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Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Pandox Q4 Presentation for 2023. [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. Welcome to this presentation of Pandox Q4 and year-end report for 2023. I'm here together with Liia Nõu, our CEO; and Anneli Lindblom, our CFO. And with us today, we also have Thomas Emanuel, Senior Director of STR, and STR is a leading, independent research firm focused on the hotel market, and Thomas is here to share STR's view on the market. And please remember that the views expressed by STR are completely separate from Pandox, and the presentation is offered only as a service to Pandox's stakeholders. And as always is the case, Thomas presentation will be held after we have completed our formal earnings presentation, including the Q&A.

Before we let Thomas in, Liia and Anneli will present the business update with financial highlights for the fourth quarter and the full year, followed by the Q&A session. And just one more thing before we kick off the presentation, we have renamed our two business segments to Leases, previously Property Management, and Own Operations, previously Operator Activities. It's a name change only and it does not affect our reporting or accounting principles in any way.

With that, I hand over to Liia Nõu, the CEO of Pandox.

Liia Nõu
Chief Executive Officer, Pandox AB

Thank you, Anders, and good morning, everyone, and welcome. I would like to start this presentation with a couple of 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 inflation protected revenue streams and minimum guaranteed rent from strong and skilled operators, which provide both upside and stability. We have a high quality project pipeline, which we will expect to accelerate our organic earnings and value growth through 2024 and 2026 onwards. We have ambitious ESG targets, including a substantial climate transition program with high ROI. Our property portfolio has an average valuation yield of approximately 6.24%, mainly with long leases and a WAULT of 15 years. And with average interest cost of 4.2%, it's a positive yield spread of 200 basis points, 2 percentage. And finally, we have only bank financing with strong and positive relationships and low refinancing risk.

Our business is to own, improve, and lease hotel properties to strong hotel operators under long-term revenue based leases. We do this through four principal value activities; property management, property development, portfolio optimization and sustainability. We are an active and engaged owner based on deep hotel expertise. We have two operational models; Leases and Own Operations. Leases is our core business with stable and predictable cash flows. And Own Operations is a unique transformation tool, which enables us to take on and develop underperforming assets with the objective to sign new leases and I will come back to some examples later on in this presentation.

We have a strong and well-diversified hotel property portfolio. We have 159 hotel properties with approximately 36,000 rooms in 12 countries and 90 cities. And with a property market value of around SEK 69 billion with an average yield of 6.24%. We are divided into two mutually supportive and reinforcing business segments, now named Leases and Own Operations. In Leases, we own and lease out hotel properties, again, to skilled hotel operators under long revenue-based agreements open with a minimum guaranteed level, and this is about 83% of our property market value. In Own Operations, we transform and run hotels in properties we own and this makes up for some 17% of the 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, regardless of which phase the hotel market cycle is in. We have one of the strongest networks of brands and partners in the hotel property industry, and this ensures efficient operations and revenue management, which in turn, maximizes cash flow and property values, a continuous flow of business opportunities. And also a relatively large part of investment in Leases is also shared with the tenant which lowers our risk.

The hotel market continued its recovery in the fourth quarter with more meetings, increased international travel, and higher activity in larger cities supporting both occupancy rates and average prices. That said, international travel and large meetings and conferences still have some way to go before having fully recovered compared with 2019. Total net operating income increased by 12%, supported by 10% growth for Leases and 20% for Own Operations. Like-for-like total net operating income rose with 7% as we have some translation headwinds from stronger Swedish krona. Cash earnings decreased by 19% due to higher interest expense and higher than normal current tax in the quarter; and Anneli will talk a little bit more about taxes later in the presentation.

Our financial flexibility remains high with an LTV of 46.6% and an ICR of 2.7x based on a rolling four quarters. We have 100% bank financing, strong relationships, and positive discussions on the upcoming refinancing. So our refinancing risk is low. And based on the normalization of the hotel market and our stable financial position, the board proposes a dividend of SEK 4 per share compared with SEK 2.5 last year. This corresponds to approximately 42% in cash earnings and a dividend yield of approximately 2.9% based on the share's closing price yesterday. And around this section also, I would also like to highlight that we have a high quality investment pipeline which will improve our future growth outlook.

Next page. During the fourth quarter, we signed two new leases. The first one for Hotel Mayfair Copenhagen with Strawberry for Hobo to open in 2025. The second one for Hotel Pomander in Nürnberg with Scandic, which will come into force 1st of March this year. Both leases are revenue-based with a minimum level. They confirm our ability to create value by acquiring, developing and improving underperforming hotel properties in an international environment as well. They are also good examples of our model where we, through deep hotel knowledge and property expertise, transform hotel properties based on their unique characteristics. And with these agreements, we have secured an important step in the property's value journey and we are looking forward to work with both Scandic and Strawberry to further increase the value of the hotel products and the hotel property.

Next page. Here we see the comparison of the RevPAR level for our business segment Leases from 2019 until today. The numbers are on a comparable basis. And as you can see, RevPAR is currently trading above the corresponding period 2019. ADR continues to be the main driver with a strong to very strong average price development in most markets.

Here we have the breakdown of the performance for selection of countries, regions and cities versus 2019. Seen this before, the first chart tracks the year-to-date performance to September and the second chart tracks the year-to-date December. We show ADR on the vertical axis and occupancy on the horizontal axis. [indiscernible] (00:10:33) is the point corresponding to 2019 on both ADR and occupancy. In the boxes, we indicate how much higher or lower RevPAR is compared with the corresponding period 2019.

In the fourth quarter, the hotel market was largest label compared with the third quarter. Year-to-date in December, all markets except Helsinki, traded above or well above 2019 levels on rate, whereas the majority still remained somewhat below 2019 levels on occupancy in percentage terms. However, in some cities, new capacity have been coming in. So the actual numbers of rooms sold we are on 2019 levels or even above in some cities. And the good part is it's not so much new capacity coming in going forward. In terms of RevPAR from the third to the fourth quarter, the greatest relative improvement again took place in selective cities in Germany, such as Hanover, Frankfurt and Hamburg. And Thomas Emanuel from STR will talk more about the underlying trends in the Europe hotel market later in this call.

So, broadly speaking, for the month of November, European hotel demand has recovered to 2019 levels. RevPAR, in all our regional markets is trading above 2019 with UK and Norway being the strongest ones, closely followed by Sweden and Finland. Among the Nordic capital cities, Oslo is clearly the strongest, followed by Stockholm. And Copenhagen was stable in the fourth quarter and RevPAR largely back at 2000 levels, whereas Helsinki continues to suffer from the lack of Asian and Russian demand. And as stated before, in these two cities there has been a strong inflow of new hotel rooms in the past two years; about 30% since 2019. And against this backdrop, the recovery, especially in Copenhagen, is particularly impressive.

Next page. In the fourth quarter, we took several important steps within sustainability. In November, we got our Science Based Targets validated by SBTi. The first target is a 42% reduction of greenhouse gas emissions by 2030 in Own Operations. This is Scope 1 and 2. And the second target is a 25% reduction of greenhouse gas emissions by 2030 in Leases. This is our Scope 3. And just before the approval, the board decided on a climate transition project of SEK 320 million to meet the SBTi targets in our own operations when completed in 2027. The main activity is the phasing out of oil and gas, but also upgrades of technical systems for energy optimization and investment in renewable energy solutions, and this project will generate cost savings of some €3 million per year with full effect in 2027. Based on the validated SBTi targets which is also sustainability-linked existing bank loans with two banks corresponding to approximately SEK 2.2 billion, I would say good conditions to sustainability-linked the majority of our loans going forward as well.

Next page. Here we have listed larger investment projects in our existing portfolio. Hotel Pomander opened 18th of September after having been closed for an extensive renovation since the third quarter 2021. And the rest of our projects are expected to be completed during the second half of this year and late 2025. All-in-all, we expect them to generate some SEK 300 million in additional net operating income per year with full effect in 2026, and of which approximately SEK 130-or-so millions will come in, in 2024. On top of these projects, we are continuously adding new ones to our pipeline which will further add to our growth outlook. Next page.

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 are happy to report good numbers also for the fourth quarter. Like-for-like growth was positive both in revenue and in net operating income, supported by a continued recovery in the hotel markets in many active demand segments. Total revenue-based rents increased to SEK 324 million compared to SEK 286 million last year. Own Operations performed well in the fourth quarter, supported by increased business demands.

Cash earnings decreased by 19% in the fourth quarter and there're two reasons for this. Firstly, of course, higher interest expense; and secondly, higher current tax which is explained by the fact that we now are in tax position in Sweden and in Germany, but also higher tax expense due to rules limiting deductible interest and that is particularly in the UK.

On this slide, we show the change in demand valuation parameters for the total property portfolio year-to-year. And please remember that investment properties are recognized as fair value according to IFRS, unreleased changes in value for operating properties are only reported for information purpose, but it is included in EPRA NRV. In 2023, we had a positive contribution from investment and acquisitions. Currency had a slight negative effect. As you know, we have the main part of our hotel properties outside Sweden and denominated in foreign currencies. In the fourth quarter, the SEK strengthened which turned a previous positive contribution from currencies to negative for the year. The most important factor on the negative side is, however, unrealized changes in value. For the full year, the total portfolio, this amounted to a net negative SEK 1.7 billion. Of this, a negative SEK 5.2 billion was attributed to higher average yields. This was, in turn, offset by some two-thirds by the positive cash flows of SEK 3.5 billion. The main reason for the higher cash flow is the strong average price development in large parts of the portfolio. Measured from the beginning of the year, the increase in average valuation yield was 0.51 percentage points, and for investment properties 0.52 percentage points for operating properties. And all period, the average valuation yield for investment properties was 6.09% and for operating properties it was 7.02%.

Here we have the average yield, the average interest on that and EPRA NRV per share quarterly from just before the pandemic and up until today. When it comes to the yield, I just want to remind you that the changes in value recorded during and immediately after the pandemic were largely any effect of changing in cash flow. Cash flow were adjusted downwards during the pandemic, and adjusted upwards when the recovery started [ph] off late (00:18:50), both in internal and in external valuation while yields were stable. However, in line with rising market interest rates, yields have moved higher since the fourth quarter 2022. Despite higher yields and higher market interest rates, EPRA NRV per share has increased compared with 2019 and have a tangible and positive yield spread. Also, growth in EPRA NRV was a slight negative 0.7%; measured on an annual basis adjusted for paid dividends.

As you can seem at the end of the third quarter, the LTV was 46.6% and the ICR on a rolling 12-month was 2.7 times. The LTV remains at the lower end of our loan-to-value ratio in our financial policy, and the ICR is resilient. Cash and unutilized credit facilities amounted to more than SEK 3.1 billion at the end of the quarter. And also, please note that we have unencumbered asset [ph] at an unpacked resort (00:20:01).

So Pandox has two sources of financing. We have equity and bank loans secured by underlying properties. We have no market financing in the form of bonds and no external rating requirements. Given our business model, which focus on hotels and variable rents, 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 yesterday, Pandox is valued at a discount to EPRA NRV of 31%.

During the year, we were very active on refinancing with a total amount of SEK 15.3 billion. In the fourth quarter, we refinanced SEK 1.5 billion. Refinancing during the year have been made at long durations and our average debt repayment period has increased year-on-year to 2.3 years. Looking ahead, we have approximately SEK 9 billion that's maturing within one year, of which SEK 5.5 million is in the second half of the year. We have strong relations with our banks, and as always, discussions on future refinancing are ongoing and positive. Overall, credit margins are stable and our refinancing risk is low. And at the moment, we have 76% of the net debt hedged; which means that the effect from further increase in markets rates is relatively low.

And with that, I'll hand back to Liia for some final remarks.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Anneli. We expect RevPAR growth in 2024. There's a strong event calendar in Europe, European Football Championship, Euro 2024 in Germany, and the Olympic Games in France, especially exciting. And business on the books so far is higher than the same time last year. Service also indicate that companies plan to increase their travel budgets in 2024. So lower inflation and hopefully lower interest rates should be positive for household spending and leisure travel as well.

Generally speaking, hotel demand it depends on economic activity and the main risk are geopolitical instability and its effects on economic activity and travel. We have had our fair share of instability, but so far the concerns have not materialized. That said, with a high-quality portfolio, an active and engaged ownership model based on deep hotel expertise, strong project pipeline and low financing risk, we are well prepared for value creation in any market scenario. Next page.

And we now move over to Q&A. So, operator, we are now ready for questions.

QUESTION AND ANSWER SECTION

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

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

Thank you. I hope you can hear me, and good morning. Two questions for Anneli perhaps. First, on net financials in the quarter. It came down quite a lot from Q3, even though sort of the interest rates didn't change a lot in the quarter and the net debt didn't change a lot in the quarter. So if you could comment on any sort of non-recurring expenses or positive items either in Q3 or in Q4?

And then, secondly, you talked about the current tax being higher for several reasons. If possible, could you provide any kind of guidance or comments or elaborate on what should be sort of the normalized tax rate going forward? Thanks.

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

A

Hello, operator?

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

I can still hear you, but I didn't hear any answer. Did you hear my question?

A

Anders, can you please reply on the Fredrik Stensved's question? We seem to have a little problem with the technique. We'll be right back with the presentation.

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

A

Sorry, everyone. We had a technical glitch here, but now we're back online. So please go ahead with questions.

Operator: Fredrik Stensved, ABG Sundial Collier. Your line is now unmuted. Please go ahead.

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

Thank you. Do you hear me?

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

A

Yes, we do. Yeah.

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB
A

Yes, we do.

Fredrik Stensved
Analyst, ABG Sundal Collier AB
Q

Perfect. Perfect. So unless you didn't hear me last time, two questions. First, on net financial expenses in the quarter, which came down quite a lot in Q4 compared to Q3, even though the average interest rates didn't change much and the net debt didn't change much. So if there are any sort of non-recurring items in either directions, in either Q3 or Q4, that would be interesting to know?

And then, secondly, Anneli, you talked about the current taxes being higher in this quarter and this year due to several different reasons, but if you could provide any sort of comments or guidance on what the normalized tax rate would be going forward, that would be much appreciated. Thanks.

Liia Nõu
Chief Executive Officer, Pandox AB
A

Okay. Thank you. Liia here. I'll start with the financing question. I feel like my own job as CFO still. When it comes to financial expenses, you should look at Q4 being the sort of the average going forward. In Q3, we had some extraordinary refinancing costs. So Q4 is more in line with expectations going forward.

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB
A

Yes. And the tax issue, I'm not surprised that you asked the question. I mean, firstly, of all the efficient tax in Pandox is a bit higher now because we have the most part of our business outside Sweden. And as you know, UK has raised the tax for companies from 19% to 25%. So, of course, that is part of the effect, but we are for the coming year, of course, working on this. But as always in the property-owning companies, it takes some time to sort of restructure the company in a better shape, but we are on the issue. So I can sort of promise that the tax will not be higher next year than it is this year, but it's hard to give a guidance but a bit lower than if you look at the total tax for the full year.

Liia Nõu
Chief Executive Officer, Pandox AB
A

For the year-to-date.

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB
A

Yeah. Yeah. For year-to-date, and up in the quarter because the quarter was, of course, sort of an effect of getting the full year together. So if you look at the full year percentage on an actual tax, it will be a bit lower than that.

Fredrik Stensved
Analyst, ABG Sundal Collier AB
Q

Okay. Perfect. That's helpful. Then another question. Liia, you mentioned that you expect RevPAR to grow in 2024 driven by events in Germany. We have the European Championship. Can you comment on what you expect in terms of RevPAR growth in, say, the Nordics? Is that expected to grow as well or is the total RevPAR growth only coming from a pickup in Germany and Brussels?

Liia Nõu
Chief Executive Officer, Pandox AB

A

We do expect RevPAR growth in all our markets, of course, especially when it comes to the lagging markets where you have international traffic coming back in for 2024, you have business travel increasing all over our destinations. And you, of course, are [indiscernible] (00:31:11) coming from low levels. You have capacity being sort of absorbed in more. So we do expect RevPAR growth in all our markets, but there would be probably more on the markets where you still have some occupancy [indiscernible] (00:31:25).

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

Perfect. Thank you very much.

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

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yes. Hi there. So question on, let's say, the 2024 outlook. I know back in the good old days, you used to also tie back the outlook to your cash earnings. You talked about the RevPAR. But should one understand it so that if RevPAR grows, then your underlying cash earnings should grow as well?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Absolutely. And, of course, we have had 2023 with a very high increase in interest rates. And then on top of that, the tax reduction rules that Anneli talked about, with that in all the sense, we do expect good cash earnings growth.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Good. Thanks. And also a follow-up there for my side on the tax. I got it right. If I take the paid tax over your, let's say, income from property management around 21% and did you say that you would see a lower tax rate on that going forward, or were you talking absolute terms?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Yes. Yes, a bit lower than this year.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah. Yeah. Perfect. Great. And then also, I mean, obviously, it's been very topical now and things are moving very fast on the interest rate side and so on. But you're commenting on the – specifically, again let's say, on the refinancing and so on. And I think you showed already last year that you did quite well and you were able to refinance. Looking at Pandox a few years out and so on, do you plan for any specific changes in your, let's say, credit maturities or so on; or is this the kind of refinancing that we should expect every year in that case? Would you continue to so specifically comment on that outlook?

Liia Nõu
Chief Executive Officer, Pandox AB

A

I think we would like to come back to where it used to be. I mean, I don't see us having a bond financing, even though now the bond finance is easing up for others. So I think the banks have a better opportunity to also come and do more refinancing for us as well as others. But when it comes to maturities, our sweet spot has always been around three, four years. I think we gradually, when we refinance, are [indiscernible] (00:34:21) our loans, than we are basically aiming for three to four years which is like a sweet spot for getting the best credit margins.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Great. And two more questions for me specifically on the numbers. The central costs, they were a positive surprise to me. Is that a good, steady state level that we saw in 2023 or any specific to highlight there in the quarter?

Liia Nõu
Chief Executive Officer, Pandox AB

A

No. It's sort of a basic level, I would say.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yeah, great. And then my final question, Liia, you've pointed out the fact that new supply might be a bit lower now in the years to come and so on. You mentioned a loan-to-value well within the target range. What's your own view of becoming a bit more aggressive, let's say, in growth initiatives going forward or are we too early to talk about that?

Liia Nõu
Chief Executive Officer, Pandox AB

A

No. We love to see new acquisitions and new opportunities coming in. 2023 was a year where there was 60% less transactions made than before the pandemic. The year before, it was 30%. So the last two years have been poor when it comes to transactions. 2023 was record low, but we do see things loosening up and especially with sort of other parties and all parties getting a better financing position. So we are sniffing around for opportunities and I'm hopeful to see more coming up.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Great. Thank you. That's all my questions.

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

Fredric Cyon
Analyst, Carnegie Investment Bank AB

Q

Good morning, Liia, Anneli and Andres. Most of my questions have been answered already, but unfortunately we have to go back to taxes. So I don't think misinterpret your answer, are you expecting the absolute amount of current paid tax to be lower or were you referring to the tax rate being lower going forward?

Liia Nõu
Chief Executive Officer, Pandox AB
A

The tax rate, the tax rate.

Fredric Cyon
Analyst, Carnegie Investment Bank AB
Q

So not necessarily the absolute amount of paid tax versus 2023, that was rather evident.

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB
A

No. If you look at tax paid, and as I explained, we are in a bit higher tax position since they actually raised the taxes in UK while we're performing well. So if you look at the percentage of the tax, the tax rate.

Liia Nõu
Chief Executive Officer, Pandox AB
A

Then again when you see that interest rates will be coming down, then, of course, this will also take down the tax rate because then you can deduct more; and so the tax law legislation hasn't really [indiscernible] (00:37:14).

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB
A

No. It was not – I mean, it was not...

Liia Nõu
Chief Executive Officer, Pandox AB
A

Cashed up with the interest rate.

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB
A

In a lower interest rate environment than it is today. So, I mean, a lot of property-owning company has that issue for the moment, because I mean you can only deduct the part of the EBITDA level. I think it's basically 30% of the EBITDA level that's allowed to sort of – the deductible part of the interest rates also.

Fredric Cyon
Analyst, Carnegie Investment Bank AB
Q

Yeah. Then moving over to the interest rates. I think you've guided towards flat levels Q-on-Q for the first quarter given that you don't have as much refinancing to take care of this year as last year, and that you're referring to were credit margins being stable. Should we expect the interest rate, all else being equal, being topping up at this level?

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB
A

Yeah. I think if credit margins are hopefully sort of balancing out and hopefully also coming down at some point in time because now, again, we see this sort of bond financing market being more stable. The banks hasn't had to sort of cover up for this, meaning that they also need to sort of start competing on the existing refinancings. So we see that the credit margins have – I hope peaked out. And then there is the underlying interest rate curves which have come down. We are, of course, hedged to some extent but we'll hopefully see lower interest rates, which means that these should be stabilized or at some point slowly coming down.

Fredric Cyon
Analyst, Carnegie Investment Bank AB

Q

Thank you. And then my last question relates to the guidance on RevPAR. So I understood that you expect some RevPAR growth across the board basically, but perhaps you can give us some flavor on the impact of the European Champions to the German market. What kind of RevPAR growth do you expect for the full year in Germany isolated?

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB

A

I don't have this number specifically, but if you want to have a hotel in Europe during June, July, you should have booked already because you have the Olympics in Paris, then you have the Championship in Germany. And as well, I mean, obviously, there's cross-overflow for all markets. It's 1.5 hour from Brussels to Paris; someone said it's the same as we take the train to [indiscernible] (00:39:42). So we expect to have full hotels and, of course, prices will correspondingly much higher then.

Fredric Cyon
Analyst, Carnegie Investment Bank AB

Q

Thank you. Those were all my questions.

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB

A

Great.

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

Liia Nõu
Chief Executive Officer, Pandox AB

A

I think we have just one more comment when it comes to our incremental income from our existing portfolio, in our existing portfolio. And when we say that we beyond 2026, we'll have a plus SEK 300 million in net operating income, it's on the six, seven projects we've made. And, of course, we are adding on. These are additional incremental net operating income versus today. And all of these projects are basically today under renovation either they have been totally closed or so there's not so much – we don't expect losing some income, but there's additional income around SEK 130 million this year and then gradually going up to more than SEK 300 million. This was a question we got on the web, I think.

Liia Nõu
Chief Executive Officer, Pandox AB

And with that, I now would like to hand over to our guest speaker, Thomas Emanuel, from STR for the hotel market update. And please remember that Thomas' presentation is totally separate and independent from Pandox and it's arranged as a service to Pandox's stakeholders. So go ahead, Thomas.

Thomas Emanuel

Director, STR Global Ltd.

Thank you very much, Liia, and good morning to you, all. So as mentioned, I'll do a quick overview of the European hotel performance landscape. And if we could advance the slide, please, to the first map. This is showcasing occupancy year on year versus 2019. So the good news is across the board, as you can see, we have had growth. It was greater in some of those markets that were slower to recover, such as China and Asia, but across EMEA and the Americas, you can see solid single digit growth; and here in Europe, 8%. So a very respectable year in that respect.

If we could advance the slide, please. This showcases what was mentioned previously is that hotel demand, so that is the number of rooms that was sold across Europe, is now outpacing 2019 levels. So you can see that index of 101. Of course, occupancy is not fully recovered due to the new supply that has been opened over that same time period, but the good news for our industry is that we are now selling more rooms than we were.

If you could advance the slide, please, to the next map. And this showcases occupancy index – the percentage change, I should say, sorry – the percentage change versus 2019. Couple of regions that are ahead. There's Central America, the Middle East driven of course by Saudi and the Emirates predominantly, but elsewhere nearly, but not quite back and I think that's generally the situation for occupancy. So we see here in Europe 4 percentage points behind where we were in 2019.

If we could advance the slide, please. This drills down occupancy index to 2019 for various countries and regions across the continent, and it's quite amazing how nicely they bucket as such. So the UK and Ireland doing very well. You see they're fully recovered. Then we've got Southern Europe, Western Europe and then those regional outliers, Central and Eastern Europe and Turkey. You see there's Southern Europe, 95%-plus recovered. Western Europe a few percentage points behind.

If we advance the slide, please, to look at the gateway cities across the continent. This is occupancy year-on-year. As you can see with the exception of Istanbul, it was a very strong year for growth across the board. Double digit increases in terms of occupancy across many countries and does underline the strong year and strong recovery.

If we could advance to the next slide, please; this is the same map but it's the percentage change from 2019. So as mentioned, on a country level, you can see that filters down to a city level as well. Generally speaking, the further east you go, the further away from 2019 levels you are. A few recoveries there. Edinburgh has done well. Vilnius, Warsaw, we see that as an impact of demand from the conflict in Ukraine predominantly, but most of the markets as you can see there, nearly but not quite recovered.

If we can move forward, please, to the next slide. You'll see here that same slide as we saw previously but for average rates, the percentage change to 2022. So globally, again, we've got some good growth across most regions. Interestingly, the two regions that are actually recovered from an occupancy perspective have seen a slight softening in average rates, but in Europe, well, 8% occupancy level is up, and 9% average rate up. So again, a very good solid year of growth. And if we advance to the next slide, you'll see what was mentioned earlier once again that across the world we are seeing significantly higher average rates than we were in 2019. You can see they're double digits everywhere, but China and in Europe, they're at 26%. So significantly ahead.

If you could advance the slide, please. Of course, we do live in a high inflationary world and a high inflationary environment. Obviously, those inflation rates have come down somewhat, but they were higher. And the data that STR presents is nominal, but if we take out the impact of inflation there and you look at the real ADR index, you can see it's still above 2019 levels. So we are looking at real growth, not just inflation rate growth which, of course, is an underlying good news story for our industry.

If we can move forward, please, we will again see on a country level, the average rates indexed on 2019 and there is quite the variety here. You've got outliers in Turkey with currency devaluation. A lot of the markets that had a lot of US visitation, particularly in the summer last year. We'll see that in a slide in a moment. Strong growth, the rest of Europe a little bit further behind, but nevertheless we're still looking at double digit growth across all markets.

And if we advance the slide, please, to see those 50%. So this is year-on-year – sorry, this is the percentage change from 2019. My apologies. Percentage change from 2019. Average rate; we've only got two outliers; Helsinki Tallinn; Russian visitation, Asian visitation impact in there. Elsewhere, significant growth across the board, double digit in most markets. You see there Paris, Rome, Budapest, all north of 50% growth, which is really quite significant of course.

If we advance the slide, please, this is our year-on-year percentage change chart. So apologies for that. But again, it showcases 2023 being a strong year. Good underlying rate growth across the board.

If we can move forward to the next slide, I think this is good to just look at things from a class perspective to show that actually year-on-year across Europe, across all classes, we saw very decent and pretty consistent growth rates, fairly evenly split between occupancy and average rate as well. The one outlier there, economy class hotel had more rate growth, very minimal occupancy growth, but that class would come back a little bit more quickly than those other classes, but overall as you can see, solid double digit growth across all classes of hotels in Europe last year.

And if we can advance to the next slide, please; this shows RevPAR index to 2019 for all classes of hotels; slightly stronger at the lower end and the upper end; so luxury and economy, but you can see across the board all of those classes with very solid double digit RevPAR growth across the board.

Moving forward, please, to the next slide. I think it's always interesting to just compare Europe to other key markets and certainly those that generally perform in a relatively similar way. So this is the US versus the Eurozone and it's RevPAR. And you can see they're indexed on 2019 throughout 2023, that growth was higher here in Europe; obviously, predominantly driven by average rate, but the European hotel industry has recovered more quickly and more aggressively than the American hotel industry.

And if we move forward to the next slide, I've just added the GCC in here as well for some additional comparison, but if we look at 2023, we can see just how good a year it was for Europe. And if you look at those summer months, again, that summer leisure demand a lot of it from the US, but a lot of other source markets as well really was strong and that's really helped to drive performance. And obviously, as we've come back into Q4 as well, we've seen the return of more and more corporate demand. So underlying pretty good.

If we could advance, please, to the next slide. This is business on the books as of the 22nd of January for the next 90 days versus the same time last year. So the good news is the vast majority of markets have stronger business on the books. So we do expect to see occupancy continue to grow.

If we can move forward, I've just got a few slides to finish off on Germany. Obviously, that's an important market. This is Germany as a whole on a rolling seven-day occupancy basis, 2019, 2022 and 2023. So, unsurprisingly, 2023 still not quite back to 2019 level, but for most of the year ahead of 2022 and you can see that it is closing the gap on 2019; particularly more and more as we get to the middle and end of the year. So the trajectory is certainly a positive one.

If we could advance the slide, please, we see the same chart, but this time for average daily rates. And it's no surprise to see, of course, 2023 significantly ahead of 2019 and year-on-year ahead for the vast majority of the year as well. So German rates moving in the right direction.

If we can move forward to look now at the various German markets, we've got occupancy for 2019, 2022 and 2023. And we can see those at the top end are those that have a significant portion of leisure demand as well. You see there Hamburg, Berlin, obviously, they have a very vast and varied demand mix, but then Heidelberg, Freiburg, for example, as well. So leisure continuing to drive quite a bit of demand across those German markets.

And if we could advance to have a look at average rates, well, there's quite a regional variance. You would expect that. Obviously, Germany is a vast country. At the top end; unsurprising, I think Munich €131 average rate for the year of 2023, and Hamburg at €130. Note as well, the Baltic coastline doing pretty well; boosted by a number of very high end resorts.

And if we move forward then to look at business on the books, this is again 22nd of January for the next 90 days. You see most of the markets there ahead of 2019 levels. So, we do expect to see once again occupancy growth across the city. You'll see that particularly Hamburg and Stuttgart significantly ahead of where they were in 2023.

If we can advance this slide, please. This has already been touched on. But, of course, German hotel industry is very influenced by the masses, the big events that come to town, and we can see as of the 1st of January to the next 365 days, so the full year, business on the books across four key German cities and you can already see the spikes for these events very clearly. And the good news, I think, is that 2024 is really the first year I think that we're going to see a settled and normalized MESA or event calendar since 2019. So that's a positive. And of course, in the middle of the chart there, you can see the euros are going to be coming to Germany, of course, so that is going to help driving demand quite significantly for that period.

If you could advance, please, to the final data slide here. As you can see, this is our forecast. This is for a aggregation of the European cities listed at the bottom of this chart. So we are positive. We believe RevPAR will continue to grow year-on-year across 2024 and into 2025. It's a little bit softer in Q2 because Q2 was a very, very good quarter for the industry in 2023, but we see that bounced back quite significantly in Q3. That's obviously going to be helped by events. Interesting as well, as you move a little bit further into the future, you're seeing a bit more growth coming from occupancy than average rates. I think this is unsurprising when you consider how much rate has grown and the fact that we are continuing to see demand return. So underlying fundamentals for Europe remain very positive.

And just as you could advance the last slide, just thank you very much all indeed, for your attention.

Anders Berg

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

Thank you very much, Thomas. And thank you, all, for participating in this call. And we really appreciate your time and interest in Pandox. And your patience also due to a technical glitch, which was completely my fault, I have to admit. The next event is the Annual General Meeting, 10th of April, and we will publish our Q1 report on the 25th of April which happens to be my birthday as well.

So thank you for your interest and we wish you a nice continuation of 2024. Goodbye.