Equity Research Report

November 29, 2023

CONSUMER: Lodging

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14 Page Document

Reasons for this report

✓ Latest observations on forward-looking booking and pricing trends for US hotels and anecdotal learnings from industry contacts, including detail on the three main customer segments:
- Individual Business
- Group/convention
- Leisure
- First look into 2024

November RevPAR Monitor: Fairly consistent forward trends but mixed implications for companies

In this report we discuss:

- **Latest observations on forward-looking booking and pricing trends for mid and higher-end U.S. hotels and anecdotal learnings from industry contacts, including detail on the three main customer segments:**
  - **Forward-looking RevPAR trends "steady eddie". Not seeing signs of any newly emerging pullback in demand. Our RevPAR growth projections:**
    - **4Q23: +3-4% y/y, 1Q24 +2-4%, and 2Q24 +3-5%; all slightly above consensus**
      - **Group/convention: at or above the high-end of the above ranges**
      - **Individual Business: at least at the mid-points**
      - **Leisure: at or below the low-ends of the ranges**

- **Stocks/picks**
  - **Are these growth rates "good enough" to make the stocks work?**
  - **Hotel C-Corps (H, HLT, MAR), likely Yes given additional earnings growth from net unit additions. MAR's (Hold) 4Q US + Canada RevPAR likely to come in towards higher-end of the +3-4% guide, if not very slightly above.**
    - **For C-corps: Hyatt remains our favorite name given strength in group, accretive asset sales, balance sheet, and comparative valuation.**
  - **Hotel REITs, mostly No as RevPAR growth rates not likely strong enough to prevent margin contraction and consensus margin expectations look too optimistic.**
    - **For hotel REITS: Ryman (RHP, Buy) remains our favorite name due to outsized exposure to group strength.**

Based upon our analysis of millions of future reservations for <u>mid and higher-end U.S. hotels</u> from multiple "big data" sources and from conversations with hotel owner/manager contacts and executives at very large travel agencies, we best describe forward-looking RevPAR trends as "steady eddie". Not dissimilar to 3Q23's performance, for 4Q23 we are projecting RevPAR growth on average for these types of hotels finishing up 3-4% y/y, 1Q24 +2-4% and 2Q24 +3-5%. **All of these trends, drivers of, and implications for companies/stocks are described in further detail in this report.**

- **At a high-level, the most positive news is that as evidenced by forward-looking hotel bookings, we are clearly not seeing signs of any newly emerging pullback in demand.** However, we see domestic leisure hotel RevPAR growth lethargic at best, with occupancy down slightly y/y with room rates up slightly y/y, implying flat-ish RevPAR growth for this customer segment.

Specifically by customer segment, we see **group** finishing at or above the high-end of the above ranges (San Francisco market excluded), **individual business** at least at the mid-points, and **leisure** at or below the low-ends of the ranges. While actual revenue paces "on the books" for 1Q24 and 2Q24 are currently tracking much higher than these ranges as most of what is currently on the books is from the outperforming group segment, we factor in a deceleration of group booking pace as arrival dates get closer, a trend we have observed all year, combined with a higher mix of business and leisure customers as arrival dates get closer. Lastly, as reflected in the above forecasts, the Easter shift, most noticeable for group business, will pressure 1Q24 growth rates (March is hurt) but be a tailwind to 2Q24 (April is helped).

In general, we would say our forward observations and expected RevPAR growth ranges are modestly better than consensus expectations *(but see margin discussion below as margin implications for hotel owners is less favorable)*. Not so dissimilar to 3Q23 where we called out at mid-3Q that MAR's U.S. + Canada RevPAR would "likely come in towards the higher-end if not very slightly above their +2-4% guide" (actual result was +4.3%), we see a similar scenario for MAR's 4Q23's guide of +3-4%. We add that companies/hotels with above average group customer exposure, namely RHP, should especially see RevPAR growth at or above our quarterly forecasted ranges and consensus expectations (below).

Exhibit 1:

	Consensus y/y growth estimates				
Company	**4Q23**	**1Q24**	**2Q24**		**2024**
C-Corp					
H (Americas M&F)	Flat	1.8%	2.1%		1.9%
HLT (U.S.)	3.4%	2.6%	3.0%		2.4%
MAR (North America)	3.6%	2.2%	2.0%		2.6%
REIT					
DRH	Flat	1.3%	1.4%		2.0%
HST	2.0%	0.7%	1.1%		2.4%
PEB	4.5%	5.2%	4.0%		3.9%
PK	4.5%	2.8%	3.5%		3.1%
RHP	-0.2%	2.7%	2.9%		3.1%
RLJ	3.5%	2.7%	2.1%		2.6%
SHO	1.7%	0.5%	1.3%		1.6%

Source: Truist Securities, Consensusmetrix, HotelAVE

Putting it all together as it relates to the companies/stocks, are these growth rates "good enough" to make the stocks work? *Hotel C-Corps, likely yes. Hotel REITs, mostly no.*

- **Our forecasted RevPAR growth rates are probably "good enough" for, Hilton, Hyatt, and Marriott.** If these companies did not also have mid-single digit net unit growth tailwinds (these alone should translate to mid-to-high single digit EBITDA growth rates), then our view might be different. Perhaps more importantly for these (mostly) asset-lite companies, and as discussed below, they do not bear the brunt of operating costs growing 4-5%+ y/y (ex-taxes and insurance) in 2024 a growth rate we see as margin headwinds for most hotel REITS.
- **Forecasted RevPAR growth rates probably "not good enough" for most hotel REITS given margin pressures. We believe consensus expectations for margin growth/(declines), as shown below, are too optimistic as we believe margins down at least 100 bps y/y in 2024 is a more likely outcome**. As we have noted in recent research and from discussions at last month's NAREIT conference, at the mid-point or likely even the high-end of our RevPAR ranges we believe it will be very difficult for most hotel REITS/owners to maintain flat margins; we see RHP as the notable exception given their high exposure to the outperforming group segment. By comparison:

Exhibit 2: Consensus Adj. EBITDA y/y margin growth (decline) expectations

	Consensus estimates				
Company ($M)	**4Q23E**	**1Q24E**	**2Q24E**		**2024E**
REIT					
DRH					
Adj. EBITDA margin y/y chg (bps)	(337)	(54)	1		(15)
HST					
Adj. EBITDA margin y/y chg (bps)	116	216	149		103
PEB					
Adj. EBITDA margin y/y chg (bps)	119	217	48		(25)
PK					
Adj. EBITDA margin y/y chg (bps)	48	(5)	8		235
RHP					
Adj. EBITDA margin y/y chg (bps)	73	(102)	(61)		1
RLJ					
Adj. EBITDA margin y/y chg (bps)	(68)	(13)	(51)		(50)
SHO					
Adj. EBITDA margin y/y chg (bps)	(125)	172	342		(37)

Source: Truist Securities, Consensusmetrix, FactSet

The lodging stocks: While there were puts and takes in our latest data checks and industry conversations, overall we continue to summarize our view on the lodging sector at the moment as one of "relative optimism," *though more so for the global C-Corps and less so for the hotel REITS.*

- **Of the lodging stocks our favorite name continues to be Hyatt, which we see having several idiosyncratic catalysts.** Hyatt is a beneficiary of group strength primarily through its legacy portfolio but also to an extent the acquired Apple Leisure Group, the recovery of international higher-rated travel, strength in global leisure demand, a continued push to asset-light, a leading global rooms pipeline, and best of sector balance sheet.
- **For the hotel REITS, our favorite name is RHP.** 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 benefitting 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.

Group business: We observe in our data intelligence that group revenue pace for 1H24 is currently tracking approx. +13-15% y/y (approx. 40% of this from occupancy, 60% from ADR). However as noted previously, as arrival dates get closer the pace of revenue growth slows, most notably for expected occupancy growth. For example, October lost approx. 9 points of revenue growth in the 60 days prior due to a weak last minute pace of bookings but still finished approx. +8% y/y as that pace was tracking up over 20% y/y back in June. By comparison, what companies noted for 2024 group paces during 3Q23 earnings calls.

Exhibit 3:

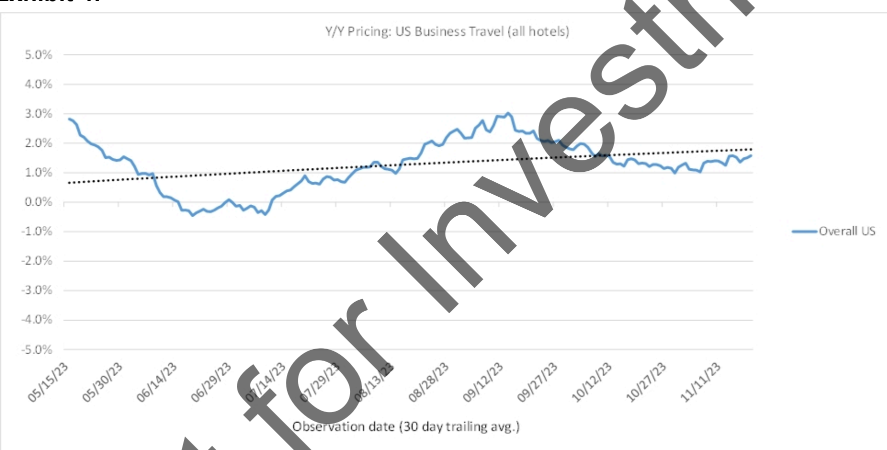
	Group Demand & Rate vs. Comparable Period			
	Full Year 2024			Geographic Guidance
	RN Pace	ADR	Revenue	
C-Corp				
H	-	-	+8%	U.S.
HLT	-	-	+18%	Global
MAR	+9%	+5%	+14%	U.S.
REIT				
DRH	-	-	+23%	U.S.
HST	-	-	+13%	Global
PEB	+9%	+2%	+11%	U.S.
PK	-	-	+18%	U.S.
RHP	-	-	+10%	U.S.
SHO	-	-	-	U.S.

Source: Truist Securities, company reports, HotelAVE

- **The "Easter shift" will be very impactful in 2024: In 2023 Easter fell on April 9, which pretty much wiped-out group events for the week leading up Easter, which has historically been the case for the week leading up to Easter Sunday. However for 2024, Easter shifts to March 31.** Implications are that group business will be severely negatively impacted for that last week of March in 2024 (1Q) whereas the week leading up to April 9 will have an incredibly easy y/y comp (2Q).

Transient individual business: We observe the latest bookings having low-single digit pricing growth. Based on corporate bookings "big data" from TRIPBAM, pricing on corporate bookings has been holding steady at up low-single digits y/y. *We plan to hold our next update webinar with TRIPBAM in mid-January to discuss the latest trends and observations for 2024.* *TRIPBAM WEBINAR NOTE*

Exhibit 4:



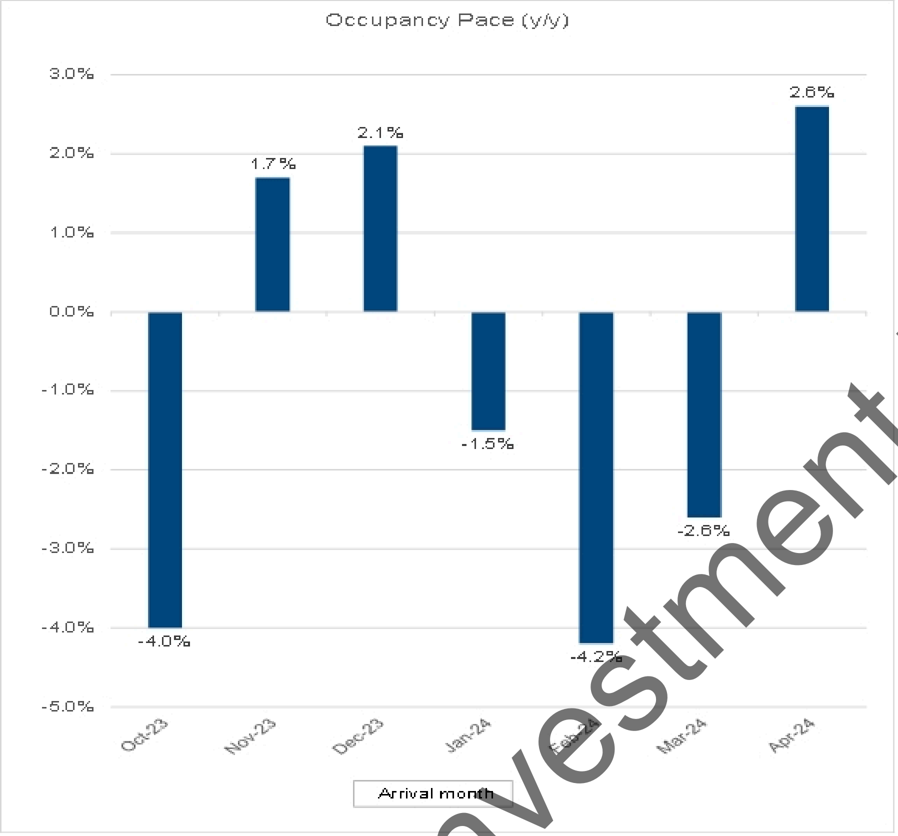
Source: TRIPBAM, Truist Securities.

Leisure (full-service resort hotels): Revenue pace for 4Q23 is tracking approx. +1-3% y/y, almost entirely from room rate growth.

- **Be aware of upcoming holiday shifts.** Based on data from resort analytics company Inntopia, we note there are several needle-moving holiday shifts in the upcoming months for leisure travel:
  - **Christmas and New Year's. 2024 leisure travel looks to start with a bang due to New Years Day shifting to a Monday from a Sunday.** This shift subsequently makes it more likely that that entire first week of January will be a vacation week for many school districts. However, the week before Christmas will be more difficult to fill as some demand going to the above noted first week in January. *Already we see outsized RevPAR strength for January in booking data for hotels at U.S. ski resorts but moderate softness in December; combining the two weeks, we believe there is still a modest positive net benefit from the shift.*
  - **MLK. Even though the holiday falls on a Monday in mid-January every year, booking pace for this holiday period is soft.** We and Inntopia believe this may be due to the extended Christmas/New Year's vacation pulling some business forward to early January.
  - **Easter: While the shift will be most pronounced for group business, it will also have an impact on leisure travel.** As seen in the RevPAR growth exhibit below, March, which will see school vacations during the last week of the month, should benefit from this shift, whereas April will be negatively impacted.

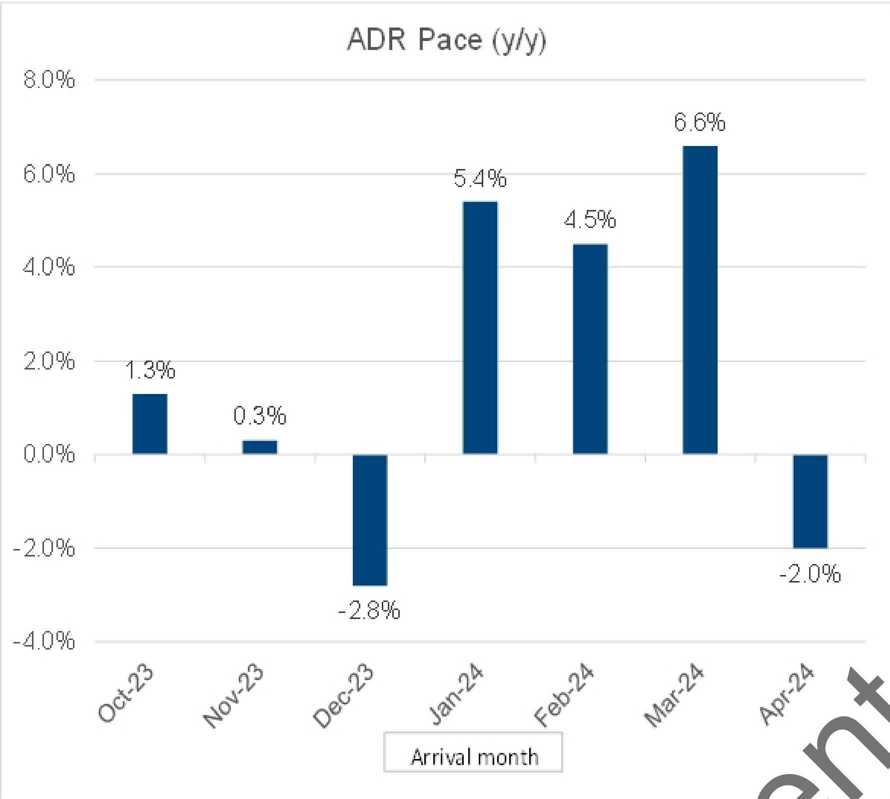
- **Will summer 2024 be a return to "normalization" for U.S. leisure/resort hotels following 2023 where many Americans headed to Europe for vacations; or in other words will these Americans who finally got to visit Europe after not doing so since 2019 take their vacations in the U.S. after "checking the box" for international travel in 2023?** While there is minimal hotel or short-term rental reservation data at this point to quantify such speculation nor will there be until around March of 2024, our intuition will be that *some* Americans who elected to travel internationally this year will decide to take their vacations domestically next year.
- **To help gauge the strength/weakness of higher-end U.S. leisure travel we look at future occupancy, rate, and RevPAR pace for hotels at western U.S. ski resorts, popular destinations for both summer and winter vacations (source DestiMetrics).** Please join us on Monday, December 18 as we host a webinar with Inntopia to discuss their latest observations and thoughts. Our observations on forward occupancy, ADR, and RevPAR for hotels at U.S. ski resorts:

Exhibit 5:



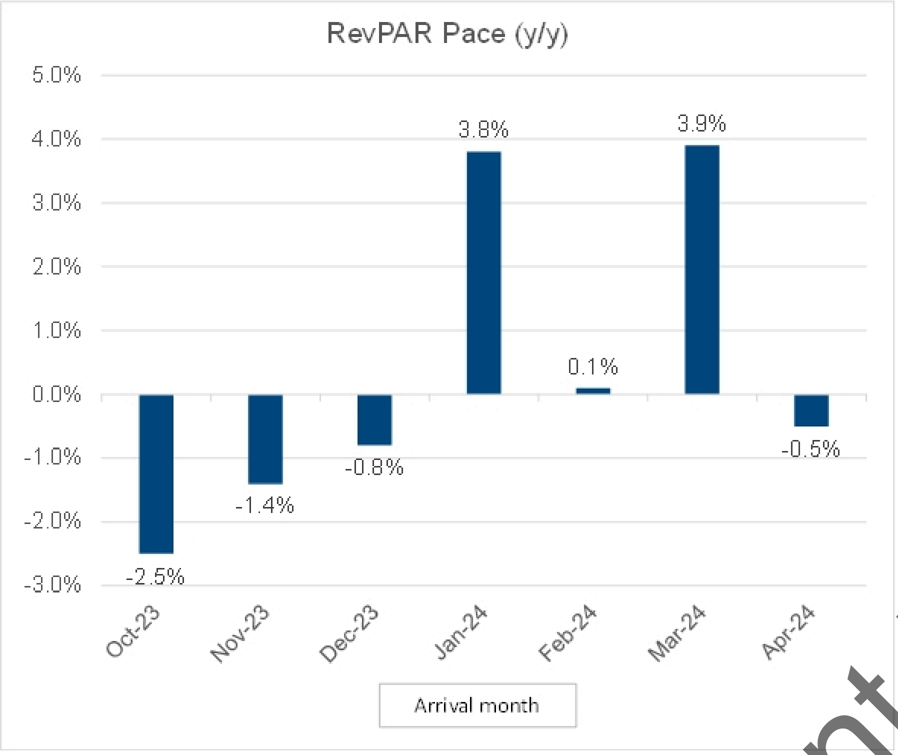
Source: Inntopia, Truist Securities Research

Exhibit 6:



Source: Inntopia, Truist Securities Research

Exhibit 7:



Source: Inntopia, Truist Securities Research

Additionally to gauge strength/weakness in leisure travel we look at data from Airdna. Forward-looking data on short term rentals from Airdna suggests continued strength in overall bookings/demand (which includes same-store plus new supply) through January 2024 with the pace of demand up 9-11%. The extended forecast improves up into the 18-25% range for February-April 2024, though this lofty pace is expected to decelerate as arrival dates get closer as guests are booking further in advance than at the same time last year. *However, given the tremendous amount of new-short term rental supply still coming in, this on top of several years of high supply growth, demand is being diluted among more properties and is pressuring same-store results as supply growth is greater than demand growth*. Short-term rental supply was up 16.8% y/y in October, implying that same-store occupancies have a significant headwind against them (which we clearly observe in our analysis of “big data” from Key Data further in this report).

Exhibit 8:

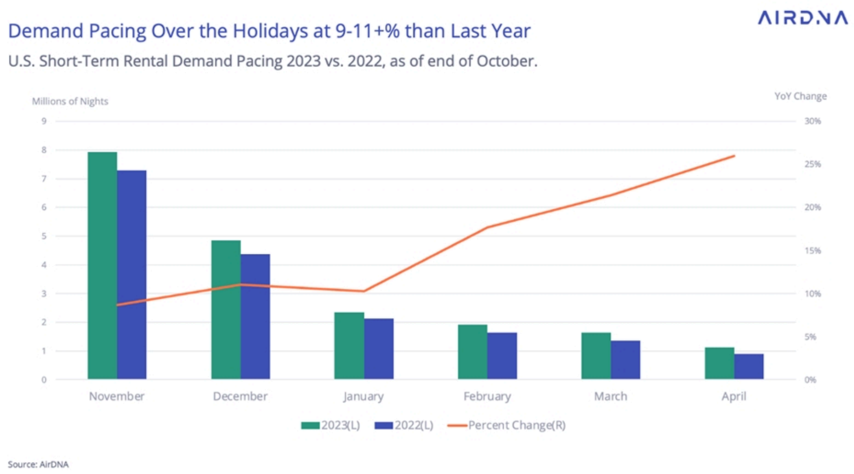
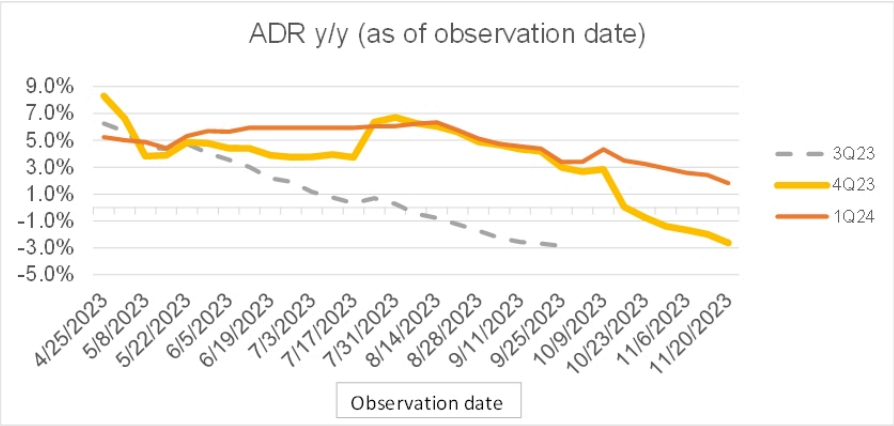


Exhibit 9:

Finally, we wrap our leisure discussion with analysis from Key Data. Our data set tracks bookings and pricing on thousands of U.S. condos and resorts, and we view Key Data as having about six months of forward visibility. In our review of Key Data, we see:

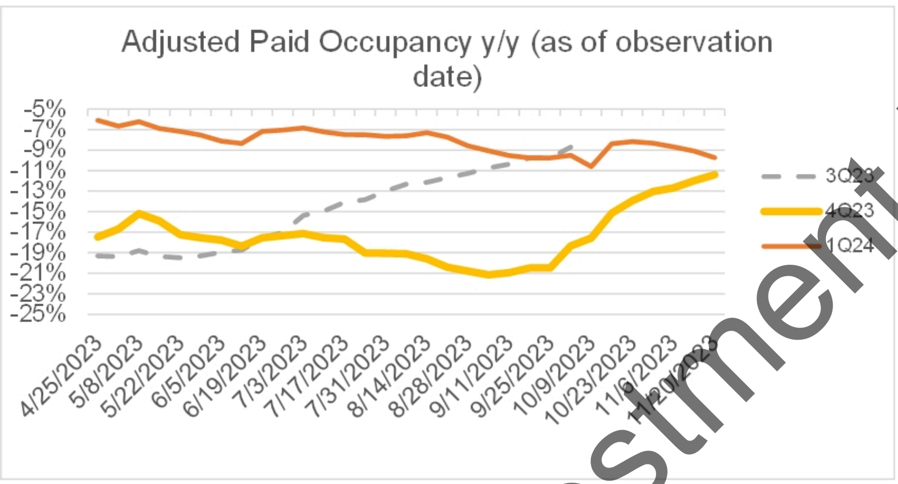
- **ADR down low-single digits for 4Q23 and while currently up low-single-digits y/y for 1Q24, the trend line suggests that quarter will also finish down low-single digits y/y**.
- **Same-store occupancy on the books extremely soft, the later which we mainly attribute to the tremendous amount of new short-term rental supply growth over the past several years.** As noted by Airdna, U.S. short-term rental supply is currently tracking up approx. 17% y/y.

Exhibit 10:



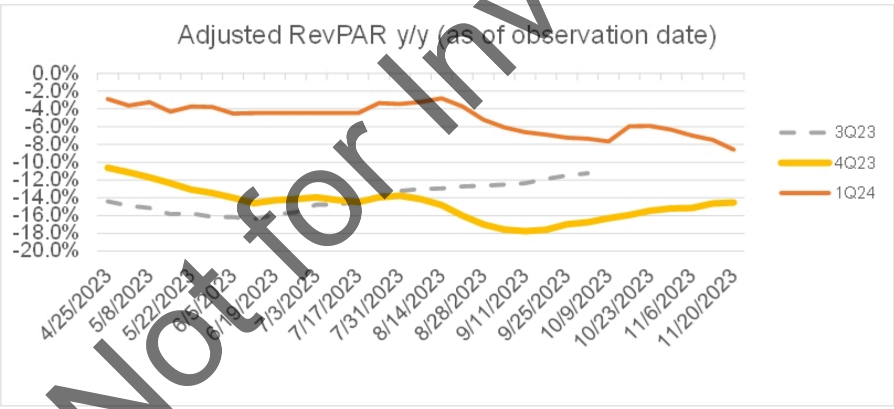
Source: Key Data, Truist Securities Research

Exhibit 11:



Source: Key Data, Truist Securities Research

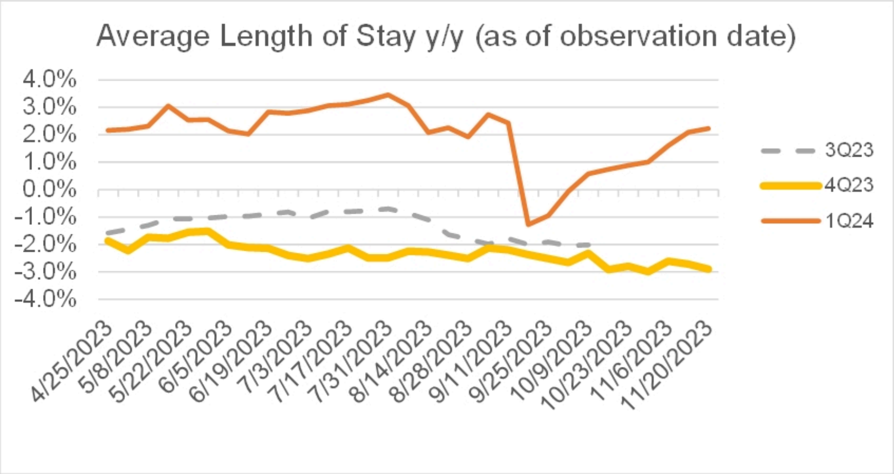
Exhibit 12:



Source: Key Data, Truist Securities Research

- **We also analyze length of stay from Key Data.** Interestingly, while length of stay was down low-single digits for the back half of 2023, it is currently tracking up low-single digits for 1Q24:

Exhibit 13:



Source: Key Data, Truist Securities Research

Exhibit 14:

Segmentation By Company

Lodging REITS	Transient Corporate*	Transient Leisure	Group
DRH	35%	35%	30%
HST	40%	25%	35%
PEB	35%	40%	25%
PK	35%	35%	30%
RHP	5%	25%	70%
RLJ	55%	25%	20%
SHO	35%	30%	35%
C-corps	**Transient Corporate***	**Transient Leisure**	**Group**
CHH	45%	45%	10%
H	20%	50%	30%
HLT	50%	20%	30%
MAR	50%	30%	20%
WH	30%	70%	less than 1%
Experiential Leisure	**Transient Corporate**	**Transient Leisure**	**Group**
MTN	0%	95%	5%
PLYA**	0%	90%	10%
Cruise Lines	**Transient Corporate**	**Transient Leisure**	**Group**
CCL	0%	100%	0%
NCLH	0%	100%	0%
RCL	0%	100%	0%
Vacation Ownership	**Transient Corporate**	**Transient Leisure**	**Group**
BVH	0%	100%	0%
HGV	0%	100%	0%
TNL	0%	100%	0%
VAC	0%	100%	0%

Source: Company reports, Truist Securities Research

H: Valuation and Risks

Our price target of $143 is derived by applying a 14.2x target EV/EBITDA multiple (a blended average of the industry multiples for each business segment) to our estimate for 2024 EBITDA. Our sum-of-the-parts analysis on our 2024 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.

RHP: Valuation and Risks

Our price target of $123 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.

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 2024 adjusted EBITDA estimate to derive a price target of $175. 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.

MAR: Valuation and Risks

Our $221 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.

Companies Mentioned in This Note

Hyatt Hotels Corporation (H, $114.19, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $167.37, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, $204.66, Hold, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $99.05, Buy, C. Patrick Scholes)

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I, Gregory J. Miller , hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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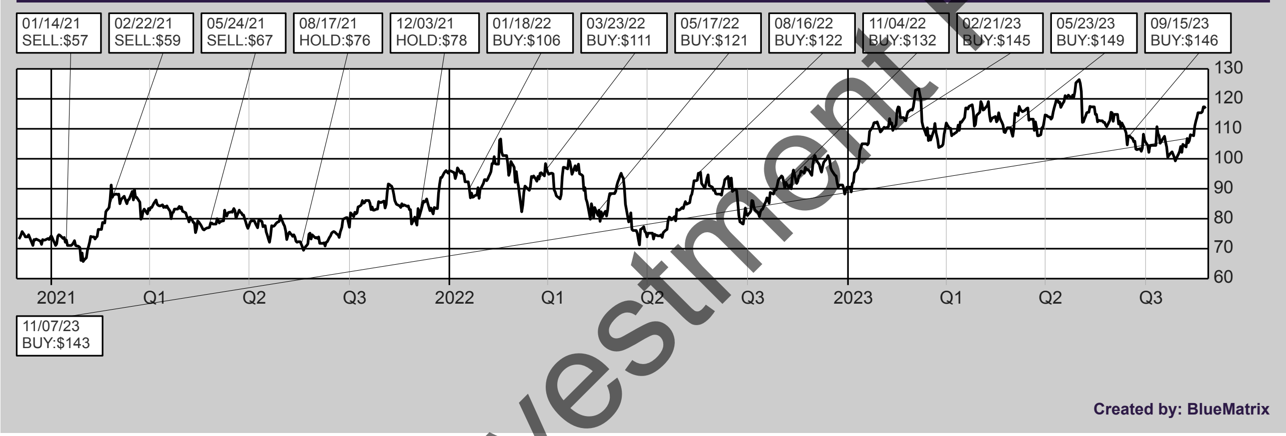
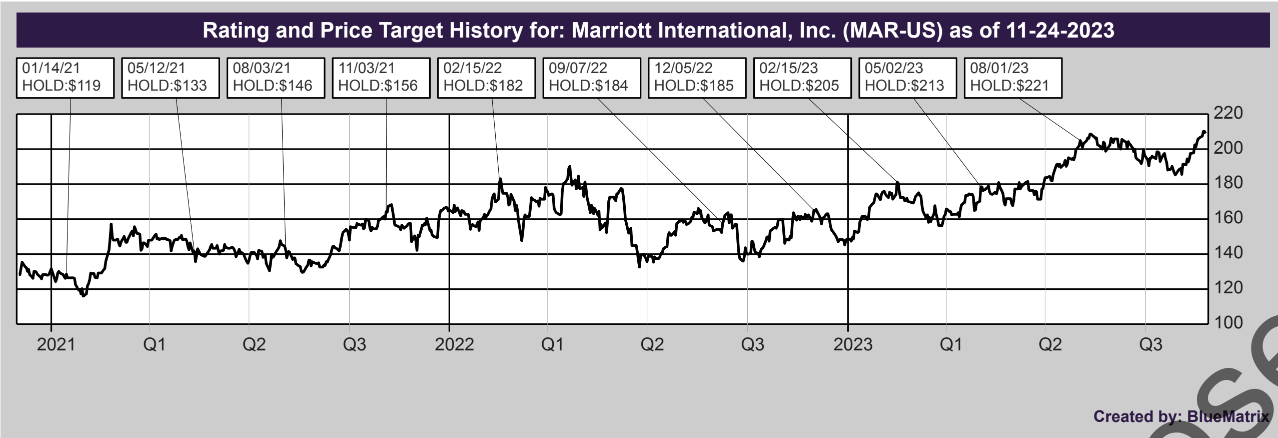
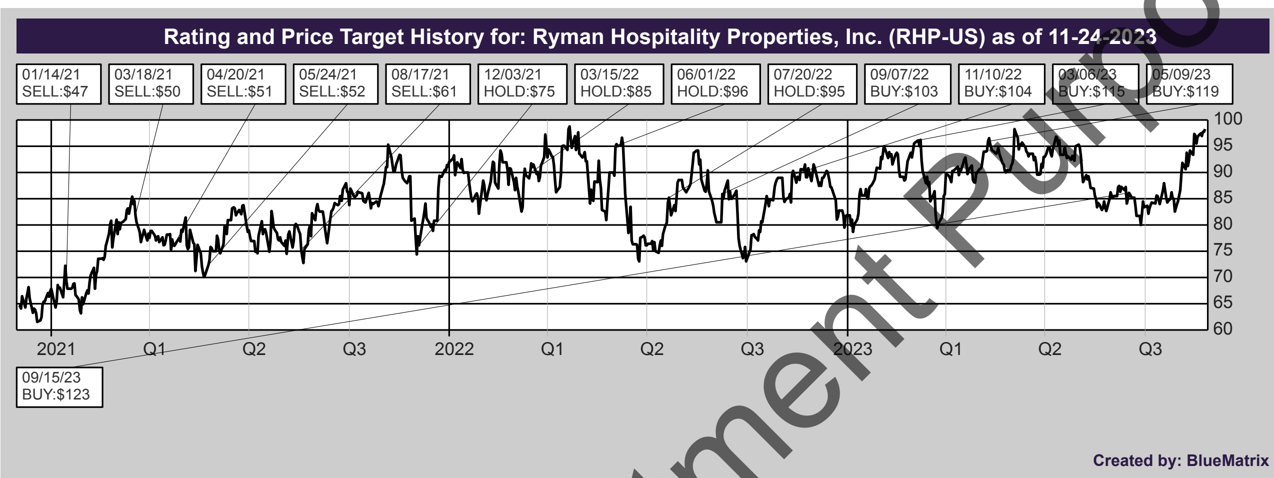
Rating and Price Target History for: Hyatt Hotels Corporation (H-US) as of 11-24-2023



Rating and Price Target History for: Hilton Worldwide Holdings Inc. (HLT-US) as of 11-24-2023





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Hold	239	34.14%	Hold	31	12.97%
Sell	5	0.71%	Sell	1	20.00%

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