

AccorHotels

Price EUR34.46

CMD feedback: Booster project on track with tools for growth acceleration

Fair Value EUR42 (+22%)

BUY

Bloomberg	AC FP
Reuters	ACCP.PA
12-month High / Low (EUR)	46.1 / 30.0
Market Cap (EUR)	9,809
Ev (BG Estimates) (EUR)	9,614
Avg. 6m daily volume (000)	1 143
3y EPS CAGR	10.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.0%	-0.8%	-5.3%	-13.9%
Travel&Leisure	-4.7%	5.5%	-6.1%	-15.9%
DJ Stoxx 600	-1.8%	6.2%	4.9%	-5.9%

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	22.6x	21.6x	20.3x	17.0x
FCF yield (%)	6.3%	6.3%	6.1%	7.6%
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	10.8x	9.7x	10.2x	8.7x
EV/EBIT	16.6x	14.5x	15.3x	12.7x

First of all, the booster project i.e. the HotelInvest demerger, is definitely well on track with the creation of an independent legal entity and opening of the structure to investors. The project is due to be completed by mid-2017. In this context, management has updated HotelInvest GAV with the value increased to EUR7.3bn vs. EUR6.9bn at the end of 2015. **Secondly**, AccorHotels' mid-term expansion has been significantly increased based on the current pipeline and tools put in place under the digital plan and AccorHotels' developments in disruptive businesses. In an uncertain environment, but with no-profit warning on FY2016 results, the group's huge transformation should deliver results. We are confirming our positive view on the stock, notably with a current standalone valuation of the asset light business significantly lower than comparable peers.

ANALYSIS

- **Booster project well engaged...:** Launched mid-July, management has confirmed the target of mid-2017 for completion of the demerger with a next update due on 22nd February 2017 (FY 2016 results). In terms of financial implementation, assets have been revalued with a GAV of EUR7.3bn as of 30th June 2016 vs. EUR6.9bn at the end of 2015 with an overall limited tax friction estimated below 5% of GAV transferred to the new HotelInvest structure. In fact, the new structure will receive around 90% of current GAV i.e. c.EUR6.5bn, with 10% remaining in AccorHotels and linked to Orbis (53% stake). The GAV fully reflects market reality, with management confirming that with the repositioning of HotelInvest's portfolio, all hotels were sold in a range of 95% to 110% of GAV.
- **...with a positive financial impact on AccorHotels:** Assuming that AccorHotels sells off 70% of HotelInvest for EUR6.5bn in GAV (management's guidance is between 50% and 80%), AccorHotels will receive EUR4.5bn. Taking into account current net debt amounting to EUR1.4bn (gross debt of EUR3bn with cash of EUR1.6bn), this should represent financial leverage of 2.8x based on an EBITDA 2017e of c. EUR500m. As such, most of the cash received from the disposal will be free to use. Management is not ruling out any options (organic growth, return to shareholders, selective M&A, balance sheet optimisation).
- **New mid-term expansion objective with a significant change in revenue and profit mix:** As seen in H1, AccorHotels' expansion accelerated. Confirming a pipeline stronger than ever, management announced that potential for growth is sustainable over the long term with a new mid-term annual guidance of between 40-45krooms compared with 30-35krooms between 2010-2015. Moreover, and following the FRHI acquisition, new openings will concern 25% luxury segment (vs.20%), 30% midscale and 45% economy (vs.50%), which will increase part of the fees generated by the luxury segment to around 50% vs. 30% today. As a reminder, AccorHotels+FRHI is now no. 2 in terms of the number of hotels in luxury (193 vs. 227 for Marriott-Starwood and 183 for IHG).
- **Digital plan which continues to deliver results:** Launched in October 2014 with total investment of EUR250m (55% capex and 45% opex) including Fastbooking MarketPlace, the digital plan is delivering clearly concrete results notably with an increase of 68% in properties distributed with the market place (6,300 hotels vs. 3,717 in 2014), of 60% in rooms booked via AccorHotels central reservation system (TARS) or today, Le Club AccorHotels totalling 28m members ticking 9 boxes out of 14 at the Freddie awards in 2015 and 2016. To sum-up, the plan is bearing fruit with technology foundation fully in place.

VALUATION

- **FY 2016 guidance implicitly confirmed:** Without any news during yesterday's capital market day, management implicitly confirmed FY guidance ahead of the Q3 revenue release on 18th October i.e. EBIT between EUR670m/EUR720m. Our forecast is EUR695m vs. consensus at EUR684m.
- At the current share price, the stock is trading on EV/EBITDA multiples of 10.2x for 2016e and 8.7x for 2017e. Assuming a HotelInvest valuation of EUR7.3bn, the implied valuation of HotelServices is c. EUR3.9bn i.e. 2017e EV/EBITDA of 7.8x vs. an asset-light comparable valuation of c.12x for IHG or Marriott/Starwood.

NEXT CATALYSTS

- Q3 revenue on 18th October 2016
- FY results on 22nd February 2017 [Click here to download document](#)



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