

HTHT Earnings Call Transcript

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Operator: Good day, and thank you for standing by. Welcome to H World Quarter 3, 2025 Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to turn the call over to your first speaker today, Mr. Jason Chen. Thank you. Please go ahead.

Jason Chen: Thank you. Good morning, and good evening, everyone. Thanks for joining us today. Welcome to H World Group 2025 Third 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 under 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 third quarter of 2025. Mr. Jin, please.

Hui Jin: [Interpreted] I believe many of you have noticed that 2 weeks ago, on the occasion of H World's 20th anniversary, we successfully held a partner conference being 20 years young forging ahead. Therefore, before diving into our third quarter performance review, I'd like to take a few minutes to once again share some of our thoughts on the long-term outlook of China's hotel industry and us. In summary, we believe H World has great long-term growth potential by deeply rooted in China market. Currently, we can observe that while the industry supply is relatively ample, high-quality supply is in noticeable shortage. Compared to the mature U.S. market, China still has low hotel trend penetration and the industry remains fragmented. As a unified large singular market similar to the U.S. but with an even larger population base, the increase in churn ratio and the phase-out of low-quality supply will inevitably become a long-term trend. More importantly, the demand for travel is gradually shifting from discretionary demand to necessity for Chinese consumers nowadays. China has the best infrastructure worldwide with extensive high-speed rail and highway network coverage. This has made traveling much easier and more convenient, facilitating the penetration of accommodation needs from major cities to country-level markets. Additionally, Chinese consumers are beginning to redefine consumption concepts and oriental aesthetics. We can see a substantial increase in the consumer desire in seeking sales pressure, which further drives the growth of experiential consumption such as tourism, exhibitions, concerts, and sports events. Apparently, the current supply quality in China's hotel industry is unable to fully meet consumers' increasingly upgraded and diversified demand. Therefore, supply side reform will be the main theme of the future industry development and this will undoubtedly bring tremendous growth opportunities for domestic branded hotels like us. As the leading players in China's

hotel industry, we will continue deepening our roots in the China market, pursuing high-quality growth and delivering service excellence with a brand-led approach to reduce industry with centering on high quality and efficiency. We are full of confidence in the future development of China's hotel industry. After sharing our perspectives on the long-term outlook, now let's turn to our third quarter performance. We are pleased to see early signs of improvement in the overall market condition. On the demand side, data from railway, aviation and the number of tourists indicate that the domestic travel demand continuously to grow steadily with the increasing demand for travel being particularly evident during the National Day and mid-autumn festival holiday period. On the supply side, third-party data shows that the sequential supply growth has stabilized and the year-over-year growth rate has moderated. However, we still need more time to see if this trend is sustainable. We are glad to report that H World delivered good results across several key metrics in the quarter. In the third quarter, we achieved a year-over-year increase in ADR while maintaining a relatively stable occupancy rate driven by refined revenue management initiatives, including optimizing pricing strategies across flagship hotel, newly opened hotel and a mature hotel as well as refining promotional strategies and enhancing incentive programs. As a result, our RevPAR stayed largely stable compared to the same period last year. Breaking through in new cities and regions and further penetrating in the lower-tier cities, we achieved another quarter of high-quality network expansion driven by a 17.3% year-over-year increase in the number of rooms in operation. Our group hotel GMV grew by 17.5% year-over-year to RMB 30.6 billion. Meanwhile, along with our network expansion and the continuous enhancement of H Rewards membership program, our membership base exceeded 300 million by the end of third quarter, up 17.3% year-over-year and ranking #1 globally. In addition, room nights sold to the members rose 19.7% compared to the same period of last year, exceeding RMB 66 million and accounting for 74% of the total room nights sold, which is also a leading position in worldwide. More importantly, our monetized and franchised business delivered strong growth in its hotel network revenue as well as profit. Our third quarter group M&F; revenue rose 27.2% year-over-year to RMB 3.3 billion, and the group M&F; gross operating profit increased by 28.6% year-over-year to RMB 2.2 billion, contributing over 70% of the group's total gross operating profit. In terms of hotel network expansion, we remain steadfast in executing our strategic focus on economy and middle scale segments to serve the mass market. This strategic positioning aligns precisely with the current consumer behavior of seeking value for money products and services and can further demonstrate our competitive advantages. By continuously upgrading our core products and enhancing our excellent service with a customer-centric principle, we are enhancing the quality of our hotel portfolio and strengthening our brand positioning to achieve long-term sustainable growth. The new version of HanTing along with our middle-scale brands, Ji Hotel and Orange Hotel, will serve as the key growth engines for our expansion in the lower-tier cities and provides strong foundation for achieving our strategic goal of 20,000 hotels in 2,000 cities. At the same time, H World has also made rapid breakthrough in the upper-midscale segment. At the end of third quarter, our number of upper-midscale hotels in operation and in pipeline exceeded 1,600, up 25.3% year-over-year. More importantly, to meet the growing consumer demand for quality living or oriental aesthetics and unique experiences, we recently launched a brand-new upper mid-scale brand, Ji Icons during our 20th anniversary. The introduction of Ji Icon further enriched our upper-midscale brand portfolio and help us to achieve comprehensive coverage from oriental to Western brands and from selected service to lifestyle hotel offerings. Ji Icon's brand embodies a combination of subtle understated and elegant oriental aesthetic, enabling a value lift from accommodation functionality to a holistic lifestyle experience. The success of Ji Hotels has demonstrated Chinese consumers' ethnicity for oriental aesthetics and culture. We are confident that building upon Ji Hotels Foundation, Ji Icon will further deepen the expression of oriental aesthetics and the culture element. Moreover, our group's strong supply chain and modular construction capability as well as our global leading membership and direct sales capability will effectively support our Ji Icons to reach low construction cost, high operational efficiency, and high product quality. We believe Ji Icons will become one of the big driving force to support our penetration in the upper-midscale segment and has the potential to become another world-class brand after HanTing, Ji Hotel, and Orange brand. We remain focusing on strengthening our direct sales capabilities through H Rewards membership program. Our membership program and direct sales capability are vital to our sustainable long-term business growth. Our

membership base has been growing as we expand our hotel network and entering into more cities. By the end of third quarter, H Rewards membership exceeded 300 million and the room nights sold to the members grew 19.7% year-over-year with enlarging portion of contribution to the total room nights sold. Going forward, we will further enhance our membership benefits, expand loyalty points usage scenarios, and explore cross-industry partnership to strengthen member engagement and enhance direct sales capability. This concludes the business update for H World's Third 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 third quarter financial overview. During the quarter, our group revenue grew 8.1% year-over-year to RMB 7 billion and Legacy-Huazhu revenue grew 10.8% year-over-year to RMB 5.7 billion, both surpassed the high end of our previous guidance. It was mainly driven by better-than-expected RevPAR performance as well as hotel network expansion. Group adjusted EBITDA rose by 18.9% year-over-year to RMB 2.5 billion, with margin improved by 3.3 percentage points year-over-year to 36.1%. The faster adjusted EBITDA growth and margin expansion were mainly contributed to further enlarged profit contribution from our asset-light business. Cost savings from Legacy-DH, partially on the absence of RMB 81 million restructuring costs incurred in the third quarter last year as well as cost optimization efforts from Legacy-Huazhu. Looking into our asset-light manachised and franchised franchise business. In the third quarter, powered by our high-quality asset-light network expansion and better-than-expected RevPAR performance. Our manachised and franchised business revenue recorded a robust 27.2% year-over-year growth to RMB 3.3 billion. More importantly, manachised and franchised business gross operating profit rose by 28.6% year-over-year to RMB 2.2 billion with a margin of 68% in the third quarter. As a result, gross operating profit contribution from our manachised and franchised business further enlarged to 70% in the third quarter, up 11.1 percentage points year-over-year. Moving to our cash flow and liquidity position. In the third quarter, we generated RMB 1.7 billion operating cash flow. And at the quarter end, the group had RMB 13.3 billion cash and cash equivalents and RMB 6.6 billion net cash on the balance sheet. Lastly, on our guidance for the fourth quarter of 2025, we expect our group revenue to grow 2% to 6% compared to the same quarter last year and 3% to 7% if excluding DH. The manachised and franchised revenue in the fourth quarter of 2025 is expected to grow in the range of 17% to 21% compared to the fourth quarter last year. With that, we are ready to take your questions. Operator, please open the line for Q&A.;

Operator: The first question comes from the line of Dan Chee of Morgan Stanley.

Dan Chee: My question is about RevPAR and demand trend. Firstly, on the company's fourth quarter China revenue guidance of 3% to 4% year-on-year growth, what's the implied RevPAR assumption? Can the management share any 2026 outlook for us, especially after seeing third quarter RevPAR decline turns almost flat, especially on the new experiential demand Mr. Jin mentioned versus the original business demand weakness. So which one is driving the RevPAR stabilization?

Hui Jin: [Interpreted] So as many of you may notice that in the third quarter, our RevPAR is a bit stabilized. On a year-over-year basis, it's kind of flat. It's not further declining compared to last 2 quarters. And of course, we observed several trends during the quarter. In terms of the demand, obviously, the demand was mainly driven by the leisure travel demand, especially from the tourism activities starting from summer holiday to September and of course, the beginning of the October National Day and mid-autumn festival as well. But on the supply side, as I mentioned before, on a year-over-year basis from the third-party data, we saw the supply growth actually moderated, so it was not growing as fast as before. So it's becoming a bit moderated, so which brings some of the benefits to the RevPAR stabilization. But more importantly, for us, S1 has been putting a lot of efforts over the last 6 months in terms to further enhance our, for example, the revenue management, as I mentioned in my prepared remarks, in terms of setting a new pricing strategy among different tiers of hotels like flagship new hotels and mature hotels. And therefore, I think -- but looking to the fourth quarter, because we are entering into the low season, there is still some of the uncertainties, so as of now, based on our revenue guidance, it implies our fourth quarter RevPAR, which is somewhere around flattish to slightly positive for the fourth quarter. In terms of business demand and leisure demand, of course, there are still some of the macro uncertainties. So to be very frank, the business demand is not that strong yet.

But on the other hand, for the leisure demand, it was continuously growing. As I mentioned previously, for the Chinese consumers nowadays, the leisure traveling demand has become -- gradually becoming a necessity instead of discretionary demand and especially for some emerging new demand such as concerts, marathon, sports events, and inbound traveler as well. So the leisure remained very strong. In terms of the outlook for the next year, we think it's a bit too early. It still takes time to see whether the stabilization in terms of the RevPAR and the supply-demand equivalent is sustainable. So we will give more color for our fourth quarter earnings. Thank you.

Operator: Our next question comes from the line of Sijie Lin of CICC.

Sijie Lin: My question is about RevPAR breakdown. If we look at ADR and OCC, we see that ADR performed better recently. So trying to understand the reason behind this and the sustainability. Also, if we look at the gap between blended RevPAR and same-hotel RevPAR, the gap remained at similar level with last few quarters. So is there any chance that the gap narrows in the future? And what measures need to be taken?

Hui Jin: [Interpreted] In terms of the ADR, of course, for 2025, the improvement of RevPAR has been a very key task for our top management team. And of course, they have been putting a lot of efforts on that. So in terms of ADR, as I mentioned earlier, so we have doing a lot of works on further enhancing our revenue management capability, especially on the pricing for different layer of the hotel and different products. And of course, on the front line, we give a lot of various incentives to our salespeople to further motivate them to do a lot of sales activities. However, apart from these things we have been doing over the 6 months -- over the last 6 months, actually, the ADR increase in the third quarter is a result from our continuous efforts on the product upgrades, the quality improvements as well as our service excellence because we have been doing these things for many, many years and continuously doing so, and we have more and more recommendations from our customers. So that's why in certain areas or in certain regions, our products and service is definitely in a leading position, which gave us some of the pricing power, which led us to achieve a better ADR for the third quarter. And in terms of the like-for-like hotel or mature hotels, the gap, we are glad to see the year-over-year decline was narrowed significantly in the third quarter. On one hand, we -- in terms of the pricing, we use a lot of different layer for pricing the different products. Over the last 1.5 years, we opened a lot of high-quality hotels, new hotels in some of Tier 1, Tier 2 cities, which is creating some of the cannibalization to the existing hotels. But through different pricing -- in different pricing strategy for different products, I think we are seeing some of the improvements for our mature hotels. And fourth -- and more importantly, we keep doing a lot of existing hotels upgrades to further improve the hotel quality itself in order to rise -- improve the RevPAR as a whole.

Operator: The next question will come from the line of Lydia Ling of Citi.

Lydia Ling: Lydia from Citi. So I have a question regarding the brand, especially for the newly launched upper-midscale brand, Ji Icons. So could you actually share some -- your plans for this brand and such as your store opening plan and also the store economics like the CapEx and the payback period? And how actually your advantage versus like the current other leading upper-midscale brand in the market? And how is the feedback from the franchisees so far?

Hui Jin: [Interpreted] Okay. So in terms of the Ji Icons brand, so obviously, the launch of Ji Icons brand has shown a very strong determination for H World to break through and development in the upper-midscale segment with multi-brand strategy. This trend is very clear. And secondly, based on the current culture confidence or Chinese culture confidence and also the preference from the Chinese consumers on our oriental culture or oriental service as well as oriental lifestyle that also basically support the launch of the Ji Icons brand. And as I said before, Ji Icons is going to definitely become one of the core brands in our upper-midscale segment. And we hope this brand can be the best brand or the best hotel that Chinese customers will like the most. So in terms of the UE, in terms of the CapEx you asked, we hope we can share more information after the first hotels opened. Thank you.

Operator: Our next question comes from Simon Cheung of Goldman Sachs.

Simon Cheung: The question is related to the hotel opening. In the third quarter, they've done very well in terms of hotel opening over 700. And I think in the first 9 months, they opened more than 2,000 hotels. That's on track or even exceeded the 2,300 hotel that they have targeted for the full year. Wondering whether there's any update for that and in particular, also on the new signing as well. And

then on the related questions, given the focus and the strong momentum that they have seen in the upscale segments -- upper-midscale segments where they achieved 1,600 hotels secure. And we have seen similarly HanTing, they've done like 5,000 and that Ji Hotel done 4,000. Wondering whether they have any targets for the uppermid-scale in the longer run.

Hui Jin: [Interpreted] Benefiting from faster new signings in 2023 and 2024 post COVID as well as further improvements in terms of our supply chain capability, which resulted improvements in conversion ratio from the pipeline to new openings. So we achieved a quite good new openings for the first 9 months, which is slightly more than 2,000. So therefore, for the full year, we could possibly open a bit more than 2,300 hotels as what we guided previously. But again, so we emphasized several times over the last several quarters' earnings call. In terms of the new signings and openings, we will focus more on quality expansion instead only looking for scale. So that the never changed. So we're going to continuously implementing this strategy for high-quality sustainable growth. In terms of the upper-mid segment, as I said, we have reached 1,600 in both pipeline and the operations, which also achieved a pretty rapid growth. But however, if you look into a longer term, for example, 2030, we're going to still focus on the mass market with the economy and the middle scale. So in terms of the proportion, economy and middle scale going to still contribute the majority. But in terms of the growth rate, we hope our upper mid segment could grow the fastest in the industry and become the leading players in China market by 2030.

Operator: Our next question comes from Ronald Leung of Bank of America.

Ronald Leung: Let me translate my questions in English. So I have two questions. My first question is about cost and margins outlook. The company has achieved very decent margin expansion in the past 2 quarters. Could management share with us the latest outlook on cost control and also margins? My second question is about the membership program. So the overall membership has grown decently to over 300 million by the end of 3Q '25. Could management share an update on the strategy on how to further enhance memberships loyalty and also marketing strategies to improve the conversion rates?

Hui Jin: [Interpreted] Okay. So in terms of our members, so definitely, direct sales and membership is one of our core strategy. We are glad to see in terms of the member base as well as the room nights sold to our members continuously to grow. But we think that's still not enough. So that's why we have been doing quite a lot of jobs over the past several months. First of all, we introduced a price guarantee program, which is going to ensure our members to get the best price and service as also the unique experiences at the hotel. And secondly, we're also trying to fulfill more diversified demand from the leisure travelers and some of the emerging demand, for example, as I mentioned earlier, like sports events, like inbound travelers. So basically, the H Rewards membership program is gradually shifting from only business travelers to fulfill more diversified demand. And thirdly, we are also enhancing our capability to receive more business clients and corporate clients to further enhance our exposures. And lastly, we have been experimenting a lot of cross-industry cooperation with a lot of top-tier vertical players trying to enhance members' experiences and improve their engagement.

Operator: Our last question comes from...

Jihong He: [Foreign Language]

Operator: Sorry, please go, continue.

Jihong He: [Interpreted] Okay. Let me do the translation. So overall, the adjusted EBITDA margin improvement was mainly because of our asset-light strategy. So obviously, the M&F; has higher margin compared to leased and owned. In terms of the cost control, in terms of the hotel operating costs, by leveraging our strong supply chain capability, we continuously to reduce the cost per room night sold. And for our leased and owned hotels, we're continuously seeking for more rental reduction, just trying to improve the profitability level of our leased and owned hotels. And on SG&A; perspective, we're continuously optimizing our mid and back office and headquarter, just trying to control the cost. In terms of sales and marketing, we will based on ROI and do some of necessary investments on, for example, the hotel brand membership as well as the user -- new user acquisition. So as mentioned by Jin Hui, so we have been systematically improved our capability to improve our revenue management so as in the cost control side. So we are also doing a systematic capability improvement. Thank you.

Operator: Thank you. We have come to the end of the question-and-answer session. That concludes the conference call for today. Thank you for your participation. You may now disconnect your lines.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]