

Company Report

Consumer



## Haidilao of China's hospitality industry poises for a ride

January 5, 2023

### INVESTMENT SUMMARY

- We believe Atour's near-term goal is to build a national hospitality group. We expect Atour's network to expand to 2,500+ in 2025 from the current 900+;
- The time window for chain hotel's expansion is still open in China, in our opinion. Mobile-Internet-enabled business model changes will usher in new challengers like Atour to the industry's Big Three (Huazhu, Jinjiang and BTG/Home Inn);
- Atour's superior people management competency has enabled a highly standardized and differentiated service. Multi-branding is still a must-have but not before Atour completes its single-brand expansion in the next 3 years;
- We initiate Atour (ATAT US) with a BUY rating and target price of US\$35 per ADS to ride on its first phase of network expansion.

#### Research Team



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# Atour Lifestyle Holdings Limited (NasdaqGS: ATAT)

## Buy for first-stage single-brand network expansion

- We initiate Atour with a BUY because we believe it has stricken a best-in-class balance among (1) price-benefit for travellers, (2) investment-return for franchisees and (3) input-advancement for employees;
- We expect Atour to embark on a single-brand network expansion to >2,500 hotels while maintaining its service and brand premiums. It will have to pursue a multi-brand strategy afterwards but choices are aplenty;
- We initiate the stock with BUY rating and a target price at US\$35.

## Hospitality industry is foremost and more so a people business

Behind Atour's superior customer experience and price-benefit to travelers is its organizational strength and corporate culture. Hospitality industry is essentially the right mix of people, location and capital, with people driving the other two. Both Atour and Huazhu ahead of it got the mix right.

## China's hospitality industry has NOT reached maturity

The Great Consolidation of 2015 saw two private enterprises merging into two SOE's, which, in our view, only reflects the unsustainability of hasty growth in the go-go days. Since 2015, new players in all segments have emerged. Mobile Internet, coupled with High-Speed-Rail (HSR) and private auto ownership, reduced the importance of location, ushering in new era of competition.

## Maintain the integrity of brand amid expansion is key

Atour has consistently delivered higher Occupancy Rate (OCC) at higher Average Daily Rate (ADR) than its rivals, resulting in its franchisees realizing higher and more stable EBITDA margins. We found Atour's higher upfront investment easily digestible and its operational cost in par with peers. We expect Atour to raise take rate by 2-3ppt after 2025 after its first phase of single-brand network expansion, from ~900 to >2,500 hotels, is complete.

## Negative press campaign offers rare investment opportunity

Evidence shows a smear campaign has existed since Atour's IPO attempts from 2019, which in our view contributed to Atour's below-industry multiple of 26x of 2023 PE. We, however, believe this is an excellent opportunity to accumulate the stock for the long-term investors.

## Summary financial data

Highlights (RMB mn)	2020A	2021A	2022E	2023E	2024E
Revenues	1,567	2,148	2,298	3,669	5,875
Non-GAAP operating profit	63	196	340	803	1,578
Non-GAAP EPADS (RMB)	(0.19)	1.21	1.84	4.62	8.95
GAAP EPADS (RMB)	(0.19)	1.21	1.61	3.33	6.89
EBITDA margin	10.3%	13.9%	18.2%	20.5%	24.5%
P/E (non-GAAP)	NM	129.5	63.9	25.5	13.2

Source: Bloomberg, Blue Lotus (2023/01/05)

BUY

HOLD

SELL

<b>Target Price: US\$35</b>	<b>Current Price: US\$19.34</b>
RIC: (NasdaqGS: ATAT)	BBG: ATAT US
Market cap (US\$ mn)	2,535.8
Average daily volume (US\$ mn)	10.5
Shares out/float (m)	106.6/NA

Source: Bloomberg, Blue Lotus (2023/01/05)

## Key Changes

	New	Old	Diff
BLRI Recommendation	BUY	-	-
BLRI Target Price	US\$35.0	-	-
2022E EPADS (US\$)	0.26	-	-
2023E EPADS (US\$)	0.66	-	-
2024E EPADS (US\$)	1.28	-	-

Source: Blue Lotus (2023/01/05)

\* FX: RMB/USD = 6.97

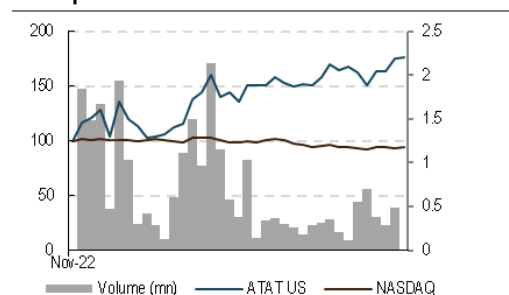
\*\*1 ADS = 3 ordinary shares

## BLRI vs. The Street

No. of Bloomberg Recommendations	2
Target price vs. Bloomberg mean	46.4%
1-year-fwd EPS vs. Bloomberg mean	2.1%
Bloomberg recommendation	5.0

Source: Bloomberg Recommendation, Blue Lotus  
(1=SELL, 5=BUY)(2023/01/05)

## Price performance and volume data



Source: Bloomberg, Blue Lotus (2023/01/05)

## Research team



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Blue Lotus Capital Advisors Limited

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Bloomberg, Blue Lotus Capital Advisors Limited and subject companies. Consensus forward estimates are used in analysis. Past performance is not indicative of future results. Investors should consider this report as only a single factor in making their investment decision.

# Atour Lifestyle Holdings Limited: Financial Summary

Fiscal year ends-31-Dec

## Exhibit 1. Income statement

(RMB mn)	2021A	2022E	2023E
<b>Net revenues</b>	<b>2,148</b>	<b>2,298</b>	<b>3,669</b>
Total hotel operating costs	(1,420)	(1,467)	(2,255)
Other operating costs	(163)	(167)	(267)
<b>Gross profit</b>	<b>565</b>	<b>665</b>	<b>1,147</b>
Selling and marketing expenses	(124)	(117)	(215)
General and administrative expenses	(197)	(212)	(241)
Technology and development	(52)	(67)	(107)
Pre-opening expenses	(18)	0	0
Other operating income	22	38	37
Share based compensation	0	(33)	(183)
Operating profit, GAAP	196	307	620
<b>Operating profit, non-GAAP</b>	<b>196</b>	<b>340</b>	<b>803</b>
Interest income	7	12	12
Interest expense	(8)	(6)	(6)
Other income, net	0	(4)	0
Gain from ST investment	9	9	8
Pre-tax profit	204	318	634
Income tax expense	(64)	(89)	(158)
Net income, GAAP	140	228	475
Net income attributable to shareholder, GAAP	130	230	475
<b>Net income attributable to shareholder, Non-GAAP</b>	<b>130</b>	<b>263</b>	<b>659</b>
GAAP diluted EPADS	1.21	1.61	3.33
Non-GAAP diluted EPADS	1.21	1.84	4.62

Source: Atour Lifestyle Holdings Limited (2023/01/05)

## Exhibit 2. Balance sheet

(RMB mn)	2021A	2022E	2023E
Cash and cash equivalents	1,039	1,501	2,575
Accounts receivable net	100	115	183
Prepayments and others	167	164	245
Amounts due from related parties	52	51	73
Inventories	59	72	118
<b>Total current assets</b>	<b>1,416</b>	<b>1,903</b>	<b>3,195</b>
Property and equipment net	439	449	509
Operating lease right-of-use assets	0	2,070	2,070
Other non-current assets	390	415	445
<b>Total non-current assets</b>	<b>829</b>	<b>2,934</b>	<b>3,025</b>
<b>Total assets</b>	<b>2,245</b>	<b>4,837</b>	<b>6,219</b>
Operating lease liabilities, current	0	346	346
Accounts payable	161	192	334
Deferred revenue	234	255	408
Salary and welfare payables	95	115	181
Accrued expenses	447	460	734
Other current liabilities	114	157	226
<b>Total current liabilities</b>	<b>1,051</b>	<b>1,524</b>	<b>2,230</b>
<b>Total non-current liabilities</b>	<b>629</b>	<b>2,584</b>	<b>2,755</b>
<b>Total liabilities</b>	<b>1,681</b>	<b>4,108</b>	<b>4,985</b>
<b>Total equity</b>	<b>565</b>	<b>729</b>	<b>1,234</b>
<b>Total liabilities and equities</b>	<b>2,245</b>	<b>4,837</b>	<b>6,219</b>

Source: Atour Lifestyle Holdings Limited (2023/01/05)

## Company Description

Atour Lifestyle Holdings Limited, which started operating in 2013, is the largest upper midscale hotel chain in China in terms of room number, operating 96% of hotel under manachised model and 4% as self-operated. As of September 30, 2022, it has operated 880 hotels with 102k rooms, covering 151 cities in China.

## Industry View

We expect the lodging industry to grow at 5-yr CAGR of 4.4% over 2021-2026E to reach RMB911bn, where the hotel industry to grow at 5-yr CAGR at 5.6% to RMB749bn in 2026E. We expect the chain hotel ratio by room number to increase from 34% in 2021 to 48% in 2026E. We expect the hotel chains industry revenue to grow at 5-yr CAGR of 10% to Rmb680bn in 2026E, where the upper midscale hotel chains to grow at 5-yr CAGR of 22% to reach RMB170bn in 2026E, outpacing the overall hotel chains growth.

## Exhibit 3. Cash flow statement

(RMB mn)	2021A	2022E	2023E
Net income	140	228	475
Adjustments:			
Depreciation and amortization	94	107	124
Gain from ST investment	(9)	0	0
Net loss on disposal of property and equipment	2	0	0
Net loss on disposal of intangible asset	0	0	0
Allowance for doubtful accounts	3	3	3
Deferred income tax expense (benefit)	(9)	0	0
Changes in working capital	197	116	595
<b>Net cash used by operating activities</b>	<b>418</b>	<b>454</b>	<b>1,198</b>
<b>Net cash used in investing activities</b>	<b>(42)</b>	<b>36</b>	<b>(124)</b>
<b>Net cash used by financing activities</b>	<b>(161)</b>	<b>(28)</b>	<b>(0)</b>
Net increase in cash	206	462	1,074
Cash at the beginning of the period	833	1,039	1,501
Cash at the end of the period	1,039	1,501	2,575

Source: Atour Lifestyle Holdings Limited (2023/01/05)

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## Recent Reports

January 4th, 2023: [Tencent (700 HK, BUY, TP HK\$407) Target Price Change]:

**Turning points are emerging, raise TP to HK\$ 407**

January 3rd, 2023: [FUTU Holdings (FUTU US, BUY, TP US\$50.3) Target Price Change]: **CSRC sanction is likely darkness before dawn**

December 22nd, 2022: [Blue Lotus eCommerce Sector Update]: **SheIn: Imitators perish; differentiators flourish**

December 16th, 2022: [Blue Lotus Semiconductor Sector Update]: **Semiconductor funding attains policy goals at a bargain**

December 14th, 2022: [Blue Lotus Advertising Sector Update]: **2023: A year of uneven recovery**

December 12th, 2022: [Li Auto Inc. (LI US, BUY, TP US\$40) Earnings Review]: **Organization upgrade to further power the flywheel**

December 12th, 2022: [Blue Lotus Innovative Drugs Sector Update]: **AK112 to Summit might be the best possible alternative**

December 8th, 2022 [Blue Lotus Innovative Drugs Sector Update]: **Chinese FcRn market might be a slow burner**

December 7th, 2022: [Blue Lotus eCommerce Sector Update]: **Douyin Shopping Mall unlikely to be a game changer**

December 7th, 2022: [Akeso Inc. (9926 HK, BUY, TP HK\$50) Target Price Change]: **Billionaire's bet confirmed China as source of change**

December 6th, 2022: [Blue Lotus Sector Update]: **State mourning of pro-American leader a timely bet**

## Investment Cases at a Glance

### Why is it a Buy

- **Atour will embark a rapid network expansion:** We expect Atour to expand its hotel network from 880 in C3Q22 to 2,426 by C4Q25, increasing its rooms from 103K to 212K. This will increase Atour's overall room night market share from 1.6% to 2.8%;
- **Atour's network expansion will be scalable:** We expect Atour to maintain its brand integrity, service quality and organization strength during this expansion. We liken Atour's expansion to Haidilao's network expansion from 2017 to 2020, where superior organization strength ensured scalability;
- **China's hospitality industry is only half-way to saturation:** We base this assessment on three facts: (1) China's transportation infrastructure is only half-way to maturity, (2) Segmentation, which in our view started with the Great Consolidation in 2015 with Home Inn and 7Days (Plateno) merging into BTG and Jinjiang, has only passed its early stage, (3) mobile Internet has overhauled business models;
- **Subway, HSR and private auto ownership will reshape China's hospitality industry:** We expect China's subway mileage to grow at a CAGR of 11% from 2022-27, adding ~4,000 subway stops and ~300 HSR stations in the next five years. Blue Lotus believes China's auto installed base will double from now to its steady-state. This will inject fresh opportunity into the lodging industry;
- **Not just segmentation, but also a reversal of segments:** The early days of China's budget chain hotels were primarily driven by capital, instead of auto ownership and interstate highways like in the US. The resulted land-grab lowered the facility and service qualities, leading to the more quality-conscious Huazhu to rise. Atour's founder, then a vice president of Huazhu's, launched the first Atour one year after Huazhu's launch of *Ji* (全季). In our view, the upper+mid-end hotel boom started NOT as a means of segmentation, but more as a remedy to the go-go days of the early 2000's. Over time, we expect upper+mid-end hotels to take up 27.5%/78.6% of industry capacity on hotel volume/transaction value in 2026 terms, up from 26.3%/74.5% in 2021;
- **Mobile Internet has reduced the value of the Great Consolidation:** The Great Consolidation of 2015 is not the end of growth but only the beginning, after which truly competitive local enterprises in all segments have emerged. Mobile Internet reduced the importance of location in the hospitality business mix. It decoupled location, capital and people management;
- **Multinational (MNC) exit provides another source of growth:** Early MNC entrants, like IHG and Marriott, are saddled with bad assets ill-equipped to meet the new demand of Chinese travellers enabled by smartphones, mass transit and private auto ownership. New-comers, like Accor and Wyndham, must deal with the China learning curve and the rapid catch up of local competitors. Accor's

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December 5th, 2022: [Pinduoduo (PDD US, BUY, TP US\$100.2) Target Price Change]: **Raise 2023 forecasts due to high take rate**

December 1st, 2022: [XPeng Inc. (XPEV US, SELL, TP US\$8) Target Price Change]: **Still at risk of falling out**

December 1st, 2022: [JOYY Inc. (YY US, SELL, TP US\$26.7) Rating Change]: **DG for capped revenue and increasing costs**

November 30th, 2022: [Kanzhun (BZ US, BUY, TP US\$19) Target Price Change]: **Bundle with the reopening trend**

November 29th, 2022: [Pinduoduo (PDD US, BUY, TP US\$89.7) Target Price Change]: **Outperformer amid downturn with overseas potential**

November 29th, 2022: [Alibaba Health (241 HK, SELL, TP HK\$3.7) Rating Change]: **Valuation is too demanding for earning growth**

November 28th, 2022: [Meituan (3690 HK, BUY, TP HK\$198) Target Price Change]: **Robust margin expansion but facing headwinds**

November 25th, 2022: [iQIYI, Inc. (IQ US, SELL, TP US\$2.35) Rating Change]: **DG for competition, content & cash flow concerns**

November 25th, 2022: [Blue Lotus Sector Update]: **Interpretation of the new COVID regime has nuances**

November 25th, 2022: [Xiaomi (1810 HK, SELL, TP HK\$7.3) Target Price Change]: **Good quarter for competitors, expenses, tax authority**

November 24th, 2022: [XPeng Inc. (XPEV US, SELL, TP US\$6) Rating Change]: **Skipped a beat at critical juncture**

November 23rd, 2022: [Vipshop (VIPS US, SELL, TP US\$7.5) Earnings Review]: **Path to growth is still unclear**

asset delegation to Huazhu will not be the last, in our view. We believe Atour is at the front row in picking its global partner(s);

- **Quick conversion to manachised/franchised model demonstrated organization strength and right timing:** It took Huazhu 8 years to have its manachised/franchised hotels taking up more than half of its networks while it only took Atour only 3. Behind the difference is the sea change of commercial infrastructure and franchisee education in the post-WTO China. We also see Atour's organizational strength as one reason behind this quick change;
- **One-of-a-kind corporate culture brings about a loyal customer base:** A repeated customer base is the holy-grail of the hospitality industry because it reduces marketing cost, leading to superior investment return which attracts landlords and capital providers as franchisees. Atour, so far, has achieved this holy grail with service quality exceeding many luxury brands in China;
- **Higher and more stable profitability attracts franchisees:** Mobile Internet, mass transit and private auto ownership expanded the pool of qualified locations significantly. Depression of the housing bubble lowers the rental expectation of landlords by ~20%, according to our channel check;
- **Taking market share from weak rivals is likely:** Atour's overall market share is small but it is the only one consistently growing market share over the past three years. We expect Atour to gain low-end market share from GreenTree and BTG and upper+mid-end market share from MNC brands;
- **Segment and brand expansion likely to happen post 2025:** With four sub-brands already, we expect Atour's expansion before 2025 to be single brand. We believe Atour price-benefit positioning to be easily accommodative to the low-end. But to further penetration upward it will need to partner, acquire or create a new brand;
- **Upper+mid-end will outgrow the overall market:** We expect the upper mid-end, consisting of Upscale, Upper Midscale and Midscale segments, to grow at 5 yr. CAGR of 12.3% in transaction value, faster than Economy's 6.5%.

#### What are the key catalysts for the next 3-6 months

- **Reopening from COVID ZERO policy will release requisition hotels (+):** Atour has 70 manachised hotels under requisition for quarantine in 2021, which did not generate any revenue. With COVID exit, we expect these released hotels to general ~5% extra revenue starting from in C2H23;
- **Rapid network expansion in the upcoming quarters (+):** We believe the market has underestimated the pace of Atour's network expansion and the corresponding scalability in maintaining RevPAR and margin along the way;
- **Resumption of travel demand stimulate hospitality demand (+):** China's travel industry, on travel trip basis, has only recovered to 40%-50% of the pre-pandemic level at this point. We believe a full recovery will occur in C2H23.

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November 22nd, 2022: [ZTO Express (ZTO US, BUY, TP US\$30) Earnings Review]: **Steady market share gain and margin expansion**

November 22nd, 2022: [JD Health (6618 HK, SELL, TP HK\$39) Company Update]: **Top line better, bottom line in-line**

November 22nd, 2022: FUTU Holdings (FUTU US, BUY, TP US\$58.5) Target Price Change]: **Interest income drive the top line growth**

November 21st, 2022: [JD.com (JD US, BUY, TP US\$65) Target Price Change]: **More aggressive strategy into 2023**

November 18th, 2022: [Weibo (WB US, BUY, TP US\$17.9) Rating Change]: **UG for more key campaigns and improved macro**

November 18th, 2022: [NetEase (NTES US, BUY, TP US\$77.1) Rating Change]: **Game code approval resumes, raise to BUY**

November 18th, 2022: [Alibaba (BABA US, BUY, TP US\$100) Rating Change]: **Beneficiary of returning discretionary spending**

November 17th, 2022: [Grab Holdings (GRAB US, BUY, TP US\$3.8) Rating Change]: **Resilient player with stronger service proposition**

November 17th, 2022: [Tencent (700 HK, BUY, TP HK\$395) Target Price Change]: **Video Account is major driver, raise TP to HK\$ 395**

## Where can we be wrong?

- **Scalability turns out worse than we expect:** We base our assessment of Atour's scalability on (1) similar expansion undertaken by Haidilao, (2) observed business matrices of the recently opened Atour's and (3) Atour's known organization strength and corporate culture. We did notice the departures of founding team members, mostly in C1Q20 but attribute to normal turnover. We view departure of key management as the most likely reason if Atour's scalability fails to meet our expectations;
- **A price war that coupled with deteriorating scalability:** We believe Atour's network expansion will attract would-be customers who previously stayed at rival's more expansive networks, which means competitive response is likely to happen. We believe Atour can weather this competition because it has consistently delivered higher OCC at higher ADR, which means to rivals to launch a price war will be very costly to them. Any price war will be brief but if we are wrong, we will reassess our views;
- **Failing to transition to a multi-brand operation model:** Huazhu started at very similar beginnings as Atour. But after the success of *Hanting* and *JJ*, it also embarked on a multi-brand strategy that saw it expanding to 24 brands encompassing five segments. We don't believe Atour need as many brands, but Atour does need to be both outward and inward accommodative in order to continue growing past its single brand peak. Haidilao's difficulty in transitioning to a multi-brand operation illustrated the point. While this peak won't arrive in the next three years, preparation for what-after should happen now.

## What can change our view?

- **Sustained same-hotel sales growth in e-commerce retailing (+):** We do not think situation e-commerce (e-commerce retailing) can be Atour's growth driver. We view e-commerce retailing as a valid but complementary business. We must see sustained growth in same hotel sales to be convinced on the sustainability of this business. Currently, we expect revenue contribution from e-commerce retailing to decline from 14% in 2021 to 12% in 2025E;
- **Loss of consumer satisfaction edge over rivals (-):** We view unsponsored, quantifiable and sustained evidence of customer satisfaction as proof of vital source of Atour's competitiveness. If such evidence is otherwise, we will revise our views;
- **Franchisee discontent can highlight management problems (-):** Franchisee discontent, similar to the public dispute Huazhu engaged with *JJ* franchisees in 2016, is possible even for successful brands. Atour's handling of such crisis, if improperly, can lead us to change our views.

## Operating Metrics

### Exhibit 4. Quarterly operating table

RMB mn	1Q22	2Q22	3Q22	4Q22E	1Q23E	2Q23E	3Q23E
<b>Revenue</b>	452	515	670	661	579	905	1,093
Merchandise hotels	274	295	427	410	358	611	757
Leased hotels	112	143	160	163	119	178	206
Retail revenues	67	77	84	89	102	116	130
Hotel operating cost	(323)	(325)	(389)	(429)	(382)	(576)	(635)
Other operating costs	(32)	(42)	(45)	(48)	(55)	(63)	(70)
<b>Gross profit</b>	<b>97</b>	<b>148</b>	<b>236</b>	<b>184</b>	<b>142</b>	<b>266</b>	<b>387</b>
Gross margin	21.5%	28.7%	35.2%	27.8%	24.6%	29.4%	35.4%
Operating expense	(84)	(66)	(88)	(120)	(91)	(124)	(150)
Selling and marketing	(24)	(32)	(30)	(31)	(29)	(50)	(66)
General and administrative	(46)	(42)	(46)	(79)	(49)	(59)	(66)
Technology and development	(18)	(16)	(16)	(17)	(19)	(24)	(30)
Pre-opening expense	0	0	0	0	0	0	0
Other operating income	3.1	23.7	5	6.6	5.8	9.1	10.9
Share based compensation	0	0	0	(33)	(29)	(45)	(55)
Operating profit, GAAP	13	82	148	64	51	142	237
<b>Operating profit, non-GAAP</b>	<b>13</b>	<b>82</b>	<b>148</b>	<b>97</b>	<b>80</b>	<b>188</b>	<b>292</b>
Interest income	1.9	3.7	3.9	3.0	3.0	3.0	3.0
Interest expense	(1.5)	(1.8)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Other income, net	(0.1)	(1.8)	(1.2)	(1.0)	0.0	0.0	0.0
Gain from ST investment	1.8	2.0	2.8	2.0	2.0	2.0	2.0
Pre-tax profit	15	84	152	66	55	146	241
Net income, GAAP	7	60	111	50	41	109	181
<b>Net income, non-GAAP</b>	<b>7</b>	<b>60</b>	<b>111</b>	<b>83</b>	<b>70</b>	<b>155</b>	<b>235</b>
Hotels in operation (units)	790	834	880	930	1,015	1,106	1,207
Hotel rooms in operation (units)	91,812	96,969	102,707	108,204	117,979	128,482	140,135
Occupancy Rate (OCC)	50.0%	65.5%	72.0%	68.0%	54.9%	80.1%	81.1%
Average Room Rate (ADR) (RMB)	375	362	424	413	382	396	431
RevPAR (RMB)	199	251	321	281	210	317	350
<b>GTV (Rmb mn)</b>	<b>1,642</b>	<b>2,184</b>	<b>2,964</b>	<b>2,723</b>	<b>2,224</b>	<b>3,668</b>	<b>4,410</b>
Manachised	1,525	2,032	2,789	2,560	2,105	3,490	4,204
Leased	117	151	175	163	119	178	206
Retail revenue/hotel/day (RMB)	1,010	1,112	1,148	1,150	1,170	1,200	1,220

Source: Atour Lifestyle Holdings Limited, Blue Lotus (2023/01/05)

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## Can Atour still succeed and how can it do so?

Early mover doesn't necessarily have advantage in China's limited-service hotel industry, in our view. Huazhu rose to prominence because it focuses on quality, which is also where Atour excelled on. The Great Industry Consolidation of 2015, which saw both Home Inn and 7Days merging into SOE's (State Own Enterprises), is in our view the beginning, not the end of China's hospitality industry. Atour's entry to the upper+mid-end only took place one year after Huazhu. We believe Atour will expand to China's single brand network peak of 2,500-3,000 hotels within 3 years.

### The 2015 Great Consolidation is the end of the beginning

From our record, Jinjiang Hotel was the first to pioneer the concept of limited-service hotel chain in China with scale. It opened the first *Jinjiang Star* hotel in 1997. By 2004, according to Jinjiang's disclosure, it had 45 limited-service hotels, versus Home Inn's 26. In 2005, GreenTree started with 8 hotels and 7Days Inn started with 5. Vienna claimed to have 11 hotels already in 2003 but by 2007 it only had 25. Both Home Inn and Motel168 started in 2002. The later had 378 hotels at the year of its acquisition by Home Inn.

Huazhu was the 7<sup>th</sup> to the market, launching its first *Hanting* Hotel in 2005 and by 2007 had 67 hotels, which was 1/4 of Home Inn's and Jinjiang's sizes, 2/3 of 7Days's but almost 3x of Vienna's. Management quality and access to capital made the difference.

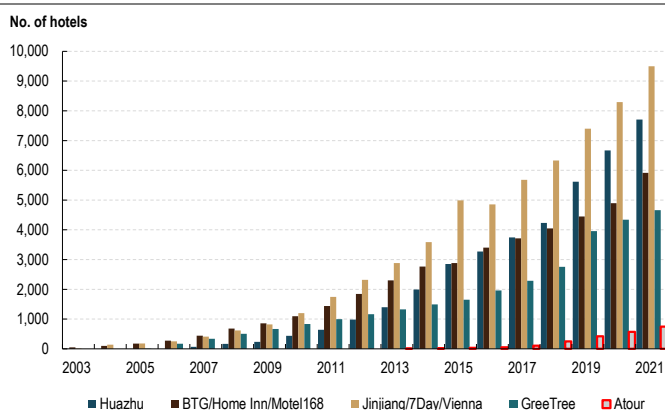
In the ensuing landgrab, both Home Inn and Jinjiang sought consolidation to gain scale. In 2011, Home Inn acquired Motel168. By this deal Home Inn enlarged its network size from 1.6x of Jinjiang and 1.9x of Huazhu to 2.2x of both two. The race went on with Home Inn largely bowing out of the competition by selling itself to BTG, and Jinjiang acquired 7Days Inn and Vienna, then 63% and 8% of Jinjiang's size in 2015. By the end of 2021, Jinjiang has the biggest hotel networks of 9,498. Huazhu came in with 2<sup>nd</sup> at 7,706 and GreenTree as 3<sup>rd</sup> at 4,659. While Huazhu also acquired *Crystal Orange* and formed a JV with Accor (AC FP, NR), which owns *IBIS* in China, its network relies less on acquisitions.

Started with its 1<sup>st</sup> hotel in 2013, Atour had only 745 hotels at the end of 2021. It has never acquired any others. As of C3Q22, Atour had 880 hotels, far below its rivals (Exhibit 5). In fact, if measured by the network size, Atour ranked No.7, behind Jinjiang (600754 CH, NR), Huazhu, BTG/Home Inn (600258 CH, NR), GreenTree (GHG US, NR), Dossen (东呈) and Sunmei (尚美).

*Huazhu started after Jinjiang, Motel168, Home Inn, Vienna, GreenTree and 7Days Inn but by 2022 it has become the 2<sup>n</sup> largest in number of hotels and the largest by organic means.*

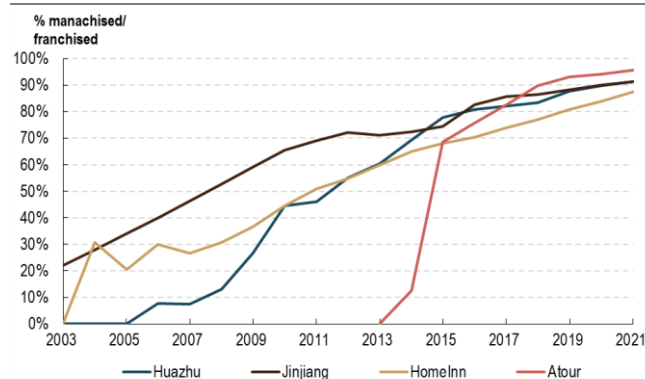
*Scale matters for hotels because location is the most important reason for hotel choices, especially for limited-service hotels.*

**Exhibit 5. Growth history of China's limited service hotel chains**



Source: Company disclosures, Blue Lotus (2023/01/05)

**Exhibit 6. Manachised/franchised hotel in total hotel mix**



Source: Company disclosures, Blue Lotus (2023/01/05)

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## Is scale still the key success factor in limited-service hotels?

Apparently, it still is. In our view, location is the primary factor behind consumers' choice of hotels. This is more prominent for limited-service hotels, which are usually smaller in size and tend to capture the tail end demand for traveling.

However, manachised and franchised (M/F) hotels have taken up more and more shares of new hotel openings since 2011, which suggests the means to achieve scale has changed.

Access to capital was certainly the first means to achieve scale, which was why Vienna and Motel168, as well as a dozen other brands, fell behind in the early days of the market.

Transition to M/F hotel was the second divider. As Exhibit 6 shows, Huazhu was relatively late in the transition to the M/F model. Its change occurred in 2008-09, while Home Inn and Jinjiang embraced the model almost from the beginning (2003 and earlier). Yet after the switch, Huazhu quickly caught up. When Home Inn and Jinjiang consolidated the industry by merging with Beijing Tourism Group (BTG) and 7Days Inn in 2015, Huazhu's M/F hotel ratio have already surpassed the other two.

Based on our understanding, Huazhu differentiated from Home Inn and Jinjiang by focusing on quality, which explains why leased/own (L/O) hotels took up >90% of its hotels in the first four years of its operation. The quality superiority of Huazhu allows it to maintain the scalability of its brand during franchising and thus to attract more and more qualified franchisees.

Atour started with 1 hotel in Xi'an City in 2013 and finished the following year with 7 Lease/Own (L/O) hotels and 1 manachised hotels. After establishing a brand name, Atour quickly ramped up to 24 manachised and 11 L/O hotels in 2015. Atour stayed in the L/O-majority model for only 2 years, or half of Huazhu's time.

We believe several reasons contributed to Atour's quick transition to the M/F model:

- **Quick ramp up of hotel brand recognition:** As Exhibit 7 shows, by late 2017 Atour has reached similar levels of Baidu Search Index level of its rival hotels. More specifically, Atour has surpassed Huazhu's *Hanting*, Jinjiang's *Jinjiang Star* in search frequency from C4Q18 and overtook *Home Inn* from C3Q21. Huazhu's *Ji*, however, managed to stay close to Atour in the Baidu Index. 2017 was the first year Atour's hotel network surpassed 100. Atour is able to quickly transition from L/O to M/F because it has quickly established a brand name very early from its beginning;
- **Experienced team and knowhow from founder:** CEO and founder Wang Haijun worked at Huazhu, Home Inn, and Jinjiang prior to founding Atour, leaving Huazhu as an executive vice president in 2013 after joining it in 2005. Comparing to the founders of Home Inn, Huazhu and Jinjiang, Founder Wang had richer experience at the time of founding and was an entrepreneur combing experiences of the hospitality and the Internet industry. Atour's quick ramp up in standardized hardware and employee training is testament to the learning curve Founder Wang picked up in his professional life, in our view;
- **The general awareness of M/F hotels has risen over time:** As Exhibit 6 shows, M/F hotels in the hotel mix among limited service hotels steadily rose in 2005-2007, and has reached ~2/3 of the total hotels among the major players by 2013, the year Atour emerged.
- **Leadership in the upper-mid-scale segment achieved after 2017:** Orange Hotel was the pioneer of upper-mid-scale segment. Founded in 2006, it had reached 153 hotels in 2017, surpassing

*The rise of M/F hotels suggests the means to achieve scale has changed.*

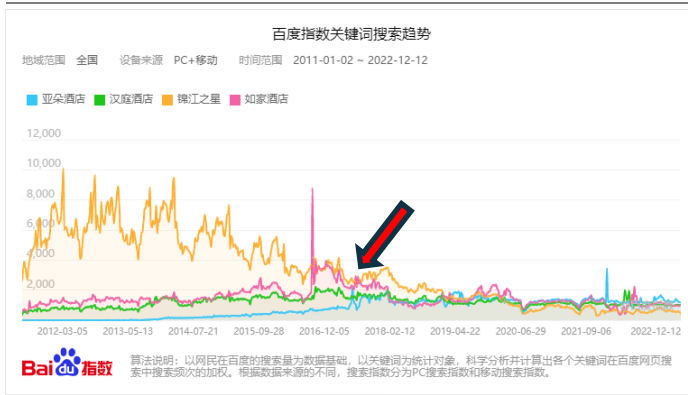
*Huazhu beat Home Inn and Jinjiang by focusing on quality by ramping up manachised/franchised hotels more slowly. Now Atour is repeating the playbook.*

*Atour is able to quickly transition from L/O to M/F because it has quickly established a reputation of quality from its founding.*

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Atour's 145. However, the acquisition by Huazhu led to a loss its traffic leadership. The brand conflict among *Orange*, its upper brand *Crystal* and Huazhu's own *JJ* hampered their growths.

**Exhibit 7. Atour reached search frequency of rivals from 2017**



**Exhibit 8. Atour and JJ surpassed Orange after acquisition**



## Scale is still what Atour must pursue next

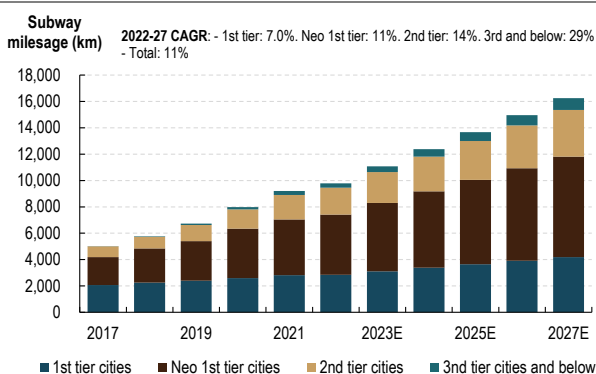
The rise of manachised/franchised (M/F) hotel has a very realistic backdrop, in our view, which is the prime location for situating a hotel has quickly run out.

### Domestic travel market still has room to grow but not as much as before

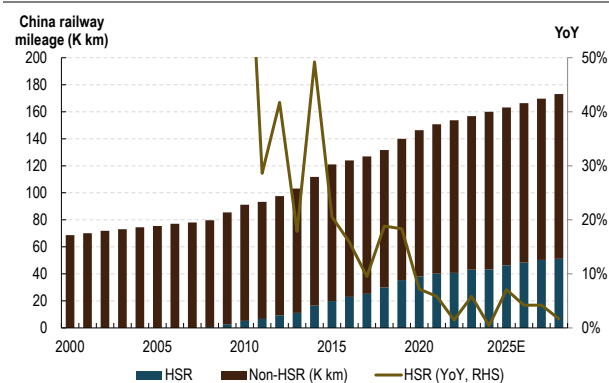
Just like the U.S. limited-service hotel industry rising in tandem with interstate traveling, the same developed in China with the development of airports, railways and subways.

The good news is that over the next 5 years, developments of subways and high-speed railways (HSR) continue to be robust. As shown in Exhibit 9, China's subway mileage is expected to grow at a CAGR of 11% from 2022-27, with low tier cities growing faster than high tier cities. Same is for HSR. As shown in Exhibit 10, China HSR is going to increase from 40k km in 2021 to 50k in 2027, with CAGR at 3.8%.

**Exhibit 9. Chinese subway mileage, actual and planned**



**Exhibit 10. Chinese HSR mileage, actual & planned**



However, easiness to access travel destinations doesn't mean more trips made. In 2019, prior to the pandemic, Chinese made 6bn domestic trips (*Source: Ministry of Culture and Tourism*). Adding

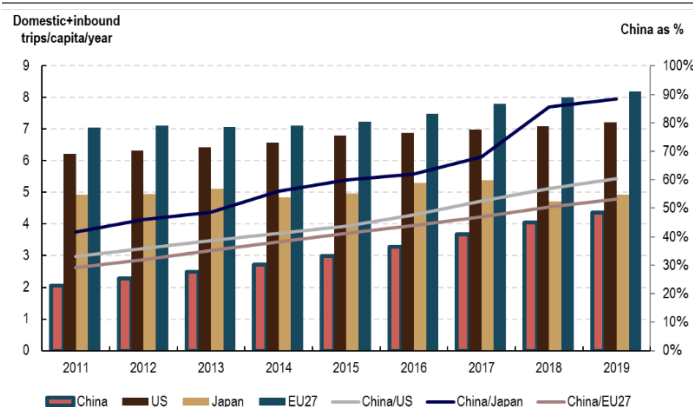
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145mn inbound tourists, China's per capita domestic+inbound trip was 4.4 in 2019, comparing to 7.2 for America and 4.9 for Japan (incl. day trip). China's percentage of domestic+inbound trip per capita has risen from 35%/44%/29% of U.S./Japan/EU in 2012 to 60%/88%/53% of that in 2019 (Exhibit 11). Although the definition of domestic trip varies from country to country, the fact that China's domestic trip per capita were rising quickly indicates the saturation point shall eventually come. However, the pandemic had slashed the travel trips to less than 50% of the peak time, which will postpone the saturation time.

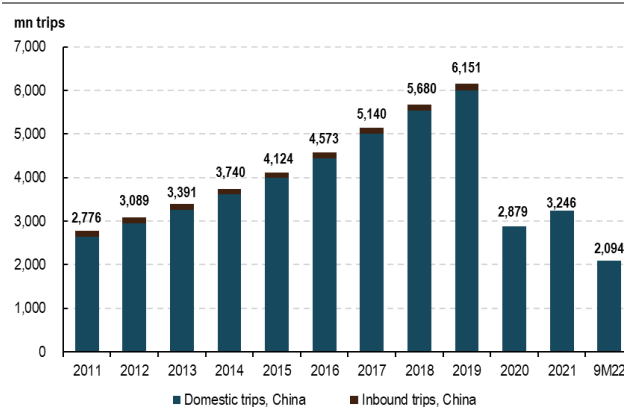
*Chinese travel much more domestically comparing to a decade ago, but still has room to grow.*

**Exhibit 11. Domestic + inbound travel trips per capita**



Source: Trade.gov, Ministry of Culture and Tourism, Euro-STAT, Blue Lotus (2023/01/05). Trips include both day trip and overnight. EU number adjusted based on Japan.

**Exhibit 12. China domestic + Inbound travel trips**



Source: Ministry of Culture and Tourism, Blue Lotus (2023/01/05)

Another way of viewing the saturation of domestic travel in China is from the angle of hotel rooms versus transportation throughputs. The number of hotel rooms in China was estimated by various sources to be around 12-17mn, including homestays (*Source: CEIC & China Hotel Association*).

China's daily passenger volumes were 10mn for rail, 1.8mn for air and 0.74mn for water in 2019 (*Source: Ministry of Transportation*). Domestic tourist groups add ~1.4mn per day (*Source: MOCAT*). In recent years, self-driving trip has become popular, especially among young people. According to Chinese Tourism Academy, Chinese made 560mn self-driving trips in 2019, among which 58% were overnight or longer with average driving time being 29 hours (4-6 days).

Assuming half of the passengers are leaving and half returning home, adding group and self-driving tourists, we estimate overnight passengers reached to 13.2mn in 2019, among which self-driving tourists contributed 42% and rising. According to Chinese Tourism Academy, self-driving trips rose from 330mn in 2017 to 450mn in 2018 and 560mn in 2019.

The above calculation leaves out China's highway passengers which stood at 35.6mn a day in 2019. We believe the majority of these trips are made by migrant labors, which does indicate China has a large deep-discount lodging market.

*We estimate the demand and supply of China's lodging market is current balanced with demand mainly driven by self-driving tourists.*

### But it is the way how travel is routed will continue to change

According to <Measures for the Administration of Public Security in Hotel Industry>, hotels in China must record identities of the guests, report foreign guests within 24 hours, equip itself with security guards, safe and anti-theft devices and obtain special trade licenses from local police. The high compliance cost leaves a sizable low-end market beyond monitoring. It also makes this market unserviceable by legitimate businesses, in our opinion.

*China does have a very large low end hotel market but the problem is high compliance cost makes it almost unserviceable.*

### Two more sustainable drivers are mass transit and private auto ownership

The upper-mid and the mid-end market, supported by rising auto ownership, however, will continue to see growth in the next 3-5 years, in our view. This is a market that is real but also serviceable, in our opinion.

As of December 2022, China has 318mn passenger cars (*Source: Traffic Management Bureau*), reaching a penetration of 21%. We believe China will not reach the level of auto ownership of the developed countries. Blue Lotus Auto Analyst Simon Liu believes China's steady state auto ownership will be 500-600mn, penetration of 36-43%, reachable in 2035.

*Study has shown that improvement of ease to travel does increase travel demand.*

We acknowledge that self-driving trips do cannibalize rail, water and air trips but do add incrementally to the travel demand. Ease of travel will facilitate more day trips, skipping overnight stays. But study has shown the net result of HSR, a major improvement in accessibility and ease of travel, is increasing hotel occupancy rates (OCC), which suggests the incremental demand increase more than offsets the skip of overnight stay (*Source: Tourism Economics, 2020*). The impact of HSR to hotel occupancy rate is more negative to low-cost hotels than to high-end hotels (*Source: Tourism Economics, 2020*).

### Auto ownership, subway and HSR will see steady growth

According to China Association of Metro, China plans to add 633 subway stations in 1<sup>st</sup> tier cities by 2027, 1,740 in neo-1<sup>st</sup> tier and 1,450 in 2<sup>nd</sup> tier and below. Altogether, 3,823 subway train stations will be added in the next 5 years.

According to Ministry of Transportation, there are 12.4K km of HSR under planning till 2028. We calculate the construction requires a new HSR station for every 43km, which translates to an addition of 288 new city stops, most low tier cities, by HSR. According to China Hotel Association, average number of hotels in 2<sup>nd</sup> tier city and below is ~250. Average number of rooms is ~12.7K. Thus, we estimate the reach of HSR to these 288 cities will translate to 3-5K new hotel openings and 150-250K new hotel rooms, in addition to competition-resulted exits of smaller, independent hotels in these cities.

*HSR planning means it will reach all of China's prefecture level cities (293) and most of county level cities (394) by 2035. The impact on the local hospitality ecosystem will be significant, in our view.*

### Atour is the prime beneficiary of segmentation

When Jinjiang and BTG merged with 7 Days Inn (Plateno) and Home Inn, China's chain hotel industry was bifurcating into two directions. The upper+mid-end direction was successful while the low-end direction was a failure. Atour was the prime beneficiary of the upper+mid-end direction.

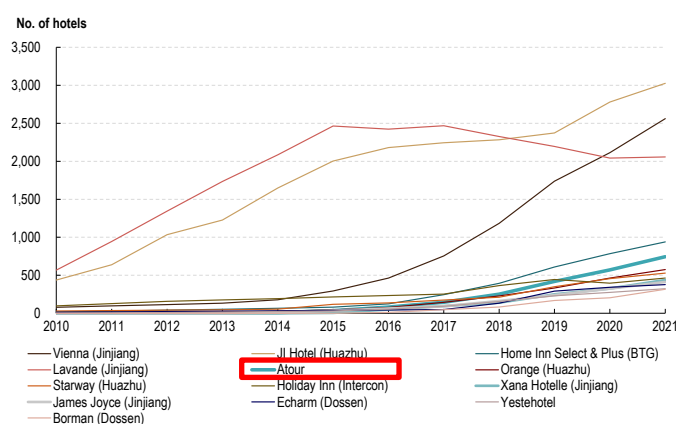
- **Upper-id-end direction was successful:** Early upper-mid end brands like GreenTree and Vienna lost the market share wars to *Home Inn*, *7 Days Inn* and *Jinjiang Star* due to speed and capital. Home Inn and 7 Days Inn went public on Nasdaq in 2006 and 2009. Jinjiang has been listed on A-share since 1996. These three leveraged the capital markets to fund rapid network expansions, often at the expense of qualities. But focusing on the upper-mid end does not only mean being expensive, but also means superior price-benefit ratio, which is where the true segmentation begins. Orange Hotel (桔子) was the pioneer in the upper+mid-end starting from 2006, followed by *Yestehotel* (雅斯特) in 2011, Huazhu's *Ji* (全季) in 2012, Atour in 2013 and Jinjiang's *Lavande* (丽枫) and *Xana* (希岸) in 2014 and 2015. Dossen started with low-end but launched its upper+mid-end brand *Echarm* (宜尚) in 2014 and *Borman* (柏曼) in 2016. Following acquisition of Vienna in 2015, Jinjiang rebranded *Vienna* back to its upper+mid-end root and funded its expansion. In 2017, Huazhu acquired Orange for Rmb3.65bn. From 2016 to 2021, the number of upper+mid-end hotels grew at a CAGR of 27.4% and continued to grow at robust pace and we project this segment will grow at 10.7% CAGR from 2022 to 2027 (Exhibit 13);

*In our view, what differentiated high and low-end aren't price, but price-benefit-ratio. After 2015, companies focusing on their respective segment and achieving superior price benefit ratio all won their market shares.*

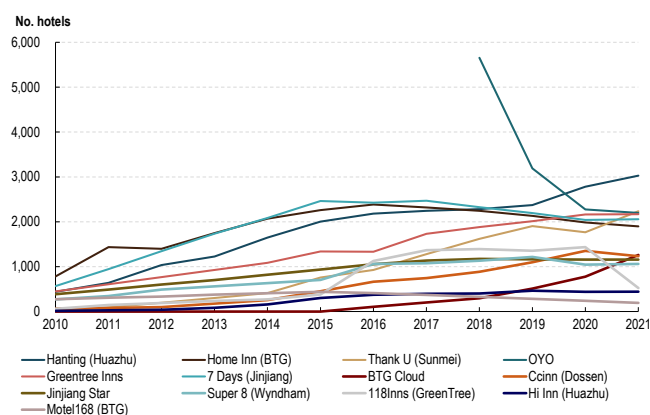
- **Low-end direction was largely a failure:** Most low-end hotels in the US, like *Super8*, *Days Inn*, *Best Western* and *Howard Johnson* rebranded as upper+mid-end after entering China. Domestic brands like Dossen's *City Comfort Inn* (CCInn) (城市便捷) and Sunmei's *ThankU* (尚客优) focused on serving the low-end but gradually achieved price-benefit superiority over rivals. Dossen opened its first *CCInn* in 2006 and Sunmei opened its first *ThankU* in 2009. By 2021, they have grown to 1,233 and 2,236 hotels, respectively. Dossen diversified into upper+mid-end early but Sunmei stayed mostly in the low end. Unlike upper+mid-end which saw some rapid and continuing rising of networks like *Vienna*, *Ji*, *Atour* and *Lavender*, low-end hotel segment was largely done with its expansion in 2015. *OYO*, *Motel168* (BTG) and *118 Inns* saw their hotel numbers in continuous decline while some, like *Home Inn* (BTG), *7 Days Inn*, *Jinjiang Star*, *Hi Inn* (Huazhu) and *GreenTree* are seeing their hotel numbers stagnant. The most dramatic event was *OYO*'s entry in 2018, signing up 5,656 independent hotels in that year but falling rapidly. These independent hotels stayed independent for a reason. Most of them are profitable because of non-compliance to China's strict fire, safety, tax and surveillance requirements.

*OYO's rapid rise and failure in China highlight the fact that sustained success in hospitality industry can only come from constantly improving price-benefit-ratio.*

**Exhibit 13. Hotel numbers of leading upper+mid-end hotels**



**Exhibit 14. Hotel numbers of leading low-end hotels**



See the last page of the report for important disclosures

## Not only segments, but also a reversal of segments

We believe China will eventually converge to the US mix of hotel ranges where >80% of hotel capacity will be in upper+mid-end (upper-scale+mid-scale) with economy and luxury taking up the remaining <20%. Today, we estimate China's economy and luxury take up ~40% of the hotel capacity with upper-scale at ~1/2 the size of mid-scale. In the US the ratio of upper-scale and mid-scale is about 50:50.

When China's hospitality industry started with the Open-Door policy in the 1980's, there were only the bare-bone state guest houses. The pouring of foreign capital into the hospitality industry mainly focused on the high-end to luxury segments, at a time when any foreign brands were automatically assumed to be high-end. This explained why *Super8*, *Howard Johnson* and *Days Inn* rebranded themselves to the upper+mid-end after entering China. We believe going forward MNC brands will lose competitiveness in the below-high-end markets.

When *Home Inn*, *7Days*, *Jinjiang Star*, *GreenTree* and *Vienna* started, they were presumably mid-tier by demand-supply, but effectively low-end by standards. Huazhu's *Hanting* was a rare exception which quickly branded itself as one of the better limited-service hotels. China's hospitality industry effectively started with only the high-end-to-luxury and low-end, with effectively no upper+mid-end, until *Orange*, *Junting*, *Ji* and *Atour* came along in around 2012.

## Taking market share from weak rivals will also be a main source of growth

In 2021, China's top five hotel groups in terms of room nights were Huazhu, BTG/Home Inn, Jinjiang, GreenTree and Dossen with market shares of 13%, 7.3%, 7.0%, 6.1% and 2.6%, respectively. Atour was the 6<sup>th</sup> at 1.4%. Within the upper+mid-end, Atour was the 4<sup>th</sup>. Its room nights were 27% of industry leader Huazhu, although its Average Daily Rate (ADR) was 130% of Huazhu.

We believe Atour can further gain market share from three directions:

- **Gain low-mid-tier market share from GreenTree and others:** Atour already have a low-mid-tier sub-brand called Atour Light. With its focus on price benefit ratio, we believe Atour's expansion in the low-mid-tier segment is relative easy. This means to take market shares from GreenTree and others;
- **Gain upper+mid-end (Upscale + Upper Midscale + Midscale) market share from MNC brands:** MNC brands that entered China before WTO are saddled with bad assets and are quickly losing brand premium and pricing power. Some brands, like Holiday Inn, Crown Plaza and Sheraton, are upper-mid-scale by design but low-mid-tier by standards. It is our view that it is a matter of time that MNC brands will exit all but high-end-above segments in China. Domestic brands like New Century Grand (Delonix), Jinlin (601007 CH, NR) and BTG Jianguo have established a presence by leveraging price-benefit-ratio. We believe Atour can cut into this market, too;
- **Gain market share from BTG/Home Inn:** As shown in Exhibit 17, Atour is the only major hotel group showing persistent overall room night market share gains. The room night market shares of Jinjiang, BTG and GreenTree declined as a result of both capacity growth and utilization. In the upper+mid-end, Jinjiang has gained market share mainly through rebranding *Vienna* while BTG Home Inn has lost market share due to mis-execution of its mid-to-high-end strategy.

*The upper+mid-end should possess ~80% of industry's capacity while in China this segment has been missing until Orange, Ji and Atour came along around 2012.*

*Atour's market share is still small but its occupancy rate (OCC) is persistently higher than rivals even at higher price points.*

*Price-benefit-ratio accounts for less in the upper-to-luxury segment but New Century Grand (Delonix) has also carved a niche.*

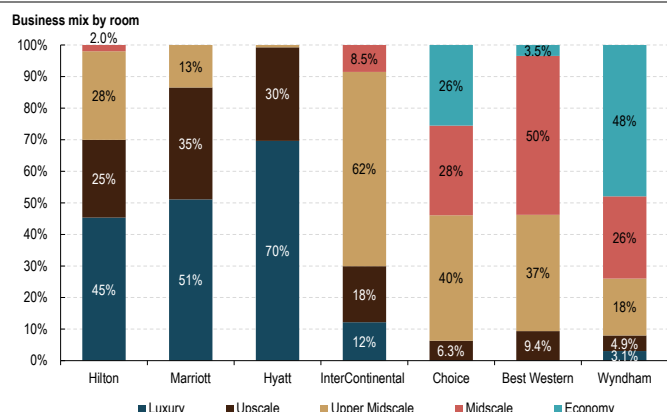
*BTG-Home Inn has mis-executed its mid-to-high end strategy and has lost market share.*

### Exhibit 15. Global hotel group business mixes

### Exhibit 16. Top hotel chains in upscale and luxury by rooms

See the last page of the report for important disclosures





Source: Company disclosure, Blue Lotus (2023/01/05).

	Rooms (K)	Hotels	Room market share
Crowne Plaza (IHG)	37.4	106	3.2%
Sheraton (Marriott)	29.8	86	2.6%
Funyard (Marriott)	29.3	77	2.5%
R&F (45% int'l)*	28.2	93	2.4%
Hilton	25.9	70	2.2%
Jinling (601007 CH)	22.1	86	1.9%
New Century Grand (Delonix)	21.9	65	1.9%
Shangri-La (0069 HK)	21.4	50	1.8%
InterContinental	20.3	51	1.8%
BTG Jianguo	19.2	67	1.7%

Source: Company disclosures, Blue Lotus (2023/01/05). R&F works with 19 international brands and two domestic brands (Wanda and Atour)

## We expect Atour to expand its network to ~2,500 hotels by 2025

In 2015, at the time of industry consolidation by Jinjiang and BTG, network sizes of the respective hotel chains were 2,000-2,500, consisting mostly mid-to-low-end hotels. Ten years later we believe the optimum size for an upper+mid-end hotel chain has grown and will continue to grow with HSR and auto ownership both rising in penetration. From a bottom-up perspective, we calculate the minimum coverage for a national hotel chain would be ~2,150:

- **1<sup>st</sup> tier cities (4):** 300 from the current 171 (December 10, 2022);
- **Neo-1<sup>st</sup> tier cities (15):** 500 from the current 341 (December 10, 2022);
- **Prefecture level cities (278):**
  - Tourism cities (80): 400, from the current 292 (December 20, 2022);
  - Non-tourism cities (198): 594, assuming 3 each;
- **County level cities (394):** 394, assuming 1 each.

*We expect Atour to triple its hotel network size by 2025, after which it will likely enter the lower end.*

## Exhibit 17. Room night market share of leading hotel chain brands in China

Room night	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
<b>Total market</b>															
Huazhu	13%	13%	14%	14%	15%	14%	14%	14%	13%	13%	13%	13%	10%	12%	13%
Huazhu organic	13%	13%	13%	14%	15%	14%	14%	14%	12%	13%	12%	12%	10%	11%	12%
Jinjiang	9.8%	9.6%	9.3%	9.1%	7.8%	8.3%	8.5%	8.6%	7.4%	6.1%	7.2%	7.4%	6.8%	5.6%	6.1%
BTG Home Inn	11%	11%	10%	10%	7.8%	8.2%	8.4%	8.5%	7.2%	7.7%	7.2%	7.1%	6.6%	5.7%	6.2%
GreenTree	6.4%	6.3%	6.5%	6.9%	7.8%	6.8%	6.9%	6.8%	6.1%	6.1%	6.1%	6.0%	4.4%	4.6%	NA
Dossen	2.8%	2.7%	2.6%	2.6%	2.7%	2.9%	3.0%	2.9%	2.6%	2.6%	2.6%	2.6%	NA	NA	NA
Atour	1.2%	1.2%	1.1%	1.1%	1.1%	1.4%	1.4%	1.4%	1.3%	1.4%	1.4%	1.5%	1.1%	1.5%	1.6%
<b>Upper+mid-end</b>															
Huazhu	10%	12%	12%	13%	10%	10%	11%	11%	12%	13%	12%	13%	11%	12%	14%
Huazhu organic	10%	12%	12%	13%	9.5%	10%	11%	11%	11%	12%	12%	12%	10%	11%	13%
Jinjiang	14%	15%	15%	17%	13%	15%	15%	16%	17%	17%	17%	18%	13%	14%	16%
BTG Home Inn	5.2%	5.2%	5.3%	5.7%	3.5%	4.0%	4.3%	4.5%	4.6%	5.1%	4.8%	4.9%	3.9%	4.2%	4.9%
Atour	2.8%	2.8%	2.7%	2.6%	2.1%	2.6%	2.6%	2.6%	2.9%	3.1%	3.1%	3.2%	2.4%	3.3%	3.6%

Source: Company disclosure, Blue Lotus (2023/01/05). Room night=Room x OCC

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We used a web crawler to crawl the hotel distributions of *Atour*, *Ji*, *Orange*, *Vienna* and *Yitel*. As of December 15, 2022, as shown in Exhibit 18, Atour's relatively strength within itself was its presence in neo-1<sup>st</sup> tier to 2<sup>nd</sup> tier cities. In these tiers, Atour's hotel network has already reached ~50% of Huazhu and Jinjiang's upper+mid-end brands. Atour was relatively weak in 1<sup>st</sup> tier cities especially comparing to *Ji+Orange* (Huazhu) and in 3<sup>rd</sup> tier cities comparing to *Ji+Orange* and *Vienna* (Jinjiang). *Ji* is particularly strong and well-rounded, reflecting its history as Huazhu's main brand. *Vienna* has seen rapid expansion in low tier cities following its acquisition by Jinjiang in 2015, oftentimes occupying the prime city/HSR centre location of a low tiered city.

In terms of city entered, Atour has reached about half of *Ji+Orange* and *Vienna*. In 1<sup>st</sup> tier cities Atour even achieved parity against *Ji+Orange* in Shenzhen and Guangzhou.

Growing from ~1,000 to 2,000 hotels, *Ji* took 3 years (2012-2015), and *Vienna* took 2 (2018-2020). We expect the same for Atour.

### Price war will assure but will likely be brief

We believe Atour's network expansion will likely draw a competitive response from its rivals. The one with the most capacity to respond is Huazhu. But a price war with Atour may not hurt Atour. The real casualty might be Jinjiang and BTG/Home Inn, in our opinion.

The rationale for Huazhu's competitive response is simple. As Atour expanding its network, it will attract Huazhu customers who previously would give Atour a try but cannot find it around the location of stay.

#### Exhibit 18. Hotel volume comparison and Atour hotel size estimate

Unit	Atour	Orange	Ji	Vienna	Yitel	Atour/Orange+Ji	Atour/Vienna	Atour/Yitel
Beijing	51	116	124	27	16	21%	189%	319%
Shanghai	59	60	218	94	36	21%	63%	164%
Guangzhou	21	8	16	86	2	88%	24%	1050%
Shenzhen	36	13	20	78	3	109%	46%	1200%
1 <sup>st</sup> tier	167	197	378	285	57	29%	59%	293%
Neo-1 <sup>st</sup> tier	342	206	454	648	43	52%	53%	795%
2 <sup>nd</sup> tier	222	131	365	511	38	45%	43%	584%
3 <sup>rd</sup> tier and below	179	188	489	1,391	41	26%	13%	437%
Total	910	722	1,686	2,835	179	38%	32%	508%
Cities entered	148	147	228	290	65	39%	51%	228%

Source: Atour Lifestyle Holdings Limited, Meituan, Blue Lotus (2023/01/05)

#### Exhibit 19. Atour hotel number history and estimate

Units	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Total hotel	252	420	570	745	930	1,318	1,822	2,426	2,730
Manachised	226	391	537	712	897	1,282	1,782	2,382	2,682
Net added		165	146	175	185	385	500	600	300
Leased	26	29	33	33	33	36	40	44	48
Net added		3	4	0	0	3	4	4	4
Requisitioned			19	42	70	0	0	0	0

Source: Atour Lifestyle Holdings Limited, Blue Lotus (2023/01/05)

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In C3Q22, Huazhu's *JJ* Hotel had 1,629 hotels. Adding *Orange+Crystal's* 666, *Starway's* 565 and *Maxin's* 111, these five brands formed the core of Huazhu's upper+mid-end offerings. In recent years, in addition to strengthening the competitiveness of each brand in its respective price bracket, Huazhu has actively diversified its segmentation upwards by (1) collaborating with Accor and acquiring Deutsche Hospitality, (2) forming JV with leading real estate developer SUNAC (1918 HK, NR), and (3) cross fertilizing new hospitality concepts to appeal to different consumer segments. From Accor, Huazhu added *IBIS* (308), *Mercure* (141) and *Novotel* (17) brands. From Deutsche Hospitality, Huazhu added *MAXX* (3) and *Steigenberger*. From the SUNAC JV, Huazhu launched its luxury brand *Blossom House* (花间堂), now having 43 in operation. From these collaborations Huazhu cross-fertilized *Madison* (50), a sub-brand of *MAXX* and *JOYA* (8), a luxury brand of its own.

As shown in Exhibit 18, by December 2022 Atour has achieved relative superiority over *Orange+JJ* in the two southern cities of Guangzhou and Shenzhen. It has closed on *Orange+JJ* is neo-1<sup>st</sup> tier cities but still behind in 1<sup>st</sup> tier and 3<sup>rd</sup> tier and below cities. We believe this geographic mix reflects Atour's key strength in upper-mid-class local Chinese.

We believe there are two reasons why the impact of a price war will be brief and manageable.

- **Huazhu franchisees will be against a price war:** With Atour already achieving above-industry OCC with above industry ADR, the benefit of a price war is actually in doubt. Huazhu needs to implement the price war through its franchisees, which in our view, do not see much reason to comply, particularly if;
- **The effect of the price war might fall on lesser competitors:** As shown Exhibit 18, *Vienna* has extensive network in Guangzhou and Shenzhen which might be impacted more by a Huazhu price war.

*Atour has established superiority over Huazhu's two main brands in Shenzhen and Guangzhou.*

*To nudge franchisees to participate in a price war against Atour will be difficult unless compensate with subsidy.*

## Source of Atour's potential is ability to manage people

According to a research paper published by authors from Hotel Management School of Shanghai Business School in the July, 2019 issue of <Frontiers of Management> titled <Customer Satisfaction Measurement Index and Methods of Midscale Hotels Based on OTA Online Reviews> (Source: *Sun Yiwen Zou Guangyong*, et.al, 2019), Atour's two hotel brands ranked the highest.

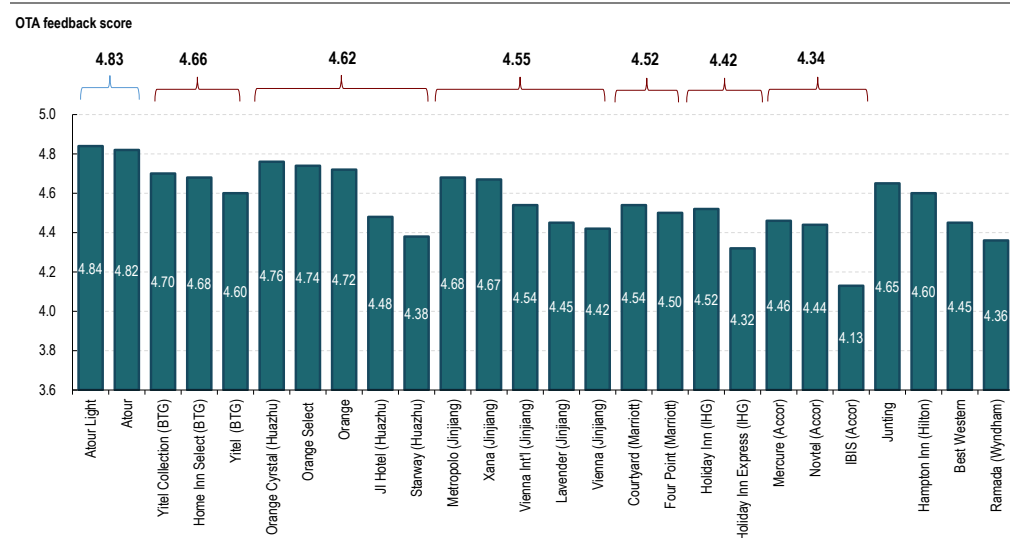
In our view, Atour's ability to deliver superior customer experience is a result of its corporate culture.

Atour derives its name from a village in Yunnan Province. Atour brands its hotel as a hotel of humanity, or a public space for like-minded people. A program that has existed and executed persistently in all Atour Hotels is its book sharing program, in which any guest can take a book from the library and return it in another Atour hotel for any length. In Atour hotel each venue has an elegant name based on ancient Chinese texts. Atour employees are incentivized to treat guests like villagers in the Atour village do.

As Exhibit 20 shows, Atour's two brands were ranked 1.6 standard deviation above the mean. Further, domestic upper+mid-end hotels have generally outperformed international brands.

*Atour's corporate culture and organization have become a business case study in China.*

## Exhibit 20. Average customer feedback scores on OTA



Source: Frontiers of Management (7/2019), Blue Lotus (2023/01/05).

Note: 5 being the highest.

In our view, Atour's uni-brand strategy, at least at the beginning, helped to foster and solidify a service-oriented corporate culture. Since its founding, Atour placed trust as one of its core values. Trust means trusting customers and trusting employees. For example, all Atour guests are able to borrow books and return in another Atour. All Atour employees are authorized to give discounts at the desk. Atour corporate motto was "Customer First (客户第一), Refuse Mediocrity (拒绝平庸), Full Authorization (全员授权), Lead by Reading (读领风骚) and Say No to Bureaucracy (向官僚说不)".

The resulted compliance facilitates service standardization, leading to uniform customer experience. As more hotel staffs are trained, more can be dispatched to newly opened hotels for management roles as such practice has been adopted by hot pot chain Haidilao (6862 HK, UR) to great successes. From 2014 to 2021, Haidilao's number of restaurants grew from 112 to 1,443. The most rapid expansion occurred in 2017-2020, before and after its IPO in 2018. The market for premium hot pot restaurants became saturated around 2020. The management tried to solve its saturation problem by opening more restaurants, which was the wrong way to address the problem.

Haidilao's story illustrates the power and limitation of successful uni-brand consumer business. Will Atour eventually fall to the same trap? We saw the company exploring different options, including co-branding with online traffic and brand leaders and show-room e-commerce. Neither has shown promise to continue Atour's growth, in our view. Show-room e-commerce is an auxiliary revenue directed related to the number of hotels in operation. Past a certain threshold, continuous improvement in either purchasing frequency and ARPU is limited, in our opinion.

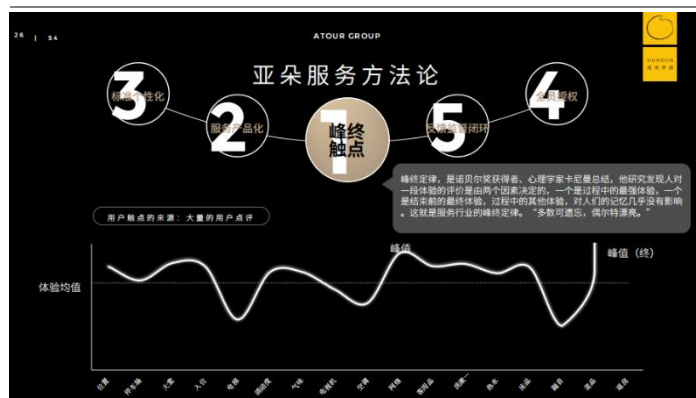
Atour's investment case is that it has the investment certainty in the next 1-3 years to reach its peak network similar in size with Huazhu, BTG and Jinjiang. Past that point, we expect Atour to learn from the established industry leaders to (1) seek segment diversification, (2) collaborate with global partners. Given the presence of multinationals in China's hospitality business, the consolidation will benefit the ready local leaders, in our view.

*In our view, neither co-branding nor show-room e-commerce has shown promise to sustain Atour's growth. But e-commerce can be a nice add-on revenue.*

*We believe Atour has the certainty of reaching the scale of Huazhu's core assets while there will still be sufficient overseas partners to choose from after that.*

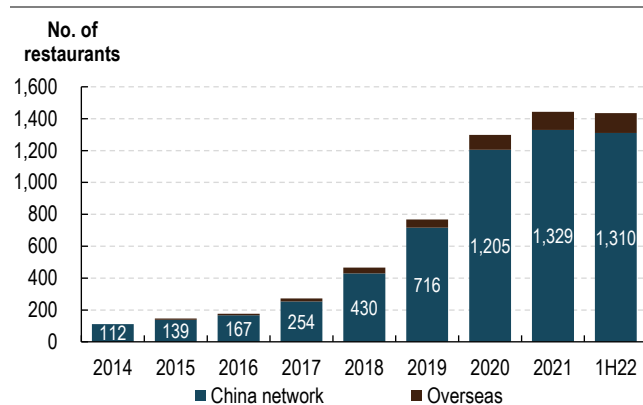


**Exhibit 21. Atour emphasises on peak-and-end experiences**



Source: Atour Lifestyle Holdings Limited, Blue Lotus (2023/01/05).

**Exhibit 22. Network expansion by hot pot chain Haidilao**



Source: Haidilao International, Blue Lotus (2023/01/05).

## Multi-brand network is an inevitable next step

Prior to 2001, multinational (MNC) brands like Holiday Inn (1984), Sheraton (1985) and Hilton (1988) have already formed joint ventures in China, mostly with SOE's. Marriott (1997) and Hyatt (1999) were relatively late but their partners expanded to private enterprises. China lifted foreign sole ownership cap on hotels followings its accession to the WTO in 2001. In 2004, subsidiary and expatriate limitations were lifted and in 2007, the OTA limitation. Accor (2002) and Wyndham (2004) were the most active and aggressive in taking the WTO opportunity, entering into even low tier markets. Such endeavors, however, weren't successful. In 2016, Accor exited the low-to-mid end market by selling *IBIS*, *Mercurie* and *Novotel* brands to Huazhu and following a cross-shareholding structure, the two also collaborated on Accor's high-end brands, including *Pullman*, *Sofitel*, and two niche brands (*Sebel* and *MGallery*). We argue that MNC brands still hold advantages in the mid-to-high end, particularly in exotic, niche, chic and unique angles. But the main subsegment of price-benefit hotels will soon be lost to local brands for good.

*MNC hotels must leverage their innovative strength to compete, but will be increasingly difficult.*

### Who will be the next after Accor?

MNC hotel groups used to dominate China's hotel industry, particularly in the upper-mid-to-luxury segments. Chinese hotel groups, however, have made strides over the years with local innovations mainly taking place in the price-benefit category of each segment. MNC brands will increasingly retreat to the upper-mid-to-luxury, where the learning opportunity will still be mutual. This brings enormous opportunities for asset disposals, M&A's, joint brandings and new brand formations.

*We believe the best partner for Atour in China is Wyndham.*

### Atour's best MNC partner is Wyndham

On the top of our list for the possible Accor-next is Wyndham (WH US, NR). Wyndham has a relatively healthy hotel mix in China with *Super 8*, *Days Inn*, *Ramada* and *Howard Johnson* successfully established in the low-to-mid end but under increasing local competition. In 2021, *Super 8*, *Days Inn*, *Howard Johnson* and *Ramada* had 1,292 hotels and a total of 134,521 rooms, which was 172% of Atour in hotels and 155% in rooms. Wyndham's mid-tier focus is a nice fit for Atour to enter the corporate travel segment, both in China and globally.

### IHG and Marriott have asset disposal problems

IHG (IHG US, NR), which operates the *Holiday Inn Express*, *Crown Plaza* and *InterContinental* brands in China, is the second best fit. Pandemic has resulted in network reductions in all except *Holiday Inn Express*, which is at the low-end. In 2021, there were 195 *Holiday Inn Express* Hotels providing 37,772 rooms. IHG in total owned 443 hotels with 119,396 rooms (*Source: China Hotel Association*) in 2021, 59% of Atour in hotels and 138% in rooms. We believe low-end is a dead end for IHG. In particular, *Holiday Inn Express*, *Crown Plaza* and *Holiday Inn* had too many rooms in each hotel. In 2017, the trio had 253, 365 and 307 rooms per hotel. By 2021, they have been downsized to 194, 355 and 276 rooms per hotel (*Source: China Hotel Association*).

*High room number per hotel has been a common pitfall of MNC brands, particularly in the mid-to-low end.*

Marriott (MAR US, NR) suffered the same issue of legacy hotels built before the time of HSR and private auto ownership. Their early JV's with SOE's resulted in oversized upper+mid-end hotels at the time of building but is now deteriorating into mid-to-low-end by service standards. Marriott's *Sheraton* brand is also problematic. It has average room per hotel of ~350, which will need outstanding price-benefit-ratio to justify the extra travelling time to reach, yet such price-benefit superiority has become increasingly difficult to attain under the improvement pace of the local brands. Also suffering from the same issue, in our view, are two mid-to-high-end brands *Kempinski*

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and *Nikko*, which are not as high-end as *Shangri-La* to avoid direct competition with the local brands. We view *Kempinski* as also a possible collaboration partner for Atour.

In 2016, Marriott collaborated with Dossen to introduce the *Fairfield* brand in China. In 2019, Marriott took the franchise back, likely because Dossen only opened 12 *Fairfields* from 2016 to 2019, comparing to *Hampton Inn* (Hilton), which grew to 40 from 2015 to 2018 under a collaboration with Plateno (7Days) and later Jinjiang. *Hampton Inn*'s room per hotel was only 2/3 of *Holiday Inn Express* in 2015, which explained why it was successful.

*Company-to-company collaboration has resulted in successes like Huazhu-Accor while brand-by-brand collaboration generated successes like Hampton Inn, but also resulted in failures like Fairfield.*

## What MNC can offer is life-style and branding innovation

In 2019, BTG/Home Inn signed the *UrCove* brand from Hyatt (H US, NR) and by October 2022 it has opened 18 hotels. The *UrCove* brand is specially designed for the China market by Hilton (HLT US, NR). The hospitality industry has increasingly realized that opportunities in China rest not on sheer coverage, but on untapped segments. With digital maps installed on every mobile phone and ride hailing available in most cities, finding the hotel is no longer prohibitive. Location is still very important but the choice of locations has widened dramatically, opening new ways of competition.

From our counting, the mid-to-upper-end MNC brands that still yet to have a presence in China include *Autograph Collection*, *Curio*, *Embassy Suites*, *Homewood Suites*, *Tru by Hilton*, *Springhill Suites*, *Staybridge Suites*, *TownePlace Suites*, *Kimpton* and *Candlewood Suites*, etc. Choice Hotels (CHH US, NR), to date, doesn't have a presence in China except for a dozen or so Radisson's. Best Western entered in 2015 but has been scaling back operations since 2016.

The brand names and hotel groups ring no bell to the Chinese. What matter, however, are the staying experience and life style immersion offered by the premise, which MNC can succeed by excelling in one or both dimensions. As local brands improving in the staying experience, MNC brands face increasing challenge to maintain parity on staying experience but differentiate themselves on life style immersion, thereby providing the travellers with a different staying experience when they travel. With a rich depository of a global network, MNC's are uniquely positioned to innovate on life-style creation and brand creation, in our view. There are plenty of opportunities for experimentations.

*Travelers want different staying experience when they travel, which means new life style and brand creation are common in the hospitality industry.*

## People Management + Location + Capital = Hospitality

In February 2018, Hyatt signed a collaboration deal with a Sichuan-based hospitality group backed by two Sichuan local banks to operate the *Hyatt Place* and *Hyatt House* brands. At the time of the signing, Minyoun Hospitality was expected to deliver 50 *Hyatt Place/House* in five years (*Source: Hyatt Press Release*). By December 2022, we counted 21 *Hyatt Places* and *Houses* in China, but only 4, 3 of which in Sichuan, were built by Minyoun. This, together with Marriott's failed attempt with Dossen, illustrated that partnership with a regional hospitality group cannot reach the goal of national coverage in China.

## Subway/HSR station's vicinity real estate development will hit high gear

We believe the initial reason why IHG and Marriott chose to work with SOE partners is precisely because the prime city locations used to be mostly owned by SOE's. Prime location is particularly important for upper-to-luxury brands which is why we also see hospitality groups forming partnerships with real estate developers. In Japan and Hong Kong, building hotels close to the train stations are common practices for subways and HSR's. In China this will not be exception.

*More city subways are entering the real estate to develop commercial transportation-real-estate complexes.*

In the <New Urbanization Execution Plan> (十四五城镇化实施方案) of the <Fourteenth Five Year Plan>, State Council directed to promote the Transportation Oriented Development (TOD) model to form transportation-urban-complexes. Since most city subways lose money, this effectively encourages them to enter real estate.

Location, however, is not the most important success factor of the hospitality industry. People management and service process are. Landlord wants to maximize the value of their assets. While today we still see a lot of real estate groups entering hospitality, their future survival rests on stable management of people, in our view. This is what drives SUNAC (1918 HK, NR), for example, to hand over its hotel business to the management of Huazhu.

### MNC in China faces serious challenges if they cannot manage people

If MNC cannot excel in managing their people to deliver superior living experience, what can be their value add in the triangle matrix of people-location-capital? This is especially a hard question for mid-to-low-end MNC hotel chains since they need to basically reinvent their service standard and implement them in China.

Single hotel alliances like Leading Hotels of the World (立鼎世), Preferred Hotels of the World (璞富騰) and Small Luxury Hotels (SLH) exist to help standalone hotels to draw traffic but they cannot export people management to their business partners. Their track records in China are all mixed.

### Project finance will become the main source of capital

In our view, mobile Internet unlocks the value previously tangled among location, service and hardware, enabling landlord, people manager and capitalists to find each other. At the centre is people managers because they have the most exportable competency. The business development departments of Huazhu and Atour mix and match landlord and capitalists. Even crowd-funding is possible for developing a hotel project with the right mix of location, beds and price point.

### MNC's achieve operation stability through multi-brand

As shown in Exhibit 23 and 24, the performances of individual brands vary. But overall MNC hotel groups are able maintain their operational stability through multi-brand operations.

Multi-brand strategy can bring multiple benefits to the hotel groups.

- **Multi-branding optimizes OTA spending:** People from all walks comes to OTA, making it the nexus of travel distribution. Naturally, a hotel group wants to increase its “shelf exposure” through multiple brands;
- **Multi-branding satisfies the novelty need of travellers:** Hotel staying is part of the travel experience. Some luxury hotels are even one of the attractions of the trip. Human curiosity is the internal force motivating people to explore. New brands satisfy novelty seekers to try just like new restaurants. These brands target similar customers, while at the same time enlarging the firm’s market share;
- **Multi-branding appeals to more franchisees:** multi-branding gives franchisees more choices and avoids locational competition. As mentioned before, hotel ROI decreases with similar competition from the close vicinity. The effective way to address this issue is to segregate the segments of the two. In 2016, Huazhu’s franchisees boycotted Huazhu on the ground that the company allowed too many J’s to open at their 1.5km radiuses, showing the peril of single brand to franchisor and franchisee alike.

*Sound people management drives landlord and capital provider in the hospitality industry.*

*Mobile Internet unlocks the value of location and service, enabling landlord, people manager and capitalists to find each other.*

*Multi-brand can capture more travelers with varying location, budget and experiential requirements. It can also bring stability to the operator as rebranding a hotel name is difficult.*

**Exhibit 23. MNC hotel networks in China by hotels**

# of hotels	2017	2018	2019	2020	2021
<b>Wyndham</b>	<b>1,290</b>	<b>1,326</b>	<b>1,412</b>	<b>1,567</b>	<b>1,365</b>
Super 8	1,061	1,077	1,132	1,217	1,046
Days Inn (戴斯)	73	64	67	105	60
Wyndham	20	26	29	40	53
Howard Johnson (豪生)	46	48	63	71	63
Ramada (华美达)	78	98	107	114	123
Wyndham Grand Royale	12	13	14	20	20
Microtel (麦客达)	-	-	-	6	26
<b>IHG</b>	<b>269</b>	<b>289</b>	<b>408</b>	<b>551</b>	<b>443</b>
Holiday Inn Express (智选)	75	94	128	180	195
Crown Plaza (皇冠假日)	77	79	146	159	100
Holiday Inn	81	79	90	105	101
InterContinental (洲际)	36	37	44	107	47
<b>Marriott</b>	<b>208</b>	<b>221</b>	<b>257</b>	<b>365</b>	<b>285</b>
Sheraton (喜来登)	73	73	79	78	77
Marriott (万豪)	27	25	35	101	46
Four Point (福朋)	25	29	29	33	34
Renaissance (万丽)	18	20	26	33	27
Courtyard (万怡)	14	17	27	33	35
Westin	21	24	23	28	24
JW Marriott	11	11	13	16	17
Le Meridien (艾美)	10	13	16	34	16
Ritz Carlton	9	9	9	9	9
<b>Hilton</b>	<b>87</b>	<b>92</b>	<b>149</b>	<b>206</b>	<b>267</b>
Hampton Inn (欢朋)	16	40	63	115	157
Hilton (希尔顿)	41	28	53	54	71
DoubleTree (逸林)	30	24	33	37	39
<b>Accor/Huazhu</b>	<b>76</b>	<b>79</b>	<b>116</b>	<b>242</b>	<b>196</b>
Mercure/Grand (美居/美爵)	15	20	39	105	104
Pullman (铂尔曼)	26	21	33	63	40
Novotel	16	18	23	32	30
Sofitel	19	20	21	42	22
<b>Hyatt</b>	<b>42</b>	<b>48</b>	<b>59</b>	<b>87</b>	<b>94</b>
Hyatt Regency (凯悦)	19	19	22	27	31
Grand Hyatt (君悦)	10	11	12	13	12
Park Hyatt (柏悦)	7	7	8	9	9
Hyatt Place/House (嘉轩)	4	8	13	14	16
Andaz	1	1	1	2	3
UrCove (逸扉)	-	-	-	18	16
Unbound Collection (甄选)	1	2	3	4	7
<b>Shangrila</b>	<b>43</b>	<b>45</b>	<b>66</b>	<b>48</b>	<b>50</b>
<b>Kempinski</b>	<b>21</b>	<b>24</b>	<b>18</b>	<b>22</b>	<b>20</b>

Source: China Hotel Association, Blue Lotus (2023/01/05).

**Exhibit 24. MNC hotel networks in China by rooms**

# of rooms (K)	2017	2018	2019	2020	2021
<b>Wyndham</b>	<b>136.7</b>	<b>132.0</b>	<b>13.6</b>	<b>160.7</b>	<b>158.3</b>
Super 8	80.6	69.0	70.4	73.6	75.1
Days Inn (戴斯)	12.3	10.8	11.1	16.7	9.8
Wyndham	6.3	8.1	8.8	10.7	14.1
Howard Johnson (豪生)	14.8	18.3	20.3	25.8	23.0
Ramada (华美达)	18.4	21.3	22.3	26.0	26.5
Wyndham Grand Royale	4.3	4.4	4.5	7.2	6.4
Microtel (麦客达)	-	-	-	0.8	3.3
<b>IHG</b>	<b>85.4</b>	<b>89.2</b>	<b>105.1</b>	<b>129.2</b>	<b>119.4</b>
Holiday Inn Express (智选)	18.2	22.3	26.9	36.9	37.8
Crown Plaza (皇冠假日)	27.9	28.4	35.0	37.9	35.5
Holiday Inn	24.2	23.1	25.9	29.8	27.9
InterContinental (洲际)	15.1	15.4	17.2	24.6	18.3
<b>Marriott</b>	<b>74.7</b>	<b>75.6</b>	<b>82.1</b>	<b>95.9</b>	<b>92.3</b>
Sheraton (喜来登)	27.0	26.4	25.6	26.7	27.3
Marriott (万豪)	10.5	9.0	11.7	18.0	15.0
Four Point (福朋)	7.4	8.4	8.6	9.5	9.7
Renaissance (万丽)	7.1	7.4	7.3	9.6	9.4
Courtyard (万怡)	4.2	4.9	7.4	8.0	9.0
Westin	7.5	7.8	8.1	8.6	8.4
JW Marriott	4.4	4.3	5.1	6.0	5.3
Le Meridien (艾美)	3.4	4.3	5.1	6.3	5.1
Ritz Carlton	3.1	3.1	3.1	3.1	3.1
<b>Hilton</b>	<b>29.7</b>	<b>26.7</b>	<b>42.1</b>	<b>51.0</b>	<b>63.6</b>
Hampton Inn (欢朋)	2.7	6.8	10.3	19.5	26.0
Hilton (希尔顿)	16.7	11.3	20.5	19.0	24.6
DoubleTree (逸林)	10.3	8.6	11.4	12.5	12.9
<b>Accor/Huazhu</b>	<b>23.7</b>	<b>23.9</b>	<b>33.2</b>	<b>46.3</b>	<b>45.8</b>
Mercure/Grand (美居/美爵)	4.0	4.3	8.5	16.1	17.5
Pullman (铂尔曼)	8.1	6.9	10.4	12.9	12.6
Novotel	5.1	6.1	7.4	8.9	8.6
Sofitel	6.5	6.6	6.9	8.5	7.2
<b>Hyatt</b>	<b>14.0</b>	<b>14.7</b>	<b>17.5</b>	<b>24.1</b>	<b>25.4</b>
Hyatt Regency (凯悦)	6.5	6.3	7.1	8.7	9.8
Grand Hyatt (君悦)	4.7	4.6	5.0	5.6	4.9
Park Hyatt (柏悦)	1.6	1.6	1.8	2.0	2.0
Hyatt Place/House (嘉轩)	0.8	1.6	2.7	2.9	3.3
Andaz	0.1	0.1	0.1	0.3	0.4
UrCove (逸扉)	-	-	-	3.6	3.2
Unbound Collection (甄选)	0.3	0.5	0.8	1.0	1.8
<b>Shangrila</b>	<b>18.5</b>	<b>20.0</b>	<b>18.5</b>	<b>21.3</b>	<b>21.4</b>
<b>Kempinski</b>	<b>8.8</b>	<b>7.7</b>	<b>6.8</b>	<b>7.7</b>	<b>7.8</b>

Source: China Hotel Association, Blue Lotus (2023/01/05).

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- **Multi-branding enables purchase economy:** higher hotel density can result in outsourcing efficiencies in essential supplies and services.

As Exhibit 25 shows, most global hospitality groups have 20+ brands. While Atour has experimented with early segmentation, thanks to the overwhelming success of the *Atour* brand, segmentation mostly takes the form of brand extension. We believe Atour needs to acquire to grow a distinctive brand.

*We believe Atour needs to acquire to grow a distinctive brand given the Atour brand's overwhelming success.*

**Exhibit 25. Global lodging company ranking by room number**

Ranking	Company name	# of rooms	# of brands
1	Marriott	1,446,600	31
2	Hilton	1,062,549	17
3	<b>Jinjiang</b>	<b>1,019,377</b>	<b>23</b>
4	InterContinental	880,327	15
5	Wyndham	795,547	22
6	Accor	760,000	31
7	<b>Huazhu</b>	<b>753,216</b>	<b>23</b>
8	BTG	475,124	25
9	Choice	459,182	11
10	OYO	449,000	6
	<b>Average</b>	<b>810,092</b>	<b>20</b>

Source: Company disclosure, Blue Lotus (2023/01/05).

**Exhibit 26. Atour brand structure**

Name	Cities	ADR	# of hotel	U/D	Position
Atour (Flagship)	149	403	686	267	Upper-midscale
Atour S	20	561	47	27	Upscale
Atour Light	29	398	68	NA	Midscale
Atour X	18	422	29	21	Upper-midscale
ZHotel	2	556	3	NA	Upscale
A.T. House	1	955	1	NA	Luxury
Total			<b>834</b>	<b>315</b>	

Source: Company disclosures, Blue Lotus (2023/01/05).

Note: U/D stands for under development.

## What if Atour cannot smartly acquire/partner to grow?

We will need to adjust down our view on Atour if it happens.

With Jinjiang and BTG/Home Inn being both partially SOE, the chance for a second non-SOE hospitality group to emerge in China after Huazhu is very high, in our opinion.

With the separation of location, service and capital enabled by mobile Internet, real estate group's motivation to seek partners outside their realm is strong and real. Further, with the entry of new players like the city subways into commercial real estate, the ability to well manage a people business has become a scarce commodity. The SOE label sought after by Home Inn and 7Days through their mergers with BTG and Jinjiang will not service them well in the upcoming business developments with city subways and local landlords, most of which are SOE's of a different universe. While Atour may never become the biggest hotel group in terms of the number of hotels and rooms, we expect it to be more stably profitable than its bigger rivals.

*The SOE label attached to Home Inn and 7Days after their merger in 2015 will hurt them in the era of mobile Internet, in our opinion. We expect Atour to be more stably profitable than its bigger rivals.*

## Sustained & stable profitability is what matters

Our assessment shows investing in Atour results in higher OCC at higher ADR, leading to higher profit margin that is sharable between Atour and its franchisees. We believe that over time Atour has a superior war chest to win competition through attrition.

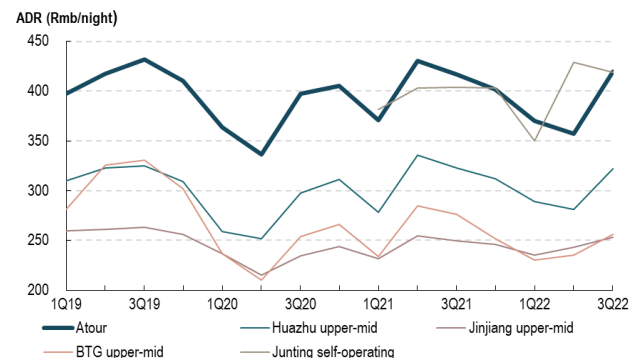
### Higher OCC at higher ADR mean more money to share

Despite Atour's ADR being 31%, 49% and 61% higher than Huazhu, BTG/Home Inn and Jinjiang's upper+mid-end brands, over the past 15 quarters, its Occupation Rate (OCC) persistently beat BTG/Home Inn and Jinjiang's same-class brands while being slightly below Huazhu's. We believe Atour's OCC were intentionally kept low to ensure good customer experience since it operates an active loyalty program. We also compare Atour with another upper+mid-end only hotel, Juntong Hotel (301073 CH, NR). At similar ADR range, Juntong's OCC were persistently lower than Atour (Exhibit 27 and 28).

*Atour's ability to achieve higher OCC at higher ADR points to its potential to expand scale if its service quality can be maintained.*

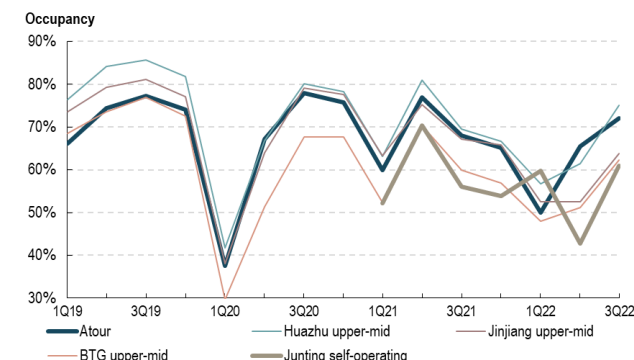
Another effective indicator is Atour's ability in leading the recovery at post pandemic period. In 3Q22, Atour's OCC had recovered to 93% of its 2019 level, while Huazhu, Jinjiang and BTG/Home Inn's similar brands only recovered to 88%, 79% and 80% (Exhibit 29). Furthermore, Atour's RevPAR has recovered to 90%, and Huazhu, Jinjiang and BTG/Home Inn only recovered to 87%, 76% and 63% (Exhibit 30).

**Exhibit 27. Even though Atour is 30-60% more expensive than rivals' upper+mid-end**



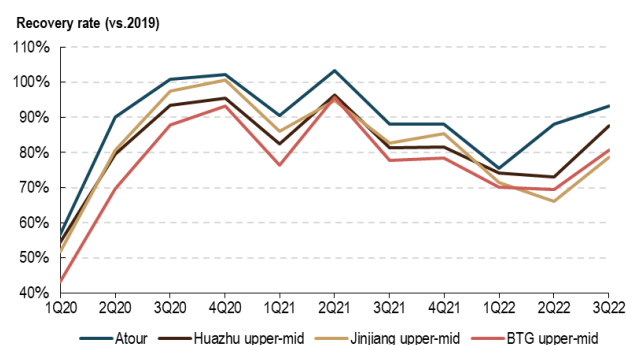
Source: Company disclosure, Blue Lotus (2023/01/05). Upper+mid-end=Upscale+Upper Midscale+Midscale

**Exhibit 28. Atour's occupancy rate (OCC) is still 5-15ppt higher**



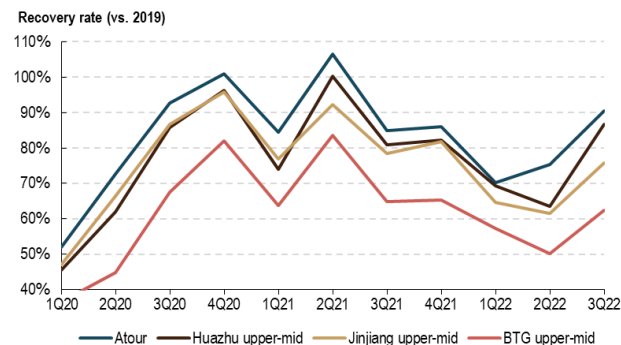
Source: Company disclosures, Blue Lotus (2023/01/05).

**Exhibit 29. Recovery rate of OCC for rivals' upper+mid-end**



Source: Company disclosure, Blue Lotus (2023/01/05).

**Exhibit 30. Recovery rate of RevPAR for rival's upper+mid-end**



Source: Company disclosures, Blue Lotus (2023/01/05).

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## Higher profit margin means fast payback period, for now

Atour's higher ADR and OCC lead to higher revenue per room but its preopening and operating costs aren't necessarily higher than rivals. As shown in Exhibit 31, *Atour's* renovation cost is higher than *JI*, *Starway*, *Lavende* and *Home Inn Select* but on par with *Vienna*, which can be easily justified from Rmb100-150 premium over rival brands on ADR (Exhibit 27). In fact, Rmb20K higher improvement cost per room can be offset with half a year of operation by higher ADR and OCC.

*Atour's higher RevPAR has more than compensated to the higher room improvement cost*

**Exhibit 31. Upper+mid-end hotel renovation cost**

	Group	Total area (K sq m)	Rooms per hotel	Cost/room (Rmb K)	Cost/hotel (Rmb mn)
Atour	Atour	4-15	80-250	120	10-30
Atour Light	Atour	3-8	60-200	90	5-18
JI	Huazhu	4-10	100-250	100	10-25
Crystal Orange	Huazhu	>5	>80	200	>16
Starway	Huazhu	4-10	100-250	80	9-20
Vienna	Jinjiang	>3.5	>100	120	>12
Lavender	Jinjiang	5-13	80-250	100	8-25
Home Inn S.*	BTG/ HI	4-5	100-120	75	8-9
Yitel	BTG/ HI	7-20	120-280	120	14-34

Source: Company disclosure, Blue Lotus (2023/01/05). \*Home Inn Select

**Exhibit 32. Preopening and operation costs of upper+mid-end**

	Atour	JI	Orange	Vienna	Lavende	H. I. S.
Duration (yr.)	NA	10	NA	NA	NA	10
Upfront (Rmb K/rm)	5	3	5	3	5	4
Op. deposit (Rmb K)	100	100	100	500	200	100
Reno. dep. (Rmb K)	50	70	No	No	No	50
IT install. (Rmb K)	10	5	30	80	20	5
Des.+Eng. (Rmb K)	Free	Free	Free	100	350	>10
<b>Revenue share</b>	<b>6%</b>	<b>6%</b>	<b>7.5%</b>	<b>6%</b>	<b>6%</b>	<b>5%</b>
Acct. (Rmb K/year)	14.4	7.2	Free	Free	Free	Free
Booking (Rmb/rm.n.)	Free	Free	20	20	Free	20
IT fee (Rmb K/yr)	12	40	20	Free	36	24

Source: Company disclosure, Jiamengfei.com, Blue Lotus (2023/01/05).  
Note: H.I.S=Home Inn Select

## Atour can raise its take rate by 2-3ppt without losing competitiveness

In terms of daily operations, most hotel groups charge 6% of take rate (franchise fee) with *BTG/Home Inn* charges 5% but *Orange* and *Hampton Inn* (Hilton/Jinjiang) charging 8%. However, *Orange*, *Vienna* and *Home Inn Select* also charge a booking fee of Rmb20/room-night which is equivalent to 6-9% of their ADR's. While both *Atour* and *JI* charge a small accounting fee, *Atour's* IT maintenance fee was the lowest except *Vienna*, who charges a large IT installation fee enough to amortize over the contract period. Another cost the franchisees of *Hampton Inn* must bear is they must reserve 5% of their room at all times for Hilton loyalty program members free of charge. *Hampton Inn* also requires the franchisee to secure 20% of the room numbers in parking spaces, which in our view is premature at this point.

*We believe Atour has the ability to raise revenue share by 2-3ppt without losing its competitiveness.*

Under these comparisons we believe Atour has the ability to further raise take rate by 2-3ppt without losing its competitiveness.

## Atour has higher profit margin than rivals

We found Atour's lease/own(L/O) hotel's EBITDA margins to be 3.3 and 6.0ppt higher than Huazhu and Jinjiang in 2019. They widened to 28.2ppt and 22.3ppt in 2021 and slightly narrowed to 7.6ppt and 13.6ppt in 1H22 (Exhibit 33&34). Atour's L/O hotel kept operating profitable during the pandemic period while Jinjiang and Huazhu had experienced different degree of loss making.

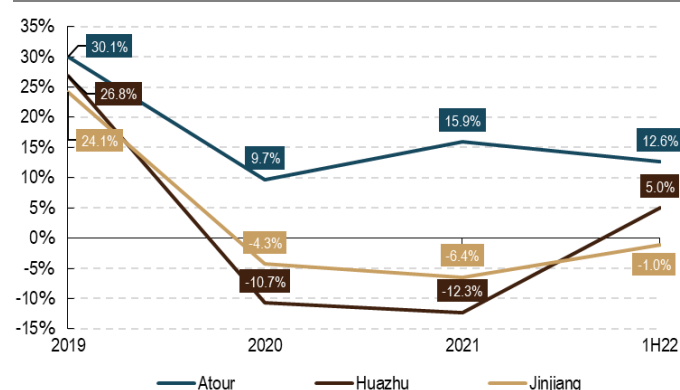
Assuming Atour's manachised/franchised (M/F) hotels have same EBITDA margin as L/O hotels. We estimate its M/F hotel's EBITDA margin to be 23.2% in 2019, 1.8% in 2020, and 8.1% in 2021. We expect the margin level to fully bounce back to 2019 level in 2H23 and further increase to 27.9% in 2026E (Exhibit 35).

*Rising tides lift all boats. At times of pandemic, Atour is more profitable than rivals.*

This means Atour's franchisees have a healthy profit pool to payback their initial investments. We calculate franchisee's operating profit at 2019 is equivalent to 19.6% of ROI and 5.1 years of payback period.

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**Exhibit 33. Atour L/O hotel EBITDA margin higher than peers**



Source: Company disclosure, Blue Lotus (2023/01/05)

**Exhibit 34. Huazhu and Jinjiang EBITDA per L/O hotel**

RMB mn	2019	2020	2021	1H22
HTHT L/O revenue per hotel	11.2	9.2	11.0	6.2
HTHT operating cost per hotel	(9.6)	(11.9)	(14.3)	(6.8)
HTHT EBITDA per hotel	3.0	(1.0)	(1.3)	0.3
EBITDA margin	26.8%	(10.7%)	(12.3%)	5.0%
Jinjiang L/O revenue per hotel	9.1	5.5	5.8	3.1
Jinjiang operating cost per hotel	(6.9)	(5.8)	(6.2)	(3.2)
Jinjiang EBITDA per hotel	2.2	(0.2)	(0.4)	(0.03)
EBITDA margin	24.1%	(4.3%)	(6.4%)	(1.0%)

Source: Company disclosure, Blue Lotus (2023/01/05)

**Exhibit 35. Atour L/O & M/F hotel EBITDA analysis**

RMB mn	2019	2020	2021	1H22	2022E	2023E	2024E	2025E	2026E
1) L/O hotel									
Revenue	21.2	15.0	19.1	7.7	17.5	19.7	24.5	26.9	29.5
Operating cost	(17.2)	(16.2)	(18.9)	(7.9)	(16.9)	(17.9)	(19.0)	(21.0)	(22.5)
D&A	2.4	2.6	2.8	1.2	2.5	2.7	2.9	3.2	3.4
EBITDA	6.4	1.5	3.0	1.0	3.1	4.4	8.3	9.1	10.3
EBITDA margin	30.1%	9.7%	15.9%	12.6%	18.0%	22.6%	34.0%	33.7%	35.1%
2) M/F hotel									
Revenue	13.2	11.7	12.8	5.2	11.3	12.2	14.3	15.6	17.0
EBITDA before franchise fees	4.0	1.1	2.0	0.7	2.0	2.8	4.9	5.3	6.0
EBITDA margin	30.1%	9.7%	15.9%	12.6%	18.0%	22.6%	34.0%	33.7%	35.1%
Continuing franchise fees	0.7	0.7	0.8	0.4	0.7	0.7	0.9	0.9	1.0
Other transaction fees	0.2	0.2	0.2	0.0	0.2	0.2	0.2	0.2	0.2
EBITDA after franchise fees	3.1	0.2	1.0	0.2	1.2	1.8	3.8	4.1	4.7
EBITDA margin	23.2%	1.8%	8.1%	3.7%	10.4%	15.0%	26.6%	26.4%	27.9%

Source: Atour Lifestyle Holdings Limited, Blue Lotus (2023/01/05)

## Asset light model should have higher multiple

As shown in Exhibit 36 & 37, Atour has higher portion of revenues from the manachised/franchised (M/F) model and thus enjoy more stable gross margins. In 2021, more than half of Atour's revenue are generated from M/F business, while Huazhu/Jinjiang/BTG-Home Inn had only 40%/44%/27%, respectively, despite Atour's shorter history.

Is this good or bad?

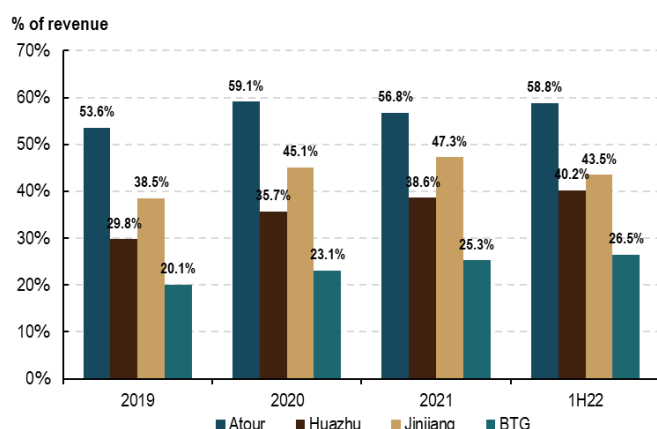
We believe that in the early days of hotel chains, the leased/owned(L/O) model demonstrates the chain's ability to expand the network through centralized business developments. It should enjoy a higher multiple because M/F model is likely to run into management problems, either with landlord or with employees. But in an environment with mature commercial infrastructures where contracts are transparent and honoured, M/F model is the way to go because it motivates the related parties to share the up and downs of the operation cycle. The franchise fee is a high gross margin business for hotel brands. From a finance point of view, the asset light M/F model has inherently higher ROE due to the minimised equity requirement. It decouples the return requirement of the landlord from the value-add provided by Atour. At this point we believe the landlords are enjoying returns above

*Lease/own is a business model of the early-stage era. Manachised/franchised model has higher ROE.*

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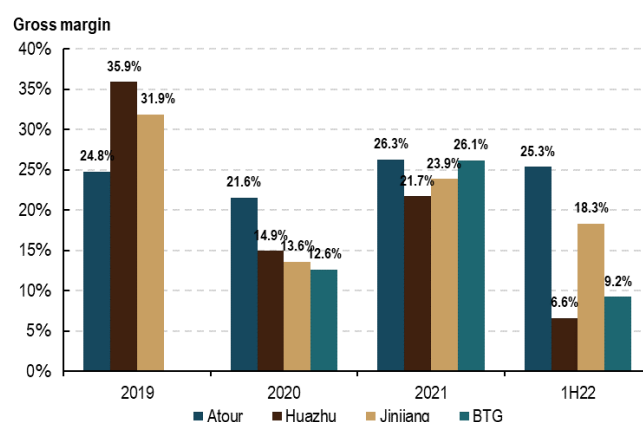
their expectations. Such oversized return is used to drive network expansion by attracting more landlords. We expect Atour to raise take rate as its network expansion coming to an end.

**Exhibit 36. Atour has higher proportion of revenue from manachised/franchised**



Source: Company disclosure, Blue Lotus (2023/01/05)

**Exhibit 37. which leads to Atour's stable gross margin**



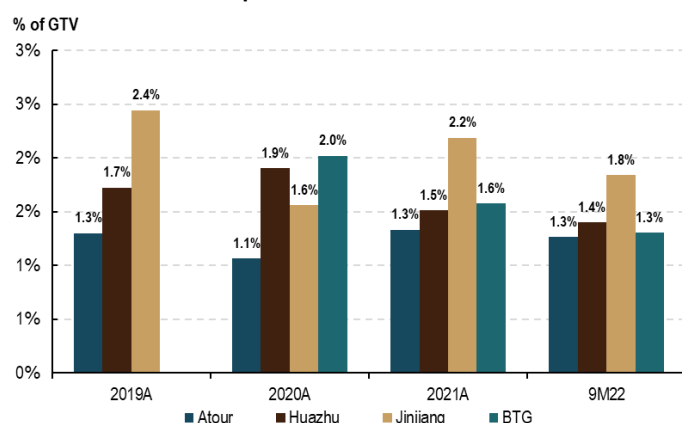
Source: Company disclosure, Blue Lotus (2023/01/05)

## Marketing cost on par with Huazhu and better than the other two

In the first three quarters of 2022, Atour's marketing cost amounted to 1.3% of its turnover, comparing to 1.4% for Huazhu, 1.8% for Jinjiang and 1.3% for BTG/Home Inn. Historically, Atour's sales marketing cost as turnover has been consistently below its peers (Exhibit 38). According to Atour's disclosure, 17% of its marketing cost were paid for OTA in 2021, down from 20% in 2020 and 18% in 2019. Considering Atour has a much shorter history of operation than its peers, we believe the low level of marketing reflects Atour's branding success.

On the G&A side, Atour also spent less, reflecting the benefit of more M/F revenues. Atour spent ~9% of revenues on G&A in 2019-2021, lower than 12%-16% for its peers. Main reason is M&A resulted higher intangible amortization and cost associated with multi-brand management.

**Exhibit 38. S&M cost/GTV comparison, where Atour is consistently lower than peers**



Source: Company disclosure, Blue Lotus (2023/01/05)

**Exhibit 39. Atour spend less in G&A vs. peers**

G&A/revenue	2019	2020	2021	1H22
Atour	8.8%	8.4%	9.2%	9.1%
Huazhu	9.5%	12.3%	12.1%	13.7%
Jinjiang	11.9%	10.9%	10.8%	11.7%
BTG	12.8%	13.3%	12.1%	16.1%

Amortization of intangible assets (RMB mn)				
Atour	0.9	1.0	1.3	0.6
Huazhu	16.0	62.0	65.0	NA
Jinjiang	237.3	208.4	150.3	69.8
BTG	103.4	116.1	64.5	29.9

% in G&A				
Atour	0.6%	0.7%	0.7%	0.6%
Huazhu	1.5%	4.9%	4.2%	NA
Jinjiang	11.8%	15.9%	10.2%	10.0%
BTG	10.2%	17.4%	9.2%	8.4%

Source: Company disclosure, Blue Lotus (2023/01/05)

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## Valuation and peer analysis

### DCF valuation=USD35, @WACC=13.0%, TG=4.0%

Our valuation using equity WACC of 13.0% and terminal growth rate of 4.0%, yield valuation of RMB35 per ADS. We think the primary driver for Atour growth is the hotel network expansion, which can lead to revenue 50%-60% YoY growth in 2023E-2025E. In the second stage, Atour is going to face moderate growth at 10%-20% in 2026E-2030E, contributed by cross brand fertilization and sink market penetration. After that, we expect both Atour and the China hotel chain market step into a saturated stage with high single digit growth. In terms of operating margin, we expect Atour to achieve stable EBIT margin at 25% in 2024 and onward.

Based on our estimate, Atour is currently trading at 25.5x PE in 2023, lower than China hotel average at 42x but higher than the global hotel average at 20x. We think Atour's potential growth ability deserve a premium and our TP implied PE at 50x in 2023, implying an 85% of potential upside in valuation.

*Atour is trading at a discount compared to its growth stage peers. Our TP implied an 81% of upside potential for Atour.*

#### Exhibit 40. DCF valuation table

Year to Dec (RMB mn)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Terminal
Revenues	2,298	3,669	5,875	8,846	9,947	12,487	14,894	16,709	18,416	19,920	21,282	22,734	24,280	25,796	25,796
EBIT	340	803	1,578	2,331	2,686	3,551	4,103	4,713	5,054	5,352	5,525	5,852	6,243	6,696	6,696
NOPAT	244	602	1,184	1,748	2,014	2,664	3,077	3,534	3,790	4,014	4,144	4,389	4,682	5,022	5,022
Capex, net of acquisitions	(117)	(185)	(296)	(445)	(500)	(627)	(748)	(839)	(924)	(1,000)	(1,068)	(1,141)	(1,219)	(1,295)	(1,295)
Depreciation & amortization	107	124	152	195	249	314	393	484	585	696	815	941	1,077	1,221	1,221
Change in working capital	116	595	1,077	1,354	500	1,290	1,193	912	808	714	626	702	757	762	762
Free operating CF	350	1,136	2,117	2,853	2,264	3,641	3,916	4,092	4,260	4,424	4,516	4,891	5,298	5,711	65,994
Group revenue, y/y (%)	7.0%	59.6%	60.1%	50.6%	12.4%	25.5%	19.3%	12.2%	10.2%	8.2%	6.8%	6.8%	6.8%	6.2%	6.2%
EBIT margin (%)	14.8%	21.9%	26.9%	26.3%	27.0%	28.4%	27.5%	28.2%	27.4%	26.9%	26.0%	25.7%	25.7%	26.0%	26.0%
DCF Parameters	Target														
Interest-bearing liabilities as % of EV					32.2%					Terminal FCF growth	4.0%				
WACC					13.0%					CNY/USD	6.97				
NPV of FoCF					32,574										
+ Net cash (debt), current					1,263										
- Pension prov. (Book value)					-										
-Minorities (Market value)					(16)										
+/- Other items					-										
= Equity value					34,821										
/ Number of ADS*					143										
= NPV per share (US\$)					35.0										

Source: Atour Lifestyle Holdings Limited, Blue Lotus (2023/01/05)

\* 1 ADS = 3 ordinary shares

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**Exhibit 41. Peer comparison table**

Sector		Price	P/E(cons.)			PEG	P/S(cons.)		EV/EBITDA(cons.)	
	Ticker	(Local)	2022E	2023E	2024E	2022E	2022E	2023E	2022E	2023E
Atour Lifestyle	ATAT US	19.3	63.9	25.5	13.2	1.1	7.4	4.6	46.0	25.8
<b>China hotel chain</b>										
Huazhu Group	HTHT US	45.6	NM	46.7	29.5	NM	7.3	5.5	159.4	30.4
Jinjiang Hotels	600754 CH	58.1	387.3	33.9	23.3	1.3	4.9	3.6	45.6	17.8
BTG Hotels Group	600258 CH	24.8	NM	33.0	23.1	NM	5.1	3.6	22.0	11.4
SSAW Hotels	301073 CH	68.6	187.0	62.2	43.6	1.7	22.3	13.3	111.3	49.0
<b>Sector</b>			<b>119.4</b>	<b>41.7</b>	<b>27.4</b>	<b>0.4</b>	<b>7.0</b>	<b>5.0</b>	<b>104.8</b>	<b>24.8</b>
<b>Global hotel chain</b>										
Marriott International	MAR US	149.9	22.0	20.3	18.7	2.6	2.3	2.1	15.0	13.7
Hilton Worldwide	HLT US	127.8	27.5	23.1	20.9	1.9	4.0	3.5	16.9	15.1
InterContinental Hotels	IHG US	60.4	21.3	18.4	16.4	1.5	4.3	5.1	13.4	12.1
Hyatt Hotels	H US	91.7	63.0	36.3	28.8	1.3	1.7	1.6	14.0	11.9
Wyndham Hotels	WH US	71.0	17.7	18.0	17.3	1.3	4.2	4.2	12.6	12.3
Choice Hotels International	CHH US	112.2	20.9	18.9	17.7	2.5	4.3	4.0	15.2	13.8
GreenTree Hospitality Group	GHG US	3.6	NM	9.9	6.9	NM	2.4	1.8	127.5	42.0
Accor SA	AC FP	24.5	27.6	23.0	17.5	1.1	1.7	1.6	12.1	10.3
<b>Sector</b>			<b>26.7</b>	<b>19.9</b>	<b>19.7</b>	<b>2.0</b>	<b>3.1</b>	<b>2.9</b>	<b>15.4</b>	<b>13.7</b>

Source: Bloomberg, Blue Lotus (2023/01/05).

## Annual Income Statement

Fiscal year ends-31-Dec

Exhibit 42. Annual income statement

RMB mn	2020A	2021A	2022E	2023E	2024E	2025E
<b>Net revenues</b>	<b>1,567</b>	<b>2,148</b>	<b>2,298</b>	<b>3,669</b>	<b>5,875</b>	<b>8,846</b>
Total hotel operating costs	(1,150)	(1,420)	(1,467)	(2,255)	(3,573)	(5,415)
Other operating costs	(79)	(163)	(167)	(267)	(212)	(268)
<b>Gross profit</b>	<b>338</b>	<b>565</b>	<b>665</b>	<b>1,147</b>	<b>2,090</b>	<b>3,163</b>
Selling and marketing expenses	(71)	(124)	(117)	(215)	(324)	(451)
General and administrative expenses	(131)	(197)	(212)	(241)	(382)	(566)
Technology and development	(34)	(52)	(67)	(107)	(176)	(265)
Pre-opening expenses	(62)	(18)	0	0	0	(80)
Other operating income	23	22	38	37	76	106
Share based compensation	0	0	(33)	(183)	(294)	(425)
Operating profit, GAAP	63	196	307	620	1,285	1,906
<b>Operating profit, non-GAAP</b>	<b>63</b>	<b>196</b>	<b>340</b>	<b>803</b>	<b>1,578</b>	<b>2,331</b>
Interest income	1	7	12	12	27	44
Interest expense	(1)	(8)	(6)	(6)	(6)	(6)
Other income, net	2	0	(4)	0	0	0
Gain from ST investment	11	9	9	8	5	5
Pre-tax profit	76	204	318	634	1,310	1,949
Income tax expense	(38)	(64)	(89)	(158)	(328)	(487)
Net income, GAAP	38	140	228	475	983	1,462
Net income attributable to shareholder, GAAP	(11)	130	230	475	983	1,462
<b>Net income attributable to shareholder, Non-GAAP</b>	<b>(11)</b>	<b>130</b>	<b>263</b>	<b>659</b>	<b>1,276</b>	<b>1,887</b>
GAAP diluted EPADS	(0.19)	1.21	1.61	3.33	6.89	10.25
Non-GAAP diluted EPADS	(0.19)	1.21	1.84	4.62	8.95	13.22

Source: Atour Lifestyle Holdings Limited, Blue Lotus (2023/01/05).

See the last page of the report for important disclosures

## Annual Balance Sheet

Fiscal year ends-31-Dec

Exhibit 43. Annual Balance Sheet

RMB mn	2020A	2021A	2022E	2023E	2024E	2025E
Cash and cash equivalents	825	1,039	1,501	2,575	4,568	7,234
Accounts receivable net	140	100	115	183	294	442
Prepayments and other current assets	126	167	164	245	367	520
Amounts due from related parties	34	52	51	73	107	147
Inventories	30	59	72	118	210	354
Total current assets	1,170	1,416	1,903	3,195	5,546	8,698
Restricted cash	9	1	1	1	1	1
Contract costs	53	62	87	117	132	147
Property and equipment net	467	439	449	509	653	903
Operating lease right-of-use assets	0	0	2,070	2,070	2,070	2,070
Intangible assets net	3	4	4	4	4	4
Goodwill	17	17	17	17	17	17
Other assets	153	183	183	183	183	183
Deferred tax assets	113	123	123	123	123	123
Total non-current assets	816	829	2,934	3,025	3,184	3,449
<b>Total assets</b>	<b>1,986</b>	<b>2,245</b>	<b>4,837</b>	<b>6,219</b>	<b>8,729</b>	<b>12,146</b>
Operating lease liabilities, current	0	0	346	346	346	346
Accounts payable	86	161	192	334	588	885
Deferred revenue	187	234	255	408	653	983
Salary and welfare payables	86	95	115	183	294	442
Accrued expenses and other payables	379	447	460	734	1,175	1,769
Income tax payable	62	46	89	158	328	487
Short-term borrowings	89	65	65	65	65	65
Current portion of long-term borrowings	1	1	1	1	1	1
Other current liabilities	162	114	157	226	395	555
Total current liabilities	898	1,051	1,524	2,230	3,450	4,980
Operating lease liabilities, non-current	0	0	1,935	1,935	1,935	1,935
Other non-current liabilities	521	629	649	820	1,096	1,467
Total non-current liabilities	521	629	2,584	2,755	3,031	3,402
<b>Total liabilities</b>	<b>1,420</b>	<b>1,681</b>	<b>4,108</b>	<b>4,985</b>	<b>6,481</b>	<b>8,382</b>
Ordinary share	0	0	0	0	0	0
Additional paid-in capital	0	765	765	765	765	765
Accumulated deficit	(306)	(176)	52	526	1,504	2,952
<b>Total equity</b>	<b>566</b>	<b>565</b>	<b>729</b>	<b>1,234</b>	<b>2,248</b>	<b>3,764</b>
<b>Total liabilities and equities</b>	<b>1,986</b>	<b>2,245</b>	<b>4,837</b>	<b>6,219</b>	<b>8,729</b>	<b>12,146</b>

Source: Atour Lifestyle Holdings Limited, Blue Lotus (2023/01/05).

See the last page of the report for important disclosures

## Annual Cash Flow Statement

Fiscal year ends-31-Dec

### Exhibit 44. Annual Balance Sheet

RMB mn	2020A	2021A	2022E	2023E	2024E	2025E
Net income	38	140	228	475	983	1,462
Adjustments:						
Depreciation and amortization	85	94	107	124	152	195
Gain from ST investment	(11)	(9)	0	0	0	0
Net loss on disposal of property and equipment	0	2	0	0	0	0
Net loss on disposal of intangible asset	0	0	0	0	0	0
Allowance for doubtful accounts	3	3	3	3	3	3
Deferred income tax expense (benefit)	(34)	(9)	0	0	0	0
Changes in working capital	38	197	116	595	1,077	1,354
<b>Net cash provided by operating activities</b>	<b>119</b>	<b>418</b>	<b>454</b>	<b>1,198</b>	<b>2,215</b>	<b>3,014</b>
<b>Net cash used in investing activities</b>	<b>(106)</b>	<b>(42)</b>	<b>36</b>	<b>(124)</b>	<b>(222)</b>	<b>(348)</b>
<b>Net cash provided by financing activities</b>	<b>48</b>	<b>(161)</b>	<b>(28)</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>
Net increase in cash	61	206	462	1,074	1,993	2,666
Cash at the beginning of the period	772	833	1,039	1,501	2,575	4,568
Cash at the end of the period	833	1,039	1,501	2,575	4,568	7,234

Source: Atour Lifestyle Holdings Limited, Blue Lotus (2023/01/05).



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