

## CONSUMER: Lodging

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## Reasons for this report

✓ Our analysis of the most recent weekly US lodging results

## Lodging: US RevPAR +0.9% y/y; Results reflective of lackluster summer leisure trends

Overall U.S. RevPAR was +0.9% y/y for the week ending 7/27/2024, per STR, below the prior week's result of +3.4% y/y and slightly below the trailing 10-week average of +1.0%.

While Group results were relatively strong (RevPAR +13.7% y/y), there is lower corporate group travel during the summer months and so group strength is countered by the continuation of weaker domestic leisure. Post-hurricane temporary relocation demand in the large Houston metro continues to act as a tailwind to national results (Houston RevPAR +26.4% y/y).

### Major RevPAR statistics presented below:

- Luxury RevPAR: +1.1% y/y
- Upper Upscale RevPAR: +2.2% y/y
- Upscale RevPAR: +0.9% y/y
- Upper Midscale RevPAR: +0.4% y/y
- Midscale RevPAR: -0.6% y/y
- Economy RevPAR: -2.2% y/y
- Independent hotels (~ 1/3rd of the data set) RevPAR: -0.3% y/y; and
- Within Upper Upscale & Luxury class hotels:
  - Group: +13.7% y/y vs. +13.6% prior week;
  - Transient: -2.4% y/y vs. -0.1% prior week;
- Las Vegas RevPAR: -9.2% 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 +0.9% y/y vs. the running 28-day average of -0.1% y/y.
- **Occupancy:** Absolute occupancy was 72.0% vs. 69.0% for the running 28-day average.
- **Absolute Group occupancy:** 21.9% last week vs. 18.7% for the running 28 days.

### The Lodging stocks:

- **Of the lodging stocks our favorite name is Wyndham (WH, Buy).** 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

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.

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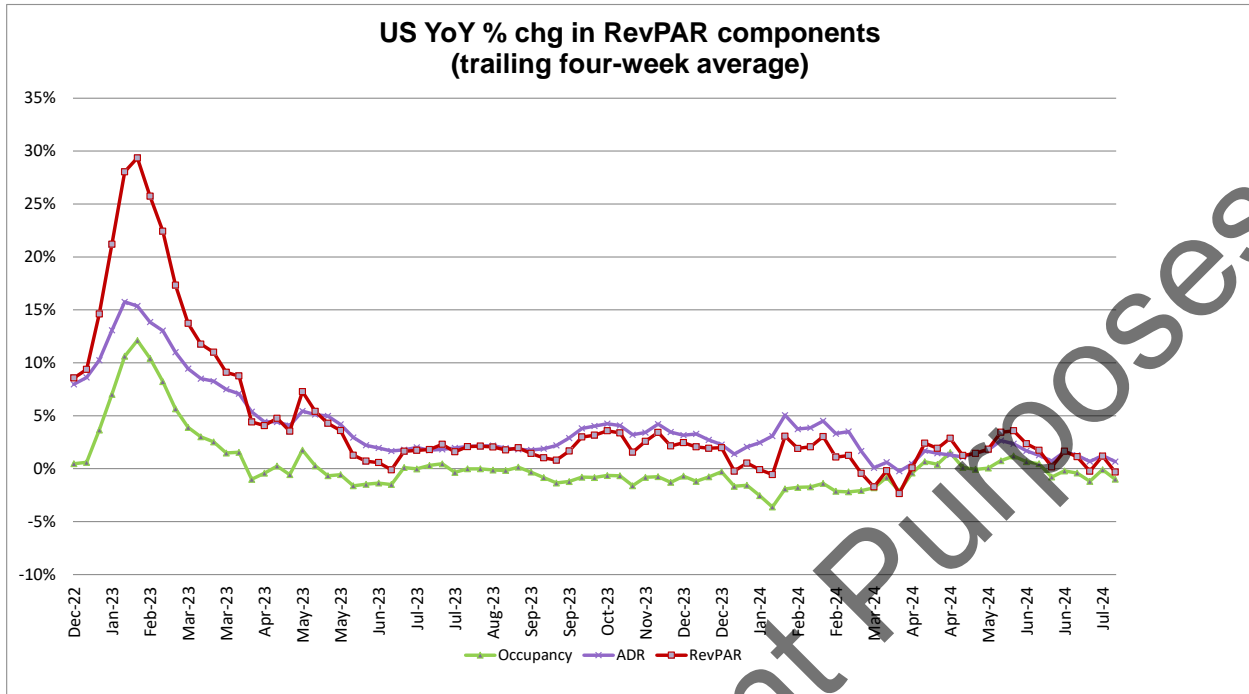
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Weekly RevPAR Summary

Table with columns: YoY % change in RevPAR, Upper Upscale, Upscale, Upper Midscale, Midscale, Economy, Independent, New York, Boston, LA, Chicago, DC. Includes sub-sections for YoY % change in ADR and YoY % change in Occupancy, and a large 'ANALYSIS FOR INTERNAL PURPOSES' watermark.

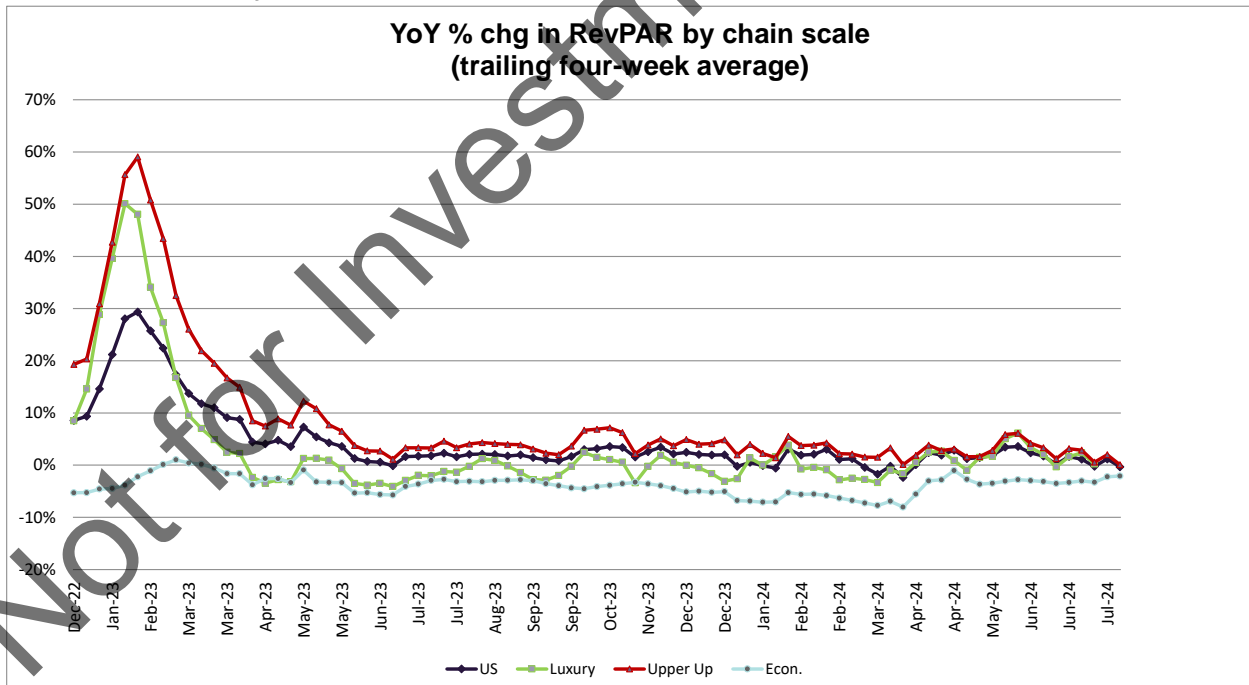
Source: STR data, Truist Securities research

RevPAR Component Trends



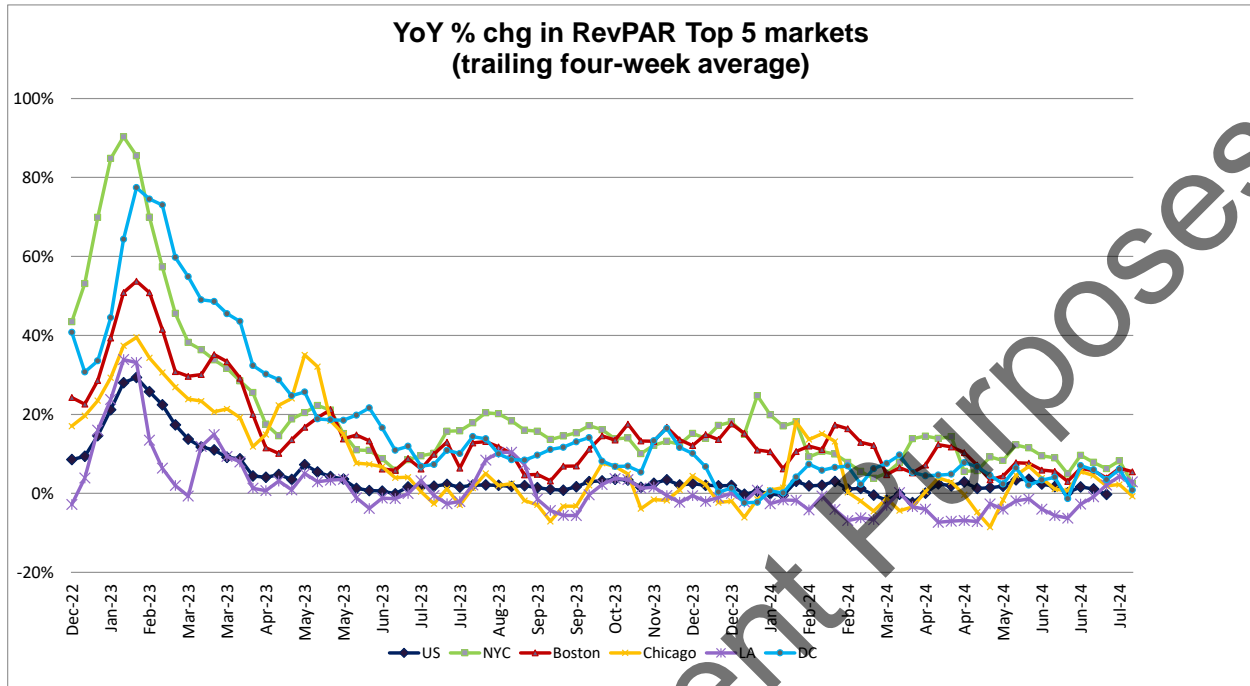
Source: STR data, Truist Securities research

RevPAR Trends by Chain Scale



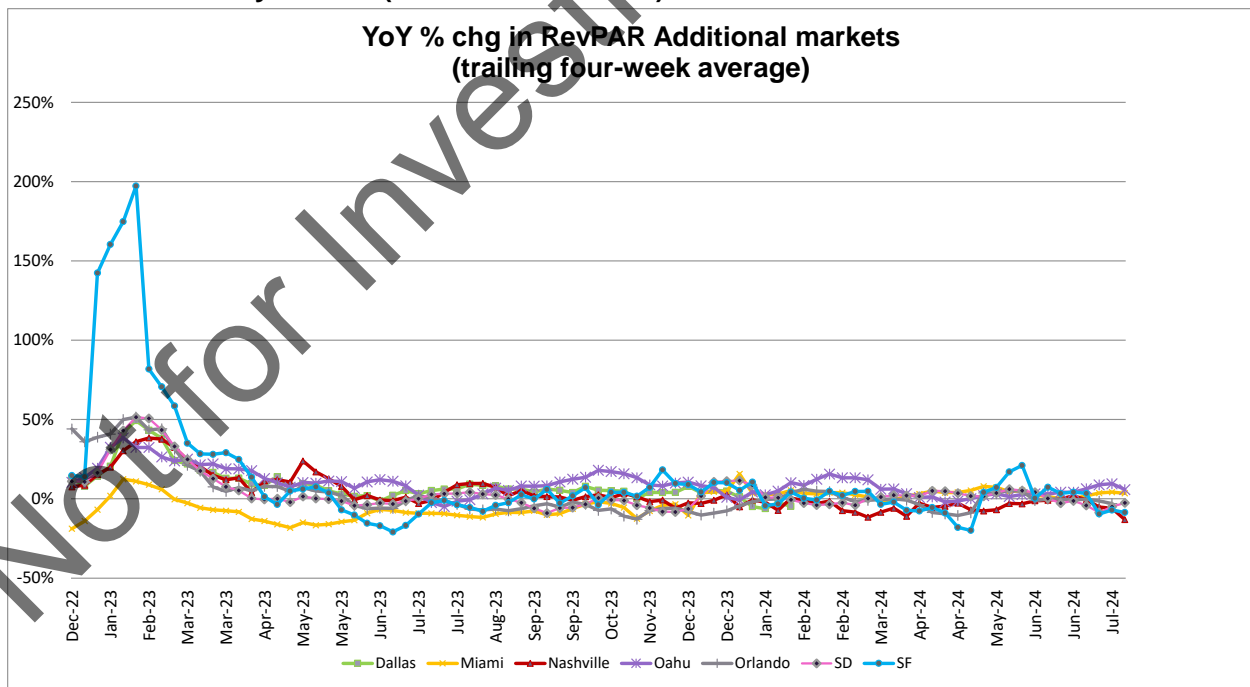
Source: STR data, Truist Securities research

RevPAR Trends by Market (Top 5 markets)



Source: STR data, Truist Securities research

RevPAR Trends by Market (Additional markets)



Source: STR data, Truist Securities research

**WH: Valuation and Risks**

Our price target of \$104 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 \$130 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.

**CHH: Valuation and Risks**

Our price target of \$144 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.

**Companies Mentioned in This Note**

- Choice Hotels International, Inc.** (CHH, \$131.47, Hold, C. Patrick Scholes)
- Ryman Hospitality Properties, Inc.** (RHP, \$102.92, Buy, C. Patrick Scholes)
- Wyndham Hotels & Resorts, Inc.** (WH, \$78.23, Buy, C. Patrick Scholes)

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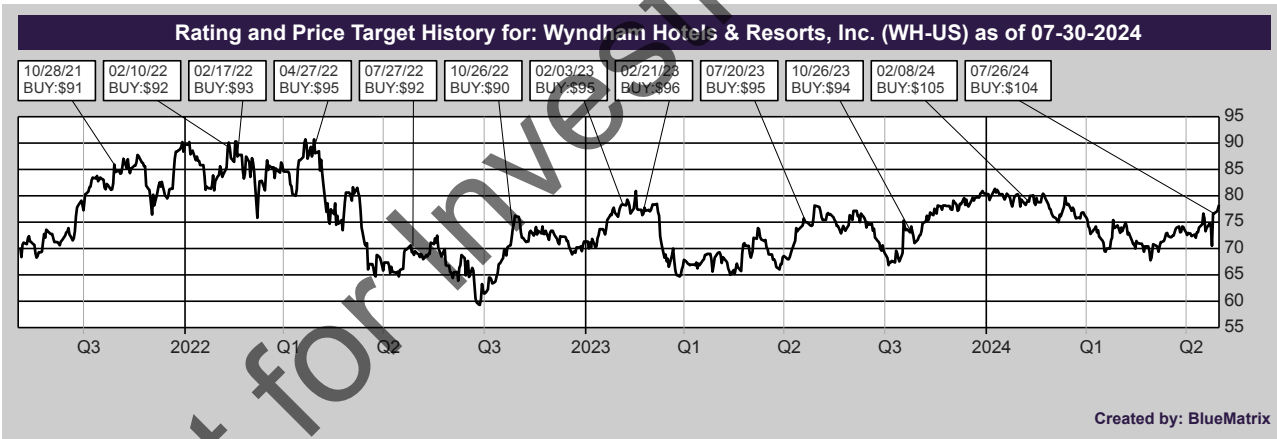
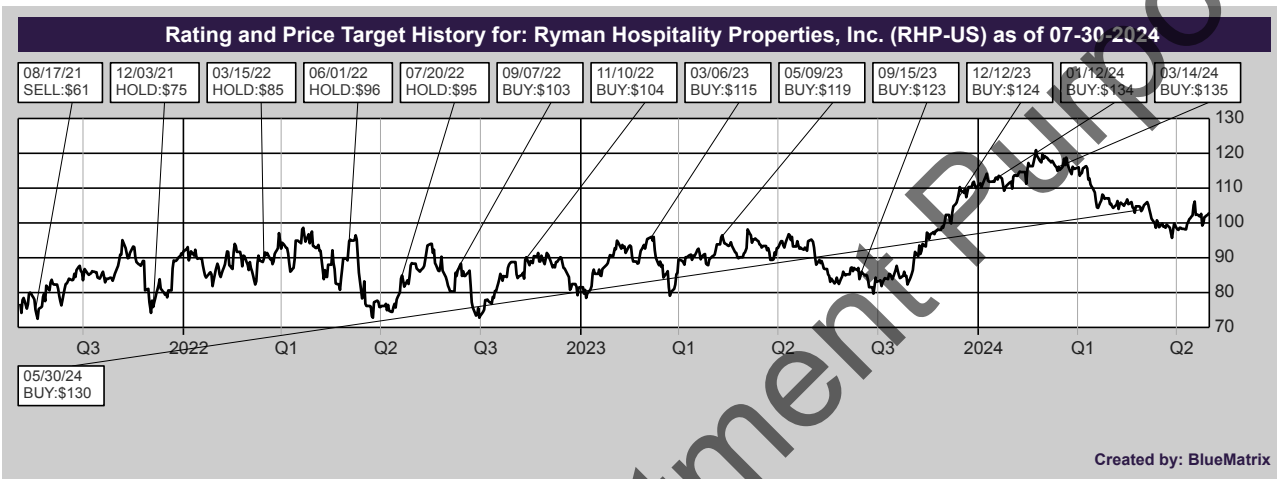
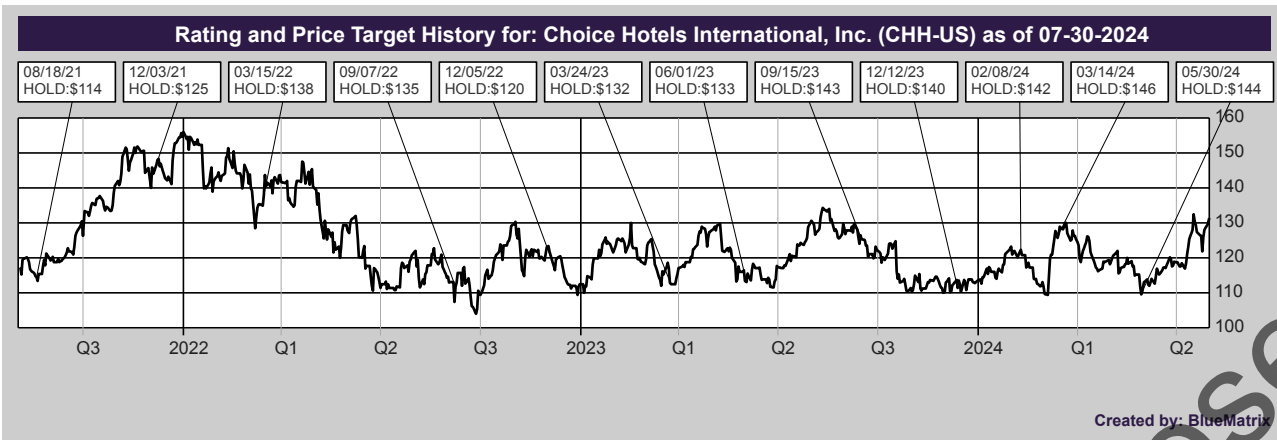
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