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Ctrip.com International Ltd.

CTRP	\$63.33
Rating	Neutral
Price Target	N/A

Market Cap(\$M)	4372
52 Week Range(\$)	35.26 -70.89
Enterprise Value(\$M)	4195
Shares Outstanding (\$M)	69.042
Average Daily Volume (M)	0.91
Cash Per Share(\$)	2.88
Divident Yield	0.4%

GAAP Earnings (FY Ends December)

EPS(US\$)	2007A	2008E	Prior	2009E	Prior
1Q	0.12	0.20	0.18		
2Q	0.17	0.24	0.25		
3Q	0.21	0.27	0.30		
4Q	0.27	0.29	0.33		
FY	0.78	1.01	1.07	1.73	1.61
P/E	81.5x	63.0x		36.6x	

Non-GAAP Earnings

1Q	0.16	0.27	0.23		
2Q	0.22	0.29	0.30		
3Q	0.26	0.33	0.35		
4Q	0.31	0.35	0.38		
FY	0.95	1.25	1.26	1.75	1.75
P/E	66.9x	50.8x		36.1x	
Net Rev.(\$M)					
1Q	30.1	48.6	45.7		
2Q	37.8	55.8	56.3		
3Q	43.1	63.4	63.7		
4Q	48.8	68.9	69.9		
FY	159.8	236.6	235.5	328.7	323.8
EV/Revenue	26.2x	17.7x		12.8x	

Exchange rate: US\$ 1 = RMB 7.012

CTRP Share Price (LTM)


Source: SFG Research and company reports

Ctrip.com International Ltd.
CTRP: \$63.33
Downgrade to Neutral on Valuation

Yesterday, Ctrip reported 1Q earnings results above estimates despite the negative impact from the snowstorm. However, the company reduced its 2Q08 revenue growth guidance to 30% Y/Y from 35%, due in large part to some events that are one-time in nature. Management is still very positive on the overall business environment and maintains its CY08 guidance at 35%. As Ctrip's share price has approached our price target of \$65, we are lowering our rating from Positive to Neutral.

HIGHLIGHTS

- **1Q results beat estimates, but with deceleration signs.** Revenue came in at \$48.6 mln, above our forecast of \$45.6 and consensus of \$46.5 mln. Reported GAAP EPS was \$0.20, \$0.02 higher than our and consensus estimates. Non-GAAP EPS, which excludes share-based compensation expense, was \$0.27 vs. our estimate of \$0.23. Hotel booking and air-ticketing accounted for 47% and 43% of total revenue, respectively. The heavy snowstorm did not lead to significant cancellations for Ctrip, but the industry slowed down in March and April. According to airline carriers' data, the Y/Y growth in passenger numbers decreased to 8% from 13% in the prior quarter. As a result, Ctrip saw some deceleration: hotel revenue Y/Y growth eased to 28% from 40%+, and air ticketing to 68% from 72% last quarter. **Neutral Factor**
- **2Q revenue forecast below expectations, due to several one-time events.** Ctrip lowered its 2Q revenue guidance from 35% to 30%. While management has been conservative habitually, we think there are reasons this time: 1) shorter May 1 holiday reduced travel volumes. According to our proprietary travel booking indexes, hotel and air ticket booking volume in April only saw 15% and 28% Y/Y growth, respectively; and 2) the recent earthquake in the southwest should cause similar damage as the snowstorm in 1Q. *That said, we view these issues as one-time in nature, and should not change the company's long-term growth potential.* **Negative Factor**
- **Some uncertainty in 3Q due to Olympic games.** The Beijing Olympic Games represent a catalyst for China's tourism industry as many people will travel to Beijing to watch the game. However, due to air travel restrictions and hotel supply shortage in Beijing during game time, Ctrip may see slower growth in certain areas. **Negative Factor**
- **Margins.** In 1Q, gross margin, operating margin, and non-GAAP net margin decreased to 80%, 32%, and 39%, respectively, 135 bps, 330 bps, and 500 bps lower Q/Q. The decreases are mainly attributable to three factors: 1) lower margin air ticketing business contributing a bigger portion of total revenue; 2) effective tax rate was 28% in 1Q as a result of new PRC Enterprise Income Tax Law; and 3) share-based compensation was RMB 33 mln, 50% higher Q/Q. Management did indicate that margins will stabilize going forward. **Negative Factor**
- **Adjusting estimates.** Our CY08 and CY09 revenue forecasts are adjusted slightly up to \$236.6 mln and \$328.7 mln, vs. \$235.5 mln and \$323.8 mln previously. For the corresponding periods, we model non-GAAP EPS to be \$1.25 and \$1.75, almost unchanged from previous estimates \$1.26 and \$1.75.

VALUATION

We move our rating on CTRP from Positive to Neutral on valuation and a lack of positive catalysts in the medium term. Our price target for shares of Ctrip.com was \$65, which assumed a target P/E of 37x applied to our 2009 non-GAAP EPS estimate of \$1.75. Our 37x P/E ratio is based on a long-term growth rate of about 35%, implying a PEG ratio of 1.1x. In light of few catalysts in the medium term, we believe Ctrip's P/E multiple could edge lower to the low end of its historical range of 35-45x, though we believe Ctrip will ultimately surpass Expedia (EXPE: Positive, covered by SFG Internet and Telecom Software analyst Marianne Wolk; market cap ~\$6 bln) in market cap, and become the largest online travel booker in the world in the long run.

RISKS

One key risk factor is a substantial slowdown in the Chinese economy, which could lead to fewer travel activities, particularly considering ~80% of CTRP's customers are business travelers. Second, despite not being a near-term threat, direct sales by travel suppliers such as airline operators and chain hotels could mean competition between different components in the industry value chain. Last, intensifying competition from eLong and vertical search engines could pressure its margins and growth potential.

COMPANY DESCRIPTION

Ctrip.com International Ltd. (CTRP), headquartered in Shanghai China, provides travel-related services, including hotel reservation, air-ticketing, packaged-tour services, Internet-related advertising, and other related services in China. Ctrip.com offers its services to customers through a transaction and service platform consisting of centralized toll-free customer service centers and bilingual web sites. The company was co-founded by James Jianzhang Liang, Neil Nanpeng Shen, Min Fan, and Qi Ji in 1999.

Figure 1. Ctrip P&L Analysis (in RMB mln except per share data)

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08E	3Q08E	4Q08E	2005	2006	2007	2008E	2009E
Hotel reservation	95.6	117.9	125.1	137.8	133.5	171.4	175.6	196.0	171.2	210.9	208.9	239.8	362.9	476.5	676.5	830.8	1100.8
Air-ticketing	59.8	72.7	81.0	89.5	94.6	116.9	137.7	154.2	158.5	177.1	213.4	224.5	162.6	303.0	503.5	773.5	1191.2
Packaged-tour	9.3	8.6	12.9	11.0	16.0	12.9	20.7	22.0	26.8	17.4	33.1	35.1	22.8	41.7	71.5	112.4	166.3
Travel	164.7	199.2	219.0	238.3	244.1	301.2	333.9	372.2	356.5	405.3	455.4	499.4	548.3	821.2	1251.5	1716.6	2458.3
Others	2.6	3.3	3.6	3.4	5.1	8.0	11.9	10.9	10.1	14.3	21.4	19.5	8.0	12.8	35.8	65.4	10.3
Total revenues	167.3	202.5	222.6	241.7	249.2	309.2	345.8	383.1	366.7	419.6	476.8	518.9	556.2	834.0	1287.3	1782.1	2468.6
Less: business tax and related surcharges	-11.2	-12.5	-14.4	-15.9	-17.0	-21.2	-23.2	-26.9	-26.2	-29.4	-33.4	-36.3	-35.0	-54.1	-88.2	-125.3	-167.9
Net revenues	156.0	190.0	208.2	225.8	232.2	288.0	322.7	356.2	340.5	390.3	443.5	482.6	521.2	780.0	1199.1	1656.8	2300.7
Cost of services	-28.2	-35.6	-43.6	-45.8	-48.6	-57.2	-64.0	-66.4	-68.0	-74.2	-84.3	-91.7	-88.6	-153.1	-236.2	-318.1	-414.1
Gross profit	127.9	154.5	164.5	180.0	183.7	230.8	258.7	289.8	272.5	316.1	359.2	390.9	432.6	626.8	962.9	1338.7	1886.6
Operating Expenses																	
Product development	-19.8	-21.3	-23.7	-27.4	-29.2	-35.6	-42.0	-47.8	-45.4	-50.7	-57.7	-62.7	-57.2	-92.2	-154.6	-216.6	-280.7
Sales and marketing	-32.5	-39.5	-45.4	-46.4	-45.4	-55.4	-59.9	-68.9	-60.9	-74.2	-84.3	-91.7	-112.3	-163.9	-229.7	-311.0	-432.5
General administrative	-12.4	-14.1	-17.0	-17.2	-19.4	-21.4	-22.9	-23.7	-22.4	-29.3	-33.3	-36.2	-41.1	-60.7	-87.4	-121.1	-161.1
Share-based compensation	-13.3	-13.3	-14.2	-13.9	-18.6	-23.1	-22.9	-22.4	-33.5	-28.0	-28.0	-28.0	-1.8	-54.7	-86.9	-117.5	-12.0
Total operating expenses	-78.0	-88.3	-100.3	-105.0	-112.6	-135.6	-147.7	-162.7	-162.2	-182.2	-203.2	-218.6	-213.1	-371.6	-558.6	-766.1	-886.3
Income(loss) from operations	49.8	66.1	64.2	75.0	71.1	95.2	111.0	127.1	110.3	134.0	156.0	172.3	219.5	255.2	404.3	572.6	1000.3
Interest Income	4.3	4.5	3.7	3.1	3.3	3.1	4.7	5.7	7.5	6.0	6.2	6.4	12.7	15.6	16.7	26.1	30.0
Other Income	2.7	0.6	8.1	-0.3	2.8	5.7	13.6	13.2	18.9	13.0	13.0	13.0	22.9	11.2	35.3	57.9	40.0
Income tax expense	-8.5	-10.6	-11.3	-10.9	-12.2	-15.7	-19.5	-10.5	-37.8	-38.2	-43.8	-47.9	-30.6	-41.3	-58.0	-167.7	-214.1
Minority interests	0.0	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-0.2	0.0	0.0	0.0
Net income	48.4	60.5	64.7	66.9	64.9	88.2	109.7	135.5	98.8	114.7	131.4	143.8	224.2	240.6	398.3	488.8	856.3
EPS(US\$)	0.18	0.23	0.25	0.13	0.12	0.17	0.21	0.27	0.20	0.24	0.27	0.29	0.84	0.93	0.78	1.01	1.73
Adjusted operating income (excl. stock option cost)	63.1	79.5	78.4	88.9	89.7	118.3	133.8	149.4	143.8	162.0	184.0	200.3	219.5	309.9	491.2	690.0	1012.3
Adjusted net income	61.7	73.9	78.9	80.8	83.5	111.3	132.5	157.9	132.3	142.7	159.4	171.8	224.2	295.2	485.2	606.2	868.3
Adjusted EPS (US\$)	0.23	0.14	0.15	0.15	0.16	0.22	0.26	0.31	0.27	0.29	0.33	0.35	0.84	0.67	0.95	1.25	1.75
Shares used in EPS calculation	65.6	66.5	66.7	67.0	67.5	67.8	68.4	69.1	69.0	69.2	69.5	69.7	32.7	66.5	68.2	69.4	70.7
Exchange rate for RMB to US \$1	8.02	7.99	7.90	7.80	7.72	7.61	7.49	7.29	7.01	7.00	7.00	7.00					
Segment Analysis																	
Hotel reservation	57%	58%	56%	57%	54%	55%	51%	51%	47%	50%	44%	46%	65%	57%	53%	47%	45%
Air-ticketing	36%	36%	36%	37%	38%	38%	40%	40%	43%	42%	45%	43%	29%	36%	39%	43%	48%
Packaged-tour	6%	4%	6%	5%	6%	4%	6%	6%	7%	4%	7%	7%	4%	5%	6%	6%	7%
Others	2%	2%	2%	1%	2%	3%	3%	3%	3%	3%	4%	4%	1%	2%	3%	4%	0%
Margin Analysis																	
Gross profit margin	82%	81%	79%	80%	79%	80%	80%	81%	80%	81%	81%	81%	83%	80%	80%	81%	82%
Operating profit margin	32%	35%	31%	33%	31%	33%	34%	36%	32%	34%	35%	36%	42%	33%	34%	35%	43%
Net profit margin	31%	32%	31%	30%	28%	31%	34%	38%	29%	29%	30%	30%	43%	31%	33%	29%	37%
Adjusted operating profit	40%	42%	38%	39%	39%	41%	41%	42%	42%	42%	42%	42%	42%	40%	41%	42%	44%
Adjusted net income	40%	39%	38%	36%	36%	39%	41%	44%	39%	37%	36%	36%	43%	38%	40%	37%	38%
Cost and Expenses (as % of rev)																	
Less: business tax and related surcharges	-7%	-6%	-6%	-7%	-7%	-7%	-7%	-7%	-7%	-7%	-7%	-7%	-6%	-6%	-7%	-7%	-7%
Cost of services	-18%	-19%	-21%	-20%	-21%	-20%	-20%	-19%	-20%	-19%	-19%	-19%	-17%	-20%	-20%	-19%	-18%
Product development	-13%	-11%	-11%	-12%	-13%	-12%	-13%	-13%	-13%	-13%	-13%	-13%	-11%	-12%	-13%	-13%	-12%
Sales and marketing	-21%	-21%	-22%	-21%	-20%	-19%	-19%	-19%	-18%	-19%	-19%	-19%	-22%	-21%	-19%	-19%	-19%
General administrative	-8%	-7%	-8%	-8%	-8%	-7%	-7%	-7%	-7%	-8%	-8%	-8%	-8%	-8%	-7%	-7%	-7%
Total operating expenses	-50%	-46%	-48%	-46%	-48%	-47%	-46%	-46%	-48%	-47%	-46%	-45%	-41%	-48%	-47%	-46%	-39%
Growth (Y/Y)																	
Hotel reservation	36%	28%	30%	33%	40%	45%	40%	42%	28%	23%	19%	22%	0%	31%	42%	23%	33%
Air-ticketing	109%	98%	76%	75%	58%	61%	70%	72%	68%	51%	55%	46%	158%	86%	66%	54%	54%
Packaged-tour	173%	48%	97%	56%	73%	49%	61%	100%	67%	35%	60%	60%	117%	83%	71%	57%	48%
Others	259%	26%	122%	12%	97%	141%	232%	222%	99%	80%	80%	80%	77%	61%	179%	83%	30%
Total revenues	62%	47%	48%	46%	49%	53%	55%	59%	47%	36%	38%	35%	57%	50%	54%	38%	39%
Gross profit	56%	41%	41%	44%	44%	49%	57%	61%	48%	37%	39%	35%	52%	45%	54%	39%	41%
Adjusted operating profit	61%	39%	26%	47%	42%	49%	71%	68%	60%	37%	38%	34%	62%	41%	59%	40%	47%
Adjusted net income	56%	31%	20%	29%	35%	51%	68%	95%	58%	28%	20%	9%	68%	32%	64%	25%	43%
Growth (Q/Q)																	
Hotel reservation	-8%	23%	6%	10%	-3%	28%	2%	12%	-13%	23%	-1%	15%					
Air-ticketing	17%	22%	11%	11%	6%	24%	18%	12%	3%	12%	20%	5%					
Packaged-tour	32%	-7%	49%	-15%	46%	-20%	61%	6%	22%	-35%	91%	6%					
Others	-14%	27%	9%	-6%	51%	56%	50%	-9%	-7%	41%	50%	-9%					
Total revenues	1%	21%	10%	9%	3%	24%	12%	11%	-4%	14%	14%	9%					
Gross profit	2%	21%	7%	9%	2%	26%	12%	12%	-6%	16%	14%	9%					
Adjusted operating profit	4%	26%	-1%	13%	1%	32%	13%	12%	-4%	13%	14%	9%					
Adjusted net income	-1%	20%	7%	2%	3%	33%	19%	19%	-16%	8%	12%	8%					

Source: Company reports, SFG Research

APPENDIX: IMPORTANT DISCLOSURES

SFG is a market maker in the securities of the subject company.

SIG, its affiliates and/or its principals may have long or short positions in securities or related issues mentioned here. SIG, in its capacity as specialist and/or market maker, may execute orders on a principal basis in the subject securities. Information presented is from sources believed to be reliable, but is not guaranteed to be accurate or complete. The research analyst primarily responsible for this report attests that the views expressed accurately reflect his or her personal views and that no part of his or her compensation was, is, or will be related to any specific views in any research report.

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SFG employs the following rating system:

Positive: The data points compiled and the analysis conducted by the research analyst sum up or “net” out to an overall positive view. This is not a net positive for the company, but a net positive for the stock, meaning the information and analysis contained in the report are not reflected in the current stock price and could reasonably be expected to have a positive or appreciating effect (when widely available to the public) on the current stock price.

Neutral: The data points compiled and the analysis conducted by the research analyst sum up or “net” out to an overall neutral view. This is not a net neutral for the company, but a net neutral for the stock, meaning the information and analysis contained in the report are either NOT reflected in the current stock price and could reasonably be expected to have no effect (when widely available to the public) on the current stock price, OR the information contained in the note is already reflected in the current stock price.

Negative: The data points compiled and the analysis conducted by the research analyst sum up or “net” out to an overall negative view. This is not a net negative for the company, but a net negative for the stock, meaning the information and analysis contained in the report are NOT reflected in the current stock price and could reasonably be expected to have a negative or depreciating effect (when widely available to the public) on the current stock price.

Suspended: The previously published rating and/or estimates are currently suspended and under review.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

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Prior to May 2, 2005 SFG employed a rating system as follows:

Net Positive which carried the same definition as Positive above

Net Neutral which carried the same definition as Neutral above

Net Negative which carried the same definition as Negative above

SFG Fundamental Research: 211 companies under coverage (as of 3-31-2008)

Covered companies in each rating category

Positive (Buy): 60% (127 securities)

Neutral (Hold): 37% (78 securities)

Negative (Sell): 2% (5 securities)

Investment banking clients in each rating category

Positive (Buy): 9% (11 securities)

Neutral (Hold): 0% (0 securities)

Negative (Sell): 0% (0 securities)

From January, 2006 to June, 2006 SFG used the following ranking system in addition to the above.

SIG Q SCORE™ is a hybrid quantitative modeling tool designed to cover a broad universe of stocks. It compares multi-factor analysis of historical, company reported financials and other quantitative trading and performance data to derive a ranking designed to provide a relative performance tool. The end result is a composite rank from 1 to 5 with 5 indicating the highest predicted return. The ranking is meant to be regarded as an indicator of relative performance. Based on these rankings, we would expect stocks ranked 5 to outperform those ranked 4 or lower over the next 12 months, those ranked 4 to outperform those ranked 3 or lower, and so on. The entire universe of analyzed stocks (of which SFG Small-Cap coverage is a subset) is divided into fifths, such that the percentage of stocks in each category will remain largely consistent over time. Changes in quantitative and other factors that occur after the ranking are not reflected until the model is run again next quarter.

Beginning July, 2006 SFG changed the ranking system to include only three SIG Q SCORE rankings from 1 to 3, with a SIG Q SCORE of 1 representing the highest ranking. The methodology of computing the rankings remains as above; however, the result is now divided into thirds rather than fifths and the order inverts with 1 now being the highest ranking.

SFG Small-Cap Research: 0 companies under coverage (as of 03-31-2008)

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Price/Rating Chart Legend for all charts below

Net Neut Net Neutral	Cov Disc Coverage Discontinued
Net Pos Net Positive	Cov Res Coverage Resumed
Net Neg Net Negative	◆ Indicates SIG Q SCORE system change, 07-01-2006
▲ Indicates Split	* Indicates previous SIG Q SCORE system ranking

All dates are in mm-dd-yyyy format.

Ctrip.com International Ltd. (CTRP)