Equity Research

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CONSUMER: Lodging

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12 Page Document

Reasons for this report

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

China & Europe hotels: RevPAR +5% y/y (vs. '19: -22%) & +63% y/y (vs. '19: +14%) for wk ending 9/24

China: Per STR for the week ending September 24th, hotel RevPAR in China in local currency was +5.1 vs. -11.5% y/y in the prior week. Last week's RevPAR was up against a -12.5% y/y comparable result in 2021 and vs. -12.6% in the prior week. *Versus 2019, which we believe is an equally if not more important KPI, RevPAR was -21.5%, an improvement from the -40.1% in the prior week's result.*

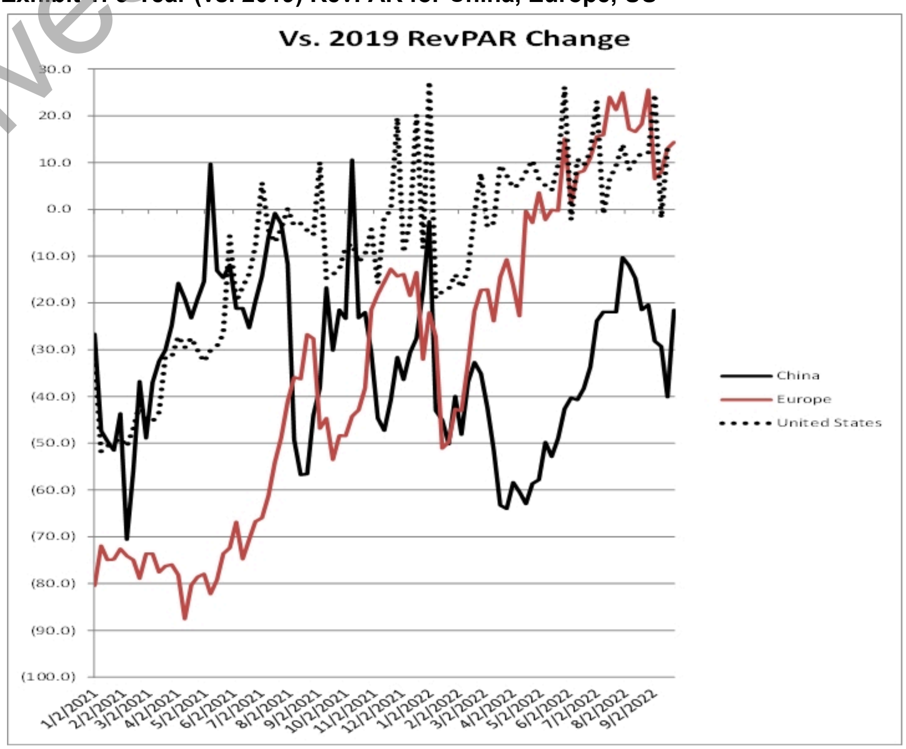
- We see last week's results still being suppressed, though perhaps starting to ease, by the latest round of Covid lockdowns.

Europe: RevPAR in Europe in Euros was +62.9% y/y vs. +67.7% in the prior week. Last week's RevPAR was up against an +128.4% comparable result in 2021 and +104.3% in the prior week. ***Versus 2019, RevPAR was +14.3%, stronger than the +13.0% in the prior week's result.***

U.S.: Overall U.S. RevPAR was +30.3% y/y, flattish vs. the prior week's result of +30.6% y/y. Last week's RevPAR was up against a +78.4% comparable result in 2021 vs. +75.8% in the prior week. ***On a 3-year run-rate (vs. 2019), RevPAR was +13.9% vs. +12.9% in the prior week's 3-year run-rate.***

- We see the y/y strength driven by the timing of the Jewish Holidays. This was most evident in the abnormally strong result for the Group segment, up 61% y/y. For the results vs. 2019, we see this as a clean comp and a result about 300bps higher than the average of the prior 10 weeks.

Exhibit 1: 3-Year (vs. 2019) RevPAR for China, Europe, US



Source: STR, Truist Securities research

RevPAR detail for the week ending September 24th vs. trailing 28 days (see charts at end of note for graphical representations):

China (local currency):
- RevPAR was +5.1% y/y for the week ending September 24th, **higher than** the -1.2% for the trailing 28 days.
- ADR was -4.7% y/y for the week ending September 24th, **lower than** the +0.7% for the trailing 28 days.
- Occupancy was +10.3% y/y for the week ending September 24th, **higher than** the -1.8% for the trailing 28 days.

Europe (in Euros):
- RevPAR was +62.9% y/y for the week ending September 24th, **above** the +57.7% for the trailing 28 days.
- ADR was +31.6% y/y for the week ending September 24th, **above** the +27.5% for the trailing 28 days.
- Occupancy was +23.8% y/y for the week ending September 24th, **approx. equal** to the +23.7% for the trailing 28 days.

Additional thoughts and observations:

Hotel occupancy observations from the latest weekly STR results from China, Europe, and US:
- **China: Absolute occupancy was 57.5%.** *By comparison, occupancy was 52.1% during the comparable week last year.*
- **Europe: Absolute occupancy was 78.8%.** *By comparison, occupancy was 63.7% during the comparable week last year.*
- **US: Absolute occupancy was 70.0%.** *By comparison, occupancy was 63.2% during the comparable week last year.*

EBITDA and rooms exposure by region:

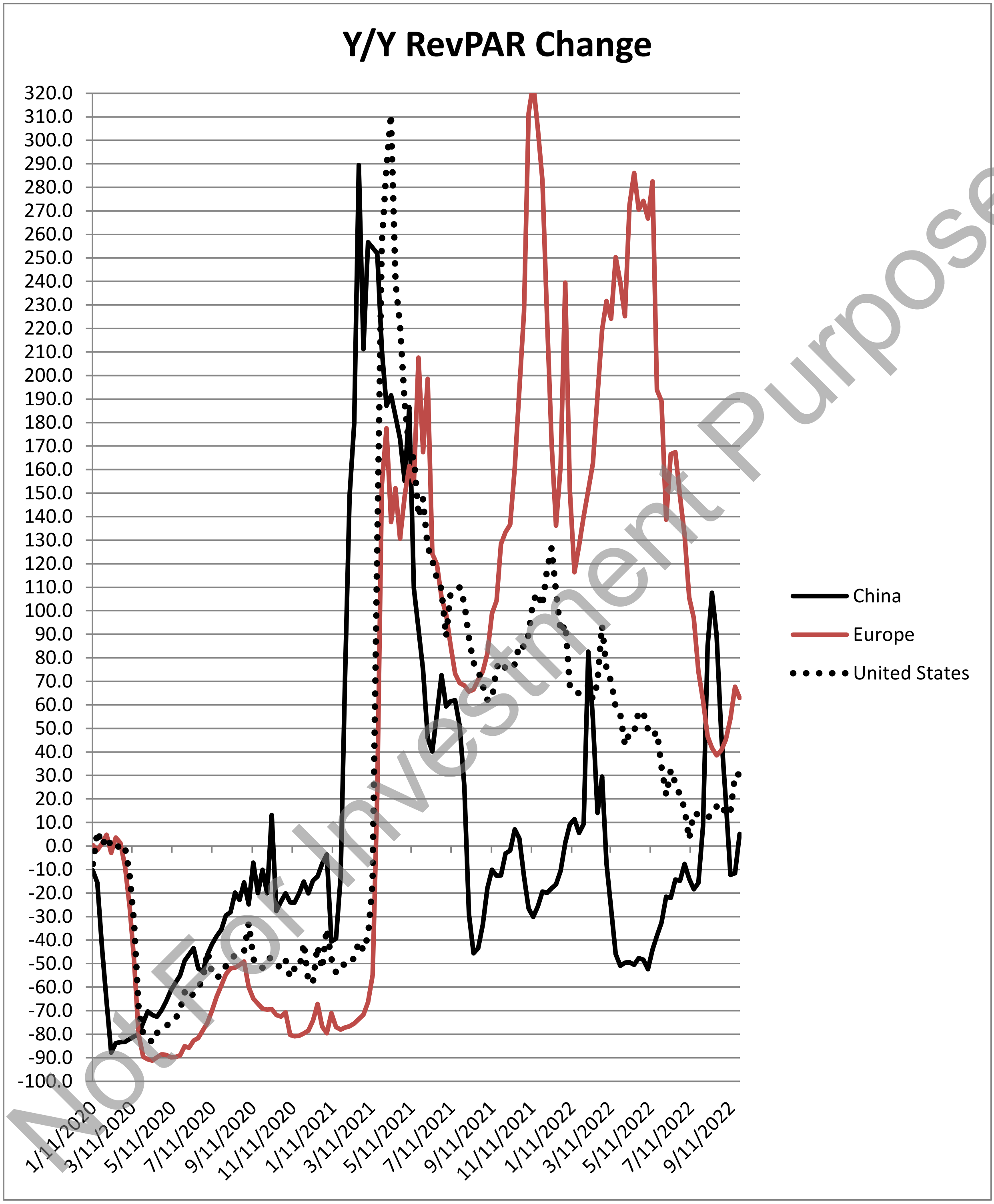
EBITDA: Hyatt (H, Buy), InterContinental (IHG, NR), and Marriott (MAR, Hold) are among the Lodging C-corps that have the greatest exposure to Europe and Asia. From Europe, MAR generates approximately 15% of EBITDA, IHG 15%, Wyndham (WH, Buy) less than 5%, H roughly 5%, and Hilton (HLT, Hold) 10% each. 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.

- We aim to use the EBITDA breakout as provided by the C-corps that generally reflects a normalized environment based on the existing portfolio.
- In a normalized environment, Greater China inclusive of Macau and Hong Kong generally represents half of the Asia-Pacific EBITDA from the C-corps.
- Due to the material differences in EBITDA recovery and in normal times absolute RevPARs by region, we do not recommend as much focus on the above statistics to model worldwide EBITDA by C-corp at this time. Additionally, some regional data reflects a large domestically-managed, small town market, and lower-ADR base of rooms that does not directly correlate to C-corp results. We include China in this category given somewhat heavier International C-corp exposure to Tier 1-2 markets and the Eastern coastal gateway cities.
- **We are not including large Lodging C-corps with relatively lower-to-no U.S. exposure in our above analysis. Examples include Accor (AC, NR) and Huazhu (HTHT, NR).**

Rooms (as of 4Q21; figures may not round to 100%):

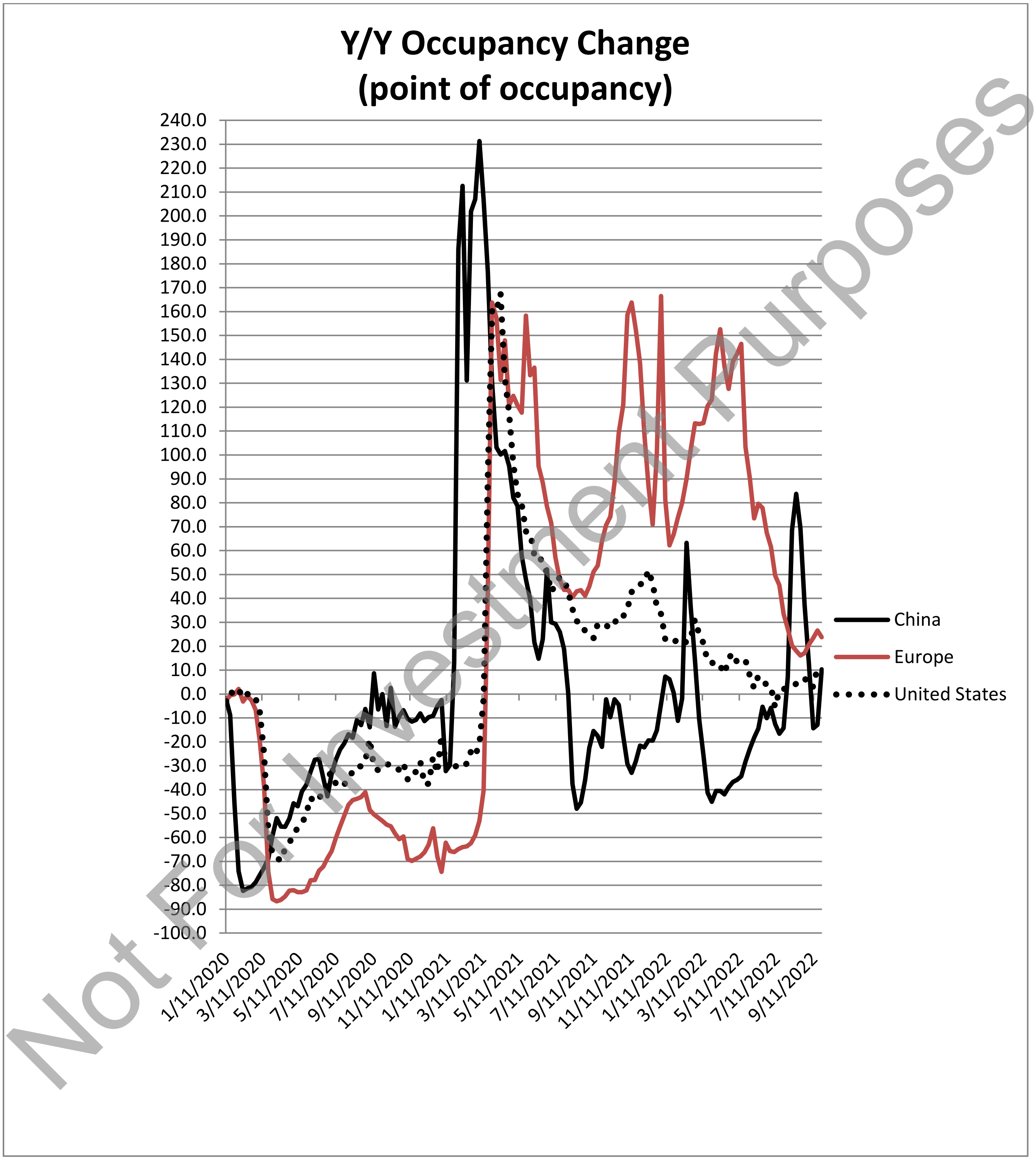
- CHH:
  - Domestic: 79%
  - Asia-Pacific: 4%
  - Europe/Middle East: 9%
  - Latin America & Canada: 8%.
- H (includes owned/leased hotels):
  - Americas ex-all inclusives: 57%
  - Asia-Pacific: 18%
  - Europe/Africa/Mid East/SW Asia ex-all inclusives: 12%
  - Americas ALG + Ziva/Zilara: 9%
  - Europe ALG: 4%
- HLT:
  - US: 70%
  - Americas: 6%
  - Europe: 9%
  - Middle East/Africa: 3%
  - Asia Pacific: 12%
  - Other hotels, likely to be converted to a brand, with no geography noted: 0.3%
- IHG:
  - Americas: 57%
  - EMEAA: 25%
  - Greater China: 18%
- MAR (ex-timeshare):
  - North America: 65%
  - Europe: 9%
  - Middle East/Africa: 4%
  - Asia Pacific: 18%
  - Caribbean/Latin America ("CALA"): 4%
- WH:
  - US: 61%
  - Canada: 5%
  - Greater China: 19%
  - Rest of Asia: 4%
  - Europe/Middle East/Africa: 8%
  - Latin America: 4%

Exhibit 2: Y/Y RevPAR change for China, Europe, US



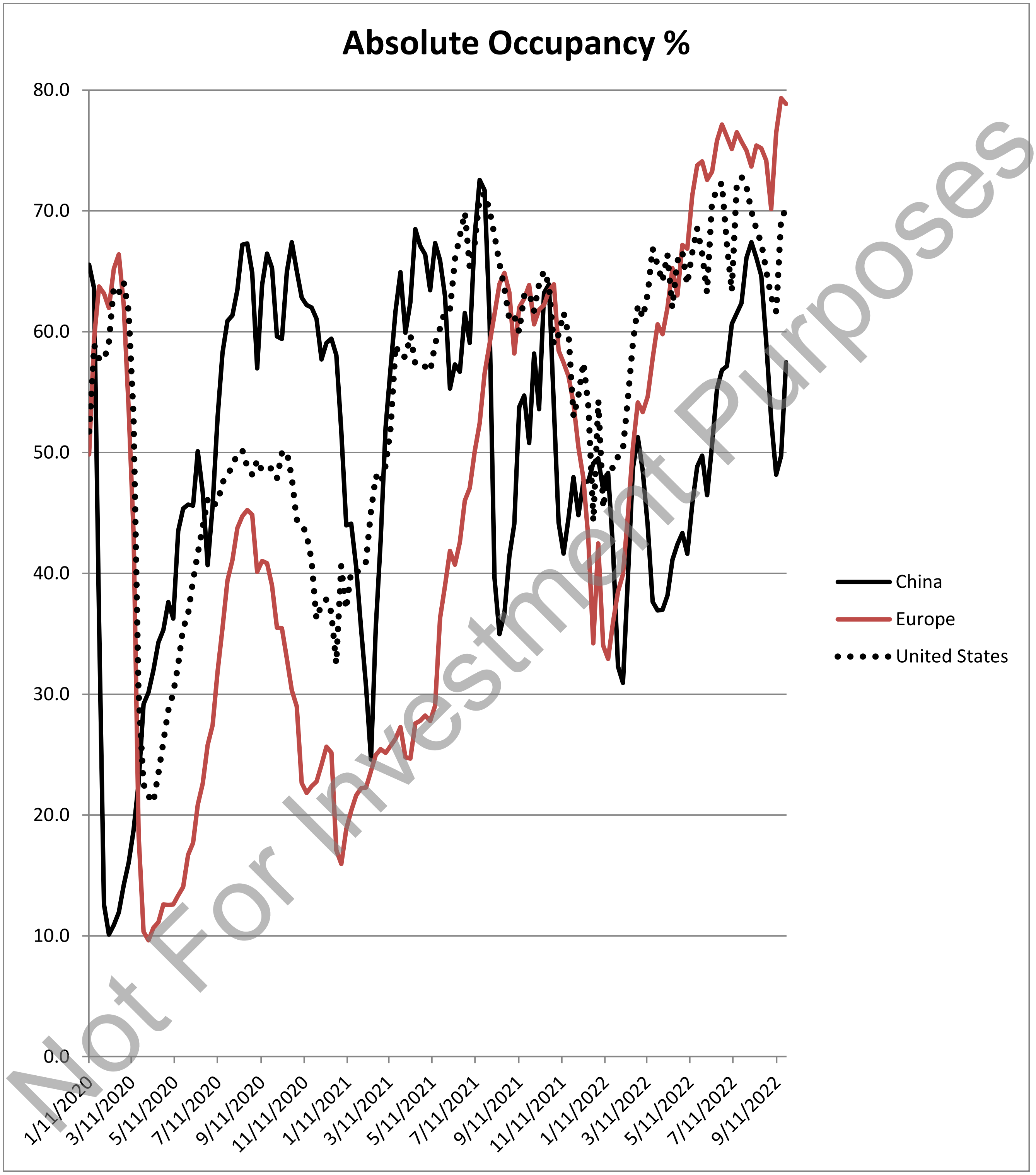
Source: STR, Truist Securities research

Exhibit 3: Y/Y Occupancy change for China, Europe, US



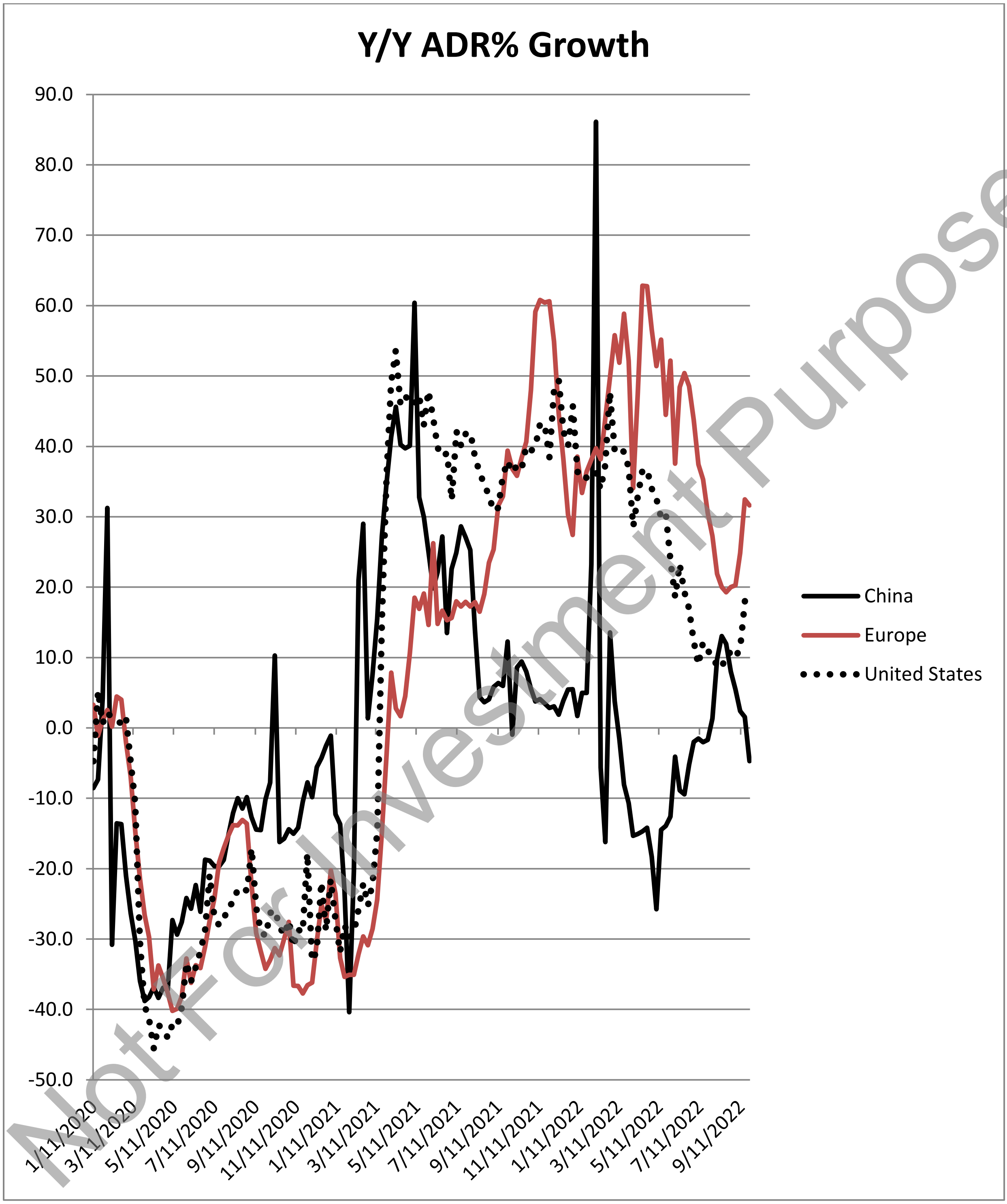
Source: STR, Truist Securities research

Exhibit 4: Absolute Occupancy % for China, Europe, US



Source: STR, Truist Securities research

Exhibit 5: Y/Y ADR % change for China, Europe, US



Source: STR, Truist Securities research

H: Valuation and Risks

Our price target of $122 for H is derived by applying a 13.8x target EV/EBITDA multiple (a blended average of the industry multiples for each business segment) to our estimate for 2024 EBITDA. Our valuation model for Hyatt assumes an owned-hotel 2024 EBITDA multiple of 12.5x and a franchise/management fee EBITDA multiple of 16.0x plus a 10% discount for time of money.

Downside risk: 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.

HLT: Valuation and Risks

We apply a blended multiple of 16.6x (11.5x for Owned/leased and 17.0x for Managed/franchised) to our 2023 adjusted EBITDA estimate to derive a price target of $150. This multiple is above the high end of the historical range of 10x-16x.

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.

MAR: Valuation and Risks

Our $184 price target is based on a 16.8x blended multiple on our 2023E EBITDA. In the parts, we assign a 13.0x 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.

WH: Valuation and Risks

Our price target of $92 for WH is based on a 15.0x multiple (in line with portfolio quality/RevPAR relative to peers) of our 2023 EBITDA estimate.

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

CHH: Valuation and Risks

Our price target of $135 for CHH is derived by applying a 15.0x target EV/EBITDA multiple (slightly above industry average) to our estimate for 2023 EBITDA.

Risks to our rating and price target include: Upside risks: conservative guidance, if the economy performs better than expected. Downside risks: slowdown in development opportunities, rising construction costs, the COVID-19 and its effects on the lodging industry, and pandemic and newly created brands grow slower than expectations.

Companies Mentioned in This Note

Choice Hotels International, Inc. (CHH, $110.83, Hold, C. Patrick Scholes)
Hyatt Hotels Corporation (H, $83.43, Buy, C. Patrick Scholes)
Hilton Worldwide Holdings Inc. (HLT, $123.67, Hold, C. Patrick Scholes)
Marriott International, Inc. (MAR, $143.82, Hold, C. Patrick Scholes)
Wyndham Hotels & Resorts, Inc. (WH, $63.21, Buy, C. Patrick Scholes)
InterContinental (IHG, NR)
Accor (AC, NR)
Huazhu (HTHT, NR)

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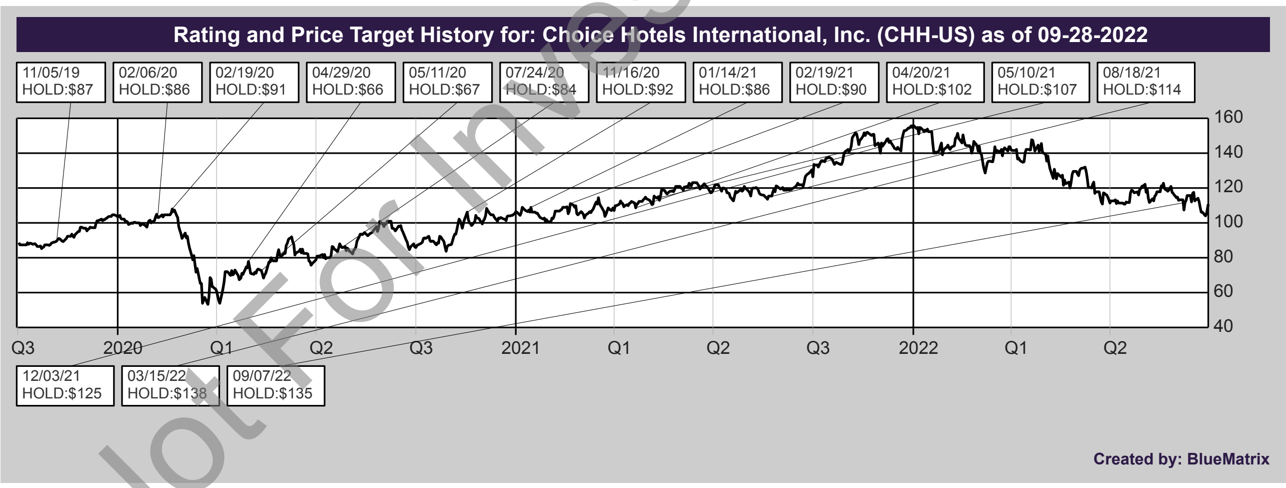
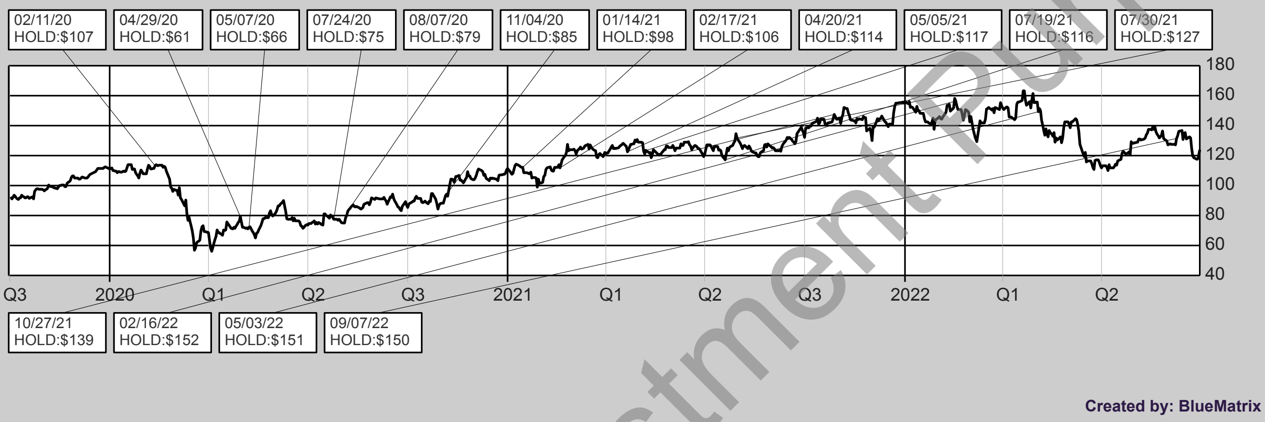
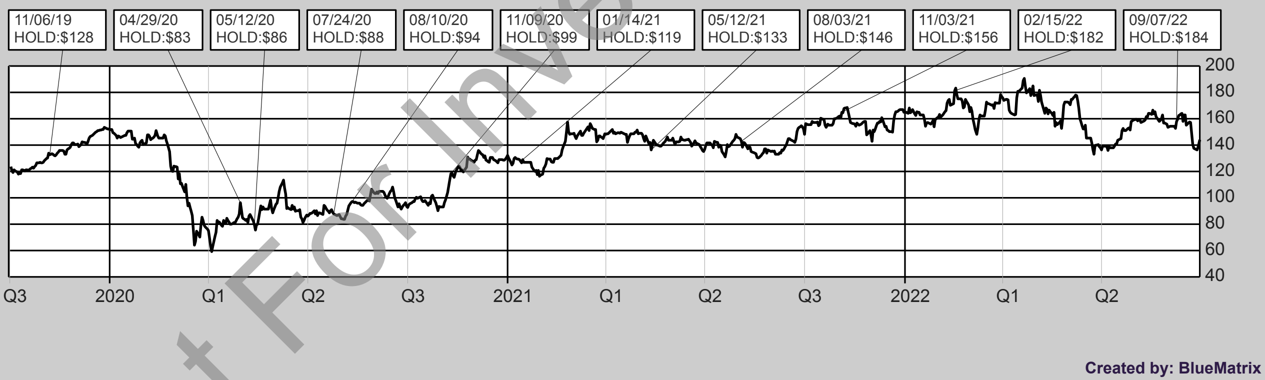


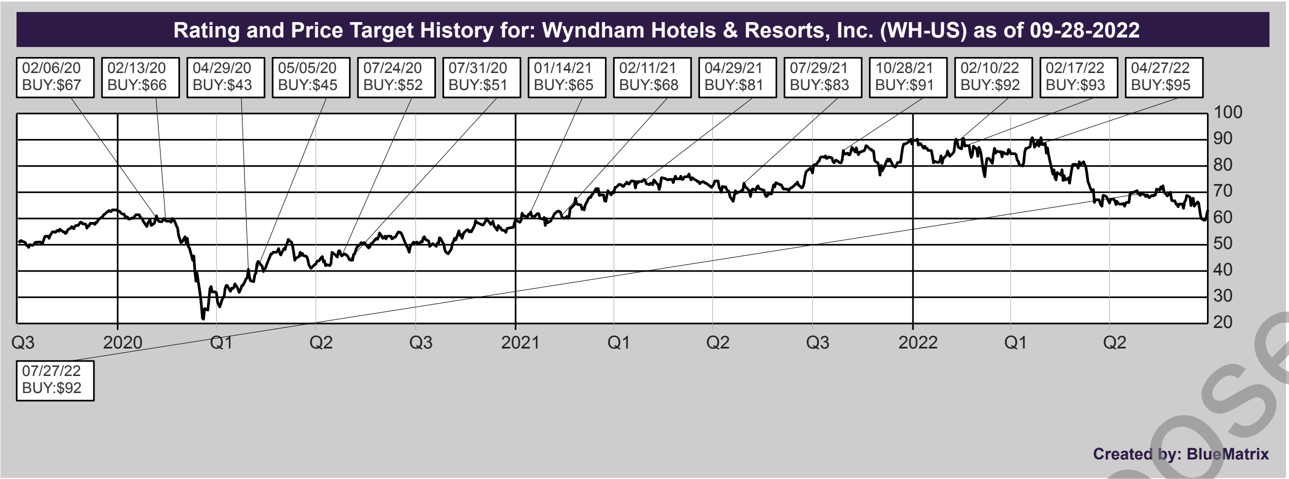
Rating and Price Target History for: Hyatt Hotels Corporation (H-US) as of 09-28-2022

Rating and Price Target History for: Hilton Worldwide Holdings Inc. (HLT-US) as of 09-28-2022



Rating and Price Target History for: Marriott International, Inc. (MAR-US) as of 09-28-2022





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