

Booking Holdings Inc. (BKNG)

\$1,889.23 (As of 08/27/20)

Price Target (6-12 Months): **\$1,960.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/22/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: B

Summary

Booking Holdings' second quarter results were impacted by coronavirus-led disruptions in the global travel industry. Nevertheless, the company's improving bookings in countries where stay-at-home restriction has been relaxed are positives. Further, its expanding payment platform is a tailwind. The company remains optimistic about its highly variable cost structure and strong liquidity position, which are expected to help it in navigating through the current crisis scenario. Further, robust alternative accommodation business, efforts to ramp up merchant business and strengthening flight capabilities are other positives. However, coronavirus pandemic which is likely to persist as a headwind in the near term is a concern. Continued softness in agency business is an overhang. The stock has underperformed its industry on a year-to-date basis.

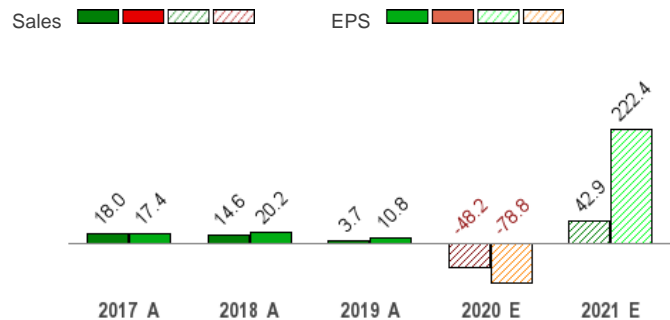
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$2,094.00 - \$1,107.29
20 Day Average Volume (sh)	312,713
Market Cap	\$76.4 B
YTD Price Change	-9.1%
Beta	1.03
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Commerce
Zacks Industry Rank	Top 34% (85 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.5%
Last Sales Surprise	21.7%
EPS F1 Est- 4 week change	22.7%
Expected Report Date	11/05/2020
Earnings ESP	1.9%
P/E TTM	30.3
P/E F1	86.9
PEG F1	7.2
P/S TTM	6.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,837 E	2,534 E	4,017 E	2,758 E	11,159 E
2020	2,288 A	630 A	2,563 E	2,226 E	7,811 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	\$2.58 E	\$10.20 E	\$39.88 E	\$20.60 E	\$70.06 E
2020	\$3.77 A	-\$10.81 A	\$18.03 E	\$12.33 E	\$21.73 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 08/27/2020. The reports text is as of 08/27/2020.

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.

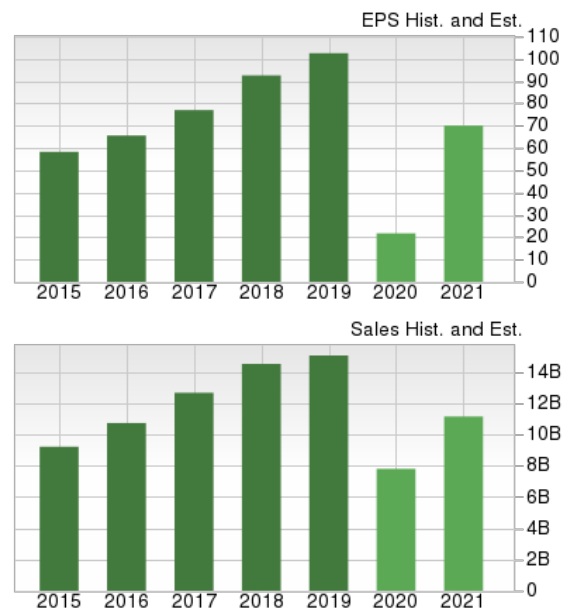
The acquisition of OpenTable that has allowed it to expand into restaurant reservations space, also contributes to the international revenues.

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 Buy:

- ▲ The online travel booking segment has **secular growth drivers**. The biggest of these is the shift from offline to online booking across the world. The booking growth through the online channel is reaching its zenith given the proliferation of mobile devices and increasing Internet user penetration rate. Further, there is a growing middle class in many geographies that highly lives online. This is that section of the total population on which Booking Holdings is extremely well positioned to tap. Moreover, the company's world-class platform remains the major positive which helps it to win customers.
- ▲ 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 Trip.com which enables it to share inventory and thereby capture outbound traffic from China. It is also able to use Trip.com's inventory for people looking to travel to China.
- ▲ Further, Booking's strong initiatives to bolster its presence in North American OTA market remains positive. The company is in a position to leverage the strong popularity of its brand name to capture a share of international travel into the U.S. Its strategic investment in Trip.com has been aiding this objective. Moreover, its acquisition of OpenTable is continuously helping in beefing up its domestic business. Booking Holdings has also supplemented these initiatives with brand-building actions using both online and offline channels which remains positive.
- ▲ 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.

The secular growth trend in the online travel booking market, strong position in international markets and growth opportunities in the domestic market are positives.

Reasons To Sell:

- ▼ 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**. 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 the sales of the domestic business negatively.
- ▼ Booking Holdings also has a leveraged balance sheet. As of Jun 30, 2020, the company's net debt was \$229 million compared with \$364 million as of Mar 31, 2020. Although declining net debt balance is a positive, increasing debt-to-capital ratio is a negative. Notably, debt-to-total capital was 76.4% as of Jun 30, 2020 which increased from 72.3% as of Mar 31, 2020. 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.
- ▼ 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. 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. Apart from this, 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.

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

Last Earnings Report

Booking Holdings Reports Q2 Loss

Booking Holdings reported second-quarter 2020 non-GAAP loss of \$10.81 per share, which narrowed from the Zacks Consensus Estimate of \$11.81 per share. Notably, the company reported earnings per share of \$23.59 and \$3.77 in the year-ago quarter and prior quarter, respectively.

Revenues of \$630 million surpassed the Zacks Consensus Estimate of \$517.6 million. However, it declined 84% on reported basis and 83% on constant currency basis. The figure was also down 72.5% from the prior quarter.

The coronavirus pandemic remained the biggest headwind during the second quarter. COVID-19 induced economic shutdowns, social distancing and shelter-in-place restrictions impacted the company's business operations negatively.

Worsening travel trend and increasing cancellation rate of bookings were primary factors that hindered the company's gross bookings. Notably, the booked room nights number, which was 28 million during the reported quarter, plunged 86.7% from the prior-year quarter.

Further, Booking Holdings witnessed year-over-year decline of 69.7% and 90.4% in the airline tickets unit and rental car days, respectively, in the second quarter.

Additionally, the company witnessed sluggish agency, merchant and, advertising and other businesses revenues 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's highly variable cost structure and strong liquidity position are expected to help it in navigating through the crisis scenario.

Moreover, the company has started witnessing improvement in its 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 38.9/56.7% in the second quarter (previous quarter's split was 28.8/62.2%).

Merchant revenues were \$245 million, down 74.5% year over year. Further, Agency revenues were \$357 million, reflecting a decline of 86.3% on a year-over-year basis.

Advertising & Other revenues were \$28 million (4.4% of total revenues), decreasing 90.1% from the year-ago quarter. These are basically non-inter company revenues from Kayak and OpenTable.

Bookings

Booking Holdings' overall gross bookings totalled \$2.31 billion, down 90.8% year over year on reported basis. Further, the figure was down 91% at constant currency from the year-ago quarter.

Additionally, gross bookings lagged the Zacks Consensus Estimate of \$3.24 billion.

Merchant bookings were \$771 million, down 88% from the prior-year quarter. Further, agency bookings declined 91.8% year over year to \$1.54 billion.

Operating Results

Adjusted EBITDA in the second quarter was (\$376 million) against \$1.4 billion in the prior-year quarter.

Per management, operating expenses were \$1.1 billion, down 57.2% on a year-over-year basis.

Further, the company generated operating loss of \$484 million against operating income of \$1.25 billion in the prior-year quarter.

Balance Sheet & Cash Flow

As of Jun 30, 2020, cash and cash equivalents was \$10.4 billion, up from \$6.4 billion as of Mar 31, 2020.

At the end of the second quarter, Booking Holdings had \$10.6 billion of long-term debt, down from \$7.5 billion at the end of first quarter.

During the reported quarter, the company utilized \$122 million of cash in operations against \$380 million of cash generated from operations in the prior quarter.

Further, free cash flow was \$52 million in the second quarter.

Quarter Ending 06/2020

Report Date	Aug 06, 2020
Sales Surprise	21.71%
EPS Surprise	8.47%
Quarterly EPS	-10.81
Annual EPS (TTM)	61.62

Recent News

On **May 14, 2020**, Booking Holdings announced the offering of reservation facilities at bars and wineries via its OpenTable platform.

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.

Valuation

Booking Holdings shares are down 8.2% in the year-to-date period and 2.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 69.7% and 36.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 87.9% and 46.9%, respectively.

The S&P 500 index is up 8.1% in the year-to-date period and 20.9% in the past year.

The stock is currently trading at 34.98X forward 12-month earnings, which compares to 55.92X for the Zacks sub-industry, 34.22X for the Zacks sector and 23.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 48.11X and as low as 12.19X, with a 5-year median of 19.96X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$1,960 price target reflects 36.72X 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	34.98	55.92	34.22	23.37
	5-Year High	48.11	59.93	34.77	23.37
	5-Year Low	12.19	24.71	19.08	15.25
	5-Year Median	19.96	41.74	23.47	17.58
P/S F12M	Current	7.64	5	1.32	3.81
	5-Year High	8.57	5.99	1.32	3.81
	5-Year Low	3.5	3.16	0.82	2.53
	5-Year Median	5.95	4.72	0.97	3.05
EV/Sales TTM	Current	6.87	6.98	1.6	3.42
	5-Year High	8.87	8.5	1.6	3.46
	5-Year Low	3.29	3.93	0.89	2.15
	5-Year Median	7.1	6.16	1.15	2.88

As of 08/26/2020

Industry Analysis Zacks Industry Rank: Top 34% (85 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. (AMZN)	Neutral	3
Alibaba Group Holding Limited (BABA)	Neutral	3
Expedia Group, Inc. (EXPE)	Neutral	4
Alphabet Inc. (GOOGL)	Neutral	3
Uber Technologies, Inc. (UBER)	Neutral	3
Carnival Corporation (CCL)	Underperform	4
MakeMyTrip Limited (MMYT)	Underperform	4
TripAdvisor, Inc. (TRIP)	Underperform	4

Industry Comparison Industry: Internet - Commerce				Industry Peers		
	BKNG	X Industry	S&P 500	EXPE	MMYT	TRIP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Underperform
Zacks Rank (Short Term)	3	-	-	4	4	4
VGM Score	C	-	-	D	D	D
Market Cap	76.45 B	4.04 B	23.69 B	13.43 B	1.65 B	3.08 B
# of Analysts	11	2	14	7	2	7
Dividend Yield	0.00%	0.00%	1.65%	0.00%	0.00%	0.00%
Value Score	C	-	-	B	F	C
Cash/Price	0.14	0.10	0.07	0.53	0.12	0.24
EV/EBITDA	11.49	8.42	13.37	7.85	-3.82	9.43
PEG Ratio	7.19	3.57	3.04	NA	NA	NA
Price/Book (P/B)	19.12	6.10	3.17	4.19	1.97	3.38
Price/Cash Flow (P/CF)	15.66	23.57	12.78	7.13	NA	11.28
P/E (F1)	86.94	53.12	21.63	NA	NA	NA
Price/Sales (P/S)	6.77	2.80	2.50	1.48	4.39	2.80
Earnings Yield	1.16%	0.54%	4.44%	-8.25%	-8.38%	-4.58%
Debt/Equity	2.89	0.14	0.75	2.75	0.02	0.77
Cash Flow (\$/share)	119.22	0.47	6.94	13.34	-4.01	2.03
Growth Score	C	-	-	F	B	D
Hist. EPS Growth (3-5 yrs)	12.76%	7.86%	10.41%	15.53%	NA	-11.72%
Proj. EPS Growth (F1/F0)	-78.81%	22.50%	-4.92%	-227.64%	68.54%	-159.24%
Curr. Cash Flow Growth	1.20%	1.34%	5.22%	-6.21%	193.81%	6.29%
Hist. Cash Flow Growth (3-5 yrs)	11.28%	11.28%	8.50%	15.70%	NA	-1.67%
Current Ratio	2.93	1.58	1.34	1.14	1.57	3.43
Debt/Capital	74.29%	23.86%	44.18%	67.57%	1.81%	43.42%
Net Margin	22.52%	-3.15%	10.25%	-17.09%	-116.86%	-9.45%
Return on Equity	53.57%	6.42%	14.66%	-6.99%	-41.84%	-4.61%
Sales/Assets	0.55	1.34	0.50	0.43	0.29	0.48
Proj. Sales Growth (F1/F0)	-48.16%	0.00%	-1.45%	-51.73%	-67.27%	-57.03%
Momentum Score	B	-	-	F	F	D
Daily Price Chg	0.71%	0.48%	-0.18%	-1.36%	1.14%	-3.13%
1 Week Price Chg	0.03%	0.00%	-1.45%	5.04%	-5.11%	-1.30%
4 Week Price Chg	9.34%	10.47%	2.10%	11.47%	-0.06%	6.95%
12 Week Price Chg	8.17%	29.03%	3.61%	6.70%	-7.25%	0.44%
52 Week Price Chg	-3.86%	69.27%	3.61%	-26.49%	-29.12%	-37.66%
20 Day Average Volume	312,713	312,713	1,883,291	3,063,840	641,001	2,504,116
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	1.47%	0.00%
(F1) EPS Est 4 week change	22.67%	8.24%	0.93%	-28.80%	-6.35%	-27.61%
(F1) EPS Est 12 week change	10.86%	10.86%	3.41%	-26.89%	-37.20%	-64.92%
(Q1) EPS Est Mthly Chg	39.86%	17.60%	0.00%	-120.80%	NA	-27.71%

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	C
Growth Score	C
Momentum Score	B
VGM Score	C

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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