

## Sector View

## Hotels &amp; Tourism

## Marriott International and Starwood Hotels &amp; Resorts: A new offer that looks expensive and challenging

	1 M	3 M	6 M	31/12/15
Travel&Leisure	0.4%	-7.3%	-2.9%	-8.8%
DJ Stoxx 600	4.4%	-4.6%	-4.8%	-6.8%

\*Stoxx Sector Indices

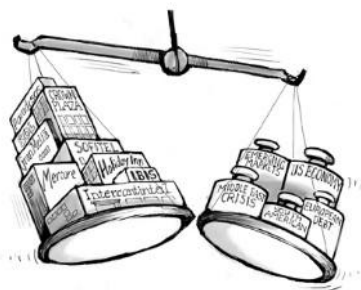
## Companies covered

Company	Recommendation	Target Price
ACCORHOTELS	BUY	EUR48
Last Price	EUR38,985	Market Cap. EUR9,176m
InterContinental Hotels	NEUTRAL	2650p
Last Price	2815p	Market Cap. GBP6,672m
MELIA HOTELS	BUY	EUR15
Last Price	EUR10,6	Market Cap. EUR2,110m

Following Anbang's proposal, Marriott International and Starwood Hotels & Resorts have signed an amended merger agreement.

## ANALYSIS

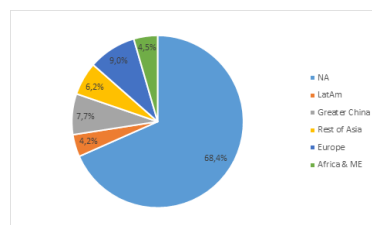
- The new offer:** Under the terms of this revised agreement, Starwood shareholders will receive USD21 in cash and 0.80 shares of Marriott International for each share of Starwood compared with USD2 in cash and 0.92 share previously. The new transaction values Starwood at approximately USD13.6bn i.e. USD79.53 per share (USD10bn of Marriott shares plus USD3.6bn of cash) compared with USD11bn previously i.e. USD65.4 per share (USD10.5bn of Marriott shares plus USD339m in cash). Remember that Anbang's offer is USD78 per share in cash valuing Starwood at a total of USD12.8bn. Moreover, Marriott expects to achieve USD250m in annual cost synergies within two years after closing vs. USD200m previously estimated in November 2015 and the transaction is to be "roughly neutral" on adjusted EPS in 2017 and 2018 after merger costs of between USD100m-USD130m.
- The benefit:** Combined, **the new company** will operate or franchise more than 5,500 hotels with over 1.1 million rooms worldwide with pro-forma fee revenue for the 12 months ended September 30, 2015 of more than USD2.7bn. Marriott and Starwood will be the leader ahead of IHG (c. 5,000 hotels with nearly 725,000 rooms). The combined **portfolio of brands** is huge with a total number of nearly 30, with by segment:
  - Luxury:** Ritz Carlton, Bulgari, Edition, JW Marriott, Autograph Collection, Luxury Collection, St Regis, Tribute Portfolio, W Hotels, Design Hotels.
  - Upscale:** Renaissance, Marriott, Delta Hotels, Gaylord Hotel, AC by Marriott, Courtyard, Sheraton, Le Méridien, Westin.
  - Midscale:** Moxy, Four Points, Aloft.
  - Extended stay:** Residence Inn, SpringHill Suites, Fairfield Inn & Suites, TownPlace Suites, Element.



**Loyalty programs** will represent a total of 75 million members combining 54 million members from Marriott and 21 million from Starwood.

- Our comment:** As we said "**networks remain strategic in terms of size and products**" but hoteliers are also facing a lot of challenges i.e. competition with **OTA**, room-sharing sites such as **Airbnb** (which now manages over 1.5 million rooms), **Flipkey** or **Home Away**, as well as digital solutions and mobile platforms. **The economy is changing and business models have to move.**

Moreover, the **new group network will remain largely focused on US**, with a total number of rooms representing **over 68% of the total offer** (Asia Pacific 13.9% o/w Greater China 7.7%, Europe/Africa & ME 13.5% and LatAm 4.2%).



**In the US**, RevPARs are still benefiting from the favourable balance between supply and demand. Nevertheless, even if supply continues to ramp up at a slower pace than initially anticipated, we have to notice a certain acceleration in new constructions in the last few months. Remember this compares with previous highs, occupancy is around 3% pt higher than in 2007 and ADRs c.12% implying average RevPAR of over USD80 in 2015 which is 20% higher than at the 2007 previous peak.

In a release, **Marriott International announced yesterday** that it continues to expect strong RevPAR and unit growth in 2016. Actually, the group expects lfl RevPAR growth of 2-4% in Q1 2016 and 3-5% for the 2016 with a total number of rooms of 8% (7% net) excluding Starwood

deal. YoY at the end of February, lfl RevPAR growth was 3.4% in NA, 3.9% outside and 3.5% worldwide (**Q4** 2015 RevPAR rose 3.8% o/w 4% in NA, **Q3** was up 4.5% o/w 4.2% in NA, **Q2** was up 5.3% o/w 5.4% in NA and Q1 was up 6.8% o/w 6.9% in NA)

Regarding **Brands**, we think that more than numbers this is increasingly the way to offer something different and hotel products needs to fight against commoditization considering how to manage such a large number of brand ad how to maintain their appeal every day. This is another very risky challenge for the new group.

## VALUATION

	Last price	EV		EV /Sales		EV/EBITDA		EV/EBIT		PER	
		2016e	2017e	2016e	2017e	2016e	2017e	2016e	2017e	2016e	2017e
MARRIOTT INTL.'A'	72,30	22 967	23 647	1,48	1,39	12,08	10,91	14,50	12,81	19,5	16,6
CHOICE HOTELS INTL.	53	3 587	3 537	3,98	3,85	14,08	13,29	14,75	13,88	22,6	20,7
HILTON WORLDWIDE HDG.	22	30 762	29 978	2,58	2,43	10,13	9,46	14,49	13,29	23,6	20,0
STARWOOD HTLS.& RSTS.	84	15 261	14 979	2,90	2,89	13,96	13,43	19,71	18,39	29,9	27,6
WYNDHAM	77	11 590	11 578	2,00	1,92	8,42	8,01	10,19	9,72	13,6	12,2
<b>Average</b>				<b>2,59</b>	<b>2,50</b>	<b>11,73</b>	<b>11,02</b>	<b>14,73</b>	<b>13,62</b>	<b>21,84</b>	<b>19,42</b>

Source : IBES

	Last price	EV		EV /Sales		EV/EBITDA		EV/EBIT		PER	
		2016e	2017e	2016e	2017e	2016e	2017e	2016e	2017e	2016e	2017e
ACCOR	38,985	9 760	9 675	1,67	1,57	8,94	7,67	13,56	10,73	21,5	18,3
IHG	2815	11 409	11 222	6,38	6,05	14,39	13,42	16,24	15,02	21,4	18,6
MELIA	10,60	2 772	2 600	1,60	1,51	9,78	8,91	15,28	13,35	27,2	21,5
NH HOTELS	4,24	2 350	2 303	1,58	1,49	12,35	10,54	22,21	17,38	43,7	25,7
MILLENIUM	401,30	191	192	2,23	2,17	8,80	8,40	11,98	11,43	16,0	15,3
WHITBREAD	3948,00	806	829	2,74	2,53	10,69	9,83	14,19	13,07	16,7	15,5
REZIDOR	35,50	661	638	0,64	0,62	5,73	5,03	8,93	7,52	14,3	11,9
<b>Average</b>				<b>2,41</b>	<b>2,28</b>	<b>10,10</b>	<b>9,11</b>	<b>14,63</b>	<b>12,64</b>	<b>22,99</b>	<b>18,11</b>

Source : IBES

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