

May 6, 2016

Dear clients and colleagues,

Travel and tourism is the world's fifth fastest growing industry, contributing over US\$ 7.6T to the global economy. Melia, a company we initiated in our portfolios few weeks ago, addresses the growing trends of travel and leisure. Melia is one of the leading European hotel groups. It owns and manages more than 377 hotels and resorts in 33 countries. Melia brands include: Gran Melia, ME, Melia, Ininside, Tryp by Wyndham, Sol and Paradisus.

Market

Based on data from the InterContinental Hotels Group, the global hotel industry is comprised of approximately 15.5M rooms and is coming off an exceptionally strong year. International tourism totaled almost 1.2B travellers in 2015, growing by 4.4%, and is expected to reach 1.8B by 2030. Europe led the pack with a 5.0% jump supported by a weaker euro, a favourable supply (+0.8%) and strong demand dynamics (+3.1%). Supply lagged because mature gateway cities are now turning their focus on higher quality developments rather than quantity of new rooms. Furthermore, tourist spending habits between 2014 and 2015 have been trending positively, with the leisure and business traveller segments up 4.1% and 3.2% respectively.

Drivers

The revenue per available room (RevPAR) growth in Melia's primary markets has shown impressive growth since the financial crisis of 2008. Latin America and Europe grew at a rate of 8.4% and 6.0% respectively, with the average daily rates (ADR) increasing 5.0% and 3.5%. Europe has closed the gap in relation to their pre-recession peak with hotel revenues trailing by only 5%. This is in part due to the fact that tourists have been opting for safe heaven destinations because of the mounting concerns of terrorist attacks and geopolitical instability. We believe that this will have a positive impact on hotel bookings in the European and Latin American markets.

The outlook for global tourism looks bright, with many notable events taking place in 2016. Rome's RevPAR is expected to grow by 19.2%. The growth is mainly attributable to the special Jubilee announced by Pope Francis, which is expected to attract 25M visitors and set record hotel numbers, as did the last Jubilee in 2000. Other meaningful events include: the Brazil Olympics, the Euro Championships, GSMA the Mobile World Congress in Barcelona (+87K expected) and the Pride Parade in Madrid.

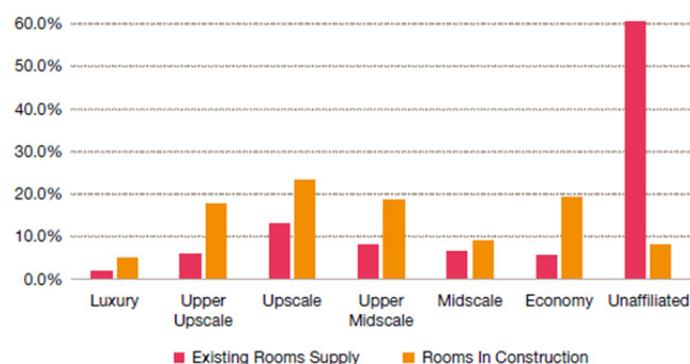
Lastly, Cuba is primed to post new highs due to the loosening of travel restrictions by the Obama administration. The number of Americans travelling to Cuba nearly doubled in 2015 and is projected to increase another 10%-20% throughout 2016.

Competitive Advantages

Melia boasts an impressive global presence for top vacation destinations. It is ranked the third largest hotel group in Europe (63.3K rooms) and second largest in Latin America (28.7K rooms). Melia has been recognized as one of the premier brands in the hotel industry, receiving a score of 82.8% in a Global Reputation Index.

As demonstrated in the chart below, supply and demand for the premium segment seems to outperform value and luxury segments. With 59% of their portfolio exposure within the upscale segment, Melia should be well positioned to capture its fair share of the premium pie.

European percentage of total room supply by segment (2015)



Risks

Terrorism remains a looming threat throughout Europe. Tourism was significantly impacted in France and Brussels after the recent attacks, hitting historical low occupancy rates. However, the industry tends to recover quickly after these sorts of events. For example, recovery post 9/11 took place only two years after the attacks, with domestic travel reporting an increase of 4.6% in 2004. We believe that Brussels and Paris will return to their average levels by 2017.

Other hotel industry risks include the growing popularity of rented homes websites such as Airbnb and Homeway. Yet, these types of online platforms have limited upscale offerings, especially in non-urban cities, meaning they would likely remain only a small part of the overall hotel and resorts industry. The value-added service that comes with hotels and resorts is something that online platforms just can't offer.

Have a good weekend.

The Global Alpha Team