

CONSUMER: Lodging

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Reasons for this report

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

China & Europe hotels: RevPAR -15% y/y (vs. '19: -34%) & +149% y/y (vs.'19: +11%) for wk ending 6/25

Quick take: Per STR for the week ending June 25th, hotel RevPAR in China in local currency was -14.8% y/y vs. -14.3% y/y in the prior week. Last week's RevPAR was up against a +72.6% comparable result in 2021 and vs. +56.4% in the prior week. *Versus 2019, which we believe is an equal if not more important KPI, RevPAR was -33.7% vs. -38.3% in the prior week's result.*

- While results are "less bad" than those seen in April, RevPAR continues to be suppressed by travel restrictions. That said, we would expect to see results improve going forward due to the gradual loosening of travel restrictions. See Exhibit 1.

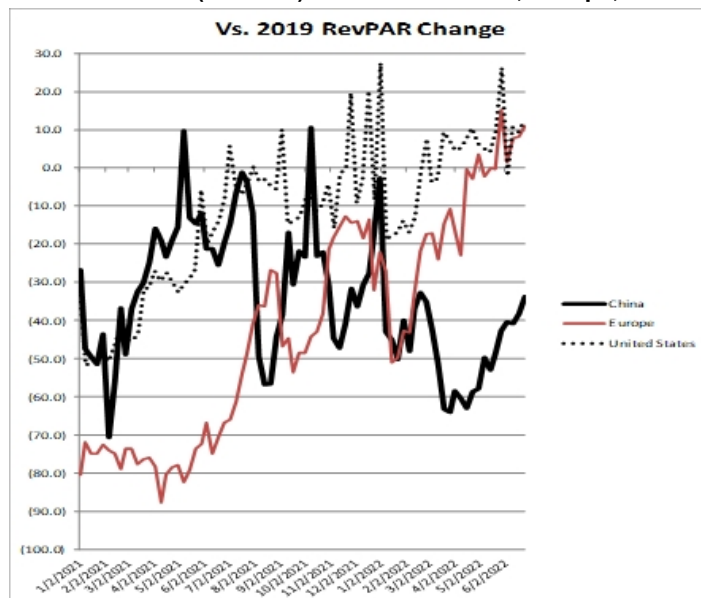
Europe: RevPAR in Europe in Euros was +148.8% y/y vs. +167.5% in the prior week. Last week's RevPAR was up against an +105.7% comparable result in 2021 and +119.7% in the prior week. *Versus 2019, RevPAR was +11.0% vs. +8.2% in the prior week's result.*

- **Since mid-April we have observed a sizable acceleration in RevPAR performance as travel restrictions have been eased and we start to get into the leisure-centric warmer months.**

U.S.: Overall U.S. RevPAR was +21.4% y/y, softer than the prior week's result of +26.6%. Last week's RevPAR was up against a +109.4% comparable result in 2021 vs. +113.8% in the prior week. *On a 3-year run-rate (vs. 2019), RevPAR was +12.3% vs. +9.4% in the prior week's 3-year run-rate.*

- We suspect the Juneteenth holiday on Monday negatively impacted business travel on Monday and Tuesday. *Versus 2019, RevPAR was -5% on Monday and flat on Tuesday before significantly accelerating as the week progressed.* Additionally, continued issues with air travel cancellations are also likely impacting national results, both leisure and corporate hotel demand, although it is difficult to precisely quantify.

Exhibit 1: 3-Year (vs. 2019) RevPAR for China, Europe, US



Source: STR, Truist Securities research

RevPAR detail for the week ending June 25th vs. trailing 28 days (see charts at end of note for graphical representations):

China (local currency):

- RevPAR was -14.8% y/y for the week ending June 25th, **better than** the -18.6% for the trailing 28 days.
- ADR was -5.2% y/y for the week ending June 25th, **better than** the -7.0% for the trailing 28 days.
- Occupancy was -10.1% y/y for the week ending June 25th, **better than** the -12.4% for the trailing 28 days.

Europe (in Euros):

- RevPAR was +148.8% y/y for the week ending June 25th, **lower than** the +154.9% for the trailing 28 days.
- ADR was +48.6% y/y for the week ending June 25th, **above** the +46.3% for the trailing 28 days.
- Occupancy was +67.5% y/y for the week ending June 25th, **below** the +74.3% for the trailing 28 days.

Additional thoughts and observations:

Hotel occupancy observations from the latest weekly STR results from China, Europe, and US:

- **China: Absolute occupancy was 56.8%. By comparison, occupancy was 63.2% during the comparable week last year.**
- **Europe: Absolute occupancy was 77.1%. By comparison, occupancy was 46.1% during the comparable week last year.**
- **US: Absolute occupancy was 72.3%. By comparison, occupancy was 69.7% during the comparable week last year.**

EBITDA and rooms exposure by region:

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.

- We aim to use the EBITDA breakout as provided by the C-corps that generally reflects a normalized environment based on the existing portfolio.
- In a normalized environment, Greater China inclusive of Macau and Hong Kong generally represents half of the Asia-Pacific EBITDA from the C-corps.
- Due to the material differences in EBITDA recovery and in normal times absolute RevPARs by region, we do not recommend as much focus on the above statistics to model worldwide EBITDA by C-corp at this time. Additionally, some regional data reflects a large domestically-managed, small town market, and lower-ADR base of rooms that does not directly correlate to C-corp results. We include China in this category given somewhat heavier International C-corp exposure to Tier 1-2 markets and the Eastern coastal gateway cities.
- **We are not including large Lodging C-corps with relatively lower-to-no U.S. exposure in our above analysis. Examples include Accor (AC, NR) and Huazhu (HTHT, NR).**

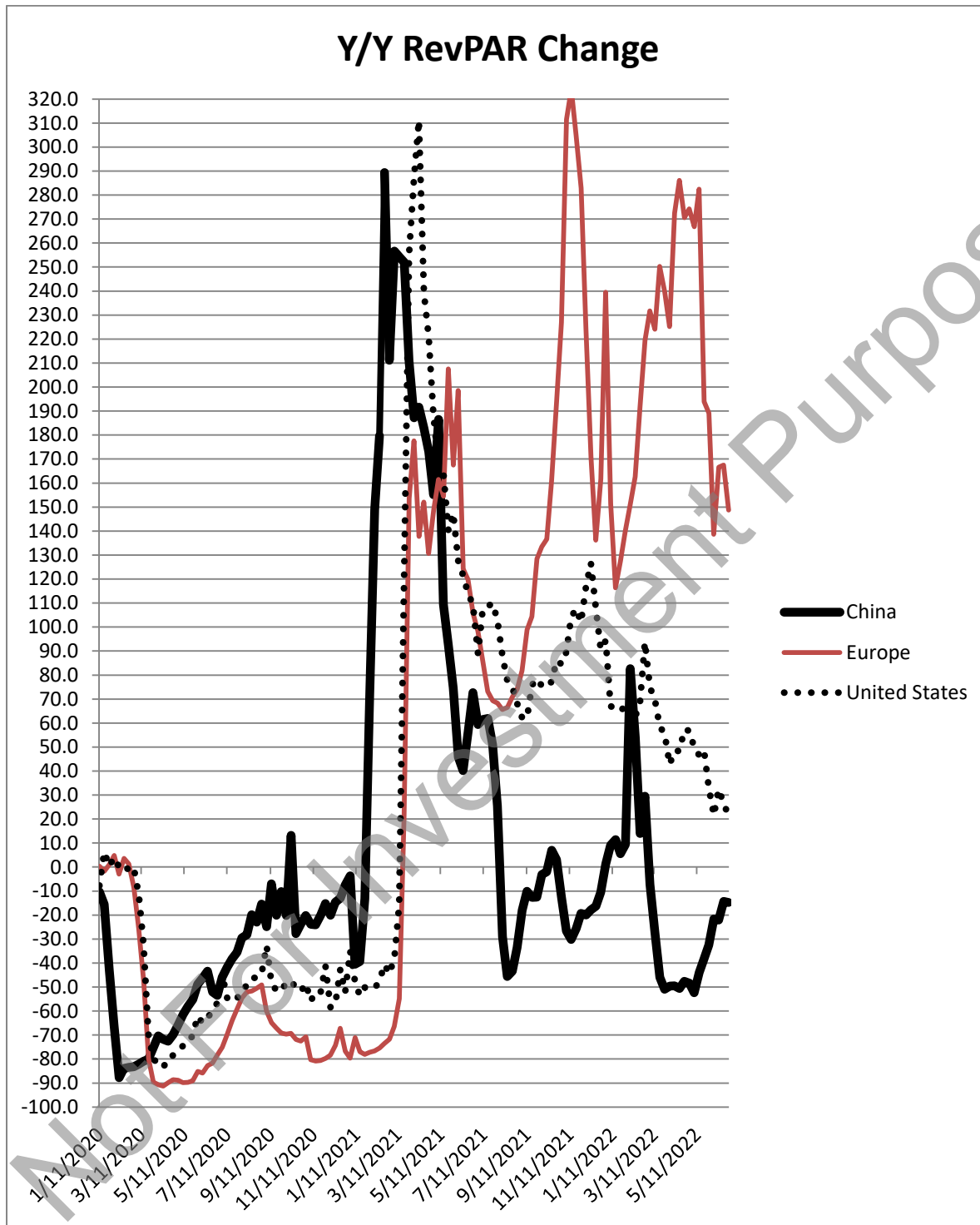
Rooms (as of 4Q21; figures may not round to 100%):

- CHH:
 - Domestic: 79%
 - Asia-Pacific: 4%
 - Europe/Middle East: 9%
 - Latin America & Canada: 8%
- H (includes owned/leased hotels):
 - Americas ex-all inclusives: 57%
 - Asia-Pacific: 18%
 - Europe/Africa/Mid East/SW Asia ex-all inclusives: 12%
 - Americas ALG + Ziva/Zilara: 9%
 - Europe ALG: 4%
- HLT:
 - US: 70%
 - Americas: 6%
 - Europe: 9%
 - Middle East/Africa: 3%
 - Asia Pacific: 12%
 - Other hotels, likely to be converted to a brand, with no geography noted: 0.3%
- IHG:
 - Americas: 57%

- EMEAA: 25%
- Greater China: 18%
- MAR (ex-timeshare):
 - North America: 65%
 - Europe: 9%
 - Middle East/Africa: 4%
 - Asia Pacific: 18%
 - Caribbean/Latin America ("CALA"): 4%
- WH:
 - US: 61%
 - Canada: 5%
 - Greater China: 19%
 - Rest of Asia: 4%
 - Europe/Middle East/Africa: 8%
 - Latin America: 4%

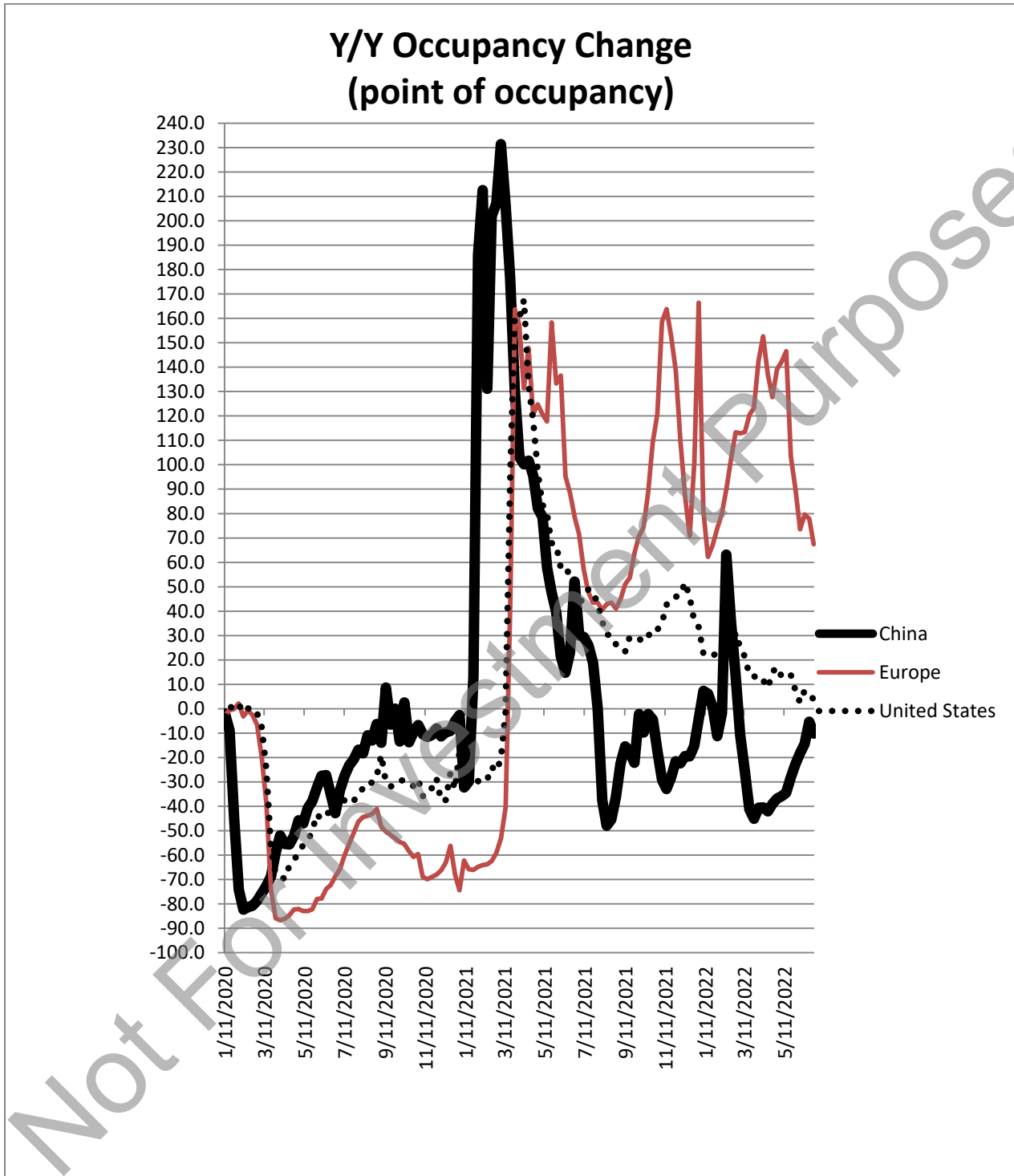
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Exhibit 2: Y/Y RevPAR change for China, Europe, US



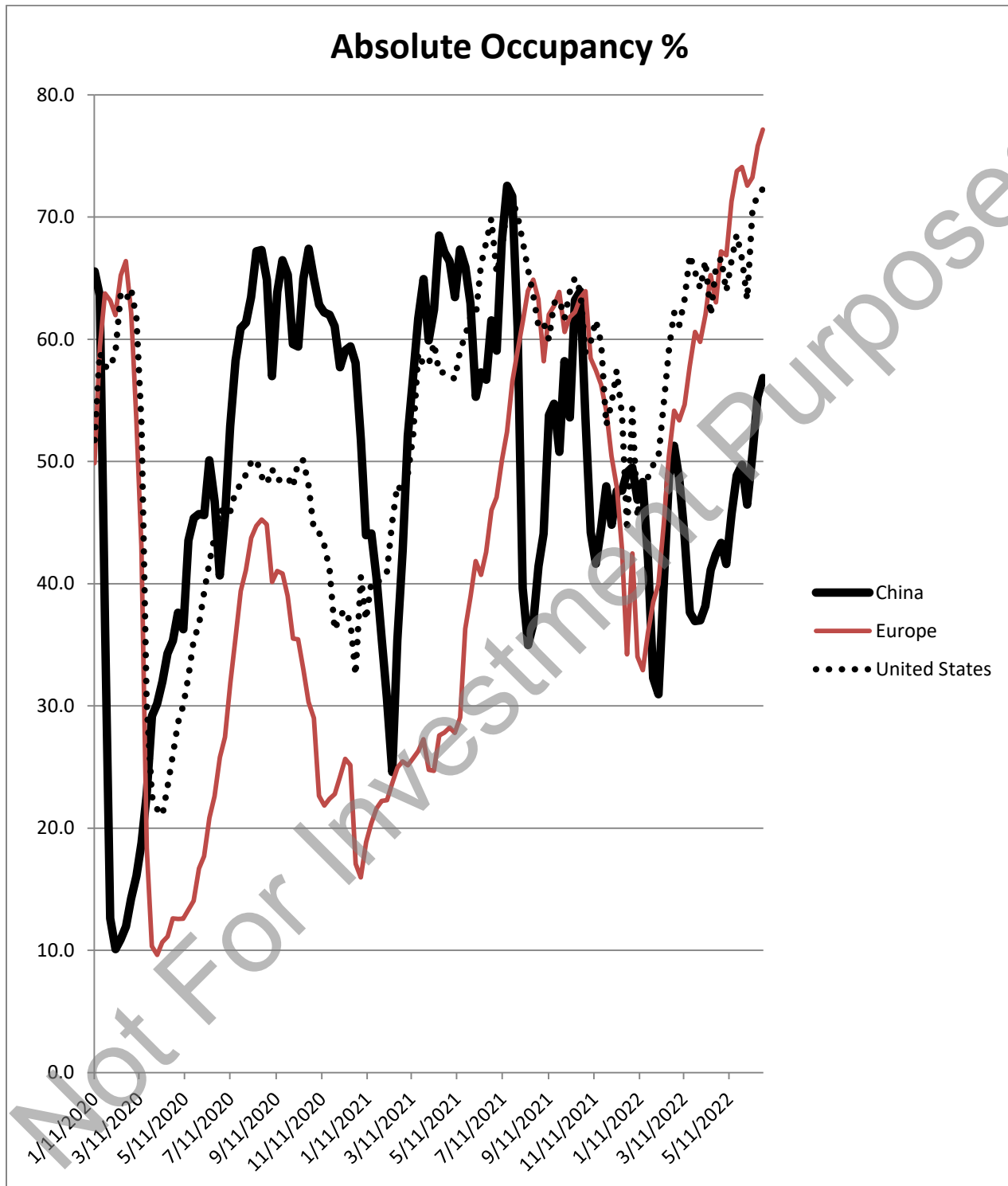
Source: STR, Truist Securities research

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



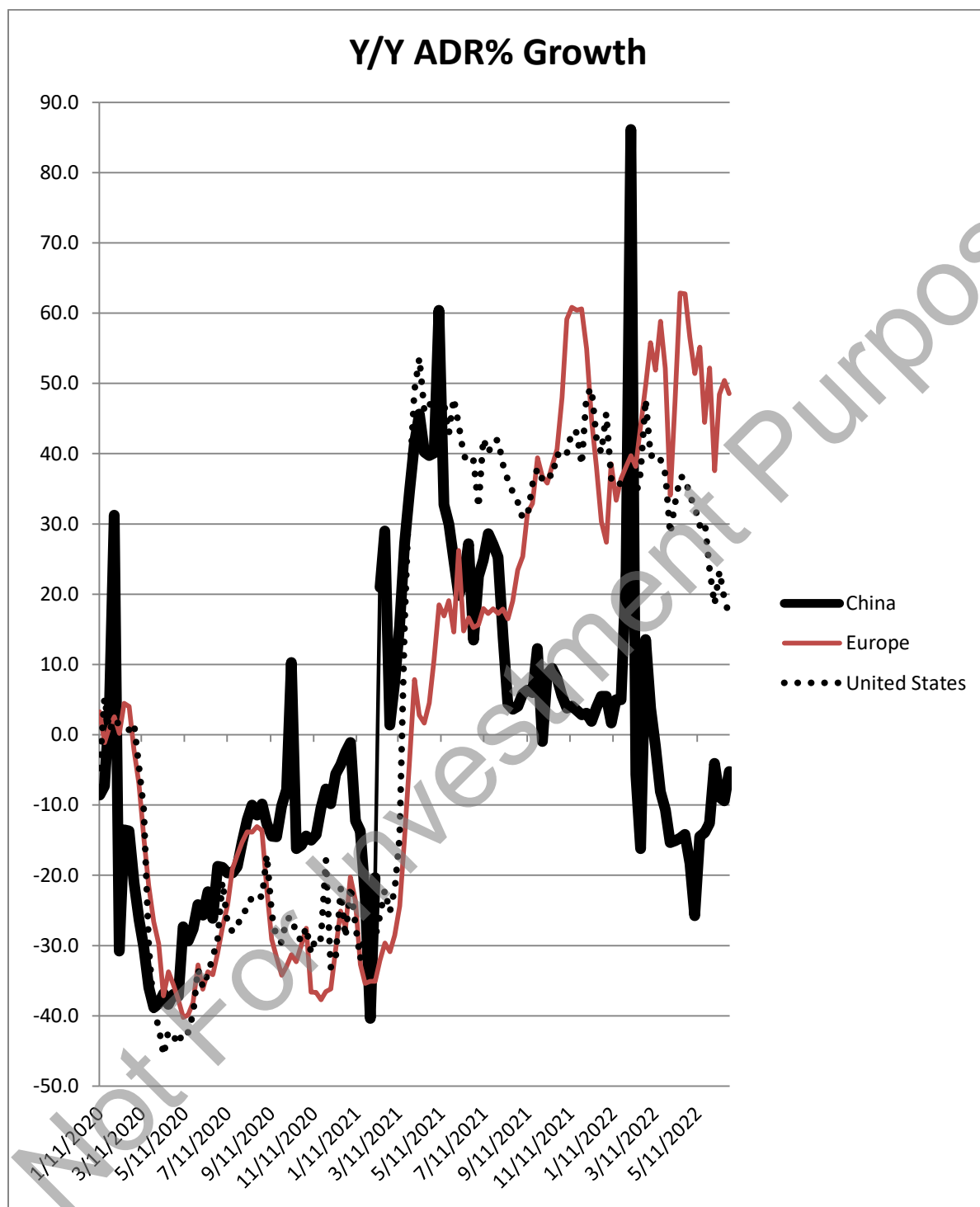
Source: STR, Truist Securities research

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

H: Valuation and Risks

Our price target of \$121 for H is derived by applying a 14.0x target EV/EBITDA multiple (a blended average of the industry multiples for each business segment) to our estimate for 2024 EBITDA. Our valuation model for Hyatt assumes an owned-hotel 2024 EBITDA multiple of 12.5x and a franchise/management fee EBITDA multiple of 16.0x plus a 10% discount for time of money.

Downside risk: 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.

HLT: Valuation and Risks

We apply a blended multiple of 17.0x (11.5x for Owned/leased and 17.0x for Managed/franchised) to our 2023 adjusted EBITDA estimate to derive a price target of \$151. This multiple is above the high end of the historical range of 10x-16x.

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 cancelled, which would diminish system growth for the firm and disappoint investors.

MAR: Valuation and Risks

Our \$182 price target is based on a 16.8x blended multiple on our 2023E 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.

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 \$95 for WH is based on a 15.0x multiple (in line with portfolio quality/RevPAR relative to peers) of our 2023 EBITDA estimate.

Risks to our rating and price target: Slowdown in development opportunities. Macro demand/pipeline headwinds.

CHH: Valuation and Risks

Our price target of \$138 for CHH is derived by applying a 16.0x 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, the COVID-19 and its effects on the lodging industry, and pandemic and newly created brands grow slower than expectations.

Companies Mentioned in This Note

Choice Hotels International, Inc. (CHH, \$114.71, Hold, C. Patrick Scholes)

Hyatt Hotels Corporation (H, \$75.64, Buy, C. Patrick Scholes)

Hilton Worldwide Holdings Inc. (HLT, \$115.28, Hold, C. Patrick Scholes)

Marriott International, Inc. (MAR, \$138.69, Hold, C. Patrick Scholes)

Wyndham Hotels & Resorts, Inc. (WH, \$67.48, Buy, C. Patrick Scholes)

InterContinental (IHG, NR)

Accor (AC, NR)

Huazhu (HTHT, NR)

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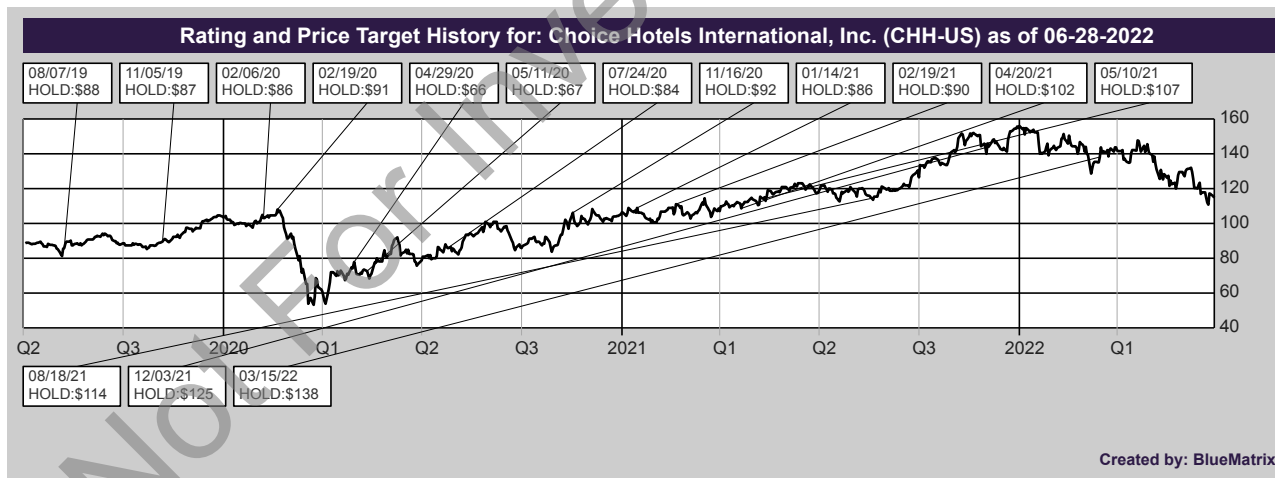
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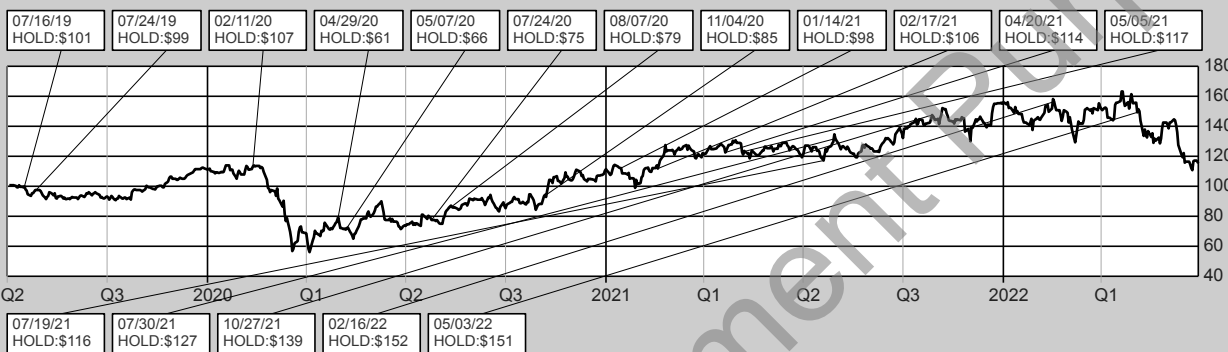


Rating and Price Target History for: Hyatt Hotels Corporation (H-US) as of 06-28-2022



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Rating and Price Target History for: Hilton Worldwide Holdings Inc. (HLT-US) as of 06-28-2022

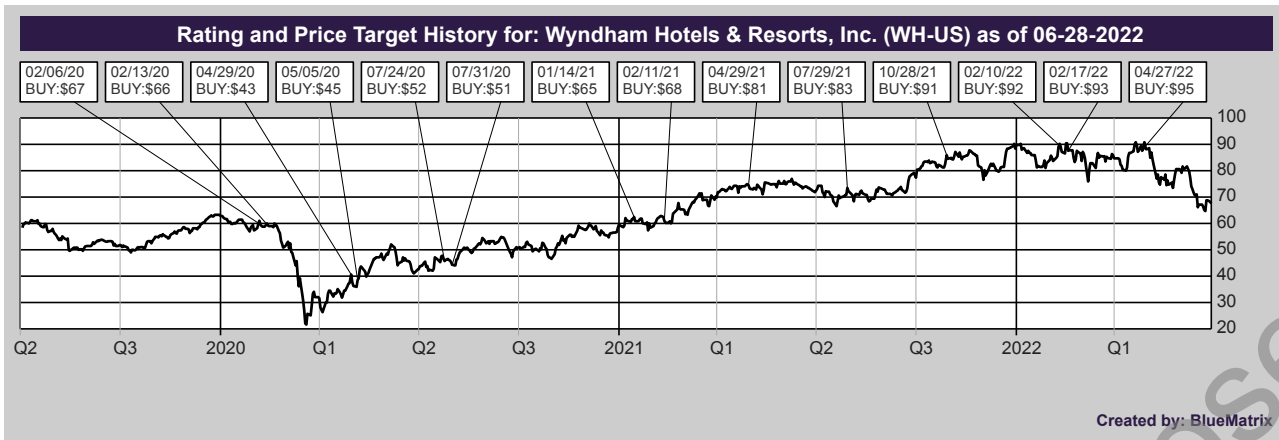


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Rating and Price Target History for: Marriott International, Inc. (MAR-US) as of 06-28-2022



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Legend for Rating and Price Target History Charts:

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