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Truist Securities

Lodging

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What's Inside

China and Europe data and analysis following last week's results

China & Europe hotels: RevPAR +9% y/y (3yr: -43%) & +151% y/y (3yr: -30%) for wk ending 1/8

Vs. 2019: Lockdowns quickly send China backwards week-over-week; Europe "less bad"

What's Incremental To Our View

Quick take: Per STR for the week ending January 8th, hotel RevPAR in China in local currency was +9.1% y/y vs. +1.3% y/y in the prior week. Last week's RevPAR was up against a -40.6% comparable result in 2021 vs. -7.5% in the prior week. *Versus 2019, which we believe is an equally if not more important KPI, RevPAR was -43.0% vs. -2.6% in the prior week's result.*

- **Over the past month China had seen strong sequential week-over-week improvement but renewed lockdowns have sent results the other way over the past week. See exhibit 1.**

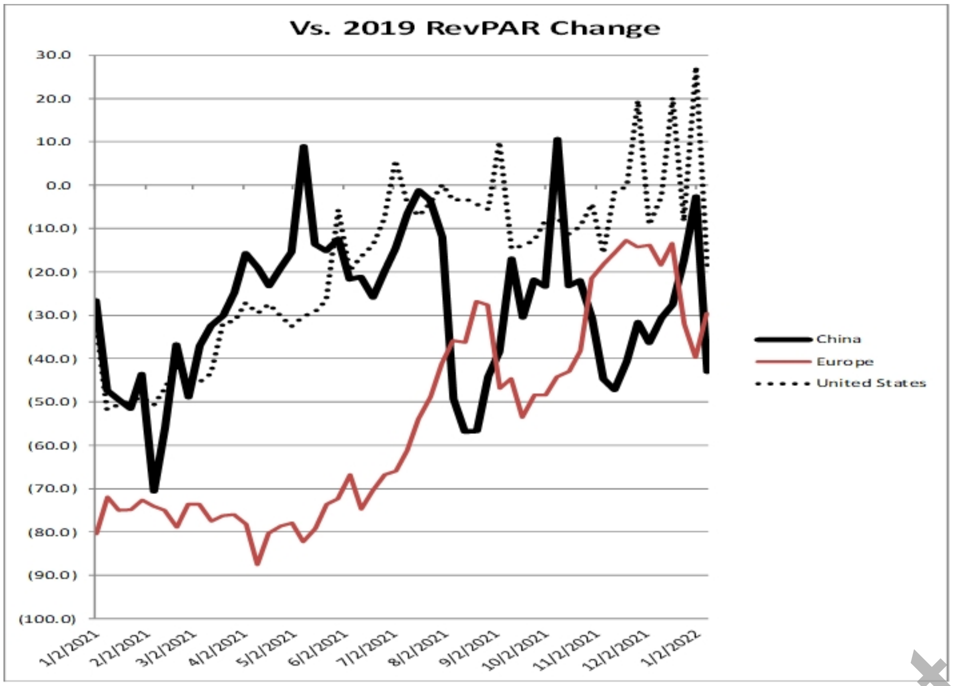
Europe: RevPAR in Europe in Euros was +151.3% y/y vs. +239.5% in the prior week. Last week's RevPAR was up against a -71.1% comparable result in 2020 and -79.6% in the prior week. ***Versus 2019, RevPAR was -29.6% vs. the -39.7% in the prior week's result.***

U.S.: Overall RevPAR was +67.0% y/y, weaker than the prior week's result of +94.4%. Last week's RevPAR was up against a -47.4% comparable result in 2021 vs. -35.1% in the prior week's 2-year run-rate. *On a 2-year run-rate, RevPAR was -19.0% vs. +27.4% in the prior week's 2-year run-rate.*

- While we can point to the impact of omicron especially to business travel (individual and group) in the traditionally low demand period of early January, the 2019 comparison is also impacted by a tough calendar shift (2019 comparison week starting 1/6 vs. 2021 on 1/2).

SEE PAGE 7 FOR REQUIRED DISCLOSURE INFORMATION

Exhibit 1: 2-Year RevPAR for China, Europe, US



Source: STR, Truist Securities research

RevPAR detail for week ending January 8th vs. trailing 28 days (see charts at end of note for graphical representations):

<u>China (local currency):</u>

- RevPAR was +9.1% y/y for the week ending January 8th, **an improvement from** the -6.9% for the trailing 28 days.
- ADR was +1.7% y/y for the week ending January 8th, **equal to** the +1.7% for the trailing 28 days.
- Occupancy was +7.3% y/y for the week ending January 8th, **an improvement from** the -8.4% for the trailing 28 days.

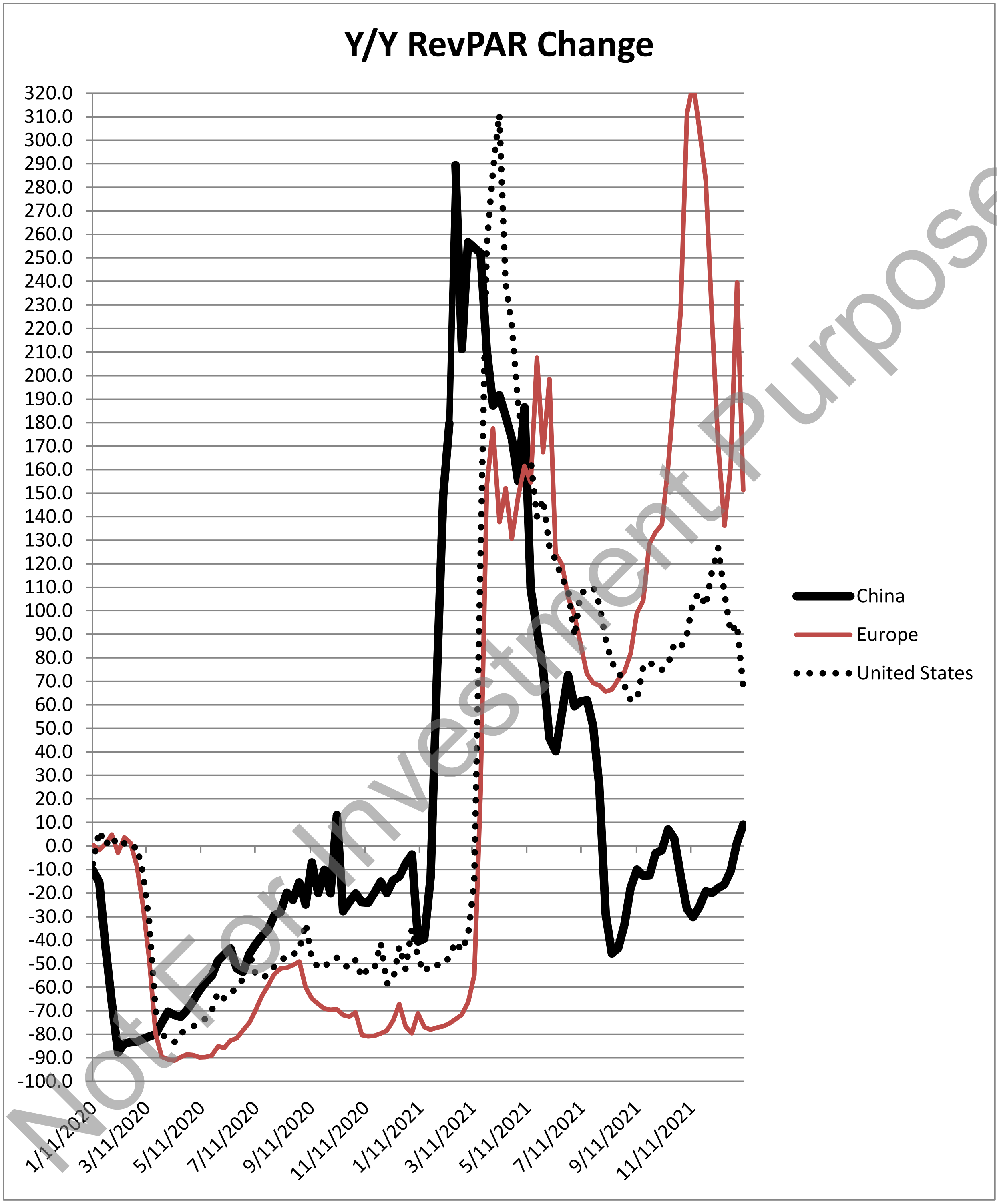
<u>Europe (in Euros):</u>

- RevPAR was +151.3% y/y for the week ending January 8th, **a deceleration from** the +172.5% for the trailing 28 days.
- ADR was +38.6% y/y for the week ending January 8th, **an improvement from** the +36.6% for the trailing 28 days
- Occupancy was +81.4% y/y for the week ending January 8th, **a deceleration from** the +99.5% for the trailing 28 days.

<u>Additional thoughts and observations:</u>
Hotel occupancy observations from the latest weekly STR results from China, Europe, and US:

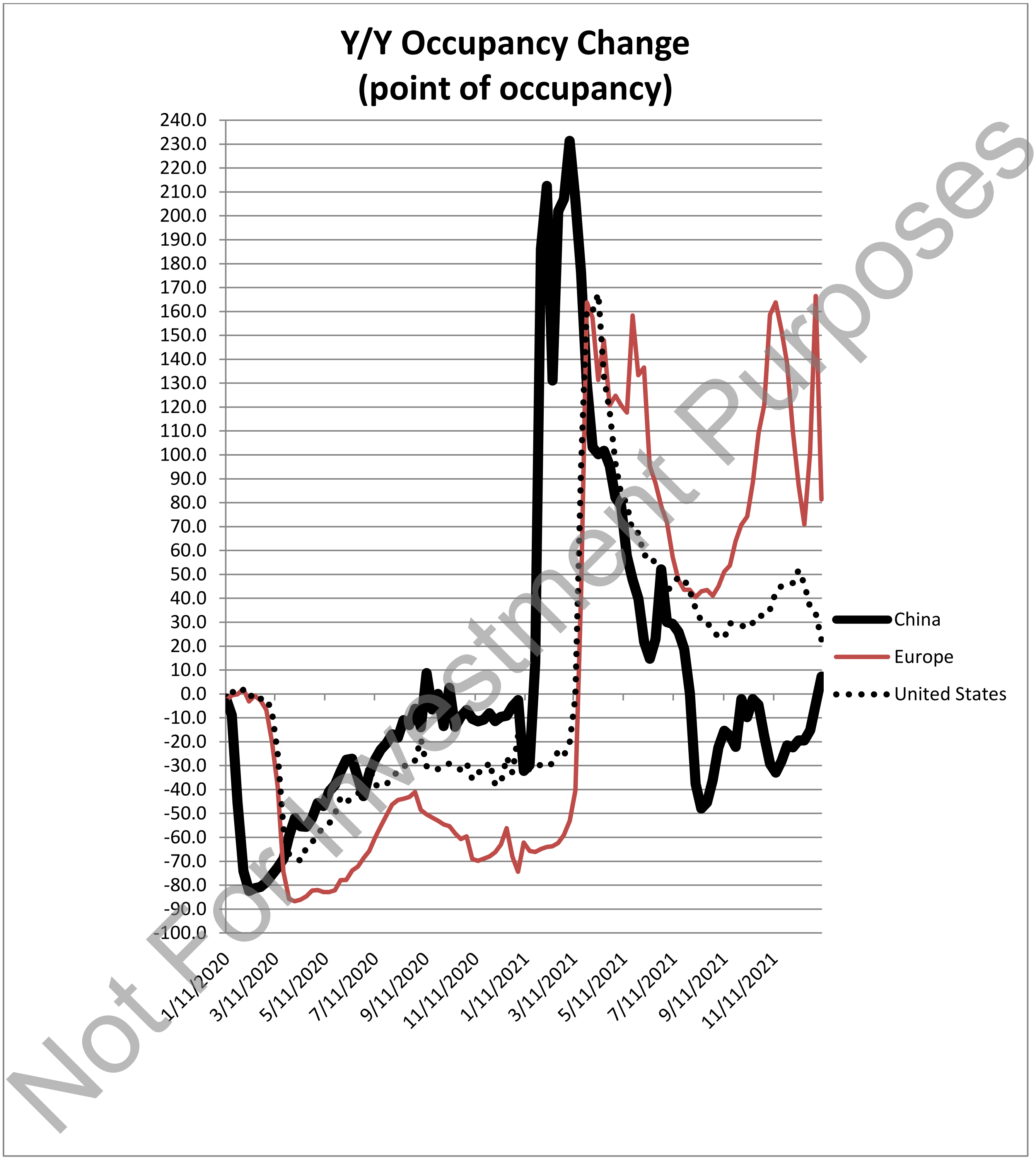
- **China: Absolute occupancy was 46.9%.** *By comparison, occupancy was 43.7% during the comparable week last year.*
- **Europe: Absolute occupancy was 34.0%.** *By comparison, occupancy was 18.8% during the comparable week last year.*
- **US: Absolute occupancy was 45.4%.** *By comparison, occupancy was 37.1% during the comparable week last year.*

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



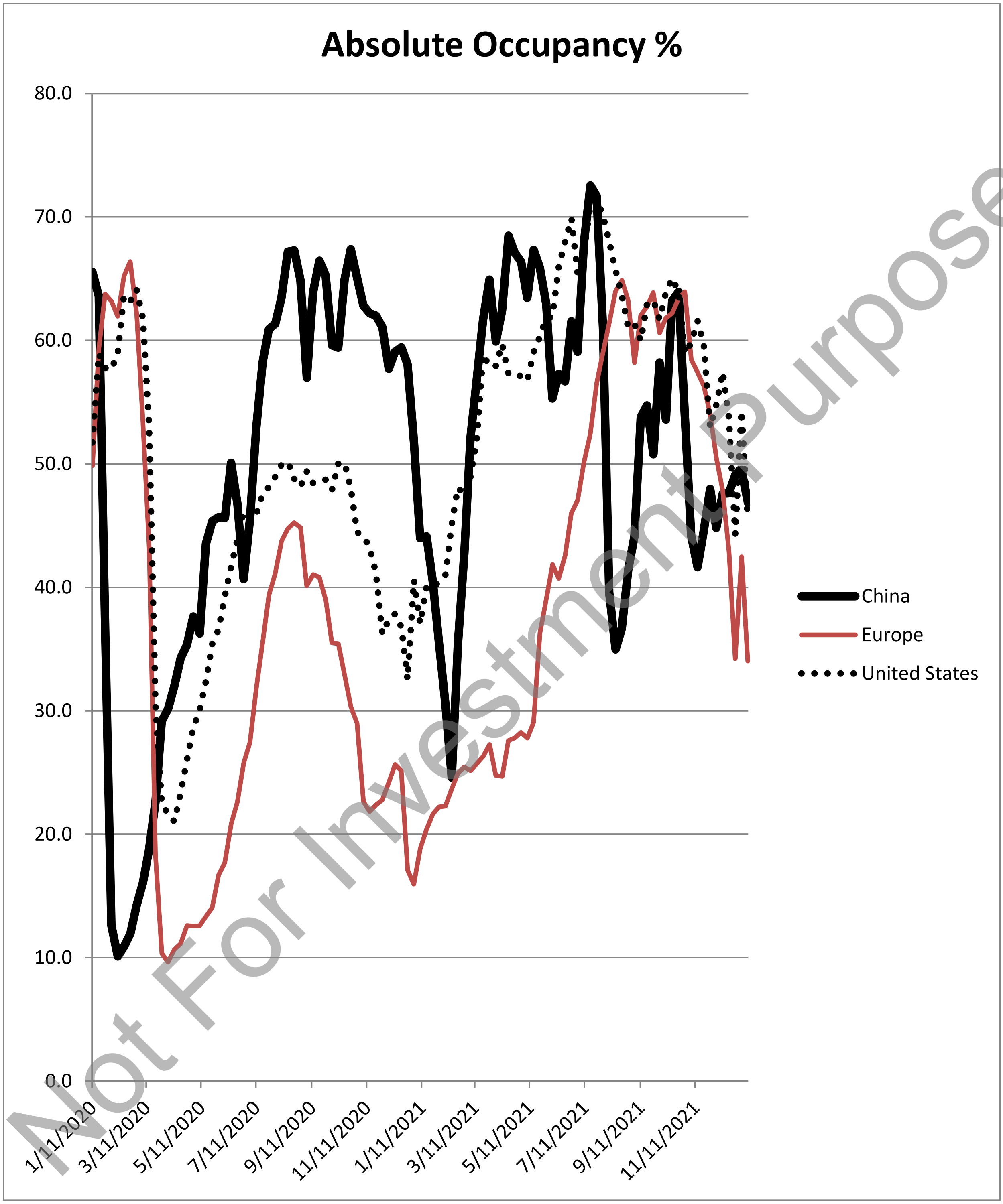
Source: STR, Truist Securities research

Exhibit 3: Y/Y Occupancy change for China, Europe, US



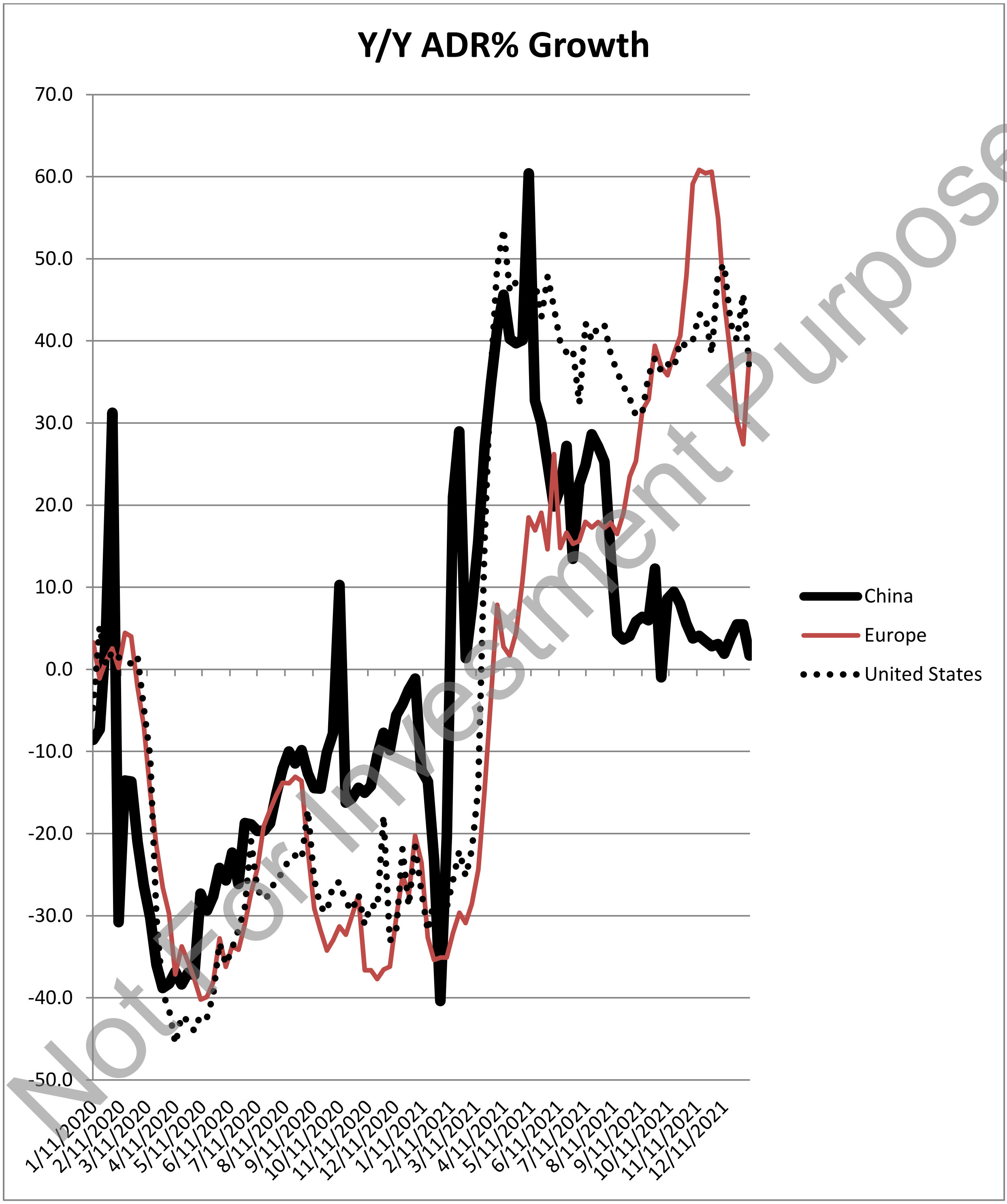
Source: STR, Truist Securities research

Exhibit 4: Absolute Occupancy % for China, Europe, US



Source: STR, Truist Securities research

Exhibit 5: Y/Y ADR % change for China, Europe, US



Source: STR, Truist Securities research

CHH: Valuation and Risks

Our price target of $125 for CHH is derived by applying a 15.0x target EV/EBITDA multiple (slightly above industry average) to our estimate for 2023 EBITDA.

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

RLJ: Valuation and Risks

Our price target of $19 for RLJ is derived by applying a 12.5x target EV/EBITDA multiple (in-line with portfolio quality and expected transaction comps; REIT peers are primarily ~12.0x-12.5x) to our estimate for 2023 EBITDA.

Risks to our rating and price target: **Investing in any corporate-oriented Lodging REIT today is not without considerable risk given the uncertainty to the length and trajectory of the lodging recovery.**

Downside risks:

- Prolonged COVID-19 impact to the lodging space (see below for further detail).
- RLJ's hotels are not relatively more desired by travelers during the recovery period and/or RLJ's hotels underperform competition.
- No announcement or vagueness on plans for remaining Wyndham conversions through the valuation period negatively impact investor confidence (we view this risk as lower given news on Santa Monica and Charleston).

There are several macro risks that may materially impair valuation:

1. COVID variants / resurgent and uncontrollable cases due in part to insufficiencies of existing vaccines result in further shutdowns; lack of herd immunity in 2021 in the U.S. and delayed return of international inbound travel
2. Macro pullback in U.S. equities / sector pullback (inflationary growth for example, even though inflation generally has a positive correlation to room rates)
3. Significant staffing challenges for hourly service jobs forces wages/benefits well above recent levels
4. Room rate integrity loss in major markets due largely to insufficient corporate demand. We view RLJ's portfolio a relative beneficiary as guests may trade into hotels that offer a greater valuation (F&B, suites) although widespread rate degradation may negatively impact our RevPAR estimates.
5. A permanent and material reduction of business travel, especially transient corporate demand.

Our ratings and price targets generally represent our recommendations and forecasts based on a 12 to 18 month outlook. We acknowledge that near term uncertainty and volatility could affect financial inputs to our targets, and the likely multiples the market may pay for those metrics.

WH: Valuation and Risks

Our price target of $91 for WH is based on a 14.0x multiple (in line with portfolio quality/RevPAR relative to peers) of our 2023 EBITDA estimate. Our price target includes a 5% time value of money discount.

Risks to our rating and price target: slowdown in development opportunities. Macro demand/pipeline headwinds. The COVID-19 lodging demand shock continues to present a material risk to the lodging industry due to the uncertainties regarding the timing and scope of the demand recovery, consumer behavior, impact to lodging supply fundamentals, macro room rate integrity, and short/long-term impact to the U.S. and international macroeconomy. Additionally, we view future vaccine news, rising/falling case counts, and proposed future lodging/leisure/service industry stimulus adding to volatility in both positive and negative directions for the foreseeable future.

PK: Valuation and Risks

Our $22 price target is based on a 12.0x multiple (unchanged and in line with Lodging REIT peers) on our 2023 EBITDA estimate. We discount by 5% for time value of money.

Upside risks to our rating and price target: Material improvement in the macroeconomy and corporate travel (group and transient), dispositions at attractive pricing, contraction of competitive supply, faster than expected EBITDA growth from ROI CapEx and revenue/asset management improvements from the CHSP acquisition.

Downside risks include extended industry downturn with particular impact to large big box hotels, weak recovery of international travel during the valuation period especially Oahu, macro demand shock impact to major resort assets, labor issues.

Companies Mentioned in This Note

Choice Hotels International, Inc. (CHH, $152.43, Hold, C. Patrick Scholes)
Park Hotels & Resorts Inc. (PK, $19.35, Hold, C. Patrick Scholes)
RLJ Lodging Trust (RLJ, $14.41, Buy, Gregory Miller)
Wyndham Hotels & Resorts, Inc. (WH, $86.62, Buy, C. Patrick Scholes)

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I, C. Patrick Scholes , 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.

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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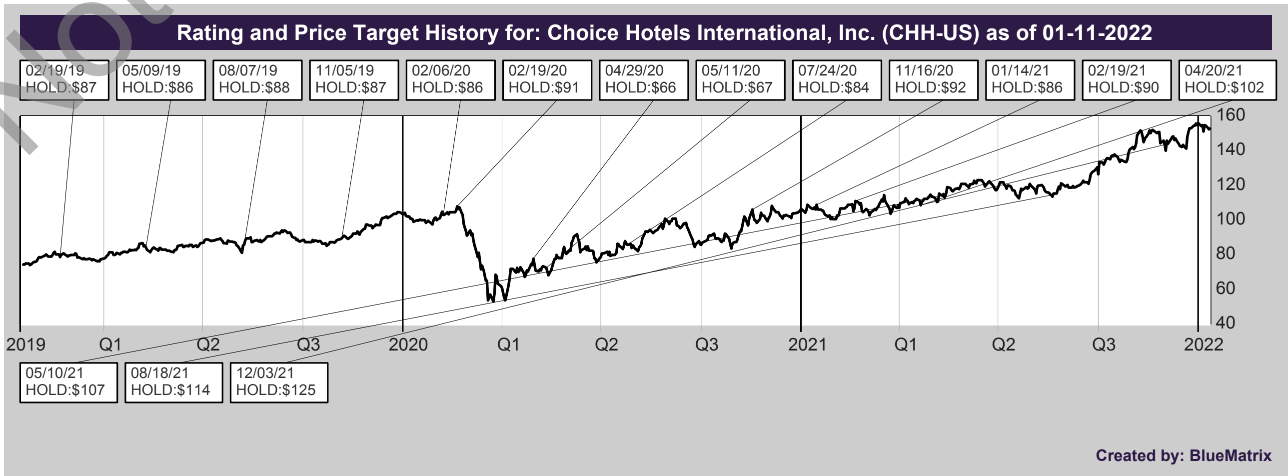
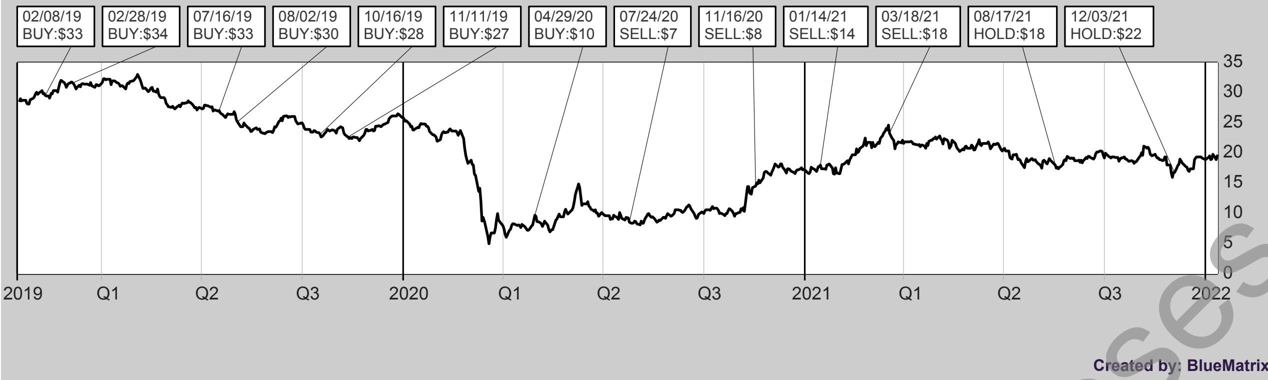
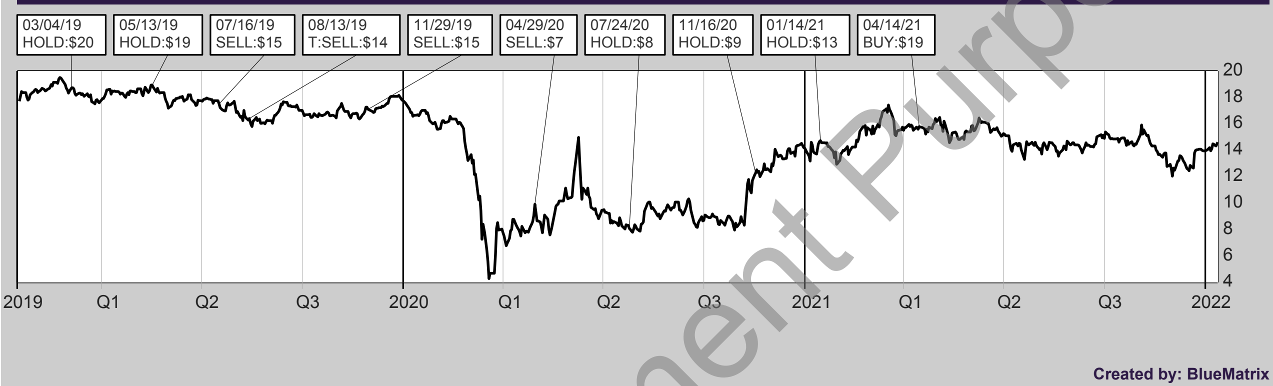


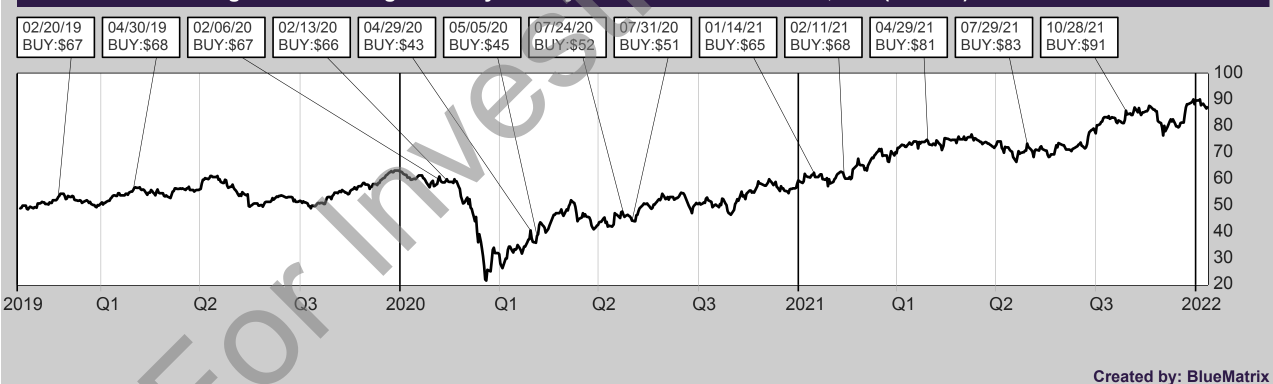
Rating and Price Target History for: Park Hotels & Resorts Inc. (PK-US) as of 01-11-2022



Rating and Price Target History for: RLJ Lodging Trust (RLJ-US) as of 01-11-2022



Rating and Price Target History for: Wyndham Hotels & Resorts, Inc. (WH-US) as of 01-11-2022



Truist Securities Ratings System for Equity Securities

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Legend for Rating and Price Target History Charts:

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