

Earnings Recaps

China Lodging focuses on midscale, RevPAR growth

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China Lodging Group continues to make progress on its strategic initiatives to grow its midscale footprint and strengthen its relationship with AccorHotels.



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SHANGHAI—The [first quarter](#) for China Lodging Group was one of year-over-year increases.

Revenue per available room grew by 13.7%, net revenue rose 29.6%, operating income margin increased from 10.7% to 14.7% and adjusted earnings before interest, taxes, depreciation and amortization grew from 23.5% to 26.8%, CEO Jenny Zhang said during the company's first-quarter earnings call.

By the end of the first quarter, China Lodging had 3,817 hotels in operation, CFO Teo Nee Chuan said, and it opened 127 hotels during the quarter and closed 56.

“We maintained our hotel opening guidance of 650 to 700 hotels for this year,” he said.

Since the first quarter of 2016, the company increased its hotel pipeline further during the quarter to 744, _____

he said, a 57% year-over-year increase. Approximately 80% of the rooms in the pipeline are midscale and upscale brands.

Group blended RevPAR grew by 13.7% during the quarter, he said, driven mainly by a 13.9% increase in average daily rate, stemming from an increasing mix of midscale and improved economy hotels and strong domestic travel.

As of publication, China Lodging was trading at \$169.50, up 6.7% year to date. The [Baird/STR Hotel Stock Index](#) was up 0.2% for the same period.



Strategic focus

Zhang said China Lodging will continue its focus on three strategic initiatives this year: the fast expansion of midscale hotels, continuous growth in same-store RevPAR through quality improvements and innovation in the upscale segment.

The company has continued to grow its midscale and upscale presence, according to [a slide presentation](#) accompanying the call, as the number of rooms in operation in the two segments increased 92% from 63,442 guestrooms in Q1 2017 to 122,074 rooms in Q1 2018. The company also increased the number of midscale and upscale rooms in its pipeline by 136% to approximately 61,500 rooms in Q1 2018.

“By looking at our pipeline, (midscale) and upscale rooms accounted for approximately 80%, up from 50% a year ago,” Zhang said. “This is a result from our continued efforts to enrich our brand portfolio and improve brand quality to satisfy customers’ and franchisees’ evolving needs.”

Revenue from midscale and upscale hotels increased by 87% to 976 million Chinese yuan (\$153.1 million), she said, accounting for 47% of the company’s total net revenue, itself a 33% year-over-year increase.

The company continues to achieve double-digit blended RevPAR growth, she said, adding that 13.7% growth is “very strong” in a relatively low season.

The ADR growth trend is expected to continue as Chinese consumers are increasing their spending on leisure, Zhang said. The compound annual growth rate for disposable income per capital from 2013 to 2017 was 9.1%, and leisure spending per capita reached 10.3% growth. Domestic travel expenditures grew by 15% for the same time period, she said.

Regarding innovation in the upscale segment, Zhang said the company’s flagship Joya Shanghai Xujiahui Hotel had a soft opening in March. The property experimented with design and operations, and the company partnered with a famous luxury brand to for high-quality supplies and furniture, she said. The price range for this property ranges from 900 yuan (\$141.14) to 1,200 yuan (\$188.19) per night.

“Positioned as an upscale brand, Joya demonstrates oriental elegance,” she said.

AccorHotels partnership

China Lodging formed a strategic alliance with AccorHotels in 2016, giving the company master franchise rights for AccorHotels’ Mercure, Ibis and Ibis Styles brands as well as co-development rights for Grand Mercure and Novotel. The deal also gave the company a 28% stake in Accor Luxury and upscale hotel business in the Pan-China region, Zhang said.

“We now hold (an) approximately 4.5% stake in AccorHotels through share repurchases from the open market,” she said. “We have engaged in discussions for a board representation in AccorHotels. We believe this will strengthen the partnership between the two groups and we expect to update you the progress in the next few quarters.”

There are no plans in the near term to increase China Lodging’s stake in AccorHotels, she said.

Since forming the alliance with AccorHotels, China Lodging has launched a new product design and increased the presence of AccorHotels brands in China, Zhang said.

At the end of the first quarter, China Lodging had 19 Mercure hotels in operation and 40 in the pipeline, she said, which is more than double what existed two years ago. During the quarter, Mercure’s same-store revenue per available room grew by 12.6% year over year. There are 105 Ibis hotels in operation and 62 in the pipeline, she said, and the brand achieved a 14.5% year-over-year increase in RevPAR.

“During the past two years, great efforts have been made to introduce new designs to Chinese customers as well as increase hotel operational efficiency to enhance the profitability,” she said. “The similar programs are also rolled out for Grand Mercure, Novotel and ibis Styles. We are confident that these changes will bear fruit in the coming quarters.”