

Booking Holdings – BKNG: \$1,788.03

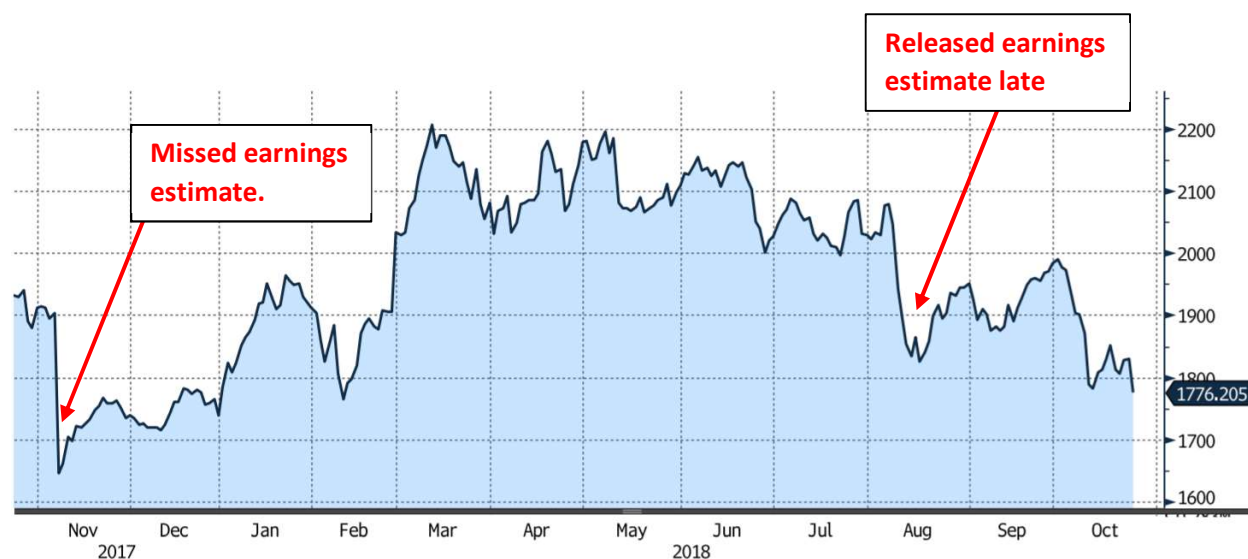
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Introduction

Booking Holdings Inc. is a global online travel and other service accommodations company currently trading at a share price of \$1,788.03 as of October 30, 2018. The company operates through multiple online divisions including Booking.com,



priceline.com, agoda.com, KAYAK, rentalcars.com and Open Table. With its vast resources and diversified holdings, BKNG is able to provide its customers with travel and service accommodation options from beginning to end. BKNG operates in more than 220 countries and in 43 languages. With over 22,000 employees globally, they maintain the largest market share in the online travel industry. BKNG's success is rooted in its strong brand recognition, consistent innovation, and service to its customers.



Recommendation

We are recommending a BUY for Booking Holdings. Through valuation and peer analysis, we have determined that BKNG is undervalued compared to its competitors and its true value. By using an EV/EBITA multiple model, a P/E multiple model, and a discounted cash flow model we were able to calculate a target price range of \$2,195.40 - \$2,284.80, providing a potential upside return range of 22.78% - 27.78%. After a thorough analysis of the company's revenue sources, growth opportunities, capital structure, and financial results, we were able to alter the models to reflect what we believe to be a more accurate price estimate.

Investment Thesis

Booking Holdings has experienced a vast amount of growth since inception in 1999 through its aggressive and methodical acquisitions strategy. BKNG has been able to establish a diversified portfolio of well-recognized and widely used brands that allow for exposure into nearly every segment of the travel and service accommodations industry. This has allowed BKNG to provide consumers with the best choices and best prices at any time, in any place, and on any device. Through our valuation analysis below and the following drivers, we believe that BKNG is currently undervalued in the market compared to its peers and trading at a discount to its true value.

Consumer Buying Trends

The consumer landscape has changed drastically as shifts of consumer buying trends have altered what the consumer wants to buy, when they want it, and how they want to buy it. Ease of comparing products and prices, accessibility, and convenience are at the front of all consumers' minds when they decide to make a purchase. As social media and the internet have become an integral part of today's global society, consumers have shifted their buying desires to experiences, such as vacations, concerts, restaurants, and other events they can share with their followers, rather than purchasing tangible products. BKNG is well positioned to realize growth and strong financial results from this change as it is the global online leader in travel, reservations, and other service accommodations paired with easy-to-use and popular website brands and mobile applications.

Mergers and Acquisitions

BKNG has developed and implemented an aggressive and effective merger and acquisition strategy that is key to the sustained growth of the company. BKNG seeks to offer online services that meet the wants of the changing consumer market through continuous investment to grow its core brands as well as add additional services and accommodations for its customers. In BKNG's recent history it has acquired a multitude of companies that allow it to be a full service provider of nearly every segment of a customer's travel and service accommodation experience. We believe that this has allowed BKNG to differentiate itself from its competitors in the eyes of its customers and suppliers, and it will provide exceptional growth opportunities in the current economic environment.

Online Growth

Booking Holdings has established itself as the global leader in online travel, reservations, and accommodation services. As previously discussed, the consumer trends have shifted to a focus of online and mobile application offerings to provide ease, accessibility, and convenience to buying decisions. BKNG's diverse web based brand holdings along with their proprietary marketing algorithms and strategies, will allow for continued and sustained growth as this trend remains in the market.

Valuation

We used three different valuation methods to calculate the future estimated stock price. The first was done using a 5 year discounted cash flow model, which provided us with a projected price of \$2,072.24. Using a 3.5% perpetuity growth rate and 10.5% WACC, we believe that the used growth rate and WACC value are conservative estimates. We lowered the WACC slightly due to the company's potential increased debt amount in its capital structure as discussed in the 2017 annual report, which would result in a lower cost of capital. See the sensitivity analysis below for the DCF model. The second method we used was an EV/EBITA exit multiple model. Utilizing an estimated exit multiple of 14.1 provided by an industry and peer analysis, we returned a stock price of \$2,299.07. Finally, we used a P/E multiple method with a projected P/E ratio of 28.6, which resulted in an estimated stock price of \$2,349.95. Weighting each method equally we calculated an estimated stock price of \$2,240.10 for BKNG. Due to likely fluctuations in the variables used, we built-in a 2.5% range, giving us a final target price range between \$2,195.40 and \$2,284.80, resulting in a projected upside of 22.78%-27.78%.

WACC	Terminal Growth Rate					
	2,072.24	2.5%	3.0%	3.5%	4.0%	4.5%
	9.5%	2,134.44	2,252.63	2,390.51	2,553.47	2,749.01
	10.0%	2,002.42	2,103.00	2,219.05	2,354.45	2,514.46
	10.5%	1,887.04	1,973.47	2,072.24	2,186.20	2,319.16
	11.0%	1,785.36	1,860.25	1,945.13	2,042.13	2,154.06
	11.5%	1,695.09	1,760.48	1,834.03	1,917.40	2,012.67

Risk Factors

Overall Market Conditions – Moderate Probability, High Impact

BKNG's financial outcomes and success of operations are heavily dependent on the sale of travel and other service accommodations, which are greatly influenced by consumer discretionary spending levels. Sales of travel and service accommodations tend to decline as the market experiences a downturn or recession due to its position in a highly cyclical sector, as consumer discretionary income levels are decreased in these periods. Perceived or actual adverse economic conditions such as, slow or negative economic growth, high unemployment, inflation, interest rates, taxes, and weakening currencies all could affect consumer spending, and as a result travel and service demand.

Intense Competition Reducing Market Share – Moderate Probability, Moderate Impact

BKNG operates in fiercely competitive global markets with rivals both online and in traditional travel and other accommodation services businesses. There is a high threat of entry as there is a relatively low cost of entry in the online marketing industry. Also, current and potential competitors, like tech giants such as Google, Apple, and Alibaba, have access to significantly great capital resources, which they may be able to leverage enabling them to effectively compete with BKNG. BKNG also maintains a complex vendor/competitor relationship with hotel chains, rental car companies, and airlines which compete through online channels to bring customers to their own website, rather than a third-party distributor such as BKNG.

Foreign Exchange Rates – High Probability, Moderate Impact

BKNG conducts a substantial portion of its operations outside of the United States, but financial results are reported in US dollars. As a result, BKNG is exposed to fluctuations in currency exchange rates, and financial results are adversely affected as the US dollar strengthens against other currencies, specifically the British pound and Euros as a significant amount of operations and foreign net assets are present in Europe. Also, significant fluctuations in current exchange rates can affect consumer travel behavior, as it makes it more or less expensive to travel as the currency rates shift.

Technological Change – High Probability, High Impact

Increased consumer utilization of mobile devices, such as iPhone and Android products, and increased production of web-based applications for these devices, has resulted in a consumer online traffic shift to mobile platforms. BKNG may experience limited distribution and advertising opportunities due to smaller screen sizes. Also, gross profit earned on mobile platforms may decrease compared to a typical desktop transaction, as reservation and other accommodation services made on mobile platforms often are for shorter time periods and booked not as far in advance.

Global Uncertainty – Low Probability, High Impact

BKNG maintains multiple brands operating in many diverse market segments and geographical regions subject to global economic and political uncertainties. Fluctuations in currency exchange rates, political uncertainties, natural disasters, and other global changes have a pronounced influence on consumer spending habits, behavior, and demands. BKNG's extensive exposure to these market fluctuations can greatly dictate its financial results and growth success.

Management

The three main executives for BKNG are Glenn Fogel - President and CEO, David Goulden – Executive VP and CFO, and Peter Millones Jr. - Executive VP and General Counsel. David Goulden is the newest member with a start date in March 2018. Due to the 8.76% increase in stock price during his first twelve days as CFO, we do not see this as a threat, and both the market and the company seem to be reacting well to the changes. Fogel has been CEO since January 2017, and Millones has been with Booking Holdings since April 2014.

Peer Analysis

Company	Price	Market Value (\$M)	Revenue (\$M)	EBITDA (\$M)	EV/EBITDA	Price/Earnings
Booking Holdings	1,827.29	86,745	13,702	5,443	14.1x	21.80
Expedia	118.50	17,710	10,673	1,556	12.4x	51.49
TripAdvisor	47.27	6,502	1,571	236	24.8x	33.40
Trivago	5.06	1,775	1,162	-87	-	-
Industry Average	46.16	7,066	3,612	548	22.86x	33.68

Booking Holdings maintains multiple brands across the travel and service accommodations industry with many different competitors in each segment of the market. Our analysis focused on select key competitors that compete directly across all or most of the service lines offered by BKNG for relevant comparative purposes. This list of peers included Expedia, TripAdvisor, and Trivago as they are prominent companies that effectively compete against the core brands of BKNG, while we systematically eliminated outliers based off metrics such as market cap and unrelated core products and services offered. BKNG exhibits the largest market cap, enterprise value, revenue stream, and EBITDA in the industry, while also maintaining a lower than industry average EV to EBITA and Price to Earnings ratios. Through this peer group analysis, the results substantiate and demonstrate the undervaluation of BKNG compared to its direct competitors, and the overall industry averages.

Ownership of Shares

The top five owners of BKNG stock are T. Rowe Price Associates Inc., The Vanguard Group Inc., Blackrock Fund Advisors, Capital Group Cos Inc., and State Street Corporation. All of these holders specialize in investing, consulting, or financial services. Institutional holdings make up 93.06% of all share holdings, which is relatively high. Often, this is looked at as a sign of a strong company.

Institutional Holdings – 93.06%

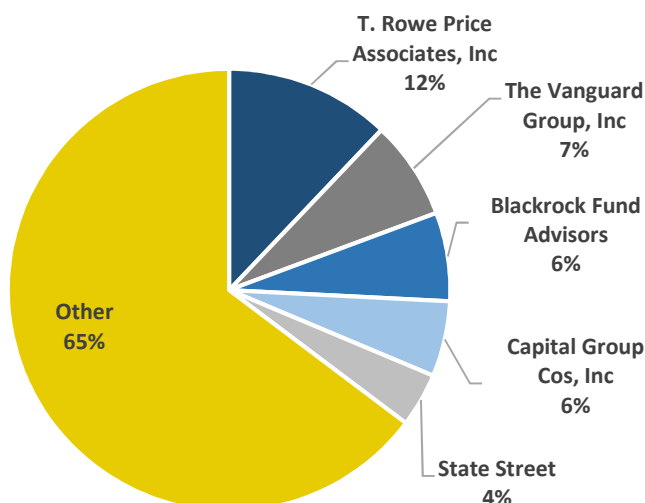
Total Number of Holders – 1,218

Total Shares Held – 44,175,359

Total Value of Holdings – 77,465,026,035

Net Activity - (481,856)

Top 5 Shareholders



Institutional/Mutual Funds vs Insider Holdings

