Starwood Hotels & Resorts Worldwide (HOT)

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Mkt Cap: 12.2B * Price (Feb 13): 62.03 * Price Target: 80.33 in 1 year

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Company Description

Starwood Hotels & Resorts Worldwide (HOT) is a global hotel and leisure company. Starwood has iconic brands that resonate with travelers globally and represent a significant share of the luxury lodging industry. They both own & operate as well as lease. They have over 1100 properties representing over 330,000 rooms in over 100 countries. Starwood seeks to be the premier luxury hotel destination while maintaining an asset light operation

Investment Thesis

*Starwood is undervalued by approximately 30% according to my three valuation models.

*Starwood has beat analyst expectations every quarter since Q1 2009. This level of predictable outperformance bodes well for the stock as analysts continuously underestimate the earnings power of Starwood.

*Starwood is a play on the international luxury market

* Starwood has been very successful at maintaining a long term focus on their four drivers of growth and asian expansion which enhances shareholder value

*The barriers to entry in this market are very high. Not only is the industry very capital intensive, but it also takes a long time to build a brand name that ressonates with customers.

Catalysts

Time

*Assuming multiples stay steady, as there is no reason to assume they wouldn't, Starwood will find fair value as it continues to outperform analyst expectations on EPS

*Continued realization of real-estate value will drive large cash sums and result in increased dividends and share buybacks which will draw more investor attention. The dividend doubled in 2012

*Continued growth/stability in the Asian markets will drive deal volume. Any bullishness in the world economy will drive high beta companies with luxury exposure higher.

All in all, continued financial outperformance, fueled by international growth, a strong global positioning, brand loyalty, and the strategic move to an asset-light model will drive Starwood stock higher over the next year.

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SWOT Analysis

Strengths	Weaknesses
1) Multiple brands with strong customer recognition 2) Focused long term management team 3) Good Corporate Relationships 4) Starwood Preferred Guest Program 5) Strong International pipeline	1)Highly competitive and mature industry 2)Owns less hard assets to securitize if needed 3) Seasonal industry 4) Luxury brands exclude many potential customers 5) Large domestic market focus

Opportunities	Threats
1) Large growth in foreign markets by which Starwood is best positioned for 2) Continued expansion of rewards programs to keep active corporate contracts 3) First mover advantage in many markets 4) Pricing power 5) Enhance shareholder value through continued asset light model	1) Highly competitive and mature industry 2) Luxury brands exclude many potential customers 3) Owns less hard assets to securitize if needed 4) Large domestic market focus 5) currency fluctuations and other geopolitical risks

Starwood's threates and weaknesses are primarily a function of the industry by which it operates and less an operational deficiency within the company. For example, Starwood faces currency risk, poltiical risk, government regulation (or power) chanages, all of which are out of the control of the company. These risk re mitigated by opportunity factors such as further innovation of their ancillary revenues portfolios and expansion into new markets. Furthermore, they have a unique product, customer loyalty, and a brand name that resonates throughout the world. All in all i believe the strengths outweigh the weaknesses and the opportunities are worth the threats.

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Porter's Five Forces

Threat of New Entrants: Low

Some of the primary competitors are Hilton, Hyatt, and Marriott. The competition in this industry is strong but the barriers to entry are great. It’s a remarkably capital intensive industry. In addition, the high end luxury industry requires brand name familiarity to help validate spending on large room rents. There is considerable brand loyalty within the luxury hotel space. Thus, it would take a very long time (decades), development of developer and industry connections, and large capital investments to be a credible threat to Starwood.

*High Barriers to entry
*High Capital Requirements

*Industry requires economies of scale

*strong brand name recognition and customer loyalty

Bargaining Power of Customers: Low

Because there are few global players in the luxury hotel space, the consumer must either pick a regional option or choose from three companies. This makes price comparability difficult. Starwood is unique in design and style and as such can offer a unique price. Furthermore, the consumer is choosing to spend more on stay then they have to as there are cheaper options available to them, and as such, they are more flexible in price. Starwood attracts the price flexible that demand service over discounted value.

*low price sensitivity

*lack of comparable pricing options

*customers demand quality over price

Threats of Substitutes - None

The substitutes to hotels include hostels, camp sites, staying with friends and family, or renting a local house or condo. None of these are real substitutes for the type of customer that Starwood attracts. There are effectively no substitute products for the luxury hotel industry and as such, there will always be demand for luxury hotels where the primary factors that drive consumption changes are supply of hotels, not alternatives to hotels

*There are no realistic substitutes for luxury hotels
*substantial product differentiation from next alternative

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Porter's Five Forces

Bargaining Power of Suppliers: Medium

While there are many suppliers that serve the hotel industry, luxury being no exception, suppliers do have bargaining power in this industry for a few reasons. Firstly, long term contracts tend to exist between suppliers and hotel operators. Secondly, there must be uniformity within a hotel. Four Seasons has beds made specifically for their hotels by one supplier so switching costs would be very high as they would have to change all beds. There are also multiple suppliers for many things ranging from furniture to food. Inversely, these suppliers are highly dependent on hotels, often a few hotels, and as such cannot afford to lose those contracts. While it would be costly for Starwood to seek alternatives to, say, a supplier of curtains, the cost to Starwood would be far less than the cost of the supplier for loosing said contract. Its fair to assume there is an equal and equitable balance between suppliers and the hotel operators, and bargaining power is equally shared.

* Many substitute suppliers
*Uniformity across products is vital to consistency
*Switching costs may be high depending on the product

Intensity of Existing Rivalry: High in the US and Europe, Med in China & Japan, Med-Low in Asia ex China and Japan, Low in UAE & Africa

The luxury hotel industry is concentrated. This creates strong competition amongst rivals. There are very few global competitors and only a handful of domestic competitors that have establishments in all the key geographies. The competition in the high end luxury hotel industry (intra industry) is largely based on preference and experience. Furthermore, there are large membership programs to all the major hotels that create strong customer loyalty. It is less likely that, given equivalent options, Starwood will steal customers from Hyatt or Hyatt from Starwood if the consumer's preferences are well established. The competition is high in established markets with established customer preferences like the US and Europe. The competition in China and Japan is medium (although Starwood has significant advantage in China). The competition in the rest of Asia is much lower as Starwood has a first mover advantage in many of those countries. The competition is low in Africa and the UAE as many companies have been hesitant to expand development since the crisis; this is a strong growth driver in the future.

*Large industry with few competitors, especially on the global scale
*First mover advantage helped create loyalty in emerging markets
*Degree of competitive rivalry is a geographic consideration

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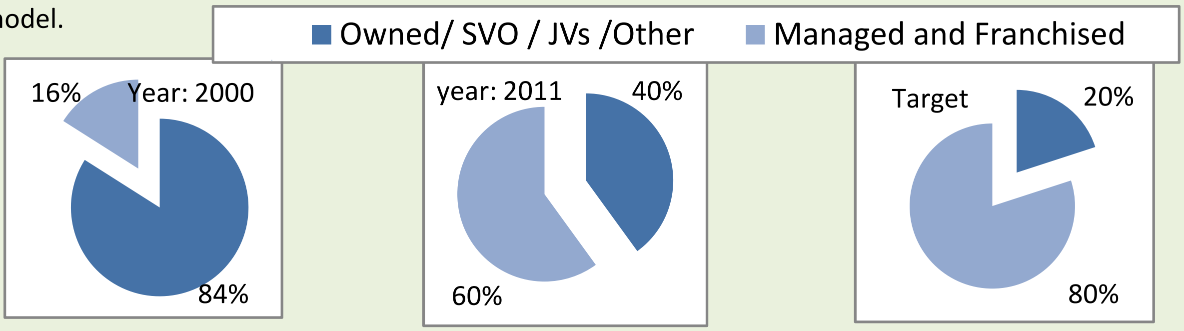
The Company

Starwood is a global luxury hotel operator and one of the largest in the world. Starwood has interests in the lodging segment and generates revenue by either their owned hotels or the management of and franchise rights with respect to their properties. Starwood also makes money from marketing and selling vacation ownership interests (VOIs). Starwood strategically allocates their resources to the growing markets around the world with a focus on Asia as well as the Middle East. For the last decade, Starwood has been moving toward an asset light business model.



Starwood's Portfolio of Brands

Starwood has 9 brands and over 1100 hotels which is the largest luxury portfolio in the world. St. Regis has a target of 50 hotels. Over ½ the rooms are outside of the US as opposed to other brands where only about 1/3 of their rooms are outside the US.

ST REGIS — 28 hotels in 13 countries

THE LUXURY COLLECTION Hotels & Resorts — 79 hotels in 29 countries

Le MERIDIEN — 99 hotels in 41 countries

W HOTELS WORLDWIDE — 42 hotels in 17 countries

aloft A VISION OF W HOTELS — 56 hotels in 10 countries

WESTIN HOTELS & RESORTS — 188 hotels in 36

Sheraton HOTELS & RESORTS — 418 hotels in 70 countries

FOUR POINTS BY SHERATON — 161 hotels in 28 countries

element BY WESTIN — 10 hotels in the US

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St. Regis & The Luxury Collection

The St. Regis and The Luxury Collection are both luxury full-service hotels and resorts representing the highest end of Starwood's portfolio. The St. Regis started off as one hotel in New York City and grew to 30 hotels worldwide with 6,413 rooms. The St. Regis targets high-end-leisure and business travelers. Most St. Regis have individual design characteristics to capture the personality of t he locations they are in. The Luxury Collection span from legendary places to remote retreats. They are marked by impeccable service and decor. Like the St. Regis they appeal to only the price indiscriminant traveler. The Luxury Collection encompasses 85 resorts worldwide with 16,366 rooms.

Luxury Collection, Ethiopia

Monarch Beach

St. Regis Beijing

Hotels Owned by Starwood

North America			
The Phoenician, Scottsdale	Scottsdale, AZ	**1**	**643**
The St. Regis San Francisco	San Francisco, CA	**1**	**260**
The St. Regis New York	New York, NY	**1**	**229**
The St. Regis Bal Harbour Resort	Bal Harbour, FL	**1**	**243**
North America		**4**	**1,375**
International			
St. Regis Florence	Florence, Italy	**1**	**100**
The Gritti Palace, Venice	Venice, Italy	**1**	**90**
Hotel Alfonso XIII, Seville	Seville, Spain	**1**	**151**
Hotel Maria Cristina, San Sebastian	San Sebastian	**1**	**136**
Hotel Goldener Hirsch, Salzburg	Salzburg, Austria	**1**	**69**
Hotel Imperial, Vienna	Vienna, Austria	**1**	**138**
Park Tower, Buenos Aires	Buenos Aires	**1**	**181**
St. Regis Osaka**	Osaka, Japan	**1**	**160**
St. Regis Grand Hotel, Rome	Rome, Italy	**1**	**161**
International		**9**	**1,186**
	St. Regis / Luxury Collection	**13**	**2,561**

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The W & The Sheraton

The W is a luxury upscale hotel that emphasizes iconic designs for an extraordinary experience. Each hotel is uniquely designed and inspired by its location. It is most known for its vibrant lounges and cocktail bars. There are 44 Ws worldwide with 12,369 rooms. The Sheraton is also a luxury hotel and one of the most popular in Asia Pacific area. It has catered to upscale business and vacationers for over 75 years. There are 427 Sheratons worldwide with 149,784 rooms. 97 of those hotels are in Asia and 30 of them are in Africa and the Middle East.

Sheraton, Egypt

Hotels Owned by Starwood

North America		Rooms
W New Orleans - French Quarter	Scottsdale, AZ	643
W New Orleans	San Francisco, CA	260
W New York - Times Square	New York, NY	229
Le Centre Sheraton Montreal Hotel	Montreal, Canada	825
Sheraton Gateway Hotel in Toronto International Ai	Toronto, Canada	474
Sheraton Centre Toronto Hotel	Toronto, Canada	1,377
Sheraton Kauai Resort	Koloa, HI	394
Sheraton Steamboat Resort	Steamboat Springs, CO	208
Sheraton Suites Philadelphia Airport	Philadelphia, PA	251
North America		**2,392**
International		
Sheraton Diana Majestic, Milan	Milan, Italy Milan, Italy	106
The Park Lane Hotel, London	London, England	303
Sheraton Santa Maria de El Paular	Rascafria, Spain	44
Sheraton Paris Airport Hotel & Conference Centre**	Roissy Aerogare, France	252
Sheraton Maria Isabel Hotel & Towers	Mexico City, Mexico	755
Sheraton Ambassador Hotel	Monterrey, Mexico	229
Sheraton Buenos Aires Hotel & Convention Center	Buenos Aires, Argentina	742
Sheraton Rio Hotel & Resort	Rio de Janeiro, Brazil	542
Sheraton Lima Hotel & Convention Center	Lima, Peru	431
Sheraton on the Park	Sydney, Australia	557
W Barcelona	Barcelona , Spain	473
W London - Leicester Square	London, UK	192
Sheraton Fiji Resort	Nadi, Fiji	264
International		**4,890**
The W & The Sheraton Worldwide	**22**	**9,436**

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The Remaining Brands

Le Meridien was started in Paris and has over 100 properties in 43 countries. It is an artistically driven hotel that operates at the luxury and upscale full service level. Le Meridien seeks to bring art to the forefront of the guest's visit. The Westin is another Luxury hotel and resort that fits the most standard mold of what you would expect from a high end hotel. There are 192 hotels worldwide with 74,626 rooms. Four Points is a select service hotel designed for travelers and has their own local craft beer. There are 171 hotels worldwide with 30,924 rooms. Aloft is also a select service hotel that boasts unique designs for affordable prices. There are 62 hotels worldwide with 9859 rooms. Element is a new hotel brand that is up scale and offers extended stay. It is unique in that it has a modern emphasis on nature and environmentally conscious living. There are 10 hotels in the US with 1641 rooms. There are additionally 17 other hotels in the portfolio accounting for 8,086 rooms

Le Meridian, Israel

Hotels Owned by Starwood

North America			Rooms
The Westin St. John Resort & Villas	St. John, Virgin Islands		175
The Westin Peachtree Plaza, Atlanta	Atlanta, GA		1,068
The Westin San Francisco Airport	San Francisco, CA		397
The Westin Maui Resort & Spa, Ka'anapali	Lahaina, HI		759
Aloft Lexington	Lexington, MA		136
Aloft Philadelphia Airport	Philadelphia, PA		136
Aloft San Francisco Airport	Millbrae, CA		252
Four Points by Sheraton Tucson University	Tucson, AZ		150
Four Points by Sheraton Philadelphia Airport	Philadelphia, PA		177
The Tremont Chicago Hotel at Magnificent Mile	Chicago, IL		135
Element Lexington	Lexington, MA		123
North America			**3,508**
International			
The Westin Excelsior, Florence	Florence, Italy		171
The Westin Excelsior, Rome	Rome, Italy		316
The Westin Dublin	Dublin, Ireland		163
The Westin Denarau Island Resort & Spa, Fiji	Nadi, Fiji		273
The Westin Resort & Spa, Cancun	Cancun, Mexico		379
The Westin Resort & Spa, Los Cabos	Los Cabos, Mexico		243
The Westin Resort & Spa, Puerto Vallarta	Puerto Vallarta, Mexico		280
International			**1,825**
	Other Starwood Brands	**18**	**5,333**

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People

The people working at Starwood are one of the most important factors in the success of the company. Starwood's employees are what they refer to as 'locally smart'. This means the employees are from the areas that they are serving. They understand the culture, they speak the language, and they can relate to the clientele. Too often companies try to copy and paste their model on other countries, we just saw this with Home Depot in 2012, and it doesn't work because you have to truly embrace the culture you are infiltrating. As such, the people at Starwood come from their markets and really know their markets.

<u>Frits Van Paasschen - President nd CEO</u>

- has been CEO and President since 2007
- Prior he was the president of the largest division at Coors Brewing Co.
- Previous to that Mr. Van Paasschen worked in private equity covering Middle East and Africa

<u>Vasant M Prabhu - Vice Chairman and CFO</u>

- Has been with Starwood since 2003
- Previously was CEO of Safeway.
- Prior to that he held senior roles at McGraw Hill

<u>Stephen Ho - President, Asia Pacific</u>

- Mr. Ho manages the most expansive pipeline for Starwood
- Began career at Starwood in 1981
- Grew Starwood's footprint from 12 hotels in China to 200 hotels spanning Hong Kong, Macau, Taiwan, and Korea

<u>Qian Jin - President, Greater China</u>

- Qian Jin, PhD has been with Starwood in 1986
- Qian has served various roles and expanded china to over 100 hotels

<u>Roeland Vos - President: Europe, Africa, and Middle East</u>

- Started at Starwood in 1982
- Covers 260 hotels in 58 countries

<u>Miguel Ko - Non-Executive Chairman</u>

- Former President of Asia Pacific and the true driver of the Asian growth story for Starwood breeding the company for Asian expansion
- Started with the Company in 1979 and is one of Starwood's greatest assets as he has unparalleled global experience.

Between Roeland, Quin, Miguel, and Stephan there is over 110 years of experience between the four at Starwood Hotels alone. Management has not suffered massive turnover which helps drive strategy and creates the most experienced locally smart teams. These individuals know Starwood better than anyone else and can focus on enhancing Starwood value not just tomorrow or the year after but for decades to come.

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Starwood Prefered Guest Program (SPG)

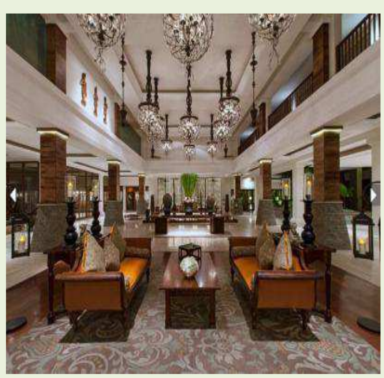
SPG is a value driving membership program which attempts to entice further utilization of Starwood assets by awarding points. The points are redeemable across all nine brands and earned for every dollar spent. This reward program differs from many others in a few ways; First, SPG is the only lodging reward program without any blackout dates. Secondly one can get award flights on over 350 airliners around the world, larger than any other hotel rewards program. SPG members can get special access to certain entertainment events, VIP tournaments, and backstage tours.

SPG is targeted to various markets selectively. SPG powers 50% of the room night stays worldwide and the redemptions are unique to the location as opposed to an ill fitting canvas. Internationally, There has been 32% membership growth since 2007 and 44% of total members are from outside the US. The Chinese membership base has increased by 60%

The exciting new feature in the SPG is their new deal with Delta. This innovative agreement allows reward sharing between Delta and Starwood. The SPG platinum member will receive medallion benefits at the airport and on Delta flights and Delta members will receive Starwood points. This targets frequent travelers which enhances both Delta and Starwood's loyalty programs. Delta has one of the largest loyalty programs and is one of th e largest airlines in the US. By putting high end airlines together with high end lodging, further loyalty and revenues are likely to be observed.

Last year SPG membership grew from 14-16% depending on the degree of involvement. Retention of elite members was up 6% and with the new opportunity to recruit loyalist from Delta's frequent flyers program, this should increase. In the luxury and upscale lodging business, customer loyalty (and business loyalty) are the bread and butter of long term success.

Sheraton, Spain



St. Regis, Bali

Four Points, Malaysia

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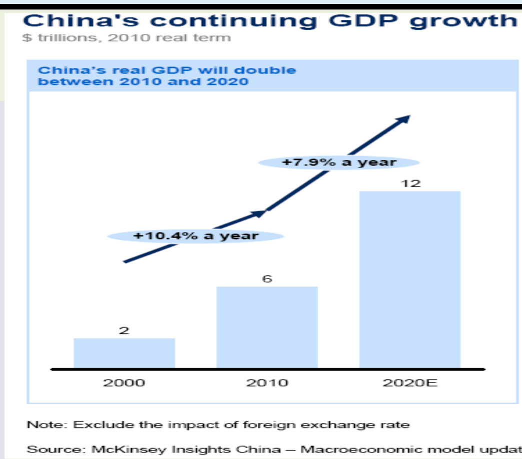
Growth in China

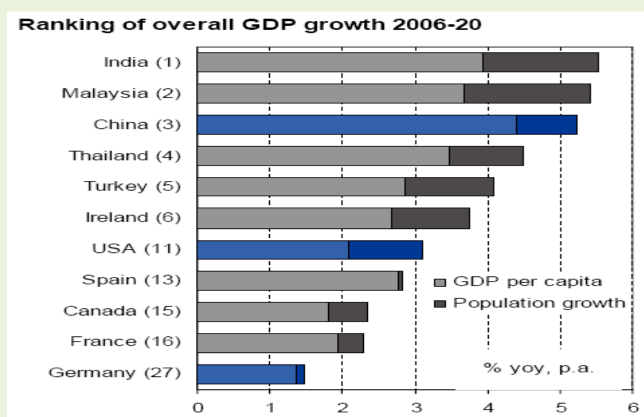


According to McKinsey and Co. Chinese GDP will account for 19% of the world's economic output by 2020. This is over 2 times that of 2010. China will also see migration to urban areas from rural farming lands. In 2010 there were 650 million living in urban areas and by 2020 there should be an increase to 850 million. China has been taking aggressive measures to spur private consumption and savings which in turn bodes well for the lodging business. Starwood will capitalize on this growth by servicing both outgoing and inbound travelers. By 2020 GDP growth in Shandong will most likely match that of Belgium. Thanks to a rapidly expanding Chinese middle class, as well as an affluent class that will triple between 2010 and 2020, there is significant current and future demand for luxury items. Discretionary spending will be the largest growing category of the consumers budget with growth of 13.4% per annum between 2010 and 2020. One reason for this is the Chinese individual observes the growth of their country and "aspirationally trades up". China could overtake Japan to become the largest luxury market by 2015. - (this information is from McKinsey)

Starwood Projects Growth

trips	US	China
Outbound (2011)	**58 mil**	70 mil
Domestic (2011)	**2 Bil**	2.6 Bil
Outbound (2015)	**64 mil**	100mil

Due to the dichotomy between GDP growth and employment growth, Chinas 12th five year plan focuses heavily on enhancing services led employment. With an expanding tourism and business environment, the lodging businesses should be in a prime place to take advantage of government initiatives. In a country like China, you want to be on the governments agenda in regards to economic growth. This will reduce the amount of red tape inherent within the Party politics.



In addition, there is significant fear driven precautionary savings occurring in China. The government is addressing directly this issue by exciting private consumption which is predicted to most reveal itself in the service and consumption sectors s labor gains larger power to enhance their w ages and the Chinese economy becomes "more free".

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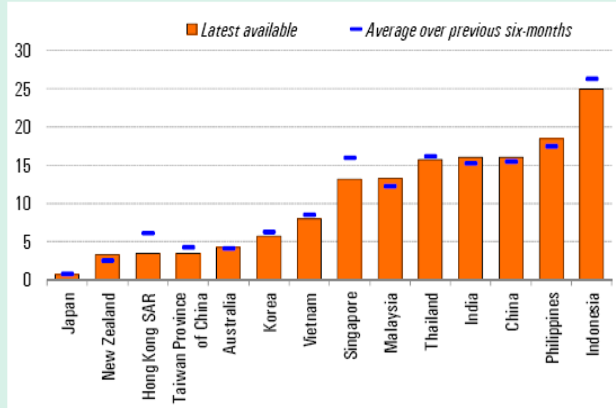
Growth in Asia Pacific

As you can see in the graph to the right courtesy of the IMF, there is significant credit expansion and growth to the private sector. The Asian sector should continue to be the growth leader of the globe and easily outpace world average GDP by 2 percentage points. Sustained rates of growth in the immediate, medium and long term are not just drivers of the country, but in fact a comment on the rising importance of Asia Pacific in the world economy. Countries such as Korea are consuming (possibly irresponsibly) luxury goods in ever increasing rates as wealth has introduced social status awareness and new opportunities to consume goods (such as luxury hotels) that were previously reserved for the ultra-wealthy.

Figure 3. Asia: Credit to Private Sector[1]
(Year-over-year percent change)

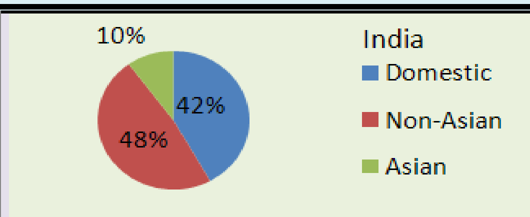


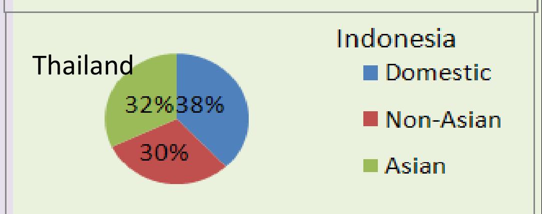
Sources: CEIC Data Company Ltd.; Haver Analytics; and IMF staff calculations.
[1] Latest available data are as of August 2012 except for China, Japan, India, Indonesia, Philippines, and Vietnam (July 2012).

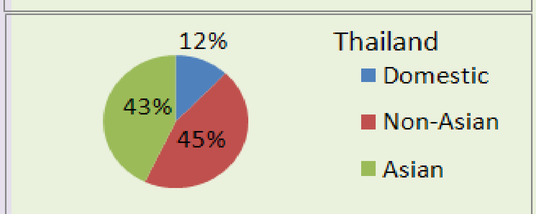
GDP Per Country

	2010	2011	2012	2013
Industrial Asia	**4.1**	**-0.2**	**2.4**	**1.6**
Australia	2.5	2.1	3.3	3.0
Japan	4.5	-0.8	2.2	1.2
New Zealand	1.8	1.3	2.2	3.1
East Asia	**9.9**	**8.2**	**6.8**	**7.4**
China	10.4	9.2	7.8	8.2
Hong Kong SAR	7.1	5.0	1.8	3.5
Korea	6.3	3.6	2.7	3.6
Taiwan Province of China	10.7	4.0	1.3	3.9
South Asia	**9.8**	**6.9**	**5.0**	**6.0**
Bangladesh	6.4	6.5	6.1	6.1
India	10.1	6.8	4.9	6.0
Sri Lanka	7.8	8.3	6.7	6.7
ASEAN	**7.6**	**4.6**	**5.1**	**5.5**
Brunei Darussalam	2.6	2.2	2.7	1.5
Cambodia	6.1	7.1	6.5	6.7
Indonesia	6.2	6.5	6.0	6.3
Lao P.D.R.	8.1	8.0	8.3	8.0
Malaysia	7.2	5.1	4.4	4.7
Myanmar	5.3	5.5	6.2	6.3
Philippines	7.6	3.9	4.8	4.8
Singapore	14.8	4.9	2.1	2.9
Thailand	7.8	0.1	5.6	6.0
Vietnam	6.8	5.9	5.1	5.9
Emerging Asia[1]	**9.6**	**7.4**	**6.1**	**6.8**
Pacific Island Countries	**1.7**	**3.6**	**2.5**	**2.6**
Asia	**8.4**	**5.9**	**5.4**	**5.9**

Travelers by Origin Country







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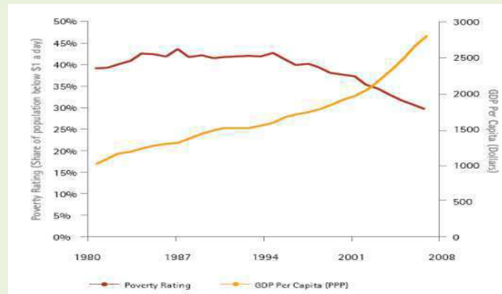
Growth in Africa

The demand and continental exclusivity for luxury was changed when South Africa joined the emerging markets. Its often misunderstood that the emerging markets contain Latin America and the Asian communities. Africa has huge potential! The natural resources that the continent possesses is a catalyst for growth.



The misconception is that Africa is a bunch of people running around in a desert. There are real economies with real growth potential that will present themselves in due course. As gold prices continue to drive higher and the financial systems advance the South African communities are becoming more and more affluent. The wealthy in Africa have disproportionately high purchasing power compared to the rest of their populations, this presents opportunity for companies which can and are willing to make early stage investments within the evolving African communities, such as Starwood is doing. Data on the African consumer is hard to come by and as such Starwood has been very tentative to the cultural needs of the consumer such as larger amounts of cash based transactions and adaptation of local networks.

Growth in the Middle East

A CAGR of 9.9% should be expected in the Middle East high end travel retail sales between 2010 and 2015 according to Alpen Capital. Traffic in Qatar and the major cities in the UAE are driving a massive amount of travel and sales. The Middle East constitutes a middle market between Asia, the Americas, Europe and the Middle East. The booming tourism are key drivers of luxury and retail sales, tourism that not only drives hotel rates but also ancillary revenues at the hotels. As the Arab Spring subsides and stability in the Middle east becomes closer to a reality, positive.

Stronger growth in Bahrain and Saudi Arabia have really propelled the middle east as growth from 2010 and 2011 was 14.2% and 12.1% respectively. Thanks to affluent consumers in the Middle East hotels enjoy upward 90% occupancy. In Abu Dhabi and Dubai the predicted growth in the hospitality market is three times higher than the growth rate of the overall economy.

Size of Retail Trade (bln)

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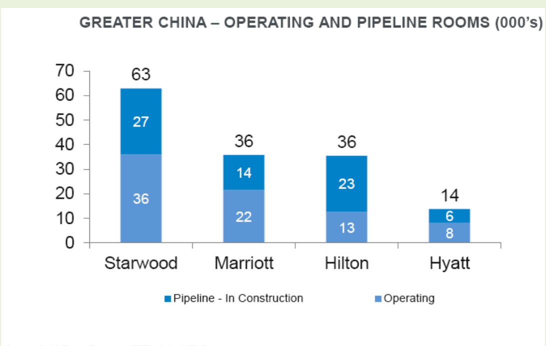
How Starwood is Addressing China

203 Hotels (72,000 rooms): 103 Operating and 100 in the pipeline

In addition to the first mover advantage, Starwood deeply engages the social and cultural identity of China. They offer distinct local programs and serve the Chinese people what the Chinese people traditionally eat, not just American food. There are more restaurants per hotel in China then any of the other Starwood hotels around the world because the Chinese prefer options. In the Chinese hotels there are tea kettles, slippers, and a menu that includes congee, noodles, and rice centric dishes. The Asian community is only beginning to adopt brand loyalty, unlike in the US where it has been a phenomena for some time. Thus Starwood is well positioned to win the favor of the people and expand their own brand over the country and Asian continent. Over 60% of guests in Starwood hotels within China are domestic travelers, further emphasizing the growing need not just to meet the demand of international travel, for leisure and business, to China, but also to accommodate the rapidly expanding Chinese middle class.



Starwood first ventured into China in 1974 when they opened the Sheraton Hong Kong and in 1985 they became the first international chain to open branded hotel in mainland China; The great Wall Sheraton Hotel in Beijing. Between 1985 and 2005 Starwood opened 25 hotels. Between 2005 and 2012, they had over 100 open hotels and 100 more in the pipeline.

The Jist

With 57 million international arrivals, 70 million outbound trips, and an expected 43% increase to 100 million outbound trips by 2015, this is a market that many other lodging companies are missing out on. The 2.6 billion domestic trips outpace any other country. Continued heavy expansion into China will be key in driving value for Starwood and with 171 cities with over one million people (4x that of the US) there is a strong need for supply

Hotels in Operation	Hotels in the Pipeline
	

Starwood Hotels & Resorts Worldwide (HOT)

Mkt Cap: 12.2B * Price (Feb 13): 62.03 * Price Target: 80.33 in 1 year

How Starwood is Addressing Asia Pacific

For countries with this sort of expected growth, there must be accommodating governments, solid infrastructure, and of course lodging to satisfy the needs of business. Over 70% of the worlds GDP growth over the next decade is expected to come from Asia. India, for example, should go from them 11th to the 5th largest consumer market by 2025.

GDP (bn)

	2011	2016E	% Δ
India	1676	2629	57%
Indonesia	846	1592	88%
Thailand	346	494	43%
The US	15094	18705	24%

Population

	2011	2016E	% Δ
India	1207	1289	7%
Indonesia	241	259	7%
Thailand	64	66	3%
The US	312	327	5%

Starwood is Expanding Their Asian Portfolio Rapidly

175 Hotels: 122 Operating and 53 Pipeline (executed)

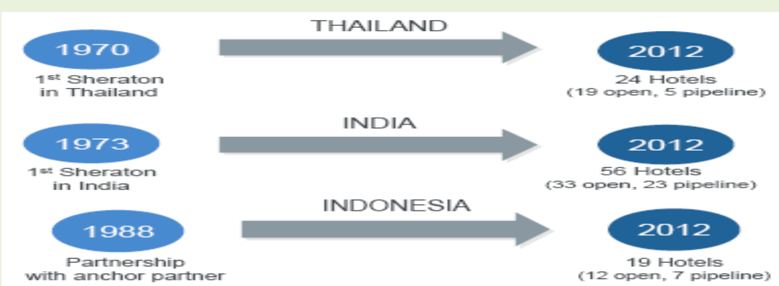
South Asia: 63 Hotels - 36 Operating, 27 in the Pipeline

Japan/Korea/Guam: 24 Hotels - 23 Operating, 1 in the Pipeline

Indo China: 32 Hotels - 23 Operating, 9 in the Pipeline

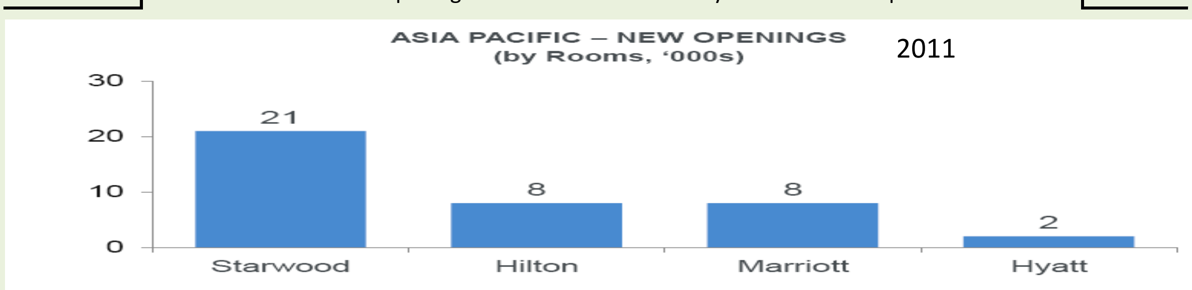
South East Asia: 39 Hotels - 24 Operating, 14 in the Pipeline

Australia/Pacific region: 18 hotels - 16 Operating, 2 in the Pipeline



Starwood believes their first mover advantage gives them a strong position in the region as they have strong ties with both developers, and big business. In the pipeline, roughly 40% are Sheratons. Asia Pacific (including China), makes up 65% of the pipeline

Starwood is opening more new rooms than any other US hotel operator



Starwood Hotels & Resorts Worldwide (HOT)

Mkt Cap: 12.2B * Price (Feb 13): 62.03 * Price Target: 80.33 in 1 year

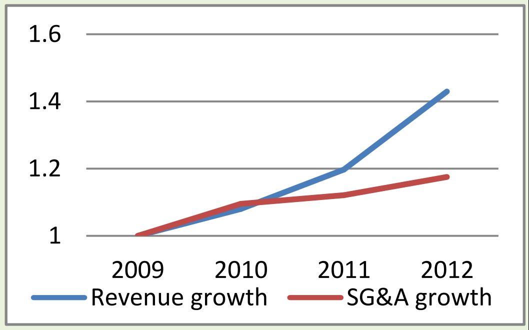
4 Key Levers to Driving Value

Management has identified four key levers to driving the value of Starwood. These are controlling SG&A, expanding hotel footprint, growing RevPar, and effectively managing their wholly owned real estate. As these are the company's goals, it is prudent to dissect them and best understand the story, the strategy, and the execution of these value drivers

1) Controlling SG&A

This is an important part of hotel management as it is very easy to loose control over SG&A costs. Management announced that their run rate for SG&A is 3% although it was 5% in the last quarter due to some incentives payouts and other one time costs. Viewing the geometric average of SG&A growth from 2009 to 2013E you get 4.179%. When comparing that to the growth rate in total revenues of 9.36% over the same time period, one can see the impressive management of SG&A

% Revenue and SG&A growth 2009-2012



Starwood is controlling SG&A as planned

2) Expanding Hotel volume and country presence

	2008			2009		
Hotel Brand	Hotels	Rooms	Countries	Hotels	Rooms	Countries
St. Regis	14	2952	9	28	5892	13
Sheraton	409	143278	71	418	145860	71
Four Points	134	23498	23	161	28138	28
Aloft	17	2505	3	56	8830	10
Element	2	246	1	10	1641	1
The W	26	7742	13	42	12036	17
Westin	162	64426	34	188	72731	36
The Luxury Collection	62	10267	29	79	14924	29
Le Meridien	107	27686	45	99	25488	41

Weighted Average Country Growth	16%
Weighted Average Room Growth	21%
Weighted Average Hotel Growth	29%

Expanding as Planned.

This doesn't even consider growth within countries, but just the amount of new countries for which Starwood expanded into per brand. Very impressive numbers in light of the recent financial crisis.

Starwood Hotels & Resorts Worldwide (HOT)

Mkt Cap: 12.2B * Price (Feb 13): 62.03 * Price Target: 80.33 in 1 year

4 Key Levers to Driving Value

3) Growing RevPar

RevPar Stands for Revenue Per Room

RevPar is one of the most consulted industry metrics. RevPar displays to the analyst exactly how much price control the operator has over the consumer. If RevPar is expanding, it suggests that the firm is able to increase its prices.

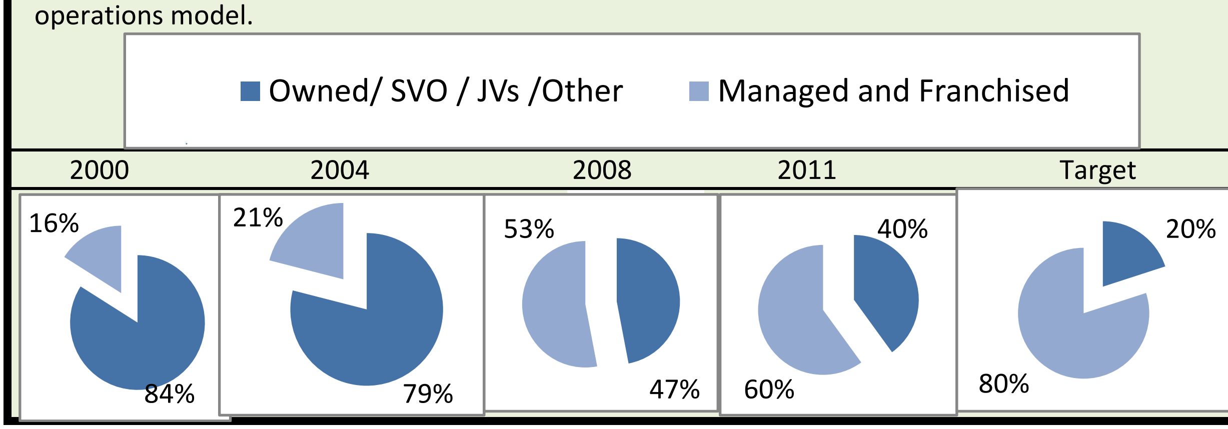
	2009	2010	2011	Q3 2012	growth rate
Worldwide					
RevPar	128.95	142.76	159.12	170	7.15%
ADR	199.22	205.49	218.65	221.97	2.74%
North America					
RevPar	134.96	153.63	164.78	169	5.78%
ADR	194.33	207.44	215.6	222	3.38%
International					
RevPar	118.8	129.11	152.01	160	7.73%
ADR	209.31	202.64	222.95	229	2.27%

*note, these values were broken down into EAME, Americas, Asia Pacific on the quarterly statements and thus I had to attempt to reconstruct them by hotel presence. Thus the 2012 numbers are projections based on Q3, Q2, Q1 2012 and historical growth rates.

Growing RevPar

4) Getting Full Value from Wholly Owned Real-Estate AKA movement toward an asset light model

A few examples of sales and asset values can be found in the wholly owned portfolio valuation section. Instead, let us judge this by their improvement toward obtaining an asset-light operations model.



Starwood Hotels & Resorts Worldwide (HOT)

Mkt Cap: 12.2B * Price (Feb 13): 62.03 * Price Target: 80.33 in 1 year

4 Key Levers to Driving Value

4) Getting Full Value from Wholly Owned Real-Estate AKA movement toward an asset light model (cont)

The Starwood Owned hotels have occupancies about 420 bps higher than the Starwood system average. Over 2012 Starwood has sold 10 properties whose valuations were above 16x EBITDA for approximately 580 million. This reduced the owned and leased room count by 10%.

In addition, the St. Regis Bal Harbour properties are selling nicely with 73% of the units sold and closed. The total vacation ownership and residential services revenue increased from 361 million to 514 million in the second quarter of 2012. This was the most anticipated hotel opening in 2012 according to Forbes. It has 310 rooms and is expected to generate 600 million in cash throughout close.

Getting Full Value from Wholly Owned Real-Estate

Discussion on Strategy

Starwood believes that the price point method for attracting various qualities of customers is the wrong way to approach the lodging industry. Instead, Starwood attempts to employ a lifestyle model that seeks to provide brands that fit the lifestyles of their customers. Element, for example, appeals to the health and earth conscious consumer while Aloft appeals to those that look for a unique design, and the St. Regis for those that wish to enjoy the utmost luxury Starwood innovation manifests itself through hotel design.

Starwood correctly spotted the future of travel by entering the Asian markets long before their competitors. Their ability to identify where the growth will be, not tomorrow, but over the next few decades is what drives value for the consumer. They employ a 'locally smart' staff that speaks the language and understand the culture of the markets they are entering. Starwood believes that 80% of the profits, in the future, will be from outside the United States and they intend to actively enter these new markets including the UAE and Africa. Essentially, Starwood is excited about global travel and hopes to take advantage of globalization.

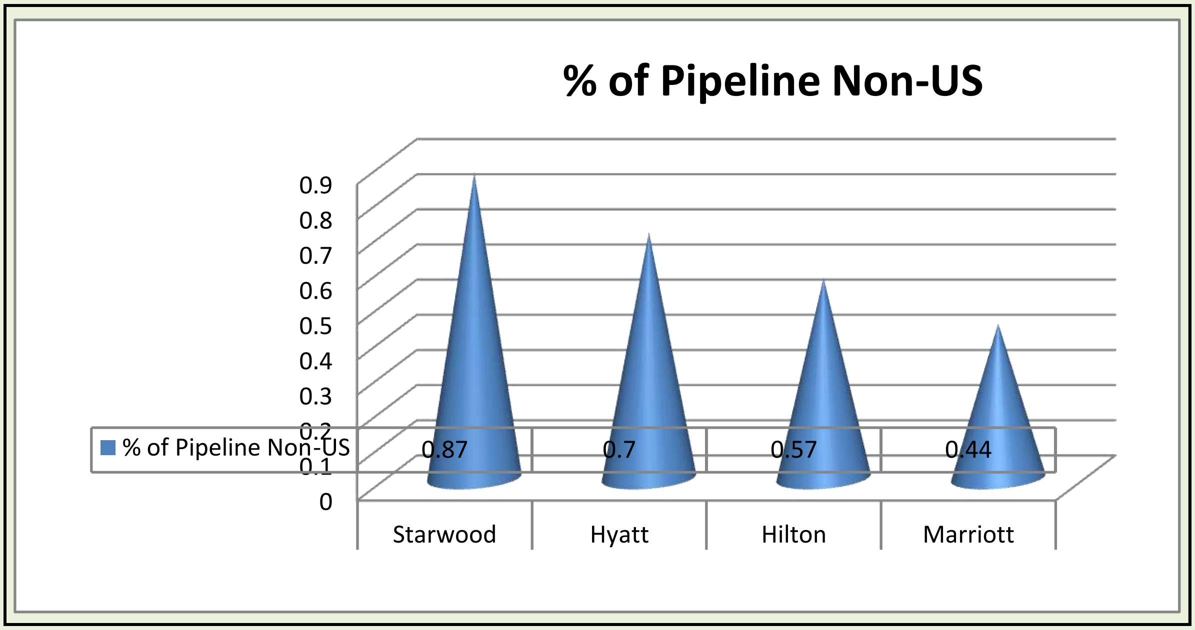
With supply low and staying low, the growth within the industry will come from demand. As Starwood is expanding its portfolio as rapidly as possible, it doesn't keep up with current demand and thus rents should increase as the years progress. Essentially, pricing pressure growth will help drive top line growth in the company

Starwood Hotels & Resorts Worldwide (HOT)

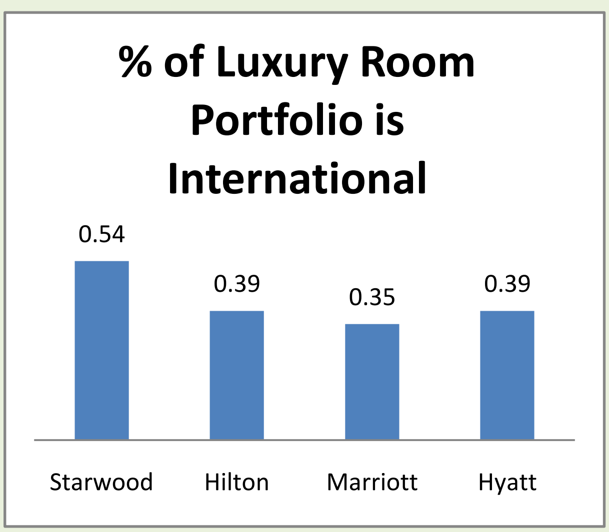
Mkt Cap: 12.2B * Price (Feb 13): 62.03 * Price Target: 80.33 in 1 year

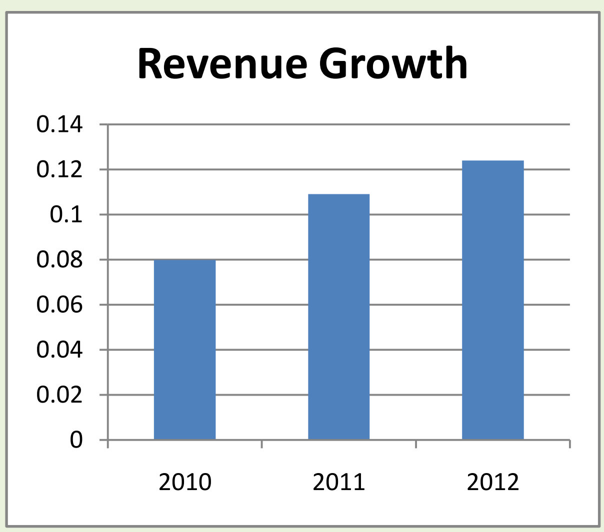
Pipeline and Revenue Generation

Starwood has the highest Non-US concentrated pipelines of any of its competitors in the upper scale and luxury hotel business. This pipeline consists of over 370 hotels with almost 100,000 rooms.



Revenue growth has been strong over the last three years and should continue to strengthen into the future. The sustainable revenue growth is in a large part owed to the focus on the growing Asian appetite for luxury goods. RevPar growth for 2011 was 2.6% in 2012 in constant dollars and .1% in actual dollars. However, as you will see on the next page, this number is expected to change for the benefit of Starwood.





Starwood Hotels & Resorts Worldwide (HOT)

Mkt Cap: 12.2B * Price (Feb 13): 62.03 * Price Target: 80.33 in 1 year

How We Should Think Looking to 2013

Based on a combination of Management sandbagging, better macro conditions, and publicly available information I'm making the following predictions as to the landscape of 2013. First, I believe that RevPar will experience significant growth. While Revpar for the previous quarter was up on constant results and flat in actual dollars, 2013 should be up on constant and actual dollars shouldn't vary. I'm looking for RevPar at around 6%. Next I'm assuming increases in Same-Store Owned Hotels at around 5% as opposed to the 6% operating. This is in line with past performance of owned hotels being slightly superior to those not being owned. Margins this last year increased and it's fair to assume they will likewise do so in 2013, especially given the reduction in owned hotel overhead. Look for margins to rise close to 100 bps. SG&A as well as Management fees should increase at their historical rates of 4 and 10% respectively. This gets us 2013 EBITDA of around 1 billion. For conservative reasons i modeled EBITDA at around 950 mil with expected increases in 2014 and 2015.

Depreciation and Amortization is expected to be up, this is logical due to the extinguishment of assets that might not be fully depreciated. Expect special items to reduce or raise EPS varying on hot the disposal of assets goes in 2013. It appears the markets are turning in favor of the seller and Starwood should be able to fetch higher asset prices in 2014 as they did in 2013.

Misc Information

Snapshot of the Balance Sheet in Millions

	2009	**2010**	**2011**	**Sep. 30, 2012**	Trend
Current Assets	1,491	2,621	2,534	2,250	up/down
Total Assets	8,761	9,776	9,560	9,209	up/down
Current Liabilities	2,027	2,165	1,992	1,882	down
Total Liabilities	6,916	7,290	6,605	5,831	down
Owners Equity	1,845	2,486	2,955	3,378	up

Starwood currently has the best China pipeline with 27,000 rooms where the next closest competitior is marriott with 22,000 rooms followed

Starwood Hotels & Resorts Worldwide (HOT)

Mkt Cap: 12.2B * Price (Feb 13): 62.03 * Price Target: 80.33 in 1 year

Valuation Approach

I will value Starwood in three parts.

1) A DCF Model

2) An EPS Model

3) A By Parts Model

The by parts model will be broken down into three pieces; Wholly Owned Property, The Brand Name, and a DCF model for the Franchise Business

I will take the equal weighted average value of each model to determine the value of Starwood

Starwood Hotels & Resorts Worldwide (HOT)

Mkt Cap: 12.2B * Price (Feb 13): 62.03 * Price Target: 80.33 in 1 year

DCF Model

	2011	2012	2013	2014	2015	2016	Terminal
Revenue	$5,624	$6,321	$6,332	$6,676	$7,069	$7,422	$7,794
% Growth		*12.4%*	*0.2%*	*5.4%*	*5.9%*	*5.0%*	
Expenses	$4,994	$5,408	$5,342	$5,642	$5,887	$6,140	$6,404
% Growth		*8.3%*	*-1.2%*	*5.6%*	*4.3%*	*4.3%*	
Operating Income	$630	$913	$990	$1,033	$1,183	$1,283	$1,390
EBITDA Margin		*45%*	*8%*	*4%*	*14%*	*8%*	
Less Taxes	$75	($147)	($326)	($340)	($388)	($411)	($445)
% Tax Rate		*-16.1%*	*-33.0%*	*-32.9%*	*-32.8%*	*-32.0%*	
Plus D & A	$189	$200	$200	$200	$200	$200	$200
Less CapEx	($469)	($423)	($507)	($534)	($566)	($594)	($623)
% of Revenue	8%	7%	8%	8%	8%	8%	
Less Increase in WC	$86	($102)	$50	$50	$50	$50	$50
% Revenue	*1.5%*	*-1.6%*	*0.8%*	*0.7%*	*0.7%*	*0.7%*	
Unlevered Free Cash Flow	$511	$441	$407	$409	$479	$529	$572

Terminal Value Calculation	
Discount Rate	7.8%
Terminal Growth Rate	3.0%
Terminal Value	$13,734
PV of Terminal Value	$13,734

Implied Valuation	
Enterprise Value	$15,719
Plus Cash & Investments	$651
Minus Long-Term Debt	$1,653
Equity Value	$14,717
Shares Outstanding	196
Share Price	$75.09

CAPM	
Beta	1.97
Risk-free Rate	1.87%
Expected Market Return	7.90%

WACC	
Cost of Equity (r_e)	13.75%
w_d	63.32%
w_e	36.68%
Tax Rate	32%
WACC	7.84%
Cost of Debt (r_d)	6.50%

Shareholders equity	3,378
total liabilities	5,831
Total Value (E+D)	9,209

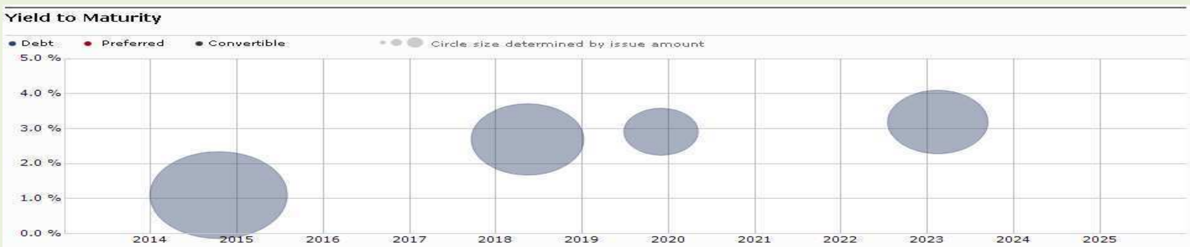
Present Value Calculation	2013	2014	2015	2016
Discount Period	0.5	0.33	0.25	0.20
PV of FCF	$394	$401	$472	$522
Sum of PV of FCF	$1,789			

Starwood Hotels & Resorts Worldwide (HOT)

Mkt Cap: 12.2B * Price (Feb 13): 62.03 * Price Target: 80.33 in 1 year

DCF Model (cont)

Below I will include some sensitivity analysis around the numbers above. The model's value of debt was derived from a weighted average of their outstanding debt. However, one should note that they issued debt recently at 3.2% which shows improving credit quality and is in fact one of the lowest debt premiums in the industry.



Name	Maturity Date	Amount $(Mil)	Credit Quality	Price	Coupon %	Coupon Type (Fixed/Floating)	Callable	Rule 144A	Yield to Maturity %
Starwood Hotels & Resorts Worldwide 144A	05/01/2021	844.0	---	---	0.000	Zero	---	Yes	---
Starwood Hotels&Resorts Wrldwd 7.875%	10/15/2014	499.0	Middle	112.2	7.875	Fixed	Yes	No	1.10
Starwood Hotels&Resorts Wrldwd 6.75%	05/15/2018	400.0	Middle	119.8	6.750	Fixed	Yes	No	2.69
Starwood Hotels&Resorts Wrldwd 3.125%	02/15/2023	350.0	---	99.4	3.125	Fixed	Yes	No	3.19
Starwood Hotels&Resorts Wrldwd 7.15%	12/01/2019	245.0	Middle	125.9	7.150	Fixed	Yes	No	2.91

The expected market return is based on a blend of current and past market risk premiums. Research suggests the current market risk premium is around 6.32%. The market risk premium from 1990-2000 was 7.09%. The market risk premium from 1960-2000 was 4.25%. The market risk premium from 1928-2000 was 5.51. I got to the market risk premium used n the calculation by the following weighted average

$$6.025\% = .5(6.32\%) + .2(7.09\%) + .2(4.52\%) + .1(5.51\%)$$

Price Per Share Given Variation in WACC and Terminal Growth Rates								
		WACC						
		7.2	7.4	7.6	7.8	8	8.2	8.4
Terminal Growth Rate	2.5	78.5	75.44	71.23	68.72	66.4	64.24	62.23
	2.8	81.09	78.64	74.81	72.74	70.13	67.71	65.47
	3	85.82	82.14	78.78	75.7	72.87	70.25	67.83
	3.3	90.02	86.98	83.21	80.63	77.41	74.45	71.72
	3.5	94.76	92.45	88.18	84.3	80.77	77.54	74.58

Starwood Hotels & Resorts Worldwide (HOT)

Mkt Cap: 12.2B * Price (Feb 13): 62.03 * Price Target: 80.33 in 1 year

Has Beat Analyst EPS Expectations 16 Straight Quarters

2009	Q1	Q2	Q3	Q4	EPS
Analyst Estimates	$ 0.04	$ 0.17	$ 0.12	$ 0.22	$ 0.55
Actual	$ 0.14	$ 0.22	$ 0.14	$ 0.51	$ 1.01
% Beat	250%	29%	17%	132%	84%

2010	Q1	Q2	Q3	Q4	EPS
Analyst Estimates	$ 0.02	$ 0.26	$ 0.22	$ 0.39	$ 0.89
Actual	$ 0.13	$ 0.35	$ 0.25	$ 0.52	$ 1.25
% Beat	550%	35%	14%	33%	40%

2011	Q1	Q2	Q3	Q4	EPS
Analyst Estimates	$ 0.25	$ 0.46	$ 0.39	$ 0.57	$ 1.67
Actual	$ 0.30	$ 0.50	$ 0.42	$ 0.71	$ 1.93
% Beat	20%	9%	8%	25%	16%

2012	Q1	Q2	Q3	Q4	EPS
Analyst Estimates	$ 0.52	$ 0.62	$ 0.53	$ 0.65	$ 2.32
Actual	$ 0.63	$ 0.70	$ 0.58	$ 0.70	$ 2.61
% Beat	21%	13%	9%	8%	13%

Starwood has not only never missed a quarter, but they have beat analyst estimates every quarter since 2009. When management can communicate effectively to analysts the future and intention of the firm, earnings will be smooth and growth w ill be steady. The 2009 to 2012 geometric average quarterly earnings growth is 10%. The average actual earnings growth for the same time period is 19%.

	2013
Baased on Average Actual Growth Rate	$ 3.10
Based on Average Analyst Growth rate	$ 2.87
Predicted 2013 growth rates adjusted for change in analyst estimates	$ 2.87

Based on the above graph, historical trends of analyst underestimation would result in a 2013 EPS value of $3.10.

The stock currently trades around 21.7x forward analyst estimates and 26x trailing. If that multiple is maintained and the company continues their 4 year historical EPS growth then Starwood should trade at **$80** at the start of 2014

Starwood Hotels & Resorts Worldwide (HOT)

Mkt Cap: 12.2B * Price (Feb 13): 62.03 * Price Target: 80.33 in 1 year

Category	Ratios	2012
Liquidity Ratios	Current Ratio	1.20
	Quick Ratio*	0.42
	Avg Collection Period	31.25
	Days Payable	10.55
Leverage Ratios	Debt Ratio	0.63
	LT Debt to Capitalization	0.33
	Debt to Equity	1.73
	Financial Leverage	2.73
Activity Ratios	AR turnover	11.68
	Payables Turnover	34.58
	Fixed Asset Turnover	2.14
	Total Asset Turnover	0.73
Profitability Ratios	Operating Profit Margin	15.26%
	Net Profit Margin	7.97%
	ROA (ROI)	5.81%
	ROE	15.84%

From 2009 to 2012 the current ratio rose from .74 to 1.2 showing an average annualized improvement of 12.8%. Concurrently, over the four year period 2009-2012 the debt to equity ratio went from 3.75 to 1.73. Fixed asset ratio also improved by about 100%. The delevering of the company to an asset light model hasn't affected ROE or operating profit margin over the period 2010-2012. It is evident that Starwood is able to maintain profitability while transforming the company and with the goal of selling half of the remaining owned assets, we can expect much of the same performance over the next few years.

EPS Price Projection and Sensitivity Analysis

Starwood has (and has had) a consistent 26x trailing earnings multiple. The below table explores sensitivity around the $3.1 2013 EPS projected value

		2013 Earnings Per Share Projection				
		3	3.05	3.1	3.15	3.2
EPS Multiple	24	72	73.2	74.4	75.6	76.8
	25	75	76.25	77.5	78.75	80
	26	78	79.3	80.6	81.9	83.2
	27	81	82.35	83.7	85.05	86.4
	28	84	85.4	86.8	88.2	89.6

I believe that Starwood, by the end of 2013, will trade somewhere between $76.25 and $80.6.

Feb 2014 Price Target of $80.6 representing a 28% upside.

Starwood Hotels & Resorts Worldwide (HOT)

Mkt Cap: 12.2B * Price (Feb 13): 62.03 * Price Target: 80.33 in 1 year

Wholly Owned Portfolio Valuation

Per-Key Valuation

Starwood owns 53 hotels with 17,330 rooms. One way to value Starwood's wholly owned properties is by multiplying average room value by the number of rooms. It is very hard to come up with a reasonable average room value as there are many different rooms in many different geographies each with their own unique qualities that dis-homogenizes them. However, surveying all deals since 2009, the following sufficiently represents fair market for their property

Some Recent Property Sales

2010 * St. Regis Aspen sold for 391,000 per room

2010 * St. Giles The Court and St. Giles the Tuscny both sold 244,000 PR

2011 * The W Chicago sold for 350,000 per room

2011 * Westin San Diego sold for $244,000 per room

2012 *Manhattan at Times Square Hotel sold

2012 *W Los Angeles sold fro $484,000 per

Reviewing the recent transactions its clear that the per sale room value of the various Starwood hotels is bound between 240,000 and 480,000. The current portfolio is high end should be fetching figures closer to 400,000 then 250,000. Thus, the fair value of the wholly owned portfolio is probably bound between 300,000 and 400,000 with a target average room value of 350,000.

Per Room Value	Value of Wholly Owned Portfolio
300,000	5.199 B
310,000	5.2723 B
320,000	5.5456 B
330,000	5.7189 B
340,000	5.8922 B
350,000	6.0655 B
360,000	6.2388 B
370,000	6.4121 B
380,000	6.5854 B
390,000	6.7587 B
400,000	6.932 B

Assuming the average at $350,000 per room the wholly owned portfolio is worth approximately

6 Bil

Value of the Starwood Brand Name

	% not owned, leased, and consolidated JV	sales franchised	total sales	Mkt Cap
H	0.49	1819000000	3698000000	6490000000
MAR	0.91	11234000000	12317000000	13010000000
HOT	0.68	3856000000	5624000000	12030000000

	H	MAR	Avg(MAR,H)	HOT
V/S Ratio	1.755	1.056	1.405	2.139
Value of Starwood Name Brand				2.828 B

This value excludes the Name brand of the wholly owned businesses as, their valuation, is purely on the basis of the property value. (2.139-1.405)*3.856B=2.828B

Starwood Hotels & Resorts Worldwide (HOT)

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Valuing the non-wholly Owned Business

The same logic and rational That was explained in the cumulative DCF model applies to this one. Here we take out the wholly owned properties. This was done by abiding by the weights of revenues and expenses that were derived from the wholly owned business and those ratios followed forward into the rest of the analysis.

	2011	2012	2013	2014	2015	2016	Terminal
Revenue	$3,656	$4,109	$4,116	$4,339	$4,595	$4,825	$5,066
% Growth		12.4%	0.2%	5.4%	5.9%	5.0%	3.0%
Expenses	$3,496	$3,786	$3,740	$3,880	$4,051	$4,225	$4,406
% Growth		8.3%	-1.2%	3.7%	4.4%	4.3%	2.0%
Operating Income	$160	$323	$376	$460	$544	$600	$660
EBITDA Margin		102%	16%	22%	18%	10%	
Less Taxes	$49	($96)	($212)	($242)	($287)	($174)	($192)
% Tax Rate		-29.6%	-56.4%	-52.7%	-52.7%	-29.0%	
Plus D & A	$189	$130	$130	$130	$130	$130	$130
Less CapEx	($469)	($423)	($214)	($226)	($239)	($251)	($263)
% of Revenue	8%	7%	-5%	-5%	-5%	-5%	
Less Increase in WC	$86	($102)	$33	$33	$33	$33	$33
% Revenue	2.4%	-2.5%	0.8%	0.7%	0.7%	0.7%	
Unlevered Free Cash Flow	$15	($167)	$113	$154	$181	$337	$367

Terminal Value Calculation	
Discount Rate	7.8%
Terminal Growth Rate	3.0%
Terminal Value	$7,799
PV of Terminal Value	$7,702

Implied Valuation	
Enterprise Value	$8,471
Plus Cash & Investments	$651
Minus Long-Term Debt	$992
Equity Value	$8,130
Shares Outstanding	196
Share Price	$41.48

CAPM	
Beta	1.97
Risk-free Rate	1.87%
Expected Market Return	7.90%

WACC	
Cost of Equity (r_e)	13.75%
w_d	63.32%
w_e	36.68%
Tax Rate	32%
WACC	7.842%
Cost of Debt (r_d)	6.50%

Shareholders equity	2,027
total liabilities	3,499
Total Value (E+D)	5,525

Present Value Calculation	2013	2014	2015	2016
Discount Period	0.5	0.33	0.25	0.20
PV of FCF	$109	$151	$178	$332
Sum of PV of FCF	$769			

By Parts Valuation

The Brand name is valued at 2.8 Billion
The owned portfolio is valued at 6 Billion
The non-owned portfolio is valued at 8.1 Billion

Thus the by parts valuation is 16.9 Billion. Divide this by the 196 million shares and you have a per share price of

$86

Starwood Hotels & Resorts Worldwide (HOT)

Mkt Cap: 12.2B * Price (Feb 13): 62.03 * Price Target: 80.33 in 1 year

Valuation Conclusion

	Stock Price	
By Parts Valuation	$	86.00
DCF Model	$	75.00
EPS model	$	80.00
Average	$	80.33

By taking the average of the by parts valuation, DCF model, and EPS model, we find an average share price of 80.33 which is a premium to today's stock price of 62. By initiating a long position in the company today, you have a one year target return of 29%. This 29% comes at significantly less risk to return of capital Starwood is in an excellent position to be profitable into the future given their competitive advantages, strategy, and long history of execution.

We must consider the value of the Starwood brand name in determining the fair market value of the company. The method used to value the brand name is by taking the value sales ratio of Starwood less the value sales ratio of the blend Hyatt and Marriot, and then multiply that by Starwood's sales. This method identifies the premium that Starwood can fetch for their brands.

Starwood Hotels & Resorts Worldwide (HOT)

Mkt Cap: 12.2B * Price (Feb 13): 62.03 * Price Target: 80.33 in 1 year

Risks

Starwood's risk profile is not too different from the rest of the hotel industry. Given their successful progress toward an asset light model, Starwood suffers less real-estate risk than its competitors. One of the primary risks is negative changes in the global economic conditions, especially those conditions in Asia. If China were to experience a hard landing or other adverse scenarios were to arise, it could severely impact Starwood's pipeline, as well as the current demand for luxury hotel rooms. While this list is not exhaustive, it does attempt to shed light on the basic risks that Starwood faces in the course of regular business.

In addition to the economic conditions of the operating environment, an overall change in consumption patterns leading to a decline in demand for luxury rent will negatively affect Starwood. Opposite demand, if there is a sudden rush of supply to enter the market, it could negatively affect pricing power. This is not a likely scenario as the development of land and hotel space can be observed years in advanced.

Changes in operating costs such as labor and energy could negatively affect EBITDA. This could occur due to regulatory changes in the geographies for which Starwood operates or could be catalyzed by increased health care or insurance costs.

Lawsuits resulting from either errors in operation or matters outside of Starwood's control are possible from both a franchiser franchisee relationship, a regulatory non-compliance scenario, or a suit by a guest.

Foreign exchange fluctuations or rapid change in costs by third party vendors could affect SG&A. furthermore the taxation structure of various geographies could change unfavorably affecting bottom line results.

While this list is not exhaustive, it does attempt to shed light on the basic risks that Starwood faces in the course of regular business.