

15th June 2016

Hotels

Melia Hotels

Price EUR10.31

The best place to be under the sun

Fair Value EUR15 (+45%)

BUY-Top Picks

Bloomberg	MEL.SM
Reuters	MELL.MC
12-month High / Low (EUR)	13.7 / 8.4
Market Cap (EURm)	2,368
Ev (BG Estimates) (EURm)	2,857
Avg. 6m daily volume (000)	732.7
3y EPS CAGR	44.9%

Sum The short- and medium-term results perspectives look positive with an operating improvement clearly identifiable. Moreover, with new-found financial health, the group's expansion should be boosted with new selective fully-owned property beyond the current pipeline, which is almost entirely under management contracts. We are confirming our positive opinion with a FV of EUR15.

ANALYSIS

- **An improvement in operating results is clearly identifiable:** For the next three years, we estimate an operating results CAGR of c. 13%. The improvement in the operating results should come not only mainly from **Spanish cities** (EUR30m), but also from **Asia** (EUR10m) where short-term pipeline should improve Asia's EBIT contribution substantially, the area having now reached critical mass and breakeven, and **Cuba** (EUR10m) benefiting from the reopening relations with USA where Melia is definitely the leading resort hotel company with a 21% market share in number of rooms (27% of the total number of stays).
- **A new-found financial health:** Based on our estimates, taking into account cash flow generation and the early redemption of the convertible bonds finalised in mid-May, the net debt/EBITDA w/o asset rotation should be 1.7x, compared with 3.1x at the end of 2015 and management's objective of lower than 3x at the end of 2016.
- **Yet again, new opportunities for the expansion of hotels in fully-owned property:** Assuming that normal financial leverage should be around 2.5x and taking into account that management estimates that there is EUR300m worth of non-core assets, Melia has potentially EUR500m for new development in fully-owned property (not yet included in our forecasts) ahead of the current pipeline mostly under management contracts.

VALUATION

- Using a DCF with a WACC of 6.7%, an ERP of 7%, a risk-free rate of 1.6% with a beta of 0.9 (two years historical adjusted vs. Stoxx), long-term growth of 2.5% and an EBIT margin of 10% (9.5% in 2015), we are confirming our FV of EUR15.
- At the current share price, the stock is trading 10.2x EV/EBITDA 2016e and 9.1x 2017e compared with European peers of respectively 10.5x and 10x.

NEXT CATALYSTS

- H1 results on 1st August

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.6%	1.0%	-13.7%	-15.4%
Travel&Leisure	-4.0%	-7.8%	-10.7%	-15.1%
DJ Stoxx 600	-4.2%	-7.0%	-8.3%	-12.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,738	1,837	1,981	2,126
% change		5.7%	7.8%	7.3%
EBITDA	293	280	318	354
EBIT	164.1	174.0	202.0	227.7
% change		6.1%	16.1%	12.7%
Net income	36.1	78.1	113.9	135.4
% change		116.4%	45.8%	18.9%

	2015	2016e	2017e	2018e
Operating margin	9.4	9.5	10.2	10.7
Net margin	2.1	4.3	5.8	6.4
ROE	3.1	4.9	6.9	7.8
ROCE	5.2	5.3	5.9	6.4
Gearing	58.5	28.9	30.1	29.2

(EUR)	2015	2016e	2017e	2018e
EPS	0.19	0.34	0.50	0.59
% change	-	75.5%	45.8%	18.9%
P/E	53.2x	30.3x	20.8x	17.5x
FCF yield (%)	4.6%	1.0%	2.0%	3.1%
Dividends (EUR)	0.03	0.05	0.06	0.06
Div yield (%)	0.3%	0.5%	0.5%	0.6%
EV/Sales	1.8x	1.6x	1.5x	1.4x
EV/EBITDA	10.7x	10.2x	9.1x	8.2x
EV/EBIT	19.1x	16.4x	14.3x	12.7x



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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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