

CONSUMER: Lodging

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Reasons for this report

✓ Our analysis of the most recent weekly US lodging results

## Lodging: US RevPAR +21.8% y/y last week. Easy Omicron comp/school holiday shift

Overall U.S. RevPAR was +21.8% y/y for the week ending 1/7/2023, per STR, up from the prior week's result of +4.2% y/y. We note that the +4.2% y/y result may have adjusted somewhat due to new STR methodology.

*There was an easy y/y Omicron comp for overall demand but especially Group (CES in Las Vegas as one example). Additionally, as we have noted in past research, the timing of the school holiday calendar (later end of the December school period) reduced the number of December vacation days but is a help to January versus 2022.*

**STR's data has new revised reporting methodology which we discuss in the note.**

High-level excluding the revised STR methodology, we view last week as having easier comparisons versus early January 2022. Last year had a negative demand hit from Omicron to business travel in low season/low occupancy January 2022. Last week's 2023 y/y results reflect higher occupancy y/y (+3.9%) and particularly higher ADR (+17.2%). Comparatively, the running 28 day occupancy was +0.7% and ADR +8.3%.

- **Additionally, there were some major events that either were virtual in 2022 or had lower-than-normal live attendance due partly to Omicron and reduced international attendance but also from the expectation of major corporate buyers not attending major trade shows and conventions (please see our note from [Fall 2021 about the cancellation/low attendance expectations of major conventions for 1Q22](#)).** Examples in Las Vegas include the Consumer Electronics Show (Jan 5-8, 2023 vs. lower attendance Jan 5-7, 2022) and AVN (Jan 4-7, 2023 vs. virtual 2022).
  - Las Vegas' RevPAR growth was +133.1% y/y, with ADR +62.6%. Occupancy was 73.5% last week versus the prior year of 51.3%. ADR was \$279 versus the prior year of \$172. Given the number of rooms and high rates of the Las Vegas Strip and impact from the groups, we assume there was a benefit to the U.S. headline STR lodging results as well as to higher-rated chain scales and Group y/y segmentation results.
  - Not in this week's data comparison for 2022 or 2023 but in the 2019 comparison is the JPM Healthcare conference in San Francisco. The normally very high-rated conference, occurring this week, will be reflected in next week's 2023 results.
- **Positive leisure calendar shift:** As we previously discussed, Christmas and New Year's falling a day later in 2022 caused a "negative holiday shift" for visitation, a reversal of 2021's "positive holiday shift". The extended January school holiday calendar was likely a benefit to last week's STR results.

**Important note on STR methodology changes:** STR has commenced new methodology with this week's data set (previously disclosed), including Las Vegas being included in the top 25 markets, replacing Norfolk/Virginia Beach. Additionally, STR has revised methodology for non-participating hotels and separately for estimating performance of Las Vegas casinos and Walt Disney World hotels. Summary impact to U.S. industry RevPAR and classes (including independent hotels) is presented below for reference. There is greater impact to higher-rated chain scales, independents, Top 25 markets, Las Vegas Strip as a STR submarket, and Orlando (both the STR market and the Lake Buena Vista STR submarket). **We will be evaluating the changes to the data over time including implications to weekly RevPAR results and changes y/y and versus 2019.** Please see the PDF version of this note for higher-quality graphics.

## U.S. Industry Data Impact

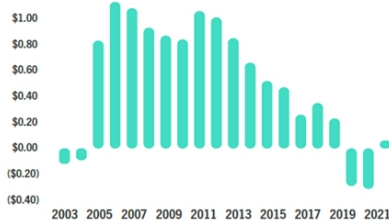
The new process provides a larger range of values for properties that do not submit data weekly or monthly. Las Vegas Strip and Walt Disney World non-participants utilize a different process.

Based on 20 years of historical data (2000-19), several key differences emerged when comparing the new methodology with the previous.

- Industry revenues increase \$968 million per year
- RevPAR increases an average of \$0.54 per year
- The change in revenues and RevPAR is driven entirely by ADR, which is up an average of \$0.88 per year.
- Upper Upscale, Upscale, and Independent chain scales see the largest impact. Upper Upscale and Upscale revisions are largely because of Walt Disney World Resorts. Independent revisions are from the new non-participant methodology and changes to Las Vegas Strip casino hotels.
- Excluding Walt Disney World hotels, and the individually modeled Las Vegas casino hotels, industry RevPAR would decrease an average of \$0.34 per year.

## U.S. industry RevPAR

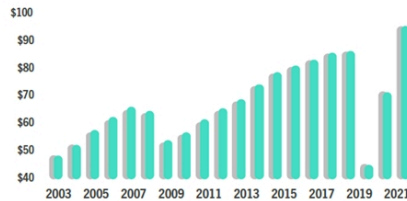
Difference Between Methodologies



STR, 2022 © CoStar Group

RevPAR

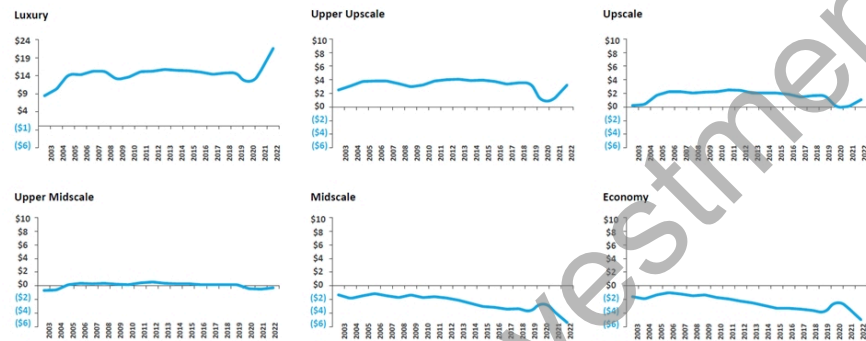
Current New



Source: STR/CoStar

## Luxury class RevPAR up \$13, other classes less affected

U.S. class RevPAR, new less current



STR, 2022 © CoStar Group

Updated U.S. Non-Participant Data Week Ending December 2021 7

Source: STR/CoStar

## Major RevPAR statistics presented below:

- Luxury RevPAR: +42.8% y/y;
- Upper Upscale RevPAR: +33.4% y/y;
- Upscale RevPAR: +16.2% y/y;
- Upper Midscale RevPAR: +7.4% y/y;
- Midscale RevPAR: +0.7% y/y;
- Economy RevPAR: +0.2% y/y;
- Independent hotels (~ 1/3rd of the data set) RevPAR: +33.0% y/y; and
- Within Upper Upscale & Luxury class hotels:
  - Group: +56.5% y/y vs. +3.3% prior week;
  - Transient: +38.4% y/y vs. +3.1% prior week.
  - The prior week data we presume is not fully comparable due to STR methodology revisions.

## Last week's RevPAR details and sequential trends (all comparable information on new STR methodology):

- Headline RevPAR was +21.8% y/y vs. the running 28-day average of +9.0% y/y.
- **Occupancy:** Absolute occupancy was +47.2% y/y vs. +49.8% for the running 28-day average.
- **Absolute Group occupancy:** +10.1% last week vs. +7.9% for the running 28 days.

We summarize our view on the lodging sector at the moment as one of “relative optimism,” a view markedly more favorable than the bear case of “relative pessimism”. Of the lodging stocks our favorite name is Hyatt (H, Buy) which we see in the “sweet spot” of both the group recovery and strength in international markets, most notably the Caribbean. Hyatt generates approx. 30% of earnings from the group segment and 30% from its Caribbean-centric Apple Leisure Group segment. To this we note an EV/EBITDA valuation multiple approx. 350 bps. below that of HLT (Hold) and MAR (Hold). Additionally, we raised our rating on RHP (Buy) to Buy from Hold on 9/7/22 and raised our price target to \$104 from \$95. At 75% of its business coming from groups/conventions, RHP has the greatest exposure to this customer segment. For the lodging sector as a whole, we see the biggest potential drivers of earnings upside coming from corporate group business and associated outside of room spend (aka “Total RevPAR”) and secondarily from the recovery in international markets.

Not For Investment Purposes

## 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.

## RHP: Valuation and Risks

Our price target of \$104 for RHP is derived by applying a 13.0x target EV/EBITDA multiple to our estimate for 2023 lodging EBITDA and a 16.0x multiple to our Opry/attractions estimate. We view the multiple assignments as appropriate for the quality and unique nature of the portfolios (slight premium to REIT peer average of ~12.0-12.5x on Hospitality).

Risks to our rating and price target include: Group demand returns slower than expected. Property-specific risks given a small portfolio.

## 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.

## Companies Mentioned in This Note

**The Walt Disney Company** (DIS, \$96.33, Buy, Matthew Thornton)

**Hyatt Hotels Corporation** (H, \$102.52, Buy, C. Patrick Scholes)

**Hilton Worldwide Holdings Inc.** (HLT, \$134.44, Hold, C. Patrick Scholes)

**Marriott International, Inc.** (MAR, \$158.47, Hold, C. Patrick Scholes)

**Ryman Hospitality Properties, Inc.** (RHP, \$85.72, Buy, C. Patrick Scholes)

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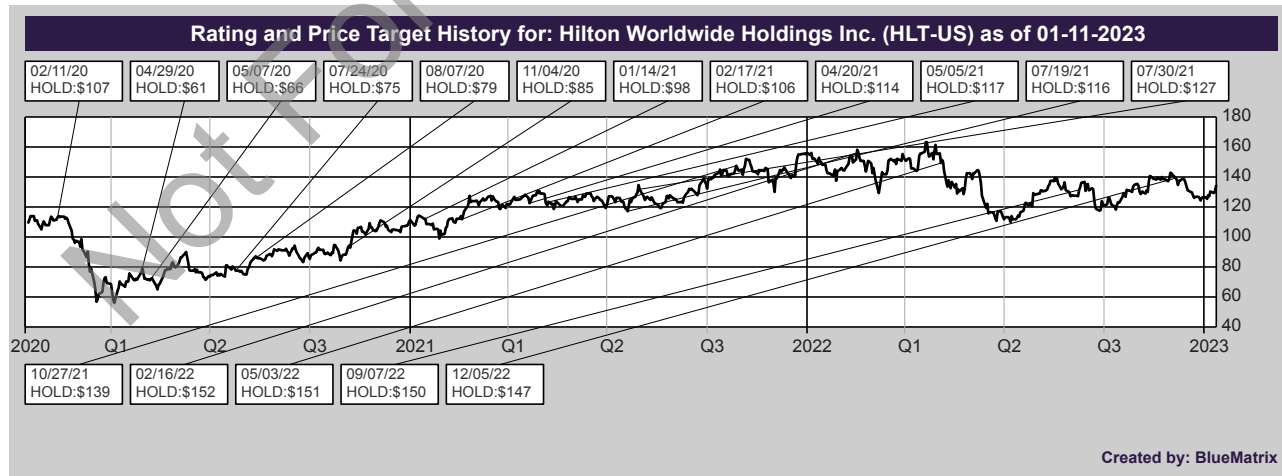
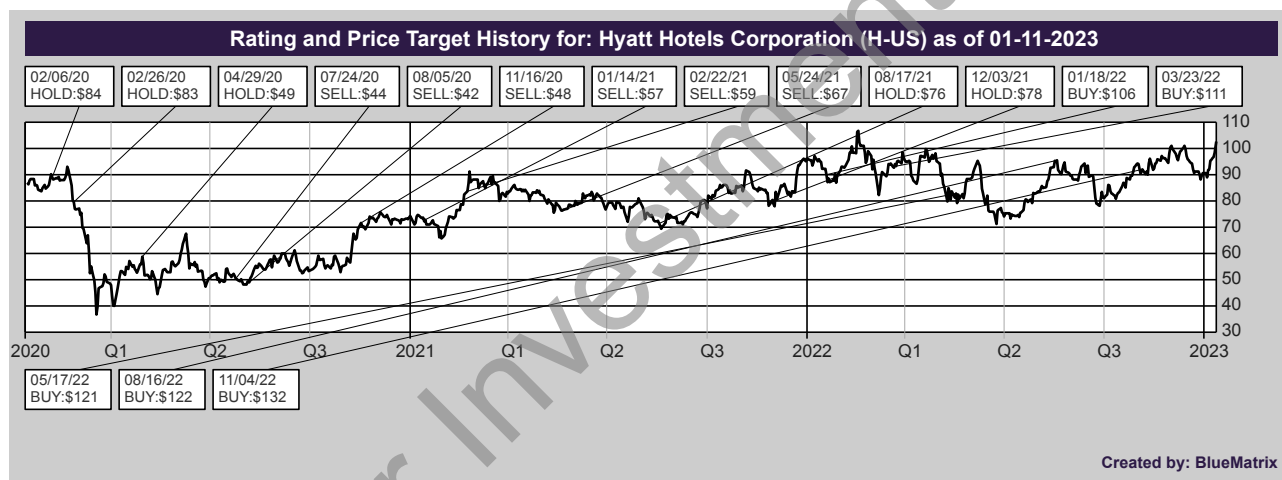
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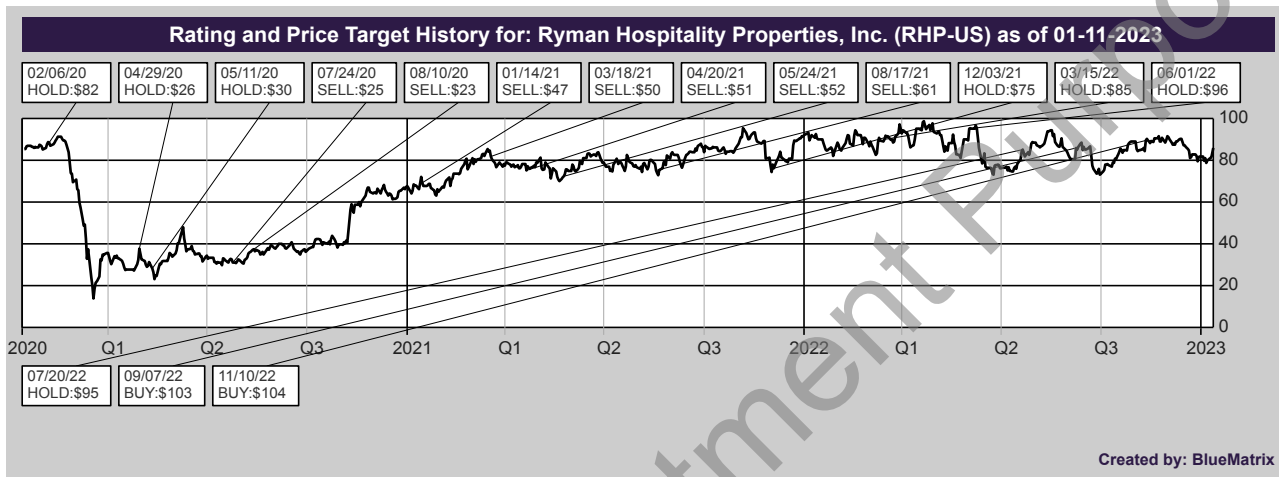
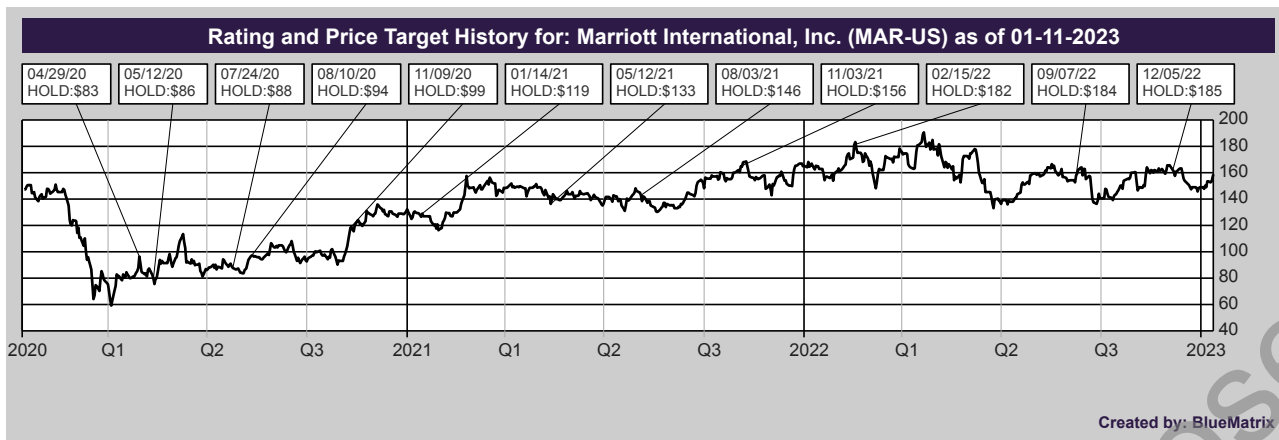
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