

# THE IMPACT OF COVID-19 ON THE ONLINE TRAVEL INDUSTRY

by Seth Borko + Skift Team - Apr 2020

## Online Travel

### **SKIFT RESEARCH TAKE**

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The online travel industry is marginally better positioned to deal with this current outbreak than many of their suppliers in the hotel and airline industry. But the damage is only getting worse. It will still be severe and long-lasting.

### **Report Overview**

Online travel has lived through two past recessions – the tech bubble crash and the global financial crisis – but it has never seen anything like this outbreak before. Glenn Fogel, CEO of Booking Holdings, warned that this current crisis is worse than all previous “major” disruptions combined.

This report considers how online travel is being impacted by the ongoing COVID-19 outbreak at both the industry and individual company level. We believe that the largest seven public online travel agencies will lose at least \$11.5 billion in revenue this year due to the virus. The impact could even go higher, potentially as much as \$20 billion in missed revenue.

We also look across the globe at different business models to understand how companies differ from each other. Chinese OTAs are seeing a small bounce-back in March while U.S. and European OTAs continue to see their business decline. We also find some signs that businesses which cater to the short-term rentals and airline segments are outperforming the hotel business.

Finally, this report analyzes public statements made by the largest three online travel agencies in the world, Booking Holdings, Expedia Group, and Trip.com. We break down and quantify what those management teams have said specifically about COVID-19.

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## **Online Travel and COVID-19**

The online travel sector will be highly impacted by the ongoing COVID-19 pandemic that has shut down travel both across and within borders. Online travel has lived through two past recessions – the tech bubble crash and the global financial crisis – but it has never seen anything like this outbreak before. Glenn Fogel, CEO of Booking Holdings, warned that this current crisis is worse than all previous “major” disruptions combined.

## **STEEP TRANSACTION DROP AT MAJOR ONLINE BOOKING COMPANIES**

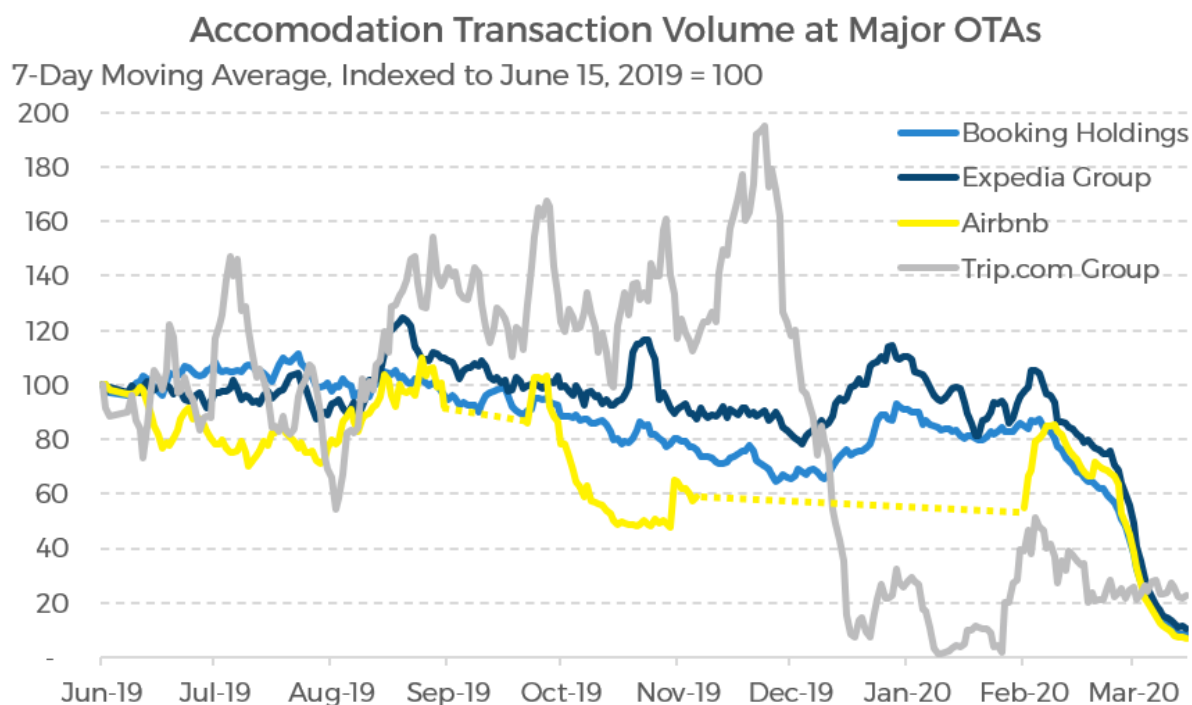
We worked with SimilarWeb to develop a proxy for online travel transactions. SimilarWeb tracks web traffic and in this case was able to drill down to specific parts of the domain, in particular the “thank you” check-out page that a user only visits after completing an accommodation transaction. By isolating this page, we can separate out hotel (and short-term rental) lookers from bookers.

We analyzed data for four major global booking companies: Booking Holdings, Expedia Group, Airbnb, and Trip.com Group. We first aggregated individual subsidiary domains to the top-level parent company (e.g. expedia.com, vrbo.com, orbitz.com, and hotels.com all roll up to Expedia group). Next, data was combined from across seven countries: The U.S., UK, Italy, France, Germany, Japan, and Hong Kong. (unfortunately, SimilarWeb does not have mainland China web traffic data, which skews the trip.com numbers).

Lastly, we took a moving average to smooth out the data and then indexed it to 100 at the start of the second half of 2019 so that we could compare how transaction volume had changed in relative terms. By doing this, we could compare major OTAs to each other even though each would have a different absolute level of transactions.

The results show a stunning decline in accommodation activity across the globe and all major online travel agencies, down by 70-90%. Keep in mind that this index tracks transactions, but average length of stay and average room rate have both likely dropped as well. This means that when translated into dollar terms, gross bookings could be down by even more, likely 80-95%+, depending on the site.

## Exhibit 1: Indexed transaction volumes at major OTAs shows the steep drop in travel activity



Source: SimilarWeb, Skift Research. Data as of March 29, 2020.

We have imperfect data on Trip.com (formerly known as Ctrip) as SimilarWeb does not have access to Mainland China web traffic but using Hong Kong and Japanese transaction traffic as a proxy reveals the global trajectory of the coronavirus outbreak. The other three OTAs, which have more exposure to the U.S. and Europe, rolled over in mid-February and are currently at their lows.

Trip.com on the other hand, had a Lunar New Year spike in December and then immediately collapsed in January. This is of course in-line with the timeline for COVID-19's spread across Asia first and then into the U.S. and Europe. Trip.com bounced off lows in transaction volume from January through mid-February. It saw a mini-recovery, with transactions doubling relative to the lows starting in mid-February and continuing through March. This is consistent with early reports of a cautious recovery in Chinese domestic travel. But, as the chart shows, a doubling from such a small base hardly brings Trip.com back to the transaction volume levels it was earning before this crisis. The company has stabilized but is a long way from having a truly clean bill of health.

### ESTIMATED ONLINE TRAVEL INDUSTRY REVENUE LOSS IN 2020

To understand just how severe the impact of coronavirus on online travel could be, Skift Research has attempted to quantify the revenue impact of this outbreak in a consistent and comparable way.

We took two approaches to this. First, we looked at how 2020 revenue forecasts published by Wall Street analysts had changed since the beginning of the year. By this measure, Wall Street in aggregate expects that the top seven publicly-traded online travel companies will lose \$11.5 billion of revenue globally due to Coronavirus in 2020.

Secondly, we looked into the relationship between stock prices and revenues to derive what the market could be implying for future revenues. Specifically, we took the price-to-sales ratio that the stock had traded at on average for the last two years and applied it to the current value of the stock to estimate implied revenue losses. The assumption here is that if markets are efficient, then the implied loss is the revenue drop that will need to occur for the stock to return to its long-term valuation ratio. This is, of course, an assumption unlikely to be correct, but it is a good back-of-the-envelope method for estimating the revenue damage to online travel that investors currently expect. Currently, this method gives somewhere in the range of \$26 billion of lost revenue.

At the end of this report, we have an even more detailed discussion of the potential revenue losses at the three largest travel booking sites: Expedia, Booking, and Trip.com. This includes breaking down WallStreet expected revenue losses by quarter, rather than annually and an overview of management's guidance of the business impact from COVID-19.,

**Exhibit 2: Estimated revenue losses at the top seven publicly-traded online travel companies**

Estimates of 2020 Lost Revenue at Online Travel Companies, \$ Million				
Ticker	Company	Wall Street Analysts		Stock Market Implied
EXPE	Expedia Group, Inc.	\$	(4,717)	\$ (8,156)
BKNG	Booking Holdings Inc.	\$	(4,230)	\$ (7,115)
TCOM	Trip.com Group Limited	\$	(1,873)	\$ (2,477)
TRVG	trivago N.V.	\$	(291)	\$ (529)
TRIP	TripAdvisor, Inc.	\$	(290)	\$ (1,061)
MMYT	MakeMyTrip Limited	\$	(89)	\$ (361)
DESP	Despegar.com, Corp.	\$	(40)	\$ (361)
<b>Sub-Total</b>		<b>\$</b>	<b>(11,531)</b>	<b>\$ (20,060)</b>

Source: Skift Research, CapitalIQ. Data as of April 8, 2020.

Neither of these methods is perfect but it does illustrate an interesting dichotomy. The 'inside' view of industry-focused experts are far more optimistic than the 'outside' view coming from the wisdom of the crowds.

In fact, the crowds expect COVID-19 to be nearly twice as bad as the industry experts! The truth is likely somewhere in the middle. But it speaks to a potential over-optimism among industry experts that we will be on the road to recovery by late this year.

We would reiterate what we warned in our report last week, The Impact of COVID-19 on the Hotel Industry, that “it seems optimistic to think that this crisis will be over by Q3 or Q4 2020. Hoteliers need to prepare for a ‘new normal.’”

## **ONLINE TRAVEL VS. TRAVEL SUPPLIERS**

We believe that, for the most part, online travel companies are in a less vulnerable position entering this recession than their travel supplier peers like hotels and airlines.

First of all, the larger online travel agencies have more geographic diversity than pretty much any other company in travel. This means that when things were at their worst in China, the OTAs could still take bookings in the U.S. and Europe. And now that the virus has moved its center of gravity further west, the OTAs can still benefit from less affected regions like South America as well as the nascent recovery in China.

This doesn’t mean that the OTAs are less impacted within a given region, but this diversity does help to ‘smooth’ the ride for them. In contrast, even the largest hotel chains tend to be more concentrated with a few ‘home’ markets that account for the majority of properties and revenues. This means that these companies feel the full brunt of quarantines all at once, whereas for the OTAs these quarantines are more likely to ‘roll’ across various territories.

In addition, online travel businesses are asset light with a very high share of variable costs like sales, marketing and IT spend that can be reduced proportional to drops in demand. As an example, at Booking Holdings, these variable costs make up 68% of operating expenses. In contrast, IATA estimates that only 50% of airline operating expenses are fully variable. To reduce cost, Booking Holdings and Expedia Group have cut back on their advertising significantly and Airbnb has even gone so far as to halt all marketing.

Personnel expenses accounted for a further 25% of costs at Booking Holdings. Headcount is semi-variable as it can be reduced rather quickly but most managers are reluctant to do so dramatically as it is hard to rebuild skilled teams once they are disbanded. But nonetheless, 90%+ of Booking Holdings’ expenses are variable or semi-variable. This gives them, and all online travel agencies which have similar costs structures, much-needed flexibility in times of crisis. Airlines and hotels on the other hand are stuck with expensive finance and capital expenditure charges for their heavy assets like airplanes or real estate, even as those assets sit empty.

The final silver-lining for online travel agencies that we often hear as conventional wisdom is that economic downturns boost commissions.

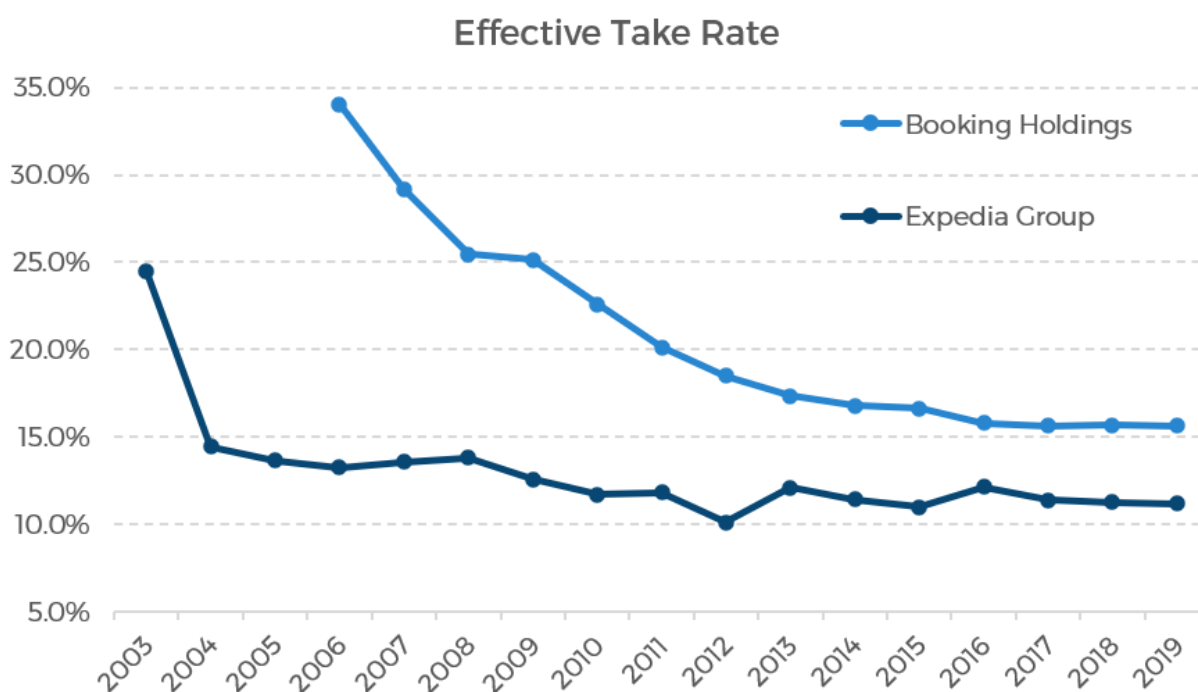
The balance of power between online travel agencies and their suppliers has swung dramatically in recent years. Aggressive hotel investment in first-party loyalty programs and marketing have encouraged more consumers to book direct. Plus, hotel consolidation has given the big brands greater leverage to negotiate down commissions. Illustrative of this, we believe that Expedia generated ~13% of Marriott’s U.S. bookings while Marriott properties may have accounted for as much as 25% of Expedia’s U.S. bookings in 2018.

However, in a recession, this pendulum might swing back towards the OTAs. Consumers hurt by a recession will care less about attaining loyalty status and more about the absolute lower price. And OTAs, which allow consumers to comparison-shop and pick out the best price themselves, will benefit. In addition, hotel revenue managers will be far less concerned about how much inventory they put onto the OTA sites and at what rates they do so than they were previously. In a low demand environment, filling beds is far more important than commission structure, rate parity, or even holding the line on discounting.

We believe much of this to be true, but caution that this narrative may be overplayed within the industry. For instance, when we looked back at OTA take-rates, we were only able to find limited evidence supporting the theory that booking sites benefit in a recession.

For instance, at two largest global OTAs, Booking Holdings and Expedia Group, there is no noticeable change in effective take rates during the 2008/2009 financial crisis, if anything they declined.

### Exhibit 3: OTA take rates did not benefit overall during the Global Financial Crisis



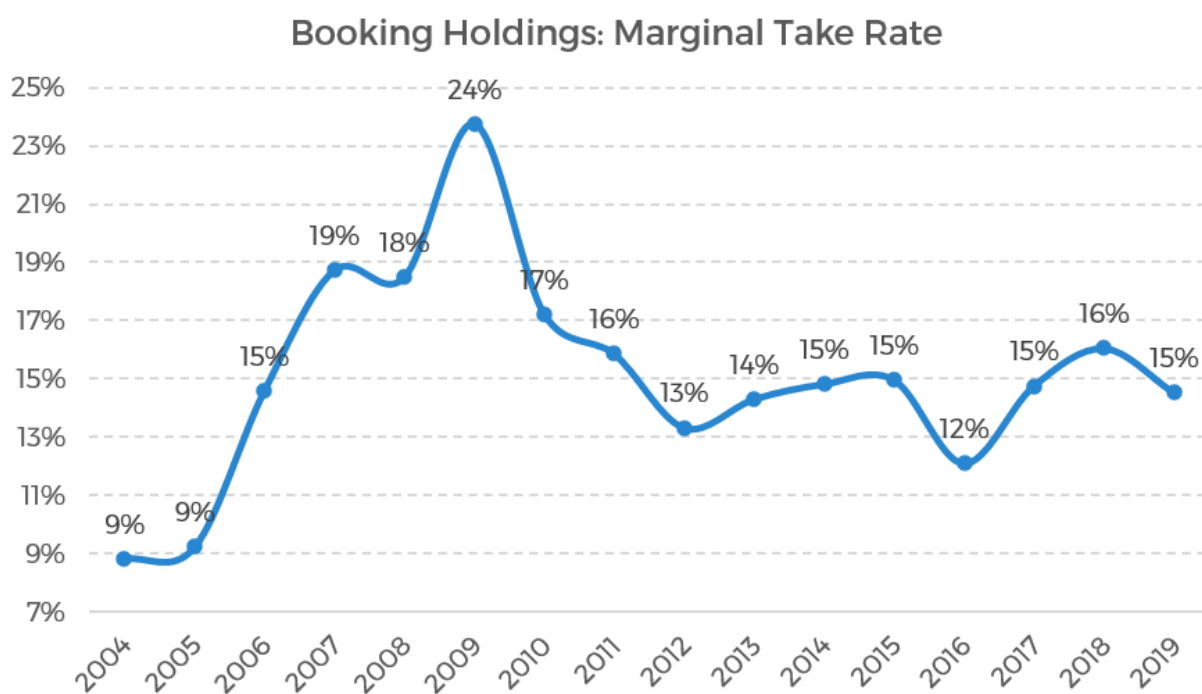
Source: Skift Research, company filings. Data as of December 31, 2019, analyzed April 8, 2020.

Digging deeper into the data, we looked at marginal take rates, the commission earned on incremental new bookings earned in a given year (i.e. new revenue divided by new bookings in a given year). Here, we see a notable increase at Booking Holdings during the financial crisis. Our work shows that Booking Holdings generated a 24% commission on new incremental

bookings that came onto the platform in 2009, above and beyond those that would have been otherwise earned in 2008 and other past years.

This potentially indicates a mix shift, where new independent hotels desperate for additional distribution flooded onto the platform in 2009 in the depths of the global recession, and these small hotels paid the highest tier of Bookings' commission.

**Exhibit 4: Booking's marginal take rate suggests that new independent hotels joined the platform looking for distribution during the crisis despite high commissions**



Source: Skift Research, company filings. Data as of December 31, 2019, analyzed April 8, 2020.

However, we did not see this trend replicate itself at Booking's biggest rival Expedia Group. It also should be noted that as we do not have any historical data beyond 2004, this is just one past event. We do believe that this current downturn will set the stage for OTA-supplier power dynamics to begin shifting back towards the booking sites but it would be unwise to extrapolate too much onto this crisis from a single sample.

## ONLINE TRAVEL SUB-SECTORS

The online travel sector encompasses several different business models and clienteles. We wanted to delve into three major business types – full-service OTAs, short-term rental OTAs, and Metasearch – to understand how each is being impacted.

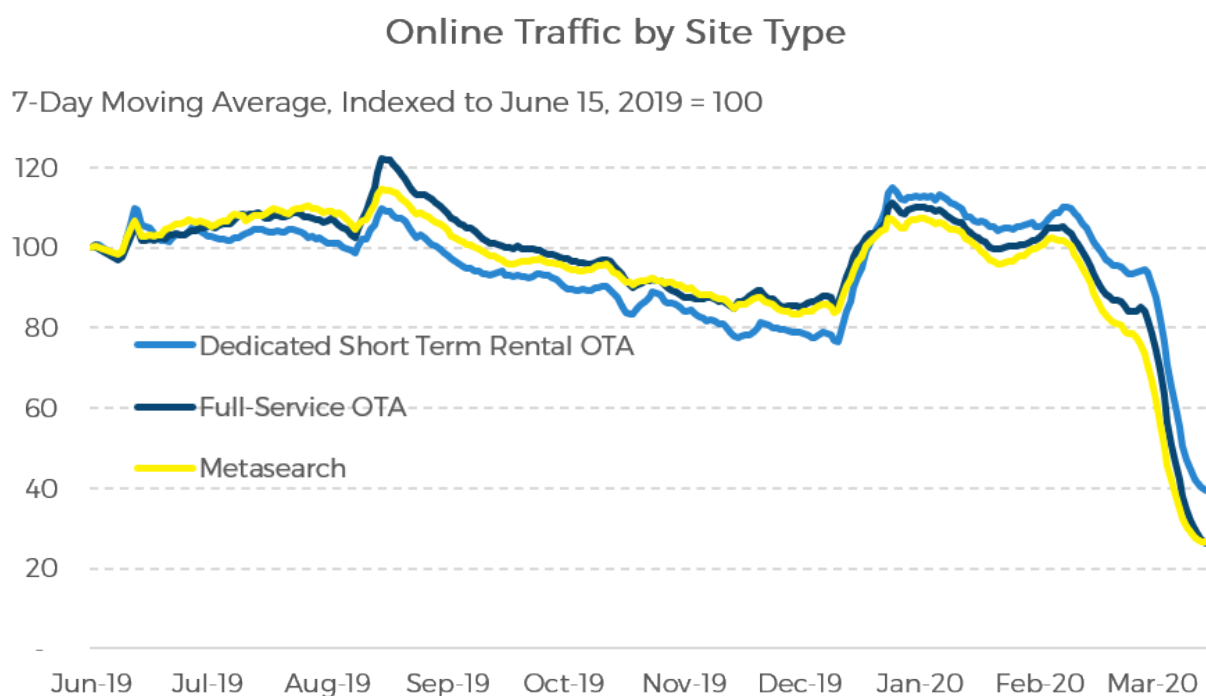
We turned back to [SimilarWeb](#) to answer this question from a traffic perspective. This time we looked at total page visits, not just limiting ourselves to transactions. That's because

metasearch sites will have different transaction conversion rates than booking sites and we wanted to be able to compare apples-to-apples metrics. We also used individual domains, rather than rolling up to the parent level, so that we could see how a parent company's metasearch sites performed differently from its other properties. The websites analyzed were [airbnb.com](https://www.airbnb.com), [booking.com](https://www.booking.com), [expedia.com](https://www.expedia.com), [kayak.com](https://www.kayak.com), [priceline.com](https://www.priceline.com), [skyscanner.com](https://www.skyscanner.com), [tripadvisor.com](https://www.tripadvisor.com), [trivago.com](https://www.trivago.com), [vrbo.com](https://www.vrbo.com).

Each site was aggregated across seven countries: The U.S., UK, Italy, France, Germany, Japan, and Hong Kong (e.g. [booking.com](https://www.booking.com), [booking.it](https://www.booking.it), and [booking.de](https://www.booking.de) all roll up to [booking.com](https://www.booking.com)). Again, we created a moving average and index to compare relative changes in page visit volume.

What we found was that in aggregate, web traffic to online travel websites is down by 70% globally. However, splitting the online sites into different sub-sectors shows varying degrees of damage.

#### Exhibit 5: Online travel web traffic down 70%+ globally



Source: SimilarWeb, Skift Research. Data as of March 29, 2020.

Online booking sites focused on short-term rentals seem to be outperforming their hotel-heavy, full-service peers. We suspect that this reflects the recent phenomenon of families temporarily leaving their homes in dense cities, where the coronavirus outbreak is worse and where home confinement in a small apartment is more restricting, to temporarily relocate to less-crowded suburban or rural destinations. This appears to be true at both Airbnb and Vrbo.



**Exhibit 6: Some evidence suggests that short term rental sites are doing a bit better than hotel peers**

**Major Short Term Rental Domains Traffic**

7-Day Moving Average, Indexed to June 15, 2019 = 100



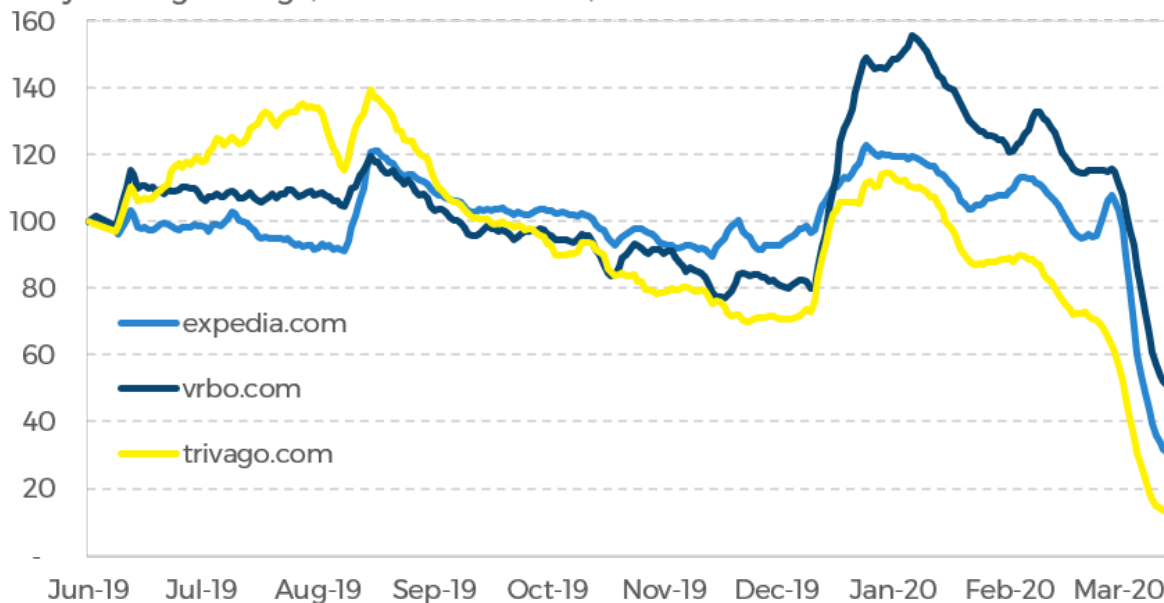
Source: SimilarWeb, Skift Research. Data as of March 29, 2020.

The comparison of Expedia Groups' main websites demonstrates this relative dynamic nicely. Vrbo is the best performing of all three sites with its focus on short-term rentals, many of which are full-sized homes in vacation destinations. The full-service OTA is in the middle of the pack, whereas hotel-heavy metasearch site Trivago is doing the worst.

## Exhibit 7: Vrbo seems to be among Expedia Group's best performing sites

### Expedia Group Traffic, OTA vs. STR vs. Meta Domains

7-Day Moving Average, Indexed to June 15, 2019 = 100



Source: SimilarWeb, Skift Research. Data as of March 29, 2020.

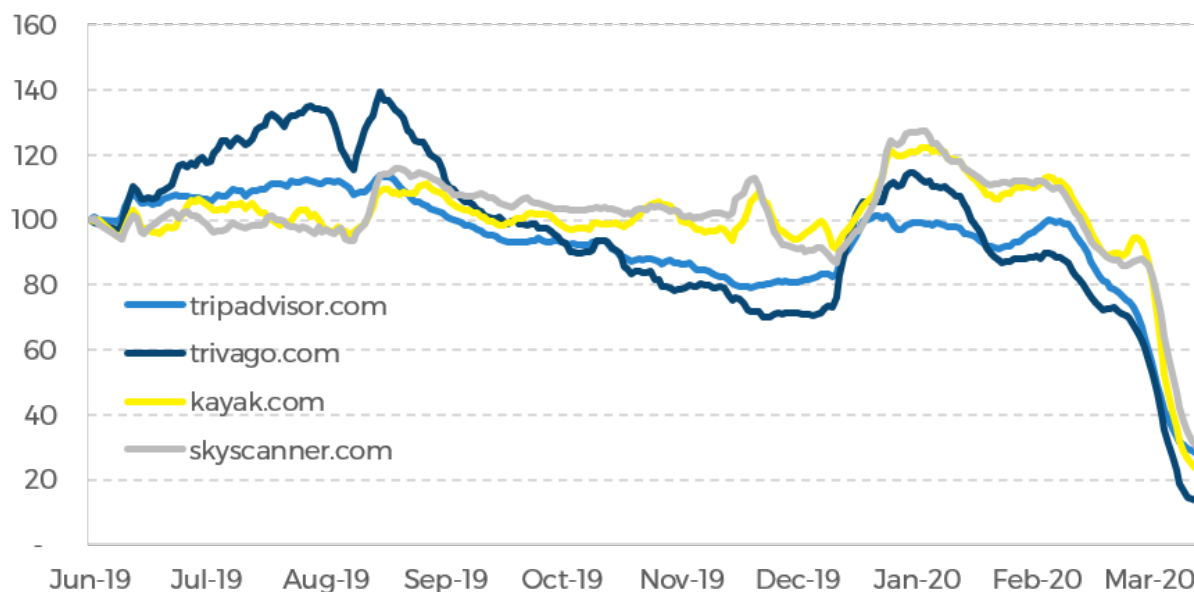
It should be noted that Trivago is among the worst performing of major metasearch domains, though it is mostly just a matter of degrees of bad. It seems that some of the more airline focused meta-sites like Kayak and Skyscanner are doing marginally better. This is consistent with messaging from Trip.com CEO that accommodations are being hit harder than transportation like airlines.

Metasearch suppliers are pulling back spending due to the demand drop. Recent research from Koddi showed that metasearch CPCs have dropped 40%. And the cost of the bid required for a top search result position has fallen 74%.

**Exhibit 8: Flight-heavy metasearch sites doing marginally better than those focused on hotels**

**Major Metasearch Domains Traffic**

7-Day Moving Average, Indexed to June 15, 2019 = 100



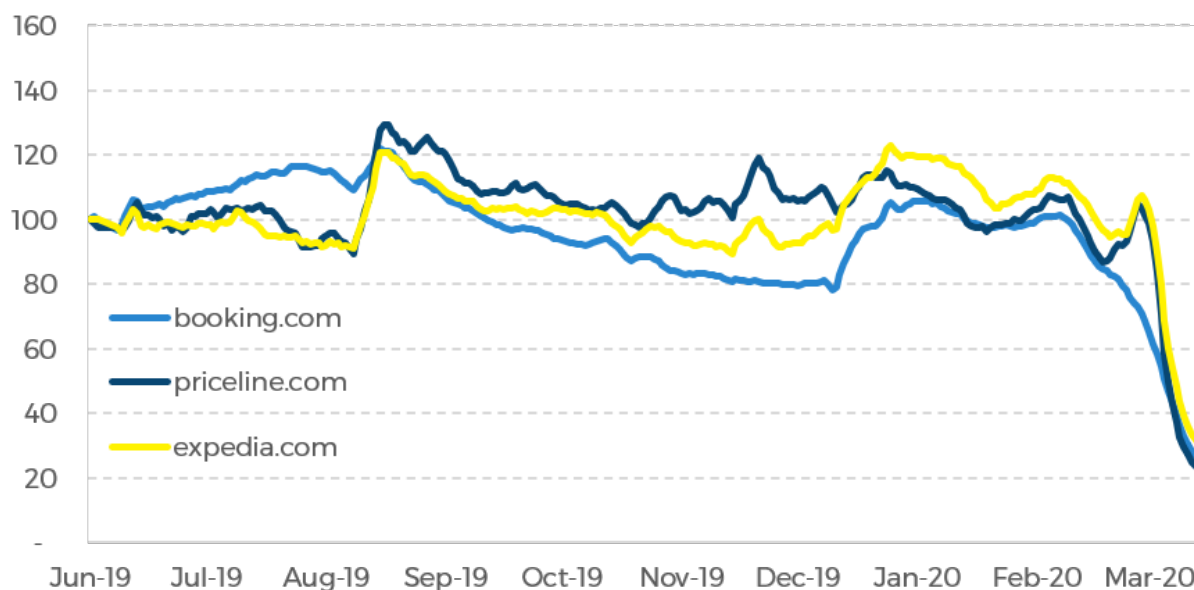
Source: SimilarWeb, Skift Research. Data as of March 29, 2020.

Finally, the full-service OTAs. Interestingly, our analysis of the SimilarWeb data shows that regardless of different brand or management strategies that all have moved in tandem. There is effectively no difference in the traffic performance of these three major OTA domains.

## Exhibit 9: Booking, Priceline, and Expedia have seen their traffic decline in tandem

### Major Full Service OTA Domains Traffic

7-Day Moving Average, Indexed to June 15, 2019 = 100



Source: SimilarWeb, Skift Research. Data as of March 29, 2020.

Ultimately, we are measuring not who is doing the best, but who is doing 'less-worse.' All of our data illustrates the dramatic drop-off in travel demand across all brands and sites.

That said, there are some interesting nuances both across and even within companies. In the following sections we dive deeper into the largest three online travel agencies in the world, Booking Holdings, Expedia Group, and Trip.com to analyze what those management teams have said specifically about COVID-19.

### Booking Holdings

Booking Holdings provided business guidance on its earnings call in late February, but as trends worsened, it quickly withdrew those numbers a little over a week later. Then, in late March, the company put out a statement to say its executives were forgoing salaries and that the company would be slashing expenses, including major cuts to marketing budgets.

On its fourth quarter 2019 earnings call on February 26th, management introduced negative guidance for the first quarter of 2020. Most importantly, the company guided that its revenues fall by 5–10% year-on-year in U.S. dollars. That guidance was withdrawn a little over a week

later, on March 9th, as the coronavirus spread into Booking's core markets of Europe and the U.S.

Booking's management said that they saw healthy growth in January and expected February, "to be approximately flat." So, all the negative numbers really hit Booking Holdings in March.

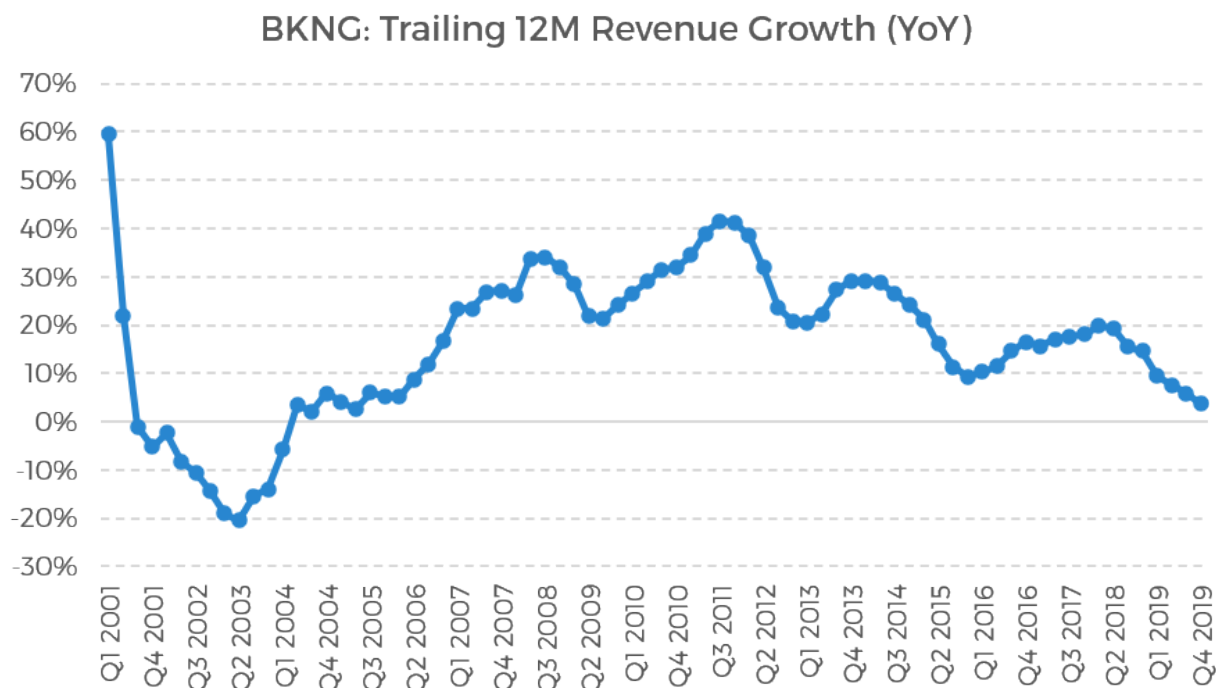
If we assume that each month is about equal and that Booking continued its Q4 growth rate of 4% into January, given that we know the growth in February was 0%, we can back into what Booking's guidance implies about March performance. Booking Holding's February guidance implied that March revenues would be down by 30% year-on-year.

Then on April 8th, as part of raising cash by issuing new bonds, Booking said that its saw room night reservations, excluding the impact of cancelations fall by over 85% year-on-year "in recent days." That's certainly worse than all past major crises combined and ties out with recent [STR data reported by Hotel News Now](#) shows that U.S. hotel occupancy dropped 67.5% and RevPAR decreased 80.3% to \$18.05 during the week of 22-28 March.

The company now expects that 2Q 2020 will be "significantly" more impacted by COVID-19 than its 1Q 2020 results. CEO Glenn Fogel said on March 23, that this current crisis is worse than all previous "major" disruptions combined. Let's go back in time to give that some context.

Booking has been extraordinarily resilient in past crises. Its quarterly revenue fell by -12% in Q3 2001. The recession and wars that followed 9/11 saw Booking's revenue trend at -20%. During the global recession of 2008/2009, Booking never even saw revenue shrink. Its revenue growth decelerated by 13 percentage points from 34% trended year-on-year growth to 21%. The 2012/2013 European sovereign debt crisis saw a 20-percentage point fall in trended growth rates from a 41% to 21%.

**Exhibit 10: Booking's revenue growth has been resilient, decelerating but not declining during the Great Recession; that won't happen this time**



Source: Skift Research, company filings. Data as of December 31, 2019, analyzed April 8, 2020.

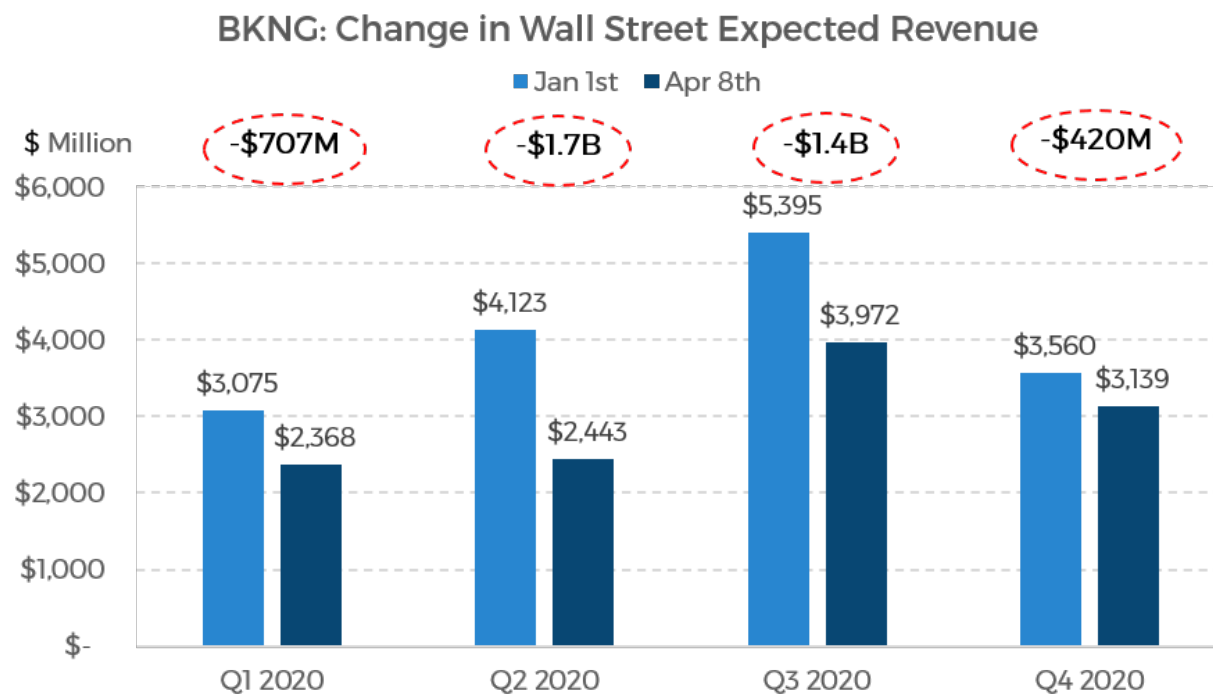
If you were to add up the 12% fall after 9/11, 20% drop in 2003, 13% deceleration in 2008/2009 and 20% decline in 2012/2013 you would be looking at a 65% slowdown in revenue. From a base trend of 3-4% growth, this drop could imply around a 60% year-on-year decline in Q2.

Given the acute pain of an 85% drop in the first weeks of April, that number feels plausible to us for the full quarter. A 60% fall in revenue over the second quarter of 2020 implies \$2.6 billion in lost revenues.

We can cross check this number with other sources. For instance, Wall Street analysts have cut their estimates for Bookings' revenue significantly. In January of this year, they expected Booking's revenue to grow by 7% in 2020 to over \$16 billion. Today, they expect full year revenue to decline by 21% to \$12 billion; a full year revenue loss of \$4.2 billion.

We can further dissect these estimates by quarter. Here we see that almost all of the damage is projected to come in the second and third quarter, with the fourth quarter relatively unimpacted. That means there is further downside to these numbers if the outbreak lasts longer than expected or travel does not recover quickly.

**Exhibit 11: Wall Street estimates that Booking will earn \$4.2 billion less in 2020 than it otherwise would have due to COVID-19**



Source: Skift Research, CapitalIQ. Data as of April 8, 2020.

Using the same methodology described in earlier, we can also check with the stock market and see what it implies about future revenue. This is again a crude estimate but based on stock price movements over the last few weeks, we believe that investors are pricing in a \$7 billion cut in earnings for Booking Holdings. This figure is pretty much in-line with the one we derived earlier based on management's guidance.

In sum, the range of estimates for the dollar impact to Booking Holding's top line varies from \$4–7B over the course of 2020 and will likely be at least \$2.6B over the next three months.

## Expedia Group

When Expedia Group held its fourth quarter earnings call on February 13, 2020, coronavirus was still primarily a Chinese problem, not a global warning. At Expedia, management was mostly unconcerned, and the company still expected to do double-digit EBITDA growth for the full year after a \$30–40 million hit in Asia-Pacific. Executive Chairman Barry Diller did caution that, "if it's [coronavirus] not contained, ... the entire world is going to shut down."

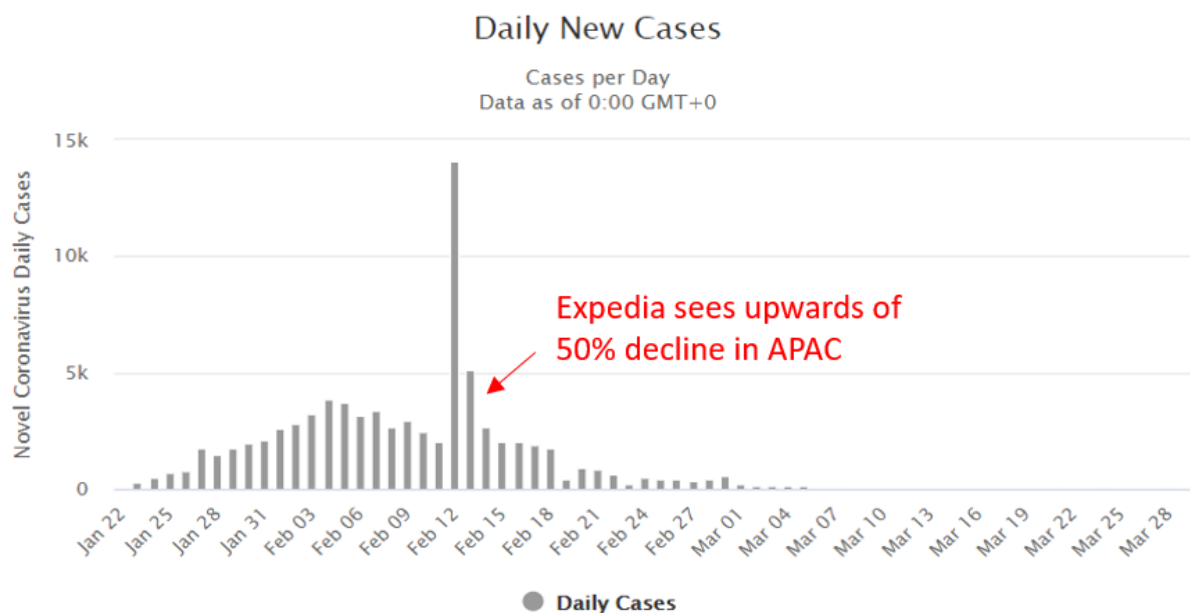
As month later, as that warning became the reality, Expedia withdrew its 2020 guidance on March 13 and, five days later on March 18, borrowed \$1.9 billion of cash from a pre-existing revolving loan facility to bolster its balance sheet heading into this crisis.

Let's dig into that initial statement about Expedia's loss in Asia-Pacific. The dollar figure is small only because Asia-Pacific is a small part of the company's operations. In percent terms, Eric Hart, acting CFO and Chief Strategy Officer, said that the overall region has seen business fall by upwards of 50%, and that, "as you get closer... to China that [drop] can get very much north of that."

It just so happens that the timing of this statement coincides with the peak of daily new COVID-19 cases in mainland China.

#### Exhibit 12: Expedia saw a 50% decline in the APAC region at the peak of reported infections in China

##### Daily New Cases in China



Source: <https://www.worldometers.info/coronavirus/> as of March 28, 2020

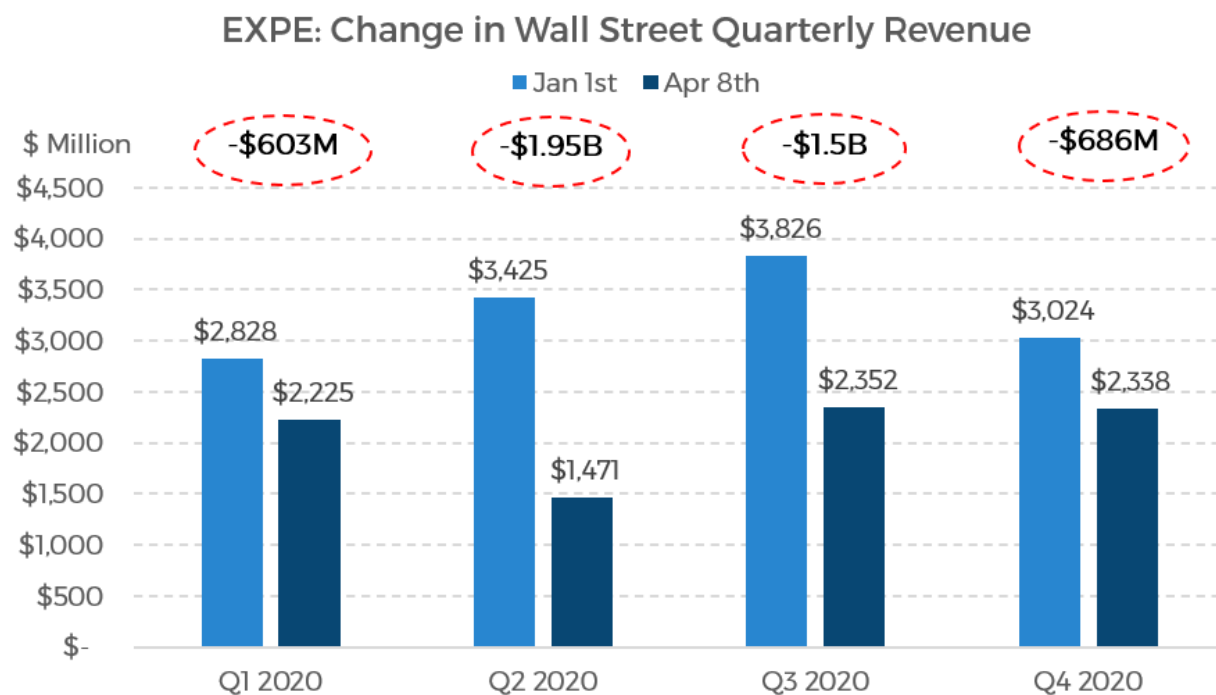
We know from STR data that RevPARs in China were down 90% at the worst point in time. That Expedia was not as bad speaks to the benefit of geographic diversity that OTAs hold over hotels, which are typically concentrated in a handful of countries.

With the virus shifting to Europe and the U.S., Expedia's core markets, let's assume that rate holds. A 50% decline in revenues Q2 2020, implies \$1.8 billion in lost revenue during those three months.



Wall Street analysts see a slightly steeper decline and expect Expedia to lost \$1.95 billion of revenue in Q2 2020 and \$4.7 billion for the full year, equivalent to a 30% drop in revenues for 2020.

**Exhibit 13: Wall Street estimates that Expedia will earn \$4.7 billion less in 2020 than it otherwise would have due to COVID-19**



Source: Skift Research, CapitalIQ. Data as of April 8, 2020.

Finally, we can turn back to our market analysis of lost revenues. This calculation suggests roughly an \$8.1 billion loss of revenues for Expedia in 2020. That would imply a full year decline of 59%.

## Trip.com Group

Trip.com Group (formerly known as Ctrip, also includes Skyscanner and other subsidiaries), as the largest online travel agency in China, is uniquely positioned to give commentary on the scope and duration of the coronavirus' impact on travel. Fortunately, they have been one of the most forthcoming online travel companies as regards COVID-19.

Trip.com said that in the days and weeks following the Lunar New Year, when Chinese travel restrictions to combat coronavirus were first put into place, the company had seen tens of millions of cancellations totaling a gross merchandise value (roughly equivalent to gross bookings) of RMB 31 billion. At current exchange rates that translates to ~\$4.4 billion. To put that number in proper context, Trip.com sold RMB 865 billion (\$123 billion) GMV of travel in 2018 so these cancellations represent just about 4% of a full year.

On top of the cancellations is the lost revenue from travelers who have skipped new travel bookings altogether, whether by government mandate or personal preference. Trip.com CFO Cindy Xiofan addressed this as well. On the company's March 18th earnings call, she said that in the first quarter of 2020, the company expects to see net revenue decrease by 45-50% year-on-year.

This guidance implies 1Q 2020 revenue of \$598 million, down from \$1,196 million in 1Q 2019. Trip.com also broke out the expected COVID-19 impact by business segment in 1Q 2020. CEO Jane Sun said she expects accommodation revenues to be hit the worst, down 60-65%; next most impacted are packaged tour and corporate travel, both down 50-60%; and finally, she expects transportation ticketing to be down 35-40%.

**Exhibit 14: Hotels worst hit; transportation, like airlines doing relatively better**

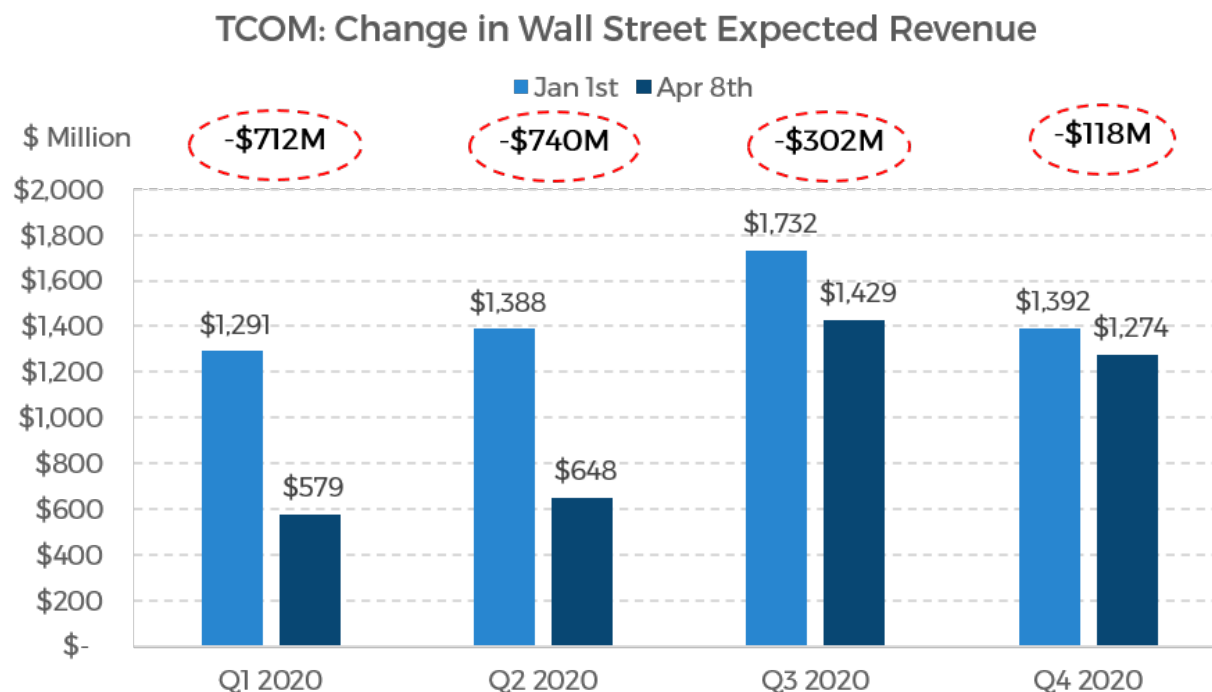
Segment	1Q 2019 Revenue, (\$ Millions)	Guided Decline	Implied 1Q 2020, (\$ Millions)
Accommodation reservation	\$ 423	60-65%	\$ 158
Transportation ticketing	\$ 470	35-40%	\$ 293
Packaged-tour	\$ 146	50-60%	\$ 66
Corporate travel	\$ 33	50-60%	\$ 15

Source: Skift Research, company filings. Data as of March 18, 2020 accessed on April 8, 2020.

Turning to Wall Street, analysts have cut 1Q 2020 estimates by \$712 million and now expect a -52% decline in revenue, in-line with corporate guidance. They expect this trend to continue through the second quarter of the year with revenues down a further -48%, or a \$740 million drop from previous estimates.

However, looking out further into the year, Wall Street analysts are modelling that the coronavirus damage will quickly recede and have barely cut estimates for the 4th quarter at all. In fact, they expect Q4 to return to positive year-on-year growth, up about 8% compared to 4th quarter 2019.

Exhibit 15: Wall Street estimates that Trip.com will earn \$1.9 billion less in 2020 than it otherwise would have due to COVID-19



Source: Skift Research, CapitalIQ. Data as of April 8, 2020.

All told, analysts have chopped just around \$1.9 billion of revenue from Trip.com in 2020 and expect the full year to be 23% lower than 2019. But is that too optimistic, especially considering the assumption of a nearly full recovery by the end of the year? The Market would seem to think so, as it is roughly pricing in \$2.6 billion of lost revenue in 2020, which would put the year down -38%.

In defense of the analysts, they are picking up on the cues of CEO Jane Sun who ended her most recent analyst call in mid-March on a note of optimism. She said that Trip.com is seeing a “V-shaped” recovery in travel demand. After two months of non-existent demand, now Sun says Trip.com is “already seeing... [positivity] in the China domestic travel business.” Airlines are re-launching shuttered routes and as regards pricing, though “at the beginning, the price was very cheap because I think all the business partners wanted to make sure consumers have confidence for the recovery. Now the price is climbing up, not to the full price yet, but it’s on a good trend, climbing up.”

China was the first to grapple with the coronavirus threat and now is the first to take tentative steps towards recovery. Hotel data from STR backs up Sun’s assertion. Its research shows that overall occupancy levels in Mainland China have risen from a low of 7.4% in the first week of February to 31.8% by March 28th.

However, we caution against taking this data too optimistically. It is possible that once lockdown rules are lifted in China that the virus could re-emerge. The Wall Street

Journal reports that some health experts believe that China may already be seeing a small number of COVID-19 cases begin spreading again as the quarantine is loosened.

The early return of Chinese travel appears to be primarily local weekend trips or small corporate firms. And it is not a given that we will soon see a return to large scale corporate and international leisure from China. Even if Chinese had an appetite for international travel, there is nowhere for them to go at the moment as many of China's largest outbound markets like Singapore and Japan are currently tightening their quarantines.

The final concern, and one that China shares with the rest of the world is that economic activity may not be quick to recover, even if the virus remains contained. If the damage to the Chinese economy is long-lasting then travel could lag long after the virus is gone.