

PPHE Hotel Group

Half-year results

Asset value growth to the fore

PPHE continues to please, with resilient H1 operating results complemented by first-time disclosure of EPRA reporting, which highlights its real estate business with EPRA NAV of £24.21 at June 2018, significantly ahead of the current share price. A fine record of value creation (21% CAGR in NAV over the seven years to end-2017, as newly presented) should underpin the company's ability to leverage on its assets, in addition to reinvestment potential from £152m excess cash. H1 saw maintained like-for-like EBITDA against a "very strong" comparative in London, PPHE's major market, and renovations in the Netherlands. Encouraging trading in its seasonally stronger H2 supports guidance that 2018 expectations are unchanged. The interim dividend is raised by 45%.

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**	13.4
12/17	325.1	107.3	34.5	64.2	24.0	10.1
12/18e	340.0	112.0	38.0	68.8	34.0	10.0
12/19e	350.0	118.0	44.0	81.6	36.0	9.3

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

H1 defiance

Despite headwinds in PPHE's two main first-half markets (London and Amsterdam), like-for-like EBITDA held steady on 4% higher revenue. While regional performance is not disclosed, we assume core London RevPAR to have matched the market, which was down 1% against recovery-led +10% buoyancy in H117. The 7% rise in UK EBITDA was driven by key 2017 openings, Waterloo and Park Royal, which are maturing well. Also as expected, the Netherlands shortfall (EBITDA down 5%) was due to renovations (estimated 7% rooms off with associated disruption), notably at flagship Victoria Amsterdam. By contrast, Croatia, usually lossmaking in H1, moved into profit, thanks to 10% higher revenue, boosted by a favourable calendar and investment. Germany and Hungary gained across the board (EBITDA up by 26%).

More of the same

On stated investment plans, we remain comfortable with our H218 forecasts, bar slight adjustment to mix and net debt (raised 4%). EBITDA growth will be driven by investment in London, Croatia and Amsterdam, while H1 shows costs in core London can be contained (we still expect lower y-o-y margin). 2019 is less clear, as management focuses on exploiting flexibility post-Waterloo and Arena fund-raising.

Valuation: Way to go

While refinancing valuations had drawn attention to substantial hidden reserves, EPRA reporting should enhance recognition of PPHE's investment case. EPRA NAV of £24.21 at June 2018 means an excess of c £680m over book value. Likely investment activity should accentuate this, given the strong development record. In operational terms, at 10x 2018e EV/EBITDA excluding the Waterloo finance lease, the rating compares well with an average of c 11x 2018e for branded European peers.

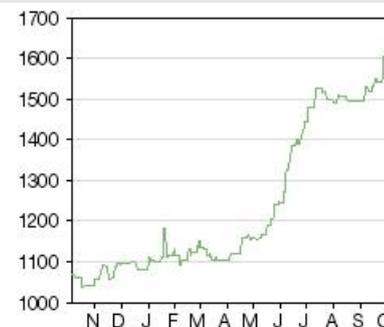
Travel & leisure

4 October 2018

Price 1,620p
Market cap £685m

Net bank debt (£m) at June 2018	474.0
Shares in issue	42.3m
Free float	23%
Code	PPH
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	8.4	9.5	50.7
Rel (local)	8.7	10.8	49.6
52-week high/low		1620p	1038p

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

Trading update	Late October 2018
Edison London site visit and roadshow	8 and 15 November

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Financials

Exhibit 1: Analysis of revenue and profit								
Year-end December (£m)	H117	H217	FY17	H118	H218e	FY18e	2019e	
Revenue								
UK								
London								
RevPAR	£130	£150	£140	£128	£152	£140	£140	
Change	+10%	Flat	+4%	-1%	+1%	Flat	Flat	
Available rooms	2052*	2052*	2052*	2052*	2052*	2052*	2072*	
Room revenue	48.2	56.3	104.5	47.5	57.5	105.0	106.0	
Non-room revenue	22.5	23.0	45.5	22.2	23.3	45.5	46.0	
Existing revenue	70.7	79.3	150.0	69.7	80.8	150.5	152.0	
Waterloo + Park Royal**	9.8	14.2	24.0	14.5	18.5	33.0	38.5	
Total London revenue	80.5	93.5	174.0	84.2	99.3	183.5	190.5	
Leeds and Nottingham	5.1	6.7	11.8	5.4	7.1	12.5	12.5	
UK	85.6	100.2	185.8	89.6	106.4	196.0	203.0	
Netherlands (€m)***								
Netherlands	28.9	25.2	54.1	28.2	27.8	56.0	58.0	
Exchange rate	1.16	1.12	1.14	1.14	1.14	1.14	1.14	
Netherlands	24.9	22.4	47.3	24.8	24.2	49.0	51.0	
Croatia (HRKm)								
Croatia	125.2	354.6	479.8	137.3	363.7	501.0	513.0	
Exchange rate	8.64	8.40	8.52	8.42	8.28	835	8.28	
Croatia	14.5	41.8	56.3	16.3	43.7	60.0	62.0	
Germany and Hungary****	14.4	16.3	30.7	15.9	14.1	30.0	29.0	
Owned & leased hotels	139.4	180.7	320.1	146.6	188.4	335.0	345.0	
Management and holdings	2.4	2.6	5.0	2.2	2.8	5.0	5.0	
TOTAL	141.8	183.3	325.1	148.8	191.2	340.0	350.0	
EBITDA								
UK								
London								
Existing	23.4	29.1	52.5	22.5	29.0	51.5	50.5	
Margin	33%	37%	35%	32%	36%	34%	33%	
Waterloo + Park Royal**	1.8	4.2	6.0	4.5	5.9	10.4	12.3	
Total London EBITDA	25.2	33.3	58.5	27.0	34.9	61.9	62.8	
Leeds and Nottingham	0.8	1.2	2.0	0.9	1.2	2.1	2.2	
UK	26.0	34.5	60.5	27.9	36.1	64.0	65.0	
Netherlands (€m)***								
Netherlands	8.8	6.4	15.2	8.1	7.4	15.5	17.3	
Exchange rate	1.16	1.12	1.14	1.14	1.14	1.14	1.14	
Netherlands	7.5	5.8	13.3	7.1	6.4	13.5	15.2	
Croatia (HRKm)								
Croatia	Neg.	159.1	159.1	0.8	167.7	167.5	182.0	
Exchange rate	8.64	8.40	8.51	8.42	8.28	8.35	8.28	
Croatia**	Neg.	18.7	18.7	0.1	19.9	20.0	22.0	
Germany and Hungary****	1.7	2.6	4.3	2.1	2.9	5.0	5.3	
Owned & leased hotels	35.2	61.6	96.8	37.2	65.3	102.5	107.5	
Management and holdings	4.7	5.8	10.5	3.4	6.1	9.5	10.5	
TOTAL	39.9	67.4	107.3	40.6	71.4	112.0	118.0	

Source: Edison Investment Research. Note: *Rooms off at Sherlock Holmes (estimated 30 in 2017 and 2018 and 10 in 2019). **December 2016 Waterloo (494 rooms) and April 2017 Park Royal (212 rooms). ***Rooms off notably in Amsterdam (Victoria H217 and H118 and Vondelpark H218 and H119). ****Termination of Dresden lease (174 rooms) and rooms off at art'otel berlin kudamm (estimated 50 in H218 and 2019).

Exhibit 2: Financial summary

£000s	2015	2016	2017	2018e	2019e
	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Year-end 31 December					
Revenue	218,700	272,500	325,100	340,000	350,000
EBITDA	80,100	94,100	107,300	112,000	118,000
Operating Profit (before amort and except)	63,100	70,900	75,400	80,000	86,000
Intangible Amortisation	(2,000)	(2,500)	(2,400)	(2,500)	(2,500)
Operating Profit	61,100	68,400	73,000	77,500	83,500
Net Interest	(29,300)	(34,900)	(40,600)	(42,000)	(42,000)
Associates	(2,000)	(1,800)	(300)	0	0
Exceptionals	(1,800)	6,500	(400)	11,300	0
Profit Before Tax (norm)	31,800	34,200	34,500	38,000	44,000
Profit Before Tax (FRS 3)	28,000	38,200	31,700	46,800	41,500
Tax	1,200	(100)	(1,700)	(2,000)	(2,500)
Profit After Tax (norm)	33,000	34,100	32,800	36,000	41,500
Profit After Tax (FRS 3)	29,200	38,100	30,000	44,800	39,000
Average Number of Shares Outstanding (m)	41.8	42.2	42.2	42.3	42.3
EPS - normalised (p)	76.1	69.9	64.2	68.8	81.6
EPS - normalised fully diluted (p)	76.1	69.9	64.2	68.8	81.6
EPS - (IFRS) (p)	69.9	83.2	57.6	89.4	74.9
Dividend per share (p)	20.0	21.0	24.0	34.0	36.0
EBITDA Margin (%)	36.6	34.5	33.0	32.9	33.7
Operating Margin (before GW and except.) (%)	28.9	26.0	23.2	23.5	24.6
BALANCE SHEET					
Fixed Assets	885,600	1,122,300	1,220,200	1,253,000	1,233,000
Intangible Assets	21,900	25,200	23,600	23,000	23,000
Tangible Assets	687,500	947,200	1,037,200	1,074,000	1,055,000
Income units sold to private investors	125,500	122,500	121,200	118,000	115,000
Investments	50,700	27,400	38,200	38,000	40,000
Current Assets	71,700	195,600	319,800	261,000	276,000
Restricted deposits	3,200	25,500	25,500	25,000	25,000
Stocks	1,000	2,400	2,700	3,200	3,200
Debtors	9,100	12,600	13,400	13,800	13,800
Cash	50,600	144,700	265,700	205,000	220,000
Other	7,800	10,400	12,500	14,000	14,000
Current Liabilities	(59,900)	(173,000)	(93,100)	(76,000)	(80,000)
Creditors	(48,500)	(54,700)	(60,200)	(61,000)	(60,000)
Deposits from unit holders	0	0	0	0	0
Short term borrowings	(11,400)	(118,300)	(32,900)	(15,000)	(20,000)
Long Term Liabilities	(629,500)	(814,700)	(1,006,000)	(973,000)	(948,000)
Long term borrowings	(440,100)	(642,100)	(666,900)	(655,000)	(640,000)
Financial liability to unit holders	(136,200)	(134,000)	(131,600)	(128,000)	(128,000)
Other long term liabilities	(53,200)	(38,600)	(207,500)	(190,000)	(180,000)
Net Assets	267,900	330,200	440,900	465,000	481,000
CASH FLOW					
Operating Cash Flow	83,200	79,500	114,000	112,000	118,000
Net Interest	(32,500)	(37,300)	(43,100)	(41,000)	(41,000)
Tax	(100)	0	(700)	(1,400)	(2,000)
Capex	(63,100)	(87,300)	(107,000)	(55,000)	(35,000)
Acquisitions/disposals	(3,600)	(64,300)	152,400	(35,000)	0
Exchange rate	6,000	(26,700)	(9,000)	1,000	0
Dividends	(8,300)	(50,600)	(9,300)	(12,500)	(14,800)
Other	(5,800)	(500)	79,500	0	(200)
Net Cash Flow	(24,200)	(187,200)	176,800	(31,900)	25,000
Opening net debt/(cash)	373,500	397,700	584,900	408,100	440,000
HP finance leases initiated	0	0	0	0	0
Other	0	0	0	0	0
Closing net debt/(cash)	397,700	584,900	408,100	440,000	415,000

Source: PPHE, Edison Investment Research

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