27th September 2016

Sector View

# Hotels & Tourism

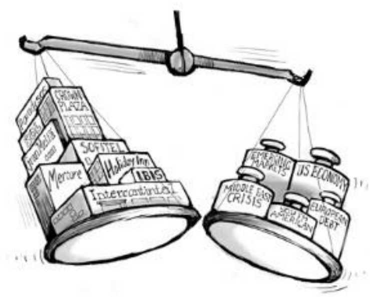
## Top picks: ...and the winner is Melia.

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Travel&Leisure | -3.2% | -0.7% | -6.3% | -16.3% |
| DJ Stoxx 600 | -1.1% | 5.6% | 1.5% | -7.1% |

*Stoxx Sector Indices

**Companies covered**

| | | | |
|---|---|---|---|
| **ACCORHOTELS** | | **BUY** | **EUR42** |
| *Last Price* | EUR34.98 | *Market Cap.* | EUR9,959m |
| **InterContinental Hotels** | | **SELL vs. NEUTRAL** | **2950p vs. 2650p** |
| *Last Price* | 3098p | *Market Cap.* | *GBP6,119m* |
| **MELIA** | | **BUY** | **EUR15** |
| *Last Price* | EUR11.23 | *Market Cap.* | *EUR2,580m* |



### LOOKING BACK ON Q3 2016

With c. 28% of the total number of rooms in France and despite a degree of resilience compared with the sector, **AccorHotels'** valuation was harshly impacted by the current turbulent environment in the country. In fact, **Accorhotels** only gained 2.3% in Q3 in absolute terms after losing 13.3% in H1 and lagging the DJ Stoxx by 2.9% (-3.8% in H1). On the other hand and benefitting from a better environment in their respective main geographies, **Melia** reported a strong outperformance of 17.6% in absolute terms (the stock was down 20.6% in H1) and 11.6% vs. the DJ Stoxx (-12% in H1) ahead of **IHG**, up 14.7% in absolute term and in euro (-8.5% in H1) and 8.7% vs. DJ Stoxx (+14.4% in H1).

In **dependence care**, share price volatility remained on **Korian** in Q3, up 0.8% in absolute terms (-13.6% in H1 o/w -23.1% in Q1 and +12.4% in Q2) and down 2.9% vs. DJ Stoxx. In Q3, **Orpea** was up 6.5% (+0.4% in H1) in absolute terms and 2.6% vs. the DJ Stoxx (+11.3% in H1).

### WHAT WE SEE FOR Q4 2016

Q3 releases are set to be mixed be again between hoteliers.

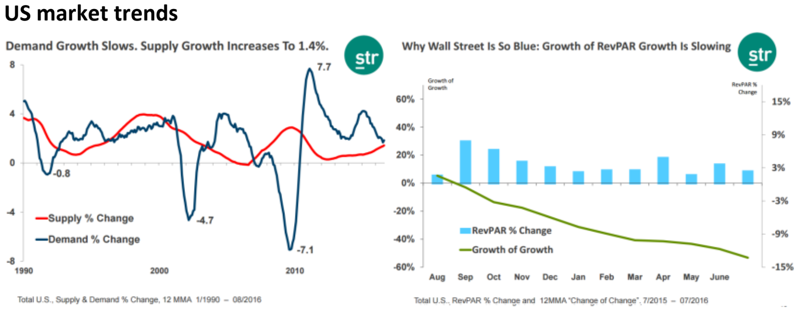
**AccorHotels** results will again be affected by the group's exposure to France bearing in mind that RevPAR in July and August was respectively down 6% and 13.4%. Despite this trend, at the road show we organised early September in Paris, the group confirmed that FY guidance is still valid with an EBIT now in the low range of the EUR670/EUR720m (our current expectation is EUR695m and consensus at EUR685m). Nevertheless, September and October, the last two significant months of the year, need to be more favourable to valid this FY guidance!...

Meanwhile, **Melia Hotels** and **IHG** should deliver sustained numbers benefiting from positive RevPAR trends in Spain (51% of Melia offer in number of rooms) and in the Americas (64% of IHG offer mainly from NA).

In Spain, after RevPAR growth of 17.6% and 14% in July and August respectively, **Melia Hotels** confirmed that September looked pretty good in Spain Resort (33% of group offer) with occupancy in line with the August level, Q3 RevPAR growth in Spain City (18% of group offer) was in line with Q2 i.e. up 10% and RevPAR growth in the Americas (29%) will return to positive territory benefiting notably from better comps.

Regarding **IHG**, despite high comps, RevPAR growth continues in the US with July and August up 2.5% and 2.1%. Nevertheless, growth is slowing month after month with reported occupancy regularly in negative numbers (-0.4% in August after -1% in July). Moreover, with favourable financial conditions, room supply has increased while demand has decreased. Taking into account these numbers, STR from HNN estimates that US RevPAR should be up 3.2% in 2016e (compared with RevPAR up 6.3% in 2015) with no growth in occupancy and ADR up 3.2%. US RevPAR is expected to rise 2.8% in 2017e (occupancy down 0.3% with ADR up 3.1%).

**US market trends**




Confirming our FY 2016 forecasts based on RevPAR growth for the group of 2.3% after 2% in H1 o/w 2.5% in Q2 (2016e total revenue of USD1,773m down 1.6% vs. consensus USD1,743m with EBIT of USD685m and consensus of USD695m), **we move our recommendation to Sell vs. Neutral with a FV adjusted to 2,950p** using a DCF with WACC of 7.75% taking into account **1)** current market trends especially in the US, **2)** no more significant cash returns to shareholders due to disposals after the sale of InterContinental Hong Kong the last main fully-owned asset (the group returned US$1.5bn in May

2016 bearing in mind that since 2003, the cash returned to shareholders including ordinary dividends amounted to US$12,1bn with seven hotels fully owned today on a system size total number of 5,070). Note that at the end of H1 2016, net debt/EBITDA was at 2.3x vs. the group's guidance of 2-2.5x (our estimate is over 2x for the next three years) and **3)** valuation with, based on consensus estimates, EV/EBITDA 2016e at 13.3x and 12.5x 2017e which compares with historical median of 11.6x.

## CONCLUSIONS AND TOP PICKS

Despite the strong outperformance in Q2, we are maintaining **Melia Hotels** as our top pick pending positive Q3 numbers mainly driven by Spain and despite the potential negative impacts of Brexit since British Citizens represented 12% of total room nights.

With sustained Q3 results, we remain confident on 2016e earnings in particular with EBITDA w/o capital gains of EUR274m compared with a consensus average of EUR269m (estimates from EUR266m and EUR274m).

Thereafter, as stated in our last note, there is room for improvement in operating results over three years (EBITDA w/o asset rotation 2015-2018 CAGR of c. 13%) primarily driven by Spanish city (EUR30m), Asia (EUR10m) and the Americas (EUR10m from Cuba).

Regarding **Spanish cities**, with 18% of the total group’s number of rooms, the EBIT contribution is only 8%. In 2015, RevPAR was about 12% lower than in 2007, previous RevPAR highs. In 2016, RevPAR is likely to be not far off previous RevPAR highs but EBIT will again be lower by around EUR30m (i.e. representing 18% of 2015’s consolidated EBIT of EUR164m) compared to 2007 with a still less favourable split between occupancy and daily rate.

**AccorHotels’ highlight**: Short term positive news flow.

The group will hold a CMD on 5th October in Paris. Following the go-ahead given by the Board of Directors in mid-July for the project to turn HotelInvest into a subsidiary, **a new GAV will be given which should be higher than at the end of 2015.** Moreover, and as we understood during our recent road show in Paris with CFO and IRs, management should also detail what could be the use of the cash received i.e. EUR5bn based on 70% of HotelInvest sold.

In our view, we estimate that without specific needs (HotelServices being an asset light business), except new investment in discrepancy businesses, a significant sum (EUR3bn) could be returned to shareholders. In our view, the only reason for AccorHotels to retain the cash would be in anticipation of a mega consolidation in order to have the best assets to manage such a deal.

## NEXT CATALYSTS

**IHG**: Commercial Strategy (London) on 29th September; Q3 US RevPAR on 21st October

**AccorHotels**: Capital Market day (Paris) on 5th October; Q3 Revenue on 18th October

**Melia Hotels**: Q3 results on 7th November

**Orpea**: H1 Full results on 28th September;

**Korian**: Q3 Revenue on 26th October

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NEUTRAL Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

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