

Marriott Vacations (VAC)

\$127.28 (As of 01/07/20)

Price Target (6-12 Months): **\$146.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 01/06/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: D

Summary

Shares of Marriott Vacations have outperformed the industry in the past year. The company has been focusing on digital expansion and innovation of latest techniques. It has also been remodeling the business framework. It turned into a more point-based and capital-efficient system, with less dependence on the securitization market. Synergies from ILG acquisition also bode well for the company. For 2019, Marriott Vacations expects adjusted earnings of \$7.67-\$8.16 per share, up from the previous guidance of \$7.65-\$8.14. Also, earnings estimate for 2020 have witnessed upward revision over the past 60 days, depicting analysts' optimism over the stock. However, increased debt from the ILG acquisition and high expenses are concerns. The cyclical nature of the industry is an added concern.

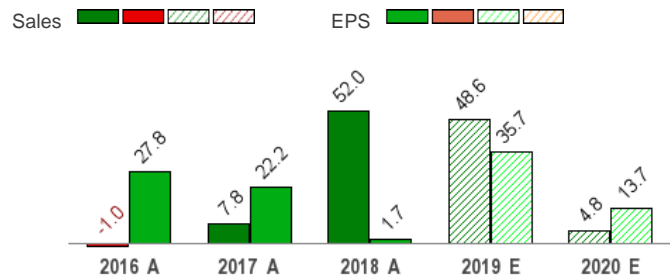
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$131.27 - \$75.68
20 Day Average Volume (sh)	260,075
Market Cap	\$5.4 B
YTD Price Change	-1.2%
Beta	1.73
Dividend / Div Yld	\$2.16 / 1.7%
Industry	Hotels and Motels
Zacks Industry Rank	Bottom 31% (176 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.4%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/27/2020
Earnings ESP	0.0%
P/E TTM	18.5
P/E F1	14.0
PEG F1	1.6
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,127 E	1,123 E	1,203 E	1,177 E	4,624 E
2019	1,060 A	1,068 A	1,139 A	1,144 E	4,411 E
2018	571 A	595 A	750 A	1,052 A	2,968 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.81 E	\$2.25 E	\$2.12 E	\$2.66 E	\$9.07 E
2019	\$1.45 A	\$1.99 A	\$1.97 A	\$2.59 E	\$7.98 E
2018	\$1.39 A	\$1.59 A	\$1.42 A	\$1.49 A	\$5.88 A

*Quarterly figures may not add up to annual.

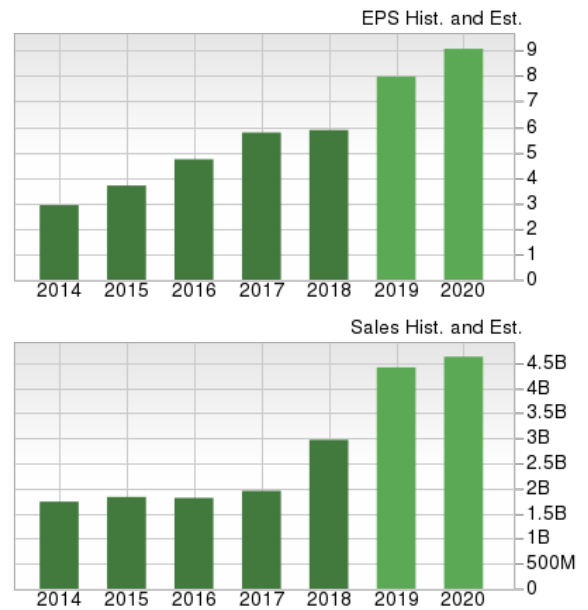
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/07/2020. The reports text is as of 01/08/2020.

Overview

Marriott Vacations Worldwide Corporation, a leading global vacation company, offers vacation ownership, exchange, rental, resort and property management services. As of 2018 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 (94.6% of total revenues in 2018) and Exchange & Third-Party Management (5.4%). 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.



Reasons To Buy:

▲ **Strong Revenue Growth:** Shares of Marriott Vacations have outperformed the industry in the past year. The performance can be primarily attributed to impressive top-line growth. In third-quarter 2019, the company's revenues surged 51.9%, following 79.5% gain in the preceding quarter. The upside can be attributed to revenue growth across its segments. Also, consolidated Vacation Ownership contract sales rallied 40% to \$390 million in the quarter. For 2019, the company expects consolidated contract sales in the range of 5-8%.

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 2019. In fact, management expects to realize merger cost synergies of \$125 million by the end of 2021.

Overall, the company expects to recognize \$45-\$50 million in savings in 2019 and the end of the year at \$60 million synergy run rate. Notably, the final \$50 million of synergies include leveraging and consolidating technology applications, HR and payroll platforms, and financial & analysis integration. Additional savings will derive from sales and marketing.

▲ **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, 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 11% year over year in the third quarter of 2019. In the first and the second quarter, the company's tour package pipeline grew 5% and 8%, 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.

▲ **Strong Financial Position:** In the third quarter of 2019, Marriott Vacations repurchased an additional 4.3 million shares. For 2019, it expects adjusted free cash flow to be \$440-490 million. Further, it continues to expect cash flow generation in 2019 to support sales growth.

Risks

- **High Expenses:** Despite cost synergies from the ILG acquisition, the company has been bearing the brunt of high expenses. In 2018, total expenses rose 39.4% year over year due to an increase in the cost of vacation ownership products as well as high rental, financing and administrative costs. Increased marketing and sales expenses along with management and exchange costs too affected total costs. Total expenses in the third quarter amounted to \$924 million, up 50.5% year over year.
 - **High Debt:** As Marriott Vacations is highly capital intensive, it faces a lot of debt burden. The company's total net debt outstanding at the end of the third quarter was roughly \$3.9 billion, consisting primarily of \$2.3-billion corporate debt, most of which resulted from the ILG acquisition and \$1.7 billion associated with non-recourse securitize notes receivable. Owing to a higher debt burden, the company might fail to finance the upcoming projects. Moreover, any downturn in macroeconomic and credit market conditions would make it difficult for Marriott Vacations to pay or refinance debt moving ahead.
 - **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.
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Last Earnings Report

Marriott Vacations Q3 Earnings Miss Estimates, Up Y/Y

Marriott Vacations Worldwide Corporation reported mixed results for the third quarter of 2019, with earnings missing the Zacks Consensus Estimate and revenues beating the same.

Adjusted earnings of \$1.97 per share missed the consensus mark of \$2.04 by 3.4% but increased 38.7% year over year.

Quarterly revenues were \$1,139 million, which beat the Zacks Consensus Estimate of \$1,127 million by 1.1% and surged 51.9% from the year-ago quarter's figure. The upside can be attributed to improvement in consolidated vacation ownership contract sales.

Quarter Ending **09/2019**

Report Date	Nov 04, 2019
Sales Surprise	1.08%
EPS Surprise	-3.43%
Quarterly EPS	1.97
Annual EPS (TTM)	6.90

Segmental Performances

Vacation Ownership: Consolidated Vacation Ownership contract sales totaled \$390 million, up 40% year over year on a combined basis. Revenues, excluding cost reimbursements, increased 4% year over year. Consolidated contract sales rose nearly 5% on a year-over-year basis. Contract sales in the quarter were affected by \$7 million due to a hurricane. Legacy-MVW contract sales amounted to \$244 million, up 1% year over year. Legacy-MVW North America volume per guest ("VPG") amounted to \$3,789 million, almost flat year over year.

Rental revenues in the third quarter were \$135 million, up nearly 57% from year-ago quarter's figure.

On a combined basis, the segment's adjusted EBITDA increased 11% year over year to \$195 million in the third quarter. Adjusted EBITDA margin improved 180 basis points from the year-ago quarter's figure, excluding cost reimbursements.

Exchange & Third-Party Management: The segment's revenues totaled \$112 million in the quarter, up from year-ago quarter's figure of \$40 million. Total Interval Network active members were 1.7 million at the end of the quarter and average revenue per member was \$40.89.

The segment's adjusted EBITDA, on a combined basis, was \$56 million. The figure declined 7% year over year (after excluding VRI Europe from year-ago quarter's level).

Corporate and Other results

The segment - which primarily consist of general and administrative costs, decreased \$19 million year over year, owing to synergy savings and lower compensation related expenses, partially offset by normal inflationary cost increases.

Expenses & EBITDA

Total expenses in the quarter amounted to \$1,069 million, up 53.2% year over year. Rise in expenses were caused by an increase in the cost of vacation ownership products as well as high rental, financing and administrative costs. Higher marketing and sales expenses along with management and exchange costs affected total costs. The company's adjusted EBITDA in the third quarter was \$190 million, which surged 90% from the year-ago quarter's level.

Balance Sheet

Cash and cash equivalents, as of Sep 30, 2019, was \$183 million compared with \$231 million as of 2018 end. Inventory declined to \$840 million from \$863 million at 2018-end. The company had \$4 billion in debt outstanding (net of unamortized debt issuance costs) at the end of the third quarter.

2019 Outlook

During the reported quarter, the company's properties in the Vacation Ownership segment were adversely impacted by a hurricane. The company undertook mandatory evacuations, shut resort and sales center, and cancel reservations and scheduled tours.

For 2019, the company expects adjusted earnings of \$7.67-\$8.16 per share, up from the previous guidance of \$7.65-\$8.14. The Zacks Consensus Estimate for earnings is pegged at \$7.68 for the year. Adjusted EBITDA is projected between \$745 million and \$775 million, compared with previous expectation of \$750-\$780 million.

Consolidated contract sales growth is likely to be in the range of 5-8% in 2019. Adjusted free cash flow is anticipated in the range of \$440-\$490 million.

Valuation

Marriott Vacations' shares are up 65.2% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and sector has gained 32.3% and 21%, respectively..

The S&P 500 index has moved up 24.6% in the past year.

The stock is currently trading at 11.32x trailing 12-month EV/EBITDA, which compares with 16.16x for the Zacks sub-industry, 12.75x for the Zacks sector and 11.99x for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.03x and as low as 7.05x, with a 5-year median of 12.3x. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$146 price target reflects 1.33x forward 12-month Price to Sales value.

The table below shows summary valuation data for VAC.

Valuation Multiples - VAC					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	11.32	16.16	12.75	11.99
	5-Year High	25.03	23.07	17.77	12.86
	5-Year Low	7.05	10.99	11.08	8.49
	5-Year Median	12.3	14.32	12.44	10.67
P/S F12M	Current	1.16	2.21	2.37	3.48
	5-Year High	2.27	2.25	3.19	3.48
	5-Year Low	0.65	1.13	1.81	2.54
	5-Year Median	1.17	1.65	2.54	3
P/B TTM	Current	1.71	16.33	3.56	4.43
	5-Year High	4.05	17.8	5.04	4.45
	5-Year Low	0.82	3.18	3.13	2.85
	5-Year Median	2.35	8.37	4.29	3.6

As of 01/07/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (176 out of 254)



Top Peers

Choice Hotels International, Inc. (CHH)	Neutral
Hyatt Hotels Corporation (H)	Neutral
Hilton Grand Vacations Inc. (HGV)	Neutral
China Lodging Group, Limited (HTHT)	Neutral
Intercontinental Hotels Group (IHG)	Neutral
WYNDHAM DESTINATIONS, INC. (WYND)	Neutral
Extended Stay America, Inc. (STAY)	Underperform
Wyndham Hotels & Resorts Inc. (WH)	Underperform

Industry Comparison Industry: Hotels And Motels				Industry Peers		
	VAC Outperform	X Industry	S&P 500	HGV Neutral	WH Underperform	WYND Neutral
VGM Score	B	-	-	D	B	C
Market Cap	5.35 B	4.62 B	23.82 B	2.95 B	5.76 B	4.62 B
# of Analysts	5	6	13	2	7	7
Dividend Yield	1.70%	0.88%	1.8%	0.00%	1.92%	3.54%
Value Score	C	-	-	B	C	A
Cash/Price	0.09	0.07	0.04	0.07	0.02	0.09
EV/EBITDA	37.56	15.25	13.92	9.30	20.23	10.32
PEG Ratio	1.56	2.73	2.00	1.31	1.53	2.10
Price/Book (P/B)	1.77	2.26	3.32	5.98	4.64	NA
Price/Cash Flow (P/CF)	21.53	16.26	13.58	9.82	16.26	8.21
P/E (F1)	14.03	20.52	18.86	11.76	16.96	8.41
Price/Sales (P/S)	1.24	2.12	2.63	1.47	2.76	1.15
Earnings Yield	7.13%	4.53%	5.30%	8.51%	5.90%	11.89%
Debt/Equity	1.27	0.65	0.72	3.42	1.70	-5.35
Cash Flow (\$/share)	5.91	3.35	6.94	3.52	3.72	6.20
Growth Score	A	-	-	D	B	F
Hist. EPS Growth (3-5 yrs)	19.81%	19.21%	10.56%	NA	NA	3.11%
Proj. EPS Growth (F1/F0)	13.62%	8.68%	7.49%	41.91%	9.23%	7.93%
Curr. Cash Flow Growth	45.31%	11.49%	14.83%	48.91%	20.98%	-14.45%
Hist. Cash Flow Growth (3-5 yrs)	19.70%	4.17%	9.00%	NA	NA	-3.74%
Current Ratio	3.40	1.12	1.23	4.41	1.14	1.22
Debt/Capital	56.04%	55.21%	42.92%	77.36%	62.90%	NA
Net Margin	2.50%	6.51%	11.08%	13.12%	6.47%	11.22%
Return on Equity	9.51%	7.99%	17.16%	47.96%	22.24%	-87.60%
Sales/Assets	0.48	0.48	0.55	0.69	0.44	0.54
Proj. Sales Growth (F1/F0)	4.83%	4.31%	4.15%	8.42%	2.27%	3.64%
Momentum Score	D	-	-	C	A	B
Daily Price Chg	-0.52%	-0.75%	-0.22%	-0.32%	-1.58%	-0.57%
1 Week Price Chg	-2.23%	-0.82%	-0.30%	0.84%	-2.12%	-0.89%
4 Week Price Chg	1.84%	3.70%	2.11%	0.23%	4.85%	4.28%
12 Week Price Chg	17.80%	10.81%	5.70%	0.06%	20.74%	10.15%
52 Week Price Chg	63.35%	17.80%	22.84%	18.94%	24.41%	34.63%
20 Day Average Volume	260,075	260,075	1,570,747	587,669	620,495	458,963
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.04%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.04%	0.00%
(F1) EPS Est 12 week change	1.99%	-1.96%	-0.53%	5.54%	-0.36%	0.91%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	A
Momentum Score	D
VGM Score	B

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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