Equity Research Report

Marriott Int. (NASDAQ:MAR)

30th August 2024

Current Price	Target Price	Potential Upside	Reccomendation	Industry
$220.56	$235.80	6.91%	BUY	Leisure and Hospitality

Market Profile	
Closing Price	$221.90
52-Week High/low	260/180
Shares Outstanding (M)	282.9
Market Cap.	$61.1
Dividend Yield	1.14%
Beta	1.19
EV / Revenue	11.39x
EV/ EBITDA	17.50x
P/ E	20.79x
Inst. Holdings	64.1%
Insider Holdings	8.4%
2023 Revenue (M)	$6,388
2023 Net Income	$3,083
MAR Q2 EPS	$2.70

Price Perfomance	1M	3M	1Y
Marriott International	-1.55%	-0.28%	7.47%
S&P 500 Index	-0.41%	-1.27%	23.75%

Scenario Analysis

Scenario	Implied Price	Upside	5-Year Revenue CAGR	EBIT Margin Average	WACC	PGR
Optimistic Case	$258.52	16.53%	9.09%	66.40%	8.29%	3.50%
Base Case	$235.65	6.17%	8.31%	64.40%	7.79%	3.00%
Conservative Case	$216.96	(2.48%)	7.53%	62.40%	8.29%	2.50%

PGR Implied Share Price	$257.58
Relative Valuation Implied Price	$214.03
Final Implied Share Price	**$235.80**
Current Market Price	$220.56
Implied Gain / (Loss)	6.91%

Investment Thesis

We suggest a Buy recommendation on Marriot Int. (NASDAQ: MAR) based on a 1-year target price of $235, offering an upside potential of 7% from its closing price of $220 on 22/08/2024. These key points drive our suggestion:

Tailwinds incoming with interest rate cuts expected

- Globally interest rates have been higher for longer which has constrained the amount of financing for construction that can take place. The incoming rate cuts by global banks will drive the construction we will see in 2025 and 2026 driving the NUG (Net Unit Growth) of properties.

Continued demand for travel

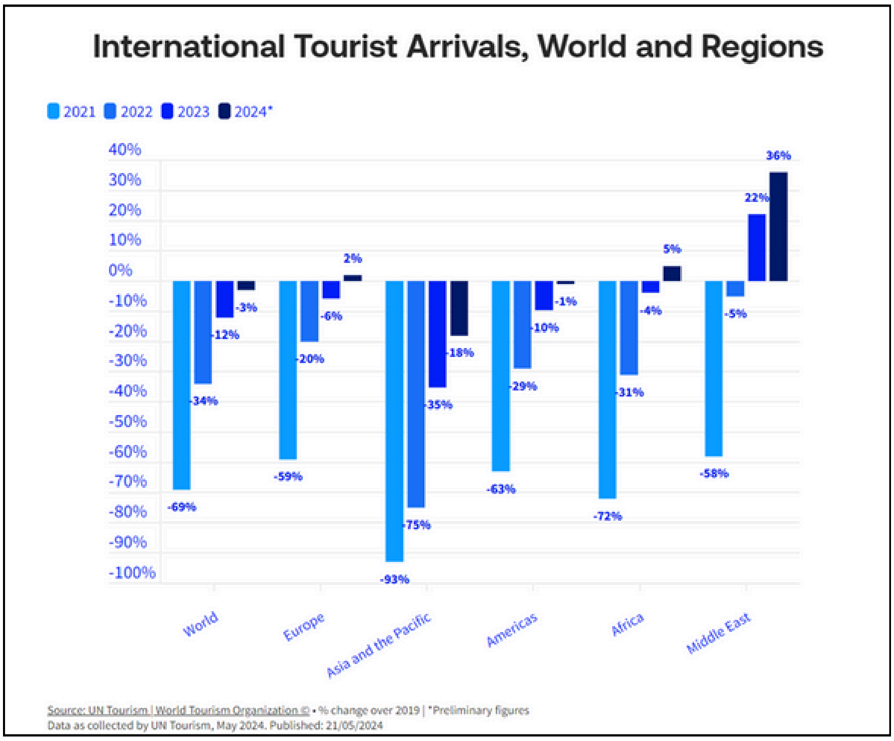
- Travel demand remained robust in most markets around the world' said the CEO of Marriott International in the Q2 earnings report. Moreover, this strong level of international tourism is expected to exceed pre-pandemic levels by around 2% higher than in 2019. So, travel throughout this year and into 2025 will be the vehicle that will grow the RevPAR (Revenue Per Available Room) which will directly impact the bottom line.

New rooms for Marriot

- Marriot's latest strategic licensing deal with Sonder is set to boost revenues and grow Marriot's net rooms going into 2025. Their deal with the Sonder connected Marriot to the Gen-Z consumer, adding over 9000 rooms to its system by the end of the year. Sonder properties include small- boutique hotels and apartment-style accommodations located in urban markets across 10 countries in North America, Europe, and the Middle East. Additionally, going into 2025 Deloitte has forecasted an increase in travel demand.

Future of the midscale space

- Over the long term, Marriott hopes to become more involved in the midscale market and continue growing their NUG into different tiers. Opening their first Four Points Express in Turkey and the anticipated addition of over a dozen hotels to their system next year as part of our recent multi-unit conversion transaction in APEC



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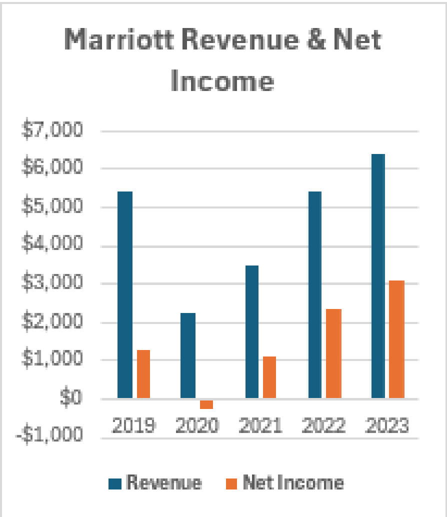
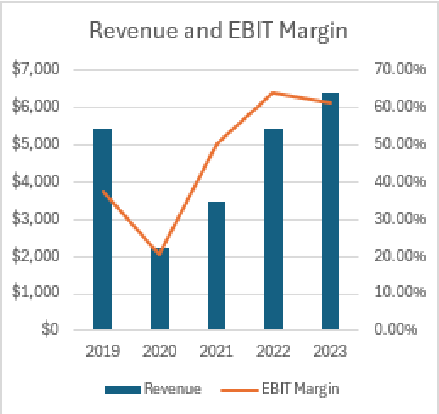
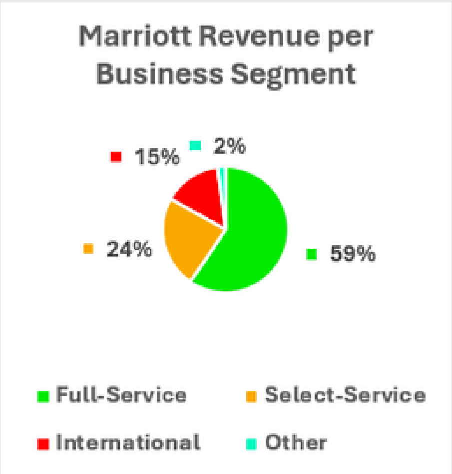
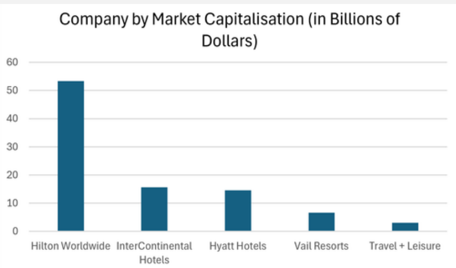
Marriott Int. Company & Indsutry Overview









Company Overview

Founded in 1927 by John Willard Marriott and his wife, Alice Marriott, Marriott International began as Hot Shoppes, which was later renamed. Today, Marriott International is a multinational pioneer in the hospitality industry. Headquartered in Bethesda, Maryland, Marriott provides world-class services, underpinned by its strong pedigree and global portfolio.

Marriot's Business Model can be broken into the following segments:

- Full-Service: This segment contains the global flagship brand, Marriott Hotels & Resorts, the luxury collection of exclusive hotels tailored towards high-end travellers, JW Marriott Hotels & Resorts, and vast subsidiaries, such as the Ritz-Carlton, Le-Méridien and Renaissance Hotels & Resort offer greater amenities and personalised environment or the moderately priced branch such as the Ramada International.

- Select Service: Offers both lower & upper moderate-price hotel products. Courtyard and SpringHill Suites provide an elegant atmosphere for both business and leisure travellers, whereas the Fairfield Inn is mostly orientated towards value-conscious individuals. Alternatively, Marriott supplies apartments, dedicated towards prolonged stays.

- International: The Marriott Vacation Club International sells, develops and operates vacation timesharing resorts. Specifically catering towards international customers with families, facilitating recreational activities and relaxation. Resorts include The Ritz-Carlton Club, Marriott Grand Residence Club, Horizon, and many more.

- Other Activities: Marriott manages +20 golf course facilities through its Marriott Golf operations. Moreover, Marriott operates 19 hotel reservation centres across various countries and territories.

Impacting not only Marriott but the aggregate hotel industry, are private Airbnb-type accommodations. In response, Marriott is placing significant emphasis on expanding its industry-leading international portfolio to an impressive 1.8M rooms by the end of 2025. Through the recent collaboration with MGM Collection, strategic acquisitions, and well-established global brands, uniquely position it to capitalise on potential deals across 150 markets.

Industry Overview

As the world's largest hotel company, Marriott Resorts (NASDAQ: MAR) has been a long-standing competitor in hospitality through its hotel and resort brands that cater to various consumer budgets. The top five competitors based on market capitalisation include:

- Hilton Worldwide Holdings, Inc. (NYSE: HLT) - Market Cap: $52.3 billion.
- InterContinental Hotels Group PLC (NYSE: IHG) - Market Cap: $15.6 billion.
- Hyatt Hotels Corp. (NYSE: H) - Market Cap: $14.36 billion.
- Vail Resorts, Inc. (NYSE: MTN) - Market Cap: $6.6 billion.
- Travel + Leisure Co. (NYSE: TNL) - Market Cap: $3.00 billion.

Marriott's competitive advantages include the largest loyalty programme in the industry which boasts over 196 million members, a strong presence in emerging markets (including 600 properties in Asia), and an extensive inventory. The company has shown enthusiasm towards R&D spending: The Marriott Design Lab, launched in 2022, aims to enhance customer experience through innovating guest rooms and partnering with technology companies such as LG to enhance operational solutions.

Peers	CMP	MCap	P/E Ratio	Debt	Revenue	PAT%	ROA	ROE	EPS
Hilton Worldwide	$216.43	53.33B	45.03	10.23B	10.24B	11.25%	4.05%	80.42%	$4.70
InterContinental Hotels	$97.30	15.61B	25.52	2.20B	3.82B	16.21%	6.81%	-18.70%	$3.90
Hyatt Hotels	$145.28	14.57B	15.73	2.20B	6.67B	3.30%	1.30%	4.11%	$9.50
Vail Resorts	$175.53	6.60B	24.5	2.25B	2.89B	9.28%	3.95%	13.52%	$7.30
Travel + Leisure	$42.97	3.00B	7.12	5.50B	3.80B	10.42%	3.84%	-32.24%	$6.00

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Marriott Int. Valuation

MARRIOTT

Scenario Analysis						
Scenario	Implied Price	Upside	5-Year Revenue CAGR	EBIT Margin Average	WACC	PGR
Optimistic Case	$258.52	16.53%	9.09%	66.40%	8.29%	3.50%
Base Case	$235.65	6.17%	8.31%	64.40%	7.79%	3.00%
Conservative Case	$216.96	(2.48%)	7.53%	62.40%	8.29%	2.50%

DCF	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
Revenue	5,435	2,251	3,490	5,445	6,388	7,282	8,156	9,053	9,959	10,855
% Growth	-	-58.58%	55.04%	56.02%	17.32%	14.00%	12.00%	11.00%	10.00%	9.00%
EBIT	2,037	467	1,758	3,474	3,924	4,588	5,220	5,885	6,473	7,056
% of sales	37.48%	20.75%	50.37%	63.80%	61.43%	63.00%	64.00%	65.00%	65.00%	65.00%
Taxes	326	(199)	81	756	295	551	626	706	777	847
% of EBIT	16.00%	-42.61%	4.61%	21.76%	7.52%	12.00%	12.00%	12.00%	12.00%	12.00%
EBIAT	1,711	666	1,677	2,718	3,629	4,037	4,594	5,179	5,696	6,209
D&A	346	265	138	114	122	291	326	362	398	434
% of sales	6.37%	11.77%	3.95%	2.09%	1.91%	6.00%	6.00%	5.00%	4.00%	4.00%
CapEx	(653)	(135)	(183)	(332)	(452)	(874)	(661)	(670)	(777)	(847)
% of sales	-12.01%	-6.00%	-5.24%	-6.10%	-7.08%	12.00%	8.10%	7.40%	7.80%	7.80%
Change in NWC	546	184	(735)	(524)	(388)	(510)	(571)	(634)	(697)	(760)
% of sales	10.05%	8.17%	-21.06%	-9.62%	-6.07%	7.00%	7.00%	7.00%	7.00%	7.00%
Unlevered FCF	858.00	612.00	2,367.00	3,024.00	3,687.00	5,712.25	6,151.40	6,844.36	7,568.63	8,249.80
Present Value of FCF	-	-	-	-	-	5,553.84	5,548.68	5,727.67	5,876.14	5,942.21
Discount Period						0.38	1.38	2.38	3.38	4.38
Terminal Value										78,588.63
PV of Terminal Value										56,606.24
Enterprise Value										85,254.78
(+) Cash										343.00
(-) Preferred Shares										0.00
(-) Minority Interest										0.00
(-) Debt										(12,794.00)
Equity Value										72,803.78
Diluted Shares (In Millions)										282.90
Implied Stock Price										$257.37

PGR Implied Share Price	$257.58
Relative Valuation Implied Price	$214.03
Final Implied Share Price	**$235.80**
Current Market Price	$220.56
Implied Gain / (Loss)	**6.91%**

Sensitivity Analysis

WACC \ Perpetuity Growth Rate	4.00%	3.50%	3.00%	2.50%	2.00%
$257.26					
6.79%	$310.85	$309.65	$308.44	$307.23	$306.02
7.29%	$283.07	$281.99	$280.91	$279.83	$278.75
7.79%	$259.12	$258.15	$257.18	$256.21	$255.24
8.29%	$238.29	$237.41	$236.53	$235.66	$234.78
8.79%	$220.03	$219.24	$218.44	$217.65	$216.86

WACC	
Market Cap	61,118.00
% of Equity	82.69%
Cost of Equity	8.74%
Risk Free Rate	3.91%
Beta (Bottom-up)	1.19
Equity Risk Premium	4.06%
Debt	12,794.00
% of Debt	17.31%
Cost of Debt	4.58%
Tax Rate	29.40%
WACC	7.79%

Comparables Companies Analysis (In Billions USD)

Company and Ticker	Market Data: Equity Value	Market Data: Net Debt	Market Data: Enterprise Value	Financials: Revenue (LTM)	Financials: EBITDA	Financials: Net Income (LTM)	Valuation: EV/EBITDA
BKNG - Booking Holdings	$119.77	$1.01	$120.78	$22.40	$6.99	$5.03	17.28x
ABNB - Airbnb Inc	$73.51	-$8.97	$64.54	$10.50	$1.64	$4.84	39.35x
MAR - Marriott Int	**$61.12**	**$13.62**	**$74.74**	**$6.56**	**$4.27**	**$2.94**	**17.50x**
HLT - Hilton Holdings	$51.21	$10.22	$61.43	$4.62	$2.49	$1.21	24.67x
IHG - IHG Hotels	$14.86	$2.72	$17.58	$3.82	$1.01	$0.64	17.41x
H - Hyatt Hotels Corp	$13.92	$2.21	$16.13	$6.57	$0.69	$0.98	23.24x
CHH - Choice Hotels Inc	$5.63	$1.83	$7.46	$0.77	$0.47	$0.24	16.04x
WH - Wyndham Hotels Inc	$5.48	$2.72	$8.20	$1.39	$0.60	$0.25	13.62x
High							39.35x
75th Percentile							23.60x
Median							**17.45x**
25th Pecentile							16.97x
Low							13.62x

Comcast Valuation With Median	
Implied EV	$74.53
Net Debt	$12.68
Implied Market Value	$61.85
Shares Outstanding (In billions)	0.29
Implied Value Per Share	$214.03

Revenue, EBITDA and Net Income Forecasts

Regarding revenue growth, the base, optimistic, and conservative scenarios for revenue growth indicate a 5-year Compound Annual Growth Rate (CAGR) of 8.31%, 9.09% and 7.53% respectively.

By 2030, the base case for revenue assumes Marriott will have sales of $10.85 billion, a 70% increase on 2023's revenue. This base case revenue assumption is aggressive but feasible however as Marriott's revenue pre-Covid at a 5-year CAGR of 15.31% from the 2013 to 2018 period.

The conservative and optimistic cases regarding revenue growth for Marriott, assume a 2028 revenue of $10.37 and $11.35 billion respectively, a billion-dollar difference for both scenarios. The likelihood of the scenarios occurring depends upon Marriott's ability to grow revenues from inorganic growth such as M&A activity. Marriott is a mature company meaning revenue from organic growth is slow so other inputs for growth are necessary. Hilton's recent acquisition of BlueGreen Vacations in November of 2023 for $1.5 billion is a good example of what Marriott needs to do to remain dominant in the Leisure and Hospitality industry.

Touching on EBITDA (Earnings Before Income, Tax, Depreciation and Amortization) and Net Income (NI) forecasts, Marriott holds an EBIT margin of 66% for 2023 as well as a Net Income margin of 45%. These are substantially above the industry average EBITDA margin of 38.3% and the NI margin of 27.51%, meaning Marriott has a considerable competitive advantage over its peers. If Marriott can grow or even maintain these competitive EBITDA and NI margins, whilst growing revenues through inorganic growth methods, then EPS growth will be substantial over the coming years, causing Marriott's stock price to rise as a result of good earnings.

Furthermore, Marriott's current debt burden of $12.9 billion can accommodate this additional level of debt. Regarding interest and debt coverage payments; these stand at 6.5x EBIT for interest coverage and 24.5% of operating cash flow for debt coverage. This additional influx of much-needed capital would allow Marriott to solidify its position at the top of the leisure and hospitality industry.

Touching on relative valuation, Marriott's current price of $220.56 is overvalued by 3%, suggesting that Marriott is trading at around where it should be when compared to the EV/EBITDA peer multiple.

WACC and PGR assumptions

Regarding the Weighted Average Cost of Capital (WACC), the base case of this valuation yields a WACC of 7.15% and utilises a 5-year average Beta of 1.19. The optimistic and conservative cases for the valuation concerning the WACC are +/- 0.5% and suggest an implied price range with a high of $258 and a low of $216.

Marriott's Enterprise Value is comprised of 83% equity and 17% debt, with the cost of equity (in the base case) being 8.74%. Marriott's cost of Debt (pre-tax) is 4.58% and this is considered very low in this case due to the low percentage of debt as a part of its EV. This cost of equity is high compared to other companies' cost of equity meaning it is more expensive to raise capital from equity rather than issuing another round of debt. Touching on the previous point, the low cost of debt combined with the low percentage of debt as a part of the capital structure allows for aggressive borrowing to finance M&A activity and consolidate market share.

The DCF part of this valuation assumes a base case Perpetual Growth Rate (PGR) or Terminal Growth Rate of 3.00%. This PGR rate is higher than other firms in the leisure and hospitality industry, with this being due to the brand value that the Marriott brand holds in the industry.

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Marriott Int.
Price Movement Analysis

Chart Appendix

- From September to October 2023, Marriott stock traded sideways, with investors showing cautious sentiment. This could be attributed to concerns over inflation and rising interest rates affecting the broader travel and hospitality sectors.
- From November through December, the stock experienced a strong upward momentum. This rally was driven by Marriott's robust Q3 earnings report, where the company exceeded Wall Street expectations due to a recovery in international travel and strong demand for leisure travel, particularly in the U.S. and Europe. Positive guidance for 2024, fueled by continued hotel occupancy growth and pricing power, supported this trend.
- January and February 2024 saw further price appreciation as Marriott continued to benefit from a strong rebound in business travel and expansion into new markets, particularly in Asia. Additionally, Marriott's announcement of its partnership with MGM Resorts in January contributed to heightened investor optimism.
- By March and April, the stock faced heightened volatility. Concerns about a potential recession and softening consumer spending led to a mid-April pullback. However, Marriott's strong global brand and expansion in China and India helped the stock recover by the end of the month.
- In May and June, the stock experienced a period of consolidation. Uncertainty around the Federal Reserve's rate hike decisions and geopolitical tensions, including the war in Ukraine, led to indecision among investors.
- In July, a sharp price spike occurred, likely driven by Marriott's Q2 earnings beat and continued growth in global RevPAR (Revenue Per Available Room). However, in August, the stock experienced a notable decline, reflecting broader market corrections due to recession fears and slowing global growth.

Investment Risks

- Investing in Marriott carries several risks. Macroeconomic factors like inflation and rising interest rates—currently around 5.5% as set by the U.S. Federal Reserve—pose a threat to consumer spending on travel. Hospitality, being cyclical, typically sees declines in occupancy rates and RevPAR, which for Marriott was up 13.5% year-over-year in Q2 2024, but is vulnerable during downturns.
- Geopolitical risks also affect Marriott, with disruptions from conflicts like the Ukraine war potentially impacting its global operations. Marriott's significant presence in international markets, including over 400 hotels in China, exposes it to regulatory and currency fluctuation risks in emerging economies.
- Competition remains a challenge, as Marriott faces pressure from competitors like Hilton and alternative platforms like Airbnb. Marriott's market share is threatened if it fails to adapt to changing consumer demands, particularly in tech innovation.
- Despite these risks, Marriott's management has maintained a strong balance sheet. As of Q2 2024, Marriott reduced its long-term debt to $9.7 billion, down from $11 billion a year prior, supported by solid free cash flow generation of over $500 million during the same quarter, helping it manage leverage while continuing strategic growth.

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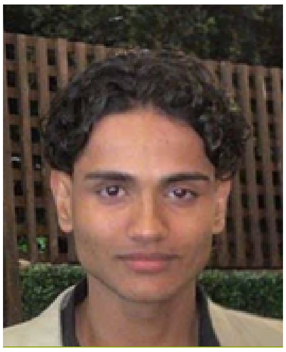

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About AP Capital Research

AP Capital Research is a University of Surrey and EFS-affiliated student-led research group, with the sole purpose of providing greater clarity of financial markets. Accomplished through the creation of weekly market insights, detailing the macroeconomic factors driving global markets and industries

Named after the Unversity of Surrey's Austin Pearce building, we thought it was only right to give credit to the place which truly ignited our immersion into economics and finance, and more specifically, our passion for understanding financial markets.