This isn’t an appropriate time to check into the Lemon Tree Hotels’ stock

Lemon Tree Hotels Ltd has done well for investors who had bought the company’s shares during its initial public offering (IPO) last year. Its shares are now 32% higher than the IPO issue price of Rs 56 apiece, with most of the gains coming on the listing day on 9 April.

But for those who came in later, the hotel chain has had nothing much to offer. After touching a high of about Rs 58 in early August, the stock is now back near its listing price.

What’s more, valuations appear fully occupied even now. Lemon Tree Hotels’ shares are currently trading at about 31 times EV/EBITDA (enterprise value/earnings before interest, tax, depreciation and amortization), based on HDFC Securities’ Institutional Research’s net debt and Ebitda estimates for fiscal year 2020 (FY20). Simply put, meaningful upside is not on the cards soon.

In fact, the December quarter numbers announced last week aren’t very inspiring either. For one, the occupancy rate declined by about 350 basis points from the year-ago quarter to 72.8%. A basis point is one-hundredth of a percentage point.

This was an account of a new supply of close to 300 owned/leased rooms in the quarter. Further, there was a seasonal element involved, wherein November occupancies took a beating. Diwali fell midweek in November, affecting corporate travel during that time. Lower occupancies led to a slower 4.8% growth in average daily rate on a year-on-year basis.

For perspective, For the nine-month period ended December, the occupancy rate rose by 60 basis points and average daily rate increased by 8.6% compared to the year-ago quarter. For the December quarter, Lemon Tree Hotels’ revenue increased by 8%, but net profit rose at a much faster pace of 34% to nearly Rs 1 crore, Net profit growth was helped by the comparatively slower pace of increase in operating expenses, depreciation costs and finance expenses.

According to the company, in the current quarter, demand for rooms appears robust on the back of planned conferences and events. While that augurs well, given the expensive valuations, upsides may be capped.

In the longer run, the story may turn out to be different though. Analysts at Ambit Capital Pvt. Ltd have cut their earnings per share estimates after the December quarter results.

“Even post the cuts, we remain convinced of robust earnings growth (Ebitda/net profit CAGR of 46%/20% over FY19-22),” said Ambit analysts in a report on 18 February. CAGR is compound annual growth rate.

A look at Lemon Tree Hotels’ valuations suggests many investors are equally optimistic.