

AccorHotels

Price EUR34.10

FY RevPAR trend closer to our "Stress" scenario rather than our "Base" case.

Fair Value EUR42 vs. EUR45 (+23%)

BUY

Bloomberg	AC FP
Reuters	ACCP.PA
12-month High / Low (EUR)	46.1 / 30.0
Market Cap (EUR)	9,708
Ev (BG Estimates) (EUR)	9,513
Avg. 6m daily volume (000)	1 201
3y EPS CAGR	10.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.7%	-14.8%	-10.0%	-14.8%
Travel&Leisure	1.5%	-7.3%	-6.5%	-13.6%
DJ Stoxx 600	0.7%	-1.5%	3.7%	-6.0%

YEnd Dec. (€m)	2014	2015	2016e	2017e
Sales	5,454	5,581	5,736	6,277
% change		2.3%	2.8%	9.4%
EBITDA	923	987	1,040	1,205
EBIT	602.0	665.0	695.5	828.1
% change		10.5%	4.6%	19.1%
Net income	386.0	441.8	441.2	514.2
% change		14.5%	-0.1%	16.5%

	2014	2015	2016e	2017e
Operating margin	11.0	11.9	12.1	13.2
Net margin	4.1	4.4	6.6	7.9
ROE	6.2	6.8	10.2	14.5
ROCE	12.4	14.5	11.5	15.1
Gearing	4.1	-4.9	20.0	19.7

(€)	2014	2015	2016e	2017e
EPS	1.52	1.59	1.70	2.03
% change	-	4.6%	6.5%	19.4%
P/E	22.4x	21.4x	20.1x	16.8x
FCF yield (%)	6.3%	6.4%	6.2%	7.7%
Dividends (€)	0.95	1.00	1.00	1.10
Div yield (%)	2.8%	2.9%	2.9%	3.2%
EV/Sales	1.8x	1.7x	1.8x	1.7x
EV/EBITDA	10.7x	9.6x	10.1x	8.6x
EV/EBIT	16.4x	14.3x	15.1x	12.6x

July RevPAR in France was again harshly impacted by the current turbulent environment such that FY 2016 RevPAR for AccorHotels should be closer to our "Stress" scenario rather than our "Base" case. Nevertheless, despite AccorHotels' exposure to France and to a lesser extent Brazil, EBIT from operations excluding digital opex, rose by more than 5% in H1 and this should also be the case in H2. In addition, we are convinced that the group's transformation and strategic development will bear fruit even if some acquisitions are currently weighing on results. Finally, pending a new GAV for HotellInvest, we continue to estimate that fully owned and leased contracts are undervalued. Buy recommendation confirmed with a FV adjusted to EUR42.

ANALYSIS

- FY RevPAR lowered due to AccorHotels' exposure to France and Brazil:** In number of rooms, AccorHotels' offer reaches 28% in France and 7% in Brazil. Regarding France, July RevPAR was down 6% after -1.3% in June and -3.6% over the first six months and was harshly impacted by lower numbers of international travellers. The upscale segment was the most affected (RevPAR down 11% in July) as it was in H1, while the midscale segment was down 5.8% and economy confirmed its resilience with RevPAR down only 1.4%. Nevertheless, as was the case in H1 with RevPAR down 2.2% in France compared with -3.6% for the hotels segment, AccorHotels should remain less affected than the sector given its lower exposure to the upscale segment representing less than 5% of the group's offer in France. AccorHotels economy segment represents c.65% of the group's offer in France and the midscale segment 30%. As such, we have moved our FY RevPAR estimate to 1.2% for the group vs. 3.5% previously (H1 was up 1%) o/w -1.5% in France vs. flat (H1 was down 2.2% and H2 will benefit from major events such as the Maison & Objets trade fair and the Paris Motor show, as well as positive comps especially in Q4). (See our RevPAR forecasts by geography below).
- 2016 EBIT adjusted to EUR695m from EUR715m:** After H1 results on 28th July and taking into account ongoing uncertainty regarding H2 due to the main recent events i.e. Brexit, attacks in France & Germany, the aborted coup in Turkey, management's FY 2016 EBIT guidance is between EUR670m and EUR720m implying RevPAR growth of between 0% and 3%. Based on our new RevPar estimate of 1.2% for 2016, our EBIT moves to EUR695m. This number takes into account the impact of the digital plan of EUR45m in opex (broadly same amount in capex), the acquisition of startups notably onfinestay, which weigh on the group's EBIT by about EUR1.5m per month (EUR10m in H2 2016) and FRHI contribution of EUR40m in H2 (management announced between EUR40m and EU50m).

Main changes

	2015	2016e			2017e		
		Old	New	Change %	Old	New	Change %
SALES	5 581	6 063	5 736	-5,4%	6 616	6 277	-5,1%
EBITDA	987	1 079	1 040	-3,6%	1 261	1 205	-4,4%
	17,7%	17,8%	18,1%	33 bp	19,1%	19,2%	15 bp
EBIT	665	715	695	-2,7%	878	828	-5,7%
	11,9%	11,8%	12,1%	34 bp	13,3%	13,2%	-8 bp

Source : Company Data; Bryan Garnier & Co. ests.

- Speculative appeal which remains intact for the HotellInvest valuation:** Confirming the potential prospect of HotellInvest being transformed into a subsidiary before the end of H1 2017, management is set to provide a new estimate of the HotellInvest portfolio (331 fully owned hotels, 304 hotels under fixed leased contracts and 653 hotels under variable leased). As a reminder, GAV (gross asset value) was EUR6.9bn at the end of 2015 (EUR5.5bn in 2013 representing a cap rate of 4.9%), which still sounds conservative to us, representing a cap rate of 6.3%. Since 2013, HotellInvest's performance has improved considerably with EBIT margin up to 7.9% in 2015 from 4.6% in 2013 on the back of sustained hotel business but also the group's asset strategy with fully-owned hotels now contributing 61% in 2015 to HotellInvest NOI vs. 54% in 2013. Management's forecast is for more than 75%, implying an NOI of HotellInvest of c.EUR680m (vs. EUR437m in 2015 and EUR270m in 2013) and a GAV of EUR10.8bn based on a cap rate of 6.3%.



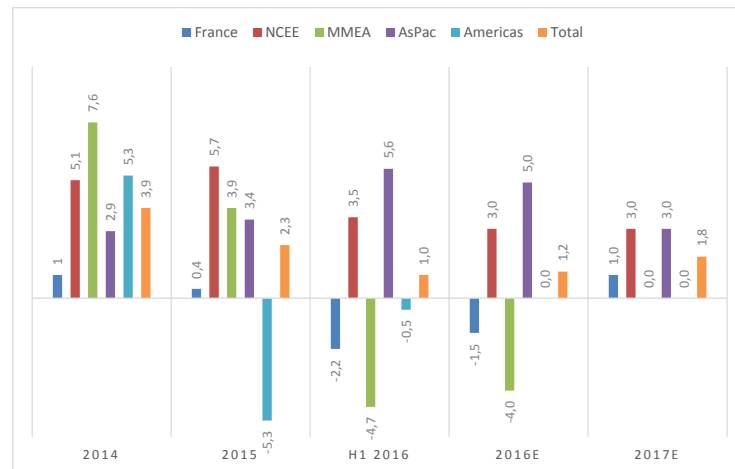
VALUATION

- Since the H1 results release on 28th July, the share price has dropped around 10% in absolute terms and relative to the Stoxx 600 (Melia Hotels is up 6% and IHG 9%). Largely due to AccorHotels exposure to France, this underperformance looks excessive to us bearing in mind that the H1 EBIT decrease was above all linked to the group's transformation rather than the current business environment (group EBIT from operations was up 5.1% on a lfl basis taking into account -4.2% lfl in France and -54.5% in Americas due to Brazil).
- At the current share price, based on consensus estimates (consensus EBIT 2016e of EUR689m and EUR850m on 2017e), the share is trading at 15.1x EV/EBIT 2016e and 12.6x 2017e compared with average European peer valuations of respectively 15.9x and 13.5x.

NEXT CATALYSTS

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

2016e and 2017e RevPAR by geography



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