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Truist Securities

Equity Research

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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 +4% y/y (vs. '19: -45%) & +32% y/y (vs. '19: +11%) for wk ending 10/5.

China: Per STR for the week ending November 5th, hotel RevPAR in China in local currency was +4.4% vs. -17.1% y/y in the prior week. Last week's RevPAR was up against a -26.6% y/y comparable result in 2021 and vs. -12.9% in the prior week. ***Versus 2019, which we believe is an equally if not more important KPI, RevPAR was -44.7%, a similar result to the -44.8% in the prior week's result.***

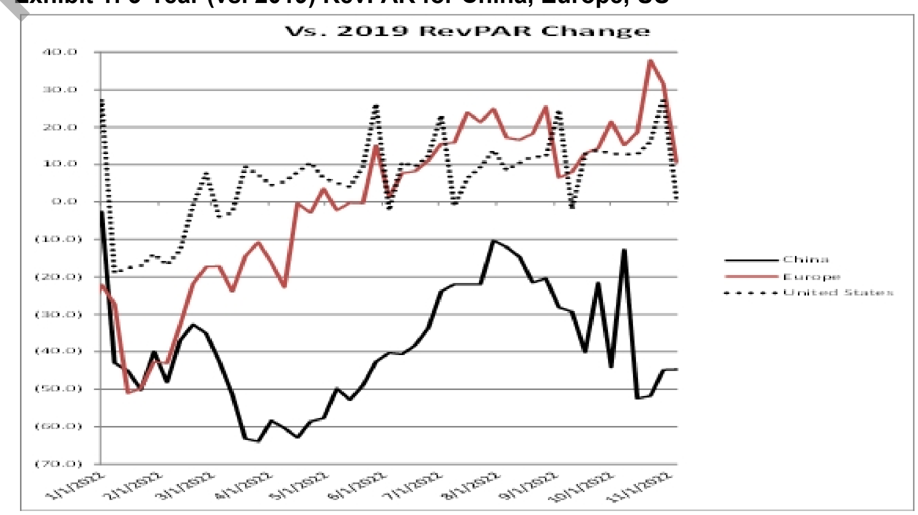
- We see very weak results over the past several weeks due to new Covid-19 lockdowns.

Europe: RevPAR in Europe in Euros was +32.1% y/y vs. +46.1% in the prior week. Last week's RevPAR was up against an +311.5% comparable result in 2021 and +227.0% in the prior week. ***Versus 2019, RevPAR was +10.7%, not as strong as the +31.2% in the prior week's result.***

U.S.: Overall U.S. RevPAR was +20.1% y/y, weaker than the prior week's result of +33.5% y/y. Last week's RevPAR was against +89.7% comparable result in 2021 vs. +84.5% in the prior week. ***On a 3-year run-rate (vs. 2019), RevPAR was +1.1% vs. +27.8% in the prior week's 3-year run-rate.***

- *The calendar shift of Halloween was a small negative to the y/y results and more negatively impactful versus the 2019 comp, especially on group (holiday moved by a week). This RevPAR impact from the holiday was as expected.*
- If one takes the average for the past two weeks (vs. 2019 and vs. 2021), which nets-out the Halloween comp and compares to the several weeks prior, we see very similar and healthy results. Trends reflect the returning of business and group travel and steady leisure.

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



Source: STR, Truist Securities research

RevPAR detail for week ending November 5th vs. trailing 28 days (see charts at end of note for graphical representations):

China (local currency):

- RevPAR was +4.4% y/y for the week ending November 5th, **better than** the -23.8% for the trailing 28 days.
- ADR was -3.9% y/y for the week ending November 5th, **better than** the -7.8% for the trailing 28 days.
- Occupancy was +8.6% y/y for the week ending November 5th, **better than** the -17.3% for the trailing 28 days.

Europe (in Euros):

- RevPAR was +32.1% y/y for the week ending November 5th, **below** the +44.1% for the trailing 28 days.
- ADR was +15.8% y/y for the week ending November 5th, **below** the +22.8% for the trailing 28 days.
- Occupancy was +14.1% y/y for the week ending November 5th, **below** the +17.3% 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 49.6%.** *By comparison, occupancy was 45.6% during the comparable week last year.*
- **Europe: Absolute occupancy was 66.7%.** *By comparison, occupancy was 58.4% during the comparable week last year.*
- **US: Absolute occupancy was 62.4%.** *By comparison, occupancy was 59.6% during the comparable week last year.*

EBITDA and rooms exposure by region:

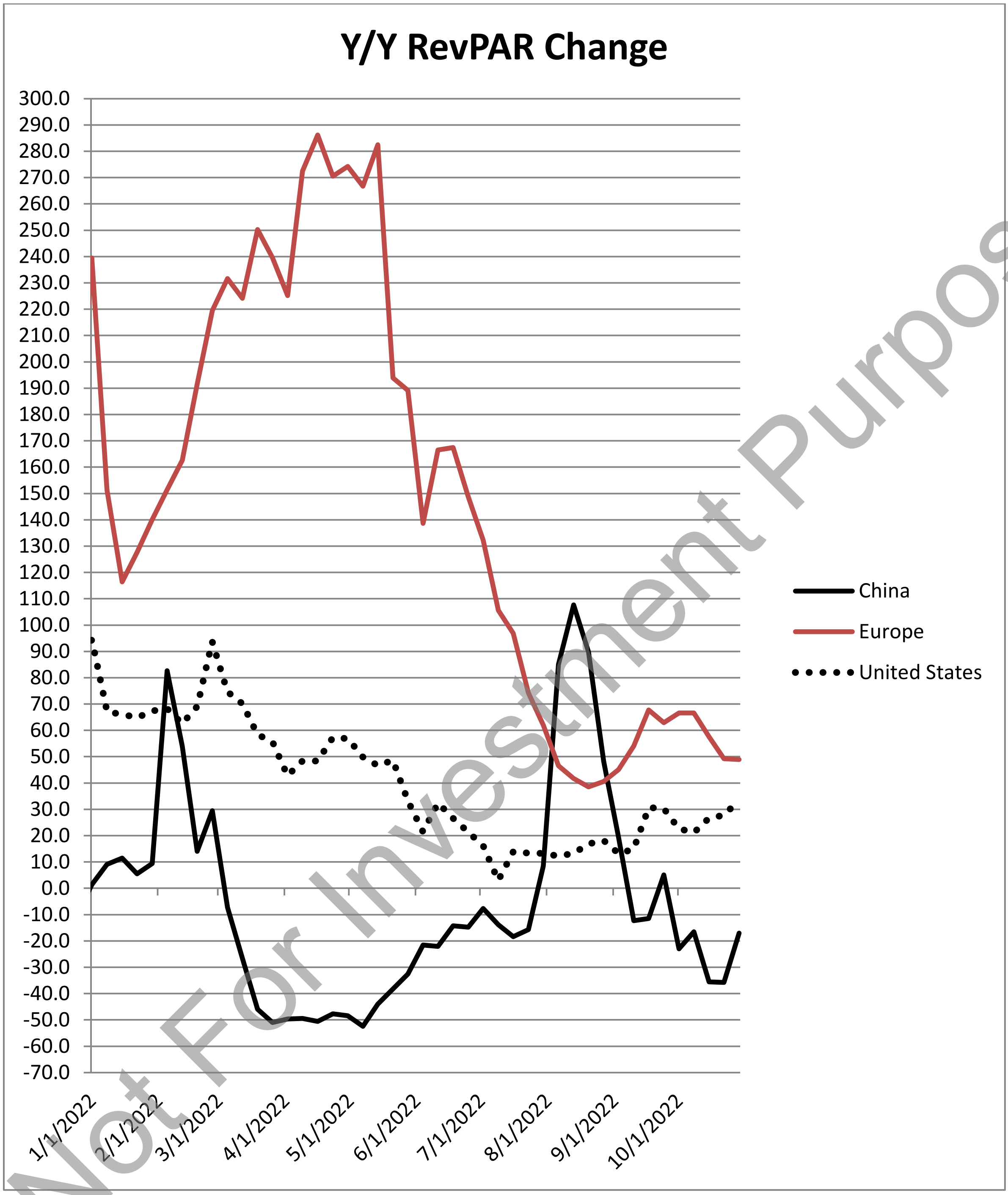
EBITDA: Hyatt (H, Buy), InterContinental (IHG, NR), and Marriott (MAR, Hold) are among the Lodging C-corps that have the greatest exposure to Europe and Asia. From Europe, MAR generates approximately 15% of EBITDA, IHG 15%, Wyndham (WH, Buy) less than 5%, H roughly 5%, and Hilton (HLT, Hold) 10% each.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

- 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 4Q21; figures may not round to 100%):

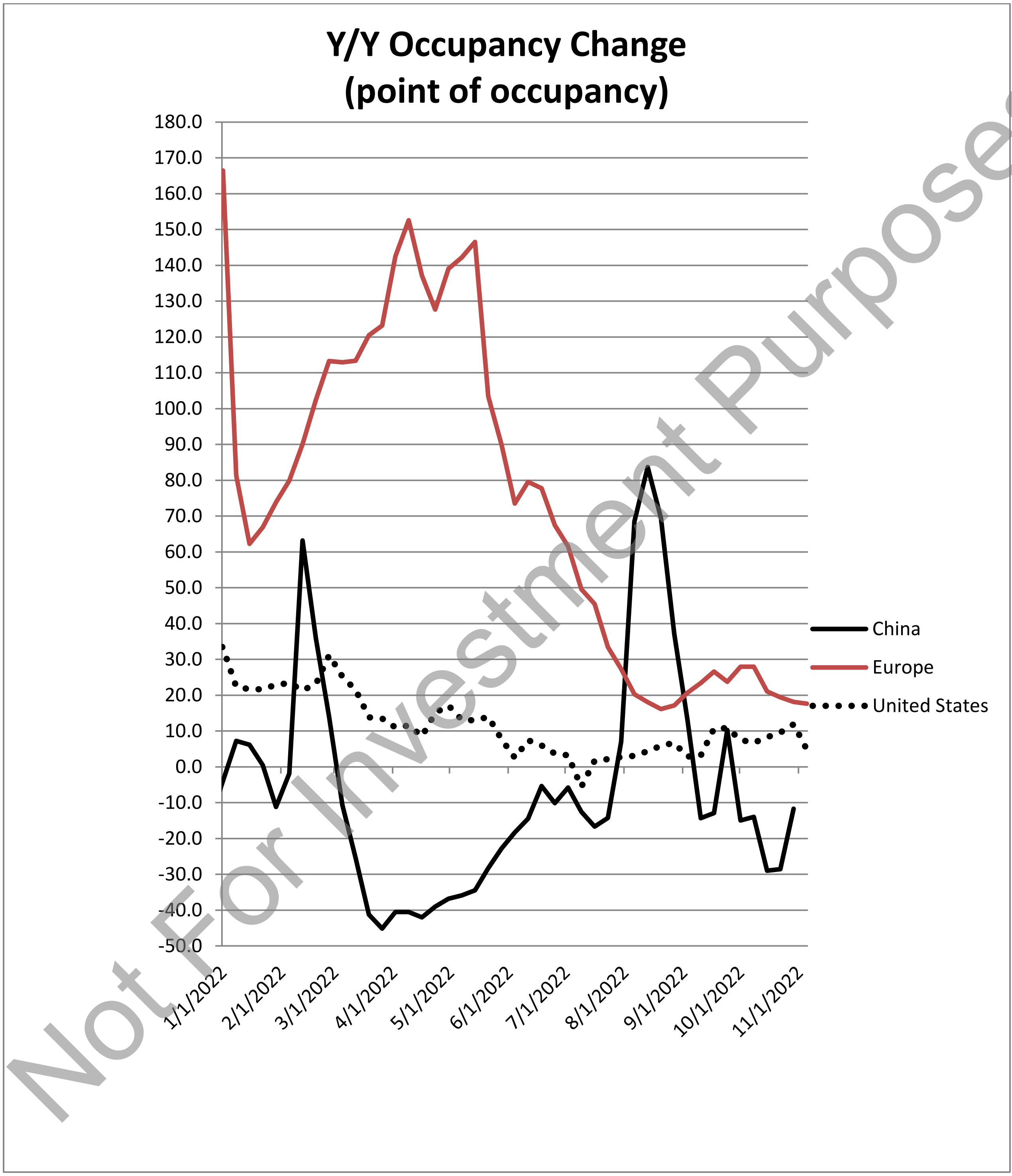
- CHH:
  - Domestic: 79%
  - Asia-Pacific: 4%
  - Europe/Middle East: 9%
  - Latin America & Canada: 8%.
- H (includes owned/leased hotels):
  - Americas ex-all inclusives: 57%
  - Asia-Pacific: 18%
  - Europe/Africa/Mid East/SW Asia ex-all inclusives: 12%
  - Americas ALG + Ziva/Zilara: 9%
  - Europe 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%

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



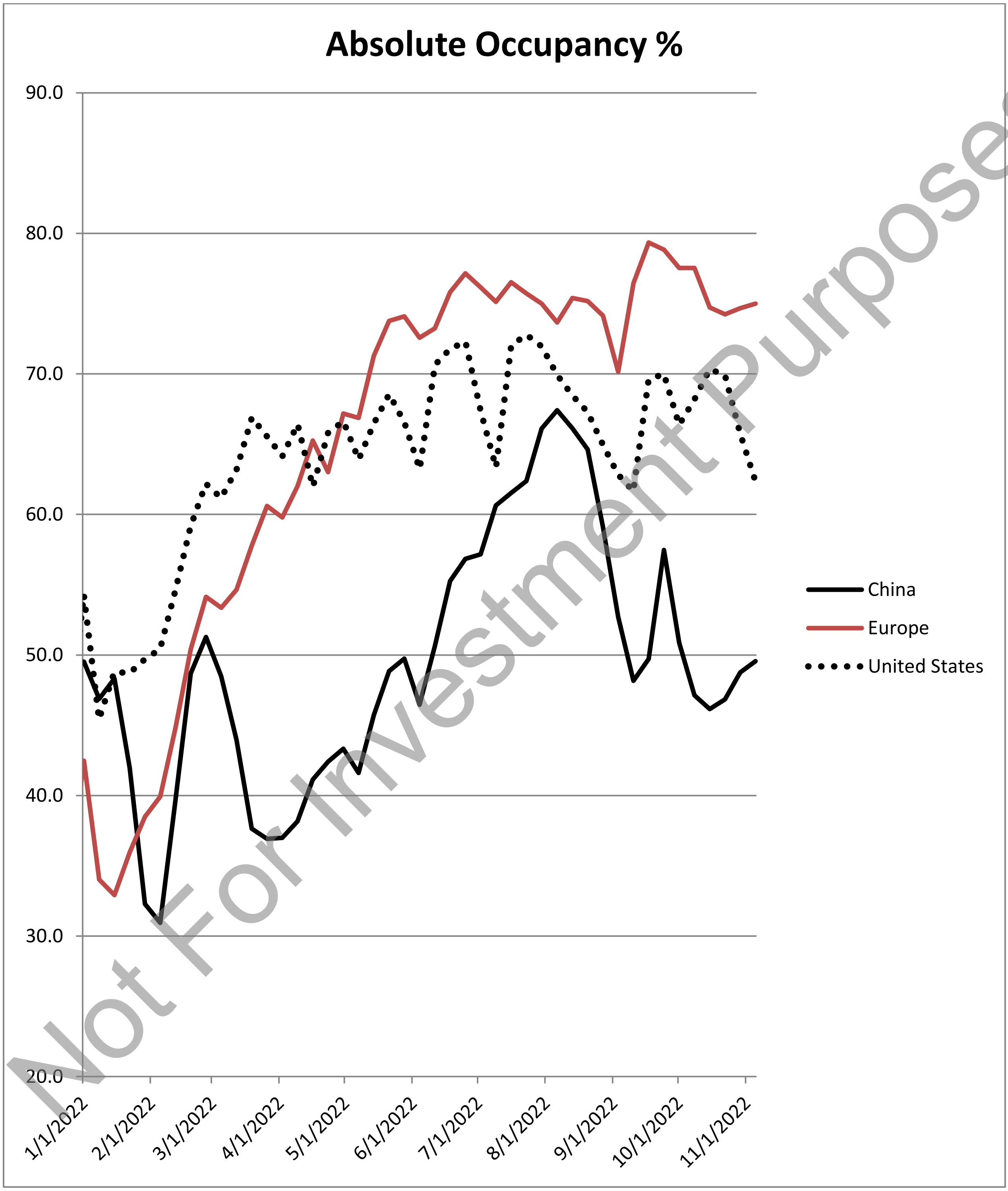
Source: STR, Truist Securities research

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



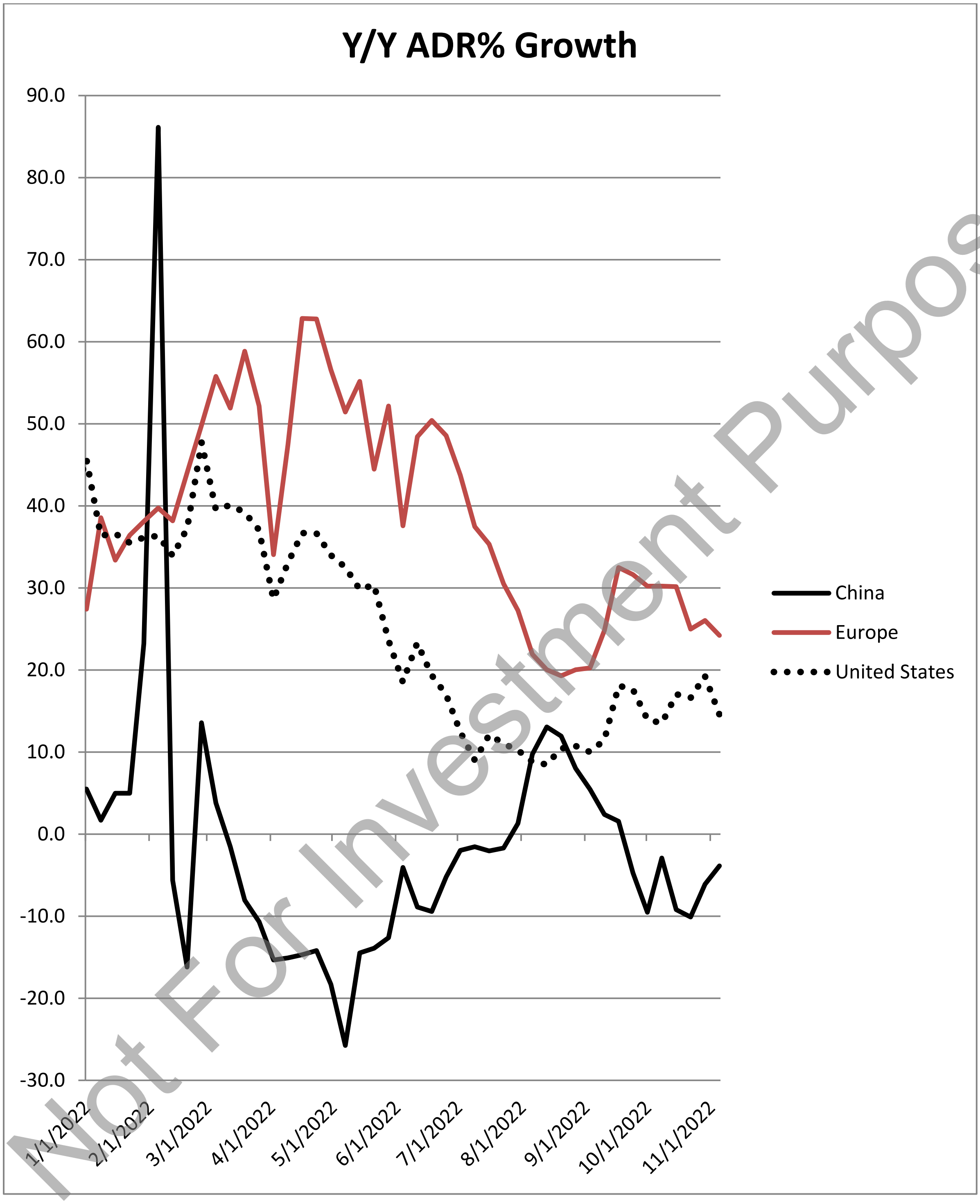
Source: STR, Truist Securities research

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 $132 for H is derived by applying a 13.8x 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 5% 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 16.6x (11.5x for Owned/leased and 17.0x for Managed/franchised) to our 2023 adjusted EBITDA estimate to derive a price target of $150. 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 canceled, which would diminish system growth for the firm and disappoint investors.

MAR: Valuation and Risks

Our $184 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.

WH: Valuation and Risks

Our price target of $90 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.

Companies Mentioned in This Note

Choice Hotels International, Inc. (CHH, $116.02, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $91.14, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $130.83, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, $150.50, Hold, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $71.30, Buy, C. Patrick Scholes)
InterContinental (IHG, NR)

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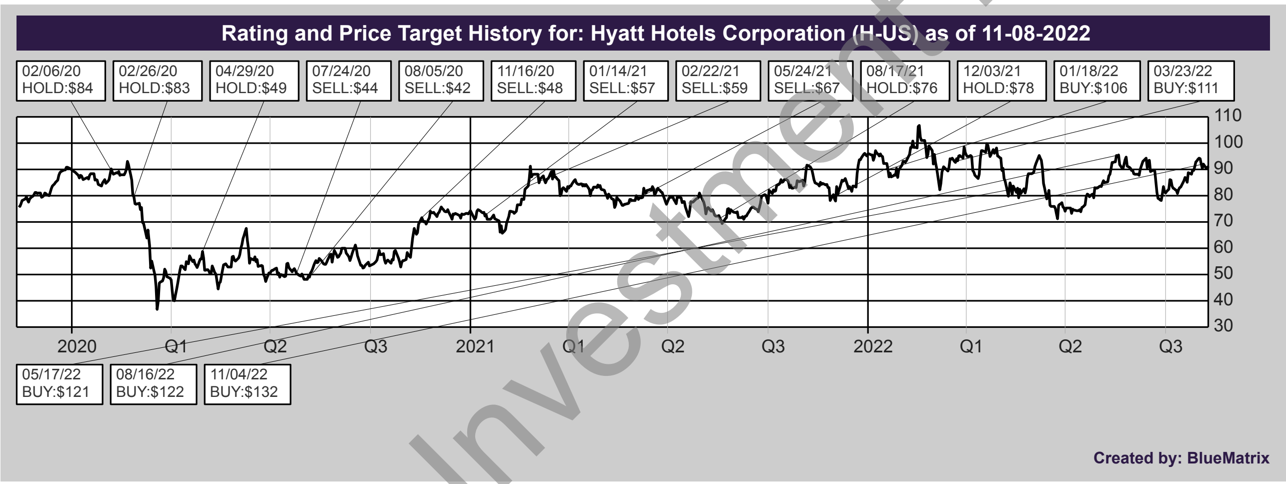

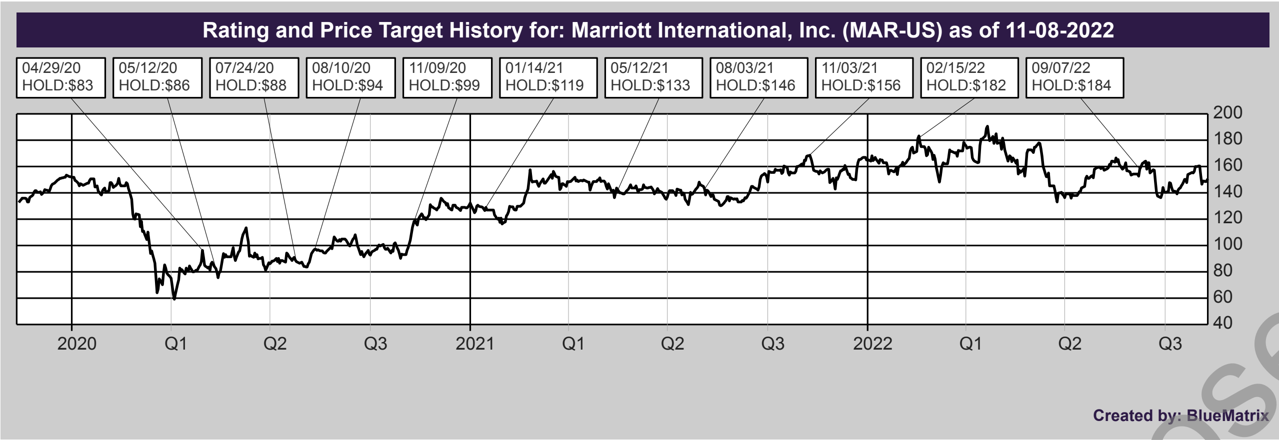

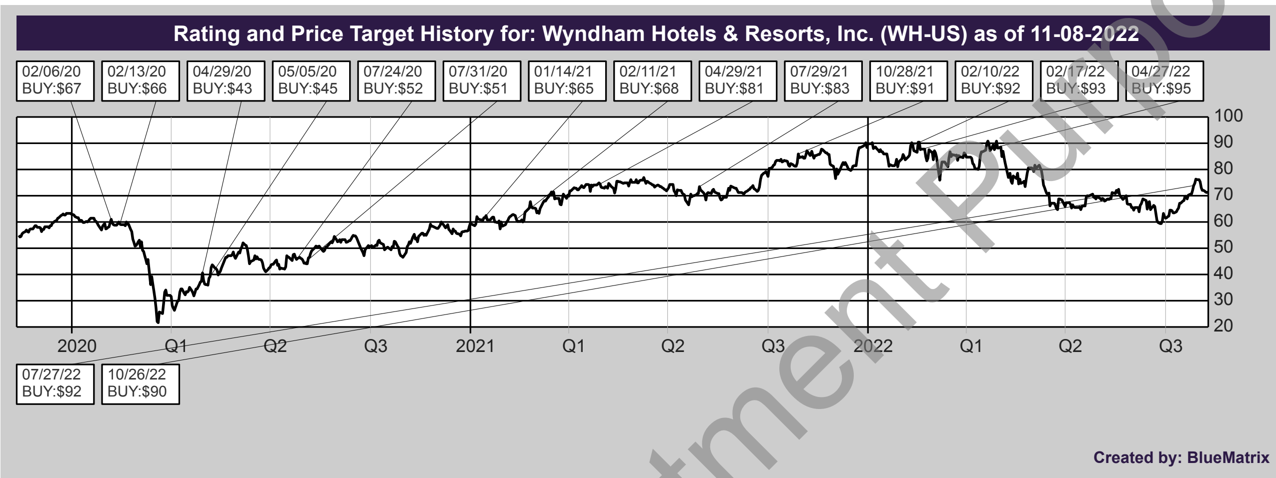

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