

## Hilton Worldwide

## One Shining Moment... Acquiring Graduate Hotels for \$210M

Reiterate Rating: BUY | PO: 225.00 USD | Price: 206.51 USD

## Acquiring Graduate Hotels for \$210M

This morning, Hilton (HLT) announced the bolt-on acquisition of Graduate Hotels for \$210M in cash, a lifestyle collection brand of hotels founded in 2014 that currently consists of 35 hotels in university towns. Hilton has historically focused on organic growth, so any M&A is notable, and we think this was a unique opportunity that is 1) is valuation/fee accretive out of the box, 2) ultimately accelerates HLT's unit growth and pipeline, 3) bolsters its exposure to the fast-growing lifestyle segment with an established brand, and 4) is also accretive to RevPAR.

**Bottom Line:** We think this deal is unique and attractive, and raise our Hilton PO to \$225 from \$215, still 17x 2025 EBITDA and is consistent with mid-cycle earnings on peak multiple for Hilton. While we are approaching peak levels on historical multiples, valuation is still attractive relative to best of breed compounders and the market ([see our Bull-Bear report for valuation details/analysis](#)). Reiterate our Buy.

## Attractive fee stream at 13.1x, accretive out of the box

The 35 Graduate hotels joining the Hilton system will enter into traditional long-term franchise contracts that we think will bear similar features to Hilton's existing contracts with other brands, while the seller (AJ Capital) will retain ownership and management of the existing hotels. HLT expects ~\$16M of fees in its first calendar year with nominal incremental G&A as the brand will benefit from being plugged into Hilton's commercial engine. Based on an estimated ~175 room size, we think Graduate's RevPAR is in the \$120-140 range, which is accretive to Hilton's existing RevPAR base.

## Growing footprint with an established brand, pipeline

The addition of Graduate, which skews towards Midwest and Southern university markets (~60% of hotels) helps bolster Hilton's lifestyle brand presence, which currently consists of Curio, Tapestry and Tempo. We think the brand will likely settle between Curio and Tapestry, which still leaves Hilton with an opportunity to roll out a luxury lifestyle brand down the line. We think Hilton's development team will accelerate Graduate's pipeline rapidly from the current four hotels (Austin, Dallas, Princeton and Auburn) towards its total addressable market of 400-500 hotels. Hilton expects this deal to close in Q2 and will likely limit fee contribution in 2024 as a result.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.89	6.37	7.01	8.35	9.76
GAAP EPS	4.53	4.48	6.78	8.14	9.53
EPS Change (YoY)	135.1%	30.3%	10.0%	19.1%	16.9%
Consensus EPS (Bloomberg)			7.09	8.21	9.28
DPS	0.60	0.60	0.60	0.60	0.60
Valuation (Dec)					
P/E	42.2x	32.4x	29.5x	24.7x	21.2x
GAAP P/E	45.6x	46.1x	30.5x	25.4x	21.7x
Dividend Yield	0.3%	0.3%	0.3%	0.3%	0.3%
EV / EBITDA*	25.8x	21.7x	19.9x	18.2x	16.6x
Free Cash Flow Yield*	3.0%	3.3%	3.6%	4.0%	4.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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Timestamp: 14 March 2024 04:26PM EDT

14 March 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	215.00	225.00
2024E Rev (m)	4,809.2	4,809.3
2025E Rev (m)	5,162.5	5,170.8
2026E Rev (m)	5,537.7	5,555.7
2024E EPS	7.12	7.01
2025E EPS	8.45	8.35
2026E EPS	9.82	9.76

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## Stock Data

Price	206.51 USD
Price Objective	225.00 USD
Date Established	14-Mar-2024
Investment Opinion	B-1-7
52-Week Range	129.86 USD - 209.13 USD
Mrkt Val (mn) / Shares Out (mn)	52,074 USD / 252.2
Free Float	98.2%
Average Daily Value (mn)	311.30 USD
BofA Ticker / Exchange	HLT / NYS
Bloomberg / Reuters	HLT US / HLT.N
ROE (2024E)	NA
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter <sup>TM</sup>	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".

# iQprofile<sup>SM</sup> Hilton Worldwide

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	11.5%	13.6%	16.0%	18.0%	19.9%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	57.1%	59.0%	61.9%	63.7%	65.4%
Free Cash Flow	1,579	1,699	1,882	2,095	2,302

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.2x	1.2x	1.2x	1.2x
Asset Replacement Ratio	0.6x	1.7x	2.3x	2.3x	2.4x
Tax Rate	27.5%	31.3%	29.8%	28.5%	28.5%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	5.1x	5.6x	5.3x	5.4x	5.3x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,736	4,408	4,809	5,171	5,556
% Change	52.9%	18.0%	9.1%	7.5%	7.4%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	2,599	3,089	3,369	3,683	4,035
% Change	59.5%	18.9%	9.1%	9.3%	9.6%
Net Interest & Other Income	(399)	(870)	(557)	(607)	(680)
<b>Net Income (Adjusted)</b>	<b>1,357</b>	<b>1,676</b>	<b>1,748</b>	<b>1,962</b>	<b>2,153</b>
<b>% Change</b>	<b>132.4%</b>	<b>23.5%</b>	<b>4.3%</b>	<b>12.2%</b>	<b>9.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,255	1,179	1,691	1,912	2,102
Depreciation & Amortization	162	147	115	114	114
Change in Working Capital	66	705	35	35	35
Deferred Taxation Charge	34	(264)	132	121	135
Other Adjustments, Net	164	179	169	180	191
Capital Expenditure	(102)	(247)	(259)	(267)	(276)
<b>Free Cash Flow</b>	<b>1,579</b>	<b>1,699</b>	<b>1,882</b>	<b>2,095</b>	<b>2,302</b>
<b>% Change</b>	<b>NM</b>	<b>7.6%</b>	<b>10.8%</b>	<b>11.3%</b>	<b>9.9%</b>
Share / Issue Repurchase	(1,590)	(2,338)	(2,850)	(3,200)	(3,400)
Cost of Dividends Paid	(123)	(158)	(150)	(141)	(132)
Change in Debt	(25)	426	1,250	900	1,200

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,286	875	1,008	661	631
Trade Receivables	1,584	1,739	1,739	1,739	1,739
Other Current Assets	NA	NA	NA	NA	NA
Property, Plant & Equipment	280	382	841	1,309	1,786
Other Non-Current Assets	12,362	12,405	12,082	11,759	11,436
<b>Total Assets</b>	<b>15,512</b>	<b>15,401</b>	<b>15,670</b>	<b>15,469</b>	<b>15,591</b>
Short-Term Debt	39	39	39	39	39
Other Current Liabilities	2,223	2,481	2,481	2,481	2,481
Long-Term Debt	8,708	9,157	10,407	11,307	12,507
Other Non-Current Liabilities	5,640	6,071	6,238	6,394	6,564
<b>Total Liabilities</b>	<b>16,610</b>	<b>17,748</b>	<b>19,165</b>	<b>20,221</b>	<b>21,591</b>
<b>Total Equity</b>	<b>(1,098)</b>	<b>(2,347)</b>	<b>(3,495)</b>	<b>(4,752)</b>	<b>(5,999)</b>
<b>Total Equity &amp; Liabilities</b>	<b>15,512</b>	<b>15,401</b>	<b>15,670</b>	<b>15,469</b>	<b>15,591</b>

\* For full definitions of iQmethod<sup>SM</sup> 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 1,507,456

## Quarterly Earnings Estimates

	2023	2024
Q1	1.25A	1.38E
Q2	1.62A	1.83E
Q3	1.68A	1.92E
Q4	1.83A	1.89E

# Acquiring Graduate Hotels for \$210M

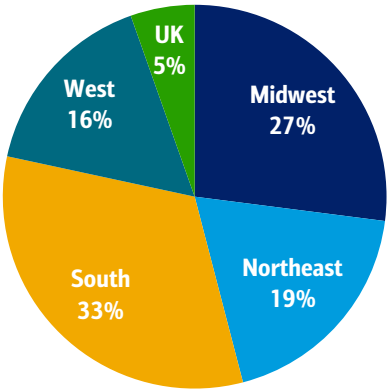
**Exhibit 1: Graduate's RevPAR is accretive to HLT**  
Fee contribution to Hilton from Graduate

RevPAR Assumption	Low	Mid	High
Number of Hotels	35	35	35
Hotel size	175	175	175
Total Rooms	6,125	6,125	6,125
RevPAR	\$119	\$130	\$143
System Revenues (\$M)	\$267	\$291	\$320
Franchise fee (%)	6.0%	5.5%	5.0%
<b>Fees to Hilton (\$M)</b>	<b>\$16</b>	<b>\$16</b>	<b>\$16</b>
Graduate RevPAR vs. HLT system	2%	11%	22%

Source: BofA Global Research, company documents

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**Exhibit 2: Graduate currently skews towards southern and Midwest markets**  
Existing Graduate Hotels geographic distribution



Source: BofA Global Research, company documents

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## Price objective basis & risk

### Hilton Worldwide (HLT)

Our \$225 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
<b>BUY</b>				
	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
	VICI Properties	VICI	VICI US	Shaun C. Kelley
	Wyndham Hotels & Resorts, Inc.	WH	WH US	Dany Asad
<b>NEUTRAL</b>				
	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
	Vail Resorts, Inc	MTN	MTN US	Shaun C. Kelley
	Wynn Resorts Ltd	WYNN	WYNN US	Shaun C. Kelley
<b>UNDERPERFORM</b>				
	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

## 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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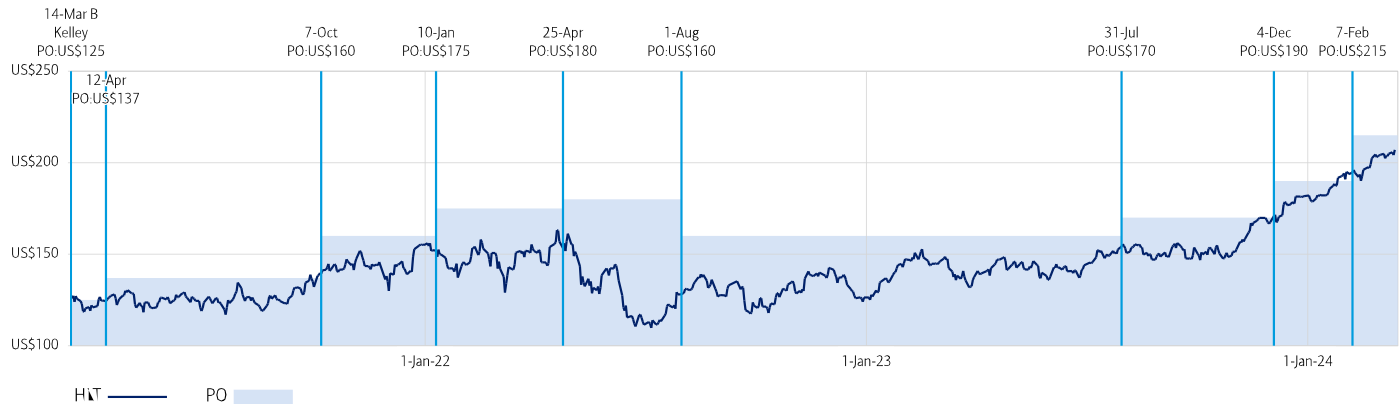
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### Hilton Worldwide (HLT) Price Chart



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 <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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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