Starwood Hotels and Resorts Worldwide, Inc. (HOT)

Rating	**OUTPERFORM* [V]**
Price (04 Feb 11, US$)	61.71
Target price (US$)	73.00[1]
52-week price range	62.89 - 35.28
Market cap. (US$ m)	11,765.02
Enterprise value (US$ m)	13,917.40

**Stock ratings are relative to the relevant country benchmark.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

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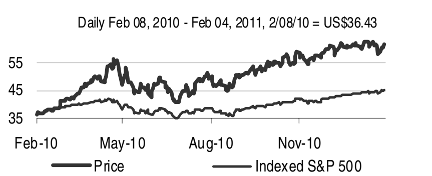
FORECAST INCREASE

Positive Meeting with CFO Post 4Q Results; Reiterating Outperform, Raising '11 Estimates

- **Action/Event:** Following a strong 4Q earnings report on Thursday, we met with Starwood CFO Vasant Prabhu the next morning to follow up on the company's results. During our meeting, we discussed the favorable trends in the lodging industry, the company's thoughts on its cap ex program going forward, the asset sale environment, international development opportunities, and the outlook on margin expansion.
- After our meeting, we feel confident that the company is taking a disciplined ROI-focused approach to its increased capital spending program going forward. Although we discussed the potential headwinds in Latin America in our meeting, we still believe the margin recovery story this year is intact as rate begins to be the bigger driver RevPAR improvements. We reiterate our Outperform rating and raise our 2011 EBITDA and EPS estimates to $1bn and $1.65 (from $1.61), which represent the high end of HOT's guidance range.
- **Investment Case:** We believe Starwood is well positioned to capitalize on the global lodging recovery. Domestically, HOT will benefit from the lack of supply growth, which will help drive pricing as demand continues to strengthen. HOT will also grow earnings through expansion into emerging markets, especially China where Sheraton is well positioned. With a strong balance sheet, growing excess cash, and asset sale opportunities, we expect HOT to increasingly return capital to shareholders in coming years.
- **Catalysts:** 1) Incremental asset sale announcements throughout 2011 and 2012, 2) expansion of room pipeline, 3) 1Q11 earnings.
- **Valuation:** Our $73 target price is based on a multiple of 12.0x our 2013 EBITDA estimate, discounted back to a one-year forward point.

Share price performance



On 02/04/11 the S&P 500 index closed at 1310.87

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.13	0.35	0.25	0.52
2011E	0.26	0.45	0.37	0.58
2012E	0.37	0.59	0.55	0.75

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (US$)	1.25	1.65	2.26	3.05
Prev. EPS (US$)	—	1.61	2.34	—
P/E (x)	49.3	37.3	27.3	20.3
P/E rel. (%)	325.6	281.9	233.3	—
Revenue (US$ m)	5,071.0	5,535.6	6,231.1	6,875.0
EBITDA (US$ m)	879.0	1,000.4	1,160.7	1,361.4
OCFPS (US$)	3.57	3.38	4.01	4.79
P/OCF (x)	17.0	18.3	15.4	12.9
EV/EBITDA (current)	15.9	13.9	11.7	9.6
Net debt (US$ m)	2,231	2,152	1,783	1,243
ROIC (%)	11.69	9.54	11.51	14.03

Number of shares (m)	190.65	IC (12/11E, US$ m)	5,114.62
BV/share (current, US$)	13.7	EV/IC (x)	2.7
Net debt (current, US$ m)	2,246.7	Dividend (12/10A, US$)	—
Net debt/tot. cap. (current, %)	19.1	Dividend yield (%)	—

Source: Company data, Credit Suisse estimates.

Takeaways from Our Meeting with Management

Following a strong 4Q earnings report on Thursday, we met with Starwood CFO Vasant Prabhu the next morning to follow up on the company's results. During our meeting, we discussed the favorable trends in the lodging industry, the company's thoughts on its cap ex program going forward, the asset sale environment, international development opportunities, and the outlook on margin expansion.

Capital Expenditures Increasing with a Focus on ROI

We believe some investors had a negative reaction to the company's guidance for an increase in capital expenditures in 2011. Starwood announced that total cap ex should reach about $600m this year versus $377m in 2010. Mr. Prabhu pointed out that Starwood has been hinting at a return to more normal capital spending levels since the investor day in December. The long run average of cap ex as a percentage of revenue is in the 7% to 8% range with the percentage dipping down to 5% at the bottom of the cycle and typically reaching 10% near the top of the cycle. For the past two years, the company has spent around 5% in order to preserve capital in the downturn.

While Starwood will clearly be spending more capital over the next couple of years, it is not changing the standards for deciding where to spend. The company takes a disciplined ROI-focused approach to planning its spending, and always considers whether it is better to try to sell an asset right away or invest in the property and sell later. In some cases like the Court and Tuscany in New York City, Starwood realized that further investment into the properties would not yield a desired return, and, as a result, the assets were sold and de-flagged. In other instances like the Grand Hotel Florence, the best ROI scenario in the company's opinion is to invest in the property and re-flag as a St. Regis, which will likely lead to a higher value in the future. The company is keenly aware that under-investing in an asset and hoping to sell it with a PIP will reduce the number of potential buyers and provide those buyers with leverage over Starwood in the negotiating process.

In addition to selected property renovations, Starwood announced that it would be stepping up its spending on IT. The company will ramp up its technology behind its booking systems, which should aid in booking group business. Starwood is also reaching a hardware refresh cycle, which will require increased spending on replacement technology. The company views its technological position as a key competitive advantage and staying up to date is important to Starwood's success.

Asset Sale Environment Evolving

According to Mr. Prabhu, the asset sale environment has clearly improved over the past year with more buyers entering the market, bid ask spreads beginning to narrow, and buyers becoming more realistic about price. Although the number of buyers have increased, the current transaction market is dominated by a shallow pool of buyers typically in the form of REITs and occasionally foreign individuals looking to acquire one or two assets at a time. We have yet to see a strong return of private equity, high net worth or buyers with an appetite for a portfolio transaction. Most successful transactions in the current environment have been isolated to trophy type assets in gateway markets. Given that financing is beginning to materialize, CMBS deals are likely to increase in 2011, and lodging fundamentals continue to strengthen, Mr. Prabhu expects that the market for lodging assets will continue to improve going forward.

Development – Enormous Potential for China

It is not surprising that Starwood views the Chinese market as a very large opportunity in the long term. With available and inexpensive land, access to capital, and support from the government, the company sees a favorable development picture in the country. Mr. Prabhu noted that a massive revolution in travel is playing out in China with infrastructure desperately trying to keep up. Starwood believes that the 170 cities in China that have populations greater than 1m people can support at least two 5-star properties, and the

Sheraton brand should be represented. The company operates 62 hotels in China, with 10 in Shanghai and 8 in Beijing, and plans on opening the 82 hotels that are currently in its pipeline. Mr. Prabhu has not seen any signs that hotel development is slowing in China. We believe that Starwood's current footprint in China, its development pipeline there, and the traction of the Sheraton brand in the market separate the company from its peers.

Development outside of China is mostly focused on other emerging markets since we are likely a year away from any domestic development projects materializing. On the positive side, the complete lack of hotel development in the US since 2009 is creating an extremely low supply growth environment, which will continue to benefit operating assets. Once development does come back, the company expects that its Aloft and Element brands will be attractive options given their relatively low cost to build.

Potential for Upside Surprise in Margin Expansion

As rates begin to drive RevPAR gains this year, we believe margin expansion will become a central part of the Starwood story. The company provided guidance of 150bps to 200bps of margin improvement in its owned assets in 2011, which we believe appears conservative. Mr. Prabhu acknowledged that the company took a conservative approach in its margin guidance given the following headwinds it sees across the portfolio:

(1) HOT will incur pre-opening costs in 1Q11 from the opening of the W London.

(2) Local cost inflation in the Latin American market will create a drag on margin expansion. Rooms in these markets are priced in US dollars while costs are incurred in local currencies.

(3) RevPAR growth is currently outpacing total revenue growth due to the group business lagging in the recovery. This dynamic is typical of most lodging cycles, and we expect the gap in growth rates to narrow over time.

Outside of Latin America, management expects that the owned portfolio could see operating margin growth outpacing revenue growth by 2x due to increasing average daily rates. Room rates in 2011 will benefit from the corporate rate negotiations that the company expects to yield high single digit increases, as well as the recent pick-up of group business. In addition, Mr. Prabhu noted that the company is not seeing any significant cost pressures domestically.

Appetite for M&A in Lodging?

When asked about the potential for another Le Meridian style acquisition, Mr. Prabhu noted that at the right price the appetite for a brand acquisition is very high. The company would consider a deal that included real estate, but would primarily be interested in the brand. He believes that the lodging industry is in need of consolidation to help spread the fixed costs over more assets and achieve greater scale. The issue at the moment is that there are very few potential targets available at an attractive price.

Returning Capital to Shareholders

As Starwood continues to generate free cash flow, it will examine several options for returning capital to shareholders. We believe there is potential for an increased dividend in the future. Mr. Prabhu noted that the company will look to keep its dividend payout ratio in the 25% to 40% range, however there is some reluctance to be at the high end of that range given the cyclical nature of the hotel business. The company will likely be more conservative and cautious in terms of share buy backs, and will look to pay down its debt before engaging in buy backs.

Estimates

For 1Q11, HOT has established EPS and EBITDA guidance of $0.22 to $0.26 and $195m-$205m, respectively. Results are expected to be driven by 8%-10% same-store RevPAR growth on a constant dollar basis. For 2011, HOT is projecting EPS and EBITDA of $1.55-

$1.65 and $975m-$1bn, respectively. HOT expects RevPAR growth of 7%-9% in 2011. On the heels of 4Q10 results and the company's updated guidance, we have adjusted our 1Q11 EPS and EBITDA estimate to $0.26 and $207m from $0.29 and $217m. Our 2011 estimates move to $1.65 and $1bn from $1.61 and $984m, respectively.

Exhibit 1: Credit Suisse Estimates vs. Consensus

Estimates Summary	EBITDA (US$m)			EPS (US$)		
	CS Ests.	CS Prior	Street	CS Ests.	CS Prior	Street
1Q11E	206.6	217.0	206.6	$0.26	$0.29	$0.25
2011E	1,000.4	984.4	990.6	$1.65	$1.61	$1.64
2012E	1,160.7	1,182.9	1,154.3	$2.26	$2.34	$2.31
2013E	1,361.4	1,335.4	1,270.7	$3.05	$2.94	$2.83

Source: FactSet, Credit Suisse estimates

Valuation

We are reiterating our Outperform rating on HOT and our $73 our target price, based on a multiple of 12.0x our 2013 EBITDA estimate, discounted back to a one-year forward point.

Exhibit 2: Target Price Calculation

(US$m, except per share data)	
2013E EBITDA	1,361
EBITDA Multiple	*12.0x*
Equals: Enterprise Value	16,337
Less: Net Debt (Calendar Year End 2013)	1,116
Equals: Equity Value	**15,221**
Discount Rate	*10.0%*
Discount Timeframe	*0.9*
Equals: Equity Value, One Year From Today	13,968
Diluted Shares Outstanding	192
Equals: Target Price, One Year from Today	**$73**
Current Share Price	61.71
Potential Upside (Downside)	*18.3%*

Source: Company data, Credit Suisse estimates

Financials

Exhibit 3: Income Statement

(US$m, except per share data)	2008	2009	2010	1Q11E	2Q11E	3Q11E	4Q11E	2011E	2012E	2013E
INCOME STATEMENT										
REVENUES										
Owned, leased and consolidated joint venture hotels	2,259	1,592	1,704	416	476	470	506	1,868	2,101	2,274
Vacation ownership and residential sales and services	749	523	538	133	134	132	144	543	554	566
Management fees, franchise fees and other income	861	676	712	174	193	191	227	784	890	998
Other revenues from managed and franchised propertie	2,038	2,004	2,117	524	590	596	630	2,340	2,687	3,037
Total revenue	**5,907**	**4,795**	**5,071**	**1,247**	**1,392**	**1,389**	**1,507**	**5,536**	**6,231**	**6,875**
YoY % Change	*-4.0%*	*-18.8%*	*5.8%*	*5.1%*	*8.0%*	*10.7%*	*12.5%*	*9.2%*	*12.6%*	*10.3%*
COSTS AND EXPENSES										
Owned, leased and consolidated joint venture hotels	1,722	1,322	1,395	355	370	379	398	1,501	1,660	1,728
Vacation ownership and residential	583	422	405	101	101	99	114	415	426	434
Selling, general, administrative and other	481	332	344	79	92	92	95	357	393	433
Restructuring, goodwill impairment and other special ch	141	379	(75)	0	0	0	0	0	0	0
Depreciation	291	276	252	62	64	64	64	254	256	256
Amortization	32	35	33	8	10	10	10	38	40	40
Other expenses from managed and franchised propertie	2,038	2,004	2,117	524	590	596	630	2,340	2,687	3,037
Total operating expenses	**5,288**	**4,770**	**4,471**	**1,128**	**1,227**	**1,239**	**1,311**	**4,906**	**5,461**	**5,928**
OPERATING INCOME	**619**	**25**	**600**	**119**	**166**	**149**	**196**	**630**	**770**	**947**
Operating margin	*10.5%*	*0.5%*	*11.8%*	*9.5%*	*11.9%*	*10.8%*	*13.0%*	*11.4%*	*12.4%*	*13.8%*
										10.3%
Equity earnings/gains (losses) from unconsolidated ventu	16	(4)	10	5	7	2	10	24	40	64
Interest expense	(207)	(227)	(236)	(58)	(58)	(58)	(58)	(231)	(231)	(231)
Gain (loss) on asset dispositions and impairments, net	(98)	(95)	(39)	0	0	0	0	0	0	0
Income from continuing operations before taxes	330	(301)	335	66	115	94	148	423	579	780
Income tax benefit (expense)	(76)	303	(27)	(16)	(29)	(23)	(37)	(105)	(145)	(195)
Tax rate	*23%*	*101%*	*8%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Income from continuing operations	**254**	**2**	**308**	**50**	**87**	**70**	**111**	**318**	**434**	**585**
DISCONTINUED OPS										
Net loss from operations, net of tax	0	(2)	(1)	0	0	0	0	0	0	0
Net loss on dispositions, net of tax	75	71	168	0	0	0	0	0	0	0
Net income	329	71	475	50	87	70	111	318	434	585
Net loss attributable to noncontrolling interests	0	2	2	0	0	0	0	0	0	0
Net income attributable to Starwood	**329**	**73**	**477**	**50**	**87**	**70**	**111**	**318**	**434**	**585**
EARNINGS PER SHARE - DILUTED										
Continued operations	**$1.37**	**$0.02**	**$1.64**	**$0.26**	**$0.45**	**$0.37**	**$0.58**	**$1.65**	**$2.26**	**$3.05**
Discontinued	$0.41	$0.38	$0.88	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Weighted average number of shares (basic)	181	180	183	185	185	185	185	185	185	185
Weighted average number of shares (diluted)	185	180	190	192	192	192	192	192	192	192
ADJUSTMENTS TO NET INCOME AND EBITDA										
Adjusted EPS reconciliation:										
Net income from continuing operations	254	4	310	50	87	70	111	318	434	585
(Gain) loss on asset dispositions and impairments, ne	(98)	(95)	(39)	0	0	0	0	0	0	0
Restructuring, goodwill impairment and other special c	(141)	(379)	75	0	0	0	0	0	0	0
Debt extinguishment	0	(17)	0	0	0	0	0	0	0	0
Cost of sales adjustment	0	(17)	0	0	0	0	0	0	0	0
Income tax (expense) benefit for special items	86	167	(5)	0	0	0	0	0	0	0
Foreign tax credits	0	157	42	0	0	0	0	0	0	0
Income from continuing ops before special items	407	188	237	50	87	70	111	318	434	585
Adjusted EPS (diluted)	**$2.20**	**$1.04**	**$1.25**	**$0.26**	**$0.45**	**$0.37**	**$0.58**	**$1.65**	**$2.26**	**$3.05**
Adjusted EBITDA reconciliation:										
Net income	329	73	477	50	87	70	111	318	434	585
Interest expense	233	249	255	61	62	62	62	246	246	246
Income tax (benefit) expense	131	(330)	(139)	16	29	23	37	105	145	195
Depreciation	321	317	288	72	74	74	74	293	295	295
Ammortization	34	38	36	8	10	10	10	38	40	40
EBITDA	1,048	347	917	207	261	239	293	1,000	1,161	1,361
(Gain) loss on asset dispositions and impairments, ne	98	108	39	0	0	0	0	0	0	0
Discontinued ops pre-tax net (gain) loss on dispositior	(130)	(58)	(2)	0	0	0	0	0	0	0
Restructuring, goodwill impairment and other special c	141	379	(74)	0	0	0	0	0	0	0
Cost of sales price discount adjustments	0	17	(1)	0	0	0	0	0	0	0
Adjusted EBITDA	**1,157**	**793**	**879**	**207**	**261**	**239**	**293**	**1,000**	**1,161**	**1,361**
Margin %	*19.6%*	*16.5%*	*17.3%*	*16.6%*	*18.7%*	*17.2%*	*19.5%*	*18.1%*	*18.6%*	*19.8%*

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 04 Feb 11)*
Starwood Hotels and Resorts Worldwide, Inc. (HOT, $61.71, OUTPERFORM [V], TP $73.00)

Disclosure Appendix

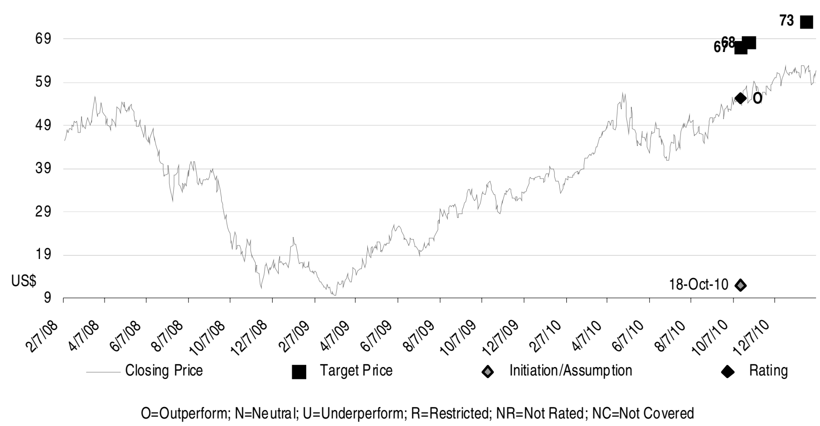
Important Global Disclosures

I, Joel Simkins, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for HOT

HOT Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
10/18/10	55.17	67	O	X
10/29/10	54.14	68		
1/21/11	62	73		



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***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*
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Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.
**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*
***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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	Global Ratings Distribution	
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Neutral/Hold*	41%	(59% banking clients)
Underperform/Sell*	11%	(53% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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See the Companies Mentioned section for full company names.

Price Target: (12 months) for (HOT)

Method: Our $73 target price for Starwood is 12.0x our 2013 EBITDA (earnings before interest, taxes, depreciation, and amortization) estimate, discounted back to a one-year forward point. We apply a 10% discount rate in our DCF model. Our primary method of valuing Starwood is by using EV (enterprise value)/EBITDA and, on average, Starwood has traded at an EV/EBITDA multiple of 12.0x, with a range of 4.9x-18.5x over the past five years. We believe Marriott and Hyatt are good comps for Starwood. Even with a short trading history, Hyatt is likely the closest compare for Starwood, given its mix of owned assets (50% of EBITDA); however, as Starwood continues to evolve its business model toward management and franchising, this should allow it to expand its multiple closer to that of Marriott.

Risks: We see several risks to Starwood's achievement of our $73 target price. The company faces lodging industry risks such as a sustained downturn in economic and market conditions which impact spending on business and leisure travel, risks related to natural disasters which impact hotel operations, as well as future terrorist attacks and geopolitical events or diseases (H1N1) that could curtail travel. Broadly speaking, many of the elements of Starwood's business that are beneficial in good economic climates such as a focus on corporate, upper-upscale/luxury travel in gateway markets can conversely be a significant headwind in an economic downturn. In addition, Starwood's business is tremendously competitive and expectations of a broad-based lodging recovery are high.

Please refer to the firm's disclosure website at www.credit-suisse.com/researchdisclosures for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names.

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Credit Suisse provided investment banking services to the subject company (HOT) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (HOT) within the past 12 months.

Credit Suisse has managed or co-managed a public offering of securities for the subject company (HOT) within the past 12 months.

Credit Suisse has received investment banking related compensation from the subject company (HOT) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (HOT) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (HOT) within the past 12 months.

As of the date of this report, Credit Suisse Securities (USA) LLC makes a market in the securities of the subject company (HOT).

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