

## Intercontinental Hotels Group plc

FY23 and Update on Strategic Priorities:  
what we expect

Reiterate Rating: BUY | PO: 7,800 GBp | Price: 7,659 GBp

## Strategy update to focus on growth algorithm components

IHG will report FY23 results on 20 February, along with an 'Update on Strategic Priorities'. The session will include presentations from the new CEO and CFO as well as regional teams. We expect the discussion to focus on the building blocks of IHG's growth algorithm – high single-digit revenue growth, 100-150bps margin expansion and cash returns. For the near term, IHG's US peers have provided a robust outlook for RevPar growth (Marriott sees a 3-6% CAGR for 2024-25, Hilton expects +2-4% y-y in 2024). We expect IHG to echo those views, while longer-term drivers of demand (an expanding middle class and key market GDP growth) should be unchanged. IHG shares trade on 14.9x our 24E EV/EBITDA, a 14% discount to US peers (much wider than history at 4%) – we think this is unjustified, given high returns (>30% ROIC), earnings growth (15% 2023-27E) and cash return potential. Buy.

## Investors remain concerned on NUG

Our discussion with investors suggests key focus remains on NUG and we expect management to address market concerns on trajectory of room growth during the update session. We believe that in FY24E macro stabilisation and potential interest rate cuts will relieve pressure on NUG, and we estimate growth of +4.1% y-y for IHG (3.7% in 2023E). We expect FY24E RevPar to benefit from a favourable mix shift to US domestic travel while further travel recovery in China should continue to fuel growth. We forecast FY24E RevPAR to increase +4% y-y (US +3%, EMEA +2.9%, China +15%).

## Commitment to recurring buybacks

We believe IHG will reaffirm its commitment to cash returns in the form of annual share buybacks, in addition to the dividend. IHG targets a leverage ratio of 2.5-3x and we continue to forecast a \$750m share buyback in 2024 (4% of market cap), with potential cash return of 26% in 2023-25E cumulative (dividends and buybacks). Management could use the strategy session to address the investor suggestion of switching the primary listing to the US, which could offer higher valuation and access to a wider investor base.

Estimates (Dec) (USD)	2021A	2022A	2023E	2024E	2025E
EPS (Adjusted Diluted)	1.46	2.81	3.80	4.42	5.02
EPS Change (YoY)	366.8%	92.1%	35.3%	16.3%	13.7%
Dividend / Share	0	1.38	1.65	1.92	2.19
ADR EPS (Adjusted Diluted - US\$)	1.46	2.81	3.80	4.42	5.02
ADR Dividend / Share (US\$)	0	1.38	1.65	1.92	2.19
Valuation (Dec)					
P/E	71.0x	32.8x	25.7x	21.9x	19.3x
Dividend Yield	0%	1.43%	1.71%	1.99%	2.26%
EV / EBITDA*	29.1x	20.5x	16.9x	15.2x	14.0x
Free Cash Flow Yield*	3.03%	2.77%	3.08%	4.05%	4.65%

\* For full definitions of *IQmethod™* measures, see page 8.

09 February 2024

## Equity

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## Stock Data

Price (Common / ADR)	7,659 GBp / 96.74 USD
Price Objective	7,800 GBp / 99.00 USD
Date Established	11-Jan-2024 / 11-Jan-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	5,086 GBp-7,734 GBp
Market Value (mn)	12,656 GBP
Shares Outstanding (mn)	165.2 / 165.2
Average Daily Value (mn)	24.98 USD
Free Float	95.6%
BofA Ticker / Exchange	ICHGF / LSE
BofA Ticker / Exchange	IHG / NYS
Bloomberg / Reuters	IHG LN / IHG.L
ROE (2023E)	NM
Net Dbt to Eqty (Dec-2022A)	NM
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

RevPAR: revenue per available room

NUG: net unit growth

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**Refer to important disclosures on page 9 to 12. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.**

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Timestamp: 09 February 2024 12:30AM EST

# iQprofile<sup>SM</sup> Intercontinental Hotels Group plc

## Key Income Statement Data (Dec)

(US\$ Millions)

	2021A	2022A	2023E	2024E	2025E
Sales	1,390	1,843	2,157	2,304	2,437
EBITDA Adjusted	632	896	1,088	1,212	1,316
Depreciation & Amortization	(98.0)	(68.0)	(71.1)	(76.0)	(80.4)
EBIT Adjusted	534	828	1,017	1,136	1,236
Net Interest & Other Income	(173)	(288)	(119)	(180)	(179)
Tax Expense / Benefit	(96.0)	(164)	(209)	(222)	(245)
Net Income (Adjusted)	269	511	651	708	764
Average Fully Diluted Shares Outstanding	184	182	171	160	152

## Key Cash Flow Statement Data

Net Income (Reported)	266	375	690	734	811
Depreciation & Amortization	98.0	68.0	71.1	76.0	80.4
Change in Working Capital	110	101	(52.8)	16.9	18.9
Deferred Taxation Charge	0	0	0	0	0
Other CFO	162	102	47.6	56.0	35.9
<b>Cash Flow from Operations</b>	<b>636</b>	<b>646</b>	<b>755</b>	<b>883</b>	<b>946</b>
Capital Expenditure	(99.0)	(161)	(248)	(259)	(267)
(Acquisition) / Disposal of Investments	0	16.0	0	0	0
Other CFI	0	0	0	0	0
<b>Cash Flow from Investing</b>	<b>(99.0)</b>	<b>(145)</b>	<b>(248)</b>	<b>(259)</b>	<b>(267)</b>
Share Issue / (Repurchase)	0	(483)	(788)	(750)	(750)
Cost of Dividends Paid	0	(233)	(252)	(283)	(308)
Increase (decrease) debt	(953)	(441)	0	400	400
Other CFF	1,064	686	(4.53)	(408)	(409)
<b>Cash Flow from Financing</b>	<b>111</b>	<b>(471)</b>	<b>(1,044)</b>	<b>(1,041)</b>	<b>(1,067)</b>
<b>Total Cash Flow (CFO + CFI + CFF)</b>	<b>648</b>	<b>30.0</b>	<b>(537)</b>	<b>(417)</b>	<b>(388)</b>
FX and other changes to cash	(873)	(504)	0	400	400
Change in Cash	(225)	(474)	(537)	(17.2)	12.4
Change in Net Debt	(728)	33.0	537	417	388
Net Debt (Reported)	1,814	1,847	2,384	2,801	3,189
Net Debt (Adjusted)	1,881	1,851	2,388	2,805	3,193

## Key Balance Sheet Data

Property, Plant & Equipment	137	157	249	347	449
Goodwill	341	335	335	335	335
Other Intangibles	854	809	809	809	809
Other Non-Current Assets	1,318	1,237	1,237	1,237	1,237
Trade Receivables	574	646	756	808	854
Cash & Equivalents	1,450	976	439	422	434
Other Current Assets	42.0	56.0	56.7	57.0	57.3
Total Assets	4,716	4,216	3,882	4,015	4,175
Long-Term Debt	2,937	2,742	2,742	3,142	3,542
Other Non-Current Liabilities	1,629	1,538	1,585	1,609	1,633
Short-Term Debt	327	81.0	81.0	81.0	81.0
Other Current Liabilities	1,297	1,463	1,521	1,590	1,655
Total Liabilities	6,190	5,824	5,929	6,422	6,911
Total Equity	(1,474)	(1,608)	(2,047)	(2,407)	(2,736)
Total Equity & Liabilities	4,716	4,216	3,882	4,015	4,175

## Business Performance\*

Return On Capital Employed	10.6%	19.2%	31.4%	36.9%	38.8%
Return On Equity	NM	NM	NM	NM	NM
Operating Margin	38.4%	44.9%	47.1%	49.3%	50.7%
Free Cash Flow (MM)	537	485	507	624	679

## Quality of Earnings\*

Cash Realization Ratio	2.36x	1.26x	1.16x	1.25x	1.24x
Asset Replacement Ratio	1.01x	2.37x	3.49x	3.41x	3.32x
Tax Rate	26.6%	30.4%	23.2%	23.2%	23.2%
Net Debt/Equity	NM	NM	NM	NM	NM
Interest Cover	3.63x	7.02x	8.49x	6.77x	6.44x

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 8.

## Company Sector

Hotels

## Company Description

IHG is one the largest hotel companies and operates more than 929k rooms. The group has a pure asset light model and generates over 97% of profits from fee business. Americas represent 55%+ of group's system size, EMEA about 26% with the remaining in Greater China. The group has a pipeline skewed to Americas and China (c73% of total pipeline).

## Investment Rationale

We think IHG's geographically diversified asset-light model (99% of the rooms are either franchised or managed) is resilient and drives visible profits and cash flow streams. Fee growth is driven by net system growth, a mix shift to the higher fee luxury segment and margin expansion. Conversions should support continued net system growth. IHG has strong cash return to shareholders with its progressive dividend and potential for recurring share buybacks.

## Stock Data

Shares / ADR	1.00
Price to Book Value	-8.0x

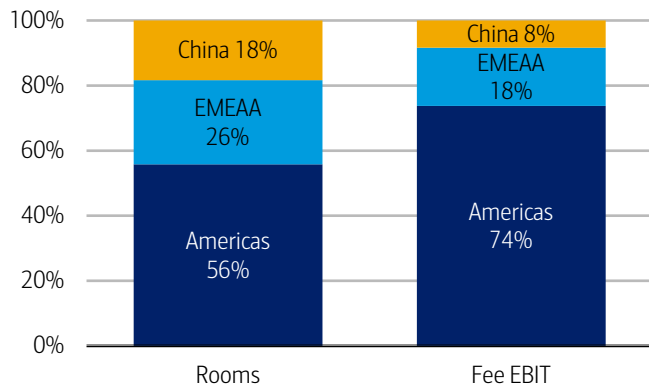
## Half-yearly Earnings Estimates

	2022	2023
H1	1.18A	2.05A
H2	1.60A	1.75E

# Valuation and key charts

## Exhibit 1: IHG group composition by geography

IHG has an asset-light model with the highest exposure to the US

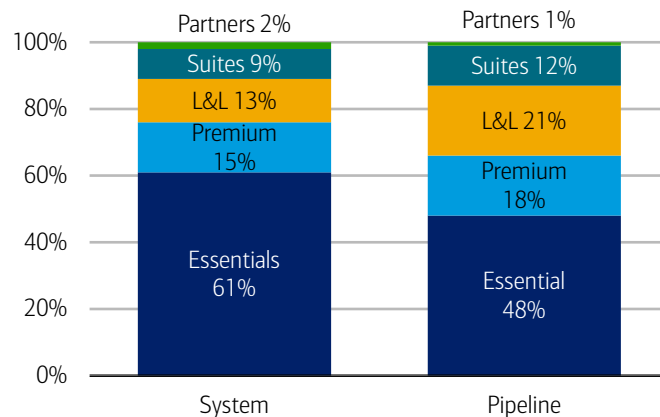


Source: Company data

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## Exhibit 2: IHG current system and pipeline composition by segment

IHG's pipeline is focused on the Luxury segment

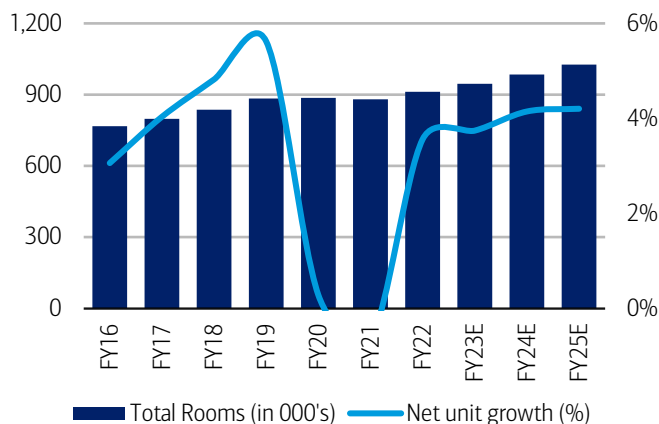


Source: Company data

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## Exhibit 3: IHG system rooms and net unit growth (%)

We see 4.1% net system growth in FY24E

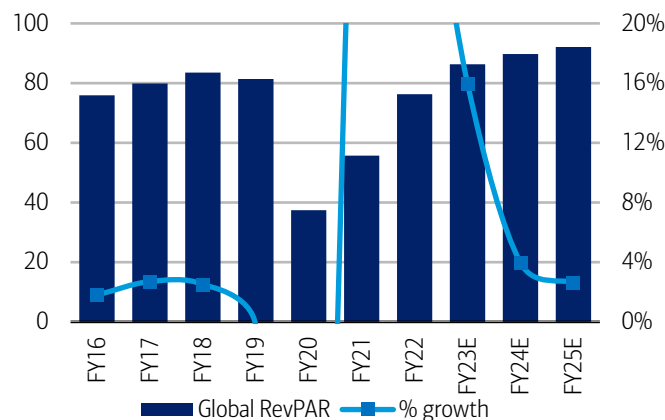


Source: BofA Global Research estimates, company report

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## Exhibit 4: IHG RevPAR and growth rate (%)

We forecast RevPAR growth of 4% in 2024E

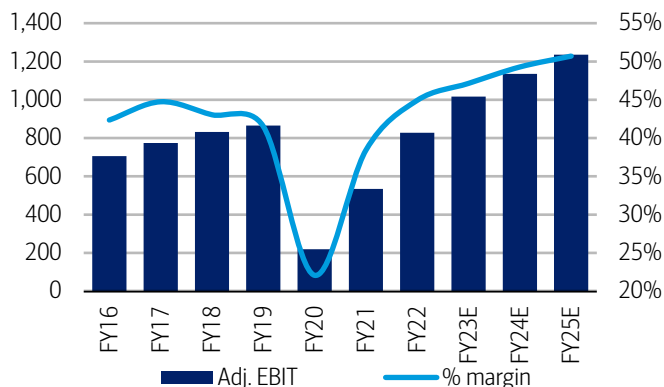


Source: BofA Global Research estimates, company report

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## Exhibit 5: IHG adjusted EBIT and margin

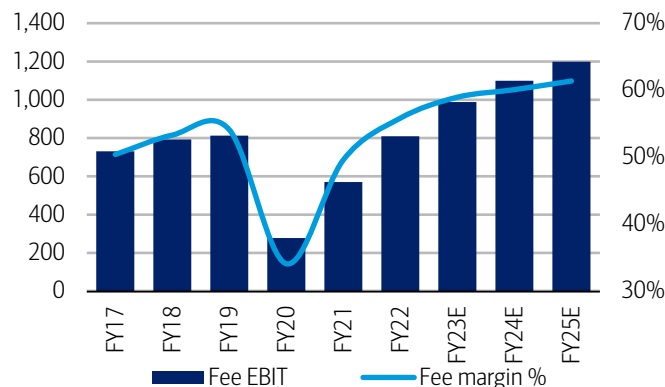
We forecast 12% EBIT growth in 2024E



Source: BofA Global Research estimates, company report

## Exhibit 6: IHG fee EBIT and margin

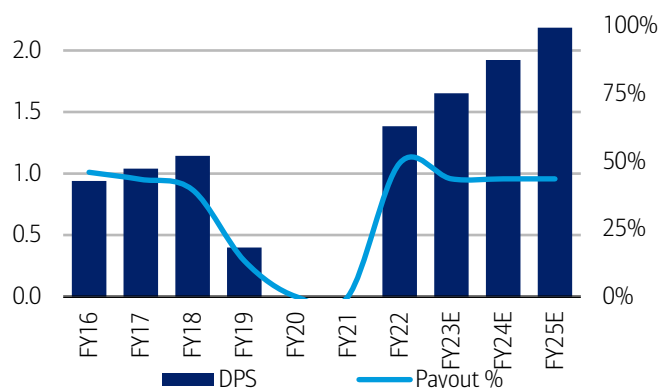
We forecast a 60% fee margin in 2024E, above 54% in 2019



Source: BofA Global Research estimates, company report

**Exhibit 7: IHG dividend per share and payout ratio**

We forecast DPS to increase to GBp1.92 in 2024E

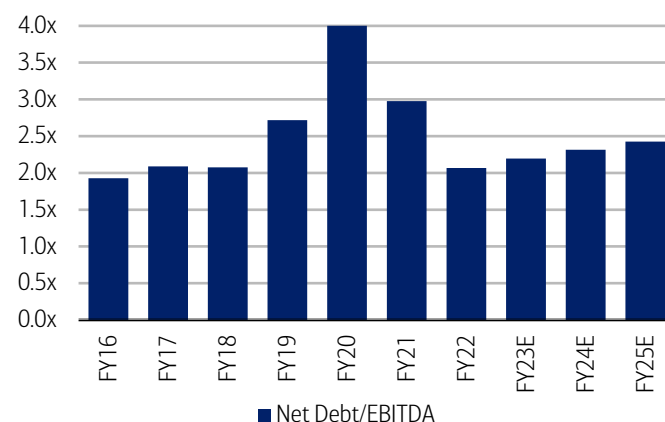


Source: BofA Global Research estimates, company report

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**Exhibit 8: IHG ND/EBITDA**

Leverage to remain below the 2.5-3x target



Source: BofA Global Research estimates, company report

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**Exhibit 9: BofA estimates vs. consensus**

Our 2024E EBIT is 5% above company-compiled consensus

	BofA Est.		Consensus		% Difference	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
RevPAR YoY (%)	16.0	4.0	15.7	2.6	0.3	1.4
Net System Size Growth (%)	3.7	4.1	3.8	4.0	-0.1	0.1
<b>Reportable Segments data</b>						
Revenue (\$m)	2,157	2,304	2,163	2,283	-0.3	0.9
Operating Profit (\$m)	1,017	1,136	1,011	1,078	0.6	5.3
Adjusted EPS (cents)	382	445	372	415	2.7	7.2
Ordinary DPS (cents)	165	192	164	182	0.7	5.6
Adjusted EBITDA	1088	1212	1084	1157	0.4	4.7
Adjusted Interest (\$m)	-138	-179	-132	-137	4.2	30.4
Effective Tax Rate (%)	26	26	26	27	0.0	-1.0
Basic Weighted Average no. of Shares (m)	170	159	171	163	-0.4	-2.3
Net Debt	-2388	-2805	-2278	-2604	4.8	7.7

Source: BofA Global Research estimates, company report

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**Exhibit 10: Comparison of peer growth expectations**

IHG's US peers see higher rooms growth in the medium term

	Marriott	Hilton	Accor	IHG
	2023-2025	2024	2023-2027	Medium Term
RevPar (y-y %)	3% - 6%	2% - 4%	3% - 4%	3% - 4%
NUG (y-y %)	5% - 5.5%	5.5% - 6%	3% - 5%	4% - 5%

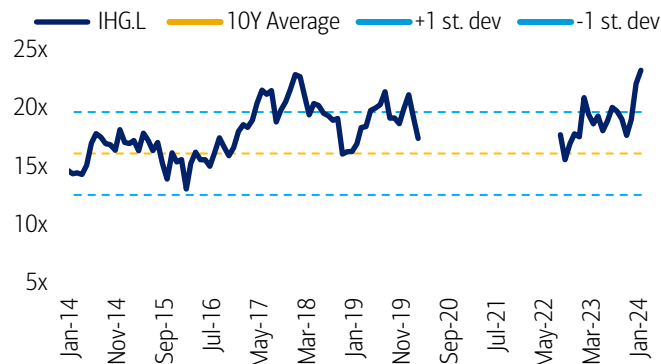
Source: BofA Global Research estimates, company report

Note: Marriott RevPar growth refers to a 2 year (2024-2025) CAGR, NUG to 3 year (2023-2025) CAGR; Accor refers to 2023-27 CAGR

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**Exhibit 11: IHG P/E multiple**

IHG is trading above its historical P/E multiple

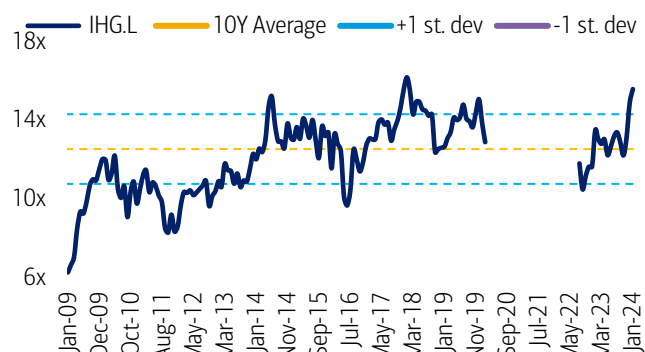


Source: BofA Global Research estimates, Refinitiv Eikon

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**Exhibit 12: IHG EV/EBITDA multiple**

IHG is trading above its historical average EV/EBITDA multiple

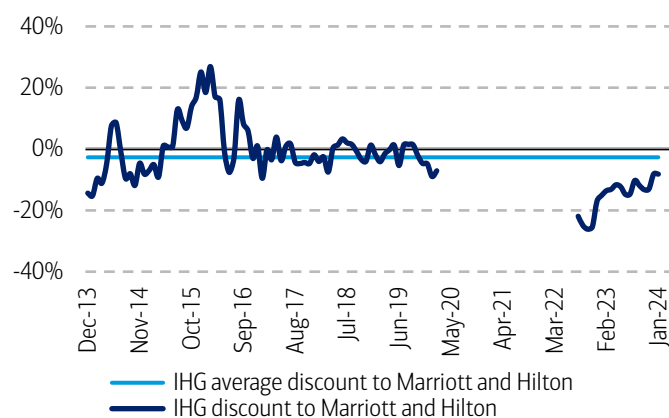


Source: BofA Global Research, Refinitiv Eikon

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**Exhibit 13: IHG EV/EBITDA discount to Marriott and Hilton**

IHG EV/EBITDA discount to US peers is wider than its 10-yr historical average discount

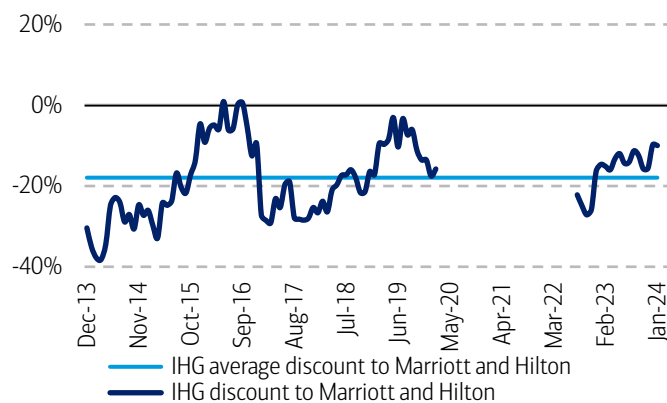


Source: BofA Global Research, Refinitiv Eikon

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**Exhibit 14: IHG P/E discount to Marriott and Hilton**

IHG has traded at a discount to US peers on P/E historically

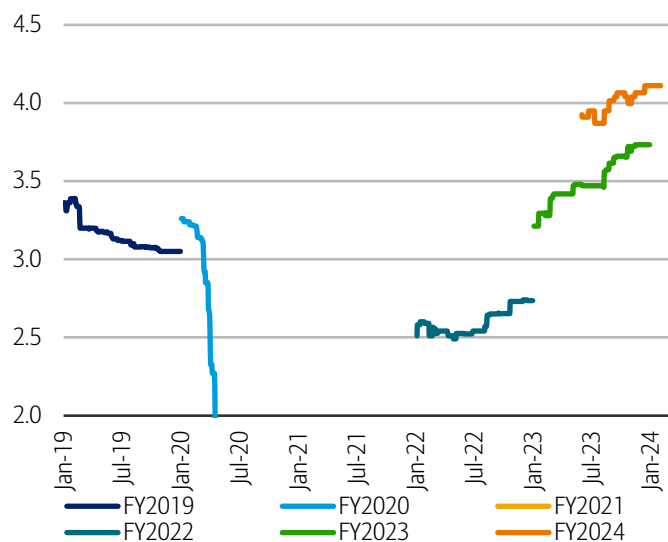


Source: BofA Global Research, Refinitiv Eikon

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**Exhibit 15: IHG Consensus EPS revisions (GBp)**

IHG FY23E consensus estimates have consistently been revised upwards



Source: BofA Global Research, Refinitiv Eikon

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**Exhibit 16: IHG key valuation metrics**

IHG is trading on 14.9x 2024E EV/EBITDA on our estimates

Year-end 31st December (\$m)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>EV</b>							
Average / current share price (GBp pence)	4,901	4,137	4,876	4,802	7,494	7,494	7,494
Share Price (USD cents)	6,371	5,311	6,708	5,954	9,486	9,486	9,486
Shares outstanding	184	182	184	182	171	160	152
Equity value	11,723	9,666	12,343	10,837	16,248	15,201	14,423
Net debt	2,665	2,529	1,881	1,851	2,388	2,805	3,193
Pensions	96	103	92	66	66	66	66
Minorities	8	8	7	7	7	7	7
Associates	110	81	77	36	36	36	36
<b>EV</b>	<b>14,382</b>	<b>12,225</b>	<b>14,246</b>	<b>12,725</b>	<b>18,673</b>	<b>18,043</b>	<b>17,653</b>
<b>Analytics</b>							
EV/Revenue	6.9x	12.3x	10.2x	6.9x	8.7x	7.8x	7.2x
EV/EBITDA	14.7x	37.2x	22.5x	14.2x	17.2x	14.9x	13.4x
EV/EBIT	16.6x	55.8x	26.7x	15.4x	18.4x	15.9x	14.3x
PE	21.1x	169.6x	45.9x	21.2x	25.0x	21.5x	18.9x
Dividend yield	0.6%	0.0%	0.0%	2.3%	1.7%	2.0%	2.3%
FCF yield	3.3%	-0.1%	4.4%	4.5%	3.1%	4.1%	4.7%
ND/EBITDA	2.7x	7.7x	3.0x	2.1x	2.2x	2.3x	2.4x
ROIC (pre-tax)	30%	8%	22%	36%	45%	47%	50%
ROIC (after tax)	23%	5%	15%	26%	33%	35%	37%

Source: BofA Global Research estimates, company report

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## Price objective basis & risk

### Intercontinental Hotels Group plc (ICHGF / IHG)

We apply a 15.5x EV/EBITDA multiple to our 2024E estimates to derive our PO of GBp7,800/(ADR\$99). Our target multiple is a discount to US-listed peers average of 16x and near the top end of IHG's long-term range of 10-16x and reflects IHG's asset-light profile, global footprint and margin opportunities.

Downside risks to our PO are 1) greater-than-expected economic weakness which may reduce lodging demand, 2) slower margin progression, 3) greater-than-expected delays in new hotel openings, 4) lower-than-expected cash return to shareholders.

## Analyst Certification

I, Muneeba Kayani, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### EMEA - Transports & Hotels Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Accor	ACRFF	AC FP	Muneeba Kayani
	DHL Group	DPSTF	DHL GY	Muneeba Kayani
	DHL Group	DHLGY	DHLGY US	Muneeba Kayani
	DSV	DSDVF	DSV DC	Muneeba Kayani
	DSV	DSDVY	DSDVY US	Muneeba Kayani
	easyJet	EJTTF	EZJ LN	Muneeba Kayani
	IAG	XACDF	IAG LN	Muneeba Kayani
	IAG	BABWF	IAG SM	Muneeba Kayani
	IAG	ICAGY	ICAGY US	Muneeba Kayani
	Intercontinental Hotels Group plc	ICHGF	IHG LN	Muneeba Kayani
	Intercontinental Hotels Group plc	IHG	IHG US	Muneeba Kayani
	International Distributions Services PLC	ROYMF	IDS LN	Muneeba Kayani
	Mobico Group Plc	NXPGF	MCG LN	Muneeba Kayani
	Ryanair	RYAAY	RYAAY US	Muneeba Kayani
	Ryanair	RYAOF	RYA ID	Muneeba Kayani
	TUI AG	TUIFD	TUI LN	Muneeba Kayani
<b>NEUTRAL</b>				
	APM Maersk	AMKBF	MAERSKB DC	Muneeba Kayani
	APM Maersk	AMKBY	AMKBY US	Muneeba Kayani
	bpost	BPOSF	BPOST BB	Muneeba Kayani
	InPost	INPOF	INPST NA	Muneeba Kayani
	Kuehne + Nagel	KHNGF	KNIN SW	Muneeba Kayani
	Kuehne + Nagel	KHNGY	KHNGY US	Muneeba Kayani
	Whitbread	WTBCF	WTB LN	Muneeba Kayani
	Wizz Air	WZZAF	WIZZ LN	Muneeba Kayani
<b>UNDERPERFORM</b>				
	Air France-KLM	AFRAF	AF FP	Muneeba Kayani
	Air France-KLM	AFLYY	AFLYY US	Muneeba Kayani
	Austrian Post	OERCF	POST AV	Muneeba Kayani
	Lufthansa	DLAKY	DLAKY US	Muneeba Kayani
	Lufthansa	DLAKF	LHA GY	Muneeba Kayani
	PostNL	TNTFF	PNL NA	Muneeba Kayani
	ZIM	ZIM	ZIM US	Muneeba Kayani

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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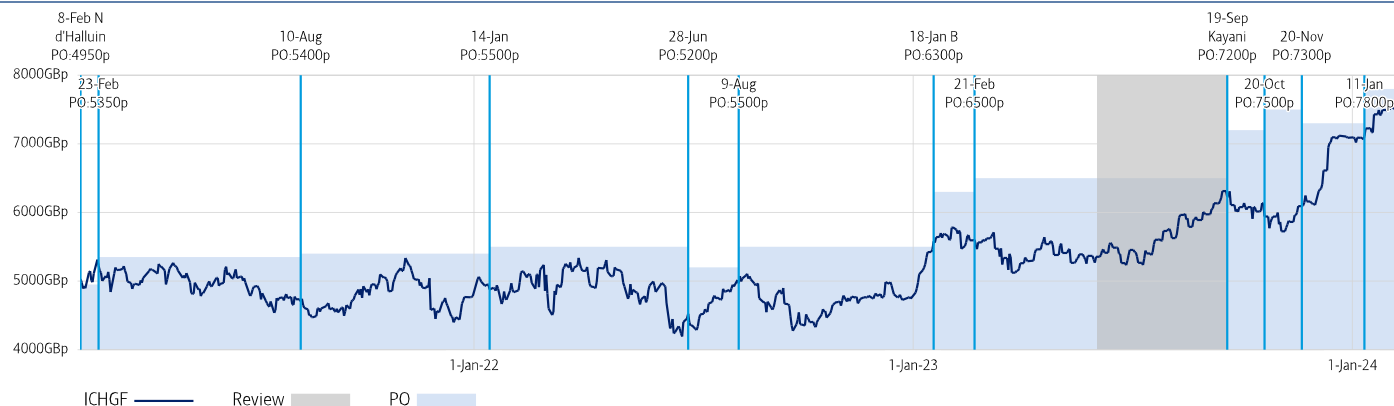
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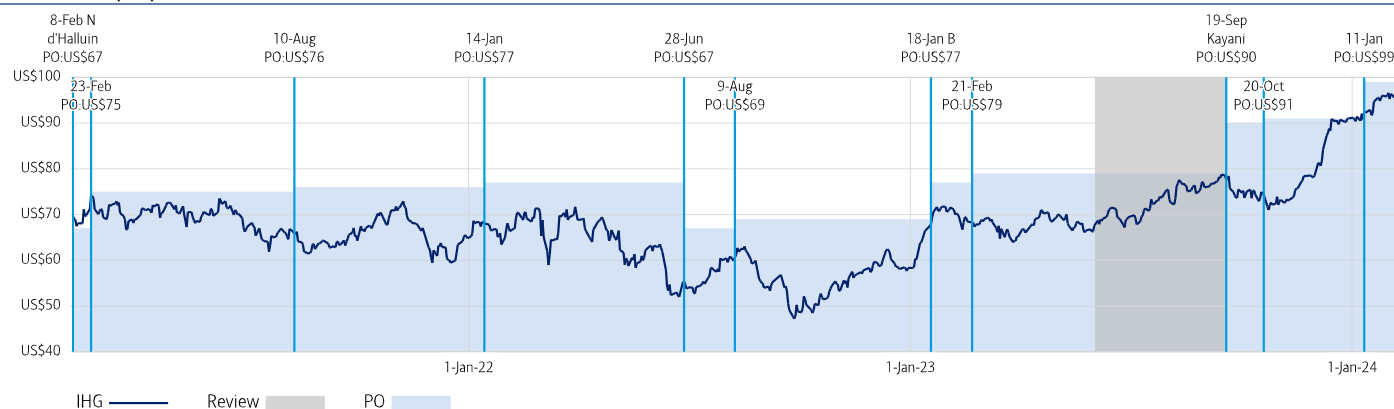
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### Intercont'l Hotels (ICHGF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Intercont'l Hotels (IHG) Price Chart



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### Equity Investment Rating Distribution: Leisure - Hotel/Lodging Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	16	61.54%	Buy	12	75.00%
Hold	3	11.54%	Hold	2	66.67%
Sell	7	26.92%	Sell	5	71.43%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.



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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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