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Financial Analysis of Two Hotel Companies

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S'autoritza la Universitat a incloure el meu treball en el Repositori Institucional per a la seva consulta en accés obert i difusió en línia, amb finalitats exclusivament acadèmiques i d'investigació

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1. Introduction

In this thesis what I am going to explain it is the economic and financial analysis of two hotel companies that are very important in the hotel sector in Spain, NH Hotels and Meliá Hotels International, to know if they have differences in their economic and financial situation.

The tourism sector in Spain is one of the pillars of the national economy. Currently represents 12% of GDP and has historically been one of the international destinations of reference (WTO, 2014). In the mid 60s, this favorable environment causes the birth of a strong hotel industry. The NH Hotels and Meliá Hotels International companies are the best example. Both took advantage of the opportunities provided by the sector and despite its historical background differ by more than 20 years, their growth strategies quickly were equal. This led them to face in a direct competitive framework, for years the leading spanish hotel market.

NH and Melia have exemplified for years profitable business with high profit margins and a bulging business assets. However, recent worldwide economic events have made a scenario of widespread uncertainty that has engulfed the tourism sector direct way and therefore the companies under study. In this situation, both hotels have been forced to implement new strategies, whose different approaches, impact very differently in their accounts outcomes.

The ultimate goal is to study the reasons that led to NH and Meliá to the current situation. To analyse its historical evolution, we obtain other turning points in their careers, which serve to envision their business in the short and long term perspectives.

The objective of the financial analysis is to identify the different areas of opportunity in the results of the hotel.

The results say how was the negotiation's, actions' and decisions' strategy of the hotel. Nowadays, the division manager participates in all the process in taking decisions and being involved in the responsibility of their goals and objectives.

We have to identify the tools that they will help us in the evaluation and research of the opportunity's areas through the financial analysis that its objectives are to compare the results with other years and to improve new skills in the use of new tools to produce and to administrate money.

I tried to achieve this financial project with the analysis of the balance sheet, the understanding of their different structures and analysis of ratios and cash flows to understand which company is more cost effective and how they try to manage their own resources.

2. Meliá Hotels International

Meliá Hotels was founded in 1956 in Palma de Mallorca (Spain). Meliá Hotels International is one of the largest hotel companies in the world, market leader in Spanish market, in the leisure and the business resort hotel chains. Currently has more than 350 hotels in 35 countries on four continents under the brands: Meliá, Gran Meliá , ME by Meliá , Paradisus, Innside by Meliá, TRYP by Wyndham, Sol Meliá Hotels and Club.

The Organizational structure Meliá Hotels International, SA is the head company of Meliá Hotels Group International, which form an integrated group of companies engaged primarily to tourism in general and more specifically to the management and operation of hotels owned or rented, under a " management" or " franchise, and asset management.

2.1 Hotel Business Evolution

In the first quarter of 2014, the Company recorded excellent results in the complexes of the Canary Islands where the Company believes it will be able to maintain growth rates during the first half, in the second half it's most linked to the possible recovery of the flow of tourists in Egypt and the rest of North Africa. With respect to other areas of the Mediterranean, the current trend points to a summer season similar or slightly better than 2013 with good figures in the Balearic Islands and mainland coast. As for the Spanish cities, the Company confirms the trend in recent months pointing to a stabilization of the situation. In this regard, the Company noted some improvements across the board, as a greater number of events in specific cities, or certain linked to a slight increase in air traffic optimism, and better anticipated sales figures facing the second quarter in the segment Meetings and Incentives. In any case, the Company is evaluating how best indications are reflected in the micro and macroeconomic reality. We can say that the second quarter will be influenced by the different timing of Easter. For all 2014, the Company will observe best figures in hybrid destinations such as Barcelona, Bilbao and Palma de Mallorca, building leadership Meliá in the leisure segment.

2.2 Results in 2014

Meliá Hotels International won in 2014 a profit of € 31.9 million, which represents a considerable improvement over 2013, although the data is not comparable due to the negative accounting impact of the convertibility option in cash of the convertible bond. Although since 2010 the Company recorded steady increases in RevPAR (revenue per available room) above the market in all quarters, in 2014 the growth of this indicator occurred in all divisions for the first time since the global economy was in crisis. Thus, the overall increase in RevPAR for the year was 8.7 %, which would have been 12.5% of not being affected the result by the exchange rate adjustment.

The Company earned € 1,464.3 million during the year (+7%) generating an EBITDA of € 228.3 million. Excluding the lower generation of gains on the sale of assets of the Group EBITDA would have increased by 12% compared to 2013. These results are mainly attributed to the positive development of the hotel business, thanks to the focused Meliá strategic approach in the management and optimization income, commercial excellence and the continuous improvement of product's positioning and trademarks, being those ones a remarkable factor in brands like ME by Meliá, which in its hotels in Europe increased its average tariff by 20% or traditional holiday brand Sol Hotels, which in the process of renovation and repositioning of a large part of its portfolio already registered increases in average rate of around 10%.

Regarding financial results, Meliá reported a substantial improvement of € 123.7 million, thanks to the combined effect of savings in the average financial cost, that was a 4.8%, and lower costs and higher interest income generated with other impacts from the agreement with Equity Properties SL on the 17 hotels operated by Meliá, whereby the accounting treatment goes from leasing to operational, plus all the effect of the appreciation of the dollar against the Euro.

Reference: <http://www.meliahotelsinternational.com/es>

2.3 Shareholding Structure

The beginnings of the Meliá group dates back to 1956, with a model of sole leadership. Its founder and president Gabriel Escarrer was in all charges, handling the direction and management of the company. It was in 1965, when the company acquires the character of a public limited company under the name of Hoteles Mallorquines, S.A. This forced to adapt the structure of society, creating the General Committee of Shareholders.

- In 1996 , the IPO of Meliá, caused the placement of its shares in hands of capitalist investors. However its excess of cash, made the most of the subscribed and paid up capital, it is provided by companies associated to the Group. Thus, 112,520,937 shares, which accounted for 60.91 % of the total, passed into the hands of its president Gabriel Escarrer.
- Buying Tryp Hotels in 2000, led to Meliá the best investment done so far , amounting to 360.6 million euros. As a result, they became part of the shareholders Caja de Ahorros del Mediterráneo [C.A.M] with 3% and society AILEMLOS 7%. The latter is owned by the three Tryp founders, who received as part of the merger process, 162.2 million of euros. Two years later, C.A.M. expand its stake to 5%.
- The AILEMLOS Madrid group, that belongs to the financial ING group, decides to sell in 2007, most of its shares. This operation makes a considerably increase in the free float of the company in the hands of small investors.
- On June 3rd 2008, an increase of the capital occurs in the amount of 18,477,677 euros. It is signed primarily by its chairman, expanding up to 64% equity in their possession. That same year, before the general decline of his share price, the fund Fidelity Intenational Limited sells much of its shareholding (Europa Press, 2007).
- Nowadays, the Balearic group follows a similar path shareholder, with a significant variation in its composition. This allows founder and President remain the senior partner of the company, exercising sole control about the company Meliá Hotels International.

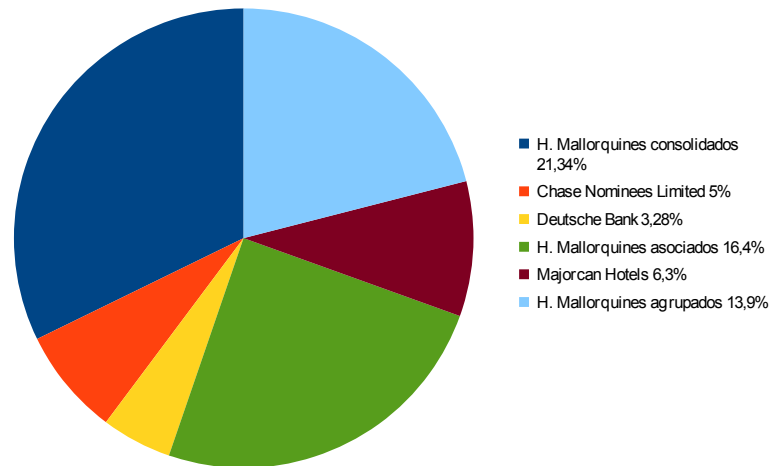


Figure 1: Own elaboration from data of SABI.

Reference: Annual accounts of Meliá Hotels 2012

ACQUISITION AND DISPOSAL OF OWN SHARES

The balance of treasury shares does not include 2.5 million shares that the Company has borrowed with the controlling shareholder. The balance of treasury shares at December 31, 2013 includes 15.7 million shares of some loans of securities to various banks, including Deutsche Bank in the amount of 7.7 million shares. Considering the above, the number of shares held by the Company is 121,304, 12,088,239 in the previous year. At 31 December 2013 the total treasury shares held by the Company represents 0.065% of the share capital. At the end of the year 2012, it represented 6.54%. In any case the shares does not exceed the 10% limit set in the Corporations Act. The market price of the shares of Meliá Hotels International, S.A at the end of the year is 9,335 euros and the market value amounted to 5,775 euros.

Reference: http://www.meliahotelsinternational.com/sites/default/files/informes-financieros/mhi_inf_financiero_13_en.pdf

2.4 Financial Strategy

After a 2013 fully focused on the restructuring of the repayment schedule as well as the maintenance of the cost of debt, the focus of the Company in 2014 is targeted towards deleveraging. It will contribute to the generation of the operating cash flow, strengthened by the improvement of the hotel business, the Club Meliá, as well as sales of additional assets with the potential impact of the exchange of the Convertible Bonds due in 2014. Furthermore, in this sense, we can say that in a more favorable environment is expected that the level of cash is optimized in 2014, which following a conservative debt management stood at especially high levels during the past years. Also expect that in 2014 the Company reduced the average cost of debt, which in 2013 reached 5.5%.

Reference: Annual accounts of Meliá Hotels 2012

3. NH Hotels Group

NH Hotel Group is a hotel chain based in Spain and headquartered in Madrid. NH offers moderately priced and modern furnished hotel rooms located mainly in Europe, Latin America and Africa. The hotel group is 3rd in the European ranking for business hotels. The group has almost 400 hotels with around 60,000 rooms in 28 countries.

The company is distinctive in quality regarding to facilities and services, intending to satisfy everybody and making the customers feel comfortable. NH Hotels are equipped with new technology to promote communication, entertainment for its customers and work. Motivation, improvement and team work are three values of the company.

3.1. Evolution and Results in 2014

In 2014, there was a growth in revenues and EBITDA thanks to the measures that they used to encourage revenues and forces to manage leases and operating costs, the evolution of the negative exchange rate and the balance of hotels exits.

There was a significant improve in the ADR and RevPar in the second half of the year.

Spain and Italy had a very positive trend. The expectation of the Group for 2015 is a growth of EBITDA of around 25% and an increase of RevPar in 5%. The strategic plan that they implemented in the business plan is being performed carefully with already positive results.

When NH Hotels implemented their business plan, from year 1 of this plan, they have an improvement of 76%.

In this period (2014), recurring revenue increased from 12.5 million euro to 1,266.1 million euro, while recurring EBITDA went up 2.5% higher every year to 126.2 million euro. This growth is more exceptional because of the need of supplements by hotels and the conflicting impact on gains of exchange rate trends. Removing those factors, the growth in revenues would have been 4% and EBITDA 10.1%.

Operating expenses increased hardly with business volumes. The company reduced lease investments by 2.1% with some renegotiations.

The business performance of the hotel was formed by an important growth in the ADR and RevPar in the second part of the year. Prices increased faster than occupancy in the second half, intensifying the RevPar of the group.

The ADR improved by 1.7% in 2014 and RevPar growth increased by 3.6%, motivated by the hotel business during the year with their strategic initiatives under the business plan.

Coming back to net profit increased by 47.3% and consolidated net profit (Group non-recurring activities) increased until 76%. The net loss of the Group was from 39.8 million euro in 2013 to 9.6 million euro in 2014.

Reference:

<https://corporate.nh-hoteles.es/en/newsroom/news-detail/nh-supera-las-expectativas-del-mercado-con-una-mejora-de-su-resultado-neto-del-76-176-en>

3.2 Evolution of the Strategic Plan

- *Repositioning Plan:* The Company looks forward to renovate more or less 41 hotels in 2014. Because of the renovations that have been produced or are planned, the bookings and projects are increasing by the customers' perception with a more potential ADR growth. Some hotels that have been renovated (like NH from Berlin, Madrid, Venice...) they had a growth in revenues from the sales of the rooms of 13.5%.
- *Brand Management:* The feedback of the customers is very optimistic. It has increased by 0.4 to 8.2 with an improvement in the Popularity Index of 3%. The score is running at 8.8 (+0.4) with the NH Collection assets controlling 60% of the top 25 hotels in the cities, these scores are because of the investments in 'Brilliant Basics' (pillows, TV, showers...)
- *Revenue and Pricing Management Strategy:* A project is planned to work around end of the year 2014. This project is the B2C Pricing Project. In some Business Units a new price and room categorization architecture to promote a recovery in prices will be implanted.
- *IT infrastructure and support functions:* Marketing and investments in IT include some important plans like the renovation of the signage of the hotel, new advertising campaigns, mobile applications and integration of the new commercial website.
- *Asset sales and portfolio optimization:* The Company, in June, reported the sale of the NH Amsterdam Centre with a value of 52.4 million euro, as part as a plan created to produce profits of 125 million euro. The Company is still negotiating the exit of 44 hotels during 2013-2014. During the half of 2014 the hotel has escaped 25 hotels, but it kept 13 because the group had some agreements with the owners.
- *Lease expense:* Between the rental agreements that the Company has already negotiated, the company has secured 70% of its saving target, suggesting funds in the first half of 8.1 million euro, where 4.4 million euro are changeless.

Reference:

http://memorianh.com/2013/en/Corporate_Responsability/files/assets/common/downloads/Corporate-Responsability-NH-2013.pdf

3.3 Shareholding Structure

On April 17th 2013 the share capital of NH Hotel Group was concluded. The new shareholder with 20% shareholding in the share holder of the company was the Chinese Group HNA. The funds increase 123.308.716 million euro was supported and rewarded through the sale of a total of 61.654.358 normal divisions with a par value of 2 euro each.

As in December 31st 2013 because of the capital increase, the Company's share capital is split in 308.271.788 beneficiary divisions with a value of 2 euro each.

- In 2013, Spanish financial institutions sold their whole share in NH Hotel Group S.A (like Hoteles Participados S.L, Ibercaja Banco S.A...)
- On January 2014, Banco Financiero y de Ahorros S.A announced the trade of its whole share in NH Hotel Group S.A and also other institutions as Pontegadea Inversiones, S.L. (4.06%) also sold its share.

- In April 2014, NH Hotel and Intesa Sanpaolo signed an agreement that reflects the acquisition of the Italian company's share in NH Italia. Now, NH Hotel Group owns 100% of NH Italia. This Company manages the business in Italy, USA and performs hotels in Germany, Belgium and the Netherlands. With this performance, Intesa Sanpaolo has a bigger interest in the shareholding organization of NH Hotel Group (improving share from 4.5% to 16%).
- Because of this transformation, NH Group changed its name of the company from NH Hoteles S.A to NH Hotel Group S.A.

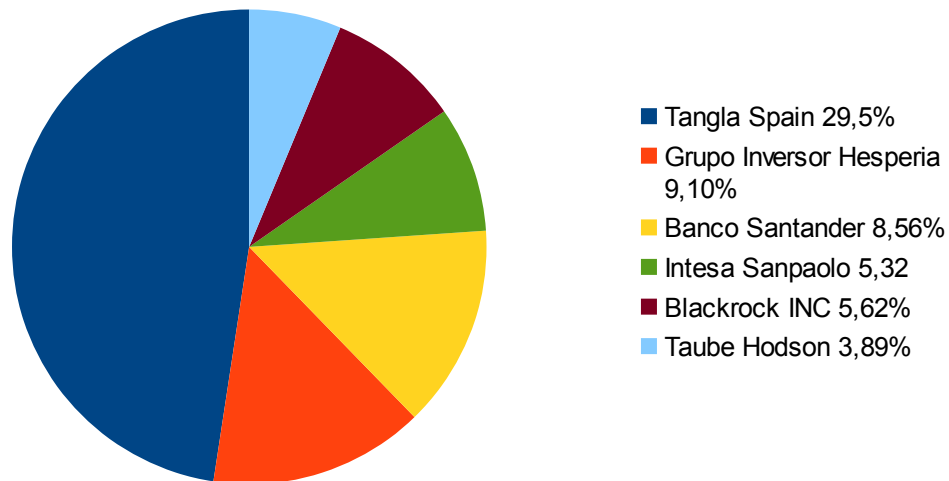


Figure 2: Own elaboration from data of SABI.

Reference:

http://memorianh.com/2013/en/Corporate_Responsability/files/assets/common/downloads/Corporate-Responsability-NH-2013.pdf

4. Legal Structure

Public limited company

This kind of corporation is a very common form of business organization among large companies. Its partners are accountable only for the portion of capital that has contributed to society, it doesn't affect your personal assets.

The NH Hoteles, SA company has its registered office in Madrid and Meliá Hotels Internationals SA has its registered office in Palma de Mallorca.

Social Object

One of the most important parts of the statutes, is the social object. There are the main activities that the society is dedicated for. Also, you can set a number of incompatibilities with the philosophy of the company, so as not to divert the scope of their actions. The NH company's corporate purpose is the management of establishments of the hospitality industry and catering, as well as the acquisition, holding and sale of furnitures and properties.

The company's corporate purpose of Meliá is the management of hotels for tourism, leisure, entertainment and recreation, as well as the exploitation and sale of securities and real estate activity.

As you can see, currently both companies have a social object very similar, with activities focused on hospitality. The biggest difference is Meliá 's mention of leisure and recreational sector, by linking several theme parks. Likewise, both highlight the change made in their statutes to collect the real estate business, driven by continued purchases and sales of hotels. In parallel, the activity of restaurant and catering are also included, by its close relationship with the hospitality .

5. Comparative analysis of the annual accounts between NH hotels and Meliá Hotels International

In this section, we will study the economic and financial situation of both chains, for it, we will take as reference the accounting information obtained from the balance sheet and income statement of the last three years. From the financial analysis, we can get conclusions about the real situation of the enterprise and make a forecast for the future.

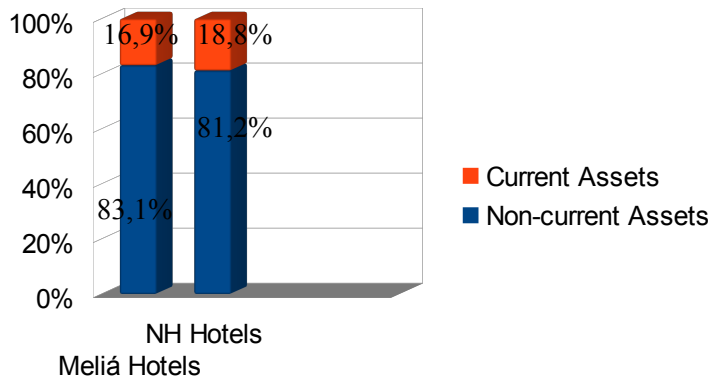
5.1 Comparison of the balances sheets

With the comparison of the balances we can study the percentage of every asset that represents in the balance. With the calculation of differents percentages along different economic exercises we can know the evolution of each enterprise.

Balance Sheet (mil EUR)						
Meliá Hotels International				NH Hotels		
ASSETS	31/12/13	31/12/12	31/12/11	31/12/13	31/12/12	31/12/11
A) Non-current Assets	1.959.546	2.169.410	2.062.676	1.829.018	1.612.603	1.632.731
Intangible Assets	9.695	9.205	7.800	26.208	29.541	28.961
Plant & Equipment	659.576	836423	881.168	101.700	101.376	103.906
Other Assets	1.290.275	1323782	1.173.708	1701110	1.481.686	1.499.864
B) Current Assets	397402	329025	389181	423122	295360	254294
Inventories	8.686	8.796	8.901	65	31	31
Trade and other receivables	84.739	87.759	82.030	13.468	10.593	14.924
Other current assets	303.977	232.469	298.250	409.589	284.736	239.339
Cash and cash equivalentents	128.897	82.254	212.123	88.975	12.184	63.894
Total Assets (A+B)	2.356.948	2.498.435	2.451.857	2.252.140	1.907.963	1.887.025

Reference: own elaboration from data of SABI

Figure 3: Assets' structure of Meliá Hotels and NH Hotels in 2013 (%)



Reference: Own elaboration from the balance

5.1.1 Non-Current Assets

They are non-current assets those assets and rights owned by the company who will remain there more than one fiscal year.

Comparing both companies we see that the percentage of non-current assets is minimally higher for Melia (83.1%) versus NH (81.2%), although both companies actually have very similar percentages in this item. The highest percentage is represented by tangible assets.

Tangible assets in NH decreases, especially by the departure of hotels mainly from Spain and the Czech Republic but it increases the investment in the development of IT applications and financial investments.

About tangible assets in Melia is superior compared to NH because of the number of properties owned in 2013 amounted to 25 compared to 13 in 2012. The weight of other fixed assets is higher in NH than in Meliá. It is because in other fixed assets of NH, there is an advance payment of leases. They are advances made to owners of certain hotels, operated under lease, for the purchase by those owners of decorative objects and furniture that will be discounted in future income payments.

5.1.2 Current Assets

Current assets are the ones that when the year ends it's convertible into cash within twelve next months.

In both companies we can see that there is not a big change. Regarding NH, there is an evolution of growth from 2011 to 2013 (from a 13.47 % to 18.8 %) and in the case of Meliá there is a small drop in 2012 (13.17%) but the percentages recover in 2013 (16.9 %). The component items are inventories, receivables and cash. Talking about the hotel industry, the departure of stocks is normal that it's low because they are not companies with large stocks.

Financial Structure

Balance Sheet (mil EUR)						
Meliá Hotels International				NH Hotels		
Equity and Debt	31/12/13	31/12/12	31/12/11	31/12/13	31/12/12	31/12/11
A) Shareholders' equity	423292	394.719	392.915	1533433	1.072.421	1.097.578
Share Capital	36.955	36.955	36.955	616.544	493.235	493.235
Other reserves	386.337	357.763	355.960	916.889	579.186	604.343
B) Non-current liabilities	1253646	1.236.148	1.388.054	586755	134.695	172.005
Long-term creditors	1.158.841	1.126.389	1.283.051	532.778	81.113	119.223
Other fixed liabilities	94.805	109.759	105.003	53.977	53.582	52.782
Provisions	28.565	40.779	32.773	45.863	45.262	44.780
C) Current liabilities	680010	867.567	670888	131952	700.847	617442
Financial creditors	290.638	504.338	340.777	170	194	232.407
Trade creditors	15.290	15.342	12.653	38.023	25.200	11.341
Short-term provisions	374.082	347.887	317.458	93.759	675.453	373.694
Total equity and liabilities (A+B+C)	2.356.948	2.498.435	2.451.857	2.252.140	1.907.963	1.887.025

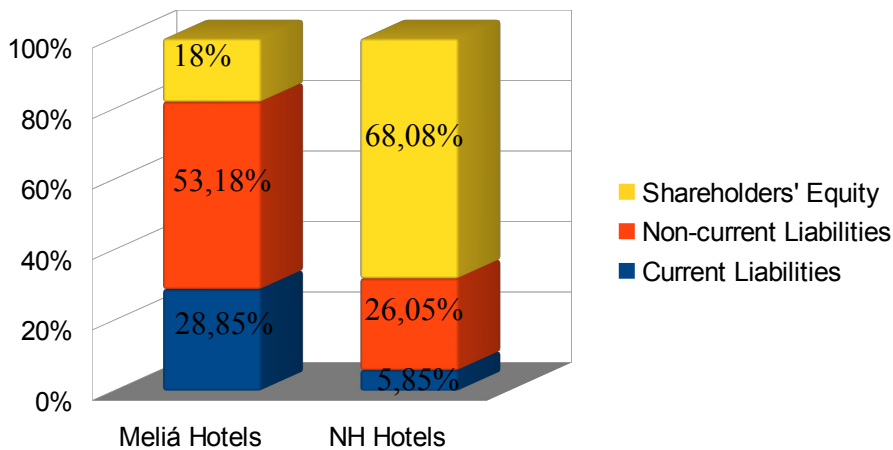
Reference: Own elaboration from data of SABI

To continue, I will talk about the financial structure of the enterprises that it's composed by shareholders' equity, current liabilities and non-current liabilities. In the figure we can see that the shareholders' equity has a bigger weight in NH Hotels than in Meliá and current liabilities are bigger in Meliá Hotels. The structure in Meliá is divided between a 18% in shareholders' equity and around an 80% in debts while shareholders' equity in NH Hotels is the biggest part of the structure with 68,08% and around 30% of debt. Following the analysis of graphs representing the economic and financial structure we see that the Non-Current Assets is financed by Non-Current Liabilities+Own Resources.

Long-term investments are financed with equity.

The consequences of the actual financial structure in Meliá we will analyse them later in the working capital. The long term debt can produce a financial imbalance if we analyse them with the economic structure of the assets. About NH Hotels, like they have a high equity and own resources it could lead to not go to external financing which can have negative effects on profitability itself.

Figure 4: Financial structure of Meliá Hotels and NH Hotels in 2013 (%)



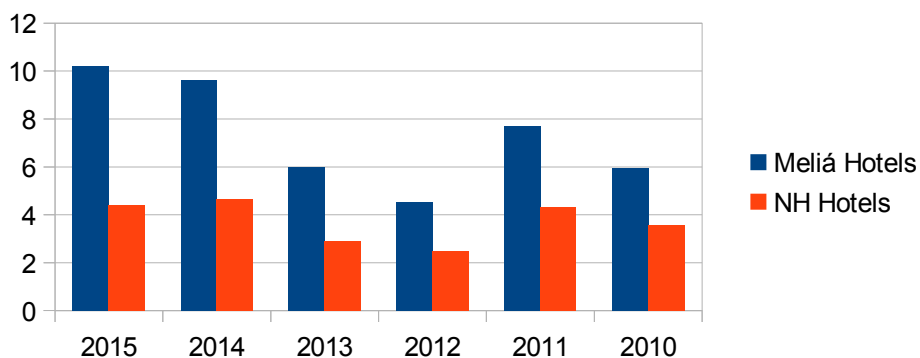
Reference: Own elaboration from balance

5.1.3 Shareholder's Equity

The share capital of Meliá Hotels is set at 39.81 million euros, represented by 199,053,048 shares of EUR 0,20 par value each, reported by CNMV in 2015. Last 5th December, Meliá announced that aimed to reduce 170.5 million its net debt with the emission of convertible bond obligations, having received 41 shares for conversion, which represents 85.28% of the total issue, fixed at a maximum of 200 million.

The share capital of NH Hotels is 700,543,576 euros and is represented by 350,271,788 shares, represented by book entries, of EUR 2 par value each, grouped in a single serie, fully subscribed and paid .

Figure 5: Share price in Meliá Hotels and NH Hotels in January



Reference: Own elaboration with data of SABI

5.1.4 Non-Current Liabilities

Non-current liabilities are fundamentally formed by the long-term debt complemented with other fixed liabilities items.

Both companies have a different structure regarding the composition of its liabilities. As we can see in the balance, NH has more weight in the Shareholders' Equity while Meliá, the biggest weight of its liabilities is non-current liabilities mainly for its long-term creditors. Later, we will see if this situation with the ratios can endanger the enterprise.

In non-current liabilities, Meliá didn't experience a big change while NH Hotels has moved its short-term debt to the long-term increasing significantly long-term creditors' debt.

5.1.5 Current Liabilities

To finish with the financial structure, there is current liabilities that it's formed by financial liabilities, trade payables and other liquid liabilities.

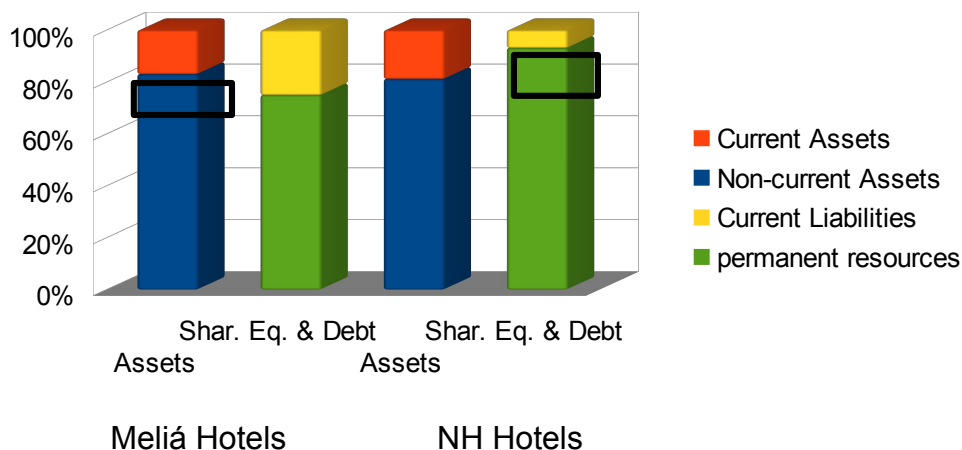
In one hand, we can see Meliá didn't have big changes in the current liabilities' structure because the percentages it represents are stable in last three years. If we have to indicate any difference would be the reduction in the financial creditors.

On the other hand, NH has suffered a big significantly reduction in its current liabilities where in the last year it represents the 5,85% of the total instead of the 32,7% of 2011. This is because of the transfer of its short-term debt to the long-term how its balance shows, mainly in long-term creditors.

6. Working Capital

To have a better vision about the differences from the structures of both companies we can compare both figures and make a comparison between them to know the working capital.

Figure 6: Working capital of Meliá Hotels and NH Hotels in 2013



Reference: Own elaboration from balance

To reach a financial balance, we have to know the two principles that an enterprise has to achieve:

- *Financial prudence principle:* Long-term investments (current assets) have to be funded from permanent resources (shareholders' equity+ non-current liabilities). With that, you can achieve the balance between the time of the asset in the company (long-term) and the period in which must be returned funds used to finance, also the long-term.
- *Working capital principle:* Current assets have to be bigger than current liabilities, that is, create a security background that will allow to handle the possibles imbalances that may occur between the flow of receipts and payments. It means that the permanent resources finance, besides the totality of non current assets, a part of the current assets, that it's important because finance all current assets with credits in the short-term would be dangerous because every client that doesn't pay would bring the enterprise to the insolvency. The part of the current assets that is financed with permanent resources is the working capital.

Reference:

http://educativa.catedu.es/44700165/aula/archivos/repositorio/2750/2792/html/33_el_fondo_de_manioobra_o_capital_circulante.html

We can calculate it as the definition of the long term. It studies the financial solvency.

Working Capital= Non-current liabilities + Shareholder's equity – Non-current assets

Working Capital of Meliá Hotels: -282608

Working Capital of NH Hotels: 291170

Meliá has a position of relative financial instability. It occurs when current assets and part of the permanent investment is financed in part by current liabilities, namely short-term debt. It should be carefully analyzed. The company unable to meet its short-term debt with short-term financial resources, may be in a situation of instability by strangulation payments to be settled. Otherwise, it would be in default.

NH has a high possibility of financial stability. He prefers not to go to sources of external financing. Though apparently this could be regarded maximum stability and financial soundness, if the profitability is higher than the cost of debt, ie the company has in their growth strategies with a positive financial leverage, would be wasting capacity for growth by not attending the financing, with at the end, the negative effects on the financial profitability of the shareholders.

Reference: Economía de la empresa II: Decisiones de inversión y financiación (Onofre Martorell)

7. Cash Flow Analysis

Meliá Hotels International

	31/12/13 (mil EUR)	31/12/12 (mil EUR)	31/12/11 (mil EUR)
Financial Expenses	115.756	105.741	94.503
Cash Flow	30.821	-16.752	-24.599
Value Added	328.176	273.420	267.104
EBIT	-4.442	2.198	-18.486
EBITDA	31.971	40.740	21.165

Reference: Elaboration of the graph with data of SABI

Cash Flow: Cash flow or resources generated by the company that measures the ability of society to generate funds. It is a measure of self-financing of the company with the data we see in our picture.

In 2013 we see that the company has the capacity of self-financing through normal activity without account financial or extraordinary results.

Cash Flow Evolution

Cash flow year n – Cash flow year n-1/(Cash flow year n-1) x 100

$$30821-16752/(16752) \times 100 = 83,98\%$$

Meliá Hotels had an increase in its capacity of the 84%. As we analysed before, Meliá has a stable evolution so it's normal that their Cash Flows are growing efficiently and positive.

NH Hotels

	31/12/13 (mil EUR)	31/12/12 (mil EUR)	31/12/11 (mil EUR)
Financial Expenses	55456	44731	31277
Cash Flow	-56052	-12537	10812
Value Added	39389	36555	65913
EBIT	-25724	37680	5667
EBITDA	-10129	50624	18713

Reference: Elaboration of the graph with data of SABI

As we can see, NH Hotels have lost capacity of self-financing. In 2012 their earnings grew but in 2013 they have experienced a big drop.

Cash Flow Evolution

$$56052-12537/(12537) \times 100 = -79,9\%$$

From the last year, they have lost a 80% of Capacity. As we can see on the table, a few years ago they had a positive cash flow that afterwards became negative and getting worse but with the depreciations and amortizations it increases but it is still negative.

8. Ratios Analysis

In this section, I will analyze different ratios from both companies.

A. Profitability Ratio

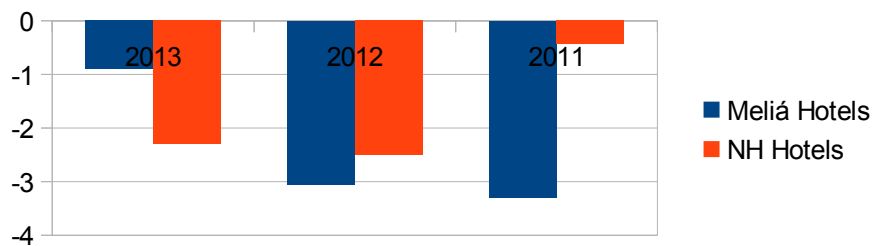
➤ ROI (Return on Investment) = ROA (Return on Asset)

$EBIT/Sales \times Sales/Assets$

ROI intends to measure the ability of the asset to generate profits that after all is what really matters to remunerate both debt and shareholders own.

The management team of a company to increase the ROI must properly manage both the balance sheet and the income statement. Many managers believe they can not increase the ROI when the EBIT doesn't do it and they forget that with disinvestment (reduction of total assets) is possible.

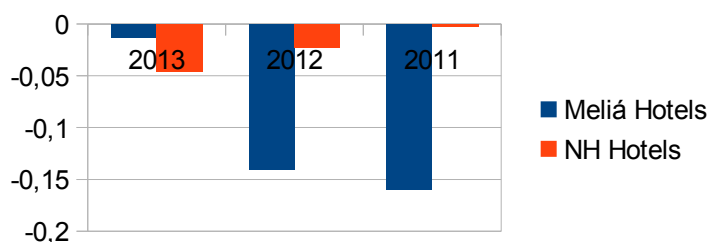
Both companies have negative ratios. There are not good news for the company but thanks to that we can provide the data necessary to make changes to its strategy. Meliá experience an evolution from 2011 but NH's evolution is contrary to the other company .



➤ ROE = Return on Equity

$ROE = BDIT/Own Resources$

If we want to increase value of ROE we need an improvement on BDIT or a decrease in own resources. The value has to be higher or equal to the expectations of the shareholders. Those expectations are the cost opportunity that shows the profitability that shareholders don't have because they don't invest in other alternatives with a similar risk. Melia is more efficient in the management of the company in the use of its net assets to generate income however NH, to have a big equity as seen in the composition of liabilities before, has failed to take advantage. To improve the company's ROE ratios should increase its net profit margin, increase their asset turnover, or increase their borrowing.

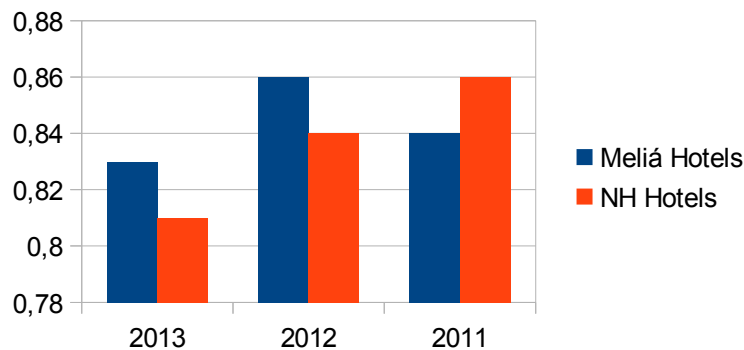


B. Assets Analysis Ratio

➤ *Fixed Assets Ratio*

Non-Current Assets/Total Assets

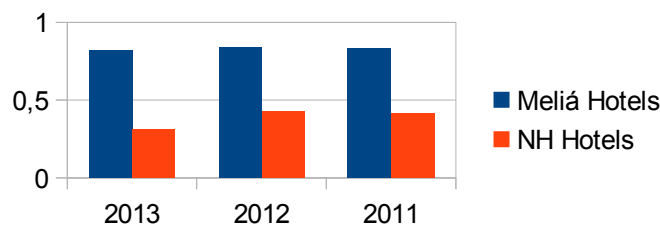
This ratio shows us the non-current asset's percentage that the enterprise has got. The level of this percentage depends in the economic sector where the enterprise is located and its own technology. Both companies have a decreasing trend of non-current assets in terms of total assets. Because it may have decreased their long-term investment.



➤ *Leverage Ratio*

Total liabilities/Total equity+liabilities

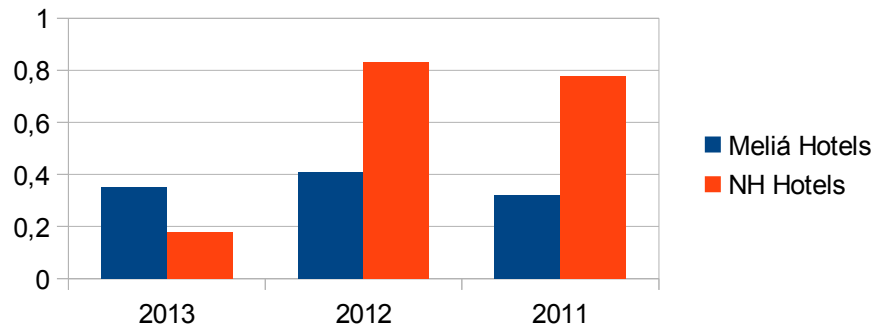
This ratio shows the level of debt that the enterprise has, so if it's very high, the risk will be higher too so there will be a financial risk. Providers are include too because even if they don't have a financial cost, they are real and important like debts from the bank. Melia has a greater debt then has a greater financial risk than NH.



➤ *Short term debt*

This ratio shows the quality of the debt. If the ratio is high, the financial risk will be higher too. Unlike what has been said before, the debt's quality in Meliá is better than NH because it has lower ratios.

Current liabilities/Total liabilities



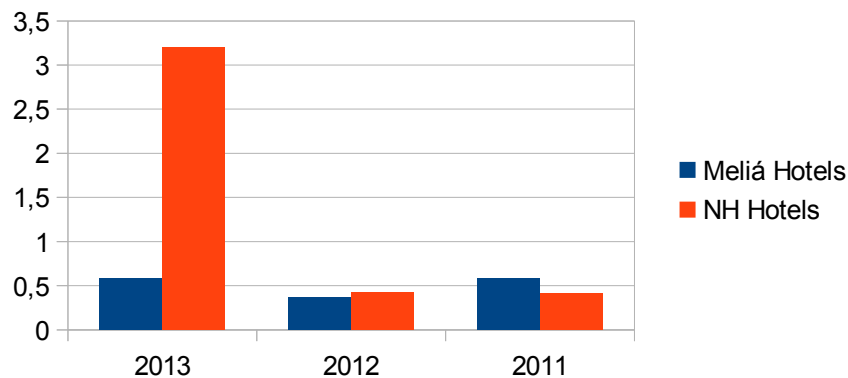
C. Solvency Ratio

➤ *Liquidity Ratio*

Current Assets/ Current Liabilities

If this ratio is higher than 1, it means that the working capital is positive, so current assets is higher than current liabilities. But if the working capital of the enterprise is 0, can be solvent if the average period of financial maturation is negative, that is, before paying charges. But a company with a high working capital may have liquidity problems if you have stock that does not sell or non-paying customers.

Analyzing previously working capital, we can see that NH Hotels has a ratio greater than 1 (as its working capital was positive) but as explained above does not guarantee us the short-term solvency of the company. Melia has less than 1 as its working capital ratio is negative but that does not mean the company is in danger of bankruptcy.



Reference: calculations and graphics done by myself with data from SABI and information from the book: Economy of the enterprise II (Onofre Martorell) -UIB.

Now, I'm going to analyze the ratios showed in SABI and explain the variations through different years between both companies. All data is from SABI's analysis.

A. Profitability's Ratio

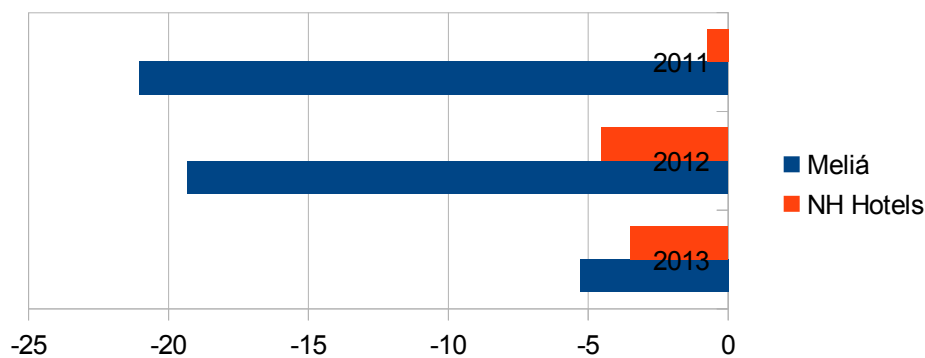
Profitability ratios establish a direct relationship between the margins of each year, with sales and investment. In this regard, it allows an approximation of the ability of the company to generate wealth, determining the level of profitability obtained.

➤ Return on Shareholders Funds

Profitability of the company in relation to equity.

In Meliá Hotels we see a positive trend in the past year compared to previous years, but still with negative data, they reflect a slow growth.

NH Hotels in the past they had great percentages but they were going down although in 2013 they had a small recuperation. Their results are better than Melia in that part.

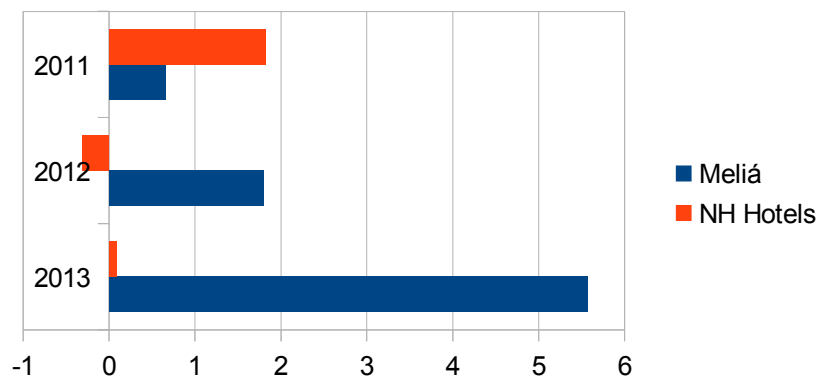


➤ Return on Capital Employed

It's used to evaluate the efficiency of a company in the allocation of capital under their control in profitable investments.

In Meliá there is a positive ratio improved in recent years because of their efficiency in using the capital.

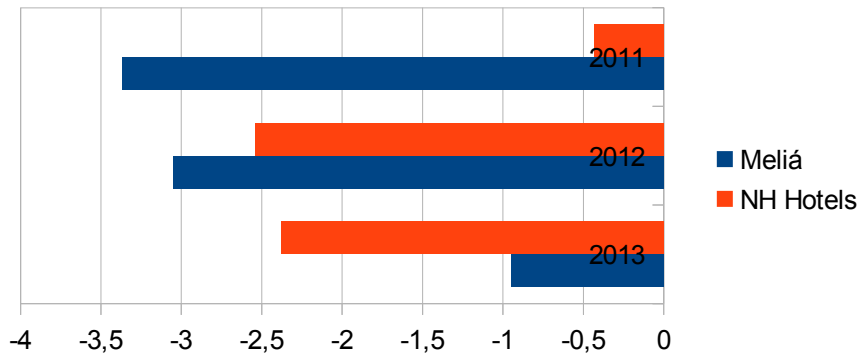
NH Hotels had good results like Meliá, most of the time better than them but in the recent years, they have lost their capacity having negative results but in 2013 they had a small growth.



➤ *Return on Total Assets*

It measures the performance you get from the investment of the company by developing its activity.

Regarding to Meliá, compared to previous years the evolution is favorable but with negative data.

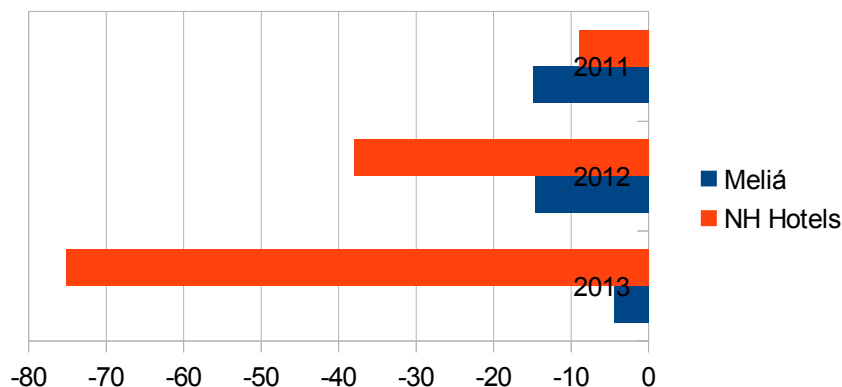


As we can see, NH Hotels' performance in investment is better than Meliá with better results but in recent years were worse with Meliá having better results than them.

➤ *Profit Margin*

It's the differential which the company operates with, it expresses the benefit obtained by each sales unit.

Meliá follows a negative trend but data are better compared to previous years with a stable slowly growth while NH Hotels had great results in 2010 but every year went decreasing until 2013 with a significantly drop with -75,2%.

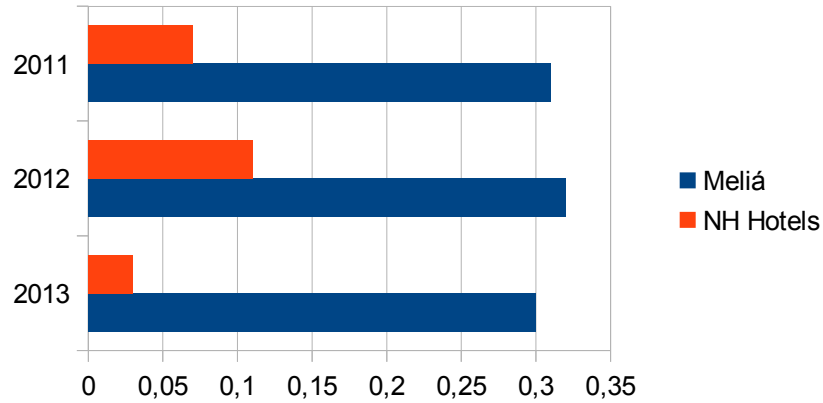


B. Operation's Ratios

➤ *Net Assets Turnover*

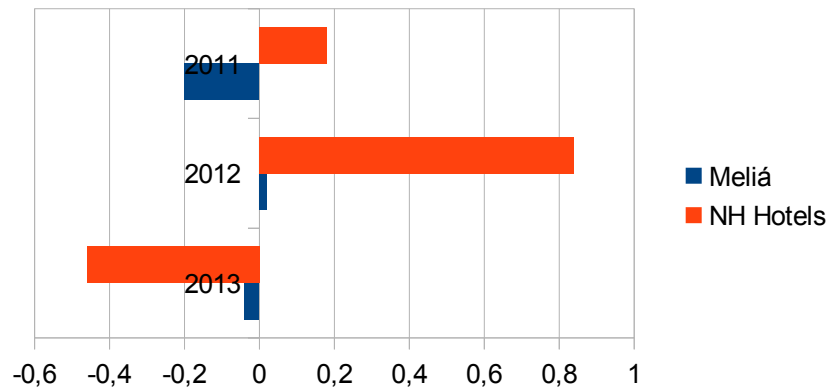
This ratio shows how efficiently the company can use its assets to produce sales

Both companies have good results so both of them use their assets efficiently but Meliá has much bigger percentages than NH Hotels.



➤ *Interest Cover*

This ratio explains how the company can pay interests on a higher debt.

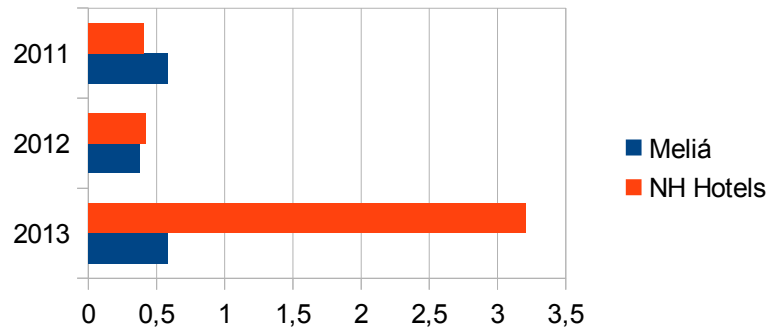


Both companies in this ratio are unstable. NH Hotels had good results (less in 2009) but in the other ratios, in recent years were getting worse, although it was positive in 2012, in 2013 went down while Meliá also was unstable, in 2012 they increased a bit but in 2013 was lower. If the ratio is below 1, the companies are not generating enough revenues to cover interest expenses so only NH Hotels in 2008 could generate the sufficient revenues.

C. Structure's Ratio

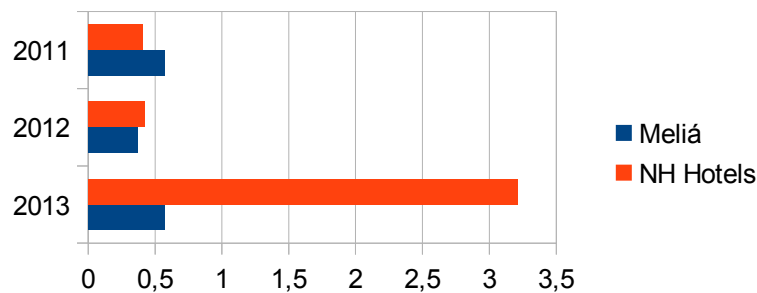
➤ *Current Ratio*

This ratio shows the ability of the company to pay obligations in the short-term. In this ratio also both companies have positive results. But NH hotels have a better trend than Meliá in paying the obligations in the short-term.



➤ *Liquidity Ratio*

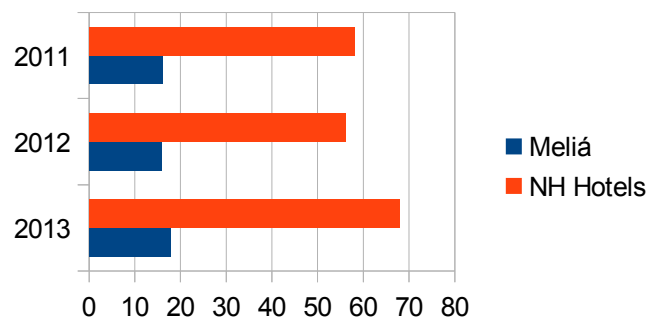
It measures the ability of the company to release its short-terms debt obligations. Like last graphic, NH presents better values in their percentages than Meliá so it pays off its short-terms debt obligations but Meliá has also positive results. If there are high values, the target the margin of safety that the company has to cover its debts.



➤ *Solvency Ratio*

It shows if the cash flow of the company is enough to meet its short-term and long-term liabilities.

This ratio is not difference from the last ones. Both companies have good results and a positive growth but NH percentages are much bigger than Meliá. So both companies don't have solvency problems to cover their liabilities.



9. Conclusion

The hotel industry is not going through its best. The demand's reduction, especially from residents impacted in a lower occupancy in hotels and non-hotel accommodation diminishing the benefit of our hotels. The forecasts suggest that the situation will improve by the reception of worldwide tourists and the soft economic improvement of the Spanish residents. With the increase in demand will come from new investment and job creation, but it is true that hotels have an important job to consolidate their accounts and reduce the large debt. The type of contract has also changed as a result of the crisis. Businesses choose to risk less and less responsibility contracts as are: variable rent, franchising and management. The purchase of hotels and the fixed rent contract have a clear downward trend. In addition, companies are turning to the sale of the hotels so that disinvestment is increasing.

NH and Melia rooted in business arising from the innovative ideas of its founders. From this perspective, the greatest competitive advantage that has taken NH, is based on creating a hotel group oriented in business sector and urban sector. By contrast, Meliá has focused its style in the leisure segment of sun and beach.

Throughout this evolutionary process, the oldest of Meliá, has been given sustained development in its expansion since its birth in 1956. Thus, when NH Hotels was founded in 1978, its competitor already had over 20 years of experience, which has led the company compete at a disadvantage. Meliá became a pioneer in various holiday destinations, while NH was obliged to follow the trends set by their competitors.

The company NH had some problems in various business fields, which have keep for years. However, the arrival of the global crisis in 2007, made all these shortcomings become visible, dropping down the economic performance. Its strong position in the European market with the union of with the vulnerability of the business segment, produced that NH had to resort to an excessive financial debt, if NH doesn't want to be in suspension of payments.

Very different were the effects of the recession in the Meliá group. Its better planning and sustainable growth structure, have led him to adopt policies to diversify risks. Thus, the effects of the crisis have affected him less so than its competitor.

Meliá remains faithful to its principles, investing in new hotel assets that will ensure increases in sales figures and volume of its portfolio. The opposite happens in NH, who is forced to sell several stores to consolidate their accounts and signing new contracts of hotels. This means that in the last five years has decreased the size of the company and it keeps similar in the future.

Regarding to the assets, both companies have a similar structure distribution. Meliá has the 83% of non-current assets while NH has the 81%. In current assets, they have 17% and 19% respectively. Although tangible assets are higher in Meliá, the weight of other fixed assets are bigger in NH (because of the advance payment of leases). About the financial structure, NH Hotels has a big shareholder's equity but it doesn't mean the company is in an equilibrium because could lead to not go to external financing so they can have negative effects in the profits.

Meliá's biggest part in the financial structure is the non-current liabilities but also occurs that the company is unable to meet its short-term debt with short-term financial resources, so could be in a situation of instability by strangulation payments that has to be solved.

NH apparently could be in maximum stability if the profitability is higher than the cost of debt but would be wasting capacity for growth by not attending the financing so at the end, as I said before would be losing profitability.

Although Meliá has a negative working capital and NH positive, as we could see on the different analysis, Meliá has positive benefits, in 2012 they were higher as in NH, but the company is still in a positive trend with a profitability growth. The other company, NH, even if in the past had some positive results, it's getting worse until 2013 where the company had negative benefits, even if it has a positive working capital.

With the study of the different ratios also we could see how normally Meliá has greater results than NH. For example, ROI has the ability to produce profits with the use of assets. Both companies have negative ratios but there is a positive growth in Meliá. In leverage ratio for example, Meliá has more debt than NH so they have a higher financial risk. But as we can see in the short-term debt ratio, Meliá has lower percentages than NH so that it means that the quality of the debt is better than the other company.

So as we can see in the ratios calculated by me or the ratios from SABI, Meliá in most of them, are higher, better and more effective than NH Hotels.

On the positive section, we should mention that it seems clear, after several years in economic crisis, NH finally sees light at end of tunnel. In 2013 It still has red numbers, although the big restructuration being undertaken, can usher in recovery. The question that arises is whether the instability generated during these years, ballasted its draft future relapses or be able to put towards other horizons.

Meliá has also finished suffering the consequences of the recession, but with less impact than its competitor. This serves to meet their business future with a sound financial accounts and an anticipated restructuring, which gives greater credibility with shareholders and investors.

After this thorough analysis, with hundreds of data, percentages and graphs, the hypothesis is corroborated, confirming that the company Meliá is more cost effective than its competitor NH and has a greater potential for growth in the short and long term.

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