Equity Research Report

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CONSUMER: Lodging

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Reasons for this report

✓ Our analysis of the most recent weekly US lodging results

Lodging: US RevPAR +2.8% y/y last week. Clean comp with strong group results.

Overall U.S. RevPAR was +2.8% y/y for the week ending 5/18/2024, per STR, below the prior week's result of +6.6% y/y but above the trailing 10-week average of +1.5%.

Last week's results reflected a clean comp with continued evidence of strong Group performance (RevPAR +13.2% y/y, split fairly evenly between occupancy and ADR). Conversely, Transient RevPAR was flat. Resort RevPAR on a non-holiday mid-Spring week was -2.8%. Economy was the only chain scale with negative results y/y, also -2.8%.

Major RevPAR statistics presented below:

- Luxury RevPAR: +4.5% y/y
- Upper Upscale RevPAR: +6.0% y/y
- Upscale RevPAR: +3.6% y/y
- Upper Midscale RevPAR: +1.6% y/y
- Midscale RevPAR: +0.8% y/y
- Economy RevPAR: -2.8% y/y
- Independent hotels (~ 1/3rd of the data set) RevPAR: -0.7% y/y; and
- Within Upper Upscale & Luxury class hotels:
  - Group: +13.2% y/y vs. +17.4% prior week;
  - Transient: +0.0% y/y vs. +6.9% prior week;
- Las Vegas RevPAR: +1.0% y/y
  - **As a caveat, we note that many large Strip casino hotel operators do not participate in STR's survey.**

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

- **Headline RevPAR** was +2.8% y/y vs. the running 28-day average of +1.9% y/y.
- **Occupancy:** Absolute occupancy was 67.4% vs. 65.9% for the running 28-day average.
- **Absolute Group occupancy:** 24.0% last week vs. 23.7% for the running 28 days.

The Lodging stocks:

- **Of the lodging stocks our favorite name is now Wyndham (WH, Buy) (previously Hyatt [H, Buy], which has had an extremely strong YTD performance).** WH has underperformed the hotel C-corps since the initial news about the proposed merger with Choice Hotels (CHH, Hold) last spring. While the proposed merger has ended and investors can once again value WH as a standalone entity going forward, we view WH stock as considerably undervalued. We can also point to an 8-K released by WH on 3/11 in advance of CHH's decision to stop the merger pursuit where WH provided "pillars for standalone growth" representative of $26 stock price upside by the end of 2025 driven by: 1) continuing a 6% plus historical EBITDA growth, 2) expected $650M of FCF generation over the next two years, and 3) ability to deploy $400M of additional leverage capacity based on a net leverage target of 3.5x (substantial cash returns to shareholders as has been the case for years). Additionally and distinctly from the $26 upside, WH also views an additional $22 upside per share driven by EBITDA growth that is anticipated to be in the 7-10% range and a re-rating on the multiple (1.0x is worth $10/share in WH's calculation).
- **For the hotel REITS, our favorite name is RHP (Buy).** At 80% of its business coming from groups/conventions, RHP has the greatest exposure to this customer segment and has no hotels located in the especially tech-heavy San Francisco area. We add that RHP's hotels are likely benefiting from several "self-help" factors including having properties in better condition than some other big box comparables

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and convention centers as well as what has proven to be a smart strategy of maintaining their property-level salesforce during the heart of the pandemic.

CHH: Valuation and Risks

Our price target of $146 for CHH is derived by applying a 14.0x target EV/EBITDA multiple (slightly above industry average and in the midpoint of CHH's historical trading multiple range) to our estimate for 2025 EBITDA.

Risks to our rating and price target include: Upside risks: conservative guidance, if the economy performs better than expected, outperformance by Radisson. Downside risks: slowdown in development opportunities, high construction costs, newly created brands grow slower than expectations, and underperformance by Radisson.

H: Valuation and Risks

Our price target of $172 is derived by applying a 15.1x target EV/EBITDA multiple (a blended average of the industry multiples for each business segment) to our estimate for 2025 EBITDA. Our sum-of-the-parts analysis on our 2025 segment multiple assumptions include (12.5x owned EBITDA u/c, 16x fees EBITDA u/c) and other segments/ALG (10-12x, u/c).

Risks to our rating and price target: 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.

WH: Valuation and Risks

Our price target of $105 for WH is based on a 15.0x target EV/EBITDA multiple (in line with portfolio quality/RevPAR relative to peers) of our 2025 EBITDA estimate.

Risks to our rating and price target: Slowdown in development opportunities. Macro demand/pipeline headwinds.

RHP: Valuation and Risks

Our price target of $135 for RHP is derived by applying a 13.0x target EV/EBITDA multiple to our estimate for 2025 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.

Companies Mentioned in This Note

Choice Hotels International, Inc. (CHH, $117.71, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $150.30, Buy, C. Patrick Scholes)
Ryman Hospitality Properties, Inc. (RHP, $104.46, Buy, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $70.88, Buy, C. Patrick Scholes)

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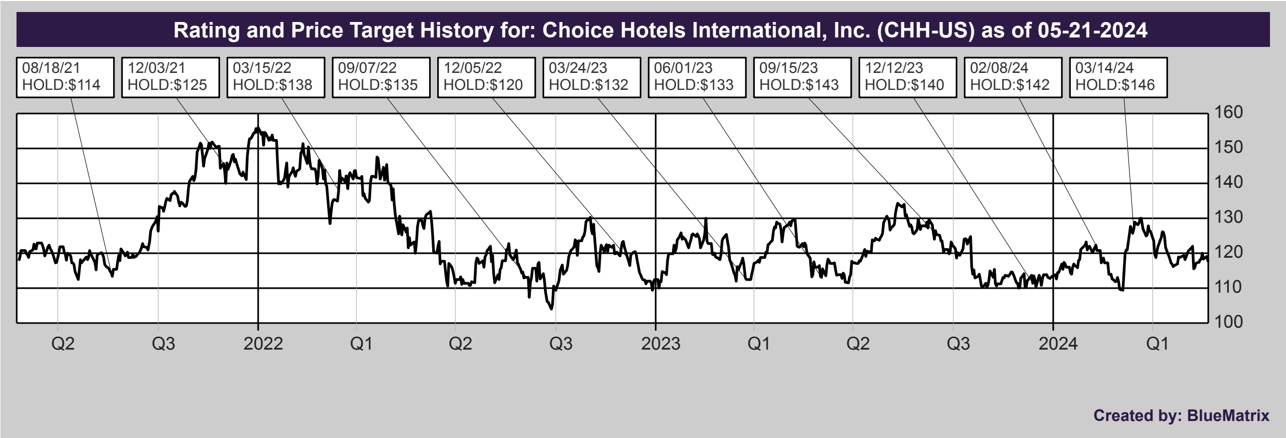

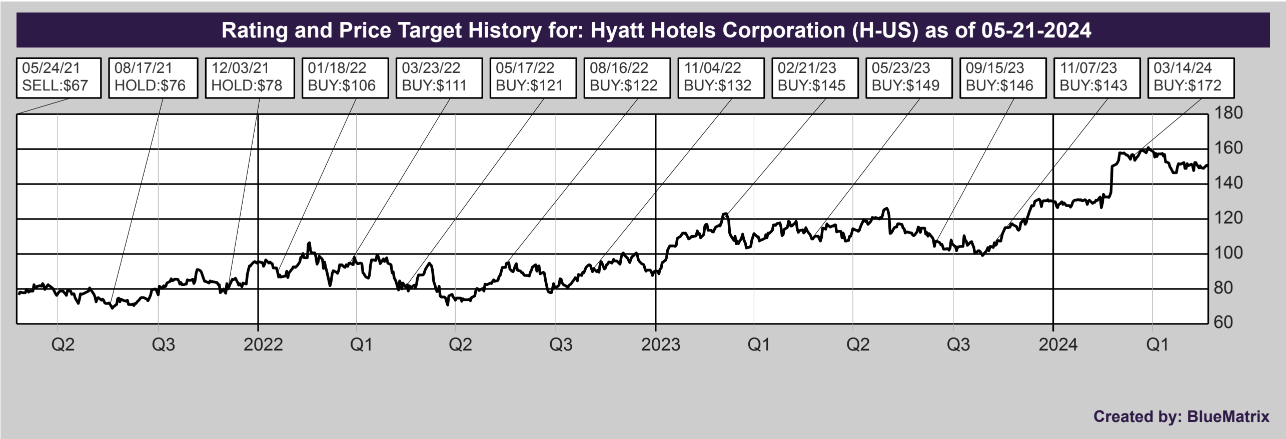

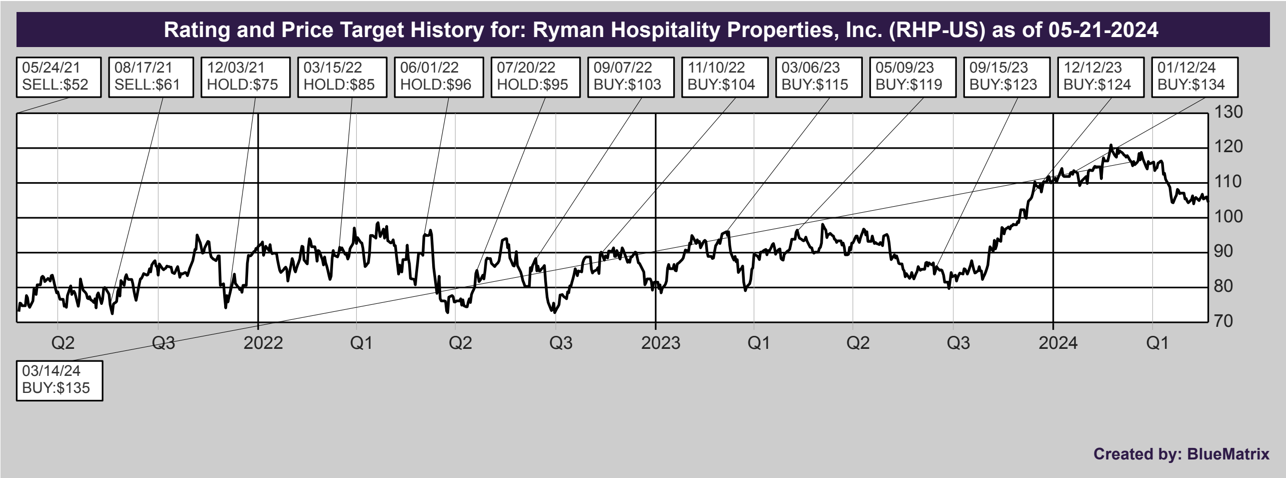

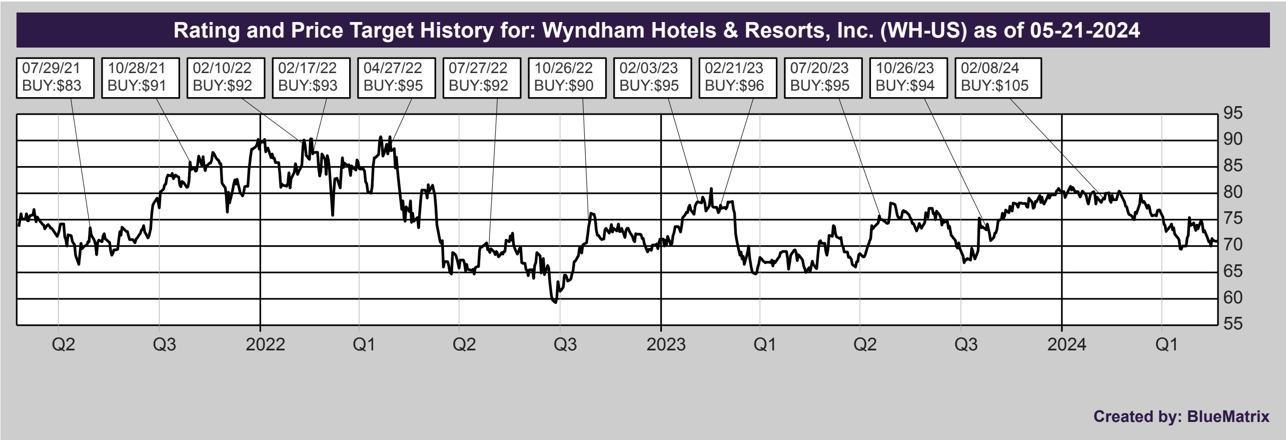

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