Melia Hotels

Price EUR9.92

Convertible bonds: Early redemption

Fair Value EUR15 (+51%) **BUY-Top Picks**

Bloomberg	MEL SM
Reuters	MELL.MC
12-month High / Low (EUR)	13.7 / 8.4
Market Cap (EURm)	1,975
Ev (BG Estimates) (EURm)	2,450
Avg. 6m daily volume (000)	723.8
3y EPS CAGR	34.7%

(	1 M	3 M	6 M	31/12/15
Absolute perf.	1.0%	-18.2%	-17.8%	-18.6%
Travel&Leisure	-4.3%	-10.2%	1.3%	-9.6%
DJ Stoxx 600	0.9%	-8.9%	-0.7%	-7.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,738	1,832	1,976	2,120
% change		*5.4%*	*7.9%*	*7.3%*
EBITDA	293	278	316	352
EBIT	164.1	130.7	154.7	176.3
% change		*-20.3%*	*18.3%*	*14.0%*
Net income	36.1	47.8	80.9	99.5
% change		*32.4%*	*69.2%*	*23.0%*

	2015	2016e	2017e	2018e
Operating margin	9.4	7.1	7.8	8.3
Net margin	2.1	2.6	4.1	4.7
ROE	3.1	3.2	5.1	6.1
ROCE	5.2	4.0	4.6	5.1
Gearing	58.5	28.6	29.7	28.6

(EUR)	2015	2016e	2017e	2018e
EPS	0.19	0.25	0.39	0.47
% change	-	*26.6%*	*59.3%*	*21.0%*
P/E	51.2x	40.4x	25.4x	21.0x
FCF yield (%)	5.7%	1.9%	3.1%	4.6%
Dividends (EUR)	0.03	0.06	0.07	0.07
Div yield (%)	0.3%	0.6%	0.7%	0.7%
EV/Sales	1.6x	1.3x	1.3x	1.2x
EV/EBITDA	9.4x	8.8x	7.8x	7.0x
EV/EBIT	16.7x	18.7x	16.0x	14.0x

As anticipated and pursuant to the conditions of the issue, Melia has announced the early redemption of all convertible bonds. The conversion will be exercised between April 4th and April 14th, 2016. Already integrated into our diluted numbers, the conversion will significantly improve Melia's balance sheet particularly with a leverage ratio of below 2x (our estimate is 1.7x) compared with 3.1x (net debt/EBITDA w/o asset rotation).

ANALYSIS

- **Main characteristics of the convertible bonds:** The convertible bonds represented a total amount of EUR250m with a yield of 4.5% issued in 2013 and maturing in March 2018. With a market conversion price of EUR7.32, conversion could be forced after three years if the share price was 30% higher than the conversion price i.e. EUR9.51. Maximum share dilution is 17.2% with current short position of around 10%.
- **Debt is no longer an issue and financial costs could be improved:** Taking into account the convertible bonds, net debt on EBITDA will improve significantly from 3.1x to 1.7x based on our estimates. In addition, bearing in mind that the average cost of debt was 4.4% on average in 2015 (4.8% in 2014), the group should be able to refinance at a better price thanks to this situation.

VALUATION

- Based on our estimates and using a DCF with WACC at 6.6% taking into account our new ERP of 7% vs. 6.4% and a risk-free rate of 1.6% vs. 2%, with a beta of 0.9 and a long term growth of 2.5%, an EBIT margin of 10%, we are confirming our FV of EUR15.
- At the current share price, the stock is trading on 2016e EV/EBITDA of 8.8x and 7.8x for 2017e compared with an EBITDA CAGR 2015-2018 of 12.7%

NEXT CATALYSTS

- Q1 2016 results mid-May 2016

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