

# PPHE Hotel Group

2017 results

Fraught with opportunity

Travel & leisure

PPHE has delivered a strong set of results for 2017. The 14% EBITDA gain was ahead of our expectations, largely owing to core resilience in London, the company's major profit source, despite a demanding H2 comparative and notable market slowdown. The new properties (Waterloo and Park Royal) also surprised. While 2018 is transitional as management reviews deployment of its greatly enhanced flexibility (c £290m cash equivalents at end-2017), there should still be good progress thanks to recent openings and current momentum. Indeed, our new 2019 forecasts may prove cautious, given such investment potential. PPHE's modest rating reflects neither this excess liquidity nor its asset backing (fair value c £20/share).

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/EBITDA (x)
12/16	272.5	94.1	34.2	69.9	21.0**	11.2
12/17	325.1	107.3	34.5	64.2	24.0	8.2
12/18e	340.0	112.0	38.0	68.8	26.0	8.0
12/19e	357.0	118.0	44.0	81.6	28.0	7.4

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

## H2 bucks headwinds

As 23% higher H1 EBITDA was driven by recovery in London, a gain of 9% in the half-year to December is no less creditable, given clear slowdown in the capital and major refurbishments in the Netherlands. With core London RevPAR flat in H2 (our estimate), PPHE looks in line with the market, while its flagship Westminster Bridge again markedly outperformed its peers. However, unsurprisingly, cost pressures (eg payroll and property taxes) were to the fore, hence core London EBITDA was apparently down slightly, if by less than we forecast. Waterloo (especially) and Park Royal are stabilising rapidly with an impressive first contribution. Croatia was buoyant (local currency double-digit RevPAR growth) and the Netherlands resilient (RevPAR +3%) despite renovation works (local currency EBITDA down by a quarter).

## Developments may well surprise forecasts

On stated investment plans, we are comfortable with existing 2018 forecasts, detailed on page 2, bar minimal adjustments. EBITDA growth will be driven by recent investment in London and Croatia, while H217 suggests costs may be less punitive in core London than feared (we still expect lower margin), even if our RevPAR is now curbed from +2% to flat. 2019 is less clear as management focuses on exploiting flexibility after Waterloo's sale and leaseback and Arena's fund-raising.

## Valuation: Deals to showcase value creation

Record share price strength suggests overdue recognition of PPHE's investment case. In particular, the market discount to fair value is highlighted by refinancing valuations that show an excess of £500m+ over book value. Expected investment activity should only accentuate this and draw attention to the company's strong development record. At 8.0x 2018e EV/EBITDA excluding Waterloo finance lease, the rating is low against an average of c 11x 2018e for branded European peers.

12 March 2018

**Price** 1,115p  
**Market cap** £472m

Net bank debt (£m) at December 2017	408.1
Shares in issue	42.3m
Free float	23%
Code	PPH
Primary exchange	LSE
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	0.9	1.6	38.5
Rel (local)	(1.4)	3.4	38.1
52-week high/low	1180p	760p	

### 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 2018

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## Financials

<b>Exhibit 1: Analysis of revenue and profit</b>								
Year-end December (£m)	H116	H216	FY16	H117	H217	FY17	2018e	2019e
<b>Revenue</b>								
<b>UK</b>								
<b>London</b>								
RevPAR	£118	£150	£135	£130	£150	£140	£140	£140
Change	-5%	+4%	Flat	+10%	Flat	+4%	Flat	Flat
Available rooms	1,898	1,910*	1,904*	2,052*	2052*	2052*	2022*	2082
Room revenue	41.0	52.8	93.8	48.2	56.3	104.5	103.5	106.5
Non-room revenue	20.5	22.5	43.0	22.5	23.0	45.5	45.5	46.5
<b>Existing revenue</b>	<b>61.5</b>	<b>75.3</b>	<b>136.8</b>	<b>70.7</b>	<b>79.3</b>	<b>150.0</b>	<b>148.0</b>	<b>153.0</b>
Waterloo + Park Royal**	-	0.4	0.4	9.8	14.2	24.0	35.0	39.0
<b>Total London revenue</b>	<b>61.5</b>	<b>75.7</b>	<b>137.2</b>	<b>80.5</b>	<b>93.5</b>	<b>174.0</b>	<b>183.0</b>	<b>192.0</b>
Leeds and Nottingham	4.9	6.6	11.5	5.1	6.7	11.8	12.0	12.0
<b>UK</b>	<b>66.4</b>	<b>82.3</b>	<b>148.7</b>	<b>85.6</b>	<b>100.2</b>	<b>185.8</b>	<b>195.0</b>	<b>204.0</b>
The Netherlands (€m)***	29.6	29.4	59.0	28.9	25.2	54.1	56.0	60.5
Exchange rate	1.28	1.17	1.22	1.16	1.12	1.14	1.13	1.13
<b>The Netherlands</b>	<b>23.2</b>	<b>25.1</b>	<b>48.3</b>	<b>24.9</b>	<b>22.4</b>	<b>47.3</b>	<b>50.0</b>	<b>53.5</b>
Croatia (HRKm)****	92.1	333.6	425.7	125.2	354.6	479.8	495.0	515.0
Exchange rate	9.63	8.96	9.17	8.64	8.40	8.52	8.40	8.40
<b>Croatia</b>	<b>9.6</b>	<b>36.8</b>	<b>46.4</b>	<b>14.5</b>	<b>41.8</b>	<b>56.3</b>	<b>59.0</b>	<b>61.5</b>
<b>Germany and Hungary*****</b>	<b>10.6</b>	<b>14.5</b>	<b>25.0</b>	<b>14.4</b>	<b>16.3</b>	<b>30.7</b>	<b>31.0</b>	<b>32.5</b>
<b>Owned and leased hotels</b>	<b>109.7</b>	<b>158.4</b>	<b>268.1</b>	<b>139.4</b>	<b>180.7</b>	<b>320.1</b>	<b>335.0</b>	<b>351.5</b>
Management and holdings	1.8	2.6	4.4	2.4	2.6	5.0	5.0	5.5
<b>TOTAL</b>	<b>111.6</b>	<b>160.9</b>	<b>272.5</b>	<b>141.8</b>	<b>183.3</b>	<b>325.1</b>	<b>340.0</b>	<b>357.0</b>
<b>EBITDA</b>								
<b>UK</b>								
<b>London</b>								
Existing	20.3	29.4	49.7	23.4	29.1	52.5	50.5	50.5
Margin (%)	33	39	36	33	36	35	34	33
Waterloo + Park Royal**	-	(0.5)	(0.5)	1.8	4.2	6.0	10.5	12.5
<b>Total London EBITDA</b>	<b>20.3</b>	<b>28.9</b>	<b>49.2</b>	<b>25.2</b>	<b>33.3</b>	<b>58.5</b>	<b>61.0</b>	<b>63.0</b>
Leeds and Nottingham	0.7	1.2	1.9	0.8	1.2	2.0	2.0	2.0
<b>UK</b>	<b>21.0</b>	<b>30.1</b>	<b>51.1</b>	<b>26.0</b>	<b>34.5</b>	<b>60.5</b>	<b>63.0</b>	<b>65.0</b>
The Netherlands (€m)***	9.5	8.4	17.9	8.8	6.4	15.2	15.7	18.2
Exchange rate	1.28	1.17	1.22	1.16	1.12	1.14	1.13	1.13
<b>The Netherlands</b>	<b>7.4</b>	<b>7.2</b>	<b>14.6</b>	<b>7.5</b>	<b>5.8</b>	<b>13.3</b>	<b>14.0</b>	<b>16.0</b>
Croatia (HRKm)****	14.9	158.7	173.6	Neg.	159.1	159.1	165.0	170.0
Exchange rate	9.63	8.96	9.17	8.64	8.40	8.51	8.40	8.40
<b>Croatia**</b>	<b>1.5</b>	<b>17.4</b>	<b>18.9</b>	<b>Neg.</b>	<b>18.7</b>	<b>18.7</b>	<b>19.5</b>	<b>20.2</b>
<b>Germany and Hungary*****</b>	<b>(0.8)</b>	<b>1.7</b>	<b>0.9</b>	<b>1.7</b>	<b>2.6</b>	<b>4.3</b>	<b>4.5</b>	<b>5.3</b>
<b>Owned and leased hotels</b>	<b>29.2</b>	<b>56.3</b>	<b>85.5</b>	<b>35.2</b>	<b>61.6</b>	<b>96.8</b>	<b>101.0</b>	<b>106.5</b>
Management and holdings	3.3	5.3	8.6	4.7	5.8	10.5	11.0	11.5
<b>TOTAL</b>	<b>32.5</b>	<b>61.6</b>	<b>94.1</b>	<b>39.9</b>	<b>67.4</b>	<b>107.3</b>	<b>112.0</b>	<b>118.0</b>
Source: Edison Investment Research. Note: *Including Riverbank extension (184 rooms) from December 2016 and rooms off at Sherlock Holmes (estimated 30 in 2017 and 60 in 2018). **December 2016 Waterloo (494 rooms and April 2017 Park Royal (212 rooms). ***Notably rooms off at Victoria Amsterdam H217 and 2018. ****From April 2016. *****Including June 2016 Nuremberg (177 rooms), July 2016 termination of Berlin lease (155 rooms) and rooms off at art'otel berlin kudamm (estimated 30 in 2018).								

**Exhibit 2: Financial summary**

	£000s	2016	2017	2018e	2019e
Year-end 31 December		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		272,500	325,100	340,000	357,000
EBITDA		94,100	107,300	112,000	118,000
Operating Profit (before amort and except)		70,900	75,400	80,000	86,000
Intangible Amortisation		(2,500)	(2,400)	(2,500)	(2,500)
Operating Profit		68,400	73,000	77,500	83,500
Net Interest		(34,900)	(40,600)	(42,000)	(42,000)
Associates		(1,800)	(300)	0	0
Exceptionals		6,500	(400)	0	0
Profit Before Tax (norm)		34,200	34,500	38,000	44,000
Profit Before Tax (FRS 3)		38,200	31,700	35,500	41,500
Tax		(100)	(1,700)	(2,000)	(2,500)
Profit After Tax (norm)		34,100	32,800	36,000	41,500
Profit After Tax (FRS 3)		38,100	30,000	33,500	39,000
Average Number of Shares Outstanding (m)		42.2	42.2	42.3	42.3
EPS - normalised (p)		69.9	64.2	68.8	81.6
EPS - normalised fully diluted (p)		69.9	64.2	68.8	81.6
EPS - (IFRS) (p)		83.2	57.6	62.6	74.9
Dividend per share (p)		21.0	24.0	26.0	28.0
EBITDA Margin (%)		34.5	33.0	32.5	33.1
Operating Margin (before GW and except.) (%)		26.0	23.2	23.2	24.1
<b>BALANCE SHEET</b>					
Fixed Assets		1,122,300	1,220,200	1,223,000	1,206,000
Intangible Assets		25,200	23,600	23,000	23,000
Tangible Assets		947,200	1,037,200	1,040,000	1,025,000
Income units sold to private investors		122,500	121,200	118,000	115,000
Investments		27,400	38,200	42,000	43,000
Current Assets		195,600	319,800	278,000	303,000
Restricted deposits		25,500	25,500	25,000	25,000
Stocks		2,400	2,700	3,200	3,200
Debtors		12,600	13,400	13,800	13,800
Cash		144,700	265,700	222,000	237,000
Other		10,400	12,500	14,000	24,000
Current Liabilities		(173,000)	(93,100)	(81,000)	(80,000)
Creditors		(54,700)	(60,200)	(61,000)	(60,000)
Deposits from unit holders		0	0	0	0
Short term borrowings		(118,300)	(32,900)	(20,000)	(20,000)
Long Term Liabilities		(814,700)	(1,006,000)	(968,000)	(958,000)
Long term borrowings		(642,100)	(666,900)	(650,000)	(640,000)
Financial liability to unit holders		(134,000)	(131,600)	(128,000)	(128,000)
Other long term liabilities		(38,600)	(207,500)	(190,000)	(190,000)
Net Assets		330,200	440,900	452,000	471,000
<b>CASH FLOW</b>					
Operating Cash Flow		79,500	114,000	112,000	118,000
Net Interest		(37,300)	(43,100)	(43,000)	(43,000)
Tax		0	(700)	(2,400)	(3,000)
Capex		(87,300)	(107,000)	(35,000)	(35,000)
Acquisitions/disposals		(64,300)	152,400	(35,000)	0
Exchange rate		(26,700)	(9,000)	(1,000)	0
Dividends		(50,600)	(9,300)	(10,500)	(11,400)
Other		(500)	79,500	0	(600)
Net Cash Flow		(187,200)	176,800	(14,900)	25,000
Opening net debt/(cash)		397,700	584,900	408,100	423,000
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		584,900	408,100	423,000	398,000

Source: PPHE Hotel Group accounts, Edison Investment Research

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