



# Airbnb, Inc. Class A

↑ LONG

*Airbnb is global leader in on-line matching of hosts and guests for home overnight stays. Good growth, solid cash flow and buy backs will drive the stock price*

EXPECTED RETURN

37.0%

TIMEFRAME

7 Years To 10 Years

POSTED

6/16/2024



Author

Ole Sæberg

Currently at

Nordic Investment Partners

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# About Ole Sjøberg

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Nordic Investment Partners - family office with equity long only strategy; GARP investing in growth clusters of the future. 25 stocks in active portfolio and 75 stocks on the bench. Target return of 10%+ per year. For stock markets in general I expect 5-6% return per year in the 2020 decade. Since September 2023 part of the Coeli Global Select team. Same investment strategy as I've had for years; quality growth bought a good prices Roles global equity markets since 1985; investment analyst, asset manager, sales, Investor Relations, CIO, board member and advisor. Employers include Carnegie , Alfred Berg, TDC, Tryg in Denmark and Skagenfunds in Norway

# Airbnb, Inc. Class A (ABNB:US)

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Airbnb is global leader is on-time matching of hosts and guests for home overnight stays. Good growth, solid cash flow and buy backs will drive the stock price



Author

Ole Sørberg

Currently at

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Posted  
6/16/2024



Target Price  
200.00 USD



Asset Class  
Equity



Target Allocation  
2% - 5%



Situation  
GARP



Timeframe  
7-10 Years



Catalysts  
N/A

## Fundamentals

Currency	United States Dollar
52 Wk. Range	N/A
Market Cap	USD
EV	55.61 Billion
Total Cash	N/A
Total Debt	N/A
Book Value Per Share	12.42
Three Mo. Avg. Daily Volume (USD)	0
Sellside Consensus	1.90

## Mutiples/Ratios

LTM P/E	19.57
Forward P/E	32.37
EV/EBITDA	32.87
EV Fcf	13.31
EV Sales	N/A
Price Book	N/A
Fcf Yield	0.06
Debt Book	N/A
Div Yield	0.00

## Additional Data

Sector	Consumer Discretionary
Industry	
Country	United States
Region	North America

# Thesis

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*Disclaimer: The author of this idea had a position in this security at the time of posting and may trade in and out of this position without informing the SumZero community.*

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## Swimming in host/guest trust and lots of free cash flow

Airbnb is a founder led, US based global leader in on-line home based overnight stays.

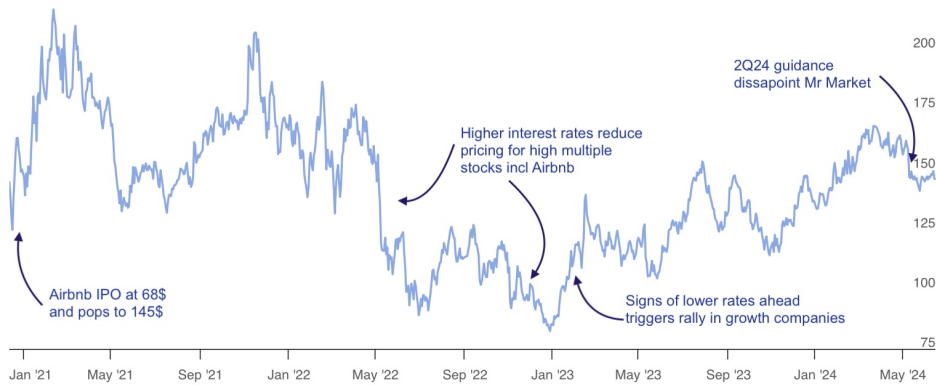
Founded in 2008 and listed in late 2020 and with a closing price of 145\$ on the first day, Airbnb share price is unchanged from 3.5 years ago while in the same period the company has doubled revenues and earnings.

The key driver for future performance is getting more users than the current 7 million active homes and just below 500 million overnight stays per year. The operating model is quite simple as Airbnb take rate is around 13% of the gross booking revenues. Airbnb gross margin is above 80%, SG&A around 45% and EBITDA margin is 35% or more. Capex is below 1% of sales and cash conversion is good, and the founder led company do share repurchases for most of the cash flow and yet the net cash position is now close to 8bn \$. Since IPO the sharecount has declined from 692 million to 662 million and is expected to go much lower in the next 5-10 years.

The global overnight stay market is estimated to be around 2 trillion \$ and Airbnb 73bn\$ hence command only a 4% share. As the app-based matching of hosts and guests expand, the market share for Airbnb should potentially grow further.

Airbnb market cap is 92 billion \$ and it has 8 billion \$ in net cash. The 3bn+ \$ cash flow grows with revenue growth and the company buys back stock with most of the cash flow. Give it 20 years of systematic buy backs and no selling from you side and you sit with a much bigger ownership share

The current valuation of 31x earnings is not cheap but given the growth, triggers such as Paris Olympics, the coming summer vacation season and growth in low penetration regions (Asia and Latam) the company will grow itself into a lower valuation.



## Background and business profile

Airbnb is the leading online marketplace for short-term homestays and experiences.

The idea of Airbnb was created in October 2007 by Brian Chesky (born 1981 and Airbnb CEO today) and Joe Gebbia (born 1981 and Airbnb board member and advisor) during a busy conference period in San Francisco. Soon after Nathan Blecharczyk (born 1983 and chief strategy officer and chairman Airbnb China) joined.

Airbnb was founded in 2008 and the first website, [airbedandbreakfast.com](http://airbedandbreakfast.com) is launched. The first period was a bit of a struggle to get funding so a 0.6m \$ capital injection by Sequoia Capital in March 2009 helped to speed things up. The company was valued at 2.4 mill \$ then.

In November 2010 they got additional 7 mill \$ funding and in February 2011 Airbnb announces its 1 millionth booking since launch. In January 2012 they announce their 5 millionth booking and the 10 millionth only 5 months later in 2012. In the 2010-13 period Airbnb expands the offering internationally either organic or via acquisitions. In 2014 Airbnb gets TPG Capital on board with 475m \$ and a valuation of roughly 10bn \$ for the whole business. In 2014 Airbnb revenues to company was around 425m \$.

From 2014 to 2020 Airbnb expands further; they launch their smartphone app for users and refines

the service and offerings deeper and by 2017 the revenue stream has grown to 2.6bn \$ and 186m stays and in 2019 its 4.8bn \$ revenues and 327m stays.

Things were moving and suddenly Covid-19 and lock-downs hit the business activity and 2020 revenues declined to 3.4bn \$ and 193m stays.

In late 2020 the Covid-19 vaccine came to market and things will open up again, so Airbnb prepared for IPO. The initial IPO price indications were 44-50\$ and later raised to 56-60\$ and the IPO priced at 68\$ for 51.5m shares and the first trading day was 9 December 2020. The price popped and closed the day at 145\$.

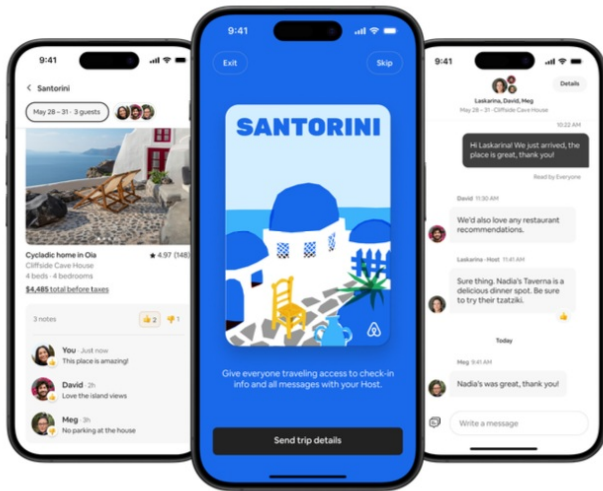
So here we are 3.5 years later, and the stock price is 145\$. What happened since IPO in 2020 you may ask? Before going into that question let's take a look at the business model, current revenue streams and costs structures

### Business model

Airbnb is a matching platform for individuals that want to rent out their home to other individuals that look for a place to stay while travelling. If you're a homeowner doing a short term rent out on Airbnb, you simply register and upload your home details including good pictures of the home and wait for match with someone interested in your home.

The average daily rent is 165\$ and the average number of persons in a stay is around 4, so Airbnb is more affordable than most hotels. Airbnb's take is around 13% of the gross revenues.

It's easy to get a sense of the business simply by using the app or their webpage [www.airbnb.com](http://www.airbnb.com)



There's 7 million active hosts (March 2024) that have signed on to the Airbnb platform by themselves. Roughly 25% sign up to be hosts after having started out as guests.

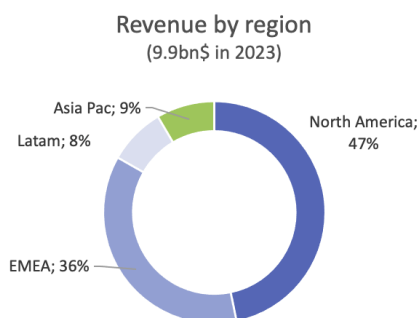
The business model is built on trust. The host and the guest both have to trust Airbnb and the host will only continue to rent out his/her home if there's no issues. Same for the guest that don't want to pay for stay that turns out to be a big disappointment. Consequently, Airbnb continuously run a vetting process on all users to weed out elements that can dilute the trust in Airbnb as well as making a good experience for both the host and the guest. The vetting process includes background tests of all hosts and guests, identity verification, secure payment systems, an internal encrypted communications platform and algorithms for identifying fraudulent behavior. Hosts are advised to have alarm systems and outdoor video surveillance.

The system works as Airbnb and in 2023 had 448 million stays on their platform which generated 73bn\$ in gross booking value and 10bn \$ sales for Airbnb for a 13% take rate to Airbnb. For comparison then the take rate for Uber is 15-25%, Lyft is above 25% and for credit cards its 2-5%.

The revenue model is quite easy to understand, and the key growth driver is getting as many as possible happy and satisfied hosts and guests to use the platform.



As Airbnb started out in USA the US revenue stream is still the biggest with roughly half of gross bookings and revenues;



2023 revenues was 10bn\$ and on the cost side Airbnb had 83% gross margin, and as they use roughly 45% of revenues on SG&A then EBITDA-margin was 37%. Net interest income on the 8bn \$ cash pile and less taxes then gave a free cash flow margin of 35% in 2023. All in all, a very lucrative and cash generative business model. Airbnb has since the IPO been able to increase the net cash position from 4bn\$ to 8bn\$ while at the same time reducing the sharecount by 30m shares to 662m by end of 2023. The use of cash flow to reduce the share count is one of the main attractions of Airbnb as an investment.

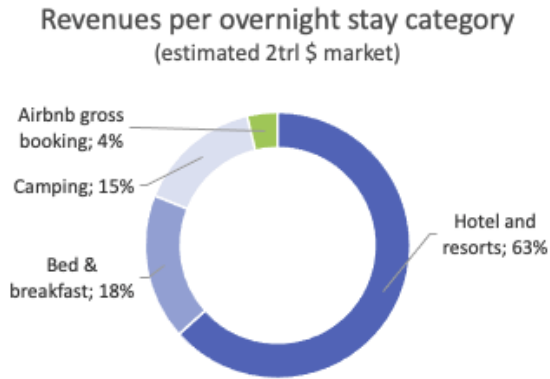
### The market and competition

The global market for 'out of home' overnight stays is easy to imagine, but it's be rather hard to find one source that provide a full overview. Statista.com have some data that the total travel market in 2023 was 9.5trl \$ (vs 10trl\$ in 2019) and is expected to grow to 15.5trl \$ in 2033. The 9.5trl \$ in 2023 equal 9% of global GDP, and includes much more than overnight stays such as airline and other travel travel, entertainment, etc and hence the number only serves as an overall guideline to growth.

The global hotel, resorts, bed & breakfast and camping market can be found one by one. It's however not defined in the same way, so again it only serves as a rough guideline.

The overnight stay market is estimated to be 2trl\$ per year and growing at nominal GDP plus 1% ie.

5-6% growth per year. As global affluence increase more and more people will travel hance the travel industry is expected to have a higher growth rate than the overall GDP growth



Sources: Google, Grandview Research, Statista, Deloitte and Copilot

Airbnb holds a 4% market share after only 17 years in operation, so there's another 96% to go after. Airbnb differentiates itself by a better offering to family and small group friendly vs the traditional hotels, they have a wider selection outside the urban areas, they are favored for longer stays and it's an easy and user-friendly interface. Having mentioned that the offering Airbnb is not alone and the main competitors are:

Booking.com that offers a wide range of overnight stays from hotels to home and apartments

Expedia that offers full range of travel services including vacation rentals

Vrbo offers vacation rentals

In addition, comes competition from traditional hotels especially those with hundreds of thousands of rooms and attractive loyalty programs, time-share clubs/programs with inter-exchange between regions, recreational van rental options and you name it.

In it's relatively short lifetime Airbnb has carved out a unique business model and brand name recognition which serves as a solid foundation for further growth globally.

The overnight stay industry is highly fragmented and is expected to consolidate further (Like Hilton Worldwide going from 1.2m rooms to 1.7m rooms over the next 5 years) as well as on-line platforms serve as introducers to hotels, bed & breakfast etc.

## Financial performance

As mentioned in the introduction Airbnb has basically grown from 1m \$ in revenue in 2009 to 10bn \$ in 2023. And the estimated market share in the total overnight stay market has consequently grown from 0% to 4%.

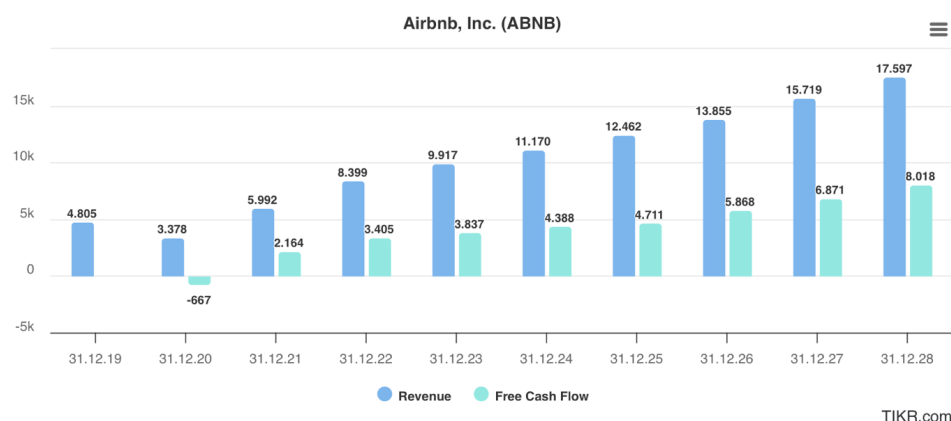
Since IPO the quarterly gross booking and take rate has performed like this:



The July, August, September summer vacation period is clearly the most lucrative one with 19%

take-rate, while the winter months despite having higher gross booking revenues but only 9% take rate due to longer stays

On a high level then revenues and free cash flow based on TIKR data and consensus looks like this



I do my own modelling in order to have a better sense of sensitivities and management’s ability to steer the ship.

My simplified model is below. The main assumption are:

- 10% growth in number of stays per year
- 2% increase in average daily rate
- 13.5% take rate
- 83% gross margin
- 4% interest on net cash, gradually falling to 3% after 2025
- 20% tax rate

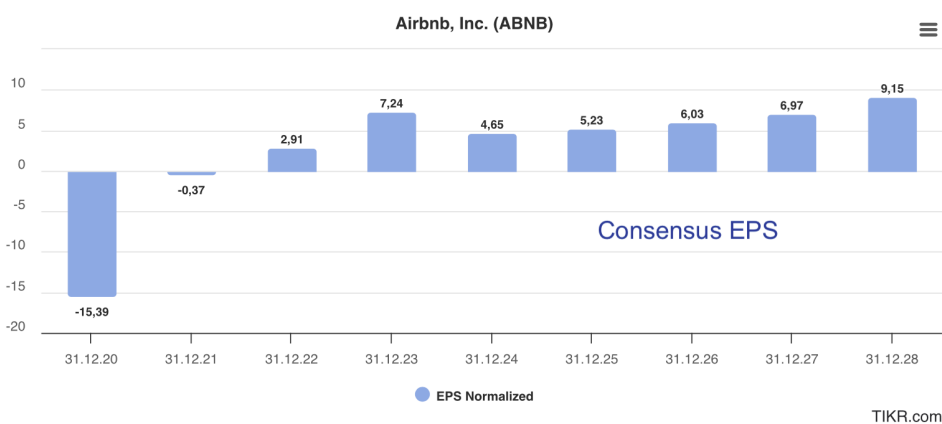
Then the model looks like this:

	Actuals							Estimates						
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross booking value in \$	20.975	29.441	37.962	23.897	46.877	63.212	73.252	81.066	90.798	101.667	113.802	127.346	142.462	159.327
Total stays in mill	186	250	327	193	301	394	448	493	542	596	656	722	794	873
Average day rate in \$	113	118	116	124	156	160	164	165	168	171	174	177	180	183
Take rate	12,2%	12,4%	12,7%	14,1%	12,8%	13,3%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%
Airbnb revenues	2.562	3.652	4.805	3.378	5.992	8.399	9.917	10.944	12.258	13.725	15.363	17.192	19.232	21.509
growth rate		43%	32%	-30%	77%	40%	18%	10%	12%	12%	12%	12%	12%	12%
EBITDA	(12)	89	(383)	(251)	1.593	2.903	3.653	4.221	4.789	5.434	6.164	6.991	7.928	8.989
margin	-0,5%	2,4%	-8,0%	-7,4%	26,6%	34,6%	36,8%	38,6%	39,1%	39,6%	40,1%	40,7%	41,2%	41,8%
Free cash flow	(54)	(71)	11	(667)	2.164	3.405	3.837	2.070	2.543	3.010	3.758	4.763	6.012	6.821
Net cash	316	3.329	2.655	4.061	5.904	7.281	7.767	8.112	8.831	8.885	9.563	10.802	12.651	14.531
Equity	2.600	2.714	2.424	2.902	4.775	5.560	8.156	8.113	8.504	8.266	8.687	9.979	12.308	15.488
# shares	255	256	261	284	616	680	662	641	605	580	560	545	533	520
EPS	-2,08	-0,07	-2,58	-15,41	-0,37	2,91	7,24	4,61	5,60	6,49	7,89	9,71	11,87	13,82

Source: company data for actuals and own model for estimates

Airbnb do not need to pile up cash so even if they spend 3bn\$ and growing it to more than 4bn \$ per year they will still potentially sit on 14bn\$ net cash in 2030.

The systematic use of cash flow to reduce the share count will gradually decline to around 520m in 2030. With the estimated growth profile then Airbnb in 2030 would be a 21bn \$ business with EPS around 14\$. There's a lot of moving parts but that's the main driver for Airbnb as an investment



Source: TIKR

## Capital discipline

Airbnb has been able to grow and develop into a highly cash generative business over the past 10 years. The use of capital since IPO in late 2020 testifies a good understanding and nursing of shareholders so I rate their capital discipline in the high end.

## Leadership

Founder and CEO, Brian Chesky, is in his early 40's and has a long runway ahead. Same goes for the other founders.

A founder led business with good capital discipline and being shareholder friendly ticks many boxes for a good investment.

## Shareholder structure and IR

29% of Airbnb is held by insiders with founder and CEO Brian Chesky 10.6% stake as the biggest. Nathan Blecharczyk hold 9.8%, Joe Gebbia 7.2% and then come a whole range of the usual index funds and large mutual funds.

The level of disclose is useful, however more granularity about regional profitability would be helpful.

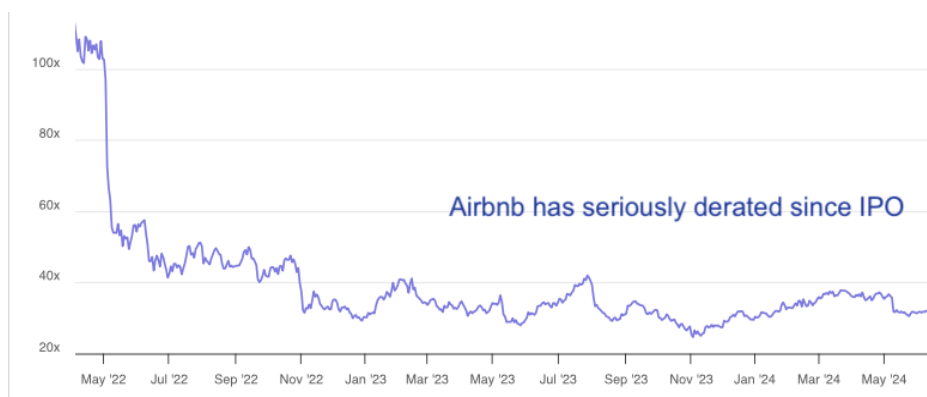
## Valuation and target price

Airbnb business model is highly cash generative and return on capital is way above its cost of capital. So, a true value creator.

Add in the growth, the relatively young leadership team, the company's brand and market position

less some cyclical from consumer demand in case of a recession then I get to a company I would value at 175-200\$ vs the current 145\$. Using a simple P/E multiple of 25x on the 2030 potential earnings of lets say 13\$ I get to 325\$. Discounted back at 6% per year gives more than 200\$

Airbnb valuation history is 3.5 years old and the first period has been characterized by significant derating



Looking at peers then Airbnb is priced a bit steeper but its justified given the higher growth rate (12%) if they obviously deliver. Booking.com is expected to grow 8% CAGR and Hilton Worldwide with it's room expansion from 1.2m rooms to 1.7m rooms gives it a 9% CAGR

Name	NTM TEV/REV	NTM TEV/EBITDA	NTM P/E	NTM MC/FCF
<a href="#">Airbnb, Inc.</a>	7,34x	20,43x	31,61x	24,24x
<a href="#">Booking Holdings Inc.</a>	5,64x	16,53x	21,81x	18,45x
<a href="#">Marriott International, Inc.</a>	3,16x	15,91x	24,60x	24,09x
<a href="#">Hilton Worldwide Holdings Inc.</a>	5,40x	18,02x	28,99x	27,43x
<a href="#">Trip.com Group Limited</a>	3,98x	12,79x	16,26x	15,44x
<a href="#">InterContinental Hotels Group PLC</a>	8,19x	15,97x	24,32x	22,75x
<a href="#">Expedia Group, Inc.</a>	1,29x	6,18x	10,20x	6,99x
<a href="#">Hyatt Hotels Corporation</a>	2,55x	14,49x	40,10x	22,02x
<a href="#">H World Group Limited</a>	4,27x	14,15x	15,85x	14,88x
<a href="#">Churchill Downs Incorporated</a>	5,26x	12,69x	21,03x	18,77x

Based on consensus EPS numbers 2024-28 the current stock price of 145\$ implies Airbnb grows 5-7% per year towards 2044 and discounted at 5-6%.

Given the current market cap is 92bn \$ and they have 8bn\$ net cash, and the cash flow is sufficient to purchase 3bn\$ of own shares and gradually moving the share repurchases to 4- 5bn \$ in outer years they can basically buy themselves out over the next 21 years



*Using consensus EPS for 2024-28 and then annual EPS growth to 2044. No terminal value*

## Triggers and opportunities

Guidance for 2Q 24 disappointed Mr Market that had hoped for a bit more. The news was rewarded with a stock price decline from 160s to 145s level. Only last week (early June 2024) several of the executives sold shares in a pre-arranged sale and the knee jerk reaction from Mr Market was to send Airbnb 2-3% lower.



The solar eclipse in USA in 2024 triggered a jump in gross bookings in the days around the eclipse and in neighborhoods around the solar eclipse path. Airbnb with its millions of hosts is well positioned for events like that and when traditional hotel capacity runs full.

In 2Q and 3Q 2024 there's European football championship and from 26<sup>th</sup> July to 11 August Paris/France host the Summer Olympics 2024 – an event that normally draw hundreds of thousands to the event and at elevated prices.

Airbnb could broaden the offer with hotels and smaller inn's and bed & breakfast places i.e. move into the same turf as booking.com, hotels.com, trivago.com and or join/partner up with one of the major airline alliances or a car rental company. It's another operating model, but if embedded into the Airbnb app and in a non-confusing way it could add more moat to Airbnb as the preferred place to do your travel arrangements.

Next scheduled events are estimates to be

1. 31 July 2024 – 2Q report. Estimated sales 2.73bn\$ +10% and EPS 0.90\$
2. 1 November 2024 – 3Q report. Estimated sales 3.8bn \$ +13% and EPS 2.49\$
3. Mid February 2025 – 4Q and full year. Estimated sales 2.5bn\$ +10% and EPS 0.87\$

## Risks

As mentioned earlier in the writeup there's plenty of competition in the overnight stay market. Airbnb's operating model is attractive, and peers will undoubtedly do theirs to muscle into the same market.

Airbnb is exposed to consumer sentiment and behavior. I do however consider the 'trust factor' much more critical for their long-term performance and can live with the occasional ups and downs from consumers feeling the impact the overall economic cycle

The financial risk of the business is low given the net cash position and solid cash flows.

The valuation risk should not be forgotten. If growth start to disappoint then the current forward P/E of 31x will look rich. The lowest forward P/E observed for Airbnb is 25x (November 2022), so that gives you a hint of the valuation downside risk.

#### Disclaimer

Please note that this analysis is for informational purposes only and should not be considered as financial advice. It is recommended to conduct further research and consult with a financial professional before making investment decisions.

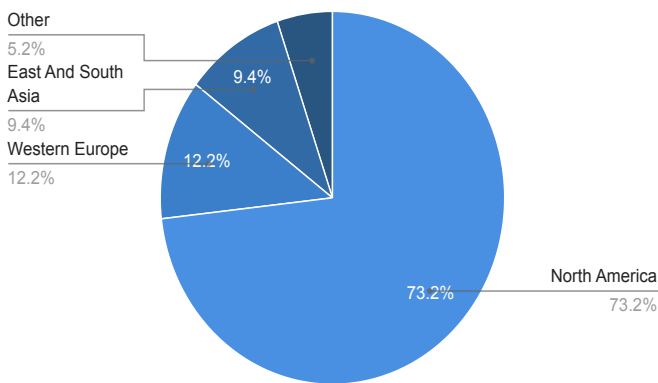
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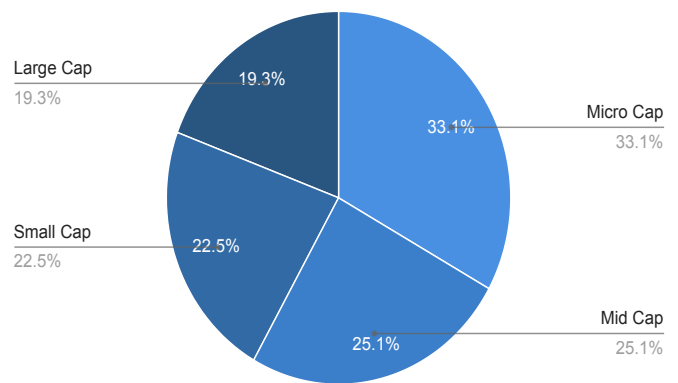
## 15,000+

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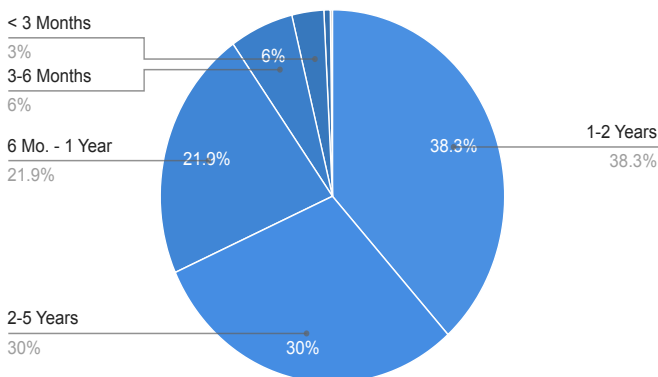
### Region



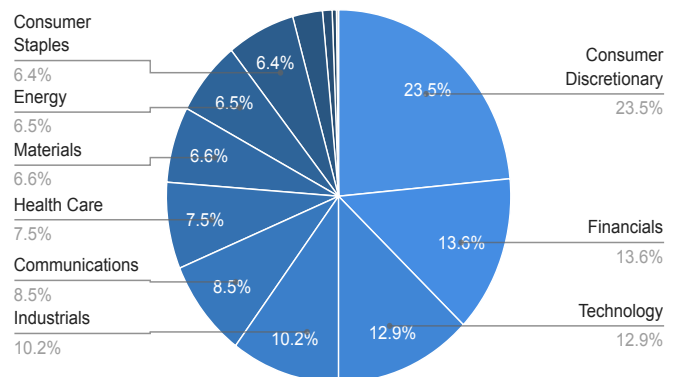
### Market Cap



### Timeframe



### Sector



### Direction

Long	Short
85%	15%

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