

DESCRIPTION

Accor is the 5th largest hospitality company in the world with 4,229 hotels and 507,306 rooms. The company competes with InterContinental, Marriott, Wyndham and Hilton. Since 2005, Accor has focused its strategy on a better management of its assets, adjusting the detention/operating model depending on the location/clientele segment and its own growth strategy. This strategy has reached a new step in 2010 with the spin-off of its Services business (Edenred).

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|------------------------------|----------------|
| Share Price | 28.87€ |
| Nb of shares | 225.8 m |
| Market Capitalization | €6,520m |
| Net Debt 2011e | €706m |
| Enterprise Value | €7,226m |

BUY @ €27
Valuation Range
[€26.9-€54.9]



Market profile

High 52 weeks 22.77€
Low 52 weeks 35.80€
Average volume

Free float 71%
Insiders 29%

Shareholders

Colony/Eurazeo 27.27%
Founders 1.99%
Others 0.02%
Public 70.72%

Valuation ratios

P/E 2011e/2012e 15.8x/12.4x
P/CF 2011e/2012e 7.7x/6.5x
P/B 2011e/2012e 1.6x/1.4x
EV/EBIT 2011e/2012e 10.9x/8.7x
Rendement du dvd 3.2%/4.0%
FCF Yield 2011e/2012e 1.7%/4.2%
Gearing 2011e/2012e 18%/6%

5 year-forecast (CAGR)

Revenue 6.8%
EBIT 17.2%
EPS NS
DPS 20.4%

Why hold/buy the share ?

We estimated Accor is a **an attractive investment opportunity around €27**, because of the significant discount to both listed peers and on its own intrinsic valuation.

Accor has focused its strategy on hospitality with an «asset right» policy in terms of brands, customer segmentation, asset location and asset management style (property, rental, management and franchise).

We think Accor is capable of improving its profitability and its ROCE (currently at 11.3% compared to WACC of 8.7%) . This high profitability and a sound financial position will help finance the development plan of Accor (+28,000 rooms a year).

The return of cash to shareholders has been another driver of the company, triggered by the presence of financial shareholders (Colony Capital and Eurazeo), although one should note that those shareholders have their own agenda, which might differ from the interest of the minority shareholders.

Catalysts

- 1) Deep rebound in profitability in the US Economic hospitality segment where Accor lags its peers (lack of critical size)
- 2) Growth in profitability higher than expected (EBITDAR margin fct in slight decline over the coming years)
- 3) n°2 in Asian market; ability to outperform could trigger financial outperformance.

Risks

- 1) Overall macroeconomic environment (hospitality is a cyclical business; approx. 60% of Accor revenue are related to business segment);
- 2) Ability to improve margin is key to finance the development plan and help sustain a significant dividend payment;
- 3) corporate governance/co controlled by financial shareholders with only 30% of shares.

Valuation

We estimate the intrinsic value of Accor's share at **€38.6** based on 3 valuation methods (EVA: €26.9; DCF:€34.1, peers:€54.9). The wide range in terms of valuation reflects the cyclicity of the business, the margins of improvement of profitability and the ability of Accor's management to achieve its growth target (700.000 rooms in 2015).

Taking into account a margin of safety of 30% (due to cyclicity), we estimate that the Accor share makes an **attractive buy around €27**.