

## **UNIVERSIDAD CARLOS III DE MADRID (UC3M) WINS EUROPEAN LEG OF CFA INSTITUTE GLOBAL INVESTMENT RESEARCH CHALLENGE**

**London, 18 April 2008** – Universidad Carlos III de Madrid (UC3M) won the European leg of the annual Global Investment Research Challenge for university students in Europe, Asia Pacific and North America by beating off competition from London Business School and Università Commerciale Luigi Bocconi, Milan.

The three teams were competing in the first European final of the competition, hosted by CFA Institute and the CFA Society of the UK (CFA UK). Each of the European finalists underwent a lengthy selection process to get this far, which included participating in national heats in their own country. The UK heat involved Imperial College London - Tanaka Business School, University of Stirling, University of Reading, University of Leicester and University of Exeter. This new educational competition involves over 300 students from 80 Business Schools and Universities worldwide. Each competing team had to write and present an equity research report on a publicly listed company under the guidance of industry mentors. The reports were then presented to a judging panel of experts.

The Global Investment Research Challenge is part of CFA Institute's effort to pass on principles of best practice and highest standards of professional and ethical conduct to the future of the industry through hands-on support and intensive training in company analysis by industry mentors. It also enables students to present themselves to potential employers through showcasing their attributes and skills.

This year the panel of industry experts included:

- Nitin Mehta, Managing Director, CFA Institute (EMEA);
- Paul Smiddy, Head of Retail Research, HSBC;
- Michael O'Brien, CFA, Head of European Institutional Business, Barclays Global Investors;
- Nina de Martinis, CFA, Senior Portfolio Manager, Equities (Emerging Markets), Credit Agricole Asset Management

**Nitin Mehta, Managing Director: Europe, Middle East, Africa, said:** Investment analysis sits at the heart of the economy so it is vital the next generation of budding analysts come through showing the quality of skill and aptitude to be able to put capital to good use in creating wealth and prosperity. If the students we have seen participating in the competition are a representative sample of the talent entering the industry then we should have little fear despite the responsibility they will carry. We wish Carlos III the very best of luck in the global final and look forward to seeing them bring home the winners' trophy to our region".

The 2008 Global Investment Research Challenge culminated in a global final in May in New York where the winner of the European Region Challenge competed against the winners of the Asia Pacific and North American regional winners. The overall winner was Hong Kong Baptist University.



## **SOL MELIÁ** **Investment Case**

**UC3M EN Equity Research**

### **Bright and Breezy!**

Marta Calvário

João Almeida

Hugo Fontinha

David Jacques

# CFA SPAIN Student Research

This report is published for educational purposes only by students competing in the Investment Research Challenge™.

EUROPE - SPAIN  
Hotels, Entertainment & Leisure

Sol Meliá

## UC3M EN Equity Research

10<sup>th</sup> March 2008

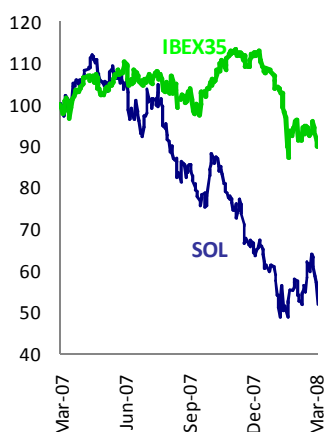
Bloomberg/Reuters: **SOL SM / SOL.MC**

Price: **€ 8.33**

Recommendation: **BUY**

Price Target: **€14.05**

### SOL vs. IBEX35



Source: Bloomberg

### Earnings/Share

	Mar.	Jun.	Sept.	Dec.	Year	P/E Ratio
2005A	€0.08	€0.07	€0.30	€0.04	€0.49	22.0x
2006A	€0.12	€0.15	€0.38	€0.09	€0.74	20.4x
2007A	€0.11	€0.23	€0.41	€0.13	€0.88	11.9x
2008E	€0.14	€0.19	€0.49	€0.11	€0.93	8.9x

## Bright and Breezy!

- Sol Meliá (SOL)** is the leading Spanish hotel operator and one of the major hotel chains in the European hotel industry, operating in 30 different countries. Although born as a pure resort company, SOL has been wise on diversifying its business portfolio. Today, besides Resorts, SOL also operates City Hotels, has been active on the real-estate front and has recently entered the time-sharing business.
- Up to Date:** Last February, 28<sup>th</sup> the group released its FY07 earnings, posting net profit growth of 18.9% yoy, slightly below consensus estimates. However, the main focus of the day was the so awaited 2008-10 Strategic Plan and the New Organizational Model on a brand basis. The sum of Eur 1.1bn to be invested over the next three years sounds ambitious in times of market turbulence and uncertainty and, although it might raise some concerns on SOL's ability to accomplish the targets, we welcomed the strong positive message given by the management team.
- Business Outlook:** We expect SOL to face brave times. **1)** The prospects of an economic downturn, particularly in Spain and **2)** the further depreciation of the USD, along **3)** with the deceleration of the real-estate sector should constitute the main concerns. **4)** Also, the credit squeeze which has raised liquidity problems in capital markets, could negatively affect SOL's access to financing sources. However, this should be curbed by **1)** a stable performance of resorts in Europe, **2)** cheering prospects for the Caribbean operations, although penalized in accounting terms by the FX effect and **3)** the promising results of the time-sharing business (SMVC). All in all, we forecast an 8.3% EBITDA CAGR07-11F.
- Investment Case:** SOL is down by some 20% YTD, in our view being too much punished by the negative market environment. The stock is trading at cheap multiples when compared to peers, which offers an attractive opportunity. Our combined SOTP and Market Multiples Valuation yields a **Eur 14.05/share YE08 Price Target**. Thus, we initiate the coverage of SOL with a **BUY** recommendation. We expect a brighter performance of the stock in the times to come mainly triggered by **1)** the announcement of a new organizational model based on a brand approach, **2)** the capacity of delivering results on the back Eur 1.1bn 2008-10 Strategic Plan, **3)** slowdown of the supply growth in the industry and **4)** the ability of managing its financial debt.

### MARKET PROFILE

52W Price Range (€)	7.85 - 19.10
Avg. Daily Vol.	837K
Beta	0,86
DY (YE07)	1.4%
# Out. Shares (mn)	184.7
Market Cap (Eur mn)	1538.5
1 Yr Total Return	-50%
% Change YTD	-20%
BVPS (YE07)	5.30
Debt Ratio (YE07)	52.9%
ROE (YE07)	16.9%

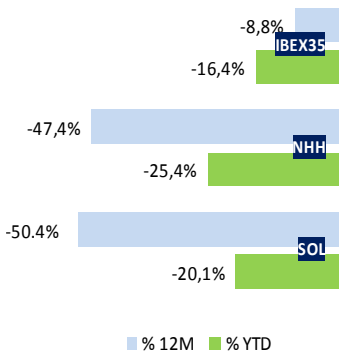
Source: Bloomberg, Company,  
UC3M EN Estimates

### Important disclosures appear at the back of this report

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Market Performance



Source: Bloomberg.

INVESTMENT CASE

We are initiating coverage of SOL, the leading Spanish hotel operator and the world leader in the resort hotel market, with a **BUY** recommendation and a **YE08 Price Target of €14.05**, which implies a 69% upside to the 7<sup>th</sup> March closing price! The share has been under pressure lately (-50% over the last 12 months and -20% YTD), underperforming the Leisure and Hotels sector as well as the IBEX itself.

SOL is the one of the major international chains in the hotel industry, ranking 12<sup>th</sup> worldwide and 2<sup>nd</sup> in Europe, after Accor. Although born as a pure resort company, SOL has been wise on diversifying its business portfolio. It started operating Urban Hotels and more recently, has gone into the time-sharing industry, an innovative, growing and promising business within the group's portfolio. Currently, the group manages around 80,000 rooms spread over 30 countries with a remarkable presence in Spain and LatAm. Last February, 28<sup>th</sup> the company announced the so awaited 2008-10 Strategic Plan, which we welcomed as, in times of market turbulence and uncertainty, it has brought a strong and positive message from the management team.

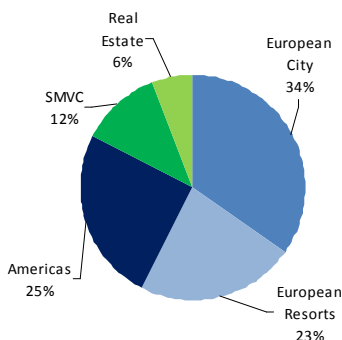
We believe SOL should continue to deliver positive EBITDA growths around 8% CAGR 08-10. In Europe, we forecast a deceleration in City Hotels growth due to the economic slowdown in Spain, and a stable positive performance of the European Resorts. The main growth engine should come from the other side of the Atlantic since we forecast good performance of American resorts. Nevertheless, the underlying long-term growth in terms of earnings should be partially curbed in the short term by USD depreciation.

We think SOL faces challenging times and believe it has compelling qualities to withstand a slowdown in the hotel business cycle, thanks to its diversified business model and asset ownership features (c.47% of rooms are owned and leased compared to over 80% for NH Hoteles and 61% for Accor). We are also keen on SOL's development projects in the timeshare business (with expected EBITDA growth at 11% CAGR 07-10F) and in Brazil.

Regarding real estate, SOL plans to keep its assets rotation strategy. Basically it implies the disposal of mature and underperforming assets in Spain to invest in new projects, particularly in America's resorts, in markets like Brazil where there is room to a wide market expansion as happened with other Latin American countries over the past years. On the buy-side, the company has identified potential targets, namely small and medium-sized hotel chains in the US and Europe.

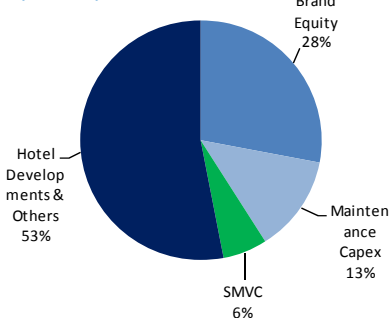
During 2004-07, the company has been able to sell at high multiples and buy at low ones, but we already saw in the last months of 2007 that the group was facing more difficulties in finding buyers. Therefore, we fear SOL might not be able to keep selling assets from European City hotels at very attractive prices. Moreover, we think that Eur 100m assets disposals per year is a difficult goal to achieve thus expecting SOL will hardly surpass 75% of that target. Actually, SOL has stated during its Investors' Day that it was lowering its target to some Eur 70mn-80mn, staying roughly in line with our estimates. All in all, the company should be active on the asset rotation front, planning to finance acquisitions with further asset disposals, although we think that SOL's intention to acquire more companies may raise some acquisition risk.

FY08E EBITDA Breakdown (Eur 366.2mn)



Source: UC3M EN Estimates.

SOL's Eur 1.1bn Capex Plan (2008-10)



Source: Company.

SOL's Investment Case: Key Positives & Negatives

INVESTMENT POSITIVES

- Time-sharing business
- Cheap Multiples
- New Organizational Model
- Caribbean Business prospects
- Spain as top tourism destination
- Management's commitment

to an ambitious Investment Plan.

INVESTMENT NEGATIVES

- Exposure to the economic cycle
- Weak USD
- Real-Estate deceleration
- Acquisition Risk
- Leveraging Risk

Source: Company, UC3M EN Estimates.

## SOL MELIA NNAV CALCULATION (Jun-07)

Eur mn	CRITERIA	WITHOUT BRAND VALUE
Rooms under ownership	CBRE (Jun 07)	4.453
Mgmt. and Rental Contracts	AA (Jun 07)	908
Other non-hotel assets and land	CBRE (Jun 07)	113
Land	CBRE (Jun 07)	84
<b>GAV</b>		<b>5.557</b>
Net Financial Debt	Book Value	-944
Minorities	2x BV	-65
NAV Hotels		4.548
<b>NAV per share</b>		<b>24,61</b>
Equity		-902
Capital Gains		3.645
Tax Shield	18%	-656
Fiscal Credits		182
NNAV Hotels		4.074
<b>NNAV per share (ex - brand value)</b>		<b>€ 22,05</b>
<b>YE08 Price Target</b>		<b>€ 14,05</b>
<b>Discount to SOL's NNAV.</b>		<b>-36%</b>

## VALUATION &amp; RECOMMENDATION

Valuing SOL is not an easy task. The company has released its own valuation last July, made by CBRE which gives a NNAV of Eur 22.05/share (ex-brand) and Eur 27.65 (with brand value). However, we think the NNAV approach should not be a major reference for the stock **1)** especially in times of real estate correction as we experience now, after the sub-prime crisis exploded in the US and **2)** because it does not capture the business dynamics, assessing the company more from a liquidation perspective, which we think is not suitable. Therefore, we use a different and hybrid valuation, combining **DCF** and **Multiples**.

Our **SOTP valuation yields a YE08 Fair Value of Eur 13.80**. In the case of Hotels we used DCF models for each division with European City accounting for roughly 35% of the valuation, followed by Americas (31%) and European Resorts (22%). For the European Hotel business with have considered a 8% WACC and 2.2% growing perpetuity while in the Americas division we had to account for the additional risk of LatAm countries, considering much more conservative assumptions in terms of WACC (11%). Nevertheless, given the growth potential of this business within SOL's portfolio, we included a growing perpetuity of 3% in our DCF. On the whole, the Hotel business accounts for some 88% of our target EV yielding an implicit EV/EBITDA08 of 9.6x. Concerning non-hotel business, we have applied a conservative multiple of 5.0x EBITDA08 in the case of SMVC, in line with multiples at which the most time-share operators in the US trade. In the case of the Asset Rotation division, although the company has fixed a minimum of 12x EBITDA for the sale of assets, we believe this is still high and prefer to assume 9.0x EBITDA08. All in all, our SOTP values SOL at an implicit 9.0x EV/EBITDA08 and 14.8x P/E08.

Source: Company, UC3M EN Estimates.

Business	EV (€ mn)	%	Method	EV/EBITDA 08
EUROPEAN CITY	1.156	35%	DCF	9,1x
AMERICA	1.014	31%	DCF	11,0x
EUROPEAN RESORT	730	22%	DCF	8,8x
SMVC	213	6%	EV/EBITDA08	5,0x
ASSET ROTATION	189	6%	EV/EBITDA08	9,0x
<b>TOTAL EV</b>	<b>3.302</b>			
YE08 Net Debt	868			
Minority Interests	43			
Non-core Assets	158			
<b>Equity Value</b>	<b>2.550</b>			
# Out. Sh.(mn)	185			
<b>YE08 Fair Value</b>	<b>€ 13,80</b>			

Source: UC3M EN Estimates

Method	Price
SOTP Valuation	€ 13,80
Peer Multiples	€ 15,05
<b>YE08 Price Target</b>	<b>€ 14,05</b>
<b>Recommendation</b>	<b>BUY</b>

Source: UC3M EN Estimates

DCF Assumptions	EUR. RESORT	EUR. CITY	AMER.
Re	11%	11%	14%
Rf	5%	5%	8%
β	1,0	1,0	1,0
Mkt. Premium	6%	6%	6%
Rd	5%	5%	9%
Tax Rate	30%	30%	30%
D/EV	30%	30%	30%
<b>WACC</b>	<b>8%</b>	<b>8%</b>	<b>11%</b>
g	2%	2%	3%

Source: UC3M EN Estimates

MULTIPLE VALUATION	EVEBITDA 08	P/E08	EV/EBIT08
Intercontinental	9,5x	14,6x	11,5x
Marriott	9,8x	16,7x	12,3x
M&C	7,9x	13,7x	9,7x
Starwood	10,0x	20,0x	14,7x
Accor	7,6x	15,6x	10,6x
NHH	8,1x	16,1x	12,9x
Choice Hotels	10,7x	16,8x	11,2x
<b>Industry Average</b>	<b>9,1x</b>	<b>16,2x</b>	<b>11,8x</b>

Implicit Share Price	€ 13,93	€ 19,16	€ 11,99
<b>Avg Multiple Val. (ex - SOL)</b>	<b>€ 15,05</b>		

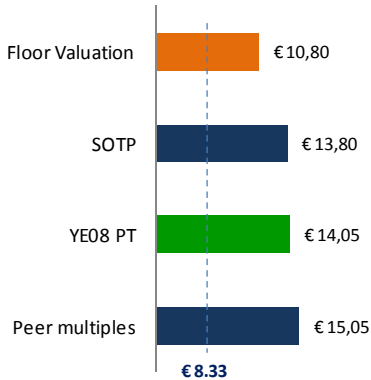
Source: JCF (06-03-2008)

We see that actually SOL is trading at 6.9x and 10.3x, respectively, so we must say that it is clearly at a discount to peers and, at such cheap multiples, it is an attractive opportunity in the sector. Besides, if we apply multiples of recent transactions in the sector, like the acquisition of 5% of AC Hotels by Sa Nostra, made at 10.5x EV/EBITDA07, we would reach price around Eur 15.80. Nevertheless, we prefer to consider market multiples of SOL peers which, in average, are trading at 9.1x EV/EBITDA08, 16.2x P/E08, and 11.8x EV/EBIT08. If we apply these multiples to SOL we would get an average **implicit share price of Eur 15.05**.

**Overall**, our **final Price Target** results from a weighted average of our Sum of Parts (80%) and the Market Multiples Valuation (20%). The fact that not all peers play purely the same business areas as SOL, with each one having its own features, leads us to assign a lower weight to the Multiples Valuation, as we recognize its limitations. On the other hand, we believe that the DCF captures the dynamics of the business and, regardless of being a cyclical industry, we still defend that this is the most proper approach. To account for the cyclicity of this business, we have adjusted the terminal value for the average of the cycle.

All things considered, we set a **YE08 Price Target of Eur 14.05 /share**, recommending investors to **BUY** the stock at the current levels. We believe SOL has been too penalized over the past months, having already dropped some 20% YTD. However, we expect a brighter performance of the stock in the times to come mainly triggered by **1)** the impact of the new organizational model based on a brand approach, **2)** the capacity of delivering results on the back Eur 1.1bn 2008-10 Strategic Plan, **3)** slowdown of the supply growth in the industry and **4)** the ability of managing its financial debt.

**Valuation Scenarios**



Source: Bloomberg, JCF, UC3M EN Estimates.

**Risks to our Price Target**

SOL should though face intrepid times, due to some risks prevailing: **1)** the weakness of the USD that should keep taking place over the next year, **2)** the general macro economic slowdown and particularly in Spain **3)** the real estate deceleration that could negatively affect SOL's asset rotation strategy, **4)** the execution risk associated to the company's huge Eur 1.1bn investment plan and finally **5)** SOL's ability to manage its debt, bearing in mind that last week Moody's set SOL's rating to under-revision, following the investment plans announced during the Investors' Day.

Therefore, using more pessimistic DCF assumptions in our model and assuming no growth in RevPARs in the following years, we would reach **Eur 10.80 /share, a Floor Valuation**, still 30% above current prices.

**COMPANY SNAPSHOT**

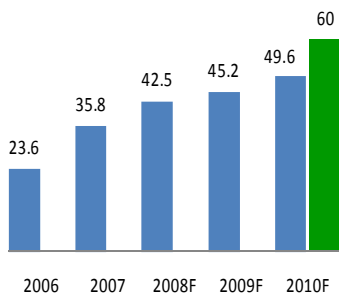
**Structured to Last**

SOL is structured around three main business units: **1)** Hotels, **2)** Real-Estate and **3)** Sol Meliá Vacation Club (SMVC).

In 2007, the hotel operation kept its strong performance, posting good results and accounting for some 81% of SOL's EBITDA07 with a RevPAR increase around 6%. On the whole, we set a positive outlook for SOL's Hotels, although there will be no acceleration in growth in 2008, according to our forecasts.

The real-estate division of SOL is divided among two types of operations: asset rotation and condo hotels. The asset rotation operation performed well in 2007 with an asset disposal of Eur 129.5mn which surpassed the Eur 100mn target. In 2008, we expect asset rotation activity to decrease as a consequence of the illness in the real-estate and credit markets.

**SMVCEBITDA 2006-2010F (€ mn)**

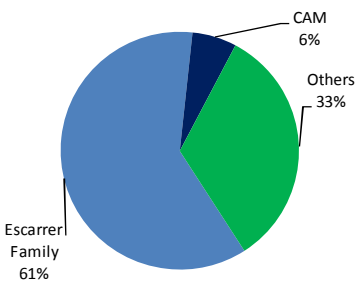


Source: UC3M EN Estimates, Company (in green)

**SMVC: SOL's New Clean Fuel**

After only three years, SMVC already accounts for 10% of EBITDA07 (Eur 35.8m). It has been growing healthily over that period and will be one of the main earnings trigger over the next few years. Management expects SMVC (and management fees) to be 12.5% of EBITDA10 (c. Eur 60m), a target that stays some Eur 9mn above our estimates. In 2008E SMVC should account for roughly 11.6% of EBITDA (Eur 42.5mn).

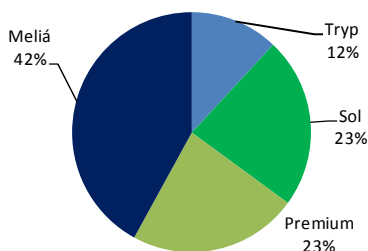
**SOL's Shareholding Structure**



**In It For The Long Term**

More than 60% of SOL's shares are under the control of the Escarrer family who is the founder of the company and a long term owner. Given its growth prospects, we consider SOL as a good acquisition target, but we hardly believe it is likely to happen. We would rule out a hostile offer, given SOL's concentrated shareholding structure. Nevertheless, we believe a friendly bid could eventually arise, but obviously only if the family was available to sell the stake. On the other hand, SOL does not reject the possibility of an acquisition, if an attractive target is identified. However, we think this should raise some acquisition risk and would affect SOL's balance sheet negatively in a moment where a strong balance sheet is vital. Therefore, acquisition should be at the bottom of the priority list of SOL at the moment, regardless of the company's statements saying that future acquisitions should be financed by further assets disposal.

**2007 EBITDA by Brand (Eur 277.8mn)**

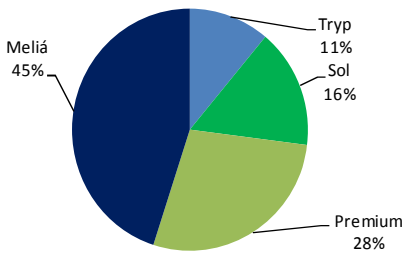


Source: Company.

**Creating a New Atmosphere**

The new strategic plan presented by the company should stimulate earnings due to the new operating structure of the hotel division. It will be divided according to its hotel brands instead of geographical areas. The group's effort of re-branding and deepen customer knowledge has

2010E EBITDA by Brand (Eur 404.9mn)



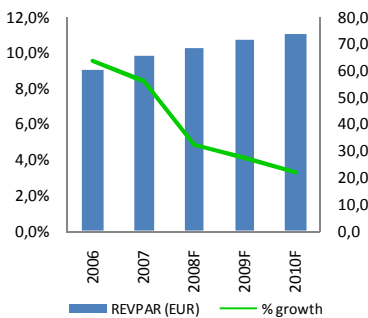
Source: Company.

materialized in the refurbishment of a large number of rooms in order to meet the needs and expectations of each type of customer. SOL's strategy comprises not merely offering the client a conventional hotel room but providing him with a unique atmosphere and value added services within the resorts. Therefore, the company will, from now, operate according to the following segments and brands: **Luxury** (Paradisus Resorts, ME by Melia, Gran Melia Hotels & Resorts) **Upper Segment** (Melia Hotels & Resorts) and **Mid-scale** (Tryp and Sol Hotels). The company will be structured in this way and release information according to this new approach. However, we are maintaining in our model the "old" structure which the company still used to release its FY07 earnings. The lack of historical figures and track-record does not give room for brand adjustments. According to its new strategy plan, SOL will integrate its different business operations in the new projects it undertakes. The development criteria for the new projects will be strategic, brand and economic value. Eventually this will create synergy between its hotel, SMVC and Real Estate businesses also stimulating earnings visibility of the group.

## BUSINESS BY BUSINESS

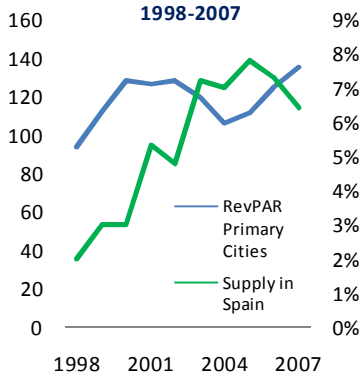
### European City: Trembling String?

RevPAR: growing at low pace...



European City hotels have been for years the main growth engine for SOL, with revenues growing at 7.5% CAGR 00-07. We believe this historic growth mirrored the Spanish economic boom over the past years and the progressive rebalancing between supply and demand in the industry. However, we now forecast times of economic slowdown, particularly in Spain, which should have an important impact in SOL operations. We see European City Hotels as SOL's most exposed business to the economic cycle. Therefore, RevPAR should grow at a more moderate pace in the years to come (3%-4%), which is slightly below the company's targets of (5%-7%). RevPARs in Spanish main cities are still lower than the last peak in the cycle in 2000 (c.10% even after the strong recovery in 2007), which we think should imply earnings to decelerate although we hardly believe in earnings decline. In fact, hotels have only reported earnings decline in years of RevPARs decline and, in turn, SOL's RevPAR never fell into a negative region due to macro-economic slowdowns. It only happened due to geopolitical shocks, for instance, like the 9-11 or the LatAm crisis.

Supply & RevPAR 1998-2007

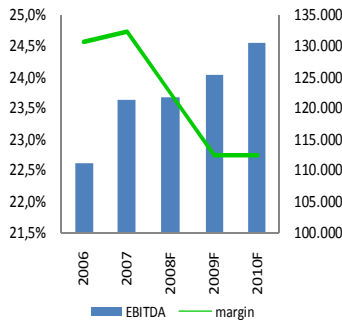


Source: UC3M EN Estimates, Company.

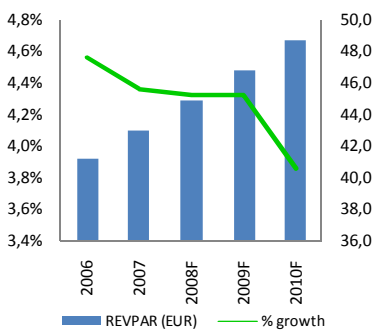
We think that growth will be mainly dependent on **1)** negotiations with key accounts, which already represent c.48% of the division's sales, to price increases. Usually, key accounts are a good indicator of price increases for other clients; **2)** demand for events in cities like Barcelona and Madrid, which often are chosen for congresses, conventions and other kind of corporate events; **3)** business travelers who travel during all the year but tend to do it less in times of economic downturn. Moreover, **4)** the continued popularity of city breaks coupled with the availability of low cost airlines routes for the most important destinations in Spain and Europe (Ryanair just opened a new base in Reus-Barcelona) and **5)** important events in Spain like Expo Zaragoza and Rock-in-Rio Madrid should help to curb the impact of the forecasted economic slowdown.

Having said this, we believe that the level of occupancy rates in city hotels should be linked to the evolution of GDP in Spain, for which we forecast decreasing growth rates until 2010, followed by a recovery in 2011. Although according to some experts in the industry, city tourism has been fuelling new hotels in the country, since c.78.5% of new openings in 2006 were city hotels, we remain conservative in our view of the business. Regarding ADR growth, we think that in 2008 there will still be room for price increases in some regions so we are forecasting a 5.6% growth vs. 6.6% in 2007 due to **1)** major events already aforementioned to take place in Spain and **2)** the effects of a still excessive supply in the industry that we think will drop in the following years, eliminating the risk of over capacity and allowing SOL to absorb supply and increase RevPAR. Actually, historical evolution of RevPAR is directly linked with the evolution of supply in the hotel sector, meaning that RevPAR in the cities has suffered owed to excessive supply growth. In 2007, hotel supply in Spain climbed 1% which contrasts with double-digit growth in previous years.

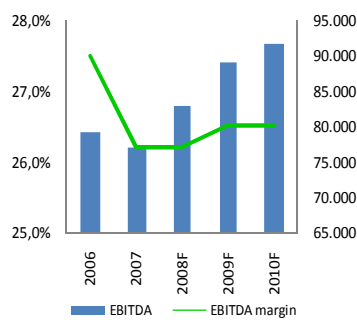
EBITDA: strimming margins...



RevPAR: more stable growth



Recovering EBITDA margin



Source: UC3M EN Estimates, Company.

In terms of divestments, we consider that SOL should not be able to maintain last year's target and assume that 3 in each 4 rooms divested will be City Hotels rooms. This reduction in the number of rooms will be partially offset by new openings due to the acquisition of Inside.

All in all, we estimate revenues to increase in this division at a c.5% CAGR 08-12F, reflecting both the economic slowdown in Spain together with the incorporation of Inside rooms, which are in a start-up phase, and the refurbishment process to be carried out in the next three years. Margins should thus lower in 2008E (23.7%) and 2009E (22.7%) and should have some room for recovery when the refurbishment process is completed by 2010.

### European Resorts: Staying Home!

European Resorts is a mature market and the most defiant hotels' division to the economic cycle. We share the view of SOL that this division should not be so affected by economic slowdowns. With an annual RevPAR growth of 3-4% over the past five years, we forecast the same expected growth for the upcoming years (CAGR 08-12F of c.3%).

We believe that this division will continue showing positive returns in terms of RevPAR mainly supported by the recovery signals from the Canary Islands (predicting better weather conditions for 2008 and improvement from a disappointing 2007) and by the increase in disintermediation (online sales already accounting for c.30% of the total sales) as opposed to a smaller growth from the traditional sales channels. These two positive factors come along with the continuous increase in the number of international arrivals (2007 growth yoy of 1,7%), which we expect to be kept as a result of the first low cost airlines opening routes for this year.

Spain is already the 2<sup>nd</sup> country to have a low-cost market share above 25%, with Barcelona, Madrid, Palma de Mallorca and Malaga coming on the top of the Spanish cities in terms of average daily low-cost flight arrivals. Also the Canary Islands saw the number of daily low cost flights increasing by 3.7% yoy in June 2007. Besides domestic LCC flights that represent an important slice of the traffic, Spain is a major destination of low fare airlines flying from overseas countries like Germany, Italy, Netherlands and France. In January 2008, the number of passengers in Spanish airports has increased by 6.4% yoy, reaching up to 13.4mn passengers, mainly fuelled by Madrid Barajas (+10%) and Girona (Barcelona) (+47.3%) – precisely two airports where important LCC, as Ryanair, have based hubs. Resorts destinations, like Palma Mallorca (+2.2%), Tenerife (+0,6%) and Gran Canaria (+0,7%) experienced modest growth, as in this part of the year people still do not look for sun & beach destinations. In addition, Spain is still the second most visited country in the world.

FLYING TO SPAIN: MAIN LOW COST AIRLINE ROUTES



Source: Companies.

Therefore, we forecast an increase in the RevPAR for 2008 of 4,3%, supported by a modest increase in the occupancy rate (+0.25 p.p) and a 4,0% increase in the ADR. This division will also benefit from the better portfolio mix as the disposals planned in the strategic plan for the next triennium will contemplate essentially the less profitable hotels.

We do also consider that in a worst case scenario of Spanish economic slowdown, more Spaniards will travel inside rather than choosing to spend their vacations abroad, being this a positive trigger for the SOL's European Resorts division. Alternatively, we see the high dependence to Spanish clients (c.35% of total clients) as a negative factor in case of an economic slowdown, although we do not expect this slowdown to be as severe as the 2002-2003 was. As a result, we estimate conservatively the same EBITDA margin for 2008, with room for improvement in the following years (EBITDA margin in 2010 of 26,5% as opposed to 26,2% in 2008).

### Americas: Caribbean Attitude

We believe this is the area with the highest potential for SOL within the Hotel business and the main target of investments. According to the Strategic Plan presented last week, some Eur 580mn should be for Hotel Developments and some other Eur 140mn maintenance capex. In our forecasts, we estimate that 62% of the expansionary capex will be made in the Americas, as opposed to SOL's 68% target (48% North America + 20% Caribbean). For 2008E we forecast an increase in the Occupancy Rate of 1.4% and a 8.0% growth in the ADR (USD).

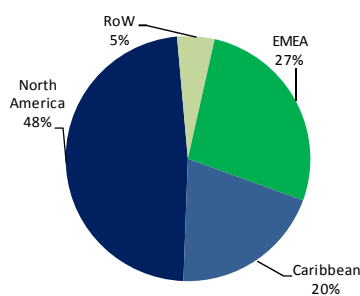
Our growth prospects for this division are influenced by its **1)** closeness to the US market and the European when compared with other high-end segment resorts in Asia. **2)** Besides, the high diversification of its offer outside the traditional sun and beach resort areas, makes SOL resorts very attractive both for American and Europeans (especially now with the depreciation of the USD, already c13% of the total clients in this division are Europeans). Finally, **3)** the absence of terrorist threats in the Caribbean and the capacity of having the resorts open in a full year basis complete the list of key positives for this division.

Due to the estimated EUR/USD effect, we forecast a stable RevPAR (in Euros) for 2008. Actually, we consider the movement of the USD currency as the main trigger for this division in terms of the impact in consolidated results. We expect a continued depreciation of the USD for 2008 around 1,50, in the line with the company's assumptions but then we forecast an upward movement until 1,35 in 2010. This depreciation will help to booster the ratio of European clients in LatAm resorts. Moreover, we also believe that this depreciation could play a positive role in the asset rotation strategic plan. As the vast majority of disposals take place in EUR currency countries, when investing in the new Caribbean resorts, these investments in USD terms are being made in Euros at a lower conversion rate, which will benefit SOL.

As with European Resorts, we do not perceive this division as highly influenced by the economic slowdown. In this case, we do not foresee any severe impact from a possible US recession, although we believe that hotels in the Caribbean may suffer as they are often destinations of conventions from US companies. Therefore, we forecast CAGR for RevPAR of 14% for the triennium 2008-10. This will also benefit from the positive effects of rebranding and the conclusion of refurbishments for this period. Most recently, we see the political changes in Cuba as an opening opportunity for SOL, although we do not believe this may happen in the short-term. In any case, a possible change to the US trade embargo could foster SOL's sales as Cuba becomes an attractive destination for all the US citizens. Finally, we recall that natural phenomena like hurricanes, is something at which companies in the Caribbean are exposed and, should it happen, may somehow negatively affect SOL, as it did in Summer 2006.

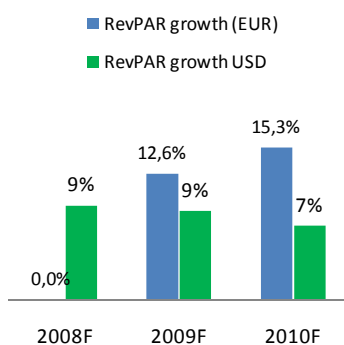
Overall, we believe in the growth potential of this division which accounted for 22,6% of total EBITDA in 2007, and consider it could add up to 31,5% of total EBITDA by 2010.

Capex by geographic area (2008-10)



Source: Company.

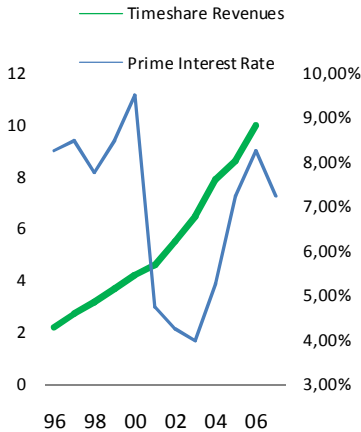
RevPAR growth in Americas



Source: UC3M EN Estimates.

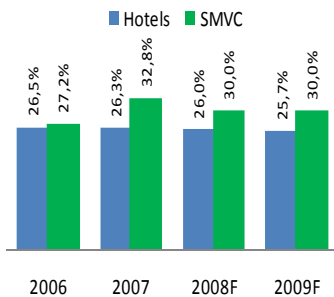
**SMVC: A Guaranteed Relax...**

**Time-Sharing: the resilience of Vacation Club Industry**



Source: Company Presentation.

**Time-Share Business: higher margins**



The time-sharing business is almost new for SOL, when compared with the traditional hotel business, but it is gaining importance amidst the diversified portfolio of the company, accounting for 10% of FY07 EBITDA. In our view, SMVC is an innovative concept that allows people to guarantee one week per year of sun and beach in any of the SOL’s resorts. It takes advantage from other time-sharing packages due to its diversified network of hotels spread over the most attractive destinations.

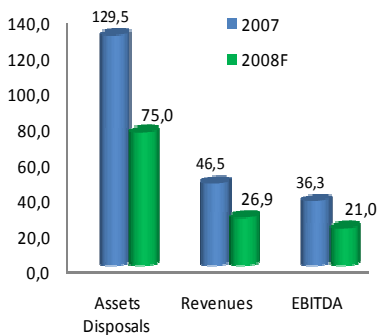
We can argue about the impact of the economic downturn on this business, especially when it is particularly linked to the US economy and currency. However, past statistics show that economic cyclicity did not post any relevant impact on the time-share industry. According to the American Association of Resorts Developers, the sector has grown at c.14% CAGR 93-06 due to its expansionary profile within the resort product range and it seems far from reaching maturity. Regarding SOL’s prospects in the sector, new openings in Puerto Rico, Mexico, Dominican Republic and other Caribbean areas, should encourage the division’s revenues along with price increases of 5%/year, which is in some way conservative, given the levels of inflation in LatAm region over the past years. The forecasted growth in terms of number of equivalent units (CAGR 08-12F 10%) along with estimated price increase will be partially curbed by a weak USD in the following years.

In terms of margins, we conservatively estimate a stable margin of 30% for 2008E, (the average of the past two years) as we fear that SOL might not be able to maintain profitability levels of c33% achieved in 2007.

The increased importance of timeshare business in SOL accounts will thus be driven by **1)** the great number of new units in which SOL is investing which reflects a strong expansion effort (c.6% of 2008-10 Capex), **2)** better margins than the ones traditionally practiced in the hotel sector and **3)** increasing recurring revenues which, historically have contributed with an important percentage and should reinforce the stability of results. Moreover, we think that the time-share business could have some cannibalizing effects over the hotel business, but the fact that SOL **1)** requires an annual USD 600 maintenance fee, besides **2)** the c.USD 25.000 price and **3)** some other charges related to the contract and the reservation process each year, shows that recurring revenues seem to cover pretty well any possible cannibalization.

All in all, we expect SMVC to be one of the major triggers for the group in the near future, estimating it to represent some 12% of 2011E EBITDA.

**Asset Rotation Business Forecasts**



Source: UC3M EN Estimate, Company. (Values in Eur mn)

**Real Estate: Selling High?**

SOL has been very active on the asset rotation front proposing it to accomplish assets disposals of Eur 100mn / year. Last year, the company was able to surpass this target, helped by the sale of three hotels to Izan by the end of the year. Actually, SOL has been able to buy at low multiples (6.0x Ininside) and sell at high ones, which gives it healthy margins.

However, the risks of economic slowdown in Spain coupled with the real estate crisis that has exploded with the sub-prime in the US, lead us to be conservative in our estimates. In 2007, SOL generated revenues up to Eur 46.5mnEur, down from 47.4mn, and we stay negative on this front, estimating revenues to decrease to Eur 27mn in 2008. EBITDA08 should reach Eur 21mn, below the Eur 30mn target presented by the company.

On the whole, we expect asset rotation to account for 5% of EBITDA in 2010E, slightly below SOL’s strategic plan 2008-10, as SMVC captures an important slice of operating performance.

## INDUSTRY OVERVIEW

The industry has been affected negatively over the last few months by the macroeconomic outlook in Europe and most importantly in Spain which is reflected in the shares prices.

### Challenging Times

The slowdown is already affecting housing, but has yet to have major impacts on hotels because GDP has remained high in 2007 at 3.8% (EIU). GDP forecast for 2008 and 2009 is below the last few years, but it is still above the European average. Nonetheless, that could have negatively impact the city hotel business. During recessions or when the GDP growth is low, hotel rooms' occupancy tends to lower significantly and since the majority of hotel costs tend to be fixed, it has a major effect on the margins.

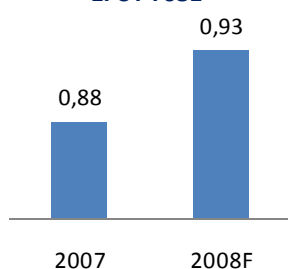
SOL's base currency (Euro), has been affecting its pricing negatively as it becomes less affordable for international travelers to come to Europe which represent over 70% of its hotel business. The forecast for 2008 USD/EUR is 1.46 (EIU). Our model uses a conservative 1.50 USD/EUR rate.

MACRO-INDICATORS	2006	2007	2008F	2009F	2010F
GDP Spain	3,9%	3,8%	2,8%	2,6%	2,6%
EUR USD prices	1,25	1,37	1,50	1,45	1,35
Inflation Spain	3,0%	3,4%	3,6%	4,0%	2,3%
Inflation LatAm	5,8%	6,4%	7,0%	6,7%	5,9%
Inflation Euro-Area	2,2%	2,1%	2,8%	2,0%	1,8%

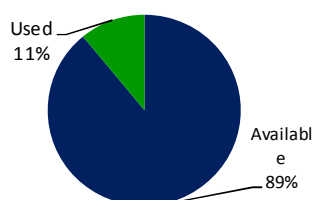
Source: EIU, UCEM EN Estimates

The actual situation in the global markets has created doubts in the mind of investors regarding the hotel sector and particularly the real-estate sector. Even so, we believe SOL is in a better position to go through a downturn than it used to be (its debt level has been decreasing). It also usually performs better than its competitors mainly because of its resort hotels which typically perform better than city hotels because of the decrease in business travelers during downturn.

### EPS FY08E



### SOL's credit facilities



Source: Company, UC3M EN Estimates.

## FINANCIAL ANALYSIS

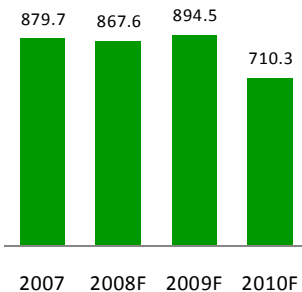
### Earnings

SOL has recently released its FY07 earnings, posting a 19% growth yoy with results coming slightly below consensus estimates. However, the main focus of the day was the awaited 2008-10 Strategic Plan, which brought a positive message from the renewed management team, with the company being fully transparent with respect to the target it wants to achieve. We welcomed the message provided in this Investors' Day, especially in times of market turbulence. However, at the same time we must say that, under the current economic circumstances, a Eur 1.1bn investment plan sounds ambitious and risky. In our model, we are forecasting Net Profit to grow at an 8.3% CAGR 07-11F and EPS08 to reach Eur 0.93 /share. We expect payout in 2008E to be maintained, as far as SOL is investing in new opportunities and to reach the company's cap of 25% by 2010.

### Cash Flow

In its Investor' Day SOL presented some data on its liquidity situation namely **1)** that only 11% of its credit facilities were used up until now and **2)** that it has available funds sum up to Eur 515mn and should be used to manage its financial debt (both to attend debt maturity and reduce and/or refinance debt). Moreover, the company stated that during the period 2008-10, cash-flow generation should be devoted to planned Capex, although some doubts arise on SOL's capabilities of achieving that goal. On the whole, we expect investments over that period to stay some 8% below the company's guidance. We estimate Eur 75mn / year during 2008-10 to invest in brand equity while forecasting Capex to reach some Eur 788mn, o.w. c.30% for maintenance. In terms of ROCE, we expect 9.8% in 2010, against the 11% forecasted by the group

**Net Debt Estimates 2007-10F**  
(Eur mn)



Source: UCM3 EN Estimates.

**Balance Sheet & Financing**

SOL has been decreasing its debt over the last few years to a net debt level that now represents 2.55x EBITDA. With its current cash position (available funds of Eur 515mn), of which Eur 218mn comes from a credit line, SOL could be in a good position to keep its investment grade rating by Moody’s. However, last week following the company’s announcement of the investment plan for 2008-10, Moody’s placed SOL under review for possible downgrade. It noted that SOL’s new strategic plan included higher than anticipated expansionary Capex, which may prevent the company from further enhancing its credit metrics at the pace previously built in the Baa3 rating.

According to SOL, the company should fund this Capex with cash flow generated and to a lower extent debt, but from our perspective, this seems quite optimistic. At the end of the day, if trading conditions are not so positive, we think the financial leverage of the company could increase significantly. Therefore, we expect SOL to refinance its debt as it recently did. We recall that most of SOL’s debt is close to maturity and to be repaid in the following two years (approx. Eur 250mn in 2008). In any case, we believe SOL will be able to reduce its net debt in the near future, except in 2009E, for which we estimate net debt to increase by Eur 27mn (due to the refinancing of its LT Debt by Eur 20mn and Eur 7mn drop in cash. For 2008E we forecast Net Detb/EBITDA of 2.37x.

**Investment Risks: Key to Monitor**

Although we have a positive stance on the stock, we perceive some risks to SOL investment’s case. **1)** The economic deceleration in Spain. Although tourism is a growth industry, it is expecting a fall in demand for Spanish city hotels, which are generally the most sensitive to the economic cycle. **2)** The slowdown in the economies of principal feeder markets (Spain, Germany, UK, USA) would impact SOL’s earnings. **3)** Execution risk in Brazil. SOL is basing a significant part of its future growth in Brazil. They are still in a very early stage and therefore there is a clear execution risk in this investment. **4)** The real-estate crisis that has affected the global economy and motivated a general credit squeeze, might also put at stake both SOL’s asset rotation strategy and its capacity to access credit facilities in order to refinance its debt. Finally, **5)** the dollar depreciation fulfills the list, since the exchange rate through the translation effect may impact Hotel revenues in some Eur 10mn.

**SWOT Analysis**

**STRENGTHS**

- **SOL MELIA**
  - Biggest Hotel Company in Spain
  - 12nd Biggest Hotel worldwide by number of rooms
  - Leading Resort Company in the World
  - Strong Brand Recognition (placed 48 according to the Reputation Institute of NY)
  - Shareholder’s Structure (Escarrer family owns more than 50%)
- **SPAIN**
  - Strong Customer base
  - World Top Tourist Destination
    - 2nd most visited country in the world
- **STRATEGY** (enhanced by the new Strategic Plan)
  - Time-Share
  - Asset Rotation

**WEAKNESSES**

- **EXPOSURE TO SPAIN**
  - Represents the major slice of European Operations
  - 31% of Clients are Spanish
- **EUROPEAN HOTELS**
  - SOL’s main division is the most sensitive to economic cycles
- **ASSET ROTATION PLAN**
  - Possibility of not being able to achieve the expected target
- **ACQUISITION RISK**

**OPPORTUNITIES**

- Positive Expectation for the **Time Sharing Division**
- **Condo Hotels**
- Growth Opportunities in **LatAm**
  - New Projects in Brazil
- **Political Changes in Cuba**

**THREATS**

- **Further depreciation of the USD**
- **Downturn**
  - Cyclical industry
- **Execution risk in LatAm**
-

**INCOME STATEMENT**

Eur thousands.

Source: Company Documents, Student Estimates

	2006	2007	2008F	2009F	2010F	2011F	CAGR 07-11F
Turnover	1.256.990	1.350.700	1.462.638	1.675.998	1.823.748	1.919.014	9,2%
External Services and Supplies	-335.001	-361.400	-456.294	-568.433	-645.660	-689.744	17,5%
Personnel Expenses	-376.406	-403.500	-383.456	-406.911	-416.803	-424.930	1,3%
<b>EBITDAR</b>	<b>389.477</b>	<b>417.600</b>	<b>438.122</b>	<b>488.442</b>	<b>530.068</b>	<b>560.869</b>	<b>7,7%</b>
Rentals	-63.435	-68.500	-71.914	-74.916	-78.023	-79.973	3,9%
<b>EBITDA</b>	<b>326.042</b>	<b>349.100</b>	<b>366.208</b>	<b>413.526</b>	<b>452.045</b>	<b>480.895</b>	<b>8,3%</b>
Depreciation	-112.264	-112.500	-115.699	-124.446	-127.097	-123.172	2,3%
<b>EBIT</b>	<b>213.778</b>	<b>236.600</b>	<b>250.509</b>	<b>289.080</b>	<b>324.948</b>	<b>357.723</b>	<b>10,9%</b>
Net Financials	-59.412	-57.500	-51.926	-52.568	-47.675	-34.078	-12,3%
Extraordinary Income	0	0	0	0	0	0	n.s.
Income Taxes	-16.387	-14.500	-23.714	-32.440	-81.667	-97.093	60,9%
Minority Interest	-1.747	-2.700	-2.868	-3.347	-3.209	-3.716	8,3%
<b>Net Income</b>	<b>136.232</b>	<b>161.900</b>	<b>172.001</b>	<b>200.724</b>	<b>192.398</b>	<b>222.835</b>	<b>8,3%</b>

**CASH-FLOW STATEMENT**

Eur thousands.

Source: Company Documents, Student Estimates

	2006	2007	2008F	2009F	2010F	2011F
+ EBIT	213.778	236.600	250.509	289.080	324.948	357.723
+ Dep. & Amort.	112.264	112.500	115.699	124.446	127.097	123.172
- Changes in Working Capital	77.745	25.109	-213	20.834	13.878	8.653
<b>= Operating Cash Flow</b>	<b>403.787</b>	<b>374.209</b>	<b>365.995</b>	<b>434.360</b>	<b>465.924</b>	<b>489.548</b>
- Capex	-99.297	-149.864	-270.778	-363.318	-120.848	-48.360
- Net Financial Inv.	35.269	12.811	40.489	20.244	13.832	0
<b>= Cash Flow after Investments</b>	<b>339.759</b>	<b>237.156</b>	<b>135.706</b>	<b>91.286</b>	<b>358.908</b>	<b>441.189</b>
- Net Fin. Expenses	-59.412	-57.500	-51.926	-52.568	-47.675	-34.078
- Taxes Paid	-20.540	6.637	-38.488	-30.307	-80.189	-96.141
- Dividends Paid	-18.108	-22.543	-26.790	-28.462	-40.145	-48.099
- Other	-182.921	-99.414	-6.471	-6.863	-6.699	-7.118
+ Equity Increase	-3.077	-496	0	0	0	0
<b>= Change in Net Debt</b>	<b>-55.701</b>	<b>-63.840</b>	<b>-12.031</b>	<b>26.913</b>	<b>-184.200</b>	<b>-255.752</b>

**BALANCE SHEET**

Eur thousands.

Source: Company Documents, Student Estimates

	2006	2007	2008F	2009F	2010F	2011F	CAGR 07-11F
<b>Fixed Assets</b>	<b>2.386.247</b>	<b>2.410.800</b>	<b>2.525.390</b>	<b>2.744.018</b>	<b>2.723.937</b>	<b>2.649.124</b>	<b>2,4%</b>
Intangible Assets	108.474	106.600	85.503	65.481	47.667	34.363	-24,6%
Tangible Assets	2.066.262	2.105.500	2.281.676	2.540.571	2.552.135	2.490.626	4,3%
Financial Investments	211.511	198.700	158.211	137.967	124.135	124.135	-11,1%
<b>Current Assets</b>	<b>368.944</b>	<b>455.400</b>	<b>337.340</b>	<b>355.467</b>	<b>507.556</b>	<b>675.138</b>	<b>10,3%</b>
Inventory	30.758	35.200	42.608	51.886	58.282	62.026	15,2%
ST Debtors	170.313	171.800	182.401	198.164	209.657	217.742	6,1%
Cash, Deposits and Securities	167.873	248.400	112.331	105.418	239.618	395.370	12,3%
Other Assets	9.063	0	11.701	13.408	14.590	15.352	n.s.
<b>TOTAL ASSETS</b>	<b>2.764.254</b>	<b>2.866.200</b>	<b>2.874.432</b>	<b>3.112.894</b>	<b>3.246.083</b>	<b>3.339.615</b>	<b>3,9%</b>
<b>Net Worth</b>	<b>934.742</b>	<b>979.200</b>	<b>1.124.411</b>	<b>1.296.673</b>	<b>1.448.926</b>	<b>1.623.662</b>	<b>13,5%</b>
Share Capital	36.955	36.955	36.955	36.955	36.955	36.955	0,0%
Treasury Stock	-38.748	-42.000	-42.000	-42.000	-42.000	-42.000	0,0%
Issuance Premium	767.196	766.700	766.700	766.700	766.700	766.700	0,0%
Reserves	33.107	55.645	190.755	334.294	494.874	639.172	84,1%
Net Income of the Year	136.232	161.900	172.001	200.724	192.398	222.835	8,3%
<b>Minority Interests</b>	<b>32.578</b>	<b>47.900</b>	<b>48.187</b>	<b>48.522</b>	<b>48.842</b>	<b>49.214</b>	<b>0,7%</b>
<b>Provisions for Other Risks</b>	<b>25.895</b>	<b>30.800</b>	<b>30.492</b>	<b>30.187</b>	<b>29.885</b>	<b>29.586</b>	<b>-1,0%</b>
<b>Total Liabilities</b>	<b>1.771.039</b>	<b>1.808.300</b>	<b>1.671.342</b>	<b>1.737.512</b>	<b>1.718.429</b>	<b>1.637.152</b>	<b>-2,5%</b>
MLT Liabilities	1.224.029	1.209.100	1.134.519	1.150.974	1.097.464	1.043.989	-3,6%
MLT Interest Bearing Debt	843.391	851.000	780.000	800.000	750.000	700.000	-4,8%
Other MLT Creditors	380.638	358.100	354.519	350.974	347.464	343.989	-1,0%
ST Liabilities	547.010	599.200	536.823	586.538	620.965	593.163	-0,3%
ST Interest Bearing Debt	268.022	277.100	200.000	200.000	200.000	150.000	-14,2%
ST Trade Creditors	184.008	196.500	218.024	250.409	272.836	287.296	10,0%
Payables to Public Entities	8.263	29.400	14.626	16.760	18.237	19.190	-10,1%
Other ST Creditors	86.717	96.200	104.173	119.368	129.892	136.677	9,2%
Other Liabilities	0	0	0	0	0	0	n.s.
<b>EQUITY + MIN. + LIABILITIES</b>	<b>2.764.254</b>	<b>2.866.200</b>	<b>2.874.432</b>	<b>3.112.894</b>	<b>3.246.083</b>	<b>3.339.615</b>	<b>3,9%</b>

**OTHER FINANCIAL STATEMENTS**

Eur mn.

*Source: Company Documents, Student Estimates***SALES BREAKDOWN BY BUSINESS**

	2006	2007	2008F	2009F	2010F	2011F
<b>SALES</b>						
<b>HOTELS (O&amp;L)</b>	<b>984,0</b>	<b>1.057,9</b>	<b>1.157,7</b>	<b>1.340,8</b>	<b>1.459,7</b>	<b>1.529,3</b>
European City	452,1	490,8	534,0	604,2	636,6	654,4
European Resorts	288,5	293,7	316,5	335,9	345,6	355,5
Americas	243,4	273,4	307,2	400,8	477,6	519,4
<b>SMVC</b>	<b>86,7</b>	<b>109,3</b>	<b>141,8</b>	<b>150,6</b>	<b>165,4</b>	<b>182,9</b>
Real Estate	47,4	46,5	26,9	26,9	26,9	26,9
Others	138,9	137,0	136,1	157,7	171,7	179,8
<b>TOTAL</b>	<b>1.257,0</b>	<b>1.350,7</b>	<b>1.462,6</b>	<b>1.676,0</b>	<b>1.823,7</b>	<b>1.919,0</b>

**EBITDA BREAKDOWN BY BUSINESS**

	2006	2007	2008F	2009F	2010F	2011F
<b>EBITDA</b>						
<b>HOTELS (O&amp;L)</b>	<b>260,7</b>	<b>277,9</b>	<b>300,6</b>	<b>345,0</b>	<b>378,8</b>	<b>402,3</b>
European City	111,1	121,4	126,8	137,4	144,7	155,3
European Resorts	79,3	77,0	83,0	89,1	91,6	94,3
Americas	70,3	79,5	90,9	118,5	142,5	152,7
<b>SMVC</b>	<b>23,6</b>	<b>35,8</b>	<b>42,5</b>	<b>45,2</b>	<b>49,6</b>	<b>54,9</b>
Real Estate	40,7	36,3	21,0	21,0	21,0	21,0
Others	3,1	1,3	2,0	2,4	2,6	2,7
<b>TOTAL</b>	<b>328,1</b>	<b>351,3</b>	<b>366,2</b>	<b>413,5</b>	<b>452,0</b>	<b>480,9</b>

**SOL's ROOM PORTFOLIO**

TYPE OF ROOM	2006	2007	2008F	2009F	2010F	2011F
OWNED	31,6%	32,1%	32,7%	32,6%	30,8%	30,7%
LEASED	14,8%	15,4%	14,3%	13,4%	13,0%	13,0%
M&F	53,6%	52,5%	53,0%	53,9%	56,2%	56,3%

**FORECASTED CAPEX 2008-10**

CAPEX (Eur th.)	2008	2009	2010
Expansion	289.652	252.538	2.476
Maintenance	71.819	82.487	89.875
Brand Equity	75.000	75.000	75.000
<b>TOTAL</b>	<b>436.471</b>	<b>410.025</b>	<b>167.351</b>

## OPERATING ASSUMPTIONS

OPERATING ASSUMPTIONS	2006	2007	2008F	2009F	2010F	2011F
<b>RevPAR Growth Rate</b>						
European City	9,6%	8,5%	4,8%	4,1%	3,3%	3,3%
European Resort	4,6%	4,4%	4,3%	4,3%	2,9%	2,9%
Americas	8,4%	3,4%	0,0%	12,6%	15,3%	15,2%
<b>Occupancy Rate</b>						
European City	68,4%	69,6%	69,1%	68,8%	68,6%	69,0%
European Resort	71,7%	71,0%	71,3%	71,5%	71,8%	72,0%
Americas	67,5%	67,6%	68,6%	69,3%	69,6%	69,8%
<b>ADR growth (EUR)</b>						
European City	6,5%	6,6%	5,6%	4,6%	3,6%	2,6%
European Resort	4,0%	5,4%	4,0%	4,0%	2,5%	2,5%
Americas	8,1%	3,2%	-1,4%	11,4%	14,8%	14,9%
<i>EUR USD evolution</i>	0,4%	9,6%	5,8%	-6,9%	-3,7%	-3,8%

## SENSITIVITY ANALYSIS

		Change in WACC				
		-1,0%	-0,5%	0%	0,50%	1,00%
Change in g	-1,0%	14,40	13,55	12,80	12,15	11,57
	-0,5%	15,19	14,22	13,38	12,65	12,01
	0,0%	16,11	15,00	14,05	13,22	12,51
	0,5%	17,22	15,91	14,81	13,88	13,07
	1,0%	18,55	16,99	15,71	14,63	13,71

		Change in EUR/USD				
		-1,0%	-0,5%	0%	0,50%	1,00%
Change in Rf	-1,0%	15,46	15,44	15,42	15,40	15,39
	-0,5%	14,73	14,71	14,70	14,68	14,66
	0,0%	14,08	14,06	14,05	14,03	14,01
	0,5%	13,49	13,47	13,46	13,44	13,43
	1,0%	12,96	12,94	12,92	12,91	12,89

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