

AccorHotels

Price EUR37.61

Conference call: Always moving!

Fair Value EUR45 (+20%)

BUY

Bloomberg	AC FP
Reuters	ACCP.PA
12-month High / Low (EUR)	47.8 / 30.0
Market Cap (EURm)	8,945
Ev (BG Estimates) (EURm)	8,750
Avg. 6m daily volume (000)	1 528
3y EPS CAGR	4.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.2%	-3.6%	0.4%	-6.0%
Travel&Leisure	-4.0%	-5.8%	-12.2%	-15.4%
DJ Stoxx 600	1.0%	0.5%	-2.0%	-8.1%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	5,454	5,581	6,063	6,616
% change		2.3%	8.6%	9.1%
EBITDA	923	986	1,079	1,261
EBIT	602.0	665.0	714.7	877.8
% change		10.5%	7.5%	22.8%
Net income	386.0	441.8	435.1	541.3
% change		14.5%	-1.5%	24.4%

	2014	2015e	2016e	2017e
Operating margin	11.0	11.9	11.8	13.3
Net margin	4.1	4.4	7.2	8.2
ROE	6.2	6.8	11.1	15.2
ROCE	12.4	14.5	11.4	15.4
Gearing	4.1	-4.9	18.7	18.5

(€)	2014	2015e	2016e	2017e
EPS	1.68	1.88	1.69	1.93
% change	-	12.4%	-10.4%	14.1%
P/E	22.4x	20.0x	22.3x	19.5x
FCF yield (%)	6.9%	6.9%	7.3%	8.6%
Dividends (€)	0.95	1.00	1.10	1.25
Div yield (%)	2.5%	2.7%	2.9%	3.3%
EV/Sales	1.7x	1.6x	1.8x	1.4x
EV/EBITDA	9.9x	8.9x	9.9x	7.6x
EV/EBIT	15.1x	13.2x	15.0x	10.9x

Following the approval of the FRHI transaction and the new Board of directors with notably two proposed by QIA, one by KHC and three new independents, the Board has given the go-ahead for the project to turn HotelInvest into a subsidiary. In fact, after three years of restructuring helping to increase gross asset value to over EUR7bn from EUR5.5bn and to improve EBIT margin to 7.9% compared with 4.6% in 2013, AccorHotels has decided to allocate fresh resources to expansion and to sell between 50% and 80% of the share capital to a few long term investors. The process should be completed by the end of H1 2017. The implicit conclusion is that taking into account current cash flow generation, the financial group rating, AccorHotels have to open the share capital of HotelInvest having in mind that network development is one of the main value creation for HotelService. Positive.

ANALYSIS

- **FRHI acquisition approved by AGM...**: Following the agreement signed in early December 2015 with Qatar Investment Authority (QIA) and Kingdom Holding company (KHC) for the acquisition of FRHI [Conference call FRHI: Feel welcome!](#)
- on 12th July, shareholders approved the transaction and cash payment of USD840m (EUR768m) and the issuance of 46.7 AccorHotels new shares (total number of share moves to c.284m) representing a total amount for FRHI of EUR2.5bn at the current share price. The deal gives QIA and KHC respectively 10.4% and 5.8% of the share capital.

Shareholding structure

	%
Colony Capital+Eurazeo	9,28%
Jin Jiang	12,61%
Founders & Directors	1,58%
Employees	0,70%
Free float	59,57%
Qatar Investment Authority (QIA)	10,4%
Kingdom Holding Company (KHC)	5,8%
SS total	16,2%

Source: BryanGarnier est.

- **... with new Board members**: The AGM also approved the appointment of six new directors i.e. two proposed by QIA, one by KHC and three as independent directors. The new Board of Directors now has 16 members o/w nine are independent.
- **Moreover, the Board of Directors has given the go-ahead for the project to turn HotelInvest into a subsidiary**:
 - After the split between hotel business (**HotelServices**) under managed and franchised contracts and real estate (**HotelInvest**) initiated in 2013, the restructuring of **HotelInvest**, which was the main challenge is paying off with a gross asset value increased to EUR7bn from EUR5.5bn and EBIT margin improvement to 7.9% in 2015 from 4.6% in 2013.
 - After this first stage, management has decided to bring new resources to **HotelInvest** (1,264 hotels with 175,462 rooms o/w 86% located in Europe) to accelerate its expansion. After a process which should last c.12 months, HotelInvest is to be deconsolidated, with AccorHotels keeping a stake of between 20% and 50%.
 - Like the new structure Grape Hospitality (85 hotels recently finalised), the aim of opening the share capital to new outside long term investors, is to have greater financial flexibility taking advantage of the current financial environment to accelerate real estate expansion and asset rotation. The number of new owners will be limited (5 to 12) investing between EUR300m and EUR1bn. Sébastien Bazin also confirmed that the cash generated with the creation of the subsidiary will be reinvested (no cash return) and financial leverage of HotelInvest will be lower than other real estate companies...Concerning the tax situation, management announced that the cost should be less than 5% of the current portfolio valuation.



VALUATION

- At the current share price, the stock is trading on 2016e and 2017e EV/EBITDA of 9x and 7.7x which compares with average European peer valuation of respectively 9.8x and 8.8x

NEXT CATALYSTS

- H1 results on 28th July (before market)
- Capital market day scheduled early October
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BUY ratings 72%

NEUTRAL ratings 0%

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