Corrected Transcript

12-Jul-2024

Pandox AB (PNDX.B.SE)

Q2 2024 Earnings Call

CORPORATE PARTICIPANTS

Anders Berg
Senior Vice President, Head-Communications & Investor Relations, Pandox AB

Liia Nõu
Chief Executive Officer, Pandox AB

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB

Alexander Robinson
Director-Industry Partners, STR, Inc.

OTHER PARTICIPANTS

Markus Henriksson
Analyst, ABGSC

Fredric Cyon
Analyst, Carnegie Investment Bank AB

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Edoardo Filippo Gili
Analyst, Green Street Advisors (UK) Ltd.

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Pandox Q2 Presentation for 2024. [Operator Instructions]

Now I will hand the conference over to Anders Berg. Please go ahead.

Anders Berg

Senior Vice President, Head-Communications & Investor Relations, Pandox AB

Thank you very much. Good morning and welcome everyone to this presentation of Pandox Interim Report for the Second Quarter 2024. I'm here together with Liia Nõu, our CEO; and Anneli Lindblom, our CFO. And with us today, we also have Alex Robinson, Director-Industry Partners at STR and STR is a leading independent research firm focused on the hotel market and Alex is here to share STR's view on the market. And the views expressed by STR are completely separate from Pandox and the presentation is offered only as a service to Pandox's stakeholders. And also, please note that Alex presentation will be held after we have completed our formal earnings presentation, including the Q&A. Before we let Alex in, Liia and Anneli will present the business updates with financial highlights for the second quarter 2024, followed by the Q&A session.

So with that, I hand over to Liia, the CEO of Pandox.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Anders, and good morning and welcome, everyone. I would like to start this presentation with a very quick recap of some key investment highlights on Pandox. We are active in travel and tourism, a global and highly dynamic industry with strong structural growth drivers. Travel and tourism is one of the largest industries in the world accounting for almost 10% of global GDP and a substantial share of new jobs created. We only invest in hotel properties. We are the largest listed pure hotel property owner in Europe, with a unique portfolio of high quality assets. We are an active owner, with deep hotel expertise and we work with all operational models and are focused on creating value across the whole value chain.

We have revenue-based leases with strong skilled operators. This gives us upside and common goals with our operators. It also gives us inflation protection as the inflationary costs are borne by the operator and it also enables Pandox to have a strong positive yield gap of more than 200 basis points, relatively independent of interest rate environment.

We have a high quality project pipeline, which we expect will accelerate our organic earnings and value growth in 2024 to 2026 and beyond, and we have ambitious ESG targets, including a substantial climate transition program with high ROI.

Our property portfolio has an average valuation yield of 6.26% with long leases and a WAULT of 14.6 years. And, finally, we have only bank financing, with strong and positive lender relationship and low refinancing risk.

Our business is to own, improve and lease hotel properties to strong hotel operators and the long term revenue-based leases. We do this through four principal value activities: it's property management, property development, portfolio optimization and sustainability. We are an active and engaged owner based on deep hotel expertise.

We have a strong and well diversified hotel property portfolio, consisting of 157 hotel properties with approximately 35,000 rooms in 11 countries and 90 cities and with a property market value of SEK 71 billion with an average yield of 6.26%.

We are divided into two mutually supportive and reinforcing business segments. It leases and it's our own operations. In leases, where we own and lease out our hotel properties it stands for 84% of our property market value. And in our own operations, we transform and run hotels in properties we own and this makes up for some 16% of the property value.

The focus of our portfolio is upper mid-market hotels, which mostly – with mostly domestic demand, which is the backbone of the hotel market, regardless of which phase the hotel market cycle is in. We also have one of the strongest networks of brands and partners in the hotel property industry. This ensures efficient operations and revenue management which maximize cash flow and property values and a continuous flow of business opportunities. And also a relatively large part of the investment in leases is shared with the tenant, which lowers our risk.

We had posted a seasonally strong hotel market in the second quarter. The event calendar was packed. Leisure travel was active and business demand was stable. This translated into good operational performance for us. Like-for-like, both revenues and total net operating income increased by 6%. And cash earnings increased by more than 10% and growth in EPRA NRV was positive.

Our average outgoing interest on debt decreased to 4.1% in the second quarter, which further supported our positive yield spread, which is above 200 basis points. So our financial position is strong and we are well positioned to act on market opportunities.

Here is the RevPAR development level for our business segment, leases, compared with 2023. The numbers are on comparable basis and at fixed currency. In the second quarter, RevPAR increased by approximately 3% like-for-like and for the portfolio as a whole, increased average prices explains most of the uplift and more on that on the next page.

Here we have a breakdown of the performance for a selection of countries, regions and cities versus 2023. We show average daily rate on the vertical axis and occupancy on the horizontal axis. Thus, origo is the point corresponding to 2023 on both ADR and occupancy. In the boxes, we indicate how much higher or lower RevPAR is compared with the corresponding period 2023. In the second quarter, the hotel market with some variations, developed positively. RevPAR increased in most markets driven by increased price while occupancy was a little bit more disbursed.

In terms of RevPAR, the [ph] great relative (00:07:54) improvements took place in Norway Regional and capital cities in the Nordics, such as Stockholm, Copenhagen and Helsinki, which benefited from an active events calendar, and the improvements in Helsinki was particularly welcome. Alex Robinson from STR will talk more about the underlying trends in the European hotel market later in this call.

We have an active investment pipeline and are on track to add an additional SEK 300 million in net operating profit for the year 2026 on an annualized basis. Hotel Pomander is already completed and in full swing, Citybox Brussels opens 14th of July, and Scandic Go Fridhemsplan opens 8th of October. These two will gradually start to contribute during the second half of this year. We are also adding new projects to the pipeline continuously. Two examples are in hotels, The Hotel, Brussels and Leonardo Hotel Christchurch.

And, with that, I hand over to Anneli Lindblom.

Anneli Elisabet Lindblom

Chief Financial Officer, Pandox AB

Thank you, Liia. So, good morning, everyone. We're happy to report a profitable growth in the second quarter, which is a seasonally strong quarter and this year filled with many events. We saw good performance in both business segments for the group. Like for like growth was positive, both in revenue, with 6% and in net operating income with 6%, supported by a positive and active hotel market.

Own operations continued to perform well in the second quarter, supported by a strong hotel market in Brussels and a positive boost from European Championship in football, especially for our hotels in Berlin and in Dortmund. We also saw positive effects from the renovation of reposition of Hotel Berlin that's in Berlin.

Like-for-like growth in revenue was 10% and in net operating income, it was 20%. Cash earnings increased by 10% in the quarter and profit before change in value increased by 16%. Current tax amounted to minus SEK 104 million and the [ph] efficient (00:10:28) tax rate was 7.4%.

On this slide, we show the change in the main valuation parameters for the total property portfolio year-to-date. And remember that according to IFRS, unrealized changes in value for our operating properties are only reported for information purpose and is included in the EPRA NRV calculation.

In the second quarter 2024, the unrealized changes in value were a positive SEK 423 million. This is explained by increased cash flow, which out weighted a marginal increase in yields. And as you know, we have the main part of our hotel properties outside Sweden and denominated in foreign currency. So we did have a positive effect of currency this quarter.

In the quarter, we completed the divestment of our last hotel in Canada. End of period, the average valuation yield for investment properties was 6.13% and for operating properties, it was 6.90% and on average for the total portfolio of 6.26%.

Here we have the average yield, the average interest on debt and EPRA NRV per share quarterly. Despite higher yields and higher market interest rates, EPRA NRV per share has increased compared with 2019 and we have a tangible and positive yield spread of over 200 basis points. In the second quarter, growth in EPRA NRV was positive, measured on an annual basis, adjusted for paid dividends.

Our LTV at the end of the quarter amounted to 46.2%, which puts us in the lower and lower quality range. The ICR on a rolling 12-month basis was resilient 2.6 times. Cash and credit facilities amounted to SEK 4.1 billion. And on top of that, we have still unencumbered assets of some SEK 800 million as an untapped reserve.

And the financing climate, it has improved further in the last couple of months. In the quarter, we refinanced loans of SEK 3.5 billion. And generally, we can now refinance at lower credit margins, together with a slightly lower base rate. We continue to increase the share of sustainability-linked loans. And end of quarter, we have some SEK 5.4 billion, that were sustainability-linked.

Looking ahead, we have SEK 7.4 billion on debt maturing within one year, of which 60% in the fourth quarter. And as you know, we have strong relations with our banks, and discussions on future refinancing are ongoing and positive. At the moment, 71% of the net debt is hedged, which means that the effects on movements in the [ph] market rates (00:14:04) are still relatively low.

And with that, I will hand back to Liia for some more final remarks.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Anneli. Our message from the last two interim reports that we expect some revenue growth in the hotel market in 2024 is still valid and is well supported by the developments in the first half-year. We are currently in a seasonally strong leisure period with high demand from domestic and regional leisure travel. The event calendar remains well filled and with the increased international inbound travel to Europe. [ph] For example (00:14:46), in May, London, Heathrow reported its strongest 12-month period ever, and there's still good potential for increased passenger volumes during the summer. All in all, we remain positive and expect good hotel demand also for the third quarter.

And we now move over to the Q&A. Operator, we are now ready for questions. And please do not forget to hand the call back to us afterwards for Alex presentation.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The next question comes from Markus Henriksson from ABG Sundal Collier. Please go ahead.

Markus Henriksson
Analyst, ABGSC

Q

Thank you very much. Good morning, everyone. Two questions from me. First off, with regarding acquisitions, could you highlight a bit what you're seeing in your different markets and what type of markets are you seeing improved activity? And then, a bit of reasoning on where you're comfortable in terms of net debt to EBITDA and loan to value? Thank you.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Yes. Hello. Hi. When it comes to acquisition, we are happy to see that the transaction market is well back. A lot of more transactions are out and possible than it was just a half year ago or a year ago.

And when – it's the same also [indiscernible] (00:16:33). We want to – we are [ph] preferredly (00:16:36) looking at where we already are, but also neighboring markets, but the most liquid and the current market is UK, Ireland but, of course, also then Nordic, a lot to do something in Germany, but it's typically a little bit later on. So, UK, Ireland, maybe the first one where you see the most large numbers of transactions actually.

On the second question, regarding LTV, we are at 46.2%. This is in the lower range of our 45% to 60%. Now, when we see deals hopefully flattening out and improving, then we are comfortable by being around, obviously, in our range, but we have never been basically south of 50%. Hopefully, with some acquisitions, we can improve or increase a little bit from the 46%, but I would expect us to be in the range between where we are today and up to 50%-plus.

Markus Henriksson
Analyst, ABGSC

Q

Thank you. Very clear. And then, a bit on new hotel supply, if could go through a little bit in your different markets where you're seeing the most kind of favorable demand/supply situation relative to the current performance in respective markets? And then...

Liia Nõu
Chief Executive Officer, Pandox AB

A

Yeah.

Markus Henriksson
Analyst, ABGSC

Q

...relative to say, one to two years from now, where you're seeing a potential that the trend could last or change? Thank you.

Liia Nõu
Chief Executive Officer, Pandox AB
A

Yeah. Well, what we have – like, we said before, what was already planned before the pandemic has been put in place and where we have seen a lot of new demand or new capacity coming in is especially Copenhagen, it's Helsinki, it's Gothenburg, which is in this year has been a lot of new capacity coming in. Not so much are coming, sort of newly planned. So, we expect end of 2024, 2025, 2026 to have a very moderate increase of new capacity. But, of course, as always, this will eventually be coming back. But otherwise, these are where we are seeing the most [indiscernible] (00:18:54), there is, of course, specific cities, etcetera, but Copenhagen, Helsinki, Gothenburg.

Markus Henriksson
Analyst, ABGSC
Q

Thank you. And then could you please remind us when we see this kind of strong performance, if you go back historically, how quick has the market been able to see that and new supply coming onto the market, say, from a plan and then construction...

Liia Nõu
Chief Executive Officer, Pandox AB
A

Yeah.

Markus Henriksson
Analyst, ABGSC
Q

...and then entering the market.

Liia Nõu
Chief Executive Officer, Pandox AB
A

Yeah. Well, I can explain sort of twofold on the question. When it comes – when new capacity comes in, it typically takes maybe up to 1.5-2 years before it's actually sort of absorbed in the market. Then, again, of course, when new capacity comes in, the planning phase for a new hotel would normally take anything between two to four years. So, what – you would expect something to start coming in, but this is a quite long process of actually putting a hotel in place, to build it, and then also establish a new market for it. So, we do expect there is a window [ph] where it's (00:20:03) much less capacity coming in now, especially in – end 2024, 2025, and beginning 2026.

Markus Henriksson
Analyst, ABGSC
Q

Very clear. Thank you.

Liia Nõu
Chief Executive Officer, Pandox AB
A

Thank you.

Operator: The next question comes from Fredric Cyon from Carnegie. Please go ahead.

Fredric Cyon
Analyst, Carnegie Investment Bank AB
Q

[indiscernible] (00:20:29-00:20:36) additional revenue associated with the European Championships in Germany in the second quarter.

Anders Berg
Senior Vice President, Head-Communications & Investor Relations, Pandox AB
A

We lost you from the beginning. Maybe you can sort of restate your question, Fredric.

Fredric Cyon
Analyst, Carnegie Investment Bank AB
Q

Of course. Can you hear me now?

Anders Berg
Senior Vice President, Head-Communications & Investor Relations, Pandox AB
A

Yeah. Yeah.

Liia Nõu
Chief Executive Officer, Pandox AB
A

Yes.

Fredric Cyon
Analyst, Carnegie Investment Bank AB
Q

Perfect. So, obviously, the European Champions had a positive effect on the German operations in the second quarter. Can you elaborate on what kind of additional revenue that generated in the second quarter for Pandox?

Liia Nõu
Chief Executive Officer, Pandox AB
A

Absolutely. Absolutely. When we look at – we try to estimate what the effect of the European Championship have been in June and also July. If you look at June month, separately, the German market RevPAR increased with 19%, and we expect approximately 75% of that coming from the European Championship because there was also more events and conferences in that month. So, there's like not a double dip, but a double [ph] hill (00:21:37) whatever we say it.

So, that means that the effect on the quarter, we estimate, to be somewhere between 5% to 6%, and on a yearly basis, it's 2%, 3%, which is quite remarkable, I would say. Of course, individual cities, they could be anything from 25% to 80% increase. And we are happy to – as you know, we have hotels in both Berlin and Dortmund, which have been the sort of biggest cities where there's a lot of matches have been. In July, we do expect that, of course, there will be a continue effect, but as there have been fewer matches, we perhaps estimate that this will be half the effect of what we saw in June. Month-to-date, we have approximately for the two weeks about 15% increase in revenue in the German market, so very positive, all-in-all.

Fredric Cyon
Analyst, Carnegie Investment Bank AB
Q

Definitely. Thanks a lot. And then moving over to RevPAR guidance, you've said obviously that there would be some growth in 2024. We have – I believe you have a good knowledge of the event calendar next year. Do you think it's reasonable to assume that we will have RevPAR growth despite all the favorable moments we've had in 2024?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Yes, I do believe so. We also will have some RevPAR growth, absolutely. And, I mean, with the event calendar improved this year, of course, there are a lot of events also in next year, so we have a remarkably strong Q2. It will be maybe perhaps difficult to beat the Q2 next year in a significant amount, but there will be a RevPAR growth. And add to that that there is less capacity coming in. Also, we have our projects coming to market. So all in all, market growing and as well our projects coming in.

Fredric Cyon
Analyst, Carnegie Investment Bank AB

Q

[indiscernible] (00:23:30-00:23:36)

Liia Nõu
Chief Executive Officer, Pandox AB

A

Sorry, we're...

Anders Berg
Senior Vice President, Head-Communications & Investor Relations, Pandox AB

A

Now you're breaking up again.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Yeah. Sorry. We didn't get that part.

Fredric Cyon
Analyst, Carnegie Investment Bank AB

Q

Okay. Sorry. Can you hear me now?

Anders Berg
Senior Vice President, Head-Communications & Investor Relations, Pandox AB

A

Yes.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Yes.

Fredric Cyon
Analyst, Carnegie Investment Bank AB

Q

Okay. Perfect. So, moving over to cost of debt, they declined somewhat quarter on quarter, and you do have a quite a lot of debt maturing within that year. Do you think your cost of debt has peaked?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Sorry, that our cost of debt has peaked?

Fredric Cyon
Analyst, Carnegie Investment Bank AB

Q

Peaked?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Well, yes, and as we write in the report and as we're seeing, I mean, the credit margins are coming down in all the refinancing. And also, of course, we take the opportunity to re-refinance where it's possible. So, the credit margins are both from our old pandemic times, but also sort of in a different more worrying environment. So, I do believe we are at [indiscernible] (00:24:26), we have more than 70% which are hedged. So, we'll take a little bit more time, but we are refinancing continuously, and it definitely will come down.

Fredric Cyon
Analyst, Carnegie Investment Bank AB

Q

And then, my final question relates to acquisitions, and there has been quite a few deals in the European hotel market year-to-date. Has the price levels been too elevated for your tastes or is it more related to what kind of assets and portfolios has been out there?

Liia Nõu
Chief Executive Officer, Pandox AB

A

It's a – we are – as always, we are looking and we are looking more and at different – both single assets and small portfolio than ever. Typically, these portfolios and assets take a little bit of time to put in place, there are quite a few interesting things out there, but there is also, of course, a big chunk, which also hasn't been moved or turned over for long time. So, there's a lot of, especially fixed leases, which we – not really our cup of tea. But there are definitely interesting things out there, both price-wise and market-wise.

Fredric Cyon
Analyst, Carnegie Investment Bank AB

Q

Thank you and sorry for the bad line from Central Stockholm.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Too close.

Operator: The next question comes from Albin Sandberg from Kepler. Please go ahead.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yes. Hi there. So a couple of questions, please. And if we take – I think you said Liia that you're basically repeating the hotel market outlook for this year.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Yeah.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

And just looking at Q2 isolated, how did that play out versus your expectations when you ended Q1?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Well, it – we were not – [ph] at not least (00:26:22) disappointed, if I let me say so. I mean, our plan slightly better, I would assume, because you never know, of course, and of course, there's always worrying about everything from inflation, interest rates, recessions and God knows what. But very positive sort of report from Germany and Germany as such in April-June was pretty flat, but the June jumped up and we are now sort of on plan or even better. And UK, Ireland fantastic, all going along with [indiscernible] (00:27:04).

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

And if one were to compare the market RevPAR numbers that you provide in the report with Pandox [ph] loans (00:27:14) sort of RevPAR, is your feel that you are outperforming the market or in line with the market or maybe even underperforming the market?

Liia Nõu
Chief Executive Officer, Pandox AB

A

When it comes to prices?

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah, I would say RevPAR, in general.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Well, so far a lot of the RevPAR growth, I mean, on the sort of most extreme upside has been the south of Europe. And as you know, we don't have so much presence in the Europe. But you could say that we have more potential as Germany is coming in. [ph] I mean, we had (00:27:49) a strong performance in [ph] Belgium (00:27:51), etcetera, this quarter. But we are – by country by country, I think we are in line with the performance. On a total Europe level, then, of course, we don't have the presence in the south of Europe and especially Italy, Spain, Portugal has been heading the pack.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Yeah, that's clear. And I was thinking more on the markets where you're actually present. So, I take it [indiscernible] (00:28:20)...

Liia Nõu
Chief Executive Officer, Pandox AB

A

Oh, absolutely. Yes.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

I believe you're doing in line with the market.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Yes, we are absolutely aligned.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah, yeah.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Yes, absolutely.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Good. And on your ongoing developments where you indicated SEK 300 million of NOI increase and I guess, two of them are completed, how much of those SEK 300 million are already in the numbers by Q2?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Well, basically, nothing yet. I mean, we have Pomander, which come into place in the – in, I think, it was 1st of March; Scandic Go, Citybox etcetera, they will come in in the second half. So, basically, there is very little yet which have come in.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Great. And then, of course, I understand the – especially the stock market is changing quite rapidly direction and just thinking about your commenting about the refinancing and so on and, of course, there's been a lot of focus on that. And then we have seen, I guess, a very supportive start to the overall refinancing opportunities, not only for you, but for your peers. But you still spend some time commenting on that. And I guess, being a property company with a lot of debt, it's not unusual in that sense. But I guess when we look at the upcoming refinancing [ph] now over (00:29:39) this year and maybe next, you indicated that you're expecting a positive outcome on that, not a negative, I guess...

Liia Nõu
Chief Executive Officer, Pandox AB

A

Absolutely.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

... [ph] that was the key (00:29:51), but do you think that this kind of – when do we get into some kind of a steady state on the refinancing or are we still in a special stage or are you in a stage where you're sort of, I don't know, maybe adjust your debt portfolio for a longer credit maturity or anything like that? I guess, we will always have this comment when we report going forward or if it's still something specially you want to highlight to us.

Liia Nõu
Chief Executive Officer, Pandox AB

A

I think we are – as we are sort of refinancing our portfolio, we indicated on the last call that we knew refinancings are around 40 basis points lower. If anything, I think maybe the lowering of the credits [ph] markets (00:30:35) are even higher than that. So as – so pre-pandemic, the average margin was around 150 bps or so, maybe it's peaked about mid-230 bps, 240 bps. Now, we are heading back hopefully below 2% again. So whether we'll go back to 150 bps for the whole portfolio, that will probably take a little bit longer time, but I'm sure we'll actually get there as well.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Okay. Okay. Thank you very much. That's all for me.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Thank you.

Operator: The next question comes from Edoardo Gili from Green Street. Please go ahead.

Edoardo Filippo Gili
Analyst, Green Street Advisors (UK) Ltd.

Q

Hello. Good morning.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Good morning.

Edoardo Filippo Gili
Analyst, Green Street Advisors (UK) Ltd.

Q

One question for me. In terms of – it sounds like you're going to be a grower so either acquisitions or more development. I'm keen to know what sort of yield on cost you'd be targeting for sort of new developments either new ground up developments or value-add type opportunities?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Well, we only do value-add. We don't do sort of newly built. So the acquisition – I mean, either we develop in our own existing portfolio or we acquire properties where there is possibility to continue to do some development and value creation, which would be sort of – and it would be in line with what we have seen before [ph] with our average yield on (00:32:13).

Edoardo Filippo Gili
Analyst, Green Street Advisors (UK) Ltd.

Q

So could you elaborate on the average that you've seen before?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Sorry, the average – oh, when it comes to our own investments, I mean, in our existing portfolio, typically, we would have a return of around maybe 10% to 15% or 12% to 15%, depending on what kind of development it is. When it comes to acquisitions and of course, it depends on which country we'd do that in, but hopefully we find some – I mean, the last acquisitions we did for 9%, 10%, of course, I would do hundreds of those [indiscernible] (00:32:54) we're able to do [indiscernible] (00:32:56) coming down. But typically we do find ways of getting very healthy returns as we buy something and then we do continue the investments and develop the properties, adding even more value.

Edoardo Filippo Gili
Analyst, Green Street Advisors (UK) Ltd.

Q

Understood, maybe another quick one. Are you looking at also other geographies that you haven't invested in? I'm thinking, Southern Europe has been pretty active in terms of acquisitions and deals. Is that an area you could expand in in the future as well?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Well, we would typically do where we're already and, of course, neighboring countries as well. I mean, there's – we are small – there's a lot of opportunities already where we are. There's a large – huge market. We've been looking at Spain. We've been looking at some different markets as well. It's typically sometimes been too expensive or we've been too late in that, but we would never say never. But there is more than enough to do as well also in the regions where we are, especially UK, Ireland, Nordics, Germany, Benelux, etcetera.

Edoardo Filippo Gili
Analyst, Green Street Advisors (UK) Ltd.

Q

Perfect. Thank you.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Thank you.

Operator: There are no more questions at this time. So I hand the conference back to the speakers for the next part of the presentation.

Anders Berg
Senior Vice President, Head-Communications & Investor Relations, Pandox AB

Yes, thank you for the questions. And now we would like to hand over to our guest speaker, Alex Robinson, for the hotel market update. And a reminder once again that Alex's presentation is totally separate and independent from Pandox. And it is arranged as a service to Pandox stakeholders. So with that, please go ahead, Alex.

Alexander Robinson
Director-Industry Partners, STR, Inc.

Good morning, everyone. Thank you for the welcome. If we commence with our first slide, what we can see is global demand for hotels, number of rooms sold. And the good news is since Thomas last presented to you on the April call is that trend of selling more rooms as a global industry is continuing now in effect for the last 17 months.

If we then go to the next slide, please, what we can see is there has indeed been a slowdown in terms of percentage year-on-year change for demand, notably we saw contractions in February and March, so positive news, we've seen gains back in April and May. And a big driver of that, which we'll see, if you head to the next slide, please, is the US, which did have declines towards the end of last year, started this year. But as we can see in both April and May, albeit with muted supply growth of less than 1%, demand easily outstripped that, generating overall growth.

Onto the next slide, please. What we can see is a picture of global occupancies. And much like Thomas presented in April, mixed picture, if you take into account the likes of mainland China, Northern Africa, South America, where we do see declines. And if we look at Europe, we do see commendable growth year to date of 2% through until May. Full occupancy at 66%. Still slightly off the occupancies at 2019, but what I think is important to remember here is that since January of 2020, we had almost as many as 3,000 hotels, approaching 320,000 new rooms open across Europe.

So, even while the industry did standstill for a period during those lockdowns, constructions [ph] didn't (00:36:40) move forward. And we are indeed selling into a bigger pool of rooms, which I think makes the recovery in growth that we've seen a result even more impressive.

Onto the next slide, we'll start to take a look at occupancy, average daily rate and revenue for available room percentage change for Europe. Again, we can see February and March, particularly in April, with a shift in Easter, slower gains, but then back in May with more commendable growth of 6%. And overall, while it may appear to be a deceleration, I think it's important to contextualize that those large double-digit percentage growth that we saw during the recovery period are now making way for a more single-digit range of growth that we would have expected pre pandemic and would have been present in normal market trading.

Onto the next slide, and what we can see is that it's a positive picture of growth as far as occupancy on the books. When we last provided an update in April, we could see that weekend business was about even with where it stood last year. More good news that we can see as of July 1 when this data was captured that actually weekend stays are ahead. And one of the big questions that we get from investors on many calls, presentations, is can this European summer be as good as it was last and the initial data is very positive.

And one thing that we've been keen to highlight this year, which you can see again in the middle portion of the slide for a weekday, is that weekday occupancy on the books is also ahead and it is fostering growth, which you see on the next slide, please. What we'll then see is ADR by stay pattern, you've got your shoulder stays, Sunday to Thursday for the glass of wine; midweek, a laptop, representing a more corporate stay pattern; and then your golf bag for your leisure.

And if we look at 2022 briefly, no surprise, we all know that leisure led us out in the early stages of recovery. 2023, that got close. We started to see midweek and shoulder stays get back and be on the map. And now into 2024, you can see that gap closing. And what's interesting is if you look at many cities, particularly across Europe, it is actually that midweek stay pattern both in occupancy and rate that's driving that growth.

So the next slide, please. What will then see is a comparison between European revenue per available room and US per available room index to 2019. And we talk about the importance of that summer, that packed events calendar, the Euro is taking place in Germany, the Olympics upcoming in Paris. And you can see there in 2023, that was the inflection point for [ph] one European (00:39:26) performance. So, [ph] is to ahead (00:39:27) and you now cast your eye to the end of the access in May, and you can see that it is taking into effect again. And that's also bolstered by – you can see the small graph there to the bottom right. Within there, 1 percentage point more occupancy than we did have same time last year in July and August and also for September and October. So, it does make for very positive reading in general.

So, the next slide, please, what we see is talking about that regional picture and you touched on this in some of the questions and commentary earlier. UK and Ireland, fully recovered, relative to 2019. Again, I think very impressive when you consider all new [indiscernible] (00:40:07) rooms, but also enter that market. In the meantime, Southern Europe also performing well. And good news also for CEE and the DACH countries where, yes, they are towards the end of the spectrum. But if you look at the very bottom there for year-over-year percentage change, you can see making gains. So not standing still, but actually pushing ahead to close that gap.

So, the next slide, please, what we'll see is rate and this is really [indiscernible] (00:40:34) one of the questions answered earlier around the performance in the Mediterranean, you talk about Italy and France and Spain, which have had really strong performance in the convergence of international travel, strong luxury offering and all catered towards leisure. Notwithstanding the rest of Europe, while not perhaps seeing those same levels of rate growth that we're seeing across the Mediterranean, also strong levels relative to 2019. And if you cast your eye to the bottom again in year-over-year percentage change, you can see still growing even on top of that already impressive growth.

So, the next slide, please, and now we pan out for a bird's eye view of capital and key cities across Europe. And it's not quite as bright viewing as Thomas shared with you in April. It is a slight bit of softening in terms of occupancy growth and you do start to see some of those markets; Dublin, for example, where supply growth is outstripping that of demand, starting to slow somewhat; Paris, you also see, which we'll touch on in more detail, a bit of displacement in the lead up to the Olympics. But overall, very small declines, if any, and not quite the same level of growth, but still growth overall.

And to the next slide, please, when you look at the year-to-date figures for average daily rate, you can see those contractions in Dublin again, which we highlighted where supply is outstripping that of demand. If you cast your eye to Warsaw, for example, you'll be able to see that that market's had record years year-after-year and does have more supply coming into it, so ADR growth more muted there. And then to the Baltic states where you do have some demand challenges or in the likes of Vilnius, comping over an active event calendar last year. So looking south across the Mediterranean, you can see those encouraging figures of rate growth overall.

Onto the next slide and now having a cross section of performance by class, luxury all the way through to economy again, we see that all classes are ahead of 2019, but we're still seeing a continuation of the theme which indeed is a global theme, not just a European one, where luxury hotels at one bookend, economy hotels at the other are the strongest in terms of performance and midscale slightly less in terms of gains versus 2019.

And on the next slide, we'd say, what could we infer overall versus business on the books, so as of July 1 for each respective hotel class, from July until September, what level of business on the books do we have versus the same period of 2023. And you can see again, it is economy and luxury hotels with a large number of business on the books relative to the same period. But good news also for all classes that while they may not be performing at the same level, they do, indeed, have more positive occupancy on the books than they did versus last year.

On to the next slide, and this is one I thought to include, and Thomas did include, again, in April. But, I think, really important to highlight here what we're seeing in terms of occupancy week over week in 2023 versus 2017, highlighting no change in the data. There is no AI applied. We didn't add any intelligence to that. It's simply those occupancy week over week percentage points difference overlap, and you can learn a great deal from the past and that we're very much perhaps creatures of habit.

And proof being, if we go to the next slide, what we can see for the first half of 2024, albeit April and May, slightly less of a correlation due to the shift in Easter, but, again, following those same week over week occupancy gains or declines relative overall. So, we can learn a great deal of performance when looking at the past and taking that forward into the future.

And on to the next slide please and I think, apt to cover Germany, as Thomas did in April, but also in light of the large events calendar, not just that of euros, but many other [indiscernible] (00:44:39) and large stage concerts, you can see occupancy there pushing closer and closer to 2019, April and May, a bit of a gap. But now, as we head into all of the fixtures for the euros and events throughout the summer, you can see June and July pushing ever so close.

And to the next slide, please, you can really see the impact of the football there, that first weekend of fixtures through into July really steaming ahead in terms of rate and starting to push onwards.

And on to the following slide, what we'll see and I thought it's an interesting one to highlight. So here, we have Paris as of the beginning of July. No surprise there, huge amount of compression over the dates during the Olympics. But also what's interesting and this is a trend that we saw in London, also in Rio and Beijing, other Olympic host cities where as rates increase and as crowds increase, there is indeed a bit of displacement in the lead up to and the period following where those who may have gone to Paris, whether they're put off by the rates or indeed the larger crowds, you don't quite see the same occupancy in those periods. However, it is still great news for host city hoteliers where rate growth during that period is so substantial, you'll expect to see very significant RevPAR part growth over that period. And Paris looks to be no exception.

Onto the next slide and touching briefly on our European forecast there. One caveat that we do not forecast for Europe on a continental level, but a concentration of the cities you can see highlighted below there. And almost equal parts occupancy and rate pushing RevPAR growth this year, if not more on the rate side, which not surprising when you can see the compression caused by many major events and the rates that hoteliers are able to achieve over that period. However, into 2025 and 2026, our analysts saying that rate growth, while it's been so great over recent years, tempering somewhat and occupancy taking over as the driver of growth for those subsequent years.

And our next and final slide, just a big thank you for hosting us this morning. It's been a pleasure to join the group and provide some insight across Europe. Wishing you a great weekend and some summer holidays if you do have any coming up.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Alex, for this hotel market update. And thank you, all, for participating in this call. We really appreciate your time an interest in Pandox. Save the date for our interim report for Q3, which is published on October 25. And we wish you all a very nice and relaxing summer and do not forget to stay at our hotels. Goodbye.