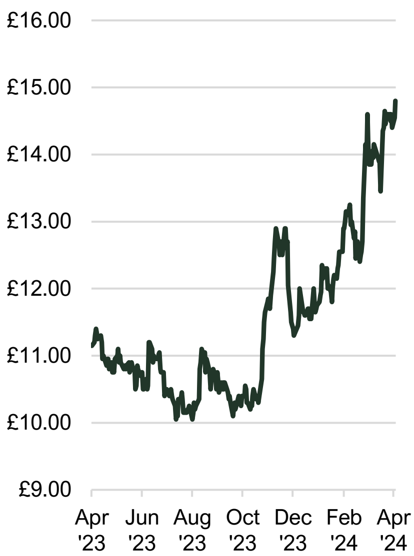
h2Radnor

PPHE Hotel Group Limited

PPH | FTSE 250 | Travel & Leisure | 1490p | £623m

Q124 update – trading is in line

1 Year Chart



PPHE has released its usual Q1 trading update (31 March period-end) which reads reassuringly. The outlook says that "*the Board remains confident in delivering full year performance in line with market expectations*".

Revenue rose by 11.9%, from £68.8m to £77.0m. Growth was 11.0% on a Like-for-like (LFL) basis excluding the first three months of operation from art'otel Zagreb, Croatia. Revenue growth was driven by a rise in occupancy as room rates continued to normalise across both leisure, corporate and meetings and events segments, as well as an increase in operational days in the Croatian portfolio, particularly Grand Hotel Brioni (which we note opened in May 2022 and traded its first full summer season in 2023), and the leap year benefit across all markets.

We have maintained our estimates, which include 8.6% revenue growth for FY24 which we feel comfortable with given the 11.9% increase in Q124. We note that Q1 is always the Group's quieter quarter and that Q2 faces a tough comparable as last year it included King Charles III's coronation which boosted hotel demand in London, PPHE's main city.

PPHE Hotel Group Limited is a research client of H2 Radnor Ltd.

MiFID II – this research is deemed to be a minor, non-monetary benefit.

- **The +£300m pipeline** is nearing completion. PPHE reiterated the point that it expects at least £25m of incremental EBITDA will be added to upon stabilisation of trading across all the new hotels. Of the four hotels in the pipeline, trading at the recently opened art'otel Zagreb, Croatia (October 2023) and Radisson RED Belgrade, Serbia (February 2024) has been encouraging. The soft opening of art'otel, London Hoxton, took place in line with plans on 24 April 2024 and customer interest has been strong, and booking activity is expected to ramp up over the coming months as a managed phased opening occurs. The art'otel Rome Piazza Sallustio is on track to open in coming months.
- **Valuation**; we believe that the Group's share price is cheap at £14.90, a 44% discount to the EPRA NRV of £26.72. Our illustrative fair value of £27.38, which is based on a four-stage Sum of the Parts (SOTP) model, is 2% higher than the EPRA NRV mainly as we incorporate assets which are not included in it; the management platform and two undeveloped land sites (New York and London Waterloo). We set out our SOTP at the end.

25 April 2024

Robert Plant

rplant@h2radnor.com

+44 (0) 203 897 1846

YE Dec, £m	Revenue	EBITDA	EPS (p)[1]	Div (p)	Net Debt	EPRA NRV (£)	PER[1]	Yield %
FY 2022A	330.1	94.6	49.8	15.0	(682.6)	25.17	29.9	1.0
FY 2023A	414.6	128.2	117.7	36.0	(725.3)	26.72	12.7	2.4
FY 2024E	*450.3*	*142.9*	*123.2*	*37.0*	*(715.4)*		*12.1*	*2.5*
FY 2025E	*485.6*	*162.2*	*141.4*	*42.4*	*(658.9)*		*10.5*	*2.8*
FY 2026E	*499.1*	*170.4*	*161.8*	*48.6*	*(596.8)*		*9.2*	*3.3*

[1] EPRA Adjusted EPS *Source: h2Radnor*

Q1 trading update - key additional points

- **Regionally**, we thought it interesting that there appears to have been a switch towards stronger growth in Germany and Croatia, whereas in FY23 performance was led by the UK and the Netherlands. PPHE does not provide regional data in the quarterly updates but said that demand in the UK and the Netherlands was solid, while Germany benefitted from a continued recovery and trading in Croatia also showed positive early signs into its peak summer period.

- **RevPAR** (revenue per available room), calculated by multiplying average room rate by occupancy rate rose by 1.9%, from £96.2 to £98.1, with a 3.3% increase on a LFL basis to £99.4.

- **Occupancy**; the rise in RevPar, resulted from the continued strengthening in occupancy which rose by 5.2%, from 66.9% to 70.4%, with a 6.6% increase on LFL basis to 71.3%.

- **Average room rate**, in contrast, declined by 3.1%, from £143.7 to £139.3, with a 3.0% reduction on LFL basis to £139.3. We note that initially after Covid, the Group prioritised rates over occupancy, partly due to higher costs, but more recently has focussed on increasing occupancy.

- **Longer-term pipeline**; in addition to the +£300m pipeline, PPHE has further opportunities within its longer-term pipeline and in the statement it mentioned Park Plaza hotel in London Victoria, where it has secured planning permission for an innovative 179-room subterranean property. Plus, the statement added that planning processes are in place across a number of other sites both in London and overseas, with further opportunities presented also through the Group's ongoing partnership with the Radisson Hotel Group. In our initiation note from December (available on request) we highlighted a number of other opportunities for PPHE where it has undeveloped land including near its existing properties at London Waterloo and London Park Royal, land currently occupied by its campsites in Croatia which could be developed into more valuable hotels and resorts and its site in New York.

- **Radisson RED Berlin Kudamm**; in January, PPHE announced that Park Plaza Berlin Kudamm was to reopen in Q224 as the Radisson RED Berlin Kudamm following extensive renovation works. The Q124 update says that summer bookings are now being taken for guest arrivals from 10 June 2024 to take advantage of the high level of demand in the city ahead of football's UEFA European Championship in June and July. We believe that there is a good opportunity, over time, for PPHE to renovate other hotels in its portfolio, resulting in higher average room rates.

- **The current trading and outlook** reads reassuringly saying that "*booking activity remains healthy, with overall forward booking levels consistent with 2023 levels. The Croatia summer season begins soon and elevated demand for meetings and events is providing further visibility across our other geographies. Further progress on rebuilding occupancy is expected to be made, whilst remaining diligent on rate and maximising profitability. The pipeline assets (as* *detailed above) are steadily ramping up, actively contributing to EBITDA. The Board remains confident in delivering full year performance in line with market expectations*".

- **Greg Hegarty** appointed as Co-CEO (announced 8 February 2024), responsible for managing the day-to-day running of the business as well as having a key role in defining and implementing the Group's long-term strategy.

Below, we include a table of the Group's recent quarterly figures. PPHE provides the quarterly figures for Q1, Q2 and Q3 but only gives the annual figure at year end so we calculate the figures for Q4 which as a result may not be exactly correct (Figure 1).

Figure 1: PPHE quarterly performance (on a reported basis)

December year end	Q123	Q223	H123	Q323	Q423	FY23	Q124
Revenue (£m)	68.8	111.2	180.0	141.0	93.6	414.6	77.0
Annual change	*115.0%*	*36.9%*	*59.0%*	*8.8%*	*7.2%*	*25.6%*	*11.9%*
Room revenue (£m)	50.4	83.2	133.6	98.6	67.9	300.1	55.2
Annual change	*124.0%*	*40.0%*	*62.9%*	*8.6%*	*4.5%*	*26.2%*	*9.6%*
RevPAR (£)	96.2	121.0	110.3	136.7	128.9	120.7	98.1
Annual change	*126.4%*	*38.2%*	*62.6%*	*10.3%*	*(1.5%)*	*25.5%*	*1.9%*
Average room rate (£)	143.7	171.0	159.6	176.4	176.1	166.8	139.3
Annual change	*15.8%*	*14.8%*	*13.1%*	*0.8%*	*(9.0%)*	*4.0%*	*(3.1%)*
Occupancy	66.9%	70.8%	69.1%	77.5%	74.4%	72.4%	70.4%
Annual change	*95.6%*	*20.4%*	*44.0%*	*9.5%*	*(2.4%)*	*20.7%*	*5.2%*

Source: Company, h2Radnor

PPHE valuation

Sum of the parts valuation

Our illustrative equity fair value of £27.38 per share is based on a four-stage SOTP model, using an EV of £2,341m and an equity value of £1,165m (Figure 2).

Figure 2: SOTP valuation of PPHE

SOTP Valuation		
EV	**Value (£m)**	**%of EV**
DCF of PPHE's core portfolio	1,630	70
DCF of PPHE's development pipeline	524	22
Multiple value of PPHE's management platform	108	5
Other assets	80	3
Total	**2,341**	**100**
Deferred tax on revaluation of properties	(39)	
Net debt (FY24E)	(715)	
Equity value	**1,587**	
Minorities of the core - subtotal	(267)	
Minorities of the development pipeline - subtotal	(155)	
Minority total	**(422)**	
Equity value to PPHE shareholders	**1,165**	
Number of shares (m)	42.5	
Value per share (£)	**27.38**	

Source: Company, h2Radnor

Stage 1 – DCF of the core

The main value, accounting for 70% of the EV within our SOTP, is a DCF of the core existing hotels and resorts portfolio at £1,630m (Figure 3). As a base, we use our P&L forecast of £145m of EBITDA in FY24, reduced by the £10m we forecast for the development pipeline and £12m for the management platform as we model these two separately. Our terminal growth rate is 0.5%.

Figure 3: DCF of PPHE's core portfolio (£m)

December year end	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E
Revenue	**388**	**404**	**420**	**437**	**450**	**463**	**477**	**492**	**506**	**522**
Growth		4.0%	4.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
EBITDA	121	126	132	138	142	147	151	156	161	166
Margin	31.2%	31.3%	31.4%	31.5%	31.6%	31.7%	31.7%	31.8%	31.9%	31.9%
Income unit liability	(15)	(15)	(15)	(16)	(16)	(17)	(17)	(18)	(18)	(19)
Interest expense on lease liabilities	(10)	(10)	(11)	(11)	(11)	(12)	(12)	(13)	(13)	(13)
Working capital	0	0	0	0	0	0	0	0	0	0
Maintence capex	(16)	(16)	(17)	(17)	(18)	(19)	(19)	(20)	(20)	(21)
Free cash	**81**	**85**	**89**	**93**	**96**	**100**	**103**	**106**	**110**	**114**
Present value	76	75	74	73	70	68	66	64	63	61
Value										
Total present value of forecast period	691									
Terminal value	939									
Total	**1,630**									

Source: Company, h2Radnor

We use a WACC of 6.5%, based on a cost of equity of 8.4% and a cost of debt of 5.0% (Figures 4 and 5).

Figure 4: WACC for PPHE

WACC	
Cost of equity	8.4%
Cost of debt	5.0%
Total	**6.5%**

Source: Company, h2Radnor

Figure 5: Inputs to WACC for PPHE

Cost of equity	
Risk free rate	4.5%
Equity risk premium	3.5%
Beta	1.1
Total	**8.4%**

Source: Company, h2Radnor

Stage 2 – DCF of the development pipeline

We have a separate DCF value for the development pipeline worth £524m, comprising 22% of the EV within our SOTP (Figure 6). The Group has said that post the opening of the four new hotels trading will stabilise at £25m of EBITDA, which we assume will be in FY25. Given that these will be new hotels, we model a slightly higher revenue growth rate and margin progression than for the core portfolio DCF. We use the same WACC and terminal growth rate as for the core portfolio DCF.

Figure 6: DCF of PPHE's development pipeline (£m)

December year end	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E
Revenue	**32**	**77**	**92**	**97**	**102**	**107**	**112**	**118**	**124**	**130**
Growth		140.0%	20.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
EBITDA	**10**	**25**	**30**	**32**	**34**	**35**	**37**	**40**	**42**	**44**
Margin	31.0%	32.0%	33.0%	33.0%	33.1%	33.2%	33.4%	33.6%	33.9%	34.1%
Working capital	0	0	0	0	0	0	0	0	0	0
Maintence capex	(1)	(3)	(4)	(4)	(4)	(4)	(4)	(5)	(5)	(5)
Maintence capex/revenue	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Free cash	**9**	**22**	**27**	**28**	**30**	**31**	**33**	**35**	**37**	**39**
Present value	8	19	22	22	22	21	21	21	21	21
Value										
Total present value of the forecast period	198									
Terminal value	326									
Total	**524**									

Source: Company, h2Radnor

Stage 3 – multiple of the management platform

The third stage of our SOTP, is to value PPHE's management platform and this accounts for 5% of our EV (Figure 7). In an extreme example, if the Group sold all of its portfolio under existing management agreements it would still have a management platform, managing all hotels and resorts without owning them. The EPRA NRV does not account for the management platform as it only values the owned assets and the development pipeline.

We assume that the management platform will generate £12m of EBITDA in FY24, which we remove from our core DCF. We use 9.0x EV/EBITDA, which is the median FY24 valuation of the hotel peer group we have chosen for PPHE, which generates a value of £108m.

Figure 7: Multiple valuation of PPHE's management platform

Operating company	FY24
Revenue (£m)	**30.0**
EBITDA (£m)	**12.0**
Margin (%)	40.0
EV/EBITDA (x)	9.0
EV (£m)	**108.0**

Source: Company, Radnor

Stage 4 – Other assets

The fourth stage of our SOTP, is to value four other assets; two assets which contribute below EBITDA and two land sites, which we add in at a collective £80m and this accounts for 3% of our EV (Figure 8).

The EPRA NRV does include the Income Units and two German JVs but not the New York or Waterloo sites.

1) the Income Units in Park Plaza County Hall London which PPHE owns, valued at £16m.

2) the fair value of PPHE's part of the two German JVs, which had an EPRA NRV of £18m.

3) the New York site, bought at $42m (£34m).

4) the Waterloo site, where planning is pending, bought at £12m.

Our 'other assets' does not include any value for three other potential developments set out below. Projects are included in the balance sheet at cost and will be valued once developed, and currently these three potential projects are all at nil albeit they could have value once developed.

1) the Group has planning permission to develop a 465-key hotel on the site adjacent to its Park Plaza London Park Royal property for which it is designing plans.

2) the Group has planning permission for a new 179-room hotel, converting 6.5k sqm of subterranean space within the Park Plaza Victoria property.

3) the Group could develop the land in Croatia currently occupied by campsites into more valuable hotels and resorts.

Figure 8: Value of PPHE's other assets

Other assets	£m
The Income Units in Park Plaza County Hall	16
The fair value of PPHE's part of the two German JVs	18
The New York site	34
The Waterloo site	12
Total	**80**

Source: Company, Radnor

For the net debt of the core, we use our forecast net debt of £715m for FY24 as this captures the last year of the expansion capex for the development pipeline.

For the minorities of the core, we use £267m as the EPRA NRV of the minorities was £317m and we reduce this by £50m which was the minority value ascribed to Hoxton when this development was announced in 2021.

The four hotels in the Group's development pipeline will all include minorities, with Belgrade at 48%, Hoxton at 49%, Rome at 49% and Zagreb at 48% and we use 49% overall. We take our DCF value for the development pipeline of £524m, then assume debt of £207m, which gives an equity value of £317m and we take 49% of this to generate a minority value of £155m (Figure 9).

Figure 9: Minority value of PPHE's development pipeline

Value	Amount (£m)
DCF of PPHE's development pipeline	524
Debt of the development pipeline	(207)
Equity value of pipeline	**317**
Minority	49%
Value of minorities	**155**

Source: Company, Radnor

Historically, PPHE has had low/no tax, partly reflecting its substantial capital allowances. Instead of deducting tax in our DCF, we deduct £39m in our SOTP, which is the deferred tax on revaluation of properties in the EPRA Net Disposal Value (NDV), which is effectively the tax that PPHE would pay upon portfolio sale.

PPHE Hotel Group

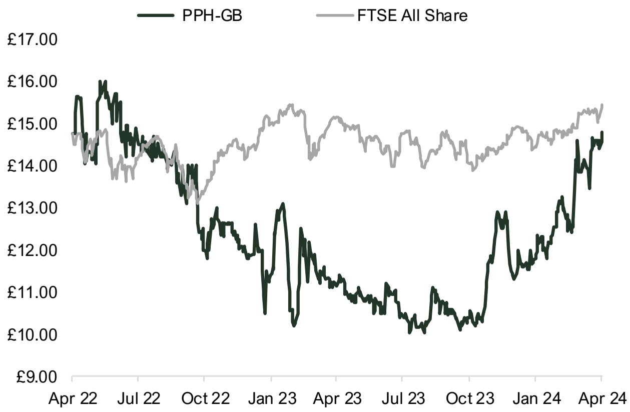
Robert Plant
+44 203 897 1846
rplant@h2radnor.com

Price (p):	**1490 p**
Market Cap:	623 m
EV:	1338 m

PROFIT & LOSS

Year to 31 December, £m	2022	2023	2024E	2025E	2026E
UK	*190.1*	*234.9*	*253.6*	*272.4*	*277.7*
Netherlands	*41.6*	*63.3*	*65.4*	*68.6*	*71.6*
Croatia	*69.2*	*78.1*	*81.4*	*85.2*	*88.2*
Germany	*17.7*	*22.8*	*23.3*	*24.5*	*25.4*
Other Markets	*6.3*	*7.9*	*17.7*	*24.9*	*25.8*
Mgmt / Central	*5.1*	*7.6*	*8.8*	*10.0*	*10.3*
Group Revenue	**330.1**	**414.6**	**450.3**	**485.6**	**499.1**
Op. Exp.	(235.5)	(286.4)	(307.3)	(323.4)	(328.7)
EBITDA	**94.6**	**128.2**	**142.9**	**162.2**	**170.4**
EBITDA margin %	*28.7%*	*30.9%*	*31.7%*	*33.4%*	*34.1%*
Depr & Amortisation	(40.0)	(45.1)	(53.6)	(57.8)	(59.4)
EBITA - Adjusted	**54.6**	**83.1**	**89.4**	**104.4**	**111.0**
Associates & JV's	0.2	(0.1)	(0.1)	(0.1)	(0.1)
Income unit liability	(10.8)	(14.2)	(14.6)	(14.5)	(14.5)
Net Bank Interest	(35.7)	(31.4)	(43.2)	(40.9)	(38.8)
Other operating items	0.0	0.0	5.2	-	-
PBT - Adjusted	**8.3**	**37.5**	**36.7**	**48.9**	**57.6**
Non Operating Items	3.2	(8.7)	(5.2)	-	-
PBT - IFRS	**11.5**	**28.8**	**31.5**	**48.9**	**57.6**
Tax - Adjusted	2.4	(2.2)	(5.5)	(7.3)	(8.6)
Tax rate - Adjusted	*-29.3%*	*5.8%*	*15.0%*	*15.0%*	*15.0%*
Minority interests	(4.7)	(4.7)	(3.1)	(7.3)	(7.5)
No. shares m, diluted	42.5	42.5	42.5	42.5	42.5
Adj EPS (p), diluted	14.2	71.9	66.0	80.6	97.4
EPRA adjusted EPS (p)	**49.8**	**117.7**	**123.2**	**141.4**	**161.8**
Total DPS (p)	15.0	36.0	37.0	42.4	48.6

PRICE CHART - 2 YEAR ABSOLUTE vs FTSE ALL SHARE



Source: FactSet

SHAREHOLDERS

	% of ord. Share capital
Euro Plaza	28.6%
Boris Ivesha	10.9%
Clal Insurance	8.2%
Aroundtown Property	7.7%
Harel Insurance	6.9%
Eli Papouchado	3.6%
UBS	3.4%
	69.3%

CASH FLOW

Year to 31 December, £m	2022	2023	2024E	2025E	2026E
Gross Op Cashflow	95.3	127.5	142.0	161.3	169.5
Net Op Cashflow	56.7	78.4	79.5	98.6	107.5
Free Cashflow	**38.6**	**57.7**	**57.2**	**74.6**	**82.8**
Net Cashflow	(53.5)	(44.6)	9.9	56.4	62.2

Announcements

Date	Event
February 2024	Greg Hegarty appointed co-CEO
January 2024	Year end trading update
January 2024	First Radisson RED in Berlin
November 2023	London planning permission
November 2023	London art'otel opening March 2024
October 2023	Trading update
September 2023	Zagreb art'otel opening
August 2023	H1 results

BALANCE SHEET

Year to 31 December, £m	2022	2023	2024E	2025E	2026E
Intangibles	12.8	10.7	8.0	5.1	2.1
P,P+E	1,335.2	1,412.8	1,413.0	1,380.4	1,347.0
Right of Use Asset	225.4	229.2	228.1	225.2	222.3
Tax Asset & Other	65.1	58.9	58.9	58.9	58.9
Total Fixed Assets	**1,638.5**	**1,711.6**	**1,708.0**	**1,669.7**	**1,630.3**
Current Assets	39.6	44.4	45.8	47.2	48.7
Current Liabilities	(94.4)	(94.0)	(95.3)	(96.8)	(98.3)
Net Current Assets	**(54.8)**	**(49.5)**	**(49.5)**	**(49.5)**	**(49.5)**
Long Term Liabilities	(397.8)	(405.6)	(405.2)	(404.5)	(403.6)
Net Cash (Debt)	(682.6)	(725.3)	(715.4)	(658.9)	(596.8)
Net Assets	**503.2**	**531.1**	**537.9**	**556.7**	**580.4**

RATIOS

	2022	2023	2024E	2025E	2026E
RoE	3.0%	7.5%	6.4%	8.8%	9.7%
RoCE*	6.9%	8.9%	10.0%	11.7%	12.8%
Asset Turnover (x)	5.0x	4.1x	3.8x	3.4x	3.3x
NWC % Revenue	-16.6%	-11.9%	-11.0%	-10.2%	-9.9%
Op Cash % EBITA	174.6%	153.4%	159.0%	154.5%	152.7%
EBITDA / interest x	2.6x	4.1x	3.3x	4.0x	4.4x

GROWTH

YoY growth	2022	2023	2024E	2025E	2026E
Revenue	133%	26%	9%	8%	3%
EBITDA	277%	35%	12%	13%	5%
EPRA EPS	n/a	136%	5%	15%	14%
Dividend	n/a	140%	3%	15%	14%

VALUATION

Fiscal	2022	2023	2024E	2025E	2026E
P/E	29.9x	12.7x	12.1x	10.5x	9.2x
EV/EBITDA	14.1x	10.4x	9.4x	8.2x	7.9x
Div Yield	1.0%	2.4%	2.5%	2.8%	3.3%
FCF Yield	2.9%	4.3%	4.3%	5.6%	6.2%

** RoCE defined as EBITDA minus 4% of revenue as a real world depreciation equivalent*

REGULATORY DISCLOSURES

H2 Radnor Ltd is authorised and regulated by the Financial Conduct Authority.

H2 Radnor Ltd
68 King William Street
London
EC4N 7HR

www.h2radnor.com

DISCLAIMER

This report is not intended as a solicitation or inducement to buy, sell, subscribe or underwrite any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. However, H2 Radnor Ltd does have strict rules relating to personal dealings by individuals employed or instructed to help prepare investment research. A copy of these rules is available upon request. H2 Radnor Ltd does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contracted persons or entities may have a position in any or related securities mentioned in this report. H2 Radnor Ltd, or its affiliates, may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and can be subject to volatility. In addition, it may be difficult to or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. To the maximum extent permitted by law, H2 Radnor Ltd, or its affiliates and their respective directors, officers and employees will not be held liable for any loss or damage as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication.