7th January 2016

Sector View

Hotels

Top picks Hotels: Again Melia Hotels + Accor Hotels

	1 M	3 M	6 M	31/12/14
Travel&Leisure	-0.1%	9.1%	5.1%	19.6%
DJ Stoxx 600	-4.8%	5.7%	-5.5%	6.8%

*Stoxx Sector Indices

Companies covered

ACCORHOTELS		**BUY**	**EUR53**
Last Price	EUR36.68	*Market Cap.*	EUR8,631m
InterContinental Hotels		**NEUTRAL**	**2650p**
Last Price	2538p	*Market Cap.*	*GBP5,993m*
MELIA HOTELS		**BUY**	**EUR15**
Last Price	EUR11.415	*Market Cap.*	*EUR2,272m*
KORIAN		**SELL**	**EUR38**
Last Price	EUR33.065	*Market Cap.*	EUR2,627m
ORPEA		**BUY**	**EUR76**
Last Price	EUR74.31	*Market Cap.*	*EUR4,463m*

LOOKING BACK ON Q4 2015

The two main European hoteliers underperformed during Q4 while **IHG** benefited from better Q3 results despite high comps in Americas (65% of total number of rooms).

In fact, **IHG** was up 16.4% in euros in absolute terms (+10.6% compared with the DJ Stoxx) while **Accor Hotels** reported the worse performance, down 4.2% in absolute terms and -8.9% vs. the DJ Stoxx which was largely due to the November 13th terrorist attacks. And nearly the same negative performance for **Melia Hotels,** down 2.1% and 7% vs. the DJ Stoxx, which was impacted by political uncertainties (IBEX was down during Q4) and despite sustained economic and financial results.

During FY2015, **Melia Hotels** reported definitely the best performance up 37.5% in absolute term compared with +7.1% for **Accor Hotels** and 2.4% for **IHG**.

In **Dependence care**, **Orpea** (+3.8%) slightly outperformed **Korian** (flat) in Q4, impacted by the decision of the Board of Directors on 19th November to remove Yann Coléou with immediate effect and to appoint of Sophie Boissard, who will take up her position on 26th January 2016. During FY2015, **Orpea** significantly outperformed **Korian**, respectively up 42.2% and 11.5%.

WHAT WE SEE FOR Q1 2016

The Hotel industry is in good shape and the fundamentals remain strong especially in **Europe** with a favourable balance between supply-demand and RevPAR still significantly lower than the previous peak.

The Dependence care sector should continue to confirm its resilience with companies having dynamic growth strategies abroad. Regarding **Korian**, we are confirming our sell opinion after the Board's decision to remove Yann Coléou at the end of November and await the arrivals of the new CEO at the end of January and the new CFO (the name should be announced shortly) announced for 1st March 2016.

CONCLUSIONS AND TOP PICKS

We add **Accor Hotels** to our top pick list. Beyond challenging short-term trading due to the November 13th terrorist attacks in Paris (France generates 30% of consolidated EBIT o/w 60% coming from Paris/Ile de France), we estimate that the current valuation represents a good entry point.

Firstly, based on Accor Hotels' EBIT sensitivity (1% RevPAR decrease explained 50/50 by occupancy and rate having an impact of EUR19m), the share price decrease of 7% since the attacks, should imply a lower RevPAR of 3%pt, i.e. c.10% in France or over 20% in Paris/Ile de France compared with nearly 5% anticipated for the group in 2016, a FY impact which seems to us excessive (RevPAR in France was down 2.7% in November and COP 21 should have a positive impact on December). Secondly, beyond the HotelInvest transformation which is well engaged, the signing of an agreement for the acquisition of FRHI (closing scheduled by the end of H1 2016) represents a major move with a network perfectly complementary with that Accor Hotels and a deal that should be accretive on 2017e. Thirdly, taking even longer than anticipated, the group should finalise the deal with China Lodging with is another significant development for the group. Finally, at the current share price and taking into account our hypotheses, i.e. the integration of FRHI on a FY basis in 2016, the stock is trading at 10.3x EV/EBITDA 2015e and 9.5x 2016e which compares with an average European peers' valuation of respectively 9.9x and 9.0x.

We are confirming **Melia Hotels** on the list. The FY 2015 results, which will be released at the end of February, should be outstanding, notably sustained by the recovery in Spain. Remember that following the strong Q3 results and bookings for Q4, management upgraded in early November its expectation for the full year to double-digit RevPAR growth from a high single-digit (RevPAR in Spain representing nearly 50% of the total number of rooms was up 12.4% at the end of November). Moreover, the convertible bond (which continues to generate volatility on the share price) should be forced by April 2016 and along with the preference share (EUR76m at 7.8%) ending in June, financials won't be an issue for a while and should give Melia new development opportunities.

NEXT CATALYSTS

Accor Hotels: FY results on 18th February

Melia Hotels: FY results at the end of February

IHG: FY results on 23rd February

Korian: FY 2015 revenue on 10th February (after closing)

Orpea: FY 2015 revenue on 10th February (before opening)

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Analyst :
Bruno de La Rochebrochard
33(0) 1 56 68 75 88
bdelarochebrochard@bryangarnier.com

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London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

New Delhi
The Imperial Hotel
Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

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