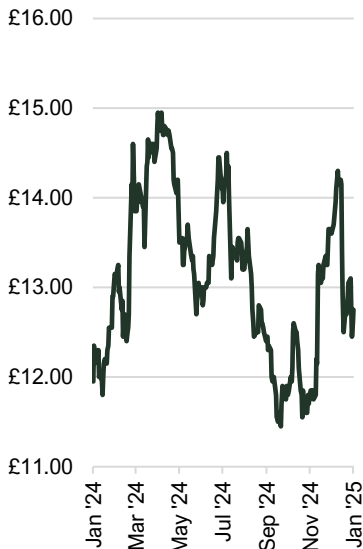


1 Year Chart



28 January 2025

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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.

PPHE has issued a reassuring year-end update “the Group’s 2024 total revenue and EBITDA is expected to be in line with market expectations” so we have maintained our forecasts.

The statement concludes by saying that “2024 was another exciting year for PPHE Hotel Group as we delivered on our £300+ million development pipeline. The year has seen the full opening of Radisson RED Belgrade, Radisson RED Berlin Kudamm and art’otel Zagreb and the soft opening of our flagship art’otel London Hoxton, all with excellent customer feedback. We look forward to welcoming guests to art’otel Rome Piazza Sallustio, our first hotel in Italy from early March. We continued to rebuild occupancy, grow revenue and successfully manage ongoing cost pressures. As new hotels fully open, mature and stabilise, we expect occupancy and RevPAR to progressively build, adding significant incremental EBITDA to the Group”.

- Reported room revenue** increased by 5.7% (from £300.1m in FY23 to £317.2m in Q324), so higher than the 2.1% LFL growth, due to PPHE’s newly opened hotels; art’otel Zagreb and art’otel London Hoxton. LFL room revenue rose by 9.1% in Q1, declined by 2.2% in Q2 and rose by 1.8% in Q3 and by 2.6% in Q4. PPHE does not provide regional data in the quarterly updates but said that growth “reflected growth in all operating markets apart from the UK where room revenue was stable. Like-for-like room revenue growth outside the UK was achieved despite the weaker Euro in 2024, which accounts for approximately 40% of revenue”. A footnote added that the value of the Euro weakened by 2.9% against Sterling across 2024, so that will have taken off around 1% of growth. We note that in FY23, growth was led by the UK and the Netherlands but in FY24 growth seems to have been led by Germany and Croatia, therefore showing the benefits of PPHE’s geographic diversity.
- Valuation;** we believe that the Group’s share price is cheap at £12.75, a 51% 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	25.6	1.2
FY 2023A	414.6	128.2	117.7	36.0	(725.3)	26.72	10.8	2.8
FY 2024E	429.1	138.1	118.0	37.0	(718.5)		10.8	2.9
FY 2025E	448.7	147.3	128.0	42.4	(671.7)		10.0	3.3
FY 2026E	487.2	167.0	169.7	48.6	(612.0)		7.5	3.8

¹ EPRA Adjusted EPS

Source: h2Radnor

FY24 update - key additional points

- **RevPAR** (revenue per available room), calculated by multiplying average room rate by the occupancy rate, rose by 1.0% on a LFL basis, from £120.7 in FY23 to £122.0 in FY24. LFL RevPAR rose by 3.3% in Q1, declined by 2.2% in Q2 and rose by 2.3% in Q3 and by 2.5% in Q4. Across the year, RevPAR growth was led by growth in occupancy.
- **Occupancy**, continued to increase on a LFL basis, from 72.4% in FY23 to 75.8% in FY24, a 4.7% proportional increase. The statement says that “*these occupancy increases were achieved across all operating markets, with Germany showing the most notable increase*”. LFL occupancy rose proportionally by 6.6% in Q1, by 2.5% in Q2 and by 5.2% in Q3 and we estimate a 5.1% increase in Q4. 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 3.6%, on a LFL basis, from £166.8 in FY23 to £160.8 in FY24 we think partly due to the market mix stabilising from the largely leisure driven performance of 2023 to a more corporate driven performance in 2024. LFL average room rate declined by 3.0% in Q1, by 4.7% in Q2 and by 2.7% in Q3 and we estimate a 3.3% decline in Q4.
- **The pipeline** is on track with the comment that “*the Group continues to make good strategic progress to deliver its £300m+ development pipeline. The phased opening of art’otel London Hoxton is nearly complete and the repositioning of art’otel Rome Piazza Sallustio is in its final stages with the hotel opening in early March 2025*”.
- **EPRA NRV**; the statement says that “*external property valuations received in December 2024, included art’otel London Hoxton for the first time, were marginally above 2023 levels. These valuations will be disclosed and incorporated in the Group’s EPRA NRV (2023: EPRA NRV per share: £26.72), which will be reported in the 2024 Annual Results, due on 27 February 2025*”. We think that Hoxton’s valuation will rise further in coming years as trading stabilizes given that valuations are based on DCFs.
- **Forecasts**; the statement references “*an EBITDA range of £136.0 million to £138.1 million*” and we maintain our forecast £138.1m.

Below, we include a table of the Group’s recent quarterly figures on a reported basis (Figure 1).

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

December year end	Q123	Q223	H123	Q323	Q423	FY23	Q124	Q224	H124	Q324	Q424	FY24
Revenue (£m)	68.8	111.2	180.0	141.0	93.6	414.6	77.0	114.0	191.0	148.2	n/a	n/a
Annual change	115.0%	36.9%	59.0%	8.8%	7.2%	25.6%	11.9%	2.5%	6.1%	5.1%	n/a	n/a
Room revenue (£m)	50.4	83.2	133.6	98.6	67.9	300.1	55.2	83.3	138.5	104.0	74.7	317.2
Annual change	124.0%	40.0%	62.9%	8.6%	4.5%	26.2%	9.6%	0.1%	3.7%	5.5%	10.0%	5.7%
RevPAR (£)	96.2	121.0	110.3	136.7	128.9	120.7	98.1	115.4	107.8	136.6	131.1	120.3
Annual change	126.4%	38.2%	62.6%	10.3%	(1.5%)	25.5%	1.9%	(4.6%)	(2.2%)	(0.1%)	1.7%	(0.3%)
Average room rate (£)	143.7	171.0	159.6	176.4	176.1	166.8	139.3	163.0	152.8	171.8	n/a	n/a
Annual change	15.8%	14.8%	13.1%	0.8%	(9.0%)	4.0%	(3.1%)	(4.5%)	(4.3%)	(2.6%)	n/a	n/a
Occupancy	66.9%	70.8%	69.1%	77.5%	74.4%	72.4%	70.4%	70.7%	70.6%	79.5%	n/a	n/a
Annual change	95.6%	20.4%	44.0%	9.5%	(2.4%)	20.7%	5.2%	(0.1%)	2.2%	2.6%	n/a	n/a

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 2).

Figure 2: 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 3). 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 3: 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
Maintenance 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 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 £401m, comprising 18% 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 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 6: 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%
Maintenance capex	(1)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(4)	(3)
Maintenance 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 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 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 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 £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 9).

Figure 9: 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): 1275 p
Market Cap: 533 m
EV: 1251 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

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

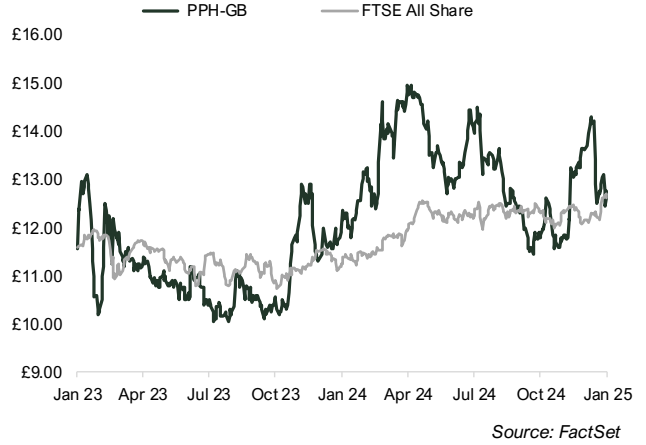
BALANCE SHEET

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

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%

PRICE CHART - 2 YEAR ABSOLUTE vs FTSE ALL SHARE



SHAREHOLDERS

	% of ord. Share capital
Eli Papouchado	32.9%
Boris Ivesha	11.1%
Harel Insurance	9.1%
Clal Insurance	8.4%
Aroundtown Property	7.8%
	69.3%

Source: Company website

Announcements

Date	Event
October 2024	Q3 trading update
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	Q3 trading update
September 2023	Zagreb art'otel opening
August 2023	H1 results

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

VALUATION

Fiscal	2022	2023	2024E	2025E	2026E
P/E	25.6x	10.8x	10.8x	10.0x	7.5x
EV/EBITDA	13.2x	9.8x	9.1x	8.5x	7.5x
Div Yield	1.2%	2.8%	2.9%	3.3%	3.8%
FCF Yield	3.1%	4.6%	4.3%	5.0%	6.4%

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

REGULATORY DISCLOSURES

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