PPHE Hotel Group

FY19 results

Elevated discount to NAV

Travel & leisure

PPHE's FY19 results were in line with our expectations, with RevPAR outperformance in most markets in which it competes. FY20 looks a more challenging year due to the threats to travel from the outbreak of the coronavirus, as well as tough comparatives. The company has a history of outperforming its peers in good and tough markets and has the benefit of maturing room stock in key markets. In the long term, the development pipeline continues to look promising. We downgrade our EBITDA forecast for FY20 by 14% due to the uncertainty in this environment. The shares are trading at a discount to the reported EPRA NAV of c 50%.

Year end	Revenue (£m)	EBITDA (£m)	EPS* (p)	DPS (p)	EV/EBITDA (x)	Yield (%)
12/18	341.5	113.2	68.1	35.0	10.4	2.7
12/19	357.7	122.9	87.1	37.0	9.6	2.9
12/20e	326.6	110.5	37.6	37.0	10.6	2.9
12/21e	366.3	126.6	66.7	39.0	9.6	3.0

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

FY19 results in line with expectations

FY19 was a good year financially and operationally with revenue growth of 5.2% and EBITDA growth of 3.4% on a like-for-like basis. The key contributors to growth were the UK and the Netherlands, with outperformance versus the broader market and peers as they continued to benefit from the investment programme from FY17–19. Germany also performed well, including some benefit from conferences, which presents a tough comparative for FY20. As expected, Croatia fared less well due to increased competition from other Mediterranean countries.

FY20 EBITDA downgraded by 14%

In the face of a more challenging backdrop due to the outbreak of coronavirus, we downgrade our EBITDA forecast for FY20 by c 14%. Our key assumption is that occupancy falls by 10 percentage points in the key operating countries, excluding Croatia. This produces RevPAR declines similar to those experienced during FY09, which was affected by the financial crisis and the outbreak of swine flu (analysed later). We rationalise this by assuming a shorter but deeper impact on travel in FY20 than FY09. In addition, we assume 30–40% of the lost revenue drops through to declines in EBITDA. For FY21, we assume that occupancy and operational gearing reverts, producing revenue growth of c 12% and EBITDA growth of c 15%.

Valuation: Asset valuation to the fore

The share price performed well through the early news around the outbreak of coronavirus, before peaking at 2,140p on 20 February 2020, but the price has since fallen by 40% to 1,286p. As a result, the shares trade at a discount of 50% to the EPRA NAV per share of £25.46 at 31 December 2019, which should provide some support in the face of downgrades from the current economic uncertainty. On our downgraded forecasts, the EV/EBITDA multiples for FY20 and FY21 are 10.6x and 9.6x, respectively. The average EV/EBITDA multiple has been 8.2x since FY10.

12 March 2020

Price	**1,286p**
Market cap	**£546m**
Net debt (£m) at 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	(33.0)	(28.7)	(24.5)
Rel (local)	(15.0)	(13.2)	(10.2)
52-week high/low		2140p	1340p

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

Q1 trading statement	April 2020
Interim results	September 2020

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

FY19 results: Good operationally and financially

Financially, FY19 was a good year for PPHE with total revenue growth of 4.8% to £357.7m, EBITDA growth of 8.6% to £122.9m, clean PBT growth of 7.9% to £49.7m and DPS growth of 5.7% to 37p. The numbers were in line with our expectations.

On a like-for-like basis, revenue increased by 5.2% due to a RevPAR increase of 5.1%. The RevPAR increase was due to a like-for-like increase in occupancy of 130bp to 80.7%, and the average room rate increasing by 3.4% to £128.5.

FY19 was also an active year from a development perspective, with three hotels repositioned and reopened in the UK and Netherlands; the repositioning of a campsite in Croatia; site works progressed for the art-otel in Hoxton London; and the acquisition of other sites for actual or potential development in New York (opening in 2023), Belgrade (no opening date as yet) and London. After the year-end, PPHE announced the acquisition of a property for development in Zagreb.

Exhibit 1: Group performance

Year-end December, £000s	H118	H218	FY18	H119	H219	FY19
Revenue	**148,809**	**192,673**	**341,482**	**155,273**	**202,419**	**357,692**
Growth y-o-y (l-f-l)	4.4%		6.0%	6.3%		5.2%
Occupancy	74.9%		79.4%	76.8%		80.6%
Average room rate (£)	114.4		123.1	121.7		128.5
Growth y-o-y (l-f-l)	(0.9%)		2.0%	4.8%		3.4%
RevPAR	85.7		97.7	93.4		103.6
Growth y-o-y (l-f-l)	2.9%		5.0%	7.5%		5.1%
EBITDAR	**44,730**	**75,977**	**120,707**	**46,506**	**78,162**	**124,668**
Margin	30.1%	39.4%	35.3%	30.0%	38.6%	34.9%
Growth y-o-y (l-f-l)	0.4%		5.0%	5.1%		3.2%
EBITDA	**40,581**	**72,591**	**113,172**	**45,655**	**77,239**	**122,894**
Margin	27.3%	37.7%	33.1%	29.4%	38.2%	34.4%
Growth y-o-y (l-f-l)	0.5%		5.6%	5.7%		3.4%

Source: PPHE Hotel Group accounts, Edison Investment Research

Geographically, the greatest contributors to revenue growth were the UK and the Netherlands with RevPAR outperformance in favourable market conditions and rooms coming on stream after repositionings. All countries excluding Croatia increased EBITDA on an absolute basis, but the Netherlands saw a reduction in margin as well as Croatia, due to the disruption from the repositionings and continuing labour cost pressures, the latter being a feature in all markets. The introduction of IFRS 16 increased EBITDA by £5.3m, or 4.7%, as the company has leases on two hotels in Germany.

Market-by-market review

Exhibit 2: UK performance

Year-end December, £000s	H118	H218	FY18	H119	H219	FY19
Revenue	**89,568**	**105,524**	**195,092**	**95,656**	**111,725**	**207,381**
Growth y-o-y (l-f-l)	3.6%		4.6%	6.8%		6.3%
Occupancy	82.7%		85.7%	85.0%		87.7%
Average room rate (£)	135.3		145.1	144.0		152.4
Growth y-o-y (l-f-l)	(4.7%)		0.0%	6.4%		5.0%
RevPAR	112.0		124.4	122.3		133.7
Growth y-o-y (l-f-l)	(2.7%)		3.2%	9.2%		7.5%
EBITDAR	**29,000**	**37,800**	**66,800**	**31,000**	**40,000**	**71,000**
Margin	32.4%	35.8%	34.2%	32.4%	35.8%	34.2%
Growth y-o-y (l-f-l)	6.6%		7.1%	6.6%		6.0%
EBITDA	**27,889**	**37,117**	**65,006**	**30,849**	**39,847**	**70,696**
Margin	31.1%	35.2%	33.3%	32.2%	35.7%	34.1%
Growth y-o-y (l-f-l)	3.6%		5.8%	5.7%		5.0%

Source: PPHE Hotel Group accounts, Edison Investment Research

The UK benefited from good underlying market conditions and consistent outperformance in key markets such as London and Nottingham; improving performance at several hotels as trading ramps after development or repositioning in prior years (Park Plaza London Waterloo and Park Plaza London Riverbank); as well as the re-opening of Holmes Hotel London in H119. At 87.7%, occupancy was the highest annual level recorded for the UK since PPHE has been listed; the prior peak was 87.5% in 2014. This was the second year of EBITDA margin improvement after two years of margin falls in FY16 and FY17, which were due to property tax increases and the disruption from repositioning, etc.

Per PPHE and STR Global, the RevPAR increases for the wider London, Leeds and Nottingham markets were 3.7%, 3.9% and broadly flat, respectively, therefore PPHE's aggregate growth of 7.5% is well above those of the markets. In London, PPHE's RevPAR growth of 7.7% compares with the upper upscale segment's growth of 4.7%.

Looking forward, STR Global forecasts London RevPAR growth for PPHE's segment of 1.7% in FY20, although this forecast was made prior to considering any impact from the coronavirus outbreak. In FY20 PPHE should benefit from the maturing and further renovation of Holmes Hotel London, Park Plaza London Riverbank and Park Plaza Victoria London. An art'otel is expected to open in FY22 (art'otel battersea) and FY23 (art'otel hoxton with 343 hotel rooms and five floors of office space).

Exhibit 3: Netherlands performance

Year-end December, £000s	H118	H218	FY18	H119	H219	FY19
Revenue	**24,829**	**24,740**	**49,569**	**25,859**	**27,917**	**53,776**
Growth y-o-y (l-f-l €)			7.5%	8.0%		7.4%
Occupancy	83.9%		85.7%	86.6%		86.2%
Average room rate (€)	139.8		138.4	145.0		142.6
Growth y-o-y (l-f-l)			7.9%	2.6%		2.2%
RevPAR (€)	117.2		118.6	125.6		122.9
Growth y-o-y (l-f-l)			8.1%	5.2%		3.2%
EBITDAR	**7,200**	**7,000**	**14,200**	**7,100**	**7,900**	**15,000**
Margin	29.0%	28.3%	28.6%	27.5%	28.3%	27.9%
Growth y-o-y (l-f-l €)	(2.4%)		3.5%	5.0%		9.6%
EBITDA	**7,132**	**6,959**	**14,091**	**7,083**	**7,920**	**15,003**
Margin	28.7%	28.1%	28.4%	27.4%	28.4%	27.9%
Growth y-o-y (l-f-l €)	0.0%		11.0%	3.8%		6.3%

Source: PPHE Hotel Group accounts, Edison Investment Research

The Netherlands performed in line with our expectations. Despite FY19 being affected by the closure of a number of hotels during the year, the Netherlands recorded its highest annual occupancy level since PPHE listed. On a like-for-like basis, occupancy was 86.9% versus 86.0% in

FY18. FY19 saw the maturing of Park Plaza Victoria Amsterdam, which reopened in FY18, but was affected by repositioning projects at Park Plaza Vondelpark and Park Plaza Utrecht, which fully reopened for the last quarter of FY19.

Per PPHE and STR Global, RevPAR for the Amsterdam, Utrecht and Eindhoven markets in FY19 fell by 1.3%, 1.4% and 1.1%, respectively, due to reductions in occupancy and room rates. In Amsterdam, RevPAR for PPHE's hotels grew by 4% versus the upper upscale market, which declined by 1.3%.

For FY20, STR Global forecasts 1.5% RevPAR growth for Amsterdam; again this forecast was made before the impact of coronavirus was considered. PPHE should continue to benefit from the ramping of Park Plaza Victoria Amsterdam, Park Plaza Vondelpark, Amsterdam and Park Plaza Utrecht.

Exhibit 4: Germany performance

Year-end December, £000s	H118	H218	FY18	H119	H219	FY19
Revenue	**15,874**	**15,569**	**31,443**	**14,122**	**15,399**	**29,521**
Growth y-o-y (l-f-l €)			7.9%	3.2%		2.7%
Occupancy	77.7%		80.7%	78.0%		80.7%
Average room rate (€)	95.5		98.1	105.8		106.9
Growth y-o-y (l-f-l)			1.9%	4.3%		4.9%
RevPAR (€)	74.2		79.2	82.5		86.2
Growth y-o-y (l-f-l)			10.0%	4.8%		4.7%
EBITDAR	**4,200**	**4,800**	**9,000**	**4,100**	**5,000**	**9,100**
Margin	26.5%	30.8%	28.6%	29.0%	32.5%	30.8%
Growth y-o-y (l-f-l €)	0.0%		4.1%	6.8%		6.1%
EBITDA	**2,070**	**3,172**	**5,242**	**3,947**	**4,757**	**8,704**
Margin	13.0%	20.4%	16.7%	27.9%	30.9%	29.5%
Growth y-o-y (l-f-l €)	(4.0%)		5.3%	3.6%		6.3%

Source: PPHE Hotel Group accounts, Edison Investment Research

PPHE outperformed its peers in Germany, where growth was mostly positive, helped by conferences in Cologne. Per PPHE and STR Global, RevPAR for the Berlin, Cologne, Nuremberg and Budapest markets changed by +1.4%, +8.5%, -4.4% and +6.3%, respectively, in FY19. In Berlin, PPHE's RevPAR increased by 4.9% versus the upper upscale segment growth of 1.4%. The EBITDA margin of 29.5% was the highest ever reported by the company, in part due to changes in ownership structure of the freeholds etc, in recent years. Excluding these changes, the EBITDAR margin of 30.8% was also an all-time high. Looking forward to FY20, there will be a less-favourable backdrop due to fewer conferences in Cologne.

Exhibit 5: Croatia performance

Year-end December, £000s	H118	H218	FY18	H119	H219	FY19
Revenue	**16,297**	**43,896**	**60,193**	**16,710**	**44,437**	**61,147**
Growth y-o-y (HRK)	9.7%	3.4%	5.0%	3.9%	2.8%	3.1%
Occupancy	51.0%		62.4%	52.7%		63.1%
Average room rate (HRK)	569.0		785.8	571.0		772.1
Growth y-o-y	1.4%		0.0%	0.4%		(1.7%)
RevPAR (HRK)	290.1		490.4	300.8		487.1
Growth y-o-y	10.0%		0.9%	3.7%		(0.7%)
EBITDAR	**700**	**19,000**	**19,700**	**0**	**19,400**	**19,400**
Margin	4.3%	43.3%	32.7%	0.0%	43.7%	31.7%
Growth y-o-y (HRK)	27.9%	(2.6%)	(1.8%)	(92.7%)	2.8%	(0.4%)
EBITDA	**96**	**18,462**	**18,558**	**-554**	**18,781**	**18,227**
Margin	0.6%	42.1%	30.8%	-3.3%	42.3%	29.8%
Growth y-o-y (HRK)	N/M	(2.9%)	(2.4%)	N/M	3.0%	(0.6%)

Source: PPHE Hotel Group accounts, Edison Investment Research

The Croatian operations performed better than our expectations due to a good focus on costs while continuing to invest in the business. As previously disclosed, competition from Greece, Turkey and Eqypt intensified during the year, which has led to the EBITDA margin being at its lowest level since the business was consolidated in FY16. Looking to the future, FY20 should benefit from the maturing of the Arena One 99 campsite and the first phase of Arena Kažela Campsite, opened in FY18 and FY19, respectively; and the second phase of investment in Arena Kažela and launch of Verudela Beach resort Pula, both scheduled to open before the summer season of FY20. FY21 should see the opening of the luxury upscale Hotel Brioni Pula.

EPRA KPIs

The EPRA NAV grew from £24.57 at the end of FY18 to £25.46 at the end of FY19, an increase of 3.6%. This is a slight deterioration from the £25.52 reported at the end of H119, which is solely due to currency movements, ie the strengthening of sterling against the euro towards the end of the year. The key positive drivers behind the NAV expansion were a revaluation during the year of £1.07 and the FY19 earnings of £0.79, offset by dividends of £0.36, other movements of £0.07 and currency of £0.54.

Adjusted EPRA earnings increased by 11.7% to 128p. The dividend pay-out ratio relative to EPRA earnings was 29% in FY19 versus 30% in FY18.

Balance sheet

The balance sheet continues to look strong, with net debt being broadly stable at £514.6m at the end of 2019 versus £479.6m at the end of 2018. The gross bank debt of £678.3m has an average term to maturity of 7.1 years, interest cover is 4.4x and the average coupon is 3.1%. The key changes to the net debt position through 2019 were operating cash flow of £80m that helped to fund £99m of acquisitions and capex.

Current trading and the coronavirus

The current trading statement indicates that trading for the first two months of the year is in line with the board's expectations.

At the date of the results, there had been no significant impact on PPHE's operations from the global outbreak of coronavirus, however it was too soon to have seen any impact given the countries in which it operates. Management closely monitors cancellations of existing bookings and pacings of new bookings to gauge the health of the business. To date there were few cancellations from Asian travellers, which are not a major source of customers, and the majority of these 'cancellations' had postponed to later in the year rather than cancelled outright. With respect to new bookings, there had been a slight, ie not material, slowdown. Management's preference in a downturn is to maintain discipline on room rate at the expense of occupancy.

On 11 March 2020, PPHE issued a business update, which highlighted the following: 'As has been widely reported in the media and by industry benchmark reports, over recent weeks there has been reduced demand for international travel which has resulted in an increase in cancellations and a slowdown in future bookings across the travel and hotel industry, including the Group's estate.

Due to the fast-moving nature of the situation, it is too early to provide any meaningful estimate of quantum on the Group's earnings for the current financial year given the trajectory and duration of the virus and its impact remains highly uncertain. The necessary actions to minimise the impact on the business are being taken.'

PPHE's financial performance in a downturn

As PPHE was listed in 2007, its quoted history includes the global demand shock from the end of H208 and through FY09 due to the global financial crisis and the swine flu epidemic. All previous forms of coronavirus were not as severe as the current form, and the greatest impact in FY09 was due to the macroeconomic uncertainty due to the financial crisis. At this time the company's functional reporting currency was the euro and disclosure of KPIs such as like-for-like growth was less comprehensive than today.

Since FY09 the group structure has changed significantly with the UK's importance increasing from 34% of revenue in FY09 to 58% in FY19, and the consolidation of Croatia from FY16, which represented 17% of revenue in FY19. Therefore, PPHE is more exposed to the London market and the seasonal summer holiday trading season in Croatia than it was in FY09.

Exhibit 6: PPHE's financial performance during the global financial crisis

€000s	2008	2009	2010	2011
Group revenue	**93,385**	**80,326**	**139,829**	**202,380**
Growth y-o-y		(14%)	74%	45%
Growth y-o-y (l-f-l)		N/A	3.1%	12.6%
Occupancy	79.8%	79.1%	77.4%	77.7%
Average room rate (€)	113.9	97.8	110.7	119.2
Growth y-o-y (l-f-l)		N/A	10.1%	9.7%
RevPAR (€)	90.3	77.4	85.7	92.6
Growth y-o-y		(14.3%)	10.7%	8.1%
Growth y-o-y (l-f-l)		N/A	8.7%	12.4%
Growth y-o-y (constant ccy)		(9.7%)		
EBITDA	**25,433**	**16,244**	**37,633**	**65,050**
Margin	27.2%	20.2%	26.9%	32.1%
Growth y-o-y		(36%)	132%	73%
Operational gearing		70%	36%	44%

Source: PPHE Hotel Group accounts, Edison Investment Research

At the group level, revenue fell by 14% in FY09, however this included sterling depreciating versus the euro by 8% (from an average of €1.05/£ in FY08 to €1.13/£ in FY09), which had a negative impact on revenue. PPHE recovered strongly in FY10 helped by an underlying improvement, new hotel openings and acquisitions; on a like-for-like basis revenue increased by 3.1% in FY10. Occupancy fell by 240bps from peak of 79.8% in FY08 to a trough of 77.4% in FY10; average room rate fell from €113.9 in FY08 to €97.8 in FY09 before recovering strongly in FY10, but this was affected by currency moves and mix through openings and M&A. There was high operational gearing (the drop through of changes in revenue to changes in EBITDA) as EBITDA fell by 36% in FY09, with a strong recovery in FY10. In part this was due to a market specific issue, in Germany and Hungary, where there was oversupply, and therefore it experienced a greater EBITDA loss through the economic downturn.

Given the influence of currency and geographic mix on the group numbers, it is more instructive to look at trends in the key geographic areas.

Exhibit 7: PPHE's UK financial performance during the global financial crisis

€000s	2008	2009	2010	2011
Revenue	**33,175**	**27,518**	**81,179**	**139,981**
Growth y-o-y		(17%)	195%	72%
Occupancy	85.0%	84.8%	81.8%	82.1%
Average room rate (£)	120.3	114.7	118.0	126.7
Growth y-o-y		(4.7%)	2.9%	7.4%
RevPAR (£)	101.8	97.3	96.5	104.0
Growth y-o-y (l-f-l)		N/A	7.2%	15.8%
EBITDA	**11,131**	**11,369**	**24,512**	**47,487**
Margin	33.6%	41.3%	30.2%	33.9%
Growth y-o-y		2%	116%	94%
Operational gearing		(4%)	24%	39%

Source: PPHE Hotel Group accounts, Edison Investment Research

In FY09, the headline UK revenue performance was affected by the depreciation of sterling versus the euro, and the underlying revenue was affected by a reduction in the average room rate of c 5% due to the tougher trading conditions. The London hotels maintained or improved occupancy levels and outperformed the market, which experienced a RevPAR decline of 6.4%. The London market performed better than other major European cities per management. Impressively, in FY09 a strong focus on costs produced a 2% increase in EBITDA, despite the currency depreciation.

In FY10, underlying trading conditions began to improve, more notably in H210. However, occupancy, etc, was affected by the opening of Park Plaza Westminster Bridge London and the acquisition of the Park Plaza hotels in Leeds and Nottingham. On an underlying basis RevPAR increased by 7.2%. The London hotels outperformed their peers due to occupancy being ahead of their competitors.

Exhibit 8: PPHE's Netherlands performance during the global financial crisis

€000s	2008	2009	2010	2011
Revenue	**22,950**	**19,779**	**22,847**	**24,820**
Growth y-o-y		(14%)	16%	9%
Occupancy	89.5%	84.1%	77.9%	74.9%
Average room rate (€)	125.9	108.7	102.2	109.4
Growth y-o-y		(13.7%)	(6.0%)	7.0%
RevPAR (€)	113.2	91.4	79.6	82.0
Growth y-o-y		(19.3%)	(12.9%)	3.0%
EBITDA	**8,373**	**6,474**	**7,607**	**7,766**
Margin	36.5%	32.7%	33.3%	31.3%
Growth y-o-y		(23%)	18%	2%
Operational gearing		60%	37%	8%

Source: PPHE Hotel Group accounts, Edison Investment Research

In FY09, the business was severely affected by the macroeconomic conditions due to reduced demand from business and there was reduced demand from tourism as the strength of the euro had an impact on the number of American and British visitors. The hotels in Amsterdam outperformed the peers with respect to occupancy and RevPAR. The level of operational gearing was high as the 14% fall in revenue led to a 23% fall in EBITDA.

In FY10, the recovery began in H1 for the market as a whole, but the group numbers for occupancy, average room rate and RevPAR were affected by the addition of Park Plaza Amsterdam Airport, where demand is more volatile and rates are lower than the city centre hotels. On a like-for-like basis, RevPAR increased by 4.7% due to a 5.7% improvement in average room rate.

Exhibit 9: PPHE's German performance during the global financial crisis

€000s	2008	2009	2010	2011
Revenue	**27,930**	**23,456**	**27,700**	**30,205**
Growth y-o-y %		(16%)	18%	9%
Occupancy	70.9%	71.4%	70.4%	71.7%
Average room rate (€)	69.2	60.2	68.8	70.9
Growth y-o-y		(13.0%)	14.3%	3.1%
RevPAR (€)	48.8	43.0	48.4	50.9
Growth y-o-y		(11.9%)	12.6%	5.2%
EBITDA	**(1,408)**	**(3,725)**	**(286)**	**(966)**
Margin	(5.0%)	(15.9%)	(1.0%)	(3.2%)
Growth y-o-y		165%	(92%)	238%
Operational gearing		52%	81%	(27%)

Source: PPHE Hotel Group accounts, Edison Investment Research

As highlighted previously, Germany was experiencing oversupply during the economic downturn.

Since 2008, PPHE has become more dependent on room and accommodation revenue (camps and mobile homes) as shown in Exhibit 10.

Exhibit 10: PPHE's revenue sources

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Rooms	64%	62%	67%	69%	69%	69%	67%	68%	67%	69%	69%	70%
Camps and mobile homes	0%	0%	0%	0%	0%	0%	0%	0%	4%	4%	5%	5%
Food and beverage	24%	24%	26%	26%	25%	25%	27%	27%	24%	23%	22%	21%
Minor Operating	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Management fee	6%	7%	3%	2%	3%	1%	2%	2%	1%	1%	1%	1%
Franchise and reservation fee	3%	4%	2%	1%	1%	1%	1%	1%	0%	0%	0%	0%
Marketing fee	1%	1%	1%	1%	1%	1%	1%	1%	0%	0%	0%	0%
Other	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%

Source: PPHE Hotel Group accounts, Edison Investment Research

Now that we have looked at the revenue drivers, Exhibit 11 below highlights how the main expense items and margins progressed through FY08–11. These are likely to have been influenced in part by geographic mix, location of hotels within the country, such as London versus Leeds, and the phasing of acquisitions and openings. Some costs should be expected to be proportional to occupancy, such as housekeeping, utilities, etc. The largest costs that de-geared were salaries and franchise fees, etc.

Exhibit 11: PPHE's expenses relative to sales during the global financial crisis

	2008	2009	2010	2011
Salaries and related expenses	28.3%	30.1%	30.3%	28.2%
Franchise fees, reservation and commissions	7.1%	8.0%	7.1%	7.1%
Food and beverage	4.6%	4.9%	5.6%	5.1%
Insurance and property taxes	2.6%	2.9%	4.1%	4.5%
Utilities	3.1%	3.6%	3.4%	3.0%
Administration costs	2.9%	2.4%	3.1%	2.7%
Maintenance	1.9%	2.2%	1.6%	1.8%
Laundry, linen and cleaning	2.1%	2.2%	2.0%	1.8%
Supplies	1.1%	1.2%	1.5%	1.4%
IT expenses	0.8%	1.1%	0.8%	0.9%
Communication, travel and transport	1.3%	1.4%	1.0%	1.0%
Marketing expenses	1.9%	2.0%	1.4%	0.9%
Other expenses	3.9%	5.6%	4.8%	4.4%
Total operating expenses	61.6%	67.5%	66.8%	62.9%
EBITDAR	**38.4%**	**32.5%**	**33.2%**	**37.1%**
Rental expenses	11.2%	12.3%	6.3%	4.9%
EBITDA	**27.2%**	**20.2%**	**26.9%**	**32.1%**

Source: PPHE Hotel Group accounts, Edison Investment Research

To conclude, in its main markets of the UK and the Netherlands, PPHE outperformed its competitors during the FY09 economic downturn.

Financials

Acknowledging the extreme uncertainty for forecasts given the potential impact on travel from coronavirus, we downgrade our assumptions for FY20 and introduce our FY21 forecasts.

For all countries, excluding Croatia, in FY20 we assume a reduction in occupancy of 10 percentage points and retain our assumptions for average room rates: a reduction of 2% in the UK and flat in the Netherlands, Germany and Hungary. We also update our foreign exchange rate assumptions for the recent strength in sterling compared to the euro since our last forecasts were made. These assumptions produce RevPAR declines in sterling of 13% in the UK, and 12% in the Netherlands and Germany and Hungary. The 13% decline in RevPAR for the UK compares with its absolute decline of 4.4% from £101.8 in FY08 to £97.3 in FY09; and the 12% decline in the Netherlands compares with its decline of 19.3% in FY09. We rationalise this as the impact on travel being deeper with more travellers affected for a shorter time than in FY09. At the group level, constant currency RevPAR declined by 9.7% in FY09. We also assume that non-room revenue declines in line with room revenue. With respect to EBITDA, we assume a drop-through of the lost revenue to EBITDA of 30–40% for the individual countries, which compares with -4% for the UK and 60% for the Netherlands during FY09. In total this produces a revenue downgrade for FY20 of c 12% from £353.0m to £326.6m, and a downgrade to EBITDA of 14% from £128.0m to £110.5m.

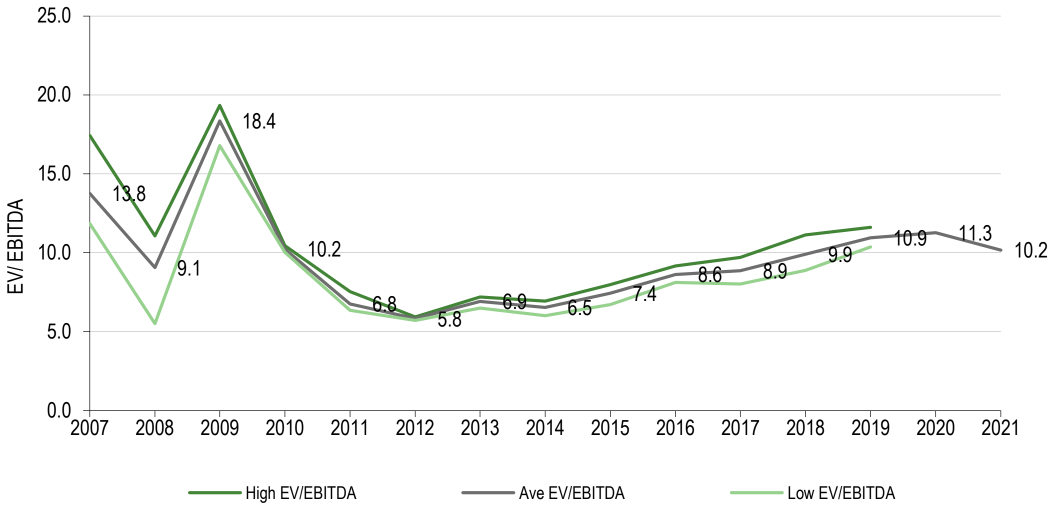
For FY21, we assume the lost occupancy in FY20 returns and the group enjoys a similar level of operational gearing into the recovery. This produces forecasts for revenue of £366.3m (growth of c 12%) and EBITDA of £126.6m (growth of c 15%).

Valuation

At 1,286p, the shares are trading at EV/EBITDA multiples for FY20 and FY21 of 10.6x and 9.6x, respectively. At this level it is trading at a discount of 50% to the EPRA NAV at 31 December 2019.

The history of PPHE's EV/EBITDA valuation, including the high, low and average multiple in each year since it listed in 2007, as well as the prospective multiples for FY20 and FY21, are shown in Exhibit 12. The quoted figures are the average multiple for each historic year and then the prospective multiples for FY20 and FY21. Between FY10 and FY19, the EV/EBITDA multiple has averaged 8.2x.

Exhibit 12: PPHE's EV/ EBITDA multiples



Source: Company accounts, Refinitiv and Edison Investment Research

Exhibit 13: Financial summary

£000s	2015	2016	2017	2018	2019	2020e	2021e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue	218,669	272,470	325,118	341,482	357,692	326,558	366,303
EBITDA	80,121	94,118	107,278	113,164	122,894	110,501	126,599
Operating Profit (before amort and except)	63,097	71,313	75,448	79,731	83,640	70,492	84,550
Intangible Amortisation	(2,018)	(2,508)	(2,432)	(2,462)	(2,495)	(2,372)	(2,372)
Operating Profit	61,079	68,805	73,016	77,269	81,145	68,120	82,178
Net Interest	(30,950)	(35,341)	(40,817)	(40,736)	(39,961)	(40,941)	(40,941)
Associates	(1,948)	(1,750)	(350)	144	178	178	178
Exceptionals	(128)	6,505	(152)	9,706	(2,885)	0	0
Profit Before Tax (norm)	28,181	31,714	31,849	36,677	41,362	27,357	41,415
Profit Before Tax (FRS 3)	28,053	38,219	31,697	46,383	38,477	27,357	41,415
Tax	1,189	(62)	(1,748)	(2,951)	4,105	(2,462)	(4,141)
Profit After Tax (norm)	29,370	31,652	30,101	33,726	45,467	24,894	37,273
Profit After Tax (FRS 3)	29,242	38,157	29,949	43,432	42,582	24,894	37,273
Minorities	0	(3,040)	(5,678)	(5,380)	(8,667)	(8,890)	(8,871)
Net income (norm)	29,370	28,612	24,423	28,346	36,800	16,004	28,402
Net income (IFRS)	29,242	35,117	24,271	38,052	33,915	16,004	28,402
Average Number of Shares Outstanding (m)	42.1	42.4	42.4	42.5	42.6	42.6	42.6
EPS - normalised (p)	70.3	67.9	57.8	68.4	87.5	37.8	67.0
EPS - normalised fully diluted (p)	69.8	67.5	57.6	68.1	87.1	37.6	66.7
EPS - (IFRS) (p)	70.0	83.3	57.4	89.9	80.0	37.8	67.0
Dividend per share (p)	20.0	21.0	24.0	35.0	37.0	37.0	39.0
EBITDA Margin (%)	36.6	34.5	33.0	33.1	34.4	33.8	34.6
Operating Margin (before GW and except.) (%)	28.9	26.2	23.2	23.3	23.4	21.6	23.1
BALANCE SHEET							
Fixed Assets	885,615	1,122,307	1,220,214	1,316,600	1,393,210	1,443,956	1,492,661
Intangible Assets	21,878	25,158	23,570	21,463	18,036	15,664	13,291
Tangible Assets	687,451	947,176	1,037,224	1,151,616	1,215,140	1,268,080	1,318,980
Income units sold to private investors	125,575	122,526	121,218	119,169	116,511	116,511	116,511
Investments	50,711	27,447	38,202	24,352	43,523	43,701	43,879
Current Assets	71,703	195,603	319,832	245,602	191,931	149,535	122,597
Restricted deposits	3,206	25,513	25,561	3,672	3,541	3,541	3,541
Stocks	999	2,412	2,701	2,481	2,317	2,115	2,373
Debtors	9,154	12,576	13,392	15,324	12,758	11,648	13,065
Cash	50,623	144,732	241,021	207,660	153,029	113,257	82,970
Other	7,721	10,370	37,157	16,465	20,286	18,975	20,649
Current Liabilities	(59,875)	(173,004)	(93,104)	(68,941)	(71,108)	(70,273)	(71,326)
Creditors	(48,500)	(54,713)	(60,157)	(53,631)	(57,792)	(56,957)	(58,010)
Short term borrowings	(11,375)	(118,291)	(32,947)	(15,310)	(13,316)	(13,316)	(13,316)
Long Term Liabilities	(629,539)	(814,704)	(1,006,004)	(1,014,719)	(1,033,272)	(1,033,272)	(1,033,272)
Long term borrowings	(440,110)	(642,120)	(666,936)	(681,981)	(664,945)	(664,945)	(664,945)
Financial liability to unit holders	(136,203)	(133,983)	(131,632)	(129,151)	(126,704)	(126,704)	(126,704)
Other long term liabilities	(53,226)	(38,601)	(207,436)	(203,587)	(241,623)	(241,623)	(241,623)
Net Assets	267,904	330,202	440,938	478,542	480,761	489,946	510,660
CASH FLOW							
Operating Cash Flow	85,205	78,856	113,645	102,127	124,408	112,290	124,304
Net Interest	(32,500)	(37,304)	(43,120)	(41,330)	(43,252)	(40,941)	(40,941)
Tax	(84)	33	(676)	(4,183)	(1,005)	(2,462)	(4,141)
Capex	(63,103)	(87,298)	(99,898)	(67,251)	(84,906)	(92,949)	(92,949)
Acquisitions/disposals	(3,615)	(22,030)	0	0	0	0	0
Other investing	277	7,985	(35,494)	5,623	(14,006)	0	0
Financing	19,734	199,258	168,893	(18,476)	(14,780)	0	0
Dividends	(8,358)	(50,637)	(9,290)	(12,278)	(15,263)	(15,710)	(16,559)
Other	0	0	0	0	0	0	0
Net Cash Flow	(2,444)	88,863	94,060	(35,768)	(48,804)	(39,772)	(30,287)
Opening cash	54,714	50,623	144,732	241,021	207,660	153,029	113,257
Other	(1,647)	5,246	2,229	2,407	(5,827)	0	0
Closing cash	50,623	144,732	241,021	207,660	153,029	113,257	82,970
Opening net debt/ (cash)	373,498	397,577	584,931	408,090	479,626	514,629	554,401
Closing net debt/ (cash)	397,577	584,931	408,090	479,626	514,629	554,401	584,688

Source: Company accounts, Edison Investment Research

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