

HTHT Earnings Call Transcript

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Operator: Good day, and thank you for standing by. Welcome to the H World Q2 2025 Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Jason Chen. Please go ahead.

Jason Chen: Thank you, Heidi. Good morning, and good evening, everyone. Thanks for joining us today. Welcome to H World Group 2025 Second Quarter Earnings Conference Call. Joining us today is our Founder and Chairman, Mr. Ji Qi; our CEO, Mr. Jin Hui; our CFO, Ms. Chen Hui; and our CSO, Ms. He Jihong. Following their prepared remarks, management will be available to answer your questions. Before we continue, please note that the discussion today will include forward-looking statements made under the safe harbor provision of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today. A number of potential risks and uncertainties are outlined in our public filings with the SEC. H World Group does not undertake any obligations to update any forward-looking statements except as required and applicable laws. On the call today, we will also mention adjusted financial measures during the discussion of our performance. Reconciliations of those measures to comparable GAAP information can be found in our earnings release that was distributed earlier today. As a reminder, this conference call is being recorded. The webcast of this conference call as well as supplementary slide presentation is available at ir.hworld.com. With that, now I will hand over the call to our CEO, Mr. Jin Hui to discuss our business performance in the second quarter of 2025. Mr. Jin, please?

Hui Jin: [Interpreted] Dear investors and analyst, good day. Thank you for joining our second quarter 2025 earnings conference call. First, I'd like to share some observations on the overall market. On the demand side, domestic number of travelers continues to grow steadily according to the data released from railways, airlines and the tourism statistics. However, due to the rapid increase in hotel supply over the past 2 years, coped with the negative impacts of various macro factors on business traveling and consumer spending willingness, the hotel industry is still facing some challenges. Despite the current challenging market conditions, we remain committed to focus on the long-term business development, emphasizing on high-quality growth, securing prime locations in the major cities. Further deepening our presence in the lower-tier cities and optimizing the location and quality of our existing hotels. In the second quarter, by breaking through into more new cities and regions, and further penetrating into the lower-tier cities, we achieved another quarter of high-quality network expansion, driven by an 18.3% year-over-year increase in the number of rooms in operation, our hotel -- our group hotel GMV grew by 15% year-over-year to RMB 26.9 billion. Meanwhile, along with our hotel network expansion and continuous enhancement of our H Rewards membership program. Our member base also grew by 17.5% year-over-year to nearly 290 million in the second quarter, while the number of room nights booked by members exceeded 60 million nights representing a 28.8% year-over-year growth. More importantly, our asset-light franchised and franchised business delivered robust growth in hotel network, revenue and profit. M&F; revenue rose 22.8% year-over-year to RMB 2.9 billion in the second quarter. While its gross operating profit increased by 23.2% year-over-year to RMB 1.9 billion, contributing nearly 2/3 of the group's total gross operating profit. Macro uncertainties and weakened consumer spending willingness should have more pronounced impact on the high-end consumption. H World remains steadfast in our strategic focus on economy and middle-scale segment to serve the mass market. Against the backdrop of consumers favoring value for money products and services, H World is well positioned to demonstrate even stronger competitive advantages. By enhancing our brands, optimizing and upgrading our products and improving our services we will further solidify our

core competitiveness and long-term customers' loyalty and achieve resilience while navigating through cycles. We are delighted that after 20 years of development, our HanTing brand ranked at #1 on the latest hotels magazines, World's Top 50 hotel brands list, becoming the world's largest hotel brand by room count. However, we believe this is just the beginning, and we continue to refine and upgrade our product to improve product quality and to better meet customers' demand. Recently, we officially launched HanTing 4.0 version. This is not just a simple product upgrade, but a revolutionary supply chain reform. Through systematic optimization across CapEx, construction, maintenance and operations, we have successfully developed a benchmark products with lower cost, higher quality and greater efficiency. HanTing will serve as a key driver for our further penetration into the lower-tier cities. HanTing Hotel has undoubtedly become the leading hotel brands in the economy segment while JI Hotel has been leading the middle- scale segment. Nevertheless, we are more excited to see our Orange Hotel recently surpassing the 1,000 hotels milestone. With its industry-leading products, cost competitiveness and operational capabilities, Orange Hotel is well positioned to become our second growth engine in the middle scale segment. Together, HanTing, JI and Orange formed the Golden Triangle brands of our limited service segment demonstrate formidable competitiveness and serve as the core driver to reach our 20,000 hotels in 2000 cities strategic target in midterm. At the same time, H World has made rapid breakthroughs in the upper-midscale segment. As of the second quarter, the number of upper-midscale hotels in operation and in pipeline exceeded 1,500, up 23.3% year-over-year. In particular, our Intercity Hotel has been rapidly gaining traction among both franchisees and consumers and achieving remarkable roses in the recent quarters. Thanks to its clear brand positioning, exceptional product quality and a strong operational performance. In the second quarter, Intercity achieved a positive year-over-year growth in its same hotel RevPAR. Whether it's the limited service or the upper midscale segment, continuously product optimization and upgrades relies on strong supply chain capabilities. We firmly believe that supply chain strength is a critical pillar of high-quality development. Therefore, we continue to innovate and optimize our supply chain through enlarging our supplier pool, strengthening module applications and optimizing product design to achieve higher product quality, lower OpEx and CapEx and a shorter construction period, which is, in turn, further strengthening our core competitiveness. Lastly, we remain focusing on our direct sales capability through H Rewards membership program. Our membership and direct sales are vital to our sustainable long-term business growth. As we expand our hotel network and enter more new cities, our membership base continuously to grow. By the end of the second quarter, H Rewards membership reached nearly 290 million members, with direct bookings through CRS rose 5.2 percentage points year-over-year to 65.1%. Recently, we introduced the price guarantee features in our H Rewards app, ensuring our members got the best room rate. Going forward, we will further enhance membership benefits, expand loyalty point usage scenarios and exploring cross-industry partnership to improve member engagement and stickiness and further boost our direct sales capability. This concludes the business update for H World Second Quarter 2025. Now I will hand over the call to our CFO, Ms. Chen Hui, to present the group's financial performance for the quarter.

Hui Chen: Thank you, Jin Hui. Good evening, and good morning, everyone. Let me walk you through our second quarter financial overview. During the quarter, our group revenue grew 4.5% year-over-year to RMB 6.4 billion, near the high end of our previous guidance, of which Legacy-Huazhu's revenue increased 5.7% year-over-year. We are glad to report that as we continue carrying out asset-light strategy and the cost optimization efforts, we saw year-over-year margin improvements from both Legacy-Huazhu and Legacy-DH. As a result, our group adjusted EBITDA rose by 11.3% year-over-year to RMB 2.3 billion. Adjusted net income increased 7.6% year-over-year to RMB 1.3 billion. More importantly, as we may notice that we started providing revenue and gross operating profit breakdown for our manachised and franchised and leased and owned business in our presentation. We believe it could be better demonstrate our future business development strategy especially on the profit growth driver during our asset-light transformation period. Looking into the numbers. In the second quarter, our manachised and franchised business revenue recorded a robust 22.8% year-over- year growth to RMB 2.9 billion, and gross operating profit, both by 23.2% year-over-year to RMB 1.9 billion in the second quarter, respectively. The robust growth in both revenue and profit was mainly driven by hotel network expansion. More importantly, given the nature of asset-light business model, manachised and

franchised margin profile is relatively stable and is less impacted by RevPAR moment compared to leased and owned. On leased and owned business front, we continued reducing the exposure. In the second quarter, our leased and owned revenue -- and leased and owned gross operating profit decreased 7.6% year-over-year and 13.4% year-over-year, respectively. Our asset-light transformation resulted in further enlarged profit contribution from managed and franchised business. In the second quarter, our managed and franchised business contributed to 64% of our total gross operating profit, up 7.5 percentage points year-over-year. Moving to the cash flow and the liquidity position. In the second quarter, we generated RMB 2.7 billion operating cash flow. And at quarter end, the group had RMB 13.7 billion cash and cash equivalents and RMB 6.2 billion net cash on the balance sheet. We are committed to pay out dividend consistently and stick to our shareholder return plan. For the first half of 2025, we are glad to declare USD 250 million interim cash dividend, which represents 74% of our first half net profit and together with roughly USD 62 million share buyback. Lastly, on our guidance for the third quarter of 2025. We expect our group revenue to grow 2% to 6% compared to the same quarter last year and 4% to 8% is excluding DH. The managed and franchised revenue in the third quarter of 2025 is expected to grow in a range of 20% to 24% compared to the third quarter last year. With that, we are ready to take your questions. Operator, please open the line for Q&A.;

Operator: [Operator Instructions] We would take our first question and the question comes from the line of Ronald Leung from Bank of America.

Ronald Leung: [Foreign Language] [Interpreted] I have two questions. My first question is about RevPAR. So what is your expectation for the RevPAR in 3Q and also 2025? And is there any change to the full year revenue guidance? This is my first question. My second question is about any potential impact on RevPAR from new hotel openings. So do you see any potential cannibalization when new hotels open and ramp up and that could affect all hotels. If yes, are there any initiatives that management can take to address this concern?

Hui Jin: [Interpreted] Okay. Let me translate. So I understand you guys are still very much looking at the RevPAR movements for so far. We hope you can focus more on a long-term, H World's performance in terms of the market share gaining our improvements in terms of the products and the brands as well as a lot of improvements from different fronts, to create our core competency. In terms of the RevPAR guidance for the third quarter and the full year, for the third quarter, especially during the summer holiday, we observed that a lot of local governments are promoting the tourism industry, for example, by providing deep discounts in terms of the ticket, even free tickets giving, just trying to boost the demand for the leisure traveling. However, in some regions and areas was affected by some extreme weather conditions plus some of the macro uncertainties, some of the weakened consumer spending willingness. The overall performance till now for the summer holiday are slightly below our previous expectation. Therefore, we're seeing the third quarter's RevPAR [indiscernible] have a very slight year-over-year decline. However, it's going to be quite significantly narrowed on a sequential basis. In terms of the full year RevPAR, again, because of some of the macro uncertainties, especially, as I mentioned previously, there was quite a lot of supply increased over the last 2 years, is still creating some of the challenges currently combining the performance for the first half as well as the current summer holiday performance. We are currently expecting the RevPAR for the full year performance will be slightly below our previous guidance. But however, as I mentioned, we have been putting a lot of efforts in terms of to improve our products, our sales capability, our supply chain capability just to make sure that we can be much resilient even under this kind of challenging market conditions. Therefore, in terms of the revenue, we will strive to achieve our previous guidance. In terms of the impact from the new hotels to the old hotels, we have to admit over the past 20 years of development, especially in those Tier 1 to Tier 2, where we have higher market share, we have a much higher basis. There are a lot of old version of the products, which has been running for many, many years. Of course, in the current environment, this kind of product competitiveness is quite low. So as you may notice that we have been constantly introducing new products. For example, we upgraded JI Hotels from previous 3.5 -- 3.0 to current 5.0. The Orange from 1.0 to the current 3.0 and HanTing from previous maybe 2.0 to the latest 4.0. All the products itself, the quality has been improved massively, of course, that we are adding some of the pressures to the older products. And also, in addition to this, in the Tier 1, Tier 2 cities, because of the real estate market weakness there's a lot of high-quality properties are coming

out to the market which we can have much better property to open new hotels with much higher quality products. And that's why -- I mean, we have to admit that in creating some of the negative impacts to the existing old hotels. But we do believe it is a short-term pain, and we have to go through this because our target is not only gaining market share, but we want to gain market share with high-quality products. That partly has never been changed. But of course, we are looking for some of the solutions to solve this kind of problem. Firstly, we are actively looking for upgrades for the existing hotels. And secondly, we will be more rational in terms of positioning for the new hotel openings.

Operator: Your next question comes from the line of Dan Chee from Morgan Stanley.

Dan Chee: [Interpreted] Thank you management for this opportunity. We saw the company breaks down the gross operating profit between the asset-heavy leased and owned and asset-light franchised and managed (sic) [manachised] business segments. What's the key message behind the new disclosure in terms of strategic focus between these two business segments, is there any change we should expect in the future? Another follow-up question on this topic is asset-light franchise and managed (sic) [manachised] segment is now 64% of total GOP with this segment revenue growing 23% this quarter. The GOP margin increased slightly but the GOP for asset-heavy leased and owned declined by 13% Legacy China Huazhu business leased and owned GOP down by 20%. GOP margin also declined. So going forward, what's the outlook for the margin of this segment? And is there any operational adjustment we can expect to support the margin of this leased and owned business?

Hui Chen: [Interpreted] [indiscernible] for the processes, as you may notice that over the past several years, we have been quite actively doing the asset-light transformation for the group over the last few quarters, our e manachised and franchised business has been growing quite rapidly, driven by the high-quality network expansion and also to drive the revenue growth as well. In terms of the leased and owned business, you have been seeing that the exposure for the leased and owned business has been gradually reducing. Of course, the stable -- the M&F;, the asset-light business has a much stable gross margin and also it shows a real business development and strategy for the group going forward. So that's why since starting from this quarter, we started to giving a breakdown between our asset-light business and asset-heavy business. So for the margin performance for our leased and owned business, as you said, the margin has declined on a year-over-year business. This was mainly because that we are gradually exceeding the exposure -- or reducing the exposure for the leased and owned. Therefore, no matter from the volume or no matter from the margin or from the absolute dollar amount in terms of the profit, it's in a decline trend. But however, in order to maintain a relatively healthier and stable margin performance for the leased and owned business, we are doing several key measures. One is, we are actively seeking for the rental reduction with the landlord. For example, in the first half of this year, we actually signed up around RMB 390 million in total for the contract value for the rental reduction. And secondly, in terms of the revenue management as well as sales and marketing and cost optimization, we are doing a lot of work for our leased and owned business as well. Well, even though that we are gradually reducing the exposure for our leased and owned business, but we are still putting a lot of efforts for the existing properties, trying to improve their performance. not only the top line but also the bottom line as well.

Operator: Your next question comes from the line of Lydia Ling from Citi.

Wei Ling: [Interpreted] I have two questions. And the first one is on the store expansion. And so we saw some deceleration in the second quarter. So given current macro background, so how about our franchise sentiment over the openings? And any adjustment in your planning for the new openings for this year? And if possible, could you share with us some color on the new signing momentum? And then my second question is on the margin side. And so at group level and -- do you have any further optimization in terms of the cost? And so could you actually give some items on the full year margin trend?

Hui Jin: [Interpreted] Okay. So as you may notice that over the past several years, we have been implementing high-quality, sustainable growth strategy. We are not only looking for a scale growth, I mean, the quality is much important than the scale itself. So we're going to continuously doing this -- implementing this strategy. So going forward, we will be even more strict on new signings in terms of the property in terms of the location, as well as you know, we have to make sure that our franchisees can make profit and the hotel product itself has a high quality. So under this kind of standard, we think

we still can maintain a relatively healthier pace of the new openings in the near future.

Hui Chen: [Interpreted] So in terms of the margin performance, so in the second quarter, benefiting from our asset-light transformation, and we have more revenue and profit contributing from the asset-light business as well as our cost optimization, leveraging our supply chain capability as well as our CRS contribution increase and also a little bit part from the rental reduction. So putting them together help us to achieve 11.3% adjusted EBITDA growth for the group despite the RevPAR decline. In terms of the SG&A, if you're excluding the SBC, actually, the SG&A declined by roughly 1%. For the second half, of course, we could make some of the investment, but definitely, we're going to consider a rationale ROI when we do some of the investment. But in a longer-term perspective, we believe along with more asset-light contribution, we could achieve a stable or gradual margin improvements in the future.

Operator: Your next question comes from the line of Simon Cheung from Goldman Sachs.

K. Y. Cheung: [Interpreted] Let me translate that into English. So I have two questions. The first question is in relation to the RevPAR -- same-store RevPAR performance of the company that has been somewhat affected by some of the old store on the -- under the HanTing brand that management mentioned about. Wondering how long would it take them to kind of resolve the issue in such a way that we were starting to see stabilization on the same-store RevPAR. And then secondly, just on the upscale segments, particularly the upscale segments for the Crystal Orange as well as the Intercity brand has done very well in the last, I think, a couple of quarters. Just wondering how management think about the long-term growth potential as well as the market share expectation?

Hui Jin: [Interpreted] So in terms of your question regarding to the HanTing brand. So currently -- as we discussed previously, currently, we launched HanTing 4.0 version. And over the last several years, we have been consistently upgrading HanTing brand, and we believe the 4.0 should be relatively a matured product, the product itself, not only probably -- not only in China but also globally. And in terms of its design, hotel quality should be at the leading position. It's definitely leveraging on our strong capability from the supply chain because it's creating a much lower CapEx, lower OpEx and a shorter construction and also a better performance. In regarding to the pressures from the new hotels to the older hotels, as I said previously, we noticed that and especially our observation internally that those HanTing 2.0 -- 2.5 version and below are facing the biggest pressure in terms of the RevPAR performance. And it's probably going to take 1 or 2 years to solve this problem because it's -- because of the large basis over the past 20 years. But however, we are very glad to see the new signings for the HanTing brand actually in this year has been very, very strong. So there's two major things that we are going to do is, one, is we keep signing new contracts and opening new hotels in different areas, but also we have to do some of the major substitutions by using the new products to replace all the products or continuously upgrading the existing hotels to improve the competitiveness. In terms of our Orange brand and Intercity brands, I'm very happy to share something with you. In terms of the Orange brand, after launching the 3.0 version, we have been gaining a lot of traction from the franchise customers. And we want -- the Orange brand becomes a back-to-back brand for Ji Hotel. And we just achieved a thousand milestone for the Orange brand recently. And in terms of the Ji Hotel, currently, the hotel in operation and in pipeline, putting them together has been already exceeded around 4,000 hotels. So we definitely hope the Orange Hotel could be the second growth driver in our middle scale segment. And together with Ji Hotel to become #1 and #2 hotel brands in the middle-scale segment for the overall market. And in terms of the Intercity hotel, because of the high quality and very accurate brand and product positioning, we have been achieving a quite rapid development of this Intercity Hotel over the past several quarters. More importantly, Intercity achieved positive growth in terms of the like-for-like same-hotel RevPAR in the second quarter, which is probably quite less other brands can achieve the positive RevPAR growth. Therefore, in the next, probably 3 to 5 years, we definitely want our Intercity brand to become a leading brand in the upper midscale segment. And because of -- we are also taking the benefits from the weakness of the real estate market because we do see a lot of A-grade office building has been out in the market, especially in the Tier 1, Tier 2 cities in some of the prime locations that definitely creating or give us a lot of opportunity to build a very nice and high-quality hotel products. And it's going to be a new standard or a new generation -- Intercity going to be a new standard and a new generation or new definition of the upcoming -- up mid-segment hotel in the near

future.

Operator: Your next question comes from the line of Si Lin from CICC.

Sijie Lin: [Interpreted] I have two questions. So first is on the supply chain. So how do we strengthen our supply chain capability in detail? Could you explain more about this? And to what extent will this contribute to future decrease of operating costs? And my second question is about DH. So what will be the pace of the future shift towards asset-light model for DH?

Hui Jin: [Interpreted] Okay. In terms of our supply chain capability, obviously, as we always said, the supply chain capability becomes a very core competency for us. to maintain or to achieve high-quality, long-term sustainable growth. Since 2024, we have been comprehensively upgrading our supply chain capability, mainly through enlarging and attracting a lot of top-tier suppliers and cooperations with them closely as well as increasing more modularization, application and optimizing some of the product design and increase the quality standard and the reviewing system as well, in order to achieve higher quality products and a lower CapEx and OpEx as well as shorter construction period. I can share with you some of the data. As of now, in terms of, for example, furnitures and furnishing, the consumables, some basic material, we have achieved around 10% to 20% cost decline on a year-over-year basis. And also in terms of the construction period, taking HanTing 4.0 as an example, because we are applying more modularization that actually helped the construction period for HanTing 4.0 products by 30 days. Therefore, the strong and strengthening the supply chain capability could definitely help our -- help us to grow in the longer term with definitely across the leadership and as well as the high efficiency. Thank you.

Jihong He: This is Jihong. I can address the DH asset-light business model and the development. In Europe, especially in Germany or Central Europe, the legal requirement is not as easy to dissolve any lease contract. So we are working hard on discussing and negotiating with the landlord. Not everything would turn out exactly as we expected. So we continue to try this out. We are continuously screening the profitability of our leased hotels, especially for low performing or nonperforming hotels, we are constantly engaged in a discussion. And we cannot disclose anything yet, but we -- some of the leased negotiation and some of the change of the lease are in the works. We will report as soon as we have any information about that. And in the future, we are also trying very hard to go on asset-light model. And we are very, very careful in signing any potential leased contracts. We really need to look at the commitment and also the return in the longer term as well.

Operator: Thank you. This concludes today's question-and-answer session. I will now hand back to Jason Chen for closing remarks.

Jason Chen: Thank you, everyone, for taking your time with us today, and we look forward to see you in the upcoming quarter. Thank you, and bye-bye.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect. [Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]