Equity Research Report

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CONSUMER: Lodging

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7 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

March RevPAR Monitor: Minuses/Plusses: 1Q a bit weaker than initially expected but hopeful initial signs for summer

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.**
- **Implications for companies/stocks.**
  - **Wyndham (WH, Buy) new top lodging pick following underperformance and Hyatt's (H, Buy), previous top pick, outperformance.**

Based upon our analysis of millions of future reservations for mid and higher-end U.S. hotels from multiple "big data" sources and from conversations with hotel owner/manager contacts and executives at very large travel agencies, there were both minuses and plusses in our latest observations. While our overall 2024 RevPAR growth forecast for these types of hotels of +2.5-4.5% is unchanged, 1Q is about 100-200 bps. lighter, now tracking at flat to +2% y/y. Our 1Q forecast is lower than what than we initially forecasted in January due to a softer pace of near-in group bookings and an even more difficult Easter comp than we had originally expected. However, initial summer leisure demand and pricing trends continue to look *relatively* encouraging following the past year's difficult comparisons against 2021-2022's "revenge travel" surge and Americans heading abroad in 2023.

Key observations from the forward-looking booking and pricing trends for the three customer segments: 1) Not surprisingly for those who closely follow this industry **group revenue paces *two-plus months* out from arrival are incredibly strong (HLT described it as "demand off the hook" on their 4Q23 earnings call)**. That said, such outsized strength is partly fueled by an elongated booking window and we continue to observe soft near-in group bookings. Subsequently, final RevPAR results are somewhat challenging to precisely forecast given the sizable near-in deceleration, albeit off of a lofty initial base, or as PEB's CEO noted on their 4Q earnings call last month on such booking trends, *"That's what makes it hard to forecast".* **2)** While **corporate booking volumes are roughly flat y/y** and remain down about 10% from pre-Covid levels, we have clearly seen **an uptick this year in ADRs for this customer** as 2024's negotiated room rate growth of mid-to-high single digits kicks-in for this traveler. **3)** While still fairly early in the booking cycle, **leisure booking and pricing trends for the summer look *relatively* encouraging** following the past twelve months of soft y/y results (but still up materially versus 2019). **All of these trends, drivers of, and implications for companies/stocks are described in further detail in this report.**

1Q24 RevPAR growth looks softer than we expected in January. We had previously forecasted 1Q24 RevPAR growth for mid and higher-end U.S. hotels finishing up 2-4% or 1-3% whereas we now see growth closer to Flat to +2% y/y. As noted previously, the deceleration of group booking pace as arrival dates got closer was a bit more severe than we initially anticipated as will be the negative impact from the Easter shift at the end of March (RevPAR results for the last week of March will be deeply negative due to the shift), which subsequently results in the lower RevPAR projection. To put some statistics around the group revenue pacing trends for 1Q24, reflecting the extended group booking window two months ago, we observed industry-wide group revenue on the books for 1Q24 tracking up low-teen percentages on a comparable basis vs. the same time last year for 1Q23. However, given the near-in deceleration, we see this customer segment finishing up only low-to-mid single-digits y/y for 1Q24 whereas we had previously believed it would finish at up mid-single digits; *we are sure hotel company executives and revenue managers reading this report are familiar with this trend and with the challenges in forecasting given the severe near-in deceleration.*

- **Despite lower expectations for 1Q24, we are still forecasting 2024 RevPAR growth of +3-5% for global C-Corps H (Buy), HLT (Hold), and MAR (Hold) (stronger internationally than domestically), flat-ish for U.S.-centric midscale/economy companies CHH (Hold) and WH (Buy), and +2-4% for hotel REITS (possibly +1-3%).**
  - **For 2Q24** we continue to forecast RevPAR growth for mid and higher-end U.S. hotels of +2-4% (possibly +3-5%) with the quarter-over-quarter acceleration driven by the tailwind from the Easter shift in April.
  - **On a positive note,** and as discussed later in this report, early indications for domestic summer leisure travel are *relatively* encouraging in light of the challenging growth rates this customer experienced over the past year. ***Assuming* such trends hold, we see these early indications as positives for the leisure centric C-Corps, CHH and WH, and for the Vacation Ownership companies, HGV (Buy), TNL (Buy), and VAC (Buy).**
- **Specifically by customer segment**, we see **group** finishing at or above the high-end of the above ranges (San Francisco market excluded), **individual business** (corporate stronger than small and mid-sized businesses) at least at the mid-points, and **leisure** at or below the low-ends of the ranges, though it is possible leisure may be able to hit +2-3% y/y RevPAR growth this summer.

A big question is how do our forecasts compare with consensus and company guidances? As noted below, few companies have provided a specific U.S. or North American 1Q24 RevPAR guidance and those that did provided guidance at around the end of February, or two-thirds the way through the quarter (meaning visibility on how the quarter ends up, barring any shocks in March, is high). We also observe that many estimates included in Consusmetrix (we believe the best source for specific KPIs such as RevPAR growth) have yet to be updated for 4Q23 results (as noted in this report, we are publishing post-4Q23 estimates today and hence our RevPAR growth estimates, which are generally in +1% y/y range for 1Q24, are not included in consensus as of the publishing of this report). **With all of this in mind, we believe that consensus numbers will come down for 1Q24 as we get closer to earnings but 2Q24 will likely come up, and there will not be a material change to full-year expectations.**

Exhibit 1:

	Consensus y/y growth estimates			1Q24 Guidance
Company	1Q24	2Q24	2024	
C-Corp	6.6%	2.6%	4.4%	N/A
H (Americas M&F)	2.3%	3.4%	3.1%	N/A
HLT (U.S.)	3.1%	3.1%	3.1%	N/A
MAR (North America)				
REIT				
DRH	1.4%	2.0%	2.3%	N/A
HST	1.5%	1.9%	2.6%	N/A
PEB	4.5%	3.9%	3.8%	0-2%
PK	3.8%	3.8%	3.5%	6.5% (implied)
RHP	2.6%	3.5%	3.1%	N/A
RLJ	2.8%	2.6%	2.9%	Positive y/y but below low-end of +2.5-5.5 2024 range
SHO	0.8%	1.5%	2.4%	N/A

Source: Truist Securities, Consensusmetrix, HotelAVE

Implications for the stocks:

Putting it all together as it relates to the companies/stocks, are these growth rates alone "good enough" to make the stocks work? Probably not as it will take the added earnings push from net unit growth for Hotel C-Corps and continued improving Fed-driven investor sentiment for the Hotel REITS for these stocks to continue to move higher.

- **For C-Corps Hilton, Hyatt, Marriott, and Wyndham (and less so for Choice),** in addition to RevPAR growth, these companies also have low-to-mid single digit net unit growth tailwinds (these alone should translate to mid-to-high single digit EBITDA growth rates). Importantly for these (mostly) asset-lite companies, 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.
  - **Of the lodging stocks our favorite name is now Wyndham (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 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). We view WH well positioned from a growth perspective, driven in part by net rooms growth of 3-5% per year (partly led by the ECHO Suites extended-stay hotel brand that will benefit from domestic infrastructure spend), sequential increases in the royalty rate of ~ 5 bps per year, and continued tuck-in brand acquisitions in global markets. As an asset-lite, franchisee-centric business model where there are limited incremental WH corporate costs for most newly signed hotels, WH is well positioned to grow both organically and inorganically over time, in our view.

- **Forecasted RevPAR growth rates probably "not good enough" <u>alone</u> for most hotel REITS given margin pressures. That said, continued valuation multiple expansion is not out of the question as a stabilizing and falling interest rate environment may help to continue to improve investor sentiment (*or at least does not make it any worse than it was six months ago*).** Hotel REITs, for the most part and until commentary from the Fed last fall about lowering interest rates, had been out of favor with investors (and us) for several years, but have seen outperformance since the end of October likely due to a combination of improved investor sentiment around interest rates, short covering, and tailwinds from overall small-cap stock outperformance. Prior to the recent outperformance, hotel REITS were trading towards the bottom-end or below historical valuation ranges; especially HST and PK (larger cap names with perceived low likelihood of being acquired by Private Equity) and PEB (relatively high exposure to underperforming San Francisco market).
  - **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 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.

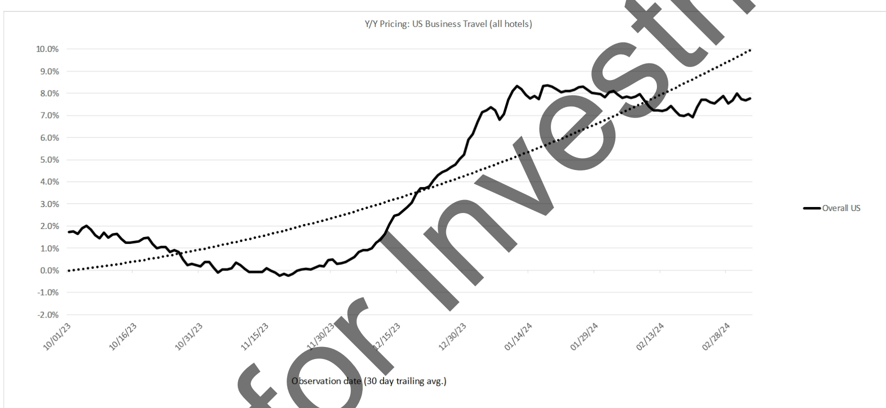
<u>Examining the three main customer segments</u>

Group business: We observe in our data intelligence that group revenue pace for 2Q24 is currently tracking approx. +10-12% y/y with approx. 40% of this from occupancy and 60% from ADR. That said, we believe the quarter will likely finish up mid-single digits for this customer segment given the aforementioned deceleration as arrival dates get closer. Looking at the second half of the 2024, we observe group revenue pace tracking approx. +9-11% y/y with the growth mostly coming from occupancy.

- **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).

Corporate Transient (individual) business: While forward booking volumes have been tracking flat to slightly up y/y, not so dissimilar to y/y supply growth for midscale and above hotels, beginning in mid-December we observed forward pricing (booking lead-time for this customer averages about three weeks) begin to accelerate. We believe this acceleration is a result of the 2024 corporate negotiated room rate growth of mid-to-high single-digits kicking-in for this traveler following 2023 where corporate negotiated rates only saw low-to-mid single-digit y/y increases.

Exhibit 2:



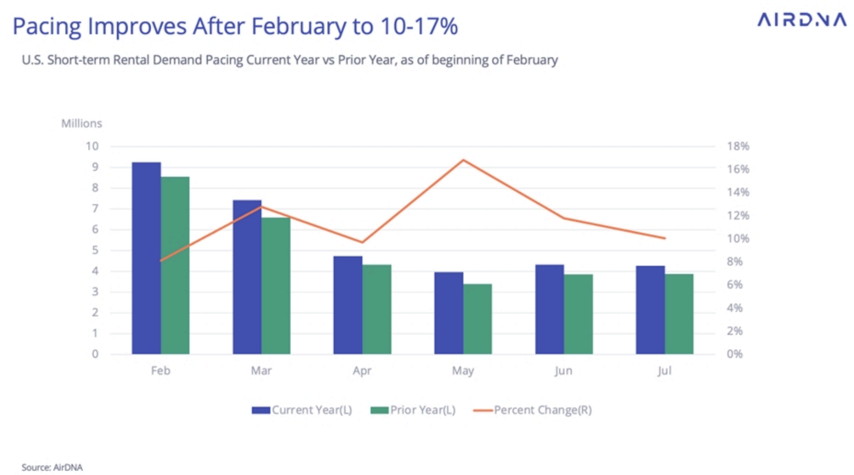
Source: TRIPBAM, Truist Securities.

- Additionally, while more impactful to mid and lower-end hotels, a tailwind for room rate growth in 2024 is government per-diems up 7% y/y (to $107 from $98), following 2023 where they only increased 2% y/y (to $98 from $96).

Leisure: The big question is *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?* To gauge **strength/weakness in domestic leisure travel we look at data from <u>Airdna</u> and <u>Key Data.</u>**

- **Forward-looking data on short term rentals from Airdna suggests continued strength in overall bookings/demand through July with the pace of demand up 10-17% (which includes same-store plus new supply of approx. 10% y/y).** Netting out the new supply, same-store demand (occupancy) pace is tracking flat to +7% and specifically for June and July roughly-flat y/y. We note May looks especially strong and we believe it's due to two extra days of May for Memorial Day week whereas the last day of May in 2023 was the Wednesday after Memorial day (it is the Friday after Memorial Day this year). By comparison, flat y/y for June and July is an improvement from 2023 where supply-adjusted same store occupancy was down approx. 5% y/y.

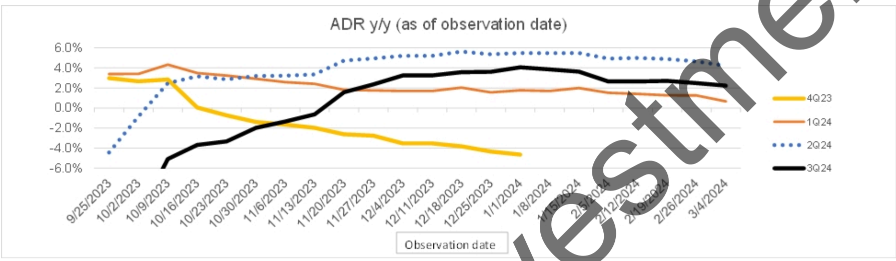
Exhibit 3:



Additionally to gauge how forward leisure booking and pricing trends are looking, we analyze "big data" from Key Data. Our data set tracks real-time bookings and pricing on over 150,000 rental units at 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:

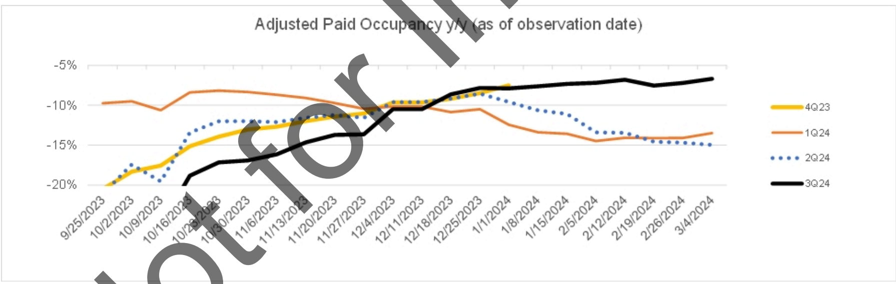
- **ADRs** are up low-single digits y/y for 1Q24-3Q24, this following 4Q23 where they were down low-to-mid single digits y/y.
- **Same-store occupancy on the books** is still tracking negative y/y, however when we strip-out the 7% y/y supply growth for 2024 in this data set, occupancy for the summer months is actually tracking flat-ish y/y.

Exhibit 4:



Source: Key Data, Truist Securities Research

Exhibit 5:



Source: Key Data, Truist Securities Research

Please join us next month as we hold an expert call and Q&A session with executives of Key Data and VTrips (Private) to get additional insights into the latest trends in alt accommodations/vacation rentals and overall leisure travel trends ahead of the 1Q24 results for Airbnb, OTAs, and other leisure-centric companies, as well as thoughts on and spring break and observations for summer 2024. [Further details here.]

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

Companies Mentioned in This Note

Choice Hotels International, Inc. (CHH, $125.86, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $157.02, Buy, C. Patrick Scholes)
Hilton Grand Vacations Inc. (HGV, $46.09, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $208.53, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, $251.41, Hold, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $114.98, Buy, C. Patrick Scholes)
Travel + Leisure Co. (TNL, $45.30, Buy, C. Patrick Scholes)
Marriott Vacations Worldwide Corporation (VAC, $98.00, Buy, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $78.64, Buy, C. Patrick Scholes)
VTrips (private)

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