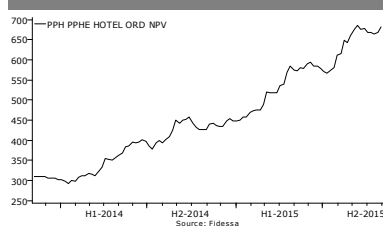


FTSE sector



Source: Fidessa

Market data

EPIC/TKR	PPH
Price (p)	664.0
Price (€)	9.37
12m High (p)	685.0
12m Low (p)	430.0
Shares (m)	42.0
Mkt Cap (£m)	278.4
Mkt Cap (€m)	393.0
EV (£m)	539.3
Free Float (%)	26%
Market	Main

Description

PPHE owns, co-owns, leases, franchises and manages a portfolio of 4* hotels with 8,300 rooms in Europe, with a strong emphasis on Central London. Net asset value per share is considerably ahead of the share price.

Company information

CEO	Boris Ivesha
CFO	Chen Moravsky
Chairman	Eli Papouchado

+31207178600

www.pphe.com

Next event

Final results	March 2016
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Analysts

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PPHE Hotel Group

Q3 2015 Trading Update: Continuing to deliver

PPHE, the asset-backed, London-focused hotel operator, has announced its Q3 trading update, which show a continuation of the strong trends at the interim results. We revised up then, and are maintaining our full year forecasts. The company looks indebted relative to income, but this reflects a major development pipeline in progress, where the assets have yet to contribute income, while the shares trade at a substantial discount to book value as adjusted for the real value of the assets.

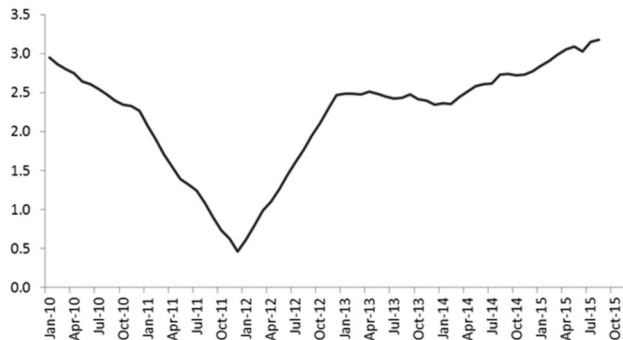
- ▶ **Revenues growing:** Total revenue increased by 9.7% to €79.8m in Q3 and by 3.8% on a constant currency basis. For the nine months, revenue increased by 11.4% to €220.8 million and by 3.8% on a constant currency basis – i.e the growth rate remained constant on a higher base in the busier Q3.
- ▶ **RevPAR strong:** RevPAR for Q3 increased by 12.1% to €138.4, driven by a 13.1% increase in average room rate to €155.5. Occupancy decreased by 80 bps to 89.0%, still an absolutely high level. For the nine months, RevPAR increased by 12.4% on a 10.5% increase in average room rate.
- ▶ **Valuation:** The valuation looks modest, especially in the context of the real value of the assets which we believe are significantly above book value. On P/E and EV/EBVITDA, the group continues to trade at a significant discount to sector majors in spite of a better growth pipeline.
- ▶ **Risks:** Some investors consider the group's drawbacks to be an apparent high debt level relative to current income, limited liquidity, and a founder controlled business. In fact, the founders have delivered strong growth and are reluctant to issue equity at a discount, and the debt is readily manageable.
- ▶ **Investment summary:** PPHE has extremely strong asset backing and the statement alluded to a crystallisation of value. Unlike a property company which revalues each year, the real value of the hotel estate is somewhat hard to track, and we believe that management intend to highlight this hidden value to the market. Any such move could be helpful to the share price.

Financial summary and valuation

Year end Dec (€m)	2011	2012	2013	2014	2015E	2016E
Sales	202.4	242.1	244.8	270.4	296.8	309.8
EBITDA	65.1	85.6	82.6	94.8	106.3	110.2
Operating profit	44.1	55.1	56.2	67.5	76.3	79.2
Underlying PBT	13.6	18.4	27.3	41.6	37.3	39.2
EPS (€)	0.33	0.44	0.65	0.98	0.88	0.93
DPS (p)	6.0	12.0	14.0	19.0	20.9	23.0
Net (debt)/cash (€m)	-387.1	-460.6	-483.0	-483.1	-575.4	-597.7
Net debt/EBITDA (x)	6.0	5.4	5.8	5.1	5.4	5.4
P/E (x)	28.7	21.1	14.4	9.5	10.6	9.6
EV/EBITDA (x)	14.9	11.3	11.7	10.2	9.1	8.3
Dividend Yield (%)	0.9	1.8	2.1	2.9	3.1	3.5

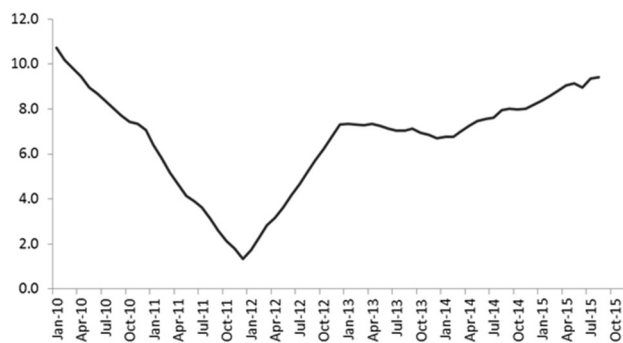
Source: Hardman & Co Research

EV:Sales Prospective



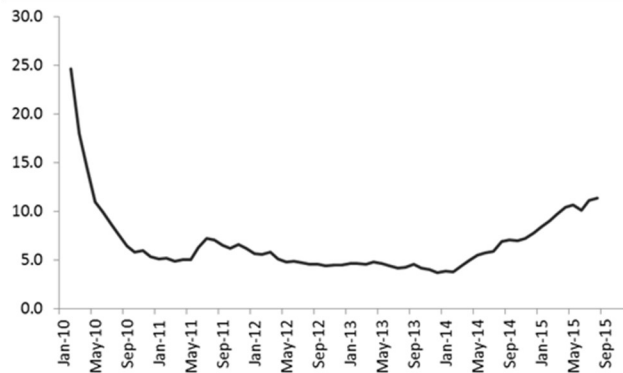
- ▶ The stock has been rerated on this measure, but note that debt build-up for construction projects is not matched in the revenue line so an increase in the level of this parameter would be expected, ahead of sales coming through when the new sites are opened.
- ▶ The absolute level of EV:Sales is acceptable for a company expected to report an operating profit margin of 26% this year, and with sales growth ahead.

EV:EBITDA Prospective



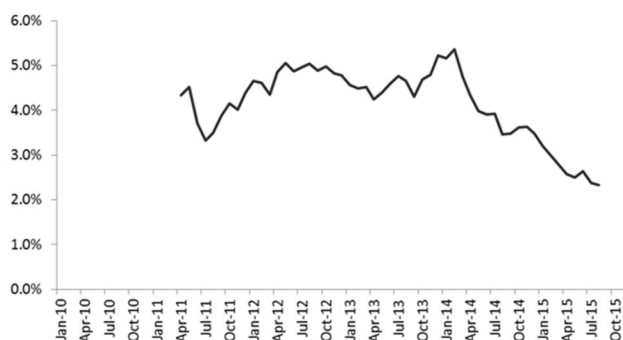
- ▶ Again a rerating on this measure and to be expected for the same reasons above i.e the debt and EV is built up ahead of new units generating any revenues and profitability.
- ▶ The absolute level is not stretched and at a discount to peers, with IHG and Marriott for example trading at c.13x prospective, but without the same growth prospects as PPHE has, given its pipeline.

P/E Prospective



- ▶ Consensus estimates of 10-11x P/E for the group look attractive against the UK market and against sector peers.
- ▶ Some of the major hotel stocks are currently trading at twice PPHE's prospective p/e multiple, without the same eps growth pipeline.

Dividend Yield Prospective



- ▶ The share price uplift has been reflected in a declining dividend yield but the yield on offer remains attractive, especially given a 10%+ hike at the interims stage.
- ▶ PPHE is not really an income stock, but investors are being paid to hold it, especially given current bond yields.

Source: Company data; Hardman & Co Research

Q3 Trading Update

Overview

PPHE Hotel Group has announced its trading update for the three/nine months to 30 September 2015. The results overall are in line with our expectations and we are making no change to forecasts, which we revised up at the time of the interims.

Total revenue increased by 9.7% to €79.8m in Q3 and by 3.8% on a constant currency basis. For the nine months, revenue increased by 11.4% to €220.8 million and by 3.8% on a constant currency basis – i.e the growth rate remained constant on a higher base in the busier Q3.

Overview of 3M Results			
3 Months to Sep (€m)	2015E	2014	% Chg
Total revenue	79.8	72.8	9.7%
Occupancy	89.0%	89.8%	(80) bps
Average room rate	155.5	137.5	13.1%
RevPAR	138.4	123.5	12.1%

Source: Company, Hardman & Co Research

RevPAR increased by 12.1% to €138.4, driven by a 13.1% increase in average room rate to €155.5. Occupancy decreased by 80 bps to 89.0%, still an absolutely high level. For the nine months, RevPAR increased by 12.4% to €126.1, with a 10.5% increase in average room rate and a 1.5% increase in occupancy.

Overview of 9M Results			
9 Months to Sep (€m)	2015E	2014	% Chg
Total revenue	220.8	198.1	11.4%
Occupancy	85.0%	83.5%	150 bps
Average room rate	148.4	134.3	10.5%
RevPAR	126.1	112.2	12.4%

Source: Company, Hardman & Co Research

In the busy summer period, London remained strong, but from a very high base could not continue its former growth rates, but the result was fine and from next year, the group will have additional capacity.

On the Continent, Germany performed well but the highlight was the Netherlands which did particularly well. This was driven by an extremely strong market in Amsterdam, a view echoed by other operators, and where both tourist and conference markets saw good demand.

A notable development in the quarter was that the group signed a long-term hotel management agreement to operate a 160-room art'otel, as part of the Battersea Power Station development, scheduled to open in 2019.

The art'otel London Battersea power station will be developed by Battersea Power Station and managed by PPHE Hotel Group, under the art'otel brand. The hotel will offer attractive guest amenities with a number of skyline floors boasting panoramic views, a roof garden, an outdoor rooftop pool and bar overlooking the iconic chimneys, a signature destination restaurant and double height bar with views across the Power Station and London skyline.

This is a notable win for the group. There was extensive competition for this contract, as noted by the CEO of the developer:

Rob Tincknell, CEO of Battersea Power Station Development Company commented;

"We are incredibly excited to be announcing this important transaction and for it to be with such an innovative hotel company. The selection process to find the right brand and operator was a very competitive and thorough one, involving the leading hotel brands from around the world. art'otel was a standout winner, a brand unlike anything we have seen in London to date, and it is particularly fitting for it to have art at the very heart of the brand and the hotel itself. I am confident that together with art'otel we will deliver a beyond expectations hotel."

It's highly likely that big chains such as Hilton and Sheraton would have bid for this and for PPHE to win is a notable achievement. It raises the possibility of further wins for this lesser-known brand in similar prestigious developments.

art'otel is a contemporary collection of hotels located in cosmopolitan centres across Europe that fuse exceptional architectural style with art-inspired interiors. The brand offers a combination of world-class art from some of the world's most exciting artists and best-in-class service delivered by a talented team, and the company claims that:

"art'otel offers a hotel experience like no other. art'otel redefines the traditional hotel experience by allowing guests to live within the creative process, surrounded by captivating art. At the brand's heart lies the art itself."

The signature art'otel artist is yet to be revealed but is likely to be an acclaimed local or national artist. The art'otel brand is owned by the Group.

There is virtually nothing in the numbers or the valuation for this brand, but looking 5 years out, there is likely to be 3+ prestigious units with likely further developments in the pipeline – this could be significant in the context of the group's current valuation.

The trading statement was met with a lukewarm reception, with hopes for another beat and raise, but the valuation remains highly attractive.

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