

Marriott Vacations (VAC)

\$86.91 (As of 07/06/20)

Price Target (6-12 Months): **\$91.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: C

Growth: F

Momentum: F

Summary

Shares of Marriott Vacations have outperformed the industry so far this year. The outperformance can be primarily attributed to increased focus on digital expansion and innovation efforts. Moreover, the company's shift to more efficient marketing channels bode well. The management stated that it has enough liquidity to tide over the pandemic havoc. However, massive setbacks in occupancy, rentals and contract sales on account of the pandemic have been hurting the company. Also, increase in the cost of vacation ownership products as well as high rental, financing and administrative costs raise concerns. Notably, earnings estimates for 2020 have declined in the past 30 days, indicating analysts' growing concerns over the stock's prospects.

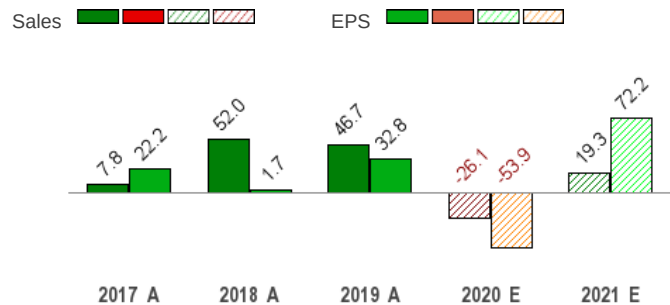
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$131.27 - \$30.10
20 Day Average Volume (sh)	414,478
Market Cap	\$3.6 B
YTD Price Change	-32.5%
Beta	2.44
Dividend / Div Yld	\$2.16 / 2.5%
Industry	Hotels and Motels
Zacks Industry Rank	Bottom 41% (147 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-20.5%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	-5.6%
Expected Report Date	07/29/2020
Earnings ESP	-7.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,081 E	994 E	1,047 E	1,122 E	3,838 E
2020	1,010 A	395 E	720 E	950 E	3,218 E
2019	1,060 A	1,068 A	1,139 A	1,145 A	4,355 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.90 E	\$1.94 E	\$1.88 E	\$2.18 E	\$6.20 E
2020	\$1.71 A	-\$1.12 E	\$0.53 E	\$1.58 E	\$3.60 E
2019	\$1.45 A	\$1.99 A	\$1.97 A	\$2.43 A	\$7.81 A

*Quarterly figures may not add up to annual.

P/E TTM	10.7
P/E F1	24.1
PEG F1	2.7
P/S TTM	0.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/06/2020. The reports text is as of 07/07/2020.

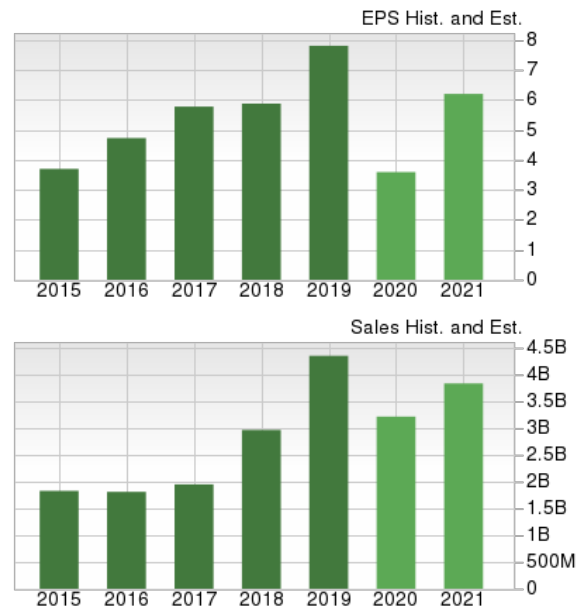
Overview

Marriott Vacations Worldwide Corporation, a leading global vacation company, offers vacation ownership, exchange, rental, resort and property management services. As of 2019-end, the company had more than 100 resorts, and 660,000 owners and members in a diverse portfolio of seven vacation ownership brands. It also has exchange networks and membership programs in more than 3,200 resorts in 80 countries.

Marriott Vacations' business is operated under two major segments — Vacation Ownership (accounting for 89% of total revenues in 2019) and Exchange & Third-Party Management (11%). The Vacation Ownership Exchange segment generates the major chunk of its revenues from four sources — selling vacation ownership products; managing vacation ownership resorts, clubs and owners' associations; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory.

The company's Exchange & Third-Party Management segment revenues are fee-based and are derived from membership, exchange and rental transactions, property and owners' association management, and other related products and services.

In 2018, Marriott Vacations announced the completion of its merger with ILG, Inc., a renowned provider of vacation experiences. Marriott Vacations closed the deal on paying roughly \$4.6 billion. On the completion of the acquisition, Marriott Vacation's board of directors included two members from ILG's board.



Reasons To Buy:

▲ **Strong Demand for Vacations:** On the first-quarter conference call, management informed that the company has 2.018 million owner nights booked from July to December of 2020 compared with 2.093 million in 2019. Despite the coronavirus pandemic, the bookings were down only nearly 4%. Of 2.018 million owners comprise 78% of the total compared with 77% of the total in 2019. Although, the booking could be cancelled due to the coronavirus, we believe, the future demand is high.

Strong revenue-building capacities, digital innovations and synergies from ILG acquisition encourage.

▲ **Cost Synergies From Acquisition:** Marriott Vacations completed the acquisition of ILG, Inc., a provider of professionally delivered vacation experiences in September 2018. Post the completion of the acquisition, Marriott Vacations' pipeline expanded to more than 100 resorts. The company expects to realize greater cost synergies from the ILG acquisition in 2020. In 2019, it realized \$49 million through the integration of ILG. In fact, management expects to realize merger cost synergies within \$25-30 million in 2020 and about \$125 million by the end of 2021. The company achieved roughly \$65 million of synergy run rate by the end of 2019. Notably, it expects to achieve at least \$95 million by the end of 2020.

▲ **Digital Innovation:** Hoteliers are adopting aggressive technological ways to sustain competition and meet the changing nature of consumer demand. Marriott Vacation has also been focusing on digital expansion and innovation of latest techniques. In the second quarter 2019, the company launched its digital marketing program with Marriott, which will allow users of Marriott.com to receive attractive offers and promotions. Following the shift to more efficient marketing channels, the company's tour package pipeline grew 13% year over year in fourth-quarter 2019. In the first, second and third quarters of 2019, the company's tour package pipeline grew 5%, 8% and 11%, respectively, year over year. Marriott Vacations is also venturing opportunities in other social media and digital advertising platforms. Management is excited to further integrate data analytics into the company's marketing strategy.

▲ **Enough Liquidity to Tide Over Coronavirus Pandemic:** Marriott Vacations has sufficient liquidity to temporarily survive in the current scenario of unpredictability. As of Mar 31, 2020, the company's cash and cash equivalents (including restricted cash) came in at \$1.02 billion compared with \$701 million at the end of Dec 31, 2019. Although the company's long-term debt at the end of first-quarter 2020 stood at \$4.7 billion, up from \$4.1 billion as of Dec 31, 2019, it has no corporate debt maturities until September 2022. The company has an impressive liquidity position to sustain it through at least 2021 if occupancies remain at current levels and sales centers are kept shut for an extended period of time. At the end of the first quarter, the company had debt-to-capital ratio of 0.6, which indicates that its debt load is manageable.

Reasons To Sell:

- ▼ **Coronavirus Impact:** Given the widespread and profound nature of the business, Marriott Vacations suffered massive downfalls in occupancy, rentals and contract sales due to the COVID-19 impact. Notably, the company withdrew its 2020 guidance. It also suspended its share repurchase programs and dividends payment for the foreseeable future. Nonetheless, the company initiated certain actions to offset the negative impact. This includes furloughs, reduced work hours and a 50% salary cut in the company's executive leadership team. It also drafted plans to curb investment in capital expenditures and inventory.
- ▼ **High Expenses:** Despite cost synergies from the ILG acquisition, the company has been bearing the brunt of steep expenses. In 2019, total expenses flared up 44.3% year over year due to an increase in the cost of vacation ownership products as well as high rental, financing and administrative costs. Escalated marketing and sales expenses along with management and exchange costs too affected total costs. Costs in the coming quarters are likely to shoot up due to the coronavirus impact. Management stated that monthly cash burn will be \$10 million from May through December even if sales and rentals are not resumed to the pre-pandemic levels this year.
- ▼ **Cyclical Nature of the Industry Poses Concern:** The hospitality industry is cyclical and a worsening of global economic conditions might in turn dent Marriott Vacations' 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. Declines 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 the company owned properties.
- ▼ **Cutthroat Competition:** The hotel industry is highly competitive as major hospitality chains, with well-established and recognized brands, are continuously expanding global presence. Marriott Vacations is continuously facing intense competition from 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. These allow travelers to book stays on websites that facilitate short-term rental homes and apartments from owners, thereby providing an alternative to hotel rooms, such as Airbnb and HomeAway.

Coronavirus outbreak and high expenses are concerns. Notably, the company withdrew its 2020 guidance due to the pandemic.

Last Earnings Report

Marriott Vacations Q1 Earnings Miss Estimates

Marriott Vacations reported first-quarter 2020 financial results wherein earnings missed the Zacks Consensus Estimate but revenues beat the same. The company reported adjusted earnings per share of \$1.71 per share, comparing unfavorably with the consensus estimate of \$2.15. Revenues dipped 2.3% year over year to \$1,010 million but surpassed the consensus estimate of \$996 million.

Quarter Ending 03/2020

Report Date	May 22, 2020
Sales Surprise	1.45%
EPS Surprise	-20.47%
Quarterly EPS	1.71
Annual EPS (TTM)	8.10

Segmental Performances

Vacation Ownership: Consolidated Vacation Ownership contract sales totaled \$908 million, up 0.3% year over year on a combined basis. On a combined basis, the segment's adjusted EBITDA decreased 15% year over year to \$147 million in the first quarter.

Exchange & Third-Party Management: The segment's revenues totaled \$107 million in the quarter, down from year-ago quarter's figure of \$124 million. Total Interval Network active members were 1.6 million at the end of the quarter and average revenue per member was \$41.3. The segment's adjusted EBITDA decreased 24% to \$41 million.

Corporate and Other results

The segment, which primarily consists of general and administrative costs, decreased \$10 million in first-quarter 2020 due to synergy savings and decline in compensation related expenses. This was marginally overshadowed by normal inflationary cost increases.

Expenses & EBITDA

Total expenses in the quarter came in at \$1,060 million, compared with \$943 million in the prior-year quarter. The company's adjusted EBITDA declined to \$138 million from \$166 million at the end of Mar 31, 2019.

Balance Sheet

Cash and cash equivalents, as of Mar 31, 2020, was \$651 million. Inventory was \$846 million. The company had \$4.7 billion in debt outstanding (net of unamortized debt issuance costs) at the end of the first quarter, up \$0.6 billion from year-end 2019.

Recent News

Marriott Vacations Reports Preliminary Q1 Results - May 6, 2020

Marriott Vacations Worldwide reported preliminary first-quarter 2020 financial results and provided business update in the light of the coronavirus pandemic.

The company expects adjusted earnings per share to improve 48% to \$2.15. Notably, the Zacks Consensus Estimate for the quarter is currently pegged at \$2.15. The company expects revenues to be \$1,010 million, down 2%.

Preliminary Segmental Results

Vacation Ownership: The company expects revenues excluding cost reimbursements to decrease 8% year over year owing to decline in consolidated vacation ownership contract sales and lower-than-expected rental revenues. Contract sales and rental revenues have been hurt by the coronavirus.

The segment's adjusted EBITDA is expected to decrease 15% to \$147 million in the first quarter.

Exchange & Third-Party Management: The segment's revenues are anticipated to decline 14% in the first quarter. While interval International average revenue per member fell 11% to \$41.37 year over year, members decreased 3% to 1.6 million. The segment's adjusted EBITDA decreased 24% to \$41 million.

Balance Sheet

Cash and cash equivalents, as of Mar 31, 2020, was \$651 million. Inventory was \$846 million. The company had \$4.7 billion in debt outstanding (net of unamortized debt issuance costs) at the end of the first quarter, up \$0.6 billion from year-end 2019.

Coronavirus Disrupts Marriott Vacations' North America Business – Mar 24, 2020

Plagued by the COVID-19 pandemic-led crisis, Marriott Vacations Worldwide Corporation suspended operations and amenities in all its North America sales centers for two weeks starting Mar 23, 2020. Moreover, the company is shutting down its branded North America vacation ownership resorts for the next 30 days effective Mar 25, 2020. With business and travel operations being restricted at an accelerating pace, the company's decision is in sync with various governmental mandates and advisories.

Valuation

Marriott Vacations' shares are down 32.5% in the year-to-date period and 10.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down by 34.9% while Zacks Consumer Discretionary sector is down by 11.9% in the year-to-date period. Over the past year, the Zacks sub-industry and sector were down by 29% and 8.2%, respectively.

The S&P 500 index is down 2.7% in the year-to-date period, but up 5.7% in the past year.

The stock is currently trading at 17.6X forward 12-month earnings, which compares with 42.83X for the Zacks sub-industry, 33.27X for the Zacks sector and 22.36x for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.51X and as low as 3.81X, with a 5-year median of 14.97X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$91 price target reflects 18.45X forward 12-month earnings.

The table below shows summary valuation data for VAC.

Valuation Multiples - VAC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.6	42.83	33.27	22.36
	5-Year High	25.51	42.83	33.27	22.36
	5-Year Low	3.81	16.6	16.1	15.15
	5-Year Median	14.97	20.35	19.82	17.42
P/S F12M	Current	1.01	1.99	2.2	3.48
	5-Year High	2.27	2.1	3.16	3.48
	5-Year Low	0.33	1.13	1.8	2.54
	5-Year Median	1.09	1.63	2.51	3.01
EV/EBITDA TTM	Current	8.94	11.85	9.81	11.51
	5-Year High	26.08	23.07	17.79	12.81
	5-Year Low	5.99	10.99	9.01	8.24
	5-Year Median	11.52	14.57	12.31	10.75

As of 07/06/2020

Industry Analysis Zacks Industry Rank: Bottom 41% (147 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	3
China Lodging Group, Limited (HTHT)	Neutral	3
Extended Stay America, Inc. (STAY)	Neutral	3
Wyndham HotelsResorts Inc. (WH)	Neutral	3
WYNDHAM DESTINATIONS, INC. (WYND)	Neutral	3
Intercontinental Hotels Group (IHG)	Underperform	4

Industry Comparison Industry: Hotels And Motels				Industry Peers		
	VAC	X Industry	S&P 500	HGV	WH	WYND
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	B	F	C
Market Cap	3.57 B	3.34 B	22.04 B	1.83 B	4.23 B	2.52 B
# of Analysts	2	6	14	2	7	5
Dividend Yield	2.49%	0.70%	1.89%	0.00%	0.70%	6.76%
Value Score	C	-	-	A	C	A
Cash/Price	0.30	0.18	0.07	0.44	0.18	0.47
EV/EBITDA	14.02	14.02	12.81	8.75	15.18	8.04
PEG Ratio	2.63	8.05	2.94	NA	3.60	NA
Price/Book (P/B)	1.29	1.66	3.01	3.25	3.81	NA
Price/Cash Flow (P/CF)	7.19	10.16	11.87	7.39	10.16	4.18
P/E (F1)	23.63	60.64	21.54	153.93	36.17	NA
Price/Sales (P/S)	0.82	1.29	2.35	1.05	2.12	0.68
Earnings Yield	4.14%	0.78%	4.39%	0.65%	2.77%	-0.24%
Debt/Equity	1.70	0.32	0.76	3.96	2.55	-7.18
Cash Flow (\$/share)	12.08	3.11	6.94	2.92	4.48	7.07
Growth Score	F	-	-	C	D	F
Hist. EPS Growth (3-5 yrs)	19.57%	15.95%	10.90%	9.66%	NA	-1.10%
Proj. EPS Growth (F1/F0)	-53.97%	-81.11%	-9.51%	-93.36%	-61.67%	-101.28%
Curr. Cash Flow Growth	82.73%	6.82%	5.51%	-26.88%	15.45%	6.13%
Hist. Cash Flow Growth (3-5 yrs)	32.34%	4.04%	8.55%	5.36%	NA	-4.49%
Current Ratio	3.49	1.45	1.30	7.59	2.76	3.67
Debt/Capital	62.92%	57.92%	44.46%	79.83%	71.80%	NA
Net Margin	0.18%	7.87%	10.62%	9.72%	7.87%	7.93%
Return on Equity	11.55%	-1.01%	15.75%	32.55%	25.65%	-52.81%
Sales/Assets	0.48	0.49	0.55	0.54	0.42	0.49
Proj. Sales Growth (F1/F0)	-27.06%	-33.33%	-2.57%	-33.33%	-33.86%	-42.27%
Momentum Score	F	-	-	D	F	D
Daily Price Chg	3.90%	1.58%	1.12%	6.79%	3.67%	1.58%
1 Week Price Chg	7.94%	1.72%	3.66%	8.20%	7.26%	10.22%
4 Week Price Chg	-16.60%	-12.12%	-7.12%	-15.98%	-10.63%	-23.85%
12 Week Price Chg	22.48%	16.17%	11.84%	22.17%	41.83%	29.07%
52 Week Price Chg	-10.25%	-32.36%	-6.03%	-32.34%	-24.05%	-34.49%
20 Day Average Volume	414,478	398,536	2,400,079	1,441,862	1,250,091	1,423,607
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.64%	0.00%	0.00%	0.00%	-8.90%	16.28%
(F1) EPS Est 12 week change	-55.57%	-63.65%	-8.26%	-85.86%	-54.91%	-101.71%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	31.79%	2.98%

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	F
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.

Disclosures

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