

PPHE Hotel Group

Up for the challenge

2016 results

Travel & leisure

PPHE has delivered on a confident post-close update with 2016 EBITDA well above expectations. H2 recovery in London despite headwinds and sustained buoyancy in newly consolidated Croatia made up for H1 disappointment, which is all the more encouraging as these are likely to be the company's medium-term profit drivers. Valuation is low in terms of EV/EBITDA and at a glaring discount to real asset value ('fair value' adjustment of c 1,000p/share to reported 782p NAV will only increase on inclusion of new high-value estate).

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/EBITDA (x)
12/15	218.7	80.1	31.8	76.1	20.0	9.3
12/16	272.5	94.1	34.2	73.9	21.0**	9.9
12/17e	315.0	102.0	36.0	73.9	22.0	9.3
12/18e	334.0	110.0	44.0	90.8	23.0	8.4

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Plus 100p special dividend

H2 back on form

After August's profit warning (higher than expected costs and delayed openings), PPHE's second half performance makes good reading. London, its largest profit centre, looks to have clearly outperformed the market by almost recovering its H1 RevPAR shortfall (we estimate 5%), thereby mitigating severe cost pressures to deliver maintained EBITDA. In Croatia 11% rate-led revenue gain in its key trading period contributed to pro forma constant currency EBITDA up 8%. External factors were also favourable, notably foreign exchange, reclassification of pre-opening costs as exceptional and a one-off €1m lower incentive rent in Germany as well as delays to the openings of Waterloo and Park Royal, which curbed trading losses. Predictably, Netherlands softened (RevPAR -5%) after a strong H1, partly because sterling weakness depressed Amsterdam's key feeder market from the UK.

2017 EBITDA forecast raised by £3m

Our confidence in more of the same underpins our current-year upgrade (details on page 2). In London costs remain an issue but there is reassurance in the benefit of a weaker pound on inbound tourism and staycations as well as certain major sporting events. Security and geopolitical concerns apart, PWC forecasts RevPAR growth of c 3% this year and next. We are now also more positive about Croatia where strong demand and investment should broadly maintain 2017 EBITDA (albeit currency assisted) despite first inclusion of its off-season Q1 (estimated £3m loss). In contrast, we are lowering our forecast boost from c 900 new rooms in London as Waterloo is not fully open until H2 and Park Royal's soft opening is delayed to Q2.

Valuation: Underrated

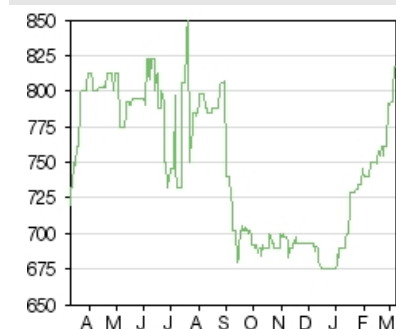
PPHE's 2018e EV/EBITDA rating of 8.4x appears below the average (8.9x) of European branded peers. Fair value adjustment of £439m, as reported at December 2016, results in an adjusted NAV of c £18.20 per share with a further material uplift expected as the new London hotels come on stream.

9 March 2017

Price 817.00p
Market cap £345m

Net debt (£m) at December 2016	584.9
Shares in issue	42.2m
Free float	23%
Code	PPH
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	8.9	18.8	28.7
Rel (local)	6.8	12.0	8.4
52-week high/low	849p	649p	

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

IMS	May 2017
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Exhibit 1: Analysis of revenue and profit

Y/E December (£m)	H115	H215	FY15	H116	H216	FY16	2017e	2018e
Revenue								
UK								
London								
RevPAR	£124	£144	£134	£118	£150	£135	£136	£137
Change	Flat	+1%	+1%	-5%	+4%	Flat	+1%	+1%
Available rooms	1880	1880	1880	1898	1910**	1904**	2052**	2082
Room revenue	42.4	49.5	91.9	41.0	52.8	93.8	102.0	104.0
Non-room revenue	20.9	22.8	43.7	20.5	22.5	43.0	45.0	45.5
Existing revenue	63.3	72.3	135.6	61.5	75.3	136.8	147.0	149.5
Waterloo + Park Royal*	-	-	-	-	0.4	0.4	24.0	34.0
Total London revenue	63.3	72.3	135.6	61.5	75.7	137.2	171.0	183.5
Leeds and Nottingham	5.2	6.6	11.8	4.9	6.6	11.5	12.0	12.0
UK	68.5	78.9	147.4	66.4	82.3	148.7	183.0	195.5
Netherlands (€m)	28.4	30.1	58.5	29.6	29.4	59.0	57.0***	60.0
Exchange rate	1.38	1.39	1.38	1.28	1.17	1.22	1.15	1.15
Netherlands	20.6	21.7	42.3	23.2	25.1	48.3	49.5	52.0
Croatia (HRKm)****	-	-	-	92.1	331.0	423.1	435.0	450.0
Exchange rate	-	-	-	9.63	8.96	9.17	8.70	8.70
Croatia	-	-	-	9.6****	36.5	46.1	50.0	52.0
Germany and Hungary*****	10.4	11.4	21.8	10.6	14.5	25.0	28.5	29.5
Owned & leased hotels	99.5	112.0	211.5	109.7	158.4	268.1	311.0	329.0
Management and holdings	2.7	4.5	7.2	1.8	2.6	4.4	4.0	5.0
TOTAL	103.2	116.5	218.7	111.6	160.9	272.5	315.0	334.0
EBITDA								
UK								
London								
Existing	23.6	28.8	52.4	20.3	29.4	49.7	50.0	50.0
Margin (%)	37	40	39	33	39	36	34	33
Waterloo + Park Royal*	-	-	-	-	(0.5)	(0.5)	5.0	10.0
Total London EBITDA	23.6	28.8	52.4	20.3	28.9	49.2	55.0	60.0
Leeds and Nottingham	0.8	1.2	2.0	0.7	1.2	1.9	2.0	2.0
UK	24.4	30.0	54.4	21.0	30.1	51.1	57.0	62.0
Netherlands (€m)	8.8	9.8	18.6	9.5	8.4	17.9	16.5	17.5
Exchange rate	1.38	1.39	1.38	1.28	1.17	1.22	1.15	1.15
Netherlands	6.4	7.0	13.4	7.4	7.2	14.6	14.5	15.3
Croatia (HRKm)****	-	-	-	14.9	139.0	153.9	139.0	148.0
Exchange rate	-	-	-	9.63	8.96	9.17	8.70	8.70
Croatia**	-	-	-	1.5	15.3	16.8	16.0	17.0
Germany and Hungary*****	(0.4)	0.1	(0.4)	(0.8)	1.7***	0.9	3.0	4.2
Owned & leased hotels	30.3	37.1	67.5	29.2	54.2	83.4	90.5	96.5
Management and holdings	4.8	7.8	12.6	3.3	7.4	10.7	11.5	13.5
TOTAL	35.1	45.0	80.1	32.5	61.6	94.1	102.0	110.0

Source: Edison Investment Research. Note: *December 2016: Waterloo 494 rooms and 4.17 Park Royal 212 rooms; we assume 530 rooms average in 2017. **Including December 2016 Riverbank extension 184 rooms and rooms off at Sherlock Holmes (estimated 30). ***Rooms off in Amsterdam (estimated 50). ****From April 2016. *****Including June 2016 Nuremberg 177 rooms and July 2016 termination of Berlin lease 155 rooms; H215 restated for comparability.

Exhibit 2: Financial summary

	£000s	2015	2016	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		218,700	272,500	315,000	334,000
EBITDA		80,100	94,100	102,000	110,000
Operating Profit (before amort and except)		63,100	70,900	75,500	82,500
Intangible Amortisation		(2,000)	(2,500)	(2,500)	(2,500)
Operating Profit		61,100	68,400	73,000	80,000
Net Interest		(29,300)	(34,900)	(39,500)	(38,500)
Associates		(2,000)	(1,800)	0	0
Exceptionals		(1,800)	6,500	0	0
Profit Before Tax (norm)		31,800	34,200	36,000	44,000
Profit Before Tax (FRS 3)		28,000	38,200	33,500	41,500
Tax		1,200	(100)	(1,500)	(2,000)
Profit After Tax (norm)		33,000	34,100	34,500	42,000
Profit After Tax (FRS 3)		29,200	38,100	32,000	39,500
Average Number of Shares Outstanding (m)		41.8	42.2	42.2	42.2
EPS - normalised (p)		76.1	73.9	73.9	90.8
EPS - normalised fully diluted (p)		76.1	73.9	73.9	90.8
EPS - (IFRS) (p)		69.9	83.2	68.7	85.3
Dividend per share (p)		20.0	21.0	22.0	23.0
EBITDA Margin (%)		36.6	34.5	32.4	32.9
Operating Margin (before GW and except.) (%)		28.9	26.0	24.0	24.7
BALANCE SHEET					
Fixed Assets		885,600	1,122,300	1,150,000	1,135,000
Intangible Assets		21,900	25,200	23,000	21,000
Tangible Assets		687,500	947,200	970,000	960,000
Income units sold to private investors		125,500	122,500	120,000	118,000
Investments		50,700	27,400	37,000	36,000
Current Assets		71,700	195,600	123,000	126,000
Restricted deposits		3,200	25,500	15,000	15,000
Stocks		1,000	2,400	3,000	3,200
Debtors		9,100	12,600	13,000	13,800
Cash		50,600	144,700	80,000	80,000
Other		7,800	10,400	12,000	14,000
Current Liabilities		(59,900)	(173,000)	(75,700)	(76,700)
Creditors		(48,500)	(54,700)	(55,700)	(56,700)
Deposits from unit holders		0	0	0	0
Short term borrowings		(11,400)	(118,300)	(20,000)	(20,000)
Long Term Liabilities		(629,500)	(814,700)	(845,000)	(807,000)
Long term borrowings		(440,100)	(642,100)	(682,000)	(651,000)
Financial liability to unit holders		(136,200)	(134,000)	(132,000)	(128,000)
Other long term liabilities		(53,200)	(38,600)	(31,000)	(28,000)
Net Assets		267,900	330,200	352,300	377,300
CASH FLOW					
Operating Cash Flow		83,200	79,500	102,000	110,000
Net Interest		(32,500)	(37,300)	(38,800)	(38,500)
Tax		(100)	0	(1,000)	(1,000)
Capex		(63,100)	(87,300)	(75,000)	(30,000)
Acquisitions/disposals		(3,600)	(64,300)	0	0
Exchange rate		6,000	(26,700)	0	0
Dividends		(8,300)	(50,600)	(9,300)	(9,500)
Other		(5,800)	(500)	0	0
Net Cash Flow		(24,200)	(187,200)	(22,100)	31,000
Opening net debt/(cash)		373,500	397,700	584,900	607,000
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		397,700	584,900	607,000	576,000

Source: PPHE Hotel Group accounts, Edison Investment Research

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