

12th September 2016

Hotels

AccorHotels

Price EUR35.81

Feedback roadshow AccorHotels Paris on 8th September

Fair Value EUR42 (+17%)

BUY

Bloomberg	AC FP
Reuters	ACCP.PA
12-month High / Low (EUR)	46.1 / 30.0
Market Cap (EURm)	10,194
Ev (BG Estimates) (EURm)	9,999
Avg. 6m daily volume (000)	1 139
3y EPS CAGR	10.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.9%	-7.7%	-4.6%	-10.5%
Travel&Leisure	0.4%	-4.7%	-5.1%	-13.7%
DJ Stoxx 600	0.2%	1.3%	1.9%	-5.5%

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	23.5x	22.5x	21.1x	17.7x
FCF yield (%)	6.0%	6.1%	5.9%	7.3%
Dividends (€)	0.95	1.00	1.00	1.10
Div yield (%)	2.7%	2.8%	2.8%	3.1%
EV/Sales	1.9x	1.8x	1.9x	1.7x
EV/EBITDA	11.2x	10.1x	10.6x	9.0x
EV/EBIT	17.2x	15.0x	15.8x	13.2x

Following the go-ahead given by the Board of Directors in mid-July for the project to turn HotelInvest into a subsidiary and before the Capital market day on 5th October in Paris, most of the questions focused on the HotelInvest valuation and the cash that could be returned to shareholders.

ANALYSIS

- What valuation for HotelInvest?** After the splitting of the 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 of EUR7bn versus EUR5.5bn in 2013 and an EBIT margin of 7.9% in 2015 versus 4.6% in 2013.
 - A new GAV will be given during the Capital market day, which should be higher than at the end of 2015, but not significantly higher.** Remember that as previously, the assets are valued by three independent experts (JLL, DTZ and BNP Real Estate), each of whom analyses a third of the portfolio. The valuation technique chosen is EBITDA multiples, defined with each hotel's specific situation (market, segment, etc...). For lease contracts, the valuation takes into account such factors as the time remaining on the lease, the options for terminating the contract and the potential lease termination costs.
 - Based on **ROI** (EBITDA to GAV), value ratio was broadly stable at 9.5% (9.5% in 2015 vs. 9.1% in 2013). Using **NOI** (EBITDA – Capex to GAV), ratio was 6.3% in 2015 vs. 4.9% in 2013 which sounds conservative to us. Nevertheless, we have to notice that capex is still limited and definitely too low, as noted by CFO, to optimize the asset return.
- The demerger process:** All in all, the process should be finalized by mid-2017 with **the objective to deconsolidate HotelInvest with AccorHotels keeping a stake of between 10% and 50%**. Like the new structure "Grape Hospitality" (85 hotels sold to a new structure 70% owned by Eurazeo and 30% by AccorHotels), 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. Concerning **the tax situation**, confirmation that the cost should be less than 5% of the GAV i.e. between EUR100m to EUR300m (bear case).
- What about the cash?** Assuming that AccorHotels will own 30% of HotelInvest and based on current GAV of EUR7bn, AccorHotels will receive c.EUR5bn. Without specific needs (HotelServices being an asset light business) except new investment in new businesses as Wipolo, Oasis Collections, SquareBreak, onefinestay or John Paul and/or new hotel concept like Mama Shelter, **we now understand that a significant sum could be returned to shareholders.** However (and not totally ruled out by the group), management could retained the necessary resources in case of mega industry consolidation.

VALUATION

- At the current share price, the stock is trading 10.6x EV/EBITDA 2016e and 9.0x 2017e compared with average European peer valuation of respectively 10.6x and 9.5x o/w IHG valued 13x 2016e and 12x 2017e. Based on our FV, stock valuation would be 12.3x EV/ABITDA 2016e and 10.5x 2017e.

NEXT CATALYSTS

- Capital Market Day (Paris) on 5th October 2016
- Q3 revenue on 18th October

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