

AccorHotels

Price EUR33.75

Strategic alliance with China Lodging finalised

Fair Value EUR53 (+57%)

BUY-Top Picks

Bloomberg	AC FP
Reuters	ACCP.PA
12-month High / Low (EUR)	51.3 / 32.2
Market Cap (EURm)	7,943
Ev (BG Estimates) (EURm)	8,096
Avg. 6m daily volume (000)	1 260
3y EPS CAGR	5.2%

AccorHotels and China Lodging Group have finalised their strategic alliance announced mid-December 2014. Remember that China Lodging is one of the most significant hotels groups in China and the 13th largest hotel group in the world with c.2,800 hotels and 280,000 rooms at the end of December 2015 (AccorHotels 3,815 hotels with over 500,000 rooms). Under the arrangement, AccorHotels takes a stake of 10.8% and a seat at the Board of directors.

ANALYSIS

- **A “groundbreaking” alliance to strengthen their respective footprints:** The alliance will accelerate both groups’ expansion and especially in China.
 - **China Lodging Group** operates a hotel chain in China with leased and operated and franchised and managed models with 7 brands covering all market segments from Upscale (Joya hotel, Manxin Hotels & Resorts) to Midscale (JI Hotels, Starway) and Economy (Hanting, Elan and Hi Inn).
 - **Accor** currently has 149 hotels in China compared with a total number of rooms of 33,760.
- **Significant development based on the agreement: Accor’s economy and midscale platforms in China** will be integrated in China Lodging Group, which will become Accor’s exclusive master franchisee operating and developing in Mainland China, Mongolia and Taiwan. **Upscale brands** will still be managed and developed by Accor and China Lodging Group will take a 10.% stake in Accor’s luxury and Upscale business in China. The ai is to accelerate both groups’ development and China Lodging plans to open 350 to 400 new hotels under Accor brands in the next five years. Moreover, this agreement will offer combined **loyalty programmes representing together 75m card holders with a network of 6,600 hotels around the world.**

	1 M	3 M	6 M	31/12/15
Absolute perf.	-15.5%	-24.9%	-28.1%	-15.6%
Travel&Leisure	-7.8%	-5.7%	-5.6%	-8.4%
DJ Stoxx 600	-7.4%	-9.8%	-14.0%	-7.3%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	5,454	5,670	5,848	6,076
% change		4.0%	3.2%	3.9%
EBITDA	923	1,019	1,101	1,206
EBIT	602.0	667.2	749.5	842.0
% change		10.8%	12.3%	12.3%
Net income	386.0	442.3	475.7	540.2
% change		14.6%	7.6%	13.6%

	2014	2015e	2016e	2017e
Operating margin	11.0	11.8	12.8	13.9
Net margin	4.1	6.4	8.1	8.9
ROE	6.2	12.3	18.2	24.0
ROCE	12.4	15.6	19.7	25.4
Gearing	4.1	5.0	4.8	4.7

(€)	2014	2015e	2016e	2017e
EPS	1.68	1.92	1.72	1.95
% change	-	14.6%	-10.6%	13.6%
P/E	20.1x	17.6x	19.6x	17.3x
FCF yield (%)	7.7%	7.5%	7.8%	8.8%
Dividends (€)	0.95	1.00	1.10	1.25
Div yield (%)	2.8%	3.0%	3.3%	3.7%
EV/Sales	1.5x	1.4x	1.4x	1.3x
EV/EBITDA	8.8x	7.9x	7.3x	6.7x
EV/EBIT	13.5x	12.1x	10.8x	9.6x

VALUATION

- At the current share price, the stock is trading at 7.9x EV/EBITDA 2015e and 7.3x 2016e which compares with an average of European peers of respectively 9x and 8.2x and US hoteliers of 10.7x and 10x (IBES consensus).

NEXT CATALYSTS

- FY results on 18th February

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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