

CONSUMER: Lodging

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**Reasons for this report**

✓ Our analysis of the most recent weekly US lodging results

**Lodging: US RevPAR -3.5% y/y last week. Another soft week - a bit concerning. Resorts, lower-end hotels, Vegas very weak**

Overall U.S. RevPAR was -3.5% y/y for the week ending 3/16/2024, per STR, below the prior week's result of -2.8 y/y% and below the trailing 10-week average of +0.6%.

*Last week's results were again soft at the headline on seemingly a clean y/y comp. There was widespread weak results for Luxury and lower-rated hotels but particularly soft on Resort (-14% RevPAR) and Economy (-8%). We view a tough y/y leisure comp continuing to drag late 1Q results. Vegas results were also materially down y/y (-41%) which could be from the y/y timing of group events. The relative outperformance was from big city Urban travel; particularly Group.*

Top 25 market results were quite varied with several markets showing positive double-digit RevPAR growth but a few of the weaker markets are also some of the highest-rated, dragging down the aggregate headline results. Beyond Las Vegas, other weak markets last week include Miami (-8%), Phoenix (-11%), San Francisco (-19%), and Tampa (-5%). We view headwinds reflect many Spring Break destinations.

**Major RevPAR statistics presented below:**

- Luxury RevPAR: -5.7% y/y
- Upper Upscale RevPAR: +1.9% y/y
- Upscale RevPAR: +0.4% y/y
- Upper Midscale RevPAR: -1.8% y/y
- Midscale RevPAR: -4.8% y/y
- Economy RevPAR: -8.1% y/y
- Independent hotels (~ 1/3rd of the data set) RevPAR: -11.6% y/y; and
- Within Upper Upscale & Luxury class hotels:
  - Group: +5.6% y/y vs. +4.6% prior week;
  - Transient: -7.5% y/y vs. -5.2% prior week;
- Las Vegas RevPAR: -41.0% y/y
  - **As a caveat, we note that many large Strip casino hotel operators do not participate in STR's survey.**

**Last week's RevPAR details and sequential trends (all comparable information on new STR methodology):**

- **Headline RevPAR** was -3.5% y/y vs. the running 28-day average of -1.8% y/y.
- **Occupancy:** Absolute occupancy was 66.5% vs. 63.5% for the running 28-day average.
- **Absolute Group occupancy:** 21.8% last week vs. 22.7% for the running 28 days.

**The lodging stocks:**

- **Of the lodging stocks our favorite name is now Wyndham (Buy) (previously Hyatt, which has had an extremely strong YTD performance).** WH has underperformed the hotel C-corps since the initial news about the proposed merger with Choice Hotels (Hold) last spring. While the proposed merger has ended and investors can once again value WH as a standalone entity going forward, we view WH stock as considerably undervalued. We can also point to an 8-K released by WH on 3/11 in advance of CHH's decision to stop the merger pursuit where WH provided "pillars for standalone growth" representative of \$26 stock price upside by the end of 2025 (their \$102 stock price assumption) driven by: 1) continuing a 6% plus historical EBITDA growth, 2) expected \$650M of FCF generation over the next two years, and 3) ability to deploy \$400M of additional leverage capacity based on a net leverage

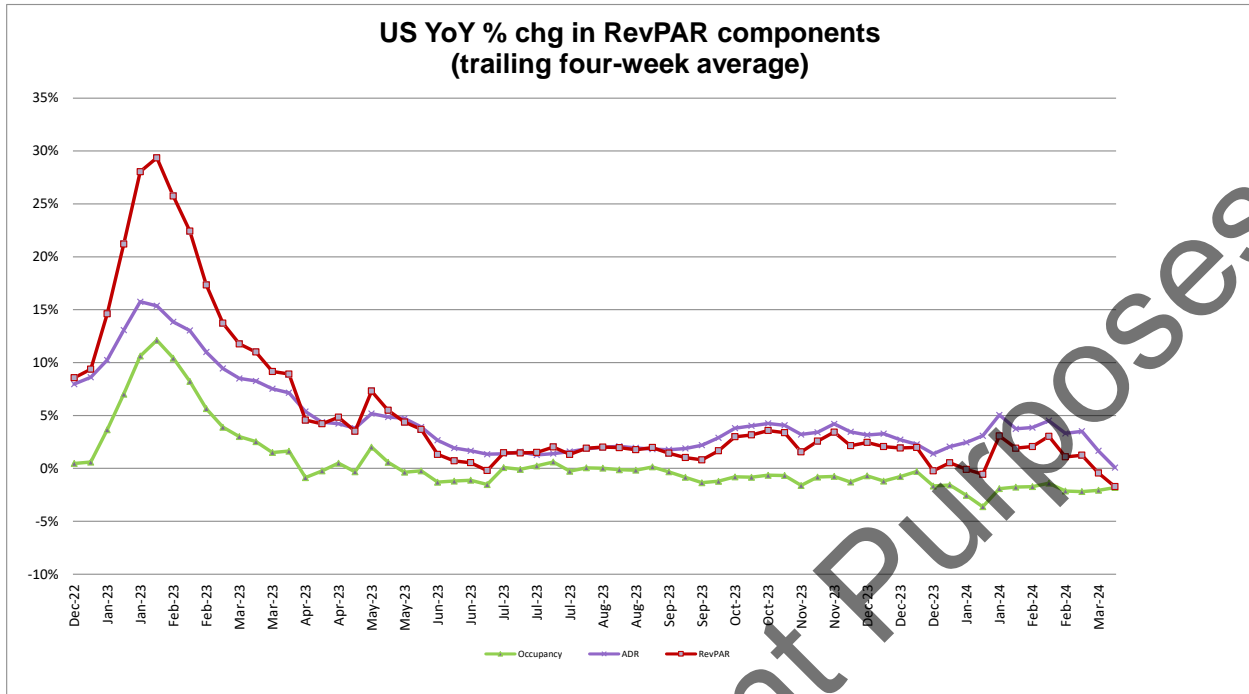
target of 3.5x (substantial cash returns to shareholders as has been the case for years). Additionally and distinctly from the \$26 upside, WH also views an additional \$22 upside per share driven by EBITDA growth that is anticipated to be in the 7-10% range and a re-rating on the multiple (1.0x is worth \$10/share in WH's calculation).

- **For the hotel REITS, our favorite name is RHP (Buy).** At 80% of its business coming from groups/conventions, RHP has the greatest exposure to this customer segment and has no hotels located in the especially tech-heavy San Francisco area. We add that RHP's hotels are likely benefiting from several "self-help" factors including having properties in better condition than some other big box comparables and convention centers as well as what has proven to be a smart strategy of maintaining their property-level salesforce during the heart of the pandemic.
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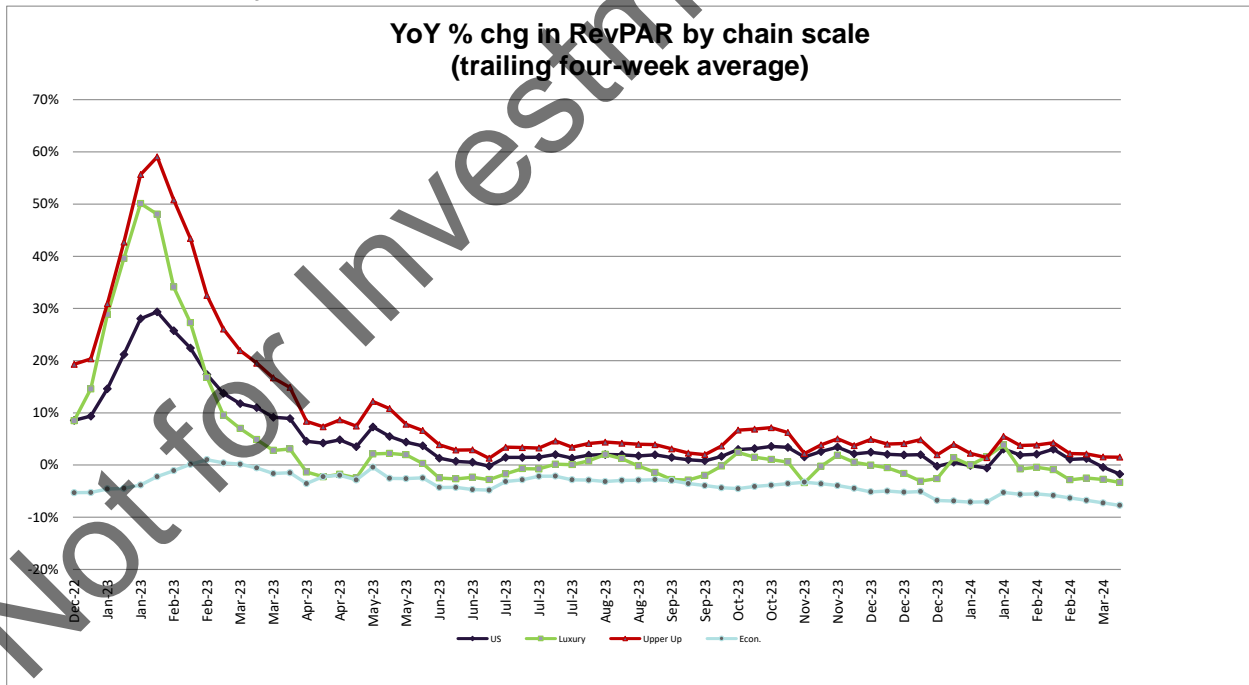


RevPAR Component Trends



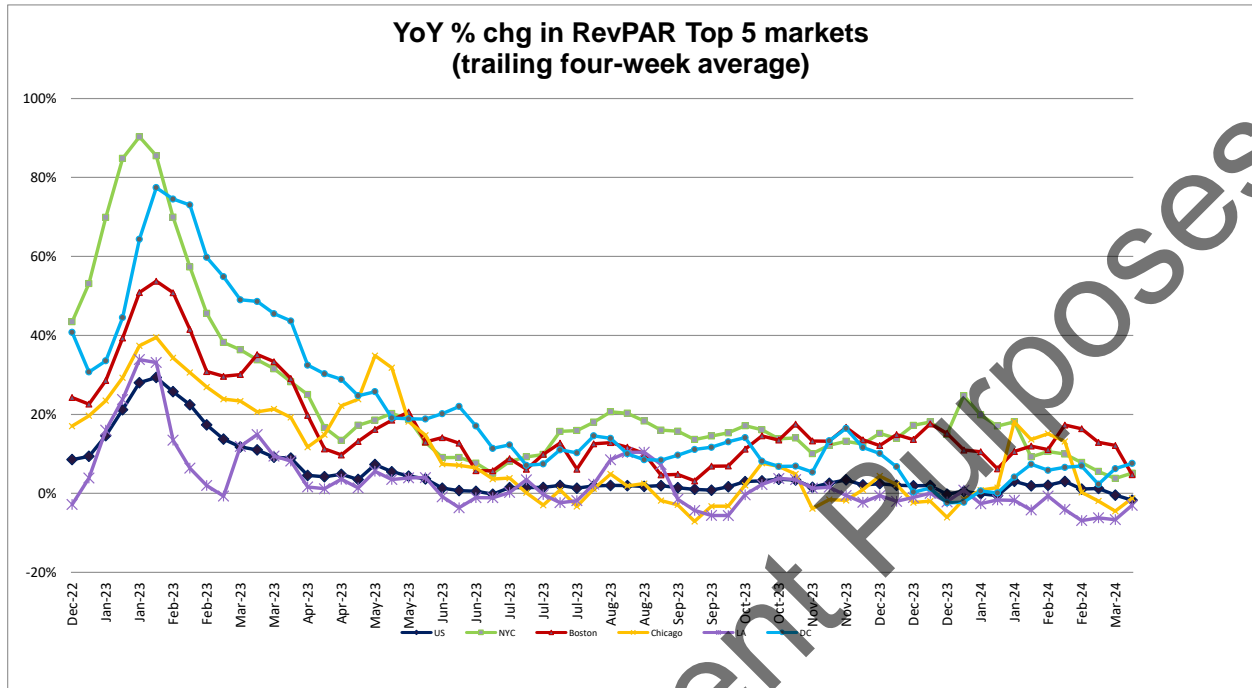
Source: STR data, Truist Securities research

RevPAR Trends by Chain Scale



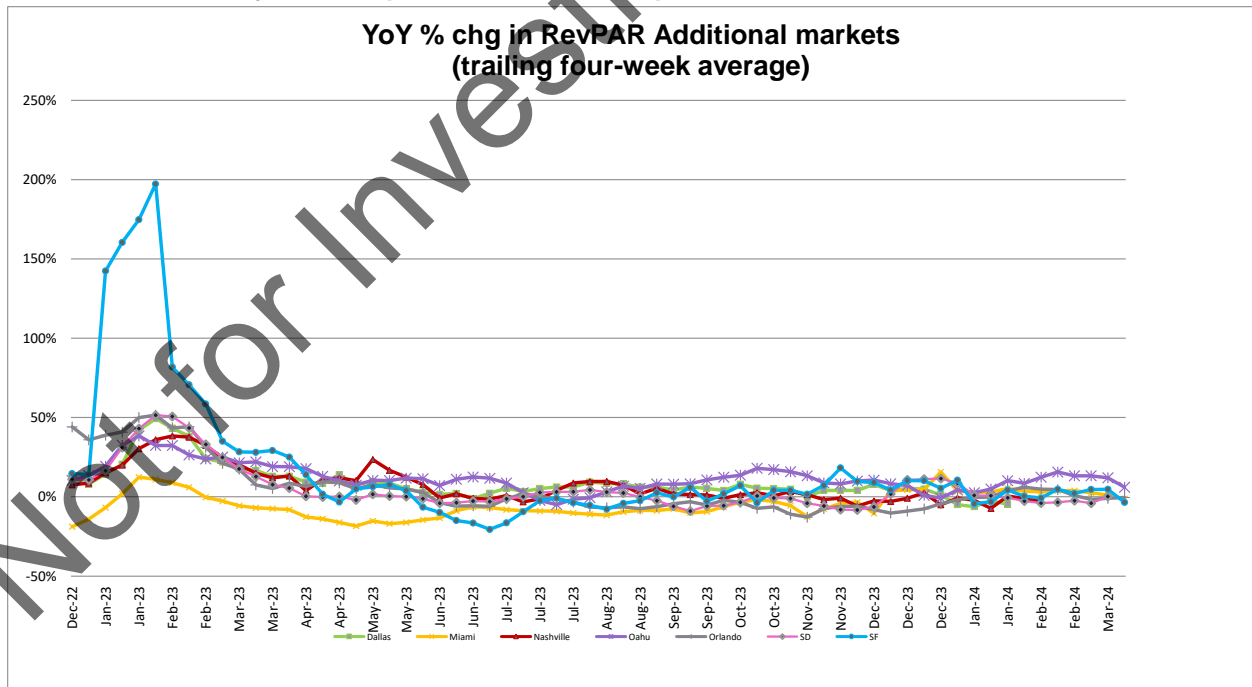
Source: STR data, Truist Securities research

RevPAR Trends by Market (Top 5 markets)



Source: STR data, Truist Securities research

RevPAR Trends by Market (Additional markets)



Source: STR data, Truist Securities research

**WH: Valuation and Risks**

Our price target of \$105 for WH is based on a 15.0x target EV/EBITDA multiple (in line with portfolio quality/RevPAR relative to peers) of our 2025 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 \$135 for RHP is derived by applying a 13.0x target EV/EBITDA multiple to our estimate for 2025 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, \$128.87, Hold, C. Patrick Scholes)
- DiamondRock Hospitality Company (DRH, \$9.45, Hold, C. Patrick Scholes)
- Hyatt Hotels Corporation (H, \$157.11, Buy, C. Patrick Scholes)
- Hilton Grand Vacations Inc. (HGV, \$44.76, Buy, C. Patrick Scholes)
- Hilton Worldwide Holdings Inc. (HLT, \$208.12, Hold, C. Patrick Scholes)
- Host Hotels & Resorts, Inc. (HST, \$20.71, Hold, C. Patrick Scholes)
- Marriott International, Inc. (MAR, \$249.82, Hold, C. Patrick Scholes)
- Vail Resorts, Inc. (MTN, \$224.94, Buy, C. Patrick Scholes)
- Pebblebrook Hotel Trust (PEB, \$15.66, Hold, Gregory Miller)
- Park Hotels & Resorts Inc. (PK, \$17.27, Buy, C. Patrick Scholes)
- Playa Hotels & Resorts N.V. (PLYA, \$9.56, Buy, C. Patrick Scholes)
- Ryman Hospitality Properties, Inc. (RHP, \$118.46, Buy, C. Patrick Scholes)
- RLJ Lodging Trust (RLJ, \$11.92, Buy, Gregory Miller)
- Sunstone Hotel Investors, Inc. (SHO, \$11.12, Hold, C. Patrick Scholes)
- Travel + Leisure Co. (TNL, \$46.67, Buy, C. Patrick Scholes)
- Marriott Vacations Worldwide Corporation (VAC, \$97.84, Buy, C. Patrick Scholes)
- Wyndham Hotels & Resorts, Inc. (WH, \$77.66, Buy, C. Patrick Scholes)

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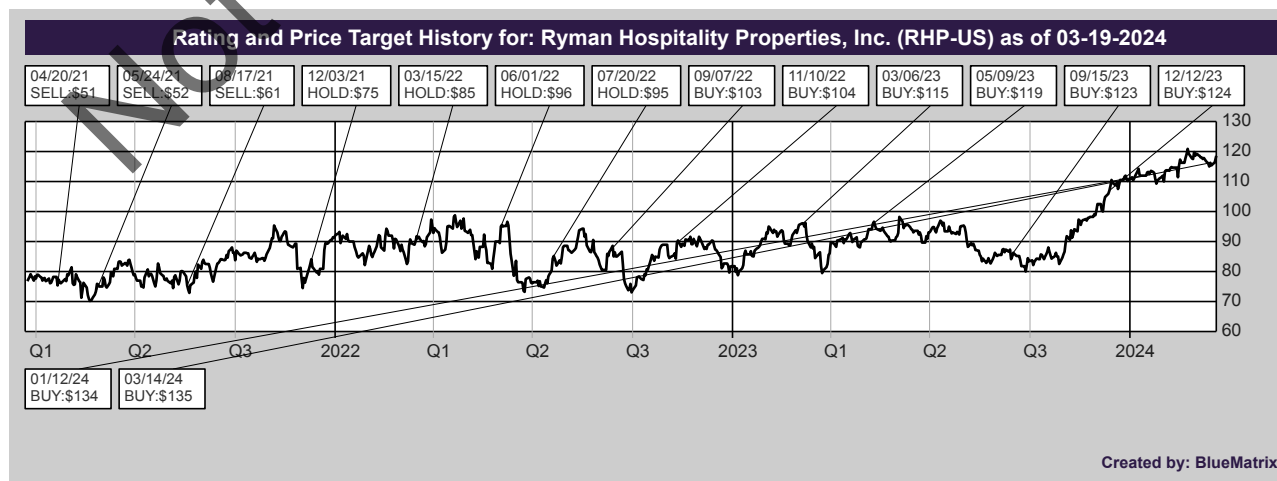
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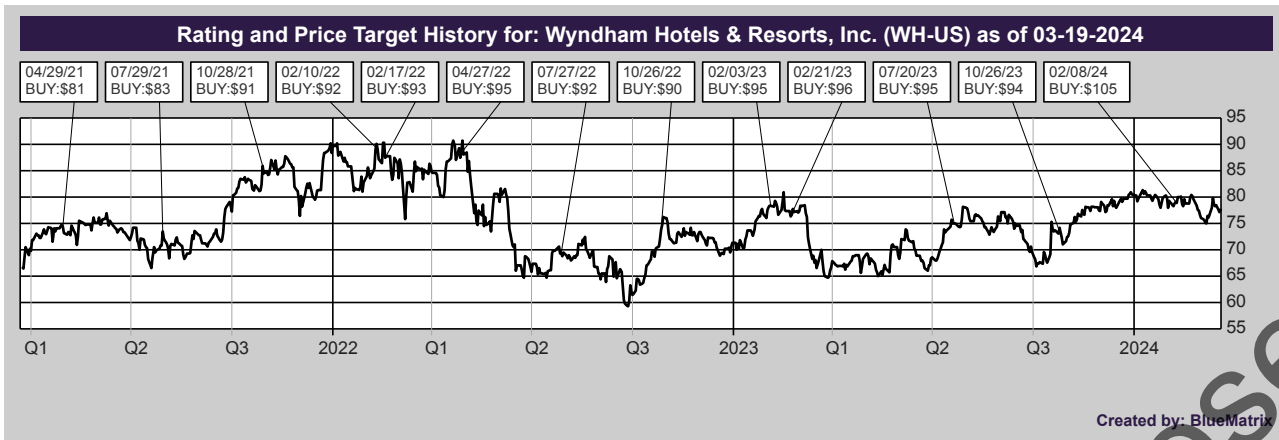
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