



## China Lodging Group, Ltd.

August 21, 2018

### Expect Better 2Q18 Results Driven By ADR and Hotel Volumes; Maintain BUY

**HTHT: BUY**  
**Price: \$33.16 (Intraday)**  
**Target Price: \$43.75**

HTHT will report 2Q18 results on August 22<sup>nd</sup> after the markets close followed by a 9pm EST conference call. The company continues to enjoy growth driven by hotel volume as well as ADR growth, while the occupancy rate remains steady at a high level. Based on the data released by the company, we believe HTHT's total revenue is likely to grow 26.7% Y/Y to reach RMB2,521.1M in 2Q18, better than topline consensus at RMB2,486.5M (25.0% Y/Y growth). We maintain our BUY rating.

<b>52 Week Range:</b>	<b>\$19.13 - \$43.58</b>
<b>Market Cap:</b>	<b>\$9.66B</b>
<b>Avg. Daily Vol. (100 day):</b>	<b>2,007,674</b>
<b>3-Yr. Est. Rev. CAGR:</b>	<b>20%</b>

- 2Q18 revenue is likely to be better than consensus** – According to the data released by the company, we believe the total revenue is likely to grow 26.7% Y/Y to reach RMB2,521.1M in 2Q18, better than topline consensus at RMB2,486.5M (25.0% Y/Y growth) driven by the increase in ADR as well as hotel volumes. Revenue from leased hotels is likely to increase 25.0% Y/Y to RMB1,928.4M, and revenue from manachised and franchised hotels is likely to increase 34.1% Y/Y to RMB584.4M.
- RevPAR up Y/Y driven by ADRs** – RevPAR is likely to be RMB202 in 2Q18, up 12.9% Y/Y from RMB179 in 2Q17 (*Figure 1*), attributable to occupancy rate at 89.6%, largely flat compared with 90.1% in 2Q17, and the ADR at RMB226, up 13.6% Y/Y from RMB199 in 2Q17 (*Figure 2 & 3*). For the month of July, RevPAR and occupancy rate are likely to be up 1.7% Y/Y and 2.3% Y/Y respectively, while ADR is likely to increase 4.0% Y/Y.
- Number of hotels also up Y/Y** – The number of hotels in operation was 3,903, up 10% Y/Y in 2Q18. In July 2018, we estimate the number of hotels in operation to be up 13% Y/Y with 433 new additions (*Figure 4*).
- Please see page 2 for a discussion of valuation and risks.**

FY (Dec)	2017A	2018E	2019E
Q1	1,593A	2,091A	2,342E
Q2	1,989A	2,486E	2,846E
Q3	2,373A	2,725E	3,254E
Q4	<u>2,215A</u>	<u>2,545E</u>	<u>2,953E</u>
FY Net Rev.	8,170A	9,846E	11,395E

Q1	0.53A	0.44A	0.81E
Q2	1.35A	1.67E	1.90E
Q3	1.62A	2.09E	2.49E
Q4	<u>0.82A</u>	<u>1.17E</u>	<u>1.43E</u>
GAAP EPS	4.32A	5.37E	6.63E
PE	64.6x	51.7x	39.5x
EBITDA	\$363.1A	\$486.4E	\$595.7E
EV/EBITDA	25.6x	19.1x	15.6x

\*GAAP EPS

All figures in millions unless otherwise noted

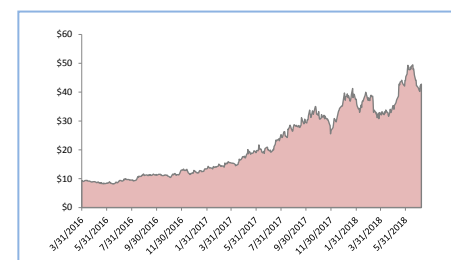
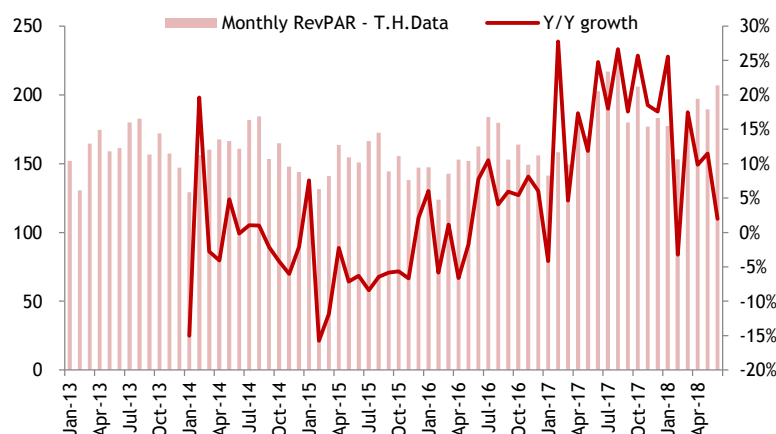


Figure 1: RevPAR of HTHT, 1/2013 – 7/2018



Source: T.H. Data ([www.thdata.com](http://www.thdata.com))

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- **Valuation and price target** – We maintain our BUY rating and our price target of \$43.75. Our price target is based on a forward EV/EBITDA multiple of 20.8X our 2019E non-GAAP EBITDA projection at \$595.7M (or \$2.03 per share).
- **Risks** – Beside the risks mentioned in its annual filing, we also want to point out the following: 1) since the company has more franchised hotels in its network, the hotel management can be challenging; 2) HTHT's occupancy rate is high, the room for improvement can be limited; 3) given the price increase in China's commercial property market, the inability to renew property leases may become reality; 4) failure of new acquisitions, 5) failure to integrate acquisitions; and 6) increasing labor and rental cost.

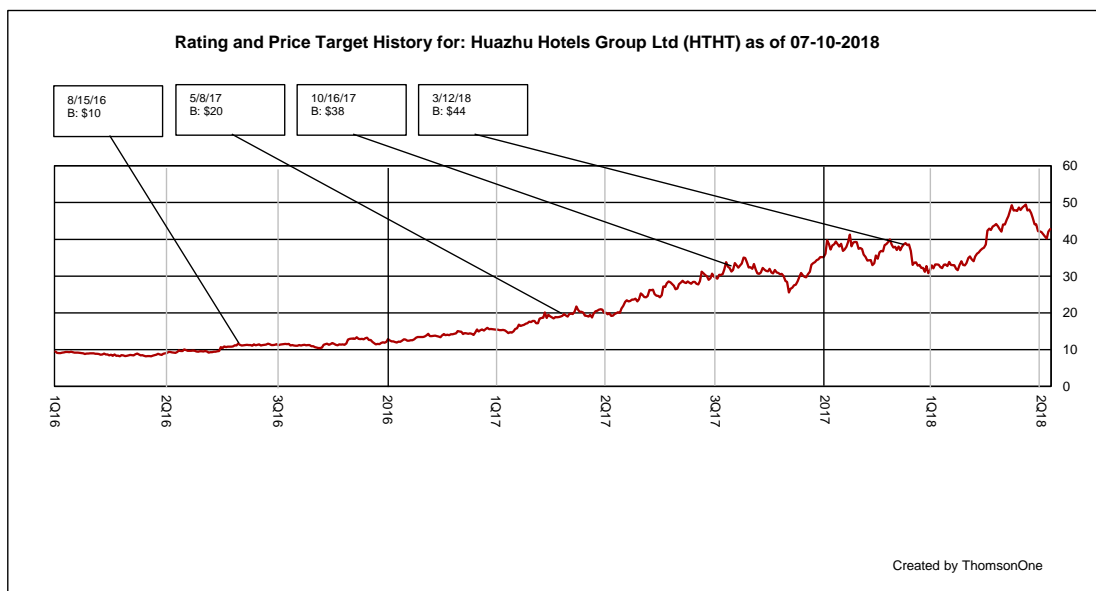
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