

Intercontinental Hotels Group plc

FY23 in-line, targets 12-15% EPS growth in medium term

Reiterate Rating: BUY | PO: 8,200 GBp | Price: 7,910 GBp

\$800m share buyback announced, PO to GBp8,200

2023 EBIT of \$1,019m is in-line with our and consensus estimates. Our 2024 EBIT estimate is largely unchanged at \$1,141m, putting us 6% above consensus. IHG has announced a \$800m share buyback (above our \$750m estimate) which brings total 2024 shareholder return to >\$1bn. This include the final DPS for 2023 of 104c (slightly below our 117c est). ND/EBITDA was 2.1x as of end FY23. Our PO increases from GBp7800 (ADR \$99) to GBp8200 (ADR \$103) driven by our higher target multiple of 16x (from 15.5x prior to reflect continued MT earnings growth and easing pressures on NUG) and FX. Shares trade on 15.6x 2024E EV/EBITDA, which is a 9% discount to US peers (wider than history at 4%) - we think this is unjustified, given IHG's high returns (>30% ROIC), earnings growth (15% 2023-27E) and cash return potential. Reiterate Buy.

Medium to long term target of 12-15% EPS growth

IHG targets 12-15% Adj EPS annual growth in the medium to long-term including ongoing share buybacks (BofAe 15% 2023-27E CAGR). The company expects HSD growth in fee revenue and 100-150bp fee margin expansion per annum. IHG expects 100% conversion of earnings into FCF to support investments in the business, sustainable growth in the ordinary dividend and return of surplus capital.

RevPAR +7.6% in 4Q, we forecast 2024E at +4%

IHG benefited from resilient travel demand in 4Q with group RevPAR +7.6% y-y (+16.1% in FY23), slightly below our +9% estimate. Occupancy is now only 1.1ppts below 2019 levels with Americas and China fully recovered. Management highlights rooms revenue was ahead of 2019 in 4Q across leisure, business and groups with groups revenue on-the-books up +17% y-y. We maintain our forecast of 2024E RevPar at +4.0%.

Net system growth of 3.8% in 4Q, we estimate 4% in '24E

Net system growth was +3.8 % y-y (+3.2% ex Iberostar) resulting in 946k rooms at end of December, slightly ahead of our expectations and in-line with guidance. Conversions represent 39% of opening and 36% of signings in 2023. The new Garner brand contributed 7 signings and 2 opening by end of the year. We maintain our forecast for 2024E net system size growth of +4%.

Estimates (Dec) (USD)	2022A	2023A	2024E	2025E	2026E
EPS (Adjusted Diluted)	2.81	3.74	4.39	4.98	5.66
EPS Change (YoY)	92.1%	33.0%	17.5%	13.5%	13.6%
Dividend / Share	1.38	1.52	1.91	2.17	2.46
ADR EPS (Adjusted Diluted - US\$)	2.81	3.74	4.39	4.98	5.66
ADR Dividend / Share (US\$)	1.38	1.52	1.91	2.17	2.46
Valuation (Dec)					
P/E	33.9x	27.0x	22.7x	20.0x	17.6x
Dividend Yield	1.39%	1.53%	1.92%	2.18%	2.47%
EV / EBITDA*	21.4x	17.6x	15.8x	14.6x	13.4x
Free Cash Flow Yield*	2.69%	3.80%	3.89%	4.46%	5.12%

* For full definitions of *IQmethod*SM measures, see page 6.

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Refer to important disclosures on page 7 to 10. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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Timestamp: 20 February 2024 02:05AM EST

20 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	7,800.00p	8,200.00p
2024E EPS	4.42	4.39
2025E EPS	5.02	4.98
2026E EPS	5.72	5.66
2024E DPS	1.92	1.91

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Stock Data

Price (Common / ADR)	7,910 GBp / 97.76 USD
Price Objective	8,200 GBp / 103.00 USD
Date Established	20-Feb-2024 / 20-Feb-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	5,086 GBp-7,934 GBp
Market Value (mn)	13,071 GBP
Shares Outstanding (mn)	165.2 / 165.2
Average Daily Value (mn)	25.69 USD
Free Float	95.6%
BofA Ticker / Exchange	ICHGF / LSE
BofA Ticker / Exchange	IHG / NYS
Bloomberg / Reuters	IHG LN / IHG.L
ROE (2024E)	NM
Net Dbt to Eqty (Dec-2023A)	NM
ESGMeter TM	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](#)".

Glossary

IHG- Intercontinental Hotels Group
ND- Net Debt
NEG- Net Unit growth

iQprofileSM Intercontinental Hotels Group plc

Key Income Statement Data (Dec)

(US\$ Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	1,843	2,164	2,320	2,453	2,595
EBITDA Adjusted	896	1,086	1,213	1,317	1,425
Depreciation & Amortization	(68.0)	(67.0)	(71.8)	(75.9)	(80.3)
EBIT Adjusted	828	1,019	1,141	1,241	1,345
Net Interest & Other Income	(288)	(9.00)	(128)	(120)	(136)
Tax Expense / Benefit	(164)	(260)	(263)	(291)	(314)
Net Income (Adjusted)	511	635	711	770	833
Average Fully Diluted Shares Outstanding	182	170	162	155	147

Key Cash Flow Statement Data

Net Income (Reported)	375	750	750	829	895
Depreciation & Amortization	68.0	67.0	71.8	75.9	80.3
Change in Working Capital	101	79.0	14.9	17.3	19.4
Deferred Taxation Charge	0	0	0	0	0
Other CFO	102	(3.00)	85.1	67.4	68.2
Cash Flow from Operations	646	893	922	990	1,063
Capital Expenditure	(161)	(253)	(297)	(307)	(317)
(Acquisition) / Disposal of Investments	16.0	8.00	0	0	0
Other CFI	0	0	0	0	0
Cash Flow from Investing	(145)	(245)	(297)	(307)	(317)
Share Issue / (Repurchase)	(483)	(798)	(800)	(750)	(750)
Cost of Dividends Paid	(233)	(248)	(259)	(309)	(335)
Increase (decrease) debt	(441)	769	400	400	400
Other CFF	686	(792)	(405)	(406)	(407)
Cash Flow from Financing	(471)	(1,069)	(1,064)	(1,065)	(1,092)
Total Cash Flow (CFO + CFI + CFF)	30.0	(421)	(440)	(382)	(346)
FX and other changes to cash	(504)	767	400	400	400
Change in Cash	(474)	346	(39.9)	17.8	54.1
Change in Net Debt	33.0	423	440	382	346
Net Debt (Reported)	1,847	2,270	2,710	3,092	3,438
Net Debt (Adjusted)	1,851	2,272	2,712	3,094	3,440

Key Balance Sheet Data

Property, Plant & Equipment	157	153	294	440	591
Goodwill	335	363	363	363	363
Other Intangibles	809	736	736	736	736
Other Non-Current Assets	1,237	1,432	1,432	1,432	1,432
Trade Receivables	646	740	793	839	887
Cash & Equivalents	976	1,322	1,282	1,300	1,354
Other Current Assets	56.0	67.0	67.4	67.7	68.0
Total Assets	4,216	4,813	4,967	5,177	5,432
Long-Term Debt	2,742	2,963	3,363	3,763	4,163
Other Non-Current Liabilities	1,538	1,606	1,650	1,694	1,738
Short-Term Debt	81.0	629	629	629	629
Other Current Liabilities	1,463	1,561	1,654	1,744	1,842
Total Liabilities	5,824	6,759	7,296	7,830	8,372
Total Equity	(1,608)	(1,946)	(2,329)	(2,653)	(2,940)
Total Equity & Liabilities	4,216	4,813	4,967	5,177	5,432

Business Performance*

Return On Capital Employed	19.2%	26.2%	26.6%	28.1%	29.2%
Return On Equity	NM	NM	NM	NM	NM
Operating Margin	44.9%	47.1%	49.2%	50.6%	51.8%
Free Cash Flow (MM)	485	640	624	683	746

Quality of Earnings*

Cash Realization Ratio	1.26x	1.41x	1.30x	1.29x	1.28x
Asset Replacement Ratio	2.37x	3.78x	4.14x	4.04x	3.95x
Tax Rate	30.4%	25.7%	26.0%	26.0%	26.0%
Net Debt/Equity	NM	NM	NM	NM	NM
Interest Cover	7.02x	11.2x	8.00x	7.82x	7.70x

* For full definitions of iQmethodSM measures, see page 6.

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	-6.9x

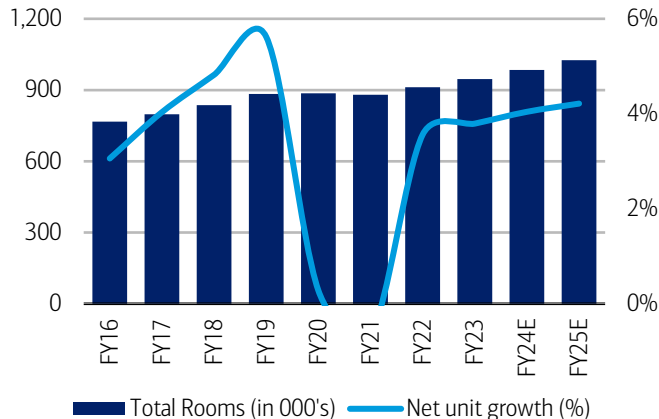
Key Changes

(US\$)	Previous	Current
Price Obj.	99.00	103.00
2024E EPS	4.42	4.39
2025E EPS	5.02	4.98
2026E EPS	5.72	5.66
2024E DPS	1.92	1.91

Changes to estimates

Exhibit 1: IHG system rooms and net unit growth (%)

We see 4% net system growth in FY24E

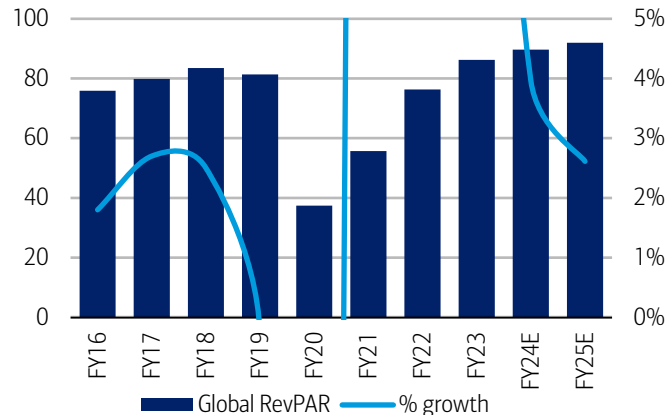


Source: BofA Global Research estimates, company report

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Exhibit 2: IHG RevPAR and growth rate (%)

We forecast RevPAR growth of 4% in 2024E

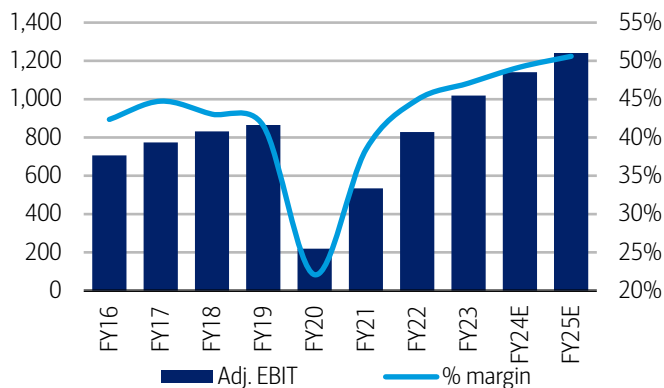


Source: BofA Global Research estimates, company report

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Exhibit 3: IHG adjusted EBIT and margin

We forecast 12% EBIT growth in 2024E

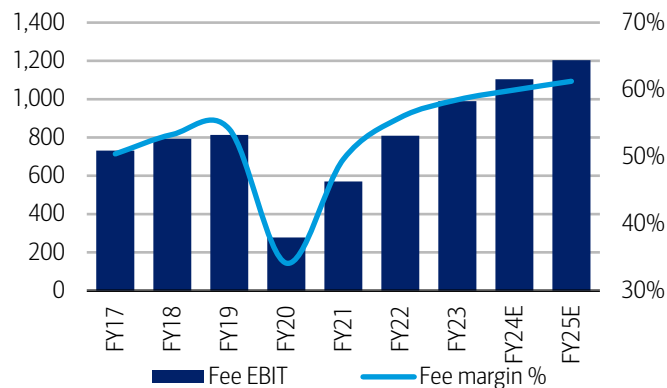


Source: BofA Global Research estimates, company report

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Exhibit 4: IHG Fee EBIT and margin

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

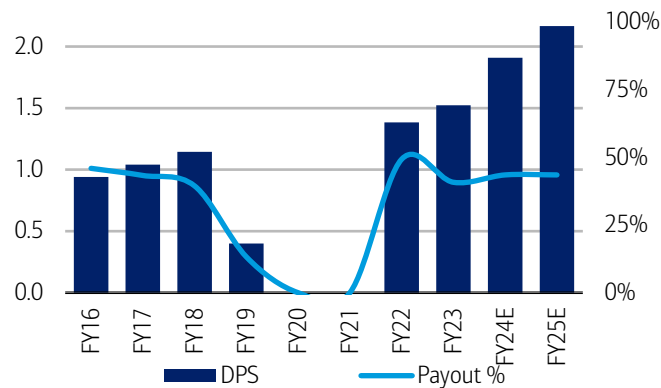


Source: BofA Global Research estimates, company report

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Exhibit 5: IHG dividend per share and payout ratio

We forecast DPS to increase to GBp1.9 in 2024E

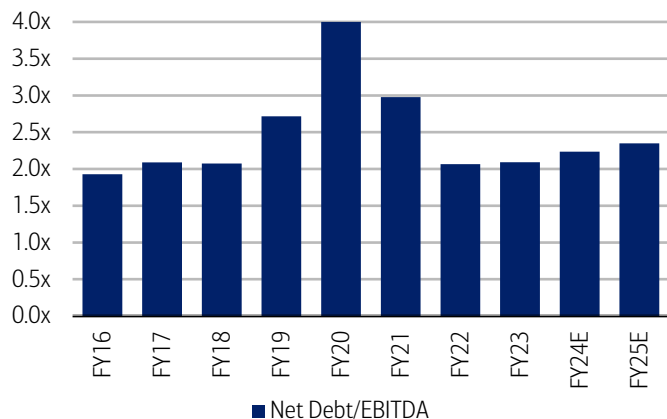


Source: BofA Global Research estimates, company report

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Exhibit 6: IHG ND/EBITDA

Leverage to remain below the 2.5-3x target



Source: BofA Global Research estimates, company report

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Exhibit 7: Changes to estimates

Our estimates are largely unchanged

	New			Old			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	2,320	2,453	2,595	2,304	2,437	2,578	0.7	0.6	0.7
EBITDA	1,213	1,317	1,425	1,212	1,316	1,424	0.1	0.1	0.1
% margin	52.3	53.7	54.9						
Adj EBIT	1,141	1,241	1,345	1,136	1,236	1,339	0.5	0.4	0.5
% margin	49.2	50.6	51.8						
Adj Net Income	711	770	833	708	764	823	0.4	0.8	1.3
% margin	30.6	31.4	32.1						
Adj. EPS	4.41	5.01	5.70	4.45	5.06	5.76	-0.7	-0.9	-1.1
DPS	1.91	2.17	2.46	1.92	2.19	2.49	-0.7	-0.9	-1.1

Source: BofA Global Research estimates

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Exhibit 8: IHG key valuation metrics

IHG is trading on 15.6x 2024E EV/EBITDA on our estimates

Year End 31st December (\$m)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EV							
Average / current share price (GBpp)	4,901	4,137	4,876	4,802	5,745	7,910	7,910
Share Price (USDc)	6,371	5,311	6,708	5,954	7,124	9,957	9,957
Shares outstanding	184	182	184	182	170	162	155
Equity value	11,723	9,666	12,343	10,837	12,110	16,132	15,400
Net debt	2,665	2,529	1,881	1,851	2,272	2,712	3,094
Pensions	96	103	92	66	66	66	66
Minorities	8	8	7	7	4	4	4
Associates	110	81	77	36	48	48	48
EV	14,382	12,225	14,246	12,725	14,404	18,866	18,516
Analytics							
EV/Revenue	6.9x	12.3x	10.2x	6.9x	6.7x	8.1x	7.5x
EV/EBITDA	14.7x	37.2x	22.5x	14.2x	13.3x	15.6x	14.1x
EV/EBIT	16.6x	55.8x	26.7x	15.4x	14.1x	16.5x	14.9x
PE	21.1x	169.6x	45.9x	21.2x	19.1x	22.7x	20.0x
Dividend yield	0.6%	0.0%	0.0%	2.3%	2.1%	1.9%	2.2%
FCF yield	3.3%	-0.1%	4.4%	4.5%	5.3%	3.9%	4.4%
ND/EBITDA	2.7x	7.7x	3.0x	2.1x	2.1x	2.2x	2.3x
ROIC (pre-tax)	30%	8%	22%	36%	44%	46%	48%
ROIC (after tax)	23%	5%	15%	26%	32%	33%	34%

Source: BofA Global Research estimates, company report

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Price objective basis & risk

Intercontinental Hotels Group plc (ICHGF / IHG)

We apply a 16x EV/EBITDA multiple to our 2024E estimates to derive our PO of GBp8200/(ADR\$103). Our target multiple is a discount to US-listed peers average of 17x 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
BUY				
	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
NEUTRAL				
	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
UNDERPERFORM				
	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

iQmethodSM 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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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 & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

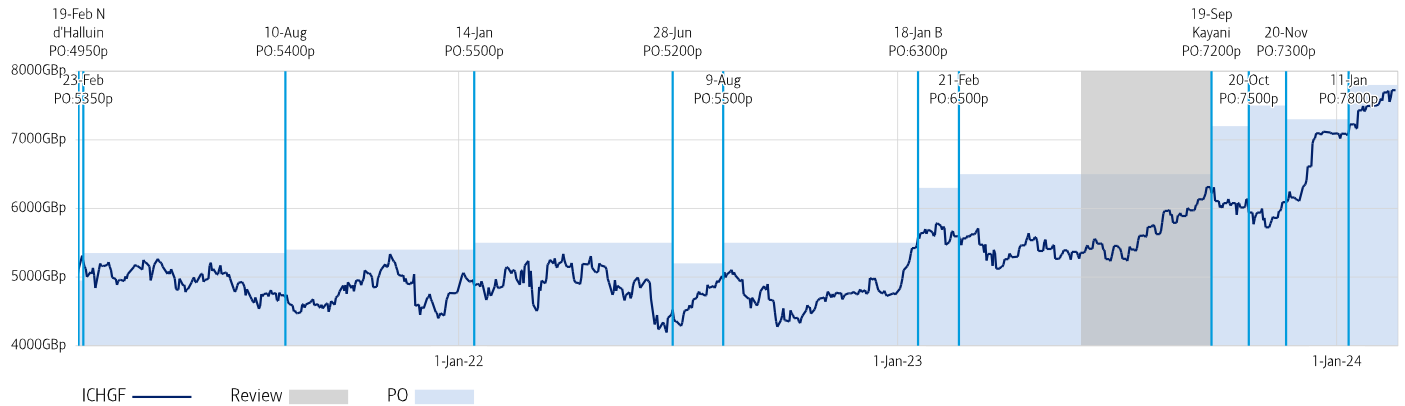
iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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Disclosures

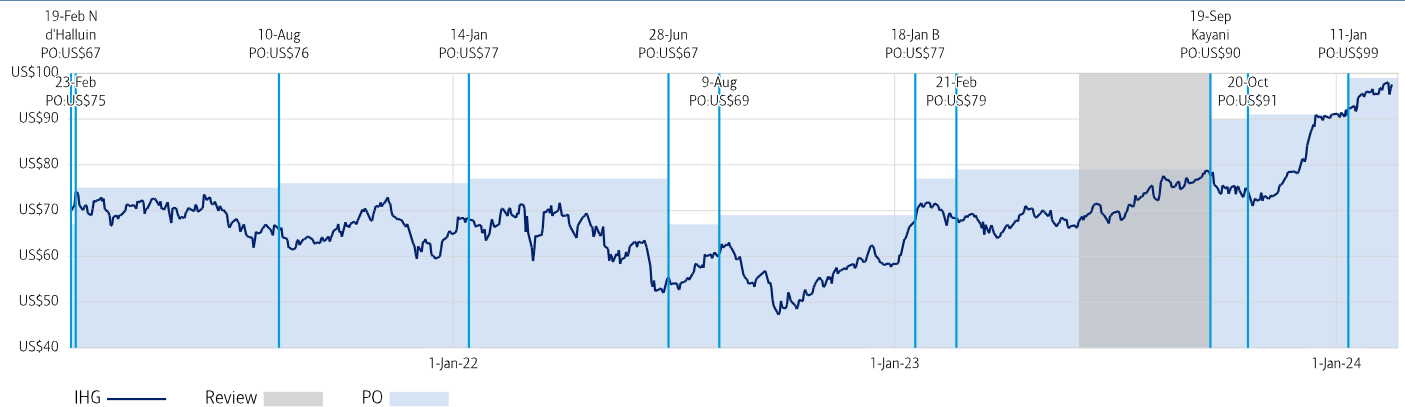
Important Disclosures

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



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.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{R1} 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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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

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