June RevPAR Monitor: Some green shoots, unfortunately not yet for corporate & group

Stock picking conundrum between what we see and what we hope.

C. Patrick Scholes
212-319-3915
patrick.scholes@suntrust.com

Gregory J. Miller
212-303-4198
gregory.j.miller@suntrust.com

Kevin Robinson
617-345-6544
kevin.robinson@suntrust.com

What's Inside

An analysis of last month's global lodging results and trends.

Mentioned: Buy-rated HGV, VAC, WH, WYND, and Hold-rated BXG, CHH, H, HLT, MAR and RHP.

Based on the forward-looking observations in our RevPAR data analytics lab combined with conversations with higher-end private hotel owners over the past six weeks, our RevPAR intelligence on US full-service hotels were again not overly encouraging (perhaps an understatement).

- While there have been some green shoots in the US hotel industry, namely with limited service hotels in drive-to leisure locations, our data intelligence, which provide us some visibility for the rest of the year, focuses primarily on full-service urban-centric hotels that are mostly frequented by business and group/ convention travelers; think the typical hotel owned by a REIT. Besides US full-service hotels, we also monitor forward airline bookings and hotel closing/reopenings and with these there were mixed signals.
- As we wrote last month corporate and group bookings could change on a dime if/when a vaccine is available, The stocks continue to trade on progress/rumors of such as the vaccine rumor du jour is trumping industry fundamentals when it comes to daily/weekly stock performance.
- While our data intelligence tell us the recovery in business and group travel has not yet begun for urban-centric full-service hotels, we are cognizant of what we believe/hope will be a 2021 and 2022 RevPAR recovery. If investors are willing to make a bet based on "faith" (meaning a vaccine widely distributed in the first half of next year) and have a multi-year investment time horizon, names like H, HLT, and MAR are beginning to look more attractive based on "faith-based" 2022 estimates. *That said, we are maintaining our Hold ratings on these names for now until we get some indication in our RevPAR intelligence that business and group/convention demand is showing green shoots.*

In our RevPAR intelligence we look especially closely for any second derivative change in the pace of new hotel room bookings as this as a leading indicator for what RevPAR will look like in the future. A month ago we pointed out that future room booking trends were diverging between urban-centric full-service hotels and the rest of the industry and this trend has only continued over the past month and is now showing up in the actual STR results (see exhibit 1 below).

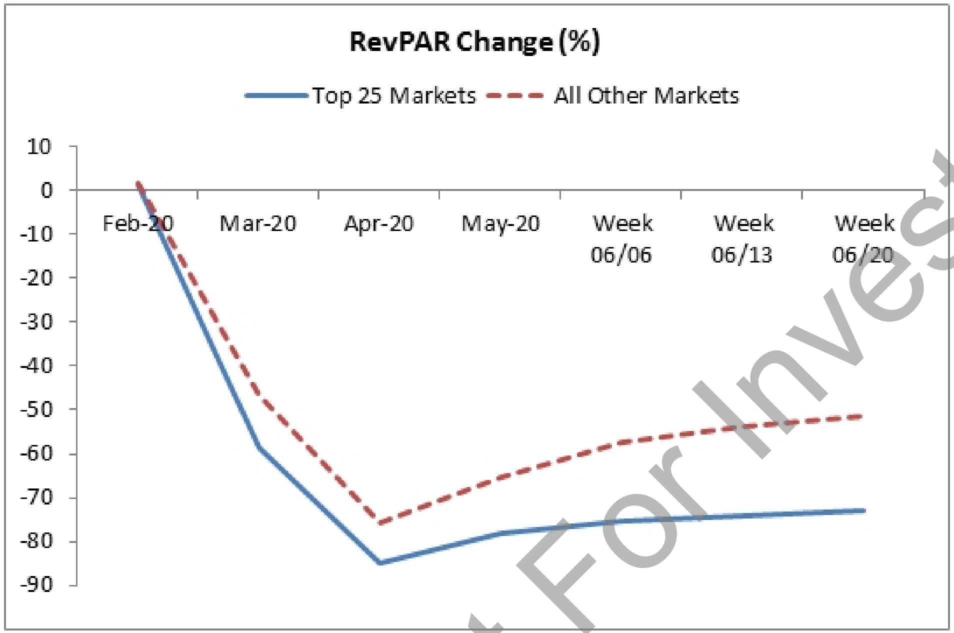
- Similar to our observations a month ago, our latest forward-looking data intelligence were not encouraging. **Booking pace for the rest of the year for business and group travel actually got worse than what we observed during the prior six weeks.** Subsequently, occupancy on the books for the rest of 2020 vs. the same time last year decelerated as did ADR.
- This trend is consistent with what we might have expected to happen when we wrote in last month's monitor that, *"'Headline occupancy' on the books for the back half of 2020 shows big improvements from 2Q20*

levels. However, the problem is those occupancy rates get slashed as arrival dates get closer due to non-existent new bookings for business and group travel and from cancellation of existing Group events/ reservations."

- While there are some select areas of recovery for urban-centric full-service hotels, namely with drive-to leisure business, unlike many domestic (ex-Hawaii) resort locations, the drive-to leisure customer is not the "bread and butter" customer for these hotels. The "bread and butter" customers are transient business and group/convention customers.
- **Additionally, initial indications for hotel bookings for March 2021, the first month of the extremely easy y/y comp, are concerning as they are still down y/y.**

On the (somewhat) positive side, we continue to see gradual reopenings of hotels. *However at the moment any hotel that opens is only diluting what minimal customer demand there is, further pressuring RevPAR.*

Exhibit 1



Source: STRH research, STR

Picking lodging stocks at the moment: A real conundrum as our eyes tell us one thing but our analyst instincts tell us another:

1. On one hand forward RevPAR trends for corporate and group/convention business for the rest of the year can best be described as "awful." **What we can *physically* see (hard data that has good predictability for the rest of the year) at the moment is not encouraging for the typical REIT-owned hotel and would under "normal conditions" prompt us to downgrade many names to "Sell".**

2. On the other hand, if one *believes* and has *faith* that 2021 and 2022 will be RevPAR recovery years, which we do, and subsequently values these stocks on 2022 estimates, then many look moderately attractive. To this we add that companies have the balance sheets to ride out 2020, a throw-away year.

As it relates to stock picking for the moment, we continue to look most favorably on hotels and resorts that are best positioned to the drive-to leisure customer today.

- For the public companies, we reiterate the companies best positioned here in our coverage universe to drive-to leisure are CHH and WH (we prefer WH over CHH due to a more attractive comparable valuation) and for the timeshare companies (BXG, HGV, VAC, WYND). **We find one of the most telling signals this year as it relates to the resiliency of the timeshare business model is that WYND is the only company in our greater coverage universe to have not cut its dividend; *to us that really says something.***
- Besides improvements in drive-to leisure travel today, there are indications of strong pent-up demand for future travel.

Segmentation By Company

	Transient Corporate*	Transient Leisure	Group
DRH	45%	25%	30%
HST	40%	25%	35%
PEB	50%	25%	25%
PK	35%	35%	30%
RHP	5%	25%	70%
RLJ	55%	25%	20%
SHO	45%	20%	35%

C-corps	Transient Corporate*	Transient Leisure	Group
CHH	45%	45%	10%
H	40%	20%	40%
HLT	50%	20%	30%
MAR	50%	30%	20%
WH	30%	70%	less than 1%

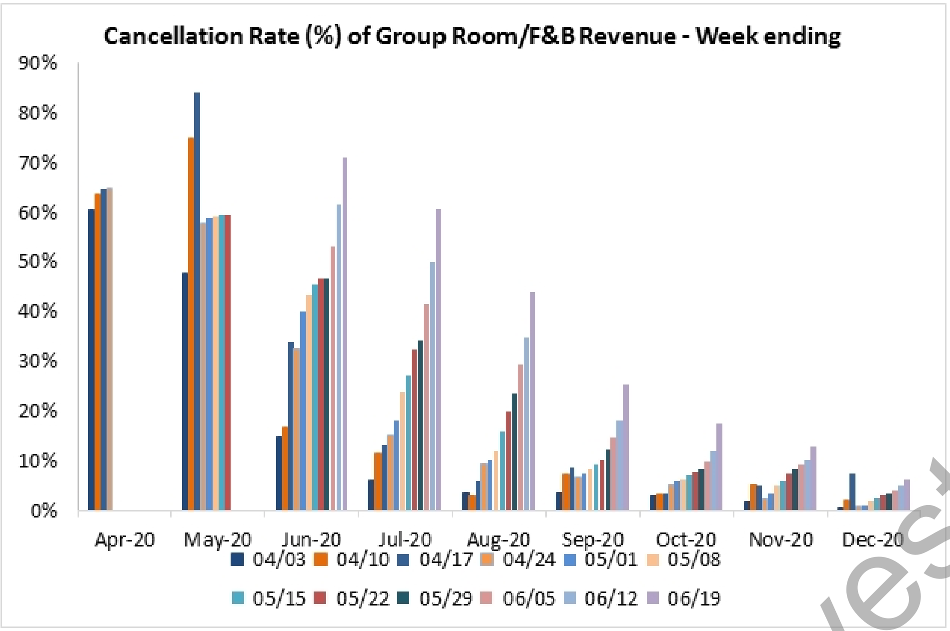
*For simplicity, transient corporate includes contract/crew (generally 5% or less of total demand for most companies). Contract/crew is generally very low-rated business.

Source: STRH research, Company data

Forward occupancy trends for the rest of the year: The lack of new transient business and group bookings (aka booking pace) as arrival dates get closer continues to push down occupancy on the books for future months/quarters vs. the same time last year. For example:

- Occupancy on the books for US full-service hotels in 3Q20 was “only” down approx. 25% y/y when we calculated it last month whereas due to the dearth of new bookings and cancellations it is now tracking down closer to 50% y/y.
- Occupancy on the books for US full-service hotels was “only” down 5% y/y for 4Q20 when we looked at it last month, however it is now tracking down approx. 20% y/y.

- Additionally, we believe forward occupancy trends are probably worse than what our various data intelligence are showing as the relevant data is not being properly managed at the hotel-level as some of those in charge of reporting/updating them to our data collectors have been furloughed/laid-off. In the chart below, based in data from Kalibri Labs we observe a rapid increase in cancellations as arrival dates get closer:



Source: STRH Research, Kalibri Labs

March 2021 booking and occupancy trends are not encouraging despite the easy y/y comp. March 2021 is the first y/y virus comp month and occupancy on the books for March 2021 is still down approx. 25% y/y, which is a deceleration from our observations of down approx. 20% six weeks ago. We believe this is reflective of the above described hesitancy in booking business travel and group meetings as well as some group cancellations. *Again, such negative trends could change on a dime if/when vaccine becomes available.*

In addition to future hotel bookings, we also look at the pace of airline bookings to see if there are any signs of life. Based on data from Kalibri Labs, the trend in airline bookings for future flights has generally been encouraging, though it did slip over the past week. However, much of the strength is with leisure-centric markets such as Miami, whereas major markets like Boston, Chicago, New York City, San Francisco, and Washington DC are still seeing new flight bookings pacing down 80-90% y/y. *An interesting/relevant statistic we observed this month is the material pick-up in airline bookings to Miami, which at the start of June were pacing down approx. 15% y/y but by mid-month picked up to approx. +50%.* We view the strength for Miami as indicative of pent-up demand for domestic leisure travel.

Future Airline Bookings

Week ending	29-Apr	6-May	13-May	20-May	27-May	3-Jun	10-Jun
Total US	-91.1%	-88.1%	-82.8%	-82.7%	-75.0%	-71.5%	-61.9%

Source: STRH Research, Kalibri Labs

Hotel opening/closing observations: The trend line is encouraging. However as mentioned previously, at the moment any hotel that opens is only diluting what minimal customer demand there is, further pressuring RevPAR.

Source: STRH Research, Kalibri Labs

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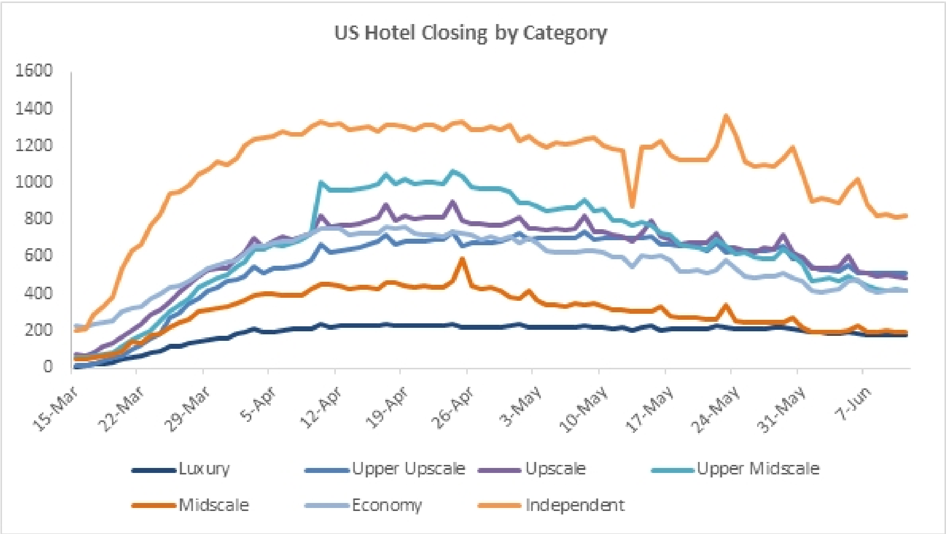

Source: STRH Research, Kalibri Labs

Companies Mentioned in This Note

Bluegreen Vacations Corporation (BXG, $4.70, Hold, C. Patrick Scholes)
Choice Hotels International, Inc. (CHH, $78.04, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $49.17, Hold, C. Patrick Scholes)
Hilton Grand Vacations Inc. (HGV, $20.66, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $72.51, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, $84.04, Hold, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $34.37, Hold, C. Patrick Scholes)
Marriott Vacations Worldwide Corporation (VAC, $80.43, Buy, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $41.44, Buy, C. Patrick Scholes)
Wyndham Destinations, Inc. (WYND, $27.92, Buy, C. Patrick Scholes)

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