



ISSUER RATING

Long-term Rating

Outlook: Negative

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## Executive Summary

Detailed below is the Executive Summary of the public rating assigned by Axesor Rating to Grupo Pestana, SGPS, S.A and its subsidiaries.

Grupo Pestana focuses its activity on the management of 70 hotels, 9 units of vacation club, 6 golf courses, 4 real estate ventures, 1 casino gambling concession and 1 brewery company. They operate exclusively in the Portuguese market. The company is the Portuguese subsidiary of Pestana International Holding (PIH) which operates 93 hotel units and 6 tourist ventures, with over 11,000 rooms across 15 countries in Europe, Africa, North and South America.

Grupo Pestana's turnover in 2018 was €364.9MM (+6.7% YoY) with an EBITDA of €123MM (33.7% EBITDA margin). NFD/EBITDA stood at year end in 2.9 times (including IFRS16 adjustment), NFD/EBITDA unadjusted of 2.1x.

The company issued a €60MM senior unsecured bond which have the same rating (BBB) as Grupo Pestana's corporate rating.

## Fundamentals

### Business profile

- ▶ **Strong competitive position as the leading hotel chain in Portugal with a more limited positioning internationally.**

Strongly positioned in the Portuguese market as the leading hotel chain in terms of number of hotels and rooms. With more than 45 years of experience, the company shows a deep knowledge and a successful trajectory in the industry which is also reinforced by a well-known portfolio of brands in Portugal. These factors remain a differential factor in the sector. However, its brand awareness outside of the domestic market is weaker. The weight of direct sales over total turnover is 27%, being this sales channel the most profitable.

- ▶ **Asset-heavy business model which result in a high-quality asset portfolio.**

The company's operating model is asset-heavy, limiting its pace of portfolio growth and exposing it to a higher demand risk relative to asset-light formulas. Rooms under management/franchised were only an 11% over the total and is partly a consequence of the peculiarities of the hotel sector in Portugal. However, this business model results in a valuable portfolio of fixed assets (estimated market value of €1.16Bn) and provides additional financial flexibility.

- ▶ **Business concentrated in the Portuguese market and the resort and leisure segment.**

Grupo Pestana's business profile is constrained by its lack of geographic diversification beyond Portugal and a hotel portfolio which is concentrated in the holiday resorts segment lacking a significant presence in the city/business segment (17% over total rooms). Its feeder markets, however, provide diversification benefits since only 22% of guests originated in Portugal with the remaining 78% coming from the UK, Germany, the US, etc. The company is exposed to the cyclical nature of tourism albeit mitigated by its strong focus in the upscale segment, which is valued positively. The majority of the hotel pipeline being developed are city hotels in order to reduce its focus on resorts. The company's growth potential within the domestic market is relatively limited due to its already leading position.

- ▶ **COVID-19 crisis which is having a significant negative impact on the hotel industry.**

We expect a significant impact of the coronavirus shock in the hotel industry. Although, it is too soon to determine the impact in economic terms, we consider that this sector is directly affected by the crisis given its exposure to falling consumer demand (compounded by a fear of travel), travel restrictions and the downward turn of the economy (high correlation with the economy) . As a result, we expect a significant decline in room bookings and an increase in cancellations, not only for the Easter break but also for the summer months. The future development of the hotel and tourist industries will be maintained on continuous review.

- ▶ **Pestana operates in a highly competitive sector which is dominated by a few well-know hotel brands and which is exposed to potential economical and political disruptions.**

Globally, the hotel sector is mainly composed of more than 500 large hotel groups, being a sector with a high proportion of smaller establishments though dominated by a few well-known hotel brands with large geographic footprints. The industry which is highly competitive is closely correlated to the economic cycle and more specifically in Europe, is going to face diverse factors which could negatively impact the business (Brexit, recovery of destinations in the southern Mediterranean such as Turkey and Egypt, EU economic slowdown, etc.). The company's economic figures demonstrates a strong resilience to down-turns based on its flexible cost structure, a characteristic that is valued positively.

- ▶ **Family owned group backed by a professionalized management team whose decision-making has lead to a successful trajectory.**

Grupo Pestana is controlled by its founder, Mr. Dionisio Fernandes Pestana, who has shown an outstanding track record in managing the business and a proven commitment with the group evidenced, amongst other things, by the constant reinvestment of the Group's cash flows into the business. Furthermore, its parent company, PIH, adds geographic and operational diversity (city hotels) to Pestana's business profile. Finally, Grupo Pestana counts with a highly professionalized management team which has been instrumental in the positive performance of the company in the recent years.

## Financial profile

- ▶ **Solid activity reinforced by profitability margins which are higher than the industry average based on the company's effective cost control and accompanied by a strict investment policy.**

The company's top line performance has been very positive during recent years (CAGR14-18; +13.2%) driven by their strong positioning in Portugal which have enabled them to take advantage of the positive industry trend. Their long-term vision and prudent investment policy, which result in low investment amounts per hotel room, together with their ability to successfully manage their cost structure provides Grupo Pestana with high operating margins (EBITDA margin of 33.7%) and strong net profits.

- ▶ **Stable financial structure reinforced by a NFD/EBITDA which remained controlled.**

Grupo Pestana displays a financial structure with adequate equity levels and a controlled indebtedness. These debt levels are considered suitable in relation to its operating results (NFD/EBITDA with IFRS16 ratio of 2.9x) which are also reinforced by the GAV of its hotel portfolio (€1.16Bn). Grupo Pestana's NFD/EBITDA is lower than its peers and the company shows a more than adequate capacity to meet its financial requirements which are mainly long-term in nature. In 2019, they have formalized a debt issuance of €60MM which has helped to extend their maturity schedule.

► **Favourable liquidity situation which enables the company to adequately meet its business requirements.**

The company has a reasonable liquidity level favoured by a solid FFO, a positive treasury position (cash + available credit facilities) and adequate financial flexibility (access to the debt markets). This allows them to continue funding their capex needs, the payment commitments associated to its debt (long-term in nature) and the required dividend distributions. On a forward-looking basis, in 2020, Grupo Pestana's sources of funds will cover its commitments by 4x.

## Main financial figures

Main financial figures. Thousands of €

	2016	2017	2018	18vs17
Turnover	302,172	342,171	364,950	6.7%
EBITDA <sup>(1)</sup>	100,974	145,511	123,000	-15.5%
EBITDA Margin	33.4%	42.5%	33.7%	-8.8pp
Pre-tax Income	47,817	101,045	82,278	-18.6%
EBITDA normalized <sup>(2)</sup>	97,439	117,774	121,385	3.07%
EBITDA Margin normalized	32.25%	34.42%	33.26%	-1.2pp
Equity/TFD	72.7%	90.6%	89.8%	-0.8pp
Equity/TFD with IFRS16	57.3%	63.6%	61.2%	-2.4pp
NFD/EBITDA <sup>(1)</sup>	3.0x	1.7x	2.1x	0.4x
NFD/EBITDA <sup>(1)</sup> with IFRS16	3.6x	2.3x	2.9x	0.6x
Total Assets	1,024,350	951,888	858,624	-9.8%
Funds From Operations <sup>(1)</sup>	88,219	105,315	123,850	17.6%
FFO <sup>(1)</sup> /NFD	25.3%	36.8%	48.1%	11.3pp
FFO <sup>(1)</sup> /NFD with IFRS16	19.9%	26.3%	33.1%	6.8pp
EBITDA/Interest	4.8x	9.7x	11.3x	1.6x

<sup>(1)</sup>Calculated by the company.

<sup>(2)</sup>Excluding capital gains from the sale of assets to holding company (PIH).

## Outlook

The outlook for this rating is **negative** based on the coronavirus crisis which is deteriorating global economy. The hotel sector is one of the sectors most significantly affected by the shock given its exposure to travel restrictions and sensitivity to consumer demand. Hence, we do expect changes in the rating in short-term

## Regulatory information

### Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, Axesor Rating assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

### Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Corporate Rating Methodology and Outlook Methodology that can be consulted on [www.axesor-rating.com/en/about-axesor/methodology](http://www.axesor-rating.com/en/about-axesor/methodology) and according to the Long-term Corporate Rating scale available at [www.axesor-rating.com/en/about-axesor/rating-scale](http://www.axesor-rating.com/en/about-axesor/rating-scale).
- Axesor publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months axesor has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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