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May 19, 2020

Booking Holdings Inc. (BKNG)

$1,557.43 (As of 05/18/20)

Price Target (6-12 Months): **$1,324.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/29/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: F | Growth: F | Momentum: F	**5-Strong Sell** VGM:F

Summary

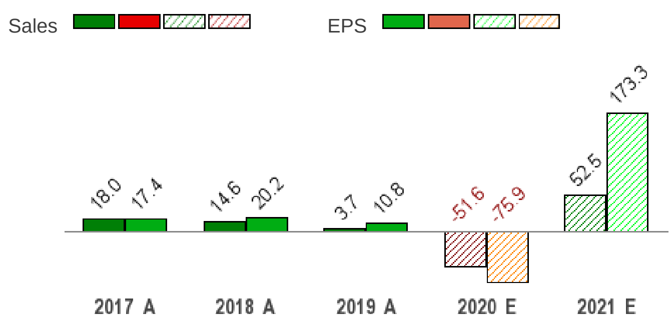
Booking Holdings reported unimpressive first-quarter results wherein both earnings and revenues declined year over year owing to coronavirus (COVID-19) pandemic. Notably, the stock has underperformed its industry on a year-to-date basis. COVID-19-induced disruptions in the global travel industry were major negatives. The company witnessed a spike in the cancellation rate of bookings on account of adherence to social distancing globally. Moreover, declining booked room nights number affected the company. Further, a steep decline in the airline tickets unit was a headwind. Nevertheless, the company has started witnessing improvement in domestic bookings in a few countries where stay-at-home restriction has been relaxed since April. However, this pandemic situation is likely to persist as a major headwind to the travel space in the near term.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$2,094.00 - $1,107.29**
20 Day Average Volume (sh)	**593,705**
Market Cap	**$63.7 B**
YTD Price Change	**-24.2%**
Beta	**1.03**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Internet - Commerce**
Zacks Industry Rank	**Top 10% (26 out of 254)**
Last EPS Surprise	**-25.9%**
Last Sales Surprise	**4.0%**
EPS F1 Est- 4 week change	**-59.1%**
Expected Report Date	**08/05/2020**
Earnings ESP	**-7.7%**
P/E TTM	**16.2**
P/E F1	**63.1**
PEG F1	**5.2**
P/S TTM	**4.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,979 E	2,606 E	3,733 E	2,621 E	11,111 E
2020	2,288 A	511 E	2,052 E	2,158 E	7,288 E
2019	2,837 A	3,850 A	5,040 A	3,339 A	15,066 A

EPS Estimates

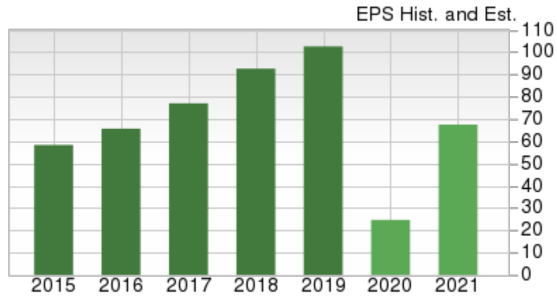
	Q1	Q2	Q3	Q4	Annual*
2021	$3.62 E	$14.31 E	$33.73 E	$15.93 E	$67.47 E
2020	$3.77 A	-$10.63 E	$13.48 E	$13.42 E	$24.69 E
2019	$11.17 A	$23.59 A	$45.36 A	$23.30 A	$102.57 A

*Quarterly figures may not add up to annual.

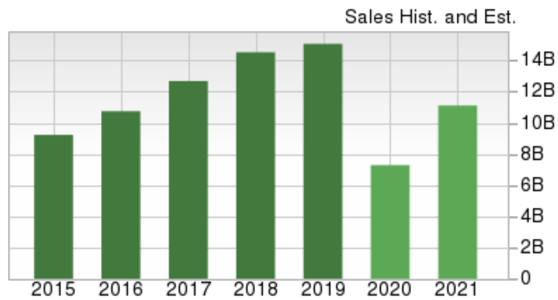
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/18/2020. The reports text is as of 05/19/2020.

Overview

Norwalk, Connecticut-based Booking Holdings Inc. is one of the largest online travel companies in the world. The company's travel-related offerings cover hotel rooms, airline tickets, rental cars, vacation packages, cruises, "things to do" at customer destinations and travel insurance.



The company has agreements with hotels, airlines companies, cruise ships, transport companies and vacation providers, which enable it to accept bookings on their behalf. Information on these offerings and customer reviews are available on the company's owned or operated websites, thus helping customers take informed decisions.



Services in the U.S. are provided through the Booking Holdings.com website. The company employs two marketing strategies in the U.S.—"price-disclosed" and "name your own price" or "opaque".

International revenues are generated through Booking.com and Agoda. Booking.com is older and therefore, has more patrons. Agoda is an Asian company acquired in 2007. Booking Holdings's investment in Chinese travel company Ctrip facilitates the use of each other's inventories in China and the U.S.

International results are comprised of revenues from rentalcars.com and Kayak. While rentalcars.com allows it to take rental car reservations, Kayak enables comparative shopping of Booking Holdings inventories. The acquisition of OpenTable that has allowed it to expand into restaurant reservations space, also contributes to the international revenues.

Booking Holdings distributes its services through merchant (31.4% of 2019 bookings, 25.4% of 2019 total revenues) and agency (68.6%, 67.2%) channels. It also generates around 7.4% of revenues through advertisements on its websites, classified as the Advertising & Other category.

The agency model is more lucrative for the company. It generates revenues from travel-related transactions which include travel reservation commissions, GDS reservation booking fees and certain travel insurance fees.

Merchant model revenues are also derived from travel-related transactions which include ancillary fees, credit card processing rebates, customer processing fees along with the ones included in agency model.

Advertising & Other revenues are generated from KAYAK and Open Table.

Reasons To Sell:

> Macro headwinds, rising advertising costs, intensifying competition and occupancy tax-related litigation remain overhangs for Booking Holdings.

- Booking Holdings has been **increasing advertising spend**. Management is trying to take share in the U.S. for which it has embarked on an extensive offline brand advertising campaign in addition to continuing strong online advertising. As a result, performance and brand advertising expenses increased significantly in the recent years. Total performance advertising expenses were $4.4 billion, $4.4 billion and $4.2 billion in 2019, 2018 and 2017, respectively. Total brand advertising expenses were $548 million, $509 million and $435 million in 2019, 2018, 2017, respectively. The increased advertising spend is necessitated by the fact that the company has a very strong competitor in Expedia in the domestic market. Capturing mindshare involves sustained investments in brand building, so this expense is not necessarily a negative although it can negatively impact results in the near term.

- Despite significant investments as well as branding and promotional initiatives, the **domestic business remains small**. Booking Holdings tried to leverage its Booking.com brand and Ctrip investments to build the business, but these efforts have not yielded desired results as yet. There were also high hopes of the OpenTable acquisition adding to its growth, but this too doesn't appear to have materialized, since growth rates have in fact come down since then. Limited presence in the domestic market is particularly significant in the current environment because the stronger dollar is increasing the cost of travel for inbound tourists and thereby impacting these sales. On the other hand, cost of travel for Americans has fallen with the dollar strengthening, which although good for outbound travel, is not an opportunity the company can exploit because it doesn't have good brand position yet.

- Booking Holdings also has a leveraged balance sheet. As of Mar 31, 2020, the company's net debt was $364 million compared with $330 million as of Dec 31, 2019. Accumulating high debt levels might restrict sufficient cash flow generation which is needed to meet future debt obligations. Moreover, this may keep the company away from accessing the debt market and refinancing at suitable rates. Notably, debt-to-total capital was 72.3% as of Mar 31, 2020 which increased from 63% as of Dec 31, 2019.

- Similar to other online travel companies, Booking Holdings is also **facing a significant amount of litigation**. This is mainly because there seems to be a doubt about whether its revenue is taxable under the tax ordinances applicable to hotels. This is mainly due to the fact that there seems to be a doubt as to whether its revenue is taxable under the tax ordinances applicable to hotels. It has been argued that had the hotels charged customers directly, they would have charged higher rates than they charge the online travel companies, which acquire inventory at wholesale prices. Therefore, a higher amount would have come under the ambit of occupancy tax. Just because the revenue is now being split with a booking company, there is no reason for it to be exonerated. The arguments in favor of the online travel companies are first, they do not own or operate hotels. Second, they are already collecting and remitting to hotels the tax on wholesale prices which are being paid by the hotel. And third, offline selling agents are not required to pay occupancy tax, so there should not be an exception for online agents. However, certain facts have come to light regarding the taxes collected by online travel companies. It appears that they have been collecting cash from customers in the name of occupancy taxes on the retail value of rooms sold, but remitting taxes on wholesale prices to hotels, keeping the balance. Online travel companies have been winning some cases and losing some, but they have had to pay significant amount of taxes in some states.

Risks

- The online travel booking segment has **secular growth drivers**. The biggest of these is the shift from offline to online booking challenges. The strong growth rates might lead one to believe that growth through this channel is reaching its zenith especially given the proliferation of mobile devices. But the travel market is actually extremely fragmented, so significant growth opportunity remains. Second, many international markets have significantly lower penetration rates than the U.S. Third, there is a growing middle class in many geographies that increasingly lives online. This is a segment companies like Booking Holdings are extremely well positioned to tap. And fourth, the company does have a world-class platform which helps it win this business.

- Booking Holdings generates the bulk of its business from international markets where growth prospects are greater than in the domestic market. According to PhoCusWright, online travel booking in Europe is growing at a faster rate than in the U.S. with penetration rates already higher. Since Booking Holdings is very strongly positioned here, it will be able to benefit from increasing penetration rates. Latin America and Asia Pacific are at a nascent stage, but are believed to have significant long-term growth potential. Booking Holdings has increased focus on these regions through Agoda, booking.com and its agreement with Ctrip which enables it to share inventory and thereby capture outbound traffic from China. It is also able to use Ctrip inventory for people looking to travel to China.

- Further, Booking's strong initiatives to bolster its presence in North American OTA market remains positive. Its brand has strong popularity in Europe. The company is in a position to leverage this popularity to capture a share of international travel into the U.S. Its agreement with and subsequent investments in Ctrip have also furthered this objective. It also acquired OpenTable to further beef up its domestic business. Booking Holdings has supplemented these initiatives with brand-building actions using both online and offline channels. Most notable of these was an agreement with TripAdvisor to join its Instant Booking platform. While still a very small part of its business, this could familiarize the brand with Americans. Management said in the last earnings call that the arrangement was working on track with expectations.

- Booking Holdings's **sales approach** enables it to serve both premium and cost-conscious customers, at the same time helping to mobilize its suppliers' excess room nights. Room nights not used are lost forever and the low occupancy rate lowers margins for the seller. Booking Holdings's opaque business takes care of this problem by selling suppliers' excess room nights to cost conscious customers at a discount. Customers' preferences regarding the kind of accommodation/car/etc are considered, but the supplier's name is not disclosed at the outset. This protects supplier pricing models, while helping them mobilize inventory. It also generates additional revenue for Booking Holdings. However, as more competitors adopt the opaque model, growth rates through its adoption are likely to slow. It also doesn't do as well when the travel market strengthens simply because there is less available inventory. The "name your own price" model is popular even among airline companies.

Last Earnings Report

Booking Holdings Q1 Earnings Miss, Revenues Down Y/Y

Quarter Ending	03/2020
Report Date	May 07, 2020
Sales Surprise	3.96%
EPS Surprise	-25.93%
Quarterly EPS	3.77
Annual EPS (TTM)	96.02

Booking Holdings reported first-quarter 2020 non-GAAP earnings of $3.77 per share, which missed the Zacks Consensus Estimate by 25.9%. Further, it declined 66.2% and 83.8% year over year and sequentially, respectively.

Revenues of $2.29 billion surpassed the Zacks Consensus Estimate by 3.9%. However, it decreased 19% on reported basis and 17% on constant currency basis from the year-ago quarter. Further, the top line was down 31.5% from the prior quarter.

Coronavirus (COVID-19) pandemic remained the biggest headwind for the company during the first quarter. COVID-19 induced economic shutdowns impacted the company's business operations significantly.

Cancellation rate of bookings surged significantly since mid-March owing to COVID-19 led social distancing worldwide.

Both agency and, advertising and other businesses exhibited weak performance during the reported quarter.

Further, the booked room nights number, which came in at 124 million during the reported quarter, declined 42.8% from the prior-year quarter.

Furthermore, Booking Holdings witnessed year-over-year decline of 8% and 36.4% in the airline tickets unit and rental car days, respectively, in the first quarter.

Nevertheless, growth in merchant business remained a tailwind during the reported quarter.

Booking Holdings anticipates this pandemic situation to persist as a major headwind to the global travel industry in the near term.

Nevertheless, the company remains optimistic about its highly variable cost structure and strong liquidity position, which are expected to help it in navigating through the crisis scenario.

Moreover, the company has started witnessing improvement in its domestic bookings since April in a few countries where stay-at-home restriction has been relaxed.

Top-Line in Detail

Booking Holdings generates bulk of revenues from the international markets, wherein the agency model is more popular. This is reflected in the merchant/agency split of revenues, which was 28.8/62.2% in the first quarter (previous quarter's split was 28.6/63.7%).

Merchant revenues came in $659 million, up 9.3% year over year. The company's continued efforts toward improving of merchant business remained a positive.

Further, Agency revenues were $1.4 billion, down 26.9% on a year-over-year basis.

Advertising & Other revenues were $205 million (9% of total revenues), decreasing 28.1% from the year-ago quarter. These are basically non-inter company revenues from Kayak and OpenTable.

Bookings

Booking Holdings' overall gross bookings came in $12.4 billion, down 51.2% year over year on reported basis. Further, the figure was down 50% at constant currency from the year-ago quarter.

Additionally, gross bookings lagged the Zacks Consensus Estimate of $19.5 billion.

Merchant bookings were $4.1 billion, down 28.9% from the prior-year quarter. Further, agency bookings declined 57.7% year over year to $8.3 billion.

Operating Results

Adjusted EBITDA in the first quarter was $290 million, plunging 59.6% from the year-ago quarter. As a percentage of revenues, the figure contracted to 12.7% from 24.9% in the year-ago quarter.

Per management, operating expenses were $2.6 billion, up 13.8% on a year-over-year basis.

Consequently, the company generated operating loss of $309 million compared with $556 million of operating income in the prior-year quarter.

Balance Sheet & Cash Flow

As of Mar 31, 2020, cash and short-term investments balance was $7.2 billion, down from $7.3 billion as of Dec 31, 2019.

At the end of the first quarter, Booking Holdings had $7.5 billion of long-term debt, down from $7.6 billion in the previous quarter.

During the reported quarter, the company utilised $380 million of cash in operations against $1.1 billion of cash generated from operations in the prior quarter.

Further, free cash flow was ($460) million in the first quarter.

Recent News

On **May 1, 2020**, Booking Holdings has unveiled an enhanced restaurant management platform via its OpenTable platform to provide added support for restaurants so they can adhere to social distancing guidelines and prepare for reopening post COVID-19. Further, it has announced fee waiver to reduce the reopening prices.

On **Jan 21, 2020**, Booking Holding's KAYAK unveiled a new tool called Trip Builder which helps in seamless planning of multi-city trip.

On **Nov 19, 2019**, Booking Holdings' OpenTable teamed up with Capital One Financial in a bid to enhance its offering to the Capital One credit cardholders who will now be able to enjoy its hard-to-get reservations at prime dining times in more than 15 different US cities.

On **Nov 11, 2019**, Booking Holdings rolled out enhanced products and technology on its Agoda platform. This is in sync with its growing initiatives toward delivering better traveler experience.

Valuation

Booking Holdings shares are down 23.2% in the year-to-date period and 9.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 21% and 6.1% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 26.9% and 17%, respectively.

The S&P 500 index is down 8.2% in the year-to-date period but up 3.8% in the past year.

The stock is currently trading at 38.01X forward 12-month earnings, which compares to 53.4X for the Zacks sub-industry, 31.31X for the Zacks sector and 21.52X for the S&P 500 index.

Over the past five years, the stock has traded as high as 38.01X and as low as 12.19X, with a 5-year median of 19.92X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $1,324 price target reflects 32.31X forward 12-month earnings.

The table below shows summary valuation data for BKNG

Valuation Multiples - BKNG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	38.01	53.4	31.31	21.52
	5-Year High	38.01	53.4	31.31	21.52
	5-Year Low	12.19	24.72	19.06	15.23
	5-Year Median	19.92	41.99	23.31	17.49
P/S F12M	Current	7.29	3.91	1.06	3.34
	5-Year High	7.38	5.76	1.11	3.44
	5-Year Low	3.5	3.09	0.8	2.53
	5-Year Median	5.93	4.53	0.93	3.01
EV/Sales TTM	Current	4.52	4.87	1.31	2.88
	5-Year High	8.87	8.1	1.32	3.46
	5-Year Low	3.32	3.78	0.88	2.15
	5-Year Median	7.18	6.09	1.09	2.82

As of 05/18/2020

Industry Analysis Zacks Industry Rank: Top 10% (26 out of 254)

Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. **(AMZN)**	Neutral	3
Alibaba Group Holding Limited **(BABA)**	Neutral	2
Carnival Corporation **(CCL)**	Neutral	3
Expedia Group, Inc. **(EXPE)**	Neutral	3
Alphabet Inc. **(GOOGL)**	Neutral	3
MakeMyTrip Limited **(MMYT)**	Neutral	3
TripAdvisor, Inc. **(TRIP)**	Neutral	3
Uber Technologies, Inc. **(UBER)**	Neutral	3

Industry Comparison Industry: Internet - Commerce

	BKNG	X Industry	S&P 500	EXPE	MMYT	TRIP
				Industry Peers		
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	F	-	-	C	F	F
Market Cap	63.75 B	2.19 B	20.09 B	11.09 B	1.46 B	2.55 B
# of Analysts	11	3	14	9	3	7
Dividend Yield	0.00%	0.00%	2.1%	1.72%	0.00%	0.00%
Value Score	F	-	-	C	F	D
Cash/Price	0.13	0.14	0.07	0.49	0.16	0.38
EV/EBITDA	9.71	7.35	12.13	5.33	-9.65	7.50
PEG Ratio	5.28	2.77	2.72	NA	NA	NA
Price/Book (P/B)	16.64	4.72	2.75	2.04	1.18	2.48
Price/Cash Flow (P/CF)	13.06	23.11	10.86	5.94	NA	9.35
P/E (F1)	63.79	49.75	20.10	NA	NA	NA
Price/Sales (P/S)	4.39	1.64	2.05	0.92	2.77	1.74
Earnings Yield	1.59%	-0.02%	4.77%	-2.63%	-6.92%	-3.63%
Debt/Equity	2.35	0.22	0.76	0.85	0.02	0.68
Cash Flow ($/share)	119.22	0.32	7.01	13.34	-1.37	2.03
Growth Score	F	-	-	B	C	F
Hist. EPS Growth (3-5 yrs)	16.83%	12.78%	10.87%	15.66%	NA	-12.78%
Proj. EPS Growth (F1/F0)	-75.93%	-3.66%	-10.31%	-133.75%	25.26%	-139.14%
Curr. Cash Flow Growth	1.20%	-5.32%	5.51%	-6.21%	-25.26%	6.29%
Hist. Cash Flow Growth (3-5 yrs)	11.28%	11.55%	8.55%	15.70%	NA	-1.67%
Current Ratio	2.24	1.68	1.28	0.72	1.59	3.25
Debt/Capital	70.18%	26.96%	44.46%	46.11%	1.80%	40.53%
Net Margin	23.43%	-1.94%	10.59%	4.68%	-28.39%	5.67%
Return on Equity	78.22%	9.72%	16.29%	13.15%	-11.55%	7.82%
Sales/Assets	0.71	1.10	0.55	0.56	0.34	0.62
Proj. Sales Growth (F1/F0)	-51.63%	0.00%	-2.49%	-43.01%	-3.98%	-57.33%
Momentum Score	F	-	-	F	F	F
Daily Price Chg	12.51%	0.43%	5.21%	18.62%	6.39%	21.42%
1 Week Price Chg	-3.25%	-0.09%	-4.56%	-3.62%	-11.74%	-12.56%
4 Week Price Chg	10.33%	11.66%	4.12%	32.09%	17.12%	5.23%
12 Week Price Chg	-13.12%	-9.20%	-16.39%	-29.49%	-44.16%	-29.31%
52 Week Price Chg	-11.12%	-2.38%	-5.84%	-32.01%	-39.75%	-57.69%
20 Day Average Volume	593,705	244,674	2,651,378	4,389,209	462,006	3,458,527
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-17.07%
(F1) EPS Est 4 week change	-59.14%	0.00%	-4.48%	-475.32%	2.01%	-271.47%
(F1) EPS Est 12 week change	-80.63%	-37.67%	-16.39%	-167.45%	-60.99%	-176.14%
(Q1) EPS Est Mthly Chg	-336.41%	-6.67%	-9.90%	-421.82%	NA	-353.08%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	F
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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