

Sector View

Hotels

	1 M	3 M	6 M	31/12/15
Travel&Leisure	-3.3%	-8.7%	-0.5%	-8.7%
DJ Stoxx 600	1.1%	-7.7%	-2.9%	-7.7%

*Stoxx Sector Indices

Anbang withdraws its proposal to acquire Starwood

Starwood has announced that the consortium of potential investors, led by Anbang Insurance Group, has withdrawn its alternative proposal to acquire Starwood. Following this decision, Starwood and Marriott renewed request for shareholder support. Marriott and Starwood will host a joint investor meeting today before their respective shareholder meetings on 8th April

ANALYSIS

- The final terms of the offer:** Under the terms of the existing merger agreement, Starwood shareholders will receive USD21.00 in cash and 0.80 shares in Marriott International for each share of Starwood Hotels & Resorts Worldwide. Starwood shareholders will own approximately 34 percent of the combined company's common stock after completion of the merger, based on current shares outstanding. Remember that the original offer was for USD2.00 in cash and 0.92 Marriott shares for one Starwood share.
- 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. Loyalty programs will represent a total of 75 million members combining 54 million members from Marriott and 21 million from Starwood. 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.
- Our comments:** The networks remain strategic in terms of size and products and the deal is positive regarding this criteria. Nevertheless, hoteliers are also facing a lot of challenges and the merger should not monopolize all the attention. Moreover, the new group network will remain largely focused on the **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%), where RevPAR are today much higher than the previous pick with growth that is slowing quarter after quarter.

VALUATION

- The transaction values Starwood at approximately USD13.6bn i.e. c. USD80 (compared with USD11bn for the original offer i.e. around USD65 per share) which represents 2016e EV/EBITDA of 13.3x.

NEXT CATALYSTS

- Investor meeting and webcast today at 9:00am (eastern time)
- Marriott and Starwood respective AGMs on 8th April

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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