

PPHE Hotel Group

Cost cutting for uncertain times

The trading update, following the update on 12 March 2020, highlights the expected drop in demand due to the COVID-19 virus, and strong actions by management to cut costs and preserve cash in the uncertain environment. We leave our forecasts unchanged following our recent downgrade of EBITDA for FY20e by 14%, but now assume no dividend payment in FY20, following the cut of the proposed final dividend for FY19 of 20p. The shares are trading at a discount of 68% to the EPRA NAV, and the majority of the hotels are freehold assets.

Year end	Revenue (£m)	EBITDA* (£m)	EPS* (p)	DPS (p)	EV/EBITDA (x)	Yield (%)
12/18	341.5	113.2	68.1	35.0	8.6	4.3
12/19	357.7	122.9	87.1	17.0	7.9	2.1
12/20e	326.6	110.5	37.6	0.0	8.8	0.0
12/21e	366.3	126.6	66.7	39.0	7.9	4.8

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

COVID-19 trading update

As expected, PPHE has seen an increase in cancellations and a significant slowdown in future bookings. In response, it is aggressively cutting costs by reducing capacity in Germany and Hungary (7% of FY19 EBITDA); temporarily closing two hotels in Amsterdam and reducing capacity elsewhere (12% of FY19 EBITDA), potentially closing 2,000 rooms in London (from c 3,700 rooms in the UK) temporarily (58% of FY19 EBITDA); reducing staff costs (46% of operating costs ex depreciation, amortisation and rent in FY19); and stopping payment of the final dividend for FY19 (a cash saving of c £8.5m). Many governments have committed to subsidising a significant portion of operating costs. In addition, the company has options to change the phasing of future investment. There are no comments on Croatia, which is more geared to summer travel.

Forecasts: Profit maintained but dividend cut

We leave our forecasts unchanged following our 12 March [update note](#), in which we downgraded EBITDA for FY20 by 14%. Our assumption that occupancy reduces by 10pp in FY20 is equivalent to a 100% closure for one month, but the partial closures indicated by management above would suggest that occupancy reductions may be lower but for longer. We assumed a 30–40% drop-through of lost revenue to EBITDA, but the aggressive cost cutting and new government support to subsidise operating costs will mitigate margin downside. We now cautiously assume no dividend will be paid for FY20.

Valuation: Discount to NAV risen again

At 820p, the shares trade at a discount of 68% to the EPRA NAV of £25.46 at 31 December 2019. On our maintained forecasts, the EV/EBITDA multiples for FY20e and FY21e are 8.8x and 7.9x, respectively. The average EV/EBITDA multiple has been 8.2x since FY10.

COVID-19 trading update

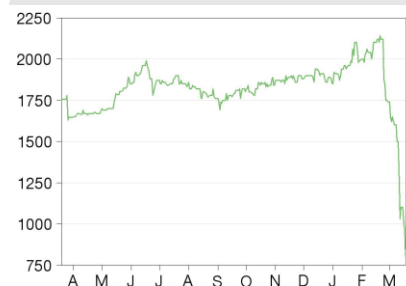
Travel and leisure

19 March 2020

Price 820p
Market cap £348m

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	(62.0)	(57.6)	(54.0)
Rel (local)	(43.4)	(35.8)	(33.4)
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

Q1 trading statement	April 2020
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Exhibit 1: Financial summary

	£000s	2018	2019	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		341,482	357,692	326,558	366,303
EBITDA		113,164	122,894	110,501	126,599
Operating Profit (before amort. and except.)		79,731	83,640	70,492	84,550
Intangible Amortisation		(2,462)	(2,495)	(2,372)	(2,372)
Operating Profit		77,269	81,145	68,120	82,178
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	27,357	41,415
Profit Before Tax (FRS 3)		46,383	38,477	27,357	41,415
Tax		(2,951)	4,105	(2,462)	(4,141)
Profit After Tax (norm)		33,726	45,467	24,894	37,273
Profit After Tax (FRS 3)		43,432	42,582	24,894	37,273
Minorities		(5,380)	(8,667)	(8,890)	(8,871)
Net income (norm)		28,346	36,800	16,004	28,402
Net income (IFRS)		38,052	33,915	16,004	28,402
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	37.6	66.7
EPS - (IFRS) (p)		89.9	80.0	37.8	67.0
Dividend per share (p)		35.0	17.0	0.0	39.0
EBITDA Margin (%)		33.1	34.4	33.8	34.6
Operating Margin (before GW and except.) (%)		23.3	23.4	21.6	23.1
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	165,245	138,307
Restricted deposits		3,672	3,541	3,541	3,541
Stocks		2,481	2,317	2,115	2,373
Debtors		15,324	12,758	11,648	13,065
Cash		207,660	153,029	128,967	98,680
Other		16,465	20,286	18,975	20,649
Current Liabilities		(68,941)	(71,108)	(70,273)	(71,326)
Creditors		(53,631)	(57,792)	(56,957)	(58,010)
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	505,655	526,370
CASH FLOW					
Operating Cash Flow		102,127	124,408	112,290	124,304
Net Interest		(41,330)	(43,252)	(40,941)	(40,941)
Tax		(4,183)	(1,005)	(2,462)	(4,141)
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)	(24,062)	(30,287)
Opening cash		241,021	207,660	153,029	128,967
Other		2,407	(5,827)	0	0
Closing cash		207,660	153,029	128,967	98,680

Source: Company accounts, Edison Investment Research

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