BARRON'S
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FEATURES MAIN

Show Time at the Convention Center

By SANDRA WARD

The smart money is checking into Gaylord, an operator of mega-hotels.

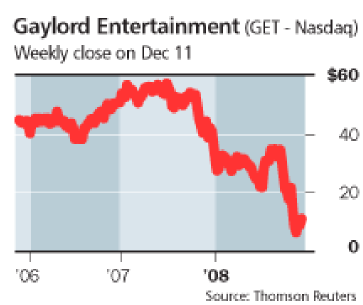
IN A YEAR OF DISASTROUS INVESTMENTS, one of the biggest calamities has been Gaylord Entertainment , owner of Nashville's famed Grand Ole Opry as well as the Gaylord Hotels, a leading force in the convention industry.


Gaylord Entertainment
Busy times for government types should help Gaylord's new facility near Washington.

Investors have checked out in droves, driving the shares down to a low of $5.27 in late November, more than 90% below their all-time high of $59.89, set in August 2007. While hotel stocks in general have suffered amid the downturn, none has fared as badly as Gaylord.

Though the stock (ticker: GET) has rebounded to around $9, it still looks way undervalued; Gaylord's businesses are probably worth closer to $50 a share. If management can't do better for shareholders, an acquirer just might.

A variety of forces have conspired against the shares, including a heavy debt load, concerns about liquidity and jitters about the impact of the punk economy on the hotel and convention business, which accounts for 80% of Gaylord's roughly $900 million in revenues.



Consternation has cropped up, too, around the company's adoption in August of a shareholder-rights plan -- a poison-pill provision that effectively limits any investor's stake to 15%. The move was a response to aggressive purchases of Gaylord shares by outsiders as the stock spiraled lower and lower. Dallas-based TRT Holdings, an investment vehicle owned by Texas billionaire Robert Rowling -- the owner of the rival Omni Hotel chain -- scooped up the depressed shares and built a 15% position.

Gaylord has recently rejected TRT Holdings' request to amend the poison pill and let TRT buy up to 30% of the shares and replace three board members with handpicked directors. Gaylord management defends the provision, saying it was designed to protect shareholders' interests.

"It was the right thing to do," says Chief Executive Colin Reed, adding that if TRT wants to take control of Gaylord, it should be direct about its interest and pay a premium for the shares.

Shareholder activists think otherwise. Mario Gabelli, whose Gamco Investors now owns 13.5% of Gaylord, wants the provision rescinded, arguing that poison pills are inherently bad for shareholders and serve only to entrench management.

He says he would like to buy up to 30% at the current price of around $9 a share because he's sure he and his investors will make "three times our money or more." Should a bid be made for Gaylord, his stake would help to ensure shareholders receive the best price, he argues.

Cheap Lodging

The value of Gaylord Entertainment's parts is far greater than the current stock price.

Plus:	
Gaylord Hotels, Valued at 12 times estimated 2010 cash flow of $237.6 million –	**$69.00 a share**
Plus:	
Opryland & Attractions, valued at six times cash flow of $20.7 million –	**$3.00 a share**
Minus:	
Estimated 2010 net debt of $950 million –	**$23.00 a share**
Minus:	
Estimated 2010 options payments of $45 million –	**$1.00 a share**
Total:	**$48.00 a share**
Current Stock Price:	**$9.00 a share**

Key Data

52-Week High-Low	$66.96 - 5.27
Market Value (mil)	$368
EPS '09E	$0.10
EPS '10E	$0.21
P/E '10E	22.8

Sources: Thomson Reuters; Gabelli & Co.

FOLKS LIKE GABELLI AREN'T interested in Gaylord for nothing. Despite the short-term stresses, Gaylord has a lot going for it. The Gaylord Hotel franchise is an enviable one, with powerful brand-name recognition among meeting planners, the gatekeepers to the convention industry.

Gaylord convention hotels are located just outside key destinations around the country -- Nashville, Tenn.; Orlando, Fla.; Dallas; and, more recently, Washington, D.C. Meetings are booked years in advance in the company's trademark "all-in-one" facilities, complete with thousands of guest rooms, multiple ballrooms, spas, retail stores, restaurants and bars, and sports facilities. In the event of cancellations -- always a risk but especially so in times such as these -- contracts ensure that the company collects fees to offset the decline in revenue.

CEO Reed projects same-store cash flow for 2009 (from hotels open at least one year) will be about flat with 2008, at $185 million to $197 million, even though he expects the economy will be "tough for the next six to nine months" and revenue per available room, a key metric for hotels, will be down. The company projects total cash flow, including the Gaylord National, of $214 million to $240 million in 2009.

The company is "on top of our business," Reed says, and he is "reasonably confident, providing the world doesn't continue to deteriorate, that our business will perform pretty well overall, but very well compared with the people with whom we compete."

Given all that, Gaylord shares look deeply undervalued, trading at less than eight times 2010 cash flow, compared with the stock's more normal 12 to 13 times.

Amit Kapoor, research analyst at Gabelli & Co., figures the company has a value of $48 a share. He arrives at that by assigning a multiple of 12 to the $238 million in cash flow he expects for the hotel group for 2010, and attaching a multiple of six to the $20.7 million in cash flow expected to be produced by Opryland and other attractions. He then subtracts debt and options payments.

Looked at another way, Gaylord's market value of $368 million is a third of what it cost to build the Gaylord National in Prince George's County, Md., across the Potomac from D.C. While that facility has been slow to get off the ground, Reed says the problems are behind it. And the National faces bright prospects as Washington undergoes its historic power shift. A good omen: Inauguration bookings are strong.

Debt, which the company took on to finance the Gaylord National, is on the high side, at $1.2 billion. But it appears manageable: The earliest maturity date is July 2012, and the company, which renegotiated its credit lines this past spring, hasn't any current liquidity problems, and has "wiggle room" in its covenants, according to Reed.

The Bottom Line

Gaylord has an enviable franchise, and its stock looks due for a big rebound. Even after a recent pop, one analyst reckons, it's trading about 80% below the value of its businesses.

In fact, Gaylord is using free cash to pay off debt and reduce leverage. The company is not currently buying back stock, but it is "cognizant of the opportunity," says Reed.

Beyond any fundamental assessment of its business outlook and valuation, the truth is Gaylord now finds itself in play. If TRT Holdings doesn't want to pay a premium for the company, the hunt will be on for a buyer who appreciates the assets. On some wish lists: Marriott International (MAR). For shareholders, the accommodations could be excellent.

E-mail comments to mail@barrons.com

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