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Pandox AB (PNDX.B.SE)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Pandox Q4 2022 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Mr. Anders Berg. Please go ahead, sir.

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

Thank you very much and welcome to this presentation of Pandox fourth quarter and full year 2022 report. I'm Anders Berg, Head of IR at Pandox, and I'm here together with Liia Nõu, our CEO; and Anneli Lindblom, our CFO. And as always, we have STR with us as well, represented by Robin Rossman, Managing Director at STR, and he represents a leading independent research firm focused on the hotel markets and he will share STR's view on the market.

And I would like to remind you that the views expressed by STR are completely separate from Pandox and that the presentation is offered only as a service to Pandox's stakeholders. But before we let Robin in, Liia, Anneli, and myself will present the business update with financial highlights for the fourth quarter and the full year, followed by the Q&A session.

And after that, Robin will provide the external hotel market update.

Next page, please. And with that, I hand over to Liia Nõu, CEO of Pandox.

Liia Nõu
Chief Executive Officer, Pandox AB

Thank you, Anders. And good morning, everyone, and welcome. I am happy to say that we ended the year strongly with stable demand and normal seasonal patterns in the fourth quarter. These are clear signs of a healthy hotel market. For Pandox, the positive market conditions translated into strong growth in cash earnings on the back of increasing revenue base trends and good development in our own operated hotels. This confirms the power and performance of Pandox business model and what we are capable of delivering in a more normal hotel market.

We ended the fourth quarter with a solid financial position with LTV of 46.7%, which is in the low range or low end of our financial target. And it's worth repeating that Pandox has all of its financing through banks and that we have a good and constructive dialogues on future refinancing. Based on the recovery in the hotel market, our strong cash flow and stable financial position, the board of directors is proposing a dividend of SEK 2.50 per share for the financial year 2022.

Next page, please. We have a well-diversified hotel property portfolio. We have 157 hotel properties with approximately 35,500 rooms in 15 countries and 90 cities. And with a property market value of more than SEK 69 billion.

We are divided into two business segments: Property Management and Operating Activities (sic) [Operator Activities] (03:02). In Property Management, we lease hotel properties to strong and well-known operators under long revenue-based agreement also with minimum rent. This segment makes up for 83% of our property market value.

In the other segment, Operating Activities, we operate our hotels ourselves, in properties we own under different operating models. Operating Activities makes up for some 17% of our property market value. The focus of our portfolio is upper mid-market hotels with mostly domestic demand, which is the backbone of the hotel market. It's also strength in more uncertain economic times.

Next page, please. We 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 value. As you can see in this picture, we work together with several well-known operators. For example, Scandic and Nordic Choice in the Nordics, and Leonardo Hotels in Germany and in the UK. We also have long relationship with strong international brands such as Hilton, Holiday Inn, and Radisson Group. In our Operating Activities segment, we have also some independent brands created by Pandox. For example, our newly renovated Hotel Berlin, Berlin, which is our largest hotel with over 700 rooms.

Next page, please. The hotel market's recovery in 2022 was both faster and stronger than we had dared to hope for when the year began. And the fourth quarter cemented this trend further. RevPAR in our portfolio is now largely back to levels before the pandemic in nominal terms and the difference being that average prices are higher and occupancy is slightly lower. We once again have proof of the hotel market's ability to overcome difficult crisis. A strong market recovery translated into strong growth and profitability for Pandox also in the fourth quarter.

For comparable units, total net sales and net operating income increased by 54% (sic) [66%] (05:29) and 44% (sic) [58%] (05:30), respectively. Like-for-like, Property Management increased net operating income by 22%. Our relationship with our banks are strong and we have almost SEK 4.5 billion in cash and unutilized credit facilities at the end of the quarter. Our loan-to-value fell down to 46.7% which is in the low end of our financial target. Return on equity measured by annualized growth in EPRA NRV rose substantially and was approximately 18%, one, eight percent.

Next page, please. Here, we see a comparison of the RevPAR level for our business segment Property Management from 2019 until today. The numbers are on a comparable basis. As you can see, 2022 started weak due to travel restrictions, but saw a strong bounce back during the spring and early summer, a trend that have continued since then.

In the fourth quarter, the hotel demand was at a good level in all markets, in line with normal seasonality, December was a bit weaker due to Christmas holiday seasons. The comparison to 2020 and 2021 is no longer relevant, as the current performance is now much more in line with 2019 since we have now moved out of the pandemic. And remember, 2019 was a record year for the hotel industry. Hotel demand in many largest cities increased significantly while smaller and regional cities continued to develop well.

Next page, please. Here we see Pandox total portfolio categorized based on type of locations with a RevPAR index versus 2019. Almost all segments in the hotel market are now trending in line or above the 2019 level. And this is mainly explained by – explained by strong average price which appeared to have reached a sustained higher level compared with 2019. Occupancy has also recovered but has a little bit left to go until it will reach 2019 levels. You can also see the spread in performance between the different segments and that is currently very tight, which is a clear signal that the hotel market is more or less normalized.

Next page, please. On this slide, you see the same segments as on the previous slides, but with occupancy instead of RevPAR, again, indexed versus 2019. Clearly, occupancy has stabilized in all segments just under 2019 levels. This is mainly explained by that some demand segments still haven't fully returned to 2019 levels. These are international long haul travelers, and to some extent, also larger groups and events that have a longer lead time in the ramp-up. Next page, please.

The hotel, which is our largest in the UK with 445 rooms, was acquired by Pandox in 2017 and is operated by Fattal Hotel Group. Over the past two years, Pandox and Fattal have jointly invested in this hotel to take the product to the next level. The hotel has undergone a total upgrade, including all rooms, bathrooms, public areas, gym, and restaurant and bar area.

In addition, the hotel has changed its name from Jurys Inn to Leonardo Royal Hotel Birmingham. Royal Hotel means that the product and service maintain a higher level of service and a more international character. Next page, please.

And with that, I'll hand over to Anneli Lindblom, our CFO.

Anneli Elisabet Lindblom

Chief Financial Officer, Pandox AB

Thank you, Liia. So, good morning, everyone. We are happy to report another quarter with strong growth in cash earnings. It is, of course, satisfying for a CFO to see the recovery of the hotel market translating into strong results for Pandox.

It is also an indication of the earnings we are capable of delivering during normal market conditions. What we saw in the fourth quarter was also a return to traditional seasonality with just a weaker December due to lower business demand.

Cash earnings increased to SEK 515 million, driven by solid earnings improvement, both in Property Management and in Operator Activities. Operator Activities recorded a net operating margin of 24%, which was well in line with the levels from 2019. As Liia said earlier, the board of directors proposed a dividend of SEK 2.50 per share for the financial year 2022, which totals to SEK 460 million. Next page, please.

On this slide, we show the progression of variable rent in our leases over the past eight quarters. In total, we have 96 leases with revenue-based rents and with the minimum rent level and 32 leases which are purely revenue-based without the minimum level.

On top of this, we have variable ones with we have on top of this variable ones we do have seven fixed leases. In the fourth quarter, total variable rent amounted to SEK 286 million. The number of minimum leases generating variable rent continue to increase and reached 78 as you can see on the graph to the right on this slide. The reason why we generate less revenue-based rent in the fourth quarter compared to the third quarter is seasonality with Q4 being generally a bit weaker than Q3. Next page, please.

Pandox performs internal valuation of the hotel's properties each quarter. 96% of the properties have been externally valued during the past 12 months, and the valuation are in line with our internal valuations.

The total value change were a positive SEK 1.5 billion in the period as the higher cash flow outweighted the slight increase in yield. Of this, SEK 1.2 billion was for investment properties and SEK 300 million was for operating properties. And please remember that investment properties are recognized at fair value; but according to IFRS, unrealized changes in value for operating properties are only reported for information purposes, but it is included in the EPRA NRV. End of period, the average valuation yield on investment properties was 5.58% and for operating property it was 6.50%.

Next page, please. On this slide, you can see the accumulated change in value of our property portfolio since the start of the pandemic in the beginning of 2020. During the most uncertain phase of the pandemic, we had negative changes in values six quarters in a row, mainly due to the lower cash flows.

From the third quarter 2021, based on gradually improving cash flows, changes in value turned positive again. In the fourth 2022, changes in value were slightly negative. More on this on the next page. So, next page, please.

Here we show how increasing yield requirement and stronger cash flow have affected our property values. 96% of the property was externally valued in the last 12 months [ph] and as we have reported (00:13:43) we have enjoyed a very strong hotel market recovery in 2022, and it has been reflected in increased cash flow projections, both in our internal valuation but also the ones made externally.

For the full year, our strong cash flow had a positive value impact on SEK 2.8 billion, while higher yield had a negative value impact on SEK 1.3 billion. In the fourth quarter, isolated higher cash flow and higher yield were largely balancing each other out. So, next page, please.

And as said before, Pandox has two sources of financing, equity and bank loans secured by underlying properties. We have no market financing in the form of bonds and we have no external rating requirements. Given our business model with focus on hotels and variable rent, this has proven to be the most efficient and predictable financing over time.

On the right, we highlight our capital structure at the end of the period. Based on the closing price of yesterday, we are still valued with a discount to EPRA NRV of over [ph] 20% (00:14:57) at the moment. Next page, please.

Okay. On this slide, we have some balance sheet KPIs. Loan to value as well as EPRA LTV amounted to 46.7%, which is in the lower end of our financial target. Cash, unutilized credit facilities amounted to SEK 4.5 billion. Credit facilities maturing in less than one year amounted to SEK 16.2 billion, of which 50% will mature during the first half of 2023. But we do have ongoing dialogues with banks regarding all these credit maturities, and we expect to refinance at least SEK 5 billion during the first quarter in 2023.

And we have seen our interest costs increase during 2022 and they are, of course, expected to increase a bit further in 2023 given the development in the credit market. But with that said, our interest coverage ratio is still very solid. So, next page, please.

And with that, I hand over to Anders Berg, Head of IR, to guide us through what happened in sustainability and in the hotel market in the quarter.

Anders Berg

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

Thank you very much, Anneli. Yes, starting with sustainability, in the fourth quarter, we filed our commitment letter to Science Based Targets initiative, and we also shared our targets with SBTi, which we have produced in cooperation with the Swedish Environmental Institute. And these cover both Scope 1 and 2 and Scope 3. And they are meaningful and aimed at meeting the Paris Agreement. And we have a target validation slot booked with SBTi for the 12 of June 2023.

After which, we will come back with more information. Next page, please.

Turning to the hotel market then, as you know, 2022 had a slow start. But after that, we've seen a remarkable recovery as both private individuals and business travelers have been taking to the road again. And as Liia said previously, RevPAR is now back at pre-pandemic levels, at least nominally. The composition within RevPAR is a bit different compared to 2019 with ADR markedly higher and occupancy slightly lower than the levels we saw in that year.

And as hotels are working actively with revenue management and prioritizing rate in an environment with operational cost pressures, it appears that ADR is now at a sustainable higher level than in 2019. In the fourth quarter, domestic and regional demand remains strong in all our markets, although, as both Anneli and Liia have said before, normal seasonality led to a gradually weaker demand in December, in particular.

So far, the hotel market has been very resilient from rising inflation, higher interest rates, and higher energy prices. That said, it's reasonable to think that the market would have been even stronger in the absence of these headwinds. Next page, please.

In the following six charts, we track occupancy, average daily rate, and RevPAR for Nordic Regional, Nordic capitals, Germany, Frankfurt, UK regional and London and how they compare to 2019. The data points are monthly and year-to-date. The bars are indexed to occupancy and ADR for 2019, and the lines are nominal RevPAR in local currency except for Nordic regional and Nordic capital where RevPAR are in Swedish kroner.

So, I would start with Nordic regional. As restrictions were eased in the second half of the first quarter, demand came back quickly, as you know, and ADR began to rise from an already solid level. And in the fourth quarter, average daily rate continued well above 2019 levels while occupancy was largely in line with 2019.

The recovery in the Nordics is broad based but Finland remains a slightly weaker performer than the rest of the countries due to its dependence on Asian transit traffic which is basically nonexistent at the moment, and its proximity to Russia and the absence of Russian demand.

Next page, please. Nordic capitals due to their high dependence on international demand, the recovery for larger cities in general have taken a longer time than for smaller cities. In the fourth quarter, Nordic capital cities continue to perform on an occupancy and ADR level largely in line with the third quarter. And for 2022, RevPAR was largely in line with 2019 in the fourth quarter. But for the full year it was some 9% below 2019. This compares to the third quarter where RevPAR was 12% lower year-to-date so the gap has been shrinking in the fourth quarter.

Next page, please. Restrictions in Germany were the last to be lifted in Europe, and it was not until the 20th of March that, that happened which meant the country started its recovery later than most of the Nordic countries. But as you can see, occupancy in ADR have improved steadily from reopening. In November and December, the pace of recovery slowed somewhat due to a weak trade fair and event calendar. However, the calendar looks stronger for 2023. For the full-year 2022, RevPAR in Germany was some 15% below 2019.

Next page, please. In the fourth quarter development in Frankfurt mirrored Germany as a whole, and it was explained by the same reasons, primarily a less active trade fair calendar. So for the full-year 2022, RevPAR ended approximately 24% below 2019, thereby, indicating sort of further improvement potential.

Next page, please. UK regional continued to perform strongly also in the fourth quarter. Domestic demand remained solid and the weaker pound attracted additional inbound travel, which further supported the market. And with the exception of January 2022 RevPAR in the UK regional exceeded the 2019 levels every single month of the year. And for the full-year 2022, RevPAR was approximately 15% higher than 2019.

Next page, please. London was a very strong performer in the fourth quarter with 2022 RevPAR trending clearly above 2019 levels as inbound travel increased due to the weak British pound. And the strong finish in December meant that RevPAR for 2022 was some 5% higher than 2019 despite the slow start.

Next page, please. And with that, I hand over to Liia again.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Anders. The hotel market has continued to perform well also in the face of economic uncertainty. Clearly, both individuals and companies are prioritizing travel. We have a strong business model and a world-class team of people to support it. And frankly, it's an honor to go to work every day.

As you know, a large percentage of our revenue is variable, which offers protection against increased financial and operating costs. This relationship is not one to one, but it's a tangible risk mitigating component in our business model in a world of high inflation and high interest rates. That said, overall, we are cautiously optimistic about the hotel market in 2023.

The greatest economic fears appears to have subsided. Peak inflation is most likely behind us, and interest rates may well peak as soon as well. From a hotel market perspective, there's an additional potential in business travel and international travel, and individual travelers appear to be very reluctant to give up on the travel plans. Gradually, Chinese inbound travel to Europe is also expected to increase from today's non-existing level, which would support demand further. And as before, the greatest risk is still related to the war in Ukraine.

Next page, please. And we now would like to 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 Robin's presentation.

QUESTION AND ANSWER SECTION

Operator: Thank you very much. No problem. [Operator Instructions] Your first question comes from Fredrik Stensved from ABG. Please go ahead.

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

Excellent. Thank you and good morning. First, a question on the property value changes. You show in the presentation very nicely, sort of the impact from yields

and the impact from cash flow assumptions. And I was wondering, given where RevPAR is now and where occupancy is now, etcetera, the cash flow assumptions in your property valuations [ph] that those (00:25:52) sort of assume higher or lower trending from where we are today and is it possible to quantify, even though I am well aware that the property valuations are done on a property by property basis, but if you could comment anything in general, that would be much appreciated.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Hi. Liia here. I think it comes back to the pent-up demand which is still there to come. We still have, as we mentioned, some segment which hasn't come back. And that, of course, will materialize when we see that even further in the cash projections. So the ramp-up will and, as you know, discounted cash flow work, that the further you go down the low – the weaker quarters will be behind, the stronger the valuations from [ph] a discount (00:26:44) perspective will be.

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

Right. So, just to clarify, the cash flow assumptions for the next year or the next two years does not fully incorporate a full rebound in occupancy as of today. So if we have a full rebound, weaker quarters in the assumptions will sort of fade from the valuations. Is that correct?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Well, we as always, try to be cautiously – cautious in our assumptions. We are [ph] as everyone (00:27:22) we have facing a lot of question marks. But of course, we put into the projections what we see today. But we are a bit cautious, maybe [ph] on that (00:27:36)

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

Understood. Thank you. And then a couple of maybe detailed questions on Q4. You had or you stated in the report that you had both in the Property Management segment, you had SEK 20 million of non-recurring costs in property administration. And also in the Operator segment, you had SEK 20 million of non-recurring costs. What are those costs?

Liia Nõu
Chief Executive Officer, Pandox AB
A

Okay. In the Operator segment, we have done some organization changes and also some clean out in the balance sheet of minor posts. If you have a look at the Property Management, it's related to write-down of some unfinished projects that's not supposed to be in the balance sheet. And we also did some extra maintenance that's sort of out of the ordinary.

So, we put the numbers in so it's easy to sort of recalculate what its one-off costs. And you should see the, in our operating business, you should see this as sort of we have for the last two, three years been in the pandemic. So, of course, there hasn't been so many new initiatives. We are now taking the company to next level. And usually with that, you need to sort of step up also when it comes to some organization changes.

Fredrik Stensved
Analyst, ABG Sundal Collier AB
Q

All right. Understood. Thanks. Last question. You mentioned in your prepared remarks there that electricity prices or the impact from higher electricity prices will come first from Q1 in 2023 and beyond. Is it possible to quantify that impact either in terms of an absolute amount or margins? Thanks.

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

It's still a little bit of an open question. When we did sort of the initial calculations, we had higher energy prices than we currently have moving into this new year. But a ballpark estimation would be somewhere between [indiscernible] (00:30:00-00:30:05)

Fredrik Stensved
Analyst, ABG Sundal Collier AB
Q

Understood. Very helpful. Thank you very much.

Operator: Thank you. Your next question comes from Fredric Cyon from Carnegie. Please go ahead.

Fredric Cyon
Analyst, Carnegie Investment Bank AB
Q

Good morning, Liia, Anneli, and Anders. A couple of questions from my side.

Liia Nõu
Chief Executive Officer, Pandox AB
A

Good morning.

Fredric Cyon
Analyst, Carnegie Investment Bank AB
Q

Good morning. And so, starting off with the dividend proposal. It represents a lower payout ratio than the long term ambition. What is the rationale behind the lower payout ratio?

Liia Nõu
Chief Executive Officer, Pandox AB

A

I think you should remember that we have had three years of non-dividends. So, with the sort of a strong cash flow now coming out, we are proud to actually restating the dividend. But remember that 2022 we started out with Omicron in the first quarter and the five months. There is some subsidies in this.

So, I think if you compare it, it's around 25% which is sort of slightly lower than our target range of 30% to 50%, but it should be seen that we are actually coming out of a really difficult time. And with a strong cash flow, I think this is actually a quite strong statement.

Fredric Cyon
Analyst, Carnegie Investment Bank AB

Q

That makes sense. Moving over to the refinancing. You mentioned that it's about SEK 5 billion to be refinanced in the first quarter and you did some refinancing during the end of the year. Can you say anything about margins compared to those that are expiring?

Liia Nõu
Chief Executive Officer, Pandox AB

A

As I say in the report, I mean, both margins [ph] on underlying base ramp of course (00:31:49) creeping up and has been there and there is a pressure for that. It's not substantially higher but still they are – we, I think the average interest cost is 3.2%. Used to be 2.8%. So there is a sort of reflection of that already.

But of course, it depends on where the refinancing is, the base interest is of course, hopefully stabilizing now. It has – it's actually lower than it was like one or two months ago when it was peaked. So slightly higher but then again, remember we've got SEK 2.5 billion of derivative which will sort out – which balance this to some extent.

Fredric Cyon
Analyst, Carnegie Investment Bank AB

Q

Sure. And the credit duration is rather short. So now you're going to prolong it given the pricing of [ph] a long money (00:32:50) versus short term. How are you planning to handle that?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Yeah. Well, during the pandemic, we have – we were in agreement with the banks that we would actually wrote most of our financing on a short basis because, of course, there's a lot of uncertainty. We now see that actually that the pricing and the appetite for refinancing is greater. So, we are, of course, rolling this more in line with – which we did pre-pandemic which is normally about three to four years – three to five years.

Fredric Cyon
Analyst, Carnegie Investment Bank AB

Q

Perfect. And then two final questions. Investments, in the report, you're stating that you're expecting the SEK 1.2 billion of the investment that is already committed will take place in 2023. That's quite clear step up versus 2022. And is there anything you want to highlight in terms of what is the delta [indiscernible] (00:33:47)

Liia Nõu
Chief Executive Officer, Pandox AB

A

So, you're cutting up a little bit, but I think you were asking about that there's an increase in the investment from – and then of course inflation [ph] is for some (00:33:58) part, but also sort of we have during the pandemic that there is – again there is with less to acquire, there is of course more focus on also investing in our existing portfolio.

As you know [indiscernible] (00:34:16) the return on the investments we do in our own portfolio is substantially higher than when you go and try to buy something on the market. So, this is something we prioritize when we can.

There's some reflection of inflation in this, but also we have some really, really interesting and exciting project which are going on. And we got the cash flow...

Fredric Cyon
Analyst, Carnegie Investment Bank AB Q

And final question – yeah, go ahead Liia, sorry.

Liia Nõu
Chief Executive Officer, Pandox AB A

[ph] Well, as I said (00:34:43) we've got the cash flow to do it. So, with a strong cash flow, we're happy to invest in these kinds of investments, as much as we can.

Fredric Cyon
Analyst, Carnegie Investment Bank AB Q

Final question on the depreciation in the quarter, I don't know if you comment on that earlier, but it seems that it's picking up quite rapidly, are the one-offs [indiscernible] (00:35:06) higher depreciation level from here on?

Liia Nõu
Chief Executive Officer, Pandox AB A

This is less – but this is a one-off related to one specific hotel which we are undergoing a full renovation, and will come back to the market as a substantially stronger, better hotel with a much increased value. So, it's like a rise of our old equipments and old interiors that needs to be cleaned out from the balance sheets since they're doing a full construction on the hotel and new investments.

Fredric Cyon
Analyst, Carnegie Investment Bank AB Q

Okay. Perfect.

Liia Nõu
Chief Executive Officer, Pandox AB A

[indiscernible] (00:35:42)

Fredric Cyon
Analyst, Carnegie Investment Bank AB Q

Those are all my questions.

Operator: Thank you. Your next question comes from Albin Sandberg from Kepler. Please go ahead.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah, hi there.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Hi.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

So, I wonder about the outlook, if you could quantify that a little bit more, Liia. You say you're cautiously optimistic. If we use 2020 as sort of the new base year, is that assuming that you should beat 2022 or what is it you're trying to say?

Liia Nõu
Chief Executive Officer, Pandox AB

A

When you look at 2022 and you take away the subsidies which are related – the [ph] SEK 260 million (00:36:27), which is related to 2020 and 2021, which of course [indiscernible] (00:36:32) 2022.

Then when we look into this year, we see a stronger performance. We are comparing the first quarter, which was a slow quarter in 2022. Also, Germany took a longer time to step up. So, I am cautiously optimistic that the pace we are coming out of the year with is sustained and that the sort of lagging demand segment from business improving and also international big events that this has come back and helping.

Of course, I am aware that there appears a recession, but us being in the upper middle class segment where the supply and regional demand and with the sort of stable demand on this one, we believe that if you take these things in concern, that will actually be [indiscernible] (00:37:34)

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Yeah. That's good. Thank you. And then you comment on the rent receivables that I understand or I take it are still one of those deferred from the prior crisis and so on, and it's coming down, so that's good.

But if it's still in line with your expectations, I'm thinking, as you said, that it's – we're almost back to 2019 level you wouldn't have expected a quicker payment of these or that is according to the timeline you had with those operators?

Liia Nõu
Chief Executive Officer, Pandox AB

A

No. They're all paying [ph] as planned (00:38:12). So, it's like the plan we did with them. So, we are sort of expecting to get paid. But we – I mean, we did give them some other terms, so they are all paying according to our plans. Yeah.

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB

A

Yeah.

Liia Nõu
Chief Executive Officer, Pandox AB
A

It would be great if [indiscernible] (00:38:26) they are utilizing the agreement we have in place.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)
Q

Yeah. Yeah. Okay. Well, great. Those were my two questions. Thank you.

Liia Nõu
Chief Executive Officer, Pandox AB
A

Thank you.

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB
A

Thank you.

Operator: Thank you. [Operator Instructions] Our next question comes from Simen Mortensen from DNB. Please go ahead.

Simen Mortensen
Analyst, DNB Bank ASA
Q

Thank you. Most of my questions have already been asked, but I have one question left, and it's in Operator Activities. Given that we're now seeing RevPAR levels almost back to 2019, what can you say about the expected profit expectations from you guys for the Operator Activities? Will we see, like, a back-to-normal margin, which you had pre-pandemic 2023-2024? Or when do you expect to see that one coming back to old historical levels?

Liia Nõu
Chief Executive Officer, Pandox AB
A

Yes. Well, of course, there is some pressure when it comes to inflation, staffing, shortage of staffing, energy, etcetera. But with the sort of the sustained strong prices, we believe that we will – we sort of have stable NOI.

We are at – if you take off the one-off in this quarter, we are at 26% net operating income – operating profit and [indiscernible] (00:39:59) and pre-pandemic [indiscernible] (00:40:02) between 25% and 30%. So, it's very much in line with this. And we expect that to be pretty stable and [indiscernible] (00:40:09)

Simen Mortensen
Analyst, DNB Bank ASA
Q

Thank you. And that was my last question. My other questions have been asked already.

Liia Nõu
Chief Executive Officer, Pandox AB
A

Okay, great.

Simen Mortensen
Analyst, DNB Bank ASA
Q

Thank you.

Operator: Thank you. Our next question comes from Edoardo Gili from Green Street. Please go ahead.

Edoardo Gili
Analyst, Green Street

Q

Hello. Hi, everybody.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Hi.

Edoardo Gili
Analyst, Green Street

Q

First question – I have two questions. My first question would be on the margin for the Property Management arm for Q4, which seems to be around 82%, which compares to 88% for Q4 2019. So, I understand there's cost pressures and different geographic exposures as well, but can you explain a little bit the differential of the 6 percentage points between 2019 and 2022 when it comes to Q4?

Liia Nõu
Chief Executive Officer, Pandox AB

A

[indiscernible] (00:41:02) one-offs in there I guess [indiscernible] (00:41:04) to take out to get them comparable.

Edoardo Gili
Analyst, Green Street

Q

Understood. Thank you. And in terms of the rest of the year, do you expect to be a net buyer or a net seller considering where to be a net buyer or a net seller considering where cost of capital is on both on the equity and the debt side?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Well, I love to be a net buyer [indiscernible] (00:41:30) golden rule is to buy cheap and get a good price. We are trying to when, if needed, reallocate if we see that we have the opportunities but we definitely are net buyers I would assume and there are [indiscernible] (00:41:52)

Edoardo Gili
Analyst, Green Street

Q

Thank you very much. Very clear. Thank you.

Operator: Thank you. That concludes our question-and-answer session. I would like to hand the conference over now to Mr. Robin Rossman. Please go ahead when you're ready.

Robin Jack Rossman
Managing Director, STR Global Ltd.

Hi. Good morning. Can you. Can you hear me, right?

Unverified Participant

Yes.

Liia Nõu

Chief Executive Officer, Pandox AB

Yes.

Robin Jack Rossman

Managing Director, STR Global Ltd.

Wonderful. Wonderful. Well, thank you for inviting me along today and I'm delighted to follow on from that, just with our own independent analysis of what has been happening in the hotel market performance and the outlook for the coming year [indiscernible] (00:42:44) holding onto gains, facing off economic pains because of those headwinds which are obviously – very obvious in the media. And so, the real question is how will that impact the hotel industry performance?

And so, moving on to the cover slide that says some very important points to start with. If you go on to the next slide, I was reviewing some of our historical forecasts and we came out with the forecast in March 2020. So, this was literally about a month, maybe even less than a month to – from the start of all of the European lockdowns that started at the beginning of March 2020. And it was the time at which we produce our quarterly forecasts. And at that stage, we did make a forecast that RevPAR [indiscernible] (00:43:43) would dip about 40% and would recover to 2019 levels by the end of 2022.

And if you go on to the next slide, you could say that we got that 100% right because RevPAR has recovered to 2022 levels – sorry, 2019 levels by the end of 2022. You could also say that we got that completely wrong given we were expecting a 40% decline [ph] and aggregated at its worst with a (00:44:15) 90% decline.

However, I would say we [ph] provide (00:44:23) on the basis that what really matters here is our forecast was underpinned by the fundamental resilience of hotel demand in the face of temporary external shocks and downturns and economic performance. And yes, the shock lasted longer than certainly, well, many people expected. And the economic downturn was also harsher than many, many people expected back in March 2020.

But that being said, broadly, economic activity and GDP has recovered. And as restrictions on travel were released, we've seen hotel demand recovered despite many doomsayers saying it would fundamentally change the shape of the industry. It hasn't. And so, that's the most important thing here.

And it is also the most important thing as we look to the future because it's not just about resilience and recovery. It is about the fundamental truth that hotel demand is [ph] irrevocably (00:45:30) connected to broader economic activity. And so long as we are not seeing a fundamental long-term decline in economic activity or GDP, you will continue to see recovery and growth of hotel demand.

And so next slide, please. When we think about that in the context of where we are and looking slightly forward, yes, COVID is, for the large part, behind us. There are some recession risks. We have benefited from some pent-up leisure demand that is mostly spent up now. However, most importantly, business has bounced back and has further to go.

And so, as I go into the next slide, occupancy and rates, and then the next slide which says global demand has ended the year 8% below 2019. That is showing for all the hotels that work with us around the world, 75,000 hotels, if you aggregate them all up on a like-for-like basis and look at demand versus 2019, it is still about 80 – 8% below.

And that's if I showed you [indiscernible] (00:46:43) of the world, would be underpinned by Asia, because in Asia – next slide, please – China, to the most extent, but also places like Japan have not fully come back yet. But now, that we're seeing the last of those COVID restrictions slowly disappear, it does mean we will see a recovery of that Chinese outward bound demand, which is a huge driver. Not just for Asia-Pacific, but does have an impact on the world.

And when you move on to the next slide, please. Here, you can see Europe occupancy in 2022 versus 2019. And generally, where we are is about 5% behind. And if you wanted to – a rough estimate about how much Chinese demand would make a difference to that across Europe as a whole, it would represent a couple of percentage points of occupancy recovery, if all of that came back. And there's more in places like Germany and a bit less in other places like the UK. But broadly around that couple of percentage points of occupancy. And China is not the only missing piece of the demand puzzle. There's a bit more on business demand which I'll come to in a bit.

But onto the next slide, when we look at the different countries in Europe or some of the bigger countries in Europe, at least, it clearly is not all playing out the same way. We are seeing Italy, Ireland, France, UK and Portugal at about 100% recovered, whereas Germany and Belgium in particular are still struggling to get back up to that 100% recovery.

Now, before I move on from this slide, you might look at those lines and notes and think there was a worrying downward trend in January. And that really is fundamentally as a result of comparison to 2019 being less and less ideal as we go along because of the timing of the weeks. When you compare it week to week, we're now almost a week different. And so, we're comparing the first week of January in 2022 to kind of the second week of January in 2019. And that does have some seasonality impact that are causing some of that weirdness in the up and down at the beginning of January and the end of January. So, don't read too much into that. If you look at it on a rolling 7 basis, it is stable as we head towards the end of January with that [ph] sort of – some (00:49:32) countries at about 100% recovered.

So, moving on to the next slide, just quickly touching on Germany. I think in general Germany is struggling with three negative factors that are more pronounced than anywhere else in Europe. The first is the importance of large events and fairs in particular. And those are ones where we are seeing recovery but still not full recovery. And that's impacting markets in particular like Cologne and Munich when comparing to 2019.

The second factor is just general conservative behavior. And that applies both to businesses, which would impact places like Stuttgart in particular, but also consumers. And so I think more than any other European country, there is a change in sentiment there that that has – is restricting that full recovery of demand.

Moving on to the next slide. The ADR recovery there across Europe as a whole, we did see that in nominal terms, that was up to 20% to 30% higher than 2019 levels in the summer of last year, underpinned by that pent-up leisure demand. The really important thing here is that as that leisure demand season went away, we did see rates slightly taper as we expected it to, given there wasn't as much pent-up demand in the business month of the year. But nonetheless, it has remained broadly at around that 20% or a real basis at 2019 levels of ADR, so if you take that nominal rate and take out the inflationary piece to it, and certainly as we look forward, we're not expecting that to dip. We're expecting that to stay there and slightly grow.

On a country-by-country basis, there's clearly a correlation with the ADR strength and occupancy strength. And we can see Portugal, Italy, Ireland, all at the top there, but really, Spain, France, Netherlands, the UK, not too far behind, all at that an aggregate about sort of 20% plus recovered. And then the ones that are lagging behind are again, Belgium and then Germany in particular.

Germany, again, with reliance on higher rates over those events. And because that demand isn't fully back yet, that's been what's holding it back. But that does obviously represent an opportunity for further recovery as we do expect those events to become more and more stronger and more on that in a bit.

But on the next slide, you can see that when you look at those German cities, the ones that are more international and less reliant on large events like Berlin are doing best. And then Munich and Cologne at the bottom there struggling.

So just onto business and group travel and a bit more detail. So next slide, please. And then onto the next slide which is slide 42, at the bottom there. There were many that suggested business travel would never fully recover. Bill Gates said it would never be more than half of what it was previously. But when you look at the composition of certainly weekday versus weekend demand across Europe, you can see that there's not much difference there anymore. We are seeing weekday core business demand pretty much fully recovered, although it does depend on the country and the market, as I mentioned earlier.

And the important thing is, if you move on to the next slide, that's still in the context of really not full recovery of those demand drivers, and we do forecast with Tourism Economics, and their underlying assumption is we will continue to see recovery in international business and domestic business travel into 2023 and beyond. So that represents positive upside.

And as we go on to the next slide, please. The other bit that is still not fully back is group demand, where we have seen it recovering in recent months to about 40% below 2019 levels, and we expect that to continue to recover as we have seen in the US where group demand is now fully recovered back to pre-pandemic levels.

So what does that mean, as we move on to the next slide? Well, what that means is – and I've just taken the UK as an example, but this trend holds true throughout Europe and that is that to date, we've seen regional markets have higher occupancy recovery than gateway cities like London. Gateway cities like London have been held back by that slower recovery in international demand and international business demand, also by the lack of demand coming out of places like China, and sort of a bit more reliance on that group demand. So because all of those still have positive upside and we are expecting that to continue to recover, we expect to see that those gateway cities will catch up and equal the occupancy recoveries that we've seen in regional markets in 2022, if you look at that during the 2023.

And certainly, when you move on to the next slide and look at business on the books which we collect for 365 days into the future, if we take what we have on the books and add typical pickup, then you can see that through Q1, London, as an example, will be 100% recovered on 2019 levels of occupancy. And as you stretch beyond that, there is a little bit of, obviously, flexibility and the fact that pickup will be stronger as we get close to the points on that chart.

So moving on to the next slide, please. If – right. Whereas gateway cities have not yet recovered to the same occupancy levels of regional markets, what has happened in recent months is gateway cities have caught up and in many cases surpassed the occupancy, the rate levels that regional markets have had.

And so we do expect 2023 to be the year of those gateway cities catching up on occupancies, and also seeing their rates if not already catching up on the regional market rates and surpassing it because of stronger demand drivers.

So in summary, just looking at some conclusions there. At a RevPAR level, fully recovered, but [ph] most fully (56:47) recovered at an occupancy level, not far behind 5 percentage points behind in Europe as a whole, but some countries are a little further behind beyond that. And so there is upside of occupancy and that demand recovery that we do expect to see coming through in 2023. And [indiscernible] (57:08) right across Europe are recovered in the real terms. Growth in 2023 is going to be harder. There isn't going to be that pent-up demand like there was for leisure in the summer months. But nonetheless, demand is robust enough and they are positive drivers on demand growth that we don't expect to see declines and we do expect to be stable with some growth.

Business travel is back and with potential for further recovery. Leisure haven't put some too much today. We're not expecting a massive decline. It's just that those markets that saw 40%, 50%, 60% rate growth through pent-up demand will have some of that taper. And as I started the presentation, the industry proved its resilience through the most incredible demand shock that any – nobody could have ever expected. Yes, there are recessionary risks out there, but so long as broader economic activity recovers, so will the demand for the hotel industry. And thank you.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Robin, for this hotel market update. And that's all, folks. And thank you for participating in this call. We really appreciate it. We really appreciate your time and interest in Pandox. And our interim report for Q1 is published on 26th of April. So thank you all. Hope for spring soon. Stay in hotels and enjoy life. Goodbye.