PPHE Hotel Group Limited

PPH | FTSE 250 | Travel & Leisure | 1320p | £559m

FY23 results – EBITDA is 3% better than our estimate

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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Robert Plant

rplant@h2radnor.com

+44 (0) 203 897 1846

PPHE's FY23 results read well, with EBITDA of £128.2m, 3% above our estimate of £124.8m. In the year-end trading update, issued on 25 January, PPHE said that it expected EBITDA of at least £127.0m.

The outlook is reassuring saying that FY24 trading is in line with current market expectations. To reflect the better outcome in FY23 and the good momentum into the new year, we have increased both our FY24 and FY25 EBITDA forecasts by 2%. Reflecting the good trading momentum, we have also **raised our illustrative fair value by 7%, from £25.66 per share to £27.38 per share.**

The EPRA NRV per share increased by 6.2% from £25.17 in December 2022 to £26.72 in December 2023. Valuations rose due to the benefit of improved trading and an upgraded outlook which offset the impact of higher interest rates.

- **Results** were better than we had forecast, and we note that the Group had upgraded guidance a number of times across 2023. EBITDA increased by 35.5% from £94.6m in FY22 to £128.2m in FY23, 3% above our estimate of £124.8m.
- **PPHE continued** to benefit in 2023 from the positive momentum of 2022, as travel & leisure rebounded from Covid lockdowns and we note that revenue exceeded the pre-pandemic level of £357.7m in 2019. As in H1, growth was led by the UK and the Netherlands.
- **The +£300m pipeline** is on track and is nearing completion in H124. During the year, PPHE fully opened the premium lifestyle art'otel London Battersea Power Station (February 2023) and soft launched art'otel Zagreb (October 2023). The Group signed its first Radisson RED branded property which opened in Belgrade, Serbia (February 2024), following an extensive repositioning. The art'otel properties in Hoxton, London and Rome, Italy will launch in H124.

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	26.5	1.1
FY 2023A	414.6	128.2	117.7	36.0	(725.3)	26.72	11.2	2.7
FY 2024E	*450.3*	*142.9*	*123.2*	*37.0*	*(715.4)*		*10.7*	*2.8*
FY 2025E	*485.6*	*162.2*	*141.4*	*42.4*	*(658.9)*		*9.3*	*3.2*
FY 2026E	*499.1*	*170.4*	*161.8*	*48.6*	*(596.8)*		*8.2*	*3.7*

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

FY23 Final Results – Key points

- **Revenue** rose by 25.6% from £330.1m in FY22 to £414.6m in FY23, 2% higher than our forecast of £408.0m. EBITDA increased by 35.5% from £94.6m in FY22 to £128.2m in FY23, 3% above our estimate of £124.8m. In the year-end trading update, PPHE had said that it expected revenue of at least £413.0m and EBITDA of at least £127.0m. We note that the Group upgraded guidance a number of times across 2023.

- **PPHE continued** to benefit in 2023 from the positive momentum of 2022, as travel & leisure rebounded from Covid lockdowns and we note that for the first time revenue exceeded the pre-pandemic level of £357.7m in 2019. As in H1, growth was led by the UK and the Netherlands.

- **Average room rate** in FY23, was £166.8, a 4.0% increase on the £160.4 in FY22 and was 29.8% higher than the £128.5 in FY19. Occupancy rose by 20.7% from 60.0% in FY22 to 72.4% in FY23 but was 10.2% lower than the 80.6% in FY19 as since the pandemic the Group has prioritised yield over occupancy. RevPar, which is the net result of average room rate and occupancy, was £120.7 in FY23, 25.5% above the £96.2 of FY22 and 16.5% higher than the £103.6 of FY19.

- **The EBITDA margin** rose from 28.7% in FY22 to 30.9% in FY23, benefitting primarily from higher average room rates and operational gearing. We note, though, that the margin is still below the 34.4% of FY19, due to higher cost inflation since the end of the pandemic, especially in terms of utilities and labour, which we think could offer upside as this cost inflation ebbs/reverses.

- **The dividend per share** was increased substantially, from 15p in FY22 to 36p in FY23, due to the 136% rise in adjusted EPRA earnings per share. During FY23, the Group announced a policy of paying out 30% of adjusted EPRA earnings per share.

- **The EPRA NRV per share** rose by 6.2% from £25.17 in December 2022 to £26.72 in December 2023. Valuations rose due to the benefit of improved trading and an upgraded outlook, which offset the impact of higher interest rates. We note that PPHE's share price is half that of the EPRA NRV per share which we believe is too cheap.

- **The +£300m pipeline** is on track and is nearing completion in H124. During the year, PPHE fully opened the premium lifestyle art'otel London Battersea Power Station (February 2023) and soft launched art'otel Zagreb (October 2023). The Group signed its first Radisson RED branded property which opened in Belgrade, Serbia (February 2024), following an extensive repositioning. The art'otel properties in Hoxton, London and Rome, Italy will launch in H124.

- **The European Hospitality Fund** has been scaled back from the initial plan of €500m to €300m as the rise in interest rates since the launch of the fund has meant that the Group has been unsuccessful in attracting outside investors. If further investors have not joined the Fund by 13 March 2024 (unless mutually extended), the Fund will carry on as a joint venture with Clal. The Group may top up its own equity contribution (currently at up to €50 million) to €75 million, representing 51%, to give the total joint venture a c.€150 million equity value, which with a targeted 50% bank leverage could increase the investment potential of the JV to €300m.

- **The outlook** reads reassuringly saying that “although it is still early in the new financial year, the good start made by the Group underpins confidence that FY2024 performance will be in line with current market consensus”. PPHE has good momentum into 2024, albeit average room rates are expected to normalise after the rapid rise since the end of the pandemic. PPHE reiterated that upon stablisation of trading, the new openings from the pipeline are together targeted to deliver at least £25 million of incremental EBITDA. Cost inflation will remain in 2024 but will continue to be manageable.

- **Estimate upgrades;** due to the better outcome in FY23 and the good momentum into the new year, we increase our FY24 and FY25 EBITDA by 2%. Our adjusted EPRA earnings per share rises by 15% in FY24 and by 2% in FY25, with the increase in FY24 mainly due to a lower level of adjustments in FY23. A caveat to our estimates is that they are somewhat dependent on the timing of Hoxton’s and Rome’s opening, as we include £10m and £25m EBITDA from the development pipeline in FY24 and FY25. In Figure 1 below, we detail our key estimate revisions.

Figure 1: h2Radnor estimate revisions

December year end		Previous		New		Revision	
£m	FY'23 A	FY'24E	FY'25E	FY'24E	FY'25E	FY'24E	FY'25E
Revenue	415	445	482	450	486	1%	1%
EBITDA	128	140	160	143	162	2%	2%
Adjusted EPRA earnings per share	118	108	138	123	141	15%	2%
DPS (p)	36	32	41	37	42	15%	2%

Source: h2Radnor

PPHE valuation

Sum of the parts valuation

Our illustrative equity fair value of £27.38 per share is based on a four-stage sum of the parts (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

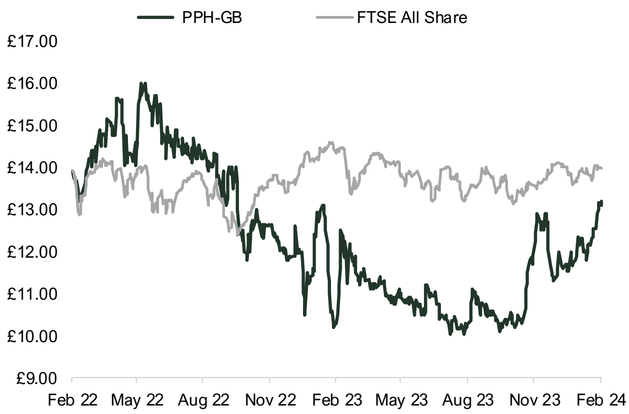
Robert Plant
+44 203 897 1846
rplant@h2radnor.com

Price (p):	**1320 p**
Market Cap:	559 m
EV:	1275 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%
Aroundtown Property	10.2%
Clal Insurance	8.2%
Harel Insurance	6.9%
Eli Papouchado	3.6%
UBS	3.4%
	71.8%

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	26.5x	11.2x	10.7x	9.3x	8.2x
EV/EBITDA	13.5x	9.9x	8.9x	7.9x	7.5x
Div Yield	1.1%	2.7%	2.8%	3.2%	3.7%
FCF Yield	3.0%	4.5%	4.5%	5.9%	6.5%

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

REGULATORY DISCLOSURES

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H2 Radnor Ltd
68 King William Street
London
EC4N 7HR

www.h2radnor.com

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