

Hilton Worldwide (HLT)

\$73.20 (As of 03/26/20)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: F

Summary

Shares of Hilton have outperformed the industry in a year's time. Of late, the company's shares have declined sharply due to coronavirus scare. In view of the outbreak of coronavirus, the company expects a 100-150 bps drag on system-wide RevPAR growth and \$10-\$20 million impact on adjusted EBITDA in first-quarter 2020. This projection is based on the preliminary view of the potential impact from the coronavirus in the first quarter. However, continued unit expansion strategy and Hilton's sturdy business model bode well. We believe that expansion strategies, its industry-leading loyalty program, along with the asset-light business model bode well. In 2019, Hilton expanded to six new countries and territories, and opened its 6,000th hotel. However, intense competition and cyclical nature of the industry are concerning.

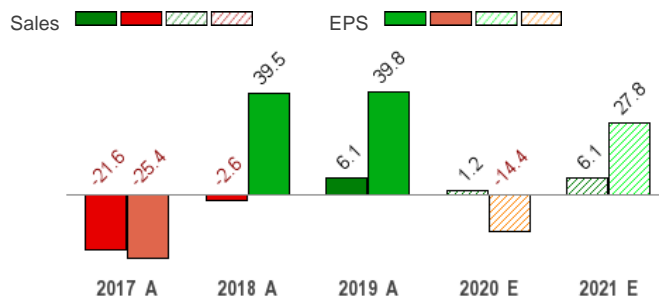
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$115.48 - \$44.30
20 Day Average Volume (sh)	9,044,226
Market Cap	\$20.3 B
YTD Price Change	-34.0%
Beta	1.13
Dividend / Div Yld	\$0.60 / 0.8%
Industry	Hotels and Motels
Zacks Industry Rank	Bottom 19% (205 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.3%
Last Sales Surprise	1.4%
EPS F1 Est- 4 week change	-12.9%
Expected Report Date	05/06/2020
Earnings ESP	-6.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,307 E	2,520 E	2,563 E	2,546 E	10,148 E
2020	2,189 E	2,376 E	2,460 E	2,451 E	9,567 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	\$0.82 E	\$1.13 E	\$1.15 E	\$1.09 E	\$4.27 E
2020	\$0.79 E	\$1.06 E	\$1.10 E	\$1.05 E	\$3.34 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.

P/E TTM	18.7
P/E F1	21.9
PEG F1	2.5
P/S TTM	2.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

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 Dec 31, 2019, Hilton's development pipeline comprised more than 2,570 hotels, with more than 387,000 rooms throughout 116 countries and territories, including 35 countries and territories where it currently does not have any running hotels. Moreover, 215,000 rooms in the development pipeline were located outside the United States and 193,000 rooms were under construction.

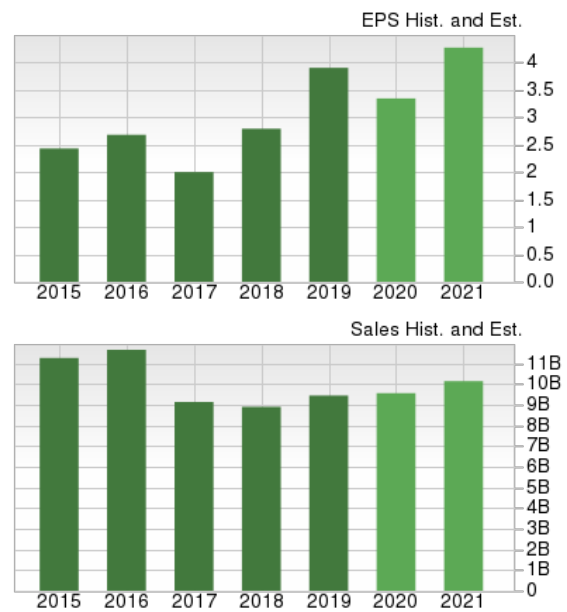
The company's operations are organized in two distinct operating segments: (i) management and franchise (accounting for 61.9% of total segmental revenues in 2019), and (ii) ownership (38.1%).

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 Dec 31, 2019, this segment included 703 managed hotels and 5,287 franchised hotels, consisting of 942,307 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 Dec 31, 2019, the company had 65 hotels and 20,557 rooms under the ownership segment.

Hilton boasts an award-winning guest loyalty program, known as Hilton Honors. As of Dec 31, 2019, the loyalty program had more than 103 million members (up 21% from 2018).



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 sixth straight quarters. Notably, its earnings surpassed the Zacks Consensus Estimate in the trailing four quarters, with the average being 4.6%. For 2020, the company expects adjusted earnings within \$4.08-\$4.21 per share, indicating 4.6-7.9% year-over-year growth.

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

▲ **Continual Expansion as 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.

As of Dec 31, 2019, Hilton's development pipeline comprised more than 2,570 hotels, with over 387,000 rooms throughout 116 countries and territories, including 35 countries and territories where it currently does not have any running hotels. Moreover, 215,000 rooms in the development pipeline were located outside the United States and 193,000 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.

▲ **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.

Backed by this asset-light model, shareholders are anticipated to receive high returns on invested capital. In 2019, the company repurchased 16.9 million shares of its common stock for roughly \$1.5 billion. Notably, average price per share was \$91.47. In February, the company announced an additional share repurchase program worth \$1.5 billion. Hilton aims to strengthen its shareholders' value through regular dividend payments and buybacks moving ahead. In December 2019, Hilton paid out a quarterly cash dividend of 15 cents per share on its common stock for \$42 million. This brings Hilton's 2019 total dividend to \$172 million. In February 2020, the company's board of directors authorized a regular quarterly dividend of 15 cents, payable on or before Mar 31 to its shareholders of record as of the close of business on Feb 28.

▲ **Strong Loyalty Program:** Hilton has created one of the largest loyalty programs, Hilton Honors. With more than 103 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. In the fourth quarter, Hilton Honors accounted for more than 64% of system-wide occupancy, which was up 150 basis points (bps) year over year.

Reasons To Sell:

- ▼ **Coronavirus Outbreak:** In view of the outbreak of coronavirus, the company expects a 100-150 bps drag on system-wide RevPAR growth and \$10-\$20 million impact on adjusted EBITDA in first-quarter 2020. This projection is based on the preliminary view of the potential impact from the coronavirus in the first quarter.

Assuming that the outbreak will last around three to six months with an additional three- to six-month recovery period, the company estimates a potential 100-bps impact on comp system-wide RevPAR growth in 2020. It expects half-a-point impact on net unit growth, which is anticipated to be largely within its guided range. The company expects a \$25-\$50 million impact on 2020 adjusted EBITDA. Currently, roughly 150 of the company's hotels in China, which had approximately 33,000 rooms, are closed.

- ▼ **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 a year, the stock's valuation looks quite stretched. It has a trailing 12-month EV/EBITDA ratio of 12.21. On the contrary, the trailing 12-month EV/EBITDA ratio for the industry and S&P 500 is 10.39 and 8.27, 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.

Meanwhile, in the United States, RevPAR growth is being pressurized by softer group performance and weakness in oil and gas markets, despite good leisure transient trends. Moreover, President Trump's stringent policies on immigration and tourist visas seem to have impelled international visitors to rethink their vacation plans in the United States. Hilton's considerable international presence also makes it vulnerable to the economic conditions in various regions. In the Middle East, political unrest, lower government spending and increased hotel supply continue to hurt tourism and is concerning.

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

Last Earnings Report

Hilton's Q4 Earnings & Revenues Top Estimates, Rise Y/Y

Hilton Worldwide Holdings Inc. reported fourth-quarter 2019 results, wherein both earnings and revenues outpaced the Zacks Consensus Estimate. While the bottom line beat estimates for the sixth straight quarter, the top line marked its third successive positive surprise.

Management is impressed with the company's earnings and adjusted EBITDA performance in the fourth quarter and 2019. Notably, these metrics surpassed the higher end of the company guided range, thanks to Hilton's sturdy business model and robust net unit improvement. The company, which introduced Tempo by Hilton in January 2020, is optimistic about sustaining its solid momentum in 2020.

Quarter Ending **12/2019**

Report Date	Feb 11, 2020
Sales Surprise	1.39%
EPS Surprise	5.26%
Quarterly EPS	1.00
Annual EPS (TTM)	3.91

Q4 in Detail

Hilton's adjusted earnings of \$1.00 per share surpassed the consensus mark of 95 cents and improved 6.4% on a year-over-year basis. Further, it came ahead of management's forecast range of 91-96 cents per share.

Revenues totaled \$2,369 million, which surpassed the consensus mark of \$2,337 million. Moreover, the reported figure improved 3.5% from the year-ago quarter. This could be attributable to continued unit expansion.

Notably, Hilton opened 143 hotels during the fourth quarter of 2019. It also achieved net unit growth of roughly 17,000 rooms.

As of Dec 31, 2019, Hilton's development pipeline comprised more than 2,570 hotels, with roughly 387,000 rooms across 116 countries and territories — including 35 countries and territories, where it currently does not have any running hotels. Moreover, 215,000 rooms in the development pipeline were located outside the United States and 193,000 were under construction.

RevPAR and Adjusted EBITDA

In the quarter under review, system-wide comparable revenue per available room (RevPAR) dipped 1% on a currency-neutral basis due to a decline in average daily rate (ADR). Management expected flat RevPAR in the quarter.

During the quarter, management and franchise fee revenues jumped 5%, courtesy of new properties and higher licensing and other fees. Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) were \$586 million compared with \$544 million in the prior-year quarter.

Cash, Debt and Share Repurchase

As of Dec 31, 2019, cash and cash equivalent balance amounted to \$630 million. The company had \$195 million outstanding under the \$1.75-billion revolving credit facility. In the fourth quarter, it repurchased 4.3 million shares of its common stock for roughly \$443 million. Average price per share was \$101.01. The company bought back 16.9 million shares for about \$1.5 billion in 2019. Hilton has shares worth nearly \$346 million remaining under its ongoing buyback program.

In December 2019, Hilton paid out a quarterly cash dividend of 15 cents per share on its common stock for \$42 million. In February 2020, management authorized a regular quarterly dividend of 15 cents, to be paid out on or before Mar 31 to its shareholders of record as of the close of the business on Feb 28.

Q1 Outlook

For first-quarter 2020, the company anticipates adjusted earnings between 85 cents and 91 cents per share. The Zacks Consensus Estimate for the same is pegged at 83 cents per share. Hilton projects system-wide RevPAR to be almost flat on a currency-neutral basis. Adjusted EBITDA is envisioned to be within \$520-\$540 million. Moreover, the company anticipates management and franchise fee revenues to improve 3-5% year over year.

2020 View

For 2020, Hilton projects adjusted earnings in the range of \$4.08-\$4.21 per share. The Zacks Consensus Estimate for the same is currently pegged at \$4.16. System-wide comparable RevPAR growth is anticipated to be flat to up 1% on a currency-neutral basis. Meanwhile, adjusted EBITDA is expected in the band of \$2,420-\$2,470 million.

Additionally, the company anticipates an increase of 5-7% in management and franchise fee revenues on a year-over-year basis. It also anticipates net unit growth in the band of 6-7%.

Recent News

Coronavirus Stress Propels Hilton to Withdraw 2020 Guidance - Mar 10, 2020

The devastating impact of the novel coronavirus outbreak (COVID-19) on the global economy has led Hilton Worldwide Holdings Inc. to withdraw its previously announced first-quarter and 2020 guidance.

However, the company remains confident about its prospects on the back of resilient business model, leading brand portfolio and the ability to respond appropriately to market conditions.

Valuation

Hilton's shares are down 34% year-to-date and 11.3% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down by 40.3% and 25.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 28.7% and 16.3%, respectively.

The S&P 500 index is down 18.4% in the year-to-date period and 7.5% in the past year.

The stock is currently trading at 19.46X forward 12-month earnings, which compares to 15.42X for the Zacks sub-industry, 16.8X for the Zacks sector and 15.91X for the S&P 500 index.

Over the past five years, the stock has traded as high as 42.43x and as low as 13.27x, with a 5-year median of 25.99x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$78 price target reflects 19.46x 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	19.46	15.42	16.8	15.91
	5-Year High	42.43	26.95	23.23	19.34
	5-Year Low	13.27	15.42	16.15	15.18
	5-Year Median	25.99	20.45	19.89	17.42
P/S F12M	Current	2.06	1.36	1.75	2.85
	5-Year High	3.33	2.25	3.19	3.43
	5-Year Low	1.37	1.13	1.75	2.54
	5-Year Median	2.33	1.65	2.53	3
EV/EBITDA TTM	Current	12.68	11.6	9.24	9.74
	5-Year High	39.51	23.07	17.6	12.88
	5-Year Low	8.94	9.87	8.94	8.27
	5-Year Median	16.99	14.47	12.27	10.78

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (205 out of 253)



Top Peers

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

Industry Comparison Industry: Hotels And Motels				Industry Peers		
	HLT Neutral	X Industry	S&P 500	CHH Neutral	H Neutral	MAR Neutral
VGM Score	D	-	-	D	F	D
Market Cap	20.31 B	2.57 B	18.50 B	3.79 B	5.19 B	26.85 B
# of Analysts	8	5.5	13	7	9	10
Dividend Yield	0.82%	1.32%	2.35%	1.32%	1.56%	2.32%
Value Score	D	-	-	D	C	C
Cash/Price	0.04	0.11	0.07	0.01	0.23	0.01
EV/EBITDA	13.99	12.00	11.16	12.71	4.05	15.64
PEG Ratio	2.40	2.73	1.74	5.87	18.18	2.68
Price/Book (P/B)	NA	1.47	2.44	NA	1.31	38.51
Price/Cash Flow (P/CF)	13.59	9.57	9.87	13.12	8.14	11.21
P/E (F1)	21.02	17.32	15.29	17.32	67.26	16.24
Price/Sales (P/S)	2.15	1.12	1.93	3.40	1.03	1.28
Earnings Yield	4.56%	5.53%	6.47%	5.77%	1.48%	6.16%
Debt/Equity	-19.05	0.58	0.70	-36.81	0.51	15.43
Cash Flow (\$/share)	5.39	3.11	7.01	5.19	6.29	7.39
Growth Score	B	-	-	B	F	C
Hist. EPS Growth (3-5 yrs)	10.73%	19.35%	10.85%	19.12%	20.42%	20.88%
Proj. EPS Growth (F1/F0)	-14.29%	-9.37%	2.89%	-9.00%	-62.87%	-15.00%
Curr. Cash Flow Growth	24.59%	6.05%	5.93%	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	0.73	1.10	1.23	0.73	1.57	0.47
Debt/Capital	NA%	56.24%	42.57%	NA	33.57%	93.91%
Net Margin	9.32%	9.32%	11.64%	19.99%	15.26%	6.07%
Return on Equity	-770.65%	5.81%	16.74%	-249.37%	5.81%	181.84%
Sales/Assets	0.63	0.52	0.54	0.87	0.61	0.84
Proj. Sales Growth (F1/F0)	1.22%	0.22%	2.37%	5.05%	-3.22%	-1.63%
Momentum Score	F	-	-	D	F	F
Daily Price Chg	1.31%	0.00%	6.21%	-1.16%	-1.29%	-2.86%
1 Week Price Chg	-21.66%	-22.10%	-16.96%	-22.20%	-15.13%	-22.00%
4 Week Price Chg	-23.62%	-28.52%	-15.70%	-27.69%	-33.36%	-30.78%
12 Week Price Chg	-34.32%	-35.94%	-23.67%	-34.76%	-42.59%	-45.34%
52 Week Price Chg	-12.03%	-30.29%	-13.99%	-12.36%	-28.53%	-33.26%
20 Day Average Volume	9,044,226	849,961	4,286,768	822,013	2,483,528	10,186,105
(F1) EPS Est 1 week change	-0.27%	-0.14%	-0.15%	-0.97%	-5.78%	-3.48%
(F1) EPS Est 4 week change	-12.88%	-14.59%	-2.28%	-8.78%	-44.17%	-21.78%
(F1) EPS Est 12 week change	-12.09%	-20.56%	-3.22%	-10.42%	-56.94%	-22.37%
(Q1) EPS Est Mthly Chg	-7.99%	-4.76%	-1.60%	-4.57%	-60.76%	-13.69%

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	D
Growth Score	B
Momentum Score	F
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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