

Intercontinental Hotels Group plc

BofA Business Services, Leisure and Transport Conference: What did we learn?

Reiterate Rating: BUY | PO: 9,000 GBp | Price: 8,218 GBp

A confident message

We hosted CEO of IHG Elie Malouf at the BofA European Business Services, Leisure, and Transport conference in London on 11-12 March. We increase IHG's PO to GBp9,000 (ADR \$116) from GBp8,200 (ADR \$103) as we roll our PO valuation to 2025E estimates (target multiple of 16x EV/EBITDA unchanged). The key takeaways from the meeting were:

Strong underlying growth drivers: IHG expects a tailwind from further recovery from Asia and group travel. The management sees strong underlying structural growth drivers for travel including GDP and middle-class growth. Middle East, India, Southeast Asia and China have a huge growth potential while North America and Europe are expected to grow at a relatively slower pace given their higher base and maturity.

New builds are picking up: IHG is optimistic about NUG in China and India, while US and Europe should see smaller growth given their state of development. IHG has 4% of rooms globally and 10% of the pipeline, which shows the market share gain from independents and other platforms. In EMEAA, the new construction market is lagging but is expected to accelerate. New builds are already picking up as interest rates have flattened out and started to decline. New build signings increased in 2023 for IHG and the industry.

Credit cards: The credit card opportunity is driven by the relaunch of IHG's loyalty program and by the growth of the Luxury & Lifestyle portfolio. The loyalty program is seeing a good trajectory, with new accounts up 50% last year. As the current credit card agreement is ending in 2025, a new credit card agreement could potentially accelerate credit card contribution.

Capital allocation: IHG emphasized its commitment to a recurring share buyback. IHG's growth algorithm does not assume any M&A. IHG believes it does not need M&A but is open to selective and accretive M&A.

Estimates (Dec) (USD)	2022A	2023A	2024E	2025E	2026E
EPS (Adjusted Diluted)	2.81	3.74	4.37	4.94	5.61
EPS Change (YoY)	92.1%	33.0%	17.1%	12.8%	13.7%
Dividend / Share	1.38	1.52	1.79	2.02	2.30
ADR EPS (Adjusted Diluted - US\$)	2.81	3.74	4.37	4.94	5.61
ADR Dividend / Share (US\$)	1.38	1.52	1.79	2.02	2.30
Valuation (Dec)					
P/E	35.2x	28.0x	24.0x	21.3x	18.7x
Dividend Yield	1.32%	1.45%	1.70%	1.92%	2.19%
EV / EBITDA*	22.3x	18.4x	16.4x	15.2x	14.1x
Free Cash Flow Yield*	2.55%	3.60%	3.71%	4.22%	4.84%

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

14 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	8,200.00p	9,000.00p
2024E EPS	4.39	4.37
2025E EPS	4.98	4.94
2026E EPS	5.66	5.61
2024E DPS	1.91	1.79

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Stock Data

Price (Common / ADR)	8,218 GBp / 108.42 USD
Price Objective	9,000 GBp / 116.00 USD
Date Established	14-Mar-2024 / 14-Mar-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	5,086 GBp-8,790 GBp
Market Value (mn)	13,505 GBP
Shares Outstanding (mn)	164.3 / 164.3
Average Daily Value (mn)	37.20 USD
Free Float	94.7%
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

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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: 14 March 2024 01:30AM EDT

iQprofileSM Intercontinental Hotels Group plc

Key Income Statement Data (Dec)

(US\$ Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	1,843	2,164	2,309	2,453	2,594
EBITDA Adjusted	896	1,086	1,215	1,313	1,421
Depreciation & Amortization	(68.0)	(67.0)	(71.5)	(75.9)	(80.3)
EBIT Adjusted	828	1,019	1,144	1,237	1,341
Net Interest & Other Income	(288)	(9.00)	(128)	(120)	(135)
Tax Expense / Benefit	(164)	(260)	(264)	(291)	(314)
Net Income (Adjusted)	511	635	709	763	827
Average Fully Diluted Shares Outstanding	182	170	162	155	147

Key Cash Flow Statement Data

Net Income (Reported)	375	750	752	827	893
Depreciation & Amortization	68.0	67.0	71.5	75.9	80.3
Change in Working Capital	101	79.0	15.0	17.2	19.4
Deferred Taxation Charge	0	0	0	0	0
Other CFO	102	(3.00)	86.6	69.0	69.7
Cash Flow from Operations	646	893	925	989	1,062
Capital Expenditure	(161)	(253)	(296)	(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)	(296)	(307)	(317)
Share Issue / (Repurchase)	(483)	(798)	(800)	(750)	(750)
Cost of Dividends Paid	(233)	(248)	(259)	(291)	(313)
Increase (decrease) debt	(441)	769	400	400	400
Other CFF	686	(792)	(405)	(406)	(407)
Cash Flow from Financing	(471)	(1,069)	(1,064)	(1,047)	(1,070)
Total Cash Flow (CFO + CFI + CFF)	30.0	(421)	(435)	(365)	(325)
FX and other changes to cash	(504)	767	400	400	400
Change in Cash	(474)	346	(35.1)	35.5	75.3
Change in Net Debt	33.0	423	435	365	325
Net Debt	1,847	2,270	2,705	3,070	3,394

Key Balance Sheet Data

Property, Plant & Equipment	157	153	293	439	590
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	790	839	887
Cash & Equivalents	976	1,322	1,287	1,322	1,398
Other Current Assets	56.0	67.0	67.3	67.7	68.0
Total Assets	4,216	4,813	4,967	5,198	5,474
Long-Term Debt	2,742	2,963	3,363	3,763	4,163
Other Non-Current Liabilities	1,538	1,606	1,656	1,706	1,756
Short-Term Debt	81.0	629	629	629	629
Other Current Liabilities	1,463	1,561	1,651	1,744	1,841
Total Liabilities	5,824	6,759	7,299	7,842	8,389
Total Equity	(1,608)	(1,946)	(2,331)	(2,644)	(2,915)
Total Equity & Liabilities	4,216	4,813	4,967	5,198	5,474

Business Performance*

Return On Capital Employed	19.2%	26.2%	26.7%	27.9%	28.8%
Return On Equity	NM	NM	NM	NM	NM
Operating Margin	44.9%	47.1%	49.5%	50.5%	51.7%
Free Cash Flow (MM)	485	640	629	682	745

Quality of Earnings*

Cash Realization Ratio	1.26x	1.41x	1.31x	1.30x	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	8.02x	7.80x	7.68x

* 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	-7.3x

Key Changes

(US\$)	Previous	Current
Price Obj.	103.00	116.00
2024E EPS	4.39	4.37
2025E EPS	4.98	4.94
2026E EPS	5.66	5.61
2024E DPS	1.91	1.79

Changes to estimates

Exhibit 1: BofA vs. consensus estimates

Our 2024E EBIT estimate is 3% above consensus

	BofA Est.		Consensus		% Difference	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
RevPAR YoY (%)	4.5	2.6	3.7	2.7	0.8	-0.1
Net System Size Growth (%)	4.0	4.2	4.1	4.1	-0.1	0.1
Reportable Segments data						
Revenue (\$m)	2,309	2,453	2,303	2,434	0.3	0.8
Operating Profit (\$m)	1,144	1,237	1,109	1,192	3.1	3.8
Adjusted EPS (cents)	440	497	424	476	3.8	4.4
Ordinary DPS (cents)	179	202	175	194	2.5	4.3

Source: BofA Global Research estimates, company report

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Exhibit 2: Old vs. new estimates

Our estimates are largely unchanged

	New			Old			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	2,309	2,453	2,594	2,320	2,453	2,595	-0.5	0.0	0.0
EBITDA	1,215	1,313	1,421	1,213	1,317	1,425	0.2	-0.3	-0.3
% margin	52.6	53.6	54.8						
Adj EBIT	1,144	1,237	1,341	1,141	1,241	1,345	0.2	-0.3	-0.3
% margin	49.5	50.5	51.7						
Adj Net Income	709	763	827	711	770	833	-0.3	-0.9	-0.8
% margin	30.7	31.1	31.9						
Adj. EPS	4.40	4.97	5.65	4.41	5.01	5.70	-0.3	-0.9	-0.8
DPS	1.79	2.02	2.30	1.91	2.17	2.46	-6.1	-6.6	-6.5

Source: BofA Global Research estimates

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Exhibit 3: IHG valuation summary

IHG trades on 14.7x EV/EBITDA on our 2025E estimates

Year End 31st December (\$m)	FY19	FY22	FY23	FY24E	FY25E
EV					
Average / current share price (GBPp)	4,901	4,802	5,745	8,218	8,218
Share Price (USDc)	6,371	5,954	7,124	10,517	10,517
Shares outstanding	184	182	170	162	155
Equity value	11,723	10,837	12,110	17,040	16,266
Net debt	2,665	1,851	2,272	2,707	3,072
Pensions	96	66	66	66	66
Minorities	8	7	4	4	4
Associates	110	36	48	48	48
EV	14,382	12,725	14,404	19,769	19,360
Analytics					
EV/Revenue	6.9x	6.9x	6.7x	8.6x	7.9x
EV/EBITDA	14.7x	14.2x	13.3x	16.3x	14.7x
EV/EBIT	16.6x	15.4x	14.1x	17.3x	15.6x
PE	21.1x	21.2x	19.1x	24.0x	21.3x
Dividend yield	0.6%	2.3%	2.1%	1.7%	1.9%
FCF yield	3.3%	4.5%	5.3%	3.7%	4.2%
ND/EBITDA	2.7x	2.1x	2.1x	2.2x	2.3x
ROIC (pre-tax)	30%	36%	44%	46%	47%
ROIC (after tax)	23%	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 2025E estimates to derive our PO of GBp9000/(ADR\$116). 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	NXPGE	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

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 & 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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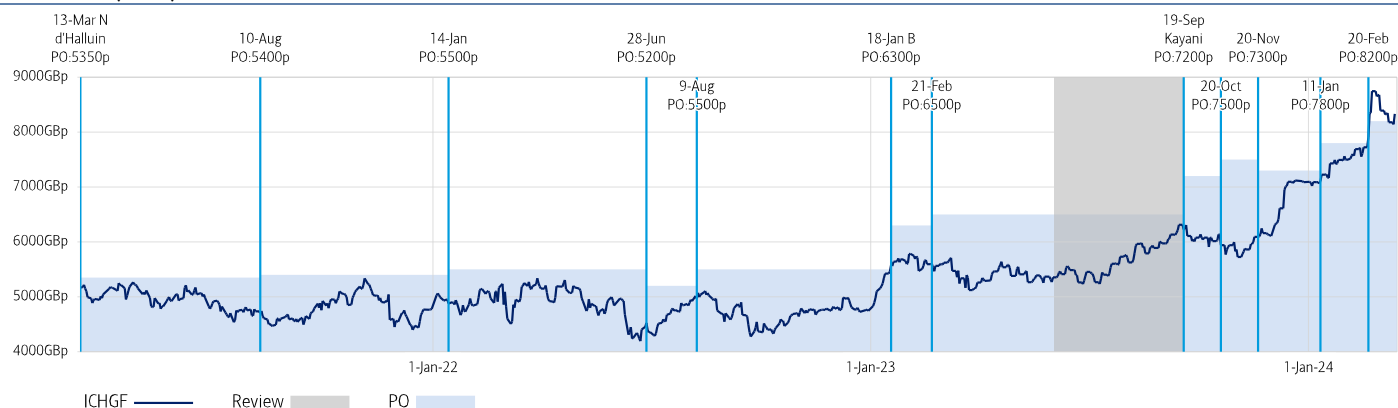
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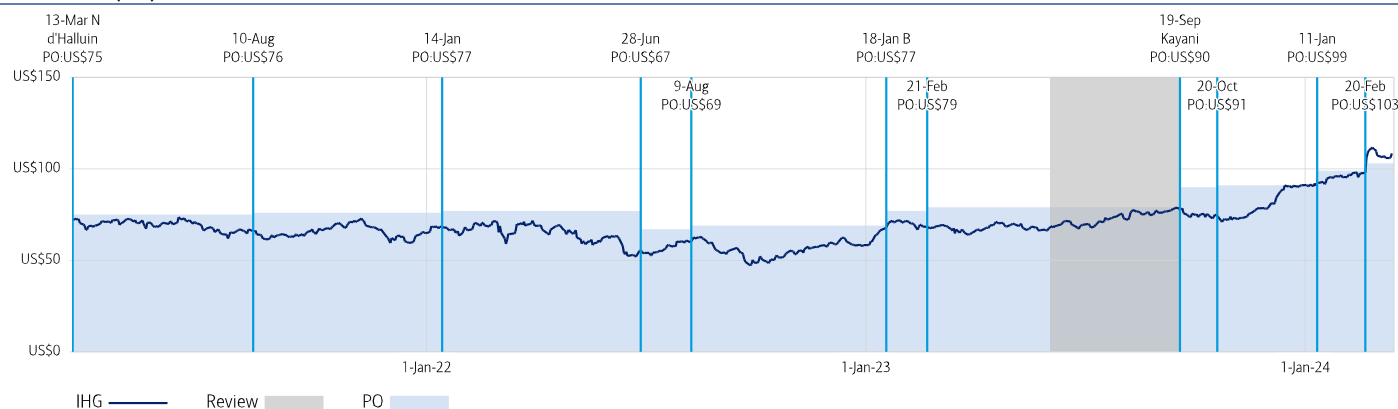
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Intercont'l Hotels (ICHGF) Price Chart



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 ^{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.

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

^{R2}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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