Equity Research Report

November 13, 2024

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 -3.5% y/y, Europe +6.4% y/y.

China: Per STR/CoStar for the week ending November 9th, hotel RevPAR in China in local currency was -3.5% y/y vs. -3.0% y/y in the prior week. Last week's RevPAR was up against a +50.0% y/y comparable result in 2023 vs. +57.6% y/y in the prior week.

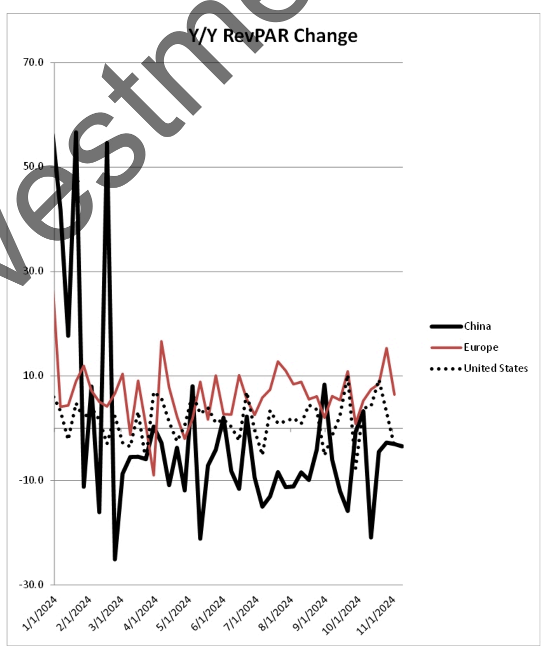
- *China again exhibited one of the "less bad" clean-comp performances as compared to weekly results in 2Q24 & 3Q24. This latest performance could have been bolstered by the recently announced* economic stimulus (Source: WSJ) *plans, however it is debatable if an impact can be seen this soon (on MAR's earnings 3Q call they believed it too soon to see an impact).*

Europe: RevPAR in Europe in Euros was +6.4% y/y vs. +15.3% in the prior week. Last week's RevPAR was up against a +6.8% comparable result in 2023 and -2.0% in the prior week.

- *Europe RevPAR continues to perform well during shoulder season and we believe the week-over-week decline in y/y growth was due to the timing of the elections in the U.S.*

Overall U.S. RevPAR was -3.5% y/y, below the prior week's result of +3.1% 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 November 9th vs. trailing 28 days:

China (local currency):

- RevPAR was -3.5% y/y for the week ending November 9th, **lower than** the -2.9% for the trailing 28 days.
- ADR was -4.6% y/y for the week ending November 9th, **lower than** the -3.9% for the trailing 28 days.
- Occupancy was +1.2% y/y for the week ending November 9th, **higher than** the +1.0% y/y for the trailing 28 days.

SEE PAGE 6 FOR REQUIRED DISCLOSURE INFORMATION

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

- RevPAR was +6.4% y/y for the week ending November 9th, **lower than** +9.0% for the trailing 28 days.
- ADR was +4.1% y/y for the week ending November 9th, **lower than** +4.7% for the trailing 28 days.
- Occupancy was +2.2% y/y for the week ending November 9th, **lower than** with the +4.1% for the trailing 28 days.

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

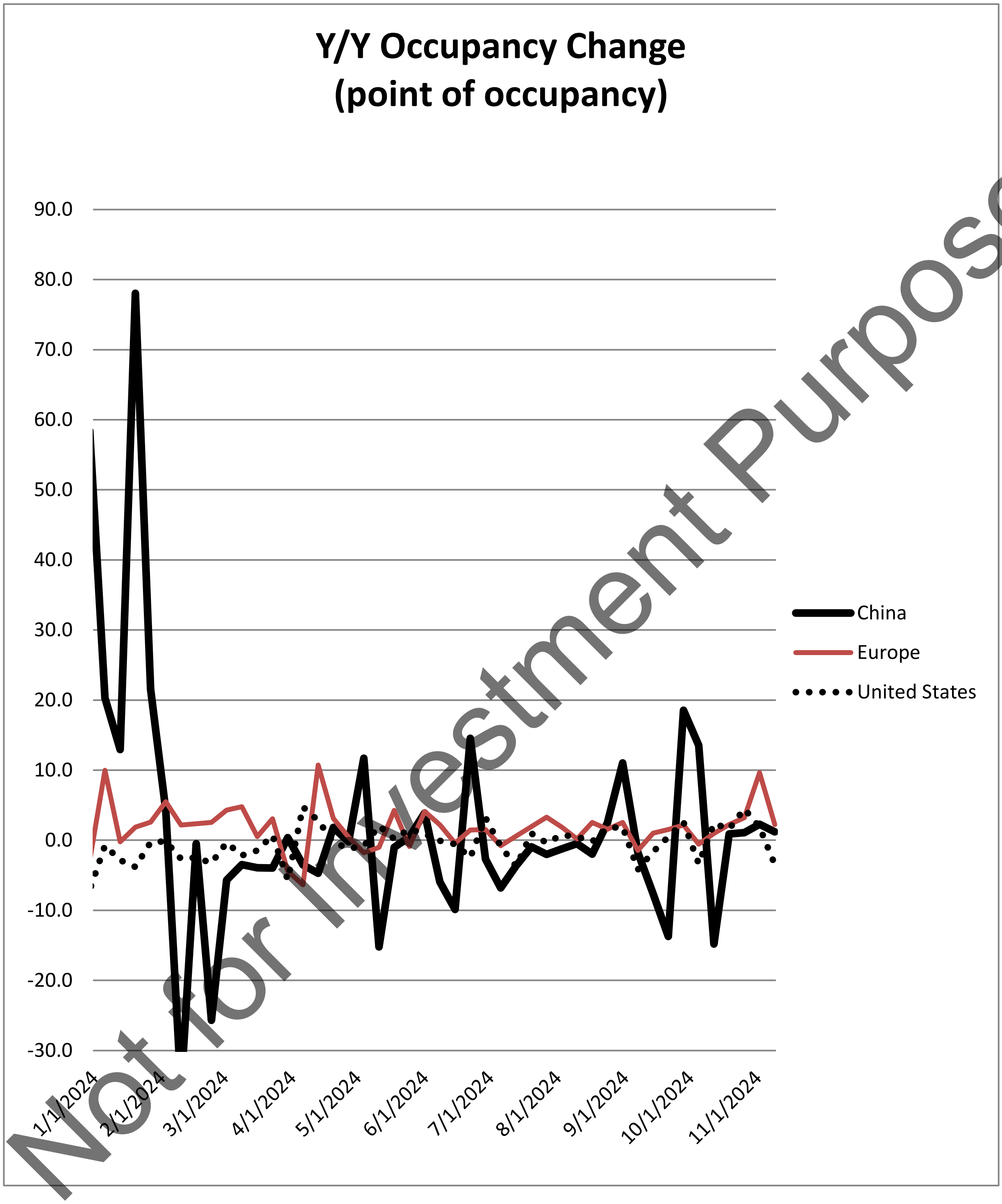
EBITDA: Hyatt (H, Buy), InterContinental (IHG, NR), and Marriott (MAR, Hold) are among the Lodging C-corps that have the greatest exposure to Europe and Asia. From Europe, MAR generates approximately 15% of EBITDA, IHG 15%, Wyndham (WH, Buy) less than 5%, H roughly 5%, and Hilton (HLT, Hold) 10% each. 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%):

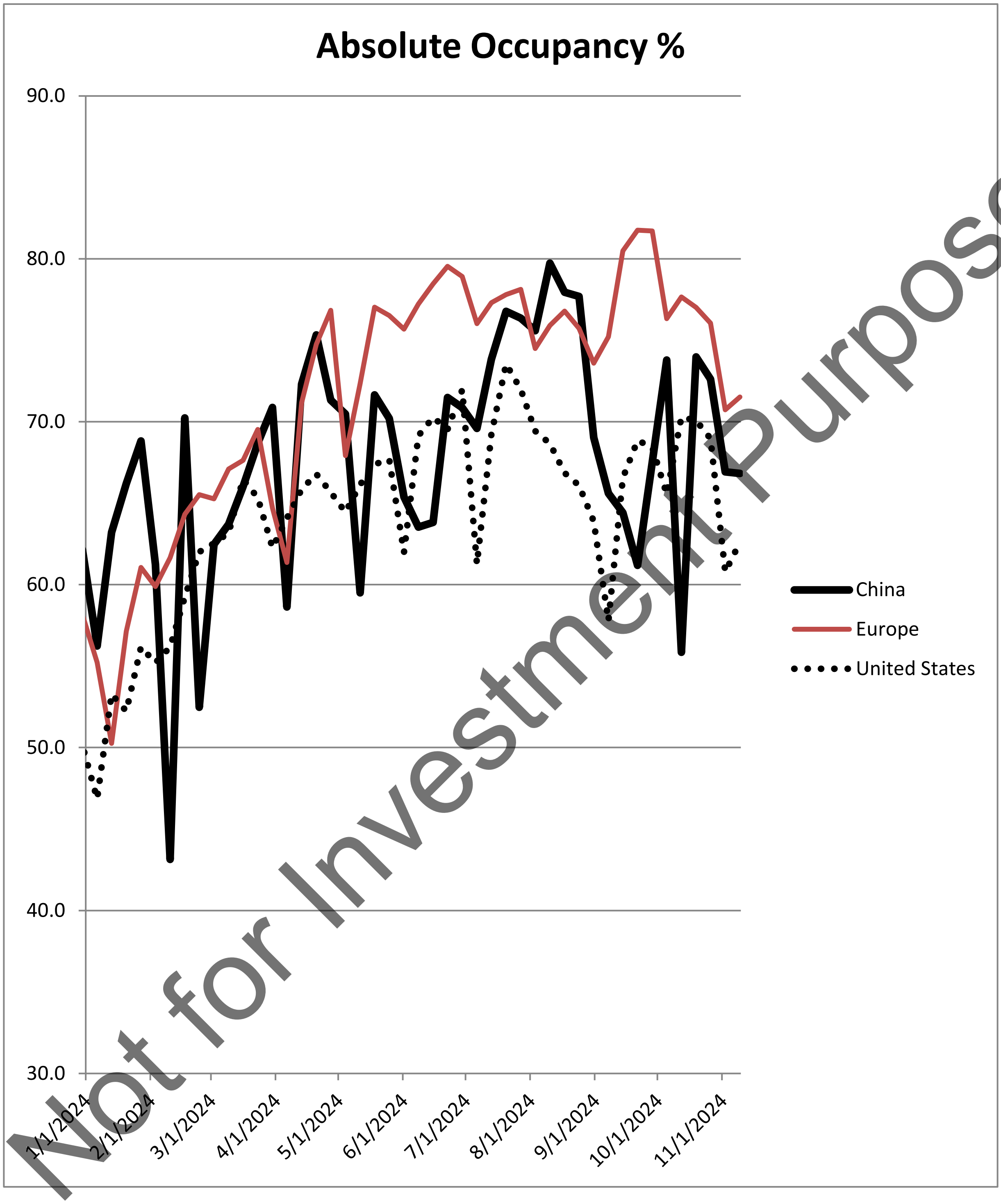
- Choice Hotels (CHH, Hold):
  - Domestic: 79%
  - Asia-Pacific: 4%
  - Europe/Middle East: 9%
  - Latin America & Canada: 9%
- H (includes owned/leased hotels):
  - United States: 49%
  - Americas (ex U.S.): 14%
  - Greater China: 13%
  - Asia Pacific (ex Greater China): 10%
  - Europe: 11%
  - Middle 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



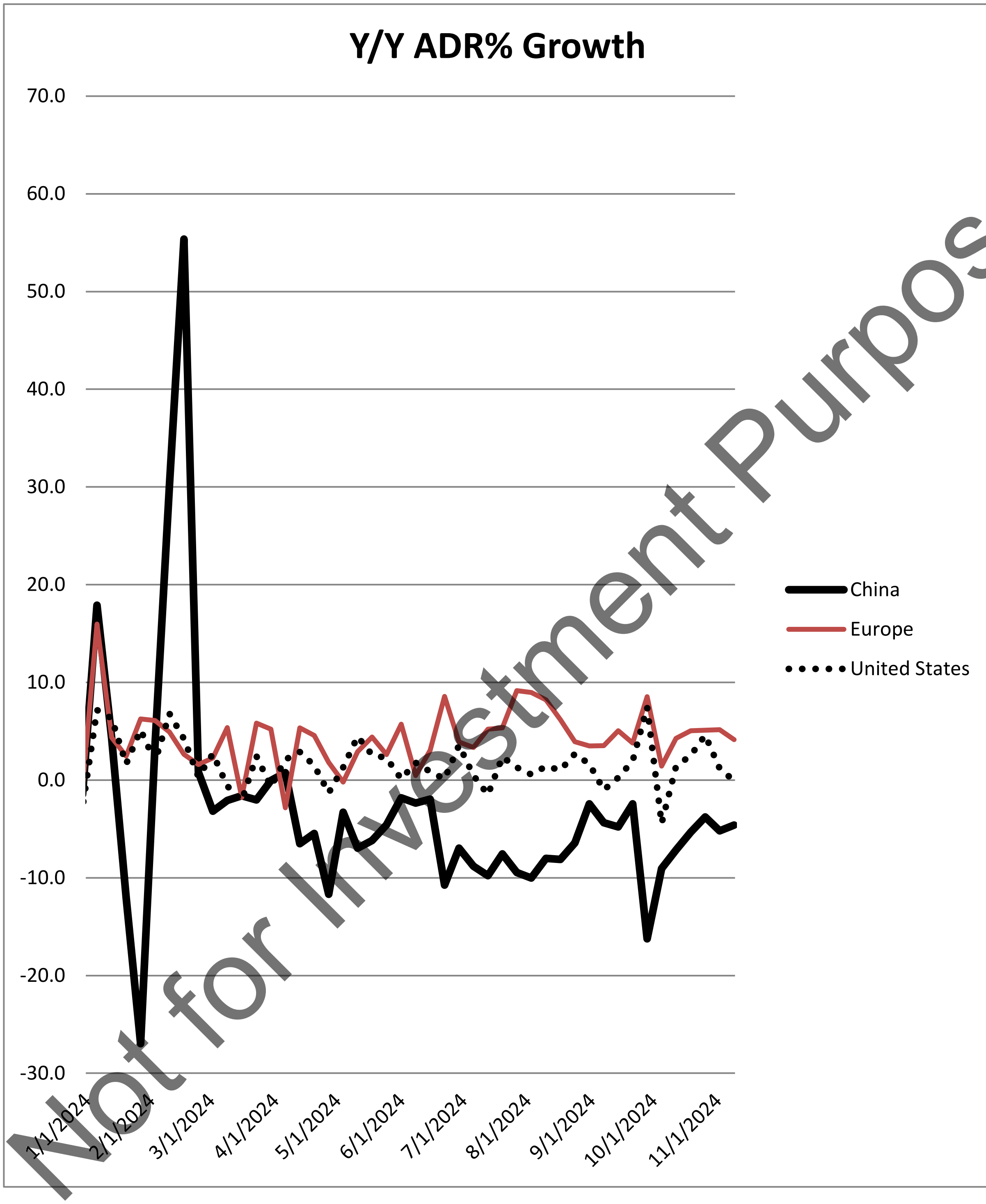
Source: STR, Truist Securities research

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

CHH: Valuation and Risks

Our price target of $134 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 $158 is derived by applying a 15.7x 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, 17x fees EBITDA u/c) and other segments/ALG (10-12x, u/c).

Risks to our rating and price target: 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 $254 price target is based on a 16.7x blended multiple on our 2025E EBITDA. In the parts, we assign a 12.0x 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.

HLT: Valuation and Risks

We apply a blended multiple of 17.6x (11.5x for Owned/leased and 18.0x for Managed/franchised) to our 2025 adjusted EBITDA estimate to derive a price target of $220. 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 and HLT's improved EBITDA margins since 2019.

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.

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.

Companies Mentioned in This Note

Choice Hotels International, Inc. (CHH, $144.86, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $159.53, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $252.65, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, $286.47, Hold, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $97.15, Buy, C. Patrick Scholes)
InterContinental (IHG, Not Rated)

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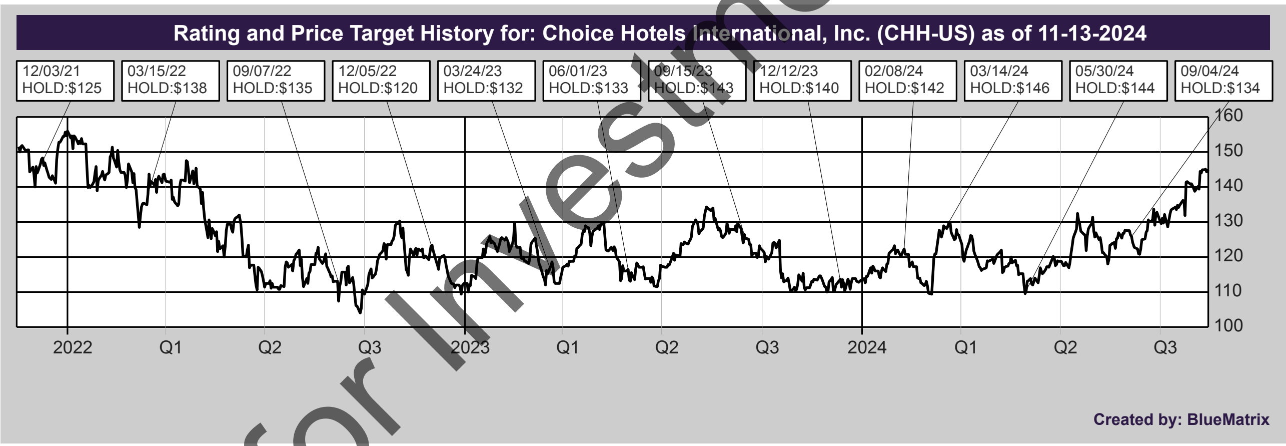

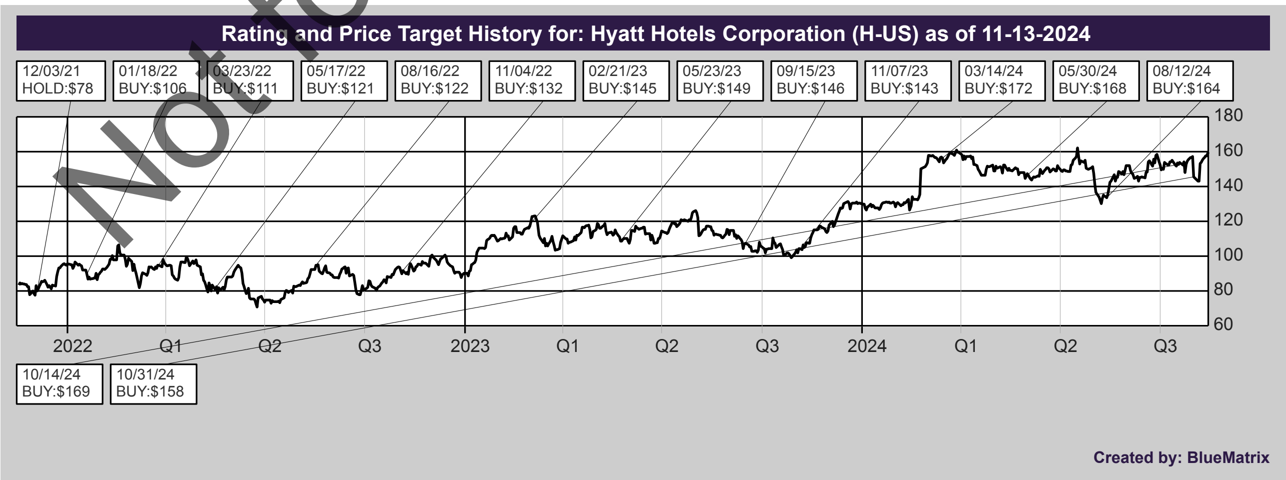

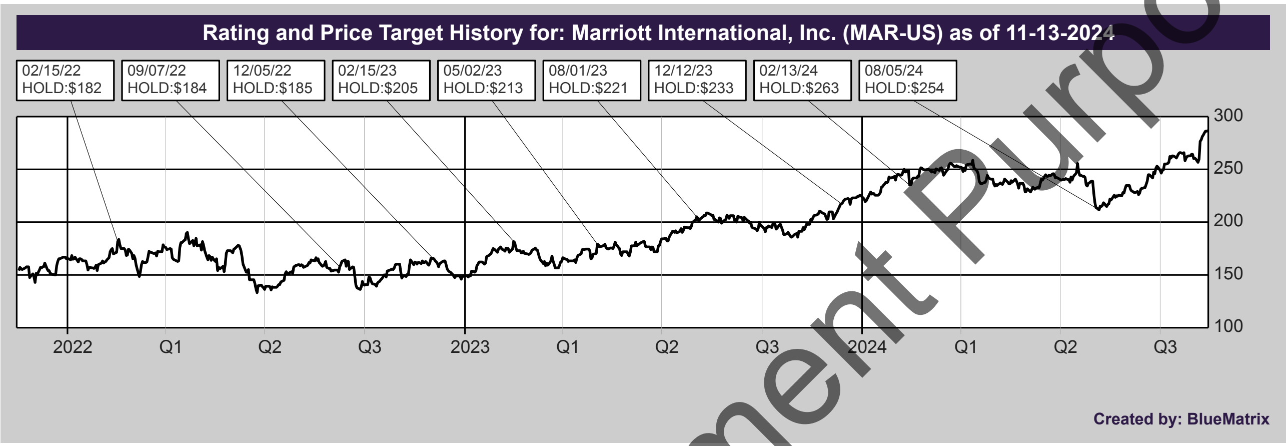

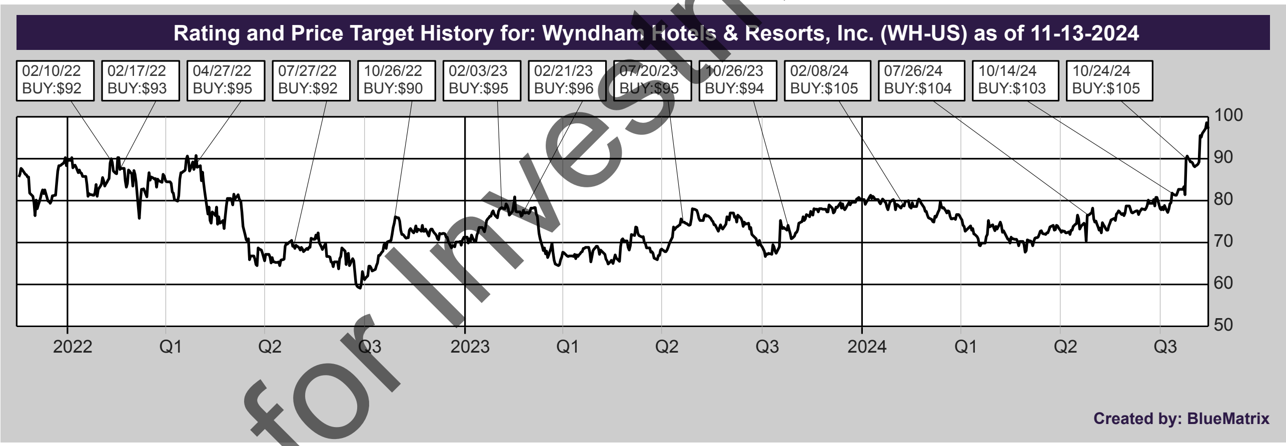

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Legend for Rating and Price Target History Charts:

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