



Hotel and Lodging Sector Study

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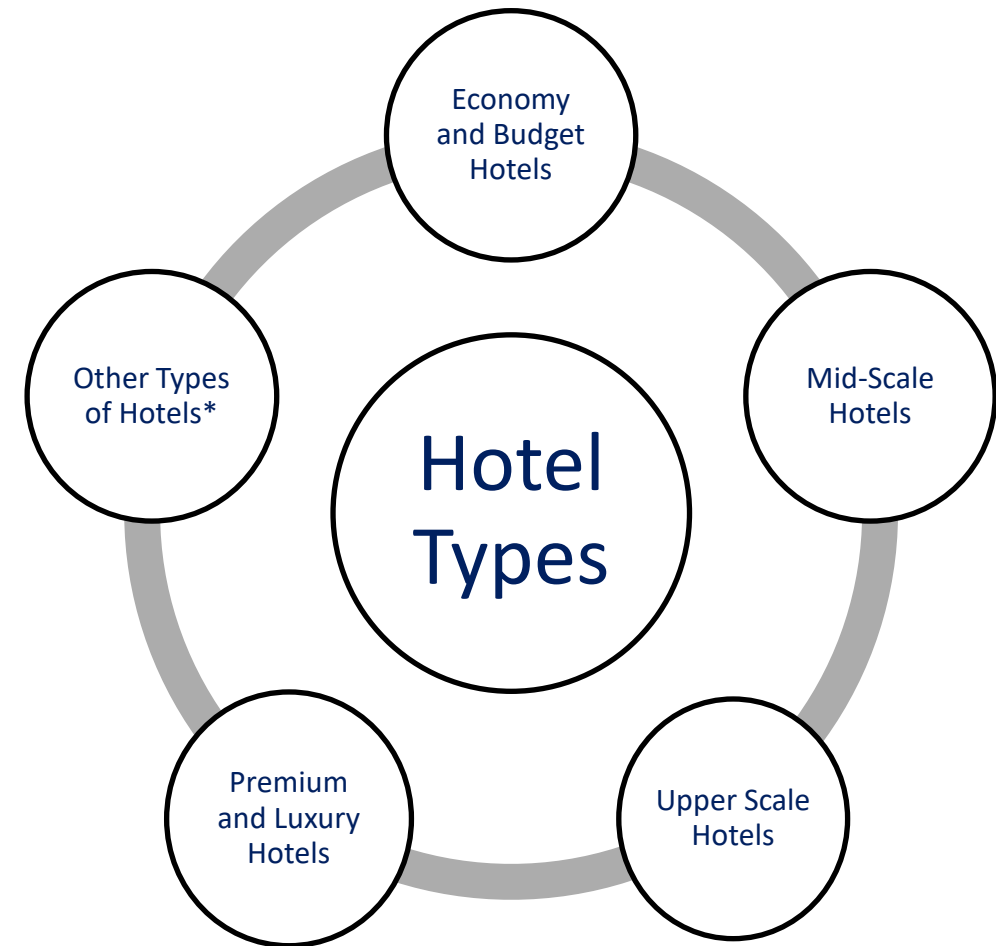
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Hotel and Lodging

Overview

- Hotel sector is a branch of Hospitality Industry that caters to the Lodging needs of the customers on a temporary basis and hence by definitions this generally excludes permanent accommodation needs. There are different classifications of hotels based on the services, size, functions, ratings and costs broadly categorized into five types as shown by the figure on the right.
- Based on the transient nature of accommodation services, the close integration of the hotel and lodging industry with travel and tourism is natural.
- The industry experienced high growth rates during the Pre-Pandemic era because of the increased expenditure on travel and tourism by continuously rising population of the world who chose to travel for leisure and work purposes. But the COVID-19 had a drastic impact too on Travel and tourism and all related industries. In fact, it was one of the worst hit industries in pandemic.
- The emergence of new variants of the Corona Virus, adds to the uncertainty that the hotel and lodging industry continues to face. However, improved vaccination rates and lifting of travel restrictions across many countries have resulted in better occupancy rates since second half of 2021. This summer is expected to be a busy travelling season globally and locally.

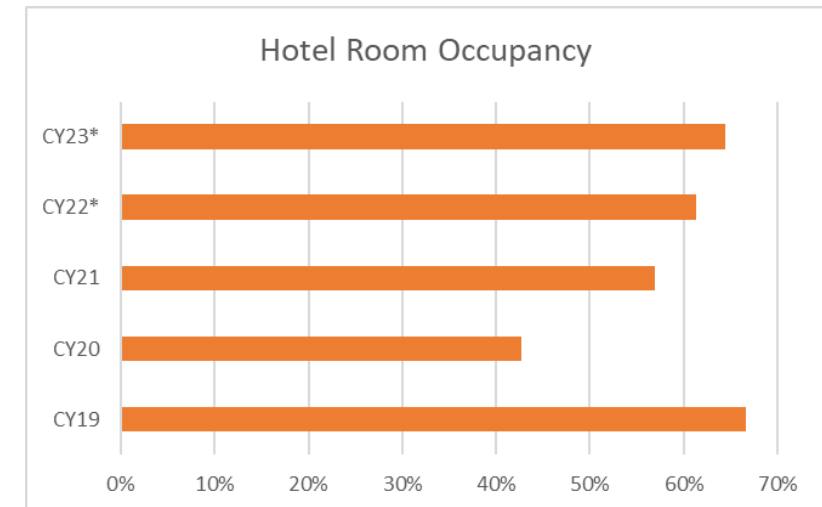
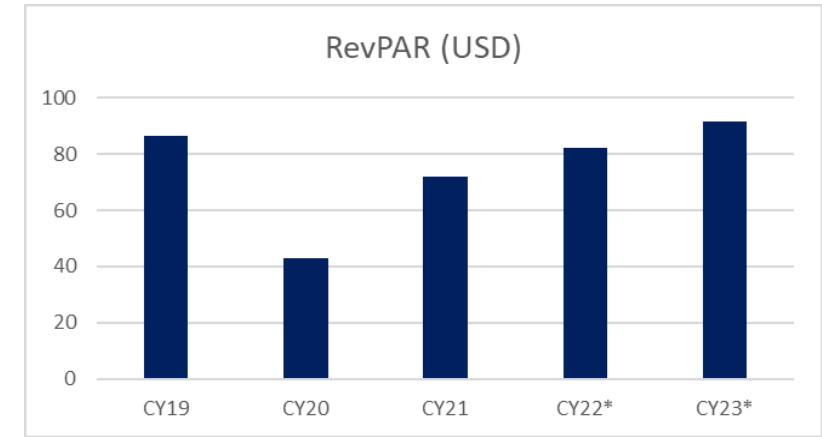


*Includes; Shared living spaces, Rented apartments, Service Apartments, etc.

Hotel and Lodging

Global Industry | Overview

- Hotel industry, currently worth USD~360bln, continues revival while simultaneously acting as a stimulus for economic growth.
- The Industry's combined loss of last two years (CY20&CY21) in business travel amounts as high as USD~108bln due to lockdowns and border closures.
- Despite the fact, that around ~9% of the hotel services operations have been suspended in the year CY20, US and China remain the two largest countries having more than ~650,000 and ~640,000 lodging rooms in construction pipeline respectively, as of March 2021.
- The Average Daily Rates (ADR) in Europe and Asia-Pacific region fell to the lowest; while America and Asia-Pacific have shown growth of ~0.3% and ~3.3% respectively in the Q1CY2022.
- Rise in Revenue per Available Room (RevPAR) to USD~69.8 in CY21 from the lowest of USD~43.1 in CY20; along with the increased upthrust in global rooms supply (mln rooms) from ~19.7 (CY20) to ~20.1(CY21) illustrates the attractiveness and ascending demand of the lodging services.
- Room Occupancy have also improved significantly to almost ~67%(CY21) from only ~43%(CY20).



Hotel and Lodging

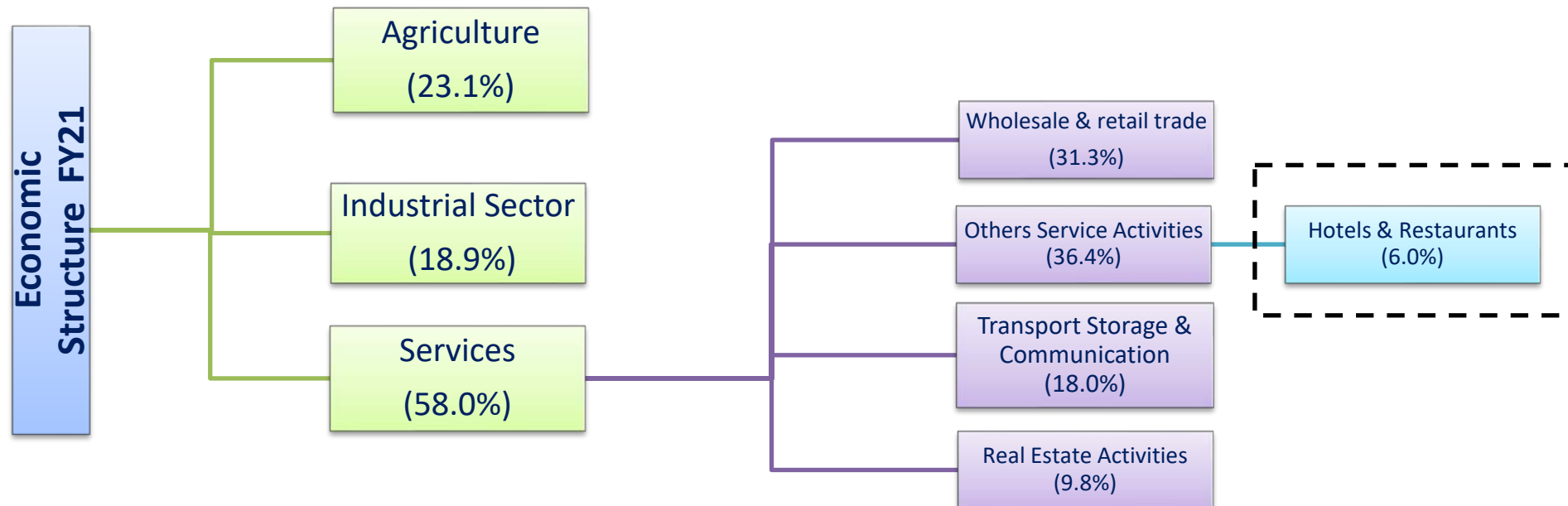
Global Industry | Overview

- Even though the industry is expected to experience disruptions in first quarter of CY22 and business travel expected to decrease by ~10-30%, RevPAR in US is expected to rise by ~10% in CY22.
- As the trajectory for the hotel and lodging industry towards improvement gains momentum post pandemic, World Travel and Tourism Council estimates an ~18% rise of employment in the sector with almost ~324mln people available for the jobs.
- The new developments have also impacted the structure of the economy where people now prefer trusting a branded chain to ensure safety and protocols required after the COVID-19 and hence the global branded hotel penetration have upsurged. This has also made customers more aware of the sustainability as the data shows that around ~80% of the guests choose to stay, and nearly 35% are willing to pay more to the socially responsible hotels.
- Consequently, the evolving consumer needs and high barriers-to-entry have aided the five top hotel brands to maintain their market share globally (CY21: ~24.3%; CY20: ~23.9%). These include:
 1. IHG
 2. Marriot International Holdings Inc.
 3. Hilton Worldwide Holdings Inc.
 4. Wyndham Hotels and Resorts Inc.
 5. Accor Group
- Hilton Hotels and Resorts is the most valued hotel brand of CY21 with a global brand value of USD~7.6bln.

Hotel and Lodging

Services | Overview (Local)

- Since the industry falls under the Services sector; it is imperative to see its performance. For Pakistan, the size of the sector is at least ~1.5 times that of combined agriculture and industry sector and is seeing a steady but continuous growth over the years; currently constituting to almost ~58% of the GDP in FY21.
- After a drastic plunge in growth rate to ~-0.6% in FY20 from ~3.8% in FY19; because of the closure of the major activities of the service sector including transport, tourism and hospitality industry, the sector recovers with a growth rate of ~4.4% in FY21 which is expected to rise further in the FY22 given the COVID restrictions have been uplifted and the economy is on its recovery.



Hotel and Lodging

Local Industry | Overview

- By virtue, the hotel sector is related to the tourism sector. Hence, changes in the tourism sector can reflect the variations in performance of the hotel and lodging industry.
- Total share of travel and tourism to Pakistan's GDP has declined by more than ~23% to only ~4.4% of the economy in the FY20 whereas it was as high as ~5.7% of the GDP in FY19.
- Not only the contribution of Tourism to the GDP declined, the amount of domestic and international visitors spending has also plunged by ~29.4% and ~23.2%, respectively. This also led to an ~11.1% declined in the employment level in the tourism and travel sector which meant a loss of ~3,832,000 jobs from the sector in FY21.

KEY FEATURES		
	FY20	FY21
As Share of the GDP (%)	1.45	1.43
Players > 500 Rooms	5	5
Largest Hospitality Conglomerate	Hashoo Group	Hashoo Group
Average Minimum Room Rent*	PKR~20,000	
Structure	Competitive	
Government Agencies	PTDC & TDAP	
Association	PHA	

* Based on top 10 key market players in Pakistan

Local Industry | Overview

- The tourism industry, valued at USD~20bln with a predicted CAGR of ~3% by 2026, is an illustrative fact of the growing hotel industry in the country except for the COVID era. The country hosts all kinds of hotels from premium and luxury to budgeted and economy class.
- Recently, the industry has embarked on a revolution of sorts where even the luxury hotels like PC and Avari are entering the budgeted hotel market with different brands like Hotel One and Avari Xpress, respectively. Additionally, the startups like Roomph and Lets Home, that help people find quality lodging services with a unique experience, is also a step towards the uphill of the sector. But this also illustrates that how fragmented the market is.
- Pakistan attracted more than ~60,070 foreign tourists in last six years. The country has also emerged as an investment destination for new hotel development. However, it is predominantly dependent upon local tourists and travelers which have also increased over the last decade.
- Even though the hotels in Pakistan are experiencing significant growth in their operations in terms of occupancy and RevPAR and the trend is expected to grow, the COVID-19 severely affected the industry in past years where 3 out of 7 big hotels operating in Karachi shut their operations in March CY20.
- Given the policies of the government, it is expected that the number of the visitors will go up by ~30% by FY30.

Hotel and Lodging

Local Industry | Business Models

Pakistan's Hotel industry is based on two major models like around the world which include:

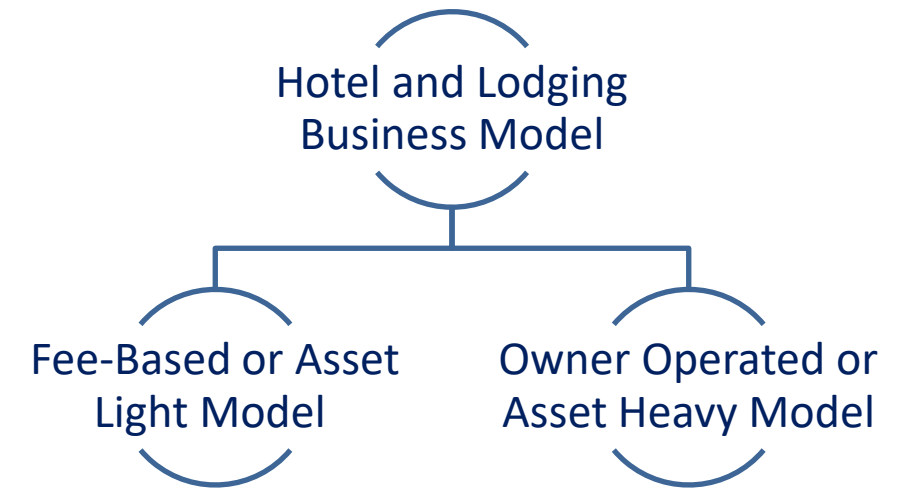
Asset Light Model

- Franchised – owned and operated by parties distinct from the brand, who pay fees to the hotel company for the use of their brand. Like Marriott.
- Managed – operated by a party distinct from the hotel owner, who pays management fees and, if the hotel uses a third-party brand name, fees to that third-party also. Like Hotel One.

Asset Heavy Model

- Operated and branded by the owner who bears all the costs but benefits from all the income. Like Pearl Continental.
- Similar to the owned, except the owner-operator does not have outright ownership of the hotel but leases it from the ultimate owner. Like Serena Hotels & Resorts.

Asset-heavy business models allow tighter control over hotel operations, whilst asset-light models enable faster growth with lower capital investment.



Hotel and Lodging Industry

Supply

- **Key Players:** The List of 10 major key players of the industry is given on the right-hand side. Hashoo Group being the market leader followed by Avari Group and then Serena Hotels and Resorts.
- **Competition:** As evident by the increasing number of local and international brand hotels the market is effectively competitive. However, there are a few dominant market players.
- The supply of rooms is also rising with new branches and hotel chains coming up. PC has at least 3-5 projects under pipeline at some of the very exotic tourist areas in Pakistan like Attabad Lake.
- The luxury chains have also ventured into the economy-class hotels with superior facilities showing the diversity of the supply and packages that the market has to offer.

10 KEY MARKET PLAYERS – PAKSITAN CY22		
Hotel	No. of Rooms	Operational Cities
Pearl Continental	2,109	8
Hotel One	735	16
Serena	655	6
Regent Plaza	600	1
Marriott	505	2
Ramada by Wyndham	500	4
Avari	424	2
Avari Xpress	407	4
MovenPick	407	1
Nishat	260	1
Total	6,602	26*

Hotel and Lodging

Demand

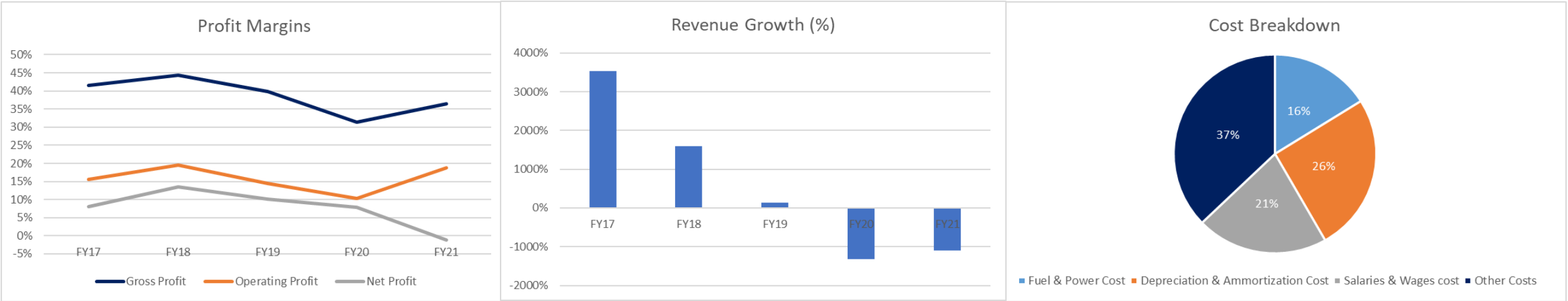
- The improved image of the country combined with rise in disposal income have increased people's desire to travel. These factors can be attributed to the rising growth rate of tourism industry in Pakistan.
- The hotel and tourism industry have for long been interrelated due to their interdependent nature. Tourists in the country invariably need a place to stay if they do not have family or friends in that region and that is where the hotel industry comes in.
- The international tourism receipts were at peak in FY19 at USD~948mln (FY18: USD~845mln) with YOY growth of ~12%. Whereas, as a consequences of the pandemic the industry took a downturn in FY20.
- Fortunately, the sector have started showing its path towards recovery. In particular, for the domestic tourism industry, though the inbound tourism will still be lower than the pre-pandemic times.
- With several hotel projects under pipeline reflecting the increased domestic demand in the sector, the outlook for the hotel industry seems to be somewhat positive; as the urge to travel has also hiked after the lockdown.



Hotel and Lodging

Business Risk

- Revenue of the Hotel & Lodging industry is primarily based on domestic tourists, international tourists, and business travels. The luxury hotels mostly cater to the foreign tourists, business travels and elite class of the country; the mid-scale and economy-class hotels are more concerned with the domestic tourists. The Revenue though still lower than the peak time (FY19 PKR~14.5bln) have improved in the recent years (FY21 PKR~11.2bln).
- Profit margins followed the trajectory of revenue and have shown an upwards trend except for the Net Profit. The major component of the costs is "Other costs" which contains raw material and maintenance costs as the major chunk. The hotels operating under asset heavy model finds it more difficult to reduce their operating cost because of the nature of the business model.
- The trend of the indicators show, an expected rise in the profitability and revenue of the hotel industry within the country because of the increased travel and tourism expenditure; however, this might be slightly difficult for the upscale and luxury hotels.

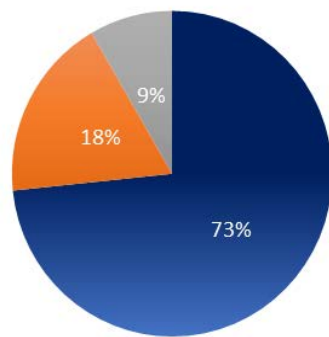


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Financial Risk

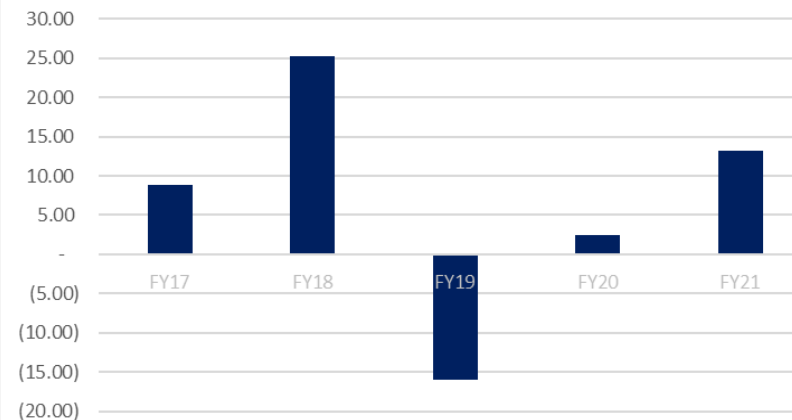
- Total borrowing of FY21 stands at PKR~25bln; a major chunk of ~73% goes to the long-term borrowing whereas only ~18% is attributed to the short-term. The greater proportion of the long-term borrowing out of the total is an illustrative of the major hotel projects under pipeline.
- Working capital of the sector is characterized by high payable days and very high inventory whereas as the receivable days are very low owing to the nature of the hotel business. Payable days of the sector increased significantly from ~105 days in FY20 to ~178 days in FY21. The inventory days have almost doubled with respect to previous year. The increase in payable and inventory days amid reduced business activity is a depiction of cash flow problems being faced by the sector.
- In contrast, the improved interest coverage ratio also reflects the enhanced performance of the sector. Because of the contradictory performance of the different measures, it is hard to say whether the financial risk has been reduced or not.

Borrowing Mix

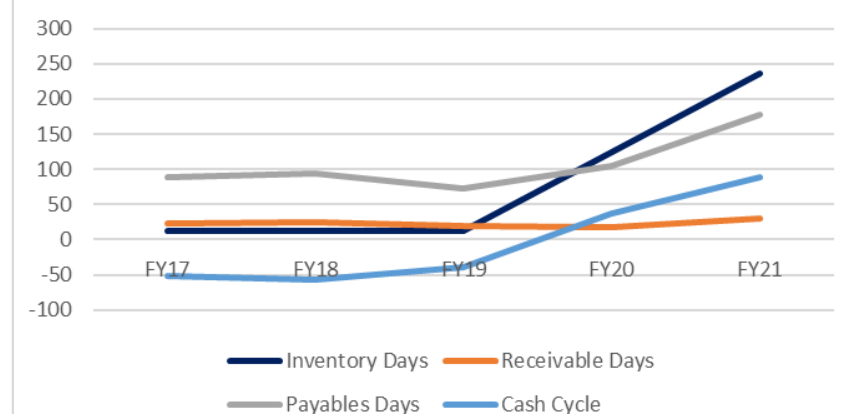


■ Long-term Borrowing ■ Short-term Borrowing ■ Other Borrowing

Interest Coverage Ratio (times)

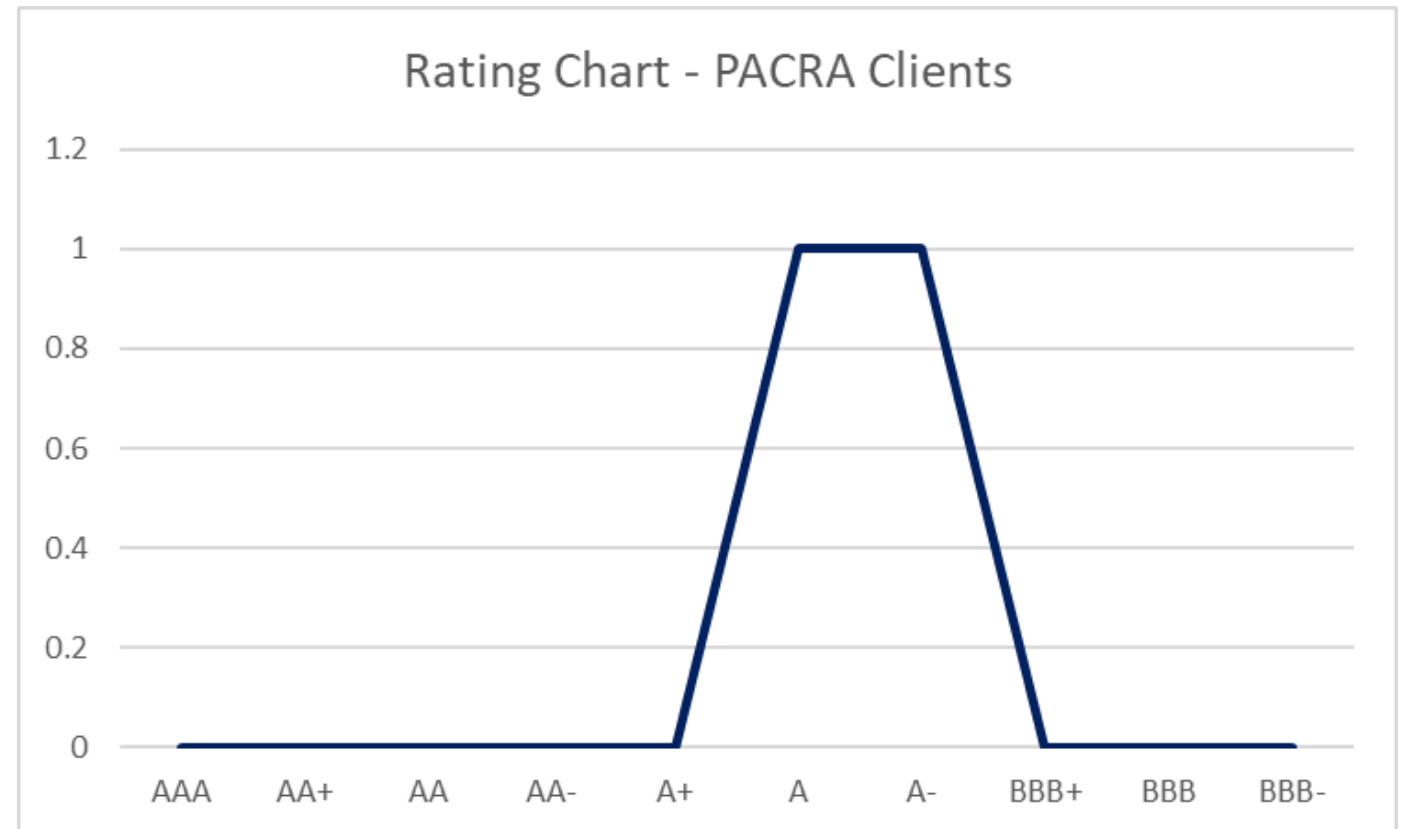


Working Capital Management



Rating Curve

- PACRA rates 2 clients in the Hotel and Lodging. Rating bandwidth of the sector ranges from A to A-.
- Outlook of one of the client is kept negative, considering the current industry dynamics.



Outlook: Stable

- The demand for hotels is positively correlated to tourism and business travel. The accommodation need is the driving factor that connects the hotel and tourism industry. Thus, the advancement in the tourism sector and public tourism policies and programs have critical importance for the stability of the hotel sector.
- As the restrictions have been uplifted, there is an expectation for international tourism and business travel to rise; domestic tourism has already paced up.
- Though, the tourism have progressed towards regaining its momentum, people are now more cautious and look for sustainable, safe and clean hotels that follow all the safety protocols.
- Going forward, economy hotels and mid-scale hotels are expected to show a good recovery as the majority of local traveler prefers them. Whereas upscale hotels might struggle a bit with their topline amid low foreign travel and increasing competition from mid-scale hotels. However, the venturing of the upscale hotels into the midscale hotel market would prove to be beneficial for their overall profitability.
- Being one of the sectors that took an adverse hit by the ongoing pandemic, have well adopted with the needs and requirements of the time, and is expected to generate positive profits as the economies transit to the normal routine by attaining high vaccination rate.
- The outlook of the sector overall is stable, given certain risk and uncertainties, as the big hotels have initiated several mega projects in the sector.

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Research Team	Saniya Tauseef <i>Asst. Manager</i> saniya.tauseef@pacra.com	Ahmad Javed <i>Associate Research Analyst</i> ahmad.javed@pacra.com
Contact Number: +92 42 35869504		

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