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CTRP - Q4 2016 Ctrip.Com International Ltd Earnings Call

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OVERVIEW:

Co. reported full-year 2016 net revenues of CNY19.2b or \$2.8b, net loss attributable to Co.'s shareholders of CNY1.4b or \$206m, and diluted earnings per ADS of negative CNY3.02 or negative \$0.44. 4Q16 net revenues were CNY5.1b or \$730m, net income attributable to Co.'s shareholders was CNY645m or \$93m, and diluted earnings per ADS were CNY1.18 or \$0.17.



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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the fourth quarter/full year 2016 Ctrip.com International earnings conference call.

My name is [Derek] and I'll be your operator for today. (Operator Instructions).

At this time, I would to turn the conference over to Michelle Qi. You may proceed.

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

Thank you, Derek. Good morning and welcome to Ctrip's fourth quarter and full year 2016 earnings conference call.



Joining me on the call today, we have 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 US 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 statements 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 2016, as well as outlook for the first quarter of 2017. After the prepared remarks, we will have a Q&A session.

With that, I'll turn the call over to James for our business updates. James, please.

James Liang - *Ctrip.com International Ltd - Executive Chairman*

Thank you, Michelle, and thanks everyone for joining us today on the call.

The solid results in the fourth quarter of 2016 ended the year on a high note. Net revenues were up 76% year-over-year in the fourth quarter, driven by solid organic growth and the inclusion of the invested companies. Non-GAAP operating margin for the quarter was 16%, meaningfully higher than the 10% in the same period a year ago.

In the following sections, I will discuss Ctrip's growth potential and strategies in both the domestic and international online travel markets. China's domestic travel market continues to offer great growth potential. The domestic travel market grew to 4.4 billion trips in 2016. According to the government's 13th five-year plan, the number of domestic trips is expected to reach 6.7 billion by 2020, implying an 11% CAGR.

As the leading player in the space, Ctrip is well-positioned to benefit from this favorable secular trend. Thus, we have actively expanded our service to offer more value to our customers. Ctrip is in a strong position to foster such innovation due to our large customer base and one-stop travel platform model.

In 2016 we successfully launched several new service initiatives such as online travel guide, airport parking service, and currency exchange services. These services have further improved customer experiences, improved customer loyalty, and contributed to our overall sales growth.

Second, we have actively growing our customer base by penetrating into lower-tier cities through increased product offering and targeted marketing campaign. Last year, Ctrip users in the second, third-tier cities grew 80% year-over-year. Historical data in the first-tier cities and neighboring countries suggest that travel spending accelerates when GDP per capita reached a certain level. We expect to see similar trends in lower-tier cities and we'll continue to invest aggressively to grow our customer base in these markets.

Ctrip's international expansion consists of growth in both outbound travel and foreign travel markets. Helping more Chinese travelers explore the world remains one of the focuses in the coming years. Chinese passport holders account for less than 10% of the population, compared to 39% in the United States. We'll continue to invest in travel products and services around the world to improve our user experience and expand our leadership in the outbound travel market.

First, we have been strengthening core travel product offering, including hotels and flights and destination services. With strategic relationship with global players, Ctrip operates China's largest and most comprehensive international travel platform. We have also made some investments to enhance our destination services such as investments in the largest US tour operator that specializes in providing service to Chinese travelers, as well as a company that provides car services with Chinese-speaking drivers in major international destinations.

Second, Ctrip aims to develop more innovative travel products beyond traditional sightseeing trips. Chinese travelers are becoming increasingly interested in cultural events and social services in foreign countries. We've seen more and more outbound travelers participating in thematic tours such as skiing, studying abroad, and healthcare tours. To fulfill those demands, we have developed many new products. On Ctrip's platform, healthcare trips grew over 500% year-over-year.

Third, Ctrip commits to improving the quality and efficiency of in-journey services. The Company has launched a global SOS system recently, leveraging our large customer base, local staff and partners, and relationship with major insurance companies. We are working hard to make sure our customers have peace of mind when they travel abroad with us. Ctrip will continue to bring our one-stop travel service to Greater China and foreign markets through partnership with local and international players. Our dual-brand strategy with Ctrip and Wing On Travel in Hong Kong has been successful as they have been taking market share.

The acquisition of SkyScanner has strengthened our positioning on a global scale. SkyScanner and Ctrip plan to share best practices to unlock the potential for both brands. Together with SkyScanner, we expect to further extend our international air ticketing services to local customers in Asia Pacific and other markets around the world.

We have built a long runway of growth in both domestic and international travel. With our strong execution, continued innovation and international expansion, we are confident that Ctrip can deliver more value to our customers, partners and investors.

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

Jane Sun - *Ctrip.com International Ltd* - CEO

Thanks, James. I'm very pleased to share updates on Ctrip's main businesses with you.

First, on hotel and accommodations. Total hotel revenue grew by 56% compared to the same period last year, driven by both volume growth and the inclusion of an invested company. This quarter's growth rate reflected the negative impact of the adoption of the VAT tax of approximately 5% to 10%.

A large hotel inventory and high quality of services are the core competencies of our hotel business. Ctrip provides one of the most comprehensive and competitive hotel inventory sourcing from our direct network and industry partners. At the end of 2016, Ctrip's hotel network covered over 1.2 million hotels around the world. Ctrip supports our hotel partners on a multi-front including reservation, marketing, customer services and data analysis.

We also uphold high quality service standard, supported by a strong IT infrastructure. Today over 90% of Ctrip's hotel orders can be confirmed almost immediately after booking. And hotel price changes can be reflected on our website and app within one minute.

Second, transportation ticketing services. Total transportation revenue grew by 97% year over year in the fourth quarter, benefiting from the fast-growing new business units and strong execution. Train ticketing maintained its healthy momentum. In the fourth quarter, train ticketing volume grew approximately 70% year over year, driven by strong execution. Bus ticketing continued to generate strong volume growth. The business grew about 150% in the fourth quarter year-over-year.

Air ticketing delivered solid growth. We will continue to work closely with major airlines to build a healthy ticket distribution environment. Our international air ticketing revenue grew by over 50% year-over-year, mainly driven by strong volume growth. We expect the SkyScanner investment will further strengthen our international air ticketing business.

Our multi-modal transportation solution connects more cities at a lower cost. By the end of 2016, our air plus train packages connected China's 225 airports and 93 cities without airports. During the Spring Festival, sales of air plus train package grew over 80% year-over-year.

Third, our packaged tour business. Packaged tour revenue increased steadily, up 33% year over year, due to healthy volume growth. One of the key initiatives for the packaged tour business is to enable personalized travel experiences. To accommodate such demand, many of our new products and services have received positive feedback and have been rolled out at a large scale.

For example, our customized group tour have enjoyed 300% year-over-year growth. Visual tour groups, [an app] program, where individual travelers are pooled together and provided help by Ctrip customer representatives and local experts at their destination, have seen so -- have been so popular that more than 10 million individual travelers signed up for this service in 2016.

Ctrip's to commitment to improving customer services is what makes us stand out among peer players. In January we launched the first global SOS system in the industry, to provide in-journey support. We have established an emergency response team to locate, contact and help our customers in emergencies such as natural disasters. Our SOS system also provides day-to-day support such as helping customers get medical treatment or find lost items.

Fourth, corporate travel. Our corporate travel business delivered solid year-over-year growth of 32% in spite of the challenging operating environment. Our corporate travel team has expanded their product offering from air ticketing, hotel, train ticketing, and car rental services, to include additional value-added services such as VTs, exhibitions, dining and insurance. Meanwhile, we have extended the corporate travel services scope from booking and payment to pre and post booking administrative functions. Now, our corporate travel business serves over 8 million users from more than 6,000 large enterprises and 16 small and medium-sized enterprises.

Lastly, our innovation efforts were recognized by Fast Company, a leading business publication focused on innovative technology companies. Ctrip was named as one of the Most Innovative Travel Companies and as one of the Most Innovative Chinese Companies of 2017.

2016 was remarkable as Ctrip Group delivered both healthy revenue growth and significant margin expansion throughout the year in spite of the -- some small short-term industry adjustments. We will continue to aggressively push into low-tier cities to gain market share and improve profitability. We can do this because of our large-scale in-supply customer base, technology and innovation. We are confident that we can achieve our original 2020 targets organically.

More encouragingly, we expect additional international contribution from SkyScanner, our new Group member. The investment marked an important milestone for our international business. SkyScanner will operate independently and work with Ctrip as our close partner. We plan to help SkyScanner strengthen its product offerings and develop excellent service capabilities.

As always, we would like to thank our customers, our business partners, employees and shareholders for their continued support. We will keep working hard to deliver great results in the years to come.

With that, I will turn the call to Cindy for financial highlights.

Cindy Wang - *Ctrip.com International Ltd - CFO*

Thank you, Jane. Thank you everyone.

For the fourth quarter of 2016, Ctrip reported net revenues of RMB5.1 billion or \$730 million, representing a 76% increase from the same period in 2015, primarily due to the consolidation of Qunar starting from the end of last year. Net revenues for the fourth quarter of 2016 decreased 9% from the previous quarter, primarily due to seasonality.

For the full year ended December 31, 2016, net revenues were RMB19.2 billion or \$2.8 billion, representing a 76% increase from 2015.

Accommodation reservation revenues for the fourth quarter of 2016 were RMB1.8 billion or \$266 million, representing a 56% increase from the same period in 2015, primarily driven by increase in accommodation reservation volume and consolidation of Qunar. Accommodation reservation revenues for the fourth quarter of 2016 decreased 11% from the previous quarter, primarily due to seasonality.

For the full year ended December 31, 2016, accommodation reservation revenues were RMB7.3 billion or \$1.1 billion, representing a 58% increase from 2015. The hotel reservation revenues accounted for 37% of the total revenues in 2016 and 40% of total revenues in 2015.

Transportation ticketing revenues for the fourth quarter of 2016 were RMB2.4 billion or \$352 million, representing a 97% increase from the same period in 2015, primarily driven by increase in ticketing volume and consolidation of Qunar. Transportation ticketing revenues increased 1% from the previous quarter.

For the full year ended December 31, 2016, transportation ticketing revenues were RMB8.8 billion or \$1.3 billion, representing a 98% increase from 2015. The transportation ticketing revenues accounted for 45% of the total revenues in 2016 and 39% of the total revenue in 2015.

Packaged tour revenues for the fourth quarter of 2016 were RMB467 million or \$67 million, representing a 33% increase from the same period in 2015, primarily driven by increase in volume growth of organized tours and self-guided tours. Packaged tour revenues for the fourth quarter of 2016 decreased 43% from the previous quarter, primarily due to seasonality.

For the full year ended December 31, 2016, packaged tour revenues were RMB2.3 billion or \$333 million, representing a 39% increase from 2015. The packaged tour revenues accounted for 12% of the total revenue in 2016 and 15% of the total revenue in 2015.

Gross margin was 78% for the fourth quarter of 2016, compared to 73% in the same period in 2015, and remained consistent with the previous quarter. For the full year ended December 31, 2016, gross margin was 75%, compared to 72% in 2015.

Product development expenses for the fourth quarter of 2016 increased by 100% to RMB1.7 billion or \$248 million from the same period in 2015, primarily due to the consolidation of Qunar. Product development expenses for the fourth quarter of 2016 decreased 7% from the previous quarter, primarily due to decrease in product development personnel related expenses. Product development expenses for the fourth quarter of 2016 accounted for 34% of the net revenues. Excluding share-based compensation charges, non-GAAP product development expenses for the fourth quarter of 2016 accounted for 27% of the net revenues, which remained consistent with the same period in 2015 and the previous quarter.

For the full year ended December 31, 2016, product development expenses increased by 133% to RMB7.7 billion or \$1.1 billion from 2015 and accounted for 40% of the net revenue. Excluding share-based compensation charges, non-GAAP product development expenses accounted for 29% of the net revenues, compared to 28% in 2015.

Sales and marketing expenses for the fourth quarter of 2016 increased by 73% to RMB1.5 billion or \$212 million from the same period in 2015, primarily due to consolidation of Qunar. Sales and marketing expenses for the fourth quarter of 2016 decreased 2% from the previous quarter. Sales and marketing expenses for the fourth quarter of 2016 accounted for 29% of the net revenues. Excluding share-based compensation charges, non-GAAP sales and marketing expenses for the fourth quarter of 2016 accounted for 28% of the net revenues, which decreased from 29% in the same period in 2015 and increased from 26% in the previous quarter.

For the full year ended December 31, 2016, sales and marketing expenses increased by 90% to RMB5.9 billion or \$844 million from 2015 and accounted for 30% of the net revenue. Excluding share-based compensation charges, non-GAAP sales and marketing expenses accounted for 28% of the net revenues, which remained consistent with last year.

General and administrative expenses for the fourth quarter of 2016 increased by 76% to RMB540 million or \$78 million from the same period in 2015, primarily due to the consolidation of Qunar. G&A expenses for the fourth quarter of 2016 increased 0.2% from the previous quarter. G&A expenses for the fourth quarter of 2016 accounted for 11% of the net revenues. Excluding share-based compensation charges, non-GAAP G&A expenses accounted for 7% of the net revenues, which remained consistent with the same period in 2015 and the previous quarter.

For the full year ended December 31, 2016, G&A expenses increased by 131% to RMB2.5 billion or \$363 million from 2015 and accounted for 13% of the net revenue. Excluding share-based compensation charges, non-GAAP G&A expenses accounted for 7% of the net revenues, which remained consistent with 2015.



Income from operations for the fourth quarter of 2016 was RMB207 million or \$30 million, compared to RMB95 million in the same period in 2015 and RMB447 million in the previous quarter. Excluding share-based compensation charges, non-GAAP income from operations was RMB797 million or \$115 million, compared to RMB292 million in the same period in 2015 and RMB1 billion in the previous quarter.

For the full year ended December 31, 2016, loss from operations was RMB1.6 billion or \$226 million, compared to income from operations of RMB381 million in 2015. Excluding share-based compensation charges, non-GAAP income from operations was RMB2 billion or \$287 million, compared to RMB1 billion in 2015.

Operating margin was 4% in the fourth quarter of 2016, compared to 3% in the same period in 2015 and 8% in the previous quarter. Excluding share-based compensation charges, non-GAAP operating margin was 16%, compared to 10% in the same period in 2015 and 18% in the previous quarter.

For the full year ended December 31, 2016, operating margin was negative 8%, compared to 3% in 2015. Excluding share-based compensation charges, non-GAAP operating margin was 10%, compared to 9% in 2015.

Net income attributable to Ctrip's shareholders for the fourth quarter of 2016 was RMB645 million or \$93 million, compared to RMB76 million in the same period in 2015 and RMB24 million in the previous quarter. Excluding share-based compensation charges, non-GAAP net income attributable to Ctrip's shareholders was RMB1.2 billion or \$178 million, compared to RMB272 million in the same period in 2015 and RMB581 million in the previous quarter, primarily due to the net gain recognized from investing activities, including replacement and equity pick-ups from equity investments.

For the full year ended December 31, 2016, net loss attributable to Ctrip's shareholders was RMB1.4 billion or \$206 million, compared to net income of RMB2.5 billion in 2015. Excluding share-based compensation charges, non-GAAP net income attributable to Ctrip's shareholders was RMB2.1 billion or \$307 million, compared to RMB3.2 billion in 2015.

Diluted earnings per ADS were RMB1.18 or \$0.17 for the fourth quarter of 2016. Excluding share-based compensation charges, non-GAAP diluted earnings per ADS were RMB2.24 or \$0.32 for the fourth quarter of 2016.

For the full year ended December 31, 2016, diluted earnings per ADS were negative RMB3.02 or negative \$0.44. Excluding share-based compensation charges, non-GAAP diluted earnings per ADS were RMB4.05 or \$0.58.

As of December 31, 2016, the balance of cash and cash equivalents, restricted cash and short-term investments was RMB34 billion or \$5 billion.

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

QUESTIONS AND ANSWERS

Operator

Certainly. (Operator Instructions).

And our first question will come from the line of Amanda Chen from Morgan Stanley.

Amanda Chen - Morgan Stanley - Analyst

Hi, good morning, management. Congratulations on the strong quarter and thank you for taking my questions. I have two here.

First is -- hi. Can you hear me?



Unidentified Company Representative

Yes.

Amanda Chen - Morgan Stanley - Analyst

Okay, great. Congratulations on the strong quarter and thank you for taking my question. I have two here.

First is regarding the international market. Could you please share your international expansion strategy in general? And then, specifically, how will you leverage Priceline's resources, how will you integrate investees such as SkyScanner and MakeMyTrip into Ctrip ecosystem? And especially when entering new overseas market, how will you balance the interests between Ctrip and your investees? That's my first question.

And the second one is regarding your long-term margin improvement. I think you previously guided that margin will improve to 20% to 30% in the long term, so, could you please share -- could you please specify the margin improvement trajectory? And do you see it is faster than your previous estimate? Thank you very much.

James Liang - Ctrip.com International Ltd - Executive Chairman

SkyScanner and MakeMyTrip are independent brands, so they will have their own independent strategy of penetrating their relevant markets. But we have a lot of sharing or knowledge sharing and technology sharing that can be realized. We have very good product complementary.

SkyScanner has very strong air ticketing products in Europe and we have very strong in China, and we are expanding to other parts of the world by sharing our expertise. And combined, we have a much stronger overall products, so that will help each other to penetrating our market. Also, the same as with our partners such as Priceline and combined, we have better products across the world by sharing our product strength moving with different parts of the market.

Jane Sun - Ctrip.com International Ltd - CEO

Yes, regarding the margin, given that there is still a huge room for Ctrip to grow both domestically and internationally, so we stick with the original long-term margin targets that we are going to gradually improve our margin to 20% to 30% level in the next two to three years.

Operator

Your next question will be from the line of Ming Xu, UBS.

Ming Xu - UBS - Analyst

Good morning, James, Jane and Cindy.

Congratulations on the strong results. So I have two questions here. First is on SkyScanner, could you help us understand that the revenue opportunity that SkyScanner can bring, so specifically, what Ctrip can help SkyScanner to improve their own revenue and take rate and also what SkyScanner can help Ctrip to improve your international business.

And second question is on the margins, obviously the margin is very strong this quarter, particularly around gross margin and also on the savings in product development cost. So could you help us understand why you achieved such good results in these two lines, particularly what business line actually achieved a higher gross margin. And also, what kind of cost synergy you achieved in the product development cost.

Thank you.

Jane Sun - *Ctrip.com International Ltd - CEO*

Thank you. SkyScanner and it's a very -- they have a very healthy growth and very significant market share especially in the market outside of China, in the European and Asia-Pacific areas.

But in terms of the revenue, their total revenue accounts for about a mid to high single digit of Ctrip as a group. For the margins, Ctrip's team, we -- in the last couple of years, we worked very hard together with Qunar's team to improve our both gross margin as well as the operating margins. For example, in the call center, our service centers, our target is to maintain or to some extent, to increase our service standard, but at the same time, introduced a lot of new technology to help us to improve the operational efficiencies across all business lines.

So hard work had a very good return on the margins.

Operator

The next question will be from the line of Alicia Yap, Citi.

Alicia Yap - *Citigroup - Analyst*

Hi, good morning, James, Jane and Cindy. Congrats on the strong results and thanks for taking my questions.

I have a couple of questions here as well. First of all, I missed part of the prepared remarks, I'm not too sure if you disclosed what was your GMV number for the full year 2016.

And then Jane, remember, you actually mentioned on the annual events that you guys target the new GMV to achieve about RMB1 trillion by 2018 and then double it up by 2021. Can you share with us what would be the rough breakdown of the GMV for transportation versus accommodations? In other words, like if you could share with us which business line will have a faster growth in GMV based on the target that you have.

And then the second question, just on housekeeping, what is the headcount number at the end of December versus end of the 3Q? thank you.

Jane Sun - *Ctrip.com International Ltd - CEO*

Thank you, Alicia. In 2016, the total GMV of Ctrip Group towards around RMB430 billion, despite we have some challenges in our air ticket business due to the adjustment in the air ticket distribution environment. But we are still very confident that we can achieve our original 2020 target in an organic way. Of course, we -- after the acquisition of SkyScanner, we also expected some additional international contribution from SkyScanner.

Regarding the RMB2 trillion in five year include the SkyScanner contribution. However, due to SkyScanner, they have the different business model which is a metasearch model. Their transaction values are estimates so it will be easier for investors to benchmark our organic GMVs and revenue growth against our original GMV target with additional contribution coming from the SkyScanner.

For each business line item, I think we will have a very healthy growth across all business lines but in terms of a GMV contribution, because the selling price of the air ticket business is the highest, so the air ticket will account for approximately half of our total GMV.

Operator

And the next question will be from the line of Natalie Wu from CICC.

Natalie Wu - *CICC - Analyst*

Hi, management. Congratulations on the very solid quarter and thanks for taking my questions. I have two questions here. The first one is related to the first quarter guidance in SkyScanner. So what will be the guidance if we exclude SkyScanner. Did you just mention that SkyScanner accounts for like mid to high single digit revenue?

So based on simple calculations, the revenue growth guidance excluding SkyScanner is like 30% to 40%? Correct me if I am wrong. And can you also share with us actual color on what will be the guidance growth rate for each different business line.

And also, what should we expect regarding SkyScanner's impact on your revenue growth and margin profiles in the upcoming 2017.

And my second question is regarding the regional sales in terms of Japan and Korea, and outbound travel, so can management give us a rough feeling regarding these kinds of stuff impact on your financials?

Thank you.

Jane Sun - *Ctrip.com International Ltd - CEO*

Thank you, Natalie. So we have -- we forecast that our net revenue including SkyScanner, will grow about 40% to 45%. SkyScanner accounts for roughly about mid to high single digit of our total revenues of the Group. And for each business line items, please be noted that the following revenue growth for each business line items include the negative 5% to 10% VAT tax impact. So including the negative impact from the VAT tax, accommodation reservation will grow about 20% to 30% and transportation and ticketing revenues will grow about 45% to 55% year-over-year.

And the packaged tour business will grow about 20% to 30%, corporate travel business will grow about 10% to 20% year-over-year in the first quarter of 2017.

In terms of the impact of Japan and Korea, Ctrip has very diversified destinations, we have all products or destinations that the Chinese travelers will like to go. So the impact, first of all, we don't notice such kind of negative impact from these two destinations but for Ctrip, as long as the GDP per capita growth continue to grow and the Chinese travelers -- and Chinese people have more money to travel abroad, I think the big picture for our outbound travel business is very healthy. We have -- our target is just to outpace the industry growth and continuously to gaining market-share in the travel industry.

Natalie Wu - *CICC - Analyst*

Got it. Thank you.

Operator

Your next question will be from the line of Binnie Wong, BofA.

Binnie Wong - *Bank of America Merrill Lynch - Analyst*

Good morning, James, Jane, Cindy, and congratulations on ending 2016 with a solid quarter with significant margin expansions and an encouraging outlook. I have a question on the hotel business. We actually see better than company expected growth, but it's still moderated, so it's just the early part of 2016. Besides the reasons from high base in Qunar, any particular reasons?



And can you share with us any strategy -- your strategy into hotel in 2017, will growth come from volume or integrated expansion? And I appreciate your color on the competition, have (inaudible) it in both high and low end hotel and also on coupon trends in hotel? Thank you.

And my second question is on the 1Q outlook, how much of that is coming from SkyScanner and maybe Cindy can share with us a by segment growth outlook, too?

Thank you.

Cindy Wang - *Ctrip.com International Ltd - CFO*

Sure, the hotel business is one of the major business line in our total portfolio. So our team will execute very strongly in couple of [trends], first of all, on the hotel coverage, including domestic as well as international, we will put great effort to expand our coverage to make sure whichever hotel our customer want, we will have the coverage and the good price for these hotels.

Secondly is information. We want to make sure the information related to these hotels will be strengthened and the rating system in our systems also will be strengthened.

Thirdly is service, Ctrip is known to have excellent services, that is why our customer wins have used our services, stick to us, and is very loyal to us. So our service team is very much committed to excel our service level by providing 24x7 services to make sure when the customer runs into issues, we are there with them, traveling with them and support them. So with our investment in the coverage, information service and technology, these are the key factors which drive our growth going forward.

And your second question, sorry? Yes.

Cindy Wang - *Ctrip.com International Ltd - CFO*

So for the SkyScanner, because they are one of the most -- the world's best metasearch engines but the vast majority of their revenue are coming from the air ticket business and their total revenue accounts for about mid to high single digits of Ctrip's Group, in terms of the margin, they have very similar margin profile compared with Ctrip's organic business.

Operator

(Operator Instructions). Your next question is from the line of Tian Hou, TH Capital.

Tian Hou - *TH Capital - Analyst*

Good morning, management. I have a question related to competition. So after you consolidate Elong and Qunar, it doesn't seem like there is much competition in the market. However, there could be some competition like AliTrip and Meituan, and also, actually, Airbnb, so I wonder how management prepared to go against each of those kinds of potential competition in the future. That's my question.

Jane Sun - *Ctrip.com International Ltd - CEO*

Thanks. I think our team is trained to fight competition every year ever since the Company was established. Everyone wants to get into our travel industry so every year, there are newcomers but many came and they failed. So for us, the team needs to be vigilant. We developed our technology platform and scalability so that our efficiency exceeds any players in the market. Secondly, the service element is also very important for us to serve our customers well to make sure it's a one-stop service platform.



If a customer make a ticketing and booking and it's very easy for them to add on services for hotels, for local attractions, so if there is some reason the flight is delayed, we will automatically adjust the follow-on services for them.

So with the one-stop shopping platform, it also gives us lots of advantage compared to the single product platform.

And thirdly, I think the element for our technology innovation also give us the scale and the margin expansion. So internally, to an extent, we can make our operation more automatic, more efficient to do that. The savings we achieve are -- not only will give us the margin expansion, but also give us the strength to compete in the marketplace.

So if there are any competition that we are facing, we never turn away from these competition, instead, we will head on and make sure we use the competition as an opportunity to penetrate into the lower tier cities into the market that Ctrip have never been touched as an extension of our new business.

So the team is very well trained to compete in the competitive environment to make our team stronger.

Your next question will be from the line of Wendy Huang. Macquarie.

Wendy Huang - Macquarie - Analyst

Thank you. So Jane, you mentioned earlier in the prepared remarks that the penetration into the lower tier cities and also improving profitability will be 2017 strategic focus. So with this kind of strategic focus, how should we expect the ARPU to trend and also margin to trend in 2017?

And also, alongside, can you give us update on the recent hotel coupon trend in both high end and low-end market, and also the blended air ticket rate, net take rate recently, how has that actually trended? Thank you.

Jane Sun - Ctrip.com International Ltd - CEO

Sure, I will give a general feel in terms of our overall strategy and Cindy will add on more color for the numbers.

I think in order to run a successful business, we always have to look into a couple of things. One is the market--share gain, and secondly is the margin. And thirdly, is investment into the future. I think if a company only focus on the market-share, without -- by burning lots of money can never sustain its growth because the money you burn currently is not sustainable. So we look at a couple of things. First of all, it's a GDP growth rate. Currently, it's at about 5% to 6%. And travel growth doubles the GDP growth at about 10%. And Ctrip normally can double or triple the industry growth so our guidance reflects our strong growth trajectory.

And secondly, because we invest so heavily in R&D, in our service, it gave us a leading advantage compared to our peer players in the market. So if you look at the market, the only company in the online travel business that is profitable is the Ctrip Group, and we will continuously invest in our technology to automate processes that is standard, but also provide human support when machine cannot handle a crisis.

So that is our strategy.

Thirdly, I think Ctrip is always very disciplined to run operations. Any money that we can save through our operation, we will save it. And that gives us the strength to face any competition going forward.

And so, we want to make sure that our margins expand methodically throughout the year, delivering the promise we have given to our shareholder. But meantime, we will also reserve sufficient bullets, so if there are any competition in the market, we will not give any opportunity to other players to make sure we further penetrate in the untouched land.

So Cindy will follow on with the discussion on numbers.

Cindy Wang - *Ctrip.com International Ltd - CFO*

Yes, so in the first quarter of 2017, we have a very healthy topline growth at about 40% to 45% and on the bottom line, we will deliver non-GAAP operating profit at about RMB750 million to RMB850 million.

Operator

Your next question will be from the line of Eric Wen, Blue Lotus.

Eric Wen - *Blue Lotus - Analyst*

Hi, thanks for taking my questions and congratulations on the very strong quarter and outlook. We just noticed that the January ticketing volume of the major Chinese airlines seem to be registering a healthy rebound. Can we comment on whether this will sustain as a trend in rebounding in Chinese traveling overseas in 2017? And can we elaborate on the latest outlook and cost currents regarding to Chinese overseas travel? Thanks.

Cindy Wang - *Ctrip.com International Ltd - CFO*

January this year, the Chinese New Year is a little bit earlier so we have to add January and February together in order to get an apple to apple comparison but in general, as long as the GDP growth rate is healthy, the travel industry growth is healthy, Ctrip should do very well in the market as well and to support our airline partners to make sure we drive the volume for all our partners in the air industry.

Operator

Your next question will be from the line of Jin Yoon, Mizuho Securities.

Jin Yoon - *Mizuho Securities - Analyst*

Hi, good morning, guys.

Just a couple of things, first of all, is there any material seasonality difference between Ctrip and SkyScanner?

And second of all, did I hear you correctly, did you say it was RMB750 million to RMB850 million on the bottom line for Q1? I just want to make that clear. Thanks, guys.

Jane Sun - *Ctrip.com International Ltd - CEO*

Yes, given that SkyScanner, their total revenue contribution to Ctrip as a group is still not material, and so their seasonality won't do much impact to Ctrip but normally speaking, worldwide, normally summer is the peak season.

Jin Yoon - *Mizuho Securities - Analyst*

Got it, and then on the bottom line, can you -- just wanted to clear up, was it RMB750 million to RMB850 million on the bottom line, you said for Q1?

Cindy Wang - *Ctrip.com International Ltd - CFO*

The non-GAAP operating margin will be around RMB750 million to RMB850 million for Q1.

Jin Yoon - *Mizuho Securities - Analyst*

Got it. Perfect. Thanks, guys.

Cindy Wang - *Ctrip.com International Ltd - CFO*

Thanks.

Operator

Your next question will be from the line of Ronald Keung, Goldman Sachs.

Ronald Keung - *Goldman Sachs - Analyst*

Hi, thanks and congratulations, James, Jane, and Cindy, on the very strong results. There were questions about take rates earlier, so I just want to follow up on how are you seeing the low-end hotel in terms of take rate and the competitive landscape on that?

And for air ticketing, I just want to know how is the cross selling initiatives at Qunar? Are you seeing improvements in that as well?

And on corporate travel, you beat your target quite significantly in the fourth quarter, but you are expecting 10% to 20% growth in the first, is this segment that is surprising you so far? Thanks.

Jane Sun - *Ctrip.com International Ltd - CEO*

So first of all, on take rate, I think so far, the market has been quite healthy, we will make sure the take rate is reasonable so our hotel partners and Ctrip and customers will have a win-win-win arrangement in the hotel business.

In terms of the lower tier cities, these hotels really are selling at very low price, somewhere around \$15 to \$30, so at that level, it's very hard to make significant profit from these hotels. So the strategy we have is -- we are very willing to invest in this segment to lower the price and penetrate into these markets.

So that is on the first question, the second is on the cross sale of air ticket, yes, the air ticket is the first stop for our customers, so we will study -- use our big data to study our customer's behavior to make sure whatever they need during their trip will be promoted and sent to them very smoothly to make sure we give them a comprehensive product offering.

And thirdly, on corporate travel, Ctrip is a dominant player in China for corporate travel. It's volume already so far, exceeded number two and number three combined. And going forward, the team is very innovative not only, we focused on the core business, air ticket and hotel, we also penetrate into their OA system, penetrate into their technology to make sure that the approval process can be done on a mobile to streamline the processes.

So going forward, we also will put a lot of investment in the technology and gain market share in the corporate travel market.

Thank you.

Operator

(Operator Instructions).

The next question is from Juan Lin, 86Research.

Juan Lin - 86 Research - Analyst

Hi, good morning, James, Jane, and Cindy. Congratulations on another very strong quarter. My question is related to your lower tier city penetration strategy. In particular, what is the marketing strategy in 2017 in terms of spending and the selection of marketing platforms and channels. And my second question is related to train and bus ticketing, wondering what is the current revenue contribution by train or bus booking and also the take rate and take rate trend for these business lines? Thank you.

Jane Sun - Ctrip.com International Ltd - CEO

I will take the first question and Cindy will take the second. For the penetration into the second tier, third tier cities, we always have our strategy to further penetrate into the lower tier cities. So this year, we will allocate more marketing dollars to aggressively gain this market-share. With the GDP level that is increasing, I think that some advanced investment in this area will give us the advantage in terms of leadership in this market.

In terms of the sales and marketing platform, these lower tier cities is quite different from first tier cities so our team is going into these cities to make sure we select the most efficient marketing channel in order to increase our ROI for the strategic investment in these cities.

Cindy Wang - Ctrip.com International Ltd - CFO

So for the train and bus tickets, yes, those are the two highest growth segment in Ctrip in terms of volume growth, they already surpassed the air ticket to contribute the highest volumes in Ctrip Group.

Because of the market size is much bigger than all the other in terms of volume, is much higher than the other revenue segment. But the take rate for these two business lines still comparatively lower so it now contributes about 10% to 15% of the total ticketing revenues -- transportation ticketing revenues.

Operator

Your next question will be from the line of Jed Kelly, Oppenheimer.

Jed Kelly - Oppenheimer - Analyst

Great. Good morning, management, thank you for taking my question. Can you provide any additional color just on scaling your product and development expenses in 2017?

Cindy Wang - *Ctrip.com International Ltd - CFO*

Yes, in 2017, currently, we do not plan to add head count unless it's really critical. So with the current infrastructure, we will be able to increase our topline. The main investment we will have is mainly in the technology front because if our engineers are able to automate a lot of standard processes, they will be able to cut lots of cost. So currently, the margin guidance as well as the topline guidance reflects our scalability.

Operator

Your next question will be from the line of Thomas Chong, BOCI.

Thomas Chong - *BOCI - Analyst*

Hi, good morning. Thanks, management for taking my questions. I have two quick questions. First is about our strategic outlook and what management thinks is the key challenge in coming years.

And secondly, it's about the overseas revenue contribution over the long run. Can management give us some color about the revenue between domestic and overseas in three to five year's time. Thanks.

Jane Sun - *Ctrip.com International Ltd - CEO*

Yes, I think the opportunity for Ctrip is great. Although we are the largest player in the market, but the overall market-share for Ctrip globally, is very, very small. So domestically, our goal is aggressively get into the second tier, third tier, lower tier cities and we are very well prepared and allocate sufficient resources to do that.

And globally, I think with the growth of the outbound travel, we will travel with our customers around the world and by providing the products they need around the world, and a recent investment in SkyScanner will also enable us to extend our footprint.

So right now, the contribution for international business is about 10% to 20%, going forward, we like to grow it into anywhere between 1/3, 40% or even more.

Operator

Your next question will be from the line of Julia Pan, Macquarie.

Julia Pan - *Macquarie - Analyst*

Hi, yes, congratulations on a strong quarter, and I have two questions. One, can you please give us some update on the contribution of outbound travel for each segment?

And in terms of the international expansion, which market will you be focused on and if you can please give us some update on the travel market in the US and Europe and India after we made the investment?

And also for SkyScanner, could you please give us some of the latest update for this quarter? Do you think the healthy margin of 22 to 25 to be sustainable and what is the competition environment in Europe? Thank you.



Jane Sun - *Ctrip.com International Ltd - CEO*

Yes, outbound travel, as we discussed before, is similar between -- yes, so for each business items, hotels, outbound travel, international hotel accounts for about 15% to 20% of the total accommodation reservation revenue and for the air ticket, international air ticket accounts for about 30% of the total air ticketing revenues.

For packaged tour business, because now, our outbound travel has predominantly become the mainstream of the packaged tour business, so international outbound travel contributes over 50% of our total revenues in the packaged tour business.

And yes, in terms of the footprint, I think Ctrip, we are focused on domestic extension into the lower tier cities and also Asia, because we are so close to Asia. So obviously Asia quickly becomes very important. Our partner, SkyScanner, they are our price comparison meta-search engine in Europe and their brand is very well recognized in the air ticketing business.

So they -- we will work with them to learn from each other and strengthen each other's service and products going forward.

Thank you.

Operator

Your next question will be from the line of Alex Liu, Daiwa.

Alex Liu - *Daiwa - Analyst*

Hi, thank you, management for this opportunity and I'm just wondering just a quick question on the cash flow, I think considering the future, our cash flow will likely to continue improving. I'm just wondering, is there any time that we start to pay dividend in the future?

Jane Sun - *Ctrip.com International Ltd - CEO*

Yes, I think if there are two options, one is to reserve the cash so when there is a good opportunity, we will make strategic investment to increase the value for the shareholders and that historically has been very successful. If you look at our balance sheet, historically, we always make investments when market has a downturn and then establish leadership in the strategic area such as hotel, we have made investments in major chain hotels for the international players, we made investment in the number one player in Hong Kong, number one player in India, and all these investments were made at a low point when market lost confidence but we know the Company is very strong and historically, these investments have generated double, triple or even ten times returns.

So that is one option. Another option is -- give this money to shareholders and if we feel that we always have to balance what approach will give our shareholder the best return, and we will choose the approach that generate the best yield and best return for our shareholders.

Operator

The next question will be from the line of Alvin Jiang, Deutsche Bank.

Alvin Jiang - *Deutsche Bank - Analyst*

Hi, James, Jane and Cindy, and Shiwei, thank you for taking my question. I only have a very quick question on the outbound travel. Because we saw the tourist number, year-on-year growth in the Chinese New Year is only -- was only 6% to 7% yearly growth. Do you have a little bit of concern



on this low growth in outbound tourist number or do you see the price upgrade or other factors can more than offset of this slowdown in outbound traveler?

Thank you.

Jane Sun - *Ctrip.com International Ltd - CEO*

Yes, this year, is a little but slower than last year but still healthy from our view, we still grow very healthily. Our air ticketing business still is growing for outbound business, more than 50% year-over-year. So I think the way we need to stand out in a tough environment is really through the service and product offering which we will stand strong while the other players cannot perform, we will be able to give our customers the best product and services.

And we are still positive on the outbound travel.

Operator

Your next question will be from the line of Billy Leung, Haitong International.

Billy Leung - *Haitong International - Analyst*

Hi, thank you for taking my question. Just one quick question. In terms of our hotel business, can we just get a rough idea of whether by GMV or by revenue, the split between high end hotels and low end hotels? Thank you.

Cindy Wang - *Ctrip.com International Ltd - CFO*

Yes, we have probably the most comprehensive product offering both domestically and internationally in the hotel business, but still high end, for three above, or three or four, five star hotels, contribute the vast majority of our revenues and maybe 100% of our bottom line for the hotel business.

Operator

Your next question will be from the line of Justin Patterson, Raymond James.

Unidentified Participant

Hi, good morning, this is James on for Justin. Congrats on a solid quarter, I was hoping to circle back to the margin expansion we have seen in the last couple of quarters. Wondering if you could rank order the different drivers of that expansion and also moving into 2017, just wondering the biggest puts and takes are there just in terms of expanding that margin further? Thanks.

Jane Sun - *Ctrip.com International Ltd - CEO*

Yes, as we discussed, I think margin expansion comes from a couple of things, one is a strong revenue generation from the topline and secondly is our scalability as we grow so big, we do not plan to add headcount, instead, we will automate a lot of standard procedures in order to expand our margins.

And thirdly, we also need to make sure that we reserve sufficient resources for us to further invest into the future, including the investment in the lower tier cities.

So the margin guidance reflect A comprehensive view in terms of improving margin as well as the future investment.

Operator

Your next question will be from the line of Jialong Shi, Nomura.

Jialong Shi - Nomura - Analyst

Hi, good morning management, thanks for taking my call and congratulations on a solid quarter. So I have a housekeeping question, I just wonder what kind of hotel revenue growth you would expect for 2017 and which should be the bigger driver behind such growth? Is it hotel volume or net commission rate?

Jane Sun - Ctrip.com International Ltd - CEO

We provide the guidance only for the first quarter of 2017 and when we have a good visibility toward the end of the year, maybe we will provide a guidance for the 2017 full year guidance.

So for the first quarter, including the negative impact about 5% to 10% from the VAT tax and our total revenues for the accommodation revenue will grow about 20% to 30%, this growth were driven by both volume as well as the margin.

Operator

At this time, I'm showing no further questions in the queue. I would like to turn the call back over to Ms. Zhou for any closing remarks.

Michelle Qi - Ctrip.com International Ltd - Senior Manager, IR

Thanks. Thank you, everyone, for joining us today. You can find the transcript and the webcast of today's call on our IR website. We look forward to speaking with you on the first quarter 2017 earnings call. Thank you and have a good day.

Jane Sun - Ctrip.com International Ltd - CEO

Thank you.

Cindy Wang - Ctrip.com International Ltd - CFO

Thank you.

Operator

Ladies and gentlemen, that concludes today's conference, we thank you for your participation, you may now disconnect. Have a great day.

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