Accor Equity Research


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1. Accor Eyes Profit Growth as Demand Normalizes: Equity Outlook

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(Bloomberg Intelligence) -- THESIS: Accor needs resilient revenues to meet its annualized Ebitda-growth target of 9-12% between 2023-27 as pent-up demand fades. High-fee luxury and lifestyle (LL) hotels are an expansion focus after the Ennismore merger and reorganization -- which split LL out from the resilient premium, midscale and economy division -- and prosperous parts of Asia and the Middle East may offer pipeline opportunities. An asset-light transition with leaner costs helped margin, while credit and cash-flow metrics allow shareholder distributions, with about €3 billion planned over 2023-27. The AccorInvest stake may also be sold. (02/20/25)

Key Topics

Funds for Shareholders

Accor Profit Growth Gives Comfort on Leverage, Distribution Goal

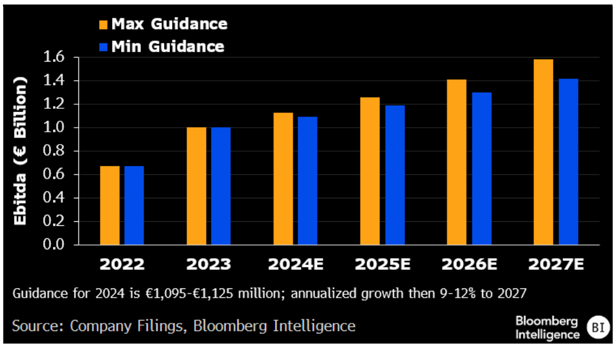
Accor's Ebitda growth, investment-grade credit ratings and wiggle room in meeting a 2.5-3x net-leverage target supports shareholder distributions with early progress made in plans to return about €3 billion over 2023-27. Asset-light acquisitions are an alternative cash use, which further disposals may help fund, depending on valuation landscapes. (09/11/24)

2. Ebitda Growth Drives Accor Distributions

Accor could boost Ebitda by about 40-60% from 2023-27 we calculate, with its growth rate forecasts barely changed despite the 2023 base being higher than initially expected. With a midterm cash-conversion rate of more than 55%, this implies at least €780-€869 million in recurring free cash flow by 2027. The company reinstated a normal dividend policy, based on 2022 after a pause during the pandemic, at 50% of recurring free cash flow, as well as making a special payment. This would equate to a €390-€435 million regular dividend in 2027.

Accor's June 2023 capital markets day set a vision for 9-12% annualized Ebitda growth between 2023-27 with 5-9% from the more-resilient Premium, Midscale and Economy division and 15-20% from the smaller Luxury & Lifestyle growth unit. (09/11/24)

Ebitda Growth Scenario Analysis Using Guidance

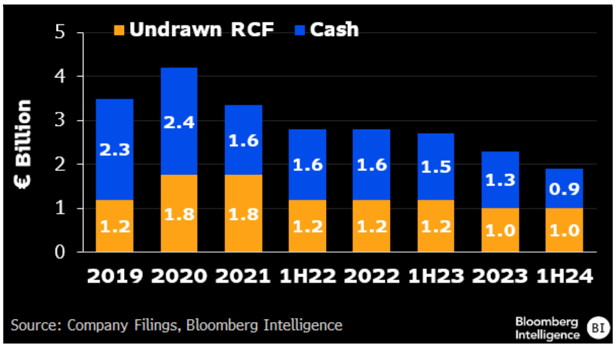


3. Accor Looks Comfortable With Cash Position

Accor's cash generation and reserves means it can comfortably meet its plan to return about €3 billion to shareholders from 2023-27. This includes a €1.3-€1.6 billion in forecast cumulative ordinary dividends and €1.5-€2 billion in buybacks from excess cash flow with about €0.3 billion and €0.8 billion paid, respectively, since the June 2023 capital markets day -- though the CEO doesn't see more buybacks until 2025. The average debt cost may rise from 2.6% in June, but most major maturities are due after 2025. Hybrids (recorded as equity) were refinanced in 2023-24.

Other uses of cash may include investment but M&A tends to be asset light -- including the purchase of the remaining 63% stake of Potel & Chabot to consolidate in the Luxury and Lifestyle unit -- and has potential to be offset by disposals. (09/11/24)

Accor Has Enough Liquidity

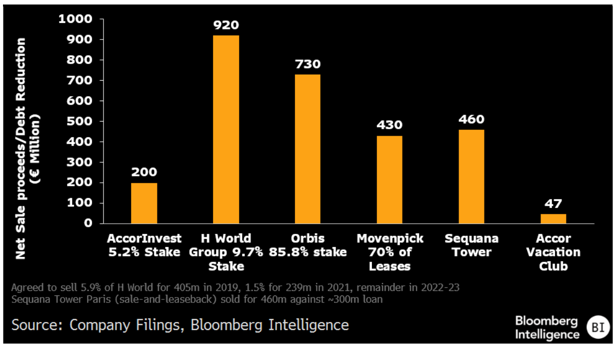


4. Property Sales Were Good for Leverage

Accor's sales pacts since 2019 help with leverage and distributions -- the original purpose before the pandemic. The asset-light strategy means it would rather pursue management contracts on some properties, including the Movenpick chain in Germany, Switzerland and the Netherlands. The company could raise more funds by selling any of the few remaining owned sites, and exit leases for Australian asset Mantra to soften net debt. Accor operates under some variable leases in Brazil and Turkey.

AccorInvest was spun off from Accor in 2018 to put real estate in an investment arm. Accor has a 30% stake remaining and has since been injecting equity into AccorInvest, including as part of a debt refinancing to 2027. This now depends on asset disposals, which would come before any potential sale of this stake in 2025-26. (09/11/24)

Accor's Asset-Light Roadmap 2019-24



Source: Company Filings, Bloomberg Intelligence

Reorganization Targets Growth

Accor Reorganization Needs to Show Upside on Luxury, Lifestyle

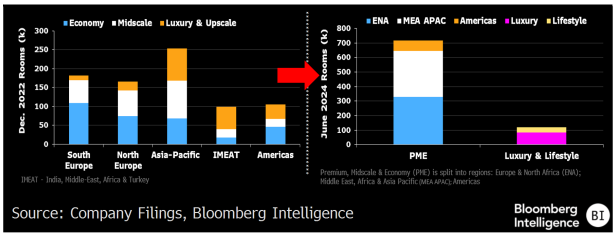
Accor still has to prove sustainable added unit and fee-growth potential from separating its Luxury & Lifestyle division -- worth about 14% of rooms and 24% of pipeline -- to build credibility for its reorganization. That's despite threats from geopolitical conflict and large rivals IHG, Marriott, Hilton and Hyatt also competing for these properties. (09/13/24)

5. Divisional Split Eyes Luxury & Lifestyle Potential

Accor's separation of the Premium, Midscale and Economy hotels (PME) -- which are still organized by geographic location -- and Luxury & Lifestyle (LL) means a resilient unit and a high-growth one, respectively. PME accounted for 86% of company rooms in June, with 48% under managed contracts (MC) and 49% franchised, and the latter tasked to drive consolidation. LL has MC making up 85% of the unit's mix, so profit-linked incentive fees are important, while less than 1% of rooms are owned or leased amid an asset-light model.

The LL independent reporting structure might facilitate a focus on profiting from fees, which were 3.3x higher per room vs. PME in the 12 months to June. This makes up for potentially lower margins as costs are added to provide extra services and support luxury brands. (09/13/24)

Reorganization Split Out Luxury, Lifestyle



Source: Company Filings, Bloomberg Intelligence

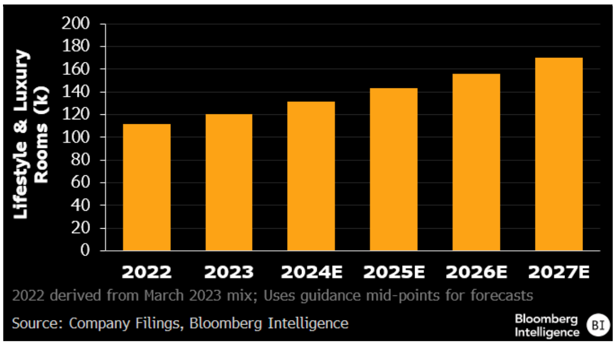
6. Lifestyle Drives Faster LL Growth Forecast

Accor expects 8-10% annualized net unit growth (NUG) for LL rooms until 2027, meaning the division could reach 17% of the total, based on guidance. Lifestyle had 24% NUG in the 12 months to June, with luxury dragging the LL figure just below the target range, but management cares more about the mix of higher-fee rooms. Wealth transfer to younger generations seeking meaningful travel may become a boon. Yet managing a wide brand portfolio vs. peers and integrating them could be a challenge.

Lifestyle hotels are boutique-style, often embedded in local areas, with food and beverage forming a significant part of revenue, attracting business, leisure and nonresidential guests in vibrant hubs.

Such concepts dovetail with the "experience economy" and "Instagram culture" championed by Millennials and Gen Z. (09/13/24)

Luxury & Lifestyle Room Growth to Drive Mix

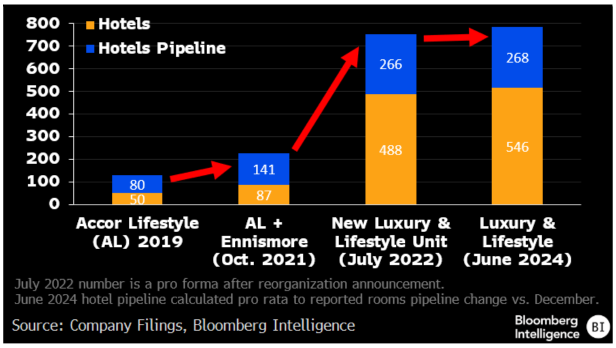


7. Strong Pipeline Needed to Support Expansion

Since Accor's reorganization announcement in 2022, we calculate a 6% increase in LL hotels, and despite just a 1% gain in the pipeline, that still stands at 44% of LL rooms. The Americas formed 38% (vs. 8% for PME) of LL room mix in March 2023 (shortly after the new segmentation), with just 25% in Europe and North Africa, and the Middle East and Asia warrant high growth if geopolitical risks are averted. LL representing 33% of Accor's 2023 fees vs. 14% of rooms shows the profit opportunity.

Accor's LL unit includes Luxury names Raffles, Orient Express, Fairmont, Sofitel and MGallery, which may need time to adjust to the split, along with brands from a merger with the established Ennismore (owner of The Hoxton). Accor has a 62.2% stake in Ennismore after a 10.8% sale to a Qatari consortium, eyeing Middle East prospects. (09/13/24)

Luxury & Lifestyle Division



Core Market Resilience

Accor Core Market, Premium Drive to Negate Travel Normalization

Accor's modernization in Europe and market-share gains in Asia and the Middle East may shield core Premium, Midscale and Economy (PME, 70% of Ebitda) profit against a tide of normalizing travel demand. The addressable-market estimate of $340 billion (excluding the US and China) that management used last year implies ample consolidation scope. (09/12/24)

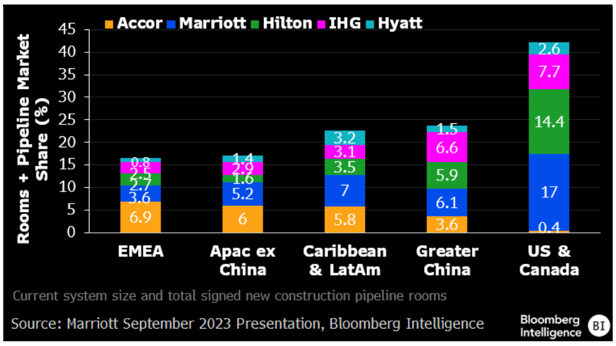
8. Dominant Outside US and China, But Premium Lags Behind

Accor is the largest hotel company by rooms outside North America and China, with clear leadership in Europe, the rest of Asia-Pacific and Brazil. Premium is an area where it trails, accounting for just 16% of 2023 PME rooms. The company boosted PME rooms by 3.7% vs. June

2023 -- helped by Daiwa conversions in Japan -- but targets an annualized rate of 2.5-3.5% to 2027. Premium forms 30% of the expansion plan vs. 16% of its 2017-22 openings. Accor can realize some of that potential by leveraging the legacy Pullman brand.

Rival asset-light chains saturate the US, though Europe has a bigger independent hotel mix from which to win share. Management sees opportunities in India, Japan and Saudi Arabia, too. Yet Marriott (34%), IHG (35%) and Hilton (42%) have greater global pipeline shares of rooms than Accor (26%; 23% for PME). (09/12/24)

System, Pipeline Market Shares by Region

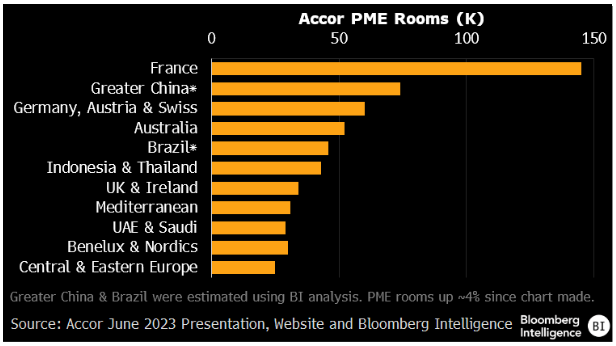


9. Consolidating Positions in Top Countries

Accor said in 2023 that 62% of its five-year PME development plan focused on its top 10 countries (90% in the top 30). Conversions mix is above normal -- likely driven by Movenpick, Mercure, Greet and the new Handwritten Collection brand -- but greater portfolio churn and construction snags are expansion headwinds. The company is making its midscale and economy presence denser, potentially supporting margin. Its dominance in France is reinforced by the ubiquitous limited-service Ibis family, which penetrates other large northern European markets, too. Novotel is critical for midscale.

Accor uses managed contracts in prime locations for tier-one cities, where maintaining standards is key. Franchising becomes more prominent moving up the tiers or toward secondary and suburban locations, where localization is important. (09/12/24)

Premium, Midscale and Economy Rooms

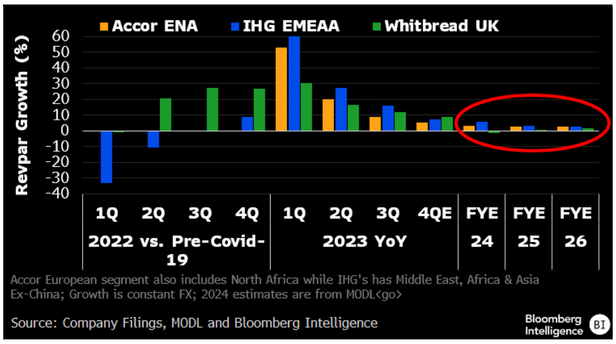


10. European Hotel Revpar Gains Can Beat Modest Views

Consensus for limited revenue-per-available-room (revpar) growth among European hotels looks pessimistic. Slower progression is a natural consequence of the maturing Covid-19 recovery and the lapping of high inflation, but we see resilient occupancy and additional scope for price increases as consumers continue prioritizing experiences, wages rise and independent supply is squeezed. Renewed interest in business travel, more visits from Asia and events could also be catalysts.

MODL consensus for 2024 revpar growth at the Accor division that mainly comprises Europe sits at 3.1%, with IHG's EMEAA region at 6% -- implying an even lower rate for the European part -- and Whitbread's Premier Inn UK (fiscal year ending February 2025) at about minus 1%. (09/12/24)

Consensus Points to Modest Revpar Growth in Europe



Financial Review

Earnings

11. Accor Ebitda to Perform on Par as Revpar Slows: Earnings Outlook

Post-4Q Earnings Outlook: Accor's revenue-per-available room growth may slow this year -- in line with a maintained 3-4% annualized target from 2023-27 -- as normalization in travel demand is felt more broadly. We now see less scope for consensus Ebitda upgrades, despite luxury and lifestyle hotels' strength garnering a better fee mix. Net income is buoyed by capital gains from the 30% AccorInvest ownership, which is undergoing disposals. While some of this looks technical given a prior writedown, greater attractiveness amid restructuring primes Accor's stake for a sale, which seems part of the CEO's extended remit.

Another management priority is to raise margins by cutting expenses, improving distribution and leveraging AI. Yet hotel cost-inflation could weigh on incentive fees, given less pricing momentum. (02/20/25)

Highlights From Recent Results:

- 5.8% Revpar Growth in 4Q Mixed Across Regions; January Commentary Is Positive But Tougher Events Comparisons Loom in 2025
- Net Unit Growth Was 3.5% in 2024 vs. 3-5% Midterm View; 2025 May Have Some Headwind Left From Portfolio Churn
- Annualized Ebitda Goal Now Implies 8-12% Growth in Three Years to 2027; Consensus Sits Toward Lower End
- New €440 Million Buyback Announced for 2025; Dividend Is About 50% of Recurring Free Cash Flow

Additional Resources:

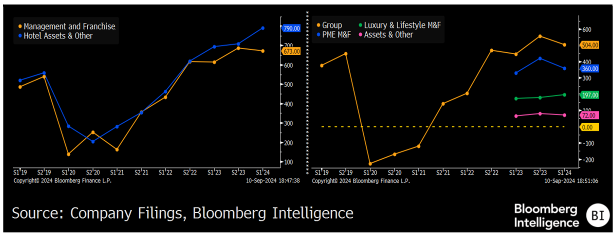
- Analyzer | BI »
- Earnings Release | DOCC »
- Earnings Call Transcript | DOCC »
- Company Presentation | DOCC »

Financial Trends

12. Accor Revpar, Rooms to Drive Ebitda

Accor's forecast that revenue-per-available room will moderate to 3-4% annualized gains to 2027 means net unit growth (3-5%) is also a key driver for fee gains (6-10%) from managed and franchised hotels. Faster expansion of its Luxury and Lifestyle brands is driving up the mix of higher-yielding rooms. In addition, the ability to make conversions is important for offsetting portfolio churn and construction headwinds. There could also be some upside from incentive fees and margin recovery for Hotel Assets. Yet by 2025 consensus sees the Ebitda growth run rate slipping below the 9-12% annualized midterm guidance. (09/10/24)

Revenue, Ebitda (€ Million)



Valuation

Valuation

Accor Valuation Discount to IHG Overstates Gap in EPS Growth

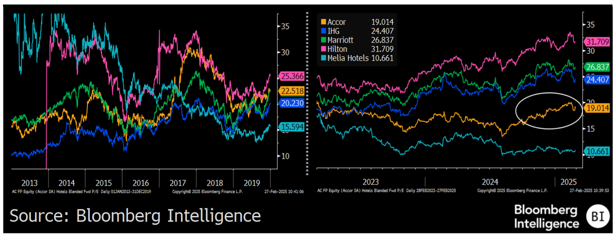
Accor's 21% forward P/E discount vs. IHG (and an even greater one vs. Marriott and Hilton) may overstate the gap in medium-term EPS prospects, with the other peers exposed to potentially slower US fee growth. An AccorInvest stake is up for sale, but an imminent move to unlock value from the Luxury & Lifestyle division seems unlikely. (03/03/25)

13. Accor Has Discount to US-Exposed Peers

Accor's blended forward P/E discount to IHG (which has greater US exposure) is about 21%, near a two-year average of 20%. It has larger discounts vs. two US-listed major peers, Marriott (29%) and Hilton (40%), though these may outperform on pipeline and room growth. Melia Hotels is a smaller, more asset-heavy company with a mainly European tilt, and this trades at a discount vs. Accor.

Accor has disposal potential -- namely its 30% stake in a restructuring AccorInvest real estate unit, which looks like regaining some value -- after property sales and corporate activity distorted multiples pre-pandemic. It's unclear how much of a premium the high-fee growth luxury and lifestyle division would unlock, but Accor's latest comments suggest the current structure including minority partners will remain. (03/03/25)

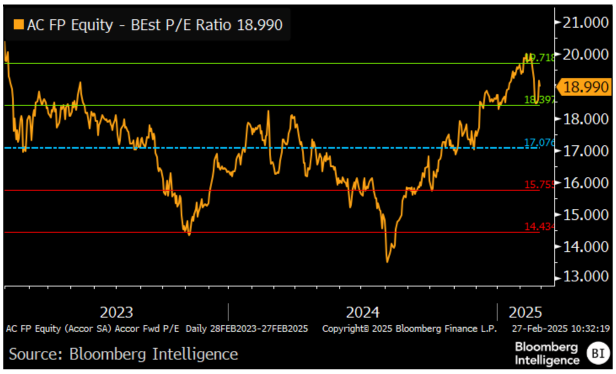
Selected Hotel Peers' Blended Forward P/E Ratio



14. Accor Valuation Points to Less Geopolitical Risk

Accor's outlook of 9-12% annualized Ebitda growth from 2023-27 (along with share buybacks) supports EPS with a resilient asset-light business in western Europe and growth prospects in the Middle East, Asia and Latin America. The blended forward P/E ratio is now more than one standard deviation above the two-year average, helped by easing geopolitical tensions. The Israel-Hamas war weighed on Accor's valuation in 2H23 followed by 2024 election upheaval in its domestic country, France, as ongoing social divisions in Europe risk igniting extreme policies that impact tourism, labor costs and credit access. (03/03/25)

P/E With Average, 1-2 Standard Deviation Lines



15. EPS Has Double-Digit Growth Prospects

Accor's upward EPS revisions have halted since the Covid-19 recovery period, yet an implied acceleration to double-digit percent growth from 2026 onward could be good for sentiment after effective tax rate and AccorInvest capital gains distortions from 2024. Our analysis shows Accor's EPS trends are unlikely to significantly undershoot the higher-rated IHG, which is forecasting 12-15% annual EPS increases in the medium to long term. The large asset light hotel operators are using share buybacks to buoy EPS. (03/03/25)

Accor 2024-26 Consensus EPS Revisions

16. Accor's 2027 P/E Ratio Gets to Mid-Teens

(03/03/25)

Europe vs US Listing Forward P/E Table

Price/Earnings	2019 1BF	2025E	2026E	2027E
Europe-Listed	19.7	13.5	12.4	11.0
Accor	22.8	19.4	16.8	14.8
IHG	20.0	24.8	22.0	19.7
Melia Hotels	15.9	10.9	10.0	10.3
Whitbread	15.9	13.5	12.4	11.0
Dalata	19.7	12.0	11.0	9.9
US-Listed	23.1	27.5	24.5	22.0
Marriott	22.7	27.5	24.5	22.0
Hilton	25.8	30.9	28.2	24.2
Hyatt	48.1	33.9	32.6	23.5
Wyndham	16.3	18.3	19.6	17.1
Choice	23.1	19.4	19.5	18.9

2019 1BF is blended 12-month forward as of the end of 2019.

Source: Bloomberg Intelligence

Basics

Basics

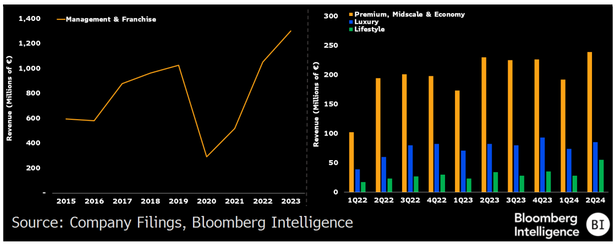
Accor's Higher-Margin Asset-Light Hotel Growth Is Here to Stay

Accor operates in the lodging sector with more than 838,000 rooms across about 5,680 properties as of June. The company has shifted to a higher-margin asset-light model with most rooms (98%) now under management (55%) or franchise (43%) contracts, and a small remaining portion owned or leased. Accor receives fees linked to hotel revenue and profits while providing services to owners, including a loyalty program and operating costs, which are reimbursed. More than 45 hotel brands (in more than 110 countries) are divided into Premium, Midscale, Economy and a separate Luxury & Lifestyle unit. (09/18/24)

17. PME Is the Core Division; Lifestyle Eyes Growth

(09/18/24)

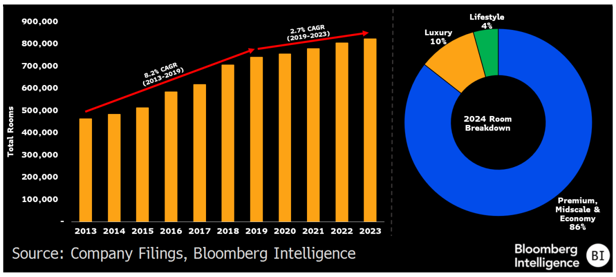
Revenue From Management Fees and New Breakdown



18. Rooms Growth Has Slowed Since the Pandemic

(09/18/24)

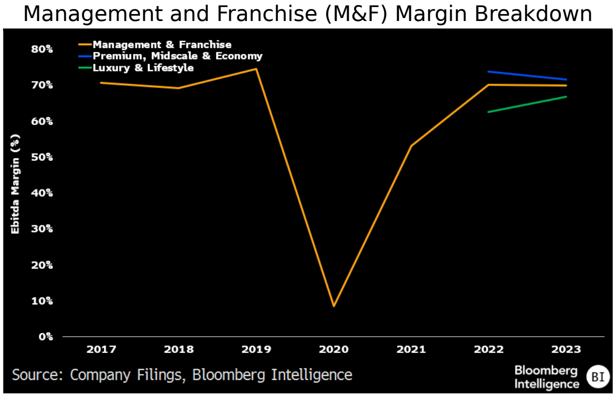
Total Hotel Rooms and Recent Breakdowns



19. M&F Commands High Margin Despite Luxury Mix Drag

(09/18/24)

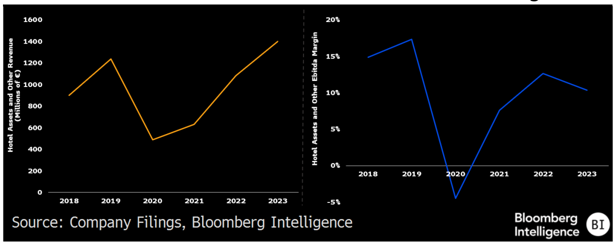
Management and Franchise (M&F) Margin Breakdown



20. Hotel Assets Ebitda Margin Yet to Recover

(09/18/24)

Hotel Assets and Other Revenue, Ebitda Margin



Peer Comparison

Peer Comparison

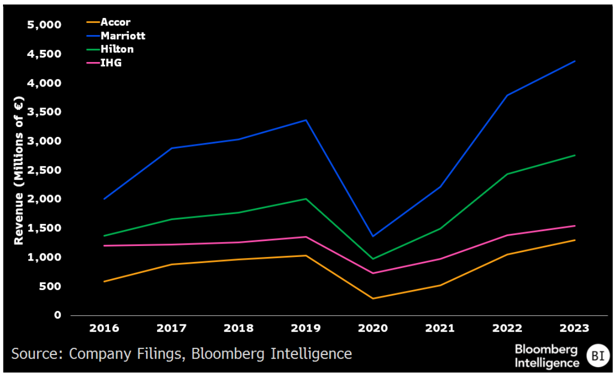
Accor Needs to Keep Pace With IHG, Marriott, Hilton on Fees

Accor is well-diversified geographically, so needs to show it can keep pace on fees (which drive sales) in the medium term with other large companies, such as Marriott, Hilton and IHG. They all have greater exposure to a more mature US market for asset-light chains but are also expanding globally. The hotel operator had 54% of rooms in EMEA and 34% in Asia-Pacific at the end of 2023 vs. IHG and Hilton's 55% and 74% in the Americas, respectively, and Marriott's 61% in the US and Canada. (09/18/24)

21. Accor's Sales Trail Three Closest Global Peers

(09/18/24)

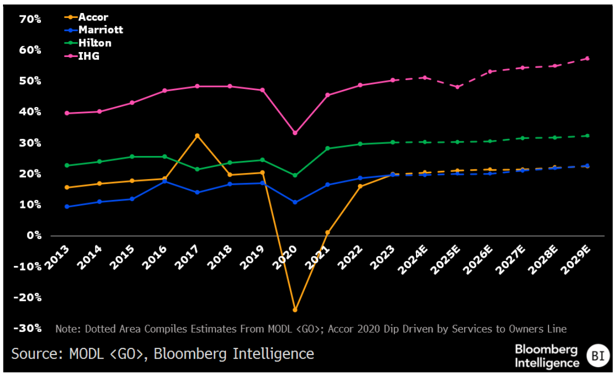
Net Fee Revenue in Euro



22. Accor's Ebitda Margin Growth Expected to Stall

(09/18/24)

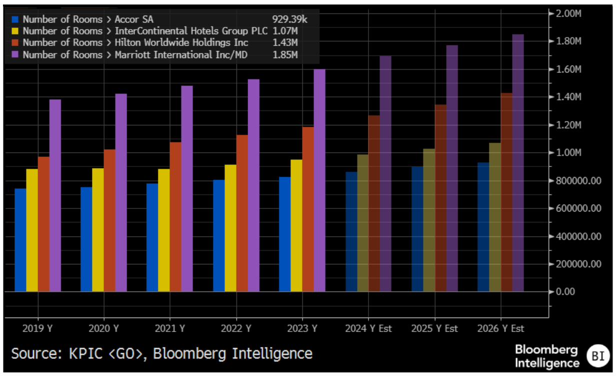
Adjusted Ebitda Margin Relative to Peers



23. Accor Trails Top Three Peers on Rooms

(09/18/24)

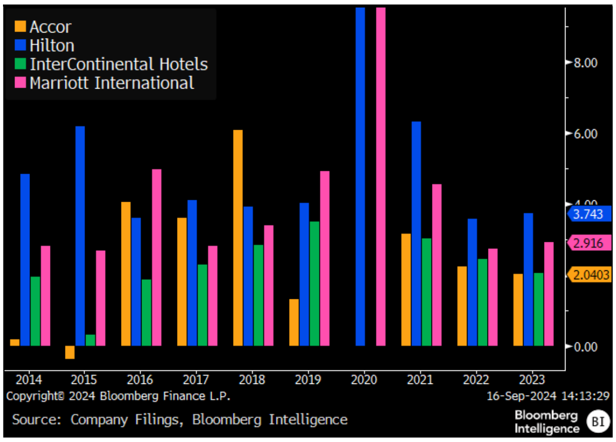
Expected Rooms for Hotel Peers



24. Leverage Has Normalized for Accor and Peers

(09/18/24)

Net Debt to Ebitda (2020 Distorted by Pandemic)



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