4th November 2016

# PPHE Hotel Group

## 2016 Q3 Trading Update

**PPHE's trading update confirmed that trading was in line with expectations and that the new hotels are due to open in Q4 as planned. This is reassuring news and it appears that the business outlook for 2016/17 should be as expected. The soft openings of the new hotels and Riverbank extension will be key news for Q4, as well as the trading performance, but Q3 was if anything above our expectations. The shares trade at a significant discount to book value as adjusted for the real value of the assets, and this value will be further boosted when the new hotels open, and we therefore expect the discount to narrow.**

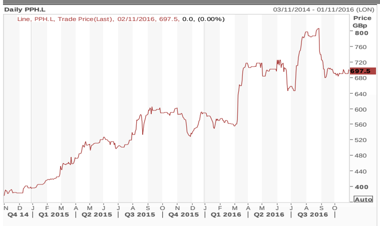
- **Q3 Trading:** The results are complicated by the first-time consolidation of the Croatian operation, but the underlying trends all look positive with an 11% increase in RevPAR for the quarter on a like for like basis being much better than the first half, although currency is helping.
- **Forecasts:** We have not changed our forecasts as the company has confirmed trading is in line, and the reported numbers are complicated by the Croatian acquisition. We are reassured by the like for like trends, with the weakness of the pound not expected to reverse short term, and Q3 now the key quarter.
- **Valuation:** On most metrics, the group remains at a significant discount to peers, and out of line with the past and forecast performance. At the interims, the group reported the latest property valuation, and the adjusted book value is now pro-forma c.£17/share on our estimates.
- **Risks:** The main risks are the new openings, although the London market should benefit from weak sterling. The balance sheet is indebted, but the average debt maturity is now 9 years which gives it a more solid balance sheet structure. As a major property owner, we expect some level of gearing.
- **Investment summary:** PPHE has a great track record and a development pipeline which will further increase the real asset value over the existing substantial premium to the share price. UK property stocks are currently trading at discounts to book, but the asset values here are growing faster and the starting discount is higher. We do not expect this to continue.

### Financial summary and valuation

| Year end Dec (£m) | 2014 | 2015 | 2016E | 2017E |
|---|---|---|---|---|
| Sales | 165.7 | 169.3 | 258.3 | 300.0 |
| EBITDA | 76.1 | 80.1 | 86.9 | 103.0 |
| Operating profit | 56.5 | 61.0 | 60.9 | 75.0 |
| Underlying PBT | 26.8 | 30.1 | 24.0 | 37.0 |
| EPS (p) | 64.6 | 72.3 | 45.6 | 81.3 |
| DPS (p) | 19.0 | 20.0 | 120.0 | 21.0 |
| Net (debt)/cash (€m) | -374.6 | -397.7 | -580.1 | -555.7 |
| Net debt/EBITDA (x) | 4.9 | 5.0 | 6.7 | 5.4 |
| P/E (x) | 10.7 | 9.5 | 15.1 | 8.5 |
| EV/Sales (x) | 4.0 | 4.1 | 3.4 | 2.8 |
| EV/EBITDA (x) | 8.8 | 8.6 | 10.2 | 8.4 |
| Dividend Yield (%) | 2.8 | 2.9 | 17.4 | 3.0 |

*Source: Hardman & Co Research*

### Travel & Leisure



*Source: Eikon Thomas Reuters*

### Market data

| | |
|---|---|
| EPIC/TKR | PPH |
| Price (p) | 690 |
| 12m High (p) | 857 |
| 12m Low (p) | 598 |
| Shares (m) | 42.0 |
| Mkt Cap (£m) | 306 |
| EV (£m) | 398 |
| Free Float (%) | 26% |
| Market | Main |

### Description

PPHE owns, co-owns, leases, franchises and manages a portfolio of 4* hotels with 8,300 rooms in Europe, with a strong emphasis on Central London. Real net asset value per share is significantly higher than the share price.

### Company information

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|---|---|
| CEO | Boris Ivesha |
| CFO | Chen Moravsky |
| Chairman | Eli Papouchado |

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### Next event

| | |
|---|---|
| Jan-17 | Q4 IMS |

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# 2016 Q3 Trading Update

## Overview

Results for the third quarter were if anything, slightly stronger than we had anticipated, with flat occupancy and average room rate up 11.5% like for like. In the tables below, we suggest that like for like is the best way to consider the performance, as in this quarter, the numbers are heavily distorted, principally by the first time consolidation of the Croatian operation.

Moreover, Q3 saw the closure of one hotel and the full opening of The Park Plaza Nuremberg, along with a new restaurant format. The company reported that the extension to Riverbank London and the construction opening of the new Waterloo and Park Royal hotels were on track for soft openings in Q4, 2016.

The statement flagged that the fourth quarter is usually the strongest trading period, excluding the Croatian operation which is highly seasonal. It continued that "trading since 30 September 2016 has remained encouraging across the regions", and that they were focused on revenue generation as they open the new hotels in Q4.

Importantly, they added "Based on the results to 30 September 2016 and the outlook for the final quarter of the year, the Board anticipates the full year results to be in line with its current expectations".

## Quarterly Performance

On a like for like basis, revenue increased by 9.3% to £93m, although the consolidation of Croatia bumped up the reported increase in revenue to over 60%. Occupancy was flat, on a like for like basis, but as reported, it was down 5%, which suggests that the Croatian operation has a significantly lower occupancy, which is slightly surprising given its seasonality. In reality, this is probably quite good news and suggests that there should be useful scope for improvement.

**Table 1 - Q3 Performance**

| | Reported 3 months to | | | Like for Like 3 months to | | |
|---|---|---|---|---|---|---|
| | **Sep-16** | **Sep-16** | **% Chg** | **Sep-16** | **Sep-16** | **% Chg** |
| **Revenue £m** | 93.2 | 57.7 | 61.5% | 92.7 | 84.8 | 9.3% |
| **Occupancy** | 84.0% | 89.0% | (500) bps | 85.6% | 85.7% | (10) bps |
| **Average room rate** | £113.4 | £112.4 | 0.9% | £113.3 | £101.6 | 11.5% |
| **RevPAR** | £95.3 | £100.1 | -4.8% | £97.0 | £87.1 | 11.3% |

*Source: Hardman & Co Research*

Room rates were up 11.5% underlying with Croatia depressing the mix although by less than might have been expected, resulting in a stable room rate as reported. RevPAR was up 11.3% like for like, which is a really strong performance given mixed results elsewhere in the UK – the like for like includes an element of fx benefit from weaker sterling, as it's like for like, rather than constant currency like for like.

The like for like performance in Q3 looks excellent, but investors should bear in mind that this is heavily impacted by Croatia (where Q3 comprises effectively the full year profitability), and by the weakness of sterling (boosting translated profits and helping drive demand in London). Note also that the seasonality of the group has been affected by the consolidation of Croatia (heavy Q3, closure in Q4), with Q3 overtaking Q4 as the key quarter.

## Nine Month Performance

The reported picture for the 9 months is even more complicated to explain, as the Croatian subsidiary is only consolidated for part of the period. The like for like picture is more helpful in this regard.

**Table 2 - 9M Performance**

| | Reported 3 months to | | | Like for Like 3 months to | | |
|---|---|---|---|---|---|---|
| | **Sep-16** | **Sep-16** | **% Chg** | **Sep-16** | **Sep-16** | **% Chg** |
| **Revenue £m** | 204.8 | 160.0 | 28.1% | 204.2 | 195.8 | 4.3% |
| **Occupancy** | 75.8% | 85.0% | (900) bps | 76.5% | 79.2% | (270) bps |
| **Average room rate** | £107.8 | £107.5 | 0.3% | £107.7 | £99.2 | 8.7% |
| **RevPAR** | £81.7 | £91.3 | -10.5% | £82.4 | £78.5 | 5.0% |

*Source: Hardman & Co Research*

It's clear from this comparison that the Q3 saw a good recovery with a much higher (+5 percentage points) revenue increase. This was driven by better occupancy levels than in the first half and by an even better room rate. Hence RevPAR was up 11% in Q3 vs flat in the first half, leading to up 5% for the first 9 months as a whole.

## Outlook

Management confirmed that trading was in line with its expectations and importantly, that the construction programme is on track, and hence we are not making any changes to forecasts at this stage.

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