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Tempus

Buy, sell or hold: today's best share tips

Hotel group should get an easier ride

EASYHOTEL

Revenue £19.9m | **Owned hotels**
Franchises -3.5% | +5.4%

When Guy Parsons became chief executive of Easyhotel in August 2015, the budget hotel operator was in some disarray. It had just reported disappointing half-year results, its hotel opening programme was off the pace and its shares were languishing at about 70p, 10p below the previous year's flotation price (Dominic Walsh writes).

Under Mr Parsons, its fortunes have been transformed. The former Travelodge chief executive, whose career has included spells at Travel Inn (now Premier Inn) and Novotel, revamped the group and, crucially, kick-started expansion, raising funds for acquiring and developing new hotels while upping the ante on franchise deals.

Until last May the plan appeared to be going swimmingly and the share price duly improved, reaching a peak of 128p.

Despite progress on most fronts since then, the share price has fallen as though the group had issued a profit warning — which it hasn't — and since February the price has fallen back below the float price, to a low this week of 66½p.

So what's gone on? Much of the slump in sentiment appears to be down to the decision by two big institutions — Blackrock and Canaccord — to reduce their holdings, the impact of which was accentuated by the lack of liquidity of the stock. Icamap, a Luxembourg-based investment fund, has 38.7 per cent, while Sir Stelios Haji-Ioannou's Easygroup holds 24.5 per cent.

Trading has also got tougher for the hotel industry, with a lowering of both leisure and corporate demand, almost certainly due to Brexit-related uncertainty. Mr Parsons said that in the regions, revenue per available room (revpar) — a key metric — had turned down since the beginning of January. While London had remained positive, revpar growth had almost halved compared with the previous three months and he said there was little doubt that some businesses and individual customers were delaying or cancelling some expenditure.

The advantage Easyhotel has is that its room pricing, at an average of £45 a night in the UK, is lower than Premier Inn and Travelodge, which insulates it to any decline.

Indeed, Mr Parsons claims to have outperformed his rivals for the fourth year running, with UK occupancy in the six months to the end of March reaching 85 per cent.

On the Continent, occupancy is slightly lower at 81 per cent, but the average rate is £54. Its overseas franchise performance is being dragged down by its hotel in Dubai, where oversupply has hurt the market.

Another headwind faced by the industry is cost inflation with rent, business rates and labour costs all on the up. Mr Parsons said that the company had managed to mitigate some of the increase but he admitted that, in some cases, the group had been forced to pass the extra costs on to the customer.

The big plus for Easyhotel is that, having raised new funds from investors last year, it has £40 million on the balance sheet to fund its ambitious expansion plans. The focus of its investment in new owned hotels will be France and Spain, although Mr Parsons said that the group was not giving up on UK expansion due to Brexit but merely "rebalancing our exposure".

There are 36 Easyhotels in its portfolio, although its strong pipeline of new sites should take it to 45 by

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the end of this financial year and past 50 next year. Mr Parsons has yet to unveil the details of a five-year plan, although analysts suggested that, with an average of ten openings a year, it should be in a position to hit 100 hotels.

ADVICE Buy
WHY Shares rose 3½p, or 5.3 per cent, to 70p, but growth prospects deserve a premium to the 80p float price

Make room