

Lodging

Choice terminates pursuit of Wyndham;
revisiting fundamentals and valuation

Merger Acquisition Divestiture

Choice terminates exchange offer, no longer pursuing WH

Choice Hotels (ticker: CHH) announced the expiration of its exchange offer for Wyndham (ticker: WH) shares and with it, the [hostile pursuit of Wyndham \(see report\)](#) on Monday. We noted coming out of the ALIS conference that Choice had several off ramps including [the March 8th exchange offer expiration \(see report\)](#), but could still take advantage of its underlevered balance sheet. Choice announced it increased its share repurchase authorization by 5m shares (10%), bringing the total authorized amount to 6.8M shares or 13.8% of shares outstanding. We continue to see value in both stocks as they remain stable businesses with high free cash flow conversion and accelerated buyback capacity, which offsets the risk for a challenging low end RevPAR environment. Maintain Buy.

Opportunity: Accelerated capital returns to shareholders

CHH: Along with the termination announcement, Choice raised its share repurchase authorization by 5M, or 10% of shares outstanding. Using proceeds from 1) re-levering the balance sheet to the midpoint of its 3.0-4.0x target range and 2) the disposal of the Wyndham shares it accumulated during the hostile bid (\$112M), we estimate Choice has ~\$850M of incremental buyback capacity to deploy, which represents nearly 15% of shares outstanding and mid-single digits accretive to Choice's EPS this year.

WH: Wyndham started the year with slightly more leverage than Choice (3.2x vs. 2.9, respectively), leaving less room for incremental share buybacks. But by the same math, Wyndham can still buy back ~\$345M in addition to the \$400M we already modeled to bring it to the top half of its 3.0-4.0x leverage target range.

Bull/bear: easy comps vs. a challenged low end RevPAR

With the potential for a deal now off the table, we think investors will likely turn their attention to RevPAR/fundamentals of the low-end segments which have been [negative to start the year \(-6%, see report\)](#). Wyndham (+2-3%) and Choice (+0-2%) are guiding to low-single digit RevPAR growth for 2024, which implies significant accelerations from January/February. Comps Y/Y do ease and the 2-year stack does imply a sequential improvement throughout 2024, but the 2019 stack does not. This would pose an outsized risk for Wyndham over Choice in our view as the Street is +2% ahead of WH's outlook on EPS but -1% below for CHH. Similarly, we are 3% and 5% ahead of the Street for CHH EPS on 2024 and 2025, respectively, vs. -3% below and -6% below for WH.

Valuation: Support on peer comps and relative to history

We still see a [wide valuation dispersion in this particular group \(see report\)](#). We estimate Choice's P/E spread relative to Hilton/Marriott is currently 6.7x, which is well above the historical average spread of 3.1x. Similarly, Wyndham's P/E spread to Hilton/Marriott is 8.1x, which is +45% wider than its historical average of 5.6x. We think part of this is explained by softer fundamentals than higher end peers, but still see meaningful midcycle risk/reward support should WH/CHH close in on their historical discount to peers (see Ex. 11-12 for midcycle sensitivities). We tweak our estimates for CHH but maintain our \$140 PO as we roll multiples forward to 2025E similarly to peers (still 20x).

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Timestamp: 12 March 2024 05:00AM EDT

12 March 2024

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ALIS: Americas Lodging Investment Summit

Choice terminating pursuit of Wyndham

Opportunity: Accelerated capital returns to shareholders

Exhibit 1: Choice has the capacity to buy ~15% of its shares outstanding by relevering its balance sheet inside of its target range

Choice buyback capacity using its 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	\$846	\$1,164
Shares out		49.9	49.9	49.9
Value per share		\$11	\$17	\$23
Assumed Buyback share price		\$125	\$125	\$125
Shares bought back (M)		4.3	6.8	9.3
% of Shares outstanding		9%	14%	19%
2024 Adj. Net Income		\$325	\$325	\$325
Less: Interest (after tax)		(\$18)	(\$31)	(\$44)
2024 PF Adj. Net Income		\$308	\$295	\$282
2024 PF Adj. EPS		\$6.75	\$6.84	\$6.94
2024E Adj. EPS		\$6.52	\$6.52	\$6.52
Accretion		3%	5%	6%

Source: Company filings, BofA Global Research estimates

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Exhibit 2: Wyndham has the capacity to buy ~5% of its shares outstanding by relevering its balance sheet inside of its target range

Wyndham buyback capacity using its balance sheet

	Current 24E	Low	Midpt	High
2024E EBITDA	\$678	\$690	\$695	\$700
2024E Net Debt	\$2,264	\$2,311	\$2,606	\$2,800
Leverage	3.3x	3.3x	3.8x	4.0x
Leverage Capacity (\$M)		\$47	\$342	\$536
Shares out		83.1	83.1	83.1
Value per share		\$1	\$4	\$6
Assumed Buyback share price		\$80	\$80	\$80
Shares bought back (M)		0.6	4.3	6.7
% of Shares outstanding		1%	5%	8%
2024 Adj. Net Income		\$333	\$333	\$333
Less: Interest (after tax)		(\$2)	(\$14)	(\$22)
2024 PF Adj. Net Income		\$331	\$319	\$311
2024 PF Adj. EPS		\$4.02	\$4.05	\$4.07
2024E Adj. EPS		\$4.01	\$4.01	\$4.01
Accretion		0%	1%	2%

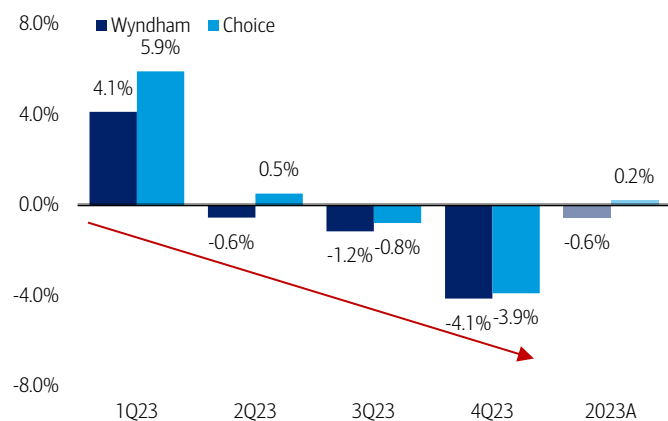
Source: Company filings, BofA Global Research estimates

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Bull/bear: easy comps vs. a challenged low end RevPAR

Exhibit 3: Bull – low end domestic RevPAR comps in 2024 gradually get easier as the year progresses

Wyndham and Choice 2023 domestic RevPAR growth

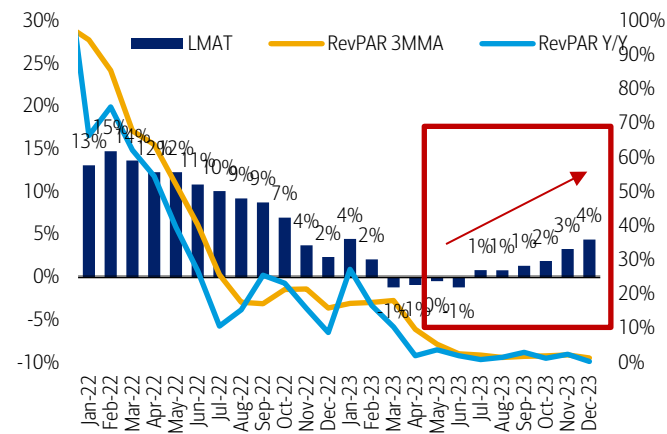


Source: Company filings, BofA Global Research

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Exhibit 4: Bull – our proprietary LMAT indicator has been steadily improving and suggests a RevPAR acceleration through March

BofA's Lodging Macro Activity Tracker (LMAT) vs. US RevPAR

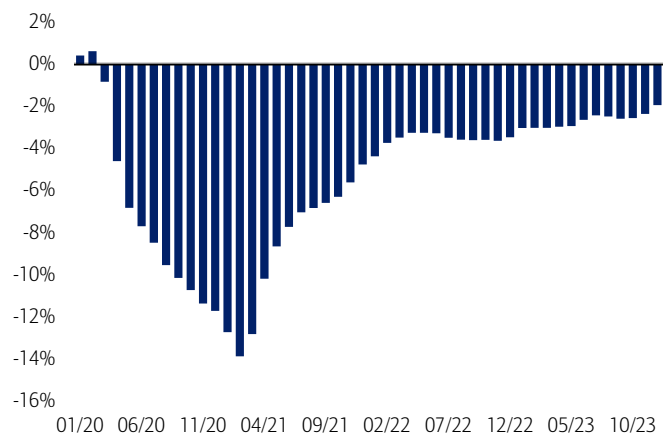


Source: BofA Global Research, Bloomberg

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Exhibit 5: Bear – Vehicle miles driven has yet to recover from pre-pandemic levels and is still -2% below 2019 levels

Vehicle Miles Driven (population adjusted) on a vs. 2019 basis (%)



Source: US Census Bureau; US Federal Highway Administration

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The street is currently +2% ahead of the midpoint of Wyndham's Adj. EPS guide, but -1% below

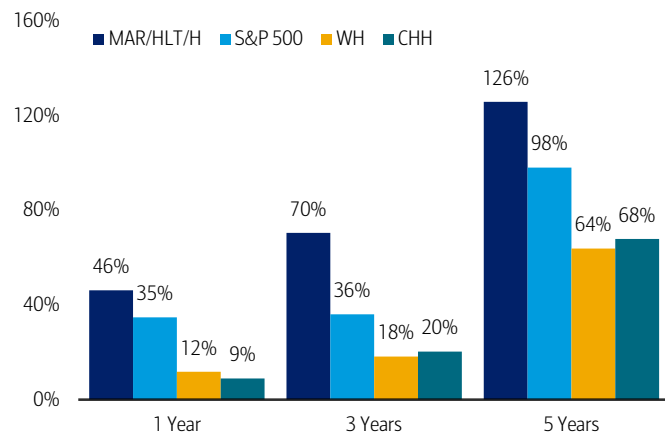
Choice's outlook

Adjusted EPS outlook relative to BofA and the Street

Valuation: Support on peer comps and relative to history

Exhibit 7: Wyndham and Choice have now underperformed C-corp peers and the market on a 1-, 3- and 5-year basis

One, three and five year stock performances for C-corps and the S&P 500

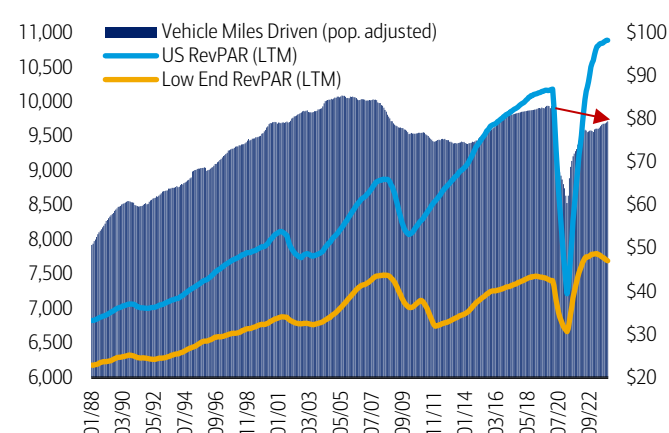


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 6: Bear – Vehicle miles driven are 65% correlated to US RevPAR and 78% to the low end (Economy/Midscale) specifically

Vehicle Miles Driven (population adjusted), US vs. Economy/Midscale RevPAR



Source: US Census Bureau; US Federal Highway Administration, STR Global

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Exhibit 8: The street is currently +2% ahead of the midpoint of Wyndham's Adj. EPS guide, but -1% below Choice's outlook

Adjusted EPS outlook relative to BofA and the Street

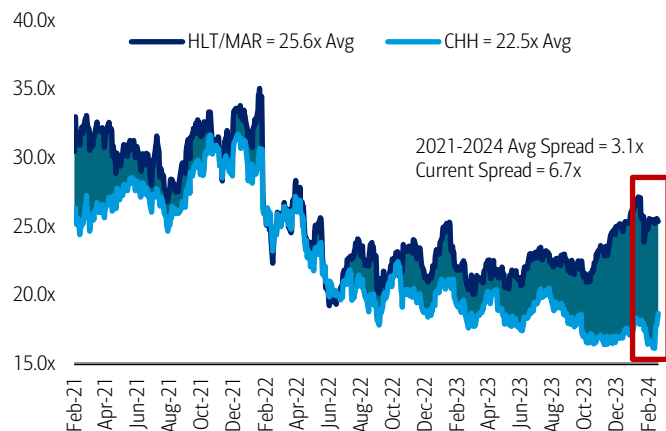
	Choice		Wyndham	
	2024	2025	2024	2025
EPS Outlook - Low	\$6.30		\$4.11	
EPS Outlook - Midpt	\$6.45		\$4.17	
EPS Outlook - High	\$6.60		\$4.23	
Street	\$6.37	\$6.87	\$4.24	\$4.66
Street vs. Outlook	-1.2%		1.6%	
BofA	\$6.56	\$7.19	\$4.10	\$4.39
BofA vs. Outlook	1.7%		-1.7%	
BofA vs. Street	3.0%	4.7%	-3.3%	-5.8%

Source: BofA Global Research estimates, Bloomberg

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Exhibit 9: Choice's stock is trading at a 6.7x P/E discount to HLT/MAR, which is 116% wider than the last 3 year spread (avg discount of 3.1x)

Choice rolling forward P/E ratio vs. Hilton and Marriott

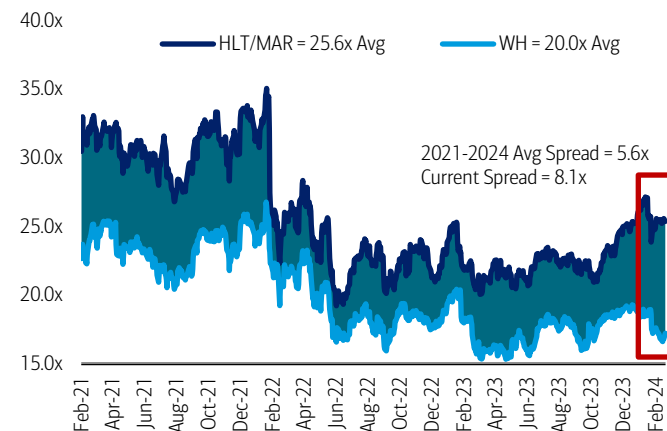


Source: BofA Global Research estimates, Bloomberg

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Exhibit 10: Wyndham's stock is trading at an 8.1x P/E discount to HLT/MAR, or 45% wider than the last 3yr spread (avg discount of 5.6x)

Wyndham rolling forward P/E ratio vs. Hilton and Marriott



Source: BofA Global Research estimates, Bloomberg

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Exhibit 11: Scenario analysis: Blending mid/peak multiples on peak/mid earnings could drive CHH shares higher

Choice peak cycle sensitivity

Choice Hotels (CHH) Valuation Scenarios

Multiple:	Midcycle	Peak	Peak	
Earnings:	Peak	Midcycle	Peak	
EBITDA Valuation				
Multiple	13.5x	17.5x	17.5x	16.2x
EBITDA	\$615	\$575	\$615	\$601
Implied Px	\$137	\$175	\$190	\$168
P/E Valuation				
Multiple	20.0x	29.5x	29.5x	26.3x
EPS	\$7.35	\$6.56	\$7.35	\$7.09
Implied Px	\$147	\$194	\$217	\$186
Average Px	\$142	\$184	\$204	\$177

Blended Multiple (EBITDA / PE)				
Earnings		Trough	Mid	Peak
	Trough	\$93	\$115	\$165
	Midcycle	\$104	\$128	\$184
	Next Peak	\$116	\$142	\$204

Source: Company filings, BofA Global Research estimates, Bloomberg

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Exhibit 12: Scenario analysis: Blending mid/peak multiples on peak/mid earnings could drive WH shares higher

Wyndham peak cycle sensitivity

Wyndham (WH) Valuation Scenarios

Multiple:	Midcycle	Peak	Peak	
Earnings:	Peak	Midcycle	Peak	
EBITDA Valuation				
Multiple	13.1x	15.8x	15.8x	14.9x
EBITDA	\$667	\$667	\$700	\$678
Implied Px	\$84	\$101	\$108	\$98
P/E Valuation				
Multiple	20.0x	26.5x	26.5x	24.3x
EPS	\$4.39	\$4.02	\$4.39	\$4.26
Implied Px	\$88	\$107	\$116	\$104
Average Px	\$86	\$104	\$112	\$101

Blended Multiple (EBITDA / PE)				
Earnings		Trough	Mid	Peak
	Trough	\$54	\$74	\$96
	Midcycle	\$59	\$80	\$104
	Next Peak	\$64	\$86	\$112

Source: Company filings, BofA Global Research estimates, Bloomberg

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Exhibit 13: We tweak our estimates for Choice to reflect recent RevPAR trends

Choice Hotels (CHH) summary of EBITDA and EPS estimate changes

	2024E		2025E		2026E	
	New	Old	New	Old	New	Old
EBITDA	580	592	610	626	639	656
EPS	\$6.56	\$6.62	\$7.19	\$7.32	\$7.97	\$8.15

Source: BofA Global Research estimates

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Price objective basis & risk

Choice Hotels International (CHH; B-1-7; \$127.77)

Our \$140 price objective is based on approximately 20x our 2025E 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; B-1-7; \$77.92)

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

I, Dany Asad, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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
	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
	Vail Resorts, Inc	MTN	MTN US	Shaun C. Kelley
	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

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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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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
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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