4th July 2016

Sector View

Hotels & Tourism

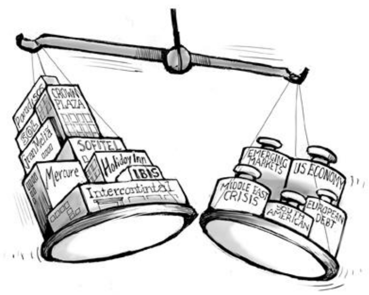
Top picks: Melia Hotels!

	1 M	3 M	6 M	31/12/15
Travel&Leisure	-9.9%	-9.4%	-17.8%	-17.8%
DJ Stoxx 600	-3.5%	-0.3%	-9.2%	-9.2%

*Stoxx Sector Indices

Companies covered

ACCORHOTELS		**BUY**	**EUR45**
Last Price	EUR36.005	*Market Cap.*	EUR8,563m
InterContinental Hotels		**NEUTRAL**	**2650p**
Last Price	2841p	*Market Cap.*	*GBP5,611m*
MELIA HOTELS		**BUY**	**EUR15**
Last Price	EUR9.96	*Market Cap.*	*EUR2,288m*



LOOKING BACK ON Q2 2016

In the hotel sector, volatility has remained high due to rumours and/or specific situations for each player in an uncertain economic environment. In Q2, **AccorHotels** was down 6.8% in absolute terms after losing 6.2% in Q1 and -4.7% vs. the DJ Stoxx (+0.5% in Q1), same performance for **Melia Hotels** (after the worst one in Q1) down -6.5% and 4.4% vs. the DJ Stoxx, while **IHG** reported the worst one (after the best one in Q1) down -8.9% in absolute terms in euros and -6.7% vs. the DJ Stoxx.

In **dependence care**, after **Korian's** hefty underperformance in Q1 (-25.9% and -20.6% vs. DJ Stoxx) rebounded in Q2 with the share price up 12.4% and 15% vs. the DJ Stoxx while **Orpea's** share price was slightly up 1.2% in Q2 and 3.6% vs. the DJ Stoxx after respectively -2.2% and +4.9% in Q1.

WHAT WE SEE FOR Q3 2016

Brexit opens a new long period of uncertainty especially as Great Britain is in no hurry to trigger the procedure to withdraw from the EUR under Art. 50 of the Treaty of Lisbon.

The United Kingdom is a key source market for many international tourist destinations. In fact, the UK is the second largest European source market for hoteliers and **British citizens spent 215 million overnight stays in hotels** (and similar accommodations) in the European Union representing c.8% of total overnight stays (2.7m), including 110 million outside their own territory and the depreciation of the GBP/EUR exchange rate will clearly have an impact on British decisions when it comes to travelling abroad.

The breakdown of overnights across Europe shows that **British tourists** are especially fond of Mediterranean destinations. After the islands of **Cyprus** and **Malta** which appear to be the most sensitive markets when it comes to exposure to British tourist arrivals, as they account for respectively 31.2% and 30.7% of total overnight stays in hotels, **Portugal**, **Spain** and **Greece** are the three next countries exposed to British tourist arrivals for respectively 16.2%, 16.1% and 11.9% (source Eurostat). **France** is also exposed with Britishs tourist representing around 9.5% of total overnights.

In this context, **Melia Hotels** would be one of the most affected with British citizens representing 12% of total room nights. With over 33% of the total number of rooms, Spanish resorts generate 25% of consolidated EBIT. On a positive note, we would highlight the high level of occupancy (73.1% in Q1 o/w 78.1% on owned & leased) which could decline without affecting profitability.

AccorHotels should be mainly affected by a consolidation impact of its business in the UK representing c.6% of the group's offer in number of rooms but around 10% of consolidated EBIT based on currency sensitivity. Remember that we have removed AccorHotels from our top picks list mainly due to the group's exposure to France and particularly Paris/Ile de France.

A bit more complex, but a limited impact on **IHG**. Actually as a UK company, the main quotation is in GBP but reporting is in USD. The Americas represented 64.4% of the total number of rooms at the end of 2015 having generated 71.8% of consolidated EBIT before central costs. In Europe (14.3% of number of rooms generating 9.4% of consolidated EBIT), UK is the main European country representing 47% of the group's offer.

CONCLUSIONS AND TOP PICKS

Despite **Melia Hotels** exposures to British citizens, we are maintaining the stock in our top picks list.

Brexit is definitely not good news, but Spain remains one of the main Mediterranean destinations preferred by tourists given the geopolitical environment in North Africa and the Middle East etc. Moreover, as stated above, Spanish resorts reported a very high level of occupancy which leaves room for some decrease without affecting profitability by increasing ADR to optimise RevPAR as done in America.

Thereafter, as stated in our last note on 15th June, the improvement in operating results over three years (EBIT 2015-2018 CAGR of c.13%) is primarily set to be driven by Spanish cities (EUR30m), Asia (EUR10m) and the Americas (EUR10m from Cuba).

In addition, after the early redemption of convertible bonds, the group has restored some financial health with estimated net debt/EBITDA w/o asset rotation estimated at 1.7x at the end of 2016. In this situation, assuming that normal financial leverage should be around 2.5x and taking into account noncore asset disposals, Melia has potentially EUR500m for new expansion in fully-owned property ahead of the current pipeline mostly under management contracts.

NEXT CATALYSTS

Accorhotels: H1 results on 28th July (before market)

IHG: Investor event on 7th July; H1 results on 2nd August (before market)

Melia Hotels: H1 results on 1st August (after market)

Orpea: H1 revenue on 20th July (before market)

Korian: H1 revenue on 20th July (after market)

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