Marriott Intl. (MAR)

Updated April 10th, 2021 by Felix Martinez

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Key Metrics

Current Price:	$148	**5 Year CAGR Estimate:**	-0.2%	**Market Cap:**	$48.6 B
Fair Value Price:	$110	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	N/A
% Fair Value:	135%	**5 Year Valuation Multiple Estimate:**	-5.9%	**Dividend Payment Date:**	N/A
Dividend Yield:	N/A	**5 Year Price Target**	$147	**Years of Dividend Growth:**	0
Dividend Risk Score:	X	**Retirement Suitability Score:**	X	**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.

As we know today, Marriott Intl was created in 1993 when the former Marriott Corp was 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 $48.6 billion.

On February 18, 2021, the Company reported its fourth-quarter and Fiscal Year (FY)2020 earning results. COVID-19 pandemic has hit Marriott hard as people were not traveling and staying in hotels starting around mid-March and throughout the year. The total revenue for the Company was down (60)% for the quarter. Net income took a big hit as well. The Company lost ($164) million in net income vs. a profit of $279 million last year's fourth quarter, a decrease of (159)%. Thus, diluted earnings also took a hit. The Company lost ($0.50) a share compared to $0.85 the prior year, which is a drop of (159)%. However, the Marriott management team is seeing a slight growth in demand returning. The Company added nearly 63,000 rooms globally during 2020, including more than 28,000 rooms in international markets and a total of roughly 8,100 conversion rooms. Net rooms grew 3.1 percent from year-end 2019. Marriott's worldwide development pipeline totaled nearly 2,900 new properties and more than 498,000 rooms at the end of the year.

The Company's net liquidity totaled approximately $4.4 billion, representing roughly $0.8 billion in available cash balances and $3.6 billion of unused borrowing capacity under its revolving credit facility. This gives Marriott the flexibility to withstand another shutdown if it happens.

Since earnings are expected to be low because of the COVID-19 pandemic and restrictions, we will be using the normalized earnings, which we expect it to be $6.10 per share. This will be used for our fair value calculations.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.31	$1.72	$2.00	$2.54	$3.15	$3.66	$4.36	$6.21	$6.00	$0.18	***$6.10***	***$8.16***
DPS	$0.39	$0.49	$0.64	$0.77	$0.95	$1.15	$1.29	$1.56	$1.85	$0.48	---	---
Shares[1]	333.0	310.9	305.0	289.9	256.3	383.6	359.1	339.1	324.0	326.0	***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

[1] Share count is in millions.

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.

in the trendy and growing all-inclusive space. Marriott is expanding its all-inclusive portfolio in North and South America and the Caribbean, and Europe and Southeast Asia.

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

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	25.4	21.5	21.1	25	24	26.3	19.6	24	24	732	***24.3***	***18.00***
Avg. Yld.	1.1%	1.3%	1.5%	1.2%	1.3%	1.7%	1.3%	1.2%	1.2%	0.4%	---	---

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 2021 P/E to hang below 23.

Looking ahead to 2026, we'll assign an expected P/E of 18, given the hospitality industry's continuing challenges. 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	29.8%	28.5%	32.0%	30.3%	30.2%	31.4%	29.6%	25.1%	30.8%	266%	---	---

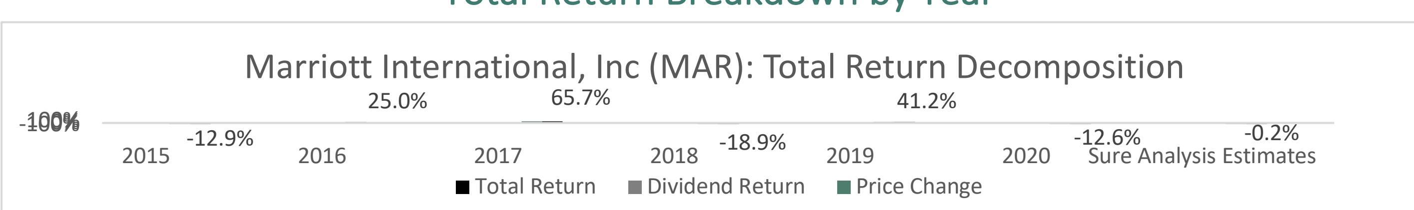
Although Marriott Intl. trades in excitement – luxury getaways, exotic destinations, and even room amenities that might trick you out of believing you're on business travel – the Company's stock performance has been anything but thrilling. The Company's best advantage is its sheer size. At this point, 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 most significant 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 considerable 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's balance sheet is not stable. The current ratio is only 0.5, and the debt to equity ratio is 26 at the end of FY2020, which is very concerning.

Final Thoughts & Recommendation

Marriott Intl. is facing challenges, including the continued growth of alternative stay platforms such as Airbnb and now the coronavirus. With weak expected annualized total returns of (0.2)% for the next five years, we rate Marriott Intl. as a sell at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	12317	11814	12784	13796	14486	15407	20452	20758	20972	10571
Gross Profit	1278	1624	1764	1966	2123	2672	3813	3674	3217	1459
Gross Margin	10.4%	13.7%	13.8%	14.3%	14.7%	17.3%	18.6%	17.7%	15.3%	13.8%
SG&A Exp.	752	582	649	659	634	743	921	927	938	762
D&A Exp.	144	102	127	148	139	159	279	284	403	478
Operating Profit	526	940	988	1159	1350	1810	2663	2521	1938	351
Operating Margin	4.3%	8.0%	7.7%	8.4%	9.3%	11.7%	13.0%	12.1%	9.2%	3.3%
Net Profit	198	571	626	753	859	808	1459	1907	1273	-267
Net Margin	1.6%	4.8%	4.9%	5.5%	5.9%	5.2%	7.1%	9.2%	6.1%	-2.5%
Free Cash Flow	906	552	844	813	1210	1420	1987	1801	1032	1504
Income Tax	158	278	271	335	396	431	1523	438	326	-199

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5910	6342	6794	6833	6082	24140	23846	23696	25051	24701
Cash & Equivalents	102	88	126	104	96	858	383	316	225	877
Acc. Receivable	875	1028	1081	1100	1103	1695	1973	2133	2395	1768
Goodwill & Int. Ass.	1721	1989	2005	2245	2394	16868	17751	17419	17689	18164
Total Liabilities	6691	7627	8209	9033	9672	18783	20264	21471	24348	24271
Accounts Payable	548	569	557	605	593	687	783	767	720	527
Long-Term Debt	2171	2935	3153	3771	4107	8506	8238	9347	10940	10376
Total Equity	-781	-1285	-1415	-2200	-3590	5357	3582	2225	703	430
D/E Ratio	-2.78	-2.28	-2.23	-1.71	-1.14	1.59	2.30	4.20	15.56	24.13

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.7%	9.3%	9.5%	11.1%	13.3%	5.3%	6.1%	8.0%	5.2%	-1.1%
Return on Equity	49.3%					91.5%	32.6%	65.7%	87.0%	-47.1%
ROIC	6.8%	37.6%	37.0%	45.5%	82.3%	11.2%	11.4%	16.3%	11.0%	-2.4%
Shares Out.	333.0	310.9	305.0	289.9	256.3	383.6	359.1	339.1	324.0	326.0
Revenue/Share	34.00	35.49	40.84	46.48	53.10	52.96	53.84	58.61	62.51	32.45
FCF/Share	2.50	1.66	2.70	2.74	4.44	4.88	5.23	5.08	3.08	4.62

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