Friday Favorites: Booking Holdings (BKNG)

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This week?s edition of Friday Favorites caps off the Growth at A Reasonable Price theme by diving into the final screen result, Booking Holdings (BKNG). Recall from our original article focusing on the GARP screen itself:

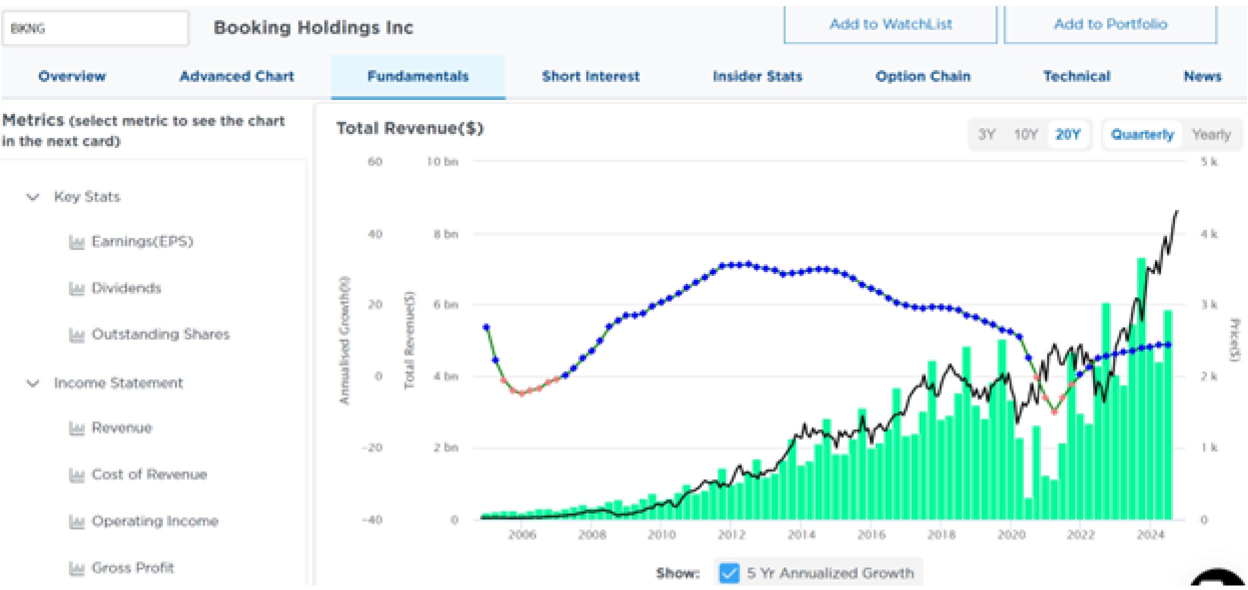
Our screen seeks established companies displaying consistent earnings and sales growth. It hinges on a P/E higher than the market, which is justified by expected growth. The screen returned four stocks: Amazon (AMZN), NVIDIA (NVDA), T-Mobile US (TMUS), and Booking Holdings (BKNG).

Fundamental

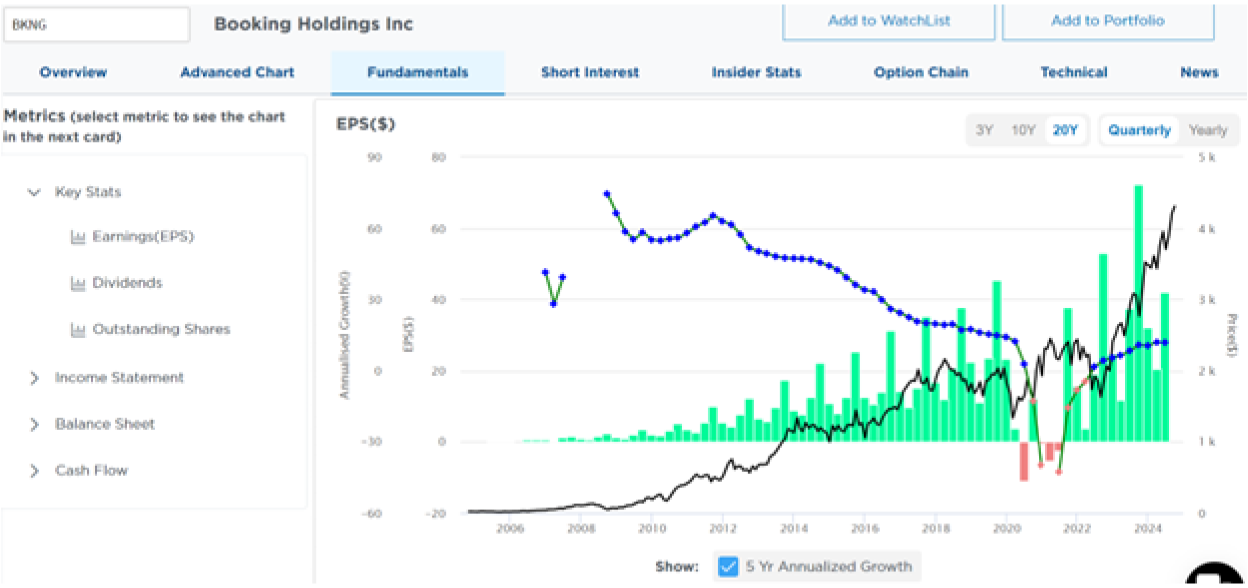
Booking Holdings (BKNG), through its subsidiaries, offers online booking services for hotels, restaurants, flights, rental cars, and vacation activities. It also operates KAYAK, an online search engine that compares travel prices and itineraries. BKNG is plugged into a vast network of restaurants, hotels, and rental agencies and derives its competitive advantage from the network.

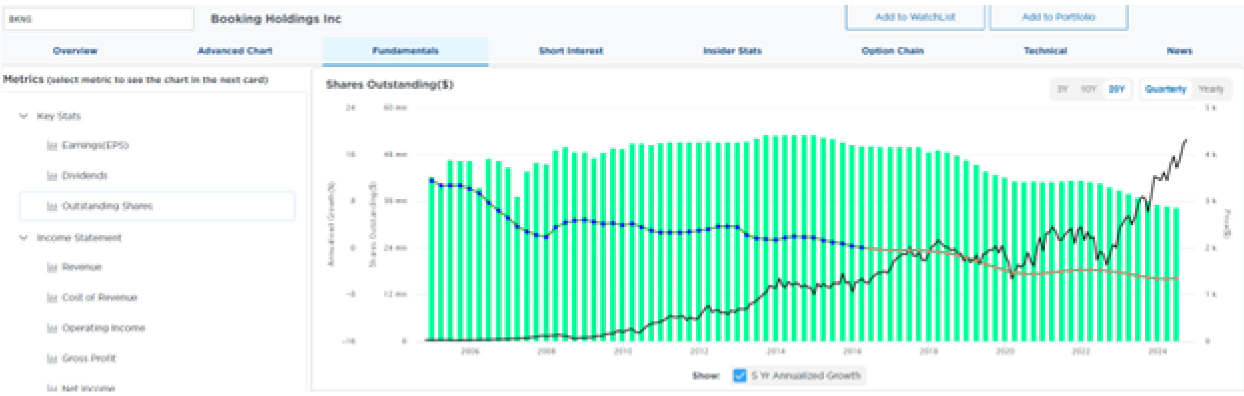
Given its presence in our screen results, we know the company has a high P/E and future growth expectations. Do historical trends reflect these expectations? BKNG heavily relies on the global population's travel, so it?s no surprise that revenue and earnings took a massive blow during the pandemic. Its dependence on travel also shows up in the seasonality of quarterly revenue and earnings figures.

Keying in on its fiscal third quarter revenue and ignoring the pandemic, BKNG exhibits steady revenue growth. As of its fiscal second quarter, its 5-year annualized revenue growth is 8.72% and rising.



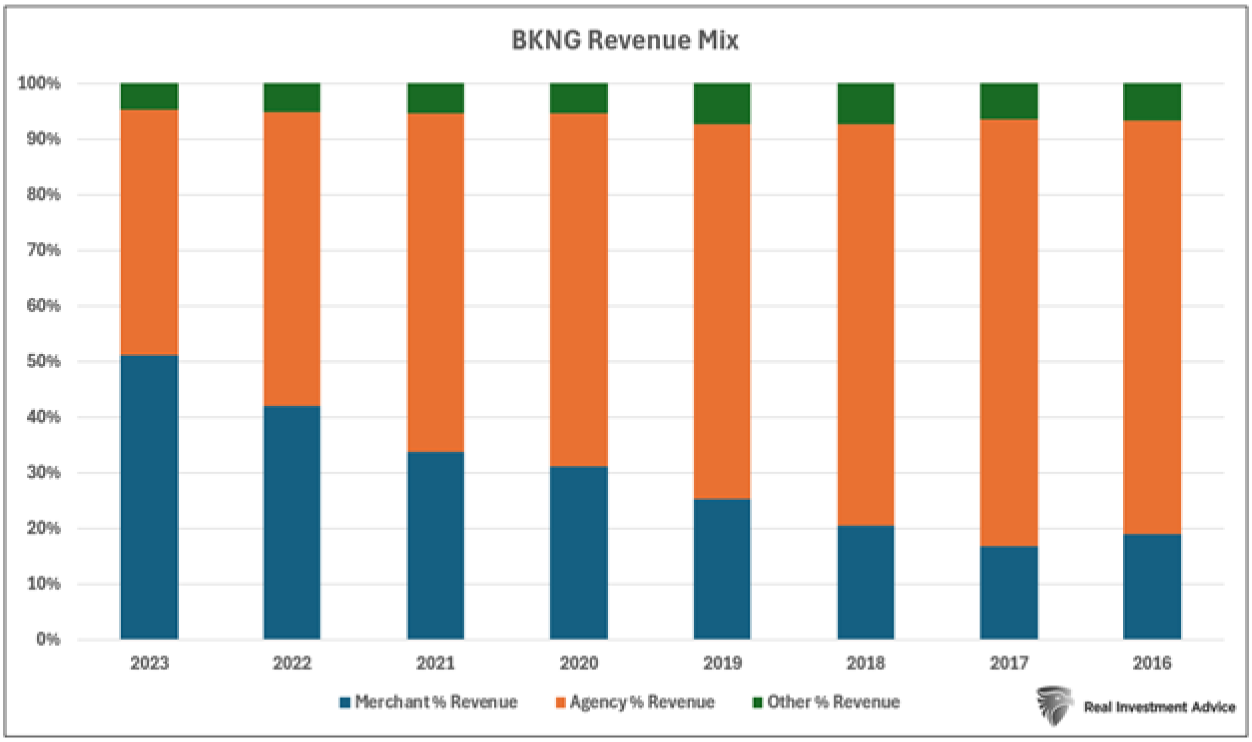
EPS growth exhibits the same trend, outpacing revenue growth at a 5-year annualized clip of 11.88%. Margins have remained steady; thus, EPS is outpacing revenue growth partly due to share repurchases. As shown in the second chart below, BKNG is conducting share repurchases at a material pace. Its 5-year annualized change in shares outstanding has fallen to -5.23% recently. On average, BKNG has repurchased 5% of its outstanding shares in each of the last five years.





EPS has grown 11.88% annually over the past five years, but analyst consensus forecasts this pace to grow to 14.6% over the next five years. What are analysts expecting to change? One idea is that analysts may expect the pace of share repurchases to ramp up, thus driving higher EPS growth.

Fundamentals drive our second idea. BKNG is shifting its business model from an Agency model to a Merchant model. Under an Agency model, the company acts as an intermediary travel agent and simply collects a fee from the hotel, airline, or rental agency that received the business. Under a Merchant model, BKNG rents blocks of hotel rooms or cars or purchases airline tickets at a wholesale price. Then, it turns around and sells those to its customers rather than acting as an intermediary. This allows the company to set its prices and, thus, allows more control over its profit margins. Given its vast network of connections and travel data, the company could leverage the Merchant model to increase pricing power and yield higher margins.



Technical

BKNG is the most overbought it?s been in the short term since the beginning of 2024. Its MACD is elevated and chopping sideways, but that doesn?t mean the stock is due for correction soon. We saw a similar setup in May, where the MACD remained elevated, and the stock advanced further through mid-July before selling off. Alternatively, there could be a period of consolidation where the overbought condition melts away, like the first quarter of 2024.

The price of BKNG has more than doubled since the beginning of 2023, as shown in the second chart below. However, it?s not necessarily overbought on a weekly basis. What?s slightly concerning is the divergence forming this year between its price, MACD, and RSI. The price has trended higher throughout 2024, while its MACD and RSI have formed a series of lower highs. It could signal that the strong momentum on display since 2023 is losing steam. Again, this could be a warning sign for a correction, but it doesn?t guarantee it. The divergence could portend an upcoming period of consolidation.

Booking Holdings Inc. (Daily) 4323.11
MA(50) 3926.91
MA(200) 3720.29
4300
4200
4100
4000
3900
3800
3700
3600
3500
3400
3300
3200
3100
3000
2900
2800
2700
Nov
Dec
2024
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
MACD(12,26,9) 101.882, 101.108, 0.774
100
50
0
-50
-100
-150
RSI(14) 70.27
90
70
50
30
10

Disclosure

This report is not a recommendation to buy or sell the named securities. We intend to elicit ideas about stocks meeting specific criteria and investment themes. Please read our disclosures carefully and do your own research before investing.