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CTRP - Q4 2017 Ctrip.Com International Ltd Earnings Call

EVENT DATE/TIME: MARCH 15, 2018 / 12:00AM GMT

OVERVIEW:

Co. reported 2017 net revenues of CNY26.8b, non-GAAP income from operations of CNY4.8b, and diluted earnings per ADS of CNY3.82 or $0.59. 4Q17 net revenue was CNY6.4b, non-GAAP income from operations was CNY908m, and diluted earnings per ADS was CNY0.88 or $0.14. Expects 1Q18 net revenue growth (based on new revenue recognition standard and taking into account revenue reported for 1Q17) will continue at YonY rate of approx. 9-11%.

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Fourth Quarter 2017 Ctrip.com International, Ltd. Earnings Conference Call. My name is Serena, and I will be your moderator for today. (Operator Instructions) As a gentle reminder, this conference is being recorded for replay purposes. Now I will hand the call to the Head of Corporate Affairs, Victor Tseng, please begin.

Victor Tseng

Thank you. Good morning, and welcome to Ctrip's fourth quarter 2017 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 in Ctrip's public filings with the Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward-looking statement, except as required under applicable law.

James, Jane and Cindy will share our strategy and business updates, operating highlights and financial performance for the fourth quarter of 2017 as well as the outlook for the first quarter of 2018. After 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, Victor, and thanks to everyone for joining us on the call today. 2017 was a strong year for Ctrip on many fronts. Our 300 million registered users traveled in 214 countries and regions globally, with a completed transactions totaling RMB 560 billion, excluding Skyscanner. Our business achieved impressive revenue growth for the year, up 39% year-on-year to RMB 26.8 billion. I'm proud of the progress our team has made and the many ways that Ctrip is striving to make travel more convenient and enjoyable --

Chinese travelers made about 130 million outbound trips in 2017. As China's Belt and Road initiative progresses, outbound trips will only grow bigger and forecasted to grow to over 200 million trips per year by 2020, according to the China National Tourism Administration. Ctrip will continue to focus our efforts on capturing this trend.

On the international front, over the past year, our Skyscanner investments have begun to generate solid synergies. Skyscanner is one of the most successful flights metasearch sites in the world, particularly in Europe, and it has accumulated nearly 70 million monthly active users. We help Skyscanner develop a direct booking engine which increased Ctrip's own conversion on Skyscanner by over 50%.

In the most recent quarter, we also launched Trip.com, our Asia-Pacific-focused, one-stop international travel platform. Although it is still on a small scale, Trip.com is growing rapidly in our targeted Asian markets. With the aid of Skyscanner and Trip.com, Ctrip has established a solid foundation to serve its non-Chinese customers around the world.

2017 was also a year of learning. We feel grateful for all the voices we've heard from our customers and the media that reminded us that an industry leader will bear more responsibilities and needs to continue improving. There have been and will continue to be challenges along the way, but we will always endeavor to maximize Ctrip's social impacts while increasing the company's commercial value. Guided by the fundamental principles of consistency, transparency and equality, we'll keep improving our product and services as we strive towards our ideals.

From day 1, Ctrip's value has been inserted in our name, C for customer, T for teamwork, R for responsibility, I for integrity and P for partner. These core values differentiate us from our peers and continue to elevate Ctrip to the next level.

Even though we've become the largest online travel service provider in China, we're only at the beginning of our journey. The future opportunities for us are enormous both in China and globally, and we'll make significant investments in technology in order to bring our users the most advanced, personalized and seamless customer experience. And we've learned that when we bring superior value to our customers and partners, we can generate exceptional financial returns for our shareholders. According to the report on World Tourism Economy Trends 2018 released by the World Tourism Cities Federation, 2017 total global tourism revenue was USD 5.3 trillion, accounting for 6.7% of the total GDP. We believe this percentage will continue to grow larger and eventually become one of the largest contributors to global GDP growth globally. This was about 11.9 billion total global traveler trips made in 2017, and Ctrip is only servicing less than 5% of this. Travel represents a distinct spiritual need for people and one that is rapidly growing as our world becomes more and more interconnected. Therefore, we see future opportunities ahead. Against this backdrop, Ctrip's internationalization is still in its early stage but on a fast growth trajectory. In 2017, international revenue, including China outbound travel and Skyscanner accounted for over 20% of our total revenue. With a promising industry environment, competitive products, unparalleled service capabilities and Skyscanner's strong market position, we aim to grow Ctrip's international business to 40% to 50% of our total group revenue in the next 5 years. I'm excited and committed to the long-term success of Ctrip.

With that, I will turn the call over to Jane.

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

Thanks, James. Hello, everyone. We had strong results in the fourth quarter even as we transitioned through short-term challenges in certain business areas.

Net revenue increased 26% year-over-year to [RMB 6.4 billion] (corrected by company after the call) in the quarter. We ended the year with annual net revenue of RMB 26.8 billion, up 39% year-over-year. We continue to execute on our strategy and are encouraged by our rapid growth, especially in international expansion and penetration of the lower-tier cities. As user increasingly appreciates the convenience of Ctrip's unique one-stop travel platform, we're very excited about the opportunities ahead of us. Over the years, we have increased customer engagements by adding more travel-related products and increasing mobile user cases to interact with our travelers. As indicated in our cohort analysis, the first batch of users we acquired in 2012 on average made about 5 orders per year. This same batch in 2017 increased their orders to nearly 20 orders per year. Moreover, we have seen strong cross-selling trends between product lines. For example, about 20% of newly acquired air ticketing customers make at least 1 purchase in hotel reservation for each of the following years. The corresponding cross-selling rate between air and train is even higher at about 30%.

Our competitive products and service has strengthened our long-term retention rate at around 50%, and the majority of our revenue comes from loyal customers. We continue to penetrate into international markets and lower tier cities in China through our technology, services, products and brand.

International market is one of the most important focal points this year and will continue to be so for coming years. Our international expansion is premised on our strength in transportation product.

We have built one of the most competitive flight-booking engines globally, and the results are clear. International flights have been gaining strong momentum. Non-China-related flight ticket volume for the fourth quarter continue to grow rapidly, accounting for 1/3 of total international tickets already. The rollout of direct booking on Skyscanner also made solid progress. Skyscanner's direct booking revenue of this quarter almost doubled compared to the same period a year ago. Particularly, Trip.com benefited from Skyscanner's direct booking initiatives and achieved triple-digits growth in the air ticketing volume in the fifth consecutive quarter. We also continue to push the one-stop shopping capabilities by adding many more new features and product lines created to international -- created for international travelers. Key developments, including the launch of car rental services on Trip.com, international customers are now able to book rental cars in more than 6,000 cities across the globe. We have access to more than 130,000 rental outlets and over 7 million car inventories. We also brought railway services to our customers recently. Our customers can now access U.K. Rail and Korea Rail, 2 of the longest railway service providers in their respective markets.

In destination development, we announced a strategic partnership with OpenTable, a Booking Holdings' company, allowing Ctrip users to discover and book tens of thousands of restaurants across North America.

Lastly, we continue to link up with more local attraction partners to provide great access for our customers to popular venues like the Australian Open for tennis and Big Bus Tours for city tours.

I also would like to share an exciting new development. After months of hard work, we will be launching Hyatt Hotel flagship store on Ctrip's website and mobile application. This is the very first online flagship store for both companies, and we are very excited to work closely with Hyatt and other potential more global partners in the future. We continue to find innovative ways to better serve global hotel chains to capture the growing numbers of outbound Chinese customers.

Our growth strategy in the lower tier cities is very systematic and disciplined. Historical data showed travel consumption is highly correlated with income level, so we choose cities to penetrate based on the GDP per capita to ensure that the ROI is satisfactory. Since we started executing this strategy about a year ago, our penetration rate in our targeted cities has increased by over 50% on average. As part of the lower tier penetration strategy, we invested in Traveling Bestone to give us a new dimension off-line to grow and serve our customer base. We opened over 1,000 Ctrip and Qunar-branded franchised stores in 2017 in order to reach the group of potential customers who are not yet comfortable with online transactions, especially with the large-ticket sized transaction.

Total GMV of these stores, including the 5,000 Traveling Bestone-branded store grew over 30% in 2017. Additionally, these off-line stores serve as marketing tools 24/7 in hundreds of the cities in China. Becoming a strategic component of our travel ecosystem, this unique omni-channel strategy for travel, along with the strong alliance we built over the years in travel supply chains and the brand channels, will strengthen our ecosystem and boost future growth.

Additionally, I would like to reemphasize the customer centricity and what it means to us at Ctrip. As James said, we started Ctrip 18 years ago, with customer service coded in our genes. We are proud of our top-notch service quality in the industry. And more than half of our employees work in the customer-facing position. During the past Chinese New Year, our service center employees worked diligently to make sure that our customers' inquiries are addressed in a timely manner, 24 hours nonstop. The quality of our service center is leading the industry. Over 90% of our customers inquiaries are answered within 20 seconds. This is why we are recognized in almost all prominent awards in this field, such as Golden Headset, Golden Voice, China's Best Customer Service Center award, et cetera.

In 2017, we also launched the Global SOS service, which provides not only translation service, medical guidance and the recovery of lost goods, but also timely support in emergencies, such as natural disasters and terrorist attacks. Ctrip's effective response in Las Vegas shooting, Bali volcano eruption and, most recently, Taiwan Hualien earthquake demonstrated the efficiency and effectiveness of such service. Our local employees, 5,000 travel guides, thousands of suppliers and hotel partners all worked together to secure the safety of our customers.

More importantly, we continue to focus on listening to our customers' voice. We leverage "Ctrip Senator Club", which consists of our most active customers to drive valuable customer suggestions into actions. The routine survey on the Net Promoter Score also provides us with important customer experience insights. There is also a group of employees inside Ctrip, and we call them [Blue User Guardians]. They are working actively to be a voice for our customers.

To sum up, our dynamic service capability is one of Ctrip's important pillars and differentiators to attract and retain customers. Because of the distinct nature of travel products, which is time-sensitive, interconnected and usually irreplaceable, we will keep up to improve our product and service and make sure our customer can travel safely and have peace in mind during their trips.

Lastly, as we transition through the short-term challenges in certain business areas, we will continue to execute on our growth strategy, especially in the international expansion and penetration of lower-tier cities. As we leverage Ctrip's unique one-stop travel platform and service capability, we are excited about the opportunities ahead of us.

With that, I will turn the call over to Cindy, and she will walk us through the details of financial results.

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Thanks, Jane. Thanks, everyone.

2017 was a strong year for Ctrip on many fronts. Our 300 million registered users traveled to 214 countries and regions globally and completed transactions totaling RMB 560 billion, excluding Skyscanner. Our business achieved impressive revenue growth for the year, up 39% year-on-year to RMB 26.8 billion.

On the international front, over the past year, our Skyscanner investments have begun to generate solid synergy. Skyscanner is one of the most successful flight metasearch sites in the world, particularly in Europe, and it has accumulated nearly 17 million monthly active users. We helped Skyscanner develop a direct booking engine, which increased Ctrip's own conversion on Skyscanner by over 50%.

In the most recent quarter, we also launched Trip.com, our APAC-focused, one-stop international travel platform. Although it is still on a small scale, Trip.com is growing rapidly in our targeted Asian markets. With the aid of Skyscanner and Trip.com, Ctrip has established a solid foundation to serve non-Chinese customers around the world.

Ctrip's internationalization is still in its early stage but on a fast growth trajectory. In 2017, international revenue include China outbound travel and Skyscanner accounted for over 20% of our total revenue. With a promising industry environment, competitive products, unparalleled service capability and Skyscanner's strong market position, we aim to grow Ctrip's international business to 40% to 50% of our total growth revenue in the next 5 years.

With regards to the actual financial results, for the fourth quarter of 2017, Ctrip reported net revenue of RMB 6.4 billion, representing a 26% increase from the same period in 2016. For the full year ended December 31, 2017, net revenue was RMB 26.8 billion or 39% increase from 2016.

Accommodation reservation revenue for the fourth quarter of 2017 was RMB 2.3 billion, up 25% year-on-year, primarily driven by an increase in accommodation reservation volume. For the full year of 2017, accommodation reservation revenue was RMB 9.5 billion or 30% increase year-on-year. The accommodation reservation revenue accounted for 35% of the total revenue in 2017. The team demonstrated strong results in driving growth in both lower tier cities and international markets.

Transportation ticketing revenue for the fourth quarter of 2017 was RMB 2.9 billion, representing a 20% increase from the same period in 2016 primarily driven by an increase in ticketing volume and the consolidation of Skyscanner's financial results since the end of last year.

For the full year of 2017, transportation ticketing revenue was RMB 12.2 billion or 38% increase year-on-year. The transportation ticketing revenue accounted for 45% of the total revenue in 2017.

Transportation business group, leveraging existing ticketing engine, further strengthened the capability of integrating air, train, bus and car rental, providing comprehensive transportation solutions to customers.

Packaged tour revenue for the fourth quarter of 2017 was RMB 623 million, representing a 34% increase year-on-year. The growth was mainly driven by volume growth of organized tours and self-guided tours. Packaged tour revenue for the full year 2017 was RMB 3 billion or 29% increase from 2016. The packaged tour revenue accounted for 11% of the total revenue in 2017. To catch up the trend of middle-class in China upgrading their lifestyles, packaged tour business group launched the customized tours product in early 2016. In less than 2 years, customized tours business increased its conversion by more than 3 times and its revenue more than doubled by setting up detailed service standards and effectively managing quality of service.

Corporate travel revenue for the fourth quarter of 2017 was RMB 207 million, 15% increase from the same period in 2016, primarily driven by expansion in travel products coverage. For the full year of 2017, corporate travel revenue was RMB 753 million, up 24% year-on-year. The corporate travel revenue accounted for 3% of the total revenue in 2017. Corporate travel business further increased its market share by 21% in 2017, solidifying its leadership position in China. More itineraries management and smart reminder functions were added to the platform, allowing corporate clients to travel with ease of mind across various types of travel products.

Gross margin was 83% for the fourth quarter of 2017 compared to 78% in the same period in 2016. For the full year of 2017, gross margin was 83% compared to 75% in 2016. The improvements on gross margin was mainly driven by increasing automation in service center through adoption of AI technology and consolidating -- consolidation of Skyscanner.

Excluding share-based compensation charges, total non-GAAP operating expenses grew in line with revenue growth for the year despite accelerating sales and marketing spending in strategic markets.

Total non-GAAP operating expenses as a percentage of net revenues in 2017 remained stable with 2016, primarily due to efficiency improvement in product development, offset by more sales and marketing spending. Non-GAAP income from operations was RMB 908 million for the fourth quarter compared to RMB 797 million in the same period in 2016. Non-GAAP income from operations was RMB 4.8 billion for the full year compared to RMB 2 billion in 2016. Non-GAAP operating margin for fourth quarter was 14% compared to 16% in the same period in 2016. Non-GAAP operating margin for full year 2017 was 18% compared to 10% in 2016.

Diluted earnings per ADS were RMB 0.88 or USD 0.14 for the fourth quarter of 2017. Non-GAAP diluted earnings per ADS were RMB 1.56 or USD 0.24 for the fourth quarter of 2017. For the full year ended December 31, 2017, diluted earnings per ADS were RMB 3.82 or USD 0.59. Non-GAAP diluted earnings per ADS were RMB 6.90 or USD 1.06.

As of December 31, 2017, the balance of cash and cash equivalents, restricted cash and short-term investments were RMB 48.1 billion or USD 7 billion.

Effective January 1, 2018, the company adopted a new revenue recognition standard, accounting standards update. The company currently estimates that the impact of new standards on its revenue reported in comparative period of 2018 is not material if the new standard is adopted retrospectively.

Now turning to our outlook for the first quarter of 2018. As Jane mentioned, we are still transitioning through short-term challenges, including the impact from the unfortunate PR incident in late last year. For the first quarter of 2018, we expected the net revenue growth will continue at the year-on-year rate of approximately 9% to 11%, which is estimated based on Ctrip's new revenue recognition standard, while taking into account the revenue reported for the same period in 2017. This forecast reflects Ctrip's current and preliminary view, which is subject to change.

This concludes our prepared remarks. Operator, now please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question, we have Xu Ming from UBS.

Ming Xu - *UBS Investment Bank, Research Division - Director and Research Analyst*

So my first question is regarding the international travel business. Jane, you mentioned a lot of the detailed measures in the past quarter and recently about the -- in the international business. So I'm wondering, if we look at long-term growth potential, so what is -- what are the growth drivers there -- for international business? And also how should we think about the competition, particularly with the bookings group? And secondly -- the second question is, recently, there are some social media discussion or outcry about the differentiated pricing strategy between new customers and old customers, so do we expect any like regulatory risk in this regard?

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

Okay. Let me take the first part. Jane can comment on the second or third part. We planted the seeds of the international business a couple of years ago and are starting to see the benefits of the returns today. It is an exciting business, first and foremost driven by continued Chinese outbound growth. With growing affluence, higher passport penetration and more direct linkage between China and the world, we are optimistic that China's outbound opportunity will only get bigger. And Ctrip will continue to capture a larger and larger part of this opportunity, given our strength in international flights capability, increasing one-stop shop capability and the best-in-class service. Skyscanner is also growing. Skyscanner has established itself as the go-to brand for flights globally. The team shares the same vision as Ctrip and will continue to drive growth organically and realizing synergies with Ctrip with direct booking and increasing one-stop shop capabilities like rail and car service that it's recently launched. In Trip.com, our Asia-Pacific focus, one-stop travel platform is getting off to an excellent start with business growing in triple digits. So I'm optimistic about international travel businesses and its future contributions. We have planted the seeds to enable multiple growth drivers going forward.

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

Regarding your question on the pricing, our principle is to make sure the price is transparent and equal and with no discrimination. I believe our CEO from the hotel business have already talked with the media to strength -- to emphasize the importance for our transparency on the pricing.

Operator

Our next question, we have Alicia from Citigroup.

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

Two quick ones. Number one is there have been some ongoing concern from investors regarding the competitive landscape in China, especially with Meituan and Fliggy. So could you give us an update on how you see the competitive landscape in both China as well as the overseas market? And number two, regarding your guidance, with the accounting change, is that suggesting more impact in the first half comparison while you may actually enjoy more tailwind benefit in comparison in the second half this year? So any color on what would be the like-for-like basis on the first Q guidance would be great.

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

Well, the China travel market is huge. So last year, the total travel spending in China was about RMB 5.4 trillion. And Ctrip's share is only 10%. So with all the competition, so there's a lot of room for all the players to grow. And as always, we need to continue to invest in the market, innovate on product and services. Ctrip has always been known for our one-stop shop. And the 24/7 capabilities and the excellent service of the brand will continue to differentiate us from our competitors. And also we now have 6,500 travel stores, physical travel stores in place to drive omni-channel strategy to gain more and more shares in our target cities. This is also a key differentiator. As Jane said earlier, we are proud of our progress last year. Our penetration rate in targeted cities in China increased over 50% on average. But now the outbound front, as I have explained, is -- have an even larger growth potential going ahead. So even without the competition, it's -- I think Ctrip is going to be -- is going to capitalize on the future opportunity, both domestically and internationally.

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Yes, regarding the new revenue recognition, effective from this year, Ctrip adopted a new revenue recognition standard. Under the new revenue recognition standard, Ctrip will recognize our, for example, the hotel -- accommodation reservation revenue on the date ineligible for cancellation rather than check out. And for example, our packaged tour revenue will be recognized on the first day of the tour rather than the last day of the tour. Overall speaking, we estimate the net impact of the change in accounting standards for the full year will be immaterial whilst the impact on our quarterly revenue may be more significant in some of the business line items. But based on the comparison of those revenues in 2017 under the old and the new standards, we estimate the overall impact on the Q1 revenue will be immaterial.

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

Yes, so can -- I thought my line got dropped. So I think can I just follow up but -- in terms of the guidance on that, because most of the Chinese traveler actually booked quite late into the quarter before the trip. So should we expecting or thinking about Ctrip impact is quite small in terms of the first in like recognition on the first day of the booking? Because obviously we have like the upcoming summer holidays coming in, right? And also some of the short holidays in like May 1 and all that. So how should we think about some of that changes impacting us in the first and second quarter compared to, let's say, last year?

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Yes. There might be some more significant impact toward the later part of this year. But overall speaking, on a full year basis, we believe the net impact of the change in the accounting standards will be immaterial for us. .

Operator

Next in queue, we have Binnie from Bank of America.

Wai Yan Wong - *BofA Merrill Lynch, Research Division - Research Analyst*

In terms of the international strategy, I think James gave out more color earlier. Do you think we're relatively focused more on competition -- competing on pricing, product differentiation? Or what are the key aspect Ctrip will do in competition with other global players? And also, we looked at the accommodation revenue has decelerated to 25% this year versus around 30% in the first 9 months in the year. So what are the reasons? And what should we expect in 2018? And then lastly, it's just that in lieu of the changes that we have been doing on the cross-selling on air ticket sales, right, so we understand company are also launching super VIP program and also the gold travelers and also the air ticket and hotel combo. Can you just comment on the run rate as this is another way we have been cross-selling different products on our platform. And how we will see that in 2018, the trend potentially?

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

Yes. I will take the first one on international business. For Ctrip, for the international business, first of all, it's anchored on outbound business. We have seen strong trajectory for Chinese customers who have increased their GDP per capita and their personal income. Secondly, the visa restriction for Chinese customers also are being lifted for many countries. So that provides us with a solid foundation to get more inventories from the airlines, rental cars, attraction ticket providers to give our customer more comprehensive product. Secondly, it's driven by our technology. And air ticketing is the leading product which will take our customer from one place to another. So if we look at the trajectory on the international air tickets, Ctrip is growing very fast to reach every popular travel destination between China to the rest of the world. And if the customer has multi destinations, our team also are able to connect them from one country to another. Thirdly, because of the strong technology platform, even for the customers who tried to fly from 1 country to another, even if they are not Chinese travelers, they are able to use our technology and product outside of China. So as I indicated in the opening remark, that number has already accounted for 1/3 of the overall international travel volume for air ticketing business. So that is very strong because we only started this business 2 years ago. So the trajectory will become compounding going forward. And based on our analysis and cohort analysis, normally for international travelers, they start to book their travel package with the air ticketing products, so we are excited about this product. Thirdly, I think that Skyscanner also is a very strong air product. They offer more than 30 languages, penetrating into the most popular destinations around the world. And before Ctrip and Skyscanner team up, they used to have redirect model, which will take the bookers to another site. But now because of the direct booking service capability, Ctrip has enabled Skyscanner customers to book directly on their website, which enhanced the users experience and satisfaction and conversion rate very strongly. So these strong initiatives enable us to reach out to the customers from China to the rest of the world, even for the customers in greater China area, in Asia area. So using that technology and platform, we are excited that we are able to offer the international tickets as the starting point, and also these customers normally will need rental cars and attraction tickets accordingly. So we're excited to utilize our technology and service to serve the customers who have this need.

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Yes. Regarding your second and third question, I think you are asking about the reason for the softness of the fourth quarter results and as well as the guidance for the first quarter. I think the first and most important reason, as James and Jane mentioned earlier, customer centricity is in the gene of Ctrip. And we will continue to focus on improving our user experience, guided by the fundamental principles of consistency, transparency and equality. So other value-added service products we are offering, they had -- it has a fundamental value to our users. However, after listening to our customers, we have greatly optimized our air ticketing booking process since mid of October which, in the short run, has brought us some headwinds for the air ticketing revenue growth. And the impact has already showed in our Q4 results as well as the Q1 guidance. And secondly, we had an unfortunate PR crisis coincident with the change of VAS, value added service process after our Q3 earnings release, which is in the beginning of November. We saw some negative impact on Ctrip brand and traffic in the short run, starting from later part of last quarter last year and the first quarter of 2018. But thanks to our team's hard work and government support, the negative impact has started to fade away, and we already saw some recovery recently.

Operator

(Operator Instructions) Next in queue, we have Gregory from Barclays.

Gregory Zhao - *Barclays Bank PLC, Research Division - VP*

I have several questions. The first one is as your revenue is a formula of your blended take rate and the GMV, so now we know the take rate impact. But can you share with us the air ticketing and the hotel room booking GMV or the booking order trend in Q4 and 1Q '18? The second question is about the margins. So your 4Q, the non-GAAP operating margin is actually very strong. So can you help us understand the margin impact from the adjustment of your cross-selling products all being under the opt-out function and specifically in Q1, so your '18 margin outlook? Also I want to check with you about your midterm, the margin guidance, the 20% to 30%, so do you still stick to the guidance in 2019?

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Thank you, Gregory. We already -- Jane has already shared the total GMV. In 2017, Ctrip achieved RMB 560 billion in the GMV, which showed a very healthy GMV growth of around 30%. Back in 2015, '16, we shared with our investor midterm GMV of -- we can achieve -- by the year 2020, we can achieve a very healthy organic GMV growth CAGR at around 30%. We believe -- although there's some short-term headwinds, but we think we are still on the right track to achieve that GMV booked GMV target. And also regarding the midterm opportunity margin guidance, we still strongly believe that Ctrip group can -- our non-GAAP operating margin can go back to the over 20 to -- over 20%, 20% to 30% range in the next 1 or 2 years.

Operator

Next in queue, Juan Lin from Deutsche Bank.

Juan Lin - *86Research Limited - Research Analyst*

Actually , this is Juan Lin from 86Research, not Deutsche Bank. My question is also on GMV. I'm wondering out of the RMB 560 million -- out of the RMB 560 billion GMV RMB GMV 2017, how much of it is generated by our core users? Also wondering what is the trend of the retention and repurchasing rate of newly acquired users? Also if you can provide some early look on the booking demand outlook for the second quarter, that would be helpful.

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Ctrip, because of the reputation of the back to service, so still most of our GMVs was generated or contributed by existing users, and we did a lot of cohort analysis. For example, for a typical customer that we acquired back 3, 4 years ago, the average transactions they made on Ctrip platform back to [2012] (corrected by company after the call) is only about 5 transactions per year. But the same cohort, the transaction the total transaction in 1 year they made on Ctrip platform increased to [nearly 20 orders] (corrected by company after the call) a year. That's actually the most important part of our revenue growth. And also on top of that, we are very aggressively gaining more market share, both in the lower tier cities in China as well as in the international market.

Juan Lin - *86Research Limited - Research Analyst*

And any early outlook on the booking demand for the second quarter would be helpful.

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Oh, yes. As I said, there's some unfortunate PR incident, which impacted our traffic and the revenue in the fourth quarter and first quarter. And but we already saw some recoveries on our traffic very recently.

Operator

Next, we have Wendy from Macquarie.

Wendy Huang - *Macquarie Research - Head of Asian Internet and Media*

I still want to get some more color on your Q1 guidance. Can you confirm whether this 9% to 11% is pure organic growth based on apples to apples comparison? And also what actually have changed in the past 2 months to make you lower your previous guidance -- from the previous guidance, 15% to 20%, to the current 9% to 11%? If this 9% to 11% is the reflection of the organic growth, can you maybe give us some breakdown as to the air ticketing revenue growth implied in this guidance? And also how much is due to the relations on the bundled sales? And also based on my calculation, if this is the organic growth, then should we assume that all the bundled sales revenue has already been fully -- will be fully actually cleaned up in the first quarter already, especially when we compare this number to the 40% to 45% organic growth you achieved in first half last year or the 30% organic growth you achieved, excluding the Skyscanner? And also you mentioned that you are transitioning through this short-term challenges. Given this -- the headwinds on the revenue side, should we expect the company to become more cost disciplined and to take the shareholders' interest into consideration more in this kind of situation? And if that's the case, how should we expect the margin for first half and rest of the year?

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Thank you, Wendy. I think the most important, as I explained, the most important reason for the softness of the Q1 forecast is because of the change of the VAS booking process. We improved the air ticketing booking process. And if you try now, it's very transparent and straightforward, for example, to opt in or uncheck any VAS products that you choose during the whole booking process. But again, all these products are valuable for our customers. Therefore, under current model, still users will opt in some products that they think are useful. And our team going forward will continue to improve the product offerings so that our customer will be more easily to find things that fit to their demand. Yes, but on the other hand, actually, the blended take rate, we now have, at least for the domestic air ticket, is almost the lowest level compared to the rest of the world. However, the service and the value we provide is the best in the world. Therefore, we still strongly believe that Ctrip created a lot of value to our end-users, our suppliers as well as the whole industry value chain. But at the same time, we will very proactively communicating with all the related government agencies to see how to recognize the value of very efficient agents like Ctrip and how Ctrip can help to further improve the long-term sustainable growth of the whole domestic air ticket industry. But in the mid to long run, as we promised, international air ticket has already become the key driving force for our air ticket revenue growth. So therefore, we strongly believe that the pain process that we are now going through will be in the short term. Yes, we hear you about the discipline on the cost side. So although we had some headwind on the top line, but we still think we can cut all the unnecessary cost for each business line items. But at the same time, given we are still in the early stage of the -- for example, especially into the international market as well as the huge growth potential in the domestic air tickets, so we will still be aggressively gaining more market share. I think Ctrip, although there are some much shorter headwinds, but we still see huge potential both globally as well as domestically. So we will, as always, have a very disciplined but aggressive by expanding our market share. But as always, we will carefully monitor all the return on investment of our market share expanding. But for all the unnecessary costs, for example, in the last couple of years, we significantly improved call center efficiencies by introducing, like AI technologies and automation, ratio now in the service center. Probably it's the highest in the industry, but at the same time, we keep also the highest service standards in the industry.

Operator

Our next question, we have Jed from Oppenheimer.

Jed Kelly - *Oppenheimer & Co. Inc., Research Division - Director and Senior Analyst*

Could you give us a little detail on what you're expecting for the individual revenue segment's growth rates in 1Q? And then how -- what your guidance is around nonoperating margins for 1Q? And then just on your sales and marketing investment, I mean, how should we be thinking about

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it going forward in 2018? And how should we be thinking about in terms of growing in the lower tier cities and then growing towards your international travel?

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Thank you, Jack. For each business line item, for the accommodation reservation, we can grow at about 18% to 20% in the first quarter. And because of the negative impact from change of the air ticketing booking process, we forecast a flattish -- year-on-year flattish, the transportation category. And for the packaged tour business, we forecast a 10% to 15% year-over-year growth. And for the corporate travel business, we will have a 20% to 25% year-on-year growth. So that comes to total revenue of 9% to 11% year-over-year. In the first quarter, we expect the non-GAAP operating profit to be in the range of RMB 800 million to RMB 900 million, implying a non-GAAP operating margin of about 12% to 13%.

Operator

Next in line, Eileen from Deutsche Bank.

Eileen Deng - *Deutsche Bank AG, Research Division - Research Associate*

I want to clarify, we see the fourth quarter gross margin still maintain almost flat sequentially despite the high-margin value-added services has been removed. So how can you -- can management help us understand how you will achieve that? And just -- management did just mention the first quarter guidance on the margins. How should we think about the 2018 full year operating margin level? And could management also comment, any additional bundling impact from other transportation lines, other than flights?

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Yes, thank you. Regarding the forecast for the rest of the year, I think it's still too early to have a full picture of the year. However, because of the unfortunate coincidents happened in Q4 last year, we believe Q1 will be the -- will have the biggest impact in terms of the year-over-year revenue growth rate. And also, thanks to the comparatively lower comp of the second half of 2017, we will see our growth recovery towards the later part of this year. And the margin, the gross margin, as I said, Ctrip in the last couple of years, we -- by introducing a lot of AI technologies, we significantly improved the operational efficiency in the service center while maintain -- or even improved the service standards in the call center. Therefore, you see although there's some shorter headwinds on the top line, still we can maintain a very healthy and profitable gross margin. And also the acquisition of Skyscanner, because of their -- they have the metasearch model which is different from OTA model, to some extent, also helped on the gross margin.

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

I think to add on Cindy's comments, although the dollar amount for this year we do is reflected in the guidance, however, we believe that this is an industry phenomenon, and Ctrip has the largest of scale, which enable us to expand our market share and serve more customers. So we have seen very strong trajectory on volume pickup, both domestically as well as internationally. So this year will be an excellent year for us to expand our presence, both into the lower tier cities as well as internationally through our strong competitiveness on the product and service and expand our market share.

Operator

Thank you. I will now hand the session back to Victor for closing remarks. Please go ahead, Victor.

Victor Tseng

Thank you, everybody, for today's call. And yes, you can find the transcript and webcast of today's call on ir.ctrip.com. We look forward to speaking with you on our first quarter 2018 earnings call. Thank you, and have a good day.

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

Thank you very much.

Xiaofan Wang - *Ctrip.com International, Ltd. - CFO and EVP*

Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.
