Marriott Intl. (MAR)

Updated November 22nd, 2019 by Katherine Peach

Key Metrics

Current Price:	$136	**5 Year CAGR Estimate:**	3.0%	**Volatility Percentile:**	51.8%
Fair Value Price:	$111	**5 Year Growth Estimate:**	5.8%	**Momentum Percentile:**	58.3%
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.0%	**Growth Percentile:**	56.9%
Dividend Yield:	1.2%	**5 Year Price Target**	$147	**Valuation Percentile:**	30.2%
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Total Return Percentile:**	20.4%

Overview & Current Events

From its somewhat inauspicious beginnings as a Washington, D.C. root-beer stand in 1927, Marriott has become an international hospitality juggernaut, with more than 7,000 properties operating under 30 brands in more than 130 countries and territories. In fact, it's the largest hotel chain in the world.

The Marriott Intl. that we know today was created in 1993 when the former Marriott Corp. split into two publicly traded companies, Marriott Intl. and Host Marriott Corp. (HST) (now known as Host Hotels & Resorts). Marriott Intl. manages and franchises a portfolio of hospital brands that range from the classic splendor of The Ritz-Carlton to the Fairfield Inns you find along the highway. Internationally, Marriott's Starwood subsidiary gives the company a significant foothold in Europe and elsewhere.

Marriott currently boasts a market cap north of $44.5 billion. Annual revenue for fiscal 2018 clocked in at $20.66 billion. Marriott Intl. pays out a quarterly dividend that has hovered around 1.3%-1.5% during the past few years.

The company lost some goodwill in 2018 when it revealed its Starwood guest reservation database had been hacked. U.K. authorities have reported they will levy a $126 million fine on the company for the breach.

Marriott Intl. held its most recent earnings call on November 4, 2019. In the third quarter of 2019, adjusted net income shrank 18% year-over-year, from $598 million in the third quarter of fiscal 2018 to $488 million. Marriott's Q3 adjusted diluted earnings per share (EPS) totaled $1.47, compared to $1.70 in the year-ago quarter.

Marriott also reported that during the third quarter it repurchased 3.8 million of its shares for a total of $500 million. Year to date, the company has repurchased a total of 14.2 million shares, for a total of $1.83 billion.

On November 7, 2019, Marriott declared a 48-cents-per-share quarterly dividend payable December 31 for shareholders of record as of November 21.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.94	$1.14	$1.33	$1.72	$2.00	$2.54	$3.15	$2.69	$5.26	$5.38	***$6.00***	***$7.97***
DPS	$0.09	$0.21	$0.39	$0.49	$0.64	$0.77	$0.95	$1.15	$1.29	$1.56	***$1.60***	***$2.30***
Shares[1]	358.52	366.90	333	310.90	305	289.90	256.30	383.56	259.10	339.10	***329***	***333***

Despite Marriott Intl.'s large size, the company continues to grow at a relatively brisk pace. The company expects continued growth in the number of new projects using Marriott's 30 brands. Across the hospitality industry, luxury lodging continues to be a strong trend. Marriott currently has more than 700 luxury properties open or under development, with 60% of 200 luxury pipeline properties already under construction. The company also expects to grow in the trendy and growing all-inclusive space. Marriott is working to expand its all-inclusive portfolio not only in North and South America and the Caribbean, but also in Europe and Southeast Asia.

The company is wise in seeking opportunities beyond the typical hotel stay in response to homestay platforms such as Airbnb. The hospitality industry as a whole has to "up its game" to stay competitive. This is also where Marriott's pioneering loyalty program, Bonvoy, will come into play by offering attractive rewards.

[1] Share count is in millions.

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There's no denying that, despite growth prospects, there's plenty of challenge in the industry. For the fourth quarter of 2019, Marriott is expecting flat revenues per room (RevPAR, a key metric for hotel companies). In the third quarter of 2019, Marriott's RevPAR rose by only 1.5%. Management expects growth of only 1% for Q4. Therefore, we conservatively believe Marriott will grow albeit sluggishly, with expected 2019 and 2024 EPS of $6.00 and $7.97, respectively. That reflects estimated 5-year growth of 5.8%.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Avg. P/E	23.5	29.5	25.4	21.5	21.1	25.0	24.0	26.3	19.6	24.0	***22.7***	***18.5***
Avg. Yld.	0.4%	0.6%	1.1%	1.3%	1.5%	1.2%	1.3%	1.7%	1.3%	1.2%	***1.2%***	***1.6%***

Looking at Marriott's performance during the last 10 years, we notice the P/E has tended to remain solidly in the 21-25 range. Given this year's sluggish performance, we can conservatively expect MAR's 2019 P/E to hang below 23.

Looking ahead to 2024, we'll assign an expected P/E of 18.5, given the continuing challenges in the hospitality industry. When it comes to dividend payouts, Marriott has a history of playing it slow but steady. We see this trend continuing for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	19%	10%	28%	33%	31%	30%	29%	48%	24%	28%	***27%***	***29%***

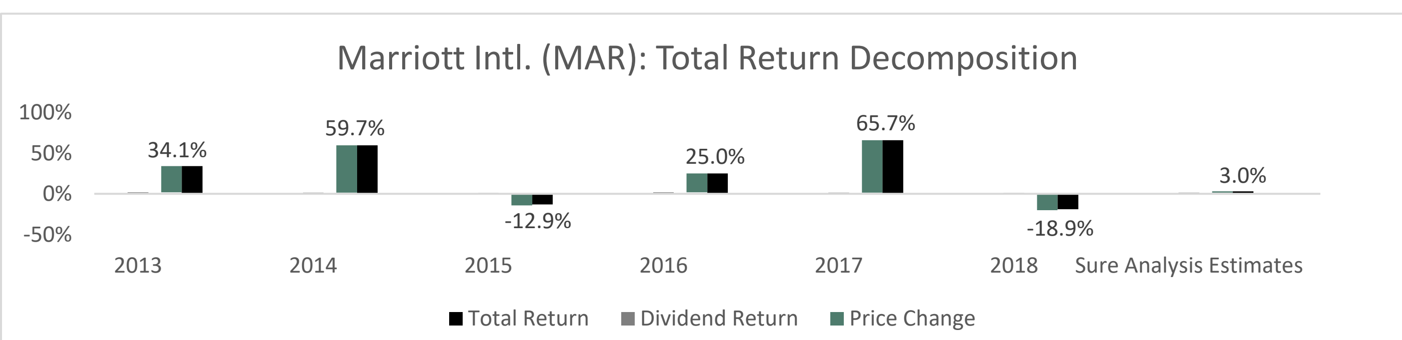
Although Marriott Intl. trades in excitement – luxury getaways, exotic destinations, and even room amenities that might trick you out of believing you're on business travel – the company's stock performance has been anything but thrilling. The company's best advantage is its sheer size. At this point, if you're staying at a chain hotel anywhere in the world, there's a decent chance Marriott owns the brand.

During the first decade of the 21st century – which saw one of the greatest historical slumps in travel – Marriott remained profitable. The company used that time to develop new luxury brands and programs and found ways to trim the fat. The lowest EPS that the company clocked was in 2009, at $0.94. However, since then, it has continued to steadily rise. The company did reduce its dividend in 2009, before hitting new dividend highs by 2011.

Final Thoughts & Recommendation

Marriott Intl. is facing challenges, including continued growth of alternative stay platforms such as Airbnb. The company will continue to spend money on growth in order to combat this threat; however, this will likely result in sluggish stock and dividend growth. With weak 3.0% expected annualized total returns, we rate Marriott Intl. as a sell at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	10908	11691	12317	11814	12784	13796	14486	17072	22894	20758
Gross Profit	1235	1475	1602	1624	1764	1966	2123	2572	3586	3909
Gross Margin	11.3%	12.6%	13%	13.7%	13.8%	14.3%	15.1%	15.1%	15.5%	18.8%
SG&A Exp.	715	669	752	582	641	659	634	1152	1483	1587
D&A Exp.	NA	NA	NA	102	127	123	139	119	229	226
Operating Profit	363	627	687	809	897	1113	1230	1626	2454	2310
Operating Margin	6.4%	7.5%	8.3%	9.2%	8.7%	9.5%	10.3%	11.3%	12.3%	12.5%
Net Profit	335	432	481	571	626	753	859	780	1998	1907
Net Margin	3.1%	3.7%	3.9%	4.8%	4.9%	5.5%	5.9%	4.6%	8.7%	9.2%
Free Cash Flow	686.2	295.4	1913.9	198.1	381.5	791.1	1060.4	1866.0	2499.4	1520.1
Income Tax	-65	93	158	278	271	335	396	431	1523	438

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	7933	8983	5910	6342	6794	6833	6082	24140	23846	23696
Cash & Equivalents	115	505	102	88	126	104	96	858	383	316
Acc. Receivable	670	758	791	966	1045	1073	1097	1692	1973	2127
Inventories	14440	1489	11	NA	NA	NA	NA	NA	NA	NA
Goodwill & Int. Ass.	1606	1643	1721	1989	2005	2245	2394	16868	17751	17473
Total Liabilities	2287	2501	2558	2773	2675	3038	3233	5147	5807	6437
Accounts Payable	562	634	548	569	557	605	593	687	783	767
Long-Term Debt	2234	2691	1816	2528	3147	3447	3807	8197	7840	8514
Total Equity	1142	1585	-781	-1285	-2200	-3590	5357	3582	2225	1240
D/E Ratio	2.0	1.6	-3.3	-2.2	-1.2	-0.8	0.6	1.4	2.6	5.2

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-1.2%	13.5%	15.0%	38.7%	32.9%	46.8%	62.1%	24.0%	53.2%	70.5%
Return on Equity	29.3%	27.3%	NA	NA	NA	NA	NA	14.6%	53.6%	85.7%
ROIC	11.6%	12.2%	54.4%	51.4%	39.6%	64.5%	434%	6.6%	18.1%	19.0%
Shares Out.	358.5	366.9	333.0	310.9	305.0	289.9	256.3	383.6	359.1	339.1
Revenue/Share	30.42	31.86	36.99	38.00	41.91	47.59	56.52	44.51	63.75	61.22
FCF/Share	$1.91	$2.17	$2.38	$1.52	$2.57	$2.58	$4.07	$4.88	$5.30	$5.14

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.