

Fat Prophets take some Profits

International hotelier, PPHE Hotel Group (LSE.PPH) recently announced its September quarter trading performance showing it is making good progress on the back of higher occupancy rates accompanied with higher revenues per room. We also view it as well positioned for growth with a prudent 'investment' programme. However, with complex Brexit issues at the fore, we believe that taking some profits on PPHE at current levels is a prudent course of action.

What's New?

In our previous coverage of the stock back in September (FAT-UK-752) we covered the company's First Half 2018 (1H18) financial results which showed clear improvements on both the top and bottom lines. This was due to the hotelier reporting stronger growth domestically with new properties and solid numbers from the Germany & Hungary and Croatian regions.

Since then, the most significant developments for the hotelier, the broader sector and even the UK, are the ongoing Brexit proceedings which have put the entire UK economy at a crossroads. On Wednesday Prime Minister Theresa May called for a Cabinet meeting to approve the draft withdrawal agreement.

After a marathon five-hour meeting Cabinet gave its support to the draft. We believe the recent stabilisation of PPHE shares around the mid-£15 levels indicates many believe much of the hotelier's outlook hinges on the ultimate outcome of Brexit.

Depending on the Brexit's direction, this would influence the Sterling with PM May's deal so far looking to push it up. In fact, as at this writing, and with the announcement of the Cabinet backing PM May's plan, the Sterling saw a rally against the greenback to US\$1.30 as well as against the Euro at €1.15 (~1% gain).

In our previous commentaries, we noted that if the Sterling were to weaken against the Euro and other major currencies it would be a tailwind for the company. A lower Sterling would make the UK more affordable and consequently result in a rise in inbound visitors while locals would more likely take vacations within the UK.

The earnings translations from the company's offshore operations will also fluctuate depending on the movement in sterling. PPHE has an exclusive licence from the Radisson Hotel Group (STO.RADH) to run the Park Plaza Hotel brand in the EMEA region (Europe, Middle East & Africa). The company also owns a controlling stake (~52%) in the Arena Hospitality Group, one of Croatia's best-known hoteliers.

Trading Update

Aside from the broader developments, the company also provided a trading update at the end of October, showing a solid performance even against a strong comparative last year.

In the filing, the company noted that Revenues for the cumulative 9M18 period were up 4% year-on-year to £263 million with Revenue per Available Room (RevPAR) up across all regions. This result, on a like-for-like basis – adjusting for renovations and one-offs – saw a stronger 4.4% increase in Revenues.

Aside from better revenue figures, the company also reported a pickup in Occupancy rates with the quarterly figures marking a standout result of over 85%. According to management, this was mainly due to a weather-related pickup in London reservations while the early completion of the Victoria Amsterdam (FAT-UK-747) saw an influx of guests. Croatia also marked an outstanding result and its busiest on record with the heatwave in northern Europe leading to high visitations.

The graphic below summarises the quarterly and cumulative 9M results:

Unaudited Key Financial Statistics for the three months ended 30 September 2018

	Reported			Like-for-like ¹		
	Three months ended 30 September 2018	Three months ended 30 September 2017	% change ²	Three months ended 30 September 2018	Three months ended 30 September 2017	% change ²
Total revenue	£114.2 million	£110.9 million	3.0%	£114.2 million	£109.3 million	4.5%
Occupancy	86.6%	84.1%	250 bps	86.6%	83.9%	270 bps
Average room rate	£128.7	£124.6	3.4%	£128.7	£125.6	2.5%
RevPAR	£111.5	£104.8	6.5%	£111.5	£105.4	5.8%

1 The like-for-like numbers for 30 September 2017 exclude August and September figures for Park Plaza Vondelpark, Amsterdam (which is fully closed for renovations) and art'otel dresden (the lease of which was terminated on 31 July 2018).

2 Percentage change figures are calculated from actual figures as opposed to the rounded figures included in the above table.

Unaudited Key Financial Statistics for the nine months ended 30 September 2018

	Reported			Like-for-like ¹		
	Nine months ended 30 September 2018	Nine months ended 30 September 2017	% change ²	Nine months ended 30 September 2018	Nine months ended 30 September 2017	% change ²
Total revenue	£263.0 million	£252.7 million	4.1%	£262.2 million	£251.1 million	4.4%
Occupancy	79.3%	76.7%	260 bps	79.3%	76.6%	270 bps
Average room rate	£120.2	£119.5	0.6%	£120.5	£119.9	0.5%
RevPAR	£95.3	£91.7	4.0%	£95.6	£91.8	4.1%

1 The like-for-like numbers for 30 September 2018 exclude the first two months of operation of Park Plaza London Park Royal. Furthermore, the like-for-like numbers for 30 September 2017 exclude August and September figures for Park Plaza Vondelpark, Amsterdam (which is fully closed for renovations) and art'otel dresden (the lease of which was terminated on 31 July 2018).

2 Percentage change figures are calculated from actual figures as opposed to the rounded figures included in the above table.

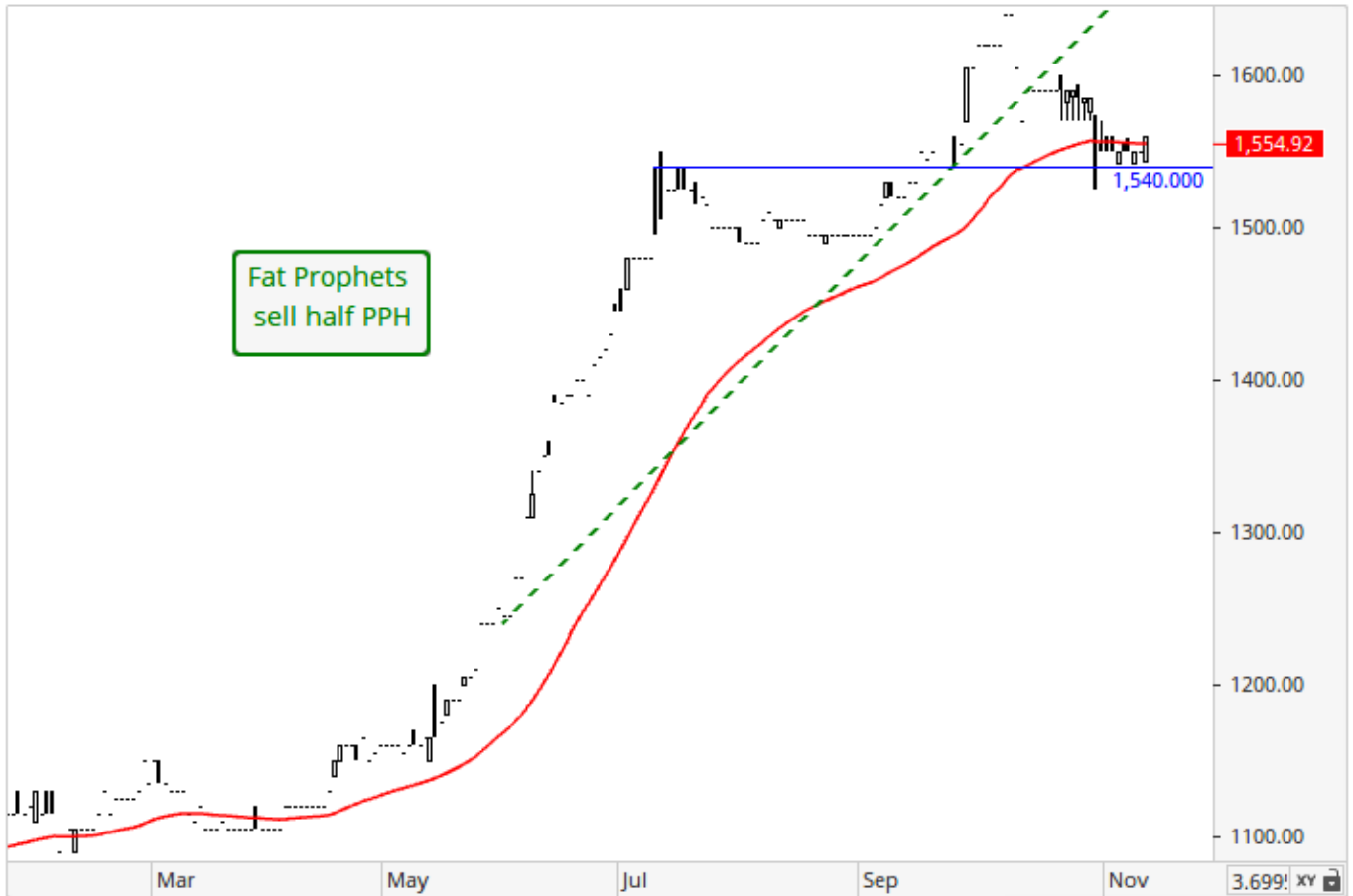
Source: 31 October 2018 Company Filing

The CEO, Boris Ivesha commented on that results stating that “[they] benefited from new repositioned hotels and campsites in the Netherlands and Croatia...” while the domestic operations saw its hotels “maturing” implying a better occupancy rate. He further added that, based on the performance in the September quarter, the company’s “outlook for the remainder of the year... will be in line with previous expectations”.

We believe that the company is well positioned for the long run and a £190 million investment programme to upgrade and boost locations in London and the Netherlands will underpin earnings growth. However, with Brexit a major cloud, we believe that taking some profits at current levels is prudent.

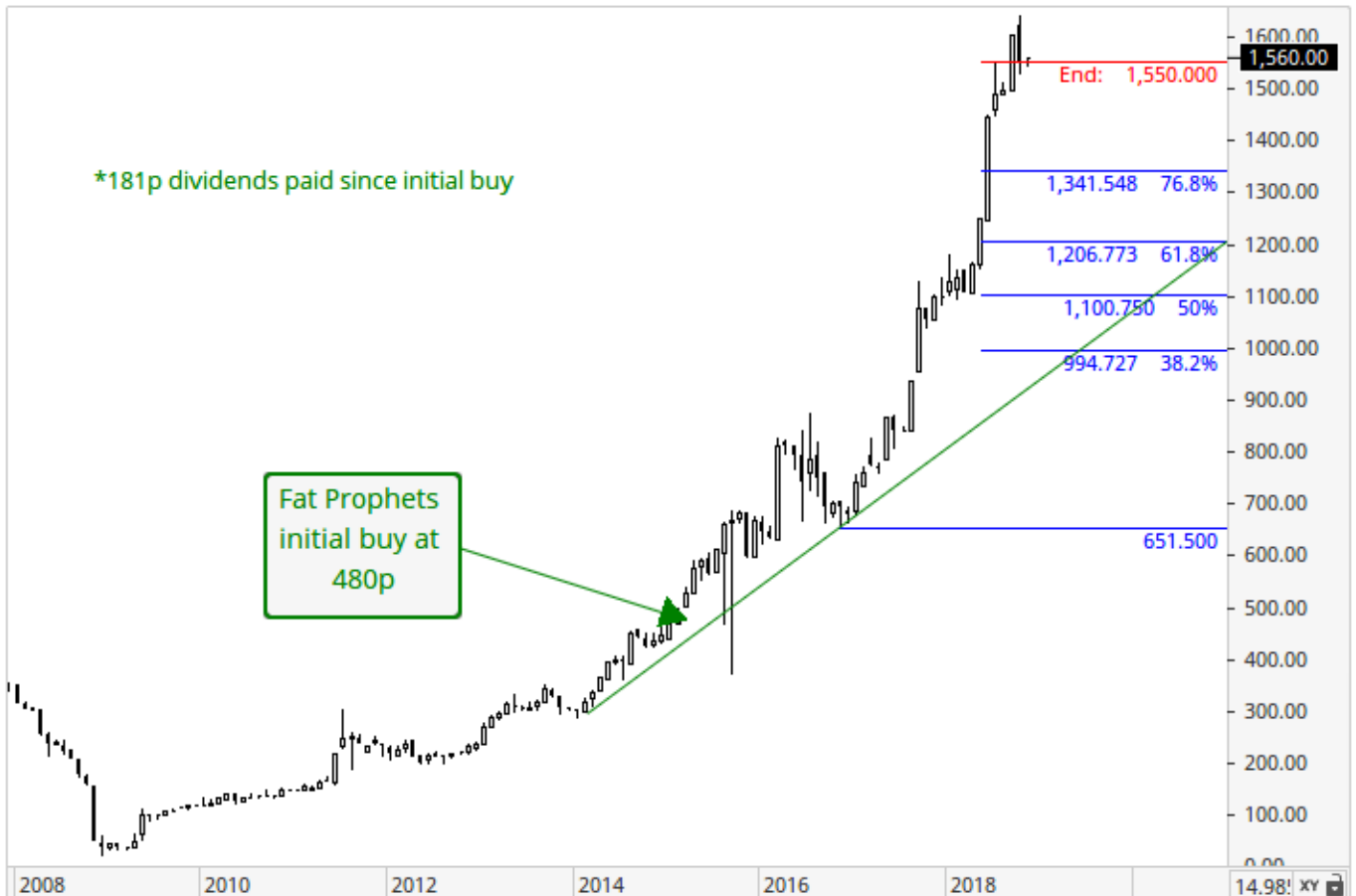
On the daily chart, a dominant uptrend has been in play since April of this year. Prices have however in the past month pierced this trend-line (in green) and are resting on key support around 1540p being the July high. A fall below here would bring 1500p in quick view, and potentially 1300p.

PPHE Hotel Group Ltd - PPH (LSE) - 1 Day CandleStick Chart - GBP



On the monthly, there has been a bullish uptrend since 2009. Prices have pushed upwards from this trendline and successive Fibonacci retracements, with the most recent eclipsed being the 76.8% Fib at 1341p. Prices are however looking overextended, and are well overdue a period of consolidation.

PPHE Hotel Group Ltd - PPH (LSE) - 1 Month CandleStick Chart - GBP



Summary

PPHE Hotel Group recently announced its September quarter trading performance showing that it is making good progress on the back of higher occupancy rates accompanied with higher revenues per room. The company is also seeing the benefits of the early completion of the Victoria Amsterdam hotel while the Croatia hotels benefitted from the heatwave last quarter.

Over the longer term, we believe that the company is well positioned for growth given its £190 million investment programme to upgrade and boost locations in London and the Netherlands. However, with Brexit clouding the outlook, we believe that taking some profits at current levels is prudent.

Accordingly, **we recommend Members SELL HALF their holdings in PPHE Hotel Group (LSE.PPH).**

Disclosure: The PPHE Hotel Group is held in the Fat Prophets European Managed Account Portfolio.

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Snapshot PPH

PPHE Hotel Group

Latest Closing Price: £15.44

PPHE Hotel Group Limited through its subsidiaries, jointly controlled entities and associates, owns, leases, operates, franchises and develops full service upscale and lifestyle hotels in cities and regional centers in Europe. The Company's activities are divided into owned hotel operations and management activities. The majority of the Group's hotels operate under two brands, Park Plaza Hotels & Resorts and art'otel.

Market Capitalisation:£645.63m

	FY1	FY2
Price to Earnings	19.2	22.6
Dividend Yield (%)	2.2	2.1
Price to Book	1.4	1.8
Return on Equity (%)	7.6	8.0
EV/EBITDA	11.5	11.0

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