



Travel Operator Draws Large Bull Spreads Ahead of China's Golden Week

Ticker/Price: TCOM (\$31)

Analysis:

Trip.com (TCOM) laggard name since mid-May but seeing some large bullish spreads open recently in the name as it tries to form a multi-week bottom. On 10/1, the March \$34/\$40 call spread was bought 10,000X with the \$25 puts sold for a net \$1.25. This follows the January \$33/\$40 call spread bought 10,000X on 9/10 for \$2.10 while the January \$30/\$22 bull risk reversal has traded 10,000X since mid-August. Shares ran strong after the November 2020 vaccine news but have since pulled back and now trying to work back above the 50% retracement line of the move. TCOM is forming a big range over the last three years and setting up a nice risk/reward for a run back at the top zone. The current cup-and-handle pattern on the daily targets \$40. The \$38.83B company trades 2X earnings, 14X sales, and 4X cash. TCOM has been benefitting from higher vaccination rates driving more normal travel rates and pent-up demand. The company has been winning share in second tier cities where hotel bookings have grown by more than 50% Q/Q. TCOM expects travel during this year's Golden Week (starting Oct 1 and running through Oct. 8) to approach 80% of 2019 levels. They also noted that travels to smaller-tier cities will continue to dominate which would benefit their platform over peers. Analysts have an average target for shares of \$44 with a Street High \$51. HSBC and CLSA both cautious on the 2H outlook in China given the recent outbreaks of COVID and likely tighter travel policies. MSCO has a \$50 PT for shares and notes that over the next 12 months, the Street will price in a recovery of outbound travel in 2022 and 2023, which will significantly drive Trip.com's revenue growth and operating margin. The analyst thinks a higher multiple for the shares will also be supported by improved earnings visibility amid strong domestic travel during the holidays. Short interest is 2.72%. Hedge fund ownership fell 3.5%.

Hawk Vision:



Hawk's Perspective: TCOM sets up well for a breakout above \$32.50 but longer-term still hesitant to put any weight into China-exposed names given the concerns from Beijing

Confidence Ranking: \$\$