PPHE Hotel Group

Q120 trading update

Managing costs well in tough environment

Travel & leisure

The travel bans and quarantines due to COVID-19 have had a significant impact on PPHE since mid-March and are likely to continue to do so. We now expect a deeper and longer downturn than previously and a slower recovery, so we reduce our forecasts for occupancy for FY20, while holding our prior EBITDA margin assumptions reflecting cost cutting and a high level of government support on key costs. We downgrade FY20 revenue by c 32% and EBITDA by c 29%. The shares are trading at a c 54% discount to the last-quoted EPRA NAV of 2,546p per share.

Year end	Revenue (£m)	EBITDA (£m)	EPS* (p)	DPS (p)	EV/EBITDA (x)	Yield (%)
12/18	341.5	113.2	68.1	35.0	9.9	3.0
12/19	357.7	122.9	87.1	37.0	9.1	3.2
12/20e	223.4	78.1	(21.8)	0.0	14.4	0.0
12/21e	376.5	129.6	69.8	39.0	9.0	3.4

Note: *EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Q120: Weaker March due to COVID-19

While revenue increased by 8.7% in the first two months of the year, the travel bans and quarantines, full and partial, as a result of the COVID-19 pandemic led to total revenue falling by c 60% in March and by c 18% in Q120. This was driven by a large reduction in occupancy from 76.4% in Q119 to 58.7%, while the average room rate was down by just 0.3% on a l-f-l basis, in line with management's policy of wishing to hold yield at the expense of occupancy. Management is managing costs aggressively with a view to protecting profitability and cash flow generation, and it should be a beneficiary of government financial support for key cost items. It believes the balance sheet is robust enough to withstand a significant decrease in profitability in FY20, but the outlook is too uncertain to provide guidance.

Forecasts: FY20 EBITDA downgraded by 29%

We downgrade our EBITDA forecast for FY20 by c 29%, which reflects a more aggressive reduction in occupancy to 55% for the non-Croatian operations, and our assumption that the summer-focused Croatian operations will trade for roughly half of its key selling season. These follow from expectations of a longer and deeper economic downturn than previously and a slower recovery. We retain our existing EBITDA margin assumptions for FY20 given the scale of cost cutting and government subsidies for staff costs etc, as the latter were absent in prior economic downturns.

Valuation: Remains at a large discount to EPRA NAV

At 1,160p the share price has performed well in recent weeks having been weak since February. On our new forecasts, the EV/EBITDA multiples for FY20 and FY21 are 14.4x and 9.0x, respectively. These compare with the average since FY10 of 8.2x, and the peak in FY09 of 19.3x. The share price is trading at a discount of c 54% to the last-quoted EPRA NAV of 2,546p per share at the end of FY19.

17 April 2020

Price	**1,160p**
Market cap	**£493m**

Net debt (£m) at 31 December 2019	514.6
Shares in issue	42.5m
Free float	50.4%
Code	PPH
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	18	(39.5)	(28.9)
Rel (local)	8.4	(17.6)	(6.2)
52-week high/low		2,140p	805p

Business description

PPHE Hotel Group (formerly Park Plaza Hotels) is an integrated owner and operator of four-star, boutique and deluxe hotels in gateway cities, regional centres and select resort destinations, predominantly in Europe.

Next events

Interim results	September 2020

Analysts

Russell Pointon +44 (0)20 3077 5757

Milosz Papst +44 (0)20 3077 5700

consumer@edisongroup.com

Edison profile page

PPHE Hotel Group is a research client of Edison Investment Research Limited

Q1 trading: RevPAR affected by COVID-19

Revenue

As expected, the COVID-19 pandemic has had a significant impact on PPHE's results since mid-March, and is likely to do so at least through April and May given the full and partial quarantines that are in operation in the countries in which it operates.

Exhibit 1: KPIs for Q120

	Reported			Like-for-like*		
	Q120	Q119	Change	Q120	Q119	Change
Total revenue (£m)	51.4	62.5	(17.7)%	50.7	62.4	(18.8)%
Total room revenue (£m)	34.4	43.5	(20.8)%	33.9	43.4	(21.9)%
Occupancy	58.5%	76.4%	(17.9)%	58.7%	76.4%	(17.7)%
Average room rate (£)	115.1	115.5	(0.3)%	115.2	115.4	(0.3)%
RevPAR (£)	67.4	88.2	(23.6)%	67.6	88.2	(23.3)%

Source: PPHE Hotel Group. Note: *Like-for-like growth excludes Park Plaza Vondelpark, Amsterdam that was temporarily closed for repositioning.

The first quarter of PPHE's financial year (December year-end) is seasonally less important; Q119 represented 17% of total revenue in FY19. Following a good start to the year in January and February, with total revenue growing by 8.7%, performance slowed significantly from mid-March as quarantines became effective. In March, total revenue fell by 60.2% y-o-y as RevPAR fell by 64.5%, driven by occupancy at 29.6% as the majority of hotels were temporarily closed or capacity was significantly reduced.

Therefore, for Q119, RevPAR fell by 23.3% on a like-for-like basis, which is predominantly due to a reduction in occupancy from 76.4% in Q119 to 58.7% in Q120. On the positive side, the average room rate was broadly stable, in line with management's trading policy of wishing to hold rates at the expense of occupancy.

There is no quantitative comment from management on trading in Q220 beyond that capacity is significantly reduced in all countries. In the UK, only one of 10 hotels is open: Park Plaza Westminster Bridge to accommodate key workers; in the Netherlands (which is in partial lockdown) four of six hotels are open; and capacity elsewhere is significantly reduced. As March was only partially affected by the travel bans and quarantines, RevPAR is likely to be down by c 90% in April, given quarantines in most countries are likely to be in place for the rest of the month.

The company does not disclose revenue and profitability by country of operation in quarterly trading statements. In FY19, the geographic mix of revenue was: UK 58%, the Netherlands 15%, Germany and Hungary 8%, Croatia 17%, and Other 2%. The geographic mix of EBITDA was: UK 58%; the Netherlands 12%; Germany and Hungary 7%, Croatia 15% and Other 8%.

Costs and profitability

As is typical in a quarterly trading statement, there is no quantification of profitability for the group. The trading statement on 11 March 2020 indicated that management believed it was not possible to provide guidance and it continues to believe that the outlook is too uncertain to provide any guidance for the year.

Given the slowdown in revenue growth, management has been cutting costs aggressively with a view to maximising cash flow.

In FY19, staff costs of £107m represented 30% of revenue and 46% of all operating costs before depreciation, amortisation and rents and were the company's largest expense. There is no disclosure with respect to its seasonality or the splits between the different countries, therefore in the absence of this information, the implied simple average monthly staff costs are c £9m. Management is utilising the government support schemes for staff costs, where available, as well as cutting costs by reducing hours, temporary salary reductions, halting contract labour and deferring incentive payments. The chairman of the board and the president and CEO have agreed to a temporary reduction of 100% of fees and salary and there has been a 20% salary reduction for the executive leadership team. As a result, the monthly staff cost is c £5m, with c £3m of this covered by the government support schemes; therefore c £2m is still borne by the company. Consequently, the net monthly cost to the company has reduced by almost 80%.

The trading statement quantifies that the business rates holiday in the UK from 1 April 2020 until 31 March 2021 represents a saving of £1.4m per month, c £13m in FY20, equivalent to 3.5 percentage points of margin on FY19 group revenue of c £358m.

Other cost savings have not been quantified but the statement highlights that a material part of the expense base is variable and, where not variable, that management continues to discuss revised payment terms. We analyse the line items of the operating cost base later.

Cash flow and balance sheet

Management states that the liquidity position is robust given the cash position at 14 April of c £150m and the undrawn overdraft of c £4m. There have been amendments to short-term debt service covenants to ensure compliance with the terms of the covenants for Q1/Q2 and there are likely to be further amendments as discussions with providers continue. At the end of FY19, the company's cash position was c £153m, therefore cash has been managed well with just a reduction of £3m, and its net debt position was c £515m. The first half of a financial year is typically the least important from an operating cash flow generation perspective: eg H119 represented c 30% of FY19 operating cash flow.

At the end of FY19, the gross bank debt had a term to maturity of 7.1 years, and land and hotel buildings of £888m represented c 56% of total assets.

Management had already announced that a new facility to fund the majority (£180m) of the £200m development cost of the art'otel Hoxton in London has been raised, while also enabling it to unlock £43m of equity that had already been contributed by PPHE. Therefore, of the previously quoted investment pipeline of over £300m, £200m is funded and over £100m has been paused, except for work on planning.

The proposed final dividend for FY19 of 20p per share or c £9m in total has already been cut and in our last update on 19 March 2020 we changed our assumption so that no dividend will be paid for FY20, representing a cash saving of c £16m.

New forecasts

Our new forecasts for FY20 and FY21 are highlighted in Exhibit 2.

Exhibit 2: New forecasts

£000s	FY19	FY20e New	FY21e New	FY20e Old	FY21e Old	FY20e Change	FY21e Change
Revenue	357,692	223,361	376,536	326,558	366,303	(31.6)%	2.8%
Growth y-o-y		(37.6)%	68.6%	(8.7)%	12.2%		
EBITDA	122,894	78,085	129,649	110,501	126,599	(29.3)%	2.4%
Margin	34.4%	35.0%	34.4%	33.8%	34.6%		
Growth y-o-y		(36.5)%	66.0%	(10.1)%	14.6%		

Source: PPHE Hotel Group, Edison Investment Research

On 12 March 2020 we downgraded our EBITDA forecast for FY20 by 14%.

Our key assumption was that occupancy in FY20 would reduce by c 10 percentage points versus FY19 in the key operating countries. This produced RevPAR declines similar to those experienced during FY09, which was affected by the global financial crisis and the outbreak of swine flu. We rationalised this by assuming a shorter but deeper impact on travel in FY20 than FY09. A 10 percentage point reduction in annual occupancy is roughly equivalent to a complete closure of operations for one month or a partial closure for longer, say 50% for two months.

It is now likely that the economic downturn will be greater than that experienced in FY09: the length of the temporary closures, full and partial, of the hotels will be greater than previously expected; and the speed of recovery is more uncertain.

We now assume occupancy levels through FY20 across the group, ex Croatia, will progress as shown in Exhibit 3 to give an annual occupancy level of c 55% and that average room rates will remain as previously forecast. The 85% projection for Q4 compares with occupancy rates in a typical H2 of occupancy in the mid-80's. For FY21, we continue to assume that all of the lost occupancy in FY20 will return but recognise the uncertainty as to how quickly economies and business and leisure travel will recover. We were assuming a decline in occupancy for FY20 prior to the COVID-19 pandemic given the strong performance in FY19, and therefore are not forecasting a return to the previous peak for occupancy of FY19 in FY21. That said, in the current uncertain economic environment we believe that the risk to our FY21 estimates could be on the downside. We note that an incremental 10 percentage point change in occupancy for an individual month would change the annual occupancy by 0.8 percentage points. A 10 percentage point change in annual occupancy would lead to a 10 percentage point change in revenue, assuming that average room rates are maintained in line with management's strategy.

Exhibit 3: Projected occupancy through FY20

	Jan	Feb	Mar/ Q1	April	May	Jun/ Q2	Jul	Aug	Sept/ Q3	Oct	Nov	Dec/ Q4	FY20
Monthly occupancy	73%	73%	30%	10%	10%	25%	50%	60%	75%	85%	85%	85%	
Simple average			59%			15%			62%			85%	55%

Source: Edison Investment Research

For the individual countries, an annual occupancy of 55% would represent a reduction in occupancy of: the UK c 33 percentage points; the Netherlands c 31 percentage points; and Germany and Hungary c 25 percentage points. We will reassess the relative occupancy rates as the year progresses, as the individual countries are likely to perform differently given the different stages of the pandemic and levels of quarantine in them.

We now assume that Croatia will not trade fully through the summer months and will mostly trade successfully for the second half of the summer ie we assume occupancy roughly halves from c 63% in FY19 to 33% in FY20. In FY19, Croatia represented 17% of revenue and 15% of EBITDA, and only operates through the summer months. As a result of this change in assumptions, Croatia represents 13% of the reduced forecast for group EBITDA in FY20.

We hold our prior EBITDA margin assumptions for the individual countries as per our previous forecasts, in which we downgraded margins for the UK, the Netherlands, and Germany and Hungary, but recognise the high level of uncertainty. These imply that 30–40% of the lost revenue flows through to EBITDA for the individual countries. With this assumption, a 10% drop in occupancy leads to a broadly similar drop in EBITDA, if the average room rate is stable, as can be seen in Exhibit 2. Our note of 12 March 2020 highlighted how well the company managed profitability during the FY09 financial crisis, as well as highlighting the flexibility in the cost base. It is clear from the trading statement that management is managing costs aggressively, plus the support offered by various governments for key cost items, such as staff and property-related costs, is greater than during FY09, and should provide support for margins. For FY21, we assume a consistent level of drop through of incremental revenue to EBITDA. Again, we are not assuming a return to peak margins in the key operating countries.

Exhibit 4 demonstrates the individual line items of PPHE's operating costs before depreciation, amortisation and rents as percentage of costs and as a percentage of sales in FY19. The trading statement has indicated the extent to which internal cost savings and government support have reduced the company's staff costs, which represent just under half of costs, by c 80%. In addition, the UK business rates holiday is equivalent to three margin points on FY19 revenue. The majority of the other operating costs should vary to a greater or lesser extent with occupancy. Costs such as food and beverage, utilities, laundry and cleaning, marketing and reservation and commissions should have a strong correlation with changes in occupancy. Other costs such as insurance and property taxes, administration costs, maintenance, supplies, IT expenses should be semi-variable relative to occupancy or have an element of discretionary spend.

Exhibit 4: PPHE's FY19 cost profile

	As % of FY19 costs	As % of FY19 sales
Salaries and related expenses	46%	30%
Franchise fees, reservation and commissions	12%	8%
Food and beverage	8%	5%
Insurance and property taxes	8%	5%
Utilities	5%	3%
Administration costs	3%	2%
Maintenance	3%	2%
Laundry, linen and cleaning	2%	1%
Supplies	2%	1%
IT expenses	1%	0%
Communication, travel and transport	1%	1%
Marketing expenses	1%	1%
Defined contribution pension	2%	1%
Other expenses	7%	4%
Total	100.0%	65.1%

Source: PPHE Hotel Group, Edison Investment Research

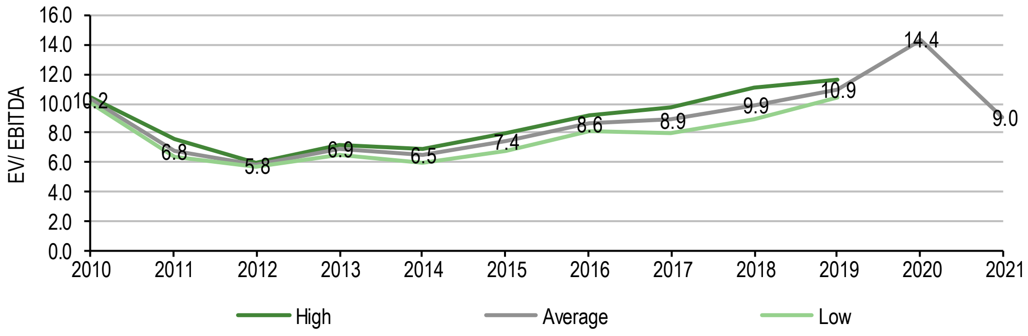
At present, there is insufficient information to change our assumptions with respect to working capital etc.

To give some indication of PPHE's seasonality in a typical year, in FY19 H1 represented 43% of total revenue and 37% of EBITDA, therefore it is more dependent on performance in H2, and this is likely to be more the case in FY20.

Valuation

At 1,160p the shares have rallied strongly from 820p at the time of our downgrade to forecasts on 12 March. The share price performance and our new downgraded forecasts mean that the EV/EBITDA multiples for FY20 and FY21 have increased to 14.4x and 9.0x, respectively. PPHE's average EV/EBITDA multiple since FY10 has been 8.2x, and in FY09 its peak EV/EBITDA multiple was 19.3x.

Exhibit 5: PPHE's EV/EBITDA multiples



Source: Refinitiv, Edison Investment Research

The current share price of 1,160p compares with the last-quoted EPRA NAV (end 2019) of 2,546p per share, representing a discount of c 54%.

Exhibit 5: Financial summary

£000s	2018	2019	2020e	2021e
Year end 31 December	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	341,482	357,692	223,361	376,536
EBITDA	113,164	122,894	78,085	129,649
Operating Profit (before amort. and except.)	79,731	83,640	38,076	87,600
Intangible Amortisation	(2,462)	(2,495)	(2,372)	(2,372)
Operating Profit	77,269	81,145	35,703	85,227
Net Interest	(40,736)	(39,961)	(40,941)	(40,941)
Associates	144	178	178	178
Exceptionals	9,706	(2,885)	0	0
Profit Before Tax (norm)	36,677	41,362	(5,060)	44,464
Profit Before Tax (FRS 3)	46,383	38,477	(5,060)	44,464
Tax	(2,951)	4,105	455	(4,446)
Profit After Tax (norm)	33,726	45,467	(4,604)	40,018
Profit After Tax (FRS 3)	43,432	42,582	(4,604)	40,018
Minorities	(5,380)	(8,667)	(4,664)	(10,277)
Net income (norm)	28,346	36,800	(9,268)	29,741
Net income (IFRS)	38,052	33,915	(9,268)	29,741
Average Number of Shares Outstanding (m)	42.5	42.6	42.6	42.6
EPS - normalised (p)	68.1	87.1	37.6	66.7
EPS - normalised fully diluted (p)	68.1	87.1	(21.8)	69.8
EPS - (IFRS) (p)	89.9	80.0	(21.9)	70.2
Dividend per share (p)	35.0	17.0	0.0	39.0
EBITDA Margin (%)	33.1	34.4	35.0	34.4
Operating Margin (before GW and except.) (%)	23.3	23.4	17.0	23.3
BALANCE SHEET				
Fixed Assets	1,316,600	1,393,210	1,443,956	1,492,661
Intangible Assets	21,463	18,036	15,664	13,291
Tangible Assets	1,151,616	1,215,140	1,268,080	1,318,980
Income units sold to private investors	119,169	116,511	116,511	116,511
Investments	24,352	43,523	43,701	43,879
Current Assets	245,602	191,931	132,590	111,873
Restricted deposits	3,672	3,541	3,541	3,541
Stocks	2,481	2,317	1,447	2,439
Debtors	15,324	12,758	7,967	13,430
Cash	207,660	153,029	105,007	71,383
Other	16,465	20,286	14,628	21,080
Current Liabilities	(68,941)	(71,108)	(67,117)	(71,647)
Creditors	(53,631)	(57,792)	(53,801)	(58,331)
Short term borrowings	(15,310)	(13,316)	(13,316)	(13,316)
Long Term Liabilities	(1,014,719)	(1,033,272)	(1,033,272)	(1,033,272)
Long term borrowings	(681,981)	(664,945)	(664,945)	(664,945)
Financial liability to unit holders	(129,151)	(126,704)	(126,704)	(126,704)
Other long term liabilities	(203,587)	(241,623)	(241,623)	(241,623)
Net Assets	478,542	480,761	476,157	499,615
CASH FLOW				
Operating Cash Flow	102,127	124,408	85,413	121,271
Net Interest	(41,330)	(43,252)	(40,941)	(40,941)
Tax	(4,183)	(1,005)	455	(4,446)
Capex	(67,251)	(84,906)	(92,949)	(92,949)
Acquisitions/disposals	0	0	0	0
Other investing	5,623	(14,006)	0	0
Financing	(18,476)	(14,780)	0	0
Dividends	(12,278)	(15,263)	0	(16,559)
Other	0	0	0	0
Net Cash Flow	(35,768)	(48,804)	(48,022)	(33,624)
Opening cash	241,021	207,660	153,029	105,007
Other	2,407	(5,827)	0	0
Closing cash	207,660	153,029	105,007	71,383
Opening net debt/ (cash)	408,090	479,626	514,629	562,651
Closing net debt/ (cash)	479,626	514,629	562,651	596,275

Source: PPHE Hotel Group, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by PPHE Hotel Group and prepared and issued by Edison, in consideration of a fee payable by PPHE Hotel Group. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.