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Navigating the Storm: Meliá´s Resilient Recovery

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A Project carried out on the Master Finance Program, under the supervision of:

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Abstract

This equity research report centers on Meliá Hotels International. The report provides a complete analysis of the performance of the company in the last 5 years while looking at their financial information. Besides that, a DCF model will be made to reach a price target for the company. Furthermore, a multiple valuation was conducted to enhance the comparison of Meliá with its peers.

Keywords: Performance, Geography, Occupancy, Valuation

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MELIÁ HOTELS INT.

COMPANY REPORT

HOSPITALITY INDUSTRY

9TH DECEMBER 2023

MANUEL SOUSA, SALVADOR ROSA

Navigating the storm

Revenues back on Track

- Based on our target price of €7.54, with a total return of 23%, we issue a BUY recommendation for MEL.
- Meliá Hotels revenues have returned to 2019 levels and are forecasted to grow at a CAGR of 2.2% until 2034. This growth is primarily attributed to increased investment and rising revenues in smaller business segments, notably the management model hotels, particularly in emerging markets, and the Meliá Club.
- Despite a high leverage, growth is planned to be more reliable in less capital-intensive activities as the hotels and rooms in the pipeline are being opened through the management model. Also, short-term interest rates seemed to have already peaked as central banks start to decrease them.
- Pipeline remains strong at 14,323 rooms (63 hotels) expected to be opening in the following years. In 3Q-2023 the company opened 4 hotels– 1 in Cuba, 2 in Asia and 1 in Tanzania and are still expecting to open 6 until the end of the year.
- Also, our target share price is still around 80 cents far from January 2020 prices, although revenues reached pre-pandemic levels, operational and financial costs increased and comprehensive result is still a little bit far relatively to 2019, as we expect comprehensive result to return to pre-Covid levels in 2027.

Company description

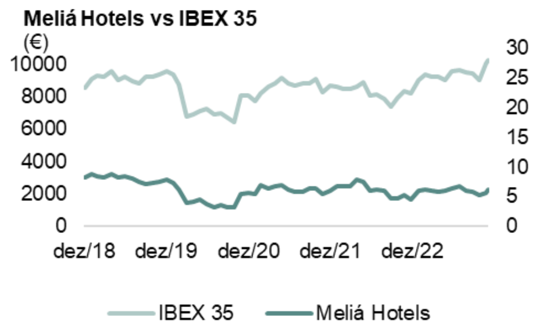
Meliá Hotels International is a multinational hotel group based in Palma de Mallorca, Spain, that manages and operates a diverse portfolio of hotels and resorts across the globe.

Recommendation:	**BUY**
Price Target FY24:	**7.54 €**
Price (as of 8-Dec-23)	**6.15 €**

Reuters: MEL, Bloomberg: MEL

52-week range (€)	4.56-6.89
Market Cap (€m)	1398
Outstanding Shares (m)	221.59

Source: Bloomberg



Source: Bloomberg

(Values in € millions)	2019	2023E	2024F
Core Revenues	1776	1869	1918
Core EBITDA	474	455	461
Comprehensive Result	138	62	98
RevPAR Spain (€)	85.5	108.6	112.0
RevPAR EMEA (€)	102.9	117.7	128.0
RevPAR America (€)	72.6	89.7	97.8

Source: Meliá Annual Reports and Analysts estimates

Table of Contents

Company Overview

Company Description

Meliá Hotels International is a multinational hotel group based in Palma de Mallorca, Spain, that manages and operates a diverse portfolio of hotels and resorts across the globe. With a legacy of over six decades in the hospitality industry, Meliá Hotels International has established itself as a symbol of quality, service, and innovation.

The group operates under various brands that cater to different market segments, namely the luxury and mid-scale segments. This diverse offering ensures the accommodation preferences and needs of travellers are met effectively.

Timeline

1956 - Escarrer opens his first hotel in Palma de Mallorca, Spain

1970s - Expansion of the business to other regions in Spain reaching other major holiday destinations

1984 - Escarrer acquired Hotasa Hotels & Resorts, expanding its presence to major Spanish cities and establishing itself as the leading hotel group in Spain—a position it has maintained ever since.

1985 - First International Hotel in Bali

1987 - Acquisition of the Meliá hotel chain, which subsequently became the flagship brand

1990s - Expansion to Latin America and Caribbean

1996 - Becomes the first European Hotel chain to get listed in the stock market

2000s - Strategic acquisitions, new brands, entry in the US and Middle East markets and tripled Asia portfolio

2011- Became Meliá Hotels International

While Meliá has been one of the largest hotel companies for a considerable time, its focus on international expansion has increased in more recent years. This suggests there is still room for growth and an opportunity to gain market share, especially outside of Europe.

GRAN MELIÁ HOTELS & RESORTS

Hotels	Rooms	Countries
15	3489	6

The MELIÁ COLLECTION

Hotels	Rooms	Countries
7	487	6

Branding Description

In order to meet the preferences of individuals seeking a heightened level of comfort, prestige, and indulgence, Meliá includes in their portfolio upscale and luxury brands:

Gran Meliá encapsulates Spanish luxury and culture, focusing on service and experiences aligned with Spanish hospitality. Its architecture, culinary offerings, and meticulous attention to detail embody the essence of Spanish luxury.

The Meliá Collection comprises carefully selected, iconic luxury hotels representing their respective destinations. These European hotels offer tailor-made services for discerning travellers, capturing the essence and sophistication of each location.

Paradisus by Meliá is an all-inclusive luxury resort brand highlighting a combination of luxury, local culture, and nature. It seeks to provide a "Destination Inclusive" experience, integrating guests with local communities and environment, reflecting sustainable design principles.

Additionally, the company also offers mid-scale options for customers seeking a balance between affordability and comfort:

Meliá Hotels and Resorts is a brand with a foundation deeply rooted in Spanish hospitality and Mediterranean heritage. The brand features specialized event programs and wellness facilities designed to cater to both business and leisure travellers. Additionally, Meliá offers family-friendly amenities and activities, enhancing the overall guest experience.

ME by Meliá provides a contemporary, culturally connected hotel experience by blending architecture, design, art, and cuisine. ME Barcelona is positioned as the brand's flagship hotel.

INNSiDE by Meliá offers design-led lifestyle and resort hotels. The brand emphasizes a modern approach to hospitality, incorporating local culture through various activities and eco-friendly practices to minimize environmental impact.

SOL by Meliá caters to families and adult experiences, prioritizing environments for a fun-filled stay. The brand ensures every member of the family finds suitable entertainment options and activities.

In addition to the aforementioned brands, Meliá Hotels International introduced two new brands in 2022:

PARADISUS BY MELIÁ

Hotels	Rooms	Countries
11	6069	4

MELIÃ HOTELS & RESORTS

Hotels	Rooms	Countries
126	39473	31

ME BY MELIÃ

Hotels	Rooms	Countries
8	1320	5

INNSIDE BY MELIÃ

Hotels	Rooms	Countries
39	7163	14

SOL BY MELIÃ

Hotels	Rooms	Countries
56	17295	8

Hotels	Rooms	Countries
83	14999	11

Zel, a collaboration with Rafael Nadal, introduces a new hotel concept inspired by the Mediterranean lifestyle. It aims for international growth, leveraging its authentic Mediterranean character as a significant hallmark.

Falcon's Resorts by Meliá is a recent brand focusing on superior-quality beachside resorts with integrated leisure experiences. The brand offers an immersive destination experience, including access to various amenities and attractions.

Lastly, **Affiliated by Meliá** is a portfolio of independent mid-scale and upscale hotels selected by Meliá due to their consistency and their connection with the local environment. Affiliated hotels do not have to operate under one of the group brands, but instead creates a partnership that allows the hotels access to Meliá´s sales and distribution channels.

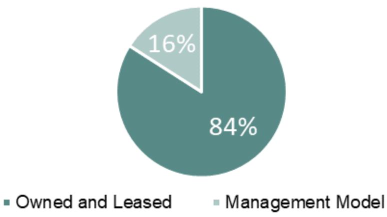
Business Model

Meliá Hotels International operates using a diverse business model designed to serve the needs of both property owners and customers. This model encompasses a wide range of services and operational systems, creating a flexible and comprehensive approach to the hospitality industry. In fact, we can say that Meliá Operates in main two business models:

- Owned and Leased Model

Here, Meliá directly owns and operates the hotel (Owned) or the same is owned by a third party and leased to Meliá for operation under one of its brand identities (Leased). For this model, Meliá will collect Room Sales, as well as all the Food and Beverages sales and services related to this kind of Hotels. This model is the one from were Meliá will bring most part of its revenues.

Revenue distribution per Model - Meliá Hotels (%)



- Management Model

In this segment, a third party owns the hotel, but Meliá provides management services (Management), or Meliá grants a franchisee the right to operate a hotel using one of its brands for a specific duration (Franchise), or even other services like owners utilizing Meliá's sales channels to enhance their visibility and reach.

This flexible and multifaceted approach enables Meliá Hotels International to effectively cater to the diverse needs of both property owners and customers, offering a wide array of services and operating models to suit different preferences and business requirements.

Sustainability and ESG Ratings

As a leading hospitality company deeply committed to sustainability and environmental responsibility Meliá´s dedication to promoting sustainable practices and reducing their carbon footprint is exemplified through various strategic initiatives. At IMEX Frankfurt, Meliá made significant strides in sustainability. They announced a pioneering project focused on measuring, reducing, and offsetting event carbon footprints, exemplifying their commitment to responsible event hosting. Notably, this commitment was further underscored by achieving sustainable luxury milestones—the inauguration of Spain's first carbon-neutral Villa Le Blanc Gran Meliá hotel in Menorca. Aligning with the ethos of sustainability, Meliá celebrated World Tourism Day by unveiling Travel for Good, an initiative dedicated to promoting a more responsible tourism model.

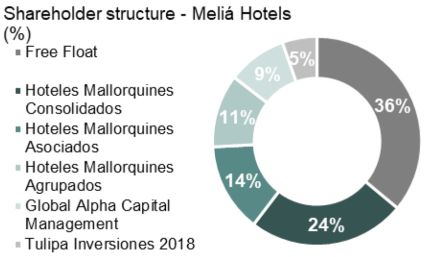
Additionally, the company is dedicated to enhancing its reputation in intangible areas by participating in rankings and monitoring systems aligned with company needs, material issues, and strategic priorities. This proactive approach helps them identify best management practices and improve their overall sustainability performance.

In 2022, Meliá received recognition for its sustainability efforts. The company was named the leading hotel company in sustainability globally and secured a position in the Top 1% of the global travel industry in the 2022 Corporate Sustainability Assessment (CSA) conducted by S&P Global. This acknowledgment underscores their firm commitment to sustainability and further motivates them to continually enhance their management practices and support sustainable and responsible tourism.

Management Team

The board of directors consists of 11 members, including 7 external independent directors. The current Meliá Hotels CEO and vice-president is Gabriel Escarrer Jaume, who is the son of the founder and president Gabriel Escarrer Julià. Moreover, there have been no significant restructuring changes in the management team, with seven board members having served in their current role for more than seven years.

Shareholder structure



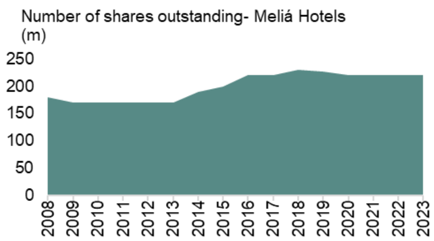
Meliá Hotels ownership is highly concentrated on the Escarrer family which owns approximately 55% of total shares through Hoteles Mallorquines groups and Tulipa Inversiones 2018, S.A., suggesting the decision-making process is very centralized on the Escarrer family. Global Alpha Capital Management is the only institutional investor, solely owning 9% of the company, which could mean either the company is not deemed attractive by professional investors or that the Escarrer family doesn't wish to dilute their influence on the company. The amount of free float shares indicates that the company prefers to seek investments from retail investors instead of institutional investor.

Dividends and share buybacks

Meliá Hotels haven't paid dividends since 2020 due to lower comprehensive results impacted by Covid-19. As of 2023 the company is still recovering and decided to not distribute earnings to shareholders. From 2015 until 2019, the dividend payments were increasing consistently though rises in both dividend per share and dividend yield. It is expected Meliá returns to distribute its earnings to shareholders via dividends once it recovers.

You can observe the dividend payment timeline in the following table:

Dividends (€m)	FY17	FY18	FY19	FY20	FY21	FY22
Total dividend payments	(31,7)	(38,3)	(43,0)	(0,1)	-	-
Net DPS	0,11	0,14	0,15	n.a	n.a	n.a
Yield	0,0	0,0	0,0	n.a	n.a	n.a



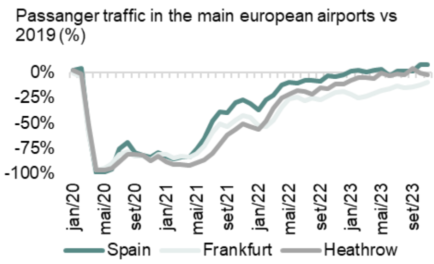
Meliá Hotels announced a share buyback program in 2019, which was later suspended during the pandemic to strengthen the solvency and liquidity of the company. At the time of suspension, Meliá had already repurchased 3.416% of outstanding shares, investing more than €46m. While the graph indicates that Meliá shares buybacks are infrequent, it is anticipated that the company will resume and complete the share buyback program, aiming to repurchase shares worth €60m whenever feasible.

Industry Overview

Meliá Hotels International is a key player in the travel and tourism sector, boasting a worldwide presence. While the Owned Leased Hotels segment has its strongest presence in Europe, notably in Spain, the company also maintains a significant presence in the American market. Additionally, the Management Model extends its reach to Africa and the APAC region.

Trends

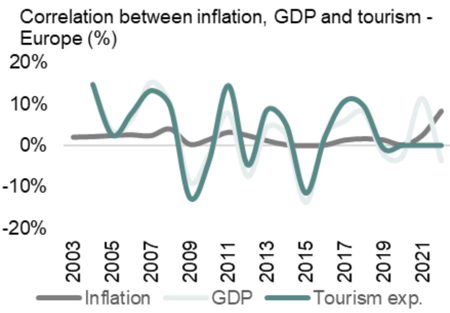
▪ Travel and tourism return to 2019 levels



Source: AENA, Fraport & Heathrow Airport website

The COVID-19 pandemic significantly impacted passenger traffic in 2020. However, it has been gradually recovering since then, and major airports in Europe are nearing 2019 levels of activity. The number of hotel stays and similar accommodation arrangements has also been following this upward trend, further confirming the recovery. To ensure an accurate assessment and account for seasonal variations, data for each month is being compared with the corresponding month in 2019.

▪ Correlation between GDP, inflation and tourism

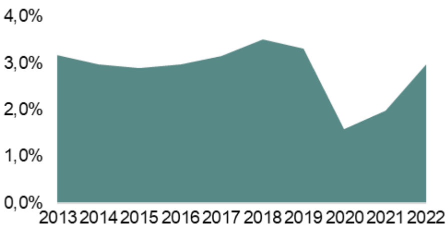


Source: World Bank

As the graph shows, GDP and tourism are very highly correlated. A growing GDP indicates a thriving economy with increased disposable income, leading to greater spending on leisure activities, where tourism becomes a significant recipient. Additionally, economic growth often triggers investments in tourism-related infrastructure, which enhances the overall tourist experience and boosts the attractiveness of destinations. Moreover, the tourism industry generates employment and revenue, making it an essential economic driver. A robust GDP can also result in a stronger national currency, making travel more affordable for residents and more appealing for foreign visitors.

On the contrary, it's essential to acknowledge that the relationship between tourism and inflation is notably dissimilar. While there are instances where escalating prices can influence travel choices, such circumstances are frequently influenced by a multitude of factors, resulting in a less straightforward correlation between tourism and inflation.

▪ Europeans cutting back on tourism expenditure



Source: Eurostat

In 2018, European households allocated a larger portion of their budget to travel-related expenses. However, the significant setback experienced during the COVID-19 pandemic has resulted in a slower recovery than the number of hotels stays and passenger traffic, which have already rebounded, there is a noteworthy shift towards cost-conscious travel choices. Due to inflation, it would be expected the amount spent on tourism would recover faster, suggesting that people are opting for more budget-friendly travel destinations, often closer to their home countries or in countries with lower overall costs. This shift in behaviour may be attributed to the prevailing political and economic uncertainties of the times, which have prompted households to become more savings-oriented and are travelling less.

SWOT Analysis

Strenghts

▪ Diversified portfolio

Meliá Hotels has a strong international presence with a portfolio of hotels in various countries, providing a diversified revenue stream, thereby mitigating certain risks.

▪ Brand reputation

The company has successfully cultivated a positive brand image and reputation by consistently delivering high-quality hospitality services. This focus on quality is complemented by a strong commitment to sustainability, further enhancing the company's ability to attract and retain customers.

Weaknesses

▪ Heavy competition

The hospitality industry is highly competitive, and Meliá faces competition from both traditional hotel chains and newer, disruptive platforms.

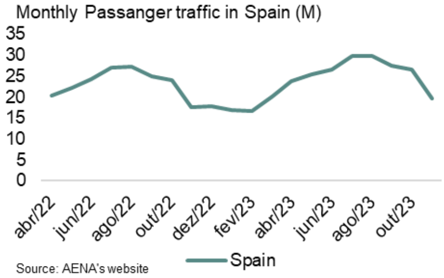
▪ Dependency on external partners

Meliá Hotels often operates through franchise and management agreements, which could expose the company to risks associated with the performance of these partners.

- Cyclical nature of tourism

The hotel industry is sensitive to economic conditions, and Meliá's performance may be impacted during economic downturns when travel and tourism expenditures tend to decrease. Moreover, the company's performance is subject to factors like geopolitical events or natural disasters, which can affect travel patterns.

- Seasonality



Source: AENA's website

The hospitality industry often experiences seasonal variations in demand for accommodation and travel services. Meliá Hotels may face challenges during off-peak seasons when there is a decline in travel and tourism. This can result in revenue fluctuations and a potential negative impact on financial performance during specific times of the year.

Seasonal peaks and troughs can lead to operational challenges for Meliá Hotels. During high seasons, the hotels may need to manage increased demand, potentially leading to issues such as overbooking, higher labour costs, and strain on resources. Conversely, during low seasons, the hotels may struggle to maintain occupancy rates, that allows to cover all operational costs.

Seasonal variations can lead to inconsistent cash flow for Meliá Hotels. The company may experience cash surplus during peak seasons but may face liquidity challenges during off-peak periods, requiring effective financial management strategies to address the fluctuations.

Opportunities

- Expansion to emerging markets

Meliá Hotels has an opportunity to tap into the rising demand for luxury hospitality in emerging markets. By expanding into these regions, the company can access new customer bases and diversify its portfolio, potentially driving revenue growth. Meliá is actively seizing this opportunity, given that Asia, notably in countries like Vietnam, Indonesia, and Thailand, is the region witnessing the highest investment for expanding the number of hotels.

- Strategic partnerships

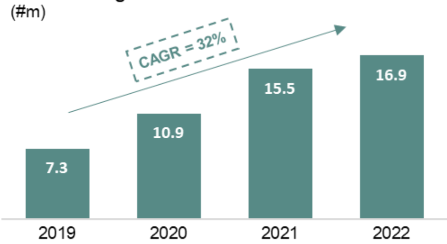
Collaborating with airlines, travel agencies, or complementary businesses presents Meliá with opportunities to broaden its customer reach. Strategic partnerships can lead to increased customer acquisition and revenue growth, as well as synergies that enhance the overall travel experience for customers.

- Sustainable Tourism

The growing demand for sustainable and eco-friendly tourism offers Meliá a chance to align with changing consumer preferences. By adopting environmentally friendly practices and promoting responsible tourism, the company not only contributes to global sustainability efforts but also appeals to a conscientious segment of travellers, potentially creating a competitive advantage.

- Increase in the Digital Nomads

Number of digital nomads in the United States (#m)



Source: Statista

Digital nomads are individuals who work remotely, offering them the freedom to select their work environment, often incorporating work into their travels or choosing to reside in diverse locations. Since 2019, this workforce has experienced consistent growth, potentially resulting in increased revenues for the hotel industry, particularly during periods when hotels typically have lower occupancy rates.

- Optimizing Self-Branded Digital Channels

Expanding a company's digital channels, such as their website and app, offers the advantage of reducing reliance on intermediaries like Booking.com. This approach is beneficial as it enables better control over pricing, lowers distribution costs, and enhances profit margins. It also provides more control over branding, presentation, and the customer experience. Additionally, it grants access to valuable customer data and the ability to communicate directly with clients, ultimately improving their experience and facilitating loyalty programs and special promotions. Meliá Hotels has witnessed substantial progress in recent years, with direct channels accounting for nearly 45% of centralized sales in 2022 and remains committed to further enhancing its performance.

Threats

- Covid-19: A Lesson for the Future

Pandemics disrupt the entire hotel industry ecosystem, affecting demand, revenue, operations, and long-term planning. Successfully navigating these challenges requires adaptability, financial resilience, and a focus on health and safety measures to instil confidence in travellers.

- Relying on Globalization

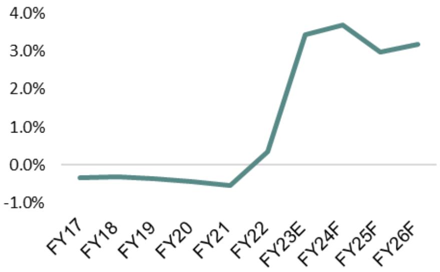
Supply chain disruptions have become more frequent due to various factors, including the pandemic and geopolitical conflicts such as those involving Russia/Ukraine, China/Taiwan, and Israel/Hamas. As a result, many companies are revisiting their current globalized business models to reduce their exposure to avoidable risks.

- Inflation

Although there isn't a direct correlation between inflation and the number of tourists, the current inflationary environment could potentially impact the hotel industry. Hotel profit margins may experience a significant decrease due to rising costs, especially in a capital-intensive industry with high fixed and variable costs. Moreover, inflation can lead to an increase in interest rates, further affecting the comprehensive results of hotels through higher financial expenses.

- Interest and Exchange Rates

Euribor 3m



The ECB has been increasing interest rates as part of an effort to control inflation. As of the current analysis, interest rates stand at around 4%. Considering the capital-intensive nature of the hotel industry, heavily reliant on leverage, the uptick in interest payments could have a substantial impact. This is especially noteworthy as it follows a period of negative interest rates, presenting a more considerable challenge for companies highly dependent on external financing.

Exchange rate volatility introduces considerable uncertainty to businesses, particularly when operating in multiple locations worldwide.

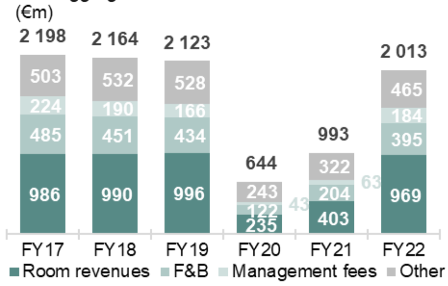
Performance: 5-Year Snapshot

Income Statement Overview

- Revenues

Core revenues mainly comprise room sales from owned and lease hotels, food and beverage revenues and fees from management model. From FY17 to FY19, both aggregated and consolidated revenues decreased at a CAGR of -2% mainly driven by the decline in food and beverages sales, which decrease at a CAGR of -5.4%. Other revenues mainly comprise the Meliá Club (a membership that allows subscribers to stay at any of the hotels worldwide) emerged as the fastest-growing segment, boasting a CAGR of 27.9% before the onset of the Covid pandemic. Eliminations on consolidation have remained relatively constant throughout the analysed period and are associated with transactions involving related parties, predominantly internal management fees collected from owned and leased hotels.

Core aggregated revenues breakdown (€m)

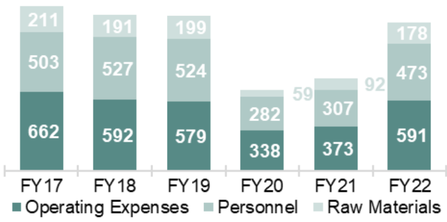


Consolidated revenues in 9m23 increased by €204.8 million compared to 9m22, primarily driven by a €40.3 million increase in management model revenues and €151.3 million in owned and leased revenues (prior consolidation). The figures for 9m23 exceeded the values from 9m19 by almost €90.3 million, indicating the conclusion of Meliá's pandemic recovery in terms of sales.

- Operating costs

Core operating expenses have decreased at a CAGR of -2.7% from FY17 to FY19 mainly due to a decline at a CAGR of -6% of other operating expenses, which primarily comprises maintenance and repairs, outsourcing, advertising, promotions and other supplies.

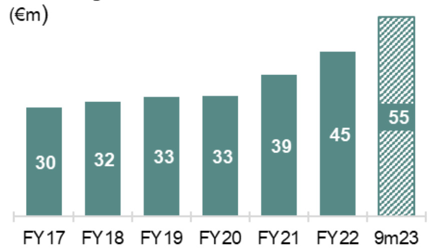
Core operating expenses - Meliá Hotels
(€m)



Although in FY22, other operating expenses increased to levels above FY19 due to maintenance and repairs costs incurred. Personnel expenses decrease considerably due to a pandemic related staff downsizing. As at Dec22, Meliá Hotels had 3,390 less workers than in Dec19 but a higher average cost per worker. As at Sep23, personnel expenses were €66.8m higher than the previous year, suggesting the staff number have continued to increase.

- Borrowings

Borrowings
(€m)

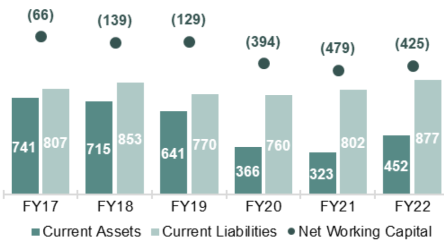


From FY17 to FY22, borrowings have increased at a CAGR of 8.7% reflecting the high interest rates environment we live at the moment. It is expected borrowings expenses keep this trend as 9m23 already surpassed FY22 costs.

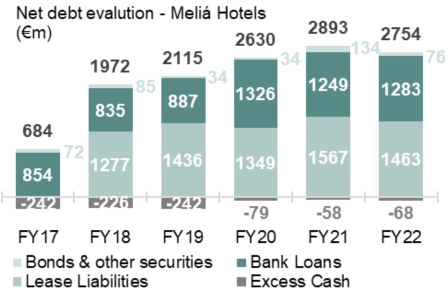
Balance sheet overview

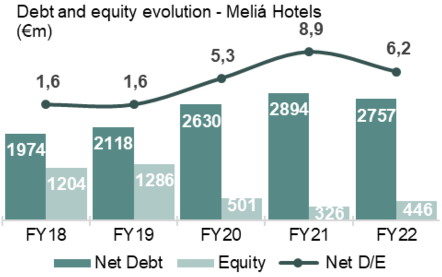
- Net working capital

Net working capital - Meliá Hotels
(€m)



Since FY17, net working capital has been consistently negative suggesting the company may struggle to meet its short-term obligations with the available current assets. In recent years, net working capital values have been particularly low mainly due to a large decrease in current assets, especially in cash and equivalents which have decrease at a CAGR of -15%, from Dec17 to Dec22. As at Dec22, Meliá Hotels sits at a current ratio of 0.5 (vs 0.8 as at Dec19) and a cash ratio of 0.2 (vs 0.4 as at Dec19) indicating the risk of financial distress has increased and the company may struggle to manage its short-term commitments.





- Net Debt

Hotel industry being a capital-intensive business, which requires a lot of debt in order to grow the business through new hotels, is important to look to such metric to make sure uses of external capital are being done sustainable without risk of default. Both lease liabilities and borrowings are growing (at a CAGR of 2.7% and 9.0% since FY18, respectively). Bank loans suffered a great increase to face the adversities of the pandemic, while excess cash decreased due to the same reasons. Some loans that mature in 2024 will probably have to be re-financed due to the lack of excess cash available to fulfil those obligations.

- Capital Structure

As debt levels increase, equity is experiencing a decline, primarily due to a reduction in net income attributed to the pandemic. Consequently, the debt-to-equity ratio has risen; nevertheless, it is anticipated to decrease once net income returns to normal levels.

Key Performance Indicators

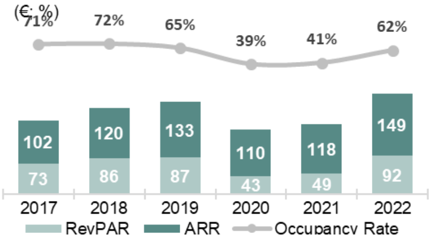
In the realm of the hospitality industry, certain key performance indicators hold paramount importance in evaluating a hotel's success and financial health:

Occupancy Rate

Occupancy Rate (OR) stands as a crucial metric, representing the percentage of available rooms or beds that are occupied during a specific period. This metric provides a direct insight into the utilization of accommodations within a hotel, allowing for adjustments in marketing strategies or pricing based on demand trends. In 2020, the global pandemic was responsible for a sharp decline in occupancy rates across all regions. By 2021, as the effects of the pandemic began to ease and travel restrictions were gradually lifted, there was a visible recovery in occupancy rates. Some regions showed an upward trend, indicating a resurgence in travel and tourism. However, the recovery was uneven across regions, potentially due to ongoing travel restrictions or a slower rebound in those areas. During 2022, the occupancy rates demonstrated a notable rebound as the tourism industry seemed to be regaining momentum in these regions, likely influenced by eased travel restrictions, increased vaccination rates, and pent-up demand. However, the varying rates across regions also reflect the ongoing impact of the pandemic and regional disparities in recovery.

Average Room Rate

Main Indicators - Meliá Hotels
(€; %)



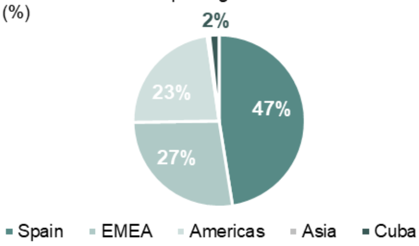
Moving on, the **Average Room Rate (ARR)** indicates the average price at which rooms are sold. Computed by dividing the total room revenue by the number of rooms available sold, ARR offers valuable insights into a hotel's pricing strategies, revenue generation, and positioning within the market. It's a fundamental measure for judging the financial performance of a property and aids in making informed decisions related to pricing and revenue optimization. During Covid the rates went down, but as prices and demand increase, ARR is already higher than in 2019.

Revenue per Available Room

Another vital metric, **Revenue per Available Room (RevPAR)**, is calculated by multiplying the ARR by the occupancy rate. RevPAR presents a comprehensive view of a hotel's financial performance by considering both the room rate and occupancy levels. This metric is pivotal for assessing how efficiently a property leverages its assets to generate revenue. By evaluating RevPAR, hotel management can refine strategies to enhance revenue streams and competitiveness in the market. In all geographies, RevPAR displayed consistent growth from 2017 to 2019 but experienced a notable decline in 2020 due to pandemic-induced travel restrictions and reduced demand. Although there was a partial recovery in 2021, RevPAR levels only reached pre-pandemic figures in 2022, emphasizing the lasting repercussions on revenue. The overall decline in RevPAR during the pandemic years can be attributed to a significant drop in Occupancy Rates (OR), as described before.

Geographical Performance

Revenue distribution per region - Meliá Hotels
(%)



Meliá´s divides its operations along 5 regions: Spain, EMEA (Europe, Middle-East and Africa, excluding Spain), Americas, Asia and Cuba, with the first 3 having all the four operational models, while the last two only collect fees by providing management services.

Spain

Meliá´s performance in the region with the most hotels, reflects a response to the disruptive influence of the COVID-19 pandemic. In the initial pandemic year of 2020, Meliá adopted a dynamic strategy, optimizing operations and concentrating customers in select hotels. The subsequent years evidenced a nuanced recovery, particularly in 2021, where resort destinations with a higher proportion

Spain

Hotels Owned and Leased	Rooms Owned and Leased
62	16 081
Hotels Management Model	**Rooms Management Model**
79	19 231

RevPar (€) 2022 v 2019	ARR (€) 2022 v 2019	Occupancy 2022 v 2019
82 v 86	128 v 108	65% v 72%

EMEA

Hotels Owned and Leased	Rooms Owned and Leased
45	8 356
Hotels Management Model	**Rooms Management Model**
53	11 676

RevPar 2022 v 2019	ARR 2022 v 2019	Occupancy 2022 v 2019
96 v 102	172 v 141	64% v 73%

America

Hotels Owned and Leased	Rooms Owned and Leased
18	7 158
Hotels Management Model	**Rooms Management Model**
20	4 345

RevPar 2022 v 2019	ARR 2022 v 2019	Occupancy 2022 v 2019
76 v 66	134 v 109	57% v 66%

of domestic customers showed positive evolution, while those dependent on British guests faced challenges. In 2022, despite hurdles from the Omicron variant, second-tier destinations excelled, driven by local travellers and "leisure" trends, leading to an overall strong performance in the third quarter. The company strategically leveraged luxury hotel offerings, promoting superior rooms and enhancing value, resulting in increased average room rates. The RevPAR, Occupancy Rates, and ARR numbers substantiate this narrative, with indications of a recovery trajectory.

EMEA

In 2020, Central Europe's resilience contrasted with challenges in France's international-centric portfolio. 2021 saw an incipient recovery, slower for city hotels. 2022, despite Omicron, showed a notable rebound from Q2 onwards, emphasizing revenue optimization over occupancy. Germany's varied recovery highlighted the importance of location focus, while the UK capitalized on air travel recovery. Italy's turning point post-restrictions led to robust performance, and France's recovery, driven by events, countered a slower MICE (Meetings, incentives, conferences, and exhibitions) rebound. During the first 9 months of 2023, 4 new hotels were opened in the region, with 1 more to come until the end of the year.

America

Meliá's performance in the Americas reflects strategic diverse regional dynamics. In 2020, despite 32% of hotels being closed, the strategic focus on Mexican resort hotels, the first to reopen internationally, yielded positive impacts. In 2021, performance varied across countries, with Mexico leading the recovery, driven by U.S. visitors, while the Dominican Republic faced challenges due to limited flights. In 2022, despite Omicron-related challenges in Mexico initially, a recovery ensued from the second quarter onwards, particularly in the MICE segment. Last-minute reservations and flexible holiday planning characterized the year, with a significant rate increase contributing to a positive end-of-year outcome. The Dominican Republic underwent a transformative recovery, optimizing rates and occupancy above 2019 levels, propelled by brand strength and strategic renovations. In the United States, the first quarter's Omicron effect was offset by strong Canadian market performance and corporate travel, leading to a positive season in Orlando and New York. The return of international travellers catalysed rate and occupancy increases, further boosted by major events. Orlando, in particular, saw additional demand from theme park events. In 2023, the first 9 months did not saw any new addition to the portfolio, but until the end of the year it is expected the opening of one managed hotel. The prevalence of resorts and extended stays often translates to higher prices, contributing to the upward trajectory in ARR.

Asia

Asia

Hotels Management Model	Rooms Management Model
42	11 245
Occupancy	2022 v 2019
36% v 64%	

Meliá's performance in Asia Pacific, characterized exclusively by management-type hotels, navigated unique challenges and opportunities. In 2020, Asia was the first region affected but also among the first to recover, notably in China and Vietnam, where hotels remained open due to robust domestic markets. In 2021, China exhibited stable growth, driven by increased confidence among individual travellers. However, Southeast Asian destinations faced impediments due to travel restrictions and dependence on long-haul travel, hindering regional recovery. In 2022, Asia endured ongoing pandemic impacts, particularly in China, marked by stringent anti-COVID policies affecting major events, congresses, and corporate travel. The year's end brought optimism with the relaxation of restrictions, unlocking pent-up demand in China. Southeast Asian countries mirrored global trends, grappling with early-year challenges but rebounding post-Omicron, notably in resort destinations like Bali and Thailand. Meliá's growth in the region, amplified by 15 hotel openings in Vietnam in 2022, solidifies its position as the second-largest operator by room count in the country. Still, revenues represent a very small share of Meliá´s sales.

Cuba

Cuba

Hotels Management Model	Rooms Management Model
31	13 836
Occupancy	2022 v 2019
36% v 51%	

Meliá's management-type hotels in Cuba faced distinctive challenges amid heavy reliance on international markets. In 2020, 60% of the portfolio remained closed, signalling a substantial impact due to the pandemic's disruption of global travel. In 2021, the negative impact persisted, with only 7 operational hotels and strategic renovations undertaken to optimize reduced activity. The third quarter saw a modest increase to 12 hotels with the rise in flight numbers. In 2022, Cuba witnessed a tourism resurgence after almost two years of limited activity. Results improved significantly compared to 2021 but remained below pre-crisis figures. Increased flight numbers facilitated the recovery of traditional feeder markets, notably Canada, Germany, Spain, and the UK. Tour operators remained dominant in bookings, mitigating the impact of the Russian markets near disappearance after the Ukraine conflict. Notably, hotels that had remained closed post-pandemic reopened in 2022, many after remodelling during the closure. Regarding 2023, 4 new hotels will join Meliá´s management model until the end of the year.

Competitive Landscape

The hotel industry can be considered both fragmented and consolidated depending on the market segment and geographic location. Typically, the luxury and upscale segments in major cities and popular tourist destinations tend to be more consolidated, with a few dominant players. On the other hand, the budget and economy segments in smaller towns and cities often exhibit a higher degree of fragmentation, featuring a mix of independent hotels, chain-affiliated properties, and locally-owned establishments.

Players

Meliá Hotels are typically found in consolidated markets where they compete with major players like Accor, Hyatt, InterContinental Hotels, NH Hotels, and Whitbread PLC.

ACCOR

Hotels	Rooms	Countries
5,487	805,436	110

HYATT

Hotels	Rooms	Countries
1,297	311,171	76

IHG HOTELS & RESORTS

Hotels	Rooms	Countries
6,164	911,627	100+

Although Airbnb has been gaining market share from traditional hotel chains, its business model is substantially different and not easily comparable. The key takeaway from Airbnb's growth is the surge in available rooms, which may ultimately lead to a decrease in room prices and, consequently, a reduction in hotel profits.

Accor Group primarily centres its operations on the hotel and restaurant/bar business, boasting an extensive portfolio of diverse and well-known hotel brands, from luxury and upscale accommodations to more budget-friendly options. Out of the 5,487 hotels within its portfolio, Accor's owned and leased hotels represent only 2% of the portfolio, while in Meliá Hotels portfolio represents almost 40%, marking a significant distinction in their business models.

Global Hyatt Corporation, a major player in the hospitality industry, closely mirrors Accor's business model with only 3% of its portfolio dedicated to Owned and Leased Hotels. Similar to Meliá, Hyatt is expanding into the Asian market, currently having 90 hotels in development, with only one currently operational.

InterContinental Hotels Group (IHG) operates at a larger scale than Meliá, although they have similar exposure in terms of the regions, they operate in. However, IHG also has very few Owned and Leased hotels in its portfolio (<1%). IHG is investing in midscale hotels as they launch a new brand "Garner".

NH Hotel Group (NHH) is a prominent hotel chain headquartered in Madrid, Spain. Since its establishment in 1978, the company has evolved into one of the largest global hotel groups, managing a diverse portfolio of hotels across various market segments. NHH is notably comparable to Meliá, given its Spanish headquarters and the fact that 30% of its hotels are located in Spain. Additionally,

NH HOTELS

Hotels	Rooms	Countries
351	55,529	30

WHITBREAD

Hotels	Rooms	Countries
891	92,500	2

NHH follows a similar operational model to Meliá, with 84% of its hotels being owned and leased, and only 15% being managed.

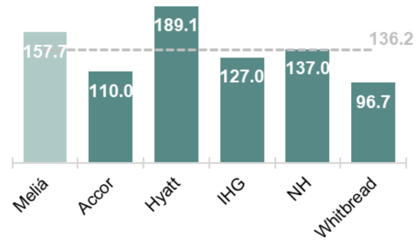
Whitbread PLC is a prominent British multinational hospitality company established in 1742. Best known for its Premier Inn brand, one of the largest hotel chains in the UK, and Costa Coffee, a popular coffeehouse chain with a global presence. The company boasts a diversified portfolio that extends to various restaurant brands, catering to a broad spectrum of consumer preferences. Whitbread only has hotels in 2 countries (UK and Germany) and are more focused on budget-friendly accommodation.

Comparable analysis

For the comparative analysis, we opted to assess the three primary hospitality metrics as of September 2023: average room rate (ARR), occupancy rate, and revenue per available room (RevPAR).

Average room rate

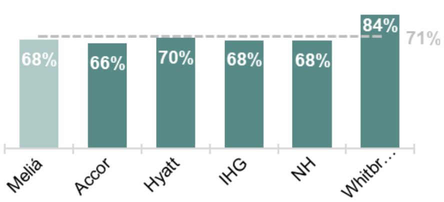
Comparables ARRs - Sep23
(€m)



Meliá Hotels exhibits a higher ARR compared to the average of comparable companies, second only to Hyatt. This suggests a potential competitive advantage in pricing, indicative of the brand's capacity to command premium rates. This superiority in ARR may stem from factors such as superior amenities, strong brand recognition, or a distinct customer experience. Additionally, Meliá's strategic focus on upscale hotels enables the company to set room rates at a premium compared to low-cost alternatives like Whitbread.

Occupancy rate

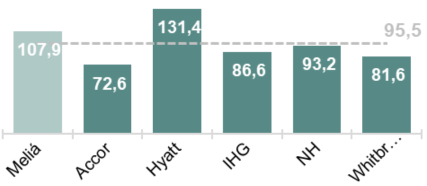
Occupancy Rate - 9m23
(%)



Meliá Hotels currently maintains an occupancy rate slightly below the industry average, aligning with all other comparable companies except Whitbread. Given that Whitbread operates as a low-cost hotel chain, it is conventional for them to adopt lower pricing strategies, resulting in higher occupancy rates.

Revenue per available room

Comparables RevPARs - 9m23
(€)



RevPAR reflects both the ARR and the occupancy rate in one metric, meaning the positive RevPAR value is largely explained by the pricing advantage Meliá has on its competitors while keeping the same occupancy.

Multiples Valuation

Across all multiples analysed, Meliá Hotels is consistently trading below the comparable companies' average, with the exception of the Price-to-Book and EV-to-Net Income Multiple where is trading slightly above the average. Meliá Hotels trades at the lowest multiple of all companies if we look at the Price-to-Earnings, EV-to-EBITDA, EV-to-FCF and Price-to-Sales, that could suggest the company is trading at a discount or, more likely, a reflection of different business models. Meliá has a higher focus on owned and leased hotels which requires more capital and, therefore, entails higher levels of debt and risk.

In the following table it is presented all the multiples of Meliá and its competitors:

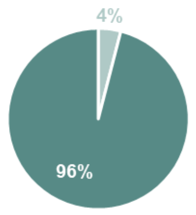
Multiples	P/E	EV/EBITDA	EV/EBIT	EV/FCF	PX/Book	PX/Sales	EV/Net Income
Meliá Hotels	8,1	7,3	15,5	11,4	2,7	0,7	26,1
NH Hotels	33,3	14,8	18,1	n.a.	2,2	3,3	n.a.
InterContinental Hotels	21,0	15,2	16,3	19,7	n.a.	3,0	23,4
Accor	14,2	10,5	14,1	36,6	1,6	1,7	16,7
Whitbread PLC	19,3	10,9	17,7	20,9	1,6	2,3	30,0
Hyatt	26,6	17,4	40,0	25,8	3,2	1,8	28,8
Average	**20,4**	**12,7**	**20,3**	**22,9**	**2,3**	**2,1**	**25,0**

Source: Bloomberg

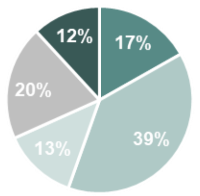
Model Assumptions & Forecast

Portfolio & Pipeline

New rooms per segment - Meliá Hotels (%)



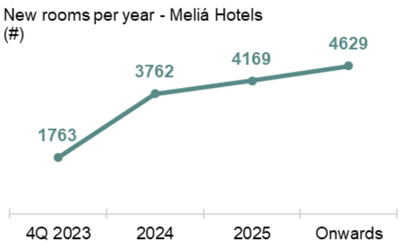
Percentage of new rooms per region - Meliá Hotels (%)



As part of its growth strategy, Meliá strategically develops its portfolio pipeline, reflecting a commitment to expansion and resilience in the hospitality industry. The pipeline encompasses diverse geographies, business models, and planned openings, anticipating future opportunities in a dynamic market.

Meliá's strategic focus leans heavily towards the Management Model, constituting 95% of the pipeline hotels and 96% of the rooms. This deliberate emphasis on management over ownership aligns with the industry trend, allowing Meliá to expand its footprint without shouldering the financial burden of ownership. Given the current high-interest rate environment and Meliá's existing high debt-to-equity ratio, the preference for the management model reflects a prudent financial approach, enabling growth while mitigating financial risk.

The geographical distribution of the pipeline emphasizes EMEA as the dominant region, accounting for 49% of hotels and 39% of rooms. The positive performance in countries like Germany, France, the United Kingdom, and Italy



validates Meliá's strategic focus on this region. Spain, contributing 13% of hotels and 17% of rooms, reflects a commitment to its home market.

The pipeline's temporal distribution indicates a phased expansion approach. The substantial increase in rooms from 2023 to 2024 may signal a deliberate acceleration in expansion, possibly in response to anticipated market recovery or specific growth opportunities.

Revenue Model

The following concepts must be clear to understand how we compute our future revenues:

Available Rooms: Available nights to sell in a year

Average Nights per Room = Available Rooms / Portfolio Rooms

RevPAR = ARR x Occupancy Rate

Rooms Sales or Fees = RevPAR x Average Nights per Room x Portfolio Rooms

▪ Average Nights per Room

When looking at the Average nights per rooms for the last 5 years, we noticed that in the non-Covid years the value was very similar, so we decided to maintain that average across the forecasted years.

▪ Portfolio Rooms

As we previously stated, the company has a pipeline of hotels and rooms, and we decided to use it in this forecast.

▪ Revenue per available room (RevPAR)

Here we analysed two things: First the **Occupancy Rate.** As we saw the rates drop during covid and expecting a moderate recover for most part of the geographies in 2023, we gradually increased those until reach the pre-pandemic levels. Regarding the **Average Room Rate (ARR)**, 2023 brought a big increase in the room prices, what we believe that was caused not only by more demand, but also inevitably by inflation. Because of that, inflation was used as the main driver for the increase in room rates.

▪ Foods and Beverages

For this metric, we calculated the portfolio rooms occupied in each year and then figured out what was the amount spent per room per year. For the non-covid years, we saw a pretty similar value of around €20 000 per room occupied, what made us assume that rate over the years.

- Club Meliá Revenues

In light of the historical growth trajectory observed before the pandemic, there is an inherent potential for revenue expansion within Club Meliá. Leveraging the established brand presence, customer loyalty, and pre-existing growth patterns, there exists an opportunity for revenue increase. Strategic initiatives, enhanced marketing efforts, and a focus on customer engagement could further fuel this spontaneous growth, tapping into the latent potential within Club Meliá's existing.

- Overheads

In our forecast for overhead revenues, we have taken a pragmatic approach by relying on the average performance observed in non-COVID years as a predictive baseline.

Costs

In forecasting **Other Operating Expenses**, **Raw Materials**, and **Personnel Costs**, we have adopted a method grounded in the stability observed in the ratio relative to owned and leased hotels revenues during non-COVID years. By maintaining this percentage as a consistent benchmark, we aim to account for the historical relationship between these costs and the revenue generated by owned and leased hotels.

Depreciation

In our projection for depreciations, we've adopted a model grounded in the consistent percentages of **Property, Plant, and Equipment (PPE)** and the **Right of Use** observed during non-COVID years. This approach maintains consistency with the historical relationship between depreciation expenses and the corresponding assets. As we look ahead, it's worth noting that our approach to depreciation remains stable over the forecast period due to the limited number of openings for owned and leased hotels in the near term.

Taxes

In response to the dynamic changes in tax rates experienced in recent years due to various COVID-related measures, Meliá´s indication was to assume a **24% tax rate** for the future. This decision aims to provide a more reliable basis for projecting financial outcomes and facilitates a clearer understanding of the company's potential tax obligations in the upcoming years.

Non-core result

Here, we emphasize Real Estate income and rental expenses, both forecasted as a percentage of investment property. Additionally, profits from investments in joint-ventures were calculated as a percentage of investments measured using the equity method.

Income Statement Financial result

- Interest Income and Expense

For this metrics we calculated the spread between the Interest received/paid as percentage of the Cash/Debt and the 3M Euribor. We found a stable value for the non-covid years and used that average for the forecasted years. Then, together with the Euribor forecast, we found a rate to apply to the forecasted Cash/ Debt.

Comprehensive Result

Despite the revenues recover in 2022 and 2023, the increase in interest rates together with the big increase in Personnel Costs and Raw materials will delay reaching pre-covid results until end 2027.

Core Invested Capital

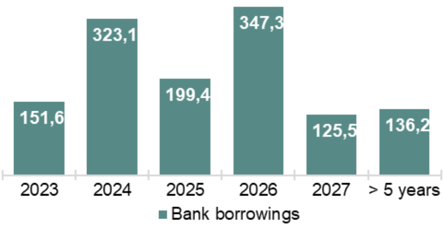
- Property Plant & Equipment and Right of Use

In our assessment of **Property, Plant, and Equipment (PPE)**, we calculated the ratio of PPE to Owned & Leased Rooms, observing its stability in pre-covid values. Given the limited influx of new additions in Owned and Leased Rooms, we anticipate a relatively minor variation in this value over the years. The same for Right of use, which we forecasted as % Lease Liabilities. Since there are almost no deviations in the number of rooms, those values remain pretty stable over the time.

Non-core Invested Capital

To forecast **Investment Property** and **Investments measured using the equity method**, we saw a correlation between the growth in these segments and Spanish GDP growth and assumed that as driver for the future.

Bank borrowings maturity - Meliá Hotels (€m)



Balance Sheet Financial Result

Movements in the financial results in our model primarily stem from debt repayments. Meliá has significant debt maturing in both 2024 and 2026, and while some of it may be refinanced, a portion of the principal will need to be repaid. Therefore, we have factored in that Meliá would pay 10% of the outstanding debt in both those years, representing approximately one third of the maturing debt. For the remaining years, we anticipate that Meliá will continue to deleverage, given the increasing excess cash and the absence of substantial investments in the owned and leased hotels segment in the company's pipeline.

DCF Model

To reach the final target price, we used a Discounted Cash Flows (DCF) Model, using the expected value of 2023 and a forecasting period of 10 years, from 2024 until 2034.

▪ WACC

Cost of Debt	
Interest Expenses	92,6
Short Term Debt	230
Long Term Debt	1 026
Cost of Debt	7,4%

Cost of Equity	
Risk free rate	2,5%
Beta	1,98
Market Risk Premium	7,4%
Cost of Equity	17,2%

D/E	3,2
E / (D+E)	23,8%
D / (D+E)	76,2%
WACC	8,37%

All future cash flows were discounted with a weighted average cost of capital (WACC) of 8.37%. Given the substantially higher levels of debt, which are 3.2 times greater than the amount of equity, the cost of debt emerges as the primary contributor to the overall WACC value. With prevailing high interest rates, Meliá Hotels' cost of debt stands at 7.4%. Additionally, although the equity amount is considerably lower, the cost of acquiring it remains elevated at 17.2%. This is primarily driven by a risk-free rate of 2.5% and a Beta of 1.98, indicating that Meliá's stock is highly correlated with the market. This correlation emphasizes a previously mentioned weakness: Meliá's performance is highly dependent on external economic conditions, thriving in favourable economic climates and encountering difficulties during downturns.

▪ ROIC & RONIC

WACC	8,37%
ROIC	9,62%
RONIC	-60%
g	1,42%
Terminal Value	5 879 €
Discounted Terminal Value	2 429 €
Sum of discounted CFs	1 999 €
Enterprise Value	4 428 €

Return on invested capital (ROIC) measures the efficiency of a company in generating returns from its invested capital. ROIC is a crucial metric for assessing how well a company is utilizing its capital to generate profits. Meliá Hotel ROIC sits 9.62% which is higher than the WACC (8.37%), suggesting that the company is generating returns on its invested capital that exceed the cost of that capital. In other words, the company is creating value for its investors.

Return on New Invested Capital (RONIC) measures the expected return for deploying new capital into the company. RONIC's nature, which focuses solely on analyzing the additional return generated from the previous year's additional invested capital, may not be suitable for the hospitality industry. In many cases within this industry, the investment capital only begins generating returns a few years after being deployed. A RONIC of -60% aligns with the earlier explanation; however, this value should not be considered a reliable source of information about the company's future.

- Terminal value

For the terminal value, we adopted a conservative growth rate of 1.42%, which is below the long-term target GDP growth rate of 2%. This conservative estimate is primarily due to the limited investment observed in Meliá's primary revenue source, the owned and leased hotels. While it is conceivable that revenues from the management model and the Meliá Club might counterbalance the modest growth in owned and leased hotels, the weight of these segments is currently too small. Moreover, it remains uncertain whether the investments in these smaller revenue sources will yield significant dividends in the future.

The valuation model resulted in a share price of 7.54, reflecting a capital gain of 23%.

Sensitivity Analysis

To assess the sensitivity of our valuation, we conducted an analysis on key metrics, including the WACC and the terminal growth rate. Additionally, considering the company's high levels of debt, we examined the potential impact of fluctuations in the European Central Bank's (ECB) interest rates on the company's net income.

WACC and terminal growth rate

		WACC				
		7,53%	7,95%	8,37%	8,79%	9,20%
Terminal Growth Rate	1,07%	9,36	8,08	6,97	6,00	5,15
	1,28%	9,83	8,48	7,31	6,29	5,40
	1,42%	10,15	8,75	7,54	6,49	5,57
	1,56%	10,50	9,04	7,79	6,70	5,75
	1,78%	11,04	9,50	8,17	7,03	6,03

As we can observe in the table, target price is heavily influenced by changes in the WACC and not so much in changes in terminal value growth. This means the terminal value is not where the value of the company is in our model, as it shown for a relatively conservative base growth rate of 1.42%.

In the worst-case scenario modelled, involving a 25% decrease in the growth rate and a 10% increase in the WACC, the resulting price target per share is €5.15, which is approximately €1 less than the current trading price. Conversely, in the best-case scenario, featuring a 25% growth rate increase and a 10% WACC decrease, the projected price target is €11.04, which is approximately €5 higher than the current trading price. In summary, our sensitivity analysis indicates more potential upside than downside in our valuation.

Euribor

3M Euribor Variation	2024 Comprehensive Result
-2,0%	110
-1,5%	107
-1,0%	104
-0,5%	101
0,0%	98
0,5%	95
1,0%	92
1,5%	89
2,0%	86

At the time of the analysis, the European Central Bank (ECB) is expected to maintain interest rates near 4%, while the Federal Reserve (also known as the US's Central Bank) is signalling interest rate cuts for 2024. Although our valuation considered the ECB's Euribor forecast, given Meliá's primary exposure to European rates, there is a possibility of a change in the interest rate scenario in the EU. Such a change could have a significant impact on Meliá's net results.

A reduction in interest rates by 0.5% or 1% would result in a corresponding increase in Meliá Hotels' net income by 3% or 6.5%, respectively. The prospect of lower interest rates presents a favourable scenario for Meliá, and it is a factor worth considering, particularly in 2024 or beyond.

Final Recommendation

Enterprise Value (M €)	4 428 €
Net Debt (M €)	2 757 €
Equity (M €)	1 671 €

Target Price	7,54 €
# Shares Outstanding (M)	221,59

After reaching a final price of €7.54, our recommendation is to BUY the stock, which is currently trading at €6.15. This recommendation is not solely based on the target price but also considers the sensitivity analysis, indicating minimal downside compared to potential upside. Only in the scenario of a 10% higher WACC would the stock price fall below the current level.

The elevated levels of debt are a concern and, although our bullish outlook, it's crucial to note that €7.54 is still below Meliá's trading price in the beginning of 2020. We believe Meliá may not be as financially robust as it was before, but revenues are back on track and growth is planned to be more reliable in less capital-intensive activities while interest rates are also cooling down. With this being said, and after a ponderous analysis, we believe the calm after the storm will come.

This report is part of the *Navigating the Storm: Revenues Back on Track* report (annexed), developed by Manuel Sousa and Salvador Rosa and should be read has an integral part of it.

Table of Contents

Introduction

The joint report aims to deliver a definitive recommendation—whether to buy, hold, or sell Meliá Hotels International stock—based on the expected return. A buy recommendation is given if the expected return is over 10%, a hold recommendation if it falls between 0% and 10%, and a sell recommendation if it's below 0%.

Following a thorough analysis, we've determined a final target price of €7.54, reflecting a potential capital gain of 23% over the current trading price of €6.15 as of December 8, 2023.

This report constitutes the second of a two-part series, organized as follows:

In the first part, we delve into a qualitative analysis of Meliá Hotels, encompassing a company overview, a review of the hospitality industry, a SWOT analysis, an exploration of potential competitive advantages and challenges, and a description of the main competitors vying for market share.

Moving on to the second part (this report), our analysis shifts towards a detailed examination of the business. This includes an evaluation of both the income statement and balance sheet of Meliá Hotels. Additionally, we analyse the company's performance across different geographies and scrutinize key performance indicators in the hospitality business, such as Average Revenue per Room (ARR), occupancy rate, and Revenue per Available Room (RevPAR).

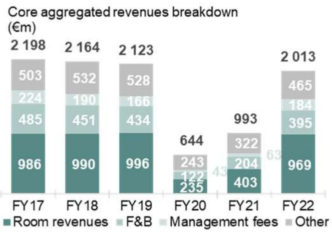
To conclude, we present the assumptions underpinning the determination of the final target price through a Discounted Cash Flow (DCF) model. To complement this valuation, a multiples analysis against industry peers is conducted.

This comprehensive structure ensures a detailed and articulate assessment of Meliá Hotels International, allowing for an informed and well-supported investment recommendation.

Performance: 5-Year Snapshot

Income Statement Overview

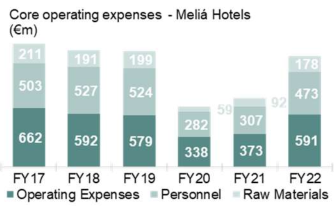
- Revenues



Core revenues mainly comprise room sales from owned and lease hotels, food and beverage revenues and fees from management model. From FY17 to FY19, both aggregated and consolidated revenues decreased at a CAGR of -2% mainly driven by the decline in food and beverages sales, which decrease at a CAGR of -5.4%. Other revenues mainly comprise the Meliá Club (a membership that allows subscribers to stay at any of the hotels worldwide) emerged as the fastest-growing segment, boasting a CAGR of 27.9% before the onset of the Covid pandemic. Eliminations on consolidation have remained relatively constant throughout the analysed period and are associated with transactions involving related parties, predominantly internal management fees collected from owned and leased hotels.

Consolidated revenues in 9m23 increased by €204.8 million compared to 9m22, primarily driven by a €40.3 million increase in management model revenues and €151.3 million in owned and leased revenues (prior consolidation). The figures for 9m23 exceeded the values from 9m19 by almost €90.3 million, indicating the conclusion of Meliá's pandemic recovery in terms of sales.

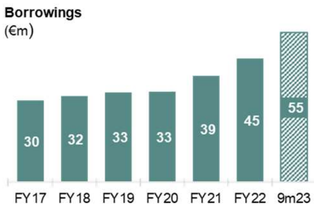
- Operating costs



Core operating expenses have decreased at a CAGR of -2.7% from FY17 to FY19 mainly due to a decline at a CAGR of -6% of other operating expenses, which primarily comprises maintenance and repairs, outsourcing, advertising, promotions and other supplies.

Although in FY22, other operating expenses increased to levels above FY19 due to maintenance and repairs costs incurred. Personnel expenses decrease considerably due to a pandemic related staff downsizing. As at Dec22, Meliá Hotels had 3,390 less workers than in Dec19 but a higher average cost per worker. As at Sep23, personnel expenses were €66.8m higher than the previous year, suggesting the staff number have continued to increase.

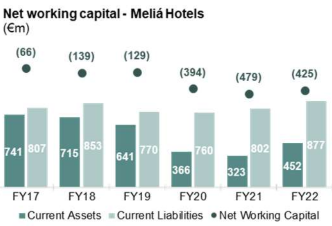
- Borrowings



From FY17 to FY22, borrowings have increased at a CAGR of 8.7% reflecting the high interest rates environment we live at the moment. It is expected borrowings expenses keep this trend as 9m23 already surpassed FY22 costs.

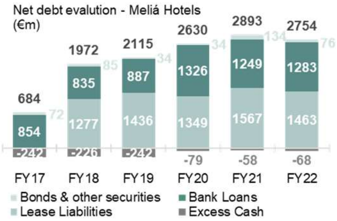
Balance sheet overview

- Net working capital



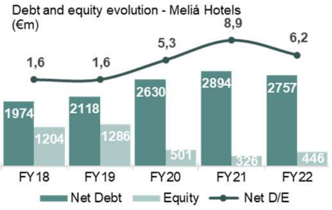
Since FY17, net working capital has been consistently negative suggesting the company may struggle to meet its short-term obligations with the available current assets. In recent years, net working capital values have been particularly low mainly due to a large decrease in current assets, especially in cash and equivalents which have decrease at a CAGR of -15%, from Dec17 to Dec22. As at Dec22, Meliá Hotels sits at a current ratio of 0.5 (vs 0.8 as at Dec19) and a cash ratio of 0.2 (vs 0.4 as at Dec19) indicating the risk of financial distress has increased and the company may struggle to manage its short-term commitments.

- Net Debt



Hotel industry being a capital-intensive business, which requires a lot of debt in order to grow the business through new hotels, is important to look to such metric to make sure uses of external capital are being done sustainable without risk of default. Both lease liabilities and borrowings are growing (at a CAGR of 2.7% and 9.0% since FY18, respectively). Bank loans suffered a great increase to face the adversities of the pandemic, while excess cash decreased due to the same reasons. Some loans that mature in 2024 will probably have to be re-financed due to the lack of excess cash available to fulfil those obligations.

- Capital Structure



As debt levels increase, equity is experiencing a decline, primarily due to a reduction in net income attributed to the pandemic. Consequently, the debt-to-equity ratio has risen; nevertheless, it is anticipated to decrease once net income returns to normal levels.

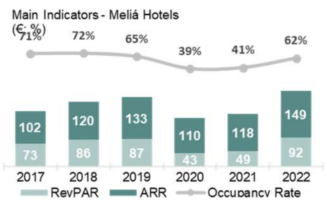
Key Performance Indicators

In the realm of the hospitality industry, certain key performance indicators hold paramount importance in evaluating a hotel's success and financial health:

Occupancy Rate

Occupancy Rate (OR) stands as a crucial metric, representing the percentage of available rooms or beds that are occupied during a specific period. This metric provides a direct insight into the utilization of accommodations within a hotel, allowing for adjustments in marketing strategies or pricing based on demand trends. In 2020, the global pandemic was responsible for a sharp decline in occupancy rates across all regions. By 2021, as the effects of the pandemic began to ease and travel restrictions were gradually lifted, there was a visible recovery in occupancy rates. Some regions showed an upward trend, indicating a resurgence in travel and tourism. However, the recovery was uneven across regions, potentially due to ongoing travel restrictions or a slower rebound in those areas. During 2022, the occupancy rates demonstrated a notable rebound as the tourism industry seemed to be regaining momentum in these regions, likely influenced by eased travel restrictions, increased vaccination rates, and pent-up demand. However, the varying rates across regions also reflect the ongoing impact of the pandemic and regional disparities in recovery.

Average Room Rate



Moving on, the **Average Room Rate (ARR)** indicates the average price at which rooms are sold. Computed by dividing the total room revenue by the number of rooms available sold, ARR offers valuable insights into a hotel's pricing strategies, revenue generation, and positioning within the market. It's a fundamental measure for judging the financial performance of a property and aids in making informed decisions related to pricing and revenue optimization. During Covid the rates went down, but as prices and demand increase, ARR is already higher than in 2019.

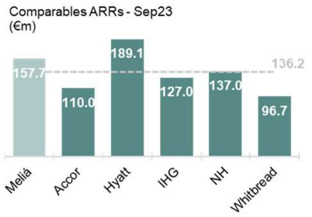
Revenue per Available Room

Another vital metric, **Revenue per Available Room (RevPAR)**, is calculated by multiplying the ARR by the occupancy rate. RevPAR presents a comprehensive view of a hotel's financial performance by considering both the room rate and occupancy levels. This metric is pivotal for assessing how efficiently a property leverages its assets to generate revenue. By evaluating RevPAR, hotel management can refine strategies to enhance revenue streams and competitiveness in the market. In all geographies, RevPAR displayed consistent growth from 2017 to 2019 but experienced a notable decline in 2020 due to pandemic-induced travel restrictions and reduced demand. Although there was a partial recovery in 2021, RevPAR levels only reached pre-pandemic figures in 2022, emphasizing the lasting repercussions on revenue. The overall decline in RevPAR during the pandemic years can be attributed to a significant drop in Occupancy Rates (OR), as described before.

Comparable analysis

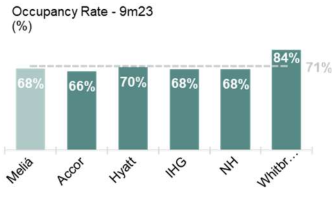
For the comparative analysis, we opted to assess the three primary hospitality metrics as of September 2023: average room rate (ARR), occupancy rate, and revenue per available room (RevPAR).

Average room rate



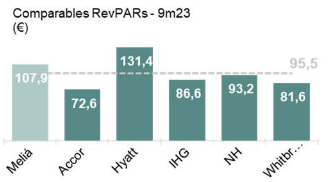
Meliá Hotels exhibits a higher ARR compared to the average of comparable companies, second only to Hyatt. This suggests a potential competitive advantage in pricing, indicative of the brand's capacity to command premium rates. This superiority in ARR may stem from factors such as superior amenities, strong brand recognition, or a distinct customer experience. Additionally, Meliá's strategic focus on upscale hotels enables the company to set room rates at a premium compared to low-cost alternatives like Whitbread.

Occupancy rate



Meliá Hotels currently maintains an occupancy rate slightly below the industry average, aligning with all other comparable companies except Whitbread. Given that Whitbread operates as a low-cost hotel chain, it is conventional for them to adopt lower pricing strategies, resulting in higher occupancy rates.

Revenue per available room



RevPAR reflects both the ARR and the occupancy rate in one metric, meaning the positive RevPAR value is largely explained by the pricing advantage Meliá has on its competitors while keeping the same occupancy.

Multiples Valuation

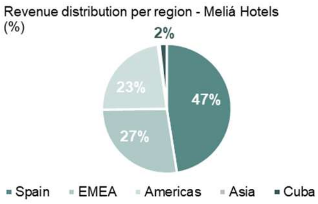
Across all multiples analysed, Meliá Hotels is consistently trading below the comparable companies' average, with the exception of the Price-to-Book and EV-to-Net Income Multiple where is trading slightly above the average. Meliá Hotels trades at the lowest multiple of all companies if we look at the Price-to-Earnings, EV-to-EBITDA, EV-to-FCF and Price-to-Sales, that could suggest the company is trading at a discount or, more likely, a reflection of different business models. Meliá has a higher focus on owned and leased hotels which requires more capital and, therefore, entails higher levels of debt and risk.

In the following table it is presented all the multiples of Meliá and its competitors:

Multiples	P/E	EV/EBITDA	EV/EBIT	EV/FCF	PX/Book	PX/Sales	EV/Net Income
Meliá Hotels	8,1	7,3	15,5	11,4	2,7	0,7	26,1
NH Hotels	33,3	14,8	18,1	n.a.	2,2	3,3	n.a.
InterContinental Hotels	21,0	15,2	16,3	19,7	n.a.	3,0	23,4
Accor	14,2	10,5	14,1	36,6	1,6	1,7	16,7
Whitbread PLC	19,3	10,9	17,7	20,9	1,6	2,3	30,0
Hyatt	26,6	17,4	40,0	25,8	3,2	1,8	28,8
Average	20,4	12,7	20,3	22,9	2,3	2,1	25,0

Source: Bloomberg

Geographical Performance



Meliá´s divides its operations along 5 regions: Spain, EMEA (Europe, Middle-East and Africa, excluding Spain), Americas, Asia and Cuba, with the first 3 having all the four operational models, while the last two only collect fees by providing management services.

Spain

Spain

Hotels Owned and Leased	Rooms Owned and Leased
62	16 081
Hotels Management Model	Rooms Management Model
79	19 231

RevPar (€) 2022 v 2019	ARR (€) 2022 v 2019	Occupancy 2022 v 2019
82 v 86	128 v 108	65% v 72%

Meliá´s performance in the region with the most hotels, reflects a response to the disruptive influence of the COVID-19 pandemic. In the initial pandemic year of 2020, Meliá adopted a dynamic strategy, optimizing operations and concentrating customers in select hotels. The subsequent years evidenced a nuanced recovery, particularly in 2021, where resort destinations with a higher proportion of domestic customers showed positive evolution, while those dependent on British guests faced challenges. In 2022, despite hurdles from the Omicron variant, second-tier destinations excelled, driven by local travellers and "leisure" trends, leading to an overall strong performance in the third quarter. The company strategically leveraged luxury hotel offerings, promoting superior rooms and enhancing value, resulting in increased average room rates. The RevPAR, Occupancy Rates, and ARR numbers substantiate this narrative, with indications of a recovery trajectory.

EMEA

In 2020, Central Europe's resilience contrasted with challenges in France's international-centric portfolio. 2021 saw an incipient recovery, slower for city hotels. 2022, despite Omicron, showed

EMEA

Hotels Owned and Leased	Rooms Owned and Leased
45	8 356
Hotels Management Model	Rooms Management Model
53	11 676

RevPar 2022 v 2019	ARR 2022 v 2019	Occupancy 2022 v 2019
96 v 102	172 v 141	64% v 73%

a notable rebound from Q2 onwards, emphasizing revenue optimization over occupancy. Germany's varied recovery highlighted the importance of location focus, while the UK capitalized on air travel recovery. Italy's turning point post-restrictions led to robust performance, and France's recovery, driven by events, countered a slower MICE (Meetings, incentives, conferences, and exhibitions) rebound. During the first 9 months of 2023, 4 new hotels were opened in the region, with 1 more to come until the end of the year.

America

America

Hotels Owned and Leased	Rooms Owned and Leased
18	7 158
Hotels Management Model	Rooms Management Model
20	4 345

RevPar 2022 v 2019	ARR 2022 v 2019	Occupancy 2022 v 2019
76 v 66	134 v 109	57% v 66%

Meliá's performance in the Americas reflects strategic diverse regional dynamics. In 2020, despite 32% of hotels being closed, the strategic focus on Mexican resort hotels, the first to reopen internationally, yielded positive impacts. In 2021, performance varied across countries, with Mexico leading the recovery, driven by U.S. visitors, while the Dominican Republic faced challenges due to limited flights. In 2022, despite Omicron-related challenges in Mexico initially, a recovery ensued from the second quarter onwards, particularly in the MICE segment. Last-minute reservations and flexible holiday planning characterized the year, with a significant rate increase contributing to a positive end-of-year outcome. The Dominican Republic underwent a transformative recovery, optimizing rates and occupancy above 2019 levels, propelled by brand strength and strategic renovations. In the United States, the first quarter's Omicron effect was offset by strong Canadian market performance and corporate travel, leading to a positive season in Orlando and New York. The return of international travellers catalysed rate and occupancy increases, further boosted by major events. Orlando, in particular, saw additional demand from theme park events. In 2023, the first 9 months did not saw any new addition to the portfolio, but until the end of the year it is expected the opening of one managed hotel. The prevalence of resorts and extended stays often translates to higher prices, contributing to the upward trajectory in ARR.

Asia

Asia

Hotels Management Model	Rooms Management Model
42	11 245

Occupancy 2022 v 2019
36% v 64%

Meliá's performance in Asia Pacific, characterized exclusively by management-type hotels, navigated unique challenges and opportunities. In 2020, Asia was the first region affected but also among the first to recover, notably in China and Vietnam, where hotels remained open due to robust domestic markets. In 2021, China exhibited stable growth, driven by increased confidence among individual travellers. However, Southeast Asian destinations faced impediments due to travel restrictions and dependence on long-haul travel, hindering regional recovery. In 2022, Asia endured ongoing pandemic impacts, particularly in China, marked by stringent anti-COVID policies affecting major events, congresses, and corporate travel. The year's end brought optimism with the relaxation of restrictions, unlocking pent-up demand in China. Southeast Asian countries mirrored global trends, grappling with early-year challenges but rebounding post-Omicron, notably in resort destinations like Bali and Thailand. Meliá's growth in the region, amplified by 15 hotel openings in Vietnam in 2022, solidifies its position as the second-largest operator by room count in the country. Still, revenues represent a very small share of Meliá´s sales.

Cuba

Cuba

Hotels Management Model	Rooms Management Model
31	13 836

Occupancy 2022 v 2019

36% v 51%

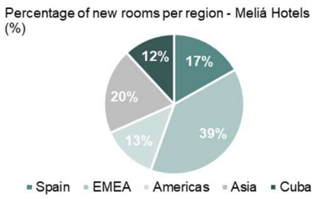
Meliá's management-type hotels in Cuba faced distinctive challenges amid heavy reliance on international markets. In 2020, 60% of the portfolio remained closed, signalling a substantial impact due to the pandemic's disruption of global travel. In 2021, the negative impact persisted, with only 7 operational hotels and strategic renovations undertaken to optimize reduced activity. The third quarter saw a modest increase to 12 hotels with the rise in flight numbers. In 2022, Cuba witnessed a tourism resurgence after almost two years of limited activity. Results improved significantly compared to 2021 but remained below pre-crisis figures. Increased flight numbers facilitated the recovery of traditional feeder markets, notably Canada, Germany, Spain, and the UK. Tour operators remained dominant in bookings, mitigating the impact of the Russian markets near disappearance after the Ukraine conflict. Notably, hotels that had remained closed post-pandemic reopened in 2022, many after remodelling during the closure. Regarding 2023, 4 new hotels will join Meliá´s management model until the end of the year.

Model Assumptions & Forecast

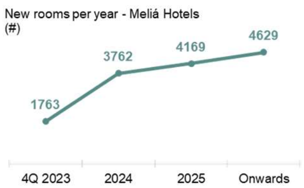
Portfolio & Pipeline

As part of its growth strategy, Meliá strategically develops its portfolio pipeline, reflecting a commitment to expansion and resilience in the hospitality industry. The pipeline encompasses diverse geographies, business models, and planned openings, anticipating future opportunities in a dynamic market.

Meliá's strategic focus leans heavily towards the Management Model, constituting 95% of the pipeline hotels and 96% of the rooms. This deliberate emphasis on management over ownership aligns with the industry trend, allowing Meliá to expand its footprint without shouldering the financial burden of ownership. Given the current high-interest rate environment and Meliá's existing high debt-to-equity ratio, the preference for the management model reflects a prudent financial approach, enabling growth while mitigating financial risk.



The geographical distribution of the pipeline emphasizes EMEA as the dominant region, accounting for 49% of hotels and 39% of rooms. The positive performance in countries like Germany, France, the United Kingdom, and Italy validates Meliá's strategic focus on this region. Spain, contributing 13% of hotels and 17% of rooms, reflects a commitment to its home market.



The pipeline's temporal distribution indicates a phased expansion approach. The substantial increase in rooms from 2023 to 2024 may signal a deliberate acceleration in expansion, possibly in response to anticipated market recovery or specific growth opportunities.

Revenue Model

The following concepts must be clear to understand how we compute our future revenues:

Available Rooms: Available nights to sell in a year

Average Nights per Room = Available Rooms / Portfolio Rooms

RevPAR = ARR x Occupancy Rate

Rooms Sales or Fees = RevPAR x Average Nights per Room x Portfolio Rooms

- Average Nights per Room

When looking at the Average nights per rooms for the last 5 years, we noticed that in the non-Covid years the value was very similar, so we decided to maintain that average across the forecasted years.

- Portfolio Rooms

As we previously stated, the company has a pipeline of hotels and rooms, and we decided to use it in this forecast.

- Revenue per available room (RevPAR)

Here we analysed two things: First the **Occupancy Rate.** As we saw the rates drop during covid and expecting a moderate recover for most part of the geographies in 2023, we gradually increased those until reach the pre-pandemic levels. Regarding the **Average Room Rate (ARR)**, 2023 brought a big increase in the room prices, what we believe that was caused not only by more demand, but also inevitably by inflation. Because of that, inflation was used as the main driver for the increase in room rates.

- Foods and Beverages

For this metric, we calculated the portfolio rooms occupied in each year and then figured out what was the amount spent per room per year. For the non-covid years, we saw a pretty similar value of around €20 000 per room occupied, what made us assume that rate over the years.

- Club Meliá Revenues

In light of the historical growth trajectory observed before the pandemic, there is an inherent potential for revenue expansion within Club Meliá. Leveraging the established brand presence, customer loyalty, and pre-existing growth patterns, there exists an opportunity for revenue increase. Strategic initiatives, enhanced marketing efforts, and a focus on customer engagement could further fuel this spontaneous growth, tapping into the latent potential within Club Meliá's existing.

- Overheads

In our forecast for overhead revenues, we have taken a pragmatic approach by relying on the average performance observed in non-COVID years as a predictive baseline.

Costs

In forecasting **Other Operating Expenses**, **Raw Materials**, and **Personnel Costs**, we have adopted a method grounded in the stability observed in the ratio relative to owned and leased hotels revenues during non-COVID years. By maintaining this percentage as a consistent benchmark, we aim to account for the historical relationship between these costs and the revenue generated by owned and leased hotels.

Depreciation

In our projection for depreciations, we've adopted a model grounded in the consistent percentages of **Property, Plant, and Equipment (PPE)** and the **Right of Use** observed during non-COVID years. This approach maintains consistency with the historical relationship between depreciation expenses and the corresponding assets. As we look ahead, it's worth noting that our approach to depreciation remains stable over the forecast period due to the limited number of openings for owned and leased hotels in the near term.

Taxes

In response to the dynamic changes in tax rates experienced in recent years due to various COVID-related measures, Meliá´s indication was to assume a **24% tax rate** for the future. This decision aims to provide a more reliable basis for projecting financial outcomes and facilitates a clearer understanding of the company's potential tax obligations in the upcoming years.

Non-core result

Here, we emphasize Real Estate income and rental expenses, both forecasted as a percentage of investment property. Additionally, profits from investments in joint-ventures were calculated as a percentage of investments measured using the equity method.

Income Statement Financial result

- Interest Income and Expense

For this metrics we calculated the spread between the Interest received/paid as percentage of the Cash/Debt and the 3M Euribor. We found a stable value for the non-covid years and used that average for the forecasted years. Then, together with the Euribor forecast, we found a rate to apply to the forecasted Cash/ Debt.

Comprehensive Result

Despite the revenues recover in 2022 and 2023, the increase in interest rates together with the big increase in Personnel Costs and Raw materials will delay reaching pre-covid results until end 2027.

Core Invested Capital

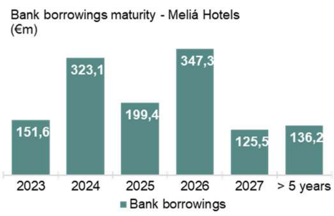
- Property Plant & Equipment and Right of Use

In our assessment of **Property, Plant, and Equipment (PPE)**, we calculated the ratio of PPE to Owned & Leased Rooms, observing its stability in pre-covid values. Given the limited influx of new additions in Owned and Leased Rooms, we anticipate a relatively minor variation in this value over the years. The same for Right of use, which we forecasted as % Lease Liabilities. Since there are almost no deviations in the number of rooms, those values remain pretty stable over the time.

Non-core Invested Capital

To forecast **Investment Property** and **Investments measured using the equity method**, we saw a correlation between the growth in these segments and Spanish GDP growth and assumed that as driver for the future.

Balance Sheet Financial Result



Movements in the financial results in our model primarily stem from debt repayments. Meliá has significant debt maturing in both 2024 and 2026, and while some of it may be refinanced, a portion of the principal will need to be repaid. Therefore, we have factored in that Meliá would pay 10% of the outstanding debt in both those years, representing approximately one third of the maturing debt. For the remaining years, we anticipate that Meliá will continue to deleverage, given the increasing excess cash and the absence of substantial investments in the owned and leased hotels segment in the company's pipeline.

DCF Model

To reach the final target price, we used a Discounted Cash Flows (DCF) Model, using the expected value of 2023 and a forecasting period of 10 years, from 2024 until 2034.

- ### WACC

Cost of Debt	
Interest Expenses	92,6
Short Term Debt	230
Long Term Debt	1 026
Cost of Debt	7,4%

Cost of Equity	
Risk free rate	2,5%
Beta	1,98
Market Risk Premium	7,4%
Cost of Equity	17,2%

D/E	3,2
E / (D+E)	23,8%
D / (D+E)	76,2%
WACC	8,37%

All future cash flows were discounted with a weighted average cost of capital (WACC) of 8.37%. Given the substantially higher levels of debt, which are 3.2 times greater than the amount of equity, the cost of debt emerges as the primary contributor to the overall WACC value. With prevailing high interest rates, Meliá Hotels' cost of debt stands at 7.4%. Additionally, although the equity amount is considerably lower, the cost of acquiring it remains elevated at 17.2%. This is primarily driven by a risk-free rate of 2.5% and a Beta of 1.98, indicating that Meliá's stock is highly correlated with the market. This correlation emphasizes a previously mentioned weakness: Meliá's performance is highly dependent on external economic conditions, thriving in favourable economic climates and encountering difficulties during downturns.

- ### ROIC & RONIC

Return on invested capital (ROIC) measures the efficiency of a company in generating returns from its invested capital. ROIC is a crucial metric for assessing how well a company is utilizing its capital to generate profits. Meliá Hotel ROIC sits 9.62% which is higher than the WACC (8.37%), suggesting that the company is generating returns on its invested capital that exceed the cost of that capital. In other words, the company is creating value for its investors.

Return on New Invested Capital (RONIC) measures the expected return for deploying new capital into the company. RONIC's nature, which focuses solely on analyzing the additional return generated from the previous year's additional invested capital, may not be suitable for the hospitality industry. In many cases within this industry, the investment capital only begins generating returns a few years after being deployed. A RONIC of -60% aligns with the earlier explanation; however, this value should not be considered a reliable source of information about the company's future.

- Terminal value

WACC	8,37%
ROIC	9,62%
RONIC	-60%
g	1,42%
Terminal Value	5 879 €
Discounted Terminal Value	2 429 €
Sum of discounted CFs	1 999 €
Enterprise Value	4 428 €

For the terminal value, we adopted a conservative growth rate of 1.42%, which is below the long-term target GDP growth rate of 2%. This conservative estimate is primarily due to the limited investment observed in Meliá's primary revenue source, the owned and leased hotels. While it is conceivable that revenues from the management model and the Meliá Club might counterbalance the modest growth in owned and leased hotels, the weight of these segments is currently too small. Moreover, it remains uncertain whether the investments in these smaller revenue sources will yield significant dividends in the future.

The valuation model resulted in a share price of 7.54, reflecting a capital gain of 23%.

Sensitivity Analysis

To assess the sensitivity of our valuation, we conducted an analysis on key metrics, including the WACC and the terminal growth rate. Additionally, considering the company's high levels of debt, we examined the potential impact of fluctuations in the European Central Bank's (ECB) interest rates on the company's net income.

WACC and terminal growth rate

As we can observe in the table, target price is heavily influenced by changes in the WACC and not so much in changes in terminal value growth. This means the terminal value is not where the value of the company is in our model, as it shown for a relatively conservative base growth rate of 1.42%.

		WACC				
		7,53%	7,95%	8,37%	8,79%	9,20%
Terminal Growth Rate	1,07%	9,36	8,08	6,97	6,00	5,15
	1,28%	9,83	8,48	7,31	6,29	5,40
	1,42%	10,15	8,75	7,54	6,49	5,57
	1,56%	10,50	9,04	7,79	6,70	5,75
	1,78%	11,04	9,50	8,17	7,03	6,03

In the worst-case scenario modelled, involving a 25% decrease in the growth rate and a 10% increase in the WACC, the resulting price target per share is €5.15, which is approximately €1 less than the current trading price. Conversely, in the best-case scenario, featuring a 25% growth rate increase and a 10% WACC decrease, the projected price target is €11.04, which is approximately €5 higher than the current trading price. In summary, our sensitivity analysis indicates more potential upside than downside in our valuation.

Euribor

3M Euribor Variation	2024 Comprehensive Result
-2,0%	110
-1,5%	107
-1,0%	104
-0,5%	101
0,0%	98
0,5%	95
1,0%	92
1,5%	89
2,0%	86

At the time of the analysis, the European Central Bank (ECB) is expected to maintain interest rates near 4%, while the Federal Reserve (also known as the US's Central Bank) is signalling interest rate cuts for 2024. Although our valuation considered the ECB's Euribor forecast, given Meliá's primary exposure to European rates, there is a possibility of a change in the interest rate scenario in the EU. Such a change could have a significant impact on Meliá's net results.

A reduction in interest rates by 0.5% or 1% would result in a corresponding increase in Meliá Hotels' net income by 3% or 6.5%, respectively. The prospect of lower interest rates presents a favourable scenario for Meliá, and it is a factor worth considering, particularly in 2024 or beyond.

Final Recommendation

Enterprise Value (M €)	4 428 €
Net Debt (M €)	2 757 €
Equity (M €)	1 671 €

Target Price	7,54 €
# Shares Outstanding (M)	221,59

After reaching a final price of €7.54, our recommendation is to BUY the stock, which is currently trading at €6.15. This recommendation is not solely based on the target price but also considers the sensitivity analysis, indicating minimal downside compared to potential upside. Only in the scenario of a 10% higher WACC would the stock price fall below the current level.

The elevated levels of debt are a concern and, although our bullish outlook, it's crucial to note that €7.54 is still below Meliá's trading price in the beginning of 2020. We believe Meliá may not be as financially robust as it was before, but revenues are back on track and growth is planned to be more reliable in less capital-intensive activities while interest rates are also cooling down. With this being said, and after a ponderous analysis, we believe the calm after the storm will come.

Appendix

Financial Statements

Income statement

€m	FY18	FY19	FY20	FY21	FY22	FY23E	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F
Owned & Leased	1 554	1 545	414	705	1 501	1 613	1 702	1 780	1 836	1 873	1 926	1 968	2 007	2 036	2 065	2 093	2 122
Management Model	295	299	82	108	291	281	313	332	346	361	376	391	400	406	413	419	426
Other hotel business	58	63	18	16	55	109	70	70	70	70	70	70	70	70	70	70	70
Club Melia Revenues	76	91	53	49	59	72	75	77	79	81	83	85	87	91	93	96	99
Overheads	181	125	78	116	107	177	151	151	151	151	151	151	151	151	151	151	151
Eliminations on consolidation	(384)	(347)	(121)	(173)	(340)	(383)	(393)	(410)	(422)	(431)	(443)	(453)	(462)	(468)	(475)	(481)	(488)
Core Revenues	**1 780**	**1 776**	**525**	**820**	**1 672**	**1 869**	**1 918**	**2 001**	**2 060**	**2 105**	**2 163**	**2 212**	**2 254**	**2 285**	**2 317**	**2 349**	**2 380**
Other Operating Expenses	(592)	(579)	(338)	(373)	(591)	(645)	(674)	(707)	(731)	(747)	(770)	(787)	(804)	(816)	(829)	(841)	(853)
Raw Materials	(191)	(199)	(59)	(92)	(178)	(208)	(221)	(227)	(235)	(240)	(247)	(253)	(258)	(262)	(266)	(270)	(274)
Personnel Expenses	(527)	(524)	(282)	(307)	(473)	(561)	(561)	(597)	(617)	(629)	(646)	(659)	(671)	(680)	(690)	(700)	(711)
Core EBITDA	**470**	**474**	**(155)**	**48**	**430**	**455**	**461**	**469**	**477**	**489**	**500**	**512**	**520**	**527**	**532**	**537**	**542**
Depreciation & Impairment	(242)	(260)	(406)	(271)	(230)	(250)	(245)	(246)	(247)	(247)	(247)	(247)	(248)	(248)	(248)	(248)	(248)
Core EBIT	**229**	**214**	**(560)**	**(223)**	**200**	**205**	**216**	**222**	**230**	**242**	**253**	**265**	**272**	**279**	**284**	**289**	**295**
Taxes	(55)	(51)	(2)	(3)	(48)	(49)	(52)	(53)	(55)	(58)	(61)	(63)	(65)	(67)	(68)	(69)	(71)
Core OCI	15	18	(138)	22	(6)	-	-	-	-	-	-	-	-	-	-	-	-
Core Result	**189**	**181**	**(701)**	**(204)**	**146**	**155**	**164**	**169**	**175**	**184**	**192**	**201**	**207**	**212**	**216**	**220**	**224**
Non-core Result	**(1)**	**1**	**22**	**92**	**10**	**(11)**	**2**	**3**	**3**	**3**	**3**	**3**	**4**	**4**	**4**	**4**	**4**
Financial Result	**(46)**	**(46)**	**(74)**	**(61)**	**(36)**	**(83)**	**(69)**	**(56)**	**(42)**	**(27)**	**(13)**	**3**	**19**	**35**	**52**	**69**	**85**
Comprehensive Result	**145**	**138**	**(753)**	**(173)**	**121**	**62**	**98**	**116**	**136**	**160**	**183**	**207**	**229**	**251**	**272**	**293**	**314**

Balance Sheet

€m	FY18	FY19	FY20	FY21	FY22	FY23E	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F
Trade and Other Receivables	249	194	135	136	183	236	242	253	260	266	273	279	285	289	293	297	301
Right of Use	1 064	1 251	1 187	1 429	1 371	1 170	1 120	1 130	1 130	1 131	1 132	1 134	1 135	1 135	1 135	1 135	1 135
Intangible Assets	76	73	61	49	52	80	82	85	88	90	92	94	96	98	99	100	102
PP&E	1 851	1 923	1 689	1 589	1 620	1 594	1 608	1 608	1 610	1 612	1 613	1 615	1 615	1 615	1 615	1 615	1 615
Trade creditors & other payables	(453)	(424)	(293)	(367)	(501)	(579)	(557)	(568)	(569)	(569)	(574)	(575)	(587)	(595)	(604)	(613)	(622)
Other	(163)	(128)	(174)	(202)	(157)	(151)	(156)	(166)	(172)	(177)	(184)	(189)	(194)	(197)	(201)	(204)	(208)
Core Invested Capital	**2 625**	**2 889**	**2 605**	**2 634**	**2 569**	**2 350**	**2 339**	**2 342**	**2 346**	**2 352**	**2 354**	**2 359**	**2 351**	**2 344**	**2 337**	**2 330**	**2 323**
Investment Property	149	116	103	105	115	120	125	127	129	132	134	136	138	141	143	146	148
Investments in companies	198	213	178	175	206	213	222	226	230	234	238	242	246	251	255	259	264
Other	206	185	244	306	313	313	313	313	313	313	313	313	313	313	313	313	313
Non-Core Invested Capital	**554**	**514**	**526**	**586**	**634**	**646**	**659**	**666**	**672**	**679**	**685**	**691**	**698**	**704**	**711**	**718**	**724**
Debt-like items	(2 198)	(2 358)	(2 708)	(2 951)	(2 822)	(2 688)	(2 503)	(2 456)	(2 346)	(2 298)	(2 253)	(2 210)	(2 212)	(2 212)	(2 212)	(2 212)	(2 212)
Excess cash	224	240	78	57	65	407	454	719	919	1 200	1 503	1 819	2 203	2 588	2 979	3 374	3 775
Financial Result	**(1 974)**	**(2 118)**	**(2 630)**	**(2 894)**	**(2 757)**	**(2 282)**	**(2 049)**	**(1 737)**	**(1 427)**	**(1 099)**	**(750)**	**(391)**	**(9)**	**377**	**767**	**1 163**	**1 564**
Equity	**1 204**	**1 286**	**501**	**326**	**446**	**714**	**949**	**1 272**	**1 592**	**1 932**	**2 288**	**2 659**	**3 040**	**3 425**	**3 815**	**4 210**	**4 611**

FCF

€m	FY18	FY19	FY20	FY21	FY22	FY23E	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F
Core operating CF	499	429	(258)	122	499	567	427	471	467	476	493	500	518	520	526	531	537
Non-core operating CF	64	(77)	6	92	(20)	(47)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Total operating CF	**563**	**352**	**(252)**	**214**	**479**	**520**	**417**	**461**	**457**	**466**	**483**	**490**	**508**	**511**	**516**	**521**	**527**
Core investment CF	(188)	(111)	(48)	110	(110)	21	(18)	(3)	(4)	(4)	(4)	(4)	(2)	(2)	(2)	(2)	(2)
Non-core investment CF	(69)	33	(22)	(10)	(12)	(10)	(11)	(7)	(6)	(6)	(6)	(6)	(6)	(7)	(7)	(7)	(7)
Total investment CF	**(257)**	**(78)**	**(69)**	**100**	**(122)**	**11**	**(29)**	**(9)**	**(10)**	**(10)**	**(10)**	**(11)**	**(9)**	**(9)**	**(9)**	**(9)**	**(9)**
Financing CF	**(310)**	**(266)**	**97**	**(244)**	**(295)**	**(226)**	**(319)**	**(163)**	**(224)**	**(153)**	**(147)**	**(142)**	**(94)**	**(96)**	**(96)**	**(96)**	**(96)**
Effect of exchange rate	(15)	(11)	(4)	12	(12)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)
Free cash flow	**(19)**	**(2)**	**(229)**	**82**	**51**	**286**	**49**	**270**	**203**	**282**	**306**	**319**	**386**	**387**	**392**	**397**	**403**

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
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