Lodging

Q4 Earnings Recap: Leisure is back (or at least above a low expectation)

Price Objective Change

Earnings Week 3 recap: Leisure is back

Hyatt Hotels and several Lodging REITs and leisure companies reported earnings last week. All beat expectations, with RevPAR coming in +20bps ahead of our tracker for companies. But the best performing stocks were Hyatt and the leisure stocks (PLYA, VAC, TNL), reflecting softer investor expectations for 2024 leisure demand heading into this earnings season. We tweak our models to reflect results and reiterate our ratings.

Hyatt: Simplifying the business with UVC sale; raise PO

Hyatt reported Q4 Adj. EBITDA of $241M, ahead of our $236M driven by RevPAR +9.1% ahead of our +7.5% (see report). Hyatt announced sale of 80% of its Unlimited Vacations Club (UVC) acquired as part of Apple Leisure (ALG). We noted last May at H's Analyst Day that a re-evaluation of pieces of ALG could be rewarded (see report), and Friday's reaction (+11% vs. the S&P flat) reflected this. We think investors were positive as it: 1) simplifies Hyatt's accounting, and 2) UVC fees (+$54M in '24) will be valued at a higher multiple vs. ALG EBITDA (see report). H lowered its 2024 RevPAR (+3-5%) and net unit growth (+5.5-6.0%) outlooks vs. the Analyst Day, mostly reflecting a higher '23 base. We raise our 2024 Adj. EBITDA to $1,200M from the prior $1,080M, reflecting both the sale of UVC and Hyatt Aruba. We raise our PO to $165 from $140, and our target '25 EBITDA multiple to 15x from 13x on multiple accretion and the sale of UVC. We reiterate Buy.

Lodging REITs: Q4 and 2024 outlooks within expectations

The 6 Lodging REITs that reported last week (HST, RHP, PEB, DRH, SHO, APLE) beat our EBITDA estimates by +2.9% despite Q4 RevPAR of +1.5% in-line with our +1.5%. Beats came from better than expected out of room revenues (i.e. Food & Beverage, ancillary). 2024 RevPAR outlooks were ~3.5% at midpoint, with implied cost growth in 3-6% range, within expectation. We favor full-service REITs over select service as any outperformance in RevPAR growth for group and corporate transient should have outsized margin benefits for full-service REITs such as Host (HST) and Ryman (RHP). Reiterate Buy on both.

Leisure: Solid reactions as results ahead and bar was low

Marriott Vacations (VAC) and Travel + Leisure (TNL) reported Q4 EBITDA +9%/+2% ahead of us. Both see healthy leisure demand indicators into 2024, expecting to grow tour flow in 2024. VAC expects pricing (VPG) growth as well with improvements back half loaded as we lap Hawaii's fire, while TNL expects mid-single digit declines in VPG. Estimates still need to come down as consensus was +2% ahead of the midpoint of guidance, incl. our estimates which were -3% (VAC) and -10% (TNL) below midpoints.

Despite concerns, PLYA reported +13% (+14% ex. its two Jewel resorts), powered by a big recovery from the Dominican which saw a major hurricane last year. The Yucatan and Jamaica were up +3%/+5%, resp., in Q4 with strong close-in demand for peak season. For 2024, it's our sense PLYA expects steady pricing growth in the low single digits, and a slight occupancy improvement ex. the Jewel properties. While demand is healthy, PLYA does face 1) peso strength (esp. in 1H), and 2) higher labor costs and a travel warning in Jamaica, resulting in a modest EBITDA decline Y/Y. We raise our POs for TNL to $40 from $35, and VAC from $73 to $75, which is still 6.5x 2024E EBITDA for both. We

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Exhibit 1: Summary of PO changes
We raise our price objectives for Hyatt, TNL and VAC

	Price Objectives	
Company	New	Old
Hyatt (H)	$165	$140
Travel + Leisure (TNL)	$40	$35
Marriott Vacations (VAC)	$75	$73

Source: BofA Global Research
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Refer to important disclosures on page 7 to 10. Analyst Certification on page 6. Price Objective Basis/Risk on page 4. **12663661**

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reiterate Underperform on VAC and TNL on unattractive risk-reward.

Q4 Lodging Earnings Week 3

Exhibit 2: Q4 Earnings variance

All companies reporting met or beat expectations

Stock	Reported EBITDA	BofA	% Var	Cons.	% Var
C-Corps					
H	$241	$236	2%	$238	1%
Lodging REITs					
HST	$378	$372	2%	$380	0%
DRH	$57	$56	2%	$56	3%
PEB	$63	$61	5%	$62	1%
APLE	$91	$87	4%	$88	3%
SHO	$55	$52	4%	$51	6%
RHP	$187	$187	0%	$187	0%
Leisure					
PLYA	$61	$52	18%	$52	17%
VAC	$186	$170	9%	$180	4%
TNL	$240	$236	2%	$237	1%

Source: Visible Alpha, BofA Global research

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Exhibit 3: Stock performance

Hyatt and leisure stocks were the best performers following their earnings reports

Stock	1 Day Return	vs. S&P 500	Since Earnings	vs. S&P 500	YTD Return	vs. S&P 500
H	11%	11%	11%	11%	18%	9%
HST	2%	0%	0%	-2%	4%	-5%
DRH	0%	0%	0%	0%	1%	-7%
PEB	-3%	-5%	-3%	-6%	4%	-4%
APLE	0%	0%	0%	0%	-3%	-12%
SHO	0%	0%	0%	0%	3%	-5%
RHP	-1%	-1%	-1%	-1%	8%	0%
PLYA	3%	3%	3%	3%	9%	1%
VAC	10%	7%	8%	6%	12%	4%
TNL	6%	5%	9%	7%	16%	7%

Source: Bloomberg, BofA Global Research

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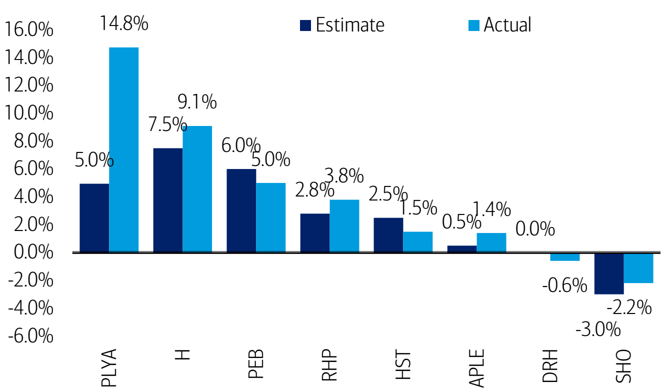
Exhibit 4: Q4 RevPAR variance by company

Companies beat our tracker by +20bps, on average, ex-PLYA



Source: BofA Global Research, company documents

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Exhibit 5: 2024 RevPAR outlooks by company

The average RevPAR outlook of +3.6% at the midpoint is in-line with our expectations

	2024 RevPAR outlook				
	Low	Midpoint	High	Prior BofA	% Var
H	3.0%	4.0%	5.0%	3.0%	1.0%
HST	2.5%	4.0%	5.5%	3.8%	0.2%
DRH	2.0%	3.0%	4.0%	1.6%	1.4%
PEB	2.0%	3.0%	4.0%	6.0%	-3.0%
APLE	2.0%	3.0%	4.0%	3.0%	0.0%
SHO	2.5%	4.0%	5.5%	4.0%	0.0%
RHP	3.5%	4.5%	5.5%	4.4%	0.1%
Average	2.5%	3.6%	4.8%	3.7%	0.0%

Source: BofA Global Research, company documents

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Exhibit 6: Summary of Adj EBITDA Estimate Changes

We tweak our models given recent results and guidance

	2024E			2025E		
	New	Old	% Chng.	New	Old	% Chng.
H	$1,200	$1,080	11%	$1,280	$1,145	12%
HST	$1,638	$1,621	1%	$1,624	$1,634	-1%
DRH	$272	$265	3%	$274	$266	3%
PEB	$347	$351	-1%	$346	$346	0%
APLE	$460	$447	3%	$453	$439	3%
SHO	$247	$243	2%	$263	$252	4%
RHP	$730	$730	0%	$760	$761	0%
VAC	$768	$757	1%	$759	$748	1%
TNL	$910	$834	9%	$905	$829	9%

Source: BofA Global Research

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We reiterate Neutral on Apple (APLE) based on balanced risk-reward, and Underperform on DiamondRock (DRH), Pebblebrook (PEB), Playa (PLYA), and Sunstone (SHO) on unattractive risk-reward.

Price objective basis & risk

Apple Hospitality REIT Inc. (APLE)
Our $18 PO on APLE is based on approx 12x our 2025E EV/EBITDA, a slight premium to the historical averages of peers. This is supported by APLE's solid balance sheet, higher than peer margins, and better fundamentals in the early stages of the recovery. This is however partly offset by less RevPAR growth as the recovery is now largely behind us, and our favoring of group and full service portfolios over select service.

Downside risks to our PO are 1) a longer recovery than expected, 2) a second peak of the COVID-19 outbreak, 3) rate pressure across the industry from lower than anticipated demand.

DiamondRock Hospitality (DRH)
Our $9 12-month price objective is based on approximately 10x our 2024E adjusted EBITDA estimate, in-line with historical averages for the group.

Upside risks are a quicker economic recovery, which would accelerate lodging demand, resulting in above-average industry pricing and asset-level margins.The downside risks are a slower than expected recovery of the US economy and/or corporate demand, which would weigh on the travel demand DiamondRock typically attracts.

Host Hotels & Resorts Inc. (HST)
Our $23 PO is based on approx. 12x our 2025E adjusted EBITDA, a midcycle multiple consistent with the group's multiple range and history. We believe this multiple is warranted given HST's asset quality, best-in-class management team and significant equity market liquidity, which helps differentiate the company from peers.

Risks to the downside are: 1) a weakening in the overall economic environment, leading to lower levels of business travel and depressed leisure spending, 2) higher-than-expected room supply growth, and 3) unforeseen circumstances, such as war or acts of terrorism.

Hyatt Hotels (H)
Our $165 PO is based on approximately 15x 2025E EBITDA, 1-2 multiple turns below more asset-light peers. We view Hyatt as a way to chase the Lodging cycle recovery and see several positives: 1) majority exposure to fee-based revenue, 2) strongest net unit growth (NUG) in the sector, 3) recovery potential and operating leverage through group/corporate owned-hotel exposure, 4) incentive management fee recovery and 5) multiple expansion

Upside risks to our PO: 1) Hyatt's asset sales continue to exceed expectations 2) The acquisition of Apple Leisure Group provides additional upside 3) Group recovery and pent up demand comes back stronger than expected in 2H 22 4) Net Unit Growth continues to outperform lodging c-corp peers
Downside risks to our PO: 1) Hyatt's EBITDA to FCF conversion lags peers 2) H maintains 47% of exposure to China/APAC, which may face headwinds to COVID policies 3) COVID cases pushes return to office further out and acts as a headwind to corporate travel 4) H's more heavy exposure to the luxury segment, which has lagged the rest of the industry

Marriott Vacations Worldwide (VAC)
Our PO of $75 is based on 6.5x our 2024E EBITDA, towards the low end of VAC's historical trends of timeshare peers.

Upside risks to our PO are: 1) continued healthy leisure/resort demand and pricing, 2) an accelerating demand environment driven by better macroeconomic data, and 3) greater than expected margin sustainability.

Downside risks to our PO are: 1) pressure on VPG as tour flow (specifically in-person tours) recover, 2) greater than expected rises in interest rates, 3) an economic slowdown impacting discretionary consumer spending, and 4) margin pressure from normalizing business segments to pre-pandemic levels.

Pebblebrook Hotel Trust (PEB)
Our $13.50 PO is based on approximately 13x our 2025E EBITDA estimate, a premium to Lodging REITs peers that is consistent with historical trends. We believe this is supported PEB's highly flexible portfolio that is largely unencumbered by debt or brands.

Upside risks to our PO are: 1) an accelerating RevPAR environment, driven by better macroeconomic data, 2) greater-than-expected margin expansion, and 3) accretive acquisitions.

Downside risks to our PO are: 1) a longer than expected recovery, 2) structural decline in urban gateway lodging demand, 3) greater than expected inflationary cost pressures, and 4) rate pressure across the industry from lower than anticipated demand.

Playa Hotels & Resorts (PLYA)
Our $8 price objective is based on 9x 2024E EBITDA, which remains largely in-line with the company's avg. historical 9x one-year forward EBITDA.

Upside risks to our price objective are: 1) uptick in visitation to the Caribbean during the Covid recovery is more sustainable than we expect 2) the Caribbean lodging market holds pricing integrity better than it has historically and 3) margin expansion from channel mix shift to direct distribution.

Downside risks to our price objective are: 1) new supply coming online, particularly in Cancun challenging rate integrity, 2) uptick in number of hard-to-underwrite exogenous shocks, such as hurricanes and tropical storms, Zika virus, and tourist safety concerns and 3) increased operational and financial risk factors resulting in internal control weaknesses.

Ryman Hospitality Properties (RHP)
Our $125 price objective is based on approximately 14x multiple on our 2025E EBITDA forecast, in line Ryman's long term midcycle multiple average. We think this multiple is justified by RHP's growth opportunities, relatively attractive valuation and significant group exposure which we expect to perform solidly once a therapeutic/vaccine is available to the general public.

Downside risks: 1) further weakening of macro trends, 2) a resurgence in cases of COVID-19, and 3) threat/acts of terrorism.

Sunstone Hotel Investors (SHO)
Our $10 price objective is based on approx 12x our 2024E adjusted EBITDA estimate versus SHO's historical range of 6-17x, which is in-line with peers and consistent with historical Lodging REIT trading levels.

Upside risks to our price objective are: 1) accretive acquisitions and 2) a better than expected economic recovery. Downside risks to our PO are: 1) greater-than-expected economic weakness, which may lead to further declines in travel demand, 2) overpaying for hotel acquisitions, and 3) acts or threats of terrorism.

Travel + Leisure Co (TNL)

Our $40 price objective is based on 6.5x our 2024E Adj. EBITDA estimate, a discount to historical trading multiples given pricing and rate pressures but in-line with the spread to peer multiples.

Upside to our PO include a healthier than expected ramp of the subscription and exchange segments, and better than expected leisure pricing environment.

Downside risk to our PO includes economic slowdown and/or geopolitical strife negatively impacting demand for leisure and travel.

Analyst Certification

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US - Gaming, Lodging and Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Boyd Gaming Corp	BYD	BYD US	Shaun C. Kelley
	Choice Hotels International	CHH	CHH US	Dany Asad
	DraftKings, Inc.	DKNG	DKNG US	Shaun C. Kelley
	Hilton Worldwide	HLT	HLT US	Shaun C. Kelley
	Host Hotels & Resorts Inc.	HST	HST US	Shaun C. Kelley
	Hyatt Hotels	H	H US	Shaun C. Kelley
	Marriott International Inc.	MAR	MAR US	Shaun C. Kelley
	Penn Entertainment	PENN	PENN US	Shaun C. Kelley
	Ryman Hospitality Properties	RHP	RHP US	Shaun C. Kelley
	Soho House & Co Inc	SHCO	SHCO US	Shaun C. Kelley
	Vail Resorts, Inc	MTN	MTN US	Shaun C. Kelley
	VICI Properties	VICI	VICI US	Shaun C. Kelley
	Wyndham Hotels & Resorts, Inc.	WH	WH US	Dany Asad
NEUTRAL				
	Apple Hospitality REIT Inc.	APLE	APLE US	Dany Asad
	Caesars Entertainment Inc	CZR	CZR US	Shaun C. Kelley
	Churchill Downs Incorporated	CHDN	CHDN US	Shaun C. Kelley
	Hilton Grand Vacations Inc	HGV	HGV US	Dany Asad
	Las Vegas Sands	LVS	LVS US	Shaun C. Kelley
	MGM Resorts International	MGM	MGM US	Shaun C. Kelley
	Park Hotels & Resorts Inc.	PK	PK US	Dany Asad
	Wynn Resorts Ltd	WYNN	WYNN US	Shaun C. Kelley
UNDERPERFORM				
	DiamondRock Hospitality	DRH	DRH US	Dany Asad
	Gaming & Leisure Properties, Inc.	GLPI	GLPI US	Shaun C. Kelley
	Marriott Vacations Worldwide	VAC	VAC US	Shaun C. Kelley
	Pebblebrook Hotel Trust	PEB	PEB US	Shaun C. Kelley
	Playa Hotels & Resorts	PLYA	PLYA US	Shaun C. Kelley
	Red Rock Resorts, Inc.	RRR	RRR US	Shaun C. Kelley
	RLJ Lodging Trust	RLJ	RLJ US	Dany Asad
	Sportradar Holding AG	SRAD	SRAD US	Shaun C. Kelley
	Summit Hotel Properties	INN	INN US	Dany Asad
	Sunstone Hotel Investors	SHO	SHO US	Dany Asad
	Travel + Leisure Co	TNL	TNL US	Dany Asad

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Leisure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	16	55.17%	Buy	9	56.25%
Hold	7	24.14%	Hold	5	71.43%
Sell	6	20.69%	Sell	4	66.67%

Equity Investment Rating Distribution: Leisure - Hotel/Lodging Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	16	61.54%	Buy	12	75.00%
Hold	3	11.54%	Hold	2	66.67%
Sell	7	26.92%	Sell	5	71.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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