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Starwood Hotels Chairman Registers Buys

By CATHERINE SHU

THE CHAIRMAN OF Starwood Hotels & Resorts Worldwide is checking in on his company's shares after a selloff knocked 15% off the stock's price in three months.

In transactions on Aug. 29 and 30, Bruce Duncan spent a total of $2.6 million to purchase 51,100 shares for prices from $51.35 to $52.89 each.

Starwood, of White Plains, N.Y., operates hotels and resorts around the world under several different brands, including Sheraton Hotels & Resorts, W Hotels and Le Méridien.

Ben Silverman, director of research at InsiderScore.com, says that Duncan's purchase is especially notable because he was selling as recently as May. Moreover, Starwood's share price has come down 11% since Duncan's last transaction, when he exercised options for 10,988 shares and sold them for $61 each for a total of $670,878, on May 5, Silverman notes.

Duncan's purchase at the stock's current level "shows some real confidence" that the stock has hit its downward inflection point, says Silverman. He adds that Duncan "did not own a lot of stock previously, so it's certainly good to see him increase his ownership stake especially after exercising and selling previously."

With his latest purchases, Duncan now owns a total of 87,212 shares, or less than 1% of Starwood's 215.4 million outstanding shares. In addition, Duncan also holds 12,001 "phantom" stock units he received as a result of his election to defer his annual fee as a Starwood director, according to the company's April 7 proxy filing. He was named chairman in May 2005 after six years of being a director at the company. Duncan, now a private investor, was previously chief executive of Equity Residential, an apartment complex operator.

Starwood stock hit a 52-week intraday high of $63.64 on June 2, but has dropped 15% since then, even though the company issued an upbeat second-quarter report on July 27. Starwood's quarterly results beat the consensus estimate, and the company also boosted its full-year earnings-per-share guidance to $2.37 from $2.28.

In a Sept. 5 research report, A.G. Edwards analyst Jeffrey M. Randall called the selloff "unwarranted," attributing it in part to "investors' less favorable view of operating risk in light of declining consumer confidence."

Duncan's purchase is particularly notable because it reverses the typical insider-trading profile at the company, which consists mostly of options-related sells that increased as the stock hit its high on June 2, says Michael Painchaud, director of research at Market Profile Theorems.

From March 15 to June 7, five insiders at the company, including Duncan, exercised and sold 431,069 shares for a total of $27.1 million, according to data from Thomson Financial. Those transactions include Duncan's May 5 sale.

"Insiders were very accurate in their selling. They sold while the stock was peaking and into the downtrend as well," says Painchaud.

Not only is Duncan's purchase "a nice burst of positive insider behavior," Painchaud adds, but he is also buying at a price level that has historically supported the stock.

Neither Duncan nor Starwood representatives could be reached for comment by deadline.

While the size of Duncan's $2.6 million purchase is especially noteworthy, other hotel stocks have also seen an uptick in insider buying over the past month after a lull in the spring, Silverman says. These companies include Strategic Hotels & Resorts, Eagle Hospitality Properties Trust and Red Lion Hotels.

Analysts have also been bullish on Starwood's prospects.

On Tuesday A.G. Edward's Randall lowered his price objective to $64 from $70 to reflect the decline in the stock's price, but reiterated his Buy rating. The underpenetration of several Starwood brands, including Westin and W, creates "an attractive growth potential," Randall wrote, while the company plans to continue its ongoing share-repurchase program.

Bear Stearns analyst Joseph Greff also on Tuesday maintained his Outperform rating and $70 price target after a meeting with Starwood management. Greff noted that Starwood will benefit from "strong industry fundamentals" and "upside from monetizing substantial hidden assets."

Editor's Note: The data tables did not arrive in time to be included with today's story.