



Rating
Buy

North America
United States

Consumer
Leisure

Company
**Wyndham
Destinations**

Reuters
WYND.N

Bloomberg
WYND US

Exchange
NYS

Ticker
WYND

Date
1 November 2018

Forecast Change

Price at 1 Nov 2018 (USD)	42.33
Price target	58.00
52-week range	57.15 - 33.63

No Sign of Cracks in Core Tenets of WYND Story; Reiterate Buy, PT to \$58

Risk/Reward Still Tilts Quite Favorably, In Our View

While some of the strength in shares of WYND today can almost certainly be attributed to the mechanics of a large put option expiry, we believe there are fundamental reasons, too. Despite a growing chorus of concerns about loan loss provision trends and some skepticism about the sustainability of top-line momentum on the core timeshare business, WYND's 3Q results and largely re-affirmed outlook don't really fit the bearish narrative. We continue to see WYND as having company-specific levers to drive revenue growth over the next 12-18 months, outside of macro, including a unique opportunity to begin marketing to the La Quinta customer base sometime next year. Reiterate Buy; PT to \$58 (-\$5 vs. prior).

Key Takeaways from Quarter / Conference Call

1) The loan loss provision as a percentage of gross VOI sales was 20.8%, down 10bps y/y and down 60bps sequentially; 2) FY18 Adj. EBITDA guidance was reduced by \$9m as a result of a \$16m negative impact from the hurricanes offset by a \$7m operational beat in 3Q. Guidance for 4Q was reduced by \$11m due to a \$6m hurricane impact and \$5m related to favorable timing (recognized in 3Q). Net, ex hurricanes, FY18 Adj. EBITDA guidance was raised by \$7m; 3) The mix of new owners improved 330bps y/y, to 40.9% which is ~130 bps ahead of WYND's annual target; 4) Blue Thread sales were up 56% y/y in 3Q, an acceleration from 47% growth in 1H18. For all of FY18, Blue Thread sales will likely represent a high single digit percentage of contract sales to new owners (with much room for further penetration) and will probably account for about 3-4% of total tour flow (also leaving a lengthy runway for growth); and 5) WYND still has \$884m remaining on its share repurchase authorization, which equates to roughly 21% of the current market cap.

Summary of Estimate Changes

Post 3Q results and updated guidance our 2018 adj. EBITDA estimate is down \$5m (to \$956m) as we flow through the \$6m 3Q beat vs. our model and take down 4Q18 by \$11m due hurricane impacts. We are modeling \$90m in share repurchase in 4Q18, which may prove conservative based on WYND's 3Q pace and the current share price. We believe our major underlying assumptions remain undemanding, as our model continues to assume that WYND operates in the lower half of FY18 guidance on tour flow (5.6% vs. 5-7% guidance) and VPG (1.1% vs. 1-3% guidance). For 2019, the key change to our model is some moderation in our expectations for the Exchange & Rental segment; we now assume just 1.5% revenue growth but continue to see margins expanding based on enhanced

Valuation & Risks

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Key changes

TP	63.00 to 58.00	↓	-7.9%
EPS (USD)	4.83 to 4.82	↓	-0.4%
Revenue (USDm)	3,975.0 to 3,955.3	↓	-0.5%

Source: Deutsche Bank

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operational efficiencies. On the VOI side, we see 2019 playing out in similar fashion to 2018 (6% contract sales growth). Our FY19 Adj. EBITDA estimate is down ~2% to \$1.002 bn and our Adj. EPS estimate is also down ~2%, to \$5.29.

Price Target \$58 (-\$5); Risks

Our PT is based on a SOTP EV/EBITDA approach, where we value the core Vacation Ownership segment at 8.0x and the Vacation Exchange unit (RCI) at 9.0x, less Corporate SG&A at the blended multiple of 8.3x (on a 2019E basis). Risks relate primarily to factors that may affect WYND's ability to close profitable VOI sales, including a downturn in discretionary income or unfavorable mix; rising interest rates can impact financing profitability/securitization economics.

Forecasts and ratios			
Year End Dec 31	2017A	2018E	2019E
FY EPS (USD)	–	4.82	5.29
P/E (x)	0.0	8.8	8.0
Dividend yield (%)	0.0	3.9	3.9

Source: Deutsche Bank estimates, company data

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Key Takeaways

3Q Nicely Ahead, But a Cut to 4Q From Hurricanes / Timing

WYND beat on the EBITDA and EPS lines in 3Q, with revenue in line. Overall, we see some puts and takes in the release, which probably result in a continuation of the bull/bear debate in the near term. On the positive side, WYND's loan loss provision as a percentage of gross VOI sales--a closely followed metric--declined y/y for the first time in several years, with the provision a \$9m favorable variance vs. our model. Also, the company repurchased \$106m of stock in 3Q18 and another \$32m in October, but still has \$884m remaining on its authorization (which equates to 25% of the company's current market cap). On the negative side, the Exchange & Rentals segment posted negative y/y growth and WYND reduced prior implied 4Q guidance, owing in part to the 3Q beat and in part to an impact from Hurricanes Michael and Florence.

WYND 3Q18 Actuals vs. Year-Ago and Our Estimates

Figure 1: WYND 3Q18 Actuals vs. Year-Ago and Our Estimates

(SMM, except per share data)

	WYN Actuals			DB Estimates		
	3Q18	3Q17	+/-	yoy % chg.	3Q18E	+/-
Operating Metrics						
Exchange Membership yoy chg	1.7%	-2.0%	368		1.0%	76
Exchange Revenue per Member yoy chg	-5.0%	4.9%	(987)		3.5%	(852)
Tour Flow	4.7%	7.6%	(288)		5.3%	(66)
Volume per Guest	2.2%	-0.9%	312		2.0%	17
Revenues						
Exchange & Rental Revenue	\$243	\$248	(\$5)	-2.0%	\$258	(\$15)
Vacation Ownership Interest Revenue	\$820	\$768	\$52	6.8%	\$804	\$16
Corporate and Other Revenue	(\$1)	(\$1)	\$0		\$0	(\$1)
Total Revenue	\$1,062	\$1,019	\$43	4.2%	\$1,063	(\$1)
Exchange & Rental Adjusted EBITDA	\$79	\$79	(\$0)	-0.5%	\$84	(\$5)
Exchange & Rental Adjusted EBITDA Margin	32.5%	32.0%	49bps		32.6%	-06bps
Vacation Ownership Adjusted EBITDA	\$203	\$191	\$12	6.3%	\$191	\$12
Vacation Ownership Adjusted EBITDA Margin	24.8%	24.9%	-11bps		23.7%	101bps
Corporate & Other Adjusted EBITDA	(\$11)	(\$13)	\$2	-15.4%	(\$10)	(\$1)
Adjusted EBITDA	\$271	\$257	\$14	5.3%	\$265	\$6
Adjusted EBITDA Margin	25.5%	25.3%	26bps		24.9%	58bps
EBITDA	\$271	\$233	\$38	16.3%	\$265	\$6
D&A	\$32	\$33	(\$1)	-3.0%	\$31	\$1
Net Interest Expense	\$44	\$38	\$6	15.8%	\$44	\$0
Income Tax	\$51	(\$4)	\$55	-1375.0%	\$42	\$9
Net Income	\$131	\$14	\$117	835.7%	\$141	(\$10)
Non-recurring Items	\$15	\$101	(\$86)		\$0	\$15
Adjusted Net Income	\$146	\$115	\$31	27.0%	\$141	\$5
GAAP EPS	\$1.32	\$0.13	\$1.19	916.8%	\$1.42	(\$0.10)
Adjusted EPS	\$1.47	\$1.10	\$0.37	33.4%	\$1.42	\$0.05
Shares Outstanding (Basic)	99	104	-5	-5.1%	99	0
Shares Outstanding (Diluted)	100	104	-5	-4.7%	99	0

Source: Deutsche Bank and Company Reports

Within the VOI segment, WYND posted results that were generally in line with our forecasts on the top line, with tour flow growth of 5% and VPG growth of 2% both matching our model. The mix of new owners improved 330bps y/y, to 40.9%. Recall, using the Blue Thread program to meaningfully increase the mix of first-time buyers is a key initiative for WYND; solid progress is evident here. VOI segment margins rose 60bps y/y, well ahead our forecast of a 110bps decline. The loan loss provision as a percentage of gross VOI sales was 20.8%, down 10bps y/y and down 60bps sequentially; we had been looking for a potential increase to 22.0%. The overall size of the receivables portfolio rose 5% y/y, compared to our forecast of 3%. The Exchange & Rentals segment's revenue and EBITDA of \$243m and \$79m, respectively, were below our forecasts of \$258m and \$84m, respectively. The membership base grew 2%, but revenue per member fell 5%.

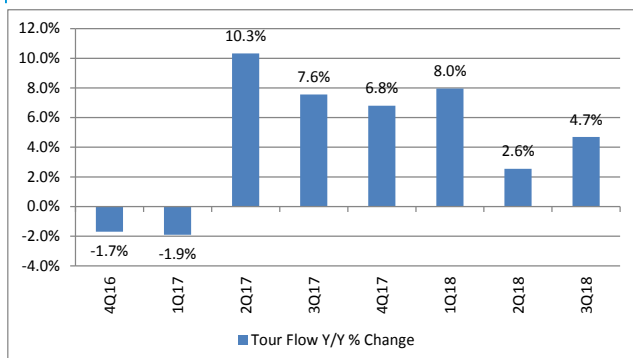
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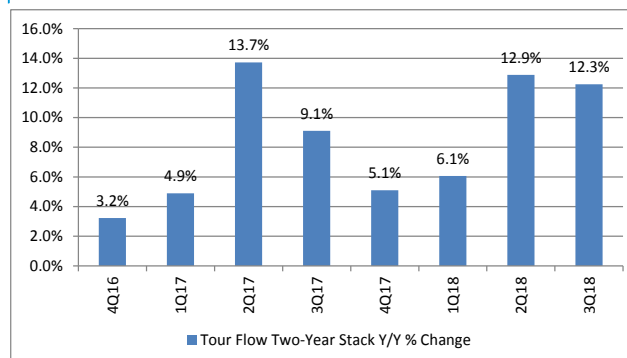


Figure 2: Tour Flow y/y % chg.



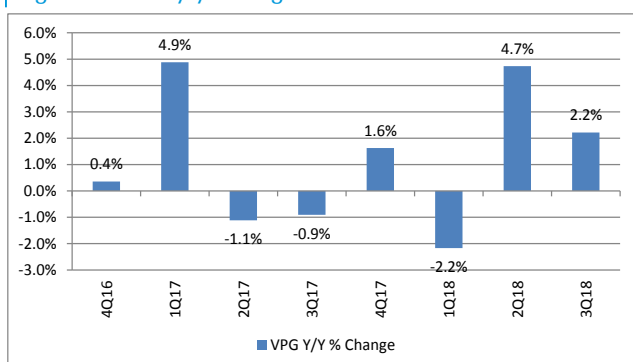
Source: Deutsche Bank and Company Reports

Figure 3: Tour Flow y/y % chg. 2-Year Stack



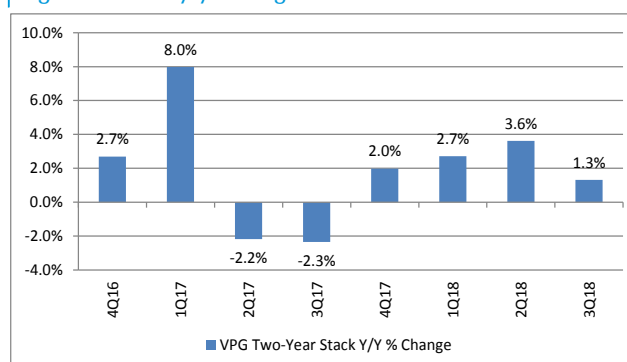
Source: Deutsche Bank and Company Reports

Figure 4: VPG y/y % chg.



Source: Deutsche Bank and Company Reports

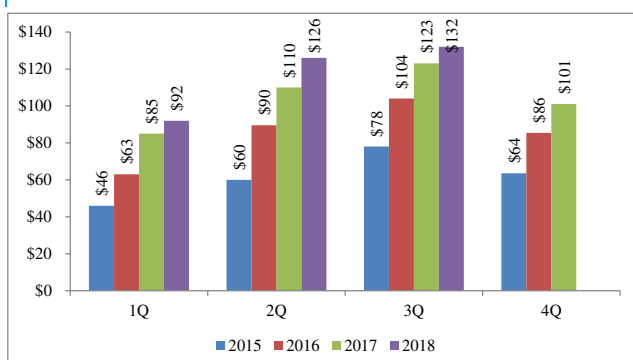
Figure 5: VPG y/y % chg. 2-Year Stack



Source: Deutsche Bank and Company Reports

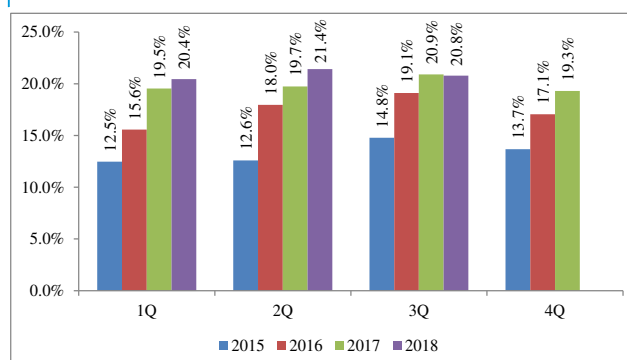
The provision for loan loss increased \$9m y/y to \$132m with mgt. noting the entire increase driven by increased VOI sales growth. The loan loss provision as a percentage of gross VOI sales was 20.8%, down 10bps y/y and down 60bps sequentially. WYND expects the provision will come in just under 21% now in the 2H18 and FY18.

Figure 6: Loan Loss Provisions in \$



Source: Deutsche Bank and Company Reports

Figure 7: Loan Loss Provisions as a % of Gross VOI Sales



Source: Deutsche Bank and Company Reports

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Summary of Estimate Changes

Figure 8: Summary of Estimate Changes

\$ in MM except per share data

	4Q18E			2018E			2019E		
	Current	Prior	Delta	Current	Prior	Delta	Current	Prior	Delta
Exchange Members yoy chg	1.1%	1.1%	(1)	1.3%	1.1%	19	1.0%	0.8%	29
Revenue per Member yoy chg	-0.8%	3.1%	(394)	-1.7%	1.3%	(300)	-1.8%	1.5%	(338)
VOI Tour Flow	8.2%	7.5%	61	5.6%	5.6%	(4)	5.0%	5.0%	0
Volume per Guest	-0.3%	2.7%	(309)	1.1%	1.8%	(76)	1.0%	1.0%	0
Exchange & Rental Revenue	\$206	\$211	(\$5)	\$933	\$953	(\$20)	\$947	\$978	(\$31)
Vacation Ownership Revenue	\$773	\$787	(\$14)	\$3,024	\$3,023	\$2	\$3,155	\$3,164	(\$9)
Total Revenue	\$979	\$998	(\$19)	\$3,955	\$3,975	(\$20)	\$4,102	\$4,142	(\$40)
Exchange & Rental Adj. EBITDA	\$46	\$51	(\$5)	\$273	\$283	(\$10)	\$286	\$298	(\$12)
Vacation Ownership Adj. EBITDA	\$207	\$212	(\$5)	\$727	\$721	\$7	\$760	\$769	(\$9)
Corporate & Other Adj. EBITDA	(\$14)	(\$13)	(\$1)	(\$44)	(\$42)	(\$2)	(\$45)	(\$44)	(\$0)
Adjusted EBITDA	\$239	\$250	(\$11)	\$956	\$961	(\$5)	\$1,002	\$1,023	(\$21)
D&A	\$28	\$28	\$0	\$127	\$126	\$1	\$134	\$133	\$1
Adjusted Net Interest Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Provision for Income Taxes	\$41	\$43	(\$2)	\$162	\$154	\$8	\$164	\$174	(\$11)
Adjusted Net Income	\$125	\$132	(\$7)	\$481	\$482	(\$1)	\$499	\$509	(\$11)
Diluted Shares	97.9	97.7	0.2	99.8	99.7	0.1	94.2	94.1	0.2
Adjusted Diluted EPS	\$1.28	\$1.35	(\$0.07)	\$4.82	\$4.83	(\$0.02)	\$5.29	\$5.42	(\$0.12)

Source: Deutsche Bank and Company Reports

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Price Target Analysis

We value the core Vacation Ownership portion of the company at 8.0x 2019E EBITDA and the Vacation Exchange unit at 9.0x (also on a 2019E basis). This implies a blended multiple of 8.3x on a weighted EBITDA basis. We subtract unallocated corporate overhead at the blended multiple. Finally, we subtract estimated year-end 2019 net debt to arrive at our equity valuation.

Figure 9: Price Target Analysis

WYND	11/1/2018
Current Price	\$42.33
Shares Outstanding (MRQ)	100
Market Cap (\$ in MM)	\$4,212

Segment	2019E EBITDA	Price Target Multiple	Firm Value
Vacation Exchange	\$286	9.0 x	\$2,574
Vacation Ownership	\$760	8.0 x	\$6,083
Subtotal	\$1,046	8.3 x	\$8,657
Corporate & Other	(\$45)	8.3 x	(\$368)
Total	\$1,002	8.3 x	\$8,289
Less Net Debt (2019E)			\$2,822
Equity Value			\$5,467
Shares Outstanding (2019E)			94
Price Target			\$58
2019E Dividend Yield			3.9%
Potential Total Upside/Downside to Target			40.9%
2019E Free Cash Flow per Share			\$4.87
Implied FCF Yield at Price Target			8.4%
2019E EPS			\$5.29
Implied PE Multiple at Price Target			11.0x
y/y EPS Growth (2019E vs. 2018E)			9.9%
Implied PEG at Price Target			1.1

Source: Deutsche Bank, FactSet and Company Reports

Figure 10: Price Target Sensitivity Analysis

% chg. in EBITDA		Price Target Sensitivity								
		-20.0%	-15.0%	-10.0%	-5.0%		5.0%	10.0%	15.0%	20.0%
2019E EBITDA (m)		\$801	\$852	\$902	\$952	\$1,002	\$1,052	\$1,102	\$1,152	\$1,202
Net Debt (m)		\$3,154	\$3,071	\$2,988	\$2,905	\$2,822	\$2,739	\$2,655	\$2,572	\$2,489
Shares Outstanding (m)		94	94	94	94	94	94	94	94	94
Price Target Multiples	4.3x	\$3	\$6	\$9	\$12	\$15	\$19	\$22	\$25	\$28
	5.3x	\$11	\$15	\$19	\$22	\$26	\$30	\$33	\$37	\$41
	6.3x	\$20	\$24	\$28	\$33	\$37	\$41	\$45	\$49	\$54
	7.3x	\$28	\$33	\$38	\$43	\$47	\$52	\$57	\$62	\$66
	8.3x	\$37	\$42	\$47	\$53	\$58	\$63	\$69	\$74	\$79
	9.3x	\$45	\$51	\$57	\$63	\$69	\$74	\$80	\$86	\$92
	10.3x	\$54	\$60	\$67	\$73	\$79	\$86	\$92	\$98	\$105
	11.3x	\$62	\$69	\$76	\$83	\$90	\$97	\$104	\$111	\$117
	12.3x	\$71	\$78	\$86	\$93	\$101	\$108	\$115	\$123	\$130

Source: Deutsche Bank, FactSet and Company Reports

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Model

Figure 11: Earnings Model (\$ in MM, except per share data) Pro Forma for Wyndham Destinations

	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18	3Q18	4Q18E	2018E	2019E
Revenues:												
Vacation Exchange	1,572	243	234	248	202	927	246	238	243	206	933	947
Y/Y % chg.	2.2%						1.2%	1.7%	-2.0%	1.8%	0.6%	1.5%
Vacation Ownership	2,795	639	745	768	729	2,881	661	770	820	773	3,024	3,155
Y/Y % chg.	0.8%						3.4%	3.4%	6.8%	6.1%	5.0%	4.3%
Corporate & Other	(77)	2	0	(1)	3	4	0	(1)	(1)	0	(2)	0
Total Revenue	\$5,599	\$884	\$979	\$1,019	\$934	\$3,816	\$907	\$1,007	\$1,062	\$979	\$3,955	\$4,102
Y/Y % chg.	1.2%						2.6%	2.9%	4.2%	4.9%	3.7%	3.7%
Direct Expenses:												
Vacation Exchange	1,215	168	171	165	167	670	180	168	164	160	672	661
Vacation Ownership	2,101	522	698	577	596	2,393	537	576	617	566	2,296	2,395
Corporate & Other	34	15	13	12	17	57	13	20	12	16	61	63
Total Expenses	4,268	705	882	754	780	3,120	730	764	793	742	3,029	3,118
Y/Y Adjusted Expense % chg	-0.3%						3.5%	-13.4%	5.2%	-4.9%	3.5%	3.3%
EBITDA:												
Vacation Exchange	357	75	63	83	35	257	66	70	79	46	261	286
Vacation Ownership	694	117	47	191	133	488	124	194	203	207	728	760
Corporate & Other	(111)	(13)	(13)	(13)	(14)	(53)	(13)	(21)	(13)	(15)	(62)	(63)
Total EBITDA	1,331	179	97	261	154	692	177	243	269	238	927	984
Non Recurring Expenses (Gains)												
Vacation Exchange	27			(4)	9	5	11	0	0		11	
Vacation Ownership	15	5	135		67	207	5	(6)	0		(1)	
Corporate & Other	(10)	5	1	0	4	10	4	11	2	1	18	18
Total Adjustments	41	10	136	(4)	80	222	20	6	2	1	29	18
Adjusted EBITDA	1,372	189	233	257	234	\$914	\$197	\$249	\$271	\$239	\$956	\$1,002
Y/Y % chg.	4.3%						2.7%	11.7%	-0.5%	3.9%	4.1%	5.0%
Margin	24.4%	30.9%	26.9%	32.0%	22.0%	28.2%	31.3%	29.6%	32.5%	22.4%	29.2%	30.2%
Vacation Ownership	709	122	182	191	200	695	129	188	203	207	727	760
Y/Y % chg.	3.2%						5.7%	3.5%	6.3%	3.5%	4.7%	4.5%
Margin	25.4%	19.1%	24.4%	24.9%	27.4%	24.1%	19.5%	24.5%	24.8%	26.8%	24.1%	24.1%
Wyndham Destinations Segment	1,093	197	245	270	244	957	206	259	282	253	1,000	1,046
Y/Y % chg.	19.5%	22.3%	25.0%	26.5%	26.2%	25.1%	22.7%	25.7%	26.6%	25.9%	25.3%	25.5%
Margin	(122)	(8)	(12)	(13)	(10)	(43)	(9)	(10)	(11)	(14)	(44)	(45)
Corporate & Other	-10%						13%	-17%	-15%	44%	3%	0%
Adjusted EBITDA	\$1,372	\$189	\$233	\$257	\$234	\$914	\$197	\$249	\$271	\$239	\$956	\$1,002
Y/Y % chg.	5.9%						4.2%	6.8%	5.3%	1.9%	4.6%	4.8%
Margin	24.5%	21.4%	23.8%	25.3%	25.1%	23.9%	21.7%	24.7%	25.5%	24.4%	24.2%	24.4%
Adjusted Net Interest Expense	127											
EBITDA to Net Income Reconciliation												
EBITDA	1,331					914	197	249	271	239	956	1,002
Depreciation and amortization	(253)					(131)	(31)	(36)	(32)	(28)	(127)	(134)
Interest expense	(135)					(130)	(40)	(46)	(37)	(37)	(160)	(170)
Interest income / Other	(3)					(297)	(9)	(141)	(20)	(9)	(179)	(35)
Income Before Tax	940					356	117	26	182	166	490	663
Provision for Income Tax	(327)					235	(32)	(38)	(51)	(41)	(162)	(164)
Tax Rate	34.7%					-66.0%	27%	148%	28%	25%	33%	25%
Income before effect of accounting change	613					591	85	(12)	131	125	328	499
Minority Interest	(1)											
Net Income	612						85	(12)	131	125	328	499
Dividends per common share	\$2.00						\$0.41	\$0.41	\$0.41	\$0.41	\$1.64	\$1.64
GAAP EPS	\$5.52						\$0.84	-\$0.12	\$1.32	\$1.28	\$3.30	\$5.29
Basic	110						102	100	99	97	100	94
Diluted	111						102	100	100	98	100	94
Reconciliation of Income to Adj Net Income												
Net Income	612						85	(12)	131	125	328	499
Acquisitions costs / Other	(1)							7	4		11	
Restructuring & impairment costs	(32)								(35)		98	
Separation & stand-alone costs	0							133				
Legacy contingent asset/liability adjustments	12							2			2	
Interest Expense	0							3	15		18	
Other adjustments	(28)							(8)	1		(7)	
Tax effect of adjustments	25											
Total Adjustments	(25)							137	(15)		122	
Adjusted Net Income	\$637						\$85	\$125	\$146	\$125	\$481	\$499
Adjusted Diluted EPS	\$5.75						\$0.84	\$1.25	\$1.47	\$1.28	\$4.82	\$5.29
Y/Y % chg.	12.6%											9.9%

Source: Deutsche Bank and Company Reports

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Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Wyndham Destinations	WYND.N	35.88 (USD) 31 Oct 2018	1, 6, 7, 8, 9, 14, 15

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB0002>. Investors are strongly encouraged to review this information before investing.

Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See Important Disclosures Required by Non-US Regulators and Explanatory Notes.

1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public or private offering for this company, for which it received fees.
6. Deutsche Bank and/or its affiliate(s) owns one percent or more of a class of common equity securities of this company calculated under computational methods required by US law.
7. Deutsche Bank and/or its affiliate(s) has received compensation from this company for the provision of investment banking or financial advisory services within the past year.
8. Deutsche Bank and/or its affiliate(s) expects to receive, or intends to seek, compensation for investment banking services from this company in the next three months.
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Historical recommendations and target price. Wyndham Destinations (WYND.N)

(as of 10/31/2018)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

1. 06/15/2018 Buy, Target Price Change USD 62.00 Chris Woronka

2. 08/09/2018 Buy, Target Price Change USD 63.00 Chris Woronka

Equity Rating Key

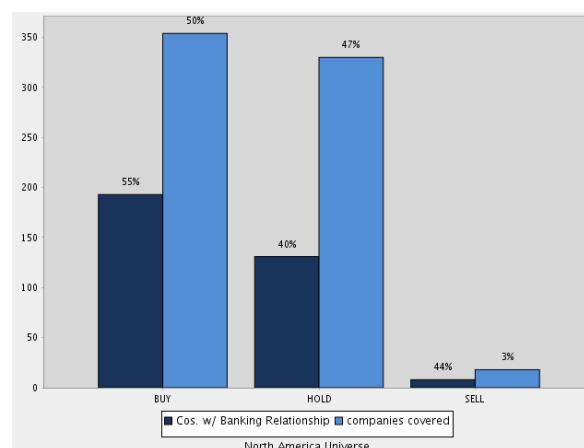
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