

The global travel and tourism industry is an attractive growth market driven by growing disposable income, an ageing population, low-cost air travel, and expansion of the middle class in emerging markets. In the near term, the health of the industry is driven by global economic growth, consumer disposable income, and corporate profitability. For now, the industry is enjoying an extended upcycle due in part to restrained supply growth which has been below its long-term average for the last eight years due to the lagging impact of the financial crisis.

InterContinental Hotels (IHG) is one of the world's largest hotel companies, with almost 800,000 rooms across more than 5,300 hotels. The group has an overweight exposure to the Americas (74% of profit), as well as a market-leading exposure to the fast-growing Chinese market. Overall, IHG operates in global markets where 80% of room revenue growth is forecast to occur between now and 2025.

IHG operates a highly scalable, asset-light model, based on franchising and management contracts, with low capital intensity and high returns. The group only 'owns' eight hotels. Instead, the vast majority of its business is funded by someone else's capital, with 96% of profits coming from high-margin fees. The result is a smoother earnings and dividend profile across the cycle.

IHG operates through a diverse portfolio of attractive brands including Crowne Plaza, InterContinental, Holiday Inn, Holiday Inn Express, Indigo Hotels, Kimpton, and Staybridge. This, combined with a strong operating system and a track record of technology innovation, all combine to enhance the guest experience, encourage customer loyalty, generate pricing power, and attract new hotel owners.

From this base, and following the appointment of its new CEO, the group is now focused on accelerating its growth and driving cost efficiencies. The aim is to grow the room count faster than the industry by rolling out existing brands, developing new brands, and acquiring additional brands. In the US mainstream market, the group has launched a new brand, Avid, which has generated strong initial demand from hotel owners, while in the fast-growing \$60bn luxury segment, the group has recently acquired a 51% stake in Regent Hotels. There are also plans to rebrand and operate 13 high quality hotels recently acquired in the UK as InterContinental or Kimpton. Overall, the group now has a pipeline of more than 250,000 rooms, equal to 32% of its current system.

IHG has a strong track record of shareholder returns, with average dividend growth of 11% since 2003 and regular special distributions. Looking forward, we expect future returns to be driven by strong cash flow generation. Overall, we believe IHG is well placed to deal with the disruptive threat of the sharing economy and online travel agents, while in a consolidating industry, the company is often the subject of takeover speculation.

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