Hotels - Hong Kong/China

YA 2024: Cyclical slowdown vs. structural drivers; Reiterate Buy on HTHT/ATAT

Estimate Change

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Equity
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Key concern: Will RevPAR slow down and by how much?

Macro weakness and potential RevPAR slowdown remains to be the biggest concern for investors. 2H23 RevPAR has been holding up better than feared but we believe investors need to see a few more quarters of resilient RevPAR before re-gaining confidence to the sector. We forecast blended RevPAR growth for HTHT to be flat YoY in 2024E, as we expect mix/product upgrades and market share gains to largely offset the industry RevPAR decline caused by the easing of pent-up leisure travel demand and higher hotel supply. In terms of RevPAR sensitivity for HTHT, 1% change in RevPAR would lead to 1.9% EBITDA/2.3% earnings change. We forecast ATAT's RevPAR growth in 2024E to be flat as well. There is no mix upgrade benefit but we believe ATAT also has less exposure to leisure travel which could decline off a high base in 2023.

RevPAR aside, what is the investment story for hotels?

Given the focus on RevPAR risks, we believe there are several structural drivers that the market may not fully appreciate now. We summarize as below:

#1) Asset-lite model with strong FCF

Leading hotel operators have gradually evolved from asset-heavy L/O-focused model to asset-lite F/M-focused model with strong FCF generation. Given the strong FCF, there is more potential for them to increase capital return. For example, HTHT recently announced a maiden dividend policy of 45%.

#2) Visible unit growth potential for leading operators

We believe leading hotel operators have visible unit growth potential through low-tier cities penetration and consolidation by branded operators. While the market is increasingly looking for firms with foreign expansion potential, we believe leading operators still have room to grow domestically as the long development horizon for physical hotels suggests a slower penetration nationwide in the past.

#3) More stable industry supply growth

We estimate nominal supply growth at 6-7% in 2024, which would be below the 8-11% average seen during the 2017-19 cycle, based on Inntie industry data and company data forecast. We believe the high supply growth due to low entry barrier in the past amplifies the RevPAR cycle. As we expect supply growth to be more stable going forward given a higher base and higher entry barrier for mid to upscale hotels, we expect RevPAR volatility to decline over time.

Increasing divergence between the best & the average

We reiterate Buy on HTHT and ATAT given their better than class execution and growth prospect. We have seen increasing divergence between the best (HTHT/ATAT) and the average branded operators in the hotel space and we expect this trend to continue.

Exhibit 1: Rating and PO summary

Prefer HTHT and ATAT

	Rating	PO	Upside Pot'l
HTHT	Buy	51.0	63%
ATAT	Buy	25.0	47%

Source: BofA Global Research estimates, company report

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RevPAR: Revenue per available room

L/O: leased and operated

F/M: franchised and manachised

HSD: high-single-digit

HTHT: H World

BTG: hotels

ATAT: Atour Lifestyle

FCF: Free cash flow

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Key concern: Will RevPAR slowdown and by how much

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Exhibit 2: Summary of RevPAR assumptions
We forecast flat RevPAR growth in 2024

	2023 recovery	2024 YoY
HTHT	121%	0%
ATAT	115%	0%

Source: BofA Global Research estimates, company report

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HTHT: Forecast RevPAR to be flat in 2024E

We forecast HTHT's RevPAR to be flat as we expect company-specific drivers such as mix/product upgrades and market share gains to largely offset the industry RevPAR decline caused by the easing of pent-up leisure travel demand and increasing hotel supply.

Company-specific drivers

- Mix and product upgrades
- Penetration into low-tier cities

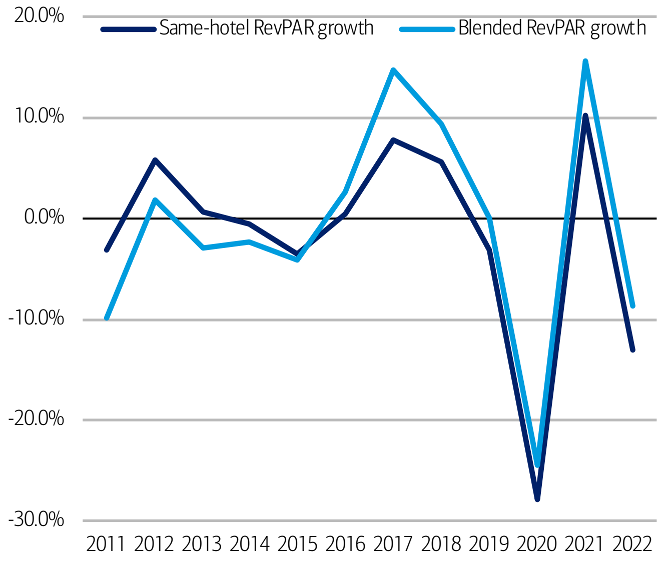
Industry drivers

- Ease of pent-up leisure travel demand
- Steady business travel recovery
- Increasing inbound visitations
- Increase in hotel supply

Company-specific drivers

One of the methods to estimate the RevPAR impact of company-specific drivers of RevPAR growth for HTHT is to calculate the difference between blended RevPAR growth and same-hotel RevPAR growth. The difference would be the RevPAR impact of new hotels, including mix upgrades, product upgrades, and increasing mix of low-tier cities. In 2016-22, the difference between same-hotel and blended RevPAR growth was 2.3-6.9%. In our view, the impact of such a difference would gradually decline over time as the hotel inventory growth would slow down off a higher base.

Exhibit 3: HTHT's annual blended and same-hotel RevPAR growth
Blended RevPAR growth outperformed same-hotel RevPAR growth



Source: Company data

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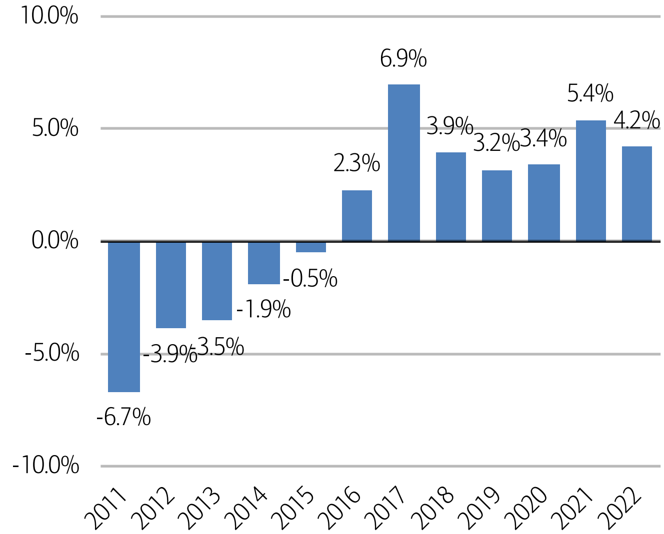
Exhibit 4: HTHT's blended RevPAR growth minus same-hotel RevPAR growth
The outperformance of blended RevPAR growth over same-hotel RevPAR growth was due to product and mix upgrades



Source: Company data

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Mix upgrade (to mid and upscale hotels)

We define mix upgrade as the increasing mix of mid to upscale hotels among HTHT's portfolio. The mix of mid and upscale hotels increased from 8% in 2013 to 41% in 2023. As mid and upscale hotels RevPAR is about 60% higher than economy hotels, an increase in the mix of mid and upscale hotels mix by 3% in 2022 would result in an estimated 2% RevPAR uplift impact.

Exhibit 5: Estimated impact of mix upgrade
We estimate the impact of mix upgrade to mid and upscale hotels to be 2.0% in 2022

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Number of hotels										
Economy	1,309	1,819	2,453	2,813	2,974	2,891	3,485	4,362	4,772	4,930
Mid and upscale hotels	116	176	310	456	772	1,338	2,133	2,307	2,934	3,481
Total	1,425	1,995	2,763	3,269	3,746	4,229	5,618	6,669	7,706	8,411
% mix										
Economy	92%	91%	89%	86%	79%	68%	62%	65%	62%	59%
Mid and upscale hotels	8%	9%	11%	14%	21%	32%	38%	35%	38%	41%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Change in mid and upscale mix (i)		1%	2%	3%	7%	11%	6%	-3%	3%	3%
Same-hotel RevPAR										
Economy		164	152	146	158	168	164	121	138	123
Mid and upscale hotels		275	246	246	264	262	261	198	221	196
Total		169	159	158	173	189	194	148	172	156
Differences in RevPAR (ii)		68%	62%	68%	67%	56%	59%	64%	60%	59%
Estimated mix upgrade impact (i) * (ii)			1.5%	1.9%	4.5%	6.2%	3.7%	-2.1%	2.1%	2.0%

Source: BofA Global Research estimates, company report

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Product upgrade

Product upgrade is one of the key RevPAR growth drivers for the economy and mid/upscale segments. HTHT achieved product upgrades through two initiatives in the past: i) removing low-quality hotels such as economy soft/Hanting 1.0 from the system through closures or conversions, and ii) launching of new product versions to replace older versions. For example, it launched its first Hanting 3.5 in 2020 to drive RevPAR growth for the product. In the midscale segment, there were also various product upgrades. For example, it launched Orange 3.0 and Ji hotel 5.0 this year. Orange 3.0 product has been successful as it has received good response. Since the opening of first

Orange 3.0 in Tianjin in May and national promotion of the product since July, it has recorded 100+ hotel sign-ups by Nov.

We estimate the impact of closures for economy soft/Hanting 1.0 hotel in 2020-23 to be 1.8-2.1% to overall RevPAR.

In terms of benefits from new product versions, it is hard to estimate because the company does not disclose the number of different versions of hotels. If we estimate the net hotel growth to be 10% and half of that would be new product versions, the mix of new production versions can increase by 5%. If the new products' RevPAR is 20% above the average, it could lead to 0.4% RevPAR uplift.

Exhibit 6: Estimated impact of removal of low quality economy soft/Hanting 1.0 hotels

We estimate the positive impact from product upgrades to be 1.8-2.1% in 2021-23 YTD

	Calculation	2020	2021	2022	3Q23
Mix as % of total HTHT's hotel					
Economy soft + Hanting 1.0	(i)	25.9%	19.3%	13.4%	8.2%
Economy hotels as % of total	(ii)	65%	62%	59%	55%
Mix as % of overall economy segment					
Economy soft + Hanting 1.0	(iii) = (i) / (iii)	39.6%	31.2%	22.9%	14.8%
Change in mix (YoY)					
Economy soft + Hanting 1.0	(iv)		-8.4%	-8.3%	-8.0%
Estimated RevPAR differences					
Economy soft/Hanting 1.0 vs. average economy segment	(v)		-40%	-40%	-40%
Estimated RevPAR impact within the economy segment	(vi) = (v) * (iv)		3.4%	3.3%	3.2%
Estimated RevPAR impact to overall RevPAR	(vii) = (vi) * (ii)		2.1%	1.9%	1.8%

Source: BofA Global Research estimates, company report

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Increasing mix of low-tier cities

The increasing mix of low-tier cities hotels for HTHT would be a drag to the overall RevPAR growth. HTHT's tier-1 hotel mix declined from 21% in 2020 to 18% in 3Q23, while tier-3 or below hotels mix increased from 38% in 2020 to 40% in 3Q23. If we assume tier-3 or below cities' RevPAR to be 80% of tier-1/2 level, the RevPAR drag is estimated to be 0.2-0.9% in 2021-23 (YTD to Sep).

Exhibit 7: Estimated impact of increasing mix of low tier cities

We estimate the drag of increasing mix of low-tier cities to be 0.4-0.9% in 2021-23 YTD

	2020	2021	2022	3Q23
Tier 1 and 2	63%	63%	62%	60%
Tier 3 and below	38%	37%	38%	40%
Tier 1 & 2 (set 100 as base for Tier 1&2)	100	100	100	100
Tier 3 and below	80	80	80	80
Blended RevPAR (set 100 as base for Tier 1 and 2)	93.4	92.6	92.4	92.0
Impact of RevPAR drag		-0.9%	-0.2%	-0.4%

Source: BofA Global Research estimates, company report

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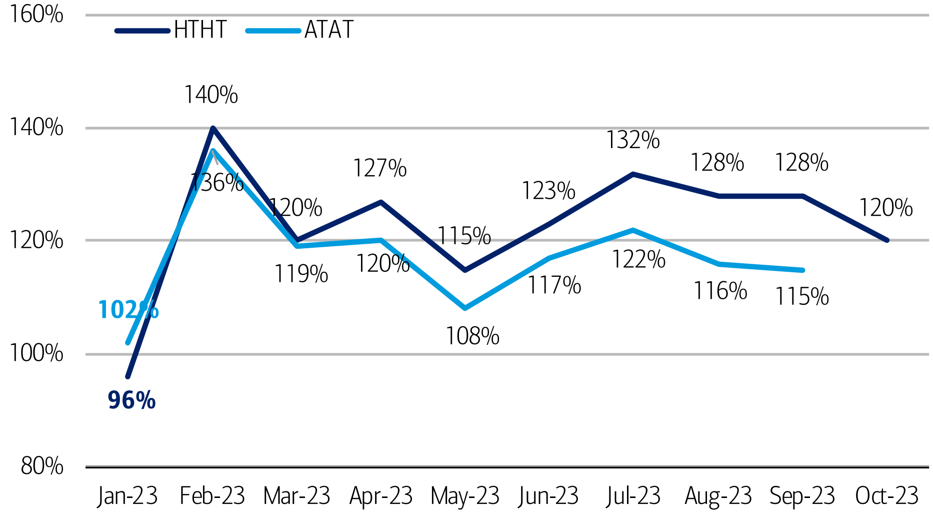
Industry drivers

Lapse of pent-up leisure travel demand

We believe there was a release of pent-up leisure travel demand in 2023. This can be shown by the strong RevPAR recovery during the travel season, including May/Oct Golden Weeks and July/Aug summer holidays. For HTHT, RevPAR recovery was at close to 130% during the long holidays. If we assume the pent-up leisure travel demand impact to be 10% of RevPAR (130% vs. the normal level of 120%) and there are an estimated three months of impact, the absence of pent-up leisure travel demand in 2024 could lead to 2.5% RevPAR decline.

Exhibit 8: HTHT/ATAT monthly RevPAR trends
Stronger RevPAR recovery during long holidays (Golden Weeks, summer holidays)



Source: Company data

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Improving business travel and increasing inbound visitations

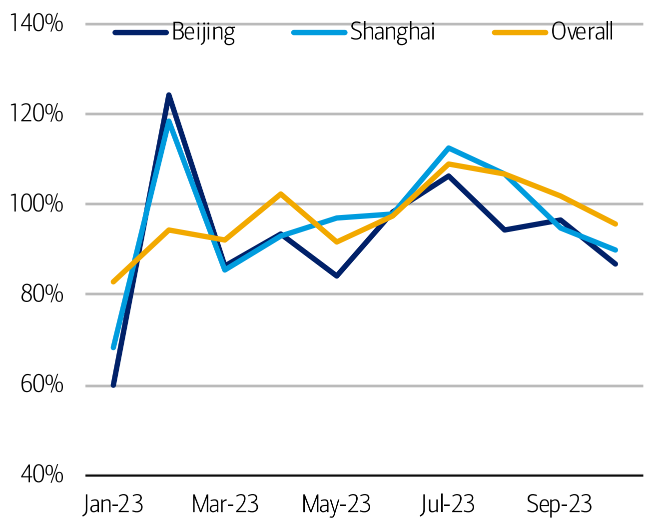
We believe business travel recovery has been lagging leisure travel in 2023. This can be demonstrated by the following. i) Tier-1 cities such as Beijing/Shanghai RevPAR recovery was slower than national average. We believe Beijing and Shanghai are likely to have higher business mix. ii) HTHT's occupancy still has not fully recovered to 2019 level. As occupancy is likely to be close to 100% during the leisure travel season, the occupancy gap is likely to be due to slower business recovery.

In our view, there could be room for further recovery potential in business travel in 2024, off from a relatively low base in 2023. Increasing inbound visitations could be positive to business travel, as the scale of meetings, incentives, conferences, and exhibitions (MICE) events would also depend on the number of inbound travellers. Although inbound business travelers are more likely to stay at high-end hotels, we believe there could be increasing demand for mid- to high-end hotels given budgets constraints.

HK visitations - incremental driver

In 2023, there has been increasing popularity among Hong Kong citizens to travel to Guangdong for leisure and consumption, particularly during holidays. We attribute the popularity to better transport infrastructure (high-speed rail available since 2018), favorable FX, and attractive prices for similar level of quality/services. The increasing HK visitations to Guangdong could also be an incremental positive to hotel RevPAR in the southeast region of China. Based on our checks, HK visitation is a key customer contributor to certain hotels in Guangdong province during weekends/holidays.

Exhibit 9: RevPAR recovery for China and Beijing/Shanghai
Beijing and Shanghai RevPARs have been recovering slower than the national average



Source: STR

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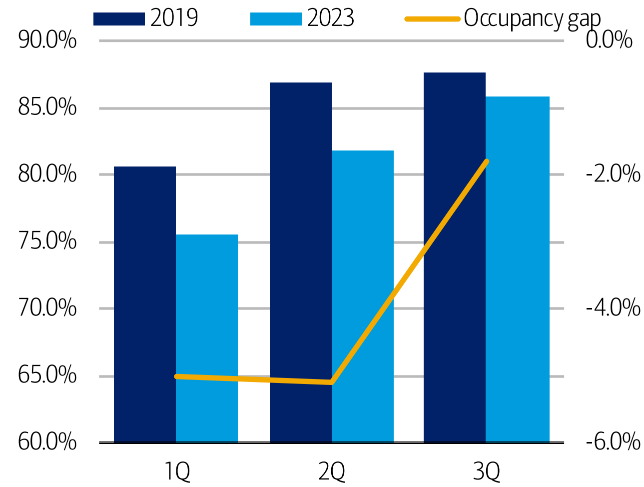
Exhibit 10: HTHT's quarterly occupancy in 2019 and 2023
Narrowing occupancy gap in 3Q23 vs. 1Q/2Q23



Source: Company data

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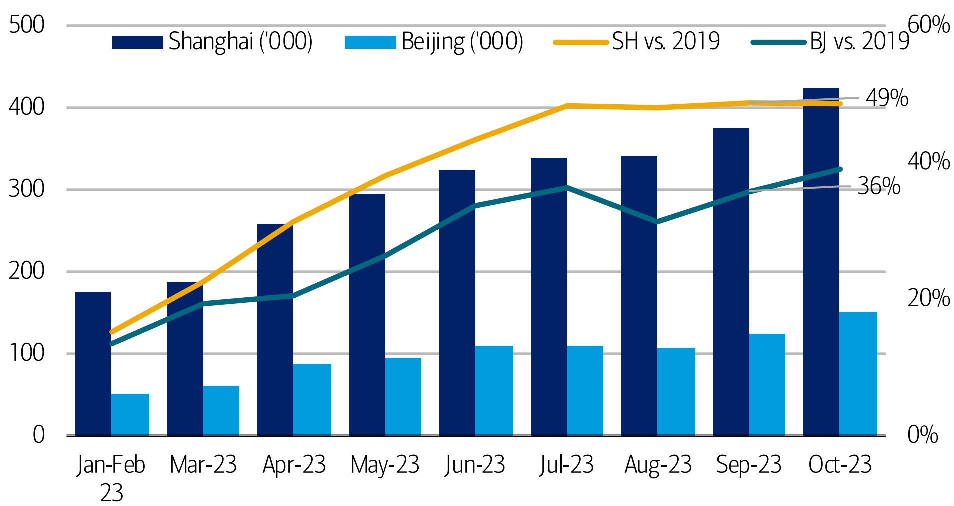
Exhibit 11: Inbound visitations to Shanghai and Beijing
Inbound visitations to Shanghai and Beijing have been recovering



Source: Shanghai and Beijing government

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RevPAR sensitivity to earnings

In terms of RevPAR sensitivity, 1% change in RevPAR would lead to 1.9%/1.4% EBITDA and 2.3%/1.4% earnings change for HTHT/ATAT, if we assume 75% EBITDA flow-through from revenue change (Exhibit 12). In the past decade, the lowest blended/same-hotel RevPAR for HTHT was 3.6/4.1% decline in 2015. If we assume HTHT's RevPAR to be down at 4% YoY in a negative case scenario (similar to 2015 level), HTHT's EBITDA/net income would be revised down 8%/10%.

Exhibit 12: Earnings sensitivity analysis to RevPAR changes
We estimate 1.9%/1.4% decline in HTHT/ATAT's EBITDA for 1% decline in RevPAR

	Base case				1% RevPAR decline			% change			Flow-through	
	Overall revenue	Domestic hotel revenue	EBITDA	Net profit	Revenue	EBITDA	Net profit	Revenue	EBITDA	Net profit	EBITDA	Net profit
HTHT	23,201	18,323	7,287	4,576	(183)	(137)	(103)	-0.8%	-1.9%	-2.3%	75.0%	56.3%
ATAT	5,301	2,913	1,606	1,183	(29)	(22)	(16)	-0.5%	-1.4%	-1.4%	75.0%	56.3%

Source: BofA Global Research estimates, company report
Note: Domestic hotel revenue: It refers to the estimated China domestic hotel revenue which would be affected by RevPAR changes.

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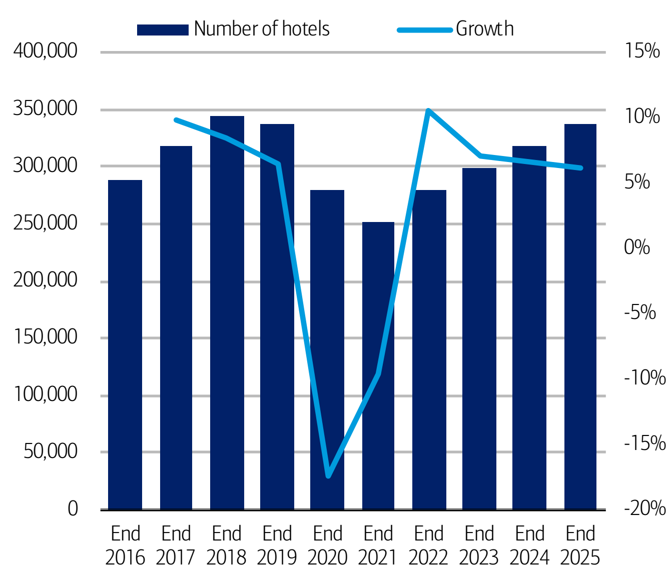
Industry supply outlook

We estimate overall nominal supply growth at 6-7%, which would be well below the 8-11% average over 2017-19, based on the following assumptions: i) Inntie data: according to Inntie, the total number of hotels was down 17% from 340k in 2019 to 280k in 2022. The ~60k reduction in hotels is expected to gradually return to the market in three years, implying on average 7% growth in 2023-25; ii) company data: the major five branded operators are expected to post 12% growth in hotel inventory in 2024. If we assume 50% of the growth is from conversions from existing hotels, the nominal growth in hotel supply is estimated to be 6-7%. Yet, the impact of hotel supply to branded operators' RevPAR could be less due to market-share gains from a competitive hotel set.

Inntie supply growth

According to Inntie, the total number of hotel supply (for hotels with 15+ rooms) was down 17% from 340k in 2019 to 280k in 2022. The ~60k reduction in hotels is expected to gradually return to the market in three years, implying on average 7% growth in 2023-25 vs. 8%/11% CAGR for the number of hotels/hotel rooms in 2017-19.

Exhibit 13: Inntie hotel growth (Number of hotels)
Hotels are expected to see 6.6% CAGR in 2022-25 (3-year)



Source: Inntie
*Note: Estimates for 2023-2025

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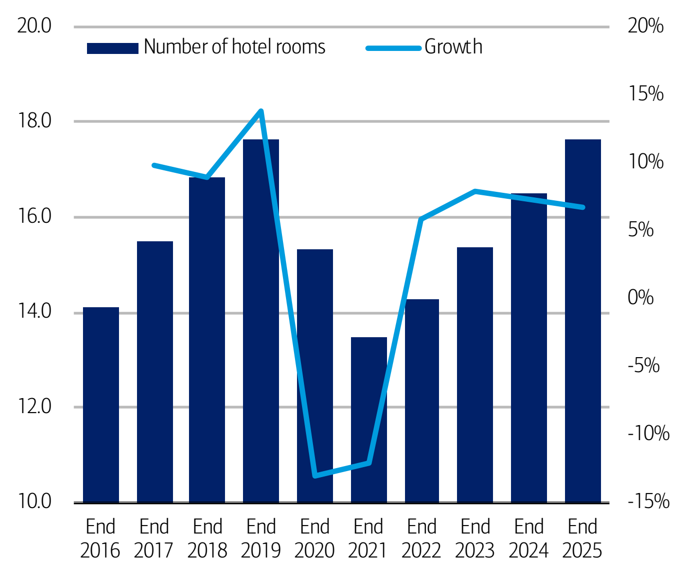
Exhibit 14: Inntie hotel growth (Number of rooms)
Hotel rooms are expected to post 7.3% CAGR in 2022-25



Source: Inntie
*Note: Estimates for 2023-2025

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Operators' supply growth

Major branded operators' supply growth has been slowing down since the COVID outbreak in 2020 from 17-26% in 2017-19. If we assume supply growth to slow down to low teens level in 2024 and 50% of the new hotel supply for the branded operators to be conversion of existing hotels, the nominal hotel supply growth for the industry would be 6-7% in 2024.

Exhibit 15: Major branded operators supply growth
The supply growth of major operators has been slowing down

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
#hotels												
Shanghai Jinjiang (Domestic)	2,647	3,262	4,030	4,647	5,395	6,147	7,221	8,138	9,355	10,335		
H World (Legacy Huazhu)	1,425	1,995	2,763	3,269	3,746	4,230	5,618	6,669	7,706	8,411	9,323	10,903
BTG	2,313	2,764	3,095	3,402	3,712	4,049	4,450	4,895	5,916	5,983		
Greentree	993	1,219	1,521	1,712	2,289	2,757	3,957	4,340	4,659	4,059		
Dossen □呈集□		257	453	733	906	1,238	1,770	2,153	2,235	2,372	2,672	2,972
Sunmei 尚美数智	301	428	822	1,107	1,870	2,467	3,267	3,835	3,979	4,145	4,445	4,745
Atour			51	104	159	275	420	570	745	932	1,198	1,538
Total	**7,679**	**9,925**	**12,735**	**14,974**	**18,077**	**21,163**	**26,703**	**30,600**	**34,595**	**36,237**	**39,794**	
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**
#hotels YoY growth												
Shanghai Jinjiang (Domestic)		23%	24%	15%	16%	14%	17%	13%	15%	10%		
H World (Legacy Huazhu)		40%	38%	18%	15%	13%	33%	19%	16%	9%	11%	17%
BTG		19%	12%	10%	9%	9%	10%	10%	21%	1%		
Greentree		23%	25%	13%	34%	20%	44%	10%	7%	-13%		
Dossen □呈集□			76%	62%	24%	37%	43%	22%	4%	6%	13%	11%
Sunmei 尚美数智		42%	92%	35%	69%	32%	32%	17%	4%	4%	7%	7%
Atour				104%	53%	73%	53%	36%	31%	25%	29%	28%
Total		**29%**	**28%**	**18%**	**21%**	**17%**	**26%**	**15%**	**13%**	**5%**	**10%**	**12%**

Source: BofA Global Research estimates, company report

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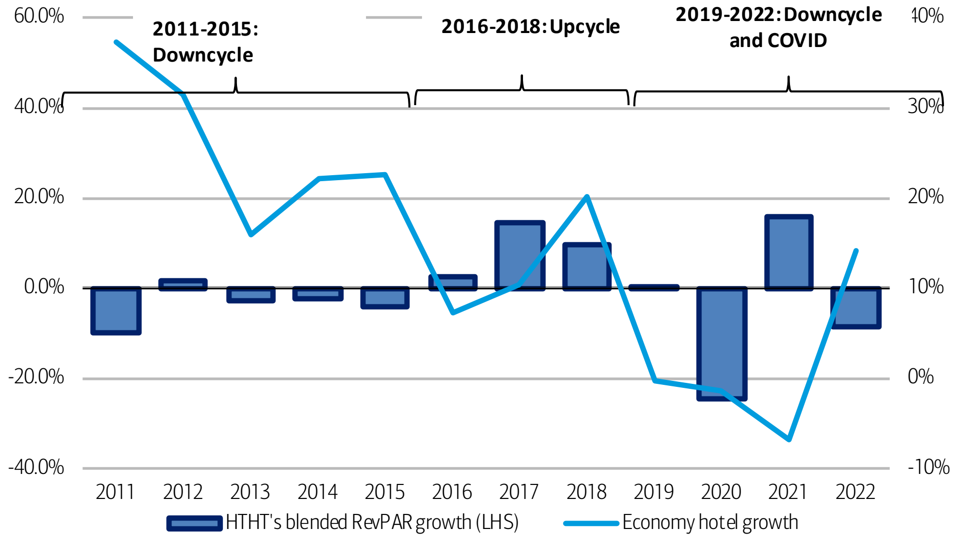
Supply growth will be structurally slower, less volatile, and more predictable

In our view, the industry supply growth will become lower in absolute growth terms over time due to i) slower growth for the branded operators on higher base, ii) higher entry barrier and development horizon for mid to upscale hotels, and iii) slower macro growth suggesting more rationale behavior by franchisees.

We believe the high volatility of supply growth also amplified the RevPAR cycle in the past, given the low entry barrier of new supply and the lagged nature of supply growth to demand. After 2010, when RevPAR was lifted by the demand to the World Expo, there was a five-year downcycle between 2011 and 2015, which we attribute to rapid supply growth despite solid demand/GDP growth. As supply growth decelerated in 2016, it underpinned a RevPAR upcycle in 2H16-2018 before a supply acceleration in 2019 – one of the drivers – caused a RevPAR slowdown again. The RevPAR downcycle during the COVID disruption of 2020-22 led to supply reduction, underpinning a fast recovery of RevPAR in 2023. In our view, supply growth will become more stable and likely maintain at low-single digit to mid-single digit level going forward. Given lower volatility and lower absolute supply growth, we believe RevPAR would be more correlated to demand, and in turn to GDP and inflation. This would offer higher RevPAR and earnings visibility for the sector longer term.

Exhibit 16: HTHT's blended RevPAR growth and economy hotel growth
Supply growth volatility magnifies the RevPAR cycle*



Source: Inntie, Company data
*Note: We use economy hotel growth data as it has a longer history. Mid and upscale hotel growth mainly started from 2016

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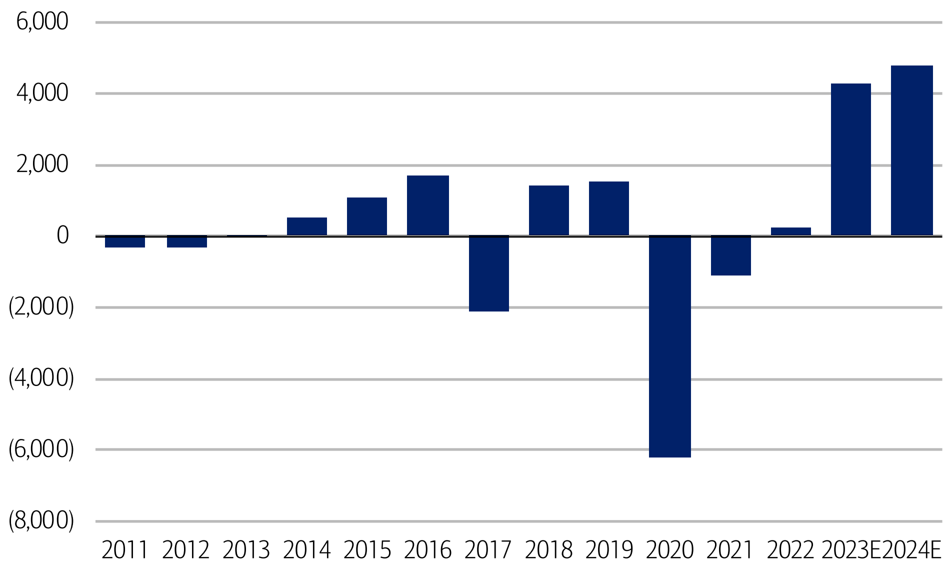
Asset-lite model with strong FCF generation and capital-return potential

We believe major branded operators in China have been gradually evolving from an asset-heavy leased and operated (L/O) model to an asset-lite franchised and manachised (F/M) model with strong FCF generation. Given the strong cash flow generation, we believe this would enhance the operators to return capital to shareholders, e.g., HTHT announced its maiden dividend policy of paying out 45% of its net profit in Nov'23.

Exhibit 17: HTHT's FCF
We expect substantial improvement in HTHT's FCF, thanks to transformation to an asset-lite model



Source: BofA Global Research estimates, company report

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Exhibit 18: HTHT hotel mix by L/O & F/M

HTHT has an increasing mix from F&M hotels in terms of hotel properties and revenue

	2015	2016	2017	2018	2019	2020	2021	2022	2023
#Hotel properties									
L&O	616	624	671	699	688	681	662	623	608
F&M	2,147	2,645	3,075	3,531	4,930	5,988	7,044	7,788	8,715
Total	2,763	3,269	3,746	4,230	5,618	6,669	7,706	8,411	9,323
%mix									
L&O	22%	19%	18%	17%	12%	10%	9%	7%	7%
F&M	78%	81%	82%	83%	88%	90%	91%	93%	93%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%
Revenue (mn RMB)									
L&O	4,987	5,212	6,338	7,470	7,718	5,439	6,674	6,062	9,396
F&M	1,124	1,411	1,851	2,527	3,342	3,093	4,342	4,324	7,445
Total	6,111	6,624	8,189	9,997	11,060	8,532	11,016	10,386	16,841
%mix									
L&O	82%	79%	77%	75%	70%	64%	61%	58%	56%
F&M	18%	21%	23%	25%	30%	36%	39%	42%	44%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: BofA Global Research, company report

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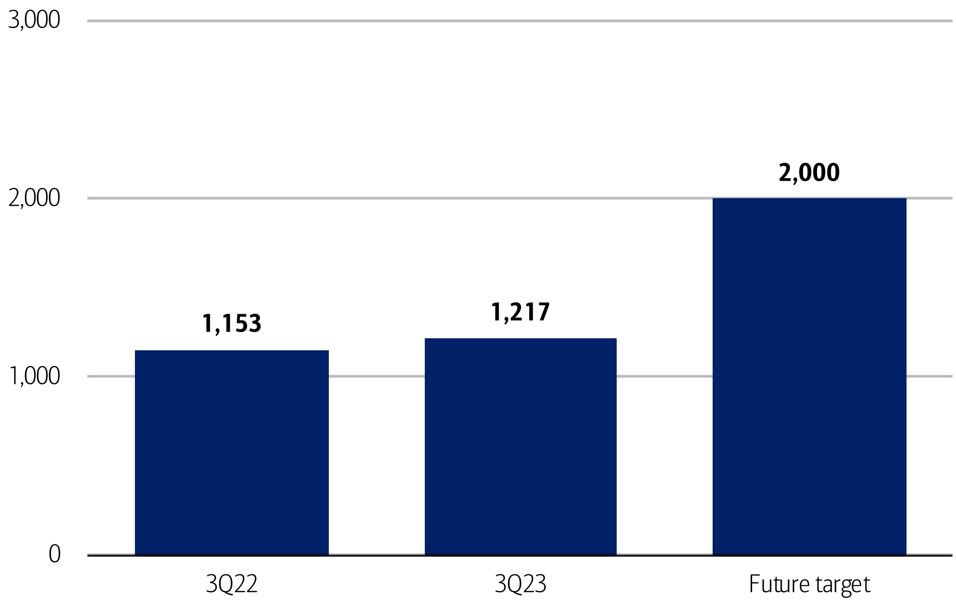
Visible unit growth outlook

We believe leading branded operators have visible unit growth potential through low-tier cities penetration and consolidation by branded operators. While the market is increasingly looking for companies with foreign market expansion potential, we believe leading hotel operators still have substantial room to grow domestically as the long development horizon for physical hotels implies a slower penetration nationwide than in the past.

Long investment horizon for hotel industry

One of the major differences for the hotel industry compared with other consumer industry is its capex-heavy nature and long investment horizon. This would mean that the penetration of leading branded operators to the vast China market is likely to take longer. HTHT was found on 2003. Yet, after 20 years of development, its membership base is only at 199mn, representing 14% of China population. Its penetration is to 1,217 cities, which is at 60% of its future cities target of 2,000.

Exhibit 19: HTHT's city coverage (hotels in operation and pipeline)
We see room for further penetration for HTHT



Source: Company data

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Delicate balance among corporate, franchisee, and consumer interests

As hotels development requires heavy capex, hotel companies have to rely on franchisees for rapid penetration. As such, the industry has to find a model where consumers find value for the product but the franchisees can be profitable as well. It has to find a product which has the "just-right" level of offerings but not too much and too less. We believe hotel is a complex consumer product. It takes several trials and errors to find the right balance. As such, it is not easy for any new competitor to enter the market with meaningful market-share gains in the short term.

Earnings revisions in 2023

HTHT and ATAT are one of the few HK/US-listed stocks in the consumer space with earnings upgrades rather than downgrades in 2023. These imply a 27%/6% multiple compression in 2024E P/E. In our view, this also reflects the potential RevPAR decline concerns. As such, we see 20-30% upside potential just from rollover to 2025, as long as there is no earnings cut and further de-rating.

Exhibit 20: Earnings revision by major consumer companies

HTHT and ATAT are one of the few consumer companies with earnings upgrades in 2023

		Price (in local currency)			Consensus 2024E EPS (RMB)			2024E P/E		
Company	Ticker	Begin-2023	Current	%revision	Begin-2023	Current	%revision	Begin-2023	Current	%revision
Hotel										
H World	HTHT US	42.90	31.24	-27%	12.7	14.1	11%	22.9	15.8	-31%
Atour (End-1Q23)	ATAT US	19.33	16.99	-12%	8.0	8.1	2%	16.5	14.9	-10%
Jinjiang	600754 CH	57.77	29.94	-48%	2.3	1.6	-32%	25.0	18.9	-24%
BTG	600258 CH	24.21	15.20	-37%	1.0	0.9	-14%	23.7	17.3	-27%
Shangri-la	69 HK	6.60	5.10	-23%	0.4	0.5	22%	14.2	9.3	-34%
Sportswear										
Anta	2020 HK	104.20	71.00	-32%	4.3	4.1	-6%	21.3	16.0	-25%
Li Ning	2331 HK	69.35	17.68	-75%	2.7	1.6	-39%	22.8	9.8	-57%
Restaurant										
Haidilao	6862 HK	22.80	14.44	-37%	0.6	0.9	40%	32.4	15.1	-53%
YUMC	YUMC US	56.42	39.16	-31%	15.1	15.3	1%	25.4	18.2	-28%
Baijiu										
Kweichow Moutai	600519 CH	1,730.01	1,641.50	-5%	66.4	69.6	5%	26.1	23.6	-9%
Wuliangye	000858 CH	178.20	128.80	-28%	8.8	8.9	1%	20.3	14.5	-29%
Jiangsu Yanghe	002304 CH	157.13	100.25	-36%	8.5	8.2	-4%	18.5	12.3	-34%
Luzhou Laojiao	000568 CH	219.86	160.51	-27%	9.8	10.7	10%	22.5	15.0	-33%
Beer										
BUD APAC	1876 HK	24.95	13.12	-47%	0.7	0.6	-6%	32.3	18.7	-42%
CR Beer	291 HK	54.95	30.60	-44%	1.9	1.9	0%	25.6	14.7	-42%
Tsingtao Brew-H	168 HK	78.10	49.90	-36%	3.2	3.7	17%	21.7	12.3	-44%
Food & Beverage										
Nongfu Spring	9633 HK	43.65	40.75	-7%	1.0	1.1	12%	39.6	34.0	-14%
Tingyi	322 HK	14.02	8.64	-38%	0.8	0.7	-9%	16.0	11.2	-30%
Haitian Flavouring	603288 CH	64.74	34.82	-46%	1.6	1.3	-22%	40.5	27.9	-31%
Shuanghui	000895 CH	25.71	26.88	5%	2.0	1.8	-8%	13.1	14.9	14%
Fuling Zhacai	002507 CH	19.66	13.43	-32%	1.4	0.8	-42%	14.1	16.8	19%
Yili	600887 CH	30.70	26.57	-13%	2.1	1.8	-10%	15.0	14.4	-4%
OEM										
Shenzhou	2313 HK	88.65	75.45	-15%	4.0	3.4	-16%	19.4	20.4	5%
Household Appliances										
Haier Smart Home	600690 CH	24.37	21.49	-12%	2.2	2.0	-5%	11.3	10.5	-7%
Gree	000651 CH	32.50	33.67	4%	5.4	5.3	-3%	6.0	6.4	6%
Average				**-28%**			**-4%**			**-23%**

Source: BofA Global Research, Visible Alpha

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Increasing divergence between the best and the average

As macro growth slows, there will unlikely be more “rising tide to lift all boats” in the China hotel industry, like what happened in the 2016-2018 upcycle when strong RevPAR growth meant decent profitability for all operators. In our view, the weaker operators will have less room to survive in a highly competitive market. This will underpin an increasing divergence between the best, the average, and the non-branded operators.

Comparing the key operating metrics such as RevPAR growth and hotel inventory growth of major operators between the periods of 2016-19 and 2020-23, we have seen a greater divergence of performance between the best (HTHT and ATAT) and the average branded operators.

Exhibit 21: Summary of RevPAR recovery and hotel openings
HTHT and ATAT outperformed peers

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Blended RevPAR (RMB)												
HTHT	159	153	157	180	197	198	149	172	157	239	240	244
ATAT						330	275	295	261	379	379	387
Jinjiang	147	141	145	150	158	157	119	138	114			
BTG (Incl. soft branded)			144	154	162	158	99	119	97			
Greentree		118	123	130	135	131	105	116	101			
Blended RevPAR growth												
HTHT		-3.8%	2.6%	14.6%	9.4%	0.5%	-24.7%	15.4%	-8.7%	52.4%	0.1%	1.8%
ATAT							-16.5%	7.2%	-11.6%	45.3%	0.0%	2.0%
Jinjiang		-4.0%	2.7%	3.2%	5.8%	-0.7%	-24.2%	15.3%	-17.2%			
BTG				6.9%	4.0%	-2.5%	-37.3%	20.2%	-18.5%			
Greentree			4.2%	5.7%	3.8%	-3.0%	-19.8%	10.5%	-12.9%			
Blended RevPAR recovery (vs. 2019)												
HTHT							75%	87%	79%	121%	121%	123%
ATAT							83%	89%	79%	115%	115%	117%
Jinjiang							76%	87%	72%			
BTG							63%	75%	61%			
Greentree							80%	89%	77%			
Hotel inventory												
HTHT (Legacy-Huazhu)	1,995	2,763	3,269	3,746	4,230	5,618	6,669	7,706	8,411	9,323	10,903	12,525
ATAT						420	570	745	932	1,198	1,538	1,968
Jinjiang (Domestic)	967	1,073	4,647	5,395	6,147	7,221	8,138	9,355	10,335			
BTG (Incl. soft branded)	169	156	3,247	3,712	4,049	4,450	4,895	5,916	5,983			
Greentree			1,964	2,289	2,757	3,957	4,340	4,659	4,059			
Hotel inventory growth												
HTHT		38.5%	18.3%	14.6%	12.9%	32.8%	18.7%	15.5%	9.1%	10.8%	16.9%	14.9%
ATAT							35.7%	30.7%	25.1%	28.5%	28.4%	28.0%
Jinjiang		11.0%	333.1%	16.1%	13.9%	17.5%	12.7%	15.0%	10.5%			
BTG		-7.7%	1981.4%	14.3%	9.1%	9.9%	10.0%	20.9%	1.1%			
Greentree				16.5%	20.4%	43.5%	9.7%	7.4%	-12.9%			

Source: BofA Global Research estimates, company report

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Stock picks: Reiterate Buy on HTHT/ATAT

We reiterate Buy on HTHT and ATAT given their better than class execution capability, better growth prospect, stronger balance sheet, and capital return potential.

Exhibit 22: Summary of earnings changes
We slightly tweaked our estimates

EBITDA

	New		Old		Changes	
	2023	2024	2023	2024	2023	2024
HTHT (RMB mn)	6,401	7,287	6,371	7,287	0%	0%
ATAT (RMB mn)	1,234	1,606	1,234	1,620	0%	-1%

Adjusted core profit

	New		Old		Changes	
	2023	2024	2023	2024	2023	2024
HTHT (RMB mn)	4,163	4,576	4,140	4,576	1%	0%
ATAT (RMB mn)	881	1,183	881	1,186	0%	0%

Source: BofA Global Research estimates, company report

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Exhibit 23: Summary of PO and earnings changes
Our POs for HTHT/ATAT remain unchanged at US$51/25

		EV/EBITDA		P/E		PO			Upside Potential
	Valuation methodology	Old	New	Old	New	Old	New	Change	
HTHT	EV/EBITDA	15.0x	15.0x	25.8x	25.8x	51.0	51.0	0%	63%
ATAT	P/E	12.6x	12.6x	20.0x	20.0x	25.0	25.0	0%	47%

Source: BofA Global Research estimates, company report

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Exhibit 24: Valuation table
HTHT/ATAT is trading at 8.6x/8.0 2024E EV/EBITDA and 15.8/13.6x 2024E P/E

	Bloomberg Ticker	Currency	Price	Market cap (US mn)	EV/EBITDA			EBITDA growth			PE			Earnings growth		
					2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Atour	ATAT US	USD	17.0	2,338	12.0	8.0	5.4	NA	30%	29%	19.4	13.6	10.7	NA	34%	27%
H World	HTHT US	USD	31.2	9,959	10.3	8.6	6.1	NA	14%	20%	17.2	15.8	11.8	NA	28%	29%

Source: BofA Global Research estimates

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HTHT

We reiterate Buy and maintain our PO at US$51 for HTHT. Our PO of US$51 is based on 15x 2024E EV/EBITDA, implying 26x P/E. We believe the 15x 2024E EV/EBITDA is justified as it implies 0.9x to adj. EBITDA CAGR of 17% in 2023-25. The implied 26x 2024E P/E based on our PO implies 0.9x to 29% earnings CAGR in 2023-25.

ATAT

We reiterate Buy and maintain our PO at US$25 for ATAT. Our PO of US$25 is based on 20x 2024E P/E, implying 13x EV/EBITDA. We believe the 20x 2024E P/E is justified as it implies only 0.63x to earnings CAGR of 30% in 2023-25. The implied target P/E of 20x is lower than 26x for HTHT to reflect ATAT's lower liquidity and shorter execution track record. We believe ATAT's valuation gap vs. HTHT can narrow over time when it can prove its execution and its trading liquidity improves.

Exhibit 25: Summary of financials
We summarize key metrics for HTHT/ATAT below

	2019	2020	2021	2022	2023	2024	2025
Revenue							
HTHT	11,212	10,196	12,787	13,862	21,590	23,201	25,229
Atour	1,567	1,567	2,148	2,263	4,392	5,301	6,510
Growth							
HTHT		-9%	25%	8%	56%	7%	9%
Atour		0%	37%	5%	94%	21%	23%
EBITDA							
HTHT	3,384	(244)	1,571	610	6,401	7,287	8,719
Atour	182	161	299	424	1,234	1,606	2,035
Growth							
HTHT		-107%	-744%	-61%	949%	14%	20%
Atour		-12%	86%	42%	191%	30%	27%
Adjusted net profit							
HTHT	1,563	(1,805)	(260)	(1,375)	4,163	4,576	5,831
Atour			140	259	881	1,183	1,509
Growth							
HTHT*		-216%	-86%	NM	NM	10%	29%
Atour			NM	86%	240%	34%	27%

Source: BofA Global Research estimates, company report
Note: HTHT: If we exclude an estimated RMB600mn non-recurring gains for Accor disposals and FX n 2023E, net profit growth in 2024E is estimated to be 28%

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Stocks mentioned
Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ATAT	ATAT US	Atour Lifestyle	US$ 16.99	C-1-9
HTHT	HTHT US	H World Group	US$ 31.24	C-1-9
XHUAF	1179 HK	H World Group	HK$ 24.4	C-1-9

Source: BofA Global Research

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Price objective basis & risk

Atour Lifestyle (ATAT)

Our price objective of US$25 is based on 20x 2024E P/E. The target multiple 20x is at a premium to 30% China hotel peers. We believe this is justified given its faster growth prospect and reduced concerns on lower liquidity and ADR delisting risks. Downside risks to our price objective are 1) prolonged COVID disruption, 2) increased competition, 3) short company track record, and 4) ADR delisting.

H World Group Limited (HTHT / XHUAF)

Our price objective of US$51/HK$39.5 is based on 15x 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.

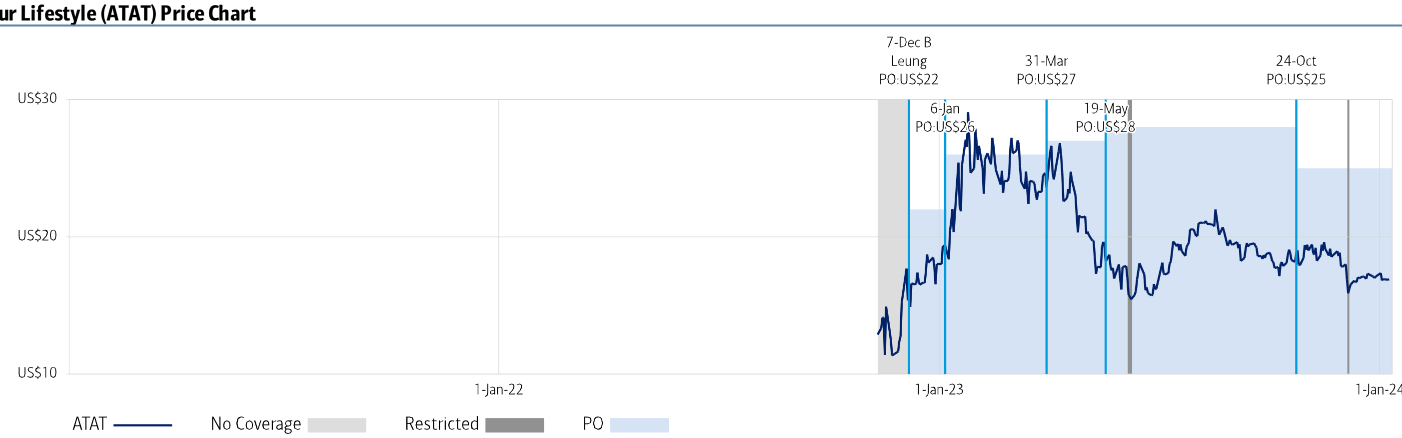
APR - Gaming & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aristocrat Leisure	ARLUF	ALL AU	Sriharsh Singh
	Atour Lifestyle	ATAT	ATAT US	Ronald Leung, CFA
	Bloomberry Resorts	BLBRF	BLOOM PM	Joahnna See-Soriano
	Central Plaza Hotel	XWTDF	CENTEL 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
	Paradise	PDCLF	034230 KS	Susie Lee
	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
NEUTRAL				
	China Tourism Group Duty Free	XCTVF	601888 CH	Ronald Leung, CFA
	Genting Singapore	GIGNF	GENS SP	Ronald Leung, CFA
	Grand Korea Leisure	XFAIF	114090 KS	Susie Lee
	Melco Resorts	MLCO	MLCO US	Karl Choi, CFA
	Wynn Macau, Limited	WYNMF	1128 HK	Karl Choi, CFA
UNDERPERFORM				
	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
	Kangwon Land	KGWNF	035250 KS	Susie Lee
	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

Disclosures

Important Disclosures

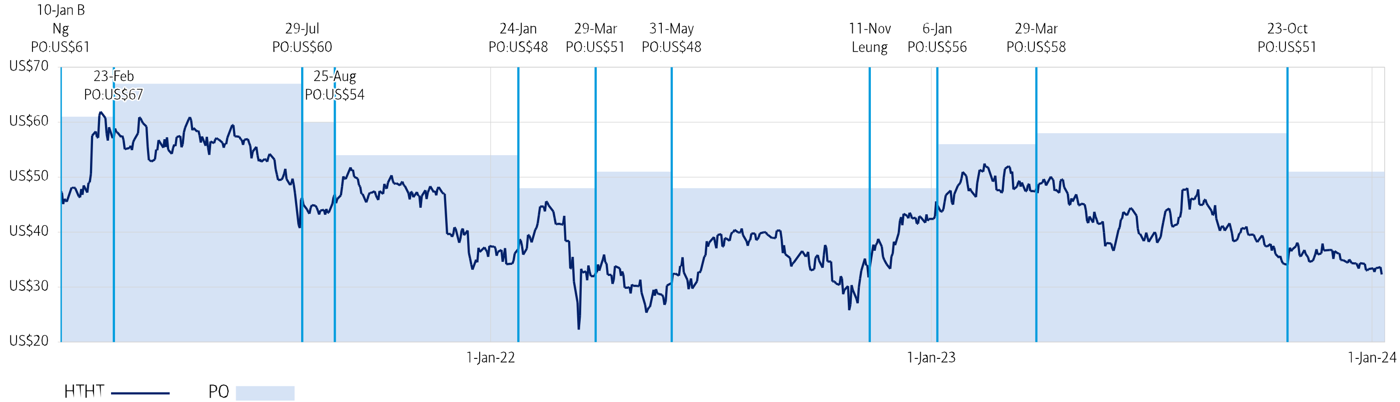
Atour Lifestyle (ATAT) Price Chart



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 (HTHT) Price Chart



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

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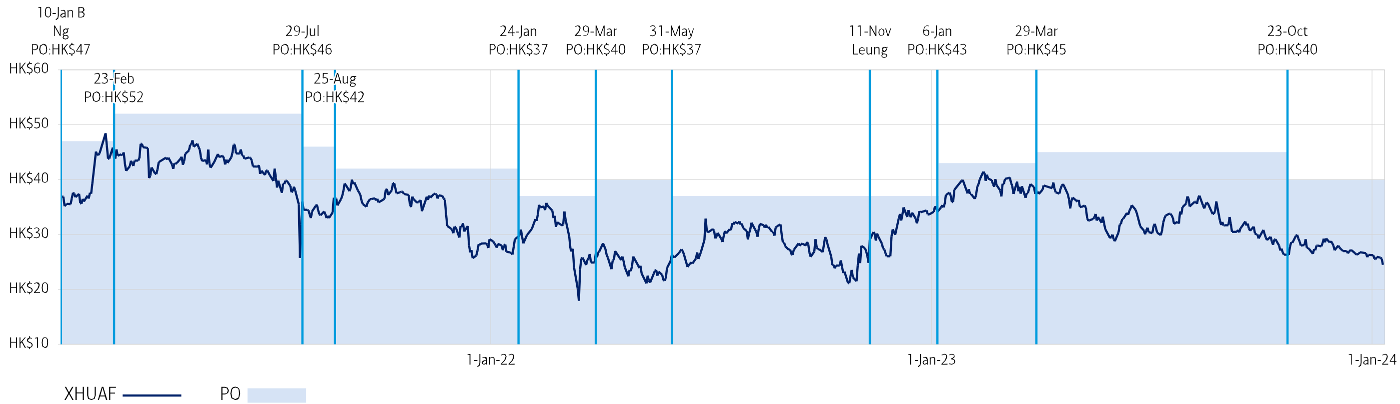
H World Group (XHUAF) Price Chart



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

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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]
Buy	≥ 10%	≤ 70%
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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