26th February 2016

Hotels

Melia Hotels

Price EUR9.19

Feedback conf. call on FY results: ahead of forecasts (except on net). Positive outlook.

Fair Value EUR15 (+63%) **BUY-Top Picks**

Bloomberg	MEL SM
Reuters	MELL.MC
12-month High / Low (EUR)	13.7 / 8.4
Market Cap (EUR)	1,829
Ev (BG Estimates) (EUR)	2,597
Avg. 6m daily volume (000)	638.7
3y EPS CAGR	44.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.6%	-21.0%	-27.1%	-24.5%
Travel&Leisure	0.4%	-5.1%	2.2%	-8.5%
DJ Stoxx 600	-2.9%	-14.3%	-8.4%	-10.7%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	1,464	1,658	1,701	1,866
% change		*13.2%*	*2.6%*	*9.7%*
EBITDA	229	287	305	359
EBIT	132.8	196.7	202.1	245.7
% change		*48.1%*	*2.7%*	*21.6%*
Net income	31.1	78.2	94.6	130.8
% change			*21.0%*	*38.2%*

	2014	2015e	2016e	2017e
Operating margin	9.1	11.9	11.9	13.2
Net margin	2.1	4.7	5.6	7.0
ROE	2.6	7.1	6.6	8.9
ROCE	5.2	8.4	8.8	11.0
Gearing	77.5	67.8	28.1	20.7

(EUR)	2014	2015e	2016e	2017e
EPS	0.20	0.38	0.45	0.61
% change	-	*87.3%*	*19.1%*	*35.2%*
P/E	45.3x	24.2x	20.3x	15.0x
FCF yield (%)	11.1%	9.8%	10.9%	13.1%
Dividends (EUR)	0.05	0.05	0.06	0.07
Div yield (%)	0.5%	0.6%	0.7%	0.8%
EV/Sales	1.9x	1.6x	1.3x	1.1x
EV/EBITDA	12.3x	9.0x	7.3x	6.0x
EV/EBIT	21.2x	13.2x	11.1x	8.7x

After Q3 results on 4th November, management upgraded its FY RevPAR guidance to double digit growth vs. high single digit. Finally, reported RevPAR was up 15.1% o/w 90% explained by ADR and all operating metrics were ahead of expectations. Revenue was up 16% (consensus 13%), EBITDA improved by 29% to EUR293m (consensus EUR281m) and EBITDA w/o asset rotation by 16% to EUR246m (consensus EUR242m). Net result, up 18.3%, was largely impacted by higher taxes (provisions) of EUR33m. Net debt was reduced by EUR216m to EUR769m. Finally, management sounds reasonably confident for 2016 with mid-to-high single digit RevPAR growth in Q1 and mid single digit for FY. A strategy plan for 2016-2018 will be presented soon.

ANALYSIS

- **All geographies contributed to EBITDA growth notably Spain (city): the Americas** (18% of available rooms of owned & leased hotels) reported an increase of 35% to EUR108m benefiting from the positive USD impact for EUR17m, **EMEA** (30%) was up 31.5%, **Mediterranean** (22%) was down 35% to EUR16.5m after the Starwood deal early last year impacting EBITDA by EUR14m. Excluding this, **Mediterranean** would have been up by 20%. Finally the most impressive was the recovery of **Spain city** (29%) which was confirmed with a positive contribution of EUR8m vs. a negative EUR6.5m last year.
- **Significant net debt reduction:** With **operating cash flow** of EUR271m vs. EUR188m last year (excluding asset rotation operating cash flow was up by EUR49m), **net debt** was down by EUR216m at EUR769m (in line with our estimate) representing financial leverage on EBITDA w/o asset rotation of 3.1x vs. 3.5x in 2014. Remember that management's goal is a level below 3x which should be reached in 2016 (taking into account the convertible bond that could be forced, net debt on EBITDA could reach 1.5x).
- **Reasonably confident for 2016:** Despite a cautious stance regarding the economic environment or certain headwinds, management expects **mid single-digit RevPAR growth for FY 2016** bearing in mind that last year at the same period, management expected high single-digit growth for the year ahead. Our 2016 estimates are based on 6.9% o/w 80% explained by ADR remembering that 1% RevPAR growth has an impact of over 2% on EBITDA). **For Q1 2016**, management is guiding towards a mid-to-high single digit growth benefiting from strong business in **America** (high season) which is up to now not impacted by Zika. In **Europe**, positive expectation except in **Paris** where occupancy is still under pressure (between 15% to 18% in hotels most oriented leisure) but bookings seem to be improving with a return to normal anticipated in Q2. Finally, **Melia's pipeline** reached 62 hotels with 16,000 rooms (19% of current number of rooms) and the group expects to add 20-25 new hotel contracts over the year.

VALUATION

- At the current share price, the stock is trading at 7.3x EV/EBITDA 2016e and 6.0x 2017e which compares with a 10y median historical of 9.8x. European peers are trading at 8.1x for 2016e.
- Our FV is based on a DCF using a WACC of 6.6% with a long-term growth rate of 2.5% and an EBIT margin of 10%.

NEXT CATALYSTS

- Q1 results mid-May 2016

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