

AccorHotels

Price EUR37.23

H1 EBIT reflects group transformation rather than current environment; guidance in line with our scenarii.

Fair Value EUR45 (+21%)

BUY

Bloomberg	AC FP
Reuters	ACCP.PA
12-month High / Low (EUR)	46.1 / 30.0
Market Cap (EURm)	10,593
Ev (BG Estimates) (EURm)	10,398
Avg. 6m daily volume (000)	1 449
3y EPS CAGR	4.7%

Group transformation is well advanced, while maintaining significant room for expansion despite a turbulent environment. H1 results were definitely impacted by that situation with notably an EBIT down 8.9% on reported and -4% on lfl basis, but this is largely due to the group transformation (digital plan, market place, acquisitions), rather than current business environment. Uncertainty remains and was reflected in management guidance which is perfectly in line with our scenario. We confirm our numbers derived from our "Base Case" scenario, retaining notably a RevPAR growth of 3.5% with an EBIT 2016e of EUR715m. Remember that our "stress" scenario which defines an EBIT 2016 of EUR663m based on a flat RevPAR growth, our DCF will point to a FV of EUR38.

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.0%	-6.6%	7.4%	-6.9%
Travel&Leisure	7.7%	-6.8%	-7.0%	-15.3%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (€m)	2014	2015	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	2015	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	2015	2016e	2017e
EPS	1.68	1.88	1.69	1.93
% change		-	-10.4%	14.1%
P/E	22.2x	19.8x	22.1x	19.3x
FCF yield (%)	6.9%	7.0%	7.3%	8.6%
Dividends (€)	0.95	1.00	1.10	1.25
Div yield (%)	2.6%	2.7%	3.0%	3.4%
EV/Sales	2.0x	1.9x	2.0x	1.7x
EV/EBITDA	11.6x	10.5x	11.4x	8.9x
EV/EBIT	17.9x	15.6x	17.3x	12.8x



ANALYSIS

- EBIT lower than expected but...:** Despite the group's exposure to France (28% of total number of rooms) and Brazil (7%) having reported negative lfl revenue growth of respectively -2.6% in H1 (i.e. broadly the same level between Q1 and Q2) and -5.5%, **group EBIT from operation was up 5.1% on lfl basis** taking into account -4.2% lfl in France and -54.5% in Americas mainly due to **Brazil. In H1, excluding digital opex, EBIT margin would have been 10.4% vs. 10.1% in H1 2015.**
- ...largely due to group transformation:** Actually, main impacts on consolidated EBIT (lfl down 4%) came from **Worldwide structure** reflecting the impact of **the digital plan** and **the acquisitions** (onfinestay + FastBooking).
 - The digital plan:** Launched at the end of 2014, HotelServices **digital plan** represents a total amount of **EUR250m in 5 years (2014/2018)**, o/w **EUR225m to foster growth** (EUR5m in 2014, EUR73m in 2015, EUR74m in 2016, EUR48m in 2017 and EUR25m in 2018) o/w 55% on capex and 45% opex and EUR25m for the market place (mostly opex) o/w EUR13m in 2015 and EUR12m in 2016. After EUR5m in **2014** (opex), AccorHotels spent EUR66m (EUR34m capex and EUR32m opex) in **2015** to foster growth and EUR12m for the market place. **Digital opex** had a negative impact on EBIT margin by 70bps in 2015, same negative impact was expected in 2016.

In H1 2016, AccorHotels spent EUR43m (EUR11m capex and EUR32m opex) o/w EUR6m for market place. For H2, AccorHotels announced total amount of EUR45m (EUR32m capex and EUR12m opex). Total amount for the FY 2016 should represent c. EUR90m i.e. slightly higher vs. initially announced (EUR85m for digital plan). Opex for market place (1,600 independent hotels added in H1) will represent EUR12m as anticipated.
 - Acquisitions:** CEO confirmed that notably that **onfinestay** weigh on the group EBIT of about EUR1.5m per month (EUR10m negative impact anticipated in H2 2016).
- FRHI, a contribution on 2016 EBIT of between EUR40 and EUR50m:** As expected, FRHI will be consolidated in H2 with a contribution on consolidated EBIT between EUR40m and EUR50m with sustain current trading especially in North America. Moreover, including FRHI portfolio, AccorHotels network in better balanced between geography with Americas representing 13% of group offer in number of rooms vs. 10% before, MMEA 12% vs. 11% and France moves to 26% vs. 28%.
- EBIT guidance implicit RevPAR growth of between 0% and 3% in line with our scenarii:** Taking into account ongoing uncertainty regarding H2 due to recent events i.e. Brexit, attacks in France & Germany, aborted Coup in Turkey...), management FY 2016 EBIT guidance is between EUR670m and EUR720m which compared with our current forecast of EUR715m and EUR716m from consensus. As confirmed by the management, top end of the range implies RevPAR growth of about 3% i.e. in line with our estimate of 3.5%. The low range of the bracket will imply flat RevPAR vs. last year which is also perfectly in line with our forecast (on our stress scenario our EBIT amounts to EUR663m with a RevPAR growth of 0.2%).

VALUATION

- At the current share price, the stock is trading 11.4x EV/EBITDA 2016e and 8.9x 2017e compares with average European peer valuation of respectively 10.1x and 9.2x

- Remember that mid-July, the Board of Directors has given the go-ahead for the project to turn HotelInvest into a subsidiary. A new assets valuation will be given in September having in mind that HotelInvest assets were valued at c.EUR7bn at the end of December 2015 representing a cap rate of 6.2%.

NEXT CATALYSTS

- Capital market day on 5th October
- Q3 revenue on 18th October

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Analyst :

Bruno de La Rochebrochard

33(0) 1 56 68 75 88

bdelarochebrochard@bryangarnier.com

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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