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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

International hotels' RevPAR last week: China +7% y/y (-40% vs. 2019), Europe +79% y/y.

China: Per STR for the week ending January 7th, hotel RevPAR in China in local currency was +6.9% vs. -17.7% y/y in the prior week. Last week's RevPAR was up against a +7.3% y/y comparable result in 2022 and vs. -3.9% in the prior week. ***Versus 2019 (China being the last major market still down vs. pre-covid levels), RevPAR was -39.6%, worse than the -23.6% in the prior week's result.***

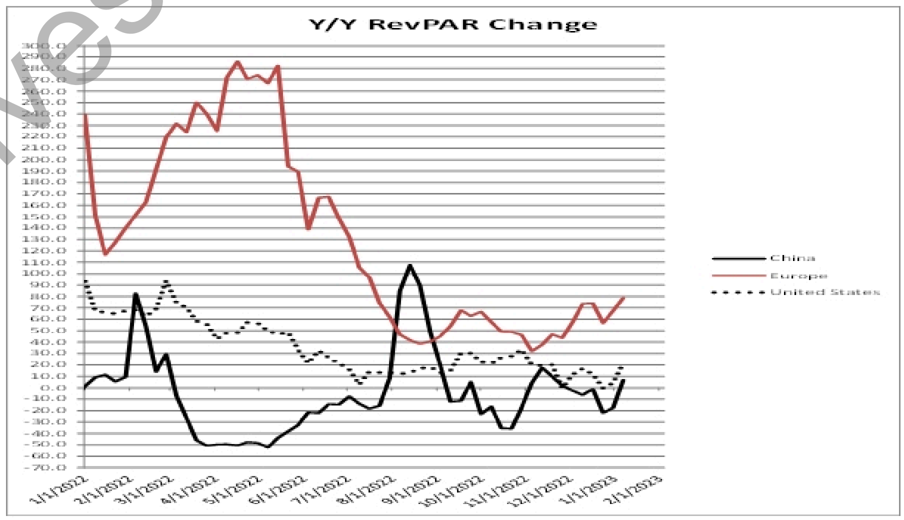
- Although it sounds like China covid/travel restrictions are easing, hotel RevPAR remains deeply depressed (Reuters).

Europe: RevPAR in Europe in Euros was +78.9% y/y vs. +67.3% in the prior week. Last week's RevPAR was up against an +151.3% comparable result in 2021 and +239.5% in the prior week.

U.S.: Overall U.S. RevPAR was +21.8% y/y, 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.

Exhibit 1: Y/Y RevPAR change for China, Europe, US



Source: STR, Truist Securities Research

RevPAR detail for week ending January 7th vs. trailing 28 days (see charts at end of note for graphical representations):

China (local currency):
- RevPAR was +6.9% y/y for the week ending January 7th, **better than** the -9.9% for the trailing 28 days.
- ADR was +8.8% y/y for the week ending January 7th, **better than** the +1.2% for the trailing 28 days.
- Occupancy was -1.7% y/y for the week ending January 7th, **better than** the -11.0% for the trailing 28 days.

Europe (in Euros):
- RevPAR was +78.9% y/y for the week ending January 7th, **better than** the +68.8% for the trailing 28 days.
- ADR was +20.6% y/y for the week ending January 7th, **better than** the +17.9% for the trailing 28 days.
- Occupancy was +48.3% y/y for the week ending January 7th, **better than** the +43.2% for the trailing 28 days.

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%):

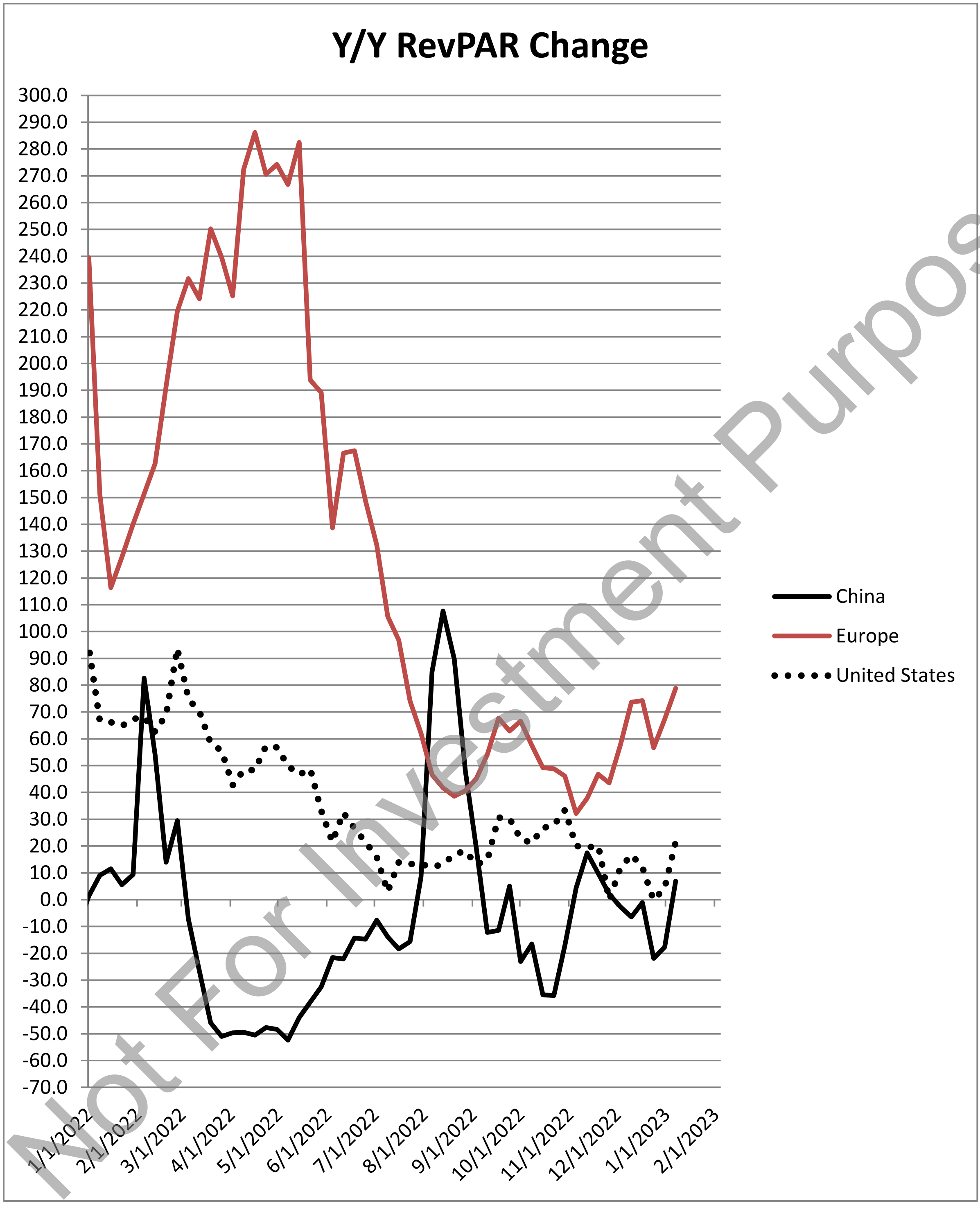
- CHH:
  - Domestic: 79%
  - Asia-Pacific: 4%
  - Europe/Middle East: 9%
  - Latin America & Canada: 8%.

- 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%

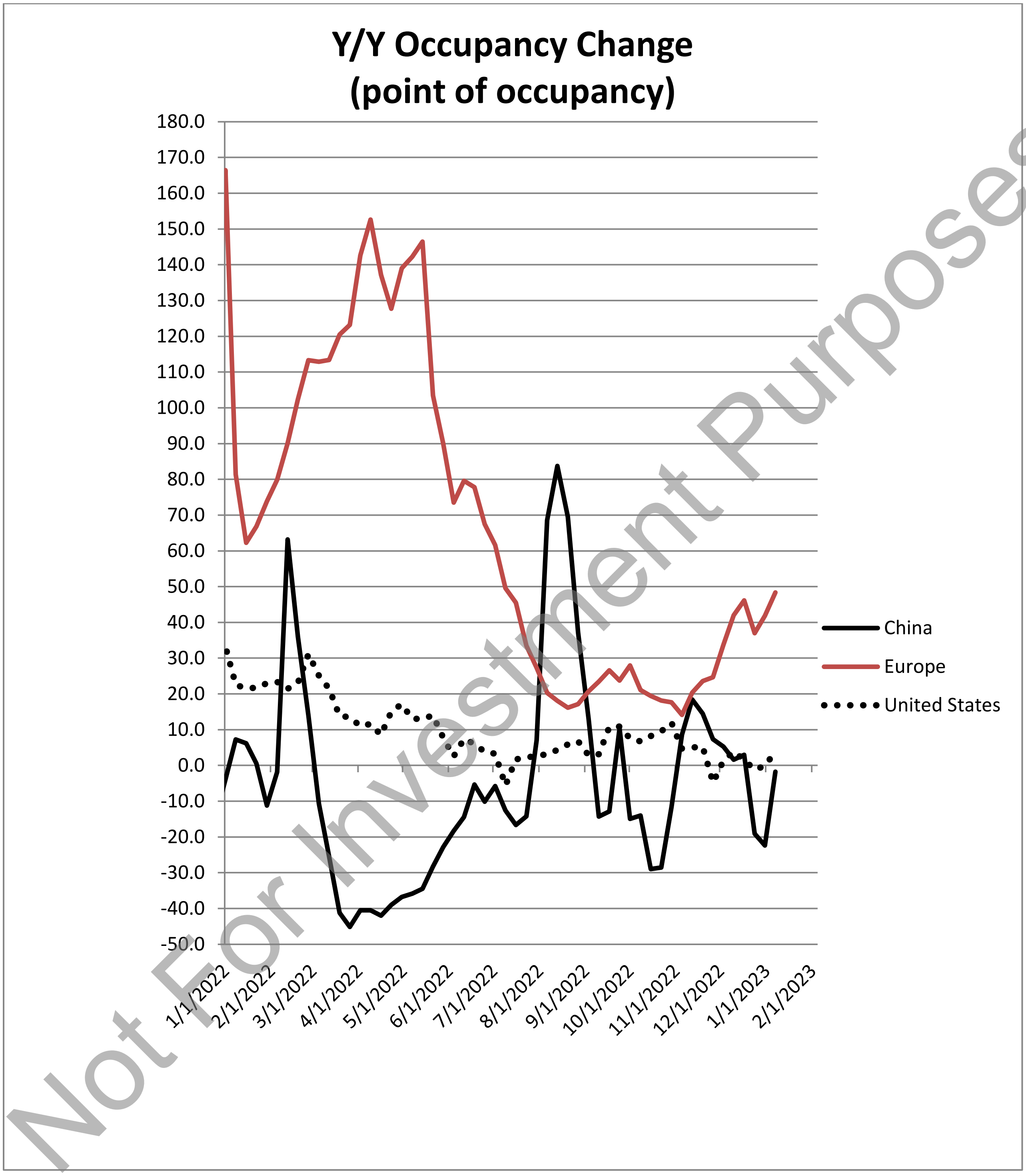
- MAR (ex-timeshare):
  - North America: 65%
  - Europe: 9%
  - Middle East/Africa: 4%
  - Asia Pacific: 18%
  - Caribbean/Latin America ("CALA"): 4%
- WH:
  - US: 61%
  - Canada: 5%
  - Greater China: 19%
  - Rest of Asia: 4%
  - Europe/Middle East/Africa: 8%
  - Latin America: 4%

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



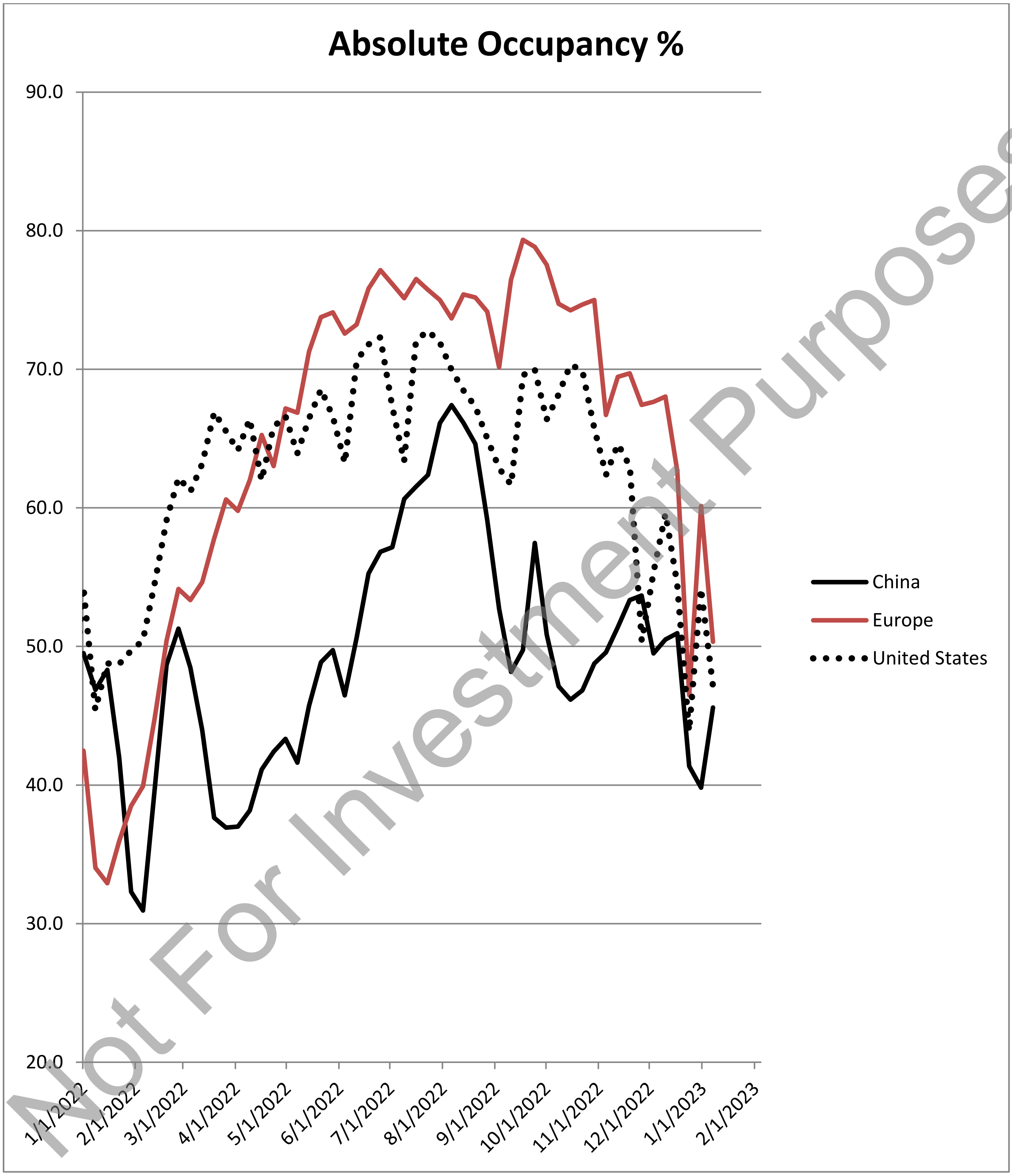
Source: STR, Truist Securities research

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



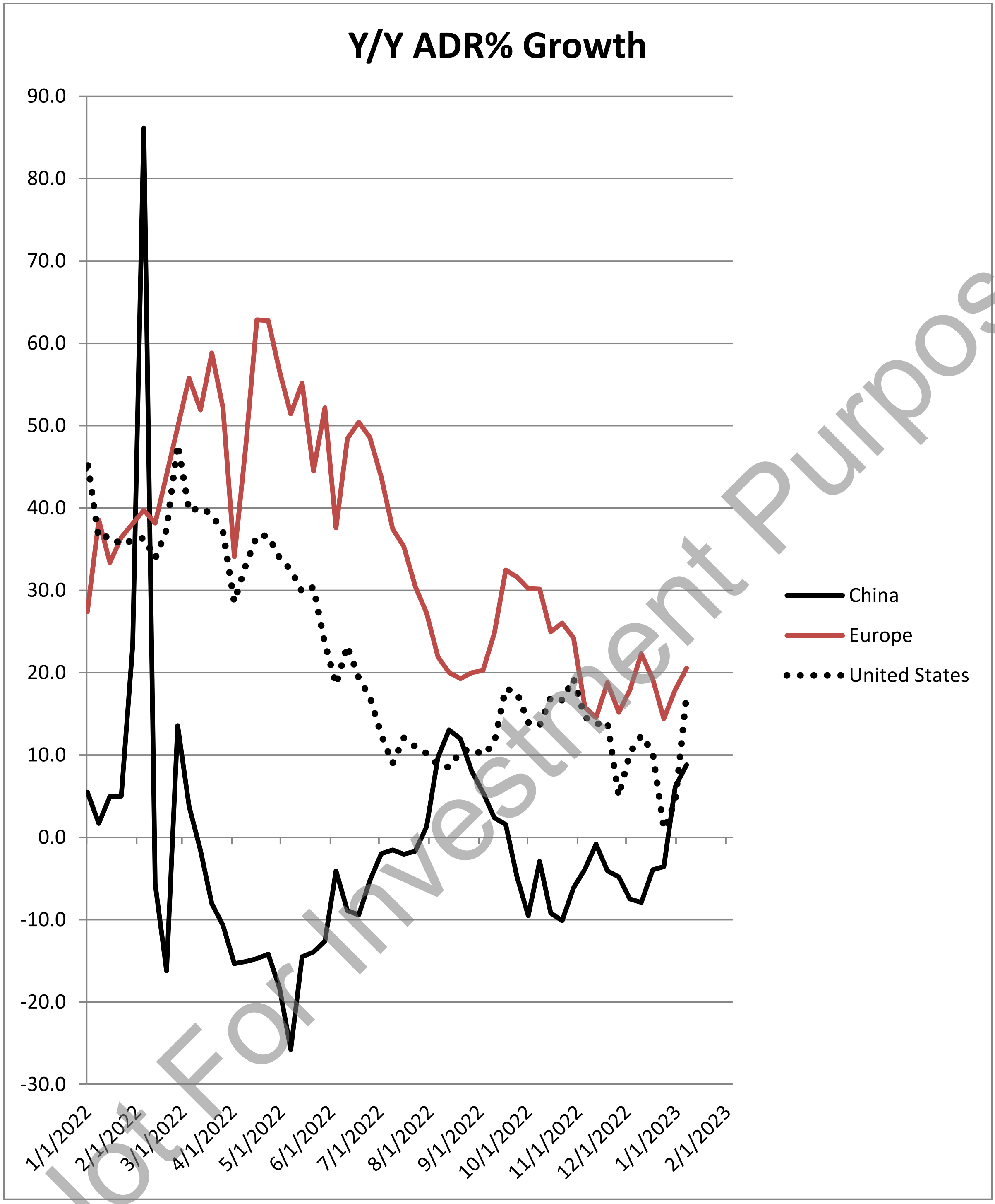
Source: STR, Truist Securities research

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 16.8x (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, $118.21, Hold, C. Patrick Scholes)
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)
Wyndham Hotels & Resorts, Inc. (WH, $71.84, Buy, C. Patrick Scholes)
InterContinental (IHG, NR)

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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.

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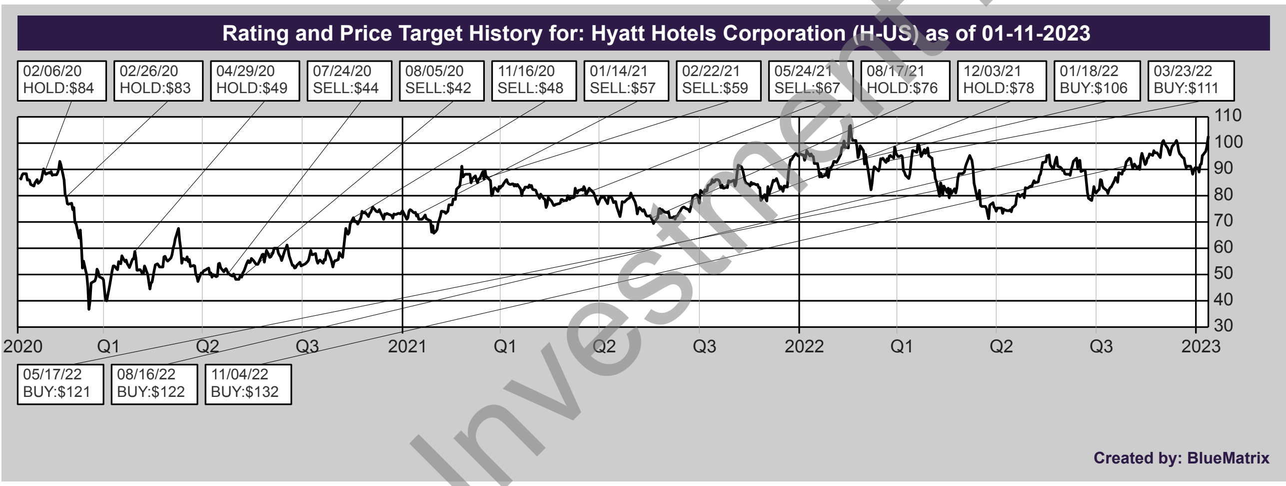
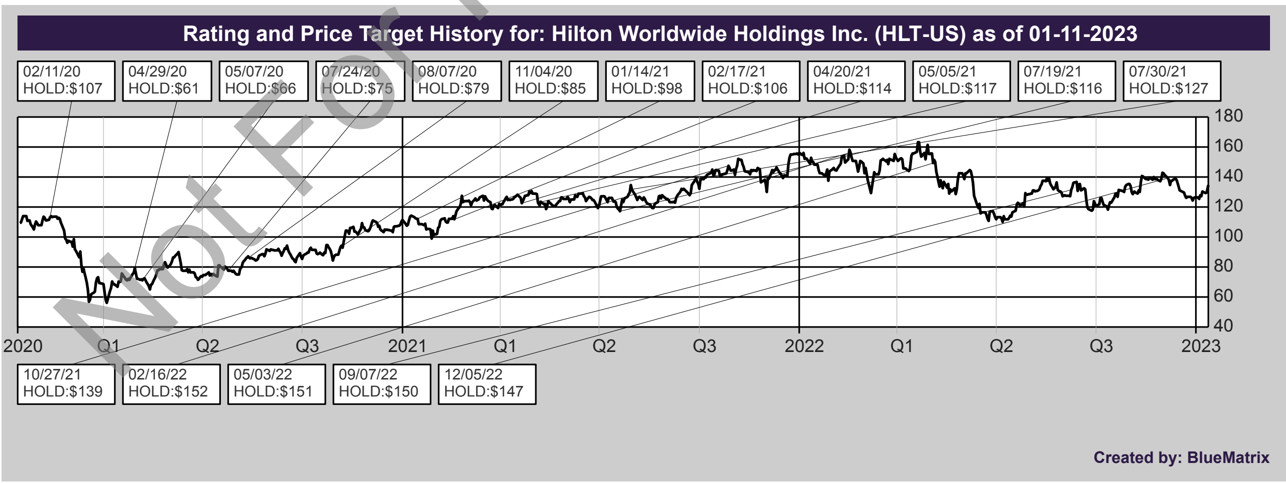
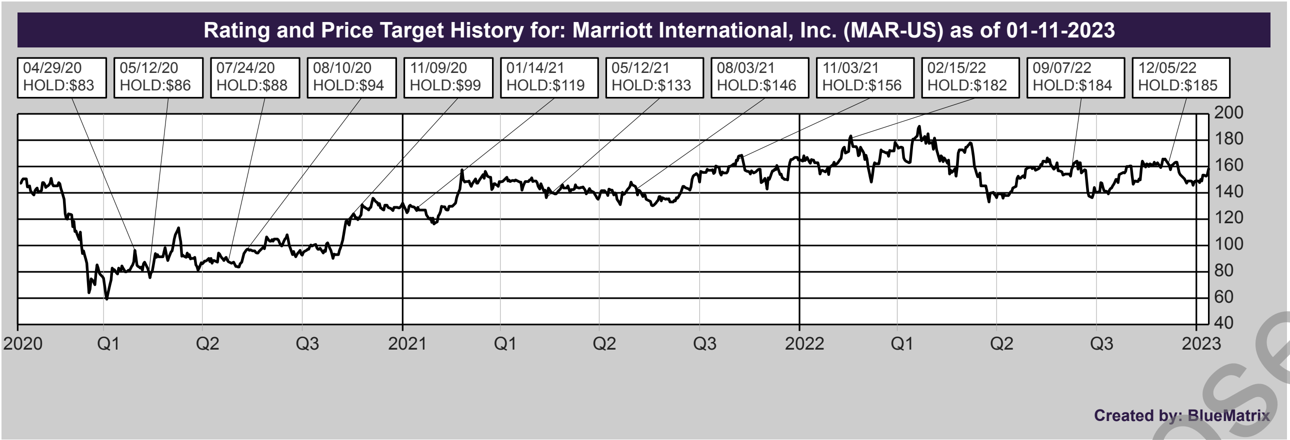
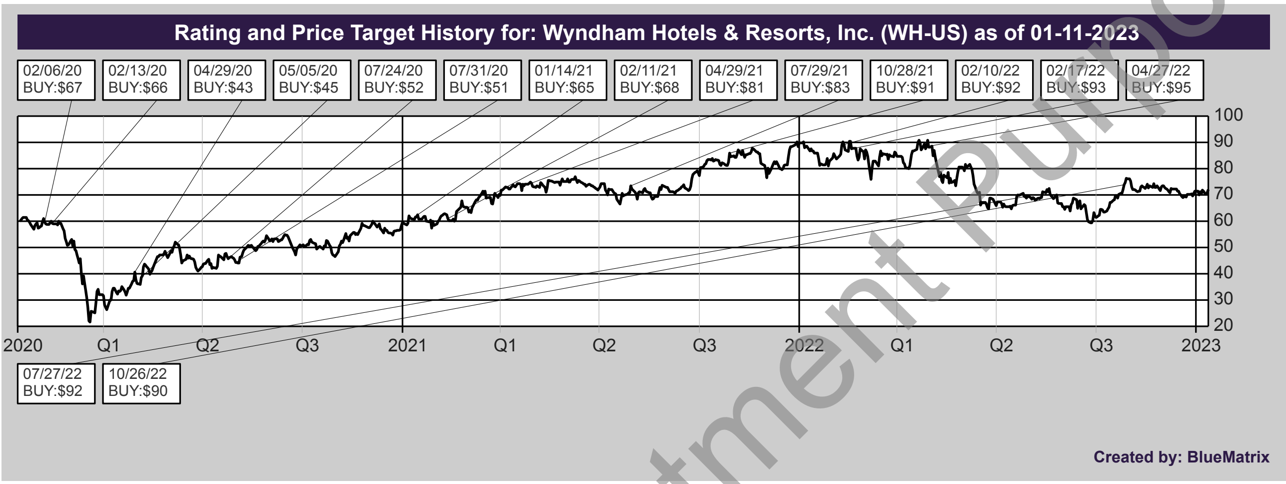






Rating and Price Target History for: Marriott International, Inc. (MAR-US) as of 01-11-2023



Rating and Price Target History for: Wyndham Hotels & Resorts, Inc. (WH-US) as of 01-11-2023

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Legend for Rating and Price Target History Charts:

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Sell	4	0.53%	Sell	1	25.00%

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