Position Close Update: Hyatt Hotels Corp (H)

Hyatt Hotels Group (H) – Closing Long Position – up 104% vs. S&P up 64%

We made Hyatt Hotels Group (H: $95/share) a Long Idea on May 14, 2020 and reiterated our opinion on January 13, 2021. H earned a Neutral rating at the time of the reports. We felt the market was too focused on the short-term impact of COVID-19 shutdowns and undervalued the company's strong balance sheet, superior profitability amongst hotel operators, global diversification, and potential for profit growth once the pandemic subsided.

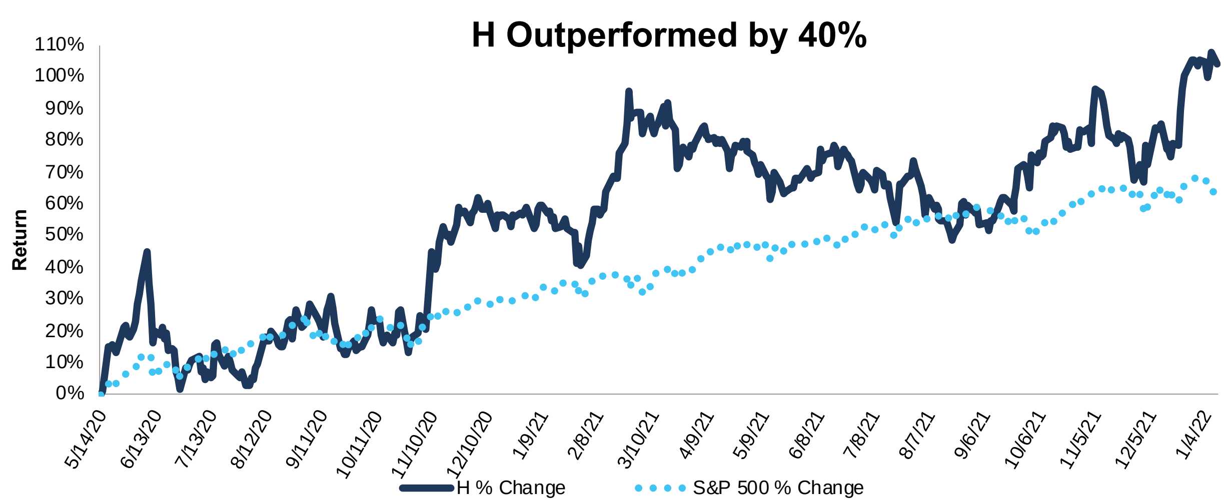
This report, along with all of our research[1], leverages our more reliable fundamental data[2], as proven in The Journal of Financial Economics and shown to provide a new source of alpha, to get the truth about earnings.

During the 1.5+ year holding period, H outperformed as a long position, rising 104% compared to a 64% gain for the S&P 500.

Hyatt weathered the depths of the pandemic shutdowns and its net operating profit after-tax (NOPAT) margin improved quarter-over-quarter (QoQ) in 2Q21 and 3Q21, after having plummeted in 2020. Return on invested capital (ROIC), while still negative, also improved QoQ in 2Q21 and 3Q21. Hyatt has also taken steps to adapt to a post-pandemic world by acquiring Apple Leisure and disposing of property assets with the aim of growing fee-based earnings.

Given the increase in price since May 2020, we believe that most of the juice has been squeezed out of this trade. Even assuming an improvement of NOPAT to 2019 levels, the stock only holds ~13% upside. With limited upside potential, risks of permanently lower demand for business travel, and threats from leisure-focused firms such as Airbnb (ABNB) and Vrbo (owned by Expedia [EXPE]), we're taking gains and closing this long position.

Figure 1: H vs. S&P 500 – Price Return – Successful Long Idea



Sources: New Constructs, LLC and company filings
Note: Gain/Decline performance analysis excludes transaction costs and dividends.

[1] Harvard Business School features our Robo-Analyst research automation technology in the case New Constructs: Disrupting Fundamental Analysis with Robo-Analysts.

[2] Three independent studies from respected institutions prove the superiority of our data, models, and ratings. Learn more here.

This article originally published on January 11, 2022.

Disclosure: David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.

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Best Fundamental Data in the World

Forthcoming in The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Indiana's Kelley School of Business. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

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