	16.4	(119.5)	(141.6)	(278.2)					
Total cash flow	226.6	725.4	743.9	863.0					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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1Q08 results discussion

Exhibit 1: Ctrip quarterly profit model, actual versus forecast, 1Q2007-2Q2008E

<i>Rmb mn</i>	1Q2007	2Q2007	3Q2007	4Q2007	GS Est. 1Q2008E	Actual 1Q2008	qoq	yoy	versus GS est.	2Q2008E
Hotel reservation	133	171	176	196	178	171	-13%	28%	-4%	200
Air-ticketing	95	117	138	154	145	159	3%	68%	10%	168
Packaged tour	16	13	21	22	23	27	22%	67%	15%	21
Others	5	8	12	11	10	10	-7%	99%	-2%	13
Total revenues	249	309	346	383	356	367	-4%	47%	3%	402
Less: Business and related tax	(17)	(21)	(23)	(27)	(24)	(26)	-3%	54%	7%	(29)
Net revenues	232	288	323	356	332	340	-4%	47%	3%	374
Cost of services	(49)	(57)	(64)	(66)	(70)	(68)	2%	40%	-2%	(76)
Gross profits	184	231	259	290	262	272	-6%	48%	4%	298
Product development	(29)	(36)	(42)	(48)	(45)	(45)	-5%	56%	1%	(52)
Selling and marketing	(45)	(55)	(60)	(69)	(64)	(61)	-12%	34%	-5%	(73)
G&A	(19)	(21)	(23)	(24)	(24)	(22)	-5%	16%	-7%	(25)
Share based compensation	(19)	(23)	(23)	(22)	(22)	(33)	50%	80%	50%	(28)
Operating profits	71	95	111	127	107	110	-13%	55%	3%	119
Interest income	3	3	5	6	6	7	31%	128%	33%	6
Other income (expense)	3	6	14	13	4	19	43%	565%	371%	4
Pretax income	77	104	129	146	116	137	-6%	77%	17%	129
Income tax (expense)	(12)	(16)	(20)	(11)	(21)	(38)	260%	208%	80%	(23)
Net profits	65	88	110	135	95	99	-27%	52%	4%	106
Net profits-core	84	111	133	158	118	132	-16%	58%	12%	135
Non-GAAP basic EPADS (US\$)	0.33	0.22	0.27	0.32	0.25	0.28	-13%	-16%	13%	0.29
Non-GAAP diluted EPADS (US\$)	0.32	0.22	0.26	0.31	0.24	0.27	-13%	-15%	14%	0.29
Basic EP ADS (US\$)	0.25	0.17	0.21	0.26	0.19	0.20	-24%	-20%	4%	0.22
Diluted EP ADS (US\$)	0.25	0.17	0.21	0.27	0.19	0.20	-24%	-18%	5%	0.23
Margins										
Gross margin	79%	80%	80%	81%	79%	80%				80%
Operating margin	31%	33%	34%	36%	32%	32%				32%
Net income (core) margin	36%	39%	41%	44%	35%	39%				36%

Source: Company data, Goldman Sachs Research estimates.

Revenue — 3% above our forecast, growth from air-ticketing, market share gains

Hotel booking revenue increased 28% yoy, 4% below our forecast. Effective from 1Q08, Ctrip stopped disclosing booked room nights due to competitive reasons. Management attributed slower yoy growth in hotel business to overall deceleration in the hotel business. During 2007, the hotel industry grew 15% and CTRP grew about 2.5x as much. So far for 2008, the hotel market has increased 10% yoy and we estimate CTRP grew 2.5-2.8x as much. We believe CTRP continues to gain market share despite a challenging travel market, demonstrating its execution capability and strong product offerings.

Air-ticketing revenue was up 68% yoy, 10% above our forecast. Similarly, management cited tougher market conditions especially in April, where they observed weaker performance in the airline industry and discouraged traveler sentiment. CTRP grew about 4x as much vs. airline industry in 2007, and we estimate over 6x as much so far in 2008, indicating it is continued share gains.

Packaged tours revenue was up 67% yoy, 15% above our forecast, due to increased short-distance long-weekend travel over the holidays.

Other revenue increased 99% yoy in 1Q, inline with our estimate.

Corporate travel. Ctrip cited healthy growth in its newly established corporate travel business, currently booked separately under hotel and air ticketing category respectively, and expects to break it out as a separate line item sometime next year once it accounts for over 5% of total revenue.

Margin and costs

Gross margin came in at 80% in 1Q, compared with our estimate of 79% and 81% in 4Q07, as air ticketing outgrew hotel booking qoq. Non-GAAP operating expenses accounted for 38% of net revenue, down 2% qoq, due to lower-than-expected SG&A expenses. Non-GAAP operating margin was 42% in 1Q, flat qoq, and 3% higher than our expectation. We expect stable margins going forward as CTRP effectively manages its business operations.

Other income

Other income totaled Rmb19 mn for the quarter, versus our estimate of Rmb4 mn. Most of the other income was tax rebates from the Shanghai government. Receivables equated to 91% of revenue in the quarter, up from 68% qoq. We attribute the increase to higher credit card payments – management cited 35% of transactions with Ctrip are through credit cards. Ctrip ended 1Q08 with Rmb1,395 mn of cash on hand (similar to three months ago) and Rmb 20 (or US\$2.88) net cash per share. Long-term deposits totaled Rmb148 mn, up from Rmb1 mn qoq.

2Q08 guidance and forecast adjustments

Management guided for 2Q08 revenue growth of 30% yoy (changing from its usual 35% yoy guidance), and maintained full year guidance of 35% yoy growth. We believe this is due to the expected impact of the recent earthquake. Despite the direct impact of temporary hotel closures and air ticket refunds being potentially limited, we expect the after effects could be more significant than the snow storms, given: 1) given the rescue focus, since airline resources are occupied by the rescue operations near-term; 2) the airline travel bureau has distributed notices discouraging travel to Sichuan province, which could potentially slow the travel pattern for some time; 3) infrastructures like railroads and hotels will take time to be rebuilt; and 4) the overall sentiment, especially on leisure travel around the area, could take some time before recovering. We are lowering our 2Q estimates to the guidance level given the near term challenging market environment, while maintaining the full year 2008 estimates in anticipation of a potential recovery in travel activities in 3Q and/or 4Q (our best guess on net effect from the Olympics is still neutral).

For 2Q08, we model:

- Hotel reservation revenue up 16% yoy
- Air ticketing business revenue up 44% yoy
- Packaged tour revenue up 67% yoy
- Other revenue up approximately Rmb3 mn qoq
- Overall gross margin of 80%, down 20bps qoq
- Non-GAAP operating margin of 39.5%, down 2.7% qoq

For 2Q08, we are lowering our net revenue estimate from Rmb429 mn (or US\$62.0 mn) to Rmb374 mn (or US\$55.6 mn), and GAAP EPS estimate from US\$0.27 to US\$0.23. We are maintaining our 2008 net revenue estimate of Rmb1.74 bn (or US\$250.9 mn) and GAAP EPS estimates of US\$1.09; and 2009 net revenue estimate of Rmb2.49 bn (or US\$383.9 mn) and GAAP EPS estimates of US\$1.70.

Reg AC

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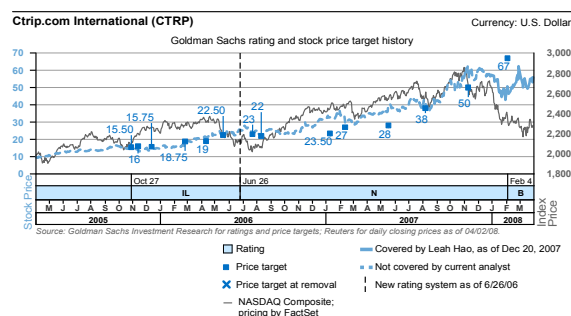
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