

## H World Group Limited

# 4Q preview: Expect EBITDA at RMB1.2bn, FY24 rev growth guide at MSD-HSD

Reiterate Rating: BUY | PO: 46.00 USD | Price: 36.04 USD

## 4Q23 preview: Forecast adj. EBITDA at RMB1,224mn

H World Group Limited (HTHT) is due to report 4Q23 results on 20 March (Wednesday) after HK market close and before US market open. Based on 4Q23 preliminary results, overall domestic blended RevPAR recovered to 120% of 4Q19 level, at the higher end of mgmt. guided range of 115-120% (link). Thus, we expect 4Q23 revenue to grow at 45% YoY to RMB5,385mn and at the high-end of mgmt. original guidance of 41%-45%. We estimate adj. EBITDA of RMB1,224mn in 4Q23 (vs. headline adj. EBITDA of RMB2,186mn in 3Q23), assuming domestic EBITDA of RMB1,174mn and DH's EBITDA of RMB50mn. We assume 4Q23E adj. EBITDA margins to be 23%, down from 35% in 3Q23. We assume EBITDA margins to decline QoQ due to operating deleverage from -14% QoQ revenue decline and potentially higher costs due to bonus accruals in 4Q23 on better-than-expected operating performances in FY23.

## FY24 guidance: Expect rev growth guide at MSD-HSD

Another focus of 4Q23 result would be the revenue and hotel openings guidance for FY24. We expect management to guide FY24 revenue to grow at MSD-HSD level based on LSD blended RevPAR growth assumption (vs. our estimate of 6% revenue growth and flat RevPAR growth). Regarding hotel openings, we expect management to guide gross openings at 1700-1800 (vs. 1,641 in FY23) and closures of 600 (vs. 789 in FY23). This compares to our estimates of 1,800 gross openings and 600 hotel closures.

## Reit. Buy; Cut PO to US\$46 to reflect peers de-rating

We cut our FY23E/FY24E EBITDA by -0.4%/-3% to reflect better 4Q23 operating data and higher costs base associated with the better performances. We cut our PO by 10% to US\$46 from US\$51 as we cut our target multiple from 15x to 14x to reflect consumer peer-de-rating since 2H23. Our new PO of US\$46 implies 24x 2024E P/E. We believe our target multiple can be justified by 16%/22% EBITDA/earnings growth in 2025E. Reiterate Buy.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
Net Income (Adjusted - CNY mn)	(260.00)	(1,375)	4,148	4,342	5,292
EPS	(0.129)	(0.647)	1.72	1.80	2.19
EPS Change (YoY)	85.4%	-402.7%	NM	4.4%	21.9%
Dividend / Share	0	0.210	0.884	0.809	0.986
Free Cash Flow / Share (CNY)	-1.07	0.916	14.87	17.01	19.75
Common EPS (HK\$)	(0.083)	(0.442)	1.30	1.36	1.66
Common Dividend / Share (HK\$)	0	0.143	0.668	0.613	0.747
<b>Valuation (Dec)</b>					
P/E	NM	NM	20.9x	20.1x	16.5x
Dividend Yield	0%	0.6%	2.5%	2.2%	2.7%
Adjusted EV/EBITDA	59.20x	161.91x	15.97x	13.88x	11.39x
Free Cash Flow Yield*	-0.403%	0.345%	5.74%	6.57%	7.63%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

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**Refer to important disclosures on page 5 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.**

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12 March 2024

### Equity

#### Key Changes

(CNY)	Previous	Current
Price Obj.	US\$51.00	US\$46.00
2023E EBITDA (m)	6,401.4	6,376.7
2024E EBITDA (m)	7,287.0	7,086.2
2025E EBITDA (m)	8,719.3	8,247.2

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### Stock Data

Price (ADR / Common)	36.04 USD / 29.30 HKD
Price Objective	46.00 USD / 35.70 HKD
Date Established	12-Mar-2024 / 12-Mar-2024
Investment Opinion	C-1-9 / C-1-9
52-Week Range	30.20 USD-50.43 USD
Market Value (mn)	11,489 USD
Shares Outstanding (mn)	318.8 / 3,187.7
Average Daily Value (mn)	74.18 USD
Free Float	27.0%
BofA Ticker / Exchange	HTHT / NAS
BofA Ticker / Exchange	XHUAF / HKG
Bloomberg / Reuters	HTHT US / HTHT.OQ
ROE (2023E)	38.7%
Net Dbt to Eqty (Dec-2022A)	72.0%

HTHT: H World

RevPAR: Revenue per available room

DH: Deutsche Hospitality

MSD: Mid single digit

HSD: High single digit

# iQprofile<sup>SM</sup> H World Group Limited

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(CNY Millions)					
Sales	12,787	13,862	21,683	23,062	24,758
Gross Profit	1,501	1,602	7,676	8,509	9,791
Sell General & Admin Expense	(2,188)	(2,288)	(3,156)	(3,279)	(3,297)
Operating Profit	164	(294)	4,747	5,443	6,670
Net Interest & Other Income	(632)	(1,348)	383	46	99
Associates	NA	NA	NA	NA	NA
Pretax Income	(468)	(1,642)	5,129	5,488	6,769
Tax (expense) / Benefit	(12)	(207)	(1,120)	(1,342)	(1,662)
Net Income (Adjusted)	(260)	(1,375)	4,148	4,342	5,292
Average Fully Diluted Shares Outstanding	311	311	336	336	336

## Key Cash Flow Statement Data

Net Income	(465)	(1,821)	3,960	4,126	5,081
Depreciation & Amortization	1,413	1,414	1,348	1,340	1,280
Change in Working Capital	(92)	166	(384)	57	30
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	486	1,579	816	901	904
Cash Flow from Operations	1,342	1,338	5,740	6,423	7,296
Capital Expenditure	(1,675)	(1,053)	(1,000)	(1,000)	(1,000)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	273	531	1,039	0	0
Cash Flow from Investing	(1,402)	(522)	39	(1,000)	(1,000)
Shares Issue / (Repurchase)	1	0	1,973	6	6
Cost of Dividends Paid	0	(416)	(2,129)	(1,954)	(2,381)
Cash Flow from Financing	(1,801)	(1,394)	(4,215)	(1,948)	(2,375)
Free Cash Flow	(333)	285	4,740	5,423	6,296
Net Debt	4,681	6,340	717	(2,759)	(6,679)
Change in Net Debt	161	(399)	(5,623)	(3,475)	(3,920)

## Key Balance Sheet Data

Property, Plant & Equipment	7,056	6,784	6,470	6,164	5,917
Other Non-Current Assets	46,660	45,545	45,995	45,972	45,972
Trade Receivables	521	1,113	1,741	1,852	1,988
Cash & Equivalents	5,116	3,583	5,147	8,623	12,543
Other Current Assets	3,916	4,482	3,558	3,632	3,719
Total Assets	63,269	61,507	62,911	66,242	70,139
Long-Term Debt	3,565	6,635	1,065	1,065	1,065
Other Non-Current Liabilities	33,381	32,923	33,526	34,141	34,768
Short-Term Debt	6,232	3,288	4,799	4,799	4,799
Other Current Liabilities	9,047	9,858	10,790	11,133	11,511
Total Liabilities	52,225	52,704	50,180	51,138	52,144
Total Equity	11,044	8,803	12,731	15,104	17,996
Total Equity & Liabilities	63,269	61,507	62,911	66,242	70,139

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	0.4%	-1.2%	7.9%	8.4%	9.6%
Return On Equity	-2.3%	-14.0%	38.7%	31.2%	32.0%
Operating Margin	1.3%	-2.1%	21.9%	23.6%	26.9%
EBITDA Margin	12.3%	4.4%	29.4%	30.7%	33.3%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	NM	NM	1.4x	1.5x	1.4x
Asset Replacement Ratio	1.2x	0.7x	0.7x	0.7x	0.8x
Tax Rate (Reported)	NM	NM	21.8%	24.5%	24.6%
Net Debt-to-Equity Ratio	42.4%	72.0%	5.6%	-18.3%	-37.1%
Interest Cover	0.4x	-2.0x	13.3x	20.5x	24.9x

## Key Metrics

Analyst Exchange Rate	6.48	6.83	7.56	7.58	7.58
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\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Hotels

## Company Description

H World Group (formerly Huazhu Group), a leading and fast-growing hotel chain based in China, was founded in 2005. It operates 22 brands across the upscale, midscale and economy segments. H World Group has 7,126 hotels in operation as at June 2021.

## Investment Rationale

We have a Buy rating on H World Group on three reasons: i) upside risk to company revenue/RevPAR guidance due to better than expected recent RevPAR trend, ii) re-rating potential in the early stage of recovery, iii) underperformance to hotel peers unjustified, in our view, given its superior growth and execution.

## Stock Data

Shares / Common	0.10
Price to Book Value	6.5x

## Key Changes

(CNY)	Previous	Current
Price Obj.	HK\$39.50	HK\$35.70

## Price objective basis & risk

### H World Group Limited (HTHT / XHUAF)

Our price objective of US\$46/HK\$35.7 is based on 14x 2024E EV/EBITDA, which is in-line with its long-term average due to similar projected growth. Downside risks to our price objective are 1) inflation risk, 2) limited operating history, 3) slower-than-expected expansion of the hotel network, and 4) inability to secure suitable locations.

## Analyst Certification

I, Ronald Leung, CFA, 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.

### APR - Gaming & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Aristocrat Leisure	ARLUF	ALL AU	Sriharsh Singh
	Atour Lifestyle	ATAT	ATAT US	Ronald Leung, CFA
	Bloomerry Resorts	BLBRF	BLOOM PM	Joahna See-Soriano
	Central Plaza Hotel	XWTF	CENEL TB	Charti Phrawphraikul
	China Travel International	CTVIF	308 HK	Ronald Leung, CFA
	Galaxy Entertainment	GXYEF	27 HK	Karl Choi, CFA
	H World Group Limited	HTHT	HTHT US	Ronald Leung, CFA
	H World Group Limited	XHUAF	1179 HK	Ronald Leung, CFA
	Lottery Corp	LTRCF	TLC AU	Ware Kuo
	MGM China	MCHVF	2282 HK	Karl Choi, CFA
	Minor International	MINOF	MINT TB	Charti Phrawphraikul
	NagaCorp Ltd.	NGCRF	3918 HK	Ronald Leung, CFA
	Sands China Ltd.	SCHYF	1928 HK	Karl Choi, CFA
	Shangri-La Asia	SHALF	69 HK	Ronald Leung, CFA
	Songcheng Performance	XMUGF	300144 CH	Ronald Leung, CFA
	The Erawan Group	XCZVF	ERW TB	Charti Phrawphraikul
<b>NEUTRAL</b>				
	China Tourism Group Duty Free	XCTVF	601888 CH	Ronald Leung, CFA
	Genting Singapore	GIGNF	GENS SP	Ronald Leung, CFA
	Melco Resorts	MLCO	MLCO US	Karl Choi, CFA
	Wynn Macau, Limited	WYNMF	1128 HK	Karl Choi, CFA
<b>UNDERPERFORM</b>				
	BTG Hotels	XYGTF	600258 CH	Ronald Leung, CFA
	China CYTS Tours Holding	XCMWF	600138 CH	Ronald Leung, CFA
	Genting Malaysia	GMALF	GENM MK	Ronald Leung, CFA
	Shanghai Jin Jiang Intl Hotels Dev Co.	XGCQF	600754 CH	Ronald Leung, CFA
	SJM Holdings Limited	SJMHF	880 HK	Karl Choi, CFA
	Wangfujing Group	BJNGF	600859 CH	Ronald Leung, CFA
<b>RVW</b>				
	Kangwon Land	KGWNF	035250 KS	Susie Lee
	Paradise	PDCLF	034230 KS	Susie Lee

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

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### 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

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### 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

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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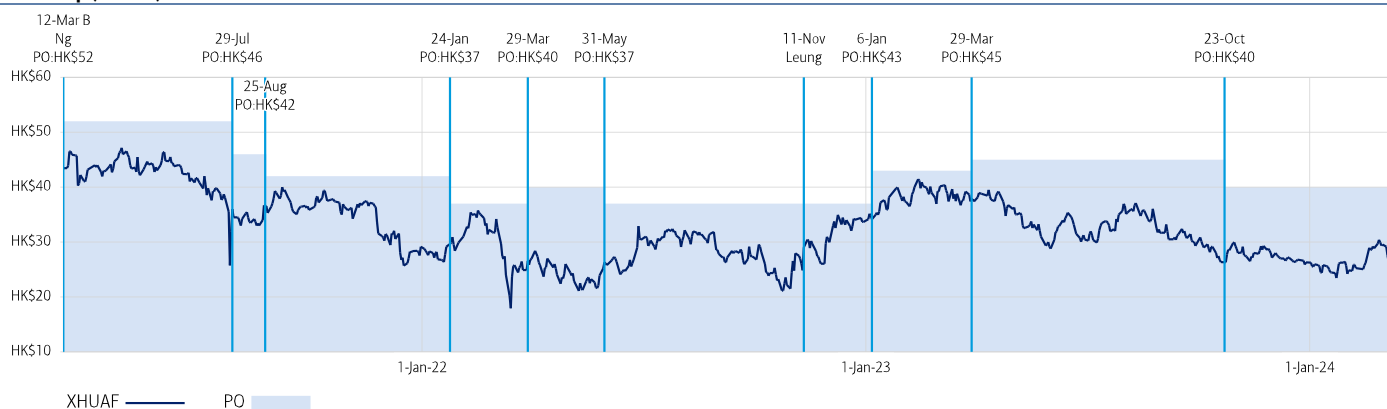
### H World Group (HTHT) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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.

### H World Group (XHUAF) 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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