6th April 2016

Sector View

Hotels

Top Picks: Melia and AccorHotels again

	1 M	3 M	6 M	31/12/15
Travel&Leisure	-3.9%	-9.8%	-4.5%	-10.4%
DJ Stoxx 600	-4.0%	-8.6%	-8.4%	-10.3%

*Stoxx Sector Indices

Companies covered

ACCORHOTELS	**BUY**	**EUR48**
InterContinental Hotels	**NEUTRAL**	**2650p**
MELIA HOTELS	**BUY**	**EUR15**
KORIAN	**NEUTRAL**	**EUR29**
ORPEA	**BUY**	**EUR79**

LOOKING BACK AT Q1 2016

Despite positive 2015 results and sector consolidation primarily concerning the battle for Starwood between Marriott and a consortium led by the Chinese insurance group, Anbang, the **hotel sector** performance was disappointing with **AccorHotels** down 6.2% in absolute terms and up just 0.5% vs. the DJ Stoxx, **Melia Hotels** down 16.4% and 10.4% vs. the DJ stoxx, while **IHG** was down 0.4% in absolute terms and in euros and up 6.8% in relative terms. For the two main groups exposed to Europe i.e. AccorHotels and Melia Hotels, the November terrorist attacks in Paris, political uncertainty in Spain as well as company-specific factors continued to weigh on their valuations despite attractive multiples compared to hoteliers most exposed to US.

In **dependence care, Orpea** (-2.2% in absolute terms and up 4.9% vs. the DJ Stoxx) outperformed **Korian** (-25.9% and -20.6% vs. DJ Stoxx), which was largely impacted by the new management's decision to rebase 2015 results (reclassification of personnel and IT expenses) and a lower-than-expected operating performance in H2, mainly in Germany.

WHAT WE EXPCT FOR Q2 2016

Consolidation in the **hotel industry** is set to continue and Chinese hoteliers or investors should be active. Regarding RevPAR, the European hotel industry remains under pressure following recent terrorist attacks.

No major moves are expected in **dependence care** with limited newsflow especially for **Korian** prior to the Investor Day on 15th September 2016 when the new management team will present its 2020 strategic plan.

CONCLUSIONS AND TOP PICKS

At the end of March, **Melia Hotels** notified the early redemption of all convertible bonds. The conversion will be exercised between 4th and 14th April, 2016. **Firstly**, note that the convertible bond, like the previous one, created a lot of volatility for the share price with an option largely in the money (conversion price of EUR7.318) notably with a short stock position of around 10%. **Secondly**, the potential dilution had yet been integrated into our EPS with the creation of 34.2m new shares (dilution of 17.2%). Taking into account treasury shares i.e. 5.05m that could be used, net new shares should be around 30m. With the short position, overhang should represent a maximum of 15m shares i.e. 6.5% of total share capital. **Thirdly**, the group's debt position should not be an issue with net debt/EBITDA falling to 1.7x on our estimates from 3.1x. Moreover, this multiple could give the group the opportunity to optimise the average cost of debt which was 4.4% in 2015 (4.8% in 2014). **Finally**, note that the Escarrer family will still control the equity capital with a stake of 52.1% vs. 60% previously. To conclude, we now estimate that the share price could fully reflect positive expectations for results and the current valuation (2016e EV/EBITDA of 9.3x and 2017e of 8.3x). After strong 2015 results, management is reasonably confident in 2016. In fact, its expects mid-single digit RevPAR growth for FY2016, with Q1 set to show mid-to-high single digit growth benefiting from strong business in **America** (high season) but also strong RevPAR in **Spain** (February was up 28.7% after 14% in January).

Undoubtedly, **AccorHotels'** valuation is suffering from its exposure to France (29% of the group's offer in number of rooms) with Paris/Ile de France generating over 60% of France EBIT, and to Brazil accounting for over 7% of the group's offer with 220 hotels and c.36,000 rooms.

In addition, AccorHotels is engaged in a vast restructuring of its assets (not always very clear as the agreement recently announced at the end of January for a new structure partly owned by AccorHotels an Eurazeo, which is also a shareholder of AccorHotels) and at the same time, in a dynamic growth strategy notably with the signature alongside the Qatar Investment Authority (QIA), Kingdom Holding Company (KHC) of Saudi Arabia and Oxford Properties (OMERS) for the acquisition of **FRHI** (Fairmont, Raffles and Swissôtel) or the alliance with **China Lodging**. New areas in hospitality are also being explored again as illustrated yesterday with the acquisition of **Onefinestay** in the private rental market specialised in the luxury segment, which could be difficult to value in the short term.

Nevertheless, the group's current valuation looks excessively low even in a stress scenario with 2016e EV/EBITDA just under 8x compared with the European average of 9.4x, while **Marriott** will pay over 13x for **Starwood**. Our view seems to be confirmed by some investors bearing in mind that **Jin Jiang**, the

Chinese hotel leader, owns almost 11.7% of AccorHotels' equity capital or **QIA**, **KHC** and **OMERS** will be paid mainly in equity for FRHI (they will control c. 16% of AccorHotels' equity capital). Finally, Colony Capital and Eurazeo still own over 11% of the capital.

Q1 revenue is due out on 19th April after market. We are forecasting flat RevPAR vs. the same period last year with slightly lower consolidated revenue at EUR1,220m vs. EUR1,225m in Q1 2015.

NEXT CATALYSTS

AccorHotels: Q1 revenue on 19th April 2016; AGM on 22nd April 2016

Korian: Q1 revenue on 3rd May 2016

Orpea: Q1 revenue on 4th May 2016

IHG: Q1 IMS on 6th May 2016

Melia Hotels: Q1 results mid-May 2016

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