

CONSUMER: Lodging

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Reasons for this report

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

International hotels' RevPAR last week: China -1% y/y (vs. '19: -32%), Europe +74% y/y (vs. '19: +36%)

China: Per STR for the week ending December 17th, hotel RevPAR in China in local currency was -1.1% vs. -6.4% y/y in the prior week. Last week's RevPAR was up against a -16.3% y/y comparable result in 2021 and vs. -17.9% in the prior week. *Versus 2019, which we believe is an equally if not more important KPI, RevPAR was -31.7%, "less bad" than the -37.4% in the prior week's result.*

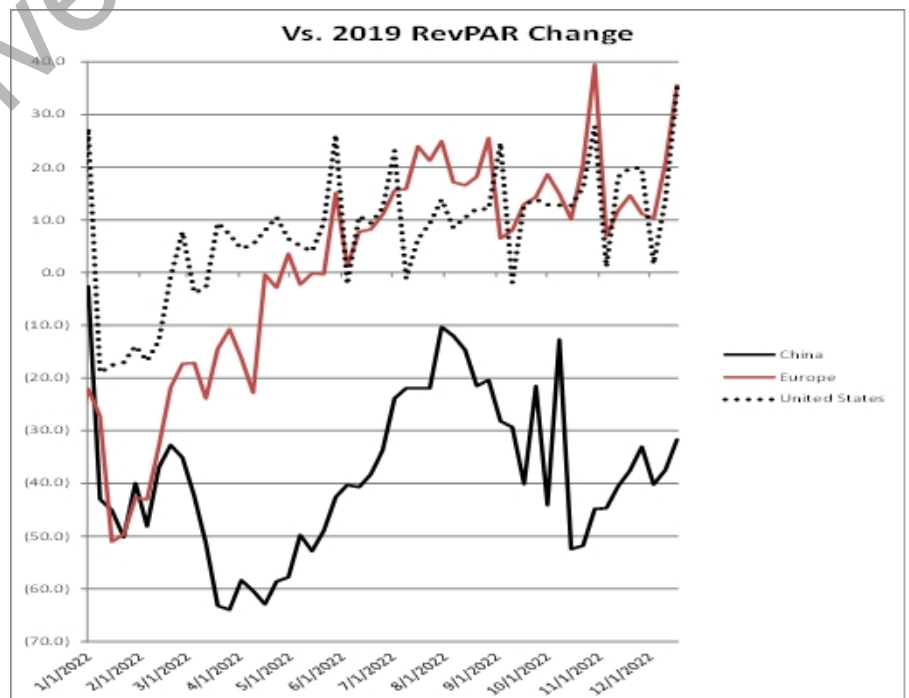
- Although it sounds like China covid/travel restrictions are easing, hotel RevPAR remains deeply depressed (CNBC).

Europe: RevPAR in Europe in Euros was +74.2% y/y vs. +73.7% in the prior week. Last week's RevPAR was up against an +136.2% comparable result in 2021 and +170.8% in the prior week. *Versus 2019, RevPAR was +35.6%, stronger than the +20.9% in the prior week's result.*

U.S.: Overall U.S. RevPAR was +12.0% y/y, down from the prior week's result of +16.7% y/y. Last week's RevPAR was against a +107.6% comparable result in 2021 vs. +126.7% in the prior week. *On a 3-year run-rate (vs. 2019), RevPAR was +35.1% vs. +14.0% in the prior week's 3-year run-rate.*

- We noted a few main takeaways on the STR results. **Versus 2021:** RevPAR had a sizable deceleration from the approximate +25% the industry was running post-Labor Day up to before Thanksgiving. **Versus 2019:** the biggest item we saw was Group occupancy unusually high reflecting a modest calendar shift.

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



Source: STR, Truist Securities Research

RevPAR detail for week ending December 17th vs. trailing 28 days (see charts at end of note for graphical representations):

China (local currency):

- RevPAR was -1.1% y/y for the week ending December 17th, **better than** the -2.2% for the trailing 28 days.
- ADR was -4.0% y/y for the week ending December 17th, **better than** the -6.0% for the trailing 28 days.
- Occupancy was +3.0% y/y for the week ending December 17th, **below** the +4.1% for the trailing 28 days.

Europe (in Euros):

- RevPAR was +74.2% y/y for the week ending December 17th, **above** the +60.3% for the trailing 28 days.
- ADR was +19.2% y/y for the week ending December 17th, **above** the +18.2% for the trailing 28 days.
- Occupancy was +46.1% y/y for the week ending December 17th, **above** the +35.7% 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 50.9%.** *By comparison, occupancy was 49.5% during the comparable week last year.*
- **Europe: Absolute occupancy was 62.7%.** *By comparison, occupancy was 42.9% during the comparable week last year.*
- **US: Absolute occupancy was 54.5%.** *By comparison, occupancy was 53.7% 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.

- In a normalized environment, Greater China inclusive of Macau and Hong Kong generally represents half of the Asia-Pacific EBITDA from the C-corps.

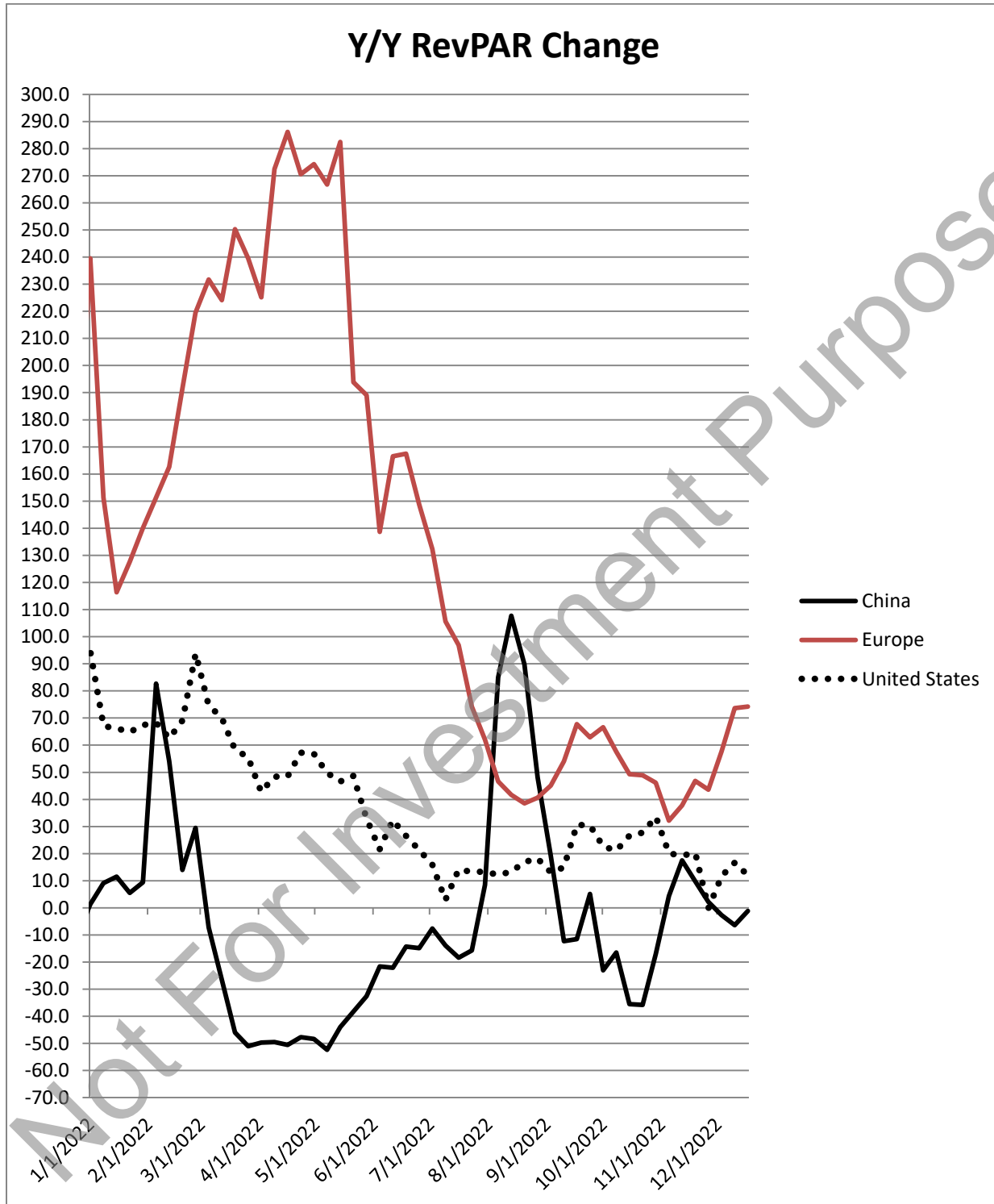
Rooms (as of 4Q21; figures may not round to 100%):

- 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%

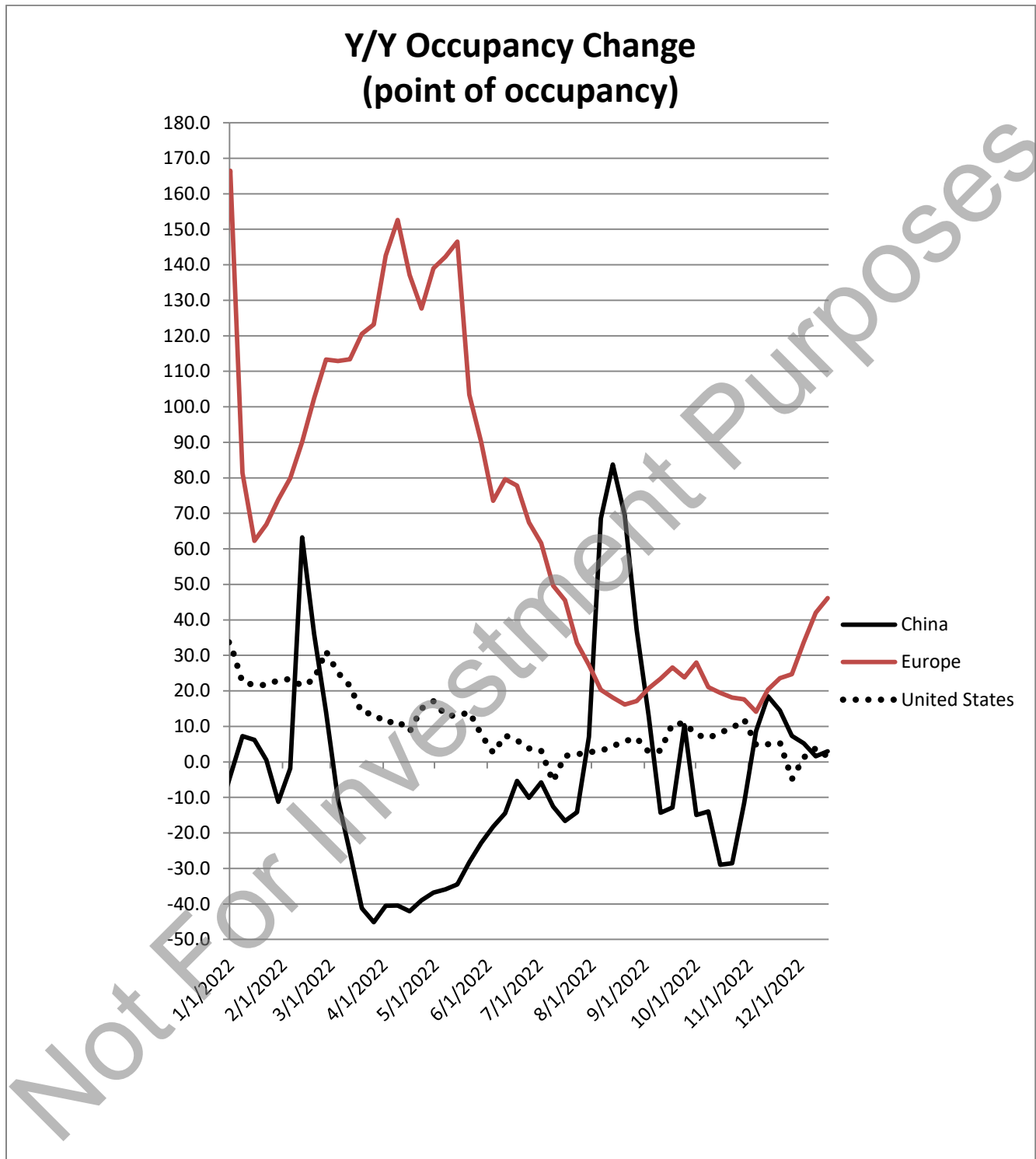
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Exhibit 2: Y/Y RevPAR change for China, Europe, US



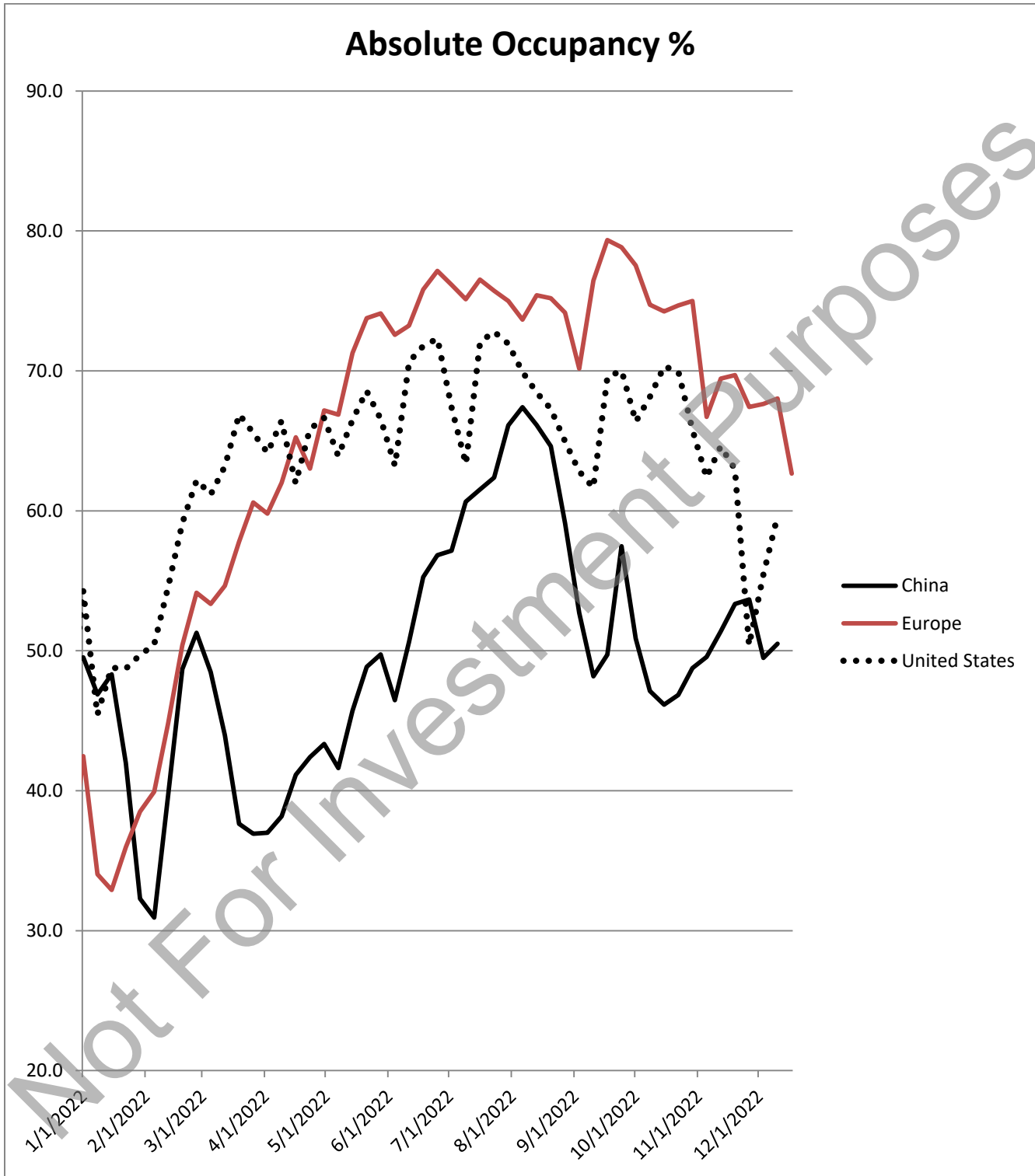
Source: STR, Truist Securities research

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



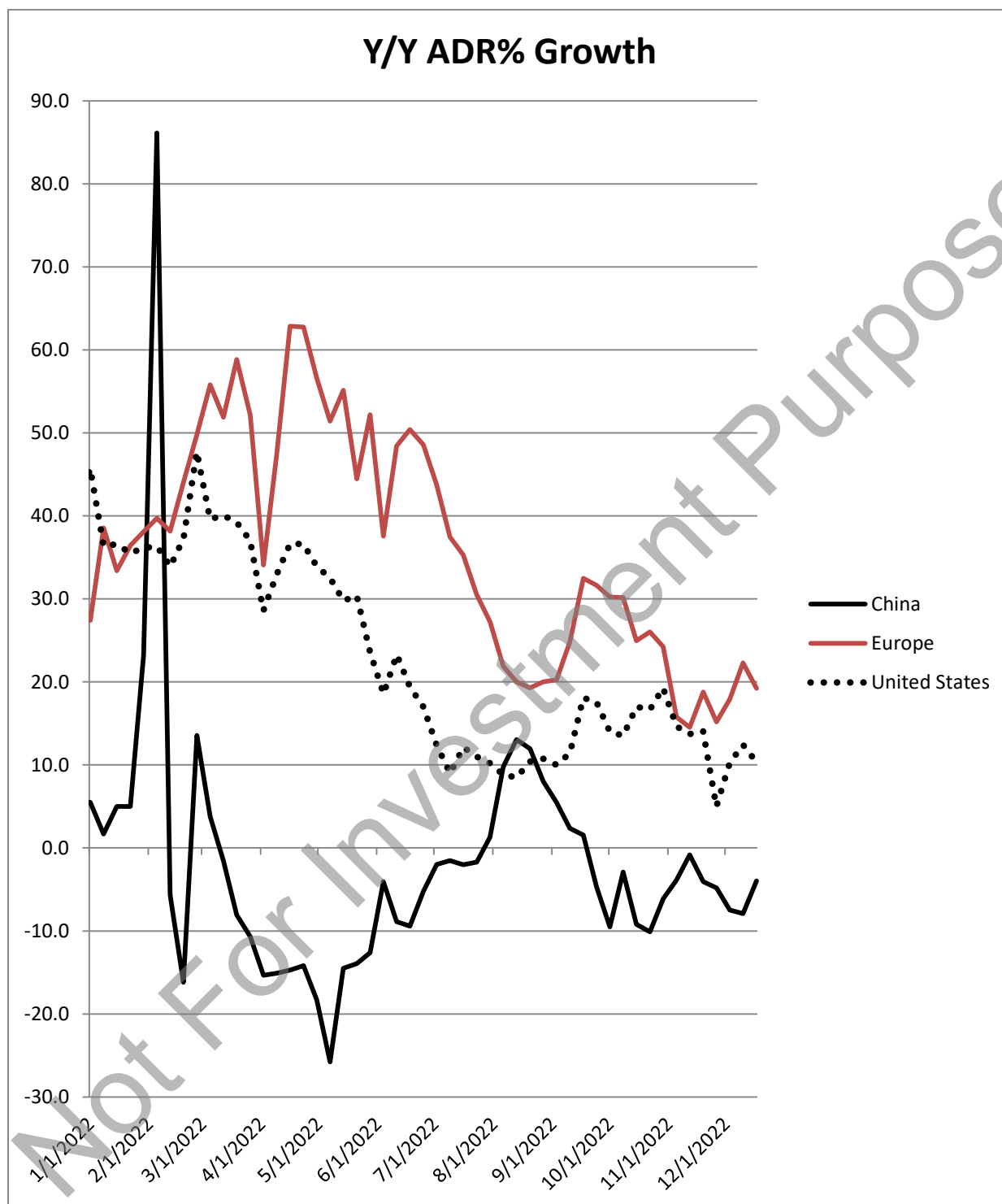
Source: STR, Truist Securities research

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 \$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 16.8x (11.5x for Owned/leased and 17.0x for Managed/franchised) to our 2023 adjusted EBITDA estimate to derive a price target of \$147. 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 \$185 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, \$112.44, Hold, C. Patrick Scholes)

Hyatt Hotels Corporation (H, \$91.90, Buy, C. Patrick Scholes)

Hilton Worldwide Holdings Inc. (HLT, \$127.25, Hold, C. Patrick Scholes)

Marriott International, Inc. (MAR, \$148.75, Hold, C. Patrick Scholes)

Wyndham Hotels & Resorts, Inc. (WH, \$69.34, Buy, C. Patrick Scholes)

InterContinental (IHG, NR)

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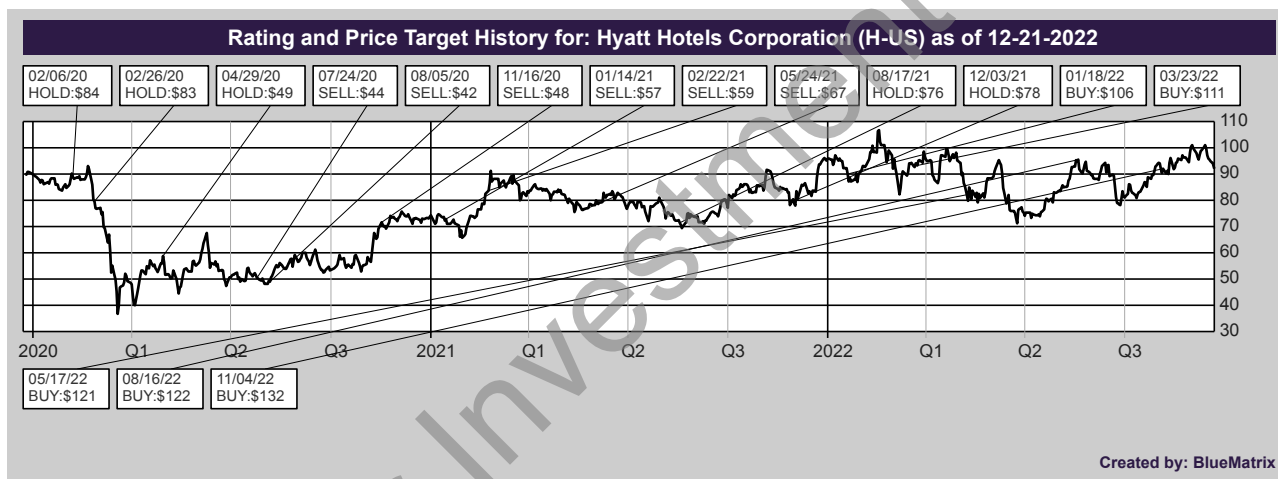
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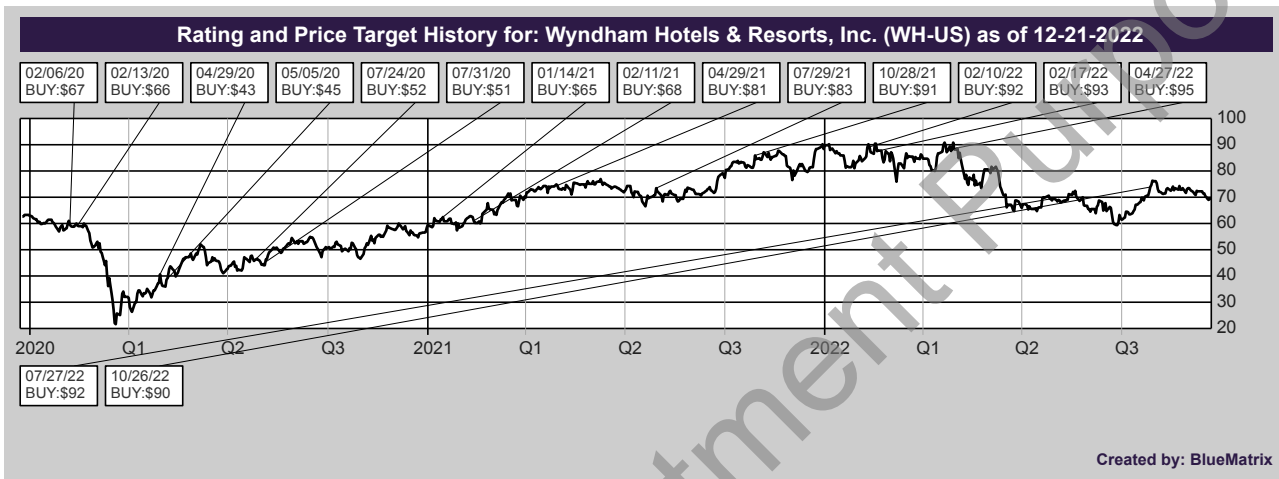
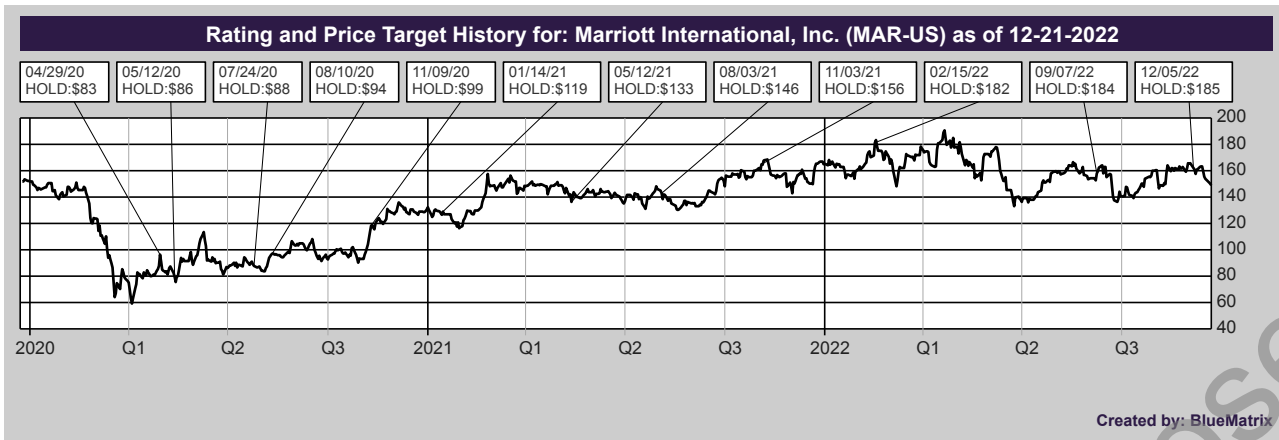
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