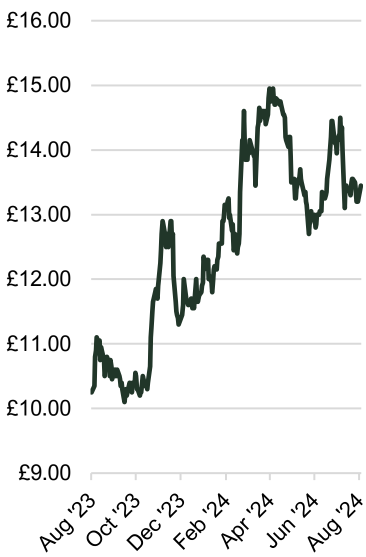
h2Radnor

PPHE Hotel Group Limited

PPH | FTSE 250 | Travel & Leisure | 1345p | £565m

H1 – good trading in the core, slight delay in pipeline

1 Year Chart



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.

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PPHE's H124 results (June period end) showed good trading across the portfolio with like-for-like (LFL) growth of 4.3% in revenue and 10.9% in EBITDA. We highlight the fact that record revenues were achieved despite a tough comparable and a more measured travel market backdrop. The EBITDA margin rose from 25.1% to 26.7% on a LFL basis through a combination of occupancy growth, efficiencies and enhancements.

The £300+ million, four-hotel, pipeline (Radisson RED Belgrade, art'otel London Hoxton, art'otel Rome Piazza Sallustio Rome and art'otel Zagreb) is nearing completion. However, London Hoxton, Rome and Zagreb are taking slightly longer to officially open than initially expected which we think reflects the Group's focus on ensuring successful launches.

We have reduced our EBITDA forecasts by 3% in FY24, 9% in FY25 and 2% in FY26, with improved assumptions for trading in the existing portfolio offset by a delay in the contribution of EBITDA from the pipeline. Reflecting our estimate changes we have also lowered our illustrative fair value by 2% from £27.38 to £26.76.

- **On the pipeline,** 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. London Hoxton, the largest of the pipeline hotels, successfully soft launched in April and has received excellent guest feedback and reviews and the phased launch programme continues to plan working towards a full operational capacity of 357 rooms and suites. Works are nearing completion on Rome and the hotel is now expected to open in Q424 or Q125. In Croatia, Zagreb had a soft opening in October 2023 with full facilities open from April, the hotel is ramping up currently and is expected to have a positive EBITDA contribution from next year onwards.
- **Valuation**; we believe that the Group's share price is cheap at £13.45 a 49% discount to the EPRA NRV of £26.24. Our illustrative fair value of £26.76, 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.

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	27.0	1.1
FY 2023A	414.6	128.2	117.7	36.0	(725.3)	26.72	11.4	2.7
FY 2024E	429.1	138.1	118.0	37.0	(718.5)		11.4	2.8
FY 2025E	448.7	147.3	128.0	42.4	(671.7)		10.5	3.2
FY 2026E	487.2	167.0	169.7	48.6	(612.0)		7.9	3.6

[1] EPRA Adjusted EPS — *Source: h2Radnor*

H1 results - key additional points

- **Revenue** rose by 6.1% on a reported basis and by 4.3% on a LFL basis and we think this growth is impressive given that PPHE had a strong comparative in 2023, the initial bounce in post-Covid travel has probably passed and the macro-environment has been tough. The LFL figures exclude the openings of London Hoxton and Zagreb. LFL revenue growth was 11.0% in Q1 and 0.2% in Q2. UK revenues were flat on a LFL basis (£110.2m versus £110.0m last year) but the other regions performed well. We note that the UK had a particularly strong comparator due to the Coronation of King Charles III in May 2023 which boosted visitors to PPHE's central London hotels. Also in the UK, as mentioned by PPHE earlier, corporate travel was slower in the first half than anticipated hence the Group's focus on converting demand from other market segments including groups and meetings & events.

- **RevPAR** (revenue per available room), calculated by multiplying average room rate by occupancy rate declined by 0.3% on a LFL basis, from £110.3 in H123 to £109.9 in H124. LFL RevPAR rose by 3.3% in Q1 but declined by 2.2% in Q2.

- **Occupancy**, continued to increase on a LFL basis, from 69.1% in H123 to 72.0% in H124, a 290bps rise, with an increase of 440bps in Q1 and 190bps in Q2. 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.

- **Average room rate**, in contrast, declined by 4.4%, on a LFL basis, from £159.6 in H123 to £152.6 in H124 due to the market mix stabilising from the largely leisure driven performance of 2023. LFL average room rate declined by 3.0% in Q1 and by 4.7% in Q2.

- **EBITDA,** on a LFL basis, rose by 10.9% and the margin increased from 25.1% to 26.7%, reflecting rising occupancy levels and several effective cost management, centralisation and technological initiatives introduced in recent years. On a reported basis, the margin rose from 25.1% to 25.3% as new openings are typically margin dilutive in the first few months.

- **The dividend per share** increased from 16p to 17p, in line with the Group's progressive dividend policy.

- **The EPRA NRV per share** on 30 June was £26.24, a 2% reduction on the £26.72 at 31 December, which purely represents FX moves and dividend distributions, as the formal revaluation takes place at year ends. We note that on 11 July, PPHE launched a £4m share buyback programme, reflecting the discount of the current share price to the EPRA NRV per share.

- **Longer-term pipeline**; in addition to the +£300m pipeline, PPHE has further opportunities within its longer-term pipeline. At Park Plaza hotel in London Victoria, the Group has secured planning permission for an innovative 179-room subterranean property. Plus, planning approval was recently received for a new 186-bedroom mixed-use hotel-led development in London's South Bank area, at Westminster Bridge Road, which will be PPHE's fifth hotel in the broader Waterloo area.

- **The current trading and outlook** says that “The second half of the year is typically the Group’s strongest trading period, particularly with the onset of the summer leisure season, with the opening of our well-invested portfolio of hotel and camping assets in Croatia. As previously guided, H1 has seen the continuation of business mix and room rates normalising, offset by improved occupancy and good cost control. Excluding new openings in the year, the Group’s like-for-like performance remains in line with expectations. As a result of the extended construction programmes at art’otel London Hoxton, art’otel Rome Piazza Sallustio and art’otel Zagreb delaying the full opening of these properties, the anticipated positive EBITDA contribution from these projects is now forecasted to commence from 2025 onwards”.

Below, we include a table of the Group’s recent quarterly figures on a reported basis. 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	Q224	H124
Revenue (£m)	68.8	111.2	180.0	141.0	93.6	414.6	77.0	114.0	191.0
Annual change	*115.0%*	*36.9%*	*59.0%*	*8.8%*	*7.2%*	*25.6%*	*11.9%*	*2.5%*	*6.1%*
Room revenue (£m)	50.4	83.2	133.6	98.6	67.9	300.1	55.2	83.3	138.5
Annual change	*124.0%*	*40.0%*	*62.9%*	*8.6%*	*4.5%*	*26.2%*	*9.6%*	*0.1%*	*3.7%*
RevPAR (£)	96.2	121.0	110.3	136.7	128.9	120.7	98.1	115.4	107.8
Annual change	*126.4%*	*38.2%*	*62.6%*	*10.3%*	*(1.5%)*	*25.5%*	*1.9%*	*(4.6%)*	*(2.2%)*
Average room rate (£)	143.7	171.0	159.6	176.4	176.1	166.8	139.3	163.0	152.8
Annual change	*15.8%*	*14.8%*	*13.1%*	*0.8%*	*(9.0%)*	*4.0%*	*(3.1%)*	*(4.5%)*	*(4.3%)*
Occupancy	66.9%	70.8%	69.1%	77.5%	74.4%	72.4%	70.4%	70.7%	70.6%
Annual change	*95.6%*	*20.4%*	*44.0%*	*9.5%*	*(2.4%)*	*20.7%*	*5.2%*	*(0.1%)*	*2.2%*

Source: Company, h2Radnor

We have reduced our EBITDA forecasts by 3% in FY24, 9% in FY25 and 2% in FY26, with an increase in assumptions for trading in the existing portfolio offset by a delay in the contribution of EBITDA from the pipeline. Whereas we had previously expected £25m of incremental EBITDA, upon stabilisation of trading across all the new hotels, to be achieved in FY25 we now assume this occurs in FY27.

Figure 2: Revisions to h2Radnor estimates

December year end		Previous		New		Revision	
£m	FY'23A	FY'24E	FY'25E	FY'24E	FY'25E	FY'24E	FY'25E
Revenue	415	450	486	429	449	(5%)	(8%)
EBITDA	128	143	162	138	147	(3%)	(9%)
Adjusted EPRA earnings per share	118	123	141	118	128	(4%)	(9%)
DPS (p)	36	37	42	37	42	0%	0%

Source: Company, h2Radnor

PPHE valuation

Sum of the parts valuation

Our illustrative equity fair value of £26.76 per share is based on a four-stage SOTP model, using an EV of £2,258m and an equity value of £1,138m (Figure 3).

Figure 3: SOTP valuation of PPHE

SOTP Valuation		
EV	**Value (£m)**	**Proportion of EV (%)**
DCF of PPHE's core portfolio	1,669	74
DCF of PPHE's development pipeline	401	18
Multiple value of PPHE's management platform	108	5
Other assets	80	4
Total	**2,258**	**100**
Deferred tax on revaluation of properties	(39)	
Net debt (FY24E)	(719)	
Equity value	**1,500**	
Minorities of the core - subtotal	(267)	
Minorities of the development pipeline - subtotal	(95)	
Minority total	**(362)**	
Equity value to PPHE shareholders	**1,138**	
Number of shares (m)	42.5	
Value per share (£)	**26.76**	

Source: Company, h2Radnor

Stage 1 – DCF of the core

The main value, accounting for 74% of the EV within our SOTP, is a DCF of the core existing hotels and resorts portfolio at £1,669m (Figure 4). As a base, we use our P&L forecast of £138m of EBITDA in FY24, adding back the £1m loss we forecast for the development pipeline and removing the £12m for the management platform as we model these two separately. Our terminal growth rate is 0.5%.

Figure 4: DCF of PPHE's core portfolio (£m)

December year end	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	TV
Revenue	**367**	**378**	**393**	**409**	**421**	**434**	**447**	**460**	**474**	**488**	**491**
Growth		3.0%	4.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	0.5%
EBITDA	127	125	133	139	143	148	153	158	163	168	161
Margin	34.6%	33.1%	33.9%	34.0%	34.0%	34.1%	34.2%	34.2%	34.3%	34.4%	32.8%
Margin change		(4.5%)	2.5%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	(4.6%)
Income unit liability	(14)	(15)	(15)	(16)	(16)	(17)	(17)	(18)	(18)	(19)	(19)
Interest expense on lease liabilities	(10)	(10)	(11)	(11)	(11)	(12)	(12)	(13)	(13)	(13)	(13)
Working capital	0	0	0	0	0	0	0	0	0	0	0
Maintence capex	(15)	(15)	(16)	(16)	(17)	(17)	(18)	(18)	(19)	(20)	(15)
Free cash	**89**	**85**	**92**	**96**	**99**	**102**	**105**	**109**	**113**	**116**	**114**
Present value	83	75	76	74	72	70	68	66	64	62	57
Value											
Total present value of forecast period	711										
Terminal value	958										
Total	**1,669**										

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 5 and 6).

Figure 5: WACC for PPHE

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

Source: Company, h2Radnor

Figure 6: 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 £401m, comprising 18% of the EV within our SOTP (Figure 7). 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 FY27. Given that these will be new hotels, we model a 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 7: DCF of PPHE's development pipeline (£m)

December year end	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	TV
Revenue	32	40	64	67	71	74	78	82	86	90	91
Growth		25.0%	60.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	0.5%
EBITDA	(1)	10	20	25	27	28	30	31	33	35	34
Margin	(3.0%)	24.0%	31.9%	37.3%	37.6%	37.9%	38.1%	38.4%	38.7%	38.9%	37.4%
Margin change		n/a	33.0%	17.0%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	(4.0%)
Working capital	0	0	0	0	0	0	0	0	0	0	0
Working capital/revenue	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Maintence capex	(1)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(4)	(3)
Maintence capex/revenue	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	3.0%
Free cash	**(2)**	**8**	**18**	**22**	**24**	**25**	**27**	**28**	**30**	**31**	**31**
Present value	(2)	7	15	17	17	17	17	17	17	17	16
Value											
Total present value of the forecast period	140										
Terminal value	261										
Total	**401**										

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 8). 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 8: 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 4% 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 permission has been given, 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 9: 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 £401m, then assume debt of £207m, which gives an equity value of £194m and we take 49% of this to generate a minority value of £95m (Figure 10).

Figure 10: Minority value of PPHE's development pipeline

Value	Amount (£m)
DCF of PPHE's development pipeline	401
Debt of the development pipeline	(207)
Equity value of pipeline	**194**
Minority	49%
Value of minorities	**95**

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

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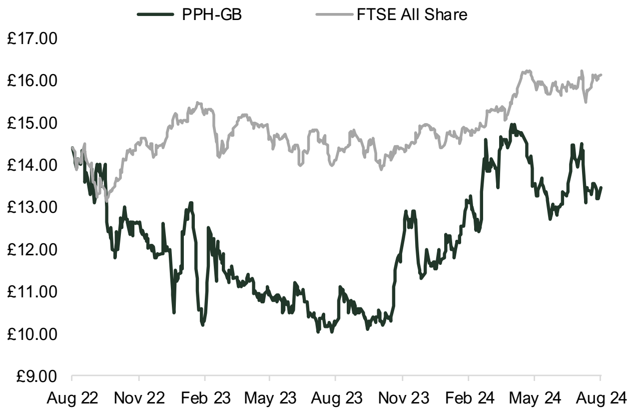
Price (p):	**1345 p**
Market Cap:	565 m
EV:	1283 m

PROFIT & LOSS

Year to 31 December, £m	2022	2023	2024E	2025E	2026E
UK	*190.1*	*234.9*	*236.5*	*246.2*	*274.5*
Netherlands	*41.6*	*63.3*	*66.0*	*68.6*	*71.6*
Croatia	*69.2*	*78.1*	*82.8*	*85.5*	*88.5*
Germany	*17.7*	*22.8*	*23.8*	*24.0*	*24.5*
Other Markets	*6.3*	*7.9*	*11.5*	*15.1*	*18.1*
Mgmt / Central	*5.1*	*7.6*	*8.4*	*9.2*	*10.0*
Group Revenue	**330.1**	**414.6**	**429.1**	**448.7**	**487.2**
Op. Exp.	(235.5)	(286.4)	(290.9)	(301.4)	(320.2)
EBITDA	**94.6**	**128.2**	**138.1**	**147.3**	**167.0**
EBITDA margin %	*28.7%*	*30.9%*	*32.2%*	*32.8%*	*34.3%*
Depr & Amortisation	(40.0)	(45.1)	(51.1)	(53.4)	(58.0)
EBITA - Adjusted	**54.6**	**83.1**	**87.1**	**93.9**	**109.0**
Associates & JV's	0.2	(0.1)	(0.1)	(0.1)	(0.1)
Income unit liability	(10.8)	(14.2)	(13.6)	(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	5.2	5.2
PBT - Adjusted	**8.3**	**37.5**	**35.4**	**43.6**	**60.8**
Non Operating Items	3.2	(8.7)	(5.2)	(5.2)	(5.2)
PBT - IFRS	**11.5**	**28.8**	**30.2**	**38.4**	**55.6**
Tax - Adjusted	2.4	(2.2)	(5.3)	(6.5)	(9.1)
Tax rate - Adjusted	*-29.3%*	*5.8%*	*15.0%*	*15.0%*	*15.0%*
Minority interests	(4.7)	(4.7)	(2.9)	(6.7)	(7.3)
No. shares m, diluted	42.5	42.5	42.2	42.2	42.2
Adj EPS (p), diluted	14.2	71.9	64.3	71.9	105.1
EPRA adjusted EPS (p)	**49.8**	**117.7**	**118.0**	**128.0**	**169.7**
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	32.5%
Boris Ivesha	11.0%
Aroundtown Property	10.3%
Clal Insurance	8.3%
Harel Insurance	7.0%
	68.9%

Source; Company webiste

CASH FLOW

Year to 31 December, £m	2022	2023	2024E	2025E	2026E
Gross Op Cashflow	95.3	127.5	137.2	146.4	166.1
Net Op Cashflow	56.7	78.4	75.9	85.2	104.4
Free Cashflow	**38.6**	**57.7**	**54.4**	**62.8**	**80.2**
Net Cashflow	(53.5)	(44.6)	6.8	46.8	59.7

Announcements

Date	Event
August 2024	H1 results
April 2024	Q1 trading update
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	8.1	5.4	2.5
P,P+E	1,335.2	1,412.8	1,413.0	1,382.9	1,350.2
Right of Use Asset	225.4	229.2	228.2	225.5	222.6
Tax Asset & Other	65.1	58.9	58.9	58.9	58.9
Total Fixed Assets	**1,638.5**	**1,711.6**	**1,708.2**	**1,672.8**	**1,634.3**
Current Assets	39.6	44.4	45.7	47.1	48.5
Current Liabilities	(94.4)	(94.0)	(95.2)	(96.6)	(98.1)
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)	(718.5)	(671.7)	(612.0)
Net Assets	**503.2**	**531.1**	**535.0**	**547.0**	**569.1**

RATIOS

	2022	2023	2024E	2025E	2026E
RoE	3.0%	7.5%	6.2%	8.0%	10.4%
RoCE*	6.9%	8.9%	9.7%	10.6%	12.5%
Asset Turnover (x)	5.0x	4.1x	4.0x	3.7x	3.4x
NWC % Revenue	-16.6%	-11.9%	-11.5%	-11.0%	-10.2%
Op Cash % EBITA	174.6%	153.4%	157.6%	155.9%	152.4%
EBITDA / interest x	2.6x	4.1x	3.2x	3.6x	4.3x

GROWTH

YoY growth	2022	2023	2024E	2025E	2026E
Revenue	133%	26%	3%	5%	9%
EBITDA	277%	35%	8%	7%	13%
EPRA EPS	n/a	136%	0%	9%	33%
Dividend	n/a	140%	3%	15%	15%

VALUATION

Fiscal	2022	2023	2024E	2025E	2026E
P/E	27.0x	11.4x	11.4x	10.5x	7.9x
EV/EBITDA	13.6x	10.0x	9.3x	8.7x	7.7x
Div Yield	1.1%	2.7%	2.8%	3.2%	3.6%
FCF Yield	3.0%	4.5%	4.2%	4.9%	6.2%

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

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