

CONSUMER: Lodging

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Reasons for this report

✓ Our analysis of the most recent weekly US lodging results

Lodging: US RevPAR +1.2% y/y last week. Clean comp; Group a little lighter than we expected pre-Passover week

Overall U.S. RevPAR was +1.2% y/y for the week ending 4/20/2024, per STR, below the prior week's result of +5.8% y/y but above the trailing 10-week average of +0.6%.

On what appeared to be a clean comp week, we focus on two areas. For Midscale/Economy, we see possible evidence of the tough y/y comp flipping/easing. Midscale RevPAR was -0.1% and Economy was down (just) 3.5% y/y. By comparison in 1Q24, Midscale was -4.5% and Economy was -7% y/y.

For full-service hotels, we thought Group was a bit light at +3.4% y/y as last week should have benefited from the Passover calendar shift. Pebblebrook's (PEB, Hold, Miller) commentary on [soft Group demand around holidays](#) seemed to ring true in last week's STR results

Major RevPAR statistics presented below:

- Luxury RevPAR: +3.7% y/y
- Upper Upscale RevPAR: +1.2% y/y
- Upscale RevPAR: +1.4% y/y
- Upper Midscale RevPAR: +0.3% y/y
- Midscale RevPAR: -0.1% y/y
- Economy RevPAR: -3.5% y/y
- Independent hotels (~ 1/3rd of the data set) RevPAR: -0.3% y/y; and
- Within Upper Upscale & Luxury class hotels:
 - Group: +3.4% y/y vs. +40.2% prior week;
 - Transient: +1.1% y/y vs. -6.4% prior week;
- Las Vegas RevPAR: +7.0% 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 +1.2% y/y vs. the running 28-day average of +1.8% y/y.
- **Occupancy:** Absolute occupancy was 66.8% vs. 64.7% for the running 28-day average.
- **Absolute Group occupancy:** 26.0% last week vs. 20.5% for the running 28 days.

The lodging stocks:

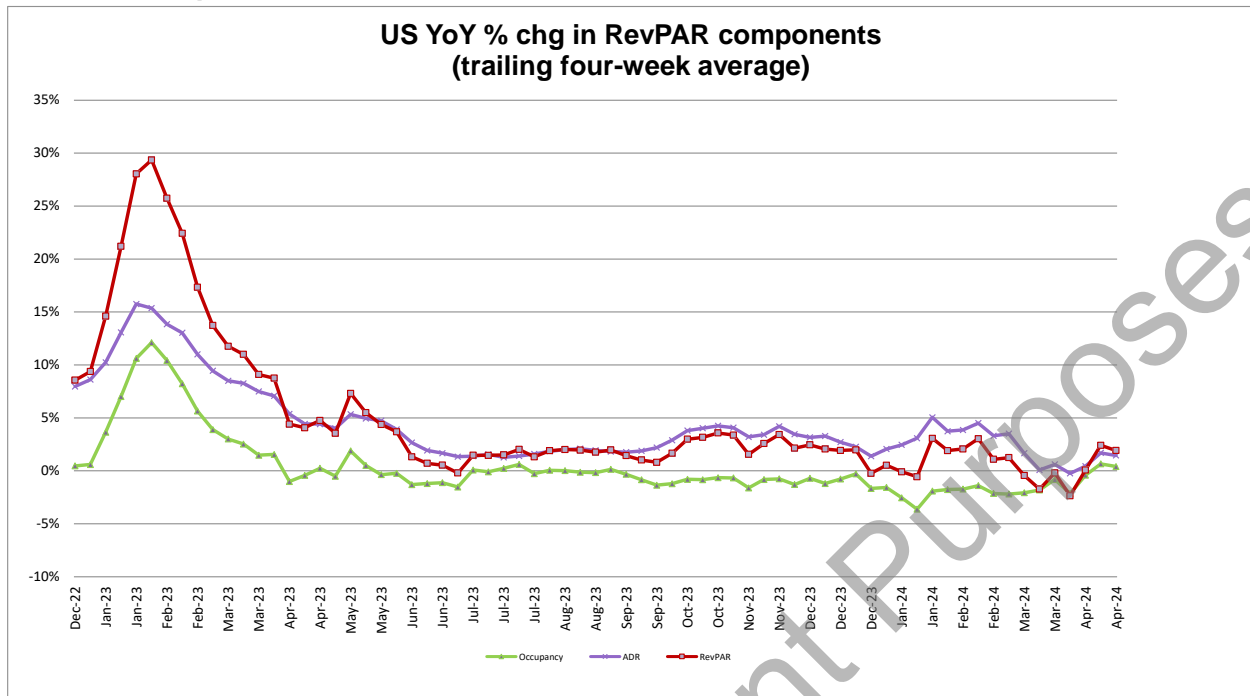
- **Of the lodging stocks our favorite name is now Wyndham (WH, Buy) (previously Hyatt [H, Buy], which has had an extremely strong YTD performance).** WH has underperformed the hotel C-corps since the initial news about the proposed merger with Choice Hotels (CHH, Hold) last spring. While the proposed 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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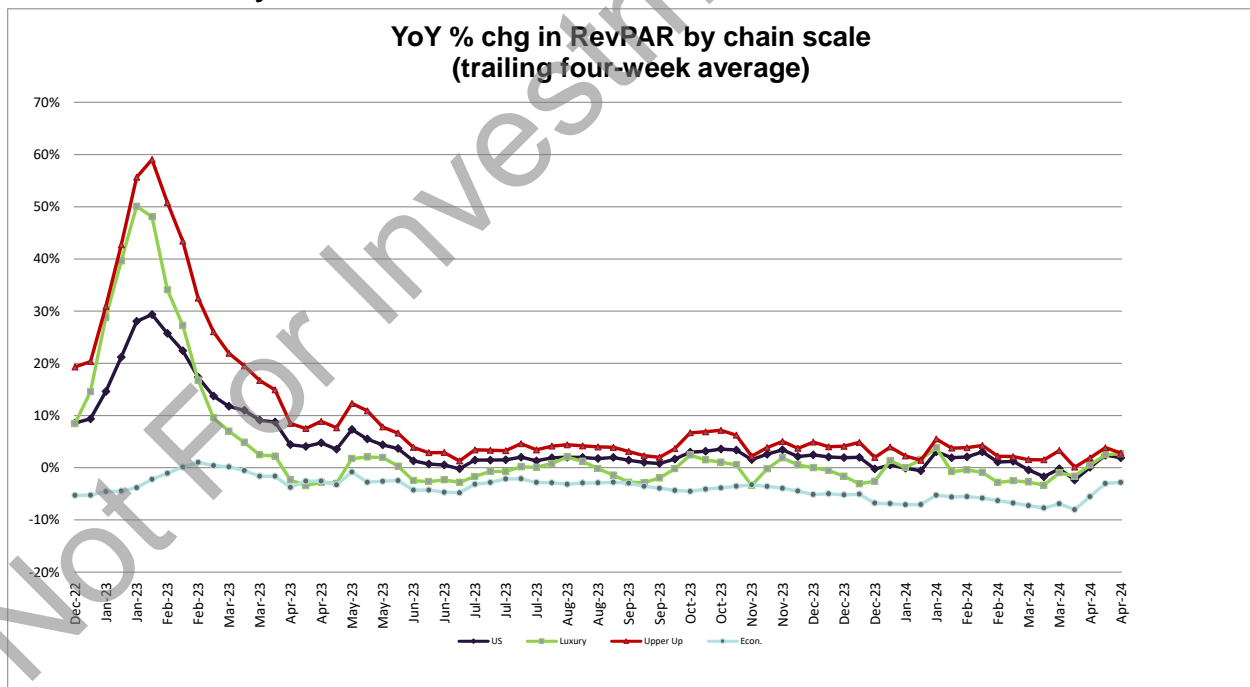
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RevPAR Component Trends



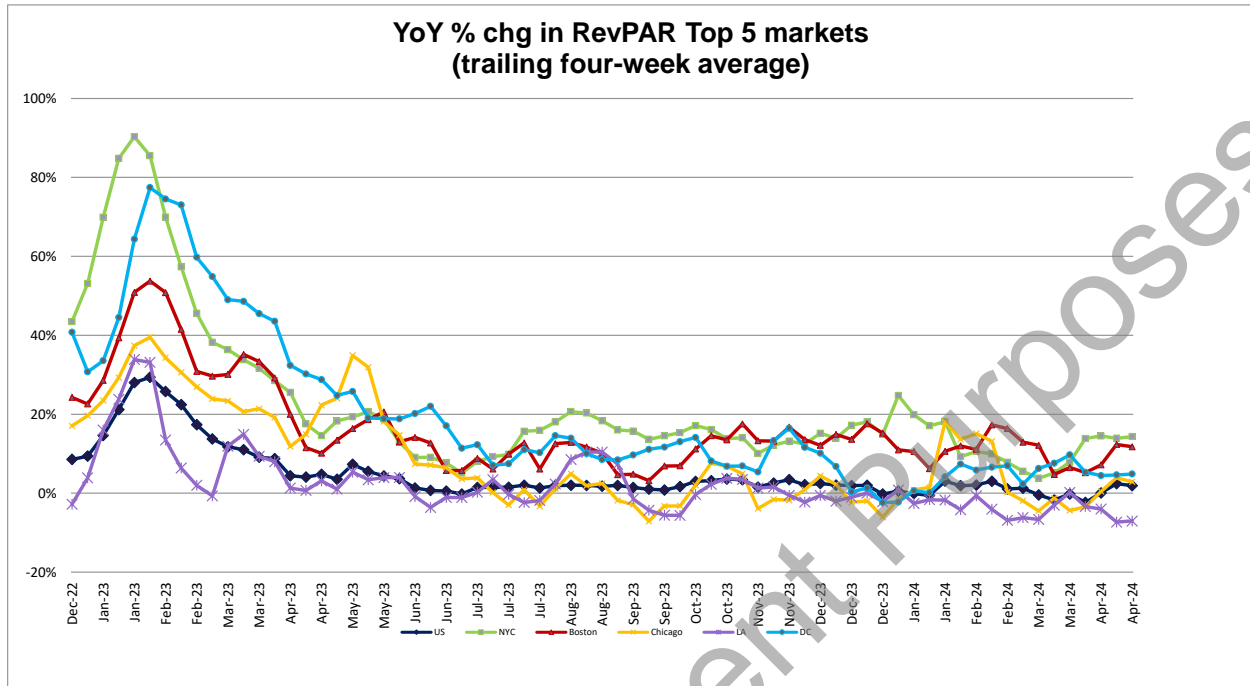
Source: STR data, Truist Securities research

RevPAR Trends by Chain Scale



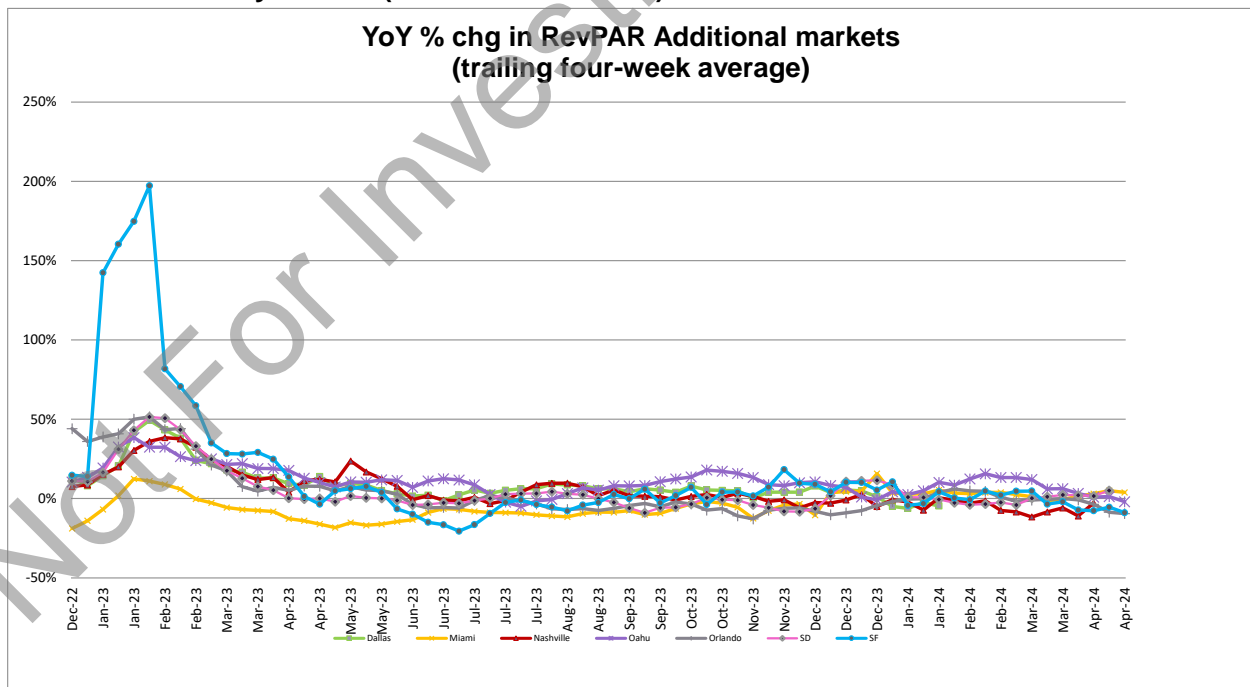
Source: STR data, Truist Securities research

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.

CHH: Valuation and Risks

Our price target of \$146 for CHH is derived by applying a 14.0x target EV/EBITDA multiple (slightly above industry average and in the midpoint of CHH's historical trading multiple range) to our estimate for 2025 EBITDA.

Risks to our rating and price target include: Upside risks: conservative guidance, if the economy performs better than expected, outperformance by Radisson. Downside risks: slowdown in development opportunities, high construction costs, newly created brands grow slower than expectations, and underperformance by Radisson.

H: Valuation and Risks

Our price target of \$172 is derived by applying a 15.1x target EV/EBITDA multiple (a blended average of the industry multiples for each business segment) to our estimate for 2025 EBITDA. Our sum-of-the-parts analysis on our 2025 segment multiple assumptions include (12.5x owned EBITDA u/c, 16x fees EBITDA u/c) and other segments/ALG (10-12x, u/c).

Risks to our rating and price target: 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.

PEB: Valuation and Risks

Valuation: Our price target of \$16 for PEB is derived by applying a 13.5x target EV/EBITDA to our estimate for 2025 EBITDA. We believe PEB's relatively high aggregate RevPAR, strong portfolio quality, heavy mix of flexible management contracts (more so than most REITs), and precedence for high multiples on dispositions suggests a marked premium to our sector average (~ 100-150 bps premium). Due to the timing of repositioning efforts and the ramp-up to stabilization (ex-COVID demand shock impact), we anticipate PEB's initial portfolio enhancements may take 3+ years to be fully materialized, beyond our projection period.

Upside risks to our rating and price target: PEB has quicker than expected Legacy LHO ROI CapEx EBITDA gains. RevPAR accelerates due to macroeconomic factors, leading to estimate revisions and multiple expansion. Private vs. public market valuation differentials contract and/or transaction pricing leads to upward property valuation revisions. San Francisco demand issues resolve faster than expected.

Downside risks to our rating and price target: Further asset sales do not materialize as expected and/or at lower-than-expected pricing. Incremental EBITDA growth following major CapEx investment takes longer than anticipated and/or does not fully materialize, resulting in multiple contraction. International inbound demand from Asia-Pacific remains depressed, a particularly downside scenario to West Coast urban markets. Market concentration risk to Boston, Los Angeles, San Francisco, San Diego, and South Florida. Natural disasters are especially impactful to both hotel physical plants and demand (we focus especially on West Coast earthquakes/fires and hurricanes in South Florida that can impact several hotels -- Ian in 2022, Irma in 2017, and Andrew in 1992 are good examples). Labor and other hotel-level costs climb materially.

Companies Mentioned in This Note

Choice Hotels International, Inc. (CHH, \$117.14, Hold, C. Patrick Scholes)

Hyatt Hotels Corporation (H, \$149.81, Buy, C. Patrick Scholes)

Pebblebrook Hotel Trust (PEB, \$15.45, Hold, Gregory Miller)

Ryman Hospitality Properties, Inc. (RHP, \$108.24, Buy, C. Patrick Scholes)

Wyndham Hotels & Resorts, Inc. (WH, \$71.50, Buy, C. Patrick Scholes)

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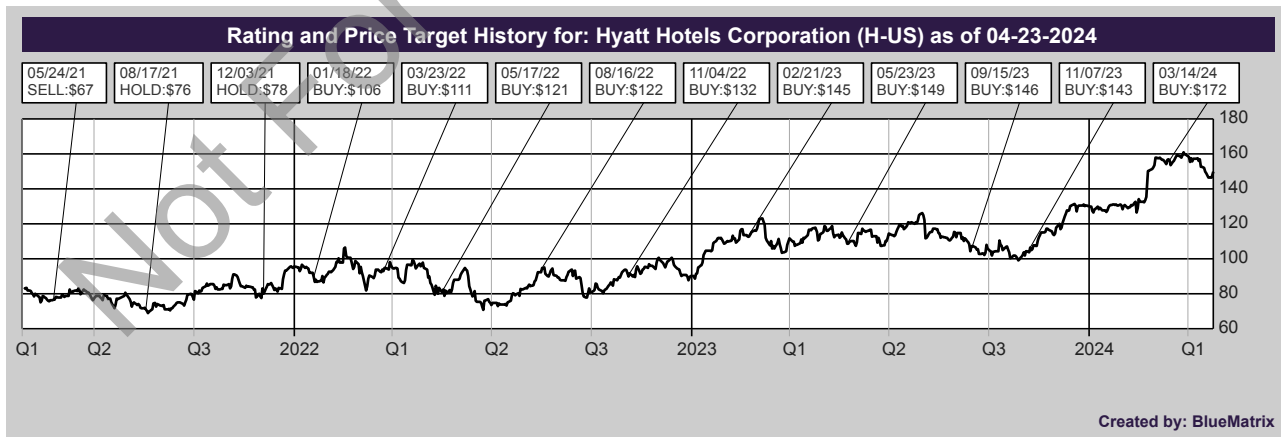
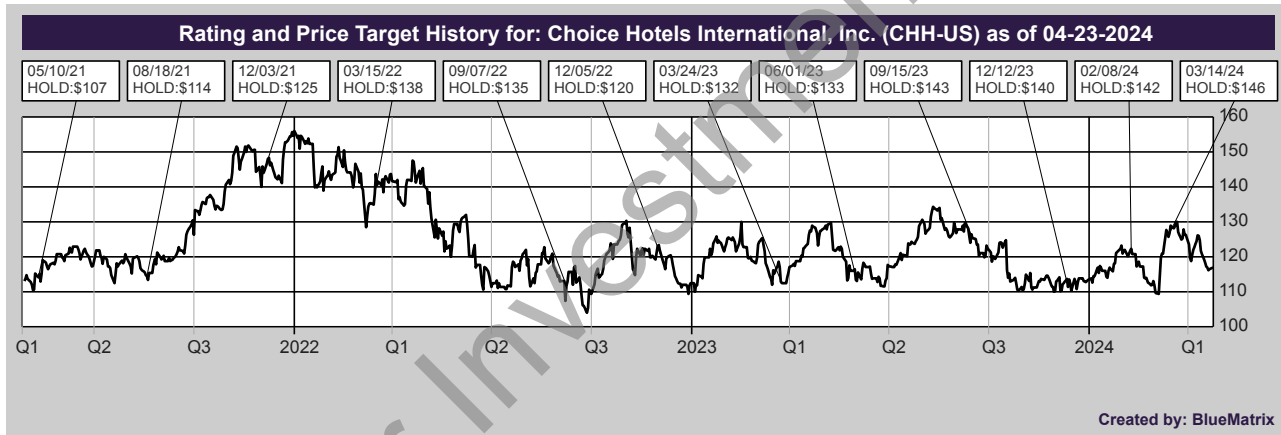
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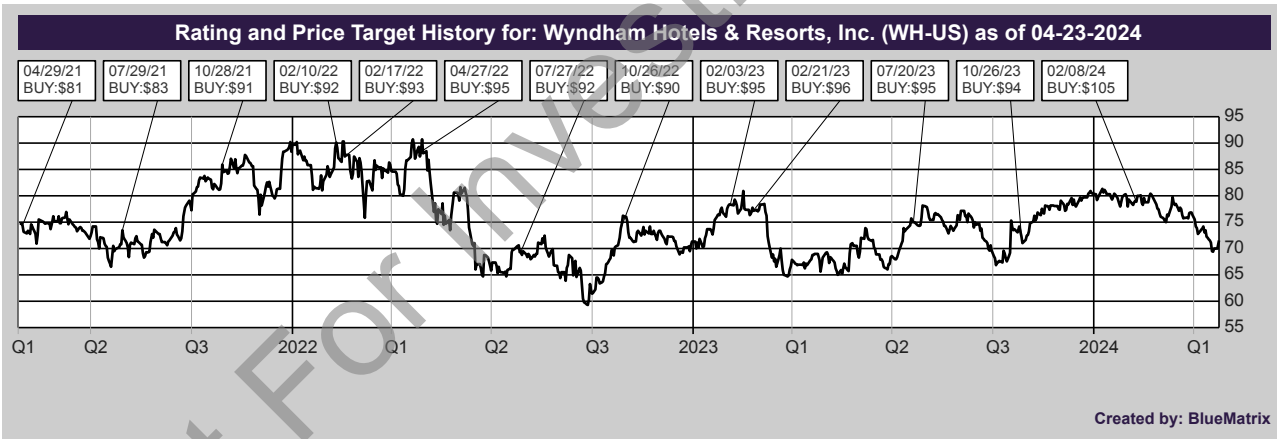
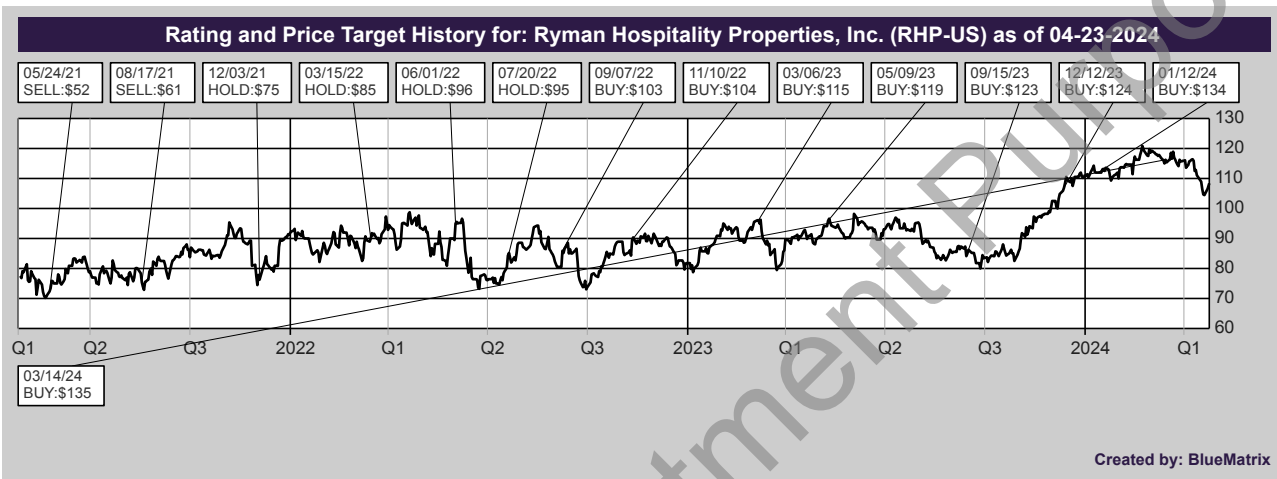
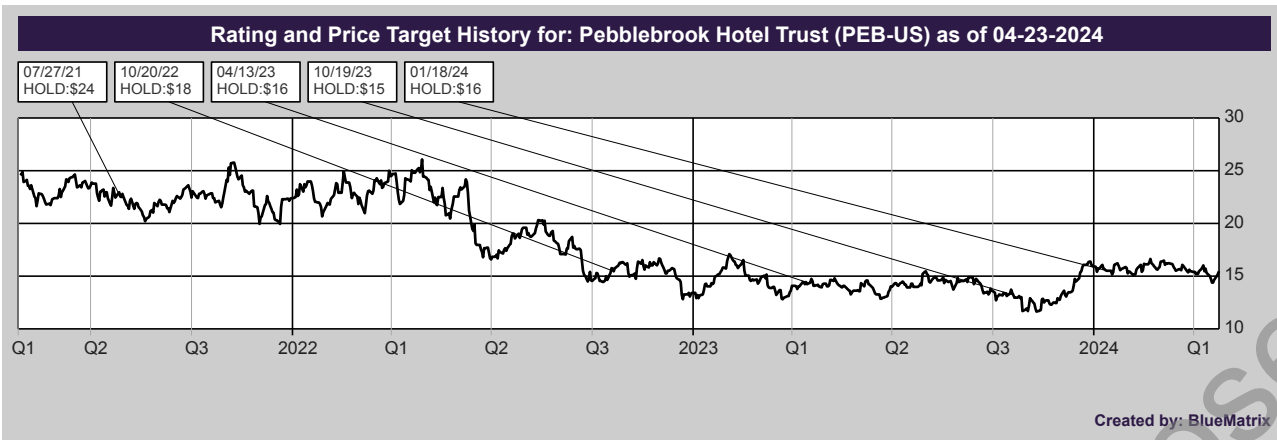
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