



# Park Hotels & Resorts (PK)

Updated August 16<sup>th</sup>, 2021 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$19	<b>5 Year CAGR Estimate:</b>	0.9%	<b>Market Cap:</b>	\$4.4 B
<b>Fair Value Price:</b>	\$18	<b>5 Year Growth Estimate:</b>	1.5%	<b>Ex-Dividend Date<sup>1</sup>:</b>	-
<b>% Fair Value:</b>	103%	<b>5 Year Valuation Multiple Estimate:</b>	-1.1%	<b>Dividend Payment Date<sup>2</sup>:</b>	-
<b>Dividend Yield:</b>	0.0%	<b>5 Year Price Target:</b>	\$19	<b>Years of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	N/A	<b>Retirement Suitability Score:</b>	N/A	<b>Last Dividend Increase:</b>	-

## Overview & Current Events

Park Hotels & Resorts is the second largest public traded lodging REIT. The REIT owns a portfolio of market-leading hotels and resorts. The Trust's portfolio holds 56 premium-branded hotels and resorts with over 32,000 rooms, located primarily in city centers and resort locations across the United States. Park Hotels & Resorts is headquartered in Tysons, Virginia, and trades on the NYSE under the ticker symbol PK. PK was spun out of Hilton Worldwide Holdings at the start of 2017, and thus the Trust began with only Hilton properties. On September 18<sup>th</sup>, 2019, PK acquired Chesapeake Lodging Trust for \$2.5 billion, which expanded their brand portfolio to include the Marriott, Hyatt and IHG. PK has a market capitalization of \$4.4 billion. The Hilton name still makes up over 80% of the Trust's brands.

Park Hotels & Resorts released second quarter results on August 5<sup>th</sup>. Pro-forma revenue per available room (RevPAR) was \$78.46, a massive increase from the same period in 2020 due to the impact of COVID in the prior year, but a 59% decrease from 2019 levels. Pro-forma occupancy for the Trust's 42 consolidated hotels open during the entire quarter was 55.6%. The Trust generated adjusted EBITDA of \$33 million, an increase from the prior year's loss of \$(122) million. PK reported adjusted funds from operations (FFO) of \$(0.16) per share in the quarter, an improvement compared to \$(0.74) in Q2 2020. For the first six months of 2021, PK reported adjusted FFO of \$(0.64), worse than the first half of 2020 results of \$(0.50).

As of the end of the second quarter, Park had net debt of \$4.4 billion. The Trust possesses roughly \$1.8 billion of liquidity, which includes \$1.1 billion of available capacity under the company's revolver. In the quarter, the company sold off four hotels and reduced their outstanding debt by \$223 million. The Trust expects to sell Le Meridien San Francisco in the third quarter and reduce debt by another \$208 million.

Due to the uncertainty surrounding travel and travel restrictions, Park is unable to provide accurate guidance for the full-year 2021 outlook.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>AFFO</b>	---	---	---	---	---	---	\$2.77	\$2.96	\$2.88	(\$1.65)	<b>(\$0.70)</b>	<b>\$2.15</b>
<b>DPS</b>	---	---	---	---	---	---	\$1.29	\$2.29	\$2.35	\$1.00	<b>\$0.00</b>	<b>\$1.30</b>
<b>Shares<sup>3</sup></b>	---	---	---	---	---	---	214.9	201.2	239.6	236.2	<b>236.5</b>	<b>240.5</b>

Park Hotels & Resorts' financial results go back to its spin-off date in 2017, so historical data is very limited. Additionally, due to the COVID-19 pandemic, PK's earnings have become volatile and have suffered. We estimate that the Trust will perform far better in 2021 than in 2020, and that results will become positive and begin growing once again following 2022. Given the struggles the Trust has faced, we estimate that they will grow adjusted FFO by around 1.5% on a normalized 2021 AFFO of roughly \$2.00.

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> In millions

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The trust will grow by focusing on their core initiatives of maximizing hotel profitability through active asset management, pursuing growth and diversification through prudent capital allocation, and maintaining a strong and flexible balance sheet. Due to the COVID pandemic, the company has cut costs and sold non-performing assets to raise liquidity. The company may upgrade or redevelop existing amenities, including retail platforms, food and beverage outlets, pools, and other facilities. They may develop vacant land into income-generating uses, such as retail or mixed-use properties, or redevelop or optimize underused spaces. The company utilizes acquisitions and dispositions to diversify the portfolio. The \$2.5 billion acquisition of Chesapeake, for example, increased PK's scale and diversification. Since the spin-off, the Trust has sold 24 hotels in lower growth markets for a combined sale price of roughly \$1.2 billion to utilize for strategic corporate initiatives.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/AFFO	---	---	---	---	---	---	9.82	10.08	9.46	---	9.5	9.0
Avg. Yld.	---	---	---	---	---	---	4.7%	6.1%	7.5%	17.2%	0.0%	6.7%

Park has traded at a price-to-adjusted FFO multiple of 9.8 since its inception. Since the Trust expects negative AFFO in the 2021 fiscal year, the current price-to-AFFO is null. However, based on our estimate normalized AFFO power of roughly \$2.00, also discounted due to the impacts of COVID, P/FFO would be 9.5. This results in an approximate 1% headwind to returns given the valuation contraction to 9.0 times AFFO.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

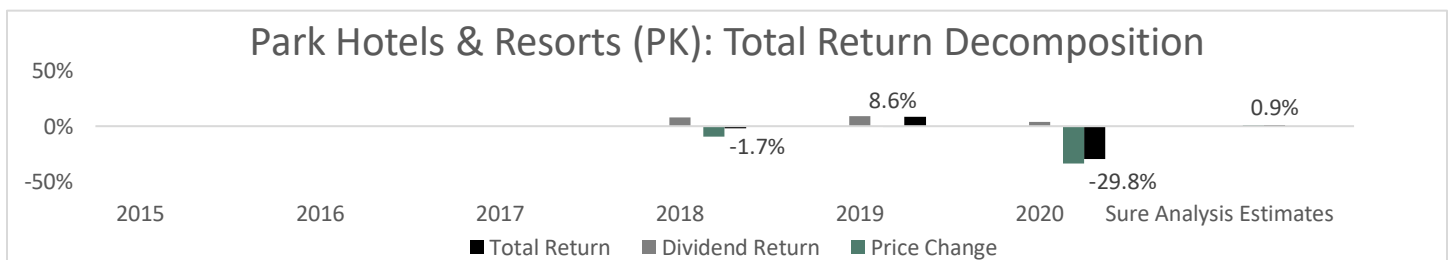
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	47%	77%	82%	---	0%	60%

Park Hotels & Resorts was gravely impacted by the COVID-19 pandemic, which caused a significant decline in ADR, occupancy, and RevPAR. While metrics are improving from the low of the pandemic, results are still down heavily compared to 2019 and the pandemic will continue to affect the business. The impact of the pandemic caused PK to suspend the dividend as the corporation reported losses and the payout ratio ballooned. While PK did not exist independently during the Great Recession, we would not consider this company to be recession resistant. The company believes their hotels, as a result of being under globally recognized brands, possess competitive advantages such as access to centralized reservation systems and national advertising, marketing and promotion services, strong hotel management expertise and guest loyalty programs.

## Final Thoughts & Recommendation

The U.S. lodging industry was severely impacted due to the COVID-19 pandemic, as stay-at-home orders, and restrictions ravaged the business. As a result of the impact and volatility, PK suspended their dividend. We estimate that PK can produce total returns of roughly 0.9% in the near term. This entirely from the estimated 1.5% of growth, offset by a small headwind to the valuation. Given the current business struggles, we rate PK a sell.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue			2,333	2,513	2,688	2,727	2,791	2,737	2,844	852
Gross Profit			740	832	918	914	955	959	1,002	(131)
Gross Margin			31.7%	33.1%	34.2%	33.5%	34.2%	35.0%	35.2%	-15.4%
SG&A Exp.			164	144	172	162	208	202	198	90
D&A Exp.			246	248	287	300	288	277	264	298
Operating Profit			330	440	443	433	396	407	462	(555)
Op. Margin			14.1%	17.5%	16.5%	15.9%	14.2%	14.9%	16.2%	-65.1%
Net Profit			144	176	292	133	2,625	472	306	(1,440)
Net Margin			6.2%	7.0%	10.9%	4.9%	94.1%	17.2%	10.8%	-169.0%
Free Cash Flow			256	345	293	172	468	266	259	(524)
Provision for Tax			104	117	118	82	(2,346)	23	35	(6)

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets				9,714	9,787	9,834	9,714	9,363	11,290	10,587
Cash & Equivalents				42	72	337	364	410	346	951
Accts. Recv.				99	122	130	125	153	180	26
Goodwill & Intang.				857	669	648	647	634	653	45
Total Liabilities				7,121	6,990	6,011	3,752	3,777	4,839	5,744
Accounts Payable				182	171	167	198	183	217	147
Long-Term Debt				4,228	4,040	2,998	2,945	2,947	3,870	5,120
Total Equity				2,617	2,821	3,872	6,011	5,632	6,496	4,893
D/E Ratio				1.62	1.43	0.77	0.49	0.52	0.60	1.05

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets					3.0%	1.4%	26.9%	4.9%	3.0%	-13.2%
Return on Equity					10.7%	4.0%	53.1%	8.1%	5.0%	-25.3%
ROIC					4.3%	1.9%	33.4%	5.4%	3.2%	-14.2%
Shares Out.							214.9	201.2	239.6	236.2
Revenue/Share			11.78	12.69	13.58	13.77	13.04	13.42	13.35	3.61
FCF/Share			1.29	1.74	1.48	0.87	2.19	1.30	1.22	(2.22)

### Disclaimer

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*Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.*

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