

## Marriott International (MAR)

**\$109.98** (As of 03/10/20)

Price Target (6-12 Months): **\$116.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/11/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: F

### Summary

Shares of Marriott have underperformed the industry in the past year. The company reported fourth-quarter 2019 results, with earnings surpassing the Zacks Consensus Estimate and revenues missing the same. The company's strong expansion plans along with increased demand bodes well. 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, outbreak of coronavirus in China is likely to hurt the company's performance. The company's 2020 guidance does not include any impact of the coronavirus outbreak. The company stated that the outbreak is impacting its operations in China and other parts of Asia Pacific. Of late, earnings estimate for 2020 have declined sharply.

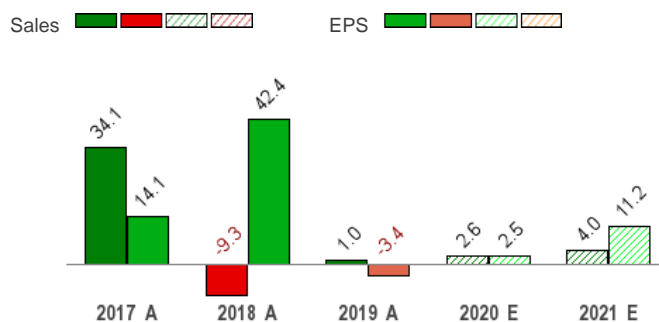
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$153.39 - \$100.94
20 Day Average Volume (sh)	4,337,187
Market Cap	\$35.7 B
YTD Price Change	-27.4%
Beta	1.29
Dividend / Div Yld	\$1.92 / 1.7%
Industry	<a href="#">Hotels and Motels</a>
Zacks Industry Rank	Bottom 20% (203 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.5%
Last Sales Surprise	-2.6%
EPS F1 Est- 4 week change	-6.3%
Expected Report Date	05/08/2020
Earnings ESP	0.0%
P/E TTM	18.3
P/E F1	17.9
PEG F1	2.4
P/S TTM	1.7

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,286 E	5,583 E	5,596 E	5,793 E	22,394 E
2020	5,017 E	5,335 E	5,429 E	5,594 E	21,525 E
2019	5,012 A	5,305 A	5,284 A	5,371 A	20,972 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.46 E	\$1.79 E	\$1.78 E	\$1.77 E	\$6.84 E
2020	\$1.35 E	\$1.58 E	\$1.58 E	\$1.63 E	\$6.15 E
2019	\$1.41 A	\$1.56 A	\$1.47 A	\$1.57 A	\$6.00 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 03/10/2020. The reports text is as of 03/11/2020.

## Overview

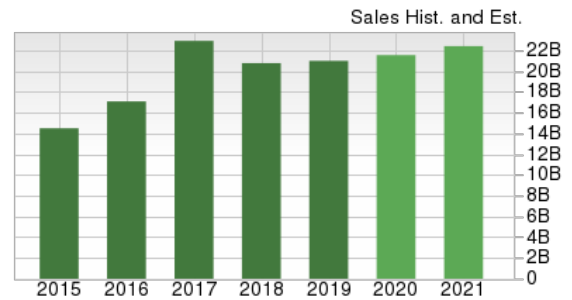
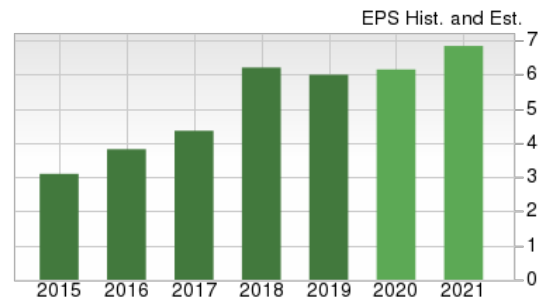
Marriott International Inc. is a leading worldwide hospitality company focused on lodging management and franchising, after the spin-off of its timeshare business into a publicly traded company in Nov 2011. At the end of fourth-quarter 2019, the company operated, franchised and acted as a licensor of hotels as well as timeshare properties to more than 7,300 properties across 134 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.



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## Reasons To Buy:

- ▲ **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 7,300 properties in 134 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 nearly 1% in the fourth quarter, following a gain of 1.3% 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.
- Marriott is poised to grow on the back of the Starwood acquisition, arresting brand position, an increased demand for travel and significant international exposure.
- ▲ **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 2020, Marriott anticipates 5-5.25% net room growth, which is likely to continue building economics, scale, and consumer preference for its brands. In April 2019, the company opened its 7000th property — the 27 storey St. Regis Hong Kong. At the end of 2019, the company's development pipeline totaled nearly 3,050 hotels and more than 515,000 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. Marriott 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.
- ▲ **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.
- On Dec 9, 2019, the company completed the acquisition of Elegant Hotels Group plc for \$128 million in cash and assumed Elegant's net debt outstanding of \$63 million, which we subsequently repaid in January 2020. As a result of this transaction, the company added seven hotels and a beachfront restaurant on the island of Barbados to its Caribbean and Latin America-owned and leased portfolio. It also acquired the W New York - Union Square — a North American Full-Service property — for \$206 million.
- ▲ **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 earned \$410 million in credit card fees.
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## Reasons To Sell:

▼ **Coronavirus Likely to Hurt 2020 Results:** The Hotel and Motels industry is currently grappling with the coronavirus outbreak in China and Marriott isn't immune to the trend. The company's 2020 guidance does not include any impact of the coronavirus outbreak. The company stated that the outbreak is impacting its operations in China and other parts of Asia Pacific segment by necessitating the closure of numerous hotels in mainland China and reducing demand in Greater China and certain other Asia Pacific markets.

▼ **Valuation Looks Stretched:** Marriott 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 16.35, which is also quite overvalued right now compared with its peers as the industry's average stands at 13.72x.

▼ **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.

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

## Last Earnings Report

### Marriott Q4 Earnings Beat Estimates, Revenues Miss

Marriott International reported mixed fourth-quarter 2019 results, wherein earnings surpassed the Zacks Consensus Estimate but revenues missed the same.

Adjusted earnings of \$1.57 per share beat the Zacks Consensus Estimate of \$1.46 and improved 9% year over year. The company's earnings in the quarter included a gain of 32 cents from an asset sale, which was partially offset by 26 cents thanks to asset impairments.

Total revenues of \$5,371 million lagged the consensus mark of \$5,515 million. However, the top line also improved 1.6% on a year-over-year basis.

At the end of 2019, Marriott's development pipeline totaled roughly 3,050 hotels, with approximately 515,000 rooms. Further, nearly 220,000 pipeline rooms were under construction.

### RevPAR & Margins

In the quarter under review, revenue per available room (RevPAR) for worldwide comparable system-wide properties increased 1.1% in constant dollars (up 0.8% in actual dollars), driven by 0.8% increase in occupancy. However, average daily rate (ADR) declined 0.1%.

Comparable system-wide RevPAR in North America grew 0.9% in constant dollars (up 0.9% in actual dollars) owing to a 0.3% gain in ADR and 0.4% increase in occupancy.

On a constant-dollar basis, international comparable system-wide RevPAR rose 1.5% (down 1% in actual dollars), owing to a 1.3% rise in occupancy. The metric was partially offset by a 0.3% decline in ADR.

Meanwhile, worldwide comparable company-operated house profit margins increased 20 basis points (bps) on robust cost control and synergies from the Starwood acquisition, negated by marginal growth in RevPAR and increase in wages.

North American comparable company-operated house profit margins expanded 10 bps. Moreover, house profit margins for international comparable company-operated house profit margins increased 30 bps.

Total expenses were down 5% year over year to \$5,097 million, primarily due to a decline in Reimbursed expenses.

Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to \$901 million, up 4% with the year-ago figure.

### Coronavirus Impact

The coronavirus outbreak will hurt the company's first quarter and 2020 results. However, the company is unable to estimate any financial impact of the coronavirus outbreak at the moment as the duration and extent of the outbreak cannot be ascertained.

### First-quarter 2020 Base Case Outlook (Excluding the Coronavirus Impact)

For first-quarter 2020, the company expects comparable system-wide RevPAR to increase in the range of 1 to 2% (in constant currency) in North America and worldwide.

Furthermore, gross fee revenues are projected between \$940 million and \$950 million, indicating an improvement of 5-6% on a year-over-year basis. Operating income is anticipated between \$685 million and \$699 million.

General, administrative and other expenses are expected within \$230-\$234 million. Adjusted EBITDA is anticipated in the range of \$853-\$867 million, suggesting year-over-year growth of 4-6%. Earnings per share are envisioned between \$1.47 and \$1.50. Notably, the Zacks Consensus Estimate for first-quarter earnings is pegged at \$1.48 per share.

### 2020 Guidance Base Case Outlook (Excluding the Coronavirus Impact)

For 2020, Marriott anticipates earnings within \$6.30-\$6.53 per share, compared with \$6.00 reported in the 2019. The Zacks Consensus Estimate for full-year earnings is pegged at \$6.52 per share, which is above mid-point of the company's guidance of \$6.41 per share. Gross fee revenues are expected between \$3,960 million and \$4,040 million, suggesting growth of 4-6% from the year-ago period.

Comparable system-wide RevPAR is expected to be in the range of flat to up 2% worldwide, with RevPAR growth in North America around the middle of that range. Marriot now anticipates room additions to be nearly 5-5.25% in 2020.

Operating income is envisioned within \$2,995-\$3,095 million. General, administrative and other expenses are anticipated in the range of \$950-\$960 million. Adjusted EBITDA is projected in the band of \$3,700-\$3,800 million, indicating an improvement of 3-6% from the prior year.

Quarter Ending **12/2019**

Report Date	Feb 26, 2020
Sales Surprise	-2.62%
EPS Surprise	7.53%
Quarterly EPS	1.57
Annual EPS (TTM)	6.01

## Valuation

Marriott's shares are down 24.8% year-to-date and 8.9% in the trailing 12-month period. Stocks in the Zacks sub-industry is down by 24.8 and Zacks Consumer Discretionary sector is down by 17.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector were down by 8.5% and 8.1%, respectively.

The S&P 500 index is down 10.5% in the year-to-date period, but up 2.1% in the past year.

The stock is currently trading at 1.64X forward 12-month sales, which compares to 1.67X for the Zacks sub-industry, 1.9X for the Zacks sector and 3.05X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.34X and as low as 0.94X, with a 5-year median of 1.75X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$116 price target reflects 1.72X forward 12-month sales.

The table below shows summary valuation data for MAR.

Valuation Multiples - MAR					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.64	1.67	1.9	3.05
	5-Year High	2.34	2.25	3.19	3.44
	5-Year Low	0.94	1.13	1.81	2.54
	5-Year Median	1.75	1.65	2.53	3.01
P/B TTM	Current	51.15	20.44	2.67	3.88
	5-Year High	70.45	27.36	5.04	4.56
	5-Year Low	NA	3.18	2.55	2.85
	5-Year Median	8.13	8.38	4.25	3.63
EV/EBITDA TTM	Current	16.35	13.72	10.21	11.04
	5-Year High	26.57	23.07	17.38	12.87
	5-Year Low	10.99	10.99	10.21	8.49
	5-Year Median	14.56	10.56	12.29	10.79

As of 03/10/2020

## Industry Analysis Zacks Industry Rank: Bottom 20% (203 out of 253)



## Top Peers

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

Industry Comparison Industry: Hotels And Motels				Industry Peers		
	MAR Neutral	X Industry	S&P 500	H Neutral	HLT Neutral	VAC Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>F</b>	<b>D</b>	<b>A</b>
Market Cap	35.66 B	3.16 B	20.21 B	6.77 B	25.06 B	3.80 B
# of Analysts	10	5.5	13	9	8	6
Dividend Yield	1.75%	1.10%	2.18%	1.20%	0.66%	2.35%
<b>Value Score</b>	<b>C</b>	-	-	<b>C</b>	<b>D</b>	<b>B</b>
Cash/Price	0.01	0.08	0.05	0.16	0.03	0.18
EV/EBITDA	19.31	14.05	12.36	5.10	16.31	13.91
PEG Ratio	2.21	2.97	1.78	14.34	2.28	NA
Price/Book (P/B)	51.15	1.91	2.77	1.71	NA	1.27
Price/Cash Flow (P/CF)	14.89	12.67	11.04	10.63	16.77	7.60
P/E (F1)	16.53	18.91	16.09	53.06	21.80	9.67
Price/Sales (P/S)	1.70	1.42	2.17	1.35	2.65	0.86
Earnings Yield	5.59%	5.10%	6.20%	1.88%	4.58%	10.34%
Debt/Equity	15.43	0.58	0.70	0.51	-19.05	1.35
Cash Flow (\$/share)	7.39	3.11	7.01	6.29	5.39	12.08
<b>Growth Score</b>	<b>C</b>	-	-	<b>F</b>	<b>B</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	20.88%	19.35%	10.85%	20.42%	10.73%	19.57%
Proj. EPS Growth (F1/F0)	2.55%	2.01%	6.14%	-38.54%	6.25%	21.64%
Curr. Cash Flow Growth	-2.82%	6.05%	6.09%	5.97%	24.59%	82.73%
Hist. Cash Flow Growth (3-5 yrs)	21.40%	4.04%	8.52%	2.61%	2.71%	32.34%
Current Ratio	0.47	1.10	1.24	1.57	0.73	3.16
Debt/Capital	93.91%	56.24%	42.57%	33.57%	NA	57.42%
Net Margin	6.07%	7.60%	11.69%	15.26%	9.32%	3.13%
Return on Equity	181.84%	5.81%	16.74%	5.81%	-770.65%	10.90%
Sales/Assets	0.84	0.52	0.54	0.61	0.63	0.48
Proj. Sales Growth (F1/F0)	2.64%	2.41%	3.71%	-1.59%	3.88%	4.24%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>F</b>	<b>F</b>	<b>B</b>
Daily Price Chg	5.56%	2.94%	4.87%	4.88%	4.80%	6.43%
1 Week Price Chg	-10.76%	-5.47%	-0.67%	-9.63%	-6.94%	-1.96%
4 Week Price Chg	-25.28%	-19.40%	-15.65%	-24.44%	-20.03%	-25.03%
12 Week Price Chg	-26.14%	-20.68%	-13.60%	-21.66%	-16.99%	-27.49%
52 Week Price Chg	-8.87%	-10.92%	-2.27%	-7.29%	8.28%	-2.66%
20 Day Average Volume	4,337,187	499,803	2,778,843	1,197,426	4,352,384	499,803
(F1) EPS Est 1 week change	-0.45%	0.00%	0.00%	0.00%	-0.75%	0.00%
(F1) EPS Est 4 week change	-6.30%	-8.43%	-0.16%	-27.68%	0.29%	5.36%
(F1) EPS Est 12 week change	-6.53%	-8.82%	-0.57%	-28.91%	-0.01%	4.78%
(Q1) EPS Est Mthly Chg	-8.90%	-5.03%	-0.49%	-43.49%	2.14%	6.59%

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## 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	C
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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