Equity Research Report

February 1, 2023

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 +178% y/y (+67% vs. 2019), Europe +95% y/y (+10% vs. 2019)

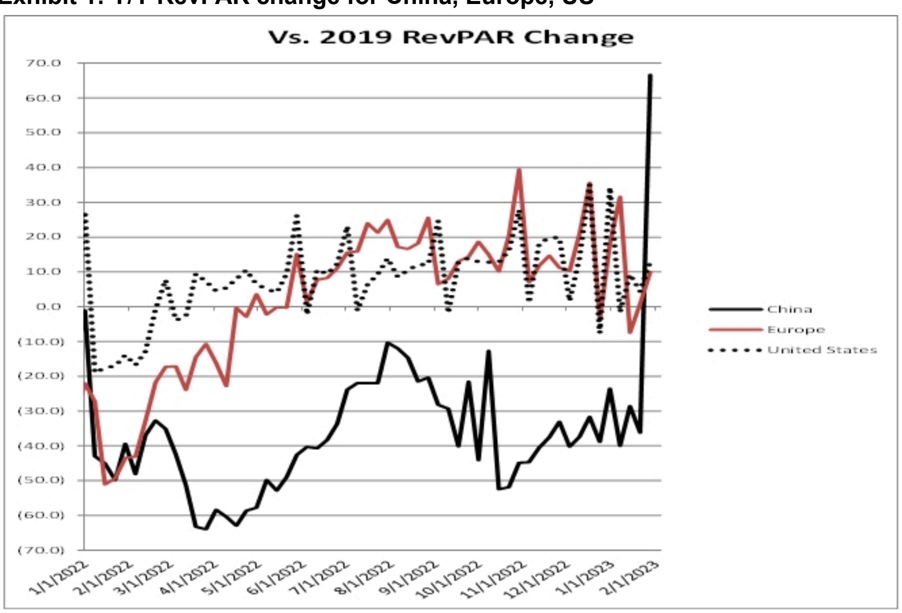
China: Per STR for the week ending January 28th, hotel RevPAR in China in local currency was +177.8% vs. +28.2% y/y in the prior week. Last week's RevPAR was up against a +9.4% y/y comparable result in 2022 and vs. +5.5% in the prior week. ***Versus 2019, RevPAR was +66.6%, materially stronger than the +10.8% in the prior week's result.***

- We see last week's strong performance driven by the timing of the Chinese New Year's, which fell on January 22 this year whereas it fell on February 1 last year and on February 5 in 2019. Subsequently, we expect this/current week's performance (which we will publish next week) to be very weak due to the difficult y/y and vs. 2019 holiday comparisons.
- Although it sounds like China covid/travel restrictions are easing, hotel RevPAR remains deeply depressed (with the exception of last week's holiday-driven strong performance).

Europe: RevPAR in Europe in Euros was +94.8% y/y vs. +100.4% in the prior week. Last week's RevPAR was up against an +140.1% comparable result in 2022 and +127.7% in the prior week. ***Versus 2019, RevPAR was +10.0%, an improvement from the +1.0% in the prior week.***

U.S.: Overall U.S. RevPAR was +31.9% y/y for the week ending 1/28/2023, per STR, up from the prior week's result of +26.2% y/y. Both weeks reflect STR's new reporting methodology (Las Vegas added, discussed below). Last week had a very easy y/y comp due to Omicron and this easy comp will likely continue to be through March. The +13.0% result vs. 2019 was the strongest weekly performance we have seen this year, following three weeks of relatively soft results likely due to weakness in higher-end individual corporate travel.

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



Source: STR, Truist Securities Research

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

China (local currency):

- RevPAR was +177.8% y/y for the week ending January 28th, **better than** the +54.2% for the trailing 28 days.
- ADR was +55.2% y/y for the week ending January 28th, **better than** the +32.3% for the trailing 28 days.
- Occupancy was +79.0% y/y for the week ending January 28th, **better than** the 16.6% for the trailing 28 days.

Europe (in Euros):

- RevPAR was +94.8% y/y for the week ending January 28th, **better than** the +90.8% for the trailing 28 days.
- ADR was +24.0% y/y for the week ending January 28th, **better than** the +22.6% for the trailing 28 days.
- Occupancy was +57.1% y/y for the week ending January 28th, **better than** the +55.6% 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%

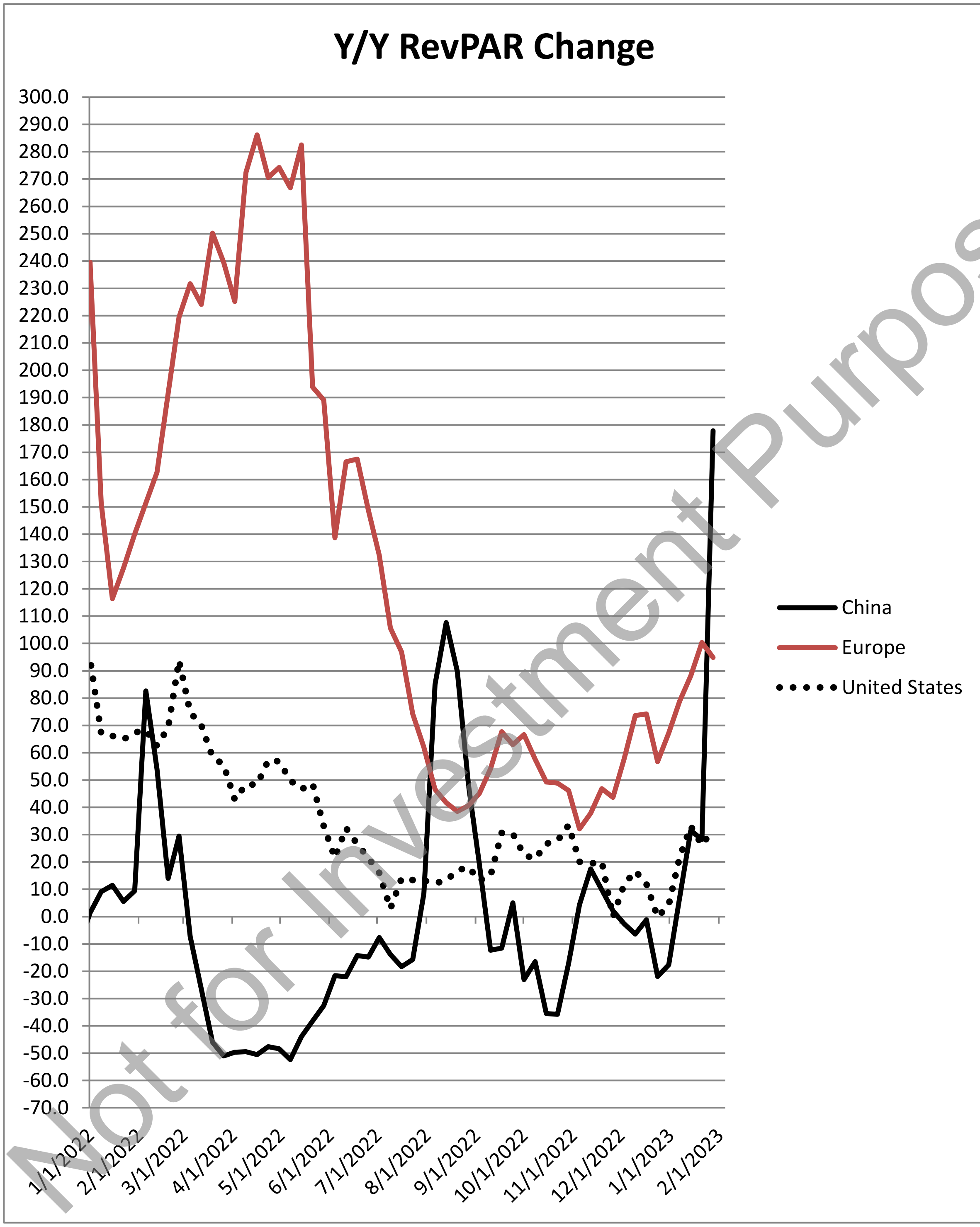
- H (includes owned/leased hotels):
  - Americas ex-all inclusives: 57%
  - Asia-Pacific: 18%
  - Europe/Africa/Mid East/SW Asia ex-all inclusives: 12%
  - Americas ALG + Ziva/Zilara: 9%
  - Europe ALG: 4%

- 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%

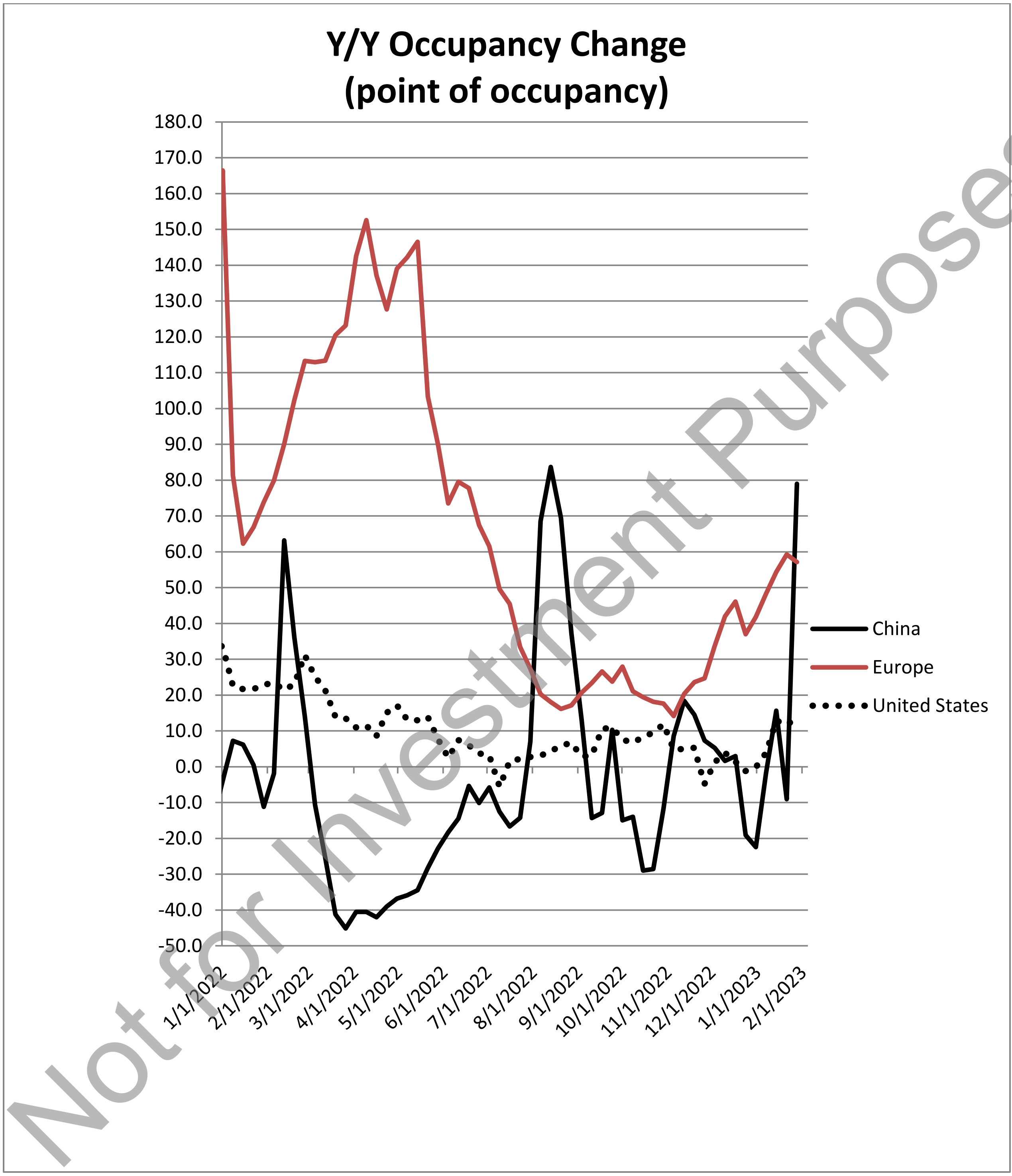
- WH:
  - US: 61%
  - Canada: 5%
  - Greater China: 19%
  - Rest of Asia: 4%
  - Europe/Middle East/Africa: 8%
  - Latin America: 4%

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



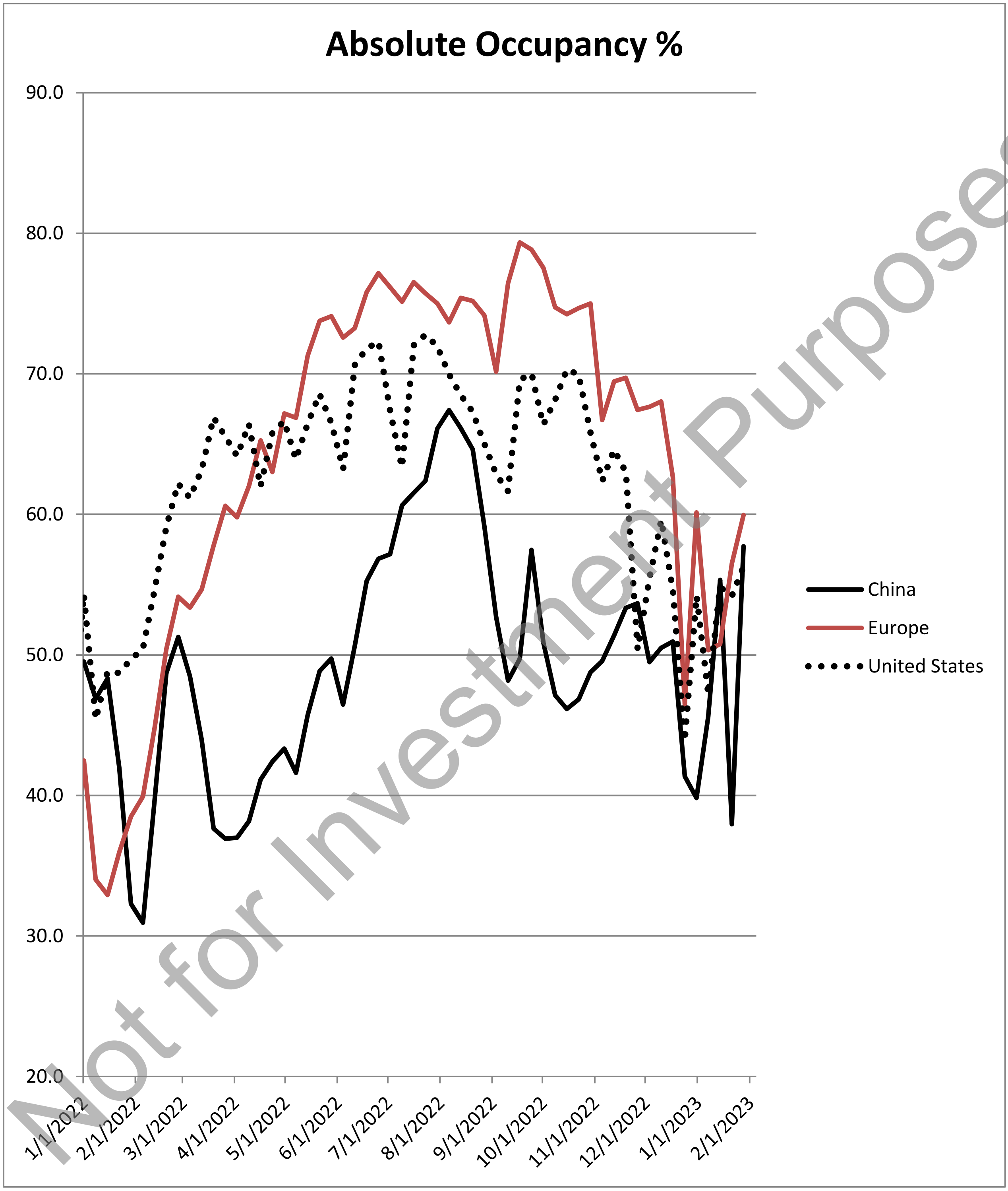
Source: STR, Truist Securities research

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



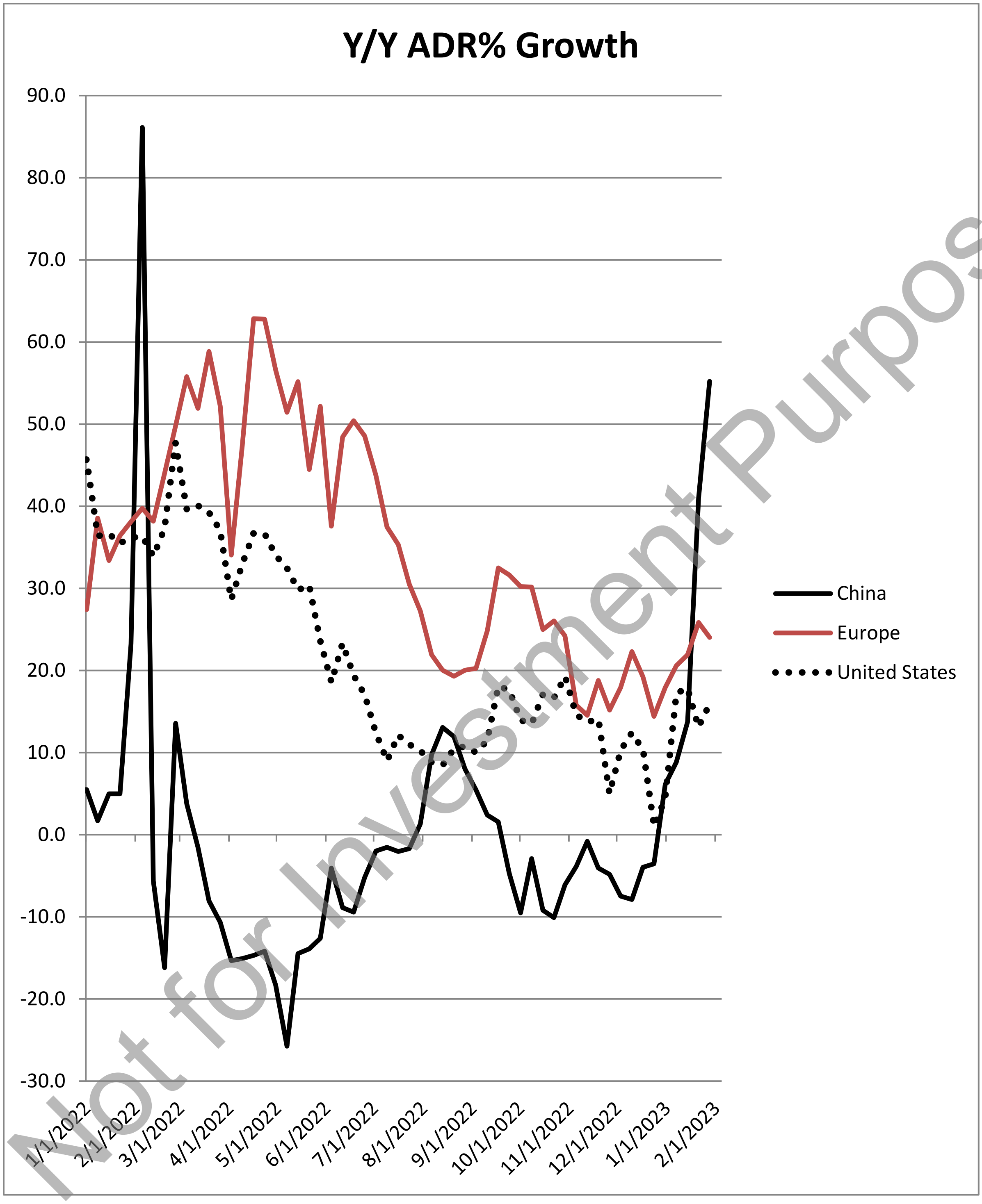
Source: STR, Truist Securities research

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, $123.86, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $109.67, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $147.38, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, $175.36, Hold, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $78.02, Buy, C. Patrick Scholes)
InterContinental (IHG, NR)

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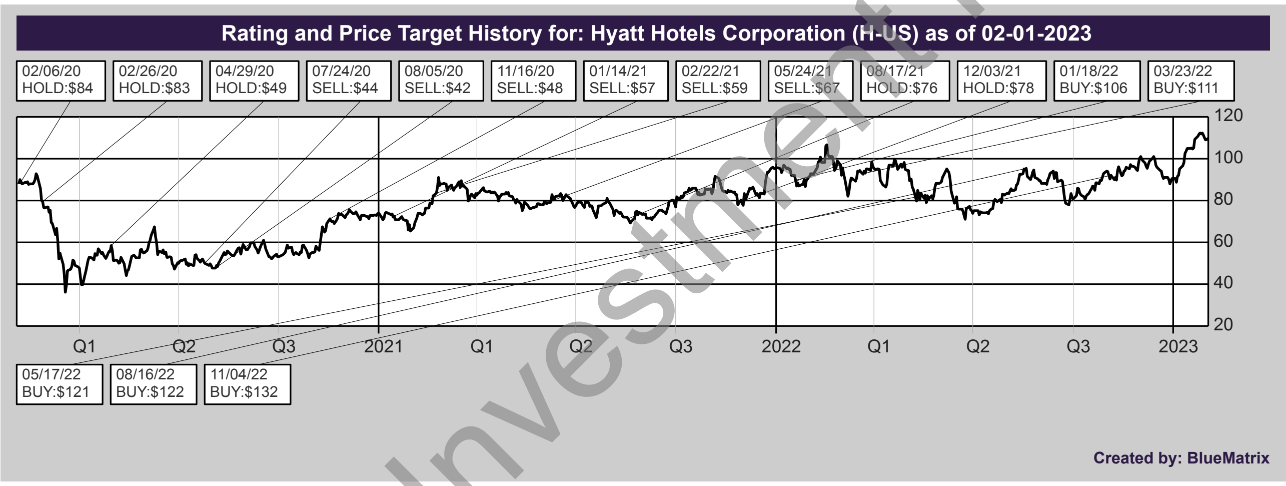

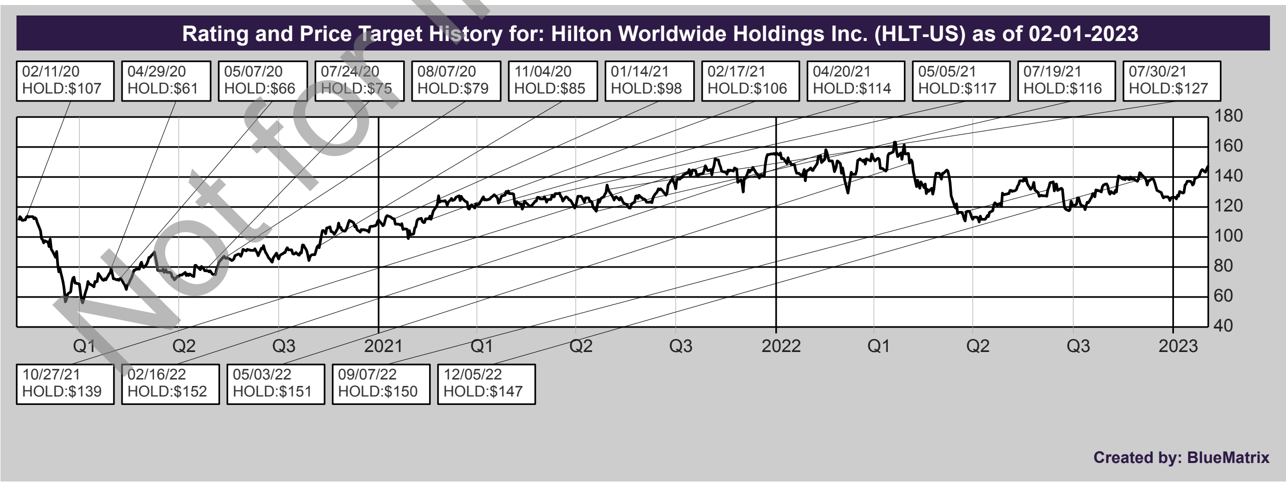

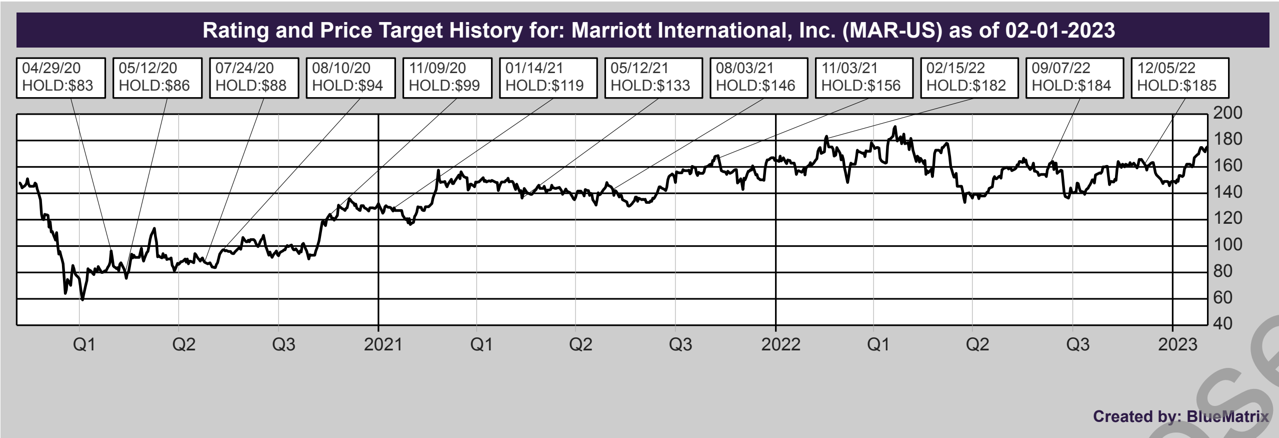

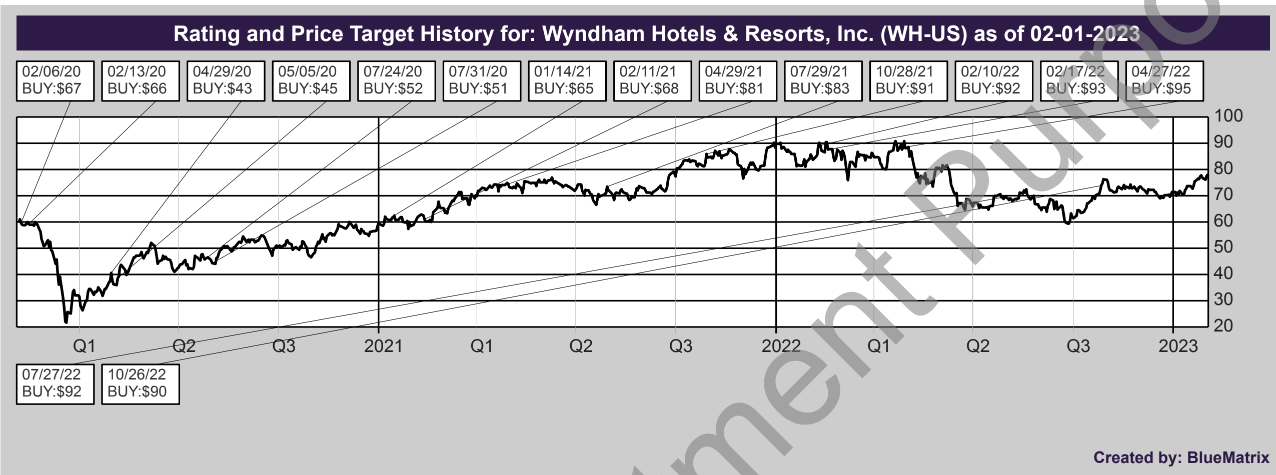

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