fatPROPHETS™ ✆ 1300 881 177

PPHE Hotel Group 09/05/2019 **FAT-UK-780**

PPH GBP £17.00 Special **HIGH** **SH**

Fat Prophets take some profits

After a solid finish to FY18, **PPHE Hotel Group** (LSE.PPH) looks to have sustained the momentum and registered growth across its hotel portfolio in the first quarter, as higher occupancy rates accompanied higher revenues per room. The hotel group has also broadened its horizons, making investments, to opening shops in new markets. However, with Brexit still clouding the outlook somewhat and the shares recovering from the large shareholder divestment in late March, we believe that taking some profits at current levels is prudent.

What's new?

Back in mid-March (FAT-UK-773), we covered the hotelier's FY18 results which were quite strong, with all regions posting growth and EPS surging 57.9% in spite of ongoing renovations and Brexit uncertainty. Management looked to be setting up the group nicely for the longer term with investment projects in the Netherlands, London and possibly New York.

Since then, there have been a couple of developments with the first being three of its largest shareholders (Euro Plaza, Walford Investments & Aroundtown Real Estate) selling a cumulative 9.3 million shares, representing 22% of shares in issue in a £16 per share placement. Though this caused the shares to fall initially, it should increase trading volumes.

The next update was in late April when the group announced that it had acquired Belgrade-based, 88 Rooms Hotel, through its subsidiary, Arena Hospitality, for a consideration of £5.5 million. Though relatively small, we view this to be a conservative effort to expand its footprint in Serbia and part of the broader move to expand in Central and Eastern Europe. The hotel is also near Belgrade's historic 'old town' district and is similar to its Croatian holdings which have a medieval appeal as well, attracting Game of Thrones fans.

That aside, the company also issued a trading update covering its first quarter for 2019 operations:

1Q19 Trading Update

From the looks of it, the hotelier is continuing the momentum from last year and is off to a strong start with a rise in revenue. Like-for-like revenue for the 1Q19 rose by 8.1% year-on-year to £62.4 million as 'revenue per available room' (RevPAR) went up by 7.9% to £88.2 with an improved average room rate of £115.4.

The graphic below summarises the year-on-year changes:

Key Financial Statistics for the three months ended 31 March 2019

	Reported			Like-for-like		
	Three months ended 31 March 2019	Three months ended 31 March 2018	**% change**	**Three months ended 31 March 2019**	Three months ended 31 March 2018	**% change**
Total revenue	**£62.5 million**	£59.4 million	5.2%	**£62.4 million**	£57.8 million	8.1%
Occupancy	**76.4%**	73.7%	270 bps	**76.4%**	73.8%	260 bps
Average room rate	**£115.5**	£108.7	6.2%	**£115.4**	£110.6	4.3%
RevPAR	**£88.2**	£80.1	10.1%	**£88.2**	£81.7	7.9%

Source: 30 April 2019 Company Filing

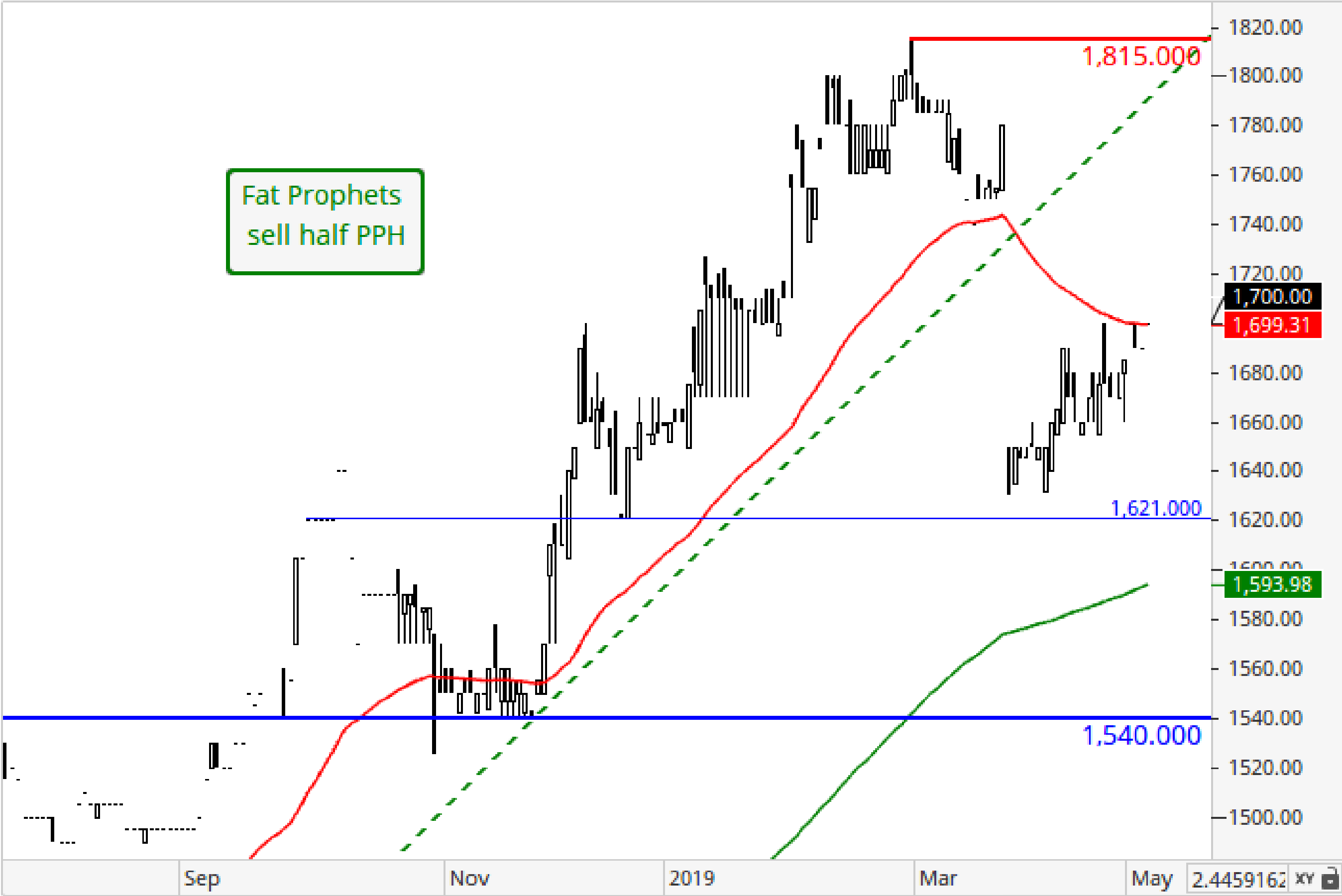
To support the momentum, CEO Boris Ivesha is looking to expand the art'otel brands saying, "our broader pipeline is strong with an approximate £240 million committed investment programme including several repositioning projects and the developments of our art'otel London Hoxton and art'otel London Battersea power station which are both progressing well." We note that the art'otel brand has been successful in Continental Europe, and especially in Amsterdam, Berlin, Cologne and Budapest.

Outside of the UK, the Netherlands portfolio looks well placed with the renovations in Park Plaza Vondelpark, Amsterdam and Park Plaza Utrecht in Holland set to complete soon. Note that the Netherlands Board of Tourism project a circa 60% surge in tourism by 2030 while the supply side may be capped with a halt on further hotel construction.

The company is also making good progress on the New York project with the pre-construction timetable showing a possible completion by 2022.This would be the first art'otel format in the US which is highly appropriate, targeting a niche traveller profile willing to pay a premium to be at the 'hot-spots' of art and culture.

With the company hitting more milestones and its pipeline of new hotels still under construction leading to higher expectations 'priced in' to the stock, we believe it to be a prudent time to lock in some gains and recommend a SELL HALF for Members:

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

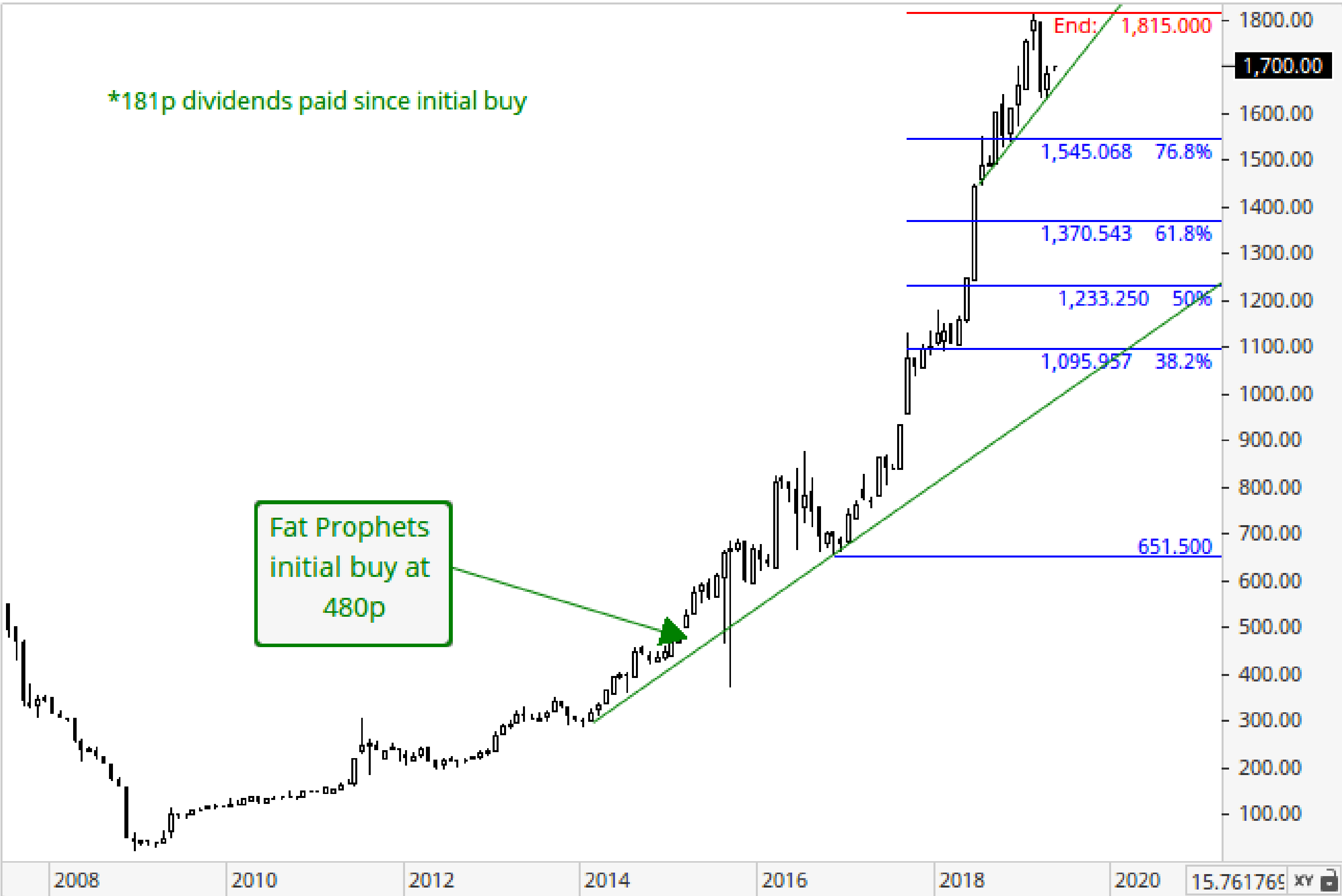


Summary

After a solid finish to FY18, **PPHE Hotel Group** looks to have sustained the momentum and registered growth across its hotel portfolio in the first quarter, as higher occupancy rates accompanied higher revenues per room. The hotel group has also broadened its horizons, making investments, to opening shops in new markets.

However, with Brexit still clouding the outlook somewhat and the shares recovering from the large shareholder divestment in late March, we believe that taking some profits at current levels is prudent.

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



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

Disclosure: Interests associated with Fat Prophets hold shares in PPHE Hotel Group.

Snapshot PPH

PPHE Hotel Group

Latest Closing Price: £17.00

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:£720.77m

	FY1	FY2
Price to Earnings	22.29	20.43
Dividend Yield (%)	2.25	2.45
Price to Book	1.82	1.74
Return on Equity (%)	8.40	8.60
EV/EBITDA	12.64	12.23