Equity Research Report

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CONSUMER: Lodging

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Reasons for this report

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

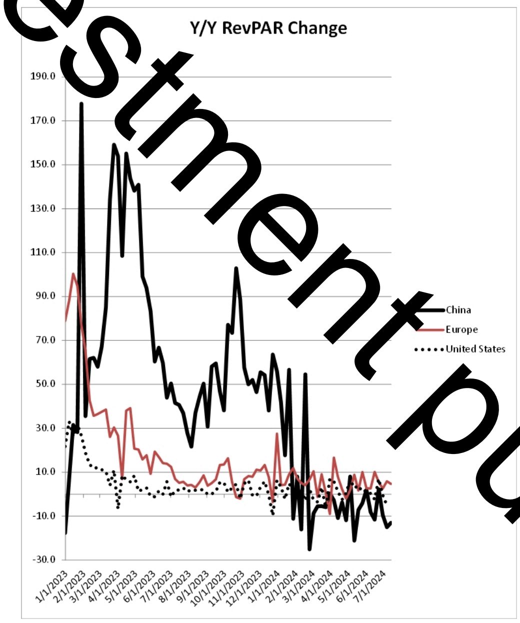
International hotels' RevPAR last week: China -13% y/y, Europe +5.9% y/y.

China: Per STR/CoStar for the week ending July 13th, hotel RevPAR in China in local currency was -13% y/y vs. -15% y/y in the prior week. Last week's RevPAR was up against a +40.6% y/y comparable result in 2023 vs. +41.5% y/y in the prior week. RevPAR results in China since February have been very weak as *China is experiencing "revenge travel" fatigue following the re-opening a year ago.* China's economic growth fell below expectations in the 2nd quarter, as issues such as a prolonged property crisis, government debt, weak consumption, and high unemployment have tempered economic growth.

Europe: RevPAR in Europe in Euros was +6.9% y/y vs. +2.6% in the prior week. Last week's RevPAR was up against a +6.9% comparable result in 2023 and +12.5% in the prior week.

Overall U.S. RevPAR was -5.2% y/y for the week ending 7/13/2024, per STR, below the prior week's result of -0.4% y/y and below the trailing 10-week average of +1.5%

Exhibit 1: Y/Y RevPAR Change for China, Europe, US



Source: STR, Truist Securities Research

RevPAR detail for week ending July 13th vs. trailing 28 days (see charts at end of note for graphical representations):

China (local currency):
- RevPAR was -13% y/y for the week ending July 13th, **lower than** the -9.6% for the trailing 28 days.
- ADR was -9.8% y/y for the week ending July 13th, **lower than** the -9.2% for the trailing 28 days.
- Occupancy was -3.6% y/y for the week ending July 13th, **lower than** the -0.5% for the trailing 28 days.

<u>Europe (in Euros):</u>

- RevPAR was +5.9% y/y for the week ending July 13th, **in line** with the +5.9% for the trailing 28 days.
- ADR was +5.2% y/y for the week ending July 13th, **in line** with the +5.2% for the trailing 28 days.
- Occupancy was +0.6% y/y for the week ending July 13th, **lower than** the +0.7% for the trailing 28 days.

<u>EBITDA and rooms exposure by region:</u>

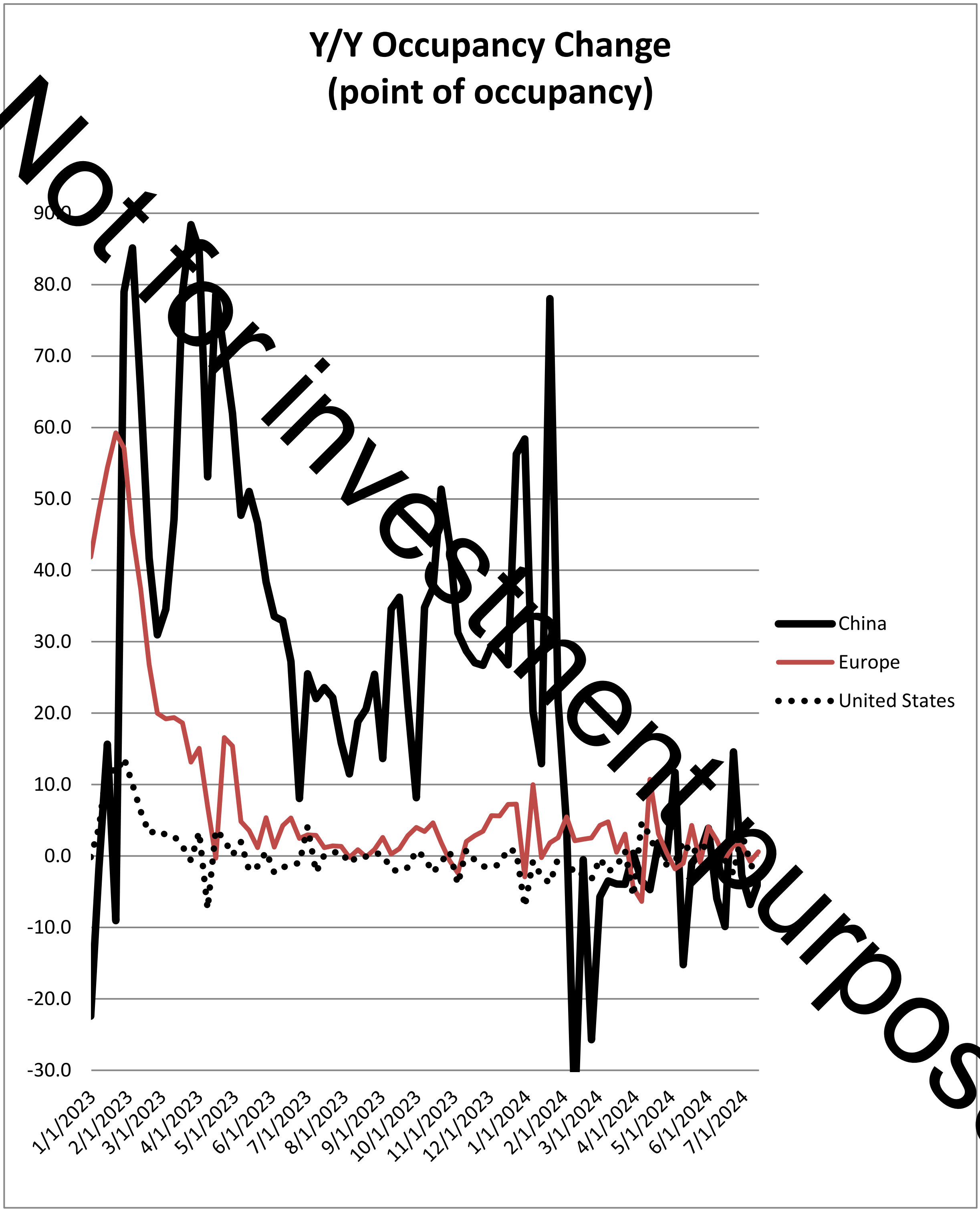
EBITDA: Hyatt (H, Buy), InterContinental (IHG, NR), and Marriott (MAR, Hold) are among the Lodging C-corps that have the greatest exposure to Europe and Asia. From Europe, MAR generates approximately 15% of EBITDA, IHG 15%, Wyndham (WH, Buy) less than 5%, H roughly 5%, and Hilton (HLT, Hold) 10% each. 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 4Q23; figures may not round to 100%):

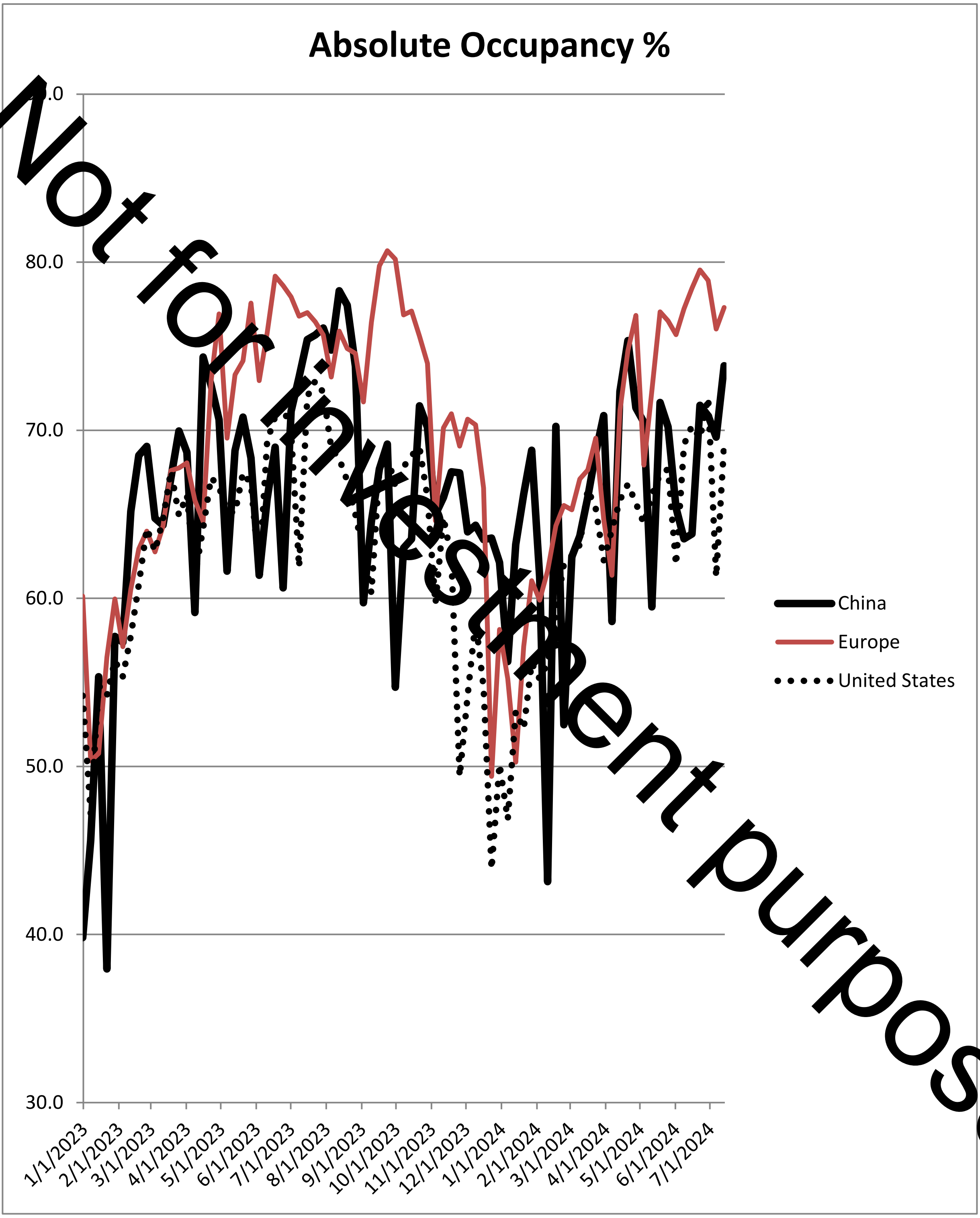
- CHH:
  - Domestic: 79%
  - Asia-Pacific: 4%
  - Europe/Middle East: 9%
  - Latin America & Canada: 9%
- H (includes owned/leased hotels):
  - United States: 49%
  - Americas (ex U.S.): 14%
  - Greater China: 13%
  - Asia Pacific (ex Greater China): 10%
  - Europe: 11%
  - Middle East/Africa: 3%
- HLT:
  - US: 67%
  - Americas: 6%
  - Europe: 9%
  - Middle East/Africa: 3%
  - Asia Pacific: 14%
  - Other hotels, likely to be converted to a brand, with no geography noted: 0.4%
- IHG:
  - Americas: 55%
  - EMEAA: 26%
  - Greater China: 19%
- MAR (ex-timeshare):
  - North America: 62%
  - Europe: 9%
  - Middle East/Africa: 5%
  - Asia Pacific: 18%
  - Caribbean/Latin America ("CALA"): 6%
- WH:
  - US: 57%
  - Canada: 5%
  - Greater China: 20%
  - Rest of Asia: 4%
  - Europe/Middle East/Africa: 10%
  - Latin America: 5%

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



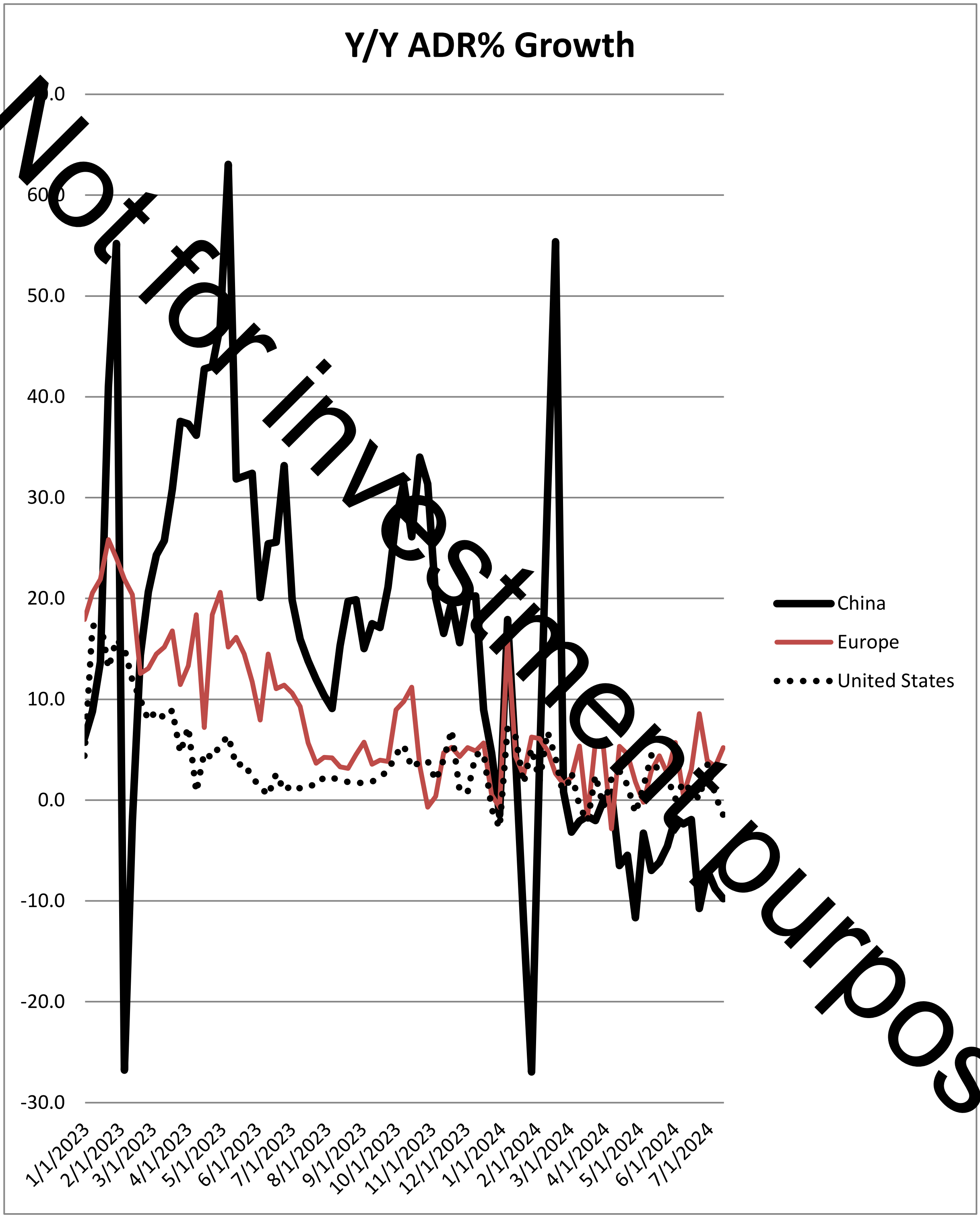
Source: STR, Truist Securities research

Exhibit 3: Absolute Occupancy % for China, Europe, US



Source: STR, Truist Securities research

Exhibit 4: Y/Y ADR % change for China, Europe, US



Source: STR, Truist Securities research

H: Valuation and Risks

Our price target of $168 is derived by applying a 15.0x 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.

MAR: Valuation and Risks

Our $2[illegible]6 price target is based on a 16.7x blended multiple on our 2025E 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 $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.

HLT: Valuation and Risks

We apply a blended multiple of 16.7x (11.5x for Owned/leased and 17.0x for Managed/franchised) to our 2025 adjusted EBITDA estimate to derive a price target of $209. This multiple is above the high end of the historical range of 10x-16x which we view as appropriate based on current trading fundamentals/flight to quality consumer stocks.

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.

Companies Mentioned in This Note

Choice Hotels International, Inc. (CHH, $132.47, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $162.22, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $228.19, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, $255.11, Hold, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $76.60, Buy, C. Patrick Scholes)
InterContinental (IHG, Not Rated)

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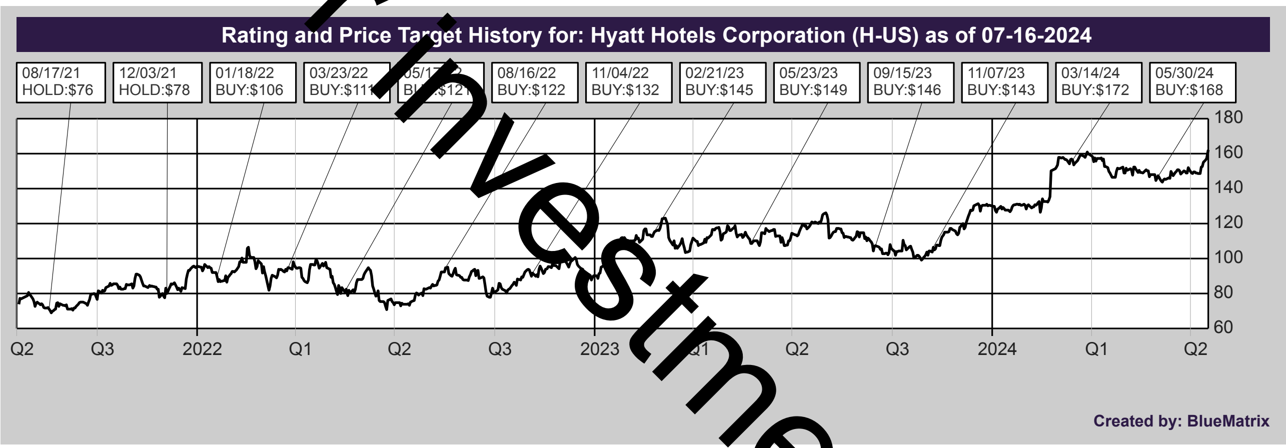

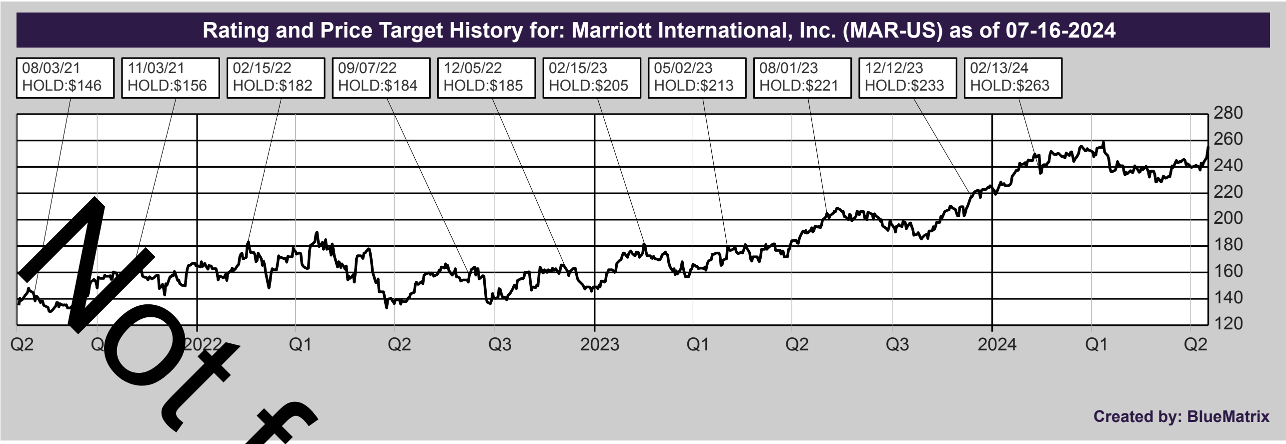

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