

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

ACCOR HOTELS EQUITY RESEARCH: Has the implementation of asset-light strategy employed by the Groupe proven to enhance shareholders value creation?

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

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20/12/2023

Abstract: This report is part of a more extensive Equity Research on Accor Group, aims to thoroughly scrutinize the foundational elements influencing the value of the company, both the external and internal factors for the subsequent valuation of Accor. The Hotel Industry has been affected by significant market volatility and uncertainty, comprehending the intrinsic value drivers of Accor's business model and assessing how the referred macroeconomic factors may impact its share price. Our examination encompasses a retrospective evaluation of Accor's historical performance, coupled with an exploration of the broader macroeconomic and industry-specific outlooks.

Keywords: **Valuation, Discounted Cash Flow, Sensitivity, Revenues**

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

This report is part of the Accor Hotels Equity Research report (annexed), developed by Rita Moreira Branco and Francisco Fazenda and should be read as an integral part of it.

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# Introduction

Accor Group has established itself as a prominent force in the European hospitality sector, specializing in hotel ownership, management, and franchising. Globally, it holds the sixth position among hospitality companies. The company's trajectory, from inception to its current status, reflects a commitment to innovation and leadership within the industry. This commitment is evident in Accor's mission, outlined in the 2022 annual report, which aims to "make a positive contribution for society by continuing to develop and connect people through creating environmentally friendly experiences." This underscores the company's dedication to societal well-being and sustainability.

In response to the unprecedented challenges brought about by the COVID-19 pandemic, Accor demonstrated resilience by strategically transitioning into an asset-light model. This shift has not only optimized asset management and operations but also showcased adaptability in the face of adversity. Despite previous successes, Accor is cognizant of emerging disruptive forces, including shifts in consumer behaviour, macroeconomic factors, and geopolitical uncertainties. The company's proactive response to these uncertainties will play a crucial role in determining its future performance.

This individual report meticulously conducts a comprehensive financial analysis of Accor and its primary competitors. It includes an examination of sales value drivers and their forecasts. Additionally, the report forecasts operating expenses and invested capital, providing valuable insights for the Discounted Cash Flow (DCF) model. Assumptions on the cost of capital, growth rate, and Return on Invested Capital (ROIC) are made to forecast the current price for FY24. To account for various scenarios and external influences on share prices, a sensitivity analysis is conducted.

In tandem with this individual report, the joint report offers an overview of the company, coupled with an in-depth analysis of the hotel industry, exploring trends and risks. The identification of macroeconomic risks and trends further considers their implications for Accor's business.

The analysis collectively supports a HOLD recommendation for Accor shares, indicating a perceived current undervaluation. This recommendation is the result of a careful examination of the company's financials, growth prospects, and risk factors, ensuring originality and avoiding plagiarism in the language and structure of the report. It underscores a nuanced understanding of Accor's strategic positioning and its ability to navigate the evolving dynamics of the hospitality industry.

# Peer Analysis

## Ratio Analysis

### ▪ Cash Flow Management

From 2018 to 2022, the hotel company maintained a relatively stable cash conversion cycle, except for 2020. During this year, the COVID-19 pandemic caused a decline in Accor's overall sales. In response, clients were granted extended payment terms, leading to an increase in the collection period (figure 1).

In figure 2, peers such as Marriott, InterContinental, and Hilton exhibited a longer cash conversion cycle compared to Accor and Melia. This disparity is influenced by a lower collection observed in Marriott, InterContinental, and Hilton, stemming from a higher proportion of fund revenue generated from monthly contributions paid by Hotel Owners at the start of each month. This fund revenue, integral to their asset-light model, doesn't follow the traditional accounts receivable process, providing an efficient inflow of cash. On the other hand, the funds derived from these monthly contributions are directly allocated to the property management, effectively bypassing conventional payables, leading to a lower payable period.

Contrastingly, Melia, with a significant number of owned and leased hotels, engages in direct negotiations with suppliers to secure extended payment terms, potentially lengthening the collection period.

In the future, Accor is expected to converge to the cash conversion cycle of peers with the asset light model more consolidated (Figure 1). In this sense, it is anticipated a gradual return of the average collection period to pre-pandemic levels witnessed in 2019, with a reduction of 1% annually starting in 2023. Simultaneously, the company expects a declining trend in the number of days it takes to settle with suppliers, projecting an annual decrease of 5% until 2028, followed by a 1% decrease from 2029 onwards..

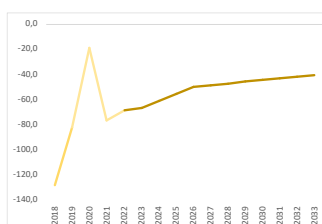
### ▪ Liquidity Ratios and Net Working Capital

In 2022, Accor successfully bolstered its current ratio and net working capital, rebounding from the adverse impact of the Covid-19 pandemic in both 2020 and 2021 (Figure 3). Moreover, during the period from 2020 to 2022, Accor took a strategic measure by suspending dividend payments. This decision aimed to augment the excess cash, enhance liquidity, and consequently, elevate the company's credit rating, rendering it more appealing to potential investors. Despite the positive trend in overall liquidity, figure 4 indicates a declining cash ratio from 2020 to 2022. While Accor's general liquidity position is improving, the decrease in the firm's ability to meet its short-term obligations using only the cash currently available introduces higher executional risks for other current assets.

In the peer's comparison, figure 3, Accor and Intercontinental were the ones with a better liquidity position with the current ratio higher than one and a positive net working capital. If from a risk/creditor perspective, companies should be as liquid as possible, from a value creation and shareholders it might not be that good if that implies lower shareholder returns or less investment in the operating part.

### ▪ Solvency and Financial Autonomy Ratios

Between 2018 and 2022, both the Solvency and Financial Autonomy ratios for Accor exhibited



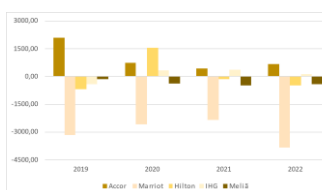
**Figure 1: Cash Conversion Cycle Evolution for Accor, in days**

Source: Accor Annual Report, Analysts



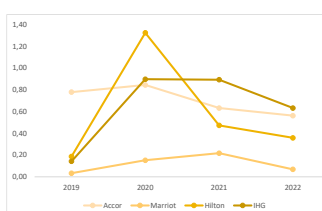
**Figure 2: Cash Conversion Cycle Evolution for Accor and peers, in days**

Source: Accor and Peers Annual Report, Analysts



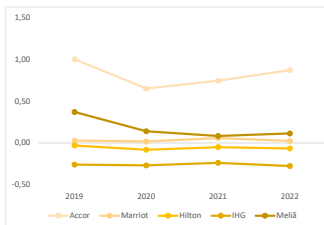
**Figure 3: Net working Capital Evolution of Accor and Peers, in euros**

Source: Accor and Peers Annual Report, Analysts

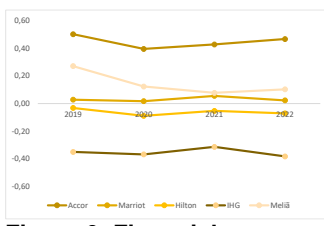


**Figure 4: Cash Ratio Evolution for Accor and peers, in percentage**

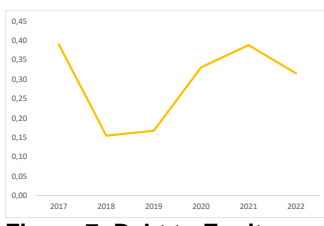
Source: Accor and Peers Annual Report, Analysts



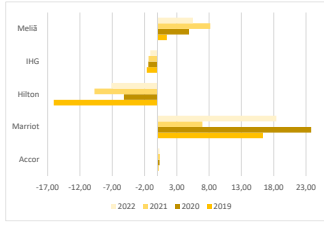
**Figure 5: Solvency Ratio Evolution for Accor and peers, in percentage**  
 Source: Accor and Peers Annual Report, Analysts



**Figure 6: Financial Autonomy Ratio Evolution for Accor and peers, in percentage**  
 Source: Accor and Peers Annual Report, Analysts



**Figure 7: Debt to Equity Ratio of Accor, in percentage**  
 Source: Accor Annual Report, Analysts



**Figure 8: Debt to Equity Ratio of Accor and Peers, in percentage**  
 Source: Accor and Peers Annual Report, Analysts

a consistent and stable trend. The Solvency ratio, often nearing reaching 1, underscored the company's ability to generate sufficient capital to meet its long-term obligations. The only exceptions to this stability were observed in 2020 and 2021, coinciding with the pandemic period (Figure 5).

In terms of the Financial Autonomy Ratio, Accor consistently maintained a ratio exceeding 25% throughout the same years. This signifies a robust level of independence from creditors, highlighting the company's capacity to fund its operations without heavy reliance on external financing.

Comparatively, when examining peers, none of them reported Solvency or Financial Autonomy ratios surpassing 15%. This difference can be attributed to Accor's financial management, characterized by lower debt relative to equity.

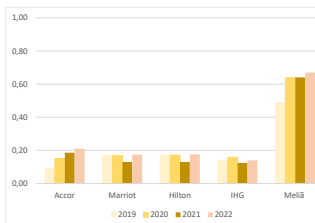
The variance in Financial Autonomy Ratios is tied to differences in asset amounts among peers (Figure 6). Although Accor and IHG generated comparable revenue, the assets of the peer were nearly three times lower. Intercontinental, following a more consolidated asset-light model with fewer owned hotels, displayed lower PPE values compared to Accor. Additionally, IHG not only possesses a more limited number of brands compared to Accor but also stands out as most of its brands were internally developed rather than acquired, resulting in their exclusion from the balance sheet.

▪ Capital Structure and Activity Ratios

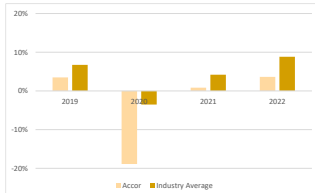
As seen in figure 7, Accor consistently maintained a debt-to-equity ratio below 1 over the analyzed years. However, in response to the challenges posed by the 2020 and 2021 pandemic, the company faced an increase in net debt. In 2022, the hotel's debt-to-equity ratio showed a declining trend, attributed to robust cash generation from business recovery and divestitures in some hotel companies. Additionally, during the same year, Accor successfully paid down and chose not to renew a bank credit line maturing in 2022, further reducing its leverage. Concerning the debt-to-enterprise ratio, the hotel company was able to increase it from 14% in 2017 to 21% in 2022 (Figure 9).

Looking to figure 8, elevated leverage appears commonplace within the hotel industry. Hilton, Marriott and Intercontinental exhibit notably leveraged positions, with their debt-to-equity ratios skewing highly positive or negative. This skewed ratio stems from the low level of assets, resulting in shorter or negative book value of equity. In contrast, Accor maintains a financing structure where the book value of equity surpasses debt. This distinctive position is achieved through a relatively low amount of debt and other liabilities and a notably high level of non-operating cash, leading to the lowest debt-to-equity ratio among its peers. However, it is important to highlight that Accor owns more hotels than the three peers mentioned and employs a less consolidated asset-light model as well.

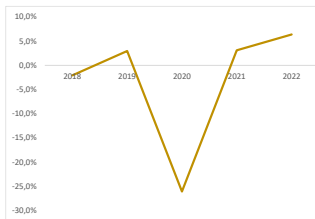
On the flip side, when examining the ratio of net debt to the market values of equity across industry peers, Accor demonstrated a ratio that aligns with the market, thus relinquishing the advantage observed when using book value of equity. On one hand, the Enterprise Value may encompass components that mitigate the impact of debt, thereby enhancing the positions of Intercontinental and Hilton since, despite having negative equity, both companies registered a positive ratio. Conversely, it could be linked to the positive sentiment in the market and the confidence in the growth prospects of Accor's peers (Figure 9).



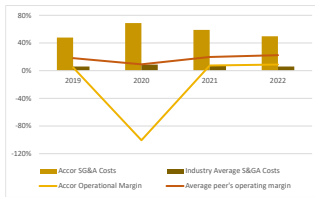
**Figure 9: Debt to Enterprise Value for Accor and Peers, in percentage**  
 Source: Accor and Peers Annual Report, Analysts



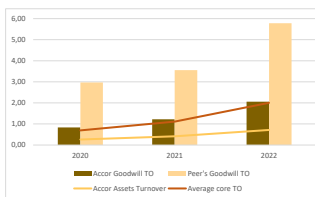
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 Source: Accor and Industry Annual Report, Analysts



**Figure 11: Core ROIC evolution of Accor, in percentage**  
 Source: Accor Annual Report, Analysts



**Figure 12: Core Operating Margin Evolution and its decomposition for Accor and Peers, in percentage**  
 Source: Accor and Peers Annual Report, Analysts



**Figure 13: Core Asset Turnover for Accor and Peers and its decomposition, in absolute values**  
 Source: Accor and Peers Annual Report, Analysts

In October 2023, Accor, prompted by an enhanced credit rating in previous year, unveiled a 400 euros million share buyback initiative aimed at returning 3 billion to shareholders. As per Fitch Ratings, this move is anticipated to facilitate Accor's ongoing deleveraging strategy and contribute to the reduction of its debt-to-equity ratio. The decision is underpinned by robust operating performance, marked by an increase in EBITDA, and a substantial surplus of excess cash.

In figure 10, Accor's Return on Assets (ROA) was 4% in 2022, falling below the industry average of 9% for the same period. Notably, Accor's active involvement in mergers and acquisitions during these years introduces a dynamic that might take time to be fully reflected in the Income Statement. When contrasted with peers holding lower asset values, Accor's distinctive business strategy and recent acquisitions endeavors play a role in shaping its ROA performance.

▪ Core ROIC

The computation of core ROIC involved a one-year lag to better assess the impact of investments on the core results. In 2018, the year when Accor divested the majority stake of 58% in Accor Invest, core ROIC was negative due to unfavorable operating margins attributed to high restructuring costs associated with the model shift. In 2019, post the sale of an additional 5.2% of Accor Invest and the disposal of Orbis, Accor completed its asset-light transition, resulting in an increased core ROIC driven by higher sales. Despite the substantial impact of the COVID-19 pandemic in 2020, Accor surpassed both its pre-pandemic operating margins and asset turnover in 2022, reaching a value of 6.4%. This achievement is largely attributed to the enhanced operational efficiency inherent in the asset-light model (Figure 11).

Compared to peers, Accor presented a significantly lower core ROIC in all the years under analysis. Even in pandemic, the peers were able to maintain a positive return from its operations, showing efficiency of their asset-light model.

In terms of operating margins, represented in figure 12, Accor's margin has seen an upward trajectory since 2020, reaching 8.6% in 2022, though still notably lower than its peers. Analyzing this margin by breaking down the two primary operating expenses, the COGS and personnel costs, reveals why Accor trails behind its peers. Accor is less efficient in SG&A costs, while its peers are less efficient in Fund Costs. However, the latter has minimal impact on the core result as the fund is expected to break even. On the other hand, Accor experiences significantly lower revenue generation per employee compared to its competitors, adversely affecting the operating margin.

Concerning asset turnover (Figure 13), it was divided into PP&E and Intangible Assets turnover and Goodwill turnover. The average ratios of peers exceed Accor's turnover ratios across the board. This indicates that both Accor's asset management policy and the acquisition premiums it paid resulted in a lower return compared to competitor acquisitions also reflecting the less developed asset-light model of Accor. Notably, IHG, the most comparable in terms of revenues, boasts a goodwill turnover six times higher than Accor. IHG's strategy of developing brands rather than acquiring them has contributed to reducing the required invested capital. Despite Accor also adopting an asset-light strategy, it still owns and leases 114 hotels, whereas IHG owns only 16 hotels. Finally, Accor's goodwill allocated MEA has been increasing during the past years, a region where the hotel company has recently increased its expansion and investment efforts. Consequently, it is anticipated that these regions will generate slower returns

compared to, for example, Europe, where Accor has a more developed portfolio and a consolidated customer base.

## Sales Value Drivers

Accor relies on two primary sources of revenue generation: the Revenue Per Available Room (RevPAR) and the number of rooms available. The RevPAR, a key metric, can be broken down into two components—the Average Room Rate and the Occupancy Rate. Additionally, within the M&F segment, the fee rate serves as another significant driver of revenue.

### Number of Hotels and Rooms per Region

The primary factors influencing the number of hotels include the rooms in the pipeline for each region and Accor's future strategic considerations.

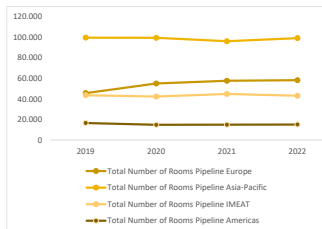
In 2023, Accor's pipeline comprised 219,000 rooms across 1,273 hotels. In this context, it is anticipated that the number of rooms will experience a more pronounced growth rate, like the trend observed in previous years, until 2028 of 3%. Following this, a reduced growth rate of 2% is expected until 2030. Subsequently, it will stabilize at 1% per year from 2031 onwards. Also, it is expected that more than 70% of the hotel openings in the forecasted peers will be outside of Europe based on the hotel pipeline's constitution (figure 14).

As of 2022, Accor maintains its market leadership in Europe, boasting a portfolio of over 3,059 Management and Franchise (M&F) properties, along with a pipeline of 58,320 rooms. In 2023, the hotel company strategically decided to integrate the North Africa and Turkey hotel portfolio into the European operations, directing its focus toward the growth and development of the portfolio in the MEA. The anticipation is that Europe will persist as a key presence in Accor's portfolio. Despite significant investments in Asia and the MEA region outlined in the Hotel Pipeline, it is expected that the number of rooms will continue to grow, with a CAGR from 2023-2033 of 1%.

In 2022, the ASPAC region achieved a significant milestone, with half of the hotel openings attributed to renowned brands such as Pullman, Mercure, Ibis, Novotel, and MGallery, representing over 45% of the rooms in the pipeline. Moving into 2023, the management team replicated the strategic approach taken in ENA, making a distinctive decision for the ASPAC region. Specifically, India was separated from the MEA portfolio and integrated into the ASPAC portfolio. This decision underscores Accor's strategic plan to invest in India, recognizing the status as the world's most populated country. Despite acknowledging the challenges in entering the Indian market, Accor remains resolute in its confidence in the long-term growth potential of India.

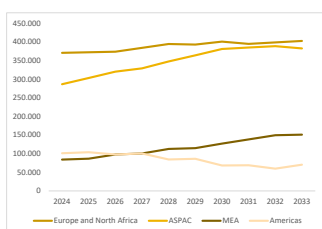
Aligned with the company's belief in the immense growth potential of China, the broader Asian market, and the long-term prospects of India, the ASPAC region is poised for substantial growth. It is anticipated that the region will elevate its significance in the total number of rooms, expanding from 32% in 2022 to 38% in 2033. This growth trajectory is underpinned by a projected Compound Annual Growth Rate (CAGR) of 3% from 2023 to 2033.

In July of 2023, Accor entered in a strategic partnership with Ebisu Resort LLC, marking a significant milestone in its expansion initiatives in ASPAC, more specific, in Japan. The partnership involved the acquisition of the Daiwa Resorts portfolio, comprising 23 properties and over 6,000 rooms across the country. Accor's strategic objective with this venture is to



**Figure 14: Hotels Pipeline per Region, in absolute values**

Source: Accor Annual Report



**Figure 15: Number of Rooms Forecast per Region**

Source: Accor Annual Report, Analysts

undertake extensive renovations and rebrand the Daiwa portfolio, transforming it into Grand Mercure and Mercure hotels.

Like Asia and the Pacific, Accor also recognizes the increasing influence of the Middle East post-pandemic, placing particular emphasis on Saudi Arabia's substantial investment in tourism over the next decade. Consequently, the company has made the strategic decision to separate Turkey and India, aiming to concentrate its focus on the potential growth opportunity presented by the Middle East. In the LFY, 15% of the hotel openings were in IMEAT and a weight of 20% in total rooms in pipeline. For next years, Accor is set to play a key role in Saudi Arabia's hospitality growth, aligning with Vision 2030. Recent strategic partnerships include projects in Madinah, Riyadh with a Erth Real Estate Company, and a significant deal with Amsa Hospitality. The company's 30-year presence in Saudi Arabia, 42 existing properties, and a pipeline of 56 developments underscore its dedication to shaping the Kingdom's hospitality future. Upcoming openings like Raffles Jeddah and Fairmont Ramla Serviced Residences Riyadh reinforce Accor's impactful footprint in the region. It is projected that MEA will equal IMEAT's in 2022 value by 2027 and continue growing to 382,320 rooms in 2033 with a CAGR 2023-2033 of 7%.

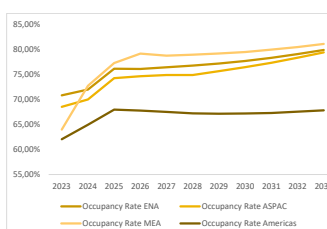
In the Americas, there was slow growth in the number of hotels in 2022 compared to 2019, unlike the growth observed in IMEAT and ASPAC. In 2022, 13% of Accor's rooms were from this region with a weight of 7% in the rooms in the pipeline - the smallest among the regions. The U.S. stands out as a premier global market due to its highest density and average room rate. However, the saturation caused by the significant presence of major players in the hospitality sector, such as Marriot and Hilton, has led Accor to make comparatively lower investments in this region. It is forecasted that, with the substantial amount invested in MEA and Asia, the Americas will lose its weight in the total number of rooms moving forward, with a negative CAGR 2023-2033 of -4%.

## Occupancy Rate

Covid-19 significantly impacted occupancy rates as travel restrictions took hold, causing a notable decline in hotel bookings. The pandemic-induced limitations led to subdued travel demand, directly influencing the occupancy levels across the hospitality industry.

Europe and North Africa faced substantial pandemic-related challenges, with their 2023 occupancy rate reaching 90% compared to the pre-pandemic level in 2019. The expectation is that this region will recover to its pre-pandemic rate by 2024. Following this recovery, it is projected that Accor's region Europe and North Africa will capture half of the growth in the tourism sector's weight in the total GDP of the region until 2025. Subsequently, as the weight stabilizes, growth is anticipated to align with the established growth rate of this weight, reaching an occupancy rate of 77% in 2033.

In ASPAC, notably, the tourism contribution to the GPD ratio in the ASPAC region is projected to surpass the global average as well as the ENA one. However, Accor's occupancy rate in 2022 was still 78% below the on registered in 2019. In that sense, forecasts indicate that the region will achieve its pre-pandemic occupancy rate of 70% by 2024. Additionally, the region is expected to leverage a quarter of the exponential growth in the relative weight of tourism and the region's GPD until 2025. Subsequently, as growth moderates, it will maintain a consistent rate, projecting a CAGR of 1% from 2023 to 2033, reaching a rate of 77% in 2033.



**Figure 16: Occupancy Rate Forecast per Region**  
Source: Accor Annual Report, Analysts

On the other hand, in MEA, it is anticipated to return to its pre-pandemic value by 2023, with robust growth in tourism contribution to the region's gross domestic product, not only outpacing the worldwide average but all the weight's average growth of the other regions. Also, due to its lower density compared to Asia Pacific, it is forecasted to capture 50% of the growth in the relative weight of tourism and the region's GDP until 2025. In 2033, the region will have an occupancy of 79%.

On the opposite direction, Americas Tourism Contribution to GDP ratio has been growing above the worldwide one, the same as the Europe one. In that sense, Accor's occupancy rate in America will only reach the pre-pandemic rates in 2024. Subsequently, as growth moderates, it will maintain a consistent rate, projecting a slower CAGR of 0,44% from 2023 to 2033, reaching a rate of 67,84% in 2033.

## Average Room Rate

Accor's Average Room Rate (ARR) is anticipated to reflect some of the inflationary growth over the forecasted years, aligning with the company's pricing segment strategy. Also, the exchange rate instability can affect price's volatility.

In Europe & North America, the Average Daily Rate (ADR) recorded in the first semester of 2023 was 97 euros per room, significantly higher than in 2022. This increase is attributed not only to the impact of inflationary growth but also to the inclusion of Turkey in the European portfolio, where over 50% of its hotel portfolio falls within the Luxury and Upscale segment. As discussed in the macroeconomic overview, it is anticipated that inflation will grow at a slower rate, influencing the average room rate, which is projected to reach 120 euros in 2033. A similar trend is expected in Asia Pacific, where, due to its price segment composition, the region is forecasted to maintain the lowest average room rate growing at the region's inflation. Also, in 2023, half of India's portfolio from the midscale segment which contributed to an increase of the ARR of the region.

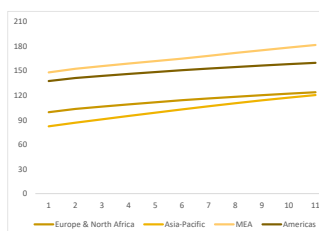
For MEA and the Americas, the forecast suggests that average room rates (ARR) will not fully absorb the impact of inflation. Accordingly, it is projected that the ARR for MEA will incorporate 25% of the inflationary growth until 2028. Subsequently, as the conditions stabilize, it is expected to absorb 33% onwards. The region had, in 2022, 60% of its portfolio belonging to the upscale and luxury segment that has a growing prospective justifying the higher average room rate of 182 euros in 2033. For Americas, it is expected to growth 33% above the inflation leading to a CAGR 2023-2033 of 1,5% per year.

## Forecasting

### Revenues Forecast

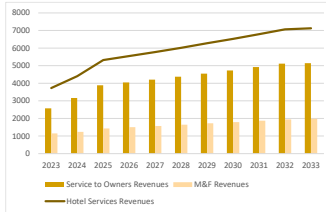
Accor's overall revenue can be broken in three main segments: the Hotel Services segment, with the Management and Franchised and Service to Owners Segment segments and the Hotel Assets one. In January 2023, Accor's CEO announced the creation of two new divisions with the objective of maximizing the EBITDA growth: the Premium, Midscale & Economy division and the Luxury & Lifestyle Division. Whereas the first one is focused on Geography, the last one is organized by brand to make it easier to identify profitable brands.

Accor derives a specific percentage known as the management and a royalty fee from the total



**Figure 17: Average Room Rate Forecast per Region**  
Source: Accor Annual Report, Analysts

room revenue generated by M&F hotels. The management agreements have a base management fee and a performance fee whereas the franchise agreements a royalty is charged Accor to sales, marketing and trademarked distribution. While the exact percentage is not explicitly disclosed by the company, our past estimations, which have remained relatively stable, have led to average fee rates of 6.1% in the Europe, 3.9% in ASPAC, 5.9% in IMEAT and 7.5% in America.



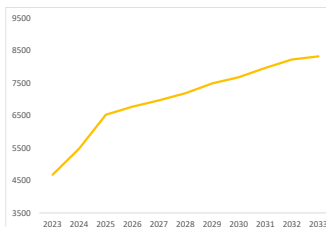
**Figure 18: Expected Evolution of Hotels, in absolute values**

Source: Accor Annual Report, Analysts

For the Management and Franchised sector, Europe is poised to maintain its dominance, accounting for over 50% of segment sales in 2033, totaling 846 million euros. The primary drivers are the RevPAR (97 euros per room in 2033) and the increasing number of rooms, resulting in a CAGR of 4% from 2023 to 2033. Approximately 99.2% of the region's rooms will belong to the franchised and management segment, while Hotel Assets will constitute a mere 0.8% of the region's portfolio since most of its owned hotels were sold to AccorInvest's. In fact, 98% of the hotel's subsidiary portfolio are in Europe. The segment is expected to maintain a compounded growth rate of 2%, preserving its weight in the total number of hotels.

Concerning ASPAC, the region is expected to achieve a CAGR of 7% from 2023 to 2033, showcasing the company's optimism about the region's growth. Despite the majority of Asia's hotel portfolio belonging to the midscale and economy segments, the RevPAR is anticipated to be the primary growth driver. This is attributed to the region's promising economic prospects, particularly reflected in the occupancy rate. In 2023, the Management and Franchised (M&F) rooms are expected to increase 1.5 times more than in 2022, with a RevPAR of 93 euros. The hotel assets' rooms' weight in the total number of rooms in Asia is projected to remain stable at 2%. This results in a total of 923 million euros in rooms generated by the region in 2023.

MEA is expected to more than double its revenues in 2033 compared to 2022. Following the separation of Turkey and India, there will be an increased focus on the luxury and upscale segment, reflected in the RevPAR of 144 euros in 2033. Unlike Europe, this region is anticipated to have 85% of its portfolio belonging to the management segment and only 12% to the franchised one. This distinction is a key reason why Accor sees high growth potential in the region, given that management contracts have a defined base fee, whereas in franchised contracts, it is contingent on the hotel's performance. The Middle East and Africa are expected to achieve 691 million euros in sales in 2023, a CAGR of 11% between 2023 and 2033.



**Figure 19: Total Revenues Forecast per Region**

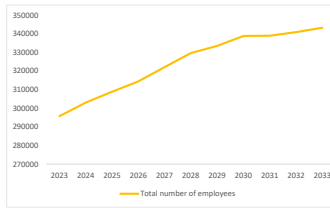
Source: Accor Annual Report, Analysts

In the Americas, as previously discussed in the report, a disinvestment by Accor is anticipated. The revenue for Management and Franchised sectors is expected to decrease by 5% in 2023 compared to 2022. However, since many the company's owned hotels are in this region, and with an average room rate forecasted at 201 euros for the segment, it is expected that Hotel Assets sales will contribute more to the revenue in the Americas, with an expected value of 394 million euros by 2023. Like the MEA region, a significant portion of the region's portfolio also belongs to the luxury segment, justifying the higher RevPAR of 106 euros in 2023.

Regarding the Service to Owners segment, more intense revenue growth is expected until 2025, with a CAGR of 6% from 2022 to 2025. Beyond that period, it is anticipated to grow at 4% per year until 2031, and ultimately stabilize with a 1% growth per year.

Overall, Accor anticipates achieving sales of 8,331 million euros in 2033, nearly double the amount recorded in 2022 (Figure 19).

## Operating expenses Forecast



**Figure 20: Personal Expenses Forecast, in absolute values**

Source: Accor Annual Report, Analysts

Most Accor's operating costs are tied to the company's sales. Property rents, energy and maintenance costs, and COGS are expected to grow with Hotel Assets revenue. Regarding personnel costs, it is projected to reach 2,353 million euros by 2023. To estimate Accor's number of employees, it was assumed that the workforce would depend on the number of hotels or rooms the company operates. We chose to use the highest correlation (number of employees and number of rooms) and applied the same growth rate for the number of rooms but slightly lower (0.3% lower) for each year. The number of employees per hotel and per room is also expected to remain stable during the forecasted years. Other operating expenses are primarily related to the Services to Owners segment and, therefore, will follow the same growth as the segment's revenues. Lastly, Depreciation and Amortization are expected to grow with the values of PP&E.

## Invested Capital Forecast

Accor's invested capital is projected to be 8,776 million euros in 2033. PP&E is expected to increase in 2023 compared to 2022 due to high restructuring costs associated with the company's buildings and remain stable for the rest of the forecasted years.

On the other hand, right-of-use assets are anticipated to show an increase in 2023, reflecting the sale and leaseback of Accor's head office building located in Issy-les-Moulineaux. From 2023 onwards, this account is expected to decrease with an annual rent payment of 22 million euros. Based on the conclusions drawn from the Cash Flow management section, net working capital is expected to decrease over the years. Lastly, Accor is expected to continue its M&A activity until 2027, primarily focusing on the lifestyle division to differentiate itself from competitors. From 2028, it is projected that goodwill will decrease due to the slowdown in the company's activities.

## Weighted Average Cost of Capital

Accor's cost of capital was determined by considering the assumptions above regarding the cost of equity and the cost of debt. Additionally, a consistent tax rate of 15.5% in the future was assumed. The calculations resulted in a WACC of 11.6%.

- Cost of Equity (Re)

To calculate the cost of equity, the CAPM model was used. The regression of the Accor's excess returns and its respective market, CAC 40 Index in €, using the monthly returns from November 2017 until November 2023, resulted in a levered beta of 1,31. To have a market perspective and a more statistically relevant beta, it was conducted also a regression analysis on the excess returns of peers against their respective market index (S&P 500 Index in \$, FTSE 100 Index in GBP and IBEX 25 Index in €) to get the leveraged betas of peers. Only for Intercontinental, the levered beta was retrieved directly from Bloomberg due to some inconsistencies in the relation between company's share price and market index.

The leveraged betas were then unlevered based on each company's current debt-to-equity ratio, ensuring conclusions were not influenced by Accor's peers' financing structures. Anticipated is Accor's net debt-to-equity ratio converging to the industry average, targeting 23%. This aligns with the company's October 2023 announcement unveiling a 400 million EUR share buyback initiative, returning 3 billion EUR to shareholders. The move is expected to facilitate

Accor's ongoing deleveraging strategy, contributing to reducing its debt-to-equity ratio. With a focus on consolidating its credit rating, significant changes in the capital structure are not anticipated. These computations led to a re-levered beta of 1,29 and an unlevered one of 1,07.

	Marriott	Hilton	IHG	Meliá	Hyatt	Choice Hotels	Accor
<b>Raw Beta</b>	1,58	1,23	1,24	1,81	1,39	1,28	<b>1,31</b>
Adjusted Beta	1,39	1,15	1,16	1,54	1,26	1,19	1,21
Beta Upper Range	1,92	1,51	0,00	2,13	1,77	1,54	1,59
Beta Lower Range	1,23	0,95	0,00	1,49	1,02	1,01	1,02
Net Debt/EV	17%	19%	14%	64%	19%	19%	15%
Equity/EV	83%	81%	86%	36%	81%	81%	85%
<b>Target Net Debt/Equity</b>	21%	23%	16%	174%	24%	24%	<b>23%</b>
<b>Target Net Debt/EV</b>	17%	19%	14%	64%	19%	19%	<b>19%</b>
<b>Target Equity/EV</b>	83%	81%	86%	36%	81%	81%	<b>81%</b>

**Table 1: Levered Betas Calculation<sup>1</sup>**

The risk-free rate (Rf) utilized for the computation of the cost of capital is based on the U.S. 10-year government bond rate, standing at 4.23% as of December 9, 2023, sourced from Bloomberg. As for the Market Risk Premium, given the expansive geographical coverage of Accor's portfolio, an equity risk premium analysis was conducted on a country-by-country basis. The Market Risk Premium for Accor was calculated by aggregating the Mature Market Risk Premium (5%) for each country within Accor's hotel base. The total was then determined by considering the country's weight in the overall number of rooms, resulting in an overall Market Risk Premium of 7.03%.

With this beta of equity, the risk-free rate and the market risk premium, the cost of equity was equal to 13%.

- **Cost of debt (Rd)**

To determine the cost of debt, we analyzed Accor's perpetual hybrid bond which holds a BB rating from S&P. The calculation incorporated the bond's yield to maturity (YTM) along with associated default and recovery rates. Utilizing Fitch's estimations of a 0.65% probability of default and a 44.20% recovery rate, coupled with a YTM of 5.54% retrieved from Bloomberg, it led to a cost of debt to be approximately 5.18%

## Intrinsic Valuation

The DCF model was employed for Intrinsic Valuation, given the expectation of no significant changes in the company's financing approach for its operational activities. The core Enterprise value of Accor was calculated by discounting the future operational free cash flows using the cost of capital. Projecting perpetual growth of 0.75% in the company's NOPLAT from 2033 onward, the value of Accor's operating segment was determined to be 566 million euros. Subsequently, the book value of the non-core segment for the year 2023 was incorporated, resulting in a total enterprise value (EV) of 6,247 million euros. Finally, the subtraction of net debt and non-core book values for 2023 yielded an equity value of 8,792 million euros. This corresponds to a share price of 33.19 euros and a total shareholders gain of 1.7 per share, encompassing equity gains and transactions with shareholders.

<sup>1</sup> Source: Bloomberg, Analysts

(in million €)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
NOPLAT	378	382	463	648	717	746	805	905	935	1017	1083	1119
Net Operating Cash Flow	606	556	657	869	946	988	1050	1156	1193	1284	1356	1392
Investment Cash Flow	515	124	930	1499	658	112	288	396	309	364	353	166
Invested Capital	6205	6156	6892	8170	8598	8469	8511	8656	8707	8804	8884	8776
Check line			TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Unlevered Operational FCF	431	-273	-629	289	875	762	760	885	920	1003	1227	
ROIC	6,2%	7,5%	9,4%	8,8%	8,7%	9,5%	10,6%	10,8%	11,7%	12,3%	12,6%	
RR	-13,0%	159,0%	197,0%	59,7%	-17,4%	5,3%	16,0%	5,4%	9,5%	7,4%	-9,6%	
Control RR	FALSE	FALSE	FALSE	FALSE	TRUE	TRUE	TRUE	FALSE	FALSE	TRUE	FALSE	
Diff	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
RONIC	65,72%	19,90%	4,59%	4,33%	52,37%	34,90%	7,54%	26,42%	18,20%	10,12%		
g	-8,53%	31,63%	9,04%	2,59%	-9,10%	1,86%	1,21%	1,43%	1,74%	0,75%		
EV	5985	6247	7243	8712	9432	9649	10005	10403	10723	11046	11322	11407

(in million €)	
WACC	11,58%
Non-Core Fair Value	176
Enterprise Value	7243
Net Debt	1372
Equity	8792
Number of shares outstanding	264,89
Evaluated Share Price	33,19
Current Price	32,86
Shareholder's Gains (per share)	1,70
Recommendation	HOLD

Table 2: Discounted Cash Flow Evaluation<sup>2</sup>

## Long-term value drivers

The terminal value will depend on Accor's long-term value drivers: both the growth rate and the return on invested capital.

### ■ Growth

Anticipated is a perpetual growth rate of 0.75% for Accor's NOPLAT from 2033 onwards. This rate results from multiplying the return on newly invested capital (10.2%) by the reinvestment rate of the previous year (7.4%). The Tourism Contribution relative to Nominal GDP is projected to grow at approximately 1% per year from 2028 to 2033, with expectations of continuing this trend. Consequently, Accor's projected growth aligns with the sector growth rate, acknowledging that the company is expected to continue operating without perpetual outperformance of the economy. The sources of Accor's growth are anticipated to stem from both inorganic growth through M&A activities and portfolio momentum. This expectation is underpinned by the assumption that consumers will spend more on accommodation services per capita, with an average growth of 2% from 2033 to 2040, benefitting the overall market. While Accor has the potential to boost its market share through expansion in emerging markets such as ASPAC and MEA, it is unreasonable to assume that this can lead to long-term growth. Unless the hotel company possesses unlimited cash, competitors are likely to retaliate and engage in price competition, negating any sustainable advantage for both.

### ■ ROIC and RONIC

It is expected that RONIC will stabilize at 10.2% from 2033 onwards. While the ROIC surpassed the cost of capital in 2022, indicating a potential competitive advantage for Accor, sustaining this advantage over the long term is unlikely. The projection is that ROIC (12.6%) will converge towards the cost of capital, with RONIC falling below it. Despite potential competitive advantages, such as a price premium in regions like MEA due to the superior quality of Accor's luxury brand portfolio or cost efficiency in ASPAC through economies of scale, maintaining differentiation in a highly competitive hotel industry is not likely to happen. Additionally, the risk of competitors replicating successful strategies, as highlighted in the Porter's Five Forces analysis, adds to the complexity.

## Sensitivity Analysis

In addressing the inherent uncertainty associated with WACC estimations, it was conducted a sensitivity analysis. The aim was to assess the fluctuations in WACC under diverse inputs, concentrating specifically on evaluating the sensitivity of the Re. This involved considering

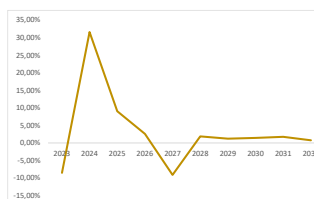


Figure 21: Growth Rate Evolution

Source: Accor Annual Report, Analysts

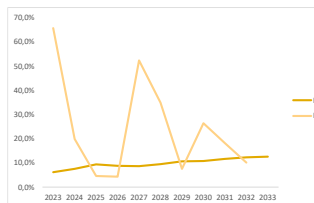


Figure 22: ROIC and RONIC Forecasted Evolution

Source: Accor Annual Report, Analysts

variations in the Market Risk Premium (MRP) within the range of 6.93% to 7.13% and adjusting the levered beta equity across the interval of 1.00 to 1.57.

Furthermore, the sensitivity of the cost of equity is in a range between 11.14% and 15.40%, while the cost of debt varies from 3.68% to 6.68%. Subsequently, a comprehensive analysis of the share price was conducted, considering various scenarios for both the cost of capital and the perpetuity growth (refer to Table 3) and assess how much that your affect report's recommendation (Table 5). The determination of g values involved an extra sensitivity analysis on Return on Net Invested Capital and Retention Ratio, mirroring the methodology applied in the WACC analysis (see Table 3).

Ultimately, the expected range for WACC was performed to increase and decreased 0.4% compared to the expected one, with g anticipated to vary between a negative one of -0.35% and 3.7%. These changes led to a projected share price ranging from 26.51 euros and 51.99 euros (see Table 4).

In summary, the sensitivity analysis indicates that, even if we assume a significantly faster market growth, Accor is not anticipated to surpass peers' performance and to growth above the market. This highlights the intricacies involved and the need for a prudent approach when forecasting Accor's future.

		RONIC											
		Growth r	22,62%	20,12%	17,62%	15,12%	12,62%	10,12%	7,62%	5,12%	2,62%	0,12%	-2,38%
RR	0,7%	14,90%	3,4%	3,0%	2,6%	2,3%	1,9%	1,5%	1,1%	0,8%	0,4%	0,0%	-0,4%
	13,40%	3,0%	2,7%	2,4%	2,0%	1,7%	1,4%	1,0%	0,7%	0,4%	0,0%	-0,3%	
	11,90%	2,7%	2,4%	2,1%	1,8%	1,5%	1,2%	0,9%	0,6%	0,3%	0,0%	-0,3%	
	10,40%	2,4%	2,1%	1,8%	1,6%	1,3%	1,1%	0,8%	0,5%	0,3%	0,0%	-0,2%	
	8,90%	2,0%	1,8%	1,6%	1,3%	1,1%	0,9%	0,7%	0,5%	0,2%	0,0%	-0,2%	
	7,40%	1,7%	1,5%	1,3%	1,1%	0,9%	0,7%	0,6%	0,4%	0,2%	0,0%	-0,2%	
	5,90%	1,3%	1,2%	1,0%	0,9%	0,7%	0,6%	0,4%	0,3%	0,2%	0,0%	-0,1%	
	4,40%	1,0%	0,9%	0,8%	0,7%	0,6%	0,4%	0,3%	0,2%	0,1%	0,0%	-0,1%	
	2,90%	0,7%	0,6%	0,5%	0,4%	0,4%	0,3%	0,2%	0,1%	0,1%	0,0%	-0,1%	
	1,40%	0,3%	0,3%	0,2%	0,2%	0,2%	0,1%	0,1%	0,1%	0,0%	0,0%	0,0%	
	-0,10%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	

Table 3: Sensitivity Analysis to RR and RONIC<sup>3</sup>

		WACC										
		Share Price	33,19	9,62%	9,98%	10,38%	10,78%	11,18%	11,58%	11,98%	12,38%	12,78%
Perpetual Growth	3,37%	51,99	48,97	46,00	43,36	41,00	38,87	36,95	35,20	33,61	32,15	30,92
	2,75%	48,78	46,16	43,56	41,23	39,12	37,22	35,48	33,90	32,45	31,11	29,97
	2,25%	46,58	44,23	41,87	39,74	37,81	36,05	34,44	32,97	31,61	30,36	29,29
	1,75%	44,67	42,53	40,37	38,42	36,63	35,00	33,50	32,12	30,85	29,67	28,66
	1,25%	42,99	41,03	39,04	37,23	35,57	34,05	32,65	31,35	30,15	29,04	28,08
	0,75%	41,49	39,68	37,85	36,16	34,62	33,19	31,87	30,65	29,52	28,46	27,55
	0,50%	40,81	39,07	37,30	35,67	34,17	32,79	31,51	30,32	29,22	28,19	27,30
	0,25%	40,16	38,48	36,77	35,20	33,75	32,41	31,16	30,01	28,93	27,92	27,06
	0,00%	39,54	37,92	36,27	34,75	33,34	32,04	30,83	29,70	28,65	27,67	26,83
	-0,25%	38,96	37,40	35,80	34,32	32,95	31,69	30,51	29,41	28,39	27,43	26,60
	-0,35%	38,72	37,18	35,60	34,15	32,80	31,55	30,38	29,29	28,28	27,33	26,51

Table 4: Sensitivity Analysis to WACC and Perpetual Growth<sup>4</sup>

## Multiples Valuation

By using the comparable valuation, we can compare Accor's equity to direct competitors. The comparable market multiples that we used were Enterprise value for EBITDA (Table 6), Price for Earnings (Table 8), Enterprise value for Sales (Table 7).

The peers chosen were Marriot, Hilton, Intercontinental, Hyatt, Choice Hotels International and

	WACC											
	0,0%	0,5%	0,98%	10,38%	10,78%	11,18%	11,58%	11,98%	12,38%	12,78%	13,18%	13,58%
Share Price	33,19	33,19	33,19	33,19	33,19	33,19	33,19	33,19	33,19	33,19	33,19	33,19
Perpetual Growth	3,37%	3,37%	3,37%	3,37%	3,37%	3,37%	3,37%	3,37%	3,37%	3,37%	3,37%	3,37%

Table 5: Sensitivity Analysis Report Recommendation to WACC and Perpetual Growth  
Source: Accor Annual Report, Analysts

Accor Valuation - EV/EBITDA		
	ALL	SIMILARS
Multiple	20,70	25,65
Accor EBITDA	0,66	0,66
Accor EV	13,75	17,03
Accor Net Debt	1,65	1,65
Accor Equity	12,10	15,38
Accor #Shares	0,26	0,26
PT	46,16	58,71
25 Quartile	36,02	55,21
75 Quartile	46,87	80,22

Table 6: EV to EBITDA multiple

Source: Bloomberg, Analysts

<sup>3</sup> Source: Accor Annual Report, Analysts

<sup>4</sup> Source: Accor Annual Report, Analysts

Accor Valuation - EV/Sales		
	ALL	SIMILARS
Multiple	3,70	3,34
Accor Revenues	4,90	4,90
Accor EV	18,15	16,34
Accor Net Debt	1,65	1,65
Accor Equity	16,50	14,69
Accor #Shares	0,26	0,26
PT	62,96	56,08
25 Quartile	43,37	44,01
75 Quartile	84,02	76,55

**Table 7: EV to Sales multiple**

Source: Bloomberg, Analysts  
Source: Accor Annual Report, Bloomberg and Analysts

Accor Valuation - P/E		
	ALL	SIMILARS
Multiple	18,84	16,63
Accor EPS	2,30	2,30
PT	43,33	38,25
25 Quartile	32,97	27,20
75 Quartile	55,75	10,54

**Table 8: Price to Earnings multiple**

Source: Bloomberg, Analysts

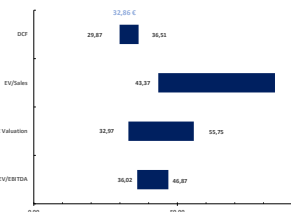
Wyndham Hotels & Resorts. From those, it was conducted an analysis to understand which ones were more comparable to Accor based on the Market capitalization, Debt to Enterprise value ratio, EPS growth and Unlevered. Based on that, Hyatt, Intercontinental and Wyndham were chosen as the ones most similar to Accor. However, in the EV/EBITDA multiple, the similar ones were leading to overvalued multiples due to operational difference so the average with all the peers was used.

Comparing the PE and the EV/EBITDA multiples, we conclude that PE is more accurate for growth-oriented companies and industries as the price component accounts for the market's future expectations. However, we are comparing companies from the same industry but not with the same capital structures so the EV/EBITDA can be more useful.

The multiple valuations, particularly EV to EBITDA, align more closely with the DCF share price, proving to be suitable for the hotel industry despite some variations between companies. On average, an EV/EBITDA multiple based on the chosen peer group suggests a share price of 46.16 euros, falling within a range of 36.02€ and 46.87€. It is acknowledged that the peers differ mainly in served price segments and room count. To address the inherent assumptions and limitations of both valuation methods, we have assigned a weight of 20% to the share price obtained through the EV/EBITDA multiple in the final recommended share price.

## Final Recommendation

The analysis of Accor both in financial & management and strategic Terms, led us to the recommendation of holding the stock. Since the DCF implies more a forward-looking and the relative valuation implicitly reflects better the current market situation, it was decided to give a weight a 20% weight to the EV/EBITDA multiple and a 80% weight to the DCF price. This would lead to a price target of 35.79 euros per share. Assuming this price, if an Accor share is bought in 4 of December 2023, the shareholders can expect a gain of 4.29 euros per share over a 12-month period.



**Figure 23: Football Field Chart**

Source: Accor Annual Report, Bloomberg and Analysts