

Hilton Worldwide (HLT)

\$80.92 (As of 07/15/20)

Price Target (6-12 Months): **\$85.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/08/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: D

Summary

Shares of Hilton have declined significantly so far this year. With travel resuming and economies reopening, Hilton has reopened all of its hotels in the Chinese Mainland. The company announced that it is witnessing gradual increase in its digital traffic and booking activity across China. Also, increased focus on unit expansion strategies, loyalty program and asset-light business model are added positives. However, the coronavirus pandemic is likely to materially impact the company's results in 2020. Owing to the crisis, the company has suspended dividend payments and share repurchase program. Moreover, the company's long term debt have increased substantially, making it difficult to tide over the ongoing crisis. Earning estimates for 2020 have decreased over the past 30 days.

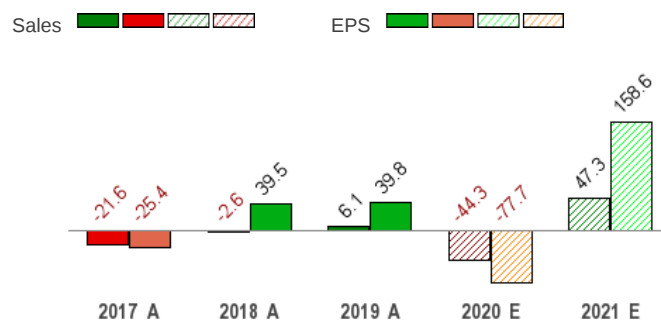
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$115.48 - \$44.30
20 Day Average Volume (sh)	3,435,039
Market Cap	\$22.4 B
YTD Price Change	-27.0%
Beta	1.28
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Hotels and Motels
Zacks Industry Rank	Bottom 13% (219 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	64.4%
Last Sales Surprise	9.4%
EPS F1 Est- 4 week change	-12.7%
Expected Report Date	08/06/2020
Earnings ESP	4.8%
P/E TTM	21.0
P/E F1	93.0
PEG F1	10.6
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,869 E	1,869 E	1,941 E	1,933 E	7,752 E
2020	1,920 A	594 E	1,109 E	1,639 E	5,263 E
2019	2,204 A	2,484 A	2,395 A	2,369 A	9,452 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.44 E	\$0.57 E	\$0.68 E	\$0.55 E	\$2.25 E
2020	\$0.74 A	-\$0.34 E	\$0.08 E	\$0.33 E	\$0.87 E
2019	\$0.80 A	\$1.06 A	\$1.05 A	\$1.00 A	\$3.90 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 07/15/2020. The reports text is as of 07/16/2020.

Overview

Founded in 1919 and headquartered in McLean, VA, Hilton Worldwide Holdings is a hospitality company that owns, leases, manages, develops, and franchises hotels and resorts. As of Mar 31, 2020, Hilton's development pipeline comprised more than 2,670 hotels, with more than 405,000 rooms throughout 120 countries and territories, including 35 countries and territories where it currently does not have any operational hotels. Moreover, 223,000 rooms in the development pipeline were located outside the United States and 213,000 rooms were under construction.

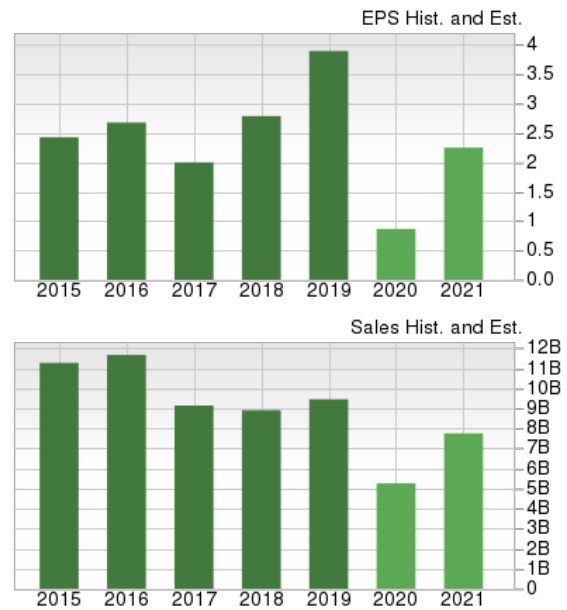
The company's operations are organized in two distinct operating segments: (i) management and franchise (accounting for 67.2% of total segmental revenues in 2019), and (ii) ownership (32.8%).

The management and franchise segment include all the hotels that the company manages for third-party owners, as well as all franchised hotels. As of Mar 31, 2020, this segment included 694 managed hotels and 5,348 franchised hotels, consisting of 948,433 total rooms.

Terms of management contract differ but the company's fee mostly consists of base management, depending on the hotel's monthly gross revenues.

Ownership segment includes hotels that are company-owned and entirely managed by the company. As of Mar 31, 2020, the company had 65 hotels and 20,562 rooms under the ownership segment.

Hilton boasts an award-winning guest loyalty program, known as Hilton Honors. As of Mar 31, 2020, the loyalty program had more than 106 million members (up 19% from 2019).



Reasons To Buy:

▲ **Robust Brand Image & Impressive Earnings Trend Drive Stock Performance:** Hilton is known for its scale, size, commercial platform and industry-leading brands. The company's premier brands provide distinguished customer-centric services to preserve the brand image. In a year's time, shares of the company have outpaced the industry. The appreciation in share price can be attributed to Hilton's better-than-expected earnings for seven straight quarters. Notably, its earnings surpassed the Zacks Consensus Estimate in the trailing four quarters, the average being 19.4%.

Aggressive expansion strategies, industry-leading loyalty program coupled with an asset-light business model, bode well for Hilton.

▲ **Expansion a Major Growth Driver:** In a bid to maintain its position as the fastest-growing global hospitality company, Hilton is continuing to drive unit growth. During 2019, Hilton opened nearly 470 new hotels. It achieved net unit growth of 58,300 rooms, marking an improvement of 6.6% from the prior-year quarter. During the year, Hilton expanded to six new countries and territories, and opened its 6,000th hotel. During the first quarter, the company opened nearly 9,000 rooms. Moreover, it has started the construction work of the largest deal-to-date development, with Resorts World for a 3500-room tri-branded hotel resort on the Las Vegas Strip. Additionally, majority of its previously halted construction projects in China have restarted.

As of Mar 31, 2020, Hilton's development pipeline comprised more than 2,670 hotels, with more than 405,000 rooms throughout 120 countries and territories, including 35 countries and territories where it currently does not have any running hotels. Moreover, 223,000 rooms in the development pipeline were located outside the United States and 213,000 rooms were under construction.

Hilton's broad geographic diversity lowers the effect of volatility in individual markets. More than half of the company's pipeline is located outside the United States. More than 30% of the pipeline is located in the Asia Pacific region, where demand has been high. Also, a growing middle-class population in China is creating demand for hospitality services. Further, Europe's RevPAR trends are being supported by favorable exchange rates as well as strength in regions including Spain, the U.K., Germany, Turkey and more. Notably, the company continues to make great progress in its luxury development strategy, anticipating double-digit luxury growth in the next several years. Markedly, its industry leading brands, powerful commercial engines and innovative technology platforms are likely to prove beneficial in the years to come.

▲ **Early Signs of Improvement in China:** With travel resuming and economies reopening, all hotels in China have reopened. Notably, occupancies reaching more than 50% during the May Day holiday, were significantly up from 9% in early February. Due to this, the company is witnessing double-digit increases in digital traffic and booking activity across all segments.

▲ **Capital-Light Business Model:** Hilton has transformed into a capital-light operating business backed by the spin-offs of a portfolio of hotels and resorts as well as its timeshare business. Post-spinoff, the company expects to be a resilient, fee-driven business with disciplined strategies. In fact, the focus is expected to be on growing market share, units, free cash flow per share as well as preserving the company's strong balance sheet and accelerating return of capital. Furthermore, as Hilton's unit growth is mostly financed by third parties, the company is capable of generating substantial returns on minimal capital investment.

▲ **Strong Loyalty Program:** Hilton has created one of the largest loyalty programs, Hilton Honors. With more than 106 million members, this network created an extremely valuable asset for the company. In the meantime, innovations such as the Hilton Honors app continue to drive growth in the program. In addition to being the company's fastest growing and lowest cost distribution channel, this app, launched in December 2017, also enables a differentiated customer experience.

Reasons To Sell:

- ▼ **Coronavirus Outbreak:** The coronavirus pandemic has had a material adverse impact on the company's results for the three months ended Mar 31, 2020. Notably, the travel restrictions and stay-at-home directives have resulted in a complete and partial suspensions of hotel operations in many locations. As of May 4, 2020, the company suspended hotel operations at approximately 950 hotels (or approximately 16% of its global hotel properties).

The company has temporarily suspended its dividend payments and share repurchase programs. Also, it has implemented cost-saving measures, such as temporarily halting marketing programs, eliminating non-essential expenses, including capital expenditures, and reducing payroll and related costs through furloughs and salary reductions.

Challenging economic conditions in some key operating regions, the outbreak of coronavirus and stiff competition remain concerns for Hilton

- ▼ **Dismal RevPar:** During the first quarter, the company experienced significant declines in RevPAR in all regions. RevPAR was down across all regions with the weakest results in Asia Pacific. In March, RevPAR dropped 57% as the virus spread across Europe and the United States. With travel at a virtual standstill, the company expects system-wide RevPAR to decline roughly 90% in April.

- ▼ **High Debt:** A strong balance sheet will help a company tide over the ongoing crisis. At the end of Mar 31, 2020, the company's long-term debt stood at \$9.3 billion, compared with \$7.7 billion at December-end. As a result, the company's debt-to-capitalization has risen to 109.5, compared with the industry's 94.4. Moreover, the company ended first-quarter 2020 with cash and cash equivalent of \$1.8 billion, which may not be enough to manage the high debt level.

- ▼ **Cutthroat Competition:** The hotel industry is highly competitive, as major hospitality chains with well-established and recognized brands are continuously expanding their global presence. Hilton 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 Hilton counters these competitions with appropriate strategies, it may pose a concern to the company's future profitability.

- ▼ **Stretched Valuation:** As Hilton has outperformed the industry in the past year, the stock's valuation looks quite stretched. It has a trailing 12-month EV/EBITDA ratio of 14.33. On the contrary, the trailing 12-month EV/EBITDA ratio for the industry and S&P 500 is 13.29 and 11.88, respectively.

- ▼ **Cyclical Nature of the Industry & Other Macro Woes Pose Concerns:** The hospitality industry is cyclical and a worsening of global economic conditions might in turn dent Hilton's revenues and profits. Consumer demand for services is closely linked to the performance of the general economy and is sensitive to business and personal discretionary spending levels. The decline in consumer demand due to adverse general economic conditions, poor travel patterns, lower consumer confidence and high unemployment can lower the revenues and profitability of Hilton owned properties. These factors can also reduce the company's management and franchise fee revenues.
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Last Earnings Report

Hilton Q1 Earnings and Revenues Surpass Estimates

Hilton Worldwide reported first-quarter 2020 results, wherein both earnings and revenues surpassed the Zacks Consensus Estimate. While the bottom-line beat estimates for the seventh straight quarter, the top line beat the consensus mark for the fourth successive quarter.

The company announced that its first-quarter results were materially impacted by the coronavirus pandemic. Hilton business is likely to reflect negative impact of the coronavirus pandemic in the second quarter.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	9.38%
EPS Surprise	64.44%
Quarterly EPS	0.74
Annual EPS (TTM)	3.85

Q1 in Detail

Hilton's adjusted earnings of 74 cents per share surpassed the Zacks Consensus Estimate of 45 cents but declined 7.5% on a year-over-year basis.

Revenues totaled \$1,920 million, which beat the consensus mark of \$1,755 million. However, the reported figure declined 12.9% from the year-ago quarter. Both top and bottom lines were negatively impacted by the coronavirus outbreak.

Notably, Hilton opened 67 new hotels in first-quarter 2020. It also achieved net unit growth of roughly 6,100 rooms.

As of Mar 31, 2020, Hilton's development pipeline comprised more than 2,670 hotels, with roughly 405,000 rooms across 120 countries and territories — including 35 countries and territories, where it currently does not have any running hotels. Moreover, 223,000 rooms in the development pipeline were located outside the United States and 213,000 were under construction.

RevPAR and Adjusted EBITDA

In the quarter under review, system-wide comparable revenue per available room (RevPAR) slipped 22.6% on a currency-neutral basis due to a decline in occupancy, and management and franchise fee revenues. The downtrend can be attributed to decrease in travel and tourism and suspension of hotel operations due to the pandemic.

During the quarter, management and franchise fee revenues were down 18%. Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) were \$363 million compared with \$499 million in the prior-year quarter.

Cash, Debt and Share Repurchase

As of Mar 31, 2020, cash and cash equivalent balance amounted to \$1,805 million. As a precautionary measure in response to the coronavirus-induced crisis, the company borrowed the remaining amount available under its \$1.75 billion senior secured credit facility in the first quarter. In April, the company strengthened its cash position by pre-sale of Hilton Honors points for \$1.0 billion and the issuance of \$1.0 billion aggregate principal amount of senior notes.

The company had \$9.6 billion of long-term debt outstanding, excluding deferred financing costs and discount, with a weighted average interest rate of 3.92%.

In the first quarter, the company repurchased 2.6 million shares of its common stock for roughly \$279 million. Average price per share was \$107.26. The company had repurchased 56.6 million shares for nearly \$4.4 billion since March 2017.

In March 2020, Hilton paid out a quarterly cash dividend of 15 cents per share on its common stock for \$42 million. The company has suspended its share repurchase program and dividend due to the coronavirus pandemic.

Recent News

Hilton Lays Off Employees Due to Coronavirus Crisis – Jun 16, 2020

Given that the coronavirus pandemic continues to crush the global travel industry, Hilton is focusing on cost-saving measures to stay afloat. Per the reports, the company is laying off approximately 2,100 employees (or 22% of its total workforce) from its corporate payroll. This along with corporate pay cuts, shortened working hours and unpaid furloughs is likely to save ample amount of cash for the company.

Hilton Reopens Hotels in Mainland China, Demand Improves – May 17, 2020

Hilton recently reopened all of its hotels in the Chinese Mainland. The company announced that Hilton CleanStay initiative will ensure the safety and well-being of its guests and employees. The CleanStay program is expected to be launched in June 2020.

Hilton RevPAR to Decline Sharply in Q1 on Coronavirus Woes – Apr 16, 2020

Hilton reported preliminary first-quarter 2020 numbers. The company's occupancy and RevPAR have impacted significantly by the coronavirus pandemic. In the past three months, the company's shares have fallen 38.4%, compared with the industry's decline of 41.6%. In first-quarter 2020, the company anticipates system-wide RevPAR to decline in the range of 22% to 24% owing to the coronavirus crisis.

Hilton's Announces Strategic Measures – Mar 26, 2020

Given that the Hotels and Motels industry is currently grappling with the coronavirus (COVID-19) outbreak, Hilton has come up with strategic measures to protect its business from this crisis situation.

The company decided to suspend its dividend and stock buyback programs. The decision is in line with its motive to preserve cash and maintain ample liquidity to avoid a possible recession due to the coronavirus outbreak.

Moreover, in an effort to reduce costs, Hilton president and CEO Christopher J. Nassetta decided to forgo his salary for the remaining 2020 while the company's executive committee is ready to accept a 50% pay cut. The company also decided to furlough part of its corporate workforce. However, members who are not laid off can expect a pay cut of up to 20% during the crunch.

Valuation

Hilton's shares are down 27.1% year-to-date and 17.3% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down by 35.5% and 9.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry was down by 29.3%, and sector was down by 5.9%.

The S&P 500 index is down 0.5% in the year-to-date period, but up 7.8% in the past year.

The stock is currently trading at 46.05X forward 12-month earnings, which compares to 42.96X for the Zacks sub-industry, 34.21X for the Zacks sector and 22.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 54.84x and as low as 13.27x, with a 5-year median of 25.68x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$85 price target reflects 48.57x forward 12-month earnings.

The table below shows summary valuation data for HLT.

Valuation Multiples - HLT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	46.05	42.96	34.21	22.72
	5-Year High	54.84	45.87	34.21	22.72
	5-Year Low	13.27	15.55	16.21	15.25
	5-Year Median	25.68	20.45	19.92	17.52
P/S F12M	Current	3.27	1.99	2.26	3.55
	5-Year High	3.78	2.25	3.2	3.55
	5-Year Low	1.37	1.13	1.67	2.53
	5-Year Median	2.34	1.65	2.49	3.02
EV/EBITDA TTM	Current	14.33	13.29	10.29	11.88
	5-Year High	39.51	23.09	17.63	12.86
	5-Year Low	8.94	9.3	8.26	8.25
	5-Year Median	16.99	14.49	12.22	10.87

As of 07/15/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (219 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Choice Hotels International, Inc. (CHH)	Neutral	3
Hyatt Hotels Corporation (H)	Neutral	3
Hilton Grand Vacations Inc. (HGV)	Neutral	4
ORIENTAL LAND (OLCLY)	Neutral	3
Extended Stay America, Inc. (STAY)	Neutral	3
Marriot Vacations Worldwide Corporation (VAC)	Neutral	3
WYNDHAM DESTINATIONS, INC. (WYND)	Neutral	3
Marriott International, Inc. (MAR)	Underperform	5

Industry Comparison Industry: Hotels And Motels				Industry Peers		
	HLT	X Industry	S&P 500	CHH	H	MAR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	5
VGM Score	D	-	-	F	F	D
Market Cap	22.44 B	3.33 B	22.66 B	4.80 B	5.46 B	30.49 B
# of Analysts	7	6	14	5	8	9
Dividend Yield	0.00%	0.68%	1.83%	1.04%	1.48%	2.04%
Value Score	C	-	-	D	C	D
Cash/Price	0.09	0.15	0.07	0.07	0.25	0.06
EV/EBITDA	15.15	14.09	12.99	15.67	4.11	16.75
PEG Ratio	10.46	9.78	2.97	NA	NA	29.95
Price/Book (P/B)	NA	1.69	3.12	NA	1.47	NA
Price/Cash Flow (P/CF)	15.02	10.49	12.14	16.69	8.59	12.73
P/E (F1)	91.74	57.41	22.04	35.82	NA	181.21
Price/Sales (P/S)	2.45	1.43	2.38	4.30	1.15	1.48
Earnings Yield	1.08%	0.75%	4.32%	2.79%	-5.66%	0.55%
Debt/Equity	-11.53	0.32	0.76	-28.03	0.54	-570.75
Cash Flow (\$/share)	5.39	3.11	6.94	5.19	6.29	7.39
Growth Score	D	-	-	D	F	C
Hist. EPS Growth (3-5 yrs)	11.69%	15.95%	10.85%	19.25%	15.95%	18.59%
Proj. EPS Growth (F1/F0)	-77.77%	-83.11%	-9.64%	-44.03%	-249.21%	-91.35%
Curr. Cash Flow Growth	24.59%	6.82%	5.51%	7.52%	5.97%	-2.82%
Hist. Cash Flow Growth (3-5 yrs)	2.71%	4.04%	8.55%	17.19%	2.61%	21.40%
Current Ratio	1.42	1.45	1.30	2.08	1.48	0.62
Debt/Capital	NA%	57.92%	44.46%	NA	34.90%	93.91%
Net Margin	8.08%	7.87%	10.59%	22.27%	12.57%	4.50%
Return on Equity	-276.10%	-1.01%	15.75%	-385.30%	3.58%	231.22%
Sales/Assets	0.60	0.49	0.54	0.79	0.58	0.82
Proj. Sales Growth (F1/F0)	-44.32%	-33.86%	-2.52%	-29.90%	-49.01%	-41.72%
Momentum Score	D	-	-	C	F	D
Daily Price Chg	10.08%	5.51%	1.91%	6.41%	9.72%	7.93%
1 Week Price Chg	0.97%	-0.14%	-0.41%	-0.81%	-3.35%	0.81%
4 Week Price Chg	5.89%	3.28%	1.88%	4.25%	-1.48%	3.18%
12 Week Price Chg	14.31%	16.55%	16.37%	26.40%	0.09%	17.51%
52 Week Price Chg	-17.23%	-30.20%	-4.22%	-2.38%	-31.82%	-33.43%
20 Day Average Volume	3,435,039	368,903	2,266,132	263,497	867,554	4,584,905
(F1) EPS Est 1 week change	-12.66%	0.00%	0.00%	1.72%	-1.96%	-23.40%
(F1) EPS Est 4 week change	-12.66%	0.00%	0.00%	1.72%	-1.96%	-40.78%
(F1) EPS Est 12 week change	-69.42%	-59.51%	-5.76%	-27.57%	-675.46%	-83.40%
(Q1) EPS Est Mthly Chg	15.39%	0.00%	0.00%	-0.28%	-3.63%	-30.41%

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	C
Growth Score	D
Momentum Score	D
VGM Score	D

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.

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