Marriott International (MAR)

$80.94 (As of 06/26/20)

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

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/08/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:C
	Value: C | Growth: C | Momentum: C	

Summary

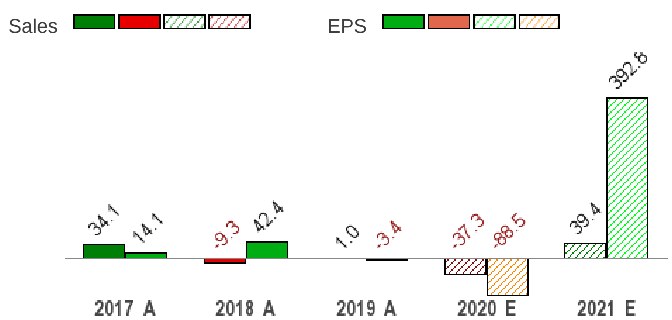
Shares of Marriott have underperformed the industry in the past year. With travel resuming and economies reopening, Marriot has reopened all of its hotels in the Chinese Mainland. The company also announced that it is witnessing steady recovery in the U.S. markets as well. Notably, occupancy rates have improved significantly. However, the coronavirus pandemic still remains a concern. Due to this, RevPAR have also declined significantly. Owing to the crisis, the company has not only suspended dividends and share repurchase program but has also withdrawn its 2020 guidance. Notably, estimates for 2020 have witnessed downward revisions in the past 30 days, depicting analysts concern regarding the stock's earnings growth potential.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$153.39 - $46.56
20 Day Average Volume (sh)	6,008,582
Market Cap	$26.2 B
YTD Price Change	-46.6%
Beta	1.60
Dividend / Div Yld	$1.92 / 2.4%
Industry	Hotels and Motels
Zacks Industry Rank	Bottom 26% (187 out of 253)
Last EPS Surprise	-69.1%
Last Sales Surprise	15.3%
EPS F1 Est- 4 week change	-30.0%
Expected Report Date	08/03/2020
Earnings ESP	0.0%
P/E TTM	16.7
P/E F1	117.3
PEG F1	15.7
P/S TTM	1.3

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	4,536 E	4,254 E	4,474 E	4,751 E	18,326 E
2020	4,681 A	1,602 E	2,918 E	4,285 E	13,142 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	$0.80 E	$0.94 E	$1.05 E	$1.01 E	$3.40 E
2020	$0.26 A	-$0.44 E	$0.21 E	$0.78 E	$0.69 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 06/26/2020. The reports text is as of 06/29/2020.

Overview

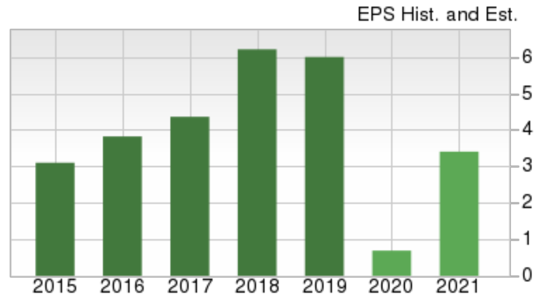
Marriott International Inc. is a leading worldwide hospitality company focused on lodging management and franchising, after the spin-off of its timeshare business into a publicly traded company in Nov 2011. At the end of fourth-quarter 2019, the company operated, franchised and acted as a licensor of hotels as well as timeshare properties to more than 7,300 properties across 134 countries and territories, under 30 brand names.

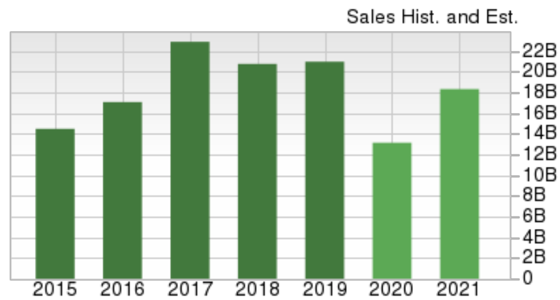
The company has grouped its brand portfolio into three groups:

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.





Marriott recently reopened all of its hotels in the Chinese Mainland, given a rebound in leisure and business travel industry in China.

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 7,400 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.

- **Strong Expansion Plans:** Marriott is consistently trying to expand presence worldwide and capitalize on the demand for hotels in international markets. Moving ahead, the company plans to significantly expand global portfolio of luxury and lifestyle brands. In April 2019, the company opened its 7000th property — the 27 storey St. Regis Hong Kong. At the end of first-quarter 2020, Marriott's development pipeline totaled roughly 3,050 hotels, with approximately 516,000 rooms. Further, nearly 230,000 rooms were under construction. 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.

- **Early Signs of Improvement in China:** As the economy is opening up, early signs of improvement can be noticed in Greater China. During the first-quarter 2020 conference call, the company announced that occupancy levels in Greater China are currently just over 30%, up from the lows of under 10% in mid-February. RevPAR is currently down 67%, compared with a decline of 85% in February.

- **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.

- **Sufficient Liquidity to Manage Current Scenario:** Of late, Marriot has bolstered its liquidity to manage the coronavirus pandemic. In April, 2020, the company issued $1.6 billion of five-year senior notes and also raised $920 million through amendments to its co-brand credit card deals. The company has increased its net liquidity to approximately $4.3 billion as of May 8. Although, Marriot's estimated cash burn is $155 million per month and also has near-term debt maturities, the company is confident of managing the current situation.

- **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.

Reasons To Sell:

The coronavirus pandemic, sluggish economy and high competition are likely to hurt company's performance.

- **Coronavirus Impact:** The Hotel and Motels industry is currently grappling with the coronavirus pandemic and Marriott isn't immune to the trend. During the first-quarter conference call, the company stated that nearly 25% of its hotel worldwide is temporarily closed. The company's 16% of hotels in North America are closed due to the ongoing crisis. Moreover, in view of the crisis, the company has discontinued all share repurchase activity and suspended dividend payments. The suspension of share repurchases and dividend payments will continue until further notice. Marriot has also withdrawn 2020 guidance.

- **RevPAR & Occupancy Rates Decline Sharply:** With COVID-19 outbreak intensifying globally in March, the company began to experience significant decline in demand, resulting in dismal performance of revenue per available room (RevPAR) and occupancy. In first-quarter 2020, RevPAR for worldwide comparable system-wide properties fell 22.5% in constant dollars (down 22.7% in actual dollars) on account of 14.5% and 1.5% decline in occupancy and average daily rate (ADR), respectively. In April, RevPAR declined 90% worldwide and in North America as well. Moreover, April system-wide occupancy was 12% both worldwide as well as in North America.

- **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 17.87x, which is also quite overvalued right now compared with its peers as the industry's average stands at 15.52x.

- **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

Marriott Q1 Earnings Miss, Revenues Beat Estimates

Quarter Ending	03/2020
Report Date	**May 11, 2020**
Sales Surprise	**15.32%**
EPS Surprise	**-69.05%**
Quarterly EPS	**0.26**
Annual EPS (TTM)	**4.86**

Marriott International reported mixed first-quarter 2020 results, wherein earnings missed the Zacks Consensus Estimate but revenues surpassed the same.

Adjusted earnings of 26 cents per share lagged the Zacks Consensus Estimate of 84 cents. The bottom line declined 81.6% from the prior-year quarter. The company's earnings in the quarter included impairment charges, bad debt expense, and guarantee reserves of $138 million after-tax (42 cents per share) owing to the coronavirus.

Total revenues of $4,681 million beat the consensus mark of $4,059 million. However, the top line declined 7% on a year-over-year basis. Base management and Franchise fee came in at $214 million and $415 million, down 24% and 8% year over year, respectively.

At the end of first-quarter 2020, Marriott's development pipeline totaled roughly 3,050 hotels, with approximately 516,000 rooms. Further, nearly 230,000 rooms were under construction.

RevPAR & Margins

In the quarter under review, revenue per available room (RevPAR) for worldwide comparable system-wide properties fell 22.5% in constant dollars (down 22.7% in actual dollars) on account of 14.5% and 1.5% decline in occupancy and average daily rate (ADR), respectively. These metrics were impacted by the coronavirus pandemic.

Comparable system-wide RevPAR in North America fell 19.5% in constant dollars (down 19.5% in actual dollars) owing to a 1.8% decline in ADR and 12.4% decrease in occupancy.

On a constant-dollar basis, international comparable system-wide RevPAR slumped 30.4% (down 31.3% in actual dollars), owing to a 19.6% and 0.9% decline in occupancy and ADR, respectively.

Total expenses were down 1% year over year to $4,567 million, primarily due to decline in Reimbursed expenses.

Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to $442 million, down 46% with the year-ago figure.

Coronavirus Impact

The coronavirus outbreak will hurt the company's results in 2020. 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.

Recent News

Marriott Reopens All Hotels in China – Jun 1, 2020

Given a rebound in travel business, Marriott recently reopened all of its hotels in China. The company also announced that it is witnessing steady recovery in the U.S. markets.

Marriott RevPAR to Decline Sharply in Q1 Due to Coronavirus – Apr 14, 2020

Marriott International, Inc. (MAR) recently provided an update on its business and initiatives that it is undertaking in response to the coronavirus pandemic. Despite dismal RevPAR and occupancy, the company announced a new $1.5-billion revolving credit facility as well as a leverage covenant waiver for its existing credit facility.

Valuation

Marriott's shares are down 46.6% year-to-date and 42.7% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down by 38.3% and 15.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry was down by 32.9%, and sector was down by 11.5%.

The S&P 500 index is down 6.6% in the year-to-date period, but up 2.1% in the past year.

The stock is currently trading at 1.67X forward 12-month sales, which compares to 1.91X for the Zacks sub-industry, 2.12X for the Zacks sector and 3.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.38X and as low as 0.94, with a 5-year median of 1.78X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $85 price target reflects 1.75X 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	1.67	1.91	2.12	3.37
	5-Year High	2.38	2.25	3.19	3.44
	5-Year Low	0.94	1.13	1.67	2.53
	5-Year Median	1.78	1.65	2.51	3.02
P/B TTM	Current	N/A	20.2	2.87	4.12
	5-Year High	70.45	26.03	5.02	4.56
	5-Year Low	N/A	3.18	2.2	2.83
	5-Year Median	8.5	8.42	4.21	3.69
EV/EBITDA TTM	Current	14.55	12.93	9.8	11.14
	5-Year High	26.57	23.07	17.62	12.86
	5-Year Low	11.11	9.3	8.29	8.25
	5-Year Median	17.95	14.49	12.23	10.85

As of 06/26/2020

Industry Analysis **Zacks Industry Rank:** Bottom 26% (187 out of 253)

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	3
Hilton Worldwide Holdings Inc. **(HLT)**	Neutral	3
Extended Stay America, Inc. **(STAY)**	Neutral	3
Marriott Vacations Worldwide Corporation **(VAC)**	Neutral	3
Wyndham HotelsResorts Inc. **(WH)**	Neutral	3
WYNDHAM DESTINATIONS, INC. **(WYND)**	Neutral	3

Industry Comparison Industry: Hotels And Motels

	MAR	X Industry	S&P 500	H	HLT	VAC
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	C	-	-	F	D	F
Market Cap	26.25 B	3.14 B	21.00 B	4.78 B	19.73 B	3.18 B
# of Analysts	9	6	14	8	7	4
Dividend Yield	2.37%	0.78%	2%	1.69%	0.00%	2.79%
Value Score	C	-	-	C	C	C
Cash/Price	0.06	0.17	0.07	0.24	0.09	0.29
EV/EBITDA	14.98	12.86	12.28	3.65	13.83	13.28
PEG Ratio	16.05	7.51	2.80	NA	7.51	NA
Price/Book (P/B)	NA	1.54	2.88	1.29	NA	1.15
Price/Cash Flow (P/CF)	10.96	9.13	11.08	7.52	13.21	6.41
P/E (F1)	120.09	56.81	20.57	NA	71.67	23.56
Price/Sales (P/S)	1.27	1.27	2.14	1.00	2.15	0.73
Earnings Yield	0.85%	0.82%	4.62%	-6.34%	1.39%	4.25%
Debt/Equity	-570.75	0.32	0.77	0.54	-11.53	1.70
Cash Flow ($/share)	7.39	3.11	7.01	6.29	5.39	12.08
Growth Score	C	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	18.59%	13.82%	10.84%	15.95%	11.69%	19.57%
Proj. EPS Growth (F1/F0)	-88.50%	-81.11%	-10.73%	-246.34%	-74.54%	-57.87%
Curr. Cash Flow Growth	-2.82%	6.82%	5.46%	5.97%	24.59%	82.73%
Hist. Cash Flow Growth (3-5 yrs)	21.40%	4.04%	8.55%	2.61%	2.71%	32.34%
Current Ratio	0.62	1.45	1.29	1.48	1.42	3.49
Debt/Capital	93.91%	57.92%	45.14%	34.90%	NA	62.92%
Net Margin	4.50%	7.93%	10.53%	12.57%	8.08%	0.18%
Return on Equity	231.22%	3.58%	16.06%	3.58%	-276.10%	11.55%
Sales/Assets	0.82	0.49	0.55	0.58	0.60	0.48
Proj. Sales Growth (F1/F0)	-37.34%	-28.48%	-2.70%	-45.75%	-42.59%	-27.06%
Momentum Score	C	-	-	C	D	F
Daily Price Chg	-3.69%	-1.86%	-1.90%	-3.80%	-1.86%	-3.64%
1 Week Price Chg	-2.80%	-0.49%	0.92%	-5.15%	-1.65%	-3.54%
4 Week Price Chg	-11.68%	-8.75%	-3.33%	-14.79%	-11.73%	-17.25%
12 Week Price Chg	28.48%	23.78%	19.31%	17.81%	22.99%	55.03%
52 Week Price Chg	-41.47%	-33.47%	-9.84%	-37.07%	-26.28%	-19.69%
20 Day Average Volume	6,008,582	479,585	2,782,477	1,242,720	3,831,761	479,585
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-30.02%	-0.96%	0.00%	-1.91%	-3.74%	-3.16%
(F1) EPS Est 12 week change	-87.43%	-67.18%	-12.23%	-494.16%	-72.96%	-59.34%
(Q1) EPS Est Mthly Chg	-7.93%	0.00%	0.00%	-1.69%	-15.00%	-12.36%

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	C
Momentum Score	C
VGM Score	C

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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