Marriott International (MAR)

$147.40 (As of 02/04/20)

Price Target (6-12 Months): **$155.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 10/11/18) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: C | Growth: D | Momentum: F	**3-Hold** VGM:F

Summary

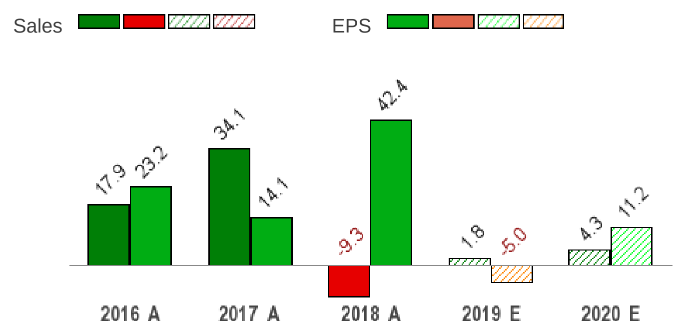
Shares of Marriott have outperformed the industry in the past year. The company is poised to benefit on the back of the Starwood acquisition, brand position and higher demand for travel along with significant international exposure. The company's strong expansion plans along with increased demand bodes well. However, the company is optimistic about its growth potential in the Asia Pacific market. The hotel company is also trying to expand footprint in Latin America, Middle East and Africa. However, oversupply of hotels and alternative concepts remain concerns. Moreover, the company's trimmed earnings and gross fee revenues guidance for 2019 are adding up to the woes. The same can be noted as earnings estimates for current year and 2020 have declined in the past 30 days.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$153.39 - $114.49**
20 Day Average Volume (sh)	**1,459,753**
Market Cap	**$48.2 B**
YTD Price Change	**-2.7%**
Beta	**1.31**
Dividend / Div Yld	**$1.92 / 1.3%**
Industry	**Hotels and Motels**
Zacks Industry Rank	**Bottom 15% (218 out of 255)**
Last EPS Surprise	**-1.3%**
Last Sales Surprise	**2.5%**
EPS F1 Est- 4 week change	**-0.2%**
Expected Report Date	**02/26/2020**
Earnings ESP	**0.0%**
P/E TTM	**25.1**
P/E F1	**22.5**
PEG F1	**3.0**
P/S TTM	**2.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	5,246 E	5,511 E	5,476 E	5,685 E	22,028 E
2019	5,012 A	5,305 A	5,284 A	5,515 E	21,123 E
2018	5,006 A	5,346 A	5,049 A	5,289 A	20,758 A

EPS Estimates

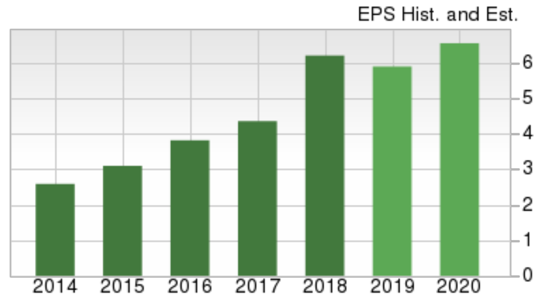
	Q1	Q2	Q3	Q4	Annual*
2020	$1.48 E	$1.76 E	$1.67 E	$1.65 E	$6.56 E
2019	$1.41 A	$1.56 A	$1.47 A	$1.46 A	$5.90 E
2018	$1.34 A	$1.73 A	$1.70 A	$1.44 A	$6.21 A

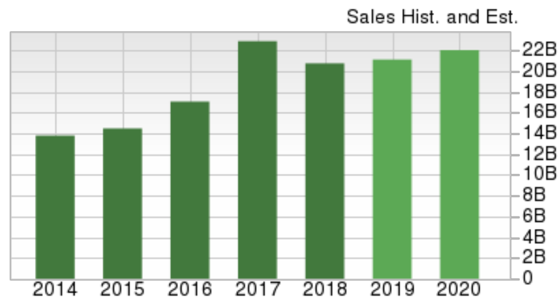
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/04/2020. The reports text is as of 02/05/2020.

Overview

Marriott International Inc. is a leading worldwide hospitality company focused on lodging management and franchising, after the spin-off of its timeshare business into a publicly traded company in Nov 2011. At the end of first-quarter 2019, the company operated, franchised and acted as a licensor of hotels and timeshare properties to more than 7,100 properties across 132 countries and territories, under 30 brand names.





The company has grouped its brand portfolio into three groups:

Luxury: The company's classic luxury hotel brands include JW Marriott, The Ritz-Carlton, and St. Regis. Meanwhile, Marriott's distinctive luxury hotel brands comprise W Hotels, The Luxury Collection, EDITION, and Bulgari.

Premium: The company's classic premium hotel brands include Marriott Hotels, Sheraton, Delta Hotels, Marriott Executive Apartments, and Marriott Vacation Club. Moreover, its distinctive premium hotel brands comprise Westin, Renaissance, Le Méridien, Autograph Collection, Gaylord Hotels, Tribute Portfolio and Design Hotels.

Select: The company's classic select hotel brand include Courtyard, Residence Inn, Fairfield by Marriott, SpringHill Suites, Four Points, TownePlace Suites, and Protea Hotels. Meanwhile, Marriott's distinctive select hotel brands comprise Aloft, AC Hotels by Marriott, Element, and Moxy.

On Sep 23, 2016, Marriott closed its previously announced acquisition of Starwood Hotels & Resorts Worldwide Inc., which led to the creation of the world's largest hotel company. Per the deal, Starwood's shareholders have received 0.8 shares of Marriott, along with $21.00 in cash for each Starwood share.

Reasons To Buy:

Marriott is poised to grow on the back of the Starwood acquisition, arresting brand position, an increased demand for travel and significant international exposure

▲ **Solid Brand Position to Drive Long-Term Growth:** Marriott is a leading company in the luxury and lifestyle space, which includes brands that own more than 7,000 properties in 132 countries and territories. Marriott's extensive portfolio and a strong brand position allow it to charge a premium room rate in the highly competitive lodging industry. Given its property locations, we believe that the company is well-poised to benefit from the increasing market demand on the back of stepped-up business as well as leisure traveling in major North American and international locations. RevPAR in North America rose 1.3% in the third quarter, following a gain of 0.7% in the last reported quarter. Given the steady rise in business and leisure travel, and higher transaction volume, Marriott is well-poised to grow in the near term as well as the long haul. With global travel estimated to increase at a 7% compounded rate over the next 10 years, international trips are anticipated to top 1.8 billion by 2030.

At its Investor's Day Conference in 2017, the company outlined its three-year growth plan. Marriott expects to earn $675 million in stabilized fees from hotel rooms, added to its system in 2017 through 2019. In addition, non-property related franchise fees, largely credit card branding fees, should increase by $100 million during the three years. The plan assumes RevPAR growth of 1- 3% compounded annually through 2019.

▲ **Strong Expansion Plans:** Marriott is consistently trying to expand its presence worldwide and capitalize on the demand for hotels in international markets. Moving ahead, the company plans to significantly expand its global portfolio of luxury and lifestyle brands. For 2019, Marriott anticipates 5-5.5% net room growth, which is likely to continue building economics, scale, and consumer preference for its brands. In April 2019, the company opened its 7000 property, the 27 storey St. Regis Hong Kong. At the end of third-quarter 2019, the company's development pipeline totaled nearly 2,950 hotels and more than 495,000 rooms. The hotel company is also trying to strengthen presence outside the United States, especially in Asia, Latin America, Middle East and Africa. Meanwhile, the company's European pipeline has grown consistently in the recent past and is expected to continue going forward. In fact, the company aims to expand its lead in the luxury and full-service segments in the region, have the largest portfolio in the upscale division and also win over millennials in the affordable lifestyle group by 2020. Marriot is very optimistic about growth opportunity in India.

Notably, the demand for hotels in these markets is greater than in the domestic space as the rising disposable income, primarily among the middle classes, is boosting tourism. Within Asia-Pacific, China promises immense growth potential, despite the economic slowdown. Meanwhile, as incomes rise, China's middle class is looking for higher quality products and elevated travel experiences. Notably, China is the largest source market for outbound travel now. In fact, Chinese outbound travel is set to boom further with 700 million expected trips over the next five years.

▲ **New Multi-Year Agreement With Expedia:** Marriott and Expedia Group have signed a fresh multi-year agreement for the listing of Marriot's hotel chains on the latter's website. Reportedly, the negotiation began November 2018. The deal will help travelers to make a booking at Marriott hotels worldwide via the Expedia site. This is an important deal for Marriott as online booking is becoming important in the lodging business and is a major growth driver. Markedly, this is the first deal between the two companies after Marriott acquired Starwood and became the world's largest hotel company in 2016.

▲ **Strategic Acquisitions to Boost Growth:** The company continues to rely on acquisitions in order to expand its footprint globally. In late 2016, it completed the acquisition of Starwood and became the world's largest hotel company. With the completion of this acquisition, Marriott's distribution has more than doubled in Asia and the Middle East & Africa combined. Also, Marriott's move to buy Starwood shows that the hospitality industry thrives on such blockbuster deals, which are critical to their success at a time when online booking is becoming important in the lodging business.

The company is also ramping up the expansion of its brands acquired via takeover. These brands include Sheraton, W and Aloft. To this end, management is working to increase accountability, quality assurance and capital investments of the Sheraton brand while enabling Marriott's systems and programs to drive the top line and reduce costs. Also, with the Protea Hospitality Group buyout in 2014, Marriott became the largest hotel company in Africa and has nearly doubled its presence in the Middle East and African region. This was followed by the acquisition of Delta Hotels and Resorts brand in 2015. These acquisitions strategies are expected to help the company carry on with its portfolio expansion globally. Interestingly, even with 30 brands under the portfolio, the company has not ruled out further M&A activities.

▲ **Embracing Social Media and Smartphones to Build Loyalty:** Digital innovations and social media are starting to play an increasingly important role in hotel bookings. Social media enhances the brand's prospects by connecting directly with guests, which in turn can lead to increased loyalty and market share. The Marriott mobile app for tablets and smartphones helps guests to manage their bookings, access interactive maps/GPS as well as reward programs. Moreover, Marriott recently re-imagined its Marriott Mobile app to meet the needs of the modern traveler. Guests will now be able to enjoy new and extended digital features, customized travel content, easier one-button navigation and a new swipe-able discovery home screen. In 2019, the company expects to earn $400-$410 million in credit card and residential branding fees.

Reasons To Sell:

Marriott's lower-than-expected top-line performance over the past three quarters have disappointed investors.

- **Trims 2019 View:** Marriot has trimmed 2019 guidance. The company now expects earnings of $5.87-$5.9 per share compared with the prior estimate of $5.97-$6.06. Moreover, gross fee revenues are anticipated to be between $3,809 million and $3,819 million, down from $3,820 million and $3,850 million projected earlier.

- **Valuation Looks Stretched:** Marriot valuation looks a bit stretched when compared with its own range as well as the industry average. Looking at the company's EV/EBITDA ratio, investors might not want to pay any further premium. It currently has a trailing 12-month EV/EBITDA ratio of 19.63, which is also quite overvalued right now compared with its peers as the industry's average stands at 14.38x.

- **Lingering Uncertainty in Various International Markets & RevPAR Growth:** Despite immense growth potential, a sluggish economy and oversupply in Brazil are weighing on the Latin American region. In the Middle East, sanctions on Qatar have reduced travel into and out of that country. Meanwhile, political unrest, lower government spending, new hotel supply and a tough oil market continue to hurt tourism in other Middle East markets and the company expects weak RevPAR trends in the region to continue in the coming quarters as well. Also, the slowdown in the Chinese economy is hurting discretionary spending as well as travel.

  Meanwhile, in the domestic market, the company is facing competition in New York due to a continuous increase in supply of hotels, which is limiting room rents, thereby hurting RevPAR in the region. On the whole, though leisure demand remains strong, cautious corporate, group and transient demand raise concern.

- **Fluctuation in Exchange Rates:** Marriott has significant international presence and is therefore highly vulnerable to fluctuations in exchange rates. Notably, the company has been witnessing fewer international guests at its U.S. hotels, given the stronger dollar. Moreover, the company is also bearing the brunt of Venezuelan currency devaluation. Going forward, such volatility in exchange rates would continue to hurt the results of the company as it has been doing over the past few quarters.

Last Earnings Report

Quarter Ending	09/2019
Report Date	**Nov 04, 2019**
Sales Surprise	**2.47%**
EPS Surprise	**-1.34%**
Quarterly EPS	**1.47**
Annual EPS (TTM)	**5.88**

Marriott International reported mixed third-quarter 2019 results, wherein earnings missed the Zacks Consensus Estimate but revenues beat the same. Notably, the top line surpassed the consensus estimate after lagging the same in the preceding six quarters.

Adjusted earnings of $1.47 per share lagged the Zacks Consensus Estimate of $1.49 and decreased 13.5% year over year. The company's earnings in the year-ago quarter included a gain of 26 cents from an asset sale.

Total revenues of $5,284 million surpassed the consensus mark of $5,157 million. The top line also increased 4.7% on a year-over-year basis.

During the third quarter, Marriott's development pipeline totaled roughly 2,950 hotels, with approximately 495,000 rooms. Also, nearly 214,000 pipeline rooms were under construction. It exited 11 properties at the end of the reported quarter.

RevPAR & Margins

In the quarter under review, revenue per available room (RevPAR) for worldwide comparable system-wide properties increased 1.5% in constant dollars (up 0.9% in actual dollars), driven by a 0.7% improvement in average daily rate (ADR) and 0.6% increase in occupancy.

Comparable system-wide RevPAR in North America grew 1.3% in constant dollars (up 1.3% in actual dollars) owing to a 1% gain in ADR and 0.3% increase in occupancy.

On a constant-dollar basis, international comparable system-wide RevPAR rose 1.9% (down 0.2% in actual dollars), owing to a 1.5% rise in occupancy. The metric was partially offset by a 0.2% decline in ADR.

Meanwhile, worldwide comparable company-operated house profit margins decreased 30 basis points (bps) as robust cost control and synergies from the Starwood acquisition were offset by marginal growth in RevPAR and increase in wages.

North American comparable company-operated house profit margins contracted 70 bps. On the flip side, house profit margins for international comparable company-operated house profit margins increased 10 bps.

Total expenses increased 5% year over year to $4,677 million, mainly due to a rise in owned, leased and other expenses.

Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) summed $901 million, flat with the year-ago figure.

Fourth-Quarter 2019 View

For fourth-quarter 2019, the company expects comparable system-wide RevPAR to increase in the range of flat to up 1% in North America (in constant currency). Marriott anticipates the same to rise 1% outside North America and approximately 1% worldwide.

Furthermore, gross fee revenues are projected between $960 million and $970 million, pointing to 5-7% improvement on a year-over-year basis. Operating income is anticipated between $715 million and $730 million.

General, administrative and other expenses are expected within $250-$255 million. Adjusted EBITDA is anticipated in the range of $898-$913 million, indicating 4-6% year-over-year improvement. Earnings per share are envisioned in the $1.44-$1.47 band. Notably, the Zacks Consensus Estimate for fourth-quarter earnings is pegged at $1.56 per share.

2019 Guidance

For 2019, Marriott anticipates earnings within $5.87-$5.9 per share compared with $5.97-$6.06 projected earlier. The Zacks Consensus Estimate for full-year earnings is pegged at $6.01 per share. Gross fee revenues are expected between $3,809 million and $3,819 million, suggesting 5% growth from the year-ago period.

Comparable system-wide RevPAR is expected to increase approximately 1% in North America, 2% outside North America and 1% worldwide. Marriot now expects room additions to be nearly 5-5.25% in 2019.

Operating income is envisioned within $2,890-$2,905 million compared with 2,910-$2,950 million estimated earlier. General, administrative and other expenses are anticipated in the range of $921-$926 million. Adjusted EBITDA is projected in the band of $3,572-$3,587 million, implying 3% growth from 2018.

Recent News

Marriott Completes Elegant Hotels Buyout, Expands Footprint - Dec 10,2019

Marriott International, has completed the acquisition of Elegant Hotels Group. The value of the deal was 100.8 million pounds ($130.1 million) or $199 million, including debt.

Elegant Hotels owns and operates seven properties, of which, six are located along the prestigious west coast of Barbados. Following the buyout, Marriott will now renovate Elegant Hotels' portfolio. Also, the company will likely operate these hotels as all-inclusive resorts under one or more of Marriott's collection brands.

Valuation

Marriott's shares have moved up 25.7% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 17.7% and 12.6%, respectively.

The S&P 500 index has moved up 18.1% in the past year.

The stock is currently trading at 19.63x trailing 12-month EV/EBITDA, which compares with 15.37x for the Zacks sub-industry, 12.4x for the Zacks sector and 11.95x for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.57x and as low as 13.07x, with a 5-year median of 18.48x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $155 price target reflects 2.29x forward 12-month Price to Sales value.

The table below shows summary valuation data for MAR.

Valuation Multiples - MAR

		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	19.63	15.37	12.4	11.95
	5-Year High	26.57	23.07	17.76	12.85
	5-Year Low	13.07	10.99	9.29	8.49
	5-Year Median	18.48	14.38	12.4	10.66
P/S F12M	Current	2.18	2.09	2.27	3.45
	5-Year High	2.34	2.25	3.19	3.45
	5-Year Low	0.94	1.13	1.81	2.54
	5-Year Median	1.74	1.65	2.54	3
P/B TTM	Current	57.51	15.5	3.47	4.44
	5-Year High	59.74	17.8	8.31	4.54
	5-Year Low	NA	3.18	3.13	2.85
	5-Year Median	7.91	8.37	4.32	3.62

As of 02/04/2020

Industry Analysis **Zacks Industry Rank:** Bottom 15% (218 out of 255)

Top Peers

Marriott Vacations Worldwide Corporation **(VAC)**	Outperform
Choice Hotels International, Inc. **(CHH)**	Neutral
Hyatt Hotels Corporation **(H)**	Neutral
Hilton Grand Vacations Inc. **(HGV)**	Neutral
Hilton Worldwide Holdings Inc. **(HLT)**	Neutral
Extended Stay America, Inc. **(STAY)**	Neutral
Wyndham Hotels & Resorts Inc. **(WH)**	Neutral
WYNDHAM DESTINATIONS, INC. **(WYND)**	Neutral

Industry Comparison Industry: Hotels And Motels

Industry Peers

	MAR Neutral	X Industry	S&P 500	H Neutral	HLT Neutral	VAC Outperform
VGM Score	F	-	-	D	C	A
Market Cap	48.19 B	4.49 B	24.31 B	9.04 B	31.30 B	5.35 B
# of Analysts	9	6	13	8	7	5
Dividend Yield	1.30%	0.87%	1.78%	0.86%	0.54%	1.70%
Value Score	C	-	-	C	D	C
Cash/Price	0.01	0.08	0.04	0.10	0.03	0.10
EV/EBITDA	19.98	14.68	13.98	7.27	21.61	37.56
PEG Ratio	3.02	2.70	2.01	8.26	3.19	1.56
Price/Book (P/B)	57.51	2.27	3.29	2.42	NA	1.77
Price/Cash Flow (P/CF)	20.23	15.56	13.58	15.56	26.97	21.54
P/E (F1)	22.57	19.38	18.82	50.05	26.59	14.04
Price/Sales (P/S)	2.31	1.93	2.66	1.85	3.34	1.24
Earnings Yield	4.45%	4.45%	5.30%	2.00%	3.76%	7.12%
Debt/Equity	13.63	0.59	0.71	0.53	-44.08	1.27
Cash Flow ($/share)	7.28	3.35	6.92	5.66	4.11	5.91
Growth Score	D	-	-	D	A	A
Hist. EPS Growth (3-5 yrs)	21.63%	19.21%	10.80%	20.90%	9.23%	19.81%
Proj. EPS Growth (F1/F0)	11.12%	8.30%	7.40%	-1.46%	8.30%	13.62%
Curr. Cash Flow Growth	28.49%	11.49%	10.22%	-3.21%	19.49%	45.31%
Hist. Cash Flow Growth (3-5 yrs)	26.97%	4.17%	8.55%	2.12%	1.78%	19.70%
Current Ratio	0.51	1.13	1.21	1.41	0.78	3.40
Debt/Capital	93.16%	54.39%	42.91%	34.79%	NA	56.04%
Net Margin	6.28%	6.51%	11.79%	10.01%	9.92%	2.50%
Return on Equity	134.91%	7.99%	17.24%	6.47%	972.97%	9.51%
Sales/Assets	0.85	0.48	0.55	0.61	0.63	0.48
Proj. Sales Growth (F1/F0)	4.28%	4.57%	4.10%	1.80%	5.71%	4.83%
Momentum Score	F	-	-	F	D	C
Daily Price Chg	4.18%	1.16%	1.49%	2.42%	2.87%	3.63%
1 Week Price Chg	-0.68%	-1.66%	-2.60%	0.40%	-0.64%	-1.66%
4 Week Price Chg	1.70%	-2.71%	0.51%	1.72%	2.45%	0.02%
12 Week Price Chg	11.22%	1.65%	4.44%	15.59%	13.10%	8.48%
52 Week Price Chg	26.08%	9.00%	14.65%	24.95%	48.67%	38.43%
20 Day Average Volume	1,459,753	210,978	1,935,862	615,576	2,039,865	214,924
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.20%	0.00%	0.00%	-0.70%	0.00%	0.00%
(F1) EPS Est 12 week change	-0.79%	-0.45%	-0.10%	-3.30%	-0.42%	1.28%
(Q1) EPS Est Mthly Chg	-0.48%	0.00%	0.00%	10.63%	-0.48%	0.00%

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	F
VGM Score	F

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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