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YTB International: Wall Street's Next Online Travel Darling?

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Priceline (Nasdaq: PCLN) is the online travel industry's best company, as judged by the valuation currently accorded its publicly traded shares. Though Expedia (Nasdaq: EXPE) has a higher total market capitalization, Priceline shares trade at a multiple of trailing twelve months earnings that is nearly 50% higher than the same earnings multiple of Expedia. (PCLN ttm p/e = 36, EXPE ttm p/e = 23).

Thus, it would not be a stretch to say that PCLN is the darling of Wall Street when it comes to the online travel space and it is easy to see why. PCLN management has steered this company from bleeding red ink and the necessity of a reverse split five years ago to its place today as an international powerhouse in online travel. Shareholders who bought into PCLN when it first started making the turn towards profitability (about 5 years ago this month) have enjoyed 5 year gains of as much as 2000% (for those who purchased near the $6 lows in 2003).

Investors seeking gains of that kind in the online travel space will likely be disappointed if they invest in one of the big publicly traded players, including PCLN. Though PCLN management appears to be executing magnificently, the company's stock price ($128 as of this writing) already reflects this near flawless execution. Its hard to imagine that investor's could see the stock double over the next year or so, much less increase by a factor of three or four times. It is this realization that made us do a little digging to see if there are any companies out there that have PCLN type potential, but have yet to be recognized by the investment community as such. This brings us to the stock we believe investors should consider - a company called YTB International (YTBLA.PK) (hereinafter "YTB").

YTB International is a rapidly growing company in the online travel space. While both PCLN and YTBLA operate in the online travel space, their core business models are so different that it makes most comparisons of their respective businesses less than meaningful - it would be like comparing apples with oranges. However, we see much commonality between the two companies from an investment standpoint - with PCLN as a model of the kind of stock price appreciation that could be achieved by a company in this space under the right circumstances. Simply put, we see potential for investors in YTB stock to earn the kind of return long term PCLN investors have enjoyed.

YTBLA is currently traded on the pink sheets and we have never recommended a stock that trades on the Pink Sheets before. However, YTBLA is current on all listing requirements, expects to be listed on the OTCBB within the next few weeks and we fully expect that the company will be listed on a national exchange before the end of this year. We have also never recommended a company with a multi level marketing model, though We have reviewed many of them over the years and can appreciate the wealth and value created by billion dollar companies like Avon (NYSE: AVN), Tupperware (NYSE: TUP), Herbalife (NYSE: HLF) and PrePaid Legal Services (NYSE: PPD). Despite these two factors, we are still recommending YTBLA because we believe they are poised to be a significant player in the online travel space and we further believe that investors in the stock at today's prices could see Priceline type gains over the next few years and possibly sooner.

As mentioned previously, YTBLA's business model is very different from PCLN and EXPE, each of whom operates a website that is designed to be a portal through which consumers book travel online. PCLN and EXPE spend millions of dollars in advertising each quarter to attract consumers to their websites in hopes that they will book travel thereby earning the company commissions or merchant revenues. YTB spends very little on advertising, relying instead on a network of "referral travel agents" (hereinafter "RTAs") to book travel through their own private labeled YTB website. These referral travel agents pay YTB a start up fee (around $499), then a monthly fee ($49) to host their online booking engines. The referral travel agents then earn a commission on each booking, a small percentage of which is retained by YTB. Thus, YTB earns revenue each time a new RTA signs up, then earns monthly hosting fees and commissions from each RTA.

Thus, even though both companies operate in the online travel space, the business models and revenue generation engines are quite different. The more important recognition here, we believe, is that from an investor's standpoint, YTB is a company that is in a very similar position to where PCLN found themselves five years ago. At that time, PCLN had a flagging stock price and many questions surrounding its business model, despite the fact that it was making obvious strides in its quest to turn the corner to profitability.

This is similar to the storyline we are see today for YTB, where the company has dealt with several bumps in the road, most of which were related to either its ability to manage very high volume growth in a very short time or attempts by competitors to try and slow the company's march forward.

It appears that these bumps in the road have been unable to stop or even slow YTB's momentum. The company's most recent annual report shows staggering gains in bookings, commissions earned, revenue and steady gains in the number of RTA's who have signed up to participate. The company grew gross travel bookings more than 187% in 2007 over 2006 and saw the base of active RTA's more than double. The company reported its third profitable quarter in a row, its first full year profit and it appears to have reached a point in its growth cycle where it has achieved the critical mass necessary to grow revenues significantly without a commensurate increase in expenses. We saw evidence in the recent 10K filing that indicated general and administrative expenses as a percentage of total revenue fell to only 26.1% in 2007 from 36.5% of revenue in 2006.

Another way we expect the company to grow margins is by earning higher percentage commissions. A very good indicator of this trend was reported in the recent 10K filing. The company reported an 84% gain in gross total bookings, which led to a 178% gain in gross total commissions received. As the company establishes itself as a high volume source of bookings for travel suppliers, the suppliers are willing to pay higher commissions and overrides. This accrues to the benefit of YTB as well as its RTA's.

We see an opportunity for the company to further expand margins by building or buying its own wholesale business. By becoming the "merchant of record" for travel transactions, particularly lodging, YTB can expand on the traditional 10% commissions to instead earn effective rates in the 20 - 35% range. We note that it was a similar move into wholesale lodging reservations by Priceline in 2003 that allowed them to make the jump to profitability and that their acquisition of one of Europe's largest lodging wholesalers that has been the catalyst for Priceline's dramatic growth the last three years.

We believe further expansion of the company's margins are possible as the company leverages the value of its network of 130,000+ active websites. The company's cost to roll out additional product offerings through their RTA website channel is next to zero as is their risk. As such, we expect to see several new products offered through the RTA network in 2008, each of which could have a material impact on YTB's financials.

In summary, we believe that YTB's status as a pink sheets listed company that lacks Wall Street coverage or even main street attention has allowed the recent surge in its business to go unnoticed. The earnings acceleration and margin expansion simply have not been reflected in the stock price - as the stock has fallen more than 70% since the 2007 Q2 report of their first profitable quarter. With the stock currently hovering around the $1.65 per share range - we feel that the stock has the potential for exponential returns as investors become more aware of the YTB story and the company continues its domestic and international expansion. We believe the company is on the verge of a margin breakout that could propel the company to several periods of high double digit year over year earnings growth and that investors will ultimately accord YTB the kind of earnings multiple usually associated with such growth. As such, investors at today's prices could be buying into the proverbial "ten bagger" or even better, enjoy returns like 2003 investors in the PCLN story, who earned 20x their money in less than five years. If YTB can sustain growth at the half the rate it grew in 2007, YTB investors at today's prices could do even better than that.

Disclosure: Author has a long position in YTBLA.PK