Choice Hotels (CHH)

$99.36 (As of 01/24/20)

Price Target (6-12 Months): **$104.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/21/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: B	Momentum: D

Summary

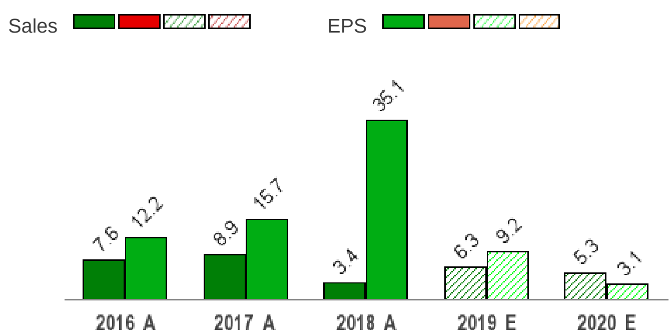
Shares of Choice Hotels have outperformed the industry in the past year. The outperformance is primarily attributed to solid progress on its flagship Comfort brand, renovated hotels that are capturing more business travel on strong developer demand and rapid growth in upscale Cambria brand across the country. Also, continuous enhancement of mid-scale brand and the acquisition of WoodSpring brand added to the upside. Nonetheless, the company is on the verge of opening 50 hotels in top-tier markets. However, high cost of operations and intense competition are posing concerns. Also, estimates have been trending downward over the past 30 days, reflecting concern regarding the stock's growth potential.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$105.32 - $75.24
20 Day Average Volume (sh)	435,277
Market Cap	$5.5 B
YTD Price Change	-3.9%
Beta	0.96
Dividend / Div Yld	$0.90 / 0.9%
Industry	Hotels and Motels
Zacks Industry Rank	Bottom 11% (227 out of 255)
Last EPS Surprise	6.2%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	02/21/2020
Earnings ESP	0.0%
P/E TTM	23.2
P/E F1	22.7
PEG F1	2.3
P/S TTM	5.1

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	231 E	333 E	319 E	263 E	1,166 E
2019	218 A	318 A	311 A	258 E	1,107 E
2018	209 A	295 A	291 A	245 A	1,041 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$0.82 E	$1.23 E	$1.38 E	$0.89 E	$4.38 E
2019	$0.84 A	$1.19 A	$1.37 A	$0.85 A	$4.25 E
2018	$0.67 A	$1.11 A	$1.24 A	$0.88 A	$3.89 A

*Quarterly figures may not add up to annual.

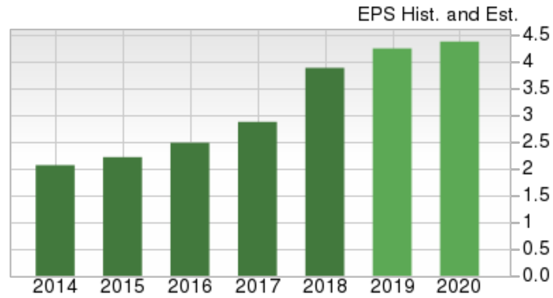
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/24/2020. The reports text is as of 01/27/2020.

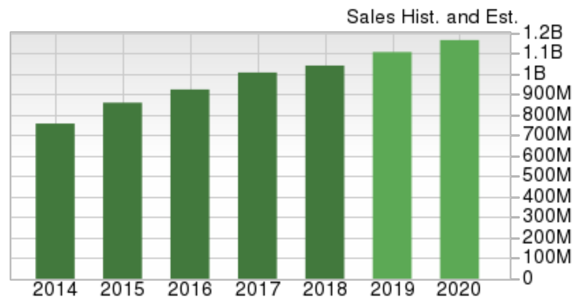
Overview

Choice Hotels International, Inc. (CHH) is one of the largest hotel franchisors in the world. As of Dec 31, 2018, the company had more than 7,000 running hotels. This hotel chain expands across 40 countries and territories internationally, and is present in 50 states domestically and the District of Columbia.

Comfort Inn, Comfort Suites, Quality, Clarion, Sleep Inn, Econo Lodge, Rodeway Inn, MainStay Suites, Suburban Extended Stay Hotel, Cambria hotels & suites, and Ascend Hotel Collection are the company's proprietary brand names.

Choice Hotel's primary business segment is hotel franchising, representing 99% of the total revenues. While domestic franchising operations are conducted through direct franchising relationships, international franchise operations are carried out via a combination of direct and master franchising relationships.





Reasons To Buy:

▲ **Strong Brand Recognition & Impressive Earnings Trend:** Choice Hotels' riveting growth potential depends on the continual expansion of its brands. In fact, the company's portfolio of well-segmented brands is getting evidently stronger. With continuous enhancement of the mid-scale brand and the acquisition of the WoodSpring brand as well as transformation and advancement of the Comfort and Cambria brands, Choice Hotels is poised for growth in 2019 and beyond. Notably, its earnings also met/surpassed analysts' expectations for 14 straight quarters. For 2019, Choice Hotels expects earnings per share between $4.21 and $4.27, up from prior expectation of $4.16-$4.22.

Continual expansion strategies through acquisitions and franchise agreements are major positives. The company's regular return of wealth to its shareholders is also commendable.

▲ **Franchise Business Lends Economies of Scale:** The company's 99% of revenues are generated from the franchise business. Choice Hotels gains from economies of scale associated with the franchise business. Accordingly, higher fee from franchisees and transference of cost burden onto franchises provide the company with operational advantages. Apart from royalty fees and procurement services revenues, Choice Hotels also collect marketing and reservation system fees to provide support activities for the franchise system. Franchising, as we believe, will facilitate ROE expansion and earnings growth over the long term. Meanwhile, the company's solid commitment toward franchisee profitability is driving incremental revenues. The number of domestic franchised hotels and rooms as of Dec 31, 2018, increased 6.6% and 9%, respectively, from the year-ago levels.

▲ **Continual Expansion Bodes Well:** Choice Hotels relies heavily on expansion in both domestic as well as international markets. In the third quarter, the hotelier awarded 100 total franchise agreements. Alongside domestic growth, the company continues to expand its international footprint in new countries. Key international operating markets include Spain, Colombia, Panama, the Caribbean and Canada. Moreover, the company recently strengthened its mid-scale presence with the launch of Clarion Pointe. Expansion of the brand is expected to occur through 21 Clarion Pointe franchise agreements. Meanwhile, in the last year, the company announced an alliance with Sercotel, a leading hotel operator and franchisor based in Spain. This alliance will enable the extension of Choice Hotels' global footprint in Spain and other markets, as well as the creation of opportunities for additional hotel development across Europe and Latin America.

The Cambria brand has been doing solid business. In the first nine months of 2019, Cambria's RevPAR increased 0.4%. The company stated that in third-quarter 2019, Cambria's business travel revenues increased 17% year over year. Moreover, in the third quarter, the Cambria pipeline expanded to 79 hotels. 2019 is turning out to be an exceptional one for Cambria and the brand is on the verge of opening 50 hotels in top-tier markets.

▲ **Woodspring Acquisition Adds Value:** Apart from constant franchise expansions, Choice Hotels has added 239 extended-stay hotels in 35 states to its portfolio through the acquisition of Woodspring Suites in the past year. In 2018, the company completed opening of additional 12 WoodSpring hotels in top markets like Chicago, Seattle, Charlotte and Detroit. Further, growth is expected to accelerate in 2019, with expected opening of additional 20 hotels. Currently, Choice Hotels has 250 Woodspring hotels. By the end of 2020, it expects to see Woodspring operating 300 hotels. Additionally, in January, the company finalized an agreement with a developer to build more than 27 additional WoodSpring Suites over the next four years.

In the first quarter of 2019, Choice Hotels entered a multi-unit franchise agreement with a hotel management company to develop 14 WoodSpring hotels throughout the Western states of Colorado, Arizona and Nevada. Addition of Woodspring brand has been of vital importance. Since addition, WoodSpring's website revenue delivery has increased 24%, its call center conversion rates moved up 5.5% and corporate account business delivery increased 18%.

▲ **Returning Shareholder's Wealth:** Choice Hotels maintains a capital structure with high financial returns. The company has a historical record of returning value to its shareholders through share repurchases and dividends. In the first nine months of 2019, Choice Hotels paid cash dividends of $36 million. Based on the current quarterly dividend rate of 21.5 cents per share, the company expects to payout dividends worth approximately $48 million in 2019. Meanwhile, management repurchased roughly $0.6 million shares for nearly $45 million under the share repurchase program during the said period. As of Sep 30, 2019, it authorized up to 4-million additional shares of common stock under the share repurchase program.

Reasons To Sell:

High cost of operations and intense competition are concerns.

- **High Costs Hurt:** Despite the positive synergies to be realized from acquisitions and focus on franchising, Choice Hotels is shouldering high costs from operations. Total operating expenses in 2018 increased 20.1% year over year. Total operating expenses in the first nine months of 2019 increased 10% to $581.8 million.

- **Cutthroat Competition:** The hotel industry is highly competitive, as major hospitality chains with well-established and recognized brands are continuously expanding their global presence. Choice Hotels is continuously facing intense competition from both large hotel chains and smaller independent local hospitality providers. Increasingly, the company also faces competition from new channels of distribution in the travel industry. Additional sources of competition include large companies that offer online travel services as part of their business model such as Alibaba, search engines such as Google, and peer-to-peer inventory sources such as Airbnb and HomeAway that allow travelers to book stays on websites that facilitate the short-term rental homes and apartments from owners, thereby providing an alternative to hotel rooms. Unless the company counters these competitions with appropriate strategies, it may pose a concern for its future profitability.

- **Cyclical Nature of the Industry Poses Concern:** The hospitality industry is cyclical, and a worsening of global economic conditions might in turn dent Choice Hotels' revenues and profits. Consumer demand for services is closely linked to performance of the general economy, and is sensitive to business and personal discretionary spending levels. Decline in consumer demand due to adverse general economic conditions, poor travel patterns, lower consumer confidence and high unemployment can lower revenues as well as the profitability of the company. These factors can also reduce its management and franchise fee revenues.

- **Valuation Looks Stretched:** Looking at Choice Hotels' valuation, we find it stretched compared with its own range as well as the industry average. Looking at the company's EV/EBITDA ratio (Enterprise Value/ Earnings before Interest Tax Depreciation and Amortization), which is the best multiple for valuing gaming companies as those are highly capital intensive, investors might not want to pay any further premium. The stock has a trailing 12-month EV/EBITDA ratio of 20.11. On the contrary, the trailing 12-month EV/EBITDA ratio for the industry and the S&P 500 is 16.22 and 12.38, respectively.

Last Earnings Report

Choice Hotels Beats on Q3 Earnings & Revenues, Ups View

Quarter Ending	09/2019
Report Date	Nov 05, 2019
Sales Surprise	1.23%
EPS Surprise	6.20%
Quarterly EPS	1.37
Annual EPS (TTM)	4.28

Choice Hotels reported better-than-expected third-quarter 2019 results. The top and the bottom line not only surpassed their respective Zacks Consensus Estimate but also increased on a year-over-year basis.

The lodging franchisor reported adjusted earnings of $1.37 per share, beating the consensus mark of $1.29 and increasing 10% year over year. Notably, this marked its seventh straight quarter of earnings beat.

In the quarter under review, total revenues came in at $310.7 million. The figure increased 7% from the year-ago quarter's level and topped the consensus mark of $307 million.

Let's discuss the quarterly numbers.

Franchising & Royalties

Domestic royalty fees totaled $107.8 million, up 3% year over year. However, domestic system-wide RevPAR dipped 0.7% year over year. Average daily rate (ADR) declined 0.4% and occupancy was down 20 basis points compared with the prior-year quarter's level.

The company's newly-executed domestic franchise agreements were 100 in the third quarter. As of Jun 30, 2019, the number of domestic franchised hotels and rooms rose 1.8% and 1.8% year over year, respectively.

Operating Results

Total operating expenses increased 15.5% from third-quarter 2018 to $208.3 million. Adjusted EBITDA also increased 7% from the prior-year quarter's number to $111 million.

Balance Sheet

As of Sep 30, 2019, the company had cash and cash equivalents of $31.6 million compared with $26.6 million on Dec 31, 2018.

Long-term debt in the same period was $875.8 million, up from $753.5 million at 2018-end. Goodwill, as a percentage of total assets, was 11.6% at the end of the second quarter, down from 14.8% at 2018-end.

In the first nine months of 2019, Choice Hotels paid cash dividends of $36 million. Based on the current quarterly dividend rate of 21.5 cents per share, the company expects to payout dividends worth approximately $48 million in 2019. Meanwhile, management repurchased roughly $0.6 million shares for nearly $45 million under the share repurchase program during the said period. As of Sep 30, 2019, it authorized up to 4 million additional shares of common stock under the share repurchase program.

Fourth-Quarter Guidance

For the fourth quarter, adjusted earnings per share (EPS) are anticipated in the range of 82-86 cents. Notably, the guidance is below the Zacks Consensus Estimate of 90 cents. Domestic RevPAR is expected between 0% and 2%.

2019 Guidance

Choice Hotels now expects EPS between $4.21 and $4.27, up from prior expectation of $4.16-$4.22. Domestic RevPAR is expected to be in the range of flat to down 1%.

Recent News

Choice Hotels' Ascend Hotel Collection Sets Record in 2019 - Jan 23, 2020

Choice Hotels International, Inc. continues to expand through franchise agreements. The Ascend Hotel Collection franchised by the company recently announced that 2019 was a record-breaking development year. The brand executed 96 total contracts and added 76 new properties to its portfolio of resort, historic and boutique hotels. This milestone fortifies Ascend Hotel's status as the industry's largest upscale soft brand.

Valuation

Choice Hotels' shares are up 29.6% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 23.8% and 17.2%, respectively.

The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 20.11x trailing 12-month EV/EBITDA, which compares with 16.22x for the Zacks sub-industry, 12.97x for the Zacks sector and 12.38x for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.06x and as low as 11.52x, with a 5-year median of 15.93x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $104 price target reflects 23.63x forward12-month Price to Earnings value.

The table below shows summary valuation data for CHH.

Valuation Multiples - CHH

		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	20.11	16.22	12.97	12.38
	5-Year High	21.06	23.07	17.76	12.86
	5-Year Low	11.52	10.99	11.07	8.48
	5-Year Median	15.93	14.37	12.41	10.69
P/S F12M	Current	4.74	2.1	2.3	3.52
	5-Year High	5.25	2.25	3.19	3.52
	5-Year Low	2.59	1.13	1.81	2.54
	5-Year Median	3.77	1.65	2.54	3
P/E TTM	Current	23.22	24.29	24.07	20.62
	5-Year High	32.59	33.79	32.66	22.17
	5-Year Low	17.97	19.52	19.69	15.9
	5-Year Median	12.21	24.13	25.66	18.82

As of 01/24/2020

Industry Analysis **Zacks Industry Rank:** Bottom 11% (227 out of 255)

Top Peers

Marriott Vacations Worldwide Corporation **(VAC)**	Outperform
Hyatt Hotels Corporation **(H)**	Neutral
Hilton Grand Vacations Inc. **(HGV)**	Neutral
Hilton Worldwide Holdings Inc. **(HLT)**	Neutral
Marriott International, Inc. **(MAR)**	Neutral
Extended Stay America, Inc. **(STAY)**	Neutral
WYNDHAM DESTINATIONS, INC. **(WYND)**	Neutral
Wyndham Hotels & Resorts Inc. **(WH)**	Underperform

Industry Comparison Industry: Hotels And Motels

Industry Peers

	CHH Neutral	X Industry	S&P 500	H Neutral	HLT Neutral	MAR Neutral
VGM Score	C	-	-	D	B	C
Market Cap	5.54 B	4.67 B	24.13 B	8.65 B	30.61 B	46.10 B
# of Analysts	7	6	13	8	7	9
Dividend Yield	0.91%	0.91%	1.78%	0.90%	0.55%	1.36%
Value Score	D	-	-	C	D	C
Cash/Price	0.01	0.07	0.04	0.10	0.03	0.01
EV/EBITDA	21.04	14.59	14.02	6.99	21.23	19.28
PEG Ratio	2.25	2.57	2.03	7.90	3.12	3.28
Price/Book (P/B)	NA	2.18	3.30	2.31	NA	55.02
Price/Cash Flow (P/CF)	26.89	15.75	13.52	14.89	26.37	19.36
P/E (F1)	22.32	19.34	18.92	47.87	26.00	21.51
Price/Sales (P/S)	5.07	2.05	2.65	1.77	3.27	2.21
Earnings Yield	4.41%	4.65%	5.28%	2.09%	3.84%	4.65%
Debt/Equity	-15.86	0.65	0.72	0.53	-44.08	13.63
Cash Flow ($/share)	3.69	3.35	6.94	5.66	4.11	7.28
Growth Score	B	-	-	C	A	D
Hist. EPS Growth (3-5 yrs)	18.61%	19.21%	10.60%	20.90%	9.23%	21.63%
Proj. EPS Growth (F1/F0)	3.02%	8.30%	7.59%	-1.46%	8.30%	11.12%
Curr. Cash Flow Growth	28.74%	11.49%	13.90%	-3.21%	19.49%	28.49%
Hist. Cash Flow Growth (3-5 yrs)	11.10%	4.17%	9.00%	2.12%	1.78%	26.97%
Current Ratio	0.82	1.12	1.22	1.41	0.78	0.51
Debt/Capital	NA%	55.21%	42.99%	34.79%	NA	93.16%
Net Margin	19.43%	6.51%	11.35%	10.01%	9.92%	6.28%
Return on Equity	-174.81%	7.99%	17.10%	6.47%	972.97%	134.91%
Sales/Assets	0.89	0.48	0.55	0.61	0.63	0.85
Proj. Sales Growth (F1/F0)	5.27%	4.31%	4.03%	1.80%	5.71%	4.28%
Momentum Score	D	-	-	C	D	B
Daily Price Chg	-0.42%	-1.22%	-1.01%	-1.85%	-2.23%	-2.72%
1 Week Price Chg	1.12%	2.43%	2.29%	2.48%	4.90%	3.35%
4 Week Price Chg	-5.12%	-5.64%	1.02%	-7.17%	-3.08%	-7.91%
12 Week Price Chg	12.30%	4.23%	6.85%	12.66%	11.89%	11.43%
52 Week Price Chg	31.67%	12.66%	20.39%	25.30%	52.67%	30.28%
20 Day Average Volume	435,277	193,389	1,536,379	467,466	1,560,193	1,237,718
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.13%	0.00%	0.00%	-0.49%	-0.09%	-0.21%
(F1) EPS Est 12 week change	-0.19%	-1.51%	-0.23%	-3.59%	-0.47%	-1.51%
(Q1) EPS Est Mthly Chg	-0.30%	0.00%	0.00%	11.59%	-0.72%	-0.48%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.