Street Takeaways - Marriott Q2 Earnings
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- **Overview**:
  - Shares are lower (2.4%) at the open following Marriott's Q2 earnings that was largely in line with the Street's expectations on the top and bottom lines. MAR reported Q2 EPS $1.56 vs FactSet $1.56 and EBITDA of $952M vs FactSet $956.8M. Worldwide RevPAR +1.2%, with NA +0.7% and International +2.8%. Lowered the high end of their worldwide 2019 RevPAR guidance range to +1.0-+2.0% from 1-3% prior with NA RevPAR also to 1-2% from prior +1-3% and Int'l to 2-3% from prior 2-4%. Also lowered 2019 net room growth forecast to +5-5.5% from prior +5.5% guidance. Marriott also announced that it is launching an all-inclusive platform to serve what they call the increasingly popular global vacation segment with plans to build 5 new all-inclusive resorts, investing more than $800M, with the estimated opening dates between 2022 and 2025.
  - Valuation:
    - NTM P/E 19.8x vs peer group 14.3x and five-year range of 14.9x-28.4x, average 21.5x
    - EV/EBITDA 20.8x vs peer group 12.5x and five-year range of 13.6x-24.7x, average 19.1x
    - Dividend yield 1.5% vs peer group's 1.8% and five-year range of 0.8%-1.6%, average 1.2%
  - Sell-side ratings:
    - 70% of firms are Hold rated and remaining 30% are Buy rated vs the Hotels/Resorts/Cruiseline's peer group ratings mix of 55% Buy, 44% Hold, 1% Sell and broader S&P500 market average of 52% Buy, 42% Hold, 6% Sell.
    - Average target moves (30bps) lower to $141.62 and represents an ~11.5% premium to pre-market levels near $127 vs the peer group's median 18.1% target price implied return.
- **Analyst Commentary**:
  - **Stifel Nicolaus** analyst Simon Yarmak - lowers target
    - With the quarter $0.04 below their forecast, points to lower fee income, gains and other income, and equity income for the variance to their expectations.
    - Highlights an example of the strength of the company's pipeline, approximately one out of every three hotels currently under construction in the U.S. are expected to be in the company brand.
    - Notes the higher share buyback activity in Q4 was likely a result of the data breach in Q4, which resulted in briefly suspending buyback program in the quarter
    - Adjusts their FY19-21 estimates lower to $6.07/$6.71/$7.51 from prior $6.16/$6.97/$8.03 and Lowers their price target to $128 from $130 based on a 13.5x multiple on 2021E EBITDA of $3.92 billion; maintains Hold rating.
  - **Cowen** analyst Kevin Kopelman - lowers target
    - Notes Q2 was disappointing as the new 19E RevPAR guidance was in line but EBITDA guidance to +3-4% was worse, ~2% lower on weak incentive & credit card fees and FX; lastly 19E units slowed 25bps on slow construction and cap returns were slightly lowered.
    - RevPAR lowered as expected after difficult industry trends in 1H and the start to 2He and given the very recent market selloff and escalation in the US-China trade war, suggests that it is also possible the company has incorporated more conservative forward-looking growth assumptions than previously, even beyond what would be explained solely by June-July industry weakness.
    - Does highlight that the pipeline accelerated and "RPI share gains were highest in years - notes two key bright spots: both pipeline for future openings and RevPAR Index ("RPI") revenue share was up
    - Lowers price target to $149 from $155 based on the assumed combination of slightly lower target multiple and lower profit estimates; reiterates Outperform rating - confident in strong pipeline growth and market share gains in Q2.
  - **Jefferies** analyst David Katz
    - While noting that a conservative stance was expected, the recent results are likely to

    - pressure shares in the near term - believes investors are likely to focus on the moderated unit growth projections, reduced earnings guidance, and softer capital return projections
    - Notes in-line results with both revenue and Comparable system-wide RevPAR in constant currency below estimate while visible Alpha slightly ahead of estimates
    - Expects an update on guidance during the call this morning, details around H2 trends, more details around its strategy to grow all-inclusive organically vs. partnership, an update on recent home sharing initiatives, details around the implied moderation in capital return projections, and update on integration related execution and expenses
    - Rating is Hold with a $140 target price.
  - **SunTrust Robinson Humphrey** analyst Patrick Scholes
    - Not surprised in the lowered 2019 guidance, given the also lowered guidance by **HLT/H** in the last few weeks and notes that all three companies are now assuming +1-2% for Worldwide RevPAR for 2019.
    - 2019 capital return outlook perhaps lowered slightly, in their view, given language suggesting it 'could approach' $3.0B in share repurchases and dividends from prior verbiage of 'at least $3.0B; ' that said, still believes this figure is potentially conservative.
    - Does not think that the all-inclusive platform will move the financial needle much, if at all - long term, sees opening all-inclusives elsewhere in the Caribbean and Latin America region (CALA) and possibly low-labor cost destinations in the Mediterranean and Asia-Pacific.
    - They are cautious on material non-North America RevPAR outperformance, given the increasingly choppy worldwide macro environment and suggests the high end of the new N.A. RevPAR growth range seems a stretch as it implies 2H will need to do +3.2% after posting +0.8% in 1H.
    - Price target is $135 based on a 14.8x blended multiple on our 2020E EBITDA; rating is Hold

Industries: Hotels & Motels
Primary Identifiers: H-US, HLT-US, MAR-US
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