BRYAN, GARNIER & CO

FOCUS

7th November 2016

Hotels

AccorHotels

On the right track

Fair Value EUR42 (price EUR32.66) **BUY**

Bloomberg	AC FP
Reuters	ACCP.PA
12-month High / Low (EUR)	44.4 / 30.0
Market capitalisation (EURm)	9,297
Enterprise Value (BG estimates EURm)	10,215
Avg. 6m daily volume ('000 shares)	1,151
Free Float	73.7%
3y EPS CAGR	13.7%
Gearing (12/15)	-5%
Dividend yield (12/16e)	3.06%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (€m)	5,581	5,719	6,205	6,378
EBIT (€m)	665.00	684.29	837.69	932.17
Basic EPS (€)	0.88	1.45	1.79	2.08
Diluted EPS (€)	1.59	1.67	2.05	2.34
EV/Sales	1.63x	1.79x	1.64x	1.59x
EV/EBITDA	9.2x	10.0x	8.7x	8.1x
EV/EBIT	13.7x	14.9x	12.1x	10.9x
P/E	20.5x	19.6x	15.9x	13.9x
ROCE	14.5	11.1	14.9	17.9

The booster project i.e. the deconsolidation of HotelInvest, is definitely well on track with the creation of an independent legal entity and opening of the structure to investors. As such, taking into account the updated HotelInvest GAV (EUR7.3bn), the implied valuation of HotelServices looks really attractive compared with peer asset-light models.

- **Booster project well engaged…:** Launched mid-July, the project is well on track with the preparation phase finished and the execution phase engaged. Management has therefore confirmed the target of mid-2017 for HotelInvest's deconsolidation with an intermediate update due on 22nd February 2017 when FY2016 results are presented. The booster project will concern most of HI's GAV i.e. EUR6.5bn excluding mainly Orbis (52.7% owned by AccorHotels) with an overall tax friction estimated below 5% of the GAV transferred.

- **…with a positive financial impact:** Assuming that AccorHotels sells off 70% of HotelInvest to be deconsolidated (management's guidance is between 50% and 80%), AccorHotels will receive EUR4.5bn. We are convinced that some cash should be retained for organic growth (brand investments, digital services) or selective bolt-on M&A, but also that a significant part could be returned to shareholders i.e. EUR3bn.

- **Attractive valuation…:** Based on HotelInvest's valuation of EUR7.3bn (EUR7bn net or c. EUR25 per share), the implied valuation of HotelServices is EUR4.4bn EV representing an EV/EBITDA 2017e of 6.9x which looks relatively inexpensive. In fact, even if a discount has been observed with comparable US asset-light business models, it seems somewhat excessive (IHG or Marriott/Starwood are currently valued over 11x).

- **…which excessively reflects the short term environment:** The short term remains challenging, but Q3 revenue released on 19th October was reassuring with positive RevPAR up 1.1% despite the 5.8% decline in France (25.5% of total number of rooms). More importantly, management confirmed FY 2016 guidance at the low end of the bracket i.e. EBIT expected between EUR670-EUR690m.

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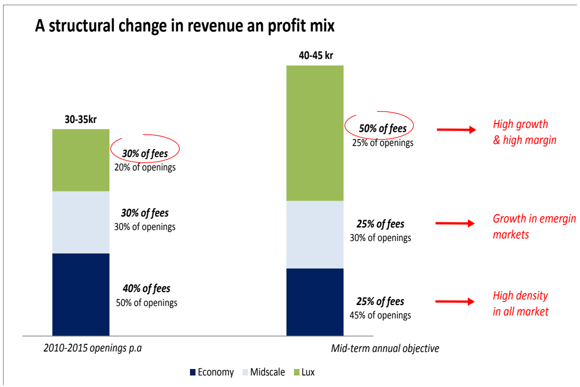
AccorHotels Major keys to Focus on

1. One Chart



- The group's expansion has accelerated substantially over the past year, both organically and by acquisitions. Today, **AccorHotels** with c. 4,100 hotels, 572k rooms in 95 countries, is the no. 6 worldwide hotelier in number of rooms and the hotelier the most diversified by geography.

- With the acquisition of **FRHI** and the current pipeline, **AccorHotels** network will be better balanced by geography and by segment. In fact, by geography, Europe will represent 45% of the total number of rooms vs. 54%, MEA 11% vs. 7%, Asia-Pacific 31% vs.26% and Americas 14% vs.13%. By segment, luxury will move to 22% vs. 16% of number of rooms, midscale to 34% from 36% and economy to 44% from 48%. Note that **AccorHotels + FRHI** is now no. 2 in terms of the number of hotels in luxury (193 compared with 227 for Marriott-Starwood, 183 for IHG, 96 for Hyatt or 52 for Hilton).

- More importantly, management has defined a new mid-term expansion objective. As again seen in Q3, AccorHotels' expansion accelerated and **management announced that potential for growth is sustainable over the long term with a new mid-term annual guidance of 40-45k rooms** compared with 30-35k rooms between 2010-2015. Remember that expansion remains one of the main cash flow drivers for an asset-light business model.

2. One Sentence

"Agility in a world where change is the only constant"

- In the last three years, **the group's transformation has been massive**, headed by Sébastien Bazin. In fact, the group has spearheaded the restructuring of its assets, the digital plan and the brand portfolio expansion.

- **Portfolio reshaping:** Initiated in November 2013 with a new organisation split between **HotelInvest** (owned and leased contrats) and **HotelServices** (management and franchise), the repositioning of **HotelInvest** (1190 hotels o/w 325 fully owned) has been significant, reducing exposure to leases. In fact, over the last three years, the number of owned hotels has increased by 8% representing 38% today of HI's number of rooms vs. 21% in 2012, while variable lease hotels have fallen 25% and fixed lease by 32%. As such, HI's EBIT gained 92% between 2013 and 2015, while the margin improved 370bps to 7.8% and cash flow (NOI) rose 67%.

- **Hospitality digitalisation plan and new hospitality area:** 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), 60% in rooms booked via AccorHotels central reservation system (TARS) or today, Le **Club AccorHotels** totalling 28m members ticking nine boxes out of 14 at the Freddie awards in 2015 and 2016. Moreover, AccorHotels has invested in "disruptive" businesses such as **Squarebreak** (49%), **Oasis** (30%) or **Onefinestay** (100%), all three of which offering guests private upscale properties. The latest AccorHotels investment was **John Paul**, the world leader in digital concierge.

  - **Brand portfolio expansion:** The group has been particularly active and innovative. In fact, numbers are pretty good regarding rooms added and pipeline, but more significant is the group's innovative and value creation deals such as the local alliance with **Huazhu** in Greater China, the stake of 35% in **Mama Shelter** and **FRHI**. Focusing on **China**, since the agreement in early 2016, Huazhu has opened 13 AccorHotels brands, has 27 in pipe and 176 under negotiation. On distribution channels, around 1,000 AccorHotels are listed on the Huazhu platform and around 180 Huazhu hotels on AccorHotels'ones. The joint loyalty programme, started in March 2016, represents 90m members (vs. 28m for Le Club AccorHotels alone). Finally, value creation is real based on Huazhu (NSQ-HTHT.O) 10.8% equity stake owns by AccorHotels currently valued at US330m vs. US193m at the entry cost in January.

3. One Figure

7.3/6.5/3

- At the end of December 2015, **HotelInvest's** gross asset value was EUR6.9bn, up EUR0.6bn from EUR6.3bn at the end of December 2014. Early October 2016 during the CMD, management has again updated **HotelInvest** GAV with the value increased to EUR7.3bn. As previously, AccorHotels had HotelInvest's hotel assets valued by three independent experts, which each analysed a third of the portfolio. The valuation uses a DCF on a hotel by hotel basis over ten years NOI + a discounted specific terminal value. Based on HotelInvest results, GAV represents a cap rate of 6% of 2015 NOI (EBITDA-capex) vs. 6.3% previously which still sounds to us reasonable. Note that management confirmed that, as part of the restructuring of HotelInvest, all hotels have been sold in a range of 95% to 110% of GAV.

- The timeline of **the "booster" project** formally launched mid-July is well on track with the preparation phase finished (Board's initial review, scope, validation of legal and tax schemes, key organisation principles, preliminary contact with banks and initial contacts with potential investors) and the execution phase engaged. As such, management confirmed the objective of mid-2017 for HotelInvest's deconsolidation with an intermediate update on 22nd February, 2017 during the FY2016 results presentation. The Booster project will concern most of HI's GAV i.e. EUR6.5bn excluding mainly Orbis (52.7% owned by AccorHotels) with an overall tax friction estimated below 5% of the GAV transferred.

- Assuming that **AccorHotels** sells off 70% of HotelInvest to be deconsolidated (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 2017e EBITDA 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). We are convinced that some cash could be retained for organic growth (brand investments, digital services) or selective bolt-on M&A, but based on the last three years investment strategy ("disruptive" investments amounted to around EUR500m and digital plan of EUR250m), **we estimate that EUR3bn could be returned to shareholders i.e. around EUR10 per share.** Ahead of our opinion, we can also highlight that some shareholders i.e. Colony Capital and Eurazeo, both of them members of the Board and shareholders of AccorHotels since May 2008, could ask for cash returns.

4. How does this impact our Investment Case

- **What implicit valuation of HotelServices taking into account HotelInvest's current GAV?:** Assuming a **HotelInvest** valuation of EUR7.3bn (EUR7bn net or c. EUR25 per share), the implied valuation of **HotelServices is EUR4.4bn in EV representing an EV/EBITDA 2017e of 6.9x which looks relatively inexpensive.** In fact, even if a discount has been observed with comparable US asset-light business models, it seems somewhat excessive (IHG or Marriott/Starwood are currently valued over 11x).

- **Resilient results in a challenging environment:** Q3 revenue released on 19th October was reassuring with positive RevPAR up 1.1% despite France (25.5% of total number of rooms) down 5.8% and lfl revenue growth of 1.8% perfectly in line with Q2 (+1.9%) and Q1 (2%). More importantly, management confirmed FY 2016 low end bracket guidance i.e. EBIT expected between EUR670-EUR690m (previously between EUR670m-EUR720m). Our forecast is at EUR684m and the consensus at EUR678m.

Next Catalysts

- FY results on 22nd February 2017

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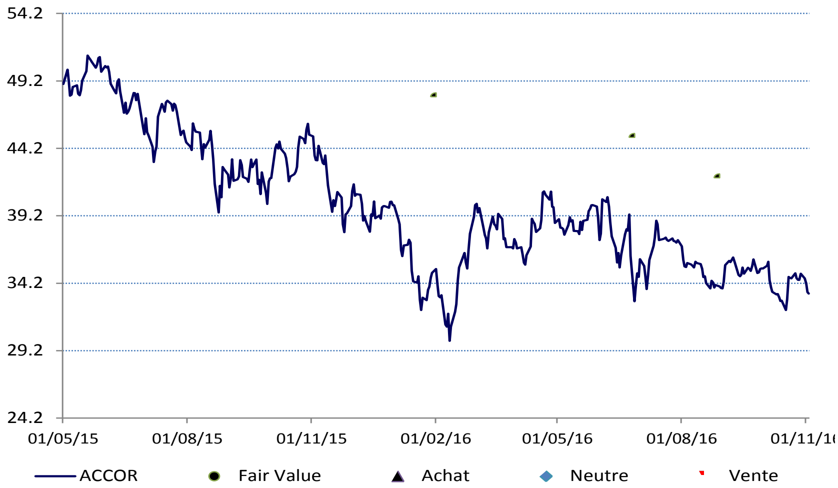
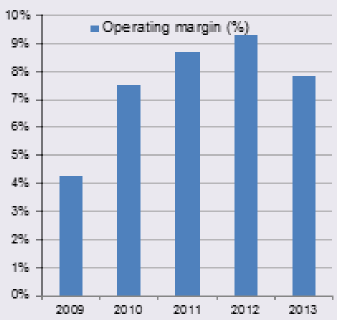
Price Chart and Rating History

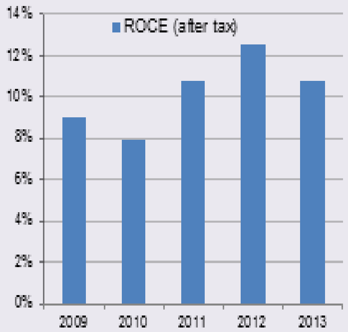
AccorHotels



Ratings		
Date	**Ratings**	**Price**
22/05/2014	BUY	EUR35,7
28/11/2013	NEUTRAL	EUR31,05
18/01/2012	BUY	EUR21,08
14/09/2011	NEUTRAL	EUR21,5
24/06/2011	BUY	EUR28,59

Target Price	
Date	**Target price**
29/08/2016	EUR42
27/06/2016	EUR45
01/02/2016	EUR48
09/04/2015	EUR53
25/03/2015	Under review
07/01/2015	EUR47
22/05/2014	EUR46
09/01/2014	EUR33
15/01/2013	EUR32





Company description

AccorHotels is the world's number-one and Europe's leading hotel operator. With the more than 240,000 people, the group has over 575,000 rooms in c. 4,100 hotels in 95 countries. Its extensive 20 brands portfolio – encompassing Raffles, Fairmont, Sofitel, onefinestay, Pullman, MGallery, Swissôtel, Grand Mercure, Novotel, Suite Novotel, Mercure, Mama Shelter, Adagio, ibis, ibis Styles, ibisbudget and hotelF1 – provides a comprehensive range of options across the luxury to economy spectrum. Under the leadership of its Chairman and CEO Sébastien Bazin, AccorHotels has two complementary businesses that interact i.e. HotelInvest, property owner/investor with 1,190 hotels and HotelServices, operator/franchiser with c. 4,100 hotels o/w 1,190 owned by HotelInvest. Mid-July 2016, AccorHotels launched the 'booster'project i.e. the HotelInvest demerger which is due to be completed by mid-2017.

income Statement (EURm)	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Sales	5,425	5,454	5,581	5,719	6,205	6,378
%change	*-4.0%*	*0.5%*	*2.3%*	*2.5%*	*8.5%*	*2.8%*
EBITDA	754	923	987	1,020	1,173	1,250
Rental expenses	894	849	794	(841)	(883)	(921)
EBITDAR	1,648	1,772	1,780	1,869	2,071	2,186
Depreciation, amortisation and provisions	329	321	322	(335)	(335)	(318)
EBIT	425	602	665	684	838	932
%change	*-19.2%*	*41.6%*	*10.5%*	*2.9%*	*22.4%*	*11.3%*
Financial result	(92.0)	(52.0)	(70.6)	(61.3)	(67.8)	(53.8)
Profit before tax & exceptionals	333	550	594	623	770	878
Exceptional items	(186)	(163)	(198)	(60.0)	(20.0)	0.0
Tax	(121)	(175)	(136)	(172)	(228)	(267)
Earnings from associates (before tax)	2.0	28.0	10.4	10.0	10.0	11.0
Minority interests	13.0	17.0	27.0	27.7	30.0	30.9
Reported net attributable profit	15.0	223	244	373	502	592
Adjusted net attributable profit	145	386	442	433	522	592
%change	*-53.2%*	*166%*	*14.5%*	*-1.9%*	*20.4%*	*13.4%*
Cash Flow Statement (EURm)						
Debt, y-1	421	230	159	(195)	918	865
- Cash flow	606	767	815	786	877	930
+ Change in WCR	(133)	(103)	(72.0)	(20.0)	(70.3)	0.0
+ Net capex	(598)	(1,105)	23.0	110	633	16.0
Free cash flow	1,337	1,975	864	696	315	914
+ Net financial investments	(140)	1,185	10.4	1,300	200	200
+ Dividends	189	197	174	234	258	309
+ Other/Miscellaneous	631	2,215	752	3,488	1,386	1,439
= Net debt	230	159	(195)	918	865	831
Balance Sheet (EURm)						
Tangible fixed assets	2,448	3,157	3,024	3,850	3,637	3,435
Intangibles assets	990	984	1,004	1,278	1,207	1,140
Cash & equivalents	1,928	2,677	2,963	1,742	1,169	1,189
current assets	983	936	1,027	1,052	1,142	1,174
Other assets	711	1000	936	927	877	829
Total assets	7,060	8,754	8,954	8,849	8,032	7,767
L & ST Debt	2,231	2,866	2,855	2,749	2,130	2,119
Others liabilities	2,072	2,022	2,111	2,144	2,326	2,391
Shareholders' equity, 100%	2,756	3,867	3,987	3,956	3,576	3,257
Total Liabilities	7,059	8,755	8,953	8,849	8,032	7,767
Capital employed	2,773	3,391	3,220	4,300	3,946	3,652
Financial Ratios						
Operating margin (%)	7.83	11.04	11.92	11.96	13.50	14.62
Net financial charges/EBIT (x)	(0.22)	(0.09)	(0.11)	(0.09)	(0.08)	(0.06)
Tax rate (%)	36.34	31.82	22.88	27.59	29.61	30.38
Net margin (%)	0.28	4.09	4.37	6.53	8.09	9.28
ROE (after tax) (%)	1.02	6.21	6.79	10.14	14.88	19.12
ROCE (after tax)	10.73	12.43	14.46	11.14	14.86	17.87
Gearing (%)	8.36	4.11	(4.89)	23.21	24.18	25.51
Payout ratio (%)	1,214	98.08	114	69.01	61.61	55.33
Number of shares, diluted (m)	227,613	230,232	234,387	257,737	281,087	284,700
Data per Share (EUR)						
Reported EPS	0.07	0.97	0.88	1.45	1.79	2.08
Adjusted EPS	0.88	1.52	1.59	1.67	2.05	2.34
% change	*-27.2%*	*72.5%*	*4.6%*	*4.7%*	*23.2%*	*14.0%*
BV/share	12.11	16.80	17.01	15.35	12.72	11.44
CF/share	2.66	3.33	3.48	3.05	3.12	3.26
FCF/share	1.68	2.16	2.17	2.04	2.47	2.47
Net dividend/share	0.80	0.95	1.00	1.00	1.10	1.15

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

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
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.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 56.7%   NEUTRAL ratings 31.8%   SELL ratings 11.5%

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Please see the section headed "Important information" on the back page of this report.

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