Equity Research Report

April 26, 2023

CONSUMER: Lodging

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Reasons for this report

✓ Our analysis of the most recent weekly China and Europe lodging results

Intl hotels' RevPAR last week: China +144% y/y (+2% vs 2019), Europe +38% y/y (+35% vs 2019).

China: Per STR for the week ending April 22nd, hotel RevPAR in China in local currency was +143.8% vs. +155.1% y/y in the prior week. Last week's RevPAR was up against a -47.7% y/y comparable result in 2022 and vs. -50.6% in the prior week. Versus 2019, RevPAR was +1.9%, up from -3.8% in the prior week's result.

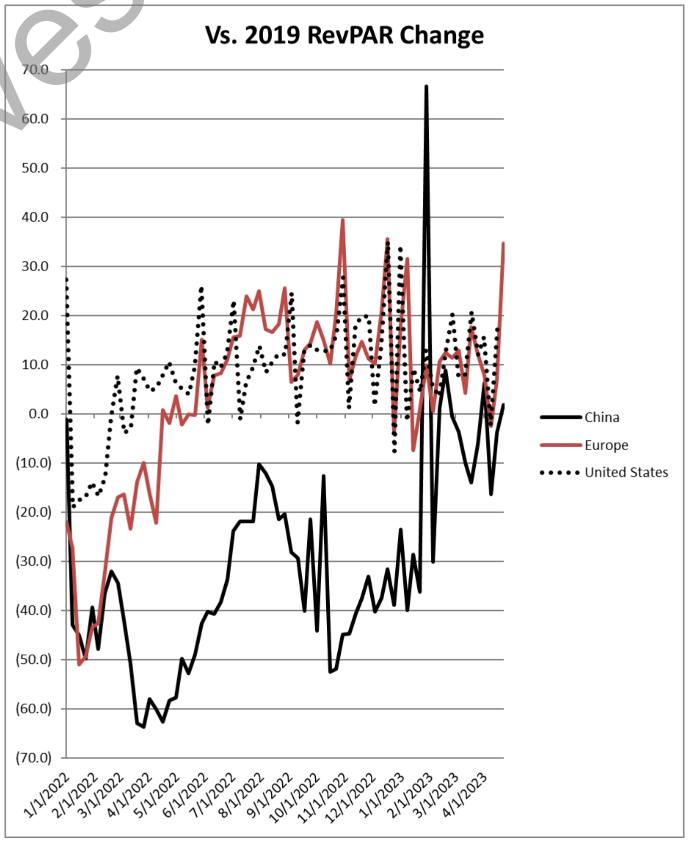
Europe: RevPAR in Europe in Euros was +38.0% y/y vs. +6.9% in the prior week. Last week's RevPAR was up against a +270.6% comparable result in 2022 and +286.2% in the prior week. *Versus 2019, RevPAR was +34.6%, up from the +7.1% in the prior week.*

- As passenger numbers globally recover to pre-pandemic levels, we note that strikes and staff shortages in Europe could potentially disrupt travel into the summer months. (Source: Reuters)

Overall U.S. RevPAR was +6.6% y/y for the week ending 4/22/2023, per STR, down from the prior week's result of +8.6%, and below the trailing 10-week average of +8.2%. Versus 2019, RevPAR was +17.4%, slightly up from the prior week's result of +17.1%, and above the trailing 10-week average of +12.9%.

- Last week's results reflected easy comps due to the April holiday shifts in 2019/2022/2023. Easter Sunday fell at the start of 2022's and 2019's comparable weeks, resulting in high Group-driven RevPAR growth in 2023 (Group RevPAR was +47.1% y/y vs. running 28-day average of +8.9%, and +40.9% vs. 2019 compared to running 28-day average of -8.2%).

Exhibit 1: Vs. 2019 RevPAR Change for China, Europe, US



Source: STR, Truist Securities Research

RevPAR detail for week ending April 22nd vs. trailing 28 days (see charts at end of note for graphical representations):

China (local currency):
- RevPAR was +143.8% y/y for the week ending April 22nd, **higher than** the +138.8% for the trailing 28 days.
- ADR was +43.0% y/y for the week ending April 22nd, **higher than** the +39.1% for the trailing 28 days.
- Occupancy was +70.4% y/y for the week ending April 22nd, **lower than** the +71.6% for the trailing 28 days.

Europe (in Euros):
- RevPAR was +38.0% y/y for the week ending April 22nd, **higher than** the +24.7% for the trailing 28 days.
- ADR was +18.4% y/y for the week ending April 22nd, **higher than** the +14.2% for the trailing 28 days.
- Occupancy was +16.6% y/y for the week ending April 22nd, **higher than** the +9.2% for the trailing 28 days.

EBITDA and rooms exposure by region:

EBITDA: Hyatt (H, Buy), InterContinental (IHG, NR), and Marriott (MAR, Hold) are among the Lodging C-corps that have the greatest exposure to Europe and Asia. From Europe, MAR generates approximately 15% of EBITDA, IHG 15%, Wyndham (WH, Buy) less than 5%, H roughly 5%, and Hilton (HLT, Hold) 10% each. Of these companies, H and MAR have the greatest exposure to Asia (~10-20% of EBITDA). HLT is approximately 10%. Each of the other companies generates 5% to 10% of EBITDA from the Asia-Pacific region. Following the Apple Leisure Group acquisition, H has a relatively high ~25% exposure to the Americas ex-US/Canada.

- In a normalized environment, Greater China inclusive of Macau and Hong Kong generally represents half of the Asia-Pacific EBITDA from the C-corps.

Rooms (as of 4Q21; figures may not round to 100%):

- CHH:
  - Domestic: 79%
  - Asia-Pacific: 4%
  - Europe/Middle East: 9%
  - Latin America & Canada: 8%

- H (includes owned/leased hotels):
  - Americas ex-all inclusives: 57%
  - Asia-Pacific: 18%
  - Europe/Africa/Mid East/SW Asia ex-all inclusives: 12%
  - Americas ALG + Ziva/Zilara: 9%
  - Europe ALG: 4%

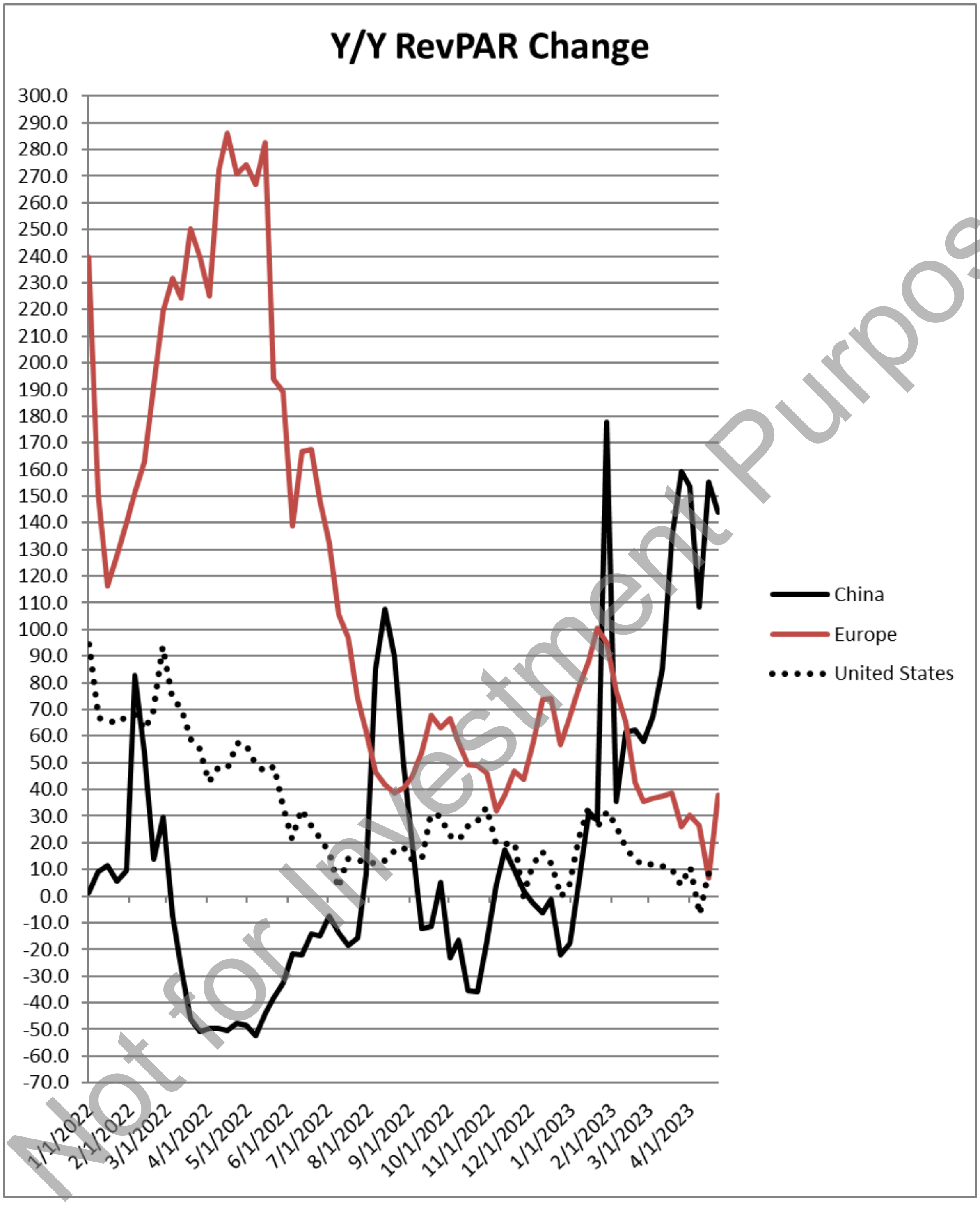
- HLT:
  - US: 70%
  - Americas: 6%
  - Europe: 9%
  - Middle East/Africa: 3%
  - Asia Pacific: 12%
  - Other hotels, likely to be converted to a brand, with no geography noted: 0.3%

- IHG:
  - Americas: 57%
  - EMEAA: 25%
  - Greater China: 18%

- MAR (ex-timeshare):
  - North America: 65%
  - Europe: 9%
  - Middle East/Africa: 4%
  - Asia Pacific: 18%
  - Caribbean/Latin America ("CALA"): 4%

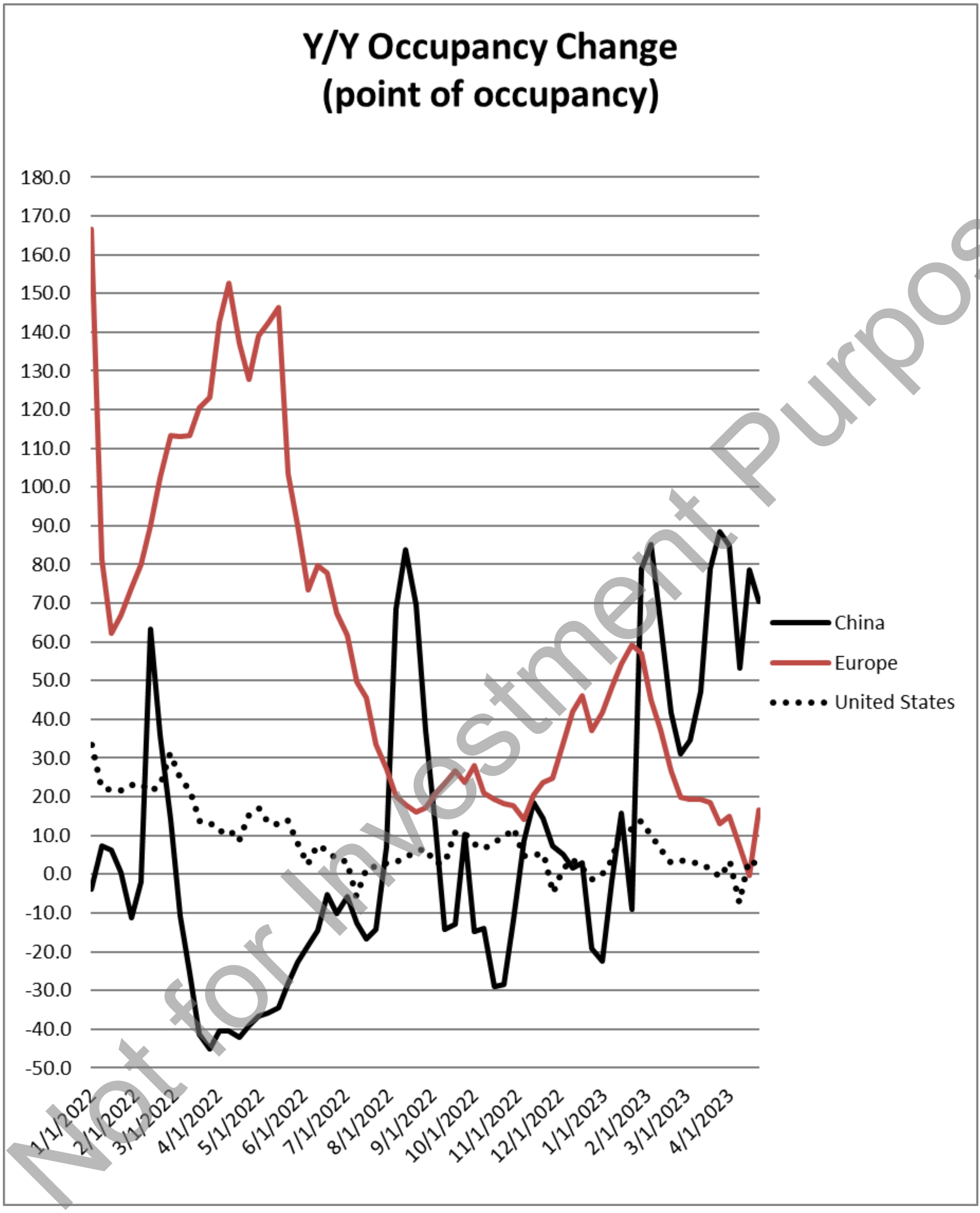
- WH:
  - US: 61%
  - Canada: 5%
  - Greater China: 19%
  - Rest of Asia: 4%
  - Europe/Middle East/Africa: 8%
  - Latin America: 4%

Exhibit 2: Y/Y RevPAR change for China, Europe, US



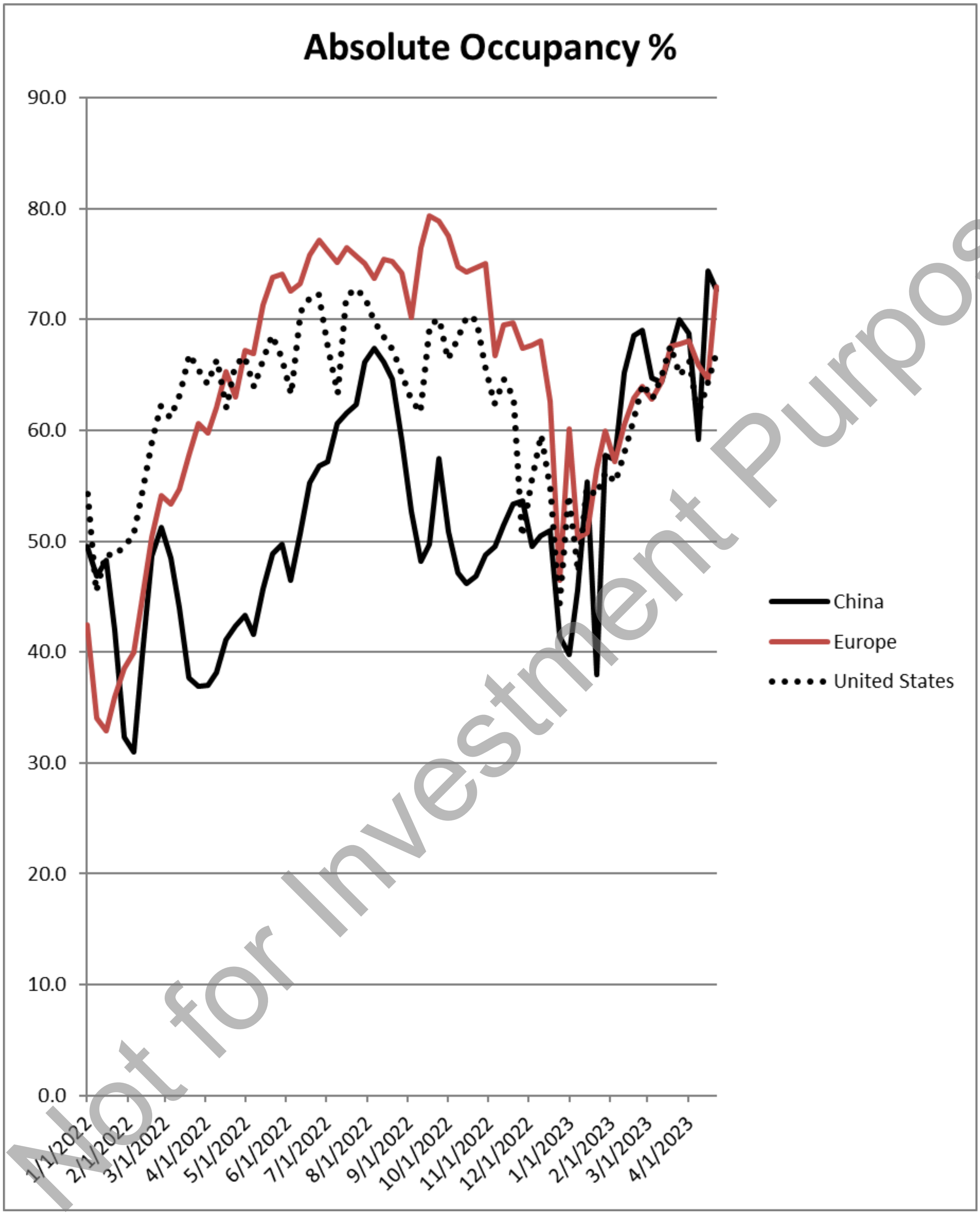
Source: STR, Truist Securities research

Exhibit 3: Y/Y Occupancy change for China, Europe, US



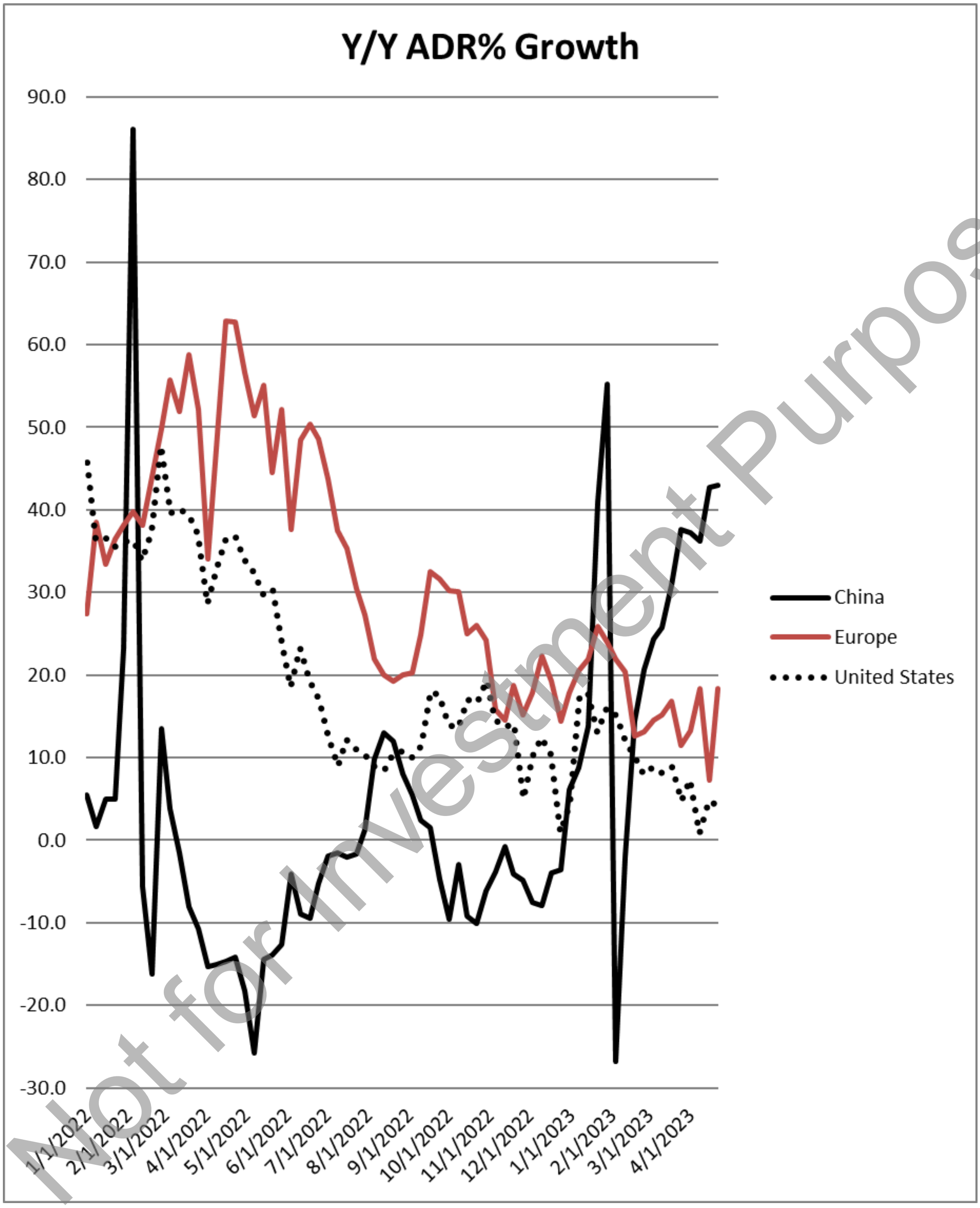
Source: STR, Truist Securities research

Exhibit 4: Absolute Occupancy % for China, Europe, US



Source: STR, Truist Securities research

Exhibit 5: Y/Y ADR % change for China, Europe, US



Source: STR, Truist Securities research

H: Valuation and Risks

Our price target of $145 for H is derived by applying a 13.8x target EV/EBITDA multiple (a blended average of the industry multiples for each business segment) to our estimate for 2024 EBITDA.

Downside risk: lodging recovery takes longer than expected. Planned dispositions take longer than expected. Material labor issues to owned hotels. Regional risks to the Caribbean including material new competitive supply growth. H pipeline growth slower than expected. Apple Leisure Group underperforms Hyatt's guidance.

HLT: Valuation and Risks

We apply a blended multiple of 16.8x (11.5x for Owned/leased and 17.0x for Managed/franchised) to our 2024 adjusted EBITDA estimate to derive a price target of $160. This multiple is above the high end of the historical range of 10x-16x.

Risks to our rating and price target:
Upside risks include: Higher than expected pipeline growth, material RevPAR growth (macroeconomic improvement beyond expectations), material market share gains.
Downside risks include: Growth trajectory could disappoint. Pipeline growth could either slow down or projects scheduled for construction could be canceled, which would diminish system growth for the firm and disappoint investors.

MAR: Valuation and Risks

Our $205 price target is based on a 16.7x blended multiple on our 2024E EBITDA. In the parts, we assign a 13.0x multiple of EBITDA to the Owned segment and 17.0x fees EBITDA (the fees EBITDA also includes credit card branding fees, a 10x multiple business) to the managed/franchised business. The multiple is towards the higher end of the historical range of 9-18x.

Risks to our rating and price target:

Upside Risks: Significant U.S macroeconomic improvement results in large recovery in transient corporate and group/convention demand. Owned assets sell for premium prices relative to MAR expectations. Supply growth is stronger than expectations. Consolidation in the lodging industry benefits MAR.

Downside Risks: Deep macroeconomic recession. Geopolitical, inflation, and policy risks negatively impact lodging demand. Inability to grow pipeline in line with Street expectations.

WH: Valuation and Risks

Our price target of $96 for WH is based on a 15.0x multiple (in line with portfolio quality/RevPAR relative to peers) of our 2024 EBITDA estimate.

Risks to our rating and price target: Slowdown in development opportunities. Macro demand/pipeline headwinds.

RHP: Valuation and Risks

Our price target of $115 for RHP is derived by applying a 13.0x target EV/EBITDA multiple to our estimate for 2024 lodging EBITDA and a 16.0x multiple to our Opry/attractions estimate. We view the multiple assignments as appropriate for the quality and unique nature of the portfolios (slight premium to REIT peer average of ~12.0-12.5x on Hospitality).

Risks to our rating and price target include: Group demand returns slower than expected. Property-specific risks given a small portfolio.

Companies Mentioned in This Note

Choice Hotels International, Inc. (CHH, $126.93, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $115.61, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $146.33, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, $172.86, Hold, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $88.50, Buy, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $67.81, Buy, C. Patrick Scholes)
InterContinental (IHG, NR)

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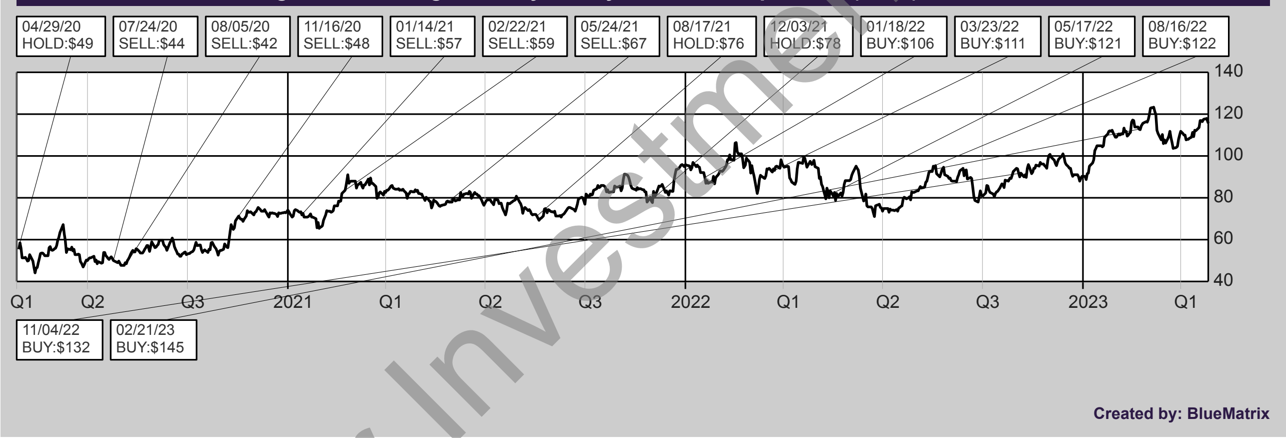
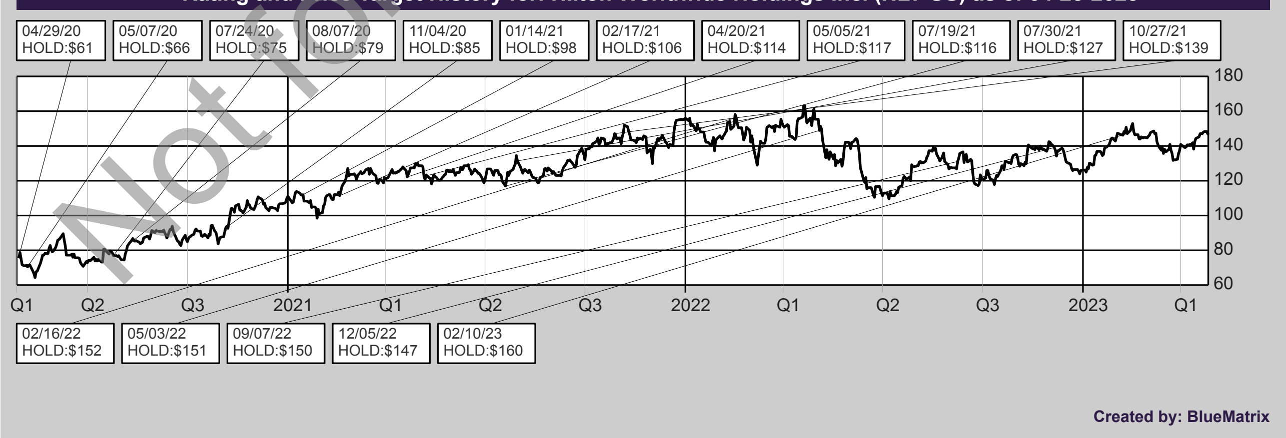
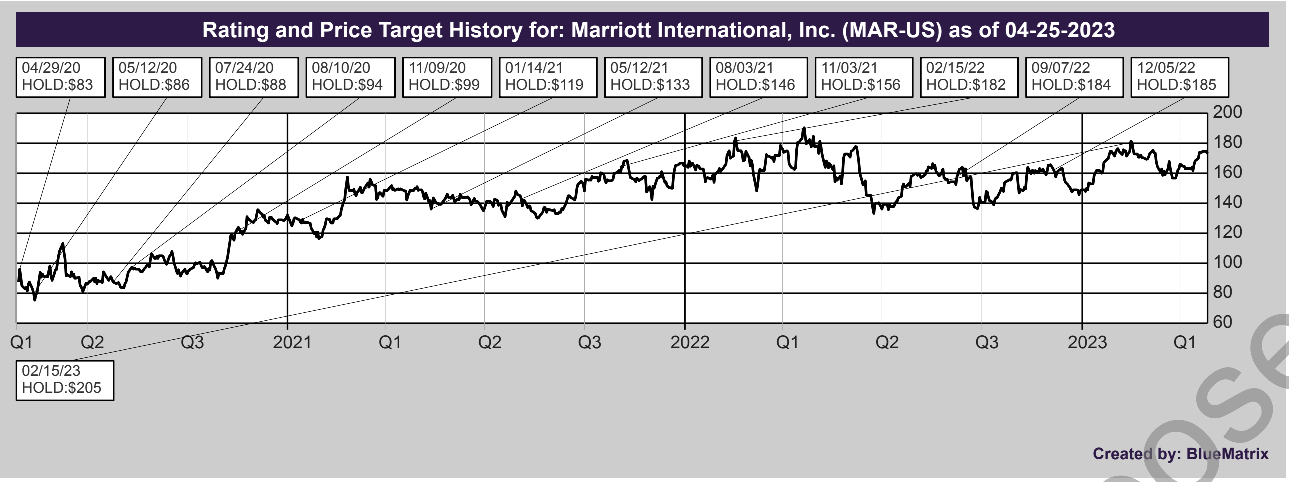
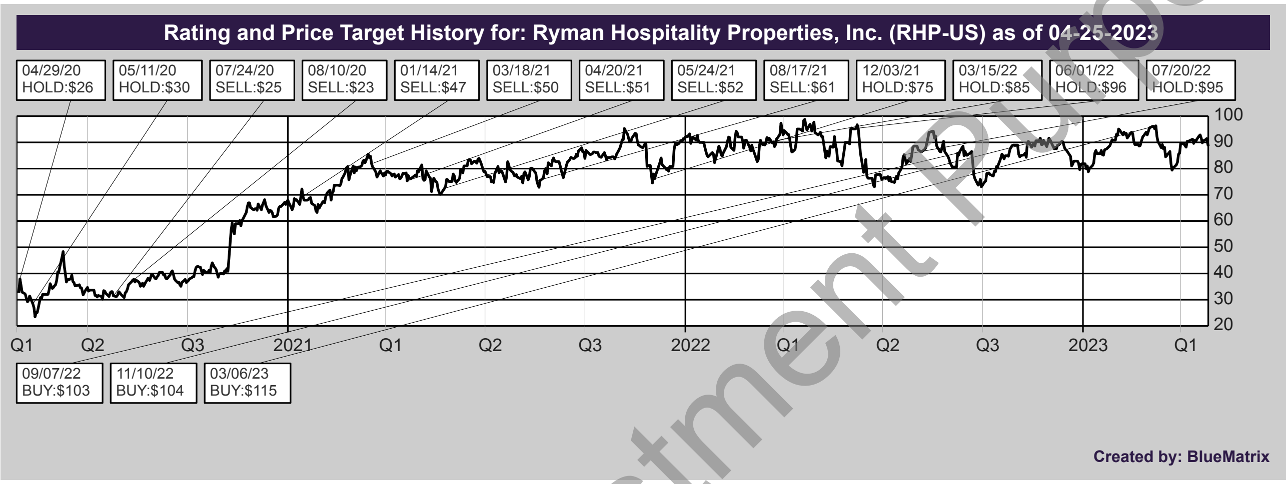
Rating and Price Target History for: Hyatt Hotels Corporation (H-US) as of 04-25-2023

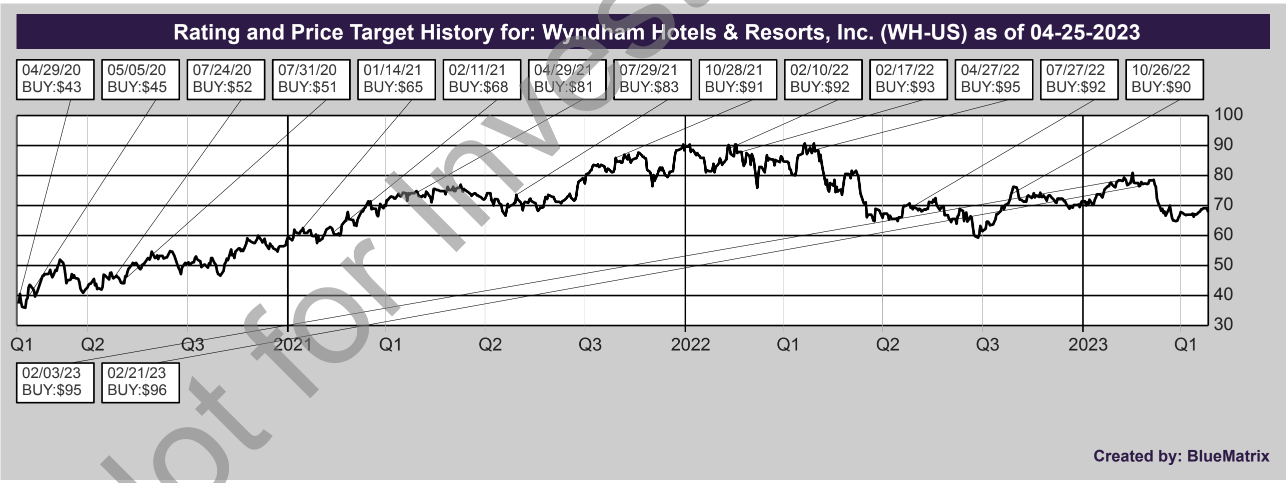


Rating and Price Target History for: Hilton Worldwide Holdings Inc. (HLT-US) as of 04-25-2023









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Legend for Rating and Price Target History Charts:

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