Hotel News Now

Earnings Recaps

Solid labor market, tax reform fuel Choice's optimism

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Choice executives raised guidance for full-year 2018, based on solid first-quarter results and confidence centered on a stronger labor market and tax-reform benefits.

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ROCKVILLE, Maryland—Choice Hotels International started off the year with a strong first quarter, and President and CEO Pat Pacious said the company raised full-year guidance based on Q1 performance as well as confidence in the labor market and tax reform.

"Our growth this quarter shows that our strategy is working," Pacious said on the company's first-quarter earnings call. "Overall, a strong labor market, combined with tax reform, gives us continued optimism for the remainder of 2018. As last week's jobs report indicates, we continue to see unemployment at a record low of 3.9%, consumer spending continues to be solid and consumer confidence is high."

He added that franchisees and developers show that there's still a strong lending environment, and that "people are beginning to better understand the industrywide implications of tax reform; this is driving them to seek out opportunities for both new builds and conversions."

"All of this reinforces that the lodging cycle, and more importantly, Choice Hotels still has runway for growth," Pacious said.

The company raised its outlook for domestic revenue-per-available-room growth for the full year from 1% to 3% to 1.5% to 3.5%, according to earnings releases from the company. Domestic RevPAR is expected to grow between 2% and 4% for the second quarter. Net income in 2018 is expected to range between $193 million and $199 million, previously anticipated to range between $190 million and $196 million.

Since Choice sees consumer confidence among its customer base, and energy prices are "staying within normal bounds," Pacious said those factors also play a role in the company's confidence for full-year performance.

Q1 Results
RevPAR for the quarter increased 3.5% to $44.61, occupancy increased 0.9%, and average daily rate grew 2.5% to $76.86 year over year, the earnings release states.

As of publication, Choice's stock was trading at $83.28 per share, up 7.3% year to date. The Baird/STR Hotel Stock Index was up 0.6% for the same time period.

WoodSpring performance
After acquiring WoodSpring Suites, Choice began tracking results for those properties on 1 February, which were included in first-quarter results.

Pacious said Choice "accomplished a lot in our first 90 days," referring to the WoodSpring brand. That brand has signed 33 new franchise agreements during the quarter, including 31 completed after the acquisition.

"The extended-stay segment continues to exceed the (RevPAR) growth rate for the overall industry," Pacious said. "For the first quarter, RevPAR was up 4.9% from the overall extended-stay segments, according to STR. WoodSpring outpaced the segment with a 13.5% RevPAR (increase) in the first quarter of 2018, compared to the same period of the prior year." (STR is the parent company of Hotel News Now.)

Choice expects to open 17 WoodSpring hotels in 2018 and break ground on 50 properties, Pacious said.

Cambria
The growth of the Cambria Hotels brand continues to be top of mind for Choice officials.

"The company advanced approximately $9 million in support of the brand's development during the three months ended (31 March)," Choice's earnings release states.

The brand has 42 hotels open or in the pipeline in the top 50 U.S. markets under the brand.

Stock repurchases
Choice repurchased $42 million in common stock during the quarter, which an analyst pointed out is the largest repurchase for a quarter in a number of years.

When asked how Choice thinks about buybacks, CFO Dominic Dragisich said the company takes an opportunistic approach.

"We're always going to opportunistically take a look at buybacks as one of our levers for capital deployment in the company," he said. "But we're always going to look first and foremost (at) internal investments … but if we do have excess capital, we're going to continue to plan to return that capital back to shareholders."