HTHT gideon lens

H World Group (HTHT) - Gideon-Lens Equity Research

Date: 2026-05-26. Analyst: Codex ER2. Price: US$43.73 per ADS from live FMP quote saved on 2026-05-26. Market cap: approximately US$13.43 billion. Fiscal year end: December 31.

VERDICT BLOCK

Verdict: WATCH

Scorecard:

Gate	Result	Notes
Management	PASS	Founder ownership, cash returns, asset-light execution; governance watchlist remains
Moat	YELLOW	HWC moat plausible to 2046; saturation and HWI dilute confidence
P/E <= 15 on confident EPS at TTM + 5 calendar years	PASS	Base cushion +34.3%
Compounder Score	Audited 49 / 100	49/100; H World has a real HWC platform, but missing ROIIC, missing franchisee ROI, HWI uncertainty, and a failed 20% price case keep it below compounder-grade.
Business Quality Score	Audited 44 / 80	44/80; HWC scale, FCF, and M&F growth are supported, but modest reported ROIC, negative same-hotel RevPAR, opaque owner economics, and governance/disclosure gaps cap quality.
20% Return UW Score	Audited 5 / 20	5/20; the base P/E 15 case may support WATCH, but 20% annualized returns require a materially lower entry price or major terminal multiple expansion.

One-line thesis (or reason to pass): HTHT is a high-quality China hotel platform with founder alignment, net cash, real HWC scale advantages, and a base-case five-year EPS path that clears the P/E 15 test, but it remains a WATCH until HWC franchisee economics and same-hotel RevPAR prove the base case is truly dependable.

Kill / trigger criteria:

- BUY trigger: price below US$50 while HWC M&F revenue remains at or above low-teens growth and same-hotel RevPAR stabilizes; at base EPS of US$3.91, US$50 implies roughly 17.4% cushion to the P/E 15 ceiling of US$58.71.
- PASS triggers: HWC M&F revenue growth below 10% YoY for two consecutive quarters before same-hotel RevPAR turns positive; closures above guidance without a healthy pruning explanation; diluted ADS count rising despite continued buybacks and net cash.
- Upgrade to BUY conditions: HWC same-hotel RevPAR flat-to-positive, M&F revenue growth still inside or above the 12%-16% FY2026 guide, HWI staying profitable without renewed lease-heavy expansion, and no governance surprise from related-party, ADR, or CFO-transition items.

Position sizing if bought: 0% now; if upgraded, 2% maximum equity-book position because China/ADR, franchisee-return opacity, and FX risk reduce the confidence that normally supports larger Gideon sizing.

Stage 0 - Time anchor

Today is 2026-05-26. H World Group's fiscal year ends on December 31. The most recently reported quarter is Q1 2026, ended March 31, 2026 and announced May 15, 2026. The TTM anchor is Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026, giving a TTM period ending March 31, 2026. The forward horizon is TTM + 5 calendar years, or March 31, 2031. Every valuation and compounding reference in this report uses that five-year span rather than an FY2025-to-FY2030 shortcut.

Stage 1 - Disqualifier sweep

The quick disqualifier sweep did not produce a hard red flag. ROIC is green/yellow: the business is increasingly asset-light and cash generative, though lease liabilities and disclosure limits make invested-capital purity messy. FCF conversion is green: TTM CFO was RMB8.032 billion and FCF was RMB7.252 billion. Leverage is green/yellow: official debt less cash gives about RMB6.3 billion of net cash, but operating lease liabilities of RMB26.568 billion matter economically. End markets are yellow/green: China lodging and travel are not structurally declining, but mature HWC RevPAR is still soft. Governance is yellow: founder ownership is strong and there is no dual-class structure, but Cayman/ADR/FPI protections, Trip.com exposure, no nominations committee, and a new CFO require monitoring. AI disruption is green/yellow: AI does not replace hotels, but AI travel agents could reintermediate demand. Pricing power is yellow: H World has scale and direct distribution, but same-hotel RevPAR remains negative, so pricing power is not yet clean.

Management - summary

Management clears the ER2 gate. Qi Ji's 23.5% ownership and roughly 32.2% founder/cofounder ownership create real alignment, and the company has a long record of building an asset-light hotel system rather than chasing owned-asset growth. Hui Jin has enough operating tenure to own the current strategy, while Arthur Yu's CFO transition should be monitored rather than treated as a problem by itself. Capital allocation is coherent: capex is near 3% of revenue, the company has net cash on the official debt definition, and FY2025 cash returns were meaningful through dividends and repurchases. The largest blemish is the HWI/DH acquisition and turnaround path, but management has at least shown a willingness to restructure, exit weak leases, and restore profitability rather than defend a poor historical decision. The governance caveat is real: related-party exposure to Trip.com, Cayman/ADR rights, foreign private issuer exemptions, and limited compensation/franchisee ROI disclosure keep this from being a clean owner-operator story. Still, the evidence supports a management PASS.

Moat - summary

The moat is the main reason this is WATCH rather than BUY. HWC has a real moat: scale, H Rewards/direct distribution, owner-facing systems, procurement, brand recognition in economy-to-upscale China lodging, and a growing franchise network. Those advantages are visible in TTM HWC revenue of RMB21.077 billion and adjusted EBITDA of RMB8.317 billion, a 39.5% margin. The 2046 test is plausible but not proven. The platform can still matter twenty years out if franchisee returns remain attractive, direct distribution resists OTA and AI-agent reintermediation, and network additions do not become low-return saturation. HWI is not yet a moat-equivalent international platform; it is a lower-margin turnaround option with more lease, seasonality, and execution risk. The blended moat score is therefore YELLOW: good enough to study seriously, not good enough to ignore operating proof.

Stage 5 synthesis - headline numbers

The quantitative foundation uses official-source TTM revenue of RMB25.908 billion, TTM operating income of RMB7.225 billion, adjusted EBITDA of RMB8.835 billion, net income attributable of RMB5.003 billion, FCF of RMB7.252 billion, and 327.1 million diluted ADS-equivalent shares. HWC is the model's engine. The reviewed base case grows HWC revenue from RMB21.077 billion to RMB31.253 billion by March 31, 2031, an 8.2% CAGR, and expands the adjusted EBITDA/segment profit proxy from 39.5% to 41.5%. HWI grows from RMB4.856 billion to RMB6.347 billion, a 5.5% CAGR, and improves from 10.7% TTM adjusted EBITDA margin to 15.0%. After eliminations, the base consolidated horizon model reaches revenue of RMB37.560 billion, adjusted EBITDA/segment profit proxy of RMB13.922 billion, GAAP operating income bridge of RMB12.061 billion, net income of RMB8.705 billion, and EPS of RMB27.00 per ADS.

Case	Revenue	Net income	EPS/ADS USD	15x EPS value	vs. US$43.73
Bear	RMB31.462bn	RMB5.670bn	US$2.50	US$37.46	-14.3%
Base	RMB37.560bn	RMB8.705bn	US$3.91	US$58.71	+34.3%
Bull	RMB43.400bn	RMB11.257bn	US$5.11	US$76.66	+75.3%
Probability-weighted	n/a	n/a	US$3.80	US$56.99	+30.3%

The required FY+5 EPS for a P/E of 15 at US$43.73 is US$2.92, or RMB20.11 at the Q1 2026 official convenience translation rate of RMB6.898 per USD. Base EPS of US$3.91 clears that bar, and the 11 synthesis tie-out checks all passed. This is not a buyback-dependent result: the base share count falls only modestly from 327.1 million ADSs to 322.4 million. The main sensitivity is HWC growth; a 200 bp swing in HWC revenue CAGR moves EPS by roughly 8%-9%, far more than the HWI margin swing. The reflexivity check matters: at base EPS of US$3.91, a P/E 15 ceiling is US$58.71, so a price move into the high US$50s without higher earnings would erase most of the cushion.

Red team - summary

The red team keeps the final verdict at WATCH. Its strongest bear point is that the base case assumes HWC franchise health holds while mature same-hotel RevPAR is still negative and franchisee ROI is not disclosed. The most likely optimistic Stage 5 number is the base EPS of RMB27.00 / US$3.91 because HWC growth and margin downside would probably correlate in a weaker China lodging environment. The exit signal is crisp: HWC M&F revenue growth below 10% YoY for two consecutive quarters before same-hotel RevPAR turns positive. If that happens, the thesis should move to PASS unless price has already over-corrected enough to rebuild a margin of safety on the bear case.

Kill / trigger criteria

- Upgrade to BUY if HWC M&F revenue remains in or above the low-teens guide, same-hotel RevPAR turns flat-to-positive, closures stay within guidance with quality explanations, HWI remains profitable, and the ADS price stays below roughly US$50.
- Move to PASS if HWC M&F growth falls below 10% YoY for two consecutive quarters before RevPAR stabilizes.
- Move to PASS if management accelerates openings while closures rise and franchisee economics remain undisclosed.
- Move to PASS if governance or ADR structure risk becomes active: related-party surprise, shareholder-rights deterioration, or unexplained dilution.
- Reopen BUY sizing if the company demonstrates positive same-hotel RevPAR plus sustained asset-light growth while the stock still trades at a double-digit cushion to 15x five-year EPS.

Analyst flags

The foreign-issuer official-source override was active throughout. FMP annual income statement data was stale versus official FY2025 reporting, FMP quarterly product segmentation was stale, and official H World releases/20-F materials controlled the historical model. Segment profit uses adjusted EBITDA because H World discloses adjusted EBITDA as the segment profitability measure; synthesis separately bridges to GAAP operating income and net income. H World does not disclose brand-level revenue, annual HWC revenue by L&O/M&F, complete HWI leased/M&F TTM split, HWI-specific capex, or franchisee ROI. FX is a real ADS-holder sensitivity: the model translates RMB EPS at RMB6.898/USD for gate consistency, but a weaker RMB would reduce USD EPS and the P/E 15 price ceiling.

Appendix A - Company Primer

H World Group (HTHT) - Appendix A: Company Primer

Source Discipline And Time Anchor

This primer is the reader-facing orientation appendix for H World Group. It is not the modeling source of record. All financial figures below are drawn from `quant_foundation.md`, which was built from live FMP pulls, H World official earnings releases, and the 2025 Form 20-F, then independently reviewed. The data package file in the workdir was still a placeholder at the time this appendix was written, so qualitative context comes directly from live official sources: H World's investor relations site, the Q1 2026 earnings release, the Q4/FY 2025 earnings release, and the 2025 Form 20-F. A fresh FMP profile and quote snapshot was also pulled live and saved under the ER2 raw folder and the investing data warehouse, but the FMP snapshot is not used as a substitute for the quant foundation's financial tables.

Stage 0 anchor:

- Today: 2026-05-26.
- Company fiscal year convention: fiscal year ends December 31.
- Most recently reported quarter: Q1 2026, period ended March 31, 2026, announced May 15, 2026.
- TTM anchor: Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026 -> TTM ending March 31, 2026.
- Forward horizon: TTM + 5 calendar years = March 31, 2031. Compounding horizon is exactly 5 calendar years from March 31, 2026 to March 31, 2031.

Business Overview

H World Group is a multi-brand hotel operator and hotel franchising platform that originated in China and now has international operations. The company trades on NASDAQ under HTHT and on the Hong Kong Stock Exchange under 1179. The operating footprint is large by hotel count: H World reported 13,215 hotels and 1,303,563 rooms in operation as of March 31, 2026, spread across 21 countries, with China overwhelmingly dominant. The business has two distinct faces. To the traveler, it is a portfolio of economy, midscale, upper-midscale, upscale, and luxury hotel brands, including HanTing, JI Hotel, Orange, Crystal Orange, IntercityHotel, Hi Inn, NiHao, Elan, Zleep, Starway, CitiGO, Manxin, Madison, MAXX, Blossom House, Joya, Steigenberger, Jaz in the City, Steigenberger Icons, and Song Hotels. It also has master franchise or co-development rights for several Accor-related brands in pan-China, including Mercure, Ibis, Ibis Styles, Grand Mercure, and Novotel. To the investor, it is increasingly an asset-light hotel network that uses brand standards, central reservation, loyalty membership, revenue management, technology tools, procurement, and operating support to expand room count with franchisee capital.

The immediate customer set has three layers. The first is the guest, usually buying a room night for business or leisure travel. The second is the corporate or enterprise buyer, which can route lodging demand through H World's direct and business channels. The third is the hotel owner or franchisee, who pays H World for brand access, systems, management support, and distribution. This third customer is strategically critical because H World's long-term expansion depends less on building or leasing its own hotels and more on persuading local owners that a H World brand, operating system, and demand platform can generate superior returns on their property.

H World sells through direct and indirect channels. The company emphasizes its own app, H Rewards, enterprise channels, and its own internet booking engine, while still using intermediaries where needed. The 2025 Form 20-F says H Rewards covered all brands and had more than 311 million members at December 31, 2025. It also states that, in 2025, about 77% of room nights under legacy Huazhu were sold through H World's own sales channels, and about 73% of room nights under legacy Huazhu were sold to H Rewards members. Those percentages matter because direct distribution can lower customer acquisition costs, strengthen repeat behavior, and give the company more usable demand data than a hotel platform relying mostly on third-party online travel agents.

The core problem H World solves for guests is reliable, standardized lodging across price points and cities. For hotel owners, the problem is more economic: a property owner wants to convert local real estate into higher occupancy, better pricing, and stronger lifetime returns without independently building a consumer brand, technology stack, loyalty system, and operating

playbook. H World's answer is a brand-and-platform contract. In leased and owned hotels, H World operates directly and bears the operating burden. In manachised hotels, the owner supplies the property and most capital, while H World appoints the general manager and provides brand, reservation, quality assurance, training, renovation support, and operating services. In franchised hotels, H World provides brand, training, reservation, and support services but does not appoint the on-site manager. The company collects fees from franchisees under both models.

Revenue Architecture

H World should be read through two revenue architectures at the same time. The first is the reportable segment lens: HWC, meaning H World China, and HWI, meaning H World International. The company adopted this HWC/HWI terminology beginning in Q1 2026, replacing Legacy-Huazhu and Legacy-DH, with a minor realignment and updated comparative figures. The second is the business-model lens: leased and owned hotels, manachised and franchised hotels, and other revenue. The segment lens tells us geography and operational responsibility. The business-model lens tells us capital intensity and margin quality.

FY 2025 Segment Revenue

The last completed fiscal year is FY 2025. From the quant foundation's primary-source segment table, FY 2025 revenue was RMB25,307 million. Legacy-Huazhu, now broadly HWC / China, generated RMB20,535 million, or about 81.1% of consolidated revenue before the small elimination. Legacy-DH, now broadly HWI / International, generated RMB4,794 million, or about 18.9% of consolidated revenue. Eliminations were RMB(22) million.

FY 2025 segment	Revenue (RMB mm)	% of total revenue	Adjusted EBITDA (RMB mm)	Adjusted EBITDA margin
Legacy-Huazhu / HWC	20,535	81.1%	7,974	38.8%
Legacy-DH / HWI	4,794	18.9%	499	10.4%
Elimination	(22)	(0.1)%	0	n/a
Consolidated	25,307	100.0%	8,473	33.5%

By the TTM period ended March 31, 2026, the China segment remained the economic center. TTM revenue was RMB25,908 million, with HWC at RMB21,077 million, HWI at RMB4,856 million, and eliminations at RMB(25) million. HWC's TTM adjusted EBITDA was RMB8,317 million, a 39.5% margin. HWI's TTM adjusted EBITDA was RMB518 million, a 10.7% margin. Consolidated adjusted EBITDA was RMB8,835 million, a 34.1% margin. This is the single most important architecture point for a new reader: H World is global by brand portfolio and listing profile, but its profit engine is China.

FY 2025 Business-Model Revenue

The business-model revenue split shows a company in transition. In FY 2025, leased and owned hotels still contributed RMB12,943 million, or 51.1% of consolidated revenue. Manachised and franchised hotels contributed RMB11,696 million, or 46.2%. Other revenue was RMB668 million, or 2.6%. On a TTM basis through Q1 2026, leased and owned revenue was RMB12,904 million, or 49.8% of revenue; manachised and franchised revenue was RMB12,203 million, or 47.1%; and other revenue was RMB801 million, or 3.1%.

Revenue line	FY 2025 revenue (RMB mm)	FY 2025 % of total	TTM revenue (RMB mm)	TTM % of total
Leased and owned hotels	12,943	51.1%	12,904	49.8%
Manachised and franchised hotels	11,696	46.2%	12,203	47.1%
Others	668	2.6%	801	3.1%
Total revenue	25,307	100.0%	25,908	100.0%

The revenue mix understates how asset-light the network already is by room count. H World's IR site says that, as of March 31, 2026, 7% of rooms were operated under the lease and ownership model and 93% under the manachise and franchise model. The reason leased and owned revenue still looks so large is that H World records hotel room revenue from directly operated hotels as revenue, while a franchise or manachise arrangement records a fee stream rather than the full gross hotel turnover. Thus, leased and owned hotels are revenue-heavy but capital- and cost-heavy. Manachised and franchised hotels are revenue-light but much more powerful per dollar of revenue if the fee structure scales.

HWC / China

HWC is the China operation and the primary compounding platform. As of March 31, 2026, HWC had 13,095 hotels and 1,278,531 rooms in operation. Of those hotels, 502 were leased and owned and 12,593 were manachised and franchised. Of the rooms, 75,839 were in leased and owned hotels and 1,202,692 were in manachised and franchised hotels. The pipeline was 2,865 unopened HWC hotels, including 11 leased and owned hotels and 2,854 manachised and franchised hotels. This tells us the future unit growth is overwhelmingly franchisee-funded. During Q1 2026, HWC opened 537 hotels and closed 177, for 360 net additions, with 533 gross openings coming from manachised and franchised hotels.

Operationally, HWC covers a broad consumer ladder. Economy hotels, anchored by HanTing, NiHao, Hi Inn, Elan, Ibis, and Zleep, are the volume base. Midscale hotels, especially JI Hotel and Orange, are the next layer. Upper-midscale includes Crystal Orange, IntercityHotel, Manxin, Madison, Mercure, Novotel, and related brands. Upscale and luxury include Blossom House, Joya, Grand Mercure, Steigenberger, Jaz in the City, Steigenberger Icons, and Song Hotels. The brand ladder gives H World more ways to use the same guest and owner platform across different price points, from functional lodging to more experience-led stays.

The HWC operating rhythm is visible in Q1 2026 metrics. Blended HWC ADR was RMB285, occupancy was 75.1%, and blended RevPAR was RMB214. HWC blended RevPAR increased 3.0% year over year in Q1 2026, while same-hotel RevPAR for mature HWC hotels declined 2.3% year over year. That distinction is important. Total HWC performance benefited from network growth and newer hotels, while the mature same-hotel cohort still showed pressure from lower occupancy partly offset by higher ADR. For a long-term investor, the open question is whether HWC can keep growing unit count and fee revenue without saturating markets or leaning too hard on new supply when same-hotel demand is uneven.

HWI / International

HWI includes hotel operations outside China. It is much smaller, more seasonal, and lower margin. As of March 31, 2026, HWI had 120 hotels and 25,032 rooms in operation, with 63 leased hotels and 57 manachised and franchised hotels. The pipeline was 29 unopened hotels, including 8 leased hotels and 21 manachised and franchised hotels. HWI carries the legacy Deutsche Hospitality footprint, including Steigenberger and related brands, and has exposure to Europe, the Middle East, Southeast Asia, and other countries and regions outside China.

HWI's strategic role is not yet the same as HWC's. HWC is a scale machine with high segment adjusted EBITDA margins. HWI is a smaller platform that has been through restructuring and is still working toward better asset structure, cost control, and brand positioning. The quant foundation shows HWI TTM revenue of RMB4,856 million and TTM adjusted EBITDA of RMB518 million. Its 10.7% TTM adjusted EBITDA margin is far below HWC's 39.5%. In Q1 2026, HWI generated RMB972 million of revenue and adjusted EBITDA of negative RMB56 million, compared with positive RMB327 million in Q4 2025, underscoring seasonality and still-fragile profitability. HWI is not irrelevant, but it should not be given HWC economics in a model.

Brand Portfolio And Geography

H World's brand portfolio is broad, but the core economic center is mass-market and mid-market lodging in China. The FY 2025 brand table shows 12,858 hotels and 1,264,419 rooms in operation at year-end 2025. Economy hotels accounted for 6,030 hotels and 494,391 rooms. Midscale hotels accounted for 5,431 hotels and 584,713 rooms. Upper-midscale hotels accounted for 1,207 hotels and 156,683 rooms. Upscale hotels accounted for 166 hotels and 24,347 rooms. Luxury hotels accounted for 19 hotels and 2,841 rooms. The "others" bucket accounted for 5 hotels and 1,444 rooms. The simplified read is that H World is not primarily a luxury hotel owner. It is a scaled lodging standardization and distribution platform, with the biggest weight in economy and midscale rooms.

Within economy, HanTing is the flagship. At December 31, 2025, HanTing had 4,556 hotels and 393,791 rooms, plus 774 unopened hotels in pipeline. That makes it the largest single brand in the portfolio by hotel count. In midscale, JI Hotel is the standout, with 3,565 hotels and 404,616 rooms, plus 752 pipeline hotels at year-end 2025. Orange had 1,055 hotels and 111,365 rooms. These brand counts matter because they show that H World's scale is not just a corporate rollup of small unrelated brands. It has several true platform brands with repeatable formats.

Geographically, China dominates. H World's investor profile says that the company operated hotels in 21 countries as of March 31, 2026, but the Q1 2026 operating data shows 13,095 of 13,215 hotels were inside China. That is 99.1% of hotels by count. HWI had only 120 hotels, but those hotels were larger on average, with 25,032 rooms, and skewed more toward leased hotels. In other words, a hotel-count screen makes HWI look tiny; a revenue and capital-intensity screen makes it more visible. HWI contributed 18.7% of TTM revenue but only 5.9% of TTM adjusted EBITDA. That mismatch is one of the clearest investor diligence areas.

The pipeline is also mostly China. At March 31, 2026, H World had 2,894 unopened hotels in total, of which 2,865 were HWC and 29 were HWI. In HWC, nearly all pipeline hotels were manachised and franchised. The model is therefore still in active expansion mode. Growth is not only a same-store RevPAR story; it is also a unit-growth, brand-density, and franchisee-demand story.

Unit Economics

The simplest way to understand H World unit economics is to separate hotel-level gross revenue from platform economics. A leased and owned hotel looks like a traditional operating business. H World leases or owns the property, hires and trains staff, runs the hotel, handles repairs and maintenance, bears property-level expenses, and records the room and non-room revenue. This produces a large revenue base but exposes the company to occupancy volatility, wage and utility costs, rent, renovation cycles, depreciation, and pre-opening expenses. When demand is strong, operating leverage can be attractive. When RevPAR weakens, the cost base can be sticky.

A manachised hotel is different. The franchisee usually owns or leases the property and funds development, renovation, and operating expenses. H World provides the brand, system, quality assurance, training, reservation, renovation support, and operating services, and appoints a hotel general manager. H World receives an initial franchise fee, ongoing franchise and management service fees typically linked to hotel revenues, central reservation and system fees, and reimbursement for manager-related costs. This is the economic heart of the asset-light strategy: H World gets to expand its brand and distribution footprint while pushing most property-level capital and operating risk to the owner.

A franchised hotel is more asset-light still. H World provides brand, training, reservation, and support services and collects fees, but does not appoint the on-site general manager. The trade-off is control. A franchised hotel can be less operationally intensive for H World, but brand consistency and service quality depend more heavily on the owner and local operator. For a hotel brand platform, the challenge is to scale franchise count without degrading guest experience or allowing low-performing units to damage brand equity.

The current financials show the benefits and the complexity of this mix shift. TTM revenue was RMB25,908 million. Hotel operating costs were RMB15,390 million, total operating costs and expenses were RMB19,130 million, and income from operations was RMB7,225 million. Adjusted EBITDA was RMB8,835 million, net income attributable was RMB5,003 million, operating cash flow was RMB8,032 million, capex was RMB780 million, and free cash flow was RMB7,252 million. The implied TTM adjusted EBITDA margin was 34.1%, operating margin was 27.9%, net margin was 19.3%, and free cash flow margin was 28.0%. These are strong consolidated economics for a lodging company, but they depend heavily on the HWC fee-driven expansion engine and the lower capex burden of the franchised/manachised mix.

Cash conversion is also notable. TTM operating cash flow of RMB8,032 million exceeded net income attributable of RMB5,003 million, and TTM free cash flow of RMB7,252 million was also above net income. Capex was only RMB780 million over the TTM period, a small percentage of revenue for a company with more than one million rooms in the system. The low capex intensity is consistent with the room-count mix: most rooms are under manachise or franchise, where local owners fund property-level investment. This is precisely why the business can be appealing under a Gideon lens if durability is proven: network growth can be capital-light at the parent level.

The segment comparison is the cleanest unit economics summary. HWC generated TTM revenue of RMB21,077 million and TTM adjusted EBITDA of RMB8,317 million, a 39.5% margin. HWI generated TTM revenue of RMB4,856 million and adjusted EBITDA of RMB518 million, a 10.7% margin. The gap reflects scale, geography, brand maturity, cost structure, and asset mix. HWC has the dense China network, large loyalty base, and franchisee-led expansion model. HWI has international brand assets and potentially useful geographic optionality, but its current economics are far less compelling.

Other revenue is small but strategically relevant. Q1 2026 official disclosures describe other revenue as mainly technical services, procurement platform, Huazhu Mall, and other HWI revenue. TTM other revenue was RMB801 million, or 3.1% of total revenue. These activities are not the main profit engine, but they support the platform: technology services, procurement leverage, and member-linked commerce can make the franchise system stickier and more useful to owners and guests.

Growth History And Current Momentum

H World has compounded mainly by expanding network scale and shifting toward asset-light units. The 2025 Form 20-F says the hotel network grew from 9,394 hotels at December 31, 2023 to 12,858 hotels at December 31, 2025, a 17.0% CAGR. By March 31, 2026, the network had reached 13,215 hotels. The Q4/FY 2025 release says the company opened 2,444 new hotels during 2025. Q1 2026 then added another 537 gross HWC openings and 360 net HWC additions.

Revenue growth has been steadier than explosive because the mix shift changes reported revenue mechanics. FY 2025 revenue was RMB25,307 million versus RMB23,891 million in FY 2024, a 5.9% increase. TTM revenue ending March 31, 2026 was RMB25,908 million. The more revealing growth line is manachised and franchised revenue: FY 2025 M&F revenue was RMB11,696 million versus RMB9,498 million in FY 2024, and Q1 2026 M&F revenue increased 20.3% year over year to RMB3,006 million. That is the fee-revenue flywheel investors should track most closely.

Profitability improved faster than revenue in the recent period. FY 2025 adjusted EBITDA was RMB8,473 million versus RMB6,820 million in FY 2024. TTM adjusted EBITDA through Q1 2026 was RMB8,835 million. Income from operations was RMB7,225 million on a TTM basis. The model is therefore not just adding hotels; it is showing margin leverage as mix shifts and HWI losses narrow compared with prior periods. Still, the Q1 2026 data warns against straight-line optimism: HWI was adjusted EBITDA negative in the quarter, and mature HWC same-hotel RevPAR declined year over year.

The current management message emphasizes quality expansion, brand positioning, member-centric sales capabilities, H Rewards, technology, and AI development. This is directionally consistent with what the numbers say the company needs. If H World can add thousands of franchised and manachised hotels while maintaining brand standards and direct-channel demand, the economics can scale. If the company adds supply into weaker same-hotel demand, lets franchisee quality slip, or fails to improve HWI, the growth algorithm will look less durable than headline hotel openings imply.

Investor-Relevant Context

For a Gideon-style investor, H World is interesting because it combines a large addressable travel and lodging market, a scaled consumer brand portfolio, a very large loyalty base, direct distribution, and an asset-light expansion engine. The best version of the thesis is that H World has become one of China's default branded lodging platforms, with enough member demand, owner economics, and operating technology to keep expanding units while producing high cash conversion. The TTM numbers are attractive: RMB25,908 million of revenue, RMB8,835 million of adjusted EBITDA, RMB7,252 million of free cash flow, and RMB6,300 million of net cash at March 31, 2026.

The first diligence question is saturation. A company with more than 13,000 hotels and a pipeline near 2,900 hotels can still grow if branded-chain penetration, lower-tier city demand, and franchisee returns remain favorable. But the same-hotel RevPAR decline in mature HWC hotels in Q1 2026 is a reminder that unit growth can mask local-market pressure. The key is whether new hotels expand demand capture and brand reach, or whether they cannibalize existing hotels and force owners into lower returns.

The second question is owner economics. H World does not only need guests; it needs franchisees willing to keep signing and renewing. Franchisees fund the property-level investment, so their returns determine the supply side of H World's expansion. The pipeline composition is encouraging because HWC pipeline hotels are overwhelmingly manachised and franchised. But high openings and high closures can coexist in a franchise system. In Q1 2026, HWC opened 537 hotels but closed 177. Closures are normal in a large system, but the quality and reason for closures matter: brand pruning is healthy; weak owner returns are not.

The third question is brand ladder durability. HanTing and JI Hotel are enormous brands, and H World has meaningful brands across economy and midscale. A broad ladder can improve customer lifetime value by letting the same member stay within the ecosystem as trip purpose and budget change. It can also help owners choose a brand fit for local market demand. The risk is complexity. A portfolio with more than 20 brands requires clear positioning, careful renovation standards, and disciplined development rights. Too many overlapping brands can confuse customers and dilute marketing.

The fourth question is HWI. International operations give H World more global relevance and brand breadth, but HWI is currently a drag on consolidated quality relative to HWC. HWI's TTM adjusted EBITDA margin of 10.7% is not fatal, but it is far from the China business. Q1 2026's negative adjusted EBITDA shows that the segment still has seasonal and structural issues. A bull case should not simply assume HWI becomes HWC. A more grounded case would require evidence of asset-structure optimization, cost reduction, and stable RevPAR improvement.

The fifth question is governance and China risk. H World is a Cayman holding company with NASDAQ ADSs and HKEX ordinary shares. The 2025 20-F includes the usual risks around PRC regulation, VIE/consolidated affiliated entities, cybersecurity, overseas listing filings, and the fact that ADS holders own securities of the offshore holding company rather than direct equity in operating subsidiaries. These are not unique to H World, but they are real. A U.S. ADR investor must underwrite China regulatory, audit, capital controls, FX, and holding-company risks alongside hotel economics.

The sixth question is capital allocation. The balance sheet is not stretched at the current anchor: cash plus restricted cash was RMB12,541 million at March 31, 2026, total debt was RMB6,200 million, and net cash was RMB6,300 million. The Q1 2026

release also disclosed that almost all of the US$500 million 2026 convertible notes converted into ADSs at maturity in May 2026, with only a small remaining principal redeemed. For modeling, the quant foundation uses the Q1 2026 diluted ADS-equivalent count of 327.1 million and calculates TTM diluted EPS per ADS of RMB15.30. Future per-ADS value will depend on both operating compounding and share count discipline.

The seventh question is what to model as the true base. The TTM anchor is March 31, 2026, not FY 2025. That matters because H World is seasonal, HWI is volatile, and the company is actively shifting mix. The correct base for downstream segment work is TTM revenue of RMB25,908 million, HWC revenue of RMB21,077 million, HWI revenue of RMB4,856 million, consolidated adjusted EBITDA of RMB8,835 million, net income attributable of RMB5,003 million, and free cash flow of RMB7,252 million. Any FY+5 analysis should compound from this TTM base through March 31, 2031.

What A New Reader Should Remember

H World is not best understood as a hotel owner. It is best understood as a China-centered hotel brand and operating platform with a still-material leased-and-owned revenue line. The reported revenue mix looks roughly half leased and owned, but the room-count mix is already overwhelmingly manachised and franchised. That gap is the heart of the story.

HWC is the profit engine. It has more than 13,000 hotels, nearly all of the pipeline, direct distribution through H Rewards, and TTM adjusted EBITDA margins near 40%. HWI is a smaller international platform with useful brands but lower and more volatile margins.

The attractive economics come from franchisee-funded growth, direct distribution, loyalty, standardized brands, and low parent-level capex. The main risks are mature same-hotel RevPAR pressure, local-market saturation, franchisee returns, brand quality control, HWI volatility, and China/ADR governance risk.

For the rest of the ER2 process, the primer should orient the reader but not replace the quant foundation. The critical modeling facts are: TTM revenue RMB25,908 million, HWC revenue RMB21,077 million, HWI revenue RMB4,856 million, adjusted EBITDA RMB8,835 million, net income attributable RMB5,003 million, free cash flow RMB7,252 million, net cash RMB6,300 million, and calculated TTM diluted EPS per ADS RMB15.30.

Sources

- H World Group, `quant_foundation.md`, verified ER2 artifact in this workdir.
- H World Group Q1 2026 unaudited financial results, May 15, 2026: https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-first-quarter-2026-unaudited
- H World Group Q4 and FY 2025 unaudited financial results, March 18, 2026: https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-fourth-quarter-and-full-year-2025
- H World Group 2025 Form 20-F / annual report: https://www.sec.gov/Archives/edgar/data/1483994/000110465926048058/htht-20251231x20f.htm
- H World Group investor relations company profile: https://ir.hworld.com/
- Live FMP profile and quote snapshots pulled on 2026-05-26 and saved under `raw\HTHT_fmp_profile_live_A_20260526.json` and `raw\HTHT_fmp_quote_live_A_20260526.json`; warehouse copies saved under `C:\Users\Admin\OneDrive\Cowork\Investing\data warehouse\fmp\HTHT\2026-05-26_er2_A\`.

Appendix M - Management Assessment

H World Group - Management Assessment

PATH_RECEIVED: C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group\appendix_management.md

Stage 0 - Time Anchor

- Today: 2026-05-26.
- Company fiscal year convention: fiscal year ends December 31.
- Most recently reported quarter: Q1 2026, period ended March 31, 2026, announced May 15, 2026.
- TTM anchor: Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026 -> TTM ending March 31, 2026.
- Forward horizon: TTM + 5 calendar years = March 31, 2031. Compounding horizon is exactly 5 calendar years from March 31, 2026 to March 31, 2031.

Data Source Rule Applied

Data Source Rule â€” OVERRIDES workspace default

The workspace may have a "Data Warehouse First" rule that says check a local `data warehouse/` cache before hitting FMP. **For the ER2 skill this rule is suspended.** Every Wave 1 subagent (D, A) and every Wave 2 subagent (B, M, W) that needs historicals, segment data, or transcript quotes must:

- Fetch live from FMP's `/stable/` endpoints. In Codex, use

`C:\Users\Admin\.codex\skills\fmp-financial-data\scripts\fmp_request.py`, which loads the key from `FMP_API_KEY` or its local `.secret.env`.

- Fetch live from the company's IR website (press releases, transcripts,

investor day decks) and SEC EDGAR (10-K, 10-Q, 8-K).

- Never substitute a `data warehouse/transcripts/{SYMBOL}/...`,

`data warehouse/financials/...`, `data warehouse/segments/...`, or any other cached file for a live fetch.

Why this rule exists

An earlier MSFT run hit a stale-anchor failure where a cached transcript named `MSFT_2025_Q2.md` (the Jan-2025 Q2-FY25 call, per FMP's fiscal-quarter naming convention) was consumed by Sub-Agent D as if it were the Jan-2026 Q2-FY26 call. The data package was off by a full fiscal year, and DR didn't catch it because DR's spot checks cross-referenced the same cache. The fix is structural: ER2 lives on live fetches only.

Who enforces it

The orchestrator must include this rule verbatim in every subagent dispatch block (Stage 3 and Stage 4 in `SKILL.md`) so no subagent silently reverts to cache reads from the workspace default. If a live fetch fails within the available runtime's web-fetch guards, the correct behaviour is to retry the identical call once, then flag the failure â€” NOT to fall back to the cache, NOT to substitute a different endpoint. In Codex, if the retry fails because of sandbox network blocking, rerun the same FMP helper command once with escalated network permission as described in `codex_runtime.md`.

Live FMP pulls for this appendix were saved under `C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group\raw\m_20260526\` and copied save-only to `C:\Users\Admin\OneDrive\Cowork\Investing\data warehouse\fmp\HTHT\m_20260526\` without overwriting existing files. The attempted FMP `insider-trading` endpoint returned HTTP 404; the identical call was retried once and failed again, so insider activity was checked through live SEC

filings instead.

1. Who Is Running The Company

H World is not run like a detached hotel REIT. It is still visibly founder-influenced, but the operating CEO is a long-tenured company insider. The current leadership architecture is: Qi Ji as founder and executive chairman, Hui Jin as CEO, Arthur Yu as CFO, Jihong He as chief strategy officer and international turnaround leader in call materials, and a board that, after the May 15, 2026 resignation of Jie Zheng, is majority independent by H World's own Nasdaq independence definitions.

Qi Ji is the central owner-operator figure. The 2025 Form 20-F says he founded the company, became a director in February 2007, has served as executive chairman since August 2009, previously served several periods as CEO, co-founded Home Inns, and co-founded Trip.com. The current IR management page describes him as responsible for overall strategic planning and business management. His ownership is the clearest alignment signal: as of March 31, 2026, he beneficially owned 722.3 million ordinary shares, or 23.5% of ordinary shares on the 20-F calculation. Winner Crown, controlled by the Ji family trust structure, is the largest component. H World also discloses that Qi Ji and co-founders collectively beneficially owned about 32.2% of shares on an as-converted basis. This is not cosmetic skin in the game. The founder remains economically and strategically tied to the outcome.

Hui Jin is the day-to-day CEO. He joined H World in 2005, became president in June 2016, and has served as CEO since September 2021. His career path matters: development department director, vice president, executive vice president, president, then CEO. In a hotel platform, development discipline and franchisee economics are core CEO skills, so this tenure is directly relevant. H World's latest 20-F shows Hui Jin beneficially owned 6.6 million ordinary shares, or 0.2%, including exercisable options. That is not founder-level alignment, but it is meaningful inside the executive group and comes on top of his 20-year operating history.

Arthur Yu is new as CFO. He joined H World as executive vice president on December 1, 2025 and became CFO on March 18, 2026, replacing Chen Hui. His pre-H World experience is credible for a multinational consumer and finance role: CFO of Baozun, president of Baozun E-Commerce, China finance leadership at Jaguar Land Rover, senior finance roles at BT, early work at PwC and Rolls-Royce, and CIMA fellowship. The watch item is not resume quality; it is continuity. The prior CFO executed a large capital-return program and helped explain the asset-light transition well. Yu has not yet built a public record as H World's capital allocator.

The board listed in the 2025 20-F had seven directors: Qi Ji, John Jiong Wu, Jie Zheng, Justin Martin Leverenz, Theng Fong Hee, Lei Cao, Yi Zhang, plus CEO Hui Jin and CFO Arthur Yu as executive officers. H World stated that John Wu, Theng Fong Hee, Lei Cao, and Yi Zhang were independent directors. The May 15, 2026 Q1 release then announced Jie Zheng's resignation as executive director, while she remains senior advisor. Post-resignation, the board appears to be six directors: Qi Ji, Justin Leverenz, and four independent directors. That is a better independence mix than the 20-F snapshot, although H World still does not have a nominations committee, relying on foreign private issuer home-country practice.

2. Tenure And Track Record

Hui Jin has been CEO long enough to own the current strategy. His tenure as CEO covers the post-COVID recovery, the explicit asset-light acceleration, H Rewards/direct-channel emphasis, the push to 20,000 hotels in 2,000 cities, and the cleanup of the European/DH drag. Three decisions stand out.

First, management has shifted the growth engine from owned and leased hotel revenue toward manachised and franchised revenue. The evidence is numerical. In FY2025, leased and owned revenue declined to RMB12.943 billion while M&F revenue grew 23.1% to RMB11.696 billion. In Q1 2026, M&F revenue grew 20.3% year over year to RMB3.006 billion while leased and owned hotel revenue declined 1.4%. The room mix is now overwhelmingly asset-light: Q1 2026 HWC had 12,593 M&F hotels and only 502 L&O hotels. TTM free cash flow was RMB7.252 billion on RMB25.908 billion of revenue, which is hard to reconcile with a capital-heavy hotel owner model and consistent with a brand/platform model.

Second, management has kept network growth aggressive while publicly holding quality language. H World opened 2,444 hotels in 2025 and 537 HWC hotels in Q1 2026, with Q1 management saying the company was "well on track" for the 2,200 to 2,300 gross-opening goal. This is not riskless. Same-hotel HWC RevPAR was still down 2.3% year over year in Q1 2026 and down 2.5% in Q4 2025. But management is not pretending all growth is same-store pricing power. It has repeatedly explained the bridge as network expansion, ADR/revenue management, supply chain improvements, membership, and asset-light mix.

Third, H World has addressed the DH/International problem instead of ignoring it. The Deutsche Hospitality acquisition was badly timed, closing before the COVID shock and creating a lower-return, lower-margin international segment. In 2024,

Legacy-DH generated negative adjusted EBITDA of RMB154 million. In FY2025, Legacy-DH adjusted EBITDA improved to positive RMB499 million, with Q4 2025 adjusted EBITDA of RMB329 million versus a loss of RMB247 million in Q4 2024. Management attributed this to RevPAR recovery, cost reduction, restructuring, lease renegotiation, exiting loss-making properties, and conversion of leased hotels to asset-light structures. Q1 2026 HWI adjusted EBITDA was negative RMB56 million, so this is not fully proven through a seasonal cycle, but the direction is credible.

The decision that did not work cleanly was DH itself. H World bought a European hotel platform that became a drag in the pandemic and then required restructuring. The positive point is that management did not double down on the original asset structure. The negative point is that HWI still earns far lower margins than HWC: TTM HWI adjusted EBITDA margin was 10.7% versus 39.5% for HWC.

3. Capital Allocation Behavior

The five-year capital allocation record is disciplined. Capex has fallen from RMB1.675 billion in FY2021, or 13.1% of revenue, to RMB0.838 billion in FY2025, or 3.3% of revenue. FY2025 operating cash flow was RMB8.379 billion, capex was RMB0.838 billion, and FCF was RMB7.541 billion. On the TTM ending March 31, 2026, CFO was RMB8.032 billion, capex was RMB0.780 billion, and FCF was RMB7.252 billion.

Shareholder returns are now large. The Q4/FY2025 release says FY2025 total amounts declared to shareholders were about US$760 million, including US$650 million of cash dividends and about US$110 million of repurchases. Data package Section 7 shows dividends paid of RMB3.480 billion in FY2024 and RMB3.907 billion in FY2025, plus buybacks of RMB1.172 billion in FY2024 and RMB0.783 billion in FY2025. In Q4 2025, the board declared a US$400 million second-half dividend, or US$1.30 per ADS.

This is good shareholder treatment, but not automatically a proof of superior reinvestment. The company is returning capital because the China franchise model is now cash generative and capex-light, while HWI is being pruned rather than funded as a growth sink. That is rational. The risk is that a high payout could become too mechanical if China same-hotel RevPAR stays weak or if HWI requires another round of restructuring. At present the balance sheet provides room: Q1 2026 cash plus restricted cash was RMB12.541 billion, total debt was RMB6.2 billion, and net cash was RMB6.3 billion, before considering operating leases. The May 2026 convertible notes conversion created 13 million ADSs of dilution, which makes the repurchase program more important for per-share compounding.

M&A history is mixed. There was no large M&A transaction in the last 12 months. The older DH acquisition is the main case study, and it is a yellow mark: poor timing and lower quality than HWC, partly offset by management's later restructuring discipline. The capital allocation grade is therefore solid but not pristine.

4. Compensation Alignment

H World's compensation disclosure is thinner than a U.S. proxy, which is normal for a foreign private issuer but still a diligence limitation. The 20-F discloses aggregate cash compensation and benefits paid to directors and executive officers of about RMB28 million for FY2025, with no pension, retirement, similar benefits, or director service contracts providing termination benefits. That aggregate cash figure is not excessive relative to FY2025 net income of RMB5.080 billion.

Equity incentives are more important. The amended 2009 plan allows up to 430 million ordinary shares, and the amended 2023 plan allows up to 300 million ordinary shares. The 20-F discloses 24.4 million share options outstanding and 113.3 million nonvested restricted stocks at December 31, 2025. Share-based compensation expense was RMB420 million in FY2025, or about 1.7% of revenue. That is acceptable for a platform business if the performance gates are real.

There are two compensation watch items. First, the exact performance metrics are not fully transparent. The 20-F says certain options and restricted stock grants to senior officers depend on financial performance through 2027, but investors do not get a U.S.-style compensation discussion tying awards to ROIC, RevPAR, franchisee returns, TSR, or per-share FCF. Second, the ESOP administration committee is currently comprised solely of Qi Ji and has delegated authority to grant awards within limits. The compensation committee is independent and oversees director/executive compensation, but founder-controlled award administration is a governance feature to monitor.

The alignment offset is ownership. Qi Ji's 23.5% beneficial ownership is a stronger long-term incentive than most compensation plans. CEO Hui Jin's 0.2% is modest, but his career concentration in H World is high. CFO Yu had no beneficial shares in the 20-F table at March 31, 2026 because he is new; that should be watched in future filings.

5. Disclosure Quality And Candor

I reviewed live FMP transcript pulls for the eight available calls from Q1 2024 through Q4 2025, plus the Q1 2026 transcript attempt, which returned an empty array. For Q1 2026, management commentary comes from the official IR release.

The disclosure pattern is better than average for a China ADR. Management gives unit openings, closures, pipeline, hotel count by model, ADR, occupancy, blended RevPAR, same-hotel RevPAR, M&F/L&O revenue, segment adjusted EBITDA, cash/debt, and guidance ranges. In 2025 it also began providing more business-model detail that makes the asset-light profit driver easier to track. Management does not bury weak same-hotel data: Q4 2025 and Q1 2026 releases both disclosed negative same-hotel RevPAR while highlighting blended improvements.

Question handling is generally direct. On Q1 2025, when asked about DH profitability and China supply competition, management answered with concrete levers: asset-light conversion, overhead reduction, restructuring, process streamlining, first-quarter seasonality, and supply pressure. On Q2 2025, when asked about RevPAR and cannibalization, management explicitly acknowledged macro uncertainty and weakened consumer spending, then tied the strategy to economy and midscale value-for-money positioning. On Q4 2025, management gave restrained FY2026 guidance: group revenue growth of 2% to 6%, 5% to 9% excluding DH, M&F revenue growth of 12% to 16%, gross openings of 2,200 to 2,300, and closures of 600 to 700.

Guidance discipline has been good. Q1 2024 exceeded guidance, Q2 2024 landed at the high end, Q3 2024 was in line, Q4 2024 exceeded guidance, Q1 2025 was in line, Q2 2025 was near the high end, Q3 2025 surpassed the high end, and Q4 2025 exceeded the previously announced range. This pattern can mean conservative guidance, but it also suggests management is not routinely overpromising.

The disclosure gaps are real. H World does not disclose brand-level revenue by HanTing, JI, Orange, Intercity, or Steigenberger. It does not give a full franchisee ROI dataset, which is important because franchisee returns are the flywheel of the M&F model. It does not quantify every HWI lease-conversion pipeline item. Calls are also translation-heavy, which can make tone less precise than U.S. hotel peers. Still, the cadence and numeric detail are adequate for the management gate.

6. Strategic Coherence

The strategy is coherent: build a China-centered hotel brand platform with high direct distribution, high franchise mix, and selective international cleanup. The 20-F says H Rewards had more than 311 million members at year-end 2025, about 77% of legacy Huazhu room nights were sold through H World's own sales channels, and about 73% were sold to H Rewards members. That matters because direct distribution lowers dependence on OTAs and supports franchisee economics.

Management's repeated destination is 20,000 hotels in 2,000 cities. That is not a vague pivot. It maps to the existing footprint of 13,215 hotels and 2,894 unopened hotels at March 31, 2026. It also maps to the capex trend, because a company pursuing the target through leased hotels would not have capex running near 3% of revenue. The HWC strategy is consistent with investment pattern: supply chain, product upgrades, lower construction cost, brand purification, direct sales, AI/technology as operational enablement, and M&F expansion. The HWI strategy is not a separate empire-building narrative; it is a margin repair story.

Management also names threats with enough specificity: RevPAR pressure from supply, macro uncertainty, weaker high-end consumption willingness, corporate travel softness, and seasonality. I would prefer more explicit franchisee ROI disclosure and more hard numbers on store-level payback by brand/version. But the company is not pretending the market is unchallenged.

7. Governance Flags

Governance is the main reason the management gate is not a clean, unqualified endorsement. H World is a Cayman Islands foreign private issuer with Nasdaq ADSs and HKEX ordinary shares. ADS holders have fewer practical rights than direct ordinary shareholders. H World uses foreign private issuer exemptions and does not plan to establish a nominations committee. The company has VIE/consolidated affiliated entity risk disclosures, though the 20-F states the revenue and asset contributions from the consolidated affiliated entities have not been material.

Founder control is substantial but not dual-class. The 20-F states no existing shareholder has different voting rights after the IPO, which is better than Atour's dual-class structure. However, Qi Ji and co-founders collectively had 32.2% beneficial ownership, giving them significant influence over director elections and major corporate actions. This is good if one trusts the founder, and risky if minority-shareholder interests diverge.

Related-party transactions are material enough to track, though not alarming at current scale. H World conducts ordinary-course transactions with Trip.com, a principal shareholder and company co-founded by Qi Ji. In 2025, commission fees paid to Trip.com were RMB307 million, lease expenses paid to Trip.com were RMB19 million, and technical service fees from Trip.com were RMB116 million. The company also disclosed smaller transactions with Cjia Group and Azure. The audit committee is responsible for reviewing related-party transactions, but the Trip.com tie is a standing governance watch item.

Controls and legal proceedings look clean. Deloitte issued an unqualified opinion on H World's 2025 financial statements and an unqualified opinion that internal control over financial reporting was effective as of December 31, 2025. The 20-F says ordinary-course legal and administrative proceedings, including lease, franchise, and labor disputes, are not expected to have a material adverse effect; accrued contingent liability was RMB16 million at year-end 2025.

Insider activity in the last 12 months does not show a thesis-breaking pattern. The main current SEC item I found is a March 2026 Form 4 for Hui Jin reflecting RSUs vesting into 147,850 ordinary shares and a 31,200 ordinary-share disposition coded "F" at US$50.36, which is typically tax withholding rather than an open-market exit. Against his post-transaction 5.47 million directly owned ordinary shares, this is not a concerning cluster.

8. Peer Comparison

Against Atour founder/CEO Haijun Wang, H World has the longer public operating record and larger platform scale, while Atour has cleaner founder-CEO unity and faster recent growth. Atour's drawback is governance: its 2025 20-F discloses a dual-class structure giving Wang about 69.1% voting power with 19.4% economic ownership. H World has founder influence but no unequal voting rights. On minority-shareholder governance, H World compares better. On founder-as-current-CEO purity, Atour compares better.

Against Hilton CEO Christopher Nassetta, H World is less proven. Nassetta has been CEO since 2007 and Hilton's asset-light, brand-led compounding record is the global standard. Hilton's disclosures, capital return framework, and board infrastructure are easier for U.S. investors to underwrite. H World is attempting a China-centered version of an asset-light platform, and its 2024-2026 execution is good, but it does not yet match Hilton's through-cycle proof.

Against IHG CEO Elie Maalouf, H World has more founder continuity and a more concentrated China runway; IHG has deeper global franchise systems and a cleaner developed-market governance wrapper. Maalouf became group CEO in July 2023 after leading IHG Americas, so his CEO tenure is shorter than Hui Jin's but the IHG platform is more mature. H World ranks above IHG on founder ownership and China unit-growth runway, below IHG on disclosure comfort and international institutionalization.

Overall, H World's management is above average for China hotel peers and below the best global hotel compounders on governance and disclosure.

9. Management Gate Verdict

Management gate: PASS, with a governance watchlist.

The positive case is strong enough to clear the gate. H World has a founder with real economic ownership, a CEO who has spent roughly two decades inside the operating engine, an asset-light strategy that is visible in revenue mix and cash flow, and a willingness to return cash while pruning lower-return owned/leased exposure. Management has also handled the DH problem with restructuring rather than denial, and call transcripts show reasonably direct discussion of RevPAR pressure, supply, macro uncertainty, and HWI profitability.

The gate is not risk-free. CFO continuity is unproven after Arthur Yu's March 2026 appointment. Related-party exposure to Trip.com, founder/cofounder influence, Cayman/ADR structure, foreign private issuer exemptions, lack of nominations committee, and incomplete compensation/franchisee ROI disclosure all require monitoring. None is severe enough today to force a YELLOW or FAIL, but they should affect position sizing and ongoing diligence.

Sources

- H World Q1 2026 IR release: https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-first-quarter-2026-unaudited
- H World Q4/FY2025 IR release and March 2026 CFO transition: https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-fourth-quarter-and-full-year-2025
- H World management page: https://ir.hworld.com/company/management

- H World board and governance pages: https://ir.hworld.com/company/board-of-directors and https://ir.hworld.com/company/committee-composition
- H World 2025 Form 20-F, SEC: https://www.sec.gov/Archives/edgar/data/1483994/000110465926048058/htht-20251231x20f.htm
- H World CEO Form 4, March 27, 2026, SEC: https://www.sec.gov/Archives/edgar/data/1483994/000110465926035591/xslF345X03/tm2610073-1_4seq1.xml
- Data package and quant foundation: `C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group\data_package.md`; `C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group\quant_foundation.md`
- Live FMP pulls: `profile`, `quote`, `key-executives`, `earning-call-transcript-dates`, and transcripts for Q1 2024 through Q4 2025 saved under `C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group\raw\m_20260526\`
- Atour 2025 20-F and Q4/FY2025 release for peer comparison: https://www.sec.gov/Archives/edgar/data/1853717/000110465926044551/atat-20251231x20f.htm and https://www.globenewswire.com/news-release/2026/03/17/3256953/0/en/atour-lifestyle-holdings-limited-reports-fourth-quarter-and-full-year-2025-unaudited-financial-results.html
- Hilton management page and IHG leadership page for peer comparison: https://ir.hilton.com/corporate-governance/management and https://www.ihgplc.com/en/about-us/our-leadership/executive-committee/elie-maalouf

Appendix W - Moat and 2046 Durability

H World Group (HTHT) - Appendix W: Moat and 2046 Durability

Source Discipline And Time Anchor

Today: 2026-05-26. Company fiscal year convention: fiscal year ends December 31. Most recently reported quarter: Q1 2026, period ended March 31, 2026, announced May 15, 2026. TTM anchor: Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026 -> TTM ending March 31, 2026. Forward horizon: TTM + 5 calendar years = March 31, 2031. Compounding horizon is exactly 5 calendar years from March 31, 2026 to March 31, 2031.

This appendix uses the verified `quant_foundation.md` and `data_package.md` as the financial source of record. Segment appendices were checked, but both `appendix_B_hwc_china.md` and `appendix_B_hwi_international.md` were still placeholders at the time of this work, so no segment-appendix claims are imported. Live source checks were performed against H World's Q1 2026 release, Q4/FY2025 release, and the 2025 Form 20-F. A narrow live FMP pull was also made for W-source trail discipline: annual income statement and company profile were saved under `raw\w_20260526` and copied to the investing data warehouse. The live FMP annual income statement still showed the known FY2025 stale revenue gap versus the official release, so official H World filings control all operating and segment figures.

1. Moat Taxonomy Applied

Network effects: real, but local and two-sided rather than winner-take-all. H World has a lodging network effect between guests, franchisees, and the corporate platform. More hotels increase H Rewards utility for travelers, especially business travelers who want predictable economy and midscale lodging across many Chinese cities. More member demand and direct-channel room nights then make the brand system more attractive to hotel owners. The loop is observable in the operating base: as of Q1 2026, H World reported 13,215 hotels and 1,303,563 rooms, including 13,095 hotels in HWC, plus 2,894 unopened hotels in pipeline. The 2025 20-F says H Rewards covered all brands and had more than 311 million members at December 31, 2025; about 73% of legacy Huazhu room nights were sold to H Rewards members and about 77% through H World's own channels. That is a substantial demand system. The limitation is that hotel demand is local and perishable. A traveler does not need every hotel in China; they need a good hotel near today's destination. The network strengthens customer acquisition and franchisee recruiting, but it does not create the global lock-in of a software platform.

Switching costs: high for owners after conversion, low for guests. Guests can switch to Jinjiang, BTG, Atour, Marriott, Hilton, an independent hotel, or a platform-listed apartment with little friction. H Rewards points and status help, but they are not hard lock-in. The stronger switching cost sits with franchisees and manachised owners. A hotel owner who signs with H World typically adopts brand standards, renovation specifications, property systems, reservation channels, training, procurement links, quality-control routines, and in manachised hotels an H World-appointed general manager. Rebranding later can mean renovation expense, downtime, distribution loss, employee retraining, and uncertain demand replacement. Those are meaningful frictions. The catch is that owner switching costs only protect the company if owner returns remain acceptable. If local market RevPAR weakens or fees rise faster than owner cash flow, franchisee churn or lower signing activity can overwhelm contractual friction.

Scale economies: the clearest moat source. H World has scale at several levels: brand marketing, central reservation, technology, revenue management, procurement, training, shared services, and field operating support. The 2025 20-F describes a modular technology infrastructure including cloud property management, centralized reservation, procurement, and revenue-management systems, plus shared services and digital operating initiatives. The economics show up in HWC margins: HWC / Legacy-Huazhu adjusted EBITDA margin recovered from COVID-distorted lows to 35.5% in FY2023, 36.6% in FY2024, 38.8% in FY2025, and 39.5% on the TTM period ended March 31, 2026. The scale moat is not that H World owns scarce real estate; it is that the company can spread central capabilities over a very large and mostly franchisee-funded room base.

Brand and distribution: strong in HWC, weaker in HWI. The brand ladder is credible in China. HanTing and JI alone are large repeatable formats: the Q4/FY2025 release listed HanTing at 4,556 hotels and JI at 3,565 hotels at December 31, 2025. The broader portfolio covers economy, midscale, upper-midscale, upscale, and luxury, but the economic weight is mass and mid-market China lodging. Distribution is the more measurable brand advantage. H Rewards scale and the 77% direct-channel legacy Huazhu room-night mix lower reliance on paid intermediaries and give H World more pricing, promotion, and customer-data control than a fragmented independent hotel base. HWI has recognized brands such as Steigenberger

and IntercityHotel, but its current margin profile and small footprint do not yet prove a comparable distribution moat outside China.

Regulatory moat: weak as a competitive barrier, material as a risk. H World does not own a protected license, patent portfolio, spectrum position, or regulated monopoly. Compliance capabilities matter in China lodging, data protection, cybersecurity, overseas listing regulation, food safety, fire safety, leases, and employment, but these are barriers to careless entrants rather than a privileged grant. Regulation is more likely to cap upside or raise compliance cost than to protect returns. The 20-F data and cybersecurity risk discussion is especially relevant because H Rewards and direct digital distribution are core to the moat.

IP and proprietary technology: supportive, not standalone. The company's RMS, Cloud-PMS, central reservation, digital check-in/check-out, procurement platform, and operating systems are valuable because they are embedded into the hotel network. They are not defensible in isolation against a well-funded OTA, global hotel group, or AI-enabled travel platform. The proprietary element is accumulated hotel operating data, process know-how, and integration into thousands of properties.

High-trust procurement and quality assurance: meaningful for franchisee economics. A budget or midscale guest is not buying luxury, but they are buying predictability: clean room, safe property, convenient location, reliable check-in, reasonable breakfast, and no bad surprise. H World's ability to enforce standards across a huge franchisee base is part of the moat. The risk is symmetrical: quality lapses in a large system can damage many brands at once. The procurement platform and Huazhu Mall are small revenue contributors, but strategically they can lower owner costs and reinforce dependence on the system.

2. Per-Segment Moat

HWC / China. HWC is the moat. It generated TTM revenue of RMB21.077 billion and adjusted EBITDA of RMB8.317 billion, a 39.5% adjusted EBITDA margin. FY2025 HWC represented about 81% of consolidated revenue and about 94% of segment adjusted EBITDA. Its defenses are dense China coverage, H Rewards/direct distribution, a proven owner proposition, brand recognition in economy and midscale lodging, and central operating systems. The five-year durability is good if openings remain quality-controlled. The ten-year durability is plausible if branded-chain penetration and lower-tier city expansion continue without cannibalizing mature hotels. The twenty-year durability is less certain because China hotel markets can saturate, consumer behavior can shift through OTAs or AI agents, and local franchisee returns can deteriorate before consolidated revenue reveals the problem. The earliest warning signs are a rising closure ratio, weakening pipeline conversion, sustained negative same-hotel RevPAR, slower M&F revenue growth, and evidence that owners demand fee concessions or lower renovation standards.

HWI / International. HWI is not a moat-equivalent segment today. It generated TTM revenue of RMB4.856 billion and adjusted EBITDA of RMB518 million, a 10.7% margin, far below HWC. FY2025 was a real turnaround, with adjusted EBITDA of RMB499 million after a FY2024 loss, but Q1 2026 was seasonally negative at RMB56 million of adjusted EBITDA loss. HWI has some brand assets through the former Deutsche Hospitality portfolio and could be strategically useful for outbound Chinese travelers, global brand breadth, and selective asset-light expansion. But at current scale, HWI is more of an option than a moat driver. Its durability is five-year testable, not yet twenty-year proven. What would break it is simple: European or international RevPAR softens, leased-hotel cost structure remains sticky, asset-light conversion stalls, and the segment consumes management time while producing low returns. The earliest observable signs are negative full-year adjusted EBITDA, shrinking pipeline, weak M&F openings, and failure to sustain RevPAR improvement without unusual Q4 seasonality.

The blended company moat is weaker than HWC alone. HWC has the traits of a durable hotel platform; HWI has partial brands and restructuring upside. Consolidated investors own both. That does not destroy the case, because HWC is dominant, but it means the moat gate should not be read as "H World has one uniformly strong global moat." It has a strong China platform plus a smaller international segment still earning its place.

3. Margin Persistence Evidence

Consolidated margins support a real moat, but the history is still post-COVID compressed. Data package Section 2 shows consolidated operating margin of 1.3% in FY2021, -2.1% in FY2022, 21.5% in FY2023, 21.8% in FY2024, and 26.9% in FY2025. TTM income from operations was RMB7.225 billion on revenue of RMB25.908 billion, implying a 27.9% operating margin. Free cash flow is also strong: TTM CFO was RMB8.032 billion, capex RMB0.780 billion, and FCF RMB7.252 billion. These are not commodity hotel-owner economics.

Segment margins are more informative. HWC adjusted EBITDA margin was 18.1% in FY2021, 6.8% in FY2022, 35.5% in FY2023, 36.6% in FY2024, 38.8% in FY2025, and 39.5% for TTM. That is a strong post-reopening margin pattern in the face of competitive pressure and continued unit expansion. HWI adjusted EBITDA margin was -30.0% in FY2021, -3.7% in FY2022, 1.9% in FY2023, -3.2% in FY2024, 10.4% in FY2025, and 10.7% for TTM. HWI has improved, but its evidence base is weaker and more volatile.

The margin evidence says H World has a moat in HWC distribution and scale, not necessarily in room pricing. Recent operating metrics are mixed. In Q1 2026, blended HWC RevPAR increased 3.0% year over year, but same-hotel RevPAR for mature HWC hotels declined 2.3%, with same-hotel ADR up 1.4% and occupancy down 2.8 percentage points. Q4 2025 showed a similar pattern: mature legacy Huazhu same-hotel RevPAR declined 2.5%, even though blended RevPAR returned to growth. This means profit growth is coming from network expansion, mix, revenue-management actions, and franchise revenue more than pure same-store demand power. A real moat can look like that, but a 2046 moat cannot rely forever on adding supply into weaker mature-hotel demand.

4. Franchisee Economics And Owner-Side Moat

H World's most important customer for long-term compounding is the hotel owner, not the nightly guest. The parent-level model is attractive because the owner supplies most property capital while H World supplies brand, systems, reservation, management support, procurement, training, and standards. In FY2025, M&F revenue grew 23.1% year over year to RMB11.696 billion. In Q1 2026, M&F revenue grew 20.3% year over year to RMB3.006 billion, while L&O revenue declined 1.4%. HWC Q1 M&F revenue grew 20.6%, driven by hotel network expansion. That is the clean growth engine.

The owner proposition is credible because H World can offer a package that independent hotels cannot easily recreate: brand flag, demand channels, H Rewards access, pricing systems, procurement, operating playbook, and quality assurance. Scale also lets the company maintain a wide menu of brands for different local micro-markets. A property owner in a lower-tier city may not want to invent a hotel brand or negotiate with every OTA from scratch; H World can turn the property into a standardized product plugged into a national demand system.

The fragility is that owner returns are not directly disclosed. Closures matter. In Q1 2026, HWC opened 537 hotels and closed 177; FY2026 guidance calls for 2,200-2,300 openings and 600-700 closures. Some closures are healthy pruning, but a high closure cadence can also point to weak franchisee economics, poor locations, or over-expansion. The franchisee moat is therefore conditional: it remains strong if M&F revenue keeps growing while mature RevPAR stabilizes and closure ratios remain explainable; it weakens quickly if owners see lower cash returns and new signings require looser standards.

5. OTA, Platform, And China Travel Cyclicality Risk

H World is not immune to online travel platforms. The 2025 20-F discloses that 23% of legacy Huazhu room nights were still sold through intermediaries in 2025, and related-party transactions included RMB307 million of commission expense to Trip.com. The direct-channel mix is a strength, but not a complete escape from platform economics. OTA platforms can aggregate price discovery, influence destination-level demand, and push travelers toward alternatives. Meituan, Trip.com, Fliggy, Douyin-local-life travel discovery, and future AI travel agents can make hotel choice more transparent and price-sensitive.

China travel cyclicality is a second major risk. H World has a large mass-market lodging footprint, so it benefits from domestic business travel, leisure travel, lower-tier city development, and branded-chain penetration. But lodging demand is cyclical and local. The 20-F risk factors name seasonality, oversupply or reduced demand for hotel rooms, operating-cost inflation, local market conditions, availability and cost of capital, manager quality, and changes in travel patterns. The latest metrics show these are not theoretical: same-hotel HWC RevPAR is still negative despite ADR actions. H World can be a better operator than independents and still face a weak city-level lodging market.

The moat response is density and direct demand. If H World can use H Rewards, enterprise channels, and revenue management to hold occupancy better than independent hotels during downturns, the moat strengthens. If a downturn shows that the company is merely a branded participant in the same price war, the moat weakens.

6. AI Disruption Stress Test

HWC is not a workflow business where a model can reproduce the output from a prompt. It is physical lodging capacity, brand trust, owner contracts, operating systems, labor execution, local real estate, and distribution. AI can improve demand forecasting, staffing, maintenance, customer service, pricing, review response, fraud detection, and procurement. Management explicitly mentioned deeper technology and AI development in the Q1 2026 release, but there is no basis to

model a standalone AI revenue line. AI is an operating tool here, not the product.

The disruption risk is indirect. AI travel agents could become a new interface between consumers and hotels. If a user asks an agent for "best clean hotel near my meeting under RMB300," the agent may optimize on price, reviews, location, and loyalty benefits across many suppliers. That could reduce brand salience and increase OTA-like bidding pressure. Conversely, a large direct membership base and property-level data could make H World a strong supplier into agentic travel interfaces. The company most likely needs to make H Rewards and direct booking agent-friendly rather than assume consumers will keep opening its own app.

HWI is more exposed than HWC because its brand density and direct-channel China flywheel are weaker. International guests already compare global brands, OTAs, and alternative lodging options. HWC is most protected because of China scale, owner relationships, H Rewards, and localized operations. The AI bear case is not "AI builds hotels." It is "AI commoditizes discovery and pushes incremental demand through neutral agents, raising customer acquisition cost and making franchisee RevPAR less brand-dependent."

7. The 2046 Test

Twenty years from today is May 26, 2046. A credible 2046 H World business description reads as follows: H World operates a China-centered, asset-light hotel brand and operating platform selling standardized economy, midscale, and selected upper-midscale lodging to domestic business and leisure travelers, while selling brand access, reservation demand, revenue management, procurement, technology, training, and operating support to hotel owners. HWC remains the core segment. The leased-and-owned estate is smaller as a share of rooms and mainly used for flagship locations, brand development, or strategic markets. Manachised and franchised hotels are the majority of rooms and most incremental profit. H Rewards has evolved from a membership program into a direct travel identity and personalization layer, connected to AI booking interfaces but still valuable because of points, corporate accounts, service recovery, and known-stay history. HWI still exists but is either a modest, asset-light brand portfolio or a pruned international option; it is unlikely to be the main profit engine unless H World proves international franchise economics over the next decade.

Directionally, 2046 HWC segment margins can be stable to modestly lower than today's high-30s adjusted EBITDA margin if the network matures, closures normalize, and competition limits incremental pricing. Consolidated margins could still be attractive if L&O exposure continues to decline and HWI no longer loses money. The reason the business still makes money is not ownership of scarce hotel assets. It is the combination of consumer trust, a large member base, owner-side switching costs, central systems, procurement and revenue-management scale, and broad enough geographic coverage that a traveler and a property owner both benefit from staying inside the network.

The bear-case 2046 description is also plausible. In that version, China midscale lodging is overbuilt, local owners have poor returns, closure rates rise, and H World relaxes brand standards to keep openings high. AI agents and OTAs absorb incremental consumer demand, direct-channel share falls, and H Rewards becomes more of a discount program than a demand moat. Franchisees push back on fees, mature same-hotel RevPAR remains negative, and the company must choose between slower unit growth and lower-quality growth. HWI remains a low-margin, cyclical distraction. This bear case is not the base case, but it is material, roughly a one-third probability unless future data show mature RevPAR stabilization and owner returns clearly improving.

2046 test verdict: YELLOW. The 2046 company can be described specifically, and the moat can survive AI because lodging remains physical and local. But the path depends on franchisee economics and China market discipline more than on an unassailable technology lock-in.

8. Competitive Threat Inventory

Threat	Mechanism	Segment(s) affected	Earliest observable signal	Plausibility
China hotel saturation and weak franchisee returns	Too many rooms in local markets pressure RevPAR and owner cash-on-cash returns, reducing new signings or forcing lower fees/standards.	HWC, especially economy and midscale	Sustained negative same-hotel RevPAR, rising closures, slower pipeline conversion, M&F growth decelerating below guidance	High
OTA and AI-agent demand intermediation	Trip.com, Meituan, Fliggy, Douyin/local travel, and AI agents make lodging more price-transparent and weaken direct booking.	HWC and HWI	Direct-channel room-night share declines, commission expense rises, loyalty-member room-night share falls	Medium-high

Threat	Mechanism	Segment(s) affected	Earliest observable signal	Plausibility
Brand quality dilution from fast franchising	Rapid openings outpace training, audit, renovation, and local manager quality, reducing guest trust.	HWC M&F, potentially HWI franchise expansion	Review scores fall, closure/pruning increases, RevPAR gap versus peers narrows, consumer complaints rise	Medium
HWI turnaround stalls	International leased cost structure and weaker distribution keep returns structurally below HWC.	HWI	Full-year adjusted EBITDA turns negative again, pipeline remains small, leased mix fails to decline	Medium

9. Pricing Power Verification

Pricing power is present but not clean. Q1 2026 HWC blended ADR increased 4.5% year over year and blended RevPAR increased 3.0%; same-hotel ADR increased 1.4%. Q4 2025 legacy Huazhu blended ADR increased 4.1% year over year. Those are signs that H World can take some price, helped by product upgrades and revenue-management optimization. But occupancy declined in both same-hotel Q4 2025 and Q1 2026 comparisons, and mature-hotel RevPAR remained negative. True pricing power would show ADR gains without occupancy give-back, or at least stable same-hotel RevPAR through weak demand. H World has better-than-independent revenue management and brand distribution, not unlimited room-rate power.

Segment gross margin stability through cost inflation is hard to observe directly because H World reports hotel operating costs and segment adjusted EBITDA, not hotel-level franchisee economics. The better evidence is mix: hotel operating costs as a percentage of revenue declined in Q1 2026 as M&F contribution rose, and parent capex was only RMB780 million over the TTM period. This is more business-model pricing and mix power than pure nightly-rate power.

Contract structure also matters. M&F revenue includes initial franchise fees, ongoing management/service fees, central reservation and system fees, manager reimbursements, and other franchise-related fees. This creates recurring fee streams tied to hotel operations, but the company still depends on franchisee revenue and cash flow. Pricing power is therefore **moderate**, not strong. It is strongest in HWC's ability to monetize distribution and systems; weakest in mature same-hotel room rates.

10. Moat Verdict

Moat gate: YELLOW. H World has a real, observable moat in HWC: scale, direct distribution, H Rewards, owner-side switching costs, central systems, and franchisee-funded growth have produced high HWC adjusted EBITDA margins and strong cash conversion. The moat is not uniform across the company because HWI is smaller, lower-margin, and still turnaround-dependent. Same-hotel China RevPAR pressure and high closure/opening activity make franchisee economics the key fragility.

2046 test: YELLOW. A specific 2046 H World can be described: a China-centered, mostly asset-light hotel platform with direct member demand and owner services. AI does not dissolve the physical lodging moat, but AI/OTA interfaces can reprice demand access, and local-market saturation can erode owner economics. The moat survives to 2046 only if H World protects owner returns and brand standards while keeping direct distribution strong; it does not survive by hotel count growth alone.

Sources

- H World Group Q1 2026 official release, May 15, 2026: https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-first-quarter-2026-unaudited
- H World Group Q4/FY2025 official release, March 18, 2026: https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-fourth-quarter-and-full-year-2025
- H World Group 2025 Form 20-F / SEC filing, filed April 24, 2026: https://www.sec.gov/Archives/edgar/data/1483994/000110465926048058/htht-20251231x20f.htm
- Verified local ER2 files: `quant_foundation.md`, `data_package.md`, `appendix_A_primer.md`.
- Live W-source files saved: `raw\w_20260526\HTHT_2025_20F_SEC_W_20260526.htm`, `raw\w_20260526\HTHT_fmp_income_statement_annual_live_W_20260526.json`, and `raw\w_20260526\HTHT_fmp_profile_live_W_20260526.json`; FMP copies also saved to `C:\Users\Admin\OneDrive\Cowork\Investing\data warehouse\fmp_live_pulls`.

Appendix B1 - H World China (HWC)

H World China (HWC) - Segment Deep Dive

Stage 0 - Time Anchor

- Today: 2026-05-26.
- Company fiscal year convention: fiscal year ends December 31.
- Most recently reported quarter: Q1 2026, period ended March 31, 2026, announced May 15, 2026.
- TTM anchor: Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026 -> TTM ending March 31, 2026.
- Forward horizon: TTM + 5 calendar years = March 31, 2031. Compounding horizon is exactly 5 calendar years from March 31, 2026 to March 31, 2031.

Data Source Rule Applied

Data Source Rule â€” OVERRIDES workspace default

The workspace may have a "Data Warehouse First" rule that says check a local `data warehouse/` cache before hitting FMP. **For the ER2 skill this rule is suspended.** Every Wave 1 subagent (D, A) and every Wave 2 subagent (B, M, W) that needs historicals, segment data, or transcript quotes must:

- Fetch live from FMP's `/stable/` endpoints. In Codex, use

`C:\Users\Admin\.codex\skills\fmp-financial-data\scripts\fmp_request.py`, which loads the key from `FMP_API_KEY` or its local `.secret.env`.

- Fetch live from the company's IR website (press releases, transcripts,

investor day decks) and SEC EDGAR (10-K, 10-Q, 8-K).

- Never substitute a `data warehouse/transcripts/{SYMBOL}/...`,

`data warehouse/financials/...`, `data warehouse/segments/...`, or any other cached file for a live fetch.

Why this rule exists

An earlier MSFT run hit a stale-anchor failure where a cached transcript named `MSFT_2025_Q2.md` (the Jan-2025 Q2-FY25 call, per FMP's fiscal-quarter naming convention) was consumed by Sub-Agent D as if it were the Jan-2026 Q2-FY26 call. The data package was off by a full fiscal year, and DR didn't catch it because DR's spot checks cross-referenced the same cache. The fix is structural: ER2 lives on live fetches only.

Who enforces it

The orchestrator must include this rule verbatim in every subagent dispatch block (Stage 3 and Stage 4 in `SKILL.md`) so no subagent silently reverts to cache reads from the workspace default. If a live fetch fails within the available runtime's web-fetch guards, the correct behaviour is to retry the identical call once, then flag the failure â€” NOT to fall back to the cache, NOT to substitute a different endpoint. In Codex, if the retry fails because of sandbox network blocking, rerun the same FMP helper command once with escalated network permission as described in `codex_runtime.md`.

Live-source note: I used `data_package.md` as the controlling source for H World historical dollar figures and management quote snippets. I also performed fresh live checks against FMP stable endpoints, H World's Q1 2026 and Q4/FY2025 IR releases, and the 2025 Form 20-F from SEC EDGAR. New FMP pulls were saved under `C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group\raw\b_hwc_china_20260526\` and copied save-only to `C:\Users\Admin\OneDrive\Cowork\Investing\data`

`warehouse\fmp_live_pulls\HTHT\b_hwc_china_20260526\`. The IR HTML local save timed out twice, but the pages loaded live in Codex web inspection; the SEC 20-F was saved locally.

0. Segment Boundary And Taxonomy Note

H World China, or HWC, is H World's reportable segment for hotels operating inside China. The segment label changed in Q1 2026: before that quarter, the analogous label was Legacy-Huazhu, while Legacy-DH became HWI. The Q1 2026 release also says comparative figures were updated to conform to the new HWC/HWI presentation. For this appendix, I treat HWC as the successor to Legacy-Huazhu but do not silently compare old and new taxonomy where the source says there was a minor realignment. The modeling base is the four-quarter HWC bridge in the quant foundation: Q2 2025 and Q3 2025 use Legacy-Huazhu, while Q4 2025 and Q1 2026 use the restated HWC framework. H World reports segment profit as adjusted EBITDA, not GAAP segment operating income; therefore "segment operating income" in this appendix means HWC adjusted EBITDA as the company's segment profit proxy unless specifically marked as a rough EBIT bridge.

Two boundaries matter. First, HWC is a geography and operating-group segment, not a brand segment. HanTing, JI, Orange, Starway, Crystal Orange, Intercity, and the other China brands are real operating levers, but H World does not disclose brand-level revenue dollars. Second, H World discloses revenue by business model at the group level - leased and owned hotels, manachised and franchised hotels, and other revenue - but not a full annual HWC-only business-model split. The forward model therefore uses HWC total revenue as the hard dollar base, and uses brand mix, hotel count, room count, pipeline, RevPAR, and group M&F/L&O trends as drivers. I do not fabricate HWC brand revenue or HWC annual M&F/L&O revenue where it is not disclosed.

1. What HWC Actually Is

HWC is the China hotel brand and operating platform that began as Huazhu. It serves price-conscious and mid-market domestic travelers, corporate travelers, and franchise partners across a wide city network. Its consumer proposition is not a single hotel format. It is a portfolio that spans economy, midscale, upper-midscale, and selected upscale/luxury brands. The largest disclosed brand families by count are economy brands such as HanTing, NiHao, Hi Inn, and Ibis; midscale brands such as JI, Orange, Starway, and Ibis Styles; and upper-midscale brands such as Crystal Orange, Intercity, Manxin, Madison, Mercure, Novotel, and MAXX. The Q1 2026 IR release shows 13,215 hotels and 1,303,563 rooms in the global network at March 31, 2026; HWC itself had 13,095 hotels and 1,278,531 rooms, making China almost the whole network by hotel count and room count.

The operating model is best understood as an asset-light hotel-management and franchise platform with some remaining direct-operated exposure. In HWC, the key business model is manachised and franchised hotels. As of March 31, 2026, HWC had 502 leased and owned hotels and 12,593 M&F hotels. By rooms, HWC had 75,839 L&O rooms and 1,202,692 M&F rooms. That means about 96% of HWC hotels and 94% of HWC rooms were M&F at the latest quarter. The pipeline is even more asset-light: 11 HWC L&O hotels and 2,854 HWC M&F hotels were unopened as of March 31, 2026. The growth model is therefore not that H World keeps leasing more property for its own balance sheet. It is that it signs and supports franchisees, imposes brand and operating standards, runs central reservations and member demand, and collects recurring fees as the partner-funded network expands.

Pricing to the end customer is room revenue, expressed operationally through ADR, occupancy, and RevPAR. Pricing to the franchisee is fee-based: initial franchise fees, ongoing management and service fees, CRS and system maintenance fees, manager-fee reimbursements, and other franchise-related fees. In the manachised version, H World appoints or trains on-property management and provides stronger operating support. In the franchised version, the franchisee has more operating responsibility. The important economic asymmetry is that franchisees typically fund construction, renovation, property rent, local staff, and operating costs. H World contributes brand, systems, operating process, procurement leverage, distribution, technology, revenue management, and quality control. That is why M&F revenue can grow with much lower capital intensity than owned or leased hotels.

The customer demand engine is reinforced by H Rewards. The 2025 Form 20-F says the program had more than 311 million members at December 31, 2025, and that approximately 73% of legacy-Huazhu room nights were sold to individual or corporate H Rewards members in 2025. It also says approximately 77% of legacy-Huazhu room nights were sold through H World's own sales channels. Those figures matter because they speak directly to franchisee ROI. A franchise partner is not only buying a sign; the partner is buying access to a demand pool, a reservation system, brand standards, procurement, and operating know-how. In a fragmented hotel market, that distribution advantage can be more valuable than a pure brand logo.

2. Current Economics

The current base is TTM ending March 31, 2026. HWC TTM revenue was RMB21.077 billion and HWC adjusted EBITDA was RMB8.317 billion, for a 39.5% segment margin. Consolidated H World TTM revenue was RMB25.908 billion, so HWC represented roughly 81% of company revenue. Because HWI adjusted EBITDA was only RMB518 million over the same TTM, HWC represented almost all segment profit. The data package summarizes this bluntly: HWC is the core asset at 81% of FY2025 revenue and 94% of FY2025 segment adjusted EBITDA.

The annual history shows how important it is to avoid anchoring on COVID troughs. HWC/Legacy-Huazhu revenue was RMB11.247 billion in FY2021, RMB10.655 billion in FY2022, RMB17.444 billion in FY2023, RMB19.029 billion in FY2024, and RMB20.535 billion in FY2025. Adjusted EBITDA was RMB2.032 billion, RMB0.728 billion, RMB6.185 billion, RMB6.974 billion, and RMB7.974 billion over the same years. FY2021 and FY2022 are not normal years; they are depressed by COVID and reopening disruption. The more relevant mature-period comparison is FY2023 to FY2025: revenue compounded at roughly 8.5% over two years, while adjusted EBITDA margin rose from 35.5% to 38.8%. On the TTM bridge, HWC's latest four reported quarters were RMB5.107 billion revenue at 40.9% margin, RMB5.722 billion at 42.7%, RMB5.217 billion at 35.8%, and RMB5.031 billion at 38.0%.

The important current operating signal is mixed RevPAR but strong network and fee growth. The data package says HWC blended RevPAR was RMB235 in Q2 2025, RMB256 in Q3 2025, RMB226 in Q4 2025, and RMB214 in Q1 2026. Same-hotel RevPAR was still negative year over year in each of those quarters: down 7.9%, 4.7%, 2.5%, and 2.3%, respectively. The Q1 2026 IR release adds the mechanical explanation: HWC blended ADR rose 4.5% year over year to RMB285, occupancy fell 1.1 percentage points to 75.1%, and blended RevPAR rose 3.0% to RMB214, but mature same-hotel RevPAR was RMB208, down 2.3%. The segment is growing, but mature same-store demand is not doing the heavy lifting. Growth is coming from new hotel additions, mix, fee revenue, better revenue management, and the gradual asset-light shift.

Capital intensity is low at the group level and should keep moving lower as HWC grows through M&F. Consolidated capex was RMB0.838 billion in FY2025, about 3.3% of revenue, and TTM capex was RMB0.780 billion. That is not pure HWC capex, but HWC is the dominant operating segment and the HWC pipeline is almost entirely M&F. The implication is that incremental HWC revenue can convert into cash at a much better rate than a landlord-heavy hotel operator, provided franchisee economics stay healthy and the company does not need to re-accelerate direct ownership to maintain standards.

3. Unit Economics

HWC's unit economics are the interaction of three layers: hotel-level guest economics, franchisee economics, and H World platform economics.

At the hotel level, a room produces turnover through ADR multiplied by occupancy. A hotel's RevPAR can improve because price rises, rooms fill more often, or the brand and location mix shifts toward higher ADR. In Q1 2026, HWC blended ADR increased while occupancy declined, so blended RevPAR growth came from price and mix, not from more full hotels. For mature hotels open more than 18 months, the same-hotel data was weaker: same-hotel ADR rose 1.4%, occupancy fell 2.8 percentage points, and RevPAR fell 2.3%. That is the first caution flag. A model that assumes both rapid unit growth and strong same-store RevPAR would be double-counting upside. HWC can grow nicely without same-store acceleration, but the valuation case becomes much stronger if mature occupancy stabilizes.

At the franchisee level, the partner funds most of the property-level capital and operating cost. The 2025 Form 20-F describes manachised franchisees as leasing or owning properties and investing in renovations to H World's standards. It says franchisees are typically responsible for development costs, operating expenses, construction, and refurbishment, while H World provides management, reservation, marketing support, training, quality inspection, and operating systems. The franchisee will stay in the system only if the brand, traffic, RevPAR, procurement, labor model, and fee load produce an attractive return versus alternatives. The bear case for HWC begins here: if RevPAR stays negative, if local supply keeps rising, or if competitors offer better franchise economics, H World may still open hotels but at lower fee yield, higher support cost, or higher closure rates.

At the H World platform level, the economics are more attractive. M&F revenue has limited direct property expense, and the fixed costs of central systems, brand management, loyalty, revenue management, procurement, and technology can be spread across more hotels. Group M&F revenue rose from RMB7.694 billion in FY2023 to RMB9.498 billion in FY2024 and RMB11.696 billion in FY2025. In the last four reported quarters, group M&F revenue grew 22.8%, 27.2%, 21.0%, and 20.3% year over year. H World does not disclose the annual HWC-only M&F revenue series in the data package, so this is a group business-model signal, not a fabricated HWC product row. Still, because HWC has 12,593 of the group's M&F hotels and HWI

has only 57 M&F hotels at Q1 2026, the group M&F signal is economically dominated by China.

Margins move up when M&F fees become a larger share of the revenue base, when central systems scale, and when the company exits lower-return leased hotels. Margins move down when mature RevPAR weakens, franchisee support costs rise, labor or technology spending steps up, bad closures increase, or brand standards require more intervention. HWC adjusted EBITDA margin was 35.5% in FY2023, 36.6% in FY2024, 38.8% in FY2025, and 39.5% on TTM. The base case lets that margin expand to 41.5% by March 31, 2031, not because HWC becomes software, but because the pipeline is overwhelmingly M&F and the direct-operated mix should continue to shrink. The bear case takes margin down to 36.0%, reflecting the possibility that negative same-hotel RevPAR, franchisee concessions, closures, and reinvestment offset mix. The bull case reaches 44.0%, which requires both continued M&F growth and proof that mature-hotel RevPAR stabilizes without heavy incremental support.

4. Competitive Dynamics

HWC operates in a large but fragmented China lodging market. The 2025 Form 20-F says the lodging industries where H World operates are highly fragmented, and it lists the main bases of competition: location, room rate, brand recognition, accommodation quality, geographic coverage, service quality, services and amenities, and central reservation convenience. It identifies Chinese competitors including BTG Hotels, Jin Jiang, and Atour, and international competitors including Marriott, IHG, Accor, and Hilton. It also flags Airbnb and service apartments as substitute lodging products. That list is useful because it reminds us that HWC is not competing only against listed peers. It competes against a long tail of independent hotels and local chains whose pricing behavior can still affect RevPAR.

The clearest competitive strength is scale in the affordable and mid-market part of China hotels. HWC's 13,095 hotels at March 31, 2026 dwarf Atour's 2,015 hotels at December 31, 2025, although Atour is more concentrated in upper-midscale and lifestyle positioning. HWC's scale produces more member touch points, better brand awareness, more dense city coverage, procurement advantages, and a broader operating-data set for revenue management. Those advantages matter more in lower-tier and mid-tier cities, where local independent hotels may have limited technology and distribution. Management's stated long-term network goal of "20,000 hotels in 2,000 cities" is effectively a density strategy: be close enough to demand nodes that H Rewards and central reservations can route demand across a large standardized network.

The competitive weakness is that scale is visible and imitable at the local level. Franchisees can compare H World, Jin Jiang, BTG, Atour, and international brands on upfront conversion cost, fee burden, occupancy support, brand appeal, and expected payback. A competitor does not need to beat H World nationally to slow HWC growth; it can outbid H World for the best local sites, offer better terms to a cluster of franchisees, or press price in a city where supply is heavy. The 20-F explicitly warns that competitors may negotiate better terms for potential manachised or franchised hotels or offer better terms to existing franchisees. That is the right risk framing: HWC's moat is not an absolute wall. It is a scale advantage that must keep translating into franchisee returns.

Pricing power is therefore conditional. HWC has some pricing power at the consumer level when its brands are trusted, distribution is direct, and local supply is balanced. The Q1 2026 ADR increase shows that it can take price in at least some pockets. But same-hotel occupancy decline shows the demand curve is not frictionless. At the franchisee level, H World has pricing power when it can prove that its system brings more demand, lower acquisition cost, and better operations than alternatives. If room-night mix through H Rewards and own channels stays high, the franchisee proposition remains strong. If OTAs, competitor membership programs, or local supply weaken that proposition, H World may need to share more economics with franchisees.

5. Segment-Level Moat

The HWC moat is a four-part system: brand portfolio, distribution, operating process, and franchise density.

The brand portfolio gives HWC reach across price points. HanTing gives economy scale; JI, Orange, and Starway give midscale depth; Crystal Orange, Intercity, Manxin, Madison, Mercure, and Novotel stretch into upper-midscale; Blossom House and Joya give selective upscale/lifestyle exposure. This matters because a single-brand economy chain would eventually saturate. HWC can keep opening by moving across price bands and city tiers. The disclosed pipeline is broad: at Q1 2026, economy hotels had 1,219 unopened pipeline hotels, midscale had 1,071, upper-midscale had 460, and upscale/luxury categories had smaller but nonzero pipelines. The moat is not that every brand is loved equally. The moat is that the platform can allocate franchisee demand to multiple formats without abandoning the member and operating backbone.

Distribution is the second piece. H Rewards had more than 311 million members at year-end 2025, and legacy-Huazhu sold about 77% of room nights through its own channels in 2025. Direct demand lowers customer acquisition cost and gives H World data for pricing, personalization, and cross-selling. It also gives franchisees a tangible reason to stay. A hotel owner can rent a room without H World, but doing so at scale while relying less on third-party traffic is harder.

Operating process is the third piece. The manachise model is not a pure license. H World appoints or trains managers, provides central reservation, sales and marketing, quality inspections, and operational support. This creates consistency and protects brand trust, but it also creates an expense requirement. The company must keep investing in training, systems, quality control, revenue management, and technology. That is why I do not model margin shooting to global software-like levels. HWC can be high-margin for hotels, but the support burden is real.

Franchise density is the fourth piece. With more than 13,000 HWC hotels and an almost 2,900-hotel HWC pipeline, the network creates local awareness and a large installed partner base. Density can become self-reinforcing: more hotels create more member interactions, more demand data, more supplier scale, and more proof points for franchisees. The risk is local cannibalization. The 20-F notes past disputes with franchisees over efforts to avoid competition between hotels, including distance between manachised and franchised hotels. That is a very concrete moat stress test. A density moat becomes a liability if the system adds too many rooms in a city, depresses occupancy, and leaves franchisees questioning payback.

Durability over five years looks good but not unbreakable. HWC's base-case moat holds if it can add net units without materially worsening same-hotel RevPAR, maintain franchisee economics, and keep direct/member demand high. It fades if China hotel supply outruns demand, if competitors buy share through better franchise terms, or if consumer demand remains too weak for price increases. This is why the base case is an 8.2% revenue CAGR, not a continuation of group M&F's 20%+ growth rate.

6. Historical Growth Rates Reproduced From Data Package

All H World historical dollar figures in this section come from `data_package.md`; line numbers below refer to that file. Product and brand revenue are not disclosed for HWC, so the HWC-specific dollar row is segment total. Group business-model rows are included because they are the finest dollar-disclosed operating-model lines and are relevant to HWC economics, but they are not HWC-only product revenue.

Product / sub-segment	FY2023 rev	FY2024 rev	FY2025 rev	3-yr / relevant CAGR	Most recent YoY	Data package cite
HWC / Legacy-Huazhu segment total	RMB17.444bn	RMB19.029bn	RMB20.535bn	8.5% FY2023-FY2025; 24.4% FY2022-FY2025 distorted by COVID trough	7.9% FY2025; Q1 2026 HWC +12.4%	`data_package.md` lines 144-151 and 205-212
Group leased and owned hotels	RMB13.796bn	RMB13.843bn	RMB12.943bn	-3.1% FY2023-FY2025	-6.5% FY2025; Q1 2026 group L&O -1.4%	`data_package.md` lines 170-184 and 216-221
Group manachised and franchised hotels	RMB7.694bn	RMB9.498bn	RMB11.696bn	23.3% FY2023-FY2025	23.1% FY2025; Q1 2026 group M&F +20.3%	`data_package.md` lines 170-184 and 216-221
Group other revenue	RMB0.392bn	RMB0.550bn	RMB0.668bn	30.6% FY2023-FY2025	21.5% FY2025	`data_package.md` lines 170-184
HWC economy brands: HanTing, NiHao, Hi Inn, Ibis	Not disclosed	Not disclosed	Not disclosed	Not calculable	Latest count only: 6,132 hotels, 505,058 rooms, 1,219 unopened pipeline	`data_package.md` lines 186-195
HWC midscale brands: JI, Orange, Starway, Ibis Styles	Not disclosed	Not disclosed	Not disclosed	Not calculable	Latest count only: 5,632 hotels, 605,638 rooms, 1,071 unopened pipeline	`data_package.md` lines 186-195
HWC/HWI upper-midscale brands	Not disclosed	Not disclosed	Not disclosed	Not calculable	Latest count only: 1,263 hotels, 164,400 rooms, 460 unopened pipeline	`data_package.md` lines 186-195

Internal arithmetic checks:

Row	Check
HWC segment FY2024	RMB17.444bn x 1.091 = RMB19.032bn, within rounding of reported RMB19.029bn.
HWC segment FY2025	RMB19.029bn x 1.079 = RMB20.532bn, within rounding of reported RMB20.535bn.
Group L&O FY2025	RMB13.843bn x 0.935 = RMB12.943bn, ties reported RMB12.943bn.
Group M&F FY2025	RMB9.498bn x 1.231 = RMB11.692bn, within rounding of reported RMB11.696bn.

Row	Check
Group other FY2025	RMB0.550bn x 1.215 = RMB0.668bn, ties reported RMB0.668bn.

[DATA GAP: H World does not disclose annual HWC-only revenue by L&O, M&F, brand, or city tier. The forward model therefore uses HWC segment revenue as the only hard HWC dollar base and treats group business-model lines as directional operating-model evidence.]

7. Management Guidance Quoted From Data Package

Date / period	Speaker	Verbatim quote snippet	Topic	Interpretation for HWC
2026-05-15 / Q1 2026 release	Jin Hui, CEO	"well on track"	2026 gross openings	HWC opened 537 hotels in Q1 and management still points to the 2,200-2,300 gross-opening goal. Net openings matter more than gross openings because closures are guided at 600-700 for FY2026.
2026-05-15 / Q1 2026 release	Jin Hui, CEO	"technology and AI development"	Operating capability	AI is an efficiency and revenue-management tool, not a separate HWC revenue line. I give it margin support, not standalone sales.
2026-03-18 / Q4 2025 call	Hui Chen, CFO	"2% to 6%"	FY2026 group revenue guidance	Consolidated guidance is restrained, so the base case cannot assume immediate double-digit group acceleration without support from HWC network growth and mix.
2026-03-18 / Q4 2025 call	Hui Chen, CFO	"12% to 16%"	FY2026 M&F revenue guidance	This anchors the fee engine. HWC should grow faster than consolidated revenue if M&F mix keeps expanding.
2026-03-18 / Q4 2025 call	Hui Jin, CEO	"flat to slightly"	2026 RevPAR	Same-store price/occupancy is not the primary growth driver in the base case. The model emphasizes units, mix, and fees.
2025-11-17 / Q3 2025 call	Hui Jin, CEO	"20,000 hotels in 2,000 cities"	Long-term network goal	From 13,095 HWC hotels at Q1 2026, a 20,000-hotel target implies large runway but requires sustained net openings.
2025-08-20 / Q2 2025 call	Hui Jin, CEO	"20,000 hotels in 2000 cities"	Midterm network target	Repetition of the same goal supports continuity of strategy rather than a one-off promotional target.
2025-08-20 / Q2 2025 call	Hui Jin, CEO	"macro uncertainties"	Demand caution	The model must preserve a bear case for supply, corporate-travel, and consumer-spending pressure.

The management anchor is internally consistent: expand the hotel network quickly, rely on M&F fee growth, keep RevPAR assumptions modest, and use technology to support operations. The tension is that high net openings and weak same-hotel RevPAR can coexist only for so long. If HWC adds too much supply into weak demand, franchisee returns deteriorate. If openings are high because lower-tier city penetration is still productive, the fee model compounds.

8. Forward Growth Assumptions

The forward horizon is March 31, 2031, exactly five calendar years after the TTM anchor. The model starts from TTM HWC revenue of RMB21.077 billion. It does not start from FY2025 and it does not compound for six fiscal years.

Base Case Growth

Driver / line	Historical anchor	Latest YoY	Mgmt FY+1 guide	Base CAGR TTM -> TTM+5y	Justification
HWC total segment revenue	8.5% FY2023-FY2025 CAGR; TTM RMB21.077bn	Q1 2026 HWC +12.4%	Ex-DH revenue +5% to +9%; group revenue +2% to +6%	8.2%	The base case assumes HWC remains above group guidance because HWI is slower and HWC has net unit growth, but it does not capitalize current 12.4% YoY as permanent because mature RevPAR is still negative.
M&F fee engine, directional not HWC-only dollars	Group M&F +23.3% FY2023-FY2025 CAGR	Q1 2026 group M&F +20.3%	M&F revenue +12% to +16%	Low-teens early, high-single-digit by year five	HWC is nearly all of the M&F hotel count, so group M&F direction matters. Growth decelerates as the system approaches 19,000 HWC hotels and city density rises.
L&O/direct-operated drag, directional not HWC-only dollars	Group L&O -3.1% FY2023-FY2025 CAGR	Q1 2026 group L&O -1.4%	No explicit L&O guide	Flat to down	Direct-operated revenue is not the value driver. The base case assumes continued exits and conversions, with the negative revenue effect offset by higher M&F contribution and better margins.
Hotel network and brand mix	HWC had 13,095 hotels and 2,865 HWC pipeline hotels at Q1 2026	Q1 HWC opened 537 and closed 177	Gross openings 2,200-2,300; closures 600-700	HWC hotels to roughly 19,000 by 2031	This is below the 20,000-hotel target but close enough to credit sustained execution. It assumes net additions moderate after the initial pipeline clears.
RevPAR / same-hotel economics	Same-hotel RevPAR down in recent quarters	Q1 same-hotel RevPAR -2.3%; blended +3.0%	"flat to slightly" for 2026	Low-single-digit positive blended RevPAR over time	Base assumes same-hotel RevPAR stabilizes but does not boom. Mix and new hotels do more work than mature same-store demand.

The base case path is +7%, +9%, +9%, +8%, and +8% revenue growth over the five yearly steps. That takes HWC revenue from RMB21.077 billion to RMB31.253 billion by March 31, 2031, a 8.2% CAGR. The first year sits within the ex-DH guidance range; the next two years benefit from the current pipeline and M&F mix; the final two years fade as density rises.

Bear Case Growth

Driver / line	Historical anchor	Latest YoY	Mgmt FY+1 guide	Bear CAGR TTM -> TTM+5y	Justification
HWC total segment revenue	8.5% FY2023-FY2025 CAGR	Q1 2026 HWC +12.4%	Ex-DH revenue +5% to +9%	4.5%	The bear case assumes 2026 guidance is achieved but later years slow as same-hotel RevPAR weakness, franchisee churn, and local supply pressure reduce net openings and fee yield.
M&F fee engine	Group M&F +23.3% FY2023-FY2025 CAGR	Q1 2026 group M&F +20.3%	M&F +12% to +16%	Mid-single-digit to high-single-digit by year five	M&F still grows because the pipeline exists, but franchisee economics weaken enough to raise closures and force better terms.
L&O/direct-operated drag	Group L&O -3.1% FY2023-FY2025 CAGR	Q1 2026 group L&O -1.4%	No explicit L&O guide	Down faster than base	HWC exits more leased hotels and cannot fully offset the lost reported revenue with fees. Margin also suffers from support spending.
Hotel network and brand mix	13,095 HWC hotels; long-term 20,000 target	Q1 net +360 HWC hotels	Gross openings 2,200-2,300; closures 600-700	HWC hotels to roughly 16,500 by 2031	This assumes the company can still expand, but net openings fade sharply after the current pipeline because franchisees demand better returns.
RevPAR / same-hotel economics	Same-hotel RevPAR down in recent quarters	Q1 same-hotel RevPAR -2.3%	"flat to slightly"	Flat to negative	Local supply and consumer weakness keep occupancy under pressure; ADR can rise, but not enough to protect RevPAR.

The bear case path is +3%, +4%, +5%, +5%, and +5.5%. It takes HWC revenue to RMB26.261 billion by March 31, 2031, a 4.5% CAGR. This is not a collapse case. It is a "good company, less attractive franchisee math" case where HWC keeps growing but loses the right to a premium compounding multiple.

Bull Case Growth

Driver / line	Historical anchor	Latest YoY	Mgmt FY+1 guide	Bull CAGR TTM -> TTM+5y	Justification
HWC total segment revenue	8.5% FY2023-FY2025 CAGR	Q1 2026 HWC +12.4%	Ex-DH revenue +5% to +9%	11.5%	Bull assumes management's 20,000-hotel ambition is substantially reached, same-hotel RevPAR stabilizes, and M&F fee growth remains above low-teens longer than base.
M&F fee engine	Group M&F +23.3% FY2023-FY2025 CAGR	Q1 2026 group M&F +20.3%	M&F +12% to +16%	Mid-teens early, low-teens by year five	The franchise proposition remains highly attractive because H Rewards, direct channels, and revenue management lift partner returns despite supply.
L&O/direct-operated drag	Group L&O -3.1% FY2023-FY2025 CAGR	Q1 2026 group L&O -1.4%	No explicit L&O guide	Slight decline, outweighed by mix	Direct-operated exits continue, but higher ADR and faster M&F fees more than offset the reported revenue headwind.
Hotel network and brand mix	13,095 HWC hotels; 2,865 pipeline	Q1 net +360 HWC hotels	Gross openings 2,200-2,300; closures 600-700	HWC hotels to roughly 20,500 by 2031	Bull gives credit for reaching the strategic scale target and still having white space in lower-tier and selected upper-midscale city clusters.
RevPAR / same-hotel economics	Same-hotel RevPAR down but improving sequentially	Q1 blended RevPAR +3.0%	"flat to slightly"	Low-to-mid-single-digit blended RevPAR	Occupancy stabilizes while ADR/mix improves. This is the key difference from base: mature hotels stop being a drag.

The bull case path is +9%, +12%, +13%, +12%, and +11.5%. It takes HWC revenue to RMB36.310 billion by March 31, 2031, a 11.5% CAGR. This is plausible only if high openings do not damage franchisee economics. It is not enough for HWC to open hotels; the new hotels must produce attractive owner returns and keep brand standards intact.

9. Forward Operating Margin Assumptions

HWC's current segment profit measure is adjusted EBITDA. The TTM base is RMB8.317 billion adjusted EBITDA on RMB21.077 billion revenue, or 39.5%. I model adjusted EBITDA margin because that is the segment measure disclosed by H World. A rough EBIT bridge would subtract D&A; the TTM HWC D&A line in the quant foundation is RMB974 million, about 4.6% of HWC revenue. As the mix becomes more M&F, D&A/revenue should decline, but this appendix reports the main segment outputs on the disclosed adjusted EBITDA basis so the synthesis agent can reconcile to QF.

Case	Current HWC margin	TTM+5y adjusted EBITDA margin	Mechanism
Bear	39.5%	36.0%	Margin compresses 350 bps because weak RevPAR, higher closures, franchisee support, and local price competition offset mix benefits. This is a real downside because HWC has already reached high margins; negative same-hotel RevPAR can make incremental support costs visible.
Base	39.5%	41.5%	Margin expands 200 bps as M&F becomes a larger share of revenue, L&O exposure shrinks, central systems scale, and technology improves operating leverage. The expansion is deliberately moderate because brand support and quality control spending rise with the network.
Bull	39.5%	44.0%	Margin expands 450 bps because HWC reaches near-target network scale, mature RevPAR stabilizes, direct channels stay high, and the M&F pipeline converts without major fee concessions. This requires evidence of franchisee health, not just openings.

The margin model is sensitive to mix. In broad terms, L&O/direct-operated revenue carries hotel operating costs and lease/rent exposure. M&F revenue carries central support costs but avoids most property-level expense. H World said Q1 2026 hotel operating costs as a percentage of revenue fell year over year as asset-light strategy increased M&F contribution. That is the operating mechanism behind the base and bull cases. But the company also said HWC SG&A rose in Q1, so technology, sales, manager support, and quality control are not free. The base case preserves reinvestment.

For synthesis, the rough EBIT-after-D&A bridge is as follows: bear HWC adjusted EBITDA of RMB9.454 billion less assumed D&A at 3.9% of revenue, or about RMB1.024 billion, implies rough EBIT of RMB8.430 billion. Base adjusted EBITDA of RMB12.970 billion less assumed D&A at 3.6% of revenue, or about RMB1.125 billion, implies rough EBIT of RMB11.845 billion. Bull adjusted EBITDA of RMB15.976 billion less assumed D&A at 3.3% of revenue, or about RMB1.198 billion, implies rough EBIT of RMB14.778 billion. These EBIT figures are not disclosed segment numbers; they are only a bridge for consolidated modeling if needed.

10. Segment Rollup

Because HWC does not disclose annual HWC-only product revenue by brand or by L&O/M&F, the rollup is a driver-based segment rollup rather than a fabricated product-revenue sum. The hard dollar base is HWC total revenue. The operating drivers are network expansion, M&F fee growth, L&O runoff, RevPAR, brand/category mix, and fee yield.

Case	TTM HWC revenue	Revenue CAGR	TTM+5y HWC revenue	TTM+5y segment margin	TTM+5y segment operating income proxy
Bear	RMB21.077bn	4.5%	RMB26.261bn	36.0%	RMB9.454bn
Base	RMB21.077bn	8.2%	RMB31.253bn	41.5%	RMB12.970bn
Bull	RMB21.077bn	11.5%	RMB36.310bn	44.0%	RMB15.976bn

Arithmetic check: bear revenue RMB26.261 billion x 36.0% = RMB9.454 billion. Base revenue RMB31.253 billion x 41.5% = RMB12.970 billion. Bull revenue RMB36.310 billion x 44.0% = RMB15.976 billion. The rollup ties by construction to the disclosed TTM HWC base and the explicit growth and margin assumptions above.

Valuation Sensitivity For HWC

This is not a standalone valuation of H World because HWC is one segment inside a listed group, HWI, group net cash, leases, taxes, and capital returns still matter. It is a segment value sensitivity to test whether the HWC engine can support the overall valuation. The live FMP quote pull on 2026-05-26 showed HTHT at US$43.69 per ADS and market cap of about US$13.4 billion. Using Q1 2026 net cash of RMB6.3 billion and the Q1 release exchange rate of RMB6.898 per US$ gives net cash of roughly US$0.9 billion and an equity-value-minus-net-cash proxy of about US$12.5 billion. HWC TTM adjusted EBITDA of RMB8.317 billion equals about US$1.21 billion at that same exchange rate, so assigning the entire current enterprise-value proxy to HWC would imply about 10.4x TTM HWC adjusted EBITDA. This is a rough cross-check only; lease liabilities are economically important and not deducted in that simple EV proxy.

Case	HWC TTM+5y EBITDA proxy	USD at RMB6.898/USD	8x value / ADS	10x value / ADS	12x value / ADS
Bear	RMB9.454bn	US$1.37bn	US$33.5	US$41.9	US$50.3
Base	RMB12.970bn	US$1.88bn	US$46.0	US$57.5	US$69.0
Bull	RMB15.976bn	US$2.32bn	US$56.6	US$70.8	US$85.0

The sensitivity says HWC can plausibly underwrite a substantial portion of today's equity value if the base case is right. It also says the margin of safety is not automatic. In the bear case, 10x HWC TTM+5y EBITDA produces about US$41.9 per ADS before adding net cash, subtracting HWI/leases/corporate claims, or considering capital returns and dilution. Since the live spot price was US$43.69, a bear outcome with lower multiple support would not be attractive. The investment case therefore needs more than "HWC is high quality." It needs confidence that base-case unit growth and margin expansion are achievable and durable.

11. Key Risks And Wildcards

Risk / wildcard	Case most affected	Segment impact
Mature RevPAR remains negative	Bear	Same-hotel weakness can lower franchisee ROI even while headline openings look healthy. It would pressure fee yield, increase closures, and reduce pricing power.
Franchisee economics deteriorate	Bear	HWC's asset-light model depends on partner-funded growth. If franchisees face weak paybacks, H World must slow openings, offer better terms, or spend more on support.
Local oversupply and cannibalization	Bear/Base	The 20,000-hotel goal is attractive only if city density is managed. Excessive density could create disputes and depress occupancy.
Competitors offer better franchise terms	Bear	Jin Jiang, BTG, Atour, and international brands can compete for sites and owners. H World must prove that direct demand and systems justify its economics.
H Rewards and direct-channel strength persists	Bull	A high direct/member room-night mix improves customer acquisition cost and partner returns. If it strengthens, HWC can open more hotels without losing pricing power.
Technology and AI improve revenue management	Base/Bull	Better revenue management, staffing, and quality-control tools could support modest margin expansion, but there is no standalone AI revenue line.
Consumer and corporate travel improve	Bull	Occupancy stabilization would let ADR increases translate into RevPAR rather than being offset by lower utilization.
Regulatory, labor, and lease compliance costs rise	Bear	Even asset-light hotels need compliant properties, labor processes, data systems, and brand standards. Unexpected cost inflation can eat into support margins.

Summary Table

Case	Segment TTM+5y Revenue	Segment TTM+5y Op Margin	Segment TTM+5y Op Income	Probability
Bear	RMB26.261bn	36.0%	RMB9.454bn	25%
Base	RMB31.253bn	41.5%	RMB12.970bn	55%
Bull	RMB36.310bn	44.0%	RMB15.976bn	20%

The weighted case is RMB31.02 billion of HWC revenue and RMB12.69 billion of segment adjusted EBITDA by March 31, 2031. That is close to the base case because the segment already has strong evidence of a scaled, asset-light model but still carries visible RevPAR and franchisee-return risks. My HWC-specific conclusion for synthesis is: this is the crown-jewel segment and the only part of H World that can plausibly compound at a Gideon-quality rate, but the model should not pay for the full 20,000-hotel bull case unless mature RevPAR turns positive and closures stay under control.

Source List

- `C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group\data_package.md`, controlling ER2 data package for H World historical figures, management snippets, and modeling base.
- `C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group\quant_foundation.md`, controlling TTM construction and segment adjusted EBITDA bridge.
- H World Q1 2026 IR release: https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-first-quarter-2026-unaudited
- H World Q4/FY2025 IR release: https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-fourth-quarter-and-full-year-2025
- H World 2025 Form 20-F, SEC EDGAR: https://www.sec.gov/Archives/edgar/data/1483994/000110465926048058/htht-20251231x20f.htm
- FMP stable live pulls saved under `raw\b_hwc_china_20260526`: quote, profile, annual income statement, quarterly income statement, annual revenue product segmentation.

- Atour 2025 Form 20-F / FY2025 release for competitor network context: https://www.sec.gov/Archives/edgar/data/1853717/000110465926044551/atat-20251231x20f.htm and https://www.sec.gov/Archives/edgar/data/1853717/000110465926028864/tm268751d1_ex99-1.htm

Appendix B2 - H World International (HWI)

H World International (HWI) - Segment Deep Dive

PATH_RECEIVED: C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group\appendix_B_hwi_international.md

Prepared: 2026-05-26. Segment owner: Subagent B for H World International (HWI). Currency is RMB unless stated otherwise. Historical H World financials and management commentary are controlled by `data_package.md` and `quant_foundation.md`. Live FMP, H World IR, SEC/20-F, and peer sources were checked for source-trail and competitive context, but H World's own historical dollar figures below are not re-derived from those live sources.

Stage 0 - Time Anchor

- Today: 2026-05-26.
- Company fiscal year convention: fiscal year ends December 31.
- Most recently reported quarter: Q1 2026, period ended March 31, 2026, announced May 15, 2026.
- TTM anchor: Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026 -> TTM ending March 31, 2026.
- Forward horizon: TTM + 5 calendar years = March 31, 2031. Compounding horizon is exactly 5 calendar years from March 31, 2026 to March 31, 2031.

Data Source Rule - Included Verbatim

Data Source Rule - OVERRIDES workspace default

The workspace may have a "Data Warehouse First" rule that says check a local `data warehouse/` cache before hitting FMP. **For the ER2 skill this rule is suspended.** Every Wave 1 subagent (D, A) and every Wave 2 subagent (B, M, W) that needs historicals, segment data, or transcript quotes must:

- Fetch live from FMP's `/stable/` endpoints. In Codex, use

`C:\Users\Admin\.codex\skills\fmp-financial-data\scripts\fmp_request.py`, which loads the key from `FMP_API_KEY` or its local `.secret.env`.

- Fetch live from the company's IR website (press releases, transcripts,

investor day decks) and SEC EDGAR (10-K, 10-Q, 8-K).

- Never substitute a `data warehouse/transcripts/{SYMBOL}/...`,

`data warehouse/financials/...`, `data warehouse/segments/...`, or any other cached file for a live fetch.

Why this rule exists

An earlier MSFT run hit a stale-anchor failure where a cached transcript named `MSFT_2025_Q2.md` (the Jan-2025 Q2-FY25 call, per FMP's fiscal-quarter naming convention) was consumed by Sub-Agent D as if it were the Jan-2026 Q2-FY26 call. The data package was off by a full fiscal year, and DR didn't catch it because DR's spot checks cross-referenced the same cache. The fix is structural: ER2 lives on live fetches only.

Who enforces it

The orchestrator must include this rule verbatim in every subagent dispatch block (Stage 3 and Stage 4 in `SKILL.md`) so no subagent silently reverts to cache reads from the workspace default. If a live fetch fails within the available runtime's web-fetch guards, the correct behaviour is to retry the identical call once, then flag the failure - NOT to fall back to the cache, NOT to substitute a different endpoint. In Codex, if the retry fails because of sandbox network blocking, rerun the same FMP helper command once with escalated network permission as described in `codex_runtime.md`.

Live-source compliance note: FMP stable pulls for this B pass were saved under `raw\b_hwi_20260526` and copied, without overwriting, to the save-only warehouse folder `C:\Users\Admin\OneDrive\Cowork\Investing\data warehouse\fmp\HTHT\2026-05-26_er2_b_hwi\`. Direct PowerShell saves of the official H World IR/SEC pages timed out twice; the same official URLs were then fetched live through the Codex web fetcher and are cited in the source list. This does not replace the data package as the historical source of truth.

0. Segment Boundary And Taxonomy Note

HWI means H World International and covers all H World hotel operations outside China. The current HWC/HWI naming framework began in Q1 2026; before that, the comparable labels were Legacy-Huazhu and Legacy-DH. The data package states that Q1 2026 introduced a segment relabel and a minor realignment, with Q4/Q1 comparative figures updated to the new framework. For this appendix, annual history is shown as HWI / Legacy-DH because that is the disclosed annual series. TTM is built exactly from the quant foundation's current bridge: Q2 2025 Legacy-DH + Q3 2025 Legacy-DH + Q4 2025 restated HWI + Q1 2026 HWI. I do not compare old-taxonomy and new-taxonomy dollar totals without labeling the boundary.

HWI is not a brand, and it is not a product line. It is a geographic/operating segment. It includes Deutsche Hospitality / Steigenberger-led international operations, other hotels outside China, and any future international hotels under H World brands or affiliated brands. H World does not disclose brand-level revenue for Steigenberger, IntercityHotel, MAXX, Jaz, Zleep, or other international brands in the data package. It also does not disclose a complete HWI-only revenue split by leased hotels, franchised/manachised hotels, and other revenue across the TTM period. That missing sub-segment dollar disclosure is a binding modeling constraint, not an invitation to invent a split.

1. What This Segment Actually Is

HWI is H World's international hotel operating platform. In practical terms, it is the company's attempt to turn a European and international lodging footprint into a profitable, increasingly asset-light brand and operating system. The segment's current economics are very different from HWC. HWC is a large China franchise and direct-distribution engine with very high segment adjusted EBITDA margins. HWI is smaller, less mature, more lease-exposed, more seasonal, and still proving that the FY2025 turnaround can survive a full cycle.

The customer is not one homogeneous group. At the hotel level, HWI serves business travelers, leisure travelers, groups, local events demand, and cross-border customers across markets outside China, with Germany the most visible country exposure in the 2025 20-F geographic table. At the owner/franchisee level, HWI competes for hotel owners who want a brand flag, central reservation support, revenue management, loyalty traffic, procurement, and operating discipline. At the corporate level, HWI is a strategic extension of H World's hotel platform: it gives H World international brand presence, European operating learnings, and a possible channel for Chinese outbound travelers and H Rewards members outside China.

The pricing model has two different economic shapes. Leased and owned hotels book gross hotel revenue, carry direct hotel operating costs, and expose H World to labor, rent, utilities, maintenance, seasonality, and renovation risk. Manachised/franchised hotels earn fees and system-related revenue from third-party owned hotels and are structurally higher margin, lower capital intensity, and less lease-risky. The data package's consolidated business-model table shows the group-level shift: leased and owned revenue declined from RMB13.843 billion in FY2024 to RMB12.943 billion in FY2025, while manachised and franchised revenue grew from RMB9.498 billion to RMB11.696 billion. That group-level shift cannot be allocated mechanically to HWI, but it frames why management keeps describing HWI's turnaround through portfolio restructuring and asset-light development.

The route to market is brand-led and channel-led. HWI needs credible brands in local European and international markets; it also needs distribution and technology support from H World. This is where the possible synergy lies. A hotel owner does not choose a brand only because the brand name looks good on a facade. The owner chooses it because the brand can fill rooms at attractive RevPAR, control operating costs, keep online travel agency leakage in check, provide a loyalty base, and reduce operational friction. H World has a China-centered membership and operating system, but HWI must translate that into non-China markets where the competitive set includes Accor, IHG, Marriott, Hilton, local European chains, and independent hotels.

HWI's economic identity is therefore transitional. It is not yet a clean franchise royalty stream. It is also not merely a legacy lease portfolio. It is a turnaround platform where the investment question is: how much of the current revenue base can be retained while lease exposure is reduced, while international owner demand moves toward H World's brand and system, and while the segment avoids giving back the FY2025 profit recovery through seasonality, wage inflation, energy costs, and local competition?

2. Current Economics

The controlling TTM base from the quant foundation is HWI revenue of RMB4.856 billion and HWI adjusted EBITDA of RMB518 million, for a 10.7% adjusted EBITDA margin. H World uses adjusted EBITDA as the segment measure; segment-level GAAP operating income is not disclosed in the data package. Therefore, this appendix uses "segment profit" and "segment operating income proxy" to mean adjusted EBITDA, and flags that it is not GAAP operating income.

HWI is 18.9% of FY2025 consolidated revenue but only about 5.9% of FY2025 segment adjusted EBITDA before eliminations. In FY2025, Legacy-DH / HWI produced RMB4.794 billion of revenue and RMB499 million of adjusted EBITDA, a 10.4% margin. The HWC comparison is stark: HWC produced RMB20.535 billion of FY2025 revenue and RMB7.974 billion of adjusted EBITDA, a 38.8% margin. That difference is not a rounding issue. It is the segment's core analytical issue.

The five-year annual history shows a recovery, but not a smooth compounding pattern. HWI revenue rose from RMB1.538 billion in FY2021 to RMB3.207 billion in FY2022, RMB4.465 billion in FY2023, RMB4.881 billion in FY2024, and RMB4.794 billion in FY2025. The FY2021-FY2022 period was still distorted by COVID reopening and Europe travel normalization; it should not be extrapolated. More relevant is the FY2023-FY2025 period, where revenue grew from RMB4.465 billion to RMB4.794 billion, only a 3.6% two-year CAGR, and FY2025 revenue declined 1.8% year over year. The segment was not growing aggressively at the top line by FY2025.

Profit improved more than revenue. Adjusted EBITDA was negative RMB461 million in FY2021, negative RMB118 million in FY2022, positive RMB84 million in FY2023, negative RMB154 million in FY2024, and positive RMB499 million in FY2025. That means the FY2025 story is overwhelmingly a margin and restructuring story, not a high-growth story. Management's HWI commentary in the data package supports that interpretation: "successful business turnaround," "remain profitable," "portfolio restructuring," "developing our asset-light portfolio," and "cost reduction and efficiency improvement."

The TTM quarterly bridge highlights the seasonality problem. HWI revenue was RMB1.324 billion in Q2 2025, RMB1.245 billion in Q3 2025, RMB1.315 billion in Q4 2025, and RMB972 million in Q1 2026. Q1 was only about 20.0% of TTM revenue. HWI adjusted EBITDA was RMB180 million in Q2, RMB67 million in Q3, RMB327 million in Q4, and negative RMB56 million in Q1. Q4 contributed 63% of TTM HWI adjusted EBITDA. This is the single most important modeling warning: a full-year or TTM margin can look respectable while one quarter remains loss-making and one quarter carries most of the profit.

Capital intensity cannot be measured precisely at HWI level from the data package. Consolidated capex was RMB780 million over TTM, or about 3.0% of consolidated revenue. HWI-specific capex, leasehold improvement spend, maintenance spend, and lease restructuring cash costs are not separately disclosed. [DATA GAP: data_package.md does not disclose HWI-specific capex or HWI-specific lease cash costs.] The qualitative direction is still clear: HWI's leased-heavy footprint and turnaround work should require higher capital and managerial attention per RMB of revenue than HWC's mature franchising engine, even if the consolidated group is moving asset-light.

The latest live FMP quote snapshot used for valuation sensitivity showed HTHT at US$43.6857 per ADS and market cap of US$13.418 billion at 2026-05-26 22:55:28 Singapore time. Using the Q1 2026 release's RMB/USD rate of 6.8980 for rough sensitivity only, that is about RMB92.6 billion of equity market value. This appendix does not set a company verdict, but HWI's modeled value swing can be compared with that market value to judge materiality.

3. Unit Economics

HWI revenue becomes profit through a mixture of hotel operating contribution, brand/system fees, central cost absorption, and restructuring progress. The segment's disclosed adjusted EBITDA margin moved from negative territory to 10.4% in FY2025 and 10.7% TTM. That is a meaningful recovery, but it remains far below HWC's nearly 40% TTM adjusted EBITDA margin. The gap tells us that HWI carries heavier hotel-level cost exposure, less scale, lower asset-light mix, or all three.

The leased-hotel model is the most important drag and the most important option. In leased hotels, H World controls the hotel operation and records hotel revenue more directly. The upside is control: the company can enforce brand standards, revenue management, procurement, staffing discipline, and renovation pace. The downside is operating leverage in the wrong direction. Rent, labor, energy, property taxes, maintenance, and local compliance costs do not flex cleanly when occupancy falls. A weak Q1, a mild European business-travel slowdown, a wage shock, or energy inflation can erase profit quickly. The Q1 2026 HWI adjusted EBITDA loss is a real-world reminder.

The manachised/franchised model is economically better when the brand has pull. In franchised hotels, H World monetizes third-party owned assets through fees, systems, and distribution. That shifts property-level capex and much of the wage/rent risk to the owner. It also means lower reported revenue per hotel because the company does not book the entire room

revenue base. Therefore, as HWI becomes more asset-light, reported revenue growth can look unimpressive even if economic profit improves. This is why a segment model that only rewards revenue growth would misread the turnaround.

The external hotel operators show the economics HWI is trying to move toward. IHG's official business-model disclosure says franchised rooms are low capital intensity, managed rooms are low capital intensity, and owned/leased rooms are high capital intensity; it also says a sample franchise contract normally has a royalty fee of 5%-6% of rooms revenue. Marriott's 2025 10-K shows the same broad pattern: gross fee revenue is the core profit pool, while owned/leased revenue is much more cost-heavy. Marriott's EMEA segment generated US$640 million of gross fee revenue in 2025 and US$525 million of segment profit, while its EMEA owned, leased, and other revenue of US$592 million was paired with US$530 million of owned, leased, and other expense before other segment costs. These peer facts are not used to import a margin into HWI mechanically, but they anchor the direction: asset-light fee revenue can be very high margin; owned/leased hotel revenue is not.

The unit economic bridge for HWI therefore has four levers. First, RevPAR and occupancy can lift hotel revenue with high incremental contribution if fixed costs are already covered. The data package notes HWI blended RevPAR was up 5.0% year over year in Q1 2026 on a constant U.S. dollar basis. Second, portfolio pruning can improve margins even while reported revenue growth is muted, because exiting or converting loss-making leases removes low-quality revenue. Third, central cost and procurement discipline can lift margins without requiring a booming top line. Fourth, asset-light room growth can add higher-quality fee revenue, but only if owners believe the HWI brands and systems can generate enough demand.

The margin risks are equally concrete. Labor markets in Germany and broader Europe can be tight. Utility and maintenance costs can move faster than ADR in weaker demand periods. Lease renegotiation may be slower than management hopes. The asset-light model can also produce lower reported revenue when leased hotels are exited, creating an optical headwind and potentially less fixed-cost absorption if central costs are not removed fast enough. Finally, HWI must maintain brand quality while restructuring; a franchise-heavy strategy that underinvests in property standards can harm RevPAR and owner demand later.

4. Competitive Dynamics

HWI competes in fragmented but sophisticated international hotel markets. In Europe, the competitor set includes global brand systems such as Accor, IHG, Marriott, Hilton, Hyatt, and Wyndham, plus local and regional chains, independent hotels, and alternative accommodations. The basis of competition changes by city and hotel tier, but the recurring dimensions are location, brand trust, loyalty membership, distribution cost, owner economics, labor productivity, technology, and operating reliability.

Accor is particularly relevant because it is a European-rooted lodging group with scale across luxury, premium, midscale, and economy brands. Accor's 2025 financial-results page shows consolidated revenue of EUR5.639 billion and recurring EBITDA of EUR1.201 billion. Its 2025 hotel portfolio data separates Management & Franchise, SMDL, and Hotel Assets & Other across Premium/Midscale/Economy and Luxury/Lifestyle. That structure underlines how European hospitality can mix fee-based and asset-heavy models rather than resemble a pure U.S. franchise royalty company.

IHG is relevant because it shows the asset-light end-state in a global hotel system. IHG says 73% of its rooms are franchised, 27% managed, and less than 1% owned and leased. It frames fee growth around rooms growth, RevPAR, and royalty fees. For an HWI owner pitch, that is the benchmark: owners know what mature global systems can provide. HWI must prove that its brands, reservation system, loyalty demand, and operating support are compelling enough to win conversions and new hotels against these established systems.

Marriott is relevant because its EMEA disclosure illustrates both the scale of the incumbent and the profitability of fee-based international operations. Marriott ended 2025 with a global system of 9,805 properties and 1.78 million rooms, including extensive EMEA brand coverage. In its EMEA segment, 2025 gross fee revenue was US$640 million and total segment profit was US$525 million. HWI, by contrast, is a small international platform with TTM revenue of RMB4.856 billion and adjusted EBITDA of RMB518 million. HWI is not competing against peer companies of similar scale in Europe; it is competing against systems with deeper loyalty pools, stronger owner-development teams, broader brand ladders, and more mature franchise economics.

HWI's competitive advantage, if it develops, will not come from being the largest international hotel company. It will come from specific niches. The segment can win where Deutsche Hospitality / Steigenberger brands have local recognition, where H World can add better revenue management or procurement to under-optimized properties, where Chinese outbound demand or H Rewards can add incremental occupancy, and where owners want a differentiated alternative to the largest Western systems. The risk is that those niches are too narrow to support high growth or high margins.

Pricing power is limited at the room level but potentially better at the system level. Hotels in most European markets cannot simply raise ADR without regard to local supply, corporate travel budgets, and event calendars. But a brand platform can exercise pricing power through better mix, direct distribution, loyalty, and lower acquisition cost. The data package's HWI Q1 RevPAR increase is encouraging, but it is only one quarter and does not erase the segment's weak historical margin profile. Sustainable pricing power requires multi-year proof that HWI can lift RevPAR relative to local peers while maintaining owner economics.

The entry barriers are real but not overwhelming. Brand trust, central reservation systems, loyalty programs, owner relationships, and operating know-how all matter. However, the international hotel market is full of credible alternatives. A hotel owner can choose Accor, IHG, Marriott, Hilton, local groups, soft brands, or independent operation with online travel agency distribution. HWI's moat must therefore be judged as emerging rather than established.

5. Segment-Level Moat

HWI has a possible moat, not a proven one. The ingredients are recognizable brands, a European operating platform, H World's technology and revenue-management discipline, procurement scale, H Rewards, and a parent company with a strong China hotel operating system. The problem is that ingredients are not the same as moat. A moat exists only if the segment can repeatedly win owners and customers at attractive economics while competitors cannot easily copy the outcome.

The strongest moat-like element is operating discipline. The data package's management commentary points to "cost reduction and efficiency improvement," "portfolio restructuring," and "developing our asset-light portfolio." These are not glamorous, but they matter. If H World can renegotiate leases, exit structurally poor properties, standardize procurement, improve revenue management, and convert some hotels to lighter models, it can create a cost and execution advantage inside a previously underperforming asset base. That is more of a turnaround edge than a long-term monopoly edge.

The second moat-like element is distribution. H Rewards and H World's direct-member infrastructure are powerful in China. For HWI, the value depends on cross-border usage, the ability to add demand that European hotels would not otherwise receive, and the degree to which HWI can reduce reliance on high-cost online travel agency traffic. This could be meaningful over time, especially if Chinese outbound travel normalizes and H World members have a reason to choose affiliated hotels abroad. But the appendix should not assume a China-level loyalty advantage in Europe without evidence.

The third element is brand portfolio. Steigenberger, IntercityHotel, Zleep, Jaz, MAXX, and related international brands can occupy specific price points. Brand recognition can help owners and guests, particularly in German-speaking markets. But brand power is uneven internationally, and the data package does not disclose brand-level revenue or brand-level margins. [DATA GAP: data_package.md does not disclose HWI brand-level revenue, brand-level hotel economics, or brand-level pipeline economics.] Without that, the correct base case should model HWI as a segment turnaround, not as a collection of individually proven compounding brands.

The moat durability over five to ten years depends on the asset-light transition. If HWI remains primarily a leased-hotel operator, its moat is weak: local demand cycles and fixed costs will dominate. If HWI converts into a credible owner-facing brand and system platform, its moat improves: the economics shift toward fees, the capital required per new room falls, and the segment can compound with less balance-sheet strain. The base case below assumes meaningful but incomplete progress. HWI becomes more profitable, but not HWC-like.

6. Historical Growth Rates - Reproduced From Data Package

The table below uses the data package's Section 3 HWI / Legacy-DH annual segment history. These are RMB billions. Adjusted EBITDA is the disclosed segment profit measure. H World does not disclose HWI brand-level revenue or a complete HWI-only business-model revenue series in the data package, so the only dollar-disclosed HWI forecast line is the segment total.

Product / sub-segment	FY2021 rev	FY2022 rev	FY2023 rev	FY2024 rev	FY2025 rev	FY2022-FY2025 CAGR	Most recent YoY	Data package cite
HWI / Legacy-DH segment total	1.538	3.207	4.465	4.881	4.794	14.3%	-1.8%	data_package.md Section 3, HWI / Legacy-DH table
HWI brand-level lines	n/a	n/a	n/a	n/a	n/a	n/a	n/a	[DATA GAP: brand-level revenue not disclosed in data_package.md]

Product / sub-segment	FY2021 rev	FY2022 rev	FY2023 rev	FY2024 rev	FY2025 rev	FY2022-FY2025 CAGR	Most recent YoY	Data package cite
HWI leased vs M&F TTM lines	n/a	n/a	n/a	n/a	n/a	n/a	n/a	[DATA GAP: complete HWI-only leased/M&F/other TTM split not disclosed in data_package.md]

Arithmetic tie-out: FY2022 revenue RMB3.207 billion x (1 + 39.2%) = RMB4.464 billion, matching FY2023 RMB4.465 billion within rounding. FY2023 revenue RMB4.465 billion x (1 + 9.3%) = RMB4.880 billion, matching FY2024 RMB4.881 billion within rounding. FY2024 revenue RMB4.881 billion x (1 - 1.8%) = RMB4.793 billion, matching FY2025 RMB4.794 billion within rounding. The FY2022-FY2025 CAGR is calculated as (4.794 / 3.207)^(1/3) - 1 = 14.3%, but that includes reopening normalization; FY2023-FY2025 CAGR is only 3.6%.

Quarterly TTM bridge from the data package:

Quarter	HWI revenue	YoY revenue growth	Adjusted EBITDA	Adjusted EBITDA margin	Data package cite
Q2 2025	1.324	0.1%	0.180	13.6%	data_package.md Section 5, Segment Revenue And Profit
Q3 2025	1.245	-3.0%	0.067	5.4%	data_package.md Section 5, Segment Revenue And Profit
Q4 2025	1.315	5.3%	0.327	24.9%	data_package.md Section 5, Segment Revenue And Profit
Q1 2026	0.972	5.1%	-0.056	-5.8%	data_package.md Section 5, Segment Revenue And Profit
TTM ended Mar. 31, 2026	4.856	n/a	0.518	10.7%	quant_foundation.md P4C; data_package.md Downstream Modeling Base

Quarterly arithmetic tie-out: revenue RMB1.324 billion + RMB1.245 billion + RMB1.315 billion + RMB0.972 billion = RMB4.856 billion. Adjusted EBITDA RMB0.180 billion + RMB0.067 billion + RMB0.327 billion - RMB0.056 billion = RMB0.518 billion. Q4 2025 contributed 63% of TTM adjusted EBITDA, while Q1 2026 was loss-making. That is why the margin forecast below ramps gradually rather than capitalizing Q4's 24.9% margin.

Operating metric context from the data package: Q1 2026 HWI blended RevPAR was USD80, up 5.0% year over year on a constant-U.S.-dollar basis. Q2 2025 HWI RevPAR was EUR88, up 8.1% year over year; Q3 2025 was EUR87, up 6.4%; Q4 2025 was EUR87; Q1 2026 was USD80. The currency-label change in the data package reflects the company's presentation and should not be stitched into a single reported-currency ADR series without the source's constant-currency bridge.

7. Management Guidance - Quoted From Data Package Section 6

The data package's HWI-specific management commentary is short but directionally clear. These are the HWI guidance anchors used in the forward cases:

Date / period	Speaker	Verbatim quote snippet	Topic	Interpretation for HWI model
2026-05-15 / Q1 2026 release	Jin Hui, CEO	"new HWC and HWI disclosure framework"	Taxonomy	HWI is now explicitly all hotels outside China. The model uses HWI after Q1 2026 and Legacy-DH for prior annual history.
2026-03-18 / Q4 2025 call	Jihong He, CSO	"successful business turnaround"	HWI profitability	FY2025 positive adjusted EBITDA is the proof point, but it is still recent and needs through-cycle confirmation.
2026-03-18 / Q4 2025 call	Jihong He, CSO	"remain profitable"	HWI outlook	Base and bull cases keep HWI profitable across the horizon; bear case allows profit to compress but not revert to a multi-year deep loss unless macro/lease stress worsens.
2026-03-18 / Q4 2025 call	Jihong He, CSO	"portfolio restructuring"	HWI asset structure	Margin expansion depends more on lease exits, renegotiations, conversions, and mix than on aggressive reported revenue growth.

Date / period	Speaker	Verbatim quote snippet	Topic	Interpretation for HWI model
2025-11-17 / Q3 2025 call	Jin Hui, CEO	"developing our asset-light portfolio"	HWI model	HWI's quality improves if growth shifts toward third-party owned hotels and fees. Reported revenue may lag economic profit if lease revenue is exited.
2025-08-20 / Q2 2025 call	Jin Hui, CEO	"cost reduction and efficiency improvement"	HWI operations	Cost actions are a legitimate margin lever, but not a permanent moat unless accompanied by better owner demand and distribution.

Two restrictions follow from this guidance. First, management has not provided a separate five-year HWI revenue target in the data package. The forecast must therefore be built from TTM revenue, recent RevPAR, portfolio restructuring logic, peer economics, and conservative assumptions. Second, management's "remain profitable" language should not be interpreted as a promise of smooth quarterly profits. Q1 2026 adjusted EBITDA was negative. The right reading is full-year profitability with seasonal volatility, not quarter-by-quarter immunity.

8. Forward Growth Assumptions - TTM To March 31, 2031

The forward model uses the HWI TTM revenue base of RMB4.856 billion. Because the data package does not disclose a complete HWI brand-level or leased/M&F TTM dollar split, the explicit forecast line is HWI segment total. The drivers underneath the line are: retained leased-hotel revenue, RevPAR/occupancy improvement, lease exits or conversions, asset-light franchise/manachise additions, and H World distribution or procurement synergies. These drivers are discussed qualitatively but not assigned fabricated current dollar weights.

Base Case Growth

Product / sub-segment	3-yr historical CAGR	Latest YoY	Mgmt FY+1 guide	Base CAGR TTM to TTM+5y	Justification
HWI / International segment total	14.3% FY2022-FY2025; 3.6% FY2023-FY2025	Q1 2026 +5.1% revenue; Q1 RevPAR +5.0%	"remain profitable"; "portfolio restructuring"; "developing our asset-light portfolio"	5.5%	Base growth sits modestly above the cleaner FY2023-FY2025 revenue CAGR because Q1 2026 returned to positive revenue growth and RevPAR improved, but it stays far below the reopening-distorted FY2022-FY2025 CAGR. It assumes portfolio pruning offsets some room and RevPAR growth in reported revenue.
HWI brand-level revenue	n/a	n/a	n/a	n/a	[DATA GAP: brand-level revenue not disclosed; no brand-level CAGR modeled.]
HWI leased vs M&F TTM revenue	n/a	n/a	asset-light development commentary only	n/a	[DATA GAP: complete HWI-only TTM leased/M&F split not disclosed; mix is handled through margin rather than fabricated revenue lines.]

Base year-by-year revenue path:

Horizon step	Revenue	Growth
TTM ended Mar. 31, 2026	4.856	n/a
Year 1	5.123	5.5%
Year 2	5.405	5.5%
Year 3	5.702	5.5%
Year 4	6.016	5.5%
TTM+5y ending Mar. 31, 2031	6.347	5.5%

The base case is intentionally not heroic. It assumes HWI keeps the FY2025 turnaround but remains a second-tier international platform. Revenue grows because RevPAR improves low-to-mid single digits over time, the pipeline and owner conversions add rooms, and H World improves distribution. Revenue does not grow faster because lease exits, lower-quality hotel closures, and currency/local-market volatility offset expansion. The base also assumes HWI does not become a China-style growth engine; HWC remains the core compounder.

Bull Case Growth

Product / sub-segment	3-yr historical CAGR	Latest YoY	Mgmt FY+1 guide	Bull CAGR TTM to TTM+5y	Justification
HWI / International segment total	14.3% FY2022-FY2025; 3.6% FY2023-FY2025	Q1 2026 +5.1% revenue; Q1 RevPAR +5.0%	"successful business turnaround"; "developing our asset-light portfolio"	8.0%	Bull case assumes HWI converts restructuring into owner demand: asset-light openings accelerate, Chinese outbound and H Rewards add incremental occupancy, and European RevPAR remains constructive. It still stays below reopening-era CAGR because HWI is no longer recovering from a depressed base.
HWI brand-level revenue	n/a	n/a	n/a	n/a	[DATA GAP: brand-level revenue not disclosed; no brand-level bull split.]
HWI leased vs M&F TTM revenue	n/a	n/a	asset-light development commentary only	n/a	Mix improvement is reflected in margin and capital intensity, not fabricated current dollars.

Bull year-by-year revenue path:

Horizon step	Revenue	Growth
TTM ended Mar. 31, 2026	4.856	n/a
Year 1	5.244	8.0%
Year 2	5.663	8.0%
Year 3	6.116	8.0%
Year 4	6.605	8.0%
TTM+5y ending Mar. 31, 2031	7.135	8.0%

The bull case requires more than normal market recovery. It requires HWI to become visibly more owner-relevant. The evidence would be net additions in international M&F hotels, better direct/channel mix, sustained RevPAR outperformance, and leases being renegotiated or exited without destroying revenue. It also requires HWI to avoid the trap of using lease commitments to buy growth. A larger leased footprint could raise reported revenue while weakening the economic quality; that would not qualify as bull-case execution.

Bear Case Growth

Product / sub-segment	3-yr historical CAGR	Latest YoY	Mgmt FY+1 guide	Bear CAGR TTM to TTM+5y	Justification
HWI / International segment total	14.3% FY2022-FY2025; 3.6% FY2023-FY2025	Q1 2026 +5.1% revenue; Q1 RevPAR +5.0%	"remain profitable" but no hard HWI revenue target	1.5%	Bear case assumes weak Europe demand, slow owner adoption, and revenue leakage from lease exits. It does not assume collapse because the segment has already restructured enough to produce TTM positive adjusted EBITDA, but it assumes growth barely exceeds inflation/currency noise.
HWI brand-level revenue	n/a	n/a	n/a	n/a	[DATA GAP: brand-level revenue not disclosed; no brand-level bear split.]
HWI leased vs M&F TTM revenue	n/a	n/a	asset-light development commentary only	n/a	Mix remains less favorable; margin bears the stress.

Bear year-by-year revenue path:

Horizon step	Revenue	Growth
TTM ended Mar. 31, 2026	4.856	n/a
Year 1	4.929	1.5%
Year 2	5.003	1.5%
Year 3	5.078	1.5%
Year 4	5.154	1.5%
TTM+5y ending Mar. 31, 2031	5.231	1.5%

The bear case is not an apocalypse. The segment's brands and operations retain enough demand to avoid a return to COVID-era revenue. The problem is that low growth plus lease-heavy economics make margins fragile. If HWI cannot compound owner-facing fee revenue, the segment becomes a management distraction rather than a value-creating international option.

9. Forward Operating Margin Assumptions

HWI's current TTM adjusted EBITDA margin is 10.7%. That is the starting point. It is tempting to use Q4 2025's 24.9% margin as proof that the segment can earn high-teens or 20% margins, but that would be bad modeling. Q1 2026 was negative 5.8%. The margin forecast must respect seasonality and the fact that Q4 carried most of TTM profit.

The margin mechanism is mix and cost, not pure price. A higher asset-light share should lift margin because franchised/manachised revenue has lower direct hotel operating cost and lower capital intensity. Lease exits or renegotiations should remove low-return revenue and fixed-cost drag. Procurement, staffing, revenue management, and central system adoption should improve hotel-level contribution. H Rewards and direct distribution could reduce customer-acquisition cost. But these are gradual levers, and the segment is too small and exposed to local markets to warrant HWC-like margins.

Case	Current TTM margin	TTM+5y margin	Change	Mechanism
Bear	10.7%	7.0%	-370 bps	Lease and labor pressure offset restructuring; Q1-type seasonality remains painful; asset-light development is too slow to change mix.
Base	10.7%	15.0%	+430 bps	Full-year profitability holds, lower-quality leases are reduced, asset-light additions raise fee mix, and fixed-cost absorption improves without assuming peer-leading economics.
Bull	10.7%	18.5%	+780 bps	HWI becomes a credible asset-light international platform, owner demand accelerates, RevPAR recovery holds, and cost programs stick. Still materially below HWC margin.

Base margin path:

Horizon step	Revenue	Segment profit margin	Segment profit
TTM ended Mar. 31, 2026	4.856	10.7%	0.518
Year 1	5.123	11.5%	0.589
Year 2	5.405	12.5%	0.676
Year 3	5.702	13.5%	0.770
Year 4	6.016	14.3%	0.860
TTM+5y ending Mar. 31, 2031	6.347	15.0%	0.952

Bull margin path:

Horizon step	Revenue	Segment profit margin	Segment profit
TTM ended Mar. 31, 2026	4.856	10.7%	0.518
Year 1	5.244	12.5%	0.655
Year 2	5.663	14.0%	0.793
Year 3	6.116	15.5%	0.948
Year 4	6.605	17.0%	1.123
TTM+5y ending Mar. 31, 2031	7.135	18.5%	1.320

Bear margin path:

Horizon step	Revenue	Segment profit margin	Segment profit
TTM ended Mar. 31, 2026	4.856	10.7%	0.518
Year 1	4.929	9.5%	0.468
Year 2	5.003	8.5%	0.425
Year 3	5.078	8.0%	0.406
Year 4	5.154	7.5%	0.387
TTM+5y ending Mar. 31, 2031	5.231	7.0%	0.366

The base case's 15.0% segment adjusted EBITDA margin is deliberately below mature asset-light peers and far below HWC. It is not a terminal margin claim. It is a five-year recovery assumption for a segment still carrying leased exposure and seasonality. The bull case's 18.5% margin is achievable only if the mix shift is real and visible. The bear case's 7.0% margin recognizes that "remain profitable" can be true while the segment still destroys valuation upside through low returns.

Capital intensity sensitivity: because HWI-specific capex is not disclosed, the model does not calculate HWI free cash flow directly. As a rule of thumb for synthesis, if HWI capital intensity is 5% of revenue at the base horizon, HWI would require roughly RMB317 million of annual capex on RMB6.347 billion of revenue, leaving about RMB635 million of segment profit before tax and working-capital items after a rough capex deduction. If capital intensity falls toward 3% as the mix becomes asset-light, that deduction is closer to RMB190 million. If it stays at 7% because leased hotels require renovation and maintenance, it is about RMB444 million. This sensitivity is not a disclosed historical series; it is a capital intensity stress test.

10. Segment Rollup - Bottoms-Up Within Disclosure Limits

Because HWI's only complete dollar-disclosed line is segment total revenue, the rollup is a one-line product rollup. This is not ideal, but it is preferable to fabricating brand or leased/franchise splits. The arithmetic ties exactly: segment revenue multiplied by segment adjusted EBITDA margin equals segment profit.

Case	HWI TTM+5y revenue	Segment adjusted EBITDA margin	Segment adjusted EBITDA / operating proxy	Probability
Bear	5.231	7.0%	0.366	25%
Base	6.347	15.0%	0.952	50%
Bull	7.135	18.5%	1.320	25%

Arithmetic checks:

Case	Revenue x margin	Computed profit	Status
Bear	5.231 x 7.0%	0.366	PASS
Base	6.347 x 15.0%	0.952	PASS
Bull	7.135 x 18.5%	1.320	PASS

Expected-value segment profit at TTM+5y is RMB0.898 billion: 25% x RMB0.366 billion + 50% x RMB0.952 billion + 25% x RMB1.320 billion. That is about RMB380 million above the current TTM HWI adjusted EBITDA base. HWI therefore matters, but it is not the central determinant of H World's five-year earnings power. It can add value if the turnaround works, and it can subtract narrative quality if it fails, but HWC remains the dominant earnings engine.

Valuation sensitivity:

Case	TTM+5y segment profit	Illustrative multiple	Implied segment value	USD equivalent at 6.898 RMB/USD	Value per ADS on 327.1m ADSs
Bear	0.366	5.0x	1.83	0.27	US$0.81
Base	0.952	8.0x	7.62	1.10	US$3.37
Bull	1.320	10.0x	13.20	1.91	US$5.85

This table is not a standalone sum-of-the-parts valuation. It simply sizes HWI's option value against the current HTHT market context. At the live FMP quote of US$43.6857 per ADS and market cap of US$13.418 billion, the base-case HWI value sensitivity of about US$3.37 per ADS is meaningful but not thesis-defining. The difference between base and bear is about US$2.56 per ADS. The difference between bull and base is about US$2.48 per ADS. HWI can move a few dollars of per-ADS value, but it cannot rescue a broken HWC thesis, and it should not justify paying a premium multiple for the whole company by itself.

11. Key Risks And Wildcards

Bear risk - lease drag. HWI's current economics remain exposed to leased hotels and local operating costs. If lease renegotiations stall or renovation needs rise, the segment can remain profitable in headline adjusted EBITDA terms while producing weak free cash flow. The risk is most visible in Q1 seasonality, when fixed costs weigh heavily.

Bear risk - European macro and business travel. Germany and broader Europe can be vulnerable to slow corporate demand, weak consumer confidence, labor cost inflation, and energy shocks. HWI's FY2025 revenue already declined 1.8%, so the segment does not have a large organic growth cushion if RevPAR slows.

Bear risk - owner adoption. The asset-light strategy requires third-party owners to choose HWI brands and systems. Global competitors have deeper loyalty programs and owner relationships. If HWI cannot show superior economics to owners, pipeline growth may remain limited or require concessions that dilute fees.

Base risk - reported revenue optics. A successful asset-light transition can suppress reported revenue if leased hotels are exited or converted. Synthesis should not punish all revenue softness equally; the mix and profit effect matter. But H World must give enough disclosure for investors to separate healthy pruning from weak demand.

Base risk - disclosure limits. HWI brand-level and business-model dollar splits are not disclosed in the data package. That makes it harder to monitor whether the turnaround is coming from sustainable fee growth, one-time lease actions, or seasonally strong owned/leased hotel performance. The next reviewer should preserve the `[DATA GAP]` flags rather than smooth them away.

Bull wildcard - H Rewards outbound and cross-border demand. If H World can route Chinese outbound travelers and members into HWI hotels at attractive acquisition cost, HWI could get a demand source that local European competitors cannot replicate easily. This is plausible but not yet proven in the data package.

Bull wildcard - conversion platform. If HWI becomes a credible conversion brand for independent European hotels seeking distribution and revenue-management support, the segment could grow asset-light rooms faster than reported revenue suggests. The key evidence would be sustained M&F hotel additions outside China, rising fee revenue, and lower capex intensity.

Wildcard - currency. HWI reports in RMB but earns meaningful revenue and costs in foreign currencies, especially Europe-linked currencies. Currency can move reported revenue and margins without changing local operating performance. The model does not assume currency-driven upside; it treats currency as noise around local economics.

Summary Table

Case	Segment TTM+5y Revenue	Segment TTM+5y Op Margin	Segment TTM+5y Op Income	Probability
Bear	RMB5.231bn	7.0%	RMB0.366bn	25%
Base	RMB6.347bn	15.0%	RMB0.952bn	50%
Bull	RMB7.135bn	18.5%	RMB1.320bn	25%

Note: H World discloses adjusted EBITDA as the segment measure. The "Op Income" column above is segment adjusted EBITDA / operating proxy, not GAAP segment operating income. No HWI brand-level revenue, HWI brand-level margin, HWI-specific capex, or complete HWI leased/M&F TTM split is disclosed in the data package.

Source List

- `C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group\data_package.md`
- `C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group\quant_foundation.md`
- H World Q1 2026 IR release: https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-first-quarter-2026-unaudited
- H World Q4/FY2025 IR release: https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-fourth-quarter-and-full-year-2025
- H World 2025 Form 20-F / annual report: https://ir.hworld.com/static-files/9826fdb1-3f9d-41a9-8387-e01244c8275f
- SEC EDGAR filing directory for the 2025 20-F accession: https://www.sec.gov/Archives/edgar/data/1483994/000110465926048058/
- Live FMP B-pass pulls saved under `C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group\raw\b_hwi_20260526\`: quote, profile, quarterly income statement, annual revenue-product segmentation, transcript dates, Q1 2026 transcript attempt.
- IHG business model and 2025 Annual Report/Form 20-F: https://www.ihgplc.com/en/about-us/how-our-business-works and https://www.ihgplc.com/~/media/Files/I/Ihg-Plc/investors/annual-report/2025/ihg-ar25-interactive.pdf
- Marriott 2025 Form 10-K: https://marriott.gcs-web.com/static-files/ccd4ffb7-2196-404b-b16d-88c14af5b5dd
- Accor 2025 financial results page: https://group.accor.com/en/finance/financial-results

Appendix S - Synthesis (Combined Earnings Model)

H World Group (HTHT) - Appendix S: Synthesis and Combined Earnings Model

1. Anchors

- Today: 2026-05-26.
- Company fiscal year convention: fiscal year ends December 31.
- Most recently reported quarter: Q1 2026, period ended March 31, 2026, announced May 15, 2026.
- TTM anchor: Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026 -> TTM ending March 31, 2026.
- Forward horizon: TTM + 5 calendar years = March 31, 2031. Compounding horizon is exactly 5 calendar years from March 31, 2026 to March 31, 2031.

Current price: US$43.73 per ADS from a live FMP `/stable/quote` pull for HTHT saved on 2026-05-26 under `raw\s_20260526\fmp_quote_htht_20260526.json` and copied save-only to `C:\Users\Admin\OneDrive\Cowork\Investing\data warehouse\fmp\quote\HTHT\fmp_quote_htht_20260526.json`. The quote pull showed NASDAQ HTHT at US$43.73 and market capitalization of about US$13.43 billion. The model uses ADS units throughout: one ADS represents ten ordinary shares, and the TTM diluted ADS-equivalent base is 327.1 million ADSs from the Q1 2026 diluted ordinary share count divided by ten.

Currency convention: operating model values are in RMB billions unless stated otherwise. The P/E 15 gate compares a USD ADS price to USD EPS per ADS. I convert RMB EPS to USD EPS using the Q1 2026 official convenience translation rate of US$1.00 = RMB6.8980. That rate is not a forecast of future FX; it is the cleanest reported rate tied to the TTM anchor date. FX is a real sensitivity, but it should not be hidden by mixing RMB earnings with a USD ADS price.

Source discipline: the historical base comes from the verified `quant_foundation.md` and `data_package.md`. Segment forward assumptions come from the reviewed HWC and HWI segment appendices. I did not read any cached warehouse financials or transcripts. The only new live FMP extraction for Appendix S was the current quote needed for the price gate, and it was saved to both the ER2 raw folder and the data warehouse without overwriting an existing warehouse file.

Data Source Rule - Included and Obeyed

Data Source Rule â€” OVERRIDES workspace default

The workspace may have a "Data Warehouse First" rule that says check a local `data warehouse/` cache before hitting FMP. **For the ER2 skill this rule is suspended.** Every Wave 1 subagent (D, A) and every Wave 2 subagent (B, M, W) that needs historicals, segment data, or transcript quotes must:

- Fetch live from FMP's `/stable/` endpoints. In Codex, use

`C:\Users\Admin\.codex\skills\fmp-financial-data\scripts\fmp_request.py`, which loads the key from `FMP_API_KEY` or its local `.secret.env`.

- Fetch live from the company's IR website (press releases, transcripts,

investor day decks) and SEC EDGAR (10-K, 10-Q, 8-K).

- Never substitute a `data warehouse/transcripts/{SYMBOL}/...`,

`data warehouse/financials/...`, `data warehouse/segments/...`, or any other cached file for a live fetch.

Why this rule exists

An earlier MSFT run hit a stale-anchor failure where a cached transcript named `MSFT_2025_Q2.md` (the Jan-2025 Q2-FY25 call, per FMP's fiscal-quarter naming convention) was consumed by Sub-Agent D as if it were the Jan-2026 Q2-FY26 call. The data package was off by a full fiscal year, and DR didn't catch it because DR's spot checks cross-referenced the same cache. The fix is structural: ER2 lives on live fetches only.

Who enforces it

The orchestrator must include this rule verbatim in every subagent dispatch block (Stage 3 and Stage 4 in `SKILL.md`) so no subagent silently reverts to cache reads from the workspace default. If a live fetch fails within the available runtime's web-fetch guards, the correct behaviour is to retry the identical call once, then flag the failure â€" NOT to fall back to the cache, NOT to substitute a different endpoint. In Codex, if the retry fails because of sandbox network blocking, rerun the same FMP helper command once with escalated network permission as described in `codex_runtime.md`.

2. Starting Financial Base

The controlling TTM base is the official-source QF bridge, not a stale FMP annual line. TTM revenue was RMB25.908 billion. TTM income from operations was RMB7.225 billion. TTM adjusted EBITDA was RMB8.835 billion. TTM net income attributable to H World was RMB5.003 billion. TTM CFO was RMB8.032 billion, capex was RMB0.780 billion, and free cash flow was RMB7.252 billion. The QF file calculates TTM diluted EPS per ADS as RMB15.30 using net income attributable of RMB5.003 billion divided by the 327.1 million diluted ADS-equivalent share base.

The segment model starts from the same QF segment bridge:

Segment	TTM revenue	TTM adjusted EBITDA / segment profit proxy	TTM margin	Source
HWC / China	RMB21.077bn	RMB8.317bn	39.5%	`quant_foundation.md` P2/P4C; `appendix_B_hwc_china.md` Section 2
HWI / International	RMB4.856bn	RMB0.518bn	10.7%	`quant_foundation.md` P2/P4C; `appendix_B_hwi_international.md` Section 2
Eliminations	RMB(0.025)bn	RMB0.000bn	n/a	`quant_foundation.md` P2/P4C
Consolidated	RMB25.908bn	RMB8.835bn	34.1%	Segment sum ties QF

H World does not disclose official segment operating income. The segment measure is adjusted EBITDA. Therefore, throughout this appendix, "segment operating income proxy" means adjusted EBITDA, the same segment profit proxy used by the segment appendices. To reach consolidated net income and EPS, I explicitly bridge from the segment adjusted EBITDA proxy to estimated GAAP operating income by subtracting D&A and other adjusted-item drag. That bridge is necessary because applying a tax rate directly to adjusted EBITDA would overstate net income.

The TTM bridge calibrates the conversion: consolidated adjusted EBITDA of RMB8.835 billion minus consolidated income from operations of RMB7.225 billion leaves a RMB1.610 billion gap. QF identifies D&A of RMB1.230 billion in the segment table, so the remaining adjusted-item drag is roughly RMB0.380 billion, or about 1.5% of TTM revenue. The forward model uses 1.3% of revenue in bear, 1.2% in base, and 1.1% in bull for this adjusted-item drag. That is a modest improvement from TTM, reflecting mix shift toward M&F and asset-light economics, but it does not assume that stock compensation and other addbacks vanish.

3. Segment-Level Forward Assumptions

These rows reproduce the segment appendices rather than re-deriving them. The horizon is March 31, 2031, exactly five calendar years after the TTM anchor.

Segment	TTM revenue	Bear TTM+5y revenue	Base TTM+5y revenue	Bull TTM+5y revenue	Bear proxy margin	Base proxy margin	Bull proxy margin
HWC / China	RMB21.077bn	RMB26.261bn	RMB31.253bn	RMB36.310bn	36.0%	41.5%	44.0%
HWI / International	RMB4.856bn	RMB5.231bn	RMB6.347bn	RMB7.135bn	7.0%	15.0%	18.5%

The HWC appendix is the economic center of the model. It assumes HWC grows revenue from RMB21.077 billion to RMB31.253 billion in base case, an 8.2% CAGR, driven by network growth, M&F fee growth, mix, and modest RevPAR stabilization. Its base margin expands from 39.5% to 41.5%, producing RMB12.970 billion of TTM+5y segment adjusted EBITDA / operating proxy. The segment appendix deliberately avoids a heroic same-store lodging recovery: same-hotel HWC RevPAR was still negative year over year in recent quarters, so the model gives more credit to system growth and fee mix than to mature-hotel rate power.

The HWI appendix is modeled as a lower-quality turnaround option. Its TTM revenue base is RMB4.856 billion and TTM adjusted EBITDA is RMB0.518 billion. The base case grows revenue to RMB6.347 billion at a 5.5% CAGR and expands margin to 15.0%, producing RMB0.952 billion of segment adjusted EBITDA / operating proxy. That margin is far below HWC's margin because HWI remains smaller, more seasonal, more lease-exposed, and less proven as an asset-light owner-facing platform. HWI matters, but it is not the source of the Gideon case.

Probability framing from the upstream appendices is not uniform. HWC used 25% bear, 55% base, and 20% bull. HWI used 25% bear, 50% base, and 25% bull. For the consolidated model I use 25% bear, 55% base, and 20% bull because HWC is the dominant value driver and because the moat appendix is YELLOW, not clean green. A uniform 33/33/34 weighting would overstate the probability of the HWI upside option and understate the visible risks around China same-hotel RevPAR, closures, and franchisee returns.

4. Combined Revenue Build

Eliminations are small. TTM eliminations were RMB(0.025) billion. I carry them forward at RMB(0.030) billion in bear, RMB(0.040) billion in base, and RMB(0.045) billion in bull. These are not value drivers. They are included so the horizon revenue sum reconciles the segment rows to a consolidated number rather than pretending eliminations do not exist.

Line	Bear	Base	Bull
HWC TTM+5y revenue	26.261	31.253	36.310
HWI TTM+5y revenue	5.231	6.347	7.135
Sum of segment TTM+5y revenue	31.492	37.600	43.445
Corporate eliminations	(0.030)	(0.040)	(0.045)
Combined TTM+5y revenue	31.462	37.560	43.400
Implied TTM -> TTM+5y CAGR	4.0%	7.7%	10.9%

The base case is not a straight extrapolation of recent M&F growth. Group M&F revenue grew more than 20% year over year in each of the last four reported quarters, but the consolidated base revenue CAGR is only 7.7%. That gap is intentional. Reported revenue includes L&O runoff and HWI restructuring, and the HWC model assumes network growth fades as the company approaches a denser China footprint. The base case is still optimistic enough to matter: consolidated revenue increases by RMB11.652 billion over five years, with most of that coming from HWC.

The bear case is also not a collapse. Revenue still grows from RMB25.908 billion to RMB31.462 billion. The downside is that HWC openings slow, same-hotel RevPAR remains soft, franchisee economics weaken, and HWI does not become a meaningfully better platform. This is the "good business, not enough value at this price" case. The bull case requires HWC to come close to management's 20,000-hotel ambition while stabilizing owner economics and HWI to prove that the FY2025 turnaround can become a durable asset-light international growth story.

5. Combined Operating Income / EBITDA Proxy Build

The first operating line is the sum of segment adjusted EBITDA / segment operating income proxy. There is no separate unallocated corporate expense in the QF segment bridge because the TTM segment adjusted EBITDA rows sum to consolidated adjusted EBITDA. However, that proxy must be bridged to GAAP operating income before reaching net income. I therefore show both the proxy and the GAAP bridge.

Line	Bear	Base	Bull
HWC segment adjusted EBITDA / OI proxy	9.454	12.970	15.976
HWI segment adjusted EBITDA / OI proxy	0.366	0.952	1.320
Sum of segment OI / EBITDA proxy	9.820	13.922	17.296

Line	Bear	Base	Bull
Unallocated corporate expense	0.000	0.000	0.000
Combined segment OI / EBITDA proxy	9.820	13.922	17.296
Proxy margin on combined revenue	31.2%	37.1%	39.9%

The base proxy margin of 37.1% is higher than the current consolidated adjusted EBITDA margin of 34.1%, but it is not a software-style margin. The improvement comes from HWC mix, M&F growth, L&O runoff, HWI restructuring, and scale. It is still constrained by hotel support costs, quality control, field operations, technology spending, seasonality, and the reality that hotels are local physical businesses.

The bridge to estimated GAAP operating income is:

Line	Bear	Base	Bull
Combined segment OI / EBITDA proxy	9.820	13.922	17.296
Less: D&A bridge	(1.312)	(1.411)	(1.483)
Less: adjusted-item drag	(0.409)	(0.451)	(0.477)
Estimated GAAP operating income	8.099	12.061	15.335
Estimated GAAP operating margin	25.7%	32.1%	35.3%

The D&A bridge uses the HWC appendix rough EBIT bridge for HWC: D&A of RMB1.024 billion in bear, RMB1.125 billion in base, and RMB1.198 billion in bull. For HWI, where segment-level capex and D&A are not separately disclosed, I use a ratio to revenue: 5.5% in bear, 4.5% in base, and 4.0% in bull. The direction follows the asset-light mix thesis but does not erase HWI's lease and renovation burden. The resulting HWI D&A component is roughly RMB0.288 billion in bear, RMB0.286 billion in base, and RMB0.285 billion in bull. Total D&A therefore rises modestly from the TTM RMB1.230 billion to RMB1.411 billion in base, even though D&A as a share of revenue falls.

The adjusted-item drag is the second bridge item. It captures the part of adjusted EBITDA that is not D&A but still separates the adjusted proxy from GAAP operating income. The TTM calibration is RMB0.380 billion, or about 1.5% of revenue. I use a lower forward percentage because the business mix becomes more asset-light, but I do not make the drag disappear. This matters because H World has share-based compensation and other addbacks; a clean per-share model should not pay for adjusted EBITDA as if every addback were free.

6. Net Income and EPS Build

The net income build starts with estimated GAAP operating income. Net interest and other income are modest because H World has net cash on the official debt definition, but leases remain economically important. I use zero net other income in bear, RMB0.200 billion in base, and RMB0.300 billion in bull. The base and bull assumptions reflect net cash and some non-operating income, but the model does not rely on financial income to pass the gate.

Tax rates are 30% in bear, 29% in base, and 28% in bull. The base rate sits near the recent actual tax history: the data package shows FY2025 actual tax rate used for NOPAT of 29.6%, while FY2024 was higher at 34.6% and FY2023 was 22.5%. H World has cross-border operations and tax can move, so I do not use an aggressive low tax rate.

Line	Bear	Base	Bull
Estimated GAAP operating income	8.099	12.061	15.335
Net interest / other income	0.000	0.200	0.300
Pre-tax income	8.099	12.261	15.635
Tax rate	30.0%	29.0%	28.0%
Tax expense	(2.430)	(3.556)	(4.378)
Net income attributable	5.670	8.705	11.257
Diluted ADS count at TTM+5y	329.1m	322.4m	319.3m
EPS per ADS, RMB	17.23	27.00	35.25
EPS per ADS, USD at 6.898 RMB/USD	2.50	3.91	5.11

The base case increases net income from TTM RMB5.003 billion to RMB8.705 billion. That is a 74% increase over five years, or about 11.7% annually. EPS grows faster than net income only modestly because the share count path is deliberately conservative. The base case does not depend on a huge buyback. Starting share count is 327.1 million diluted ADS-equivalent shares. Ending base share count is 322.4 million, a five-year decline of only 1.4%. If the company merely holds share count flat, base EPS would still be roughly RMB26.6 per ADS, so the valuation conclusion is not a buyback mirage.

7. Share Count Path

H World returned a large amount of cash in FY2025, but most of the shareholder return was dividends, not repurchases. The Q4/FY2025 release cited about US$760 million of total shareholder returns declared for FY2025, including US$650 million of cash dividends and about US$110 million of share repurchases. Data package Section 7 shows FY2025 buybacks of RMB0.783 billion and dividends paid of RMB3.907 billion. Management appendix Section 3 flags the May 2026 convertible-note conversion as a dilution item, and that makes the share-count bridge important.

The starting point here is the Q1 2026 diluted ADS-equivalent count of 327.1 million. Because this is a diluted share count, I do not add a separate one-time 13 million ADS conversion on top of it in the base model; doing so would risk double-counting if the conversion was already included in diluted if-converted math. The correct monitoring item is the actual future diluted ADS count once the post-conversion share base is visible in later filings.

Base share-count path:

Year	Starting ADS count (m)	Buyback (US$m)	Avg price assumed	Shares retired (m)	SBC issuance (m)	Ending ADS count (m)
Year 1	327.10	110	44	2.50	1.48	326.08
Year 2	326.08	110	46	2.39	1.41	325.10
Year 3	325.10	110	48	2.29	1.35	324.16
Year 4	324.16	110	50	2.20	1.30	323.26
Year 5	323.26	110	52	2.12	1.25	322.40

The SBC issuance proxy is based on roughly US$65 million per year of equity issuance, which is slightly above FY2025 share-based compensation of RMB420 million translated at RMB6.898/USD. The average buyback price rises over time in the base case, so the same US$110 million buyback retires fewer shares in later years. This is intentionally more restrained than a mechanical FCF-deployment model. H World could buy back much more if it reduced dividends, but the observed capital return policy has emphasized dividends.

Case-specific ending share counts:

Case	Buyback assumption	SBC assumption	Ending diluted ADS count
Bear	US$50m per year at US$36-40 average prices	US$65m per year	329.1m
Base	US$110m per year at US$44-52 average prices	US$65m per year	322.4m
Bull	US$150m per year at US$50-60 average prices	US$65m per year	319.3m

The bear case allows net dilution because buybacks are reduced while SBC continues. The bull case allows more repurchases, but it still does not assume that the company spends all FCF on buybacks. This is consistent with the capital allocation appendix: management has shown willingness to return cash, but the current pattern is dividends plus modest buybacks, not a U.S.-style buyback-first compounding engine.

8. P/E 15 Test

The required FY+5 EPS for a P/E of 15 at today's US$43.73 ADS price is:

US$43.73 / 15 = US$2.92 per ADS. At RMB6.898/USD, that equals RMB20.11 per ADS.

Case	EPS at TTM+5y, RMB	EPS at TTM+5y, USD	EPS x 15	Current price	Cushion	Pass?
Bear	17.23	2.50	37.46	43.73	-14.3%	FAIL
Base	27.00	3.91	58.71	43.73	+34.3%	PASS

Case	EPS at TTM+5y, RMB	EPS at TTM+5y, USD	EPS x 15	Current price	Cushion	Pass?
Bull	35.25	5.11	76.66	43.73	+75.3%	PASS

The ER2 rule cares about the confident base case, not the bull case. On the model above, the base case clears the P/E 15 bar. The base implied FY+5 P/E at today's price is roughly 11.2x in USD terms. The numerical price gate therefore passes.

That does not automatically settle the investment verdict. The moat appendix is YELLOW, not green, because H World has a real HWC moat but also same-hotel RevPAR pressure, franchisee-return opacity, local saturation risk, and a lower-quality HWI segment. The synthesis implication is therefore: valuation is good enough for BUY consideration, but the case should be treated as a WATCH-to-BUY pending red-team review and explicit monitoring triggers. The difference is subtle but important. A numerical P/E pass says the price is not obviously too high. It does not by itself prove that the base case is confident enough for a full Gideon BUY.

9. Reflexivity and Historical Tie-Out

The model ties back to reported TTM financials. Segment TTM revenue is RMB21.077 billion for HWC plus RMB4.856 billion for HWI minus RMB0.025 billion of eliminations, which equals consolidated TTM revenue of RMB25.908 billion. Segment adjusted EBITDA is RMB8.317 billion for HWC plus RMB0.518 billion for HWI, which equals consolidated adjusted EBITDA of RMB8.835 billion. The TTM bridge therefore ties exactly on the proxy measure used by the segment appendices.

The latest completed fiscal year also ties. FY2025 segment revenue was RMB20.535 billion for Legacy-Huazhu/HWC plus RMB4.794 billion for Legacy-DH/HWI minus RMB0.022 billion of eliminations, which equals FY2025 consolidated revenue of RMB25.307 billion. FY2025 segment adjusted EBITDA was RMB7.974 billion for Legacy-Huazhu/HWC plus RMB0.499 billion for Legacy-DH/HWI, which equals consolidated adjusted EBITDA of RMB8.473 billion. This is important because the TTM model uses current-taxonomy Q4/Q1 rows and legacy-label Q2/Q3 rows; QF already documented the relabel and realignment, and the segment sum still ties.

The model does not use FY2026 as a completed anchor. Stage 0 anchors on TTM ended March 31, 2026. Therefore the in-progress FY reconciliation requirement is not directly applicable. As a sanity check, the base first-forward-year revenue is close to recent run-rate rather than jumping ahead of evidence. HWC first year grows 7% from RMB21.077 billion to about RMB22.552 billion. HWI first year grows 5.5% from RMB4.856 billion to RMB5.123 billion. After small eliminations, combined first-forward-year revenue is about RMB27.645 billion, 6.7% above TTM revenue of RMB25.908 billion. That sits within the 10% recency anchor and is directionally consistent with management's FY2026 guidance mix: restrained group revenue growth, stronger ex-DH/HWC growth, and faster M&F growth.

Reflexivity check: if the stock price rises materially before the final decision, the P/E 15 gate can change quickly. At base USD EPS of US$3.91, a P/E 15 ceiling is US$58.71. If HTHT moved from US$43.73 to roughly US$55 without a corresponding earnings upgrade, the cushion would shrink from 34.3% to about 6.7%. If it moved above US$58-59, the base P/E 15 gate would no longer pass. Conversely, if same-hotel RevPAR turns positive, M&F growth remains above guidance, and HWI proves durable, the base EPS estimate could rise and the P/E ceiling would move up. The model should therefore be used as a live decision tool, not as a static label.

10. Sensitivity

The sensitivity table holds the other major variables at base and changes one driver at a time. EPS values are USD per ADS at the same RMB6.898/USD conversion.

Sensitivity	Low case EPS	Base EPS	High case EPS	Approx. impact vs base
HWC revenue CAGR +/- 200 bps	3.59	3.91	4.27	-8.3% / +9.0%
HWI margin +/- 200 bps	3.87	3.91	3.95	-1.0% / +1.0%
Ending share count +/- 5%	4.12	3.91	3.73	+5.3% / -4.8%
Tax rate +/- 300 bps	4.08	3.91	3.75	+4.2% / -4.2%

The dominant variable is HWC revenue growth, not HWI. A 200 bp change in HWC revenue CAGR moves EPS by roughly 8%-9%. That is larger than the HWI margin swing, larger than the modeled share-count swing, and about twice the tax-rate sensitivity. This matches the qualitative work: HWC is the crown jewel and HWI is an option. The variables that should drive the final verdict are HWC unit growth quality, M&F revenue growth, same-hotel RevPAR stabilization, closure ratio, and signs

of franchisee ROI. HWI can help or hurt narrative quality, but it is not likely to decide the P/E 15 test by itself unless it relapses into losses.

Share count is the second practical variable because capital allocation is visible and within management's control. If H World turns the current cash generation into larger repurchases at attractive prices, EPS can compound faster. If convertible dilution and SBC outrun buybacks, the EPS cushion narrows. Still, the base model passes without heroic buybacks, which is a positive. A fragile synthesis would require both HWC base execution and a large buyback to clear the P/E 15 hurdle; this model does not.

Tax and FX deserve monitoring. The table isolates tax, but FX is not shown because the whole gate is translated at a single reported rate. A weaker RMB against USD lowers USD EPS and therefore lowers the price that corresponds to 15x earnings. For example, if the RMB moved from 6.898/USD to 7.50/USD with the same RMB27.00 base EPS, USD EPS would be US$3.60 and the 15x ceiling would be about US$54.00, reducing the cushion materially. The ADS investor owns RMB earnings through a USD security, so FX is not a cosmetic issue.

11. Combined Earnings Summary

Case	Revenue	Segment OI / EBITDA proxy	GAAP OI bridge	GAAP OI margin	Net income	EPS, USD	Probability	EPS x 15	vs. US$43.73
Bear	31.462	9.820	8.099	25.7%	5.670	2.50	25%	37.46	-14.3%
Base	37.560	13.922	12.061	32.1%	8.705	3.91	55%	58.71	+34.3%
Bull	43.400	17.296	15.335	35.3%	11.257	5.11	20%	76.66	+75.3%
Probability-weighted EPS	n/a	n/a	n/a	n/a	n/a	3.80	100%	56.99	+30.3%

The probability-weighted EPS is US$3.80 per ADS, equivalent to RMB26.21 per ADS at the Q1 exchange-rate convention. That is close to the base case because base has the highest weight and HWC dominates the result. The probability-weighted P/E 15 ceiling is US$56.99, a 30.3% cushion to the current US$43.73 price. This supports the idea that HTHT is not merely a bull-case story. Even after assigning a 25% probability to the bear case, the weighted math still clears the price gate.

But the bear case matters. Bear EPS of US$2.50 fails the P/E 15 gate. If the true outcome is weak HWC franchisee economics, persistent same-hotel RevPAR declines, rising closures, and only modest HWI profitability, today's price would not be cheap on the ER2 test. That is why the final report should not frame HTHT as a riskless quality compounder. It is a China hotel platform with a strong HWC engine, a real but conditional moat, and enough valuation cushion to be interesting.

12. BUY / WATCH / PASS Implication

Synthesis gate: PASS numerically. The base case clears P/E 15 with a 34.3% cushion. The probability-weighted case clears with a 30.3% cushion. The company also has net cash on the official debt definition, strong TTM free cash flow, and a management team that has been returning capital while shifting toward asset-light growth. These are meaningful positives.

Gideon implication: WATCH-to-BUY, pending red-team and final synthesis. I would not call this an unconditional BUY from Appendix S alone because the moat work is YELLOW and because the central operating risk is not abstract. Mature HWC same-hotel RevPAR has been negative. HWC is still expanding aggressively. Closures are high enough to require interpretation. HWI is a lower-margin turnaround with seasonal losses. Governance and China ADR structure are watch items. Those facts do not break the price gate, but they reduce the confidence one should attach to the base case.

The positive trigger for moving from WATCH to BUY is evidence that HWC can protect owner economics while compounding M&F revenue: M&F revenue growth remains in or above the low-teens guide, same-hotel RevPAR stabilizes or turns positive, closure rates remain explained by healthy pruning rather than franchisee distress, and HWI stays profitable without requiring renewed lease-heavy expansion. The negative trigger for PASS is the opposite: M&F growth decelerates sharply, closures rise without a quality explanation, management keeps opening hotels into weak franchisee returns, or direct/member channel strength weakens under OTA or AI-agent intermediation.

The valuation is good enough that the work should proceed. It is not so cheap that the business-quality questions can be waved away.

13. Tie-Out Checks

- Reported-financial tie-out: PASS. TTM segment revenue of RMB21.077bn + RMB4.856bn - RMB0.025bn equals consolidated TTM revenue of RMB25.908bn. TTM segment adjusted EBITDA of RMB8.317bn + RMB0.518bn equals consolidated adjusted EBITDA of RMB8.835bn. FY2025 segment revenue of RMB20.535bn + RMB4.794bn - RMB0.022bn equals reported FY2025 revenue of RMB25.307bn. FY2025 segment adjusted EBITDA of RMB7.974bn + RMB0.499bn equals consolidated adjusted EBITDA of RMB8.473bn. Segment adjusted EBITDA is the official segment profit proxy; GAAP operating income is bridged separately.

- NI / shares = EPS: PASS. Bear RMB5.670bn / 329.1m ADSs = RMB17.23 per ADS. Base RMB8.705bn / 322.4m ADSs = RMB27.00 per ADS. Bull RMB11.257bn / 319.3m ADSs = RMB35.25 per ADS. Rounding differences are below 0.1%.

- Segment sum tie-out at horizon: PASS. Bear segment revenue of RMB31.492bn less RMB0.030bn eliminations equals RMB31.462bn. Base segment revenue of RMB37.600bn less RMB0.040bn eliminations equals RMB37.560bn. Bull segment revenue of RMB43.445bn less RMB0.045bn eliminations equals RMB43.400bn. Eliminations are named and below 0.2% of revenue.

- Product-to-segment rollup: PASS within disclosure limits. HWC does not disclose annual HWC-only product revenue by brand or by L&O/M&F; the HWC appendix explicitly uses total HWC segment revenue as the hard dollar base and flags the data gap. HWI similarly has only one complete dollar-disclosed line, segment revenue, and the HWI appendix uses a one-line segment rollup rather than fabricating brand or leased/franchise splits. The available segment rollups tie by construction.

- Weighted margin check: PASS within disclosure limits. HWC horizon proxy equals revenue multiplied by the case margin: RMB26.261bn x 36.0% = RMB9.454bn; RMB31.253bn x 41.5% = RMB12.970bn; RMB36.310bn x 44.0% = RMB15.976bn. HWI horizon proxy similarly ties: RMB5.231bn x 7.0% = RMB0.366bn; RMB6.347bn x 15.0% = RMB0.952bn; RMB7.135bn x 18.5% = RMB1.320bn.

- Share count path: PASS. Base starts at 327.1m diluted ADSs and explicitly subtracts buyback retirements while adding SBC issuance for five years, ending at 322.4m. Bear and bull ending counts are also explicit. The model compounds for exactly five years, not six.

- Growth plausibility: PASS. HWC base CAGR of 8.2% is below 1.2x the FY2023-FY2025 historical HWC CAGR of about 8.5% and below the recent Q1 HWC revenue growth rate. HWI base CAGR of 5.5% is well below the reopening-distorted FY2022-FY2025 CAGR of 14.3%, and the HWI appendix justifies why it is modestly above the cleaner FY2023-FY2025 growth rate: Q1 2026 revenue and RevPAR returned to positive growth, but lease pruning limits reported revenue.

- Historical arithmetic: PASS. HWC and HWI appendices use TTM bases and five-year CAGRs or step paths. The stated horizon values tie within rounding: HWC base RMB21.077bn compounded through +7%, +9%, +9%, +8%, +8% reaches RMB31.253bn; HWI base RMB4.856bn compounded at 5.5% for five years reaches RMB6.347bn. Bear and bull rows are within 1% of the stated CAGR math.

- Recency anchor: PASS. Base first-forward-year combined revenue is about RMB27.645bn, 6.7% above TTM revenue of RMB25.908bn, within the 10% recency threshold. The model does not start from a revenue level far above the most recent four quarters.

- P/E 15 gate arithmetic: PASS. Required EPS is US$43.73 / 15 = US$2.92, or RMB20.11 at RMB6.898/USD. Base EPS is US$3.91, so base EPS x 15 is US$58.71 and the cushion is 34.3%.

- Unit and currency consistency: PASS. The model uses ADS-equivalent share counts, EPS per ADS, and USD ADS price. RMB EPS is converted to USD EPS using the Q1 2026 RMB6.898/USD rate before comparing with the USD current price. No ordinary-share EPS is compared to an ADS price.

Tie-out summary: 11/11 checks passed. No failed checks. Data gaps remain around HWC brand/business-model dollar splits, HWI brand-level revenue, HWI leased/M&F split, HWI-specific capex, and franchisee ROI; those are disclosed limitations, not arithmetic failures.

Appendix CS - Compounder Score

H World Group - Compounder Score

Analysis date: 2026-05-28 Ticker: HTHT / NASDAQ Reporting currency: RMB; ADS valuation currency: USD Scoring status: Diagnostic only; this does not override the ER2 WATCH verdict.

1. Executive Verdict

The evidence supports H World as a real China hotel platform with strong HWC scale, an increasingly asset-light room base, substantial free cash flow, net cash on the official debt definition, and shareholder returns. The evidence does not support calling it a clean 20% annualized compounder at the local ER2 price anchor of US$43.73 per ADS. The base ER2 model clears the P/E <= 15 test, but the 20% case requires either a much lower entry price, a much higher terminal multiple, materially better growth than the base case, or a much more aggressive cash-return path.

Compounder Score: 61 / 100. Business Quality Score: 54 / 80. 20% Return Underwriting Score: 7 / 20. Score-implied classification: Reject under the 20% compounder scorer, while retaining ER2 WATCH as the separate research verdict.

The score is capped because formal ROIIC is not cleanly disclosed, historical ROIC is modest on the available invested-capital series, same-hotel HWC RevPAR remains negative, HWI is still a lower-margin turnaround, franchisee ROI is not disclosed, and the 20% return case does not work without terminal multiple expansion.

2. Data Source Map

Evidence area	Source used	Notes
Price / market cap	`raw\s_20260526\fmp_quote_htht_20260526.json`; `appendix_synthesis.md`	Local live pull showed US$43.73 per ADS and US$13.432bn market cap on 2026-05-26.
Income statement	`quant_foundation.md`; `data_package.md`; 2025 20-F / Q4 release as embedded in ER2 artifacts	FY2025 official override controls where FMP was stale.
Balance sheet	`data_package.md`; `quant_foundation.md`	Q1 2026 cash, debt, goodwill, intangibles, and lease liabilities.
Cash flow	`quant_foundation.md`; `data_package.md`	TTM CFO RMB8.032bn, capex RMB0.780bn, FCF RMB7.252bn.
Share count / SBC	`appendix_synthesis.md`; `data_package.md`	327.1m diluted ADS-equivalent base; SBC proxy about US$65m per year.
Segment data	`appendix_B_hwc_china.md`; `appendix_B_hwi_international.md`; `appendix_synthesis.md`	HWC and HWI use adjusted EBITDA as segment profit proxy.
Management / governance	`appendix_management.md`; `HTHT_gideon_lens.md`	Founder ownership, CFO transition, related-party and FPI watch items.
Moat / runway	`appendix_moat.md`; `appendix_B_hwc_china.md`; `appendix_B_hwi_international.md`	HWC moat plausible; HWI moat emerging; 2046 test yellow.
Valuation model	`appendix_synthesis.md`; `HTHT_gideon_lens.md`	Base FY+5 EPS US$3.91; P/E 15 value US$58.71.

No incremental live fetch was performed for this scorer because the local ER2 folder already contains recent live pulls, official-source reconciliations, and the material model evidence. The current-price anchor is therefore the local 2026-05-26 ER2 quote, not a fresh 2026-05-28 quote.

3. Key Financial and Quality Metrics

Metric	Value	Source / formula
TTM revenue	RMB25.908bn	QF TTM ended 2026-03-31.
TTM operating income	RMB7.225bn	QF TTM.
TTM NOPAT	RMB5.086bn	TTM operating income x 70.4%, using FY2025 tax rate of 29.6%.
TTM CFO	RMB8.032bn	QF.

Metric	Value	Source / formula
TTM FCF	RMB7.252bn	CFO less capex.
FY2025 ROIC	11.6%	Data package NOPAT / invested capital.
5-year median reported ROIC	0.3%	FY2021-FY2025 series: 0.3%, -0.5%, 9.3%, 7.9%, 11.6%.
Post-reopening median ROIC	9.3%	FY2023-FY2025 median.
TTM FCF conversion	143%	TTM FCF / TTM NOPAT.
FCF yield	7.8%	TTM FCF translated at RMB6.898/USD divided by US$13.432bn market cap.
EV / NOPAT	17.0x	Market cap less official net cash, divided by TTM NOPAT.
Net debt / adjusted EBITDA	-0.71x	Official net cash / TTM adjusted EBITDA.
Base FY+5 EPS	US$3.91	Appendix S.
Base P/E 15 value	US$58.71	US$3.91 x 15.

Reported ROIC is not high enough for a top compounder score. The strongest quality evidence is instead the direction of business mix: TTM HWC adjusted EBITDA margin of 39.5%, 96% of HWC hotels in M&F format, a heavily M&F pipeline, and strong cash conversion at the parent. The scorer does not award full ROIIC credit because recovery from COVID, lease accounting, lack of HWC-only product dollar splits, and missing franchisee ROI make incremental-return measurement too noisy.

4. Rubric Scorecard

Category	Score	Max	Rationale
Incremental returns on capital	14	25	Cash conversion is real and HWC unit economics appear strong, but reported ROIC is only low-double-digit in FY2025, 5-year median ROIC is weak, and ROIIC is not cleanly supported.
Reinvestment runway	16	20	13,215 hotels, 2,894 unopened hotels, and a 20,000-hotel / 2,000-city goal support runway; same-hotel RevPAR and saturation risk cap the score.
Durability of moat	10	15	HWC has scale, direct distribution, H Rewards, owner systems, and procurement; HWI is not proven and AI/OTA intermediation plus local oversupply remain material.
Accounting and financial quality	7	10	FCF supports earnings, Deloitte opinions are clean, and disclosures are better than many ADR peers; related-party, FPI, lease, and segment disclosure gaps remain.
Capital allocation discipline	7	10	Capex intensity has fallen, HWI is being pruned, and cash returns are meaningful; DH history, new CFO, modest buybacks, and convertible dilution cap the score.
Price and 20% return underwriting	7	20	Base case appears roughly low-teens IRR including dividends under a 15x exit; 20% needs a lower entry price or terminal multiple expansion.
Total	61	100	Good business, not yet a verified 20% compounder at the current price anchor.

5. ROIIC and Reinvestment Analysis

The evidence supports high cash generation after the asset-light shift, but not a clean, high-confidence ROIIC calculation. FY2025 ROIC was 11.6% on the data-package invested-capital method. FY2023-FY2025 NOPAT improved from RMB3.653bn to RMB4.801bn, while capex intensity fell to 3.3% of revenue and M&F revenue grew from RMB7.694bn to RMB11.696bn. That direction is attractive.

The problem is measurement quality. COVID recovery inflated incremental profit comparisons, HWI restructuring changed the asset base, H World does not disclose franchisee ROI, HWC-only annual M&F/L&O dollar splits are missing, and HWI-specific capex is unavailable. I therefore treat ROIIC as "positive but insufficiently evidenced," not as a >35% proven compounder metric.

6. Runway Analysis

The runway is real. HWC had 13,095 hotels and 1,278,531 rooms at Q1 2026, with 2,865 unopened HWC hotels and a pipeline that is overwhelmingly M&F. The company has repeated a 20,000-hotel / 2,000-city target, while FY2026 guidance still points to 2,200-2,300 gross openings. M&F revenue grew more than 20% year over year in each of the last four reported quarters.

The runway is not risk-free. Same-hotel HWC RevPAR was still down 2.3% year over year in Q1 2026 and down 2.5% in Q4 2025. Growth is coming more from openings, mix, and franchise-fee expansion than from proven mature-hotel demand. Without franchisee ROI disclosure, the scorer cannot verify that the pipeline is compounding owner capital as well as parent-company revenue.

7. Moat Analysis

The moat paragraph can be explained: H World has a dense China hotel network, a large H Rewards membership base, high direct-channel usage, standardized brands, owner-facing operating systems, procurement/revenue-management scale, and franchisee-funded growth. Those advantages make HWC more than a collection of hotels.

The moat is yellow, not green. Direct distribution is strong but not complete; 23% of legacy Huazhu room nights still went through intermediaries in 2025 and Trip.com related-party commission expense was RMB307m. AI travel agents and OTAs can pressure demand access. Local saturation can pressure RevPAR and franchisee cash-on-cash returns. HWI is a lower-margin international turnaround rather than a proven global moat.

8. Accounting and Capital Allocation Analysis

Accounting quality is adequate for this diagnostic score. TTM FCF of RMB7.252bn exceeds TTM NOPAT, and the ER2 package flags stale FMP annual income statement issues rather than smoothing them away. Deloitte issued clean opinions, and the 2025 20-F / releases control FY2025 data where FMP was stale.

The main watch items are not classic fraud flags; they are disclosure and structure issues. H World does not disclose brand-level revenue, HWC-only annual product dollar splits, complete HWI leased/M&F TTM splits, HWI-specific capex, or franchisee ROI. Related-party exposure to Trip.com, Cayman/ADR/FPI protections, no nominations committee, CFO transition, ESOP administration by the founder, operating lease liabilities, and convertible-note dilution all deserve continuing monitoring.

Capital allocation is good but not pristine. Capex fell from 13.1% of revenue in FY2021 to 3.3% in FY2025. FY2025 shareholder returns were about US$760m declared, mostly dividends. That helps the valuation case, but it is not a buyback-driven per-share compounding machine. The DH/HWI acquisition remains a yellow mark partly offset by recent restructuring discipline.

9. 20% Return Underwriting

At US$43.73, the base ER2 case reaches US$3.91 of FY+5 EPS. A 15x exit gives US$58.71, only 34.3% above the current price over five years before dividends. Including roughly US$10-US$12 of cumulative dividends still points to about a high-single-digit to low-teens annualized return, not 20%.

The 20% hurdle is demanding. A five-year 20% return requires ending value plus dividends of about US$108.8 per ADS. If dividends total US$11, the needed terminal price is about US$97.8. On base FY+5 EPS of US$3.91, that implies roughly 25x earnings, well above the conservative 15x exit and above the "no multiple expansion" standard for this scorer. Under a flat current multiple, base-case value creation may be interesting, but it does not clear a 20% underwriting bar.

Approximate 20% max buy price using the base 15x exit and US$11 cumulative dividends is about US$28.0 per ADS. This is a rough diagnostic value, not a trading instruction, because dividend path, FX, and final share count can move the figure.

10. Hard Veto Checklist

Veto	Status	Comment
ROIIC below cost of capital	Watch	Formal ROIIC is insufficiently evidenced; parent cash generation is strong.
ROIC artifact	Watch	Reported ROIC is not high; asset-light economics are partly obscured by leases and revenue accounting.
Growth requires external financing	Pass	Net cash and high FCF; lease obligations still matter.
Share count rises without value creation	Watch	Convertible conversion and SBC offset modest buybacks.
Large acquisitions without returns	Watch	No recent large M&A, but DH/HWI history is mixed.
FCF structurally lags earnings	Pass	FCF conversion is strong.
Structural impairment risk	Watch	China lodging cycle, saturation, ADR/RevPAR pressure, lease liabilities, ADR/FPI structure.
20% case requires multiple expansion	Fail	Base 20% case requires a much higher terminal multiple or much lower entry price.
Needs flawless execution	Watch	Base case needs HWC growth plus RevPAR stabilization and HWI profitability.
Cannot explain moat	Pass	HWC moat is explainable; HWI is not yet moat-equivalent.
Governance/accounting trust impaired	Watch	No hard accounting break; governance watch items remain.
Balance sheet wipeout risk	Pass	Official net cash; lease liabilities are material but not an equity wipeout under base evidence.

11. Final Decision

Compounder Score note: 61/100; H World is a good but not fully proven compounder, with strong HWC cash generation offset by modest reported ROIC, incomplete ROIIC evidence, HWI turnaround risk, and franchisee-return opacity.

Business Quality Score note: 54/80; the evidence supports HWC scale, asset-light runway, and real FCF, but same-hotel RevPAR pressure, HWI cyclicality, disclosure gaps, and governance/ADR watch items cap the quality score.

20% Return UW Score note: 7/20; the base case is attractive enough for ER2 WATCH but does not underwrite a 20% annualized return without terminal multiple expansion or a materially lower entry price.

Final diagnostic classification: Reject under the 20% compounder scorer. This is not an ER2 gate failure; it means the company does not currently meet the stricter dream-compounder underwriting standard.

Confidence rating: Medium. The local ER2 artifact base is strong, but franchisee ROI, HWC product-dollar splits, HWI mix/capex, and fresh price sensitivity remain open.

12. Machine-Readable JSON

See `compounder_score.json`.

Appendix CSA - Scoring Audit

H World Group Limited - Scoring Audit

Analysis date: 2026-05-28 Ticker: HTHT Audit scope: `appendix_compounder_score.md` and `compounder_score.json`, checked against the local ER2 evidence set in this folder.

1. Original vs Audited Scores

Item	Original	Audited	Notes
Business Quality Score / 80	54	44	Reduced mainly for missing calculated ROIIC, missing franchisee ROI, incomplete acquisition-inclusive return evidence, HWI proof gaps, and disclosure/governance caps.
Valuation / 20% Return UW Score / 20	7	5	Reduced because the 20% case requires major terminal multiple expansion and the reverse-DCF required NOPAT CAGR is not explicitly calculated.
Total Score / 100	61	49	The original conclusion was directionally skeptical, but several category scores still gave too much partial credit for unproven economics.
Classification	Reject under 20% scorer	Reject	Below 70, ROIIC is not calculated, and the 20% hurdle does not clear without multiple expansion.

Original reconstructed from the scorer: Business Quality 54/80, 20% Return Underwriting 7/20, total 61/100, base IRR about 10%, bear IRR about 2%, bull IRR about 16%, and maximum buy price for 20% IRR about US$28 per ADS. The original JSON and markdown agree on the headline score, classification, price anchor, and scenario IRRs.

2. Score Reductions and Reasons

Category	Original	Audited	Audit finding
Incremental returns on capital	14 / 25	10 / 25	FY2025 ROIC of 11.6% and post-reopening median ROIC around 9.3% support limited credit, but 3-year, 5-year, and acquisition-inclusive ROIIC are not calculated. CSA rule caps 1B at zero when ROIIC is not calculated.
Reinvestment runway	16 / 20	14 / 20	Hotel count, pipeline, and M&F growth are real, but part of the runway score leans on management's 20,000-hotel / 2,000-city target without disclosed franchisee ROI or brand-level revenue economics.
Durability of moat	10 / 15	8 / 15	HWC scale, H Rewards, and direct distribution are supported; pricing power is only moderate, HWI is not moat-equivalent, and same-hotel RevPAR remains negative.
Accounting and financial quality	7 / 10	6 / 10	TTM FCF is strong and official-source tie-outs are good. The reduction reflects SBC/dilution, large lease liabilities, related-party/FPI issues, and missing granular segment economics.
Capital allocation	7 / 10	6 / 10	Capex intensity and cash returns support credit. DH/HWI acquisition history, new CFO continuity, convertible dilution, and missing acquisition-inclusive ROIIC prevent a higher score.

Category	Original	Audited	Audit finding
Price and 20% underwriting	7 / 20	5 / 20	Base-case value plus dividends implies roughly low-teens IRR, not 20%; a 20% outcome needs about 25x base FY+5 EPS if cumulative dividends are near US$11.

This score is reduced because the original scorer correctly rejected the 20% case, but still awarded too much quality credit for inferred asset-light economics where the CSA rubric requires calculated ROIIC and evidence, not implication.

3. Unsupported Claims

- "ROIIC positive but insufficiently evidenced" is not enough to award ROIIC points. The evidence set reports null 3-year ROIIC, null 5-year ROIIC, and null acquisition-inclusive ROIIC in `compounder_score.json`.
- Franchisee economics are central to the HWC thesis, but no franchisee ROI dataset is disclosed. H Rewards, direct-channel share, M&F growth, and pipeline are useful proxies, not direct owner-return evidence.
- The long runway claim is partly supported by 13,215 hotels and 2,894 unopened hotels at Q1 2026, but the 20,000-hotel target is management ambition unless paired with independent market capacity and owner-return proof.
- HWI turnaround quality is only partly supported. FY2025 HWI adjusted EBITDA was positive, but Q1 2026 adjusted EBITDA was negative RMB56 million and the segment remains lower margin and seasonal.
- The reverse-DCF link is incomplete. The scorer states EV/NOPAT of about 17.0x and the 20% price math, but it does not explicitly calculate the required NOPAT CAGR needed to justify a 20% return from the current price without multiple expansion.

4. Calculation Errors

No major arithmetic break was found in the TTM construction, P/E 15 gate, segment tie-outs, share count bridge, or base value calculation. Key spot checks pass: TTM FCF equals RMB8.032 billion CFO less RMB0.780 billion capex, base FY+5 value equals US$3.91 EPS times 15, and US$58.71 is 34.3% above the US$43.73 price anchor.

The calculation breaks at the scoring layer, not the model layer. ROIIC is treated as directionally positive without a calculated numerator and denominator; acquisition-inclusive ROIIC is missing despite the DH/HWI history; and the 20% case is described correctly but still receives more underwriting credit than a hard CSA reading allows.

5. Missing Data

The most important missing evidence is franchisee ROI. Without it, H World can show parent-company M&F revenue growth while still leaving open whether owners are earning attractive cash-on-cash returns after fees, renovation cost, rent, labor, and local RevPAR pressure.

Other material gaps are HWC-only annual business-model revenue under the current taxonomy, brand-level revenue for key brands, complete HWI leased/M&F TTM split, HWI-specific capex, 3-year and 5-year ROIIC, acquisition-inclusive ROIIC, and an explicit reverse-DCF required NOPAT CAGR. The data package also flags stale FMP annual income statement data and stale FMP quarterly product segmentation, though the ER2 artifacts properly use official-source overrides.

6. Hard-Veto and Threshold Test Audit

The score-implied classification must be Reject. Total score is below 70, Business Quality is below 65/80, Valuation / 20% Underwriting is below 15/20, ROIIC plus runway is below 35/45, base IRR is below 20%, bear IRR is not clearly 8%-10%, and the 20% case requires terminal multiple expansion.

The hard veto is the 20% return case. At US$43.73, base FY+5 EPS of US$3.91 at 15x gives US$58.71. Adding roughly US$10-US$12 of cumulative dividends still does not approach the approximately US$108.8 ending value plus dividends needed for a 20% five-year result. The needed terminal price after US$11 of dividends is roughly US$97.8, or about 25x base FY+5 EPS.

7. Final 20% Hurdle Pass/Fail

Final 20% hurdle: Fail. H World may still be interesting under the separate ER2 WATCH logic because the base P/E 15 gate clears, but it is not a 20% compounder under this diagnostic rubric at the local US$43.73 price anchor.

6A is capped at 2 because the base-case IRR is roughly 10%-15%, not 20%. 6B is zero because a 20% base case requires major multiple expansion. 6D is zero because required NOPAT CAGR is not explicitly tied to the starting valuation.

8. Dream Business / Dream Investment Classification

Classification: neither. HWC is a good business with visible asset-light scale, but the consolidated company is not a clean dream business because reported ROIC is modest, ROIIC is unproven, HWI is lower quality, and franchisee ROI is opaque. It is not a dream investment because the 20% return case fails without a much lower price or a much higher terminal multiple.

The single biggest reason the company does not qualify is simple: the core HWC flywheel may be real, but the audit cannot verify high incremental returns to both parent and franchisees, and the current price does not underwrite 20% annualized returns on the documented base case.

9. Stage 7 Scorecard Notes

Compounder Score note: 49/100; H World has a real HWC platform, but missing ROIIC, missing franchisee ROI, HWI uncertainty, and a failed 20% price case keep it below compounder-grade.

Business Quality Score note: 44/80; HWC scale, FCF, and M&F growth are supported, but modest reported ROIC, negative same-hotel RevPAR, opaque owner economics, and governance/disclosure gaps cap quality.

20% Return UW Score note: 5/20; the base P/E 15 case may support WATCH, but 20% annualized returns require a materially lower entry price or major terminal multiple expansion.

10. Auditor JSON

See `compounder_score_audit.json`.

Appendix RT - Red Team

H World Group (HTHT) - Appendix RT: Red Team

Prepared: 2026-05-26. Role: Subagent RT. Scope: red-team appendix only. No new FMP dataset was extracted for this appendix, so no new data-warehouse save was triggered. Live web checks were limited to official company/peer releases and filings used as adversarial context.

Stage 0 - Time Anchor

- Today: 2026-05-26.
- Company fiscal year convention: fiscal year ends December 31.
- Most recently reported quarter: Q1 2026, period ended March 31, 2026, announced May 15, 2026.
- TTM anchor: Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026 -> TTM ending March 31, 2026.
- Forward horizon: TTM + 5 calendar years = March 31, 2031. Compounding horizon is exactly 5 calendar years from March 31, 2026 to March 31, 2031.

Data Source Rule - Included and Obeyed

Data Source Rule â€” OVERRIDES workspace default

The workspace may have a "Data Warehouse First" rule that says check a local `data warehouse/` cache before hitting FMP. **For the ER2 skill this rule is suspended.** Every Wave 1 subagent (D, A) and every Wave 2 subagent (B, M, W) that needs historicals, segment data, or transcript quotes must:

- Fetch live from FMP's `/stable/` endpoints. In Codex, use

`C:\Users\Admin\.codex\skills\fmp-financial-data\scripts\fmp_request.py`, which loads the key from `FMP_API_KEY` or its local `.secret.env`.

- Fetch live from the company's IR website (press releases, transcripts,

investor day decks) and SEC EDGAR (10-K, 10-Q, 8-K).

- Never substitute a `data warehouse/transcripts/{SYMBOL}/...`,

`data warehouse/financials/...`, `data warehouse/segments/...`, or any other cached file for a live fetch.

Why this rule exists

An earlier MSFT run hit a stale-anchor failure where a cached transcript named `MSFT_2025_Q2.md` (the Jan-2025 Q2-FY25 call, per FMP's fiscal-quarter naming convention) was consumed by Sub-Agent D as if it were the Jan-2026 Q2-FY26 call. The data package was off by a full fiscal year, and DR didn't catch it because DR's spot checks cross-referenced the same cache. The fix is structural: ER2 lives on live fetches only.

Who enforces it

The orchestrator must include this rule verbatim in every subagent dispatch block (Stage 3 and Stage 4 in `SKILL.md`) so no subagent silently reverts to cache reads from the workspace default. If a live fetch fails within the available runtime's web-fetch guards, the correct behaviour is to retry the identical call once, then flag the failure â€” NOT to fall back to the cache, NOT to substitute a different endpoint. In Codex, if the retry fails because of sandbox network blocking, rerun the same FMP helper command once with escalated network permission as described in `codex_runtime.md`.

1. Most Fragile Assumption

The most fragile assumption in Appendix S is the HWC base-case franchise-health path: HWC revenue grows from RMB21.077 billion to RMB31.253 billion by March 31, 2031, an 8.2% CAGR, while adjusted EBITDA margin expands from 39.5% to 41.5%. The specific segment line is Appendix B HWC Section 8, base case growth, where the model assumes HWC reaches roughly 19,000 hotels by 2031 and keeps the M&F fee engine in the low-teens early before fading to high-single-digit growth. That line is the thesis. HWI can move a few dollars of value per ADS, but HWC is the moat, the EPS engine, and the part of the model that has to be right.

The fragile part is not arithmetic. The arithmetic ties. The fragile part is the economic claim that H World can keep opening aggressively into a China lodging market where mature same-hotel RevPAR is still negative and franchisee ROI is not disclosed. In Q1 2026, HWC opened 537 hotels and closed 177. Management still points to 2,200-2,300 gross openings and 600-700 closures for FY2026. That can be healthy pruning, but it can also be the visible edge of a franchisee-return problem. HWC same-hotel RevPAR was down 2.3% year over year in Q1 2026, after a 2.5% decline in Q4 2025. Blended RevPAR was positive because the system mix is changing, ADR is being optimized, and new hotels are being added. The red-team question is harsher: if mature hotels are not earning better RevPAR, why should owners keep funding a rapid expansion at acceptable economics?

The model leans on M&F revenue growth to answer that. Group M&F revenue rose 20.3% year over year in Q1 2026 and 23.1% in FY2025. That is real, and it is the reason the thesis exists. But it is also a lagging indicator of pipeline conversion. A franchise system can show strong fee growth while the next generation of owners is already becoming less eager, while existing owners are accepting weaker returns, or while the company is spending more on field support, manager reimbursements, discounts, technology, and quality control to hold the system together. H World does not disclose a clean franchisee cash-on-cash return series, brand-level revenue, or HWC-only business-model revenue by city tier. The core underwriting variable is therefore inferred rather than directly observed.

Appendix S says a 200 bp reduction in HWC revenue CAGR cuts EPS by roughly 8.3%, from US$3.91 to US$3.59. That sensitivity is too polite because it changes one input at a time. In the real bear path, HWC revenue growth, HWC margin, closure ratio, fee yield, buyback capacity, and USD/RMB translation probably deteriorate together. If HWC's base 8.2% revenue CAGR becomes the HWC bear 4.5% CAGR and margin compresses toward 36.0%, the consolidated case moves toward bear EPS of US$2.50, which fails the P/E 15 gate at the current US$43.73 ADS price. This is the red-team break: the downside is correlated, not isolated.

2. Most Likely Optimistic Stage 5 Number

The Stage 5 number most likely to prove optimistic is base-case EPS of RMB27.00 per ADS, or US$3.91 at the Q1 2026 translation rate. The embedded operating number is combined segment adjusted EBITDA / operating proxy of RMB13.922 billion, of which HWC contributes RMB12.970 billion. If HWC disappoints, base EPS is not rescued by HWI, by share count, or by tax.

The EPS number looks conservative in one narrow sense: the share-count path assumes only modest buybacks and does not require a huge repurchase program. But EPS still depends on a large increase in net income from TTM RMB5.003 billion to RMB8.705 billion, a 74% increase over five years. The gap is mostly HWC operating leverage. HWI base contributes only RMB0.952 billion of segment proxy profit at the horizon. HWI can be helpful, but it cannot underwrite the P/E 15 pass.

The base GAAP operating margin of 32.1% also deserves suspicion. It is not absurd given the asset-light mix shift, but it starts from a favorable adjusted-EBITDA bridge and assumes adjusted-item drag falls from roughly 1.5% of revenue to 1.2% in base. H World is still running a physical service network with technology, field operations, training, manager support, quality audits, labor, lease exposures, and local compliance needs. Q1 2026 HWC SG&A rose 14.3% year over year. A larger franchise network is not free to supervise. If negative mature RevPAR forces more franchisee support, lower fees, or more brand investment, the 41.5% HWC margin and 32.1% consolidated GAAP operating margin are the first numbers I would cut.

The P/E cushion is therefore false comfort if read as a single-output answer. Base EPS x 15 gives US$58.71 per ADS, a 34.3% cushion to US$43.73. But the bear case already fails at US$37.46, and the bear case is not a collapse scenario. It is only a "good company, less attractive franchisee math" scenario. A Gideon BUY should not require heroic belief, but it does require confidence that the base case is genuinely more likely than the bear case. The red team is not ready to grant that confidence while mature same-hotel RevPAR is negative and franchisee ROI is opaque.

3. Strongest Bear Case

The strongest bear case is that H World is a very good China lodging operator reaching the point where unit growth is becoming a substitute for same-store demand, not a complement to it. The M&F engine still looks beautiful because the pipeline is large and the current conversion cycle is flowing through the income statement, but the owner-side economics are already weakening under local oversupply, softer corporate/leisure demand, and competitive site terms. Within two to four quarters, the first visible evidence would be HWC M&F revenue growth decelerating below the low-teens guide, same-hotel RevPAR staying negative, and closures remaining high relative to gross openings.

If that happens, the model's center changes. HWC is no longer an asset-light compounder with modest RevPAR stabilization; it is a mature China franchise system that must trade off growth, fee yield, closure quality, and brand standards. The stock can still be investable at the right price, but the multiple should be applied to bear-to-base earnings, not base-to-bull earnings. The short-seller version is simple: HTHT is being valued as if its China franchise flywheel is intact, while the mature-hotel data show the flywheel is being fed by new supply rather than rising property-level demand.

Peer context does not bail out the thesis. Atour's Q1 2026 release shows rapid revenue and manachised growth, but its same-hotel RevPAR for all hotels declined from RMB309.6 to RMB304.4 while total RevPAR rose from RMB304.4 to RMB311.6. Hilton's Q1 2026 transcript expected full-year China RevPAR to be flat. That combination does not prove H World is broken; it proves the China lodging backdrop is not obviously a rising tide. H World needs execution alpha, not market beta.

4. Cross-Examination Of Management Commentary

The first statement to cross-examine is the Q1 2026 "well on track" gross-opening language. On its face, this is positive: 537 HWC openings in Q1 put management on pace for the 2,200-2,300 gross-opening target. The skeptical read is that gross openings are the wrong proof point. FY2026 closure guidance is 600-700 hotels, and Q1 HWC closures were 177. A franchise system under pressure can keep gross openings high by accepting lower-quality sites, offering better owner economics, or replacing closed hotels with newer hotels while mature same-store returns weaken. What would show up first if this statement is overpromising is not revenue collapse. It would be lower M&F revenue growth per hotel, a rising closure-to-opening ratio, or more SG&A/support cost per system room.

The second statement is management's expectation for 2026 RevPAR to be "flat to slightly" improved. This is modest enough to sound safe, but the recent data still matter. Q4 2025 same-hotel RevPAR declined 2.5%; Q1 2026 same-hotel RevPAR declined 2.3%. Management can be directionally right on blended RevPAR while mature hotel economics remain under pressure. The red-team risk is that new hotel mix and revenue-management actions mask deterioration in the mature estate. If the commentary is wrong, H World will probably still report positive HWC revenue growth, but it will need continued net openings and mix to compensate for weak same-hotel performance.

The third statement is the HWI claim that the international segment can "remain profitable" after the FY2025 turnaround. The red team does not care much about HWI upside, but it cares about HWI distraction. Q4 2025 contributed 63% of TTM HWI adjusted EBITDA, while Q1 2026 was a RMB56 million adjusted EBITDA loss. HWI also remains heavily lease-exposed, with only 57 M&F hotels and 29 pipeline hotels at March 31, 2026. A low-growth, lease-heavy, seasonally volatile international portfolio can consume management time and disclosure oxygen without moving the valuation needle. If management is wrong, the first signal is full-year HWI adjusted EBITDA falling back toward zero or negative despite stable headline RevPAR.

5. Stage 5 Tie-Out Reverification

The Stage 5 recency anchor is mechanically correct: the model uses Q2 2025, Q3 2025, Q4 2025, and Q1 2026, and the first forward year is 6.7% above TTM revenue, inside the 10% guardrail. The problem is that the guardrail only catches a model that jumps too far from current revenue. It does not catch a model that starts from a TTM base whose mix is already shifting away from the weak parts of the business. Q1 2026 net income attributable declined 8.6% year over year despite revenue growth, and HWC net income declined year over year in the Q1 release. That is not thesis-breaking, but it is a reminder that revenue and M&F mix can improve while below-the-line or segment-specific profit does not move smoothly.

The share-count path is reasonable, but the recent convertible-note conversion is a watch item. The Q1 2026 release states that US$499.6 million of 2026 notes converted into 13 million ADSs at maturity. Appendix S avoids double-counting by starting with diluted ADS equivalents, which is the right modeling choice. But future reported diluted share count needs to prove that this treatment was clean. If the next filings show the post-conversion share base higher than the model's starting point, the EPS cushion narrows without any operating miss.

The model's product-growth hierarchy is also sensible but not ironclad. Group M&F growth above 20% is real. Yet HWC-only M&F dollars by brand and city tier are not fully disclosed, and the model cannot see whether growth is coming from the most

durable owner cohorts or from lower-return expansion markets. Competitor data reinforce the concern. Atour is still expanding quickly, with Q1 2026 net revenues up 47.5% and manachised hotel revenue up 51.9%, but its same-hotel RevPAR declined. Hilton described China RevPAR as modest and expected flat full-year China RevPAR. If even strong operators are seeing mature-hotel softness, H World needs more than hotel count growth to deserve a confident base-case margin expansion.

6. Signal That Forces Exit

The primary exit signal is HWC M&F revenue growth below 10% year over year for two consecutive reported quarters before HWC same-hotel RevPAR has turned positive. The time window is the next two to four quarters, starting with Q2 2026 and Q3 2026. The threshold is deliberately below management's FY2026 M&F revenue guide of 12%-16% and below the base case's early low-teens M&F path. One quarter can be noise. Two consecutive quarters below 10%, while mature same-hotel RevPAR remains negative, means the fee flywheel is no longer strong enough to offset weak owner economics.

The confirming signal is a closure-to-opening ratio above 35% for HWC across the same two-quarter window without a clear management explanation that closures are quality pruning. The model can tolerate closures in the 600-700 annual range against 2,200-2,300 gross openings because that is roughly 27%-32%. If closures drift above 35% while M&F growth decelerates, the owner proposition is deteriorating faster than the base case allows.

Why this forces an exit: HWC is 81% of FY2025 revenue, 94% of FY2025 segment adjusted EBITDA, and almost all of the thesis-critical profit. If HWC's M&F line decelerates below 10% before same-hotel RevPAR recovers, the base assumption of 8.2% HWC revenue CAGR and 41.5% HWC margin is no longer the right center of gravity. The investment case should be rewritten around the bear case, where EPS is US$2.50 and the P/E 15 gate fails.

7. Governance, China, ADR, And Lease Downside

Governance does not break the thesis today, but it raises the required margin of safety. H World is a Cayman Islands foreign private issuer with Nasdaq ADSs and HKEX ordinary shares. It uses FPI exemptions and does not plan to establish a nominations committee. Founder/cofounder ownership is a positive if interests stay aligned, but it also means minority holders are not in control. Trip.com is a principal shareholder and ordinary-course related party; the 2025 annual report discloses RMB307 million of commission fees paid to Trip.com, RMB19 million of lease expenses paid to Trip.com, and RMB116 million of technical service fees from Trip.com. These are not large enough to be a fraud flag, but they are relevant because direct distribution is central to the moat. If H World is still paying meaningful OTA commissions to a related party, the direct-channel moat should be monitored, not assumed.

The lease profile also makes "net cash" less comforting than it appears. Q1 2026 net cash was RMB6.3 billion on the official debt definition, but operating lease liabilities were RMB26.568 billion in the data package's latest balance-sheet snapshot. The 2025 annual report shows operating lease right-of-use assets and operating lease liabilities that remain large. A hotel company can be asset-light by room count while still carrying lease obligations in L&O and HWI. If RevPAR weakens, leases are not as flexible as franchise fees. This matters most in HWI, but it also matters for consolidated downside and cash-flow resilience.

The China/ADR layer is not a generic "China risk" footnote. It interacts directly with the P/E test. ADS investors own RMB earnings through a USD security. Appendix S translates base EPS at RMB6.898/USD; if the RMB weakens, USD EPS falls even if RMB operating results hit the model. FX alone may not break the gate, but FX plus lower HWC growth plus higher tax plus dilution can. The sensitivity table changes variables one at a time; public-market drawdowns usually do not.

8. Red-Team Verdict

The red team does not force an immediate PASS. HTHT is not a broken business, and the HWC asset-light engine is real. TTM free cash flow is strong, M&F revenue is growing quickly, management has cleaned up HWI rather than hiding it, and the base-case valuation is not obviously expensive if the operating model holds.

But the red team blocks an unconditional BUY today. The correct post-red-team stance is WATCH, with a path to BUY only if HWC franchise health proves itself in the next reported periods. The required proof is not another large hotel-count number. It is M&F revenue growth staying at or above the low-teens guide, same-hotel RevPAR stabilizing or turning positive, closures staying explainable, and HWI remaining profitable without renewed lease-heavy growth. If HWC M&F revenue growth falls below 10% for two consecutive quarters while same-hotel RevPAR remains negative, the thesis should move to PASS because the Stage 5 base case will have lost its most important support.

Source List

- H World Group Q1 2026 official release, May 15, 2026: https://ir.hworld.com/node/13486/pdf
- H World Group Q4/FY2025 official release, March 18, 2026: https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-fourth-quarter-and-full-year-2025
- H World Group 2025 annual report / Form 20-F mirror, April 24, 2026: https://www.hkexnews.hk/listedco/listconews/sehk/2026/0424/2026042403646.pdf
- Atour Lifestyle Holdings Q1 2026 official release, May 13, 2026: https://atour.gcs-web.com/static-files/3f474dc2-4882-4c35-8071-7eb42183d037
- Hilton Worldwide Q1 2026 earnings transcript, April 28, 2026: https://ir.hilton.com/~/media/Files/H/Hilton-Worldwide-IR-V3/quarterly-results/2026/hilton-q1-2026-earnings-transcript.pdf
- Local ER2 inputs: `appendix_synthesis.md`, `appendix_B_hwc_china.md`, `appendix_B_hwi_international.md`, `appendix_management.md`, `appendix_moat.md`, and `data_package.md` in `C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group`.

Appendix D - Data Package (Raw Historicals)

H World Group (HTHT) - ER2 Data Package

PATH_RECEIVED: C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group\data_package.md

Prepared: 2026-05-26. Currency: RMB unless stated otherwise. Units: RMB millions in detailed tables; RMB billions in compact historical tables. Financial ground truth: `C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group\quant_foundation.md`, which passed QFR with "QUANT FOUNDATION VERIFIED - CLEARED FOR WAVE 1". This file uses the quant foundation for all controlling financials and adds live-pulled management commentary, guidance, and context.

Stage 0 - Time Anchor

- Today: 2026-05-26.
- Company fiscal year convention: fiscal year ends December 31.
- Most recently reported quarter: Q1 2026, period ended March 31, 2026, announced May 15, 2026.
- TTM anchor: Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026 -> TTM ending March 31, 2026.
- Forward horizon: TTM + 5 calendar years = March 31, 2031. Compounding horizon is exactly 5 calendar years from March 31, 2026 to March 31, 2031.

Data Source Rule - Included Verbatim

Data Source Rule â€” OVERRIDES workspace default

The workspace may have a "Data Warehouse First" rule that says check a local `data warehouse/` cache before hitting FMP. **For the ER2 skill this rule is suspended.** Every Wave 1 subagent (D, A) and every Wave 2 subagent (B, M, W) that needs historicals, segment data, or transcript quotes must:

- Fetch live from FMP's `/stable/` endpoints. In Codex, use

`C:\Users\Admin\.codex\skills\fmp-financial-data\scripts\fmp_request.py`, which loads the key from `FMP_API_KEY` or its local `.secret.env`.

- Fetch live from the company's IR website (press releases, transcripts,

investor day decks) and SEC EDGAR (10-K, 10-Q, 8-K).

- Never substitute a `data warehouse/transcripts/{SYMBOL}/...`,

`data warehouse/financials/...`, `data warehouse/segments/...`, or any other cached file for a live fetch.

Why this rule exists

An earlier MSFT run hit a stale-anchor failure where a cached transcript named `MSFT_2025_Q2.md` (the Jan-2025 Q2-FY25 call, per FMP's fiscal-quarter naming convention) was consumed by Sub-Agent D as if it were the Jan-2026 Q2-FY26 call. The data package was off by a full fiscal year, and DR didn't catch it because DR's spot checks cross-referenced the same cache. The fix is structural: ER2 lives on live fetches only.

Who enforces it

The orchestrator must include this rule verbatim in every subagent dispatch block (Stage 3 and Stage 4 in `SKILL.md`) so no subagent silently reverts to cache reads from the workspace default. If a live fetch fails within the available runtime's web-fetch guards, the correct behaviour is to retry the identical call once, then flag the failure â€” NOT to fall back to the cache, NOT to substitute a different endpoint. In Codex, if the retry fails because of sandbox network blocking, rerun the same FMP helper

command once with escalated network permission as described in `codex_runtime.md`.

Source Index And Raw Pulls

Live FMP helper used: `C:\Users\Admin\.codex\skills\fmp-financial-data\scripts\fmp_request.py`. Raw D-pass files were saved under `C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group\raw\d_20260526\`. DR live spot-check pulls were saved under `C:\Users\Admin\OneDrive\GPT\ER 2.0\H World Group\raw\dr_20260526\`. Save-only warehouse copies were made without overwriting under `C:\Users\Admin\OneDrive\Cowork\Investing\data warehouse\fmp\HTHT\2026-05-26_er2_d\` and `C:\Users\Admin\OneDrive\Cowork\Investing\data warehouse\fmp\HTHT\2026-05-26_er2_dr\`.

Source	URL or endpoint	Use in this package
Q1 2026 IR release	https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-first-quarter-2026-unaudited	Latest quarter, HWC/HWI relabel, Q1 segment tables, balance sheet, 2026 notes conversion, director resignation
Q4/FY 2025 IR release	https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-fourth-quarter-and-full-year-2025	FY2025 official financials, 2026 guidance, CFO transition, dividend, Q4 trend
Q3 2025 IR release	https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-third-quarter-2025-unaudited	Q3 trend, guidance beat, operating metrics
Q2/H1 2025 IR release	https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-second-quarter-and-interim-2025	Q2 trend, interim dividend, HWC/HWI operating metrics
2025 Form 20-F	https://ir.hworld.com/static-files/9826fdb1-3f9d-41a9-8387-e01244c8275f	Audited annual statements, segment note, geographic revenue, tax, leases, dividends
Q4/FY 2022 IR release	https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-fourth-quarter-and-full-year-2022	2021-2022 segment history and COVID-era baseline
FMP statements	`income-statement`, `balance-sheet-statement`, `cash-flow-statement`, `ratios`, `key-metrics`, `financial-growth`, `enterprise-values`	Live annual and quarterly historicals; official override used where FMP FY2025 is stale
FMP product segmentation	`revenue-product-segmentation?symbol=HTHT&period=annual/quarter`	Annual business-model and product-fee line items; quarterly endpoint returned stale 2022-only data
FMP transcripts	`earning-call-transcript?symbol=HTHT&year=2025&quarter=1/2/3/4` and `earning-call-transcript-dates`	Management commentary for Q1-Q4 2025; Q1 2026 attempt returned an empty result

D-Pass Self Verification

Check	Result
Most recent quarter largest segment growth	PASS. Q1 2026 IR release states HWC revenue was RMB5.0 billion and increased 12.4% year over year. This appears in the live IR page and ties QF.
Management commentary quote	PASS with caveat. Q1 2026 FMP transcript was unavailable, but the live Q1 2026 IR release contains CEO commentary and the exact target language "well on track" for the 2,200-2,300 gross-opening goal.
FY-1 revenue FMP annual tie	FAIL then fixed by official override. FMP annual income statement revenue for FY2025 was RMB24.618 billion, versus official FY2025 revenue of RMB25.307 billion. FMP annual product segmentation ties RMB25.307 billion. Official 20-F/release controls all FY2025 consolidated values.

1. Reporting Structure And Taxonomy

Current reportable segments are HWC and HWI. HWC means H World China and covers all hotels operating inside China. HWI means H World International and covers all hotel operations outside China. Before Q1 2026 the comparable names were Legacy-Huazhu and Legacy-DH. The Q1 2026 release states that beginning in Q1 2026 H World relabeled its operating segments to HWC/HWI and made a minor realignment, with prior-period comparative figures updated to conform to the current presentation. For modeling, use the QF segment base: TTM HWC revenue RMB21.077 billion, TTM HWI revenue RMB4.856 billion, eliminations RMB(0.025) billion, consolidated TTM revenue RMB25.908 billion.

FY2025 segment mix:

FY2025 segment	Revenue	% of consolidated revenue	Adjusted EBITDA	Segment margin	Source
HWC / Legacy-Huazhu	RMB20.535bn	81.1%	RMB7.974bn	38.8%	2025 20-F segment note and Q4/FY2025 release
HWI / Legacy-DH	RMB4.794bn	18.9%	RMB0.499bn	10.4%	2025 20-F segment note and Q4/FY2025 release
Elimination	RMB(0.022)bn	-0.1%	RMB0.000bn	n/a	2025 20-F segment note
Consolidated	RMB25.307bn	100.0%	RMB8.473bn	33.5%	2025 20-F and Q4/FY2025 release

Taxonomy flags:

Flag	Detail	Modeling action
Segment relabel	Q1 2026 changed labels from Legacy-Huazhu/Legacy-DH to HWC/HWI.	Treat HWC as the successor to Legacy-Huazhu and HWI as successor to Legacy-DH, but use Q1 2026 restated Q4/Q1 figures for current-taxonomy quarters.
Minor realignment	Q1 2026 release says comparative figures were updated to conform to the current presentation.	For TTM, use Q2/Q3 2025 Legacy labels plus Q4/Q1 current-taxonomy figures exactly as QF did. Do not reallocate product lines manually.
Adjusted EBITDA definition	2025 20-F says adjusted EBITDA was redefined starting in 2024 and 2023 was recast.	Use adjusted EBITDA only as the segment profit measure; do not treat it as GAAP operating income.
Product vs segment	H World discloses product/business-model revenue as L&O, M&F, and other revenue; segments are geographic/operating group.	Downstream B appendices should not infer HWC/HWI from L&O/M&F unless the release discloses segment rows.

Geographic breakdown from the 2025 20-F:

Geography	FY2023 revenue	FY2024 revenue	FY2025 revenue	Comment
PRC	RMB17.393bn	RMB18.984bn	RMB20.499bn	Core HWC market; 81.0% of FY2025 total.
Germany	RMB3.324bn	RMB3.544bn	RMB3.400bn	Main HWI country exposure through Legacy-DH.
All others	RMB1.165bn	RMB1.363bn	RMB1.408bn	Other international markets; no country other than PRC/Germany exceeded 10% of revenue.
Total	RMB21.882bn	RMB23.891bn	RMB25.307bn	Ties 20-F total revenue.

2. Consolidated Historicals - 5 Years

Use official FY2025 values from the 2025 20-F/Q4 release. Use live FMP annual rows for FY2021-FY2024 where they tie official annual reporting closely. EPS is per ADS, using H World's ADS ratio of 1 ADS = 10 ordinary shares.

Metric	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue	12.787	13.862	21.882	23.891	25.307	FMP annual; FY2025 official override
Operating income	0.164	-0.294	4.714	5.200	6.819	FMP annual; FY2025 official override
Operating margin	1.3%	-2.1%	21.5%	21.8%	26.9%	Calculated
Net income attributable	-0.465	-1.821	4.085	3.048	5.080	FMP annual; FY2025 official override
Diluted EPS / ADS	-1.50	-5.85	12.50	9.60	15.97	FMP annual; FY2025 official Q4/FY2025 release
Diluted ADS count	311.4m	311.1m	335.1m	327.8m	324.7m	FMP annual; FY2025 official diluted weighted average ordinary shares / 10
Capex	1.675	1.053	0.901	0.896	0.838	FMP cash flow; FY2025 official override
FCF	-0.333	0.511	6.773	6.729	7.541	CFO minus capex
ROIC	0.3%	-0.5%	9.3%	7.9%	11.6%	Calculated below

ROIC calculation: NOPAT / invested capital. Invested capital is from live FMP key metrics. For FY2023-FY2025, tax rates use official income tax expense divided by income before taxes. For FY2021-FY2022, operating conditions were COVID-distorted and pretax income was negative, so a 25% normalized PRC statutory tax rate is used only to avoid nonsensical negative tax-rate math.

FY2025 diluted EPS/ADS is the official GAAP diluted EPS per ADS from the Q4/FY2025 release. The diluted ADS count is the official weighted-average ordinary share count divided by ten, not a back-solve from net income, because the company's disclosed diluted EPS bridge controls the per-share line.

Year	Operating income	Tax rate used	NOPAT	Invested capital	ROIC
FY2021	0.164	25.0% normalized	0.123	44.230	0.3%
FY2022	-0.294	25.0% normalized	-0.221	44.505	-0.5%
FY2023	4.714	22.5% actual	3.653	39.350	9.3%
FY2024	5.200	34.6% actual	3.401	43.011	7.9%
FY2025	6.819	29.6% actual	4.801	41.397	11.6%

TTM ending March 31, 2026 from QF: revenue RMB25.908 billion, income from operations RMB7.225 billion, net income attributable RMB5.003 billion, adjusted EBITDA RMB8.835 billion, CFO RMB8.032 billion, capex RMB0.780 billion, FCF RMB7.252 billion, and calculated diluted EPS/ADS RMB15.30.

3. Segment Historicals - 5 Years

Historical segment data is available in old labels for FY2021-FY2025. Use HWC/HWI labels only for current-period discussion after the Q1 2026 relabel; for annual history this table preserves the disclosure names.

HWC / Legacy-Huazhu

HWC / Legacy-Huazhu	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue	11.247	10.655	17.444	19.029	20.535	2022 release for 2021-2022; 2025 20-F for 2023-2025
YoY	n/a	-5.3%	63.7%	9.1%	7.9%	Calculated
Adjusted EBITDA	2.032	0.728	6.185	6.974	7.974	2022 release; 2025 20-F
Adjusted EBITDA margin	18.1%	6.8%	35.5%	36.6%	38.8%	Calculated

HWC read-through: COVID-era profitability compressed in FY2021-FY2022, but the post-reopening segment has scaled sharply. The revenue base grew from RMB17.444 billion in FY2023 to RMB20.535 billion in FY2025 while adjusted EBITDA margin rose from 35.5% to 38.8%. The current modeling base should not start from the COVID trough; use TTM HWC revenue RMB21.077 billion and adjusted EBITDA RMB8.317 billion from QF.

HWI / Legacy-DH

HWI / Legacy-DH	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue	1.538	3.207	4.465	4.881	4.794	2022 release for 2021-2022; 2025 20-F for 2023-2025
YoY	n/a	108.5%	39.2%	9.3%	-1.8%	Calculated and Q4/FY2025 release
Adjusted EBITDA	-0.461	-0.118	0.084	-0.154	0.499	2022 release; 2025 20-F
Adjusted EBITDA margin	-30.0%	-3.7%	1.9%	-3.2%	10.4%	Calculated

HWI read-through: HWI is still much smaller and more volatile than HWC, but FY2025 is the first clear profit-recovery year in this five-year table. The full-year adjusted EBITDA improvement from a RMB154 million loss in FY2024 to RMB499 million positive in FY2025 is a major swing factor. Q1 2026, however, seasonally reverted to an adjusted EBITDA loss of RMB56 million, so B/M/W should not capitalize FY2025's Q4-heavy profitability without stress testing seasonality.

4. Product And Sub-Segment Historicals

The finest annual dollar disclosure is not by brand; it is by business model and revenue component. H World does not disclose separate annual revenue dollars for HanTing, JI, Orange, Intercity, Steigenberger, or other individual brands. Those brand counts and pipeline counts are disclosed, but brand revenue is not. Do not fabricate brand-level revenue.

Dollar-Disclosed Business-Model Revenue

Segment context	Product / revenue line	What it is	FY2023	FY2024	FY2025	Source
Group	Leased and owned hotels	Revenue from hotels directly operated or leased by H World	13.796	13.843	12.943	FMP annual product segmentation and 2025 20-F
Group	Manachised and franchised hotels	Franchise, management, reservation, and related fees	7.694	9.498	11.696	FMP annual product segmentation and 2025 20-F
Group	Other revenue	Technical services, procurement platform, Huazhu Mall, and other HWI revenue	0.392	0.550	0.668	FMP annual product segmentation and 2025 20-F
L&O component	Room revenues	Room revenue inside leased and owned hotels	11.789	11.806	11.002	FMP annual product segmentation
L&O component	Food and beverage revenues	F&B inside leased and owned hotels	1.333	1.342	1.319	FMP annual product segmentation
L&O component	Other L&O revenues	Other direct hotel revenues	0.674	0.695	0.622	FMP annual product segmentation
M&F component	Initial one-time franchise fee	Initial franchise fees	0.114	0.137	0.181	FMP annual product segmentation
M&F component	Ongoing management and service fees	Recurring management/service fees	2.785	3.306	3.957	FMP annual product segmentation
M&F component	CRS/system maintenance fees	Reservation system and support fees	2.628	3.318	4.301	FMP annual product segmentation
M&F component	Hotel manager fee reimbursements	Franchisee reimbursements for hotel manager fees	1.400	1.752	2.179	FMP annual product segmentation
M&F component	Other fees	Other franchise-related fees	0.767	0.985	1.078	FMP annual product segmentation

No back-solved dollar figures are used in this table. Internal tie-out for FY2025: L&O RMB12.943bn + M&F RMB11.696bn + other RMB0.668bn = total revenue RMB25.307bn.

Growth-Only Or Operating-Count Disclosures

Segment	Product / KPI	Disclosure method	Latest values	Source
HWC	HanTing, NiHao, Hi Inn, Ibis	Hotel and room counts, not revenue dollars	Q1 2026 economy hotels: 6,132 hotels, 505,058 rooms, 1,219 unopened pipeline	Q1 2026 IR release
HWC	JI, Orange, Starway, Ibis Styles	Hotel and room counts, not revenue dollars	Q1 2026 midscale hotels: 5,632 hotels, 605,638 rooms, 1,071 unopened pipeline	Q1 2026 IR release
HWC/HWI	Crystal Orange, Intercity, Grand JI, CitiGO, Manxin, Madison, Mercure, Novotel, MAXX	Hotel and room counts, not revenue dollars	Q1 2026 upper-midscale hotels: 1,263 hotels, 164,400 rooms, 460 unopened pipeline	Q1 2026 IR release
HWI/HWC	Blossom House, Joya, Grand Mercure, Steigenberger, Jaz, Song	Hotel and room counts, not revenue dollars	Q1 2026 upscale/luxury hotels: 183 hotels, 26,997 rooms, 139 unopened pipeline	Q1 2026 IR release
HWC	Same-hotel RevPAR	YoY percentage and RMB operating metric only	Q1 2026 same-hotel RevPAR RMB208, down 2.3% YoY	Q1 2026 IR release
HWI	Blended RevPAR	Constant USD/EUR operating metric only	Q1 2026 HWI blended RevPAR USD80, up 5.0% YoY	Q1 2026 IR release

5. Most Recent Quarterly Trend - Last 4 Quarters

Company FY ends December 31. Most recently completed fiscal quarter at time of writing: FY2026 Q1, covering January 1-March 31, 2026, reported on May 15, 2026 via https://ir.hworld.com/news-releases/news-release-details/h-world-group-limited-reports-first-quarter-2026-unaudited.

Segment Revenue And Profit

Quarter	Segment	Revenue	YoY revenue growth	Adjusted EBITDA	Adjusted EBITDA margin	Source
Q2 2025	HWC / Legacy-Huazhu	5.107	5.7%	2.090	40.9%	Q2/H1 2025 IR release
Q2 2025	HWI / Legacy-DH	1.324	0.1%	0.180	13.6%	Q2/H1 2025 IR release
Q3 2025	HWC / Legacy-Huazhu	5.722	10.8%	2.446	42.7%	Q3 2025 IR release
Q3 2025	HWI / Legacy-DH	1.245	-3.0%	0.067	5.4%	Q3 2025 IR release
Q4 2025	HWC, restated current framework	5.217	9.1%	1.867	35.8%	Q1 2026 comparative segment table / Q4 release
Q4 2025	HWI, restated current framework	1.315	5.3%	0.327	24.9%	Q1 2026 comparative segment table / Q4 release
Q1 2026	HWC	5.031	12.4%	1.914	38.0%	Q1 2026 IR release
Q1 2026	HWI	0.972	5.1%	-0.056	-5.8%	Q1 2026 IR release

Business-Model Revenue

Quarter	L&O revenue	L&O YoY	M&F revenue	M&F YoY	Other revenue	Total revenue	Source
Q2 2025	3.401	-7.6%	2.865	22.8%	0.160	6.426	Q2/H1 2025 IR release
Q3 2025	3.487	-5.5%	3.309	27.2%	0.165	6.961	Q3 2025 IR release
Q4 2025	3.266	-3.2%	3.023	21.0%	0.236	6.525	Q4/FY2025 IR release
Q1 2026	2.750	-1.4%	3.006	20.3%	0.240	5.996	Q1 2026 IR release

Operating Metrics

Quarter	HWC blended RevPAR	HWC same-hotel RevPAR YoY	HWI blended RevPAR	Comment	Source
Q2 2025	RMB235	-7.9%	EUR88	China RevPAR still down YoY; HWI RevPAR up 8.1% YoY	Q2/H1 2025 IR release
Q3 2025	RMB256	-4.7%	EUR87	HWC blended RevPAR stable YoY; HWI up 6.4% YoY	Q3 2025 IR release
Q4 2025	RMB226	-2.5%	EUR87	HWC blended RevPAR returned to positive YoY growth	Q4/FY2025 IR release
Q1 2026	RMB214	-2.3%	USD80	HWC blended RevPAR up 3.0%; HWI blended RevPAR up 5.0% in constant USD	Q1 2026 IR release

Recency read-through: the franchise-fee engine is the cleaner growth line. L&O revenue is still shrinking as the company exits lower-return owned/leased exposure, while M&F revenue grew 20%+ in each of the last four reported quarters. HWC RevPAR remains mixed: blended RevPAR improved, but same-hotel RevPAR is still negative year over year. That distinction is important for B and S: growth is coming from network expansion, mix, and franchise revenue more than from mature-hotel same-store demand.

6. Management Commentary On Forward Growth

The last four available FMP transcripts are Q1-Q4 2025. FMP transcript dates list no Q1 2026 transcript; the direct Q1 2026 transcript attempt returned an empty array. Therefore Q1 2026 management commentary is taken from the live IR press release, not from a transcript.

HWC / China Commentary

Date / period	Speaker	Verbatim quote snippet	Topic	Interpretation
2026-05-15 / Q1 2026 release	Jin Hui, CEO	"well on track"	2026 gross openings	Management still points to the 2,200-2,300 gross-opening range after opening 537 hotels in China in Q1.

Date / period	Speaker	Verbatim quote snippet	Topic	Interpretation
2026-05-15 / Q1 2026 release	Jin Hui, CEO	"technology and AI development"	Operating capability	AI is framed as operational enablement, not a separate revenue line. Do not model standalone AI revenue.
2026-03-18 / Q4 2025 call	Hui Chen, CFO	"2% to 6%"	FY2026 group revenue guidance	Base-case 2026 consolidated revenue should not assume a major acceleration from guidance without evidence.
2026-03-18 / Q4 2025 call	Hui Chen, CFO	"12% to 16%"	FY2026 M&F revenue guidance	M&F is the growth engine and should carry a higher growth rate than consolidated revenue.
2026-03-18 / Q4 2025 call	Hui Jin, CEO	"flat to slightly"	2026 RevPAR	Management's RevPAR expectation is modest; model upside from openings/mix rather than same-store price.
2025-11-17 / Q3 2025 call	Hui Jin, CEO	"20,000 hotels in 2,000 cities"	Long-term network goal	This is the strategic scale target. The current Q1 2026 system has 13,215 hotels, leaving runway but requiring sustained net openings.
2025-08-20 / Q2 2025 call	Hui Jin, CEO	"20,000 hotels in 2000 cities"	Midterm network target	Same target was repeated before the FY2025 exit rate, supporting continuity of strategy.
2025-08-20 / Q2 2025 call	Hui Jin, CEO	"macro uncertainties"	Demand caution	Management explicitly acknowledged near-term pressure from supply, corporate travel, and consumer spending.

HWC interpretation: management is trying to compound through high-quality network growth in economy, midscale, and upper-midscale markets, while accepting that mature-hotel RevPAR is not yet a strong tailwind. Franchise revenue is more important than L&O hotel revenue. Downstream models should separate unit additions, mature RevPAR, fee take-rate, and mix.

HWI / International Commentary

Date / period	Speaker	Verbatim quote snippet	Topic	Interpretation
2026-05-15 / Q1 2026 release	Jin Hui, CEO	"new HWC and HWI disclosure framework"	Taxonomy	HWI includes all hotels outside China; use this label after Q1 2026.
2026-03-18 / Q4 2025 call	Jihong He, CSO	"successful business turnaround"	HWI profitability	FY2025 HWI positive adjusted EBITDA is management's key international proof point.
2026-03-18 / Q4 2025 call	Jihong He, CSO	"remain profitable"	HWI outlook	Management expects HWI to stay profitable, but Q1 2026 seasonality was negative.
2026-03-18 / Q4 2025 call	Jihong He, CSO	"portfolio restructuring"	HWI asset structure	The turnaround depends on lease renegotiation, loss-making exits, and asset-light conversion.
2025-11-17 / Q3 2025 call	Jin Hui, CEO	"developing our asset-light portfolio"	HWI model	HWI is not simply a Europe RevPAR bet; asset mix is the main margin lever.
2025-08-20 / Q2 2025 call	Jin Hui, CEO	"cost reduction and efficiency improvement"	HWI operations	Margin improvement is driven by lower costs and better operations, not high revenue growth alone.

HWI interpretation: HWI is still a small segment with lower structural margin than HWC. The FY2025 turnaround is material but not yet a through-cycle proof. The model should include a bear case where HWI remains low-single-digit to low-teens EBITDA margin if Q4 2025's strong margin was unusually favorable.

Capital Allocation And Finance Commentary

Date / period	Speaker	Verbatim quote snippet	Topic	Interpretation
2026-03-18 / Q4 2025 call	Hui Chen, CFO	"continuously returning to our shareholders"	Capital returns	The $2bn shareholder return plan is active and already more than 75% completed by FY2025.
2026-03-18 / Q4 2025 release	Company	"US$1.30 per ADS"	Dividend	H2 2025 cash dividend was approximately US$400m, payable in May 2026.
2026-03-18 / Q4 2025 release	Company	"Arthur Yu"	CFO transition	CFO changed effective March 18, 2026; monitor capital-return continuity under new CFO.

7. Capital Allocation History - 5 Years

FMP cash flow is used for FY2021-FY2024. FY2025 uses the official release for CFO, capex, dividend paid, and share repurchase where available. R&D is not separately disclosed as an income-statement line in FMP or the 20-F; technology investment is discussed operationally but not broken out as R&D expense.

Year	Capex	Capex / revenue	R&D	R&D / revenue	Buybacks	Dividends paid	M&A / acquisitions net	Source
FY2021	1.675	13.1%	0.000	0.0%	0.000	0.000	0.742	FMP cash flow
FY2022	1.053	7.6%	0.000	0.0%	0.334	0.416	0.057	FMP cash flow
FY2023	0.901	4.1%	0.000	0.0%	0.848	0.000	0.000	FMP cash flow
FY2024	0.896	3.7%	0.000	0.0%	1.172	3.480	0.000	FMP cash flow and Q4/FY2025 comparative release
FY2025	0.838	3.3%	0.000	0.0%	0.783	3.907	0.000	Q4/FY2025 release cash-flow table

Capital allocation read-through: capex intensity has fallen sharply from COVID/reopening-era levels to about 3%-4% of revenue, consistent with the asset-light shift. Cash returns are now large relative to earnings: the Q4/FY2025 release says FY2025 declared shareholder returns were about US$760 million, including US$650 million of cash dividends and about US$110 million of share repurchases. This is supportive for per-share value if the core franchise remains durable, but it also means the model should track dilution from convertible-note conversion and the sustainability of high payout.

8. Balance Sheet Snapshot - Latest Quarter

Latest balance sheet date: March 31, 2026.

Item	RMB bn	Source
Cash and cash equivalents	12.360	Q1 2026 IR release
Restricted cash	0.141	Q1 2026 IR release
Short-term investments	3.310	Q1 2026 IR release
Total debt, current + long-term	6.187	Q1 2026 balance sheet; release rounds to RMB6.2bn
Net cash, cash + restricted cash less debt	6.314	Calculated; release rounds to RMB6.3bn
Net debt / adjusted EBITDA	-0.71x	Net cash / TTM adjusted EBITDA RMB8.835bn
Goodwill	5.339	Q1 2026 balance sheet
Intangible assets	4.895	Q1 2026 balance sheet
Goodwill + intangibles	10.234	Calculated
Total H World shareholders' equity	10.947	Q1 2026 balance sheet
Tangible book value, shareholders' equity less goodwill/intangibles	0.713	Calculated

Balance sheet read-through: the company has net cash on the official debt definition, but operating lease liabilities are large because this is a hotel operator with leased properties. Q1 2026 operating lease liabilities were RMB26.568 billion current plus non-current. Treat lease obligations in moat and downside work; do not rely solely on net cash.

9. Recent Corporate Actions - Last 12 Months

Date	Action	Detail	Source
2026-05-15	Director resignation	Jie Zheng resigned as executive director effective May 15, 2026 and agreed to continue as senior advisor.	Q1 2026 IR release
2026-05-01	Convertible notes maturity/conversion	US$499.6m of 2026 Notes converted into 13m ADSs; remaining US$0.4m principal redeemed.	Q1 2026 IR release
2026-03-18	CFO transition	Chen Hui stepped down as CFO; Arthur Yu appointed CFO effective March 18, 2026.	Q4/FY2025 IR release
2026-03-18	H2 2025 dividend declared	Approximately US$400m dividend, US$0.130 per ordinary share or US$1.30 per ADS.	Q4/FY2025 IR release and 2025 20-F
2025-08-20	H1 2025 dividend declared	Approximately US$250m interim dividend, US$0.081 per ordinary share or US$0.81 per ADS.	Q2/H1 2025 IR release
FY2025	Share repurchases	FY2025 total shareholder return was about US$760m, including about US$110m of share repurchases.	Q4/FY2025 IR release
2025-2026	HWI asset-light restructuring	Management described lease renegotiations, exits of loss-making properties, and conversion of leased hotels to asset-light structures.	Q4 2025 transcript and Q1 2025 transcript

No large M&A transaction, major legal settlement, or material regulatory action was found in the live-pulled official sources for the last 12 months. The main corporate events are capital return, CFO transition, convertible-note conversion, and HWI restructuring.

10. Open Data Gaps And Use Restrictions

Gap	Treatment
Q1 2026 FMP transcript unavailable	FMP transcript dates list Q4 2025 as latest; direct Q1 2026 transcript request returned an empty result. Q1 2026 management commentary in this package comes from the official IR press release only.
FY2025 FMP annual income statement stale	FMP annual income statement revenue was RMB24.618bn versus official RMB25.307bn. Official 20-F and release control. FMP annual product segmentation ties official revenue and is used for component disclosure.
FMP quarterly product segmentation stale	The live FMP quarterly product endpoint returned only 2022 Q3/Q4 records. Latest quarterly business-model revenue comes from official IR releases, not FMP quarterly product data.
Brand-level revenue not disclosed	HanTing, JI, Orange, Intercity, Steigenberger, and other brand revenue dollars are not separately disclosed. Use hotel counts, room counts, RevPAR, and pipeline only.
Current-taxonomy segment history before Q1 2026	HWC/HWI labels began in Q1 2026 with minor realignment. Annual history is available as Legacy-Huazhu/Legacy-DH; Q1 2026 provides restated Q4/Q1 comparative rows but not a full five-year HWC/HWI restatement.
R&D not separately disclosed	H World discusses technology and AI development, but R&D expense is not separately disclosed as a line item in the FMP or 20-F income statements. Do not model a separate R&D program unless later filings disclose it.
Official HTML raw copies	Live official sources were fetched and cited through Codex web. D-pass local shell attempts to save H World IR HTML pages timed out; DR subsequently saved the live SEC 2025 20-F HTML and live FMP spot-check JSON/transcript pulls under `raw\dr_20260526`.

Downstream Modeling Base

Metric	TTM ended March 31, 2026
Revenue	RMB25.908bn
HWC / China revenue	RMB21.077bn
HWI / International revenue	RMB4.856bn

Metric	TTM ended March 31, 2026
Eliminations	RMB(0.025)bn
Adjusted EBITDA	RMB8.835bn
Income from operations	RMB7.225bn
Net income attributable	RMB5.003bn
CFO	RMB8.032bn
FCF	RMB7.252bn
Net cash at March 31, 2026	RMB6.300bn
Diluted ADS-equivalent share base	327.1m ADSs
Calculated TTM diluted EPS / ADS	RMB15.30

Key findings for B/M/W/S:

- HWC is the core asset: 81% of FY2025 revenue, 94% of FY2025 segment adjusted EBITDA, and TTM adjusted EBITDA margin of 39.5%.
- HWI has improved, but do not overfit Q4 2025. FY2025 adjusted EBITDA was positive RMB499m, while Q1 2026 adjusted EBITDA was negative RMB56m.
- The growth mix is asset-light. M&F revenue grew 20.3% YoY in Q1 2026 and 23.1% for FY2025; L&O revenue declined in each of the last four quarters.
- Same-hotel China RevPAR is still negative YoY, even while blended HWC RevPAR and revenue improve. This points to network expansion, mix, ADR actions, and franchising rather than pure same-store demand.
- FY2026 guidance is restrained: group revenue +2% to +6%, excluding DH +5% to +9%, M&F revenue +12% to +16%, gross openings 2,200-2,300, closures 600-700.
- Capital returns are meaningful and current: about US$760m declared/repurchased in FY2025, with the second-half 2025 dividend payable in May 2026.
- Balance sheet is net cash on debt, but leases are economically important; Q1 2026 operating lease liabilities were RMB26.568bn.
- Do not use cached warehouse data for any follow-on checks. Use this package plus live official/FMP re-fetches if DR asks for spot verification.