

Airbnb Inc

Riding the recovery

U.S. | HOSPITALITY | UPCOMING IPO

9 December 2020

Key information

Airbnb is set to list its shares on NASDAQ on 10 December 2020. It plans to sell 51.9mn shares at US\$56-60 apiece. This is higher than the US\$44-50 it originally planned, on the back of improved sentiment.

Figure 1: Airbnb's upcoming IPO

Ticker Code	NASDAQ: ABNB
General Details	Plans to sell total of 51.9mn shares (50mn new shares + 1.9mn shares from existing shareholders). Revised offer price of between US\$56 – \$60 a share.
Timeline	9 Dec 2020: IPO price will be set 10 Dec 2020: Shares scheduled to begin trading
Valuation	At high end of proposed range, valuation of around US\$42bn on fully diluted basis . Valuation equivalent to global hotel chain, Marriott International, and around 8.8x Price-to-sales (with FY2019 revenue). Net proceeds raised will be around US\$3.1bn.
Dividend Policy	Intends to retain any future earnings, does not anticipate paying any cash dividends in foreseeable future
Additional Details	Offering of 51.9mn shares is only around 8.6% of total shares outstanding, which may prompt strong demand.

Source: Airbnb's SEC filings, PSR

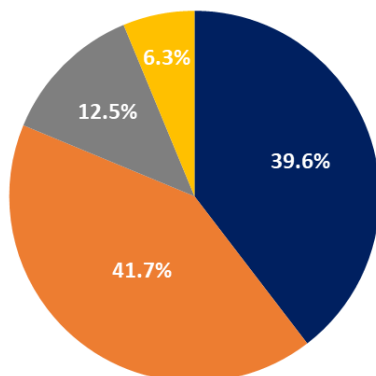
Business

Airbnb is a vacation rental online marketplace. Through its service, users can arrange lodging, primarily homestays, and tourism experiences or list their properties for rental. Airbnb has a global presence in 100,000 cities across more than 220 countries and regions. As of 30 September 2020, 75.7% of its homes and experience listings were active i.e. 5.6mn active listings out of 7.4mn available.

Source of revenue. The primary source of Airbnb's revenue is service fees from bookings. It typically charges 14-16% service fees for accommodation bookings, either shared by hosts and guests, or borne entirely by hosts. Airbnb Experiences charges hosts a 20% service fee.

Geographical breakdown. The bulk of its revenue is derived from North America & Europe and the Middle East & Africa (EMEA). These two regions also provide higher gross daily rates than Latin America and the Asia Pacific (Figure 2). Its largest single-country market is the U.S., which brings in 36.8% of its revenue.

Figure 2: Revenue and average daily rate by region



Region	Average Daily Rate (US\$) by Region
EMEA	\$105
North America	\$165
Asia Pacific	\$85
Latin America	\$78
Total	\$116

■ EMEA ■ North America ■ Asia Pacific ■ Latin America

Source: Airbnb's SEC filings, Bloomberg, PSR

Positives

1. Asset-light platform. Airbnb does not own any of the rental properties advertised on its platform. Its asset-light business confers greater flexibility in managing costs for adapting to a challenging environment. Its business has been resilient this year. It was able to reduce its costs by a massive 34.6% YoY in 3Q20 to cope with the Covid-19 impact, allowing it to book positive net income in the quarter. Lower fixed costs from its recent job cuts and marketing budget cuts also allow for margin expansion when things eventually normalise.

2. Domestic travel mitigates cross-border shutdowns. Domestic travel around the world has been resilient after shelter-in-place restrictions were lifted. Domestic gross booking value (GBV) between June and September grew 42% YoY. This cushioned an estimated 62% average decline in international bookings (Figure 3). The growing preferences for domestic travel are expected to continue in the near term. TripAdvisor's Seasonal Travel Index suggests that globally, nearly two-thirds or 65% of all travellers are planning domestic getaways for the fall season, from 1 September to 30 November 2020.

3. IPO to boost cash reserves and potentially reduce cost of debt. Digital media company, *The Information*, estimates that Airbnb burnt US\$1.2bn of cash between mid-2019 and mid-2020. With net IPO proceeds of US\$3.1bn and US\$4.5bn cash on hand, Airbnb should have more than sufficient liquidity to last the next five years, under the worst scenario. Airbnb is also paying high interest of 9-11.5% from debt raised earlier this year. This bumped up its interest expense by 16x in 9M20. Increased transparency and listing credibility from its IPO can potentially improve its borrowing terms and reduce its cost of debt.

4. Platform with network effects. In 2019, Airbnb added a record number of 700,000 hosts, a 20% y-o-y increase from 2018. About 23% of these new hosts started out on its platform as guests. The value of Airbnb's platform grows from each additional guest as it can attract more hosts in a virtuous cycle which raises barriers to entry. This network effect discourages potential competitors. Being an online platform, it is also able to scale up rapidly with minimal cost outlay, primarily on marketing to build a stronger brand name.

Risks

i. Near-term Covid-19 uncertainties. Covid infections spiked in 4Q20. As countries imposed strict lockdowns, particularly Europe which accounts for 40% of its revenue, a decrease in bookings is expected this current quarter.

ii. Regulatory curbs on short-term urban rental. Government bodies, including the EU, are planning to curb the market power of big tech companies to promote fairer competition. Any tougher regulation of urban rental may limit Airbnb's profitability.

iii. Competition in online travel market by Booking.com and Expedia. Airbnb faces competition in the online travel market from travel giants such as Booking.com and Expedia. Huge marketing expenses have to be spent in order to defend or increase market share. Booking.com alone spent over US\$5bn on marketing in 2019.

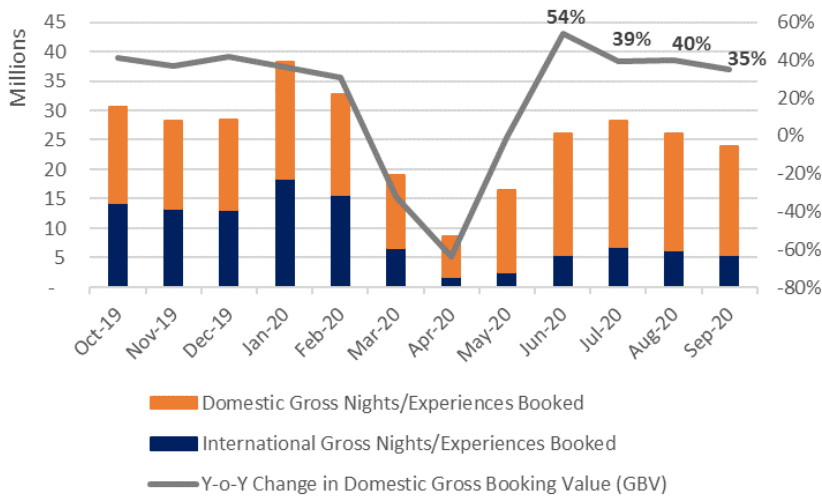
Conclusion

Recent optimism on Covid-19 vaccines may boost sentiment on travel stocks. While the current quarter is expected to be weak for Airbnb due to a resurgence of Covid-19, investors are looking forward to a normalisation in 2021. Airbnb may then gain traction as a recovery play.

Assuming next year's sales grow 60-70% for Airbnb, its valuation at the top end of its listing price is 8.1x price-to-sales. This may be a 130% premium over its global peer group but is comparable to that of online travel market leader, Booking Holdings (Figure 4).

Investors may attribute a premium for its dominance in the home-sharing space, asset-light business and better geographical diversification than its rivals. At current market environment, investors may value high-growth companies at more than 10x annual sales such as Tesla and Snowflake. A 10x price-to-sales for Airbnb will command an expected share price of US\$74.

Figure 3: Domestic gross booking value (GBV) between June and September grew 42%. This mitigated an estimated 62% average decline in international bookings



Source: Airbnb's SEC filings, PSR

Figure 4: Comparison of Airbnb with its online travel peer group and lodging industry leaders

Peer Comparison	Market Cap	Forward P/Sales	2021E Sales Growth
Airbnb*	\$42bn	8.1x	60-70%
Online Travel Peer Group			
Booking Holdings	\$87bn	8.37	54.3%
Expedia Group	\$18bn	2.27	46.1%
Trip Advisor	\$4bn	4.15	61.7%
Trip.com	\$21bn	0.78	48.0%
Trivago	\$0.8bn	1.91	60.0%
Lodging Industry Leaders			
Wyndham Hotels	\$5.4bn	3.28	26.1%
Hyatt Hotels	\$7.5bn	2.27	57.9%
Hilton Worldwide	\$30bn	4.39	51.0%
Marriott International	\$43bn	2.94	35.0%
Wyndham Destinations	\$3.9bn	1.26	41.4%
Intercontinental Hotels	\$12bn	1.78	13.8%

Source: Bloomberg, PSR

*Market cap for Airbnb is based on the top end of its IPO pricing range of US\$60. Forward P/Sales for Airbnb is based on the assumption that next year's sales will grow by 60-70%.

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