

## Earnings Recaps

# China Lodging sets sights on further pipeline growth

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China Lodging Group grew its portfolio significantly in 2017, and during the company's latest earnings call executives shared their plans to continue that momentum.



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SHANGHAI—Despite calling it a “relatively low season,” China Lodging Group CEO Jenny Zhang happily shared during the fourth-quarter earnings call that the company achieved 15% revenue-per-available-room growth in the quarter.

The strong performance led to accelerated growth in revenue and profit margins, Zhang told analysts. During the year, net revenue grew 25% to 8.2 billion Chinese yuan (\$1.3 billion). Income from operations increased by 17.6% to 1.4 billion yuan (\$227.5 million), and earnings before interest, taxes, depreciation and amortization margin jumped 36.5% to 2.4 billion yuan (\$373.7 million).

“Those sets of stats exceeded the legendary year of Shanghai Expo 2010,” she said.

Leveraging the company's powerful brands and member program, [China Lodging](#) expanded its network under its asset-light model, Zhang said, which provides it with good margins and reliable cash flow.

“At the end of 2017, our manachised and franchised hotel rooms accounted for 78% in total rooms in



operation, up by two percentage points from the previous year,” she said.

At press time, China Lodging’s stock was trading at \$134.84, down 6.5% year to date. The [Baird/STR Hotel Stock Index](#) was down 1.6% for the same time period.

### **Openings and pipeline**

China Lodging opened 86 leased and 579 managed and franchised hotels in 2017, according to the company’s earnings release. It also closed 39 leased hotels and 149 managed and franchised hotels during the year, citing its ongoing quality upgrade strategy, rezoning, the returning of military-owned properties, expiration of leases and operating losses.

By the end of the year, the company had 671 leased, 2,874 managed and 201 franchised hotels in operation across 378 cities, according to the release, bringing the company’s room count to 379,675, a 14.6% year-over-year increase.

“The hotel pipeline remains robust, standing at 696 at the end of 2017,” Zhang said. “That’s a 57% year-over-year (growth) increase from the end of 2016.”

About 70% of the rooms in the pipeline are under an upscale brand, she said. China Lodging’s newest brands CitiGo, Manxin and HanTing Premium have 11, 16 and 39 hotels in the pipeline, respectively. Following the company’s [acquisition of Crystal Orange](#), the designer hotel brand has 80 hotels budgeted for opening in 2018, she said, which is up from 27 openings in 2017.

“We are very positive on our 2018 opening plan,” she said.

### **Membership advantages**

By the end of 2017, China Lodging’s membership program grew to more than 100 million members, Zhang said. Members contributed to 76% of total roomnights sold during the year, she said, and they accounted for 87% of direct bookings.

“Our expanded network, diverse brand portfolio and commitment on quality continues to attract new members and increase the stickiness of our existing members,” she said.