26th January 2016

PPHE Hotel Group

Q4 2015 Trading Update- Continuing to deliver

PPHE, the asset-backed, London-focused hotel operator, has announced its Q4 trading update, which confirms the strong trends at the interim results and Q3 update. We revised up with the interims, 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. The shares trade at a substantial discount to book value as adjusted for the real value of the assets.

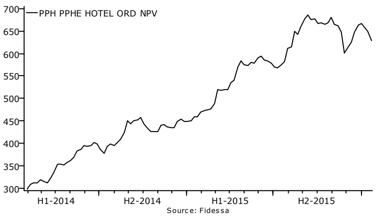
- **Revenues growing:** Total revenue increased by c.12% for the full year, which is better than our 10% estimate, but with results in a month's time, we are not revising forecasts. The company noted that full year results should be in line with internal expectations; fx-boosted Q4 may not be repeated in 2016.
- **RevPAR strong:** Group RevPAR grew by 12.1% to €127.3 (2014: €113.6). This growth was driven by an 11.3% increase in average room rate to €150.9 (2014: €135.6) and 60 bps increase in occupancy to 84.3% (2014: 83.7%). The RevPAR increase for Q3 was identical, although note the weak Euro helped in Q4.
- **Valuation:** The valuation still looks modest in the context of the real value of the assets which we believe are significantly above book value. On P/E and EV/EBITDA, 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 which is a strong reason to own the shares. The company intends to report in sterling from 2016 which will help transparency, an indication that management are committed to shareholders. A side effect is that FX could be a benefit again to reported numbers this year if sterling weakens. The shares remain attractive.

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)	25.8	19.0	12.9	8.6	9.5	9.6
EV/EBITDA (x)	14.3	10.9	11.2	9.8	8.7	8.3

Source: Hardman & Co Research

Travel & Leisure



Source: Fidessa

Market data

EPIC/TKR	PPH
Price (p)	640.0
Price (€)	8.43
12m High (p)	683.0
12m Low (p)	461.0
Shares (m)	42.0
Mkt Cap (£m)	268.5
Mkt Cap (€m)	353.0
EV (£m)	705.5
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

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Next event

Final results	March 2016

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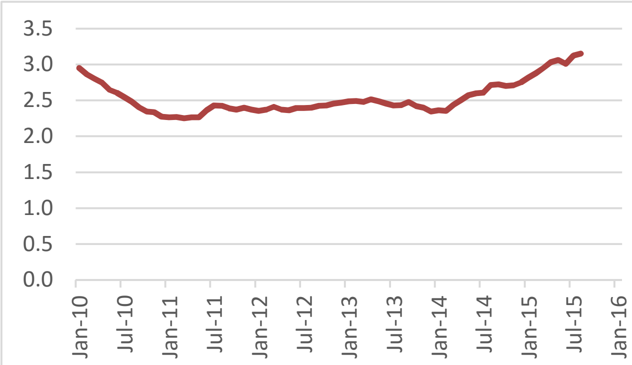
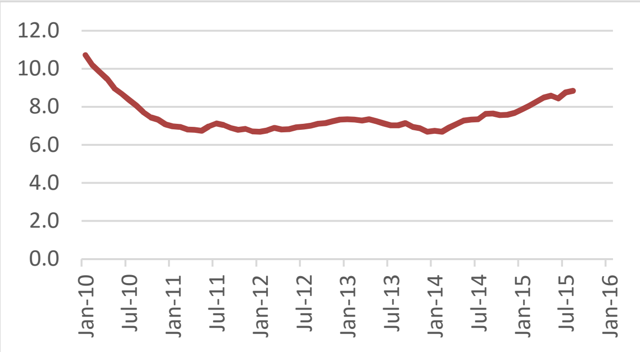
EV:Sales Prospective



- 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.12x prospective, but without the same growth prospects as PPHE has, given its pipeline.

P/E Prospective

- Consensus estimates of 9.3x 2015 P/E for the group look attractive against the UK market and against sector peers, particularly given growth to come through from new openings in 2016 and more significantly in 2017.
- 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

Q4 2015 Trading Update

Overview

PPHE Hotel Group has announced its trading update for the final quarter of 2015. The results overall are broadly in line with or possibly a little better than our expectations. With limited detail available at this stage, currency possibly affecting Q4 numbers relative to Q3, and final results in a month's time, we are making no change to forecasts, which we revised up at the time of the interims.

Reported Group hotel revenue increased by c.12% y-o-y. This company cited continued strong demand in its markets and the strong Sterling to Euro exchange rate. On a constant currency basis, Group hotel revenue increased by approximately 5%.

RevPAR increased by 12.1% to €127.3, driven by an 11.3% increase in average room rate to €150.9 and a 60bps increase in occupancy to 84.3%. In Q3, RevPAR increased by 12.1% to €138.4, driven by a 13.1% increase in average room rate to €155.5, and a decrease in occupancy of 80 bps to 89.0%.

The strength of RevPAR in the quarter was a marginal relief as industry indicators suggested that London had a weak December. PPHE commented that they had a very strong November in central London, but they had a slightly weaker December, especially on the South Bank.

Management indicated that they saw a drop in the booking base post the tragic events in Paris, which was not big but noticeable. January, they said, is a strange month, obviously the weakest month of the year, and it has not been great, but not weak either. There is no read-across here for 2016 numbers.

The market backdrop for London in 2016 is unlikely to show the same rate of growth as the last two years. The story for PPHE in 2016, however, is the new hotel openings and importantly the company indicated that its projects are on track. Nuremberg will open in H1 and the London hotels after the summer. There will be a small benefit in 2016 and a much greater boost to 2017 profits.

The change in the reporting currency to sterling is in our view an important development in improving the transparency of the group, especially given that the Euro revenues will likely fall from one third of revenues to below 30% of the group this year, as the new openings in London kick in.

The trading statement was met with a warm reception, with the stock up nearly 2% in a down market as we went to press, on confirmation that results should comfortably meet expectations.

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