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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: U.S. RevPAR +3.8% y/y last week; Complicated results with holiday shifts and hurricane impact

Overall U.S. RevPAR was +3.8% y/y for the week ending 10/12/2024, per STR/CoStar, above the prior week's result of -7.7% y/y and above the trailing 10-week average of +1.3%.

Last week's results were noisy from holiday shifts (Yom Kippur/Columbus Day) as well as the mixed demand impact from Hurricane Milton (benefit to lower-priced hotels and to regional markets away from the storm (Atlanta RevPAR: +20.6% y/y / New Orleans +35.9% vs. Tampa -9.8% and Orlando -5.3%). We expect hurricane displacement demand from residents whose homes were damaged and government/construction relief to benefit Midscale and Economy results for the foreseeable future.

All that said, the hurricane demand impact is one-time and will lead to a tougher comp next year. We recommend monitoring Midscale and Economy hotel performance especially starting in two weeks for a better read-through on longer-term implications, especially to CHH and WH shares, to which we assume a demand impact at least to 4Q24 if not into 2025. WH's 3Q earnings (and perhaps to a lesser extent HLT) may also provide some read-through into hurricane impact expectations.

For REITS, we await public company announcements on impacted hotels in Florida, which may/may not come until earnings. Based on a review of hotel websites and in some cases contacting hotels via telephone, we are aware of some temporarily closed properties between Naples and Tampa.

Major RevPAR statistics presented below:

- Luxury RevPAR: +6.4% y/y
- Upper Upscale RevPAR: +2.2% y/y
- Upscale RevPAR: +4.0% y/y
- Upper Midscale RevPAR: +5.1% y/y
- Midscale RevPAR: +6.5% y/y
- Economy RevPAR: +5.7% y/y
- Independent hotels (~ 1/3rd of the data set) RevPAR: +0.7% y/y; and
- Within Upper Upscale & Luxury class hotels:
  - Group: -1.5% y/y vs. -21.0% prior week;
  - Transient: +3.4% y/y vs. -8.0% prior week;
- Las Vegas RevPAR: +1.2% 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 +3.8% y/y vs. the running 28-day average of +2.1% y/y.
- **Occupancy:** Absolute occupancy was 70.3% vs. 68.2% for the running 28-day average.
- **Absolute Group occupancy:** 24.2% last week vs. 24.7% for the running 28 days.

The Lodging stocks:

- **Bottom line for the hotel companies/stocks:** We do not see RevPAR growth itself as a catalyst for the lodging sector though results for most of the C-Corps should reaffirm the compounding earnings drivers of modest RevPAR growth + mid-single digit net rooms growth (a very high margin business) + share repurchases combined with margin growth. Any outsized earnings growth for the C-Corps and any earnings growth for the hotel REITS (Ryman Hospitality Properties (RHP, Buy) excluded) will need to come from other sources such as net rooms growth (C-Corps) and share

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repurchases. We look generally favorably on the hotel C-Corp sub-sector given their multiple drivers of earnings growth, and **we see shares of Wyndham Hotels (WH, Buy) as the stand-out value name in the group** though acknowledge it may be at least several more quarters before we see a shift to positive Economy segment RevPAR growth.

- Hotel REITS, with the notable exception of RHP, will, in our view, continue to be challenged by cost increases slightly higher than revenue growth. Hotel REITS could have opportunity for earnings growth if they were to sell assets, which for the most part are valued higher on a stand-alone basis than as a part of the REIT (parts greater than the sum), and subsequently repurchase shares - though we do not envision this happening. Rather for the hotel REITS, we continue to see the primary opportunity for stock upside driven by investor sentiment around interest rate cuts happening sooner than expected (Source: Skift). While we are generally lethargic-to-unfavorable on the hotel REIT sector and as discussed further **see 2H24 and 2025 consensus RevPAR growth expectations around 50-100 bps too high**, we are positive on Ryman Hospitality (RHP) given its heavy exposure to Group (~70% of RHP's Hospitality segment EBITDA) and differentiated and proven business model. Additionally, recent news around expansion at the Rockies property (Source: Denver Business Journal) and what we see as a high ROIC investment initially sound encouraging.

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.

WH: Valuation and Risks

Our price target of $103 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.

Companies Mentioned in This Note

Ryman Hospitality Properties, Inc. (RHP, $112.49, Buy, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $81.95, Buy, C. Patrick Scholes)

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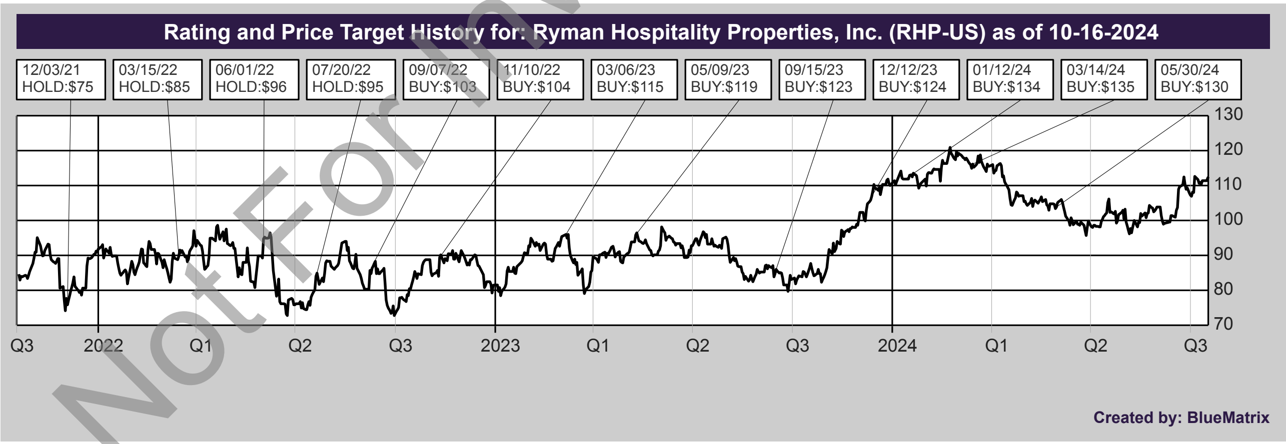

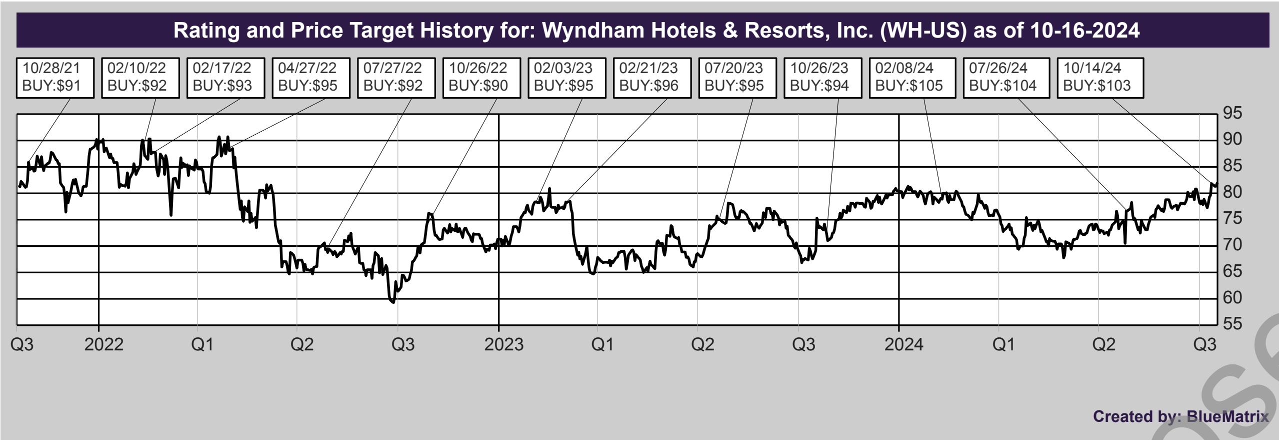

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