The Hidden Reason Booking Holdings May Be a Better Stock Than Expedia

Description

The two biggest online travel agent companies, **Booking Holdings** (NASDAQ: BKNG) and **Expedia** (NASDAQ: EXPE), are sometimes viewed interchangeably by investors. Booking Holdings is the larger of the two, yet together they have consolidated a duopoly in online travel bookings in the U.S. and Europe, with offerings across hotels, plane tickets, home and vacation rentals, rental cars, and other travel products.

When you're looking at the two names, it might seem as though Expedia is clearly the better stock. After all, it not only trades at a lower forward P/E ratio of 16.2 to Booking Holdings' 17.8, but Expedia also seems to be growing faster than Booking at the moment:

Metric	Q2 2019 growth rates for Booking Holdings	Q2 2019 growth for Expedia
Gross bookings	4.8%	9%
Revenue	8.9%	9%
Adjusted EBITDA	4.6%	23%
Non-GAAP (adjusted) earnings per share	14.1%	29%

Data source: Booking Holdings' and Expedia's second-quarter filings.

However, there is more to Booking and Expedia than meets the eye.

International businesses and investments

One reason investors might want to give Booking Holdings the benefit of the doubt is that it has more European and Asian exposure, and is thus more affected by currency swings. On a constant currency basis, Booking Holdings grew Q2 2019 bookings 10% and revenue 14%, which means it actually slightly surpassed Expedia. Negative currency movements last quarter makes Booking Holdings' growth slower than Expedia's. If the recently strengthening U.S. dollar reverses course, Booking

Holdings' growth metrics would proportionally improve.

Additionally, Booking Holdings has more room to grow domestically. On the recent conference call with analysts, CEO Glenn Fogel said, "The U.S. is a great opportunity for us because we're under indexed. And that's something that we recognize, a need to do better and to try and get more than our fair share is what we always want."

Yet besides this currency issue, there's an even bigger reason Booking may have an advantage over Expedia.

China investments move the needle

The real reason that Booking Holdings might be valued higher than Expedia is its superior investment track record, specifically with its minority investments in China. While the Chinese market has been difficult for both Booking Holdings and Expedia to penetrate, Booking has invested aggressively in leading Chinese companies in the travel and mobility spaces. These include the following:

Booking Holdings Investee	Type of Security	Approximate Value of B June 30, 201
Ctrip.com International (NASDAQ: CTRP)	Convertible notes, American depositary receipts (equity)	$1.6 billion
Meituan-Dianping (OTC: MPNGF)	Preferred stock, converted to equity at IPO	$706 million
Didi Chuxing (Private)	Preferred stock	$500 million
Other private companies including Grab, Yanolja	Preferred stock	$250 million

Data source: Booking Holdings quarterly report, Crunchbase.

Ctrip is the leading online travel agent site in China. Meituan-Dianping is the leading food delivery app and local deals platform in China (which just posted a great earnings report). Didi Chuxing is the leading ride-hailing platform in China. In addition, Booking recently invested in Grab, a leading ride-hailing platform and food delivery service in Southeast Asia, and even more recently invested in Yanolja, a Korean hotel booking platform.

For those unaware, investors in private companies often take preferred stock, which gives the company priority over equity investors. These preferred shares often convert to equity for a company's IPO. Therefore, the preferred stock investment in Didi, for instance, could eventually be valued higher should the company go public.

Booking Holdings is more aggressive and international

All of these investments add up to a formidable Chinese and Asian portfolio for Booking of over $3 billion. While Expedia has also made international investments, it hasn't been in China, and they consist of a smaller $120 million stake in **Despegar** (NYSE: DESP), a Latin American travel platform, and a $350 million investment in southeast Asian travel platform Traveloka.

Expedia hasn't had as much investment success as Booking. The company's investment in Despegar has lost about half its value since Despegar went public, and Traveloka's CTO resigned late last year, issuing a scathing letter about the company's culture upon departure. Expedia also owns a majority stake in **Trivago** (NASDAQ: TRVG). Trivago is a public company in its own right, but its results are consolidated with Expedia's. Trivago has also lost over half its value since going public.

While Expedia's current headline numbers appear superior to Booking Holdings' numbers, it's not so cut-and-dried. Expedia could make for the better choice for some investors, given its U.S.-centric model, small dividend, and lower valuation. However, those willing to bet on the growth of China and international markets should probably look at Booking Holdings, despite its seemingly inferior growth. At the very least, Booking has proven to be the better investor in other companies, and this likely accounts for its premium over Expedia.

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TICKERS GLOBAL

1. NASDAQ:EXPE (Expedia, Inc.)
2. NASDAQ:TRVG (Trivago)
3. NYSE:DESP (Despegar.com)
4. OTC:MPNG.F (Meituan Dianping)

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