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PRESENTATION

Operator

Thank you for standing by, and welcome to the Second Quarter 2019 Ctrip.com International, Ltd. Earnings Conference Call. (Operator Instructions)

I would now like to hand the conference over to Michelle Qi, Senior IR Director. Please go ahead.

Michelle Qi *Ctrip.com International, Ltd. - Senior IR Director*

Thank you, Jennifer. Thank you, everyone, for joining our call this morning. Good morning, and welcome to Ctrip's 2019 Q2 earnings conference call. Joining me today on the call are Mr. James Liang, Executive Chairman of the Board; Ms. Jane Sun, Chief Executive Officer; and Ms. Cindy Wang, Chief Financial Officer.

During this call, we will discuss our future outlook and performance which are forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today. A number of potential risks and uncertainties are outlined at Ctrip's public filings with the Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward-looking statements except as required under applicable law.

James, Jane and Cindy will share our strategy and the business updates, operating highlights and financial performance for the second quarter of 2019 as well as outlook for the third quarter of 2019. After the prepared remarks, we will have a Q&A session.

With that, I will turn the call over to James. James, please.

Jianzhang Liang *Ctrip.com International, Ltd. - Co-Founder & Executive Chairman*

Thank you, Michelle. Thank you, everyone, for joining us on the call today. Now let's begin with a quick update on our business growth and performance. We're pleased to report solid results for the second quarter of 2019. Net revenue grew 19% year-over-year reaching RMB 8.7 billion. We have increased our share in the domestic travel market with GMV growth rate for both domestic hotels and air ticketing have accelerated even against the backdrop of a softer market environment.

Our international business has also seen great performance, with the growth rate for international hotels and air tickets more than doubling that of China outbound traffic growth in the same period. As we continue to evolve as an industry leader in China, we have great



opportunities ahead to realize our global vision. Ctrip has developed the key competencies to provide excellent services to travelers in China and around the world, including a one-stop platform that covers more than 50 products globally. Such a one-stop product offerings empower our mobile platforms with our superior mobile app accounting, well over 80% of Ctrip's total booking. Furthermore, we are continuously making investments in technology including the open platform and ensures the competitiveness of each products and collaboration between product lines. Nowadays, open platforms connects several hundred thousands direct and intermediate suppliers ranging from individual professionals to worldwide travel leaders.

Today, we also announced the proposal to change the company name to Trip.com Group Limited. The new name reflects the services and products we provide, and it can be easily remembered by global users. Trip.com Group includes a range of brands including Ctrip, Qunar, Trip.com, Skyscanner and many more.

In October, we accelerate -- we will celebrate the 20th anniversary of the company. In our first 2 decades, we have become the leader in China's travel industry. Over the next decade, we'll strive to become one of the most innovative and respected companies in the global travel industry.

With that, I will turn the call to Jane for our operating highlights.

Jane Jie Sun *Ctrip.com International, Ltd. - CEO & Director*

Thanks, James. Today, I would like to start with why we are aiming at the international market. In the domestic market, we have already grown to become the undisputed leaders across all travel segments from accommodation to transportation. We are confident in the continued sustainable growth and profitability of our business in China. At the same time, China has become the largest source market for international travel. Taking advantage of this, Ctrip has built a comprehensive and extensive product network and developed global service capabilities to serve outbound travelers. We will leverage our existing products, services and technologies to serve travelers outside of Mainland China, especially in the Asia Pacific region. In the long run, this will enhance our scalability, reduce seasonality and diversify our potential risk from geo uncertainties.

Our efforts in global product expansion, service quality and brand development are setting the base to realize this long-term goal. I would like to share some of the recent highlights in this area. Firstly, on our global product expansion. In the second quarter, our product coverage continue to expand in scope and adapt. As we know from experience, transportation is typically the first step for our customers when they book their trips. We therefore work hard to provide comprehensive, cost-effective and convenient transportation solution and believe this will help our customers to boost customers' acquisition efficiency and cross-sell to the other products.

The company recently launched a strategic partnership with East Japan Railway Company. The partnership allows us to purchase Japan rail tickets in addition to enjoy services such as airport ticket pickups and hotel deliveries. Today, our international train products covers train tickets, high-speed rail and airport link services in more than 50 countries and regions across the world. Global users can access international train services through the Ctrip, Trip.com and TrainPal mobile platforms.

We have also launched an overseas ride-hailing service which integrated mainstream local ride-hailing services onto our own platforms. The service is currently available in over 785 cities across 47 countries in Southeast Asia, in the United States and in Europe. Ctrip users will also enjoy 24x7 customer services and translation services.

Ctrip launched the hotel mall program in 2018, where hotels can sell non-room offerings such as meals, spa sessions, pick-up and drop-off services, meeting room bookings and more. So far, a large majority of the high star hotels on Ctrip platform have opened up their relative hotel malls, and we have received encouraging feedback from our customers.

Secondly, we continue to focus on service quality. We see improving net promotion scores across all of our product lines in the second quarter. This reflects our consistent effort in upgrading our services. One of the many initiatives we have rolling out recently is the tiered cancellation policy for hotel bookings. So far, hundreds and thousands of hotels have participated in our program, and this program has benefited more than 3 million Ctrip customers.

We're committed to upholding to our customer-centric principles in every market we operate and to extend high-quality customer services to the global travelers. Today, all of our overseas call centers are in operations. As we continue to scale our call center to serve growing needs of the respective markets, we expect operational efficiencies to improve in the coming years.

Thirdly, looking at the growth of the main brands. Due to the strength of our products and services, we continued to gain market share across our key business areas and widen our gap with the other domestic competitors in China. Domestic revenue maintained a solid growth rate that outpace the industry at a higher multiple. International revenue accounted for over 35% of the total revenue in the second quarter of 2019, with the rapid growth of outbound travel and our global brands. We expect this to become 40% to 50% in the next 3 to 4 years.

Our hotel and flight ticket sales for cross-border travel activities maintained fast growth during the quarter, more than doubling the growth of China's outbound trips. Although the recent fluctuation in some destinations will impact Q3 outbound travel figures, historically, we have gained market share when faced the macro headwinds. In the long run, we remain optimistic about China outbound tourism market.

For Trip.com, air ticket volume delivered triple digits year-over-year growth for the 11th consecutive quarter and hotel growth is accelerating. We are extremely pleased to see direct users for Trip.com's first batch of focused market are increasing in numbers, confirming the efficiency of our local brand strategy.

In South Korea, Trip.com was named brand of the year in the travel category by Korea customer council.

Skyscanner continues healthy momentum with its direct booking business maintaining triple digits growth. It has generated great synergies in many markets with Trip.com mainly through their direct booking initiative. We expect to replicate such success across more international markets going forward.

On August 30th, we completed our share transactions with Naspers Limited and become the largest shareholders of MakeMyTrip, a leading online travel company in India. We will give full support to MakeMyTrip team, and we are confident that MakeMyTrip will continue its success in the years to come.

To conclude, we're encouraged by our results across all the business lines and markets. Today, we are confident and excited about the long-term future for the travel industry in China and in the world. We are focused on our mission to provide the best products and services for global travelers while creating long-term value for business partners, employees and shareholders. With that, I will now turn the call to Cindy.

Xiaofan Wang *Ctrip.com International, Ltd. - CFO & Executive VP*

Thanks, Jane. Thanks, everyone. For the second quarter of 2019, Ctrip reported net revenue of RMB 8.7 billion, representing a 19% increase from the same period in 2018. Net revenue for the second quarter of 2019 increased by 6% from the previous quarter.

Accommodation reservation revenue for the second quarter of 2019 was RMB 3.4 billion, representing a 21% increase from the same period in 2018. This was primarily due to the strong execution in increasing accommodation choices and quality of services that we offer for our customers.

During the second quarter, Ctrip branded low-star hotel room nights increased over 50% year-on-year. This directly reflects the effectiveness of our promotions in this segment. In addition, we observed a continued increase of the travel consumption from customers we acquired through this low -- comparatively lower-end hotel segment. We will continue to extend our promotions in this segment as long as we see good return on investment.

In the domestic mid- to high-end hotel segment, our growth rate accelerated sequentially. Growth in our international hotel segment was more than twice as fast as the China outbound traffic growth rate.

Transportation ticketing revenue for the second quarter of 2019 was RMB 3.4 billion, representing a 13% increase from the same period in 2018. This was primarily driven by fast growth in international travel demand and an increase in ground transportation. The international air ticket business maintained strong growth. Specifically, Trip.com's air ticketing volume recorded triple-digit growth for the 11th consecutive quarter. Ground transportation registered healthy volume growth this quarter. International train tickets volume grew more than 7x year-over-year.

Packaged tour revenue for the second quarter of 2019 was RMB 1.1 billion, representing a 25% increase from the same period in 2018.

In the second quarter, GMV for our off-line stores continued to see strong growth with a daily transaction value peaking at RMB 120 million. We are delighted that the large majority of our off-line stores become profitable within 12 months.

Customized tours and dynamic packages have also delivered outstanding performance. Corporate travel revenue for the second quarter of 2019 was RMB 309 million, representing a 21% increase from the same period in 2018. This was primarily driven by expansion in our corporate customer base as well as the trend for more mixed products and packages.

Revenues for our other business increased by 22% year-on-year in the second quarter of 2019 reaching RMB 524 million. This was primarily driven by strong growth in our advertisement and financial services business.

Gross margin was 79% for the second quarter of 2019 compared to 80% in the same period in 2018 and remained consistent with the previous quarter.

Excluding share-based compensation charges, total non-GAAP operating expenses grew 11% year-on-year and 1% quarter-over-quarter in the second quarter of 2019. Total headcount in IT, supplier management, and administration was largely consistent with the previous quarter.

Marketing efficiency continued to improve. This was due to our ROI-driven marketing strategy and continued efforts in customer services, product cross-selling and content building. Despite the sequential decrease on marketing investment, we were able to maintain stable growth in both MAU traffic and in the acquisition of new transacting customers. We also saw steady improvement in the cross-sell ratio between product lines.

Non-GAAP operating profit in the quarter was RMB 1.7 billion, grew 43% year-on-year and 26% quarter-over-quarter.

Non-GAAP operating margin for the second quarter was 20%, increasing from 16% in the same period of 2018 and 17% in the previous quarter. This increase was mainly due to improvements in operational efficiency.

Diluted loss per ADS was RMB 0.73 or USD 0.11 for the second quarter of 2019. The net loss was primarily due to the loss recorded for fair value changes of equity securities investments. Excluding share-based compensation charges and fair value change of equity securities investments, non-GAAP diluted earnings per ADS were RMB 2.25 or USD 0.33 for the second quarter of 2019.

As of June 30, 2019, the balance of cash and cash equivalents, restricted cash and short-term investments held to maturity deposits and financial product was RMB 67.8 billion or USD 9.9 billion.

In July, the company announced a transferable term loan facility of up to USD 2 billion equivalent with a greenshoe option of up to USD 500 million.

In August, the company repaid USD 500 million of convertible notes on maturity which reduced the potential dilution of approximately 1.5 million ordinary shares. We also announced the Put Right Notification for 1.25% convertible senior notes due 2022. If all our outstanding notes are surrendered for repurchase through the exercise of Put Right, the aggregate purchase price will be USD 975 million, which will further reduce potential dilution of approximately 1.9 million ordinary shares.



On August 30, the company completed a share exchange transaction with Naspers Limited. Following the transfer, Ctrip's owns ordinary shares and class B shares representing approximately 49% of MakeMyTrip's outstanding voting securities. Ctrip will apply for the equity method of accounting to pick up the gain/loss of MakeMyTrip through -- from August 30 on a 1-quarter lag.

Now turning to the future outlook. For the third quarter of 2019, the company expects net revenue growth to continue at a year-over-year rate of approximately 10% to 15%. This forecast reflects potential impact of about 400 to 500 basis points on the growth rate due to short-term macro and industry headwinds.

Excluding share-based compensation, the company expects non-GAAP operating income will be in the range of RMB 2.3 billion to RMB 2.6 billion. For the rest of the year, the company expects to outperform the market while delivering continuous operating leverage compared with the previous year.

This forecast reflects Ctrip's current and preliminary view which is subject to change.

With that, operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Thomas Chong from Jefferies.

Thomas Chong Jefferies LLC, Research Division - Equity Analyst

Can you comment about the short-term as well as the long-term impact of macro and industry headwinds? How would Ctrip mitigate such impacts?

Jianzhang Liang Ctrip.com International, Ltd. - Co-Founder & Executive Chairman

Yes. Thank you for the question. Yes, we see these headwinds being some of the Asia markets, due to the difficult geopolitical situation. But I think these are short-term impacts that people will rearrange their plan to travel later this year in the future for their holidays. Overall, in the long run, I think, particularly in Asia, we're still very positive because China is still going to be the fastest-growing -- one of the fastest-growing large economies in the world, and overall Asia is still going to remain the fastest-growing economically region in the world. And Ctrip, with our strong presence in Asia, we are very well positioned to take advantage of that. So in the long run, we're still very positive about our growth prospects in China and internationally because Ctrip has a strong presence in the fastest-growing Asia markets. Thank you.

Xiaofan Wang Ctrip.com International, Ltd. - CFO & Executive VP

Yes, Thomas. So next -- for the next quarter, our forecast is to expect the potential impact of about 400 to 500 basis points on the growth rate mainly due to the short-term macro uncertainties and industry headwinds which mainly come from recent slowdown of Hong Kong and Taiwan together with our flight price decrease. So in the first half of this year, outbound travel to Hong Kong and Taiwan accounted for about 1/3 of total Chinese outbound travelers. Therefore, we included some negative impact from these 2 markets in our Q3 guidance. And in addition, based on the [Travel Guide] report, average price of outbound air ticket dropped about 750 basis points year-over-year in July as a result of softer demand and macro uncertainties.

However, in the mid- to long term, as James said, not only the most comprehensive, extensive destination offerings but also our expansion into the other global markets will help us to reduce or even mitigate risks from certain geographic uncertainties. Therefore, we are still very confident that as long as we continue to invest in our product and services, Ctrip will be able to further strengthening our market leadership and market positions in the China -- not only the China market but also the global travel market especially during the macro slowdown as we always achieved in the past 20 years. Thank you.

Operator

Your next question comes from Binnie Wong from HSBC.

Wai Yan Wong HSBC, Research Division - Head of Internet Research of Asia Pacific & Analyst

My question is on outbound strategy. So has it become a more significant contribution to us? Can you comment on are we competing more on pricing, partnership with local partners or will it be for more in organic investments? Just want to see how this will impact our margin trend? And also, as it relates to our operating margin improvement, we also see solid improvement this quarter both on a Y-on-Y and Q-on-Q basis and hitting 20% this quarter. So would that be mainly contributed by rising contribution from higher-margin outbound, and how should we expect this continuing?

Jane Jie Sun Ctrip.com International, Ltd. - CEO & Director

Thanks, Binnie. For outbound business, yes, we are doubling the industry growth and has gained lots of market share. The high-end customers continuously to travel outbound. In Q3, there are certain regions displayed certain uncertainty. However, our product offerings with the comprehensive product composition really attract our customers to use our brand and products and go all over the world. And for our international business outside of Asia, the Trip.com also is focusing on mainly the international air tickets which had shown 3-digit growth for the past 2 years -- more than past 2 years. So we are confident that outbound as well as foreign to foreign international tickets will be the future drive for our business. And Cindy will comment on the margin.

Xiaofan Wang Ctrip.com International, Ltd. - CFO & Executive VP

Yes. Our operating margin will continuously improve through the operational efficiency gaining not only from the outbound business. Of course, outbound is more towards the mid- to high end of the market because the average selling price is much higher compared with domestic products. But even our domestic products, we see continuous operating efficiency gaining across all the business units. Thank you.

Operator

Your next question comes from Ronald Keung from Goldman Sachs.

Ronald Keung Goldman Sachs Group Inc., Research Division - Executive Director

So my question would be on margins as well. Just seeing how your third quarter guidance seems to already be suggesting 22% to 25%. So just want to hear any color that management can share on your cost control [indiscernible] and the OpEx side given the slower revenue. Can you share some color how this will play out for the fourth quarter given last year you've invested heavily in the fourth quarter '18 and whether we are still sticking to the 20% 2020 EBIT margin target now that I think the first 9 months you're -- even for 2019 you're beating that goal quite already? So I would like to hear your sharing on that.

Xiaofan Wang Ctrip.com International, Ltd. - CFO & Executive VP

Thank you, Ronald. We will provide guidance for the fourth quarter in the next quarter. But overall speaking, we -- although there's some macro slowdowns, some macros which will impact our top line growth, but our target is to continuously outpace the industry growth. And at the same time, as we already achieved, we achieved the significant operational efficiencies across all expense line items. So we are still quite confident that we can achieve our 20-plus percent non-GAAP operating margin in the medium term. Thank you.

Operator

Your next question comes from James Lee from Mizuho Securities.

James Lee Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst

Cindy, first, did you actually provide an operating income guidance for 3Q '19? I'm not quite sure I heard that. And also can you provide segment guidance for your revenues? And also for James specifically, can you provide us an update on competition with Meituan specifically? Last quarter, you sort of indicated things are stabilizing here. Are you seeing any changes there?

Xiaofan Wang Ctrip.com International, Ltd. - CFO & Executive VP

Thank you. We -- I'll provide the revenue guidance for each business line items. So in the second -- in the third quarter 2019, our accommodation revenue will grow at about 13% to 18% year-on-year, and transportation revenue will grow about 3% to 8% year-over-year. And packaged tour revenue will continue to grow at a healthy rate of 15% to 20% year-on-year. Corporate travel will grow at about 20% to 25%. So here comes the total revenue will grow about 10% to 15%.



Jane Jie Sun Ctrip.com International, Ltd. - CEO & Director

And regarding the competitive landscape. So our goal is for high end will double the industry growth rate and continuously to serve the high-end customers very well with our high-quality services, comprehensive products. And for lower-tier cities, we will -- Ctrip brand will deliver about 50% year-over-year growth. So the trajectory is very strong, and we will keep up with our strong investments both online and off-line to make sure we stay ahead of the game. Thank you.

Operator

Your next question comes from Natalie Wu from CICC.

Yue Wu China International Capital Corporation Limited, Research Division - Analyst

Just curious, did management see any impacts of train tickets take rate, both take rate or GMV growth this year, given the 12306 initiative?

Jane Jie Sun Ctrip.com International, Ltd. - CEO & Director

Thank you, Natalie. So Ctrip, starting from 1 to 2 years ago, we started to diversify our revenue source including global train tickets product to not only just cover the Asia Pacific regions but we also cover almost all the European countries. We also launched TrainPal which targeted to the European customers who can book their train ticket through the mobile app. And so we see very healthy growth and actually exponential growth opportunity in the global train ticket market. The international train grew about 7x year-over-year. And in addition, we also introduced high-speed train travel channel which help us to book -- help our customers to book train -- high-speed rail train travel especially during the weekend. So by putting all these efforts, we will make sure that Ctrip will continue to provide the best user experience in this industry. And most importantly, we can cross-sell a variety of other product together with the huge traffic that's coming from the train business. Thank you.

Operator

Your next question comes from Gregory Zhao from Barclays.

Xiaoguang Zhao Barclays Bank PLC, Research Division - VP

The first one is a follow-up question on your margin guidance. So I just wanted to understand what the operating income and operating margin would be or if not -- if no macro and Hong Kong headwind in Q3? And the second question, just wanted to clarify the 4% to 5% growth slowdown in Q3 is only due to the geopolitical issue or also certainly in some other factors like the foreign currency and the macro slowdown? Or to put it in another way, so what's Hong Kong and Taiwan's contribution to the total revenues, so just want to make sure the 4% to 5% slowdown assumptions is not, I mean, over (inaudible).

Xiaofan Wang Ctrip.com International, Ltd. - CFO & Executive VP

Thank you. So as we already achieved, Ctrip will our whole team are working very hard to increase our operational efficiency across all expense line items, across all business units. So to make sure that during the macro slowdown or uncertainties, we can still achieve very profitable operations results. And regarding your questions on the Hong Kong and Taiwan, Hong Kong and Taiwan, in the first half of this year, the outbound travel to these 2 destinations accounted for about 1/3 of the total Chinese outbound travelers. So it's a very significant portion of the total market. That's why you see these 2 markets -- because of the uncertainties in these 2 markets, Ctrip, we baked in some conservative and negative impact. But yes, of course all the currencies, all the macro uncertainties like the trade war between U.S. and China also put some pressures for us in the short term. And in addition, actually, based on the [Travel Guide] report, the average price of the outbound air ticket also dropped about 750 basis points year-over-year which we believe also because of the short-term macro uncertainties.

But as always, our management strongly believe that during this slowdown period, it always is the best opportunity as the market leader to continuously to gaining market share during this period. Thank you.



Operator

Your next question comes from Billy Leung from Haitong International.

Pardon me, we have just lost that questioner. We'll go to the next one. Your next questioner is Joyce Ju from Bank of America.

Joyce Ju BofA Merrill Lynch, Research Division - VP & Research Analyst

My question is actually related to the -- and also the outbound -- travel destinations. Just tried to understand because James earlier mentioned that he expects like most of the Chinese leisure or travelers would actually substitute those [danders] or like destinations with problems with other destinations. Is this -- could you elaborate more to help us understand. Is it more likely to substitute them with like other outbound destinations or it means like we are actually replaced by some domestic destinations which probably have lower ASP?

Jane Jie Sun Ctrip.com International, Ltd. - CEO & Director

Thanks for your question. Different customers will react differently. In the history of our business, we noticed there are a couple of factors that's very important when our customers make their decision as to where they want to go. The first thing is the visa, the easiness of the visa application. Whatever country give the most easiest way to apply for visa, normally, will attract lots of customers particularly for these busy customers who have the last-minute changes on their agenda.

The second thing is direct flight. Whichever city offers direct flight, again, will attract a lot of customers because they save time going there. The third thing we feel is the friendliness of the destination. So historically, countries such as Thailand always receive very good incoming customers because hospitality business in Thailand is very well developed. So factoring all these things, different customers will take different approaches. During the long vacation, customers tend to go to the long haul. For example, Europe, Australia, New Zealand are quite attractive this year. And then some customers will tend to convert their overseas plan to a domestic plan. But because Ctrip's product covers both domestically, in Asia, in the rest of the world, and our product will be suitable for different customers depending on their preference. Thank you.

Operator

Your next question comes from Alex Poon from Morgan Stanley.

Chun Man Poon Morgan Stanley, Research Division - Equity Analyst

I have a question regarding your margin. Recall you have reiterated margin guidance, non-GAAP OPM of 20% in 2020. Since your head count is not growing, your revenue is still growing, what margin do you plan to achieve at a steady-state before you start investing more if next year, margin is still 20%? And for -- specifically for transport business, the guidance growth rate of 3% to 8% year-over-year, if I have to break it down in the domestic and international business, the domestic business should be a little bit slower. In case that is in a negative growth territory, is there any negative operating leverage shall we expect at the same time your margin also expands?

Xiaofan Wang Ctrip.com International, Ltd. - CFO & Executive VP

Yes. In some of the segment of the domestic market, given our existing market share, we probably would not expect exponential growth opportunities in terms of the market share, but we will still make sure that we were continuously making -- gaining more market share by offering the best user experience in the market. We actually created a lot of value not only in the transportation segment, not only the airport -- air ticket but also like train ticket, bus tickets, et cetera. And in terms of the margin, yes, we will achieve operational efficiencies across all business unit not only the outbound travel-related business but also the domestic business as well. So yes, we are quite confident that we can achieve 20-plus-above non-GAAP operating margin in the next 1 to 2 years. Thank you.

Operator

Your next question comes from Alicia Yap from Citigroup.

Alicia Yap Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research

I have a couple of follow-up questions regarding the guidance. Can you actually walk us through a little bit given I think the packaged tour guidance was actually holding up quite strong? Given the outbound travel that you mentioned, 1/3 is actually coming from Hong Kong and Taiwan market versus I think your hotel and air ticketing revenue guidance is a bit soft. So can you quantify this 400 to 500

basis point impact from Hong Kong and Taiwan? Is it mainly related to the hotel and air ticketing rather than the packaged tour? And then just a follow-up on Trip.com should not be accounted in the outbound, right? So just wondering how much Hong Kong and Taiwan revenue is coming from this Trip.com?

Xiaofan Wang Ctrip.com International, Ltd. - CFO & Executive VP

Thank you, Alicia. For the packaged tour business, because there are 2 parts. One is the group tour and the second one is like the packaged -- dynamic package product to bundle hotel and air tickets together. So majority of the packaged tour business contributed from the group tour. Because Ctrip, most of the Ctrip customers are towards the mid- to high-end. So when they choose the destination like Hong Kong and Taiwan, they tend to use -- they tend to travel independently rather than travel with a group. This is one of the reason why you see less impact of these 2 destinations from the packaged tour versus the other accommodation and transportation business.

For the Trip.com. Yes, it's mainly customer -- almost all -- most of the customers of Trip.com, they are coming from the market other than domestic China market. And Hong Kong is one of the focused market for Trip.com, but the targeted customer of Trip.com mainly is the Hong Kong (inaudible) who travel to China or to the world which is less impacted by the recent event. Thank you, Alicia.

Operator

Your next question comes from Jerry Liu from UBS.

Yuan Liu UBS Investment Bank, Research Division - Co Head of HK and China Internet Research

I have 2 questions. The first is if we look long term on the operating margin profile, as Trip.com go in to capture the demand of those local travelers, what kind of impact do we see on margins? Is there an investment period? And secondarily is corporate travel. If we look at the corporate travel revenues, it looks pretty healthy. So can we just get some comments on the [B-side to C-side]. Seem like there's less impact on geopolitics and these are the headwinds?

Xiaofan Wang Ctrip.com International, Ltd. - CFO & Executive VP

For the Trip.com business, we covered and, I believe, more than 20 markets in the world that mainly focused at -- currently mainly focused in the Asia Pacific region. So we will -- still, for each individual market, we will look at the operating margin. And based on the development stage, we will look at -- we will set the ROI threshold for each individual market.

For the more matured markets, for example, the Hong Kong market, we already achieved quite sustainable profitability in that market. And for the -- for example, the Korea and Japanese market, we are very close to the breakeven point already. But again, for the Trip.com, we are still in the very early stage of expanding our market share outside the world. So we are still expecting some investment in the -- not only the marketing but more importantly in the product development side to make sure that we have the best product to serve the local market. In corporate travel, yes, I think within China, corporate travel for Ctrip is doing very well. Our -- is -- our business is leading the second player by wide margin. In addition to that, globally, we will also try to expand our strength in corporate travel from the China market to Hong Kong, Taiwan and the rest of Asia and try to serve our customers not only within China but along the way, when they -- wherever they travel, we'll be happy to offer our product and services to follow their footsteps.

Operator

Your next question comes from Tian Hou from T.H. Capital.

Tianxiao Hou T.H. Capital, LLC - Founder, CEO & Senior Analyst

My question is we have already entered the last month of 3Q, so the guidance is 10 to 15 year-on-year so if we look at the travelers, most of the time -- most of the customers plan ahead. So in your system, when you give this guidance, the 5 percentage point gap. So under what kind of circumstances you get to see the lower end? Under what kind of circumstances of September you will accomplish the high end of the guidance? So what makes the key factor of this win?

Xiaofan Wang Ctrip.com International, Ltd. - CFO & Executive VP

The booking window -- we -- in the last 20 years, Ctrip have managed to build the most comprehensive product offerings and -- with very competitive pricing and especially now over 80% of our bookings coming from the mobile app. So the booking window really is very short. More than 70% of our customer book our products within 5 days. So it's really hard for us as we already explained to all the analysts that it's very difficult for us to provide a very precise guidance for the -- for example, for the fourth quarter or even the full year. Again, we will -- all Ctrip team were working very hard to achieve as high growth rate as possible. But again, we cannot promise which low end or high end just because of the short booking window. But we will work very hard to achieve the higher one.

Operator

Your next question comes from Jialong Shi from Nomura.

Jialong Shi Nomura Securities Co. Ltd., Research Division - Head of China Internet & Media Research and VP

My question is about your international business. So I just wonder how much of your revenue is contributed by the international business. And if we further break down the international business, how much of the international revenue is coming from the Chinese outbound travel, and how much of that is contributed by pure overseas markets, i.e, serving long Chinese travelers? And if we tap out your international business, what was the growth rate in Q2 for your international revenue that includes Skyscanner, Trip.com and Chinese outbound travel? And what is the margin profile for this business?

Xiaofan Wang Ctrip.com International, Ltd. - CFO & Executive VP

In terms of the international contribution, for the hotel accommodation business, international revenue contributed about 20% to 25% of our total revenues and in the -- for the air business, international has already contributed about 40% to 45% of our total air ticket revenue. And the packaged tour mainly contributed from the outbound travel, and the international one -- the international revenue contribute about 40% to 50% of the total packaged tour revenue. So if regarding the question about the split of outbound versus the international, outbound contribute about 20% to 25% overall of our total revenue, and the pure international, including Skyscanner and the Trip.com contributed about low teens -- 10 to low-teens percentage of total revenue. And the margin profile, as I said, outbound, because of the average selling price is much higher than compared with the domestic one. So in terms of the margin, it contributes the higher-margin compared with our average margin level. And for the pure international business, especially Trip.com, we are still in the stage of early investment. But again, we will closely monitor the margin profile for each individual market based on their different growth stage. Thank you.

Operator

Your next question comes from Billy Leung from Haitong International.

Ka Wai Leung Haitong International Research Limited - VP & Sector Coordinator

Sorry I got cut off earlier. Just one question. I just wanted to ask management if they could share their thoughts on international or expansion. What kind of difficulties or hurdles have we faced when we go overseas? Is it a pricing issue? Is it dealing with local partners or integrating our own international brands? Just to share your thoughts on difficulties or hurdles in international business.

Jane Jie Sun Ctrip.com International, Ltd. - CEO & Director

International business represents great opportunities for us. However, in order to grow that business, we need to recruit talents at local level. So we are putting concerted efforts to identify and recruit and train our team in each market so that we can build a strong team, understand our customers and build our product offerings that is suitable for the local customers and move methodically into each region. So the business is -- has great potential, and we are moving as quickly as possible. Mainly, the people will make the business penetrate further into each region.

Operator

Your next question comes from Jamie Shen from BOC.

Chen Shen *BOCI Research Limited - Research Analyst*

I just have a very quick follow-up on the third quarter margin because, historically, margin will trend up quite [heavily] quarter-on-quarter during the peak season. But this year, given the weaker than expected revenue trend, shall we still be expecting margin expansion quarter-on-quarter.

Xiaofan Wang *Ctrip.com International, Ltd. - CFO & Executive VP*

Thank you. We provide the margin guidance of this -- third quarter excluding share-based compensation, we expect our non-GAAP operating income will be in the range of RMB 2.3 billion to RMB 2.6 billion. Thank you.

Operator

There are no further questions at this time. I'll now hand back to Michelle Qi for closing remarks.

Michelle Qi *Ctrip.com International, Ltd. - Senior IR Director*

Thank you, everyone, for joining us today. You can find the transcript and the webcast of today's call on ir.ctrip.com. We look forward to speaking with you on our third quarter 2019 earnings call. Thank you, and have a good day.

Jane Jie Sun *Ctrip.com International, Ltd. - CEO & Director*

Thank you very much.

Xiaofan Wang *Ctrip.com International, Ltd. - CFO & Executive VP*

Thank you.

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