



Extended Stay Calls Accumulate in Deep Value Hotel Operator

Ticker/Price: STAY \$14.85

Analysis:

Extended Stay America (STAY) with another 3,500 January \$15 calls bought today from \$0.50 to \$0.60, spot where 5,000 were bought yesterday and follows recent accumulation of 2,000 April \$15 calls. Today's action is smaller but running 9X average. STAY shares are nearing a move out of a narrow multi-month base above \$15 that measures back to the 200-day at \$16.50. A move higher would also test a long downtrend from the 2018 highs around \$22.50. The \$2.74B company trades 14.6X earnings, 2.2X sales, and 9.25X FCF with a 6.26% yield. STAY sees flat-to-low growth in FY20 and FY21. STAY is one of the only remaining hotel operators that continues to own their real estate with over 550 hotels and 60,000 rooms. They recently completed a year-long strategic review and decided to maintain the current course of action instead of exploring a potential split like peers La Quinta or Wyndham recently did. STAY is a strong FCF name with lower costs than peers given their structure that focuses on longer stays vs short stays and requires less day-to-day maintenance. They also have a small but growing loyalty program. The company could be an attractive target for an activist with a clear path to value upside and a management team that has been frustrating to shareholders. Analysts have an average target for shares of \$18. JP Morgan downgrading to Neutral on 9-6 with a lack of potential catalysts upcoming. The firm sees 1% RevPar growth. Deutsche Bank on 8-21 again reiterating the strategic value of the name as they move forward with their ESA 2.0 Plan and potential for buybacks. Short interest is 1.2%. Hedge fund ownership rose 20.5% in Q3. Senator Investment Group a new 5.175M share position while Long Pond Capital adding another 4.3M shares. STAY has also seen insider buying into weakness with three different individuals buying over 400k around \$14.30/\$14.75.

Hawk Vision:



Hawk's Perspective: STAY is trading at a nice risk/reward spot for a speculative position. I'm intrigued by some of the new 13-F holders out yesterday and continue to think that there's a lot of value in the name to be unlocked.

Confidence Ranking: \$\$