Marriott Intl. (MAR)

Updated June 6th, 2020 by Felix Martinez

Key Metrics

Current Price:	$108	**5 Year CAGR Estimate:**	1.7%	**Market Cap:**	$35.2 B
Fair Value Price:	$78	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	N/A
% Fair Value:	138%	**5 Year Valuation Multiple Estimate:**	-6.2%	**Dividend Payment Date:**	N/A
Dividend Yield:	N/A	**5 Year Price Target**	$115	**Years of Dividend Growth:**	9
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	17%

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 over 7,000 properties operating under 30 brands in more than 130 countries and territories. 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 $35.2 billion.

On May 11, the company reported first-quarter earnings for Fiscal Year (FY)2020. COVID-19 pandemic has hit Marriott hard as people were not traveling and staying in hotels starting around mid-March. We expect 2Q20 to show just how hard the pandemic hit Marriott. For the first quarter, revenue decreased by (7)% compared to the first quarter in FY2019, or from $5,012 million to $4,681 million. Net Income drop (92)% from $375 million to $31 million Year over Year (YoY). Diluted earnings per share saw the same fate of a decrease of (92)% YoY, or from $1.09 a share to $0.09 a share. The company also increased its cash and cash equivalents to $3.9 million and $1.3 billion of unused borrowing capacity under its revolving credit facility. The management team also reported that it had suspended its quarterly dividend as well as halted further share repurchases.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.14	$1.33	$1.72	$2.00	$2.54	$3.15	$2.64	$5.26	$5.38	$3.80	***$4.35***	***$6.39***
DPS	$0.21	$0.39	$0.49	$0.64	$0.77	$0.95	$1.15	$1.29	$1.56	$1.85	***$0.48***	***$0.48***
Shares[1]	366.9	333.0	310.9	305.0	289.9	256.3	383.6	359.1	339.1	324.0	***326.0***	***326.0***

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 on expanding 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.

However, there's no denying that, despite growth prospects, there's plenty of challenge in the industry. Currently, the greatest difficulties are related to fears of the coronavirus. China is Marriott's fastest-growing market, and the hospitality chain has already seen a significant drop in demand for hotel rooms in that country. And that pain isn't

[1] Share count is in millions.

limited to travelers to China -- the massive number of Chinese travelers from the country to destinations worldwide has plummeted. And as the outbreak sweeps around the globe, it's likely all worldwide tourism will be affected as well.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Avg. P/E	29.5	25.4	21.5	21.1	25	24	26.3	19.6	24	24	***24.8***	***18.0***
Avg. Yld.	0.6%	1.1%	1.3%	1.5%	1.2%	1.3%	1.7%	1.3%	1.2%	1.2%	***0.0%***	***0.0%***

Looking at Marriott's performance during the last ten 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 2020 P/E to hang below 23.

Looking ahead to 2025, we'll assign an expected P/E of 18, 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, but the company needs to restate its dividends first.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	18.4%	29.3%	28.5%	32.0%	30.3%	30.2%	43.6%	24.5%	29.0%	48.7%	***11%***	***10%***

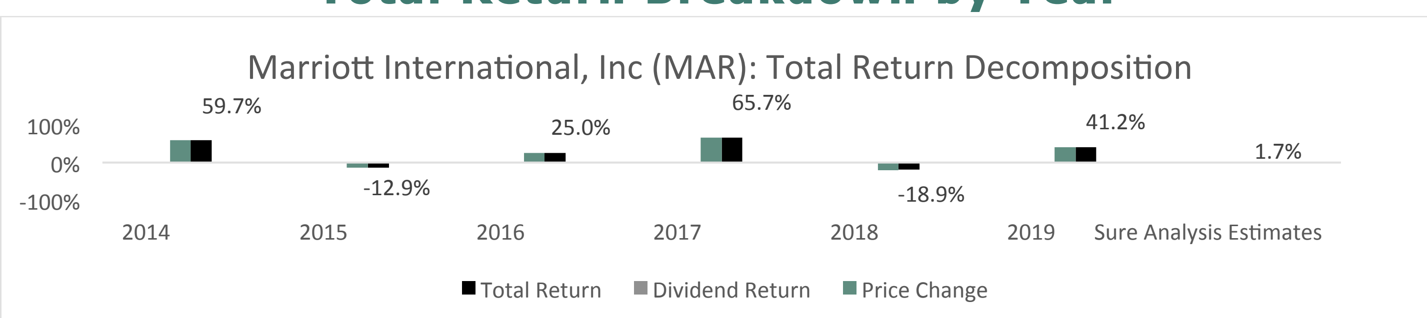
Although Marriott Intl. trades in excitement – luxury getaways, exotic destinations, and even room amenities that might trick you out of believing you're on business travel – the company's stock performance has been anything but thrilling. The company's best advantage is its sheer size. At this point, 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. Thanks to the coronavirus, we're about to see another huge drop-off in tourism. Unfortunately, there's no way to tell how long or how serious this event will be. We'll have to wait to see how the panic pans out. The company balance sheet is not so strong. The current ratio is only 0.62, and as of 2019, the debt to equity ratio was 14.2.

Final Thoughts & Recommendation

Marriott Intl. is facing challenges, including continued growth of alternative stay platforms such as Airbnb and now the coronavirus. With weak expected annualized total returns of 1.7% for the next five years, we rate Marriott Intl. as a sell at current prices.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	11691	12317	11814	12784	13796	14486	17072	22894	20758	20972
Gross Profit	1475	1602	1624	1764	1966	2123	2572	3586	3909	3217
Gross Margin	12.6%	13%	13.7%	13.8%	14.3%	15.1%	15.1%	15.5%	18.8%	
SG&A Exp.	669	752	582	641	659	634	1152	1483	1587	938
D&A Exp.	NA	NA	102	127	123	139	119	229	226	403
Operating Profit	627	687	809	897	1113	1230	1626	2454	2310	1938
Operating Margin	7.5%	8.3%	9.2%	8.7%	9.5%	10.3%	11.3%	12.3%	12.5%	
Net Profit	432	481	571	626	753	859	780	1998	1907	1273
Net Margin	3.7%	3.9%	4.8%	4.9%	5.5%	5.9%	4.6%	8.7%	9.2%	
Free Cash Flow	295.4	1913.9	198.1	381.5	791.1	1060.4	1866.0	2499.4	1520.1	1032
Income Tax	93	158	278	271	335	396	431	1523	438	326

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	8983	5910	6342	6794	6833	6082	24140	23846	23696	25051
Cash & Equivalents	505	102	88	126	104	96	858	383	316	225
Acc. Receivable	758	791	966	1045	1073	1097	1692	1973	2127	2395
Inventories	1489	11	NA	NA	NA	NA	NA	NA	NA	
Goodwill & Int. Ass.	1643	1721	1989	2005	2245	2394	16868	17751	17473	17689
Total Liabilities	2501	2558	2773	2675	3038	3233	5147	5807	6437	24348
Accounts Payable	634	548	569	557	605	593	687	783	767	720
Long-Term Debt	2691	1816	2528	3147	3447	3807	8197	7840	8514	10940
Total Equity	1585	-781	-1285	-2200	-3590	5357	3582	2225	1240	703
D/E Ratio	1.6	-3.3	-2.2	-1.2	-0.8	0.6	1.4	2.6	5.2	15.6

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	13.5%	15.0%	38.7%	32.9%	46.8%	62.1%	24.0%	53.2%	70.5%	5.2%
Return on Equity	27.3%	NA	NA	NA	NA	NA	14.6%	53.6%	85.7%	87.0%
ROIC	12.2%	54.4%	51.4%	39.6%	64.5%	434%	6.6%	18.1%	19.0%	11.0%
Shares Out.	366.9	333.0	310.9	305.0	289.9	256.3	383.6	359.1	339.1	339.1
Revenue/Share	31.86	36.99	38.00	41.91	47.59	56.52	44.51	63.75	61.22	62.51
FCF/Share	$2.17	$2.38	$1.52	$2.57	$2.58	$4.07	$4.88	$5.30	$5.14	3.08

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