

Hilton Worldwide

Q4 First Take: Outlook ahead of expectations; raising PO

Reiterate Rating: BUY | PO: 215.00 USD | Price: 194.62 USD

Q4 beat, full-year outlook ahead of expectations

Hilton (ticker: HLT) reported 4Q23 EBITDA of \$803M, ahead of our/the Street's \$759M and above the high end of HLT's \$739-759M outlook. Q4 RevPAR was +5.7%, modestly ahead of [our tracker's +5.4% \(see report\)](#) and HLT's +4.5-5.5% guide on international strength. HLT's full-year guidance for 2024 is ahead of expectations, and we think that RevPAR of +2-4% is prudent/conservative but in line with our model's +3%.

Bottom line: A better-than-expected outlook despite what we see as conservative (and beatable) RevPAR guidance points to a healthy core algorithm, including 1) unit growth now at the high end, of 5.5-6% 2) strong license/non-RevPAR fees, 3) upside from SLH and more optimism on tuck in M&A than we have heard in years, and 4) higher capital return (+10% above our model). As a result, we raise our 2024 EBITDA estimate +4.3% to \$3,356M and raise our PO to \$215 (from \$190) as we roll forward our 17x EV multiple to 2025 (implying 25.8x 2025 P/E). We reiterate our Buy rating. See our midcycle sensitivities inside.

2024 guidance, capital returns ahead of expectations

HLT's Q4 Adj. EBITDA of \$803M was ahead of our \$759M and the high end of guidance of \$739-759M, driven by non-RevPAR fees, partly offset by Owned & Leased below our estimates. HLT's Q1 and 2024 RevPAR guidance of +2-4% Y/Y is in line with our model (+3%), but EBITDA guidance of \$3,330-3,380M is well ahead of our \$3,216M and the Street's \$3,288M, largely on non-RevPAR fees, which we think are growing at a mid-teens pace, well ahead of the broader fee algorithm. HLT repurchased \$745M of shares in Q4, ~\$35M more than we expected, and HLT's 2024 capital return outlook of ~\$3B is ahead of our \$2.5B expectation, mostly on re-leveraging higher EBITDA.

Unit growth: Higher end of outlook plus SLH

HLT reiterated its full-year NUG guidance of +5.5-6.0% but now expect to be at the higher end, driven by new development share gains, Spark, and strong conversions. The pipeline was up Q/Q to ~462k rooms versus 457k rooms in Q3, despite record openings in Q4. HLT announced a new partnership with Small Luxury Hotels of the World (SLH), which will add another 25-50bps to system and net unit growth and helps leverage HLT's distribution while growing its luxury footprint materially. Management was also more optimistic on potential tuck-in M&A than it has been in years, in our view.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026
EPS	4.89	6.37	7.05	8.32	NA
GAAP EPS	4.53	4.48	6.82	8.11	NA
EPS Change (YoY)	135.1%	30.3%	10.7%	18.0%	NA
Consensus EPS (Bloomberg)			7.02	8.07	9.54
DPS	0.60	0.60	0.60	0.60	NA
Valuation (Dec)					
P/E	39.8x	30.6x	27.6x	23.4x	NA
GAAP P/E	43.0x	43.4x	28.5x	24.0x	NA
Dividend Yield	0.3%	0.3%	0.3%	0.3%	NA
EV / EBITDA*	25.0x	21.0x	19.3x	17.8x	NA
Free Cash Flow Yield*	3.2%	2.9%	3.8%	4.2%	NA

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	190.00	215.00
2024E Rev (m)	4,644.2	4,783.3
2025E Rev (m)	4,934.6	5,116.9
2024E EPS	6.83	7.05
2025E EPS	7.86	8.32

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Stock Data

Price	194.62 USD
Price Objective	215.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-1-7
52-Week Range	129.86 USD - 196.18 USD
Mkt Val (mn) / Shares Out (mn)	49,908 USD / 256.4
Free Float	98.3%
Average Daily Value (mn)	271.51 USD
BofA Ticker / Exchange	HLT / NYS
Bloomberg / Reuters	HLT US / HLT.N
ROE (2024E)	NA
Net Dbt to Eqty (Dec-2023A)	NA
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".

k: thousand
NUG: net unit growth
PO: price objective

RevPAR: revenue per available room

iQprofileSM Hilton Worldwide

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Return on Capital Employed	11.5%	13.8%	16.5%	18.4%	NA
Return on Equity	NM	NM	NM	NM	NA
Operating Margin	57.1%	59.0%	62.0%	63.6%	NA
Free Cash Flow	1,579	1,466	1,882	2,082	NA

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Cash Realization Ratio	1.2x	1.0x	1.2x	1.2x	NA
Asset Replacement Ratio	0.6x	1.8x	2.4x	2.5x	NA
Tax Rate	27.5%	31.3%	29.8%	28.5%	NA
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NA
Interest Cover	5.1x	5.6x	5.6x	5.7x	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Sales	3,736	4,408	4,783	5,117	NA
% Change	52.9%	18.0%	8.5%	7.0%	NA
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	2,599	3,089	3,356	3,643	NA
% Change	59.5%	18.9%	8.7%	8.5%	NA
Net Interest & Other Income	(399)	(870)	(533)	(572)	NA
Net Income (Adjusted)	1,357	1,676	1,756	1,958	NA
% Change	132.4%	23.5%	4.8%	11.5%	NA

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Net Income from Cont Operations (GAAP)	1,255	1,179	1,699	1,908	NA
Depreciation & Amortization	162	147	115	114	NA
Change in Working Capital	66	277	35	35	NA
Deferred Taxation Charge	34	(55)	137	126	NA
Other Adjustments, Net	164	179	169	180	NA
Capital Expenditure	(102)	(261)	(272)	(281)	NA
Free Cash Flow	1,579	1,466	1,882	2,082	NA
% Change	NM	-7.1%	28.4%	10.6%	NA
Share / Issue Repurchase	(1,590)	(2,306)	(2,850)	(2,400)	NA
Cost of Dividends Paid	(123)	(159)	(149)	(141)	NA
Change in Debt	(25)	251	950	400	NA

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Cash & Equivalents	1,286	492	325	266	NA
Trade Receivables	1,584	1,705	1,705	1,705	NA
Other Current Assets	NA	NA	NA	NA	NA
Property, Plant & Equipment	280	434	906	1,388	NA
Other Non-Current Assets	12,362	12,330	12,007	11,684	NA
Total Assets	15,512	14,961	14,944	15,044	NA
Short-Term Debt	39	37	37	37	NA
Other Current Liabilities	2,223	2,336	2,336	2,336	NA
Long-Term Debt	8,708	8,982	9,932	10,332	NA
Other Non-Current Liabilities	5,640	5,888	6,060	6,221	NA
Total Liabilities	16,610	17,243	18,365	18,926	NA
Total Equity	(1,098)	(2,281)	(3,421)	(3,882)	NA
Total Equity & Liabilities	15,512	14,961	14,944	15,044	NA

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Lodging

Company Description

Hilton Worldwide (ticker: HLT) is one of the largest hotel owners/operators in the world with over 5,600 properties and over 912,000 rooms in 113 countries and territories across 16 major brands. The company maintains a diverse mix of globally recognized brands such as the Waldorf Astoria, Conrad, Hilton, Embassy Suites, Doubletree, Hilton Garden Inn and Hampton Inn.

Investment Rationale

We view Hilton as a best-of-breed C-Corp with a capital-light model driven by RevPAR upside, solid net unit growth, increasing capital returns, and best-in-class management.

Stock Data

Average Daily Volume 1,395,080

Quarterly Earnings Estimates

	2023	2024
Q1	1.25A	1.41E
Q2	1.62A	1.85E
Q3	1.68A	1.94E
Q4	1.83A	1.86E

Exhibit 1: Hilton (HLT) earnings variance (\$ in millions, except per-share data)

Hilton reported Q4 earnings ahead of expectation

	BofA				Estimate Variance		Visible Alpha Consensus
	4Q19A	4Q22A	Estimate	4Q23A	\$ Var.	% Var.	
REVENUE							
Owned & Leased Hotel Revenue	\$362	\$349	\$345	\$320	(\$25)	-7.2%	\$349
Franchise Fees	412	537	582	601	19	3.3%	582
Management Fees	83	88	94	95	1	1.5%	89
Incentive Management Fees	63	64	74	77	3	4.4%	69
Other Fees	26	31	34	52	18	52.0%	39
Total Revenue	946	1,069	1,128	1,145	17	1.5%	1,127
EBITDA							
Management/Franchise (Before G&A)	558	689	749	773	24	3.2%	739
Owned and Leased Hotels	50	55	33	28	(5)	-14.2%	44
Other	0	6	7	20	13	195.4%	8
General, Administrative Expenses	(114)	(95)	(102)	(110)	(8)	7.8%	(102)
Consolidated EBITDA	494	655	687	711	24	3.5%	688
% Owned Margins	13.8%	15.8%	9.5%	8.8%	N/A	-71 bpt	12.6%
% Total Margin	52.2%	61.3%	60.9%	62.1%	N/A	124 bpt	61.1%
Adjusted EBITDA:							
EBITDA (from above)	\$505	\$673	\$691	\$712	\$21	3.1%	\$688
Share-Based Compensation	31	36	31	36	5	16.0%	33
FF&E Replacement Reserve	17	14	21	23	2	9.5%	20
Other	33	17	16	32	16	100.0%	18
Reported Adjusted EBITDA	\$586	\$740	\$759	\$803	\$44	5.8%	\$759
% Margin	61.9%	69.2%	67.2%	70.1%	N/A	288 bpt	67.4%

Source: BofA Global Research estimates, company report, Visible Alpha. Var = variance.

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Exhibit 2: Hilton blended (EBITDA/EPS) midcycle sensitivity

Hilton is trading between mid- and peak-cycle multiples on mid-cycle earnings

		Blended Multiple (EBITDA / PE)		
Earnings		Trough	Mid	Peak
	Trough	\$100	\$136	\$172
	Midcycle	\$120	\$162	\$204
	Next Peak	\$140	\$189	\$237

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Price objective basis & risk

Hilton Worldwide (HLT)

Our \$215 price objective is based on approximately 17x our 2025E EBITDA forecast, a premium to historical multiples for this type of hotel business given improving share gains and a leaner/more efficient business model that we believe can sustain historically high EBITDA margins. The price objective is also in-line with a midcycle multiple on 2027 earnings discounted back to 2024E.

Downside risks to our price objective are 1) greater-than-expected economic weakness, which may lead to declines in travel demand, 2) greater-than-expected delays in hotel development, which may slow system growth, 3) worse-than-expected consumer spending, which may lead to declines in demand for timeshare product, and 4) acts or threats of terrorism.

Analyst Certification

I, Shaun C. Kelley, 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.

US - Gaming, Lodging and Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Boyd Gaming Corp	BYD	BYD US	Shaun C. Kelley
	Choice Hotels International	CHH	CHH US	Dany Asad
	DraftKings, Inc.	DKNG	DKNG US	Shaun C. Kelley
	Hilton Worldwide	HLT	HLT US	Shaun C. Kelley
	Host Hotels & Resorts Inc.	HST	HST US	Shaun C. Kelley
	Hyatt Hotels	H	H US	Shaun C. Kelley
	Marriott International Inc.	MAR	MAR US	Shaun C. Kelley
	Penn Entertainment	PENN	PENN US	Shaun C. Kelley
	Ryman Hospitality Properties	RHP	RHP US	Shaun C. Kelley
	Soho House & Co Inc	SHCO	SHCO US	Shaun C. Kelley
	Vail Resorts, Inc	MTN	MTN US	Shaun C. Kelley
	VICI Properties	VICI	VICI US	Shaun C. Kelley
	Wyndham Hotels & Resorts, Inc.	WH	WH US	Dany Asad
NEUTRAL				
	Apple Hospitality REIT Inc.	APLE	APLE US	Dany Asad
	Caesars Entertainment Inc	CZR	CZR US	Shaun C. Kelley
	Churchill Downs Incorporated	CHDN	CHDN US	Shaun C. Kelley
	Hilton Grand Vacations Inc	HGV	HGV US	Dany Asad
	Las Vegas Sands	LVS	LVS US	Shaun C. Kelley
	MGM Resorts International	MGM	MGM US	Shaun C. Kelley
	Park Hotels & Resorts Inc.	PK	PK US	Dany Asad
	Wynn Resorts Ltd	WYNN	WYNN US	Shaun C. Kelley
UNDERPERFORM				
	DiamondRock Hospitality	DRH	DRH US	Dany Asad
	Gaming & Leisure Properties, Inc.	GLPI	GLPI US	Shaun C. Kelley
	Marriott Vacations Worldwide	VAC	VAC US	Shaun C. Kelley
	Pebblebrook Hotel Trust	PEB	PEB US	Shaun C. Kelley
	Playa Hotels & Resorts	PLYA	PLYA US	Shaun C. Kelley
	Red Rock Resorts, Inc.	RRR	RRR US	Shaun C. Kelley
	RLJ Lodging Trust	RLJ	RLJ US	Dany Asad
	Sportradar Holding AG	SRAD	SRAD US	Shaun C. Kelley
	Summit Hotel Properties	INN	INN US	Dany Asad
	Sunstone Hotel Investors	SHO	SHO US	Dany Asad
	Travel + Leisure Co	TNL	TNL US	Dany Asad

US - Gaming, Lodging and Leisure Coverage Cluster

Investment rating

Company

BofA Ticker

Bloomberg symbol

Analyst

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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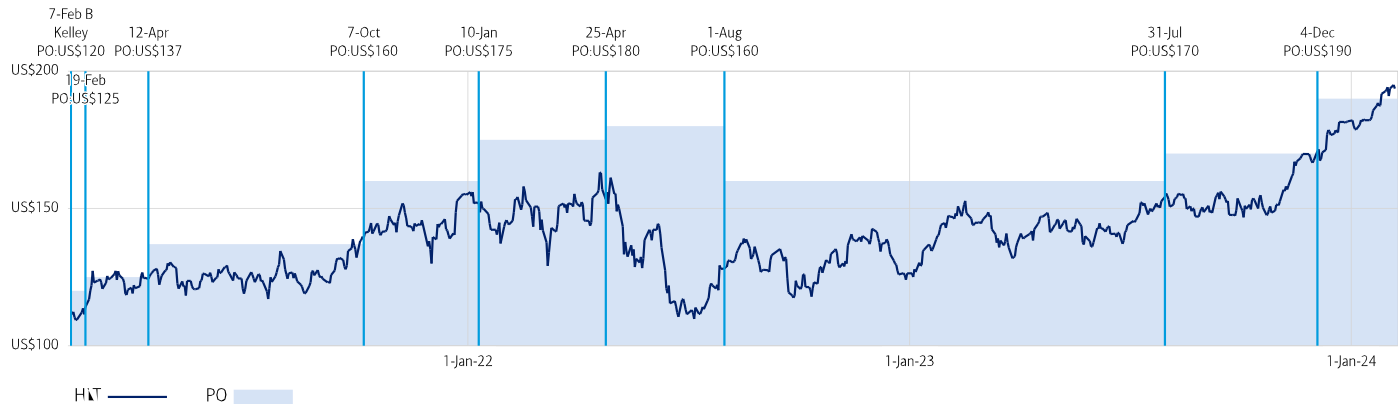
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Disclosures

Important Disclosures

Hilton Worldwide (HLT) 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.

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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Neutral	≥ 0%	≤ 30%
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^{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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