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China's Anbang raises offer for Starwood to $14 billion

By Greg Roumeliotis and Mike Stone

China's Anbang Insurance Group Co raised its offer for Starwood Hotels & Resorts Worldwide Inc (HOT.N) to almost $14 billion, Starwood said on Monday, in the latest challenge to the U.S. hotel operator's merger with Marriott International Inc (MAR.O).

The bidding war for Starwood has pitted Marriott's ambitions to create the world's largest lodging company with about 5,700 hotels against Anbang's drive to create a vast portfolio of U.S. real estate assets.

The acquisition of Starwood, owner of the Sheraton and Westin brands, by Anbang would be the largest ever by a Chinese company in the United States.

Anbang's consortium, which includes private equity firms J.C. Flowers & Co and Primavera Capital Ltd, has offered $82.75 per share in cash, in what is reasonably likely to lead to a proposal that is superior to the deal with Marriott, Starwood said on Monday. Reuters had reported earlier on Monday that Anbang had raised its offer.

Marriott's latest cash-and-stock offer, which was announced on March 21, is currently worth around $78 per share. Starwood's board has not yet changed its recommendation to its shareholders in support of the company's merger with Marriott, Starwood said. A vote for Starwood shareholders to approve the Marriott deal is scheduled for April 8.

"Marriott has the financial capacity and the wherewithal to push its bid up higher. However, so much of the transaction is based on Marriott's current share price, I think investors would be less than thrilled if it increased its offer materially at this juncture," said Bill Crow, an analyst at Raymond James.

Marriott declined to say on Monday if it would raise its offer further. In a statement, Marriott said it was confident that the previously announced amended merger agreement with Starwood is the best course for both companies.

"Starwood stockholders should give serious consideration to the question of whether the Anbang-led consortium will be able to close the proposed transaction, with a particular focus on the certainty of the consortium's financing and the timing of any required regulatory approvals," Marriott said in its statement.

In any deal with Anbang or Marriott, Starwood shareholders will also receive stock in Interval Leisure Group Inc (IILG.O), which is getting Starwood's vacation ownership business, currently worth $5.91 per Starwood share.

Starwood shares were trading up 2.4 percent at $84.07 on Monday. Marriott shares were up 4 percent to $71.40, as some investors hoped Anbang's move would prompt Marriott to walk away from an expensive deal.

Anbang's latest offer values Starwood at 13.5 times earnings. By comparison, peers Hyatt Hotels Corp (H.N) and Hilton Worldwide Holdings Inc (HLT.N) are trading at around ten times earnings.

To be sure, the Anbang offer is still cheaper than some of large real estate deals seen in the run-up to the 2008 financial crisis. Buyout firm Blackstone Group LP's (BX.N) $26 billion leveraged buyout of Hilton in 2007, for example, valued that company at 15 times earnings.

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Marriott said last week it believes it could achieve $250 million in annual cost synergies within two years after closing the deal with Starwood, up from $200 million estimated in November 2015 when it signed its original merger agreement.

An acquisition of Starwood by Anbang would probably face scrutiny by the Committee on Foreign Investment in the United States (CFIUS), an interagency panel that reviews deals to ensure they do not harm national security. However, sources have said both Starwood and Anbang believe that deal would receive CFIUS clearance.

Under its latest merger agreement with Marriott, Starwood would pay a breakup fee to Marriott of $450 million.

Lazard (LAZ.N) and Citigroup Global Markets Inc (C.N) are financial advisers to Starwood, and Cravath, Swaine & Moore LLP is its legal counsel. Deutsche Bank Securities (DBKGn.DE) and Gibson, Dunn & Crutcher are advising Marriott.

PJT Partners Inc (PJT.N) is Anbang's financial adviser, while Skadden, Arps, Slate, Meagher & Flom LLP is its legal counsel.

(Reporting by Greg Roumeliotis and Mike Stone in New York; Editing by Chizu Nomiyama and Nick Zieminski)