

## AccorHotels

Price EUR32.66

On the right track (-focus released today)

Fair Value EUR42 (+29%)

BUY

Bloomberg	AC FP
Reuters	ACCP.PA
12-month High / Low (EUR)	44.4 / 30.0
Market Cap (EURm)	9,297
Ev (BG Estimates) (EURm)	10,215
Avg. 6m daily volume (000)	1,151
3y EPS CAGR	13.7%

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.

## ANALYSIS

- **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.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.8%	-7.8%	-14.8%	-18.4%
Travel&Leisure	-5.9%	-3.9%	-6.7%	-19.0%
DJ Stoxx 600	-5.0%	-2.7%	-0.9%	-10.1%

YEnd Dec. (€m)	2015	2016	2017e	2018e
Sales	5,581	5,719	6,205	6,378
% change		2.5%	8.5%	2.8%
EBITDA	987	1,020	1,173	1,250
EBIT	665.0	684.3	837.7	932.2
% change		2.9%	22.4%	11.3%
Net income	441.8	433.5	521.9	591.7
% change		-1.9%	20.4%	13.4%

	2015	2016	2017e	2018e
Operating margin	11.9	12.0	13.5	14.6
Net margin	4.4	6.5	8.1	9.3
ROE	6.8	10.1	14.9	19.1
ROCE	14.5	11.1	14.9	17.9
Gearing	-4.9	23.2	24.2	25.5

(€)	2015	2016	2017e	2018e
EPS	1.59	1.67	2.05	2.34
% change	-	4.7%	23.2%	14.0%
P/E	20.5x	19.6x	15.9x	13.9x
FCF yield (%)	6.6%	6.2%	7.6%	7.6%
Dividends (€)	1.00	1.00	1.10	1.15
Div yield (%)	3.1%	3.1%	3.4%	3.5%
EV/Sales	1.6x	1.8x	1.6x	1.6x
EV/EBITDA	9.2x	10.0x	8.7x	8.1x
EV/EBIT	13.7x	14.9x	12.1x	10.9x

## VALUATION

- Confirming our estimate, at the current share price, the stock is trading 10.2x EV/EBITDA 2016e and 8.9x 2017e.
- Assuming a HotelInvest valuation of EUR7.3bn, the implied valuation of HotelServices is EUR4.4bn in EV representing an EV/EBITDA 2017e of 6.9x vs. an asset-light comparable valuation of over 11x.

## NEXT CATALYSTS

- FY2016 results on 22<sup>nd</sup> February 2017

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