

## Lodging

# Q4 Review: Wyndham and Choice - Stable businesses, attractive valuations

Earnings Review

## Wyndham/Choice: Stable businesses, attractive valuations

Wyndham (ticker: WH) and Choice (ticker: CHH) both reported earnings within expectation and 2024 outlooks in-line. That said, with RevPAR at the low end of the industry decelerating more rapidly than the high end, Wyndham and Choice's stocks are the weakest C-corp performers year to date at -2.1% and +0.7%, respectively, compared to peers at +5.8% and the S&P 500 at +4.9%.

We see an increasing [valuation dispersion in the group \(see report\)](#), and Choice's relative P/E spread to HLT/MAR is at a 3yr high, and this is despite meaningful capacity for capital returns to shareholders as a result of under-levered balance sheets. We raise our estimates +1% and +2% for Wyndham and Choice, respectively, and roll out 2026 estimates. Our Wyndham PO is unchanged but we roll forward our multiple to 13x 2025E (15x 2023E prior) which is still in-line with the historical spread to other C-Corp peers. We continue to see attractive risk/rewards for both Choice and Wyndham at current levels and our Buy ratings and price objectives are unchanged.

## Wyndham: A stable business despite slowing RevPAR

Wyndham reported Q4 Adj. EBITDA of \$154M, ahead of the Street's \$152M and -1% below our estimate as Q4 RevPAR of -1% was below [our tracker's +1% \(see report\)](#). The company's 2024 outlook of \$690-700M was ahead of our \$674M and the Street's \$675M and is predicated on a RevPAR outlook of +2-3% (vs. our +1%) and net unit growth of +3-4% (vs. our +3.5%). We are encouraged by Wyndham's accelerating unit growth story, aided by successful brand launches (Echo) and retention levels nearing 96% (from 94% in 2018-2019). But it's our sense investors are skeptical of the RevPAR outlook, which requires meaningful acceleration from 4Q23's -1% global and -4% domestic RevPAR. That said, at ~60% free cash flow conversion from EBITDA, Wyndham continues to generate significant cash for shareholder returns. Even on 0-2% RevPAR (-150bps below company outlook), we think WH can still buy back ~\$500M of stock *annually* were it to lever its balance sheet to the midpoint of its target range of 3.0-4.0x from the current 3.2x, or 8% of its current shares outstanding in 2024.

## Choice: Positive regardless of the CHH/WH outcome

Choice Hotels reported Q4 EBITDA of \$125M, ahead of our \$123M, the Street's \$121M and at the high end of guidance (\$120-125M) despite RevPAR of -4% coming in below our -1%. Choice's 2024 EBITDA guide of \$580-600M is in-line with the company's prior expectation of ~10% EBITDA growth. On its [hostile bid for Wyndham \(see report\)](#), we think the Choice management team sees the current range of outcomes as a win-win: Either the proposed merger goes through with expected [meaningful synergies and accretion \(see report\)](#), or CHH walks away and still takes advantage of its own under-levered balance sheet. On a standalone basis we estimate Choice can create nearly ~\$20 of value by leveraging its balance sheet back within its stated target range of 3.0-4.0x net debt to EBITDA and buying back approx. \$850M of stock. The releverage *alone* could amount to ~15% of the company's outstanding shares and would be ~5% accretive to EPS.

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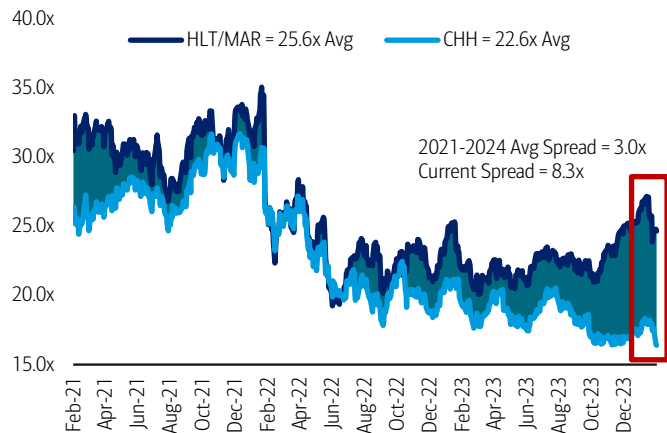
HLT: Hilton Worldwide

MAR: Marriott International

# Wyndham/Choice Q4 earnings review

## Exhibit 1: Choice rolling fwd P/E ratio vs. Hilton and Marriott

CHH's stock is trading at an 8.3x P/E discount to HLT/MAR, the widest spread over the last 3 years (average discount 3.0x)

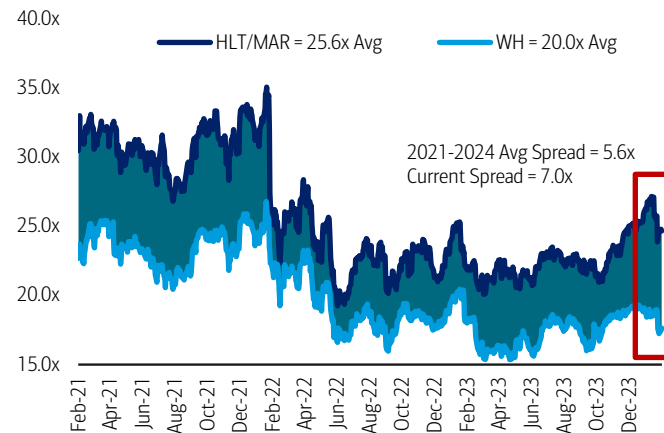


Source: BofA Global Research, Bloomberg

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## Exhibit 2: Wyndham rolling fwd P/E ratio vs. Hilton and Marriott

WH's stock is trading at a 7.0x P/E discount to HLT/MAR, a wider spread than the average of the last 3 years but less substantial than CHH's spread



Source: BofA Global Research, Bloomberg

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## Exhibit 3: Choice buyback capacity using its balance sheet

We think Choice has meaningful buyback capacity due to its underlevered balance sheet

	Current 24E	Low	Midpt	High
2024E EBITDA	\$592	\$590	\$595	\$600
2024E Net Debt	\$1,348	\$1,770	\$2,083	\$2,400
Leverage	2.3x	3.0x	3.5x	4.0x
Leverage Capacity	\$422	\$735	\$1,052	
Add: Current WH Shares Acquired		\$112	\$112	\$112
Total Buyback capacity (\$M)		\$534	\$847	\$1,164
Shares out		49.9	49.9	49.9
Value per share		\$11	\$17	\$23
Assumed Buyback share price		\$120	\$120	\$120
Shares bought back (M)		4.5	7.1	9.7
% of Shares outstanding		9%	14%	19%
2024 Adj. Net Income		\$325	\$325	\$325
Less: Interest (after tax)		(\$19)	(\$33)	(\$48)
2024 PF Adj. Net Income		\$306	\$292	\$278
2024 PF Adj. EPS		\$6.74	\$6.82	\$6.91
2024E Adj. EPS		\$6.52	\$6.52	\$6.52
Accretion		3%	5%	6%

Source: BofA Global Research estimates, company documents

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## Exhibit 4: Wyndham and Choice summary of estimate changes to Adj. EBITDA

We raise our estimates +1% and +2% for Wyndham and Choice, respectively, and roll out 2026 estimates

	2024		2025		2026	
	Old	New	Old	New	Old	New
WH	671	681	692	703	--	727
CHH	581	592	613	626	--	656

Source: BofA Global Research estimates

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**Exhibit 5: Stocks mentioned**

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
CHH	CHH US	Choice Hotels	US\$ 113.00	B-1-7
WH	WH US	Wyndham Hotels	US\$ 80.10	B-1-7

Source: BofA Global Research

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## Price objective basis & risk

### Choice Hotels International (CHH)

Our \$140 price objective is based on approximately 20x our 2024E EPS. We think this multiple is justified as it is generally in line with CHH's mid-cycle levels as well as other fee-driven lodging companies in our universe, where it has generally traded.

Upside risks to our price objective are: 1) an accelerating macroeconomic environment, and 2) a faster than expected recovery in corporate demand stemming from a therapeutic or vaccine for COVID-19.

Downside risks to our price objective are: 1) greater-than-expected US economic weakness, which may impede on a travel recovery, particularly leisure travel demand, and 2) the potential for a resurgence in COVID-19 cases, which may make individuals more reluctant to travel.

### Wyndham Hotels & Resorts, Inc. (WH)

Our \$85 price objective is based on approximately 13x our 2025E EBITDA estimate, a discount to trading peers and in-line with the long term average of asset-light lodging C-corps. We believe this multiple is warranted given WH's competitive advantage in scale and stability in earnings from its pure franchised business. We think the market is discounting WH to factor in a historically significant amount of deletions every year, offset by a business that's almost entirely fee-based.

Upside risks to our PO are: 1) an accelerating RevPAR environment, driven by better macroeconomic data, 2) greater-than-expected margin expansion, and 3) net-unit-growth (NUG) ahead of expectations.

Downside risks to our price objective are: 1) greater than expected economic weakness, which may lead to declines in travel demand, 2) greater than expected delays in hotel development, which may slow system growth, 3) worse-than-expected business/consumer spending, which may lead to declines in overall travel demand.

## Analyst Certification

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## US - Gaming, Lodging and Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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

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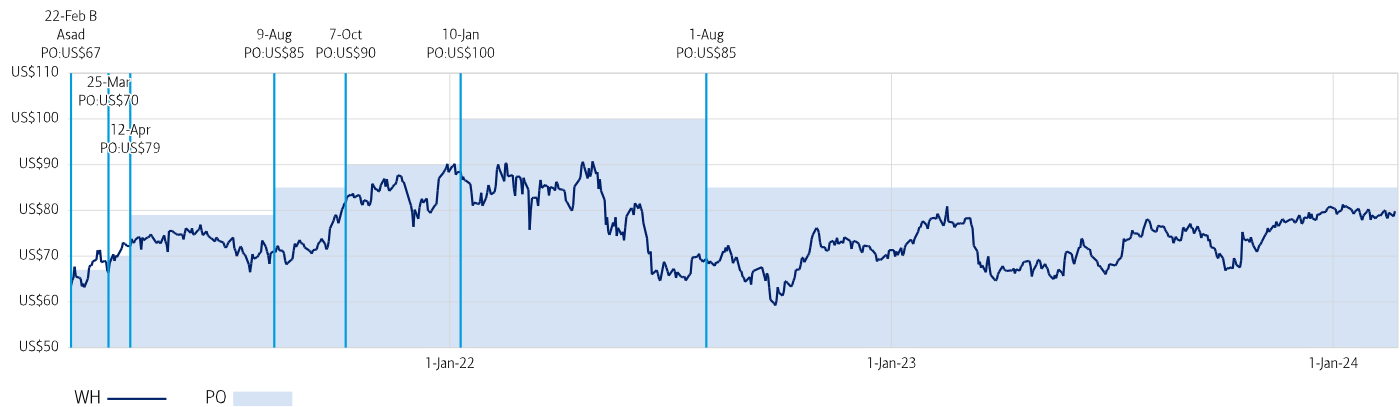
## Choice Hotels (CHH) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

## Wyndham Hotels (WH) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

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

<sup>R2</sup> 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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