

CONSUMER: Lodging

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7 Page Document

Reasons for this report

✓ Our analysis of the most recent weekly China and Europe lodging results

International hotels' RevPAR last week: China -20.9% y/y, Europe +5.3% y/y.

China: Per STR/CoStar for the week ending October 12th, hotel RevPAR in China in local currency was -20.9% y/y vs. +3.3% y/y in the prior week. Last week's RevPAR was up against a +73.4% y/y comparable result in 2023 vs. +77.2% y/y in the prior week. The low headline RevPAR result was in our view driven by a calendar shift impact from the Golden Week holiday.

Europe: RevPAR in Europe in Euros was +5.3% y/y vs. +0.9% in the prior week. Last week's RevPAR was up against a +16.4% comparable result in 2023 and +13.5% in the prior week.

Overall U.S. RevPAR was +3.8% y/y, above the prior week's result of -7.7% y/y and above the trailing 10-week average of +1.3%.

RevPAR detail for week ending October 12th vs. trailing 28 days:China (local currency):

- RevPAR was -20.9% y/y for the week ending October 12th, **lower than** the -7.8% for the trailing 28 days.
- ADR was -7.2% y/y for the week ending October 12th, **slightly above** the -7.4% for the trailing 28 days.
- Occupancy was -14.8% y/y for the week ending October 12th, **lower than** the -0.5% y/y for the trailing 28 days.

Europe (in Euros):

- RevPAR was +5.3% y/y for the week ending October 12th, **slightly lower** than +5.7% for the trailing 28 days.
- ADR was +4.3% y/y for the week ending October 12th, **slightly lower** than +4.6% for the trailing 28 days.
- Occupancy was +1.0% y/y for the week ending October 12th, **in-line** with the +1.0% 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 4Q23; figures may not round to 100%):

- Choice Hotels (CHH, Hold):
 - Domestic: 79%
 - Asia-Pacific: 4%
 - Europe/Middle East: 9%
 - Latin America & Canada: 9%

- H (includes owned/leased hotels):
 - United States: 49%
 - Americas (ex U.S.): 14%
 - Greater China: 13%
 - Asia Pacific (ex Greater China): 10%
 - Europe: 11%
 - Middle East/Africa: 3%
 - HLT:
 - US: 67%
 - Americas: 6%
 - Europe: 9%
 - Middle East/Africa: 3%
 - Asia Pacific: 14%
 - Other hotels, likely to be converted to a brand, with no geography noted: 0.4%
 - IHG:
 - Americas: 55%
 - EMEAA: 26%
 - Greater China: 19%
 - MAR (ex-timeshare):
 - North America: 62%
 - Europe: 9%
 - Middle East/Africa: 5%
 - Asia Pacific: 18%
 - Caribbean/Latin America ("CALA"): 6%
 - WH:
 - US: 57%
 - Canada: 5%
 - Greater China: 20%
 - Rest of Asia: 4%
 - Europe/Middle East/Africa: 10%
 - Latin America: 5%
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Not For Investment Purposes

H: Valuation and Risks

Our price target of \$169 is derived by applying a 15.0x 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: 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.

MAR: Valuation and Risks

Our \$254 price target is based on a 16.7x blended multiple on our 2025E EBITDA. In the parts, we assign a 12.0x 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.

HLT: Valuation and Risks

We apply a blended multiple of 16.7x (11.5x for Owned/leased and 17.0x for Managed/franchised) to our 2025 adjusted EBITDA estimate to derive a price target of \$208. This multiple is above the high end of the historical range of 10x-16x which we view as appropriate based on current trading fundamentals/flight to quality consumer stocks.

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.

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

Choice Hotels International, Inc. (CHH, \$134.88, Hold, C. Patrick Scholes)

Hyatt Hotels Corporation (H, \$153.52, Buy, C. Patrick Scholes)

Hilton Worldwide Holdings Inc. (HLT, \$237.49, Hold, C. Patrick Scholes)

Marriott International, Inc. (MAR, \$262.57, Hold, C. Patrick Scholes)

Wyndham Hotels & Resorts, Inc. (WH, \$81.95, Buy, C. Patrick Scholes)

InterContinental (IHG, Not Rated)

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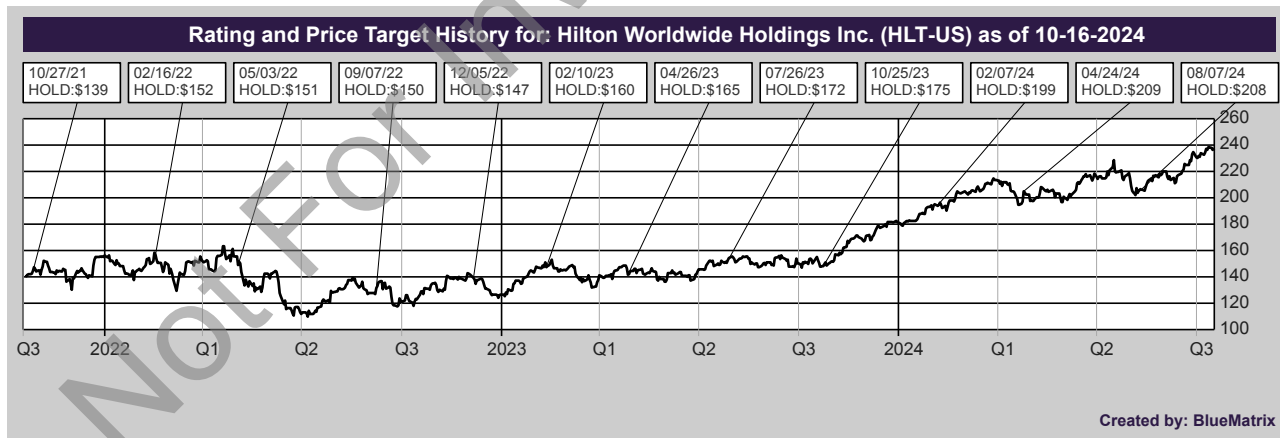
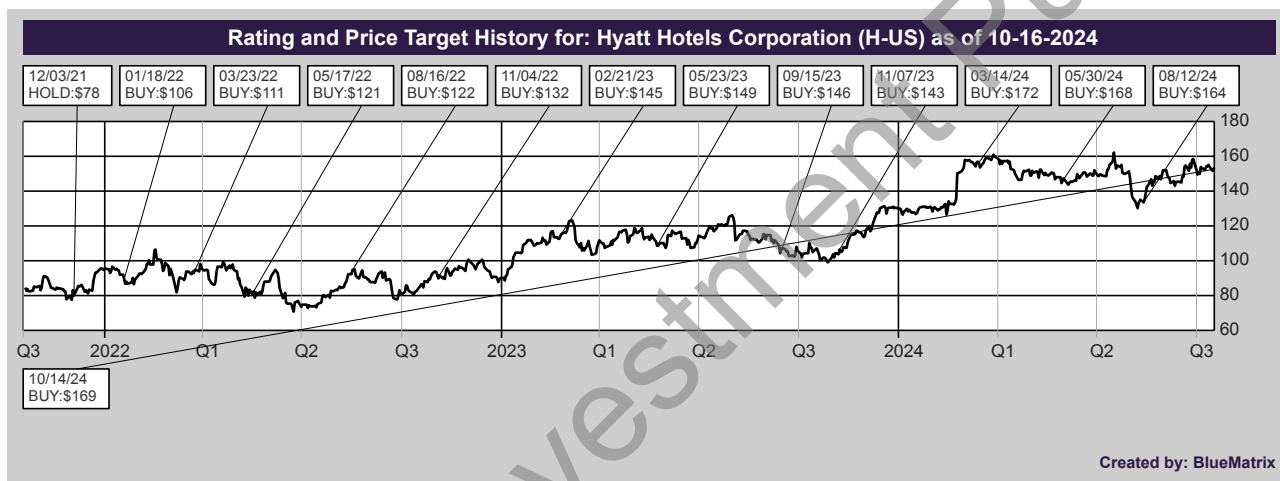
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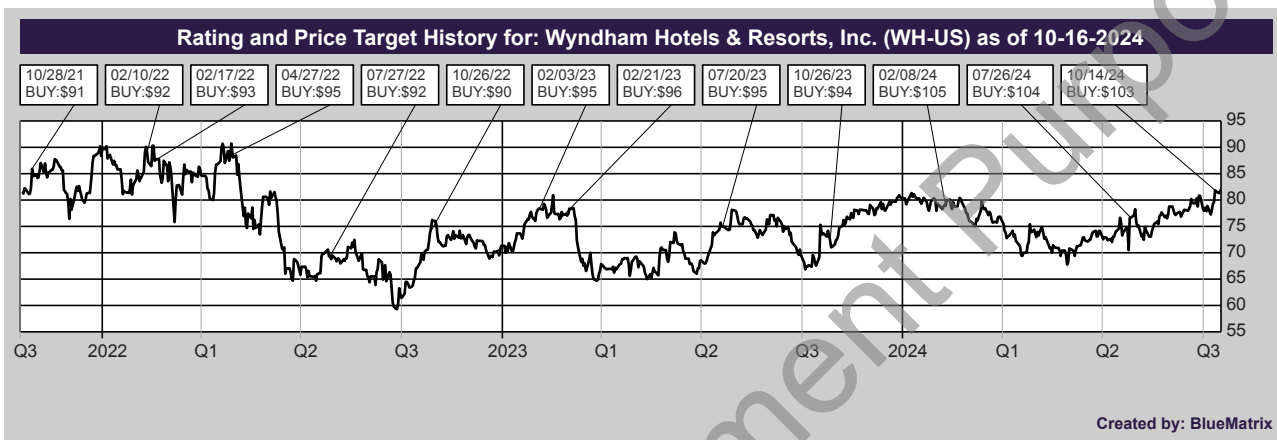
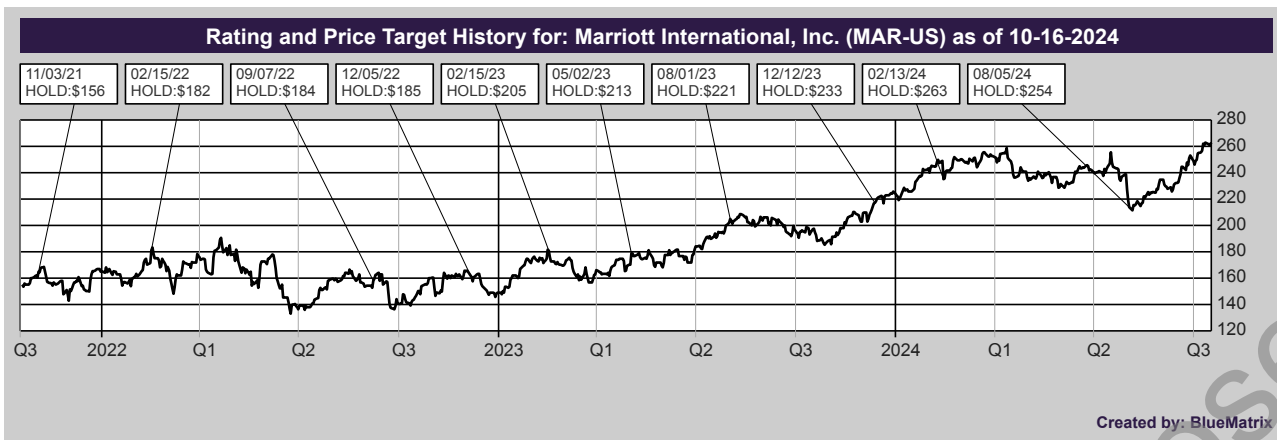
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