

AccorHotels

Price EUR35.52

Valuation excessively penalised by current economic environment

Fair Value EUR42 (+18%)

BUY

Bloomberg	AC FP
Reuters	ACCP.PA
12-month High / Low (EUR)	46.1 / 30.0
Market Cap (EURm)	10,111
Ev (BG Estimates) (EURm)	9,916
Avg. 6m daily volume (000)	1 140
3y EPS CAGR	10.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.1%	-1.4%	-3.5%	-11.2%
Travel&Leisure	-3.1%	3.9%	-5.9%	-14.5%
DJ Stoxx 600	-2.1%	3.3%	3.0%	-6.2%

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	23.3x	22.3x	20.9x	17.5x
FCF yield (%)	6.1%	6.1%	5.9%	7.4%
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	11.1x	10.0x	10.5x	9.0x
EV/EBIT	17.1x	14.9x	15.7x	13.1x



On 5th October, AccorHotels is holding a capital market day in Paris, focusing particularly on asset valuation with the group's demerger underway and due to be finalised mid-2017, as well as digital developments. The group's strategy seems promising to us but the short-term environment weighs heavily and excessively on AccorHotels' valuation in our view. Indeed, we would highlight again that the group's assets (a new valuation will be given during the CMD) currently represent a floor of EUR7.0bn. At the current share price, this valuation implies c. EUR3.0bn for the asset-light business of HotelServices i.e. 2016e EV/EBITDA of less than 7.5x compared with over 12x for comparable hoteliers (IHG 12.8x, Marriott 14.3x). Finally, speculative appeal cannot be ignored regarding current shareholders.

ANALYSIS

- A challenging short term hotels environment...:** In terms of number of rooms, AccorHotels' offer reaches 28% in France and 7% in Brazil. Regarding **France**, RevPAR was down 13.4% in August after falling 6% in July and -5.3% over the first eight months and was harshly impacted by lower numbers of international travellers. By region, **Paris/Ile de France** was down 14.4% in the first eight months while the **Provinces** was up 3.1%. The upscale segment was the most affected (RevPAR down 21.7% in August) as it was in H1, while the midscale segment was down 10.3% and economy confirmed its resilience with RevPAR down 6.5% and -1.6% in budget. 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%. Some rebound is expected in September and October which are less affected by tourism (c. 80% of Paris activity during July and August) and business back. Nevertheless, 2016 will remain negative.
- The demerger process:** In all, the process should be finalised by mid-2017 with the aim of deconsolidating 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 gain 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 (five to 12) investing between EUR300m and EUR1bn. Concerning the **tax situation**, confirmation that the cost should be less than 5% of GAV i.e. between EUR100m (best case) to EUR300m (bear case).
- What about 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 like Wipolo, Oasis Collections, SquareBreak, onefinestay or John Paul and/or new hotel concepts like Mama Shelter, we now understand that a significant sum could be returned to shareholders. We estimate that the group could return EUR3.0bn i.e. c. one third of the current market cap.

VALUATION

- FY 2016 guidance:** Mid-september, management confirmed that FY guidance was still valid i.e. EBIT between EUR670m/EUR720m, but the low end is not far and could even be at risk without better RevPAR trends in September and October. Our forecast is EUR695m vs. consensus at EUR684m.
- At the current share price, the stock is trading on EV/EBITDA multiples of 10.5x for 2016e and 9.0x for 2017e. Assume a HotelInvest valuation of EUR7.0bn, the implied valuation of HotelServices is c. EUR3.0bn i.e. 2016e EV/EBITDA of less than 7.5x vs. an asset-light comparable valuation of 12.8x for IHG or 14.3x for Marriott/Starwood.

NEXT CATALYSTS

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

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