

## Company Report: HUAZHU-S (01179 HK)

公司报告: 华住集团-S (01179 HK)

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# Increased Uncertainty, Downgrade to "Reduce"

不确定性增加, 下调至“减持”

- **Extension of lockdown in Germany will have a negative impact on the Company's Deutsche Hospitality (DH) hotels.** On 6 January, Germany extended its nationwide lockdown through 31 January, with potential to be further extended into 1Q2021. DH operates mainly in Germany, Austria, the Netherlands and Belgium. For the year of 2019, before DH was acquired by the Company, 88.7% of DH's total current taxes were derived in Germany. We forecast DH revenue to account for 15.5% and 14.8% of the Company's total revenue in 2020 and 2021, respectively.
- **We trim our 2020-2022 net revenue forecasts by 0.4%, 4.2% and 0.9%, respectively.** We forecast 2020-2022 total net revenue of RMB10.1 bn, RMB15.2 bn and RMB17.7 bn, reflecting growth of -9.6%, 49.8% and 16.6%, respectively.
- **We lower our 2020-2022 adjusted EBITDA forecasts by 27.4%, 5.0% and 4.2%, respectively.** We forecast 2020-2022 adjusted EBITDA of RMB227 mn, RMB4.4 bn and RMB5.6 bn, reflecting growth of -93.2%, 1,824.5% and 27.7%, respectively. We forecast 2020-2022 fully diluted EPS of -RMB9.15, RMB5.64 and RMB7.47, respectively.
- **We downgrade Huazhu from "Accumulate" to "Reduce" investment rating and lower our target price from HK\$338.00 to HK\$328.00.** Due to the resurgence of COVID-19 cases outside of China, we expect Huazhu's DH branded hotels in Europe to be negatively impacted in 1Q2021 and likely also going into 2Q2021. Our new target price is an 18.3% discount to our DCF derived NAV of HK\$401.60 and is equivalent to 22.2x 2021 EV/Adjusted EBITDA and 41.5x 2021 PER.
- **德国封锁的延长将对公司的德意志酒店集团（“德意志酒店”）造成负面的影响。**1月6日, 德国延长全国范围内的封锁直至1月31日, 并有可能进一步延长至2021年第1季度。德意志酒店主要在德国、奥地利、荷兰以及比利时运营。2019年, 在德意志酒店被公司收购之前, 德意志酒店88.7%的现行税收来自德国。我们预期德意志酒店的收入将分别占公司2020年和2021年总收入的15.5%和14.8%。
- **我们将2020年-2022年净收入预测分别下调0.4%、4.2%和0.9%。**我们预期2020年-2022年总净收入分别为人民币101亿元、人民币152亿元和人民币177亿元, 对应-9.6%、49.8%和16.6%的增长。
- **我们将2020年-2022年经调整EBITDA预测分别下调27.4%、5.0%和4.2%。**我们预期2020年-2022年经调整EBITDA分别为人民币2.27亿元、人民币44亿元和人民币56亿元, 对应-93.2%、1,824.5%和27.7%的增长。我们预期2020年-2022年每股全面摊薄收益分别为人民币-9.15元、人民币5.64元和人民币7.47元。
- **我们将华住的投资评级从“收集”下调至“减持”, 并将目标价由338.00港元下调至328.00港元。**由于新冠肺炎疫情在中国以外地区出现反复, 我们预期华住在欧洲的德意志品牌酒店将在2021年第1季度受到负面影响并可能持续至2021年第2季度。我们最新的目标价相对我们运用折现现金流方法得出的每股估值401.60港元有18.3%的折让, 并相当于22.2倍2021年EV/经调整EBITDA和41.5倍2021年市盈率。

Rating:

**Reduce**

Downgraded

评级:

**减持** (下调)

6-18m TP 目标价:

**HK\$328.00**

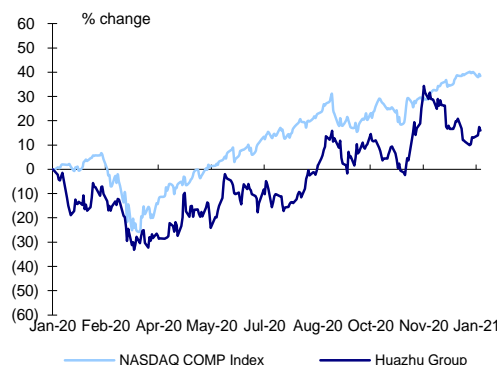
HK\$338.00

Share price 股价:

HK\$368.800

## Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(5.2)	4.4	(26.1)
Rel. % to HS Index 相对恒指变动 %	(9.2)	(9.3)	38.1
Avg. share price (HK\$) 平均股价 (港元)	358.3	355.8	352.5

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2018A	10,063	716	2.540	(42.3)	107.9	21.917	12.5	2.336	0.9	11.6
2019A	11,212	1,769	6.220	144.9	44.8	25.955	10.7	5.720	2.1	26.1
2020F	10,132	(2,602)	(9.100)	(236.4)	n.a.	80.563	3.3	0.000	0.0	(32.0)
2021F	15,173	1,968	6.691	n.a.	32.5	94.127	2.9	0.000	0.0	18.1
2022F	17,688	3,012	10.164	39.9	23.2	113.376	2.4	0.000	0.0	19.6
Shares in issue (m) 总股数 (m)					320.5	Major shareholder 大股东				Qi Ji 31.1%
Market cap. (HK\$ m) 市值 (HK\$ m)					99,999.0	Free float (%) 自由流通比率 (%)				49.0
3 month average vol. 3 个月平均成交股数('000)					272,865.1	FY20 Net gearing (%) FY20 净负债/股东资金 (%)				78.2
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)					364.800 / 303.400	FY21 Est. NAV (HK\$) FY21 每股估值 (港元)				420.3

Source: the Company, Guotai Junan International.

See the last page for disclaimer

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**Huazhu Group's 3Q2019 net revenue increased 3.4% yoy to RMB3.158 billion, which was better than the management's previous revenue guidance range of 0% to 2% growth.** Excluding the Company's Deutsche Hospitality (DH) hotels, net revenue decreased 10.5% yoy. Total net revenue from leased and owned hotels increased 2.0% yoy to RMB2.131 billion, while net revenue from manachised and franchised hotels was RMB995 million, up 6.0% yoy as the Company increased its proportion of manachised and franchised hotels.

**Table-1: Huazhu Results**

(RMB mn, except EPS)	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	2Q2020 (% or ppt)	
						yoy	qoq
Leased & owned hotels revenue*	2,089	1,921	1,516	1,236	2,131	2.0%	
Manachised & franchised hotels revenue*	939	938	465	676	995	6.0%	
Other revenue	27	51	32	41	32	18.5%	
<b>Net revenue</b>	<b>3,055</b>	<b>2,910</b>	<b>2,013</b>	<b>1,953</b>	<b>3,158</b>	<b>3.4%</b>	
Hotel operating costs (Ex. pre-open costs)	(1,834)	(1,879)	(2,377)	(2,135)	(2,470)	34.7%	
% of leased & owned hotels net revenue	87.8%	97.8%	156.8%	172.7%	115.9%	28.1 ppt	
Pre-opening costs	(126)	(149)	(111)	(99)	(42)	(66.7%)	
SG&A	(390)	(464)	(462)	(370)	(505)	29.5%	
Goodwill impairment loss	0	0	0	0	(437)	n.a.	
Other operating income (costs), net	(2)	68	80	157	95	n.a.	
Income from operations	703	486	(857)	(494)	(201)	(128.6%)	
Interest expense, net	(26)	(44)	(108)	(116)	(105)	303.8%	
Other non-operating income, net	86	45	(102)	21	(1)	(101.2%)	
Unrealized gains (losses) from equity securities	28	230	(1,003)	(34)	39	39.3%	
Foreign exchange gain (loss)	(108)	69	(58)	34	48	n.a.	
Income (Loss) from equity investments	(60)	(28)	(60)	(33)	(35)	(41.7%)	
Tax (expense) / benefit	(191)	(133)	30	68	50	n.a.	
Non-controlling interest	(1)	(6)	23	6	(7)	600.0%	
Net income	431	619	(2,135)	(548)	(212)	(149.2%)	
EBITDA	898	1,062	(1,736)	(169)	190	(78.8%)	
Less:							
Share-based compensation expense	(31)	(22)	(29)	(38)	(33)	6.5%	
Unrealized fair value gains (losses) on equity securities	28	230	(1,003)	(34)	39	39.3%	
<b>Adjusted EBITDA</b>	<b>901</b>	<b>854</b>	<b>(704)</b>	<b>(97)</b>	<b>184</b>	<b>(79.6%)</b>	
<b>Adjusted net income</b>	<b>434</b>	<b>411</b>	<b>(1,103)</b>	<b>(476)</b>	<b>(218)</b>	<b>(150.2%)</b>	
EPS, Basic (RMB)	1.510	2.170	(7.460)	(1.913)	(0.730)	(148.3%)	
EPS, Diluted (RMB)	1.450	2.070	(7.460)	(1.913)	(0.730)	(150.3%)	
Adjusted EPS, Basic (RMB)	1.520	1.440	(3.850)	(1.662)	(0.750)	(149.3%)	
<b>Adjusted EPS, Diluted (RMB)</b>	<b>1.460</b>	<b>1.380</b>	<b>(3.850)</b>	<b>(1.662)</b>	<b>(0.750)</b>	<b>(151.4%)</b>	

Source: the Company, Guotai Junan International.

Note: \* the Company has three kinds of hotel operating models, namely: 1) leased hotels and owned hotels ("L&O"); 2) franchised and managed hotels ("manachised"), and; 3) franchised hotels.

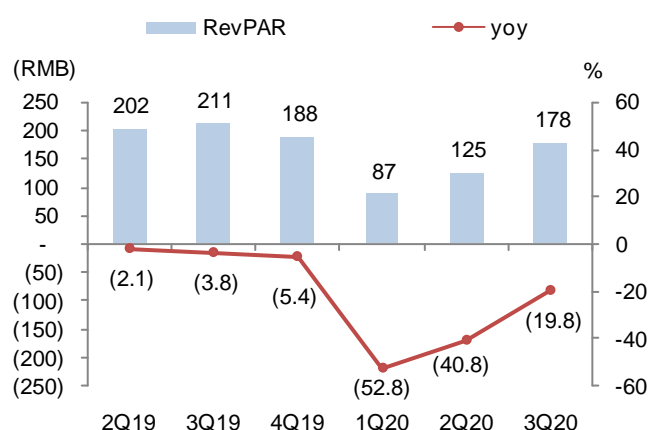
**Loss from operations was RMB201 million in 3Q2020, improved from the loss from operations of RMB494 million in the previous quarter.** Huazhu incurred goodwill impairment loss related to DH totaling RMB437 million. The DH business has been gradually recovering since April 2020. However, with the uptick of COVID-19 cases in Europe since late-September 2020, which increased the uncertainty and prolonged the timing of the recovery. As a result, Huazhu made a non-cash provision of goodwill impairment loss on DH business, and goodwill on the Company's balance decreased from a total of RMB5,402 million at the end of 2Q2020 to RMB4,976 million at the end of 3Q2020. With the deteriorated COVID-19 situation in Europe coming into 1Q2021, we think the Company might make more goodwill impairment losses in the coming quarters.

**Adjusted EBITDA turned from loss of RMB97 million in 2Q2020 to positive RMB184 million in 3Q2019.** Adjusted EBITDA excludes share-based compensation expenses and unrealized gains (losses) from fair value changes of equity securities.

Adjusted net loss was RMB218 million in 3Q2020, compared to adjusted net loss of RMB479 million in 2Q2020. Reported GAAP net loss was RMB212 million, compared with net loss of RMB548 million in 2Q2020.

During 2Q2020, excluding Deutsche Hospitality hotels, Huazhu's blended RevPAR was RMB127, down 38.2% yoy, and for mature hotels in operation for at least 18 months, same hotel RevPAR was RMB125, down 40.8% yoy. Huazhu announced its preliminary 2Q2020 hotel operating results and indicated that in early July, with the containment of the outbreak of COVID-19 in Beijing, Huazhu's occupancy rate in China gradually improved, reaching over 80% by mid-July. As China kept the COVID-19 outbreak largely under control, 97% of hotels resumed operation in 2Q2020. As at June 30, 2020, Huazhu had 139 hotels under governmental requisition, compared to 374 as at March 31, 2020. During 2Q2020, blended RevPAR for Deutsche Hospitality hotels was EUR16, down 77.6% yoy. As at June 30, 2020, 21% (24 hotels) of DH hotels were still temporarily closed, including 5 leased hotels and 19 manachised and franchised hotels.

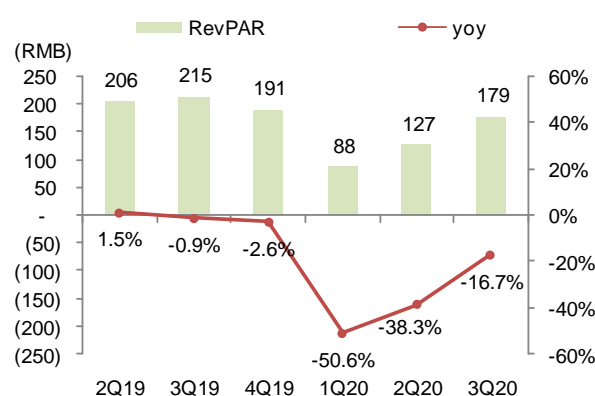
**Figure-1: Huazhu Hotels Same Hotel RevPAR for Mature Hotels\***



Source: the Company, Guotai Junan International.

Note: \*Mature hotels are hotels that have been in operation for at least 18 months. Excludes Deutsche Hospitality hotels. Excludes hotels under government requisition during the COVID-19 pandemic in 1Q2020 and 2Q2020.

**Figure-2: Huazhu Hotels Blended RevPAR\***



Source: the Company, Guotai Junan International.

Note: \*Excludes Deutsche Hospitality hotels. Excludes hotels under government requisition during the COVID-19 pandemic in 1Q2020 and 2Q2020.

**Table-2: Huazhu Hotels Performance (Average Daily Rate, Occupancy & RevPAR)**

						2Q2020 (% or ppt.)	
						yoy	qoq
	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020		
All Hotels Blended Performance							
Avg. daily room rate (RMB)	245	232	189	185	218	(11.0%)	
Occupancy rate	87.7%	82.2%	46.7%	68.8%	82.0%	(0.1) ppt	
RevPAR (RMB)	215	191	88	127	179	(16.7%)	
Mature Same Hotels							
Avg. daily room rate (RMB)	234	222	180	178	212	(24.4%)	
Occupancy rate	90.1%	84.9%	48.0%	70.0%	83.8%	(19.4) ppt	
RevPAR (RMB)	211	188	87	125	178	(40.8%)	

Source: the Company, Guotai Junan International.

Note: Mature hotels are hotels that have been in operation for at least 18 months. Excludes Deutsche Hospitality Hotels. Excludes hotels under government requisition during the COVID-19 pandemic in 1Q2020 and 2Q2020.

As at 30 September, 2020, Huazhu operated 6,507 hotels with 634,087 rooms in operation in 16 countries. During 3Q2020, excluding DH hotels, the Company added a total of 520 new hotels and closed a total of 201 hotels, bringing net hotel additions for 3Q2020 to 319 hotels. On a net basis, the Company closed 3 leased and owned Huazhu hotels and opened 322 Huazhu manachised and franchised hotels. As at 30 September, 2020, Huazhu had 687 leased and owned hotels and 5,703 manachised and franchised hotels for a total of 6,390 hotels in operation excluding its DH hotels. The Company added two new leased and owned DH hotels and closed one manachised and franchised DH hotel. As at 30 September, 2020, Huazhu had 70 leased and owned DH hotels and 47 manachised and franchised DH hotels for a total of 117 DH hotels in operation.

**Table-3: Huazhu Hotels Portfolio**

	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	3Q2020 (% or ppt.)	
						YoY	QoQ
BY BUSINESS MODEL							
Leased and owned	697	688	756	758	757	8.6%	(0.1%)
% of total	13.5%	12.2%	12.7%	12.3%	11.6%	(1.9) ppt	(0.6) ppt
Manachised and Franchised	4,454	4,930	5,197	5,429	5,750	29.1%	5.9%
% of total	86.5%	87.8%	87.3%	87.7%	88.4%	1.9 ppt	0.6 ppt
Total Hotels in Operation	5,151	5,618	5,953	6,187	6,507	26.3%	5.2%
BY MARKET SEGMENT							
Hanting Hotel (汉庭酒店)	2,561	2,586	2,630	2,638	2,722	6.3%	3.2%
Hi Inn (海友酒店)	450	465	464	464	443	(1.6%)	(4.5%)
Elan Hotel (怡莱酒店)	373	648	713	838	849	127.6%	1.3%
Orange Regular (桔子酒店)	0	0	0	0	0	n.a.	n.a.
Ibis Hotel (宜必思)	179	185	185	187	199	11.2%	6.4%
Zleep Hotel		0	12	13	13		
Economy Hotels	3,563	3,884	4,004	4,140	4,226	18.6%	2.1%
% of total	69.2%	69.1%	67.3%	66.9%	64.9%	(4.2) ppt	(2.0) ppt
Ji Hotel (全季酒店)	759	831	885	926	1,033	36.1%	11.6%
Starway Hotel (星程酒店)	317	350	367	392	428	35.0%	9.2%
Ibis Style (宜必思)	50	55	59	60	63	26.0%	5.0%
Crystal Orange (桔子水晶)	77	85	95	99	110	42.9%	11.1%
Orange Selected (桔子精选)	233	248	255	265	308	32.2%	16.2%
Midscale Hotels	1,436	1,569	1,661	1,742	1,942	35.2%	11.5%
% of total	27.9%	27.9%	27.9%	28.2%	29.8%	2.0 ppt	1.7 ppt
Madison	6	13	15	18	23	283.3%	27.8%
Joya Hotel (禧玥酒店)	39	46	52	53	59	51.3%	11.3%
Man Xin (漫心度假酒店)	6	6	8	9	10	66.7%	11.1%
Mecure (美居酒店)	63	68	71	80	98	55.6%	22.5%
Grand Mecure (美爵酒店)	8	6	6	6	7	(12.5%)	16.7%
Blossom Hill (盛放山酒店)	21	17	24	25	26	23.8%	4.0%
Novotel (诺富特酒店)	9	9	9	11	12	33.3%	9.1%
Steigenberger Hotels & Resorts	0	0	50	50	49	n.a.	(2.0%)
Intercity Hotel	0	0	42	42	44	n.a.	4.8%
Maxx by Steigenberger	0	0	5	5	5	n.a.	0.0%
Jaz in the City	0	0	2	2	2	n.a.	0.0%
Other partner hotels	0	0	4	4	4	n.a.	0.0%
Upscale Hotels	152	165	288	305	339	123.0%	11.1%
% of total	3.0%	2.9%	4.8%	4.9%	5.2%	2.3 ppt	0.3 ppt

Source: the Company, Guotai Junan International.

## Outlook

### Extension of lockdown in Germany will have a negative impact on the Company's Deutsche Hospitality (DH) hotels.

The German government imposed a nationwide partial shutdown on 2 November 2021, forcing restaurants, bars, leisure and sports facilities to close. As the number of COVID-19 cases continued to increase, the scope of the lockdown was expanded to include the closure also of all shops and schools that are deemed to be nonessential. The lockdown was originally scheduled to run through 10 January 2021, but on 6 January 2021 was extended through 31 January at least. We think there is a good chance that the lockdown could extend even further into 1Q2021.

**DH operates mainly in Germany, Austria the Netherlands and Belgium.** Steigenberger Hotels AG's 2019 taxes indicate that most of its business is in Germany. Huazhu acquired Steigenberger Hotels AG and hence its entire operations, the Deutsche Hospitality (DH) hotels, on 2 January 2020. For the year of 2019, before DH was acquired by the Company, DH's total current taxes amounted to EUR7,384 million, of which EUR6,553, equivalent to 88.7% of the total, was derived in Germany. We forecast DH revenue to account for 15.5% and 14.8% of the Company's total revenue in 2020 and 2021, respectively.

**We trim our 2020-2022 net revenue forecasts by 0.4%, 4.2% and 0.9%, respectively.** We forecast 2020-2022 total net revenue of RMB10.1 billion, RMB15.2 billion and RMB17.7 billion, reflecting growth of -9.6%, 49.8% and 16.6%, respectively. Excluding DH hotels, we forecast Huazhu hotels' RevPAR to decrease by 30.3% in 2020, followed by a 29.0% increase in 2021 and a 3.2% increase in 2022. We expect DH hotels to have a sharper RevPAR decline in 2021 as Germany and other European governments continue with lockdowns.

**We lower our 2020-2022 adjusted EBITDA forecasts by 27.4%, 5.0% and 4.2%, respectively.** We forecast 2020-2022 adjusted EBITDA of RMB227 million, RMB4.4 billion and RMB5.6 billion, reflecting growth of -93.2%, 1,824.5% and 27.7%, respectively. Adjusted EBITDA (as well as adjusted net income) excludes share-based compensation expenses and unrealized gains or losses from fair value changes of equity securities.

**We forecast 2020 net loss of RMB2.6 billion, and 2021 and 2022 net income of RMB2.0 billion and RMB3.0 billion, respectively.** We forecast 2020-2022 fully diluted EPS of -RMB9.15, RMB5.64 and RMB7.47, respectively.

**Table-4: Huazhu Forecast Update**

(RMB million)	Old			New			Change (% or ppt)		
	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
Total hotels in operation (at year end)	7,379	8,849	10,319	7,229	8,579	9,829	(2.0%)	(3.1%)	(4.7%)
Total net revenue	10,178	15,846	17,855	10,132	15,173	17,688	(0.4%)	(4.2%)	(0.9%)
Operating profit	(996)	3,074	4,118	(1,060)	2,852	3,897	(6.4%)	(7.2%)	(5.4%)
EBITDA	(848)	4,470	5,708	(889)	4,314	5,554	(4.9%)	(3.5%)	(2.7%)
Adjusted EBITDA	313	4,600	5,818	227	4,367	5,576	(27.4%)	(5.0%)	(4.2%)
Net income	(2,399)	2,666	3,757	(2,602)	1,968	3,012	(8.5%)	(26.2%)	(19.8%)
Adjusted net income	(1,176)	2,695	3,716	(1,486)	2,021	3,033	(26.4%)	(25.0%)	(18.4%)
Earnings per ADR, basic (RMB)	(8.487)	8.262	11.556	(9.100)	6.691	10.164	(7.2%)	(19.0%)	(12.0%)
Earnings per ADR, diluted (RMB)	(8.484)	7.290	8.645	(9.146)	5.642	7.467	(7.8%)	(22.6%)	(13.6%)

Source: the Company, Guotai Junan International.

## Valuation

**We downgrade Huazhu from "Accumulate" to "Reduce" investment rating and lower our target price from HK\$338.00 to HK\$328.00.** With the COVID-19 pandemic situation under control in China, we expect Huazhu's domestic hotels to benefit. However, due to the resurgence of COVID-19 cases outside of China, we expect Huazhu's Deutsche Hospitality branded hotels in Europe to be negatively impacted in 1Q2021 and likely also going into 2Q2021. Our new target price is an 18.3% discount to our DCF derived NAV of HK\$401.60 and is equivalent to 22.2x 2021 EV/Adjusted EBITDA and 41.5x 2021 PER.

**Table-5: Huazhu Valuation and Target Price Based Multiples**

	2019A	2020F	Next 4 Quarters	2021F	2022F
<b>Target Price Based EV / EBITDA</b>					
Target Price (HK\$)	328.00				
Shares Outstanding (diluted mn)	304	293	351	343	403
Market Cap (HK\$ mn)	99,814	95,993	115,091.5	112,664	132,086
RMB/HKD	0.87823	0.89402	0.84600	0.84600	0.84600
Market Cap (RMB mn)	87,659	85,819	97,367	95,314	111,745
+ Yr End minority interest (RMB mn)	121	97	80	74	50
+ Yr End Borrowings (RMB mn)	16,583	13,319	9,670	8,454	1,862
- Yr End cash & equivalents (RMB mn)	13,999	9,036	7,351	6,790	6,467
Year End Enterprise Value (RMB mn)	90,364	90,200	99,766	97,052	107,190
Adjusted EBITDA (RMB mn)	3,349	227	3,973	4,367	5,576
<b>EV / Adjusted EBITDA</b>	27.0	397.5	25.1	22.2	19.2
<b>Target Price Based PER &amp; PEG</b>					
Earnings per EPS (RMB)	6.2	(9.100)	5.6	6.7	10.2
Target Price Based PER	44.6	n.a.	49.4	41.5	27.3
2019-22 earnings per EPS CAGR					17.8%
TP Based PEG (2019 PER / 2019-2022 CAGR)					2.5

Source: Bloomberg, Guotai Junan International.



**Table-6: Huazhu DCF Based Valuation**

DCF Assumptions		Calculation	
Perpetual growth rate	3.00%	Present Value of Free Cash Flow to Equity (RMB mn)	33,135
		Present Value of Terminal Value (RMB mn)	66,094
Risk free rate	0.69%	Equity Value (RMB mn)	99,229
Adjusted Beta	1.10	Net Debt/(cash) (RMB mn)	7,008
Market risk premium	9.44%	Minority Interest (RMB mn)	97.4
Cost of Equity	11.07%	Total NAV (RMB mn)	92,123
Borrowing interest rate	6.2%	Shares Outstanding (mn)	271.1
Effective tax rate	25.0%	NAV per share (RMB)	339.75
Cost of Debt	4.7%	HK\$ / RMB	0.846
		NAV per SHARES (HK\$)	401.60
E/ (D+E)	40.2%		
D/ (D+E)	59.8%		
WACC	7.2%		

Source: Bloomberg, Guotai Junan International.

**Table-7: Peers Comparison**

Company	Stock Code	Cncy	Last Price	Mkt Cap	PE				EV/EBITDA				ROE(%)	PBR	
					19A	20F	21F	22F	19A	20F	21F	22F	20F	20F	
HK Listed															
Huazhu Group Ltd	01179 HK	HKD	362.60	116,218	n.a.	n.a.	n.a.	n.a.	n.a.	276.9	22.6	16.1	27.8	n.a.	
Shanghai Jin-H	02006 HK	HKD	1.19	6,624	8.6	10.3	11.6	10.0	8.7	n.a.	n.a.	n.a.	5.8	0.8	
Shangri-La Asia	00069 HK	HKD	6.78	24,310	20.3	n.a.	847.5	22.1	51.6	n.a.	23.1	15.4	1.9	0.5	
Hk&S Hotels	00045 HK	HKD	6.98	11,513	23.3	n.a.	67.1	25.9	33.1	n.a.	n.a.	n.a.	n.a.	n.a.	
Great Eagle	00041 HK	HKD	22.30	16,054	n.a.	13.0	6.0	n.a.	21.9	39.2	17.6	n.a.	3.9	n.a.	
Guoco Group Ltd	00053 HK	HKD	96.05	31,605	9.2	n.a.	n.a.	n.a.	113.4	121.1	n.a.	n.a.	n.a.	n.a.	
Sino Hotels	01221 HK	HKD	2.52	2,880	14.1	n.a.	n.a.	n.a.	1,172.9	1,158.9	n.a.	n.a.	n.a.	n.a.	
Regal Hotel Intl	00078 HK	HKD	2.74	2,463	5.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Paliburg Hldgs	00617 HK	HKD	2.02	2,251	8.0	n.a.	n.a.	n.a.	79.8	n.a.	n.a.	n.a.	n.a.	n.a.	
Century City Int	00355 HK	HKD	0.43	1,362	10.8	n.a.	n.a.	n.a.	72.5	n.a.	n.a.	n.a.	n.a.	n.a.	
Keck Seng Invest	00184 HK	HKD	3.05	1,038	190.6	n.a.	n.a.	n.a.	10.3	n.a.	n.a.	n.a.	n.a.	n.a.	
Shun Ho Property	00219 HK	HKD	1.48	858	43.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Itc Properties G	00199 HK	HKD	0.77	739	5.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Magnificent Hote	00201 HK	HKD	0.10	930	28.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Carrianna Group	00126 HK	HKD	0.49	610	2.2	43.3	n.a.	n.a.	4.3	4.7	n.a.	n.a.	n.a.	n.a.	
Kai Yuan Holding	01215 HK	HKD	0.04	511	n.a.	n.a.	n.a.	n.a.	41.0	n.a.	n.a.	n.a.	n.a.	n.a.	
Sai Leisure Grou	01832 HK	HKD	0.81	292	3.3	n.a.	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	n.a.	n.a.	
Shun Ho Holdings	00253 HK	HKD	1.00	304	68.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Mexan Ltd	00022 HK	HKD	0.13	262	166.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Fujian Holdings	00181 HK	HKD	0.17	192	20.2	n.a.	n.a.	n.a.	17.6	n.a.	n.a.	n.a.	n.a.	n.a.	
Greater Bay Area	01189 HK	HKD	0.21	166	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Link Holdings Lt	08237 HK	HKD	0.02	70	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Simple Average					37.0	22.2	233.0	19.3	125.2	320.1	21.1	15.8	9.9	0.6	
Weighted Avg.					17.4	13.0	368.3	21.2	43.7	238.8	22.1	16.0	20.7	0.1	
U.S. Listed															
Huazhu Group Ltd	HTHT US	USD	46.21	14,811	51.3	n.a.	43.2	27.8	493.7	1,699.1	20.9	16.3	23.0	8.6	
Bluegreen Vacati	BVH US	USD	13.84	268	72.8	n.a.	8.3	n.a.	n.a.	n.a.	n.a.	n.a.	8.1	1.1	
Bluegreen Vacati	BXG US	USD	7.79	565	16.6	47.2	13.7	10.8	12.7	13.5	7.2	7.1	n.a.	n.a.	
Choice Hotels	CHH US	USD	108.99	6,044	27.2	49.7	33.1	25.2	30.1	27.9	20.8	17.2	184.7	32.6	
Greentree Ho-Adr	GHG US	USD	12.86	1,314	20.5	29.4	15.4	13.1	21.3	21.1	10.7	8.2	25.4	3.8	
Hyatt Hotels-A	H US	USD	74.00	7,487	10.1	n.a.	n.a.	n.a.	292.4	n.a.	48.8	17.3	(7.7)	3.2	
Hilton Grand Vac	HGV US	USD	32.46	2,763	13.4	n.a.	30.6	18.0	29.2	32.3	11.1	8.0	24.8	4.2	
Hilton Worldwide	HLT US	USD	110.77	30,733	36.1	520.0	56.6	30.7	69.9	45.0	24.1	17.1	(29.5)	(43.1)	
Intercontin-Adr	IHG US	USD	65.42	11,949	n.a.	n.a.	n.a.	n.a.	n.a.	48.6	23.4	16.4	(18.3)	n.a.	
Marriott Intl-A	MAR US	USD	129.39	41,965	33.8	n.a.	53.8	27.3	47.7	44.5	24.0	16.4	172.9	57.1	
Playa Hotels & R	PLYA US	USD	5.60	758	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	56.9	11.7	(24.3)	1.6	
Extended Stay Am	STAY US	USD	14.54	2,582	39.3	60.6	27.1	18.2	14.1	13.3	10.7	9.4	7.2	2.3	
Marriott Vacatio	VAC US	USD	144.84	5,948	46.3	n.a.	28.9	17.5	57.5	36.0	14.0	10.4	9.0	2.1	
Wyndham Hotels &	WH US	USD	61.91	5,768	38.0	61.7	28.1	20.3	57.0	24.2	16.0	13.0	23.0	5.6	
Wyndham Destinat	WYND US	USD	49.13	4,218	8.9	n.a.	11.9	8.5	32.3	27.1	10.0	7.9	(263.6)	4.9	
Simple Average					31.9	128.1	29.2	19.8	96.5	169.4	21.3	12.6	9.6	6.5	
Weighted Avg.					34.2	358.7	46.2	26.0	119.1	231.6	23.1	15.5	49.1	12.1	

Source: Bloomberg, Guotai Junan International.

Note: All data and forecasts are taken from Bloomberg.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F	Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Total Revenue	10,063	11,212	10,132	15,173	17,688	PP&E	5,018	5,854	6,678	6,710	6,740
Hotel operating costs	(6,476)	(7,190)	(9,037)	(9,418)	(10,791)	Right-of-use assets	220	21,090	30,729	31,034	31,342
Pre-opening expense	(255)	(502)	(298)	(228)	(322)	Intangible assets, net	1,834	1,662	5,949	6,008	6,069
S&M	(348)	(426)	(569)	(698)	(814)	Long term investment	6,152	1,929	1,586	1,681	1,782
G&A	(851)	(1,061)	(1,249)	(1,624)	(1,893)	Goodwill	2,630	2,657	4,827	4,923	5,022
Other operating costs	(15)	(57)	(61)	(83)	(100)	Others	1,165	1,535	1,932	2,179	2,362
Goodwill impairment loss	0	0	(437)	(400)	0	Total Non-current Assets	17,019	34,727	51,700	52,535	53,316
Other operating income	226	132	459	129	129	Cash & Cash Equivalents	4,884	13,999	9,036	6,790	6,467
Operating Profit	2,344	2,108	(1,060)	2,852	3,897	Short-term investments	89	2,908	2,218	2,351	2,492
Interest income	148	160	129	157	124	Receivable, net	288	411	745	563	627
Interest expense	(244)	(315)	(532)	(380)	(180)	Due from related parties	176	182	182	193	205
Equity securities unrealized gains	(914)	316	(986)	75	120	Others	1,536	756	795	1,184	1,378
Others	(38)	132	(211)	(18)	108	Total Current Assets	6,974	18,256	12,977	11,081	11,169
Profit Before Tax	1,296	2,401	(2,660)	2,686	4,069	Total Assets	23,993	52,983	64,677	63,616	64,485
Income Tax	(569)	(640)	39	(699)	(1,028)	Debt & accounts payable	1,914	9,770	6,969	6,308	2,775
Profit After Tax	727	1,761	(2,621)	1,987	3,041	Salary & welfare payable	521	491	358	664	775
Non-controlling Interest	(11)	8	19	(19)	(29)	Deferred revenue	1,005	1,179	1,277	1,596	1,860
Shareholders' Profit / Loss	716	1,769	(2,602)	1,968	3,012	Operating lease liabilities	0	3,082	3,712	3,786	3,862
Adjusted Basic EPS	2.540	6.220	(9.100)	6.691	10.237	Accrued expenses and other	1,607	1,856	2,496	2,512	2,928
Adjusted Diluted EPS	2.490	5.940	(9.146)	5.642	7.521	Others	924	909	123	174	230
Basic EPS	2.540	6.220	(9.100)	6.691	10.164	Total Current Liabilities	5,969	17,287	14,936	15,040	12,429
Diluted EPS	2.490	5.940	(9.146)	5.642	7.467	Long term debt	8,812	8,084	7,596	3,816	1,026
EBITDA	2,272	3,555	(889)	4,314	5,554	Deferred revenue	458	559	543	493	566
Adjusted EBITDA	3,269	3,349	227	4,367	5,576	Lease liabilities	0	18,496	29,973	30,273	30,575
						Deferred tax liabilities	475	491	1,901	798	881
						Others	1,960	566	764	303	973
						Total Non-current Liabilities	11,704	28,196	40,778	35,683	34,022
						Total Liabilities	17,674	45,483	55,713	50,723	46,451
						Total Shareholders' Equity	6,174	7,379	8,866	12,819	17,984
						Minority Interest	145	121	97	74	50
						Total Equity	6,319	7,500	8,964	12,893	18,035
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F		2018A	2019A	2020F	2021F	2022F
Group net income (loss)	727	1,761	(2,621)	1,987	3,041	Operating margin (%)	23.3	18.8	(10.5)	18.8	22.0
Share-based compensation	83	110	130	129	142	Net profit margin (%)	7.1	15.8	(25.7)	13.0	17.0
D&A	919	1,019	1,377	1,452	1,486	EBITDA margin (%)	22.6	31.7	(8.8)	28.4	31.4
Deferred taxes	(91)	(38)	(383)	(19)	(19)	Adjusted EBITDA margin (%)	32.5	29.9	2.2	28.8	31.5
Losses	1,201	(261)	1,702	303	275	Asset turnover (x)	48.5	29.1	17.2	23.7	27.6
Non-cash lease expense	0	2,235	1,826	1,863	1,900	ROA (%)	345.1	459.6	(442.3)	306.7	470.2
Others	151	21	415	21	21	ROE (%)	11.6	26.1	(32.0)	18.1	19.6
Change in WC	58	(1,554)	583	(959)	1,493	Current ratio (x)	1.2	1.1	0.9	0.7	0.9
Cash from Operating Activities	3,049	3,293	3,029	4,776	8,338	Interest coverage (x)	9.6	6.7	n.a.	7.5	21.6
Capital expenditures	(1,115)	(1,527)	(1,727)	(1,520)	(1,640)	Debt / equity (%)	154.4	221.1	148.6	65.6	10.3
Acquisitions	(497)	(244)	(5,059)	(680)	(480)	Net gearing (%)	96.8	321.5	78.2	35.3	net cash
Purchase of intangibles	(4)	(5)	(4,287)	(59)	(60)						
Long term investments	(4,782)	1,674	(343)	95	101						
Others	53	(183)	(13)	(11)	(12)						
Cash from Investing Activities	(6,345)	(285)	(11,428)	(2,175)	(2,091)						
Change in bank loans	4,276	6,728	(3,264)	(4,865)	(6,592)						
Dividends paid	(5)	(663)	(0)	0	0						
Others	(36)	(34)	(0)	(0)	(0)						
Cash from Financing Activities	4,249	6,045	3,547	(4,847)	(6,570)						
Cash at Beg of Year	3,956	4,884	13,999	9,036	6,790						
Effects of foreign exchange	(24)	62	(111)	0	0						
Net Changes in Cash	928	9,115	(4,963)	(2,246)	(323)						
Cash at End of Year	4,884	13,999	9,036	6,790	6,467						

Source: the Company, Guotai Junan International.

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance>15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance>5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance<-5%; Or the fundamental outlook of the sector is unfavorable.

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