



# Hotel and Lodging Sector Study



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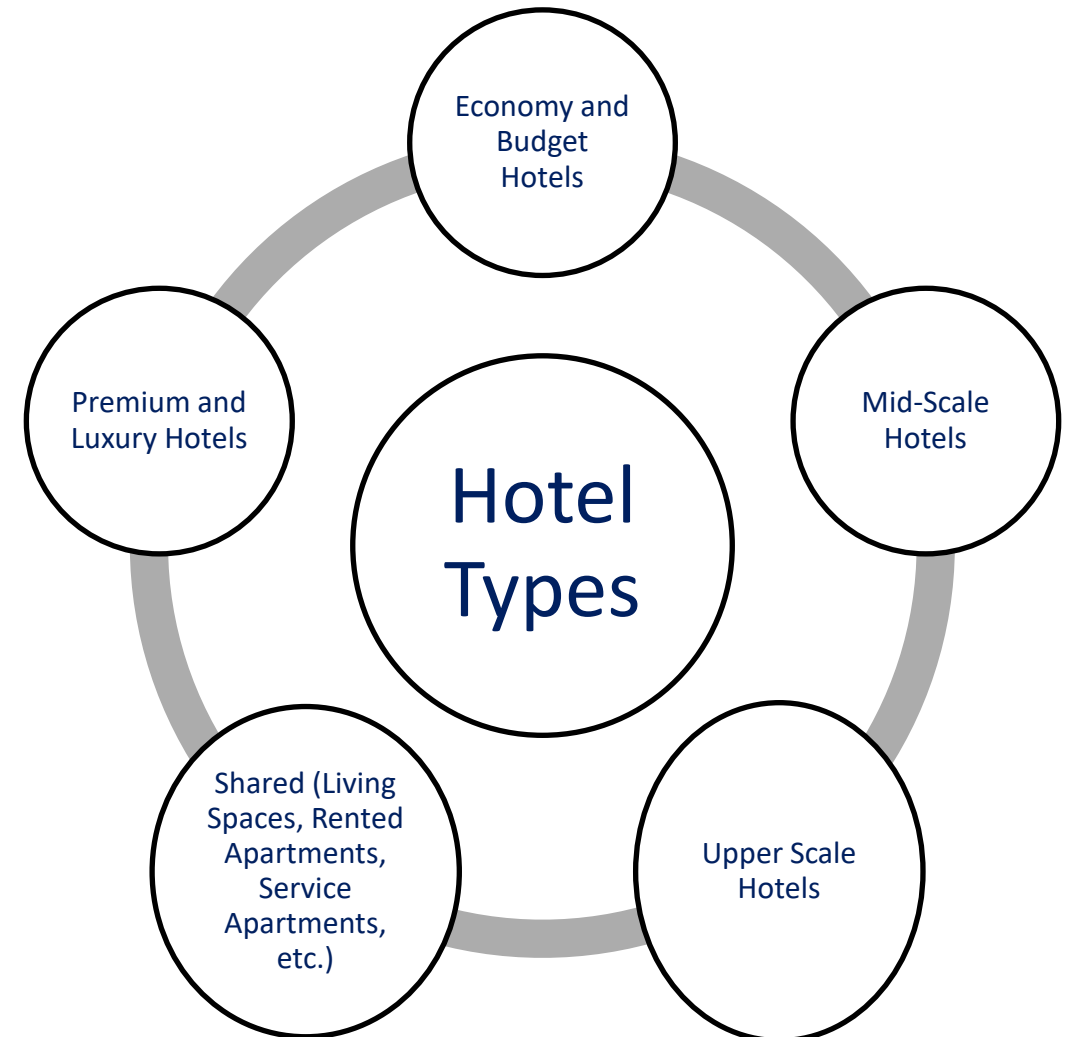
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# Hotel and Lodging

## Overview

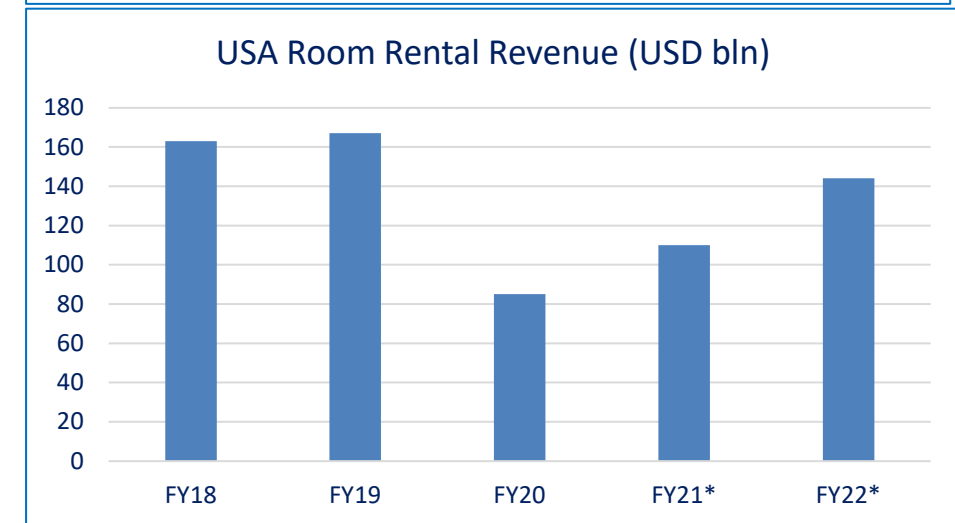
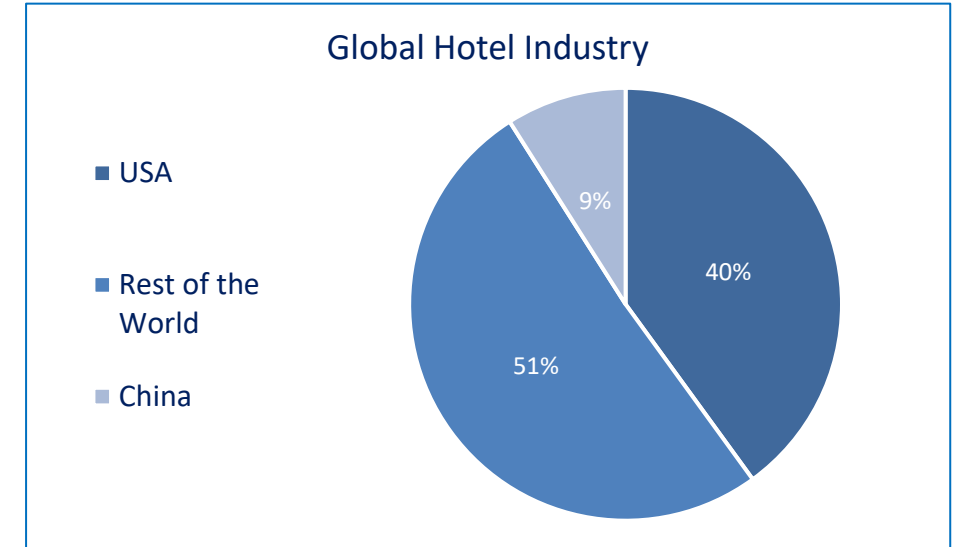
- The hotel sector is the segment of the service industry that deals with guest accommodation or lodgings. By most definitions, the hotel industry refers not only to hotels, but also to many other forms of overnight accommodations, including hostels, motels, inns and guest houses. However, it does not usually include long-term or permanent forms of accommodation.
- Due to the nature of hotel services, it is closely associated with the travel and tourism industry.
- The COVID-19 pandemic has made a huge impact on the global hospitality industry, including hotel and lodging sector too. Governments from around the world imposed travel restrictions, with closed borders and no domestic or international flights. Since the beginning of CY20, many local and international events have either been postponed or cancelled. These include the Olympic Games, UEFA EURO 2020, and the world’s biggest travel expo, ITB Berlin.
- The situation has lately improved slightly with strong vaccination drives in developed countries but globally travel remains low and is not expected to reach pre-COVID levels till CY22.



# Hotel and Lodging

## Global Industry | Overview

- USA market has the largest share in global hotel and lodging sector. As per the latest estimates available, USA makes up ~51% of the total market with the next largest player, China, possessing just ~9% market share.
- Rental room revenue of USA hotel industry reduced to USD~85bln in FY20 (FY19: USD~167bln) with a sharp YOY decline of ~49% due to travel and other restrictions imposed during COVID-19 lock down. Similarly, the room occupancy rate dropped to 44% in FY20. However, the sector has shown significant growth as revenue per available room (RevPAR) went up nearly 250% in April'21 led by growth in the luxury segment.
- Going forward, in FY21 and FY22, room revenues and occupancy rates are expected to improve as travel restrictions ease and vaccination picks up, but still the revenues may not be able to match the revenues of FY19.
- Top Five Hotel groups in terms of Market Share globally are:
  - Marriott International Inc.
  - IHG Intercontinental Hotel Group
  - Hilton
  - Wyndham
  - Accor SA

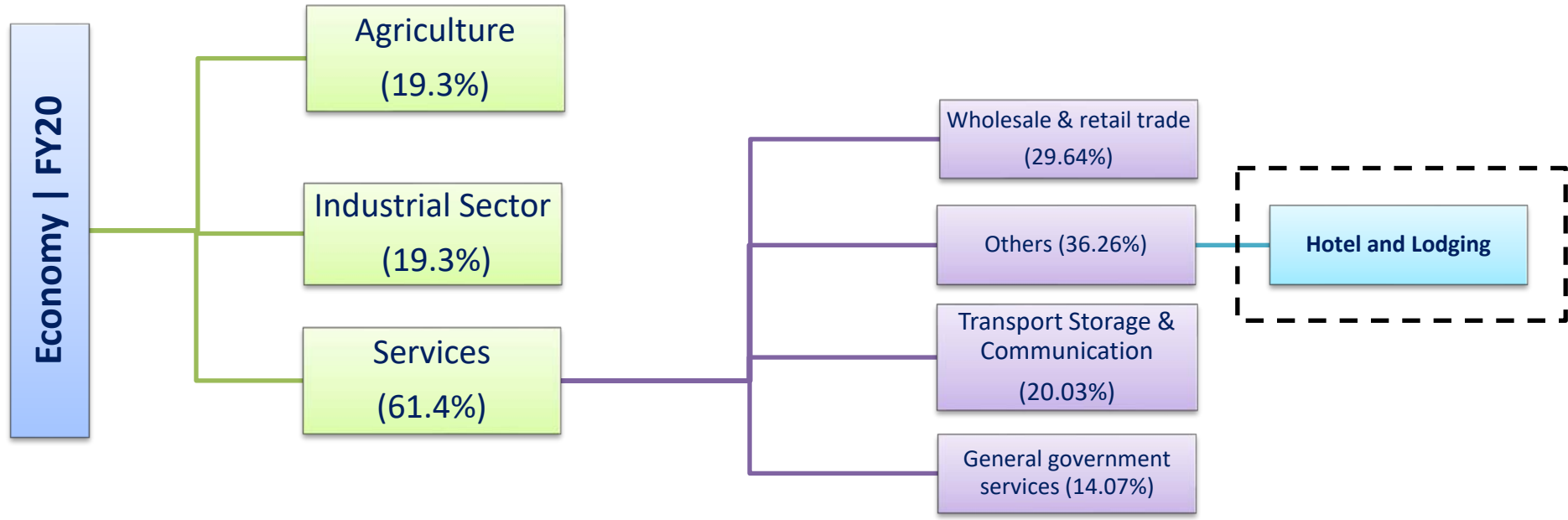


\* Expected.

# Hotel and Lodging

## Services | Overview

- Services sector grew moderately in FY19, posting only a ~3.8% growth compared to the average growth rate of ~6.2% during FY16-FY18 period. It is worth noting that in FY20, the services sector was already feeling the pinch from a slowdown in economic activities. The slow down further deepened with the onset of COVID-19 significantly as it posted negative growth of ~0.6% in FY20. However, the overall economy showed significant growth post COVID-19 lockdown and is expected to grow at pace of ~4% in FY21.
- In the aftermath of the COVID-19 outbreak and the imposition of a country-wide strict lockdowns (entailing closure of shopping malls, non-essential retail shops, hotels, restaurants, and other commercial centers), economic activity in the wholesale and retail trade plunged sharply in FY20. Hotel and lodging sector was no exception.



## Local Industry | Overview

- The operations of hotel and lodging sector in Pakistan can be traced back to the time of independence in 1947. The industry grew over time, with small to medium sized hotels to international hotel chains operating in the country.
- Amidst the current COVID-19 pandemic, Pakistan's tourism and hospitality industry struggled greatly, as people were unable to travel within the country or visit Pakistan due to lockdowns and other restriction. The sector witnessed severe losses as many properties had to be shut down.
- In pre COVID era, the country projected a boom in both local and international tourism and was preparing to welcome the tourists from across the globe. One of the reasons was that Pakistan topped the several international Traveler's list of best holiday destinations for and more people travelled within the country, especially to Northern areas. This was further accentuated by several high level visits from dignitaries from around the world.
- The Government also focused on promoting Pakistan's soft image as a travel destination and hoped the development would attract more investment in tourism-affiliated businesses and help create jobs. The Government had also announced plans to develop and promote tourism and relax visa restrictions for foreign travelers. Several local and international chains had announced expansion and were setting up new hotels and properties to accommodate expected increase in demand. But the onset of COVID-19 and restrictions on worldwide travel have disrupted the government's plans and the country could not implement the government's tourism strategy in CY20.

# Hotel and Lodging

## Supply

- **Key Players:** The key players in hotel and lodging industry include: Pearl Continental, Marriott Hotels, Avari Hotels, Serena Hotels, Nishat Hotels and Mövenpick Hotel.
- **Competition** In terms of brand awareness, few of the players currently dominate the market. The travel and tourism companies in the country are offering various international and inbound tourism packages to attract a large number of customers and to gain a more competitive advantage.
- As Pakistan is emerging as a tourist destination among travelers, various international and national hotel chains have created a strong presence in the market based on their services and offerings.

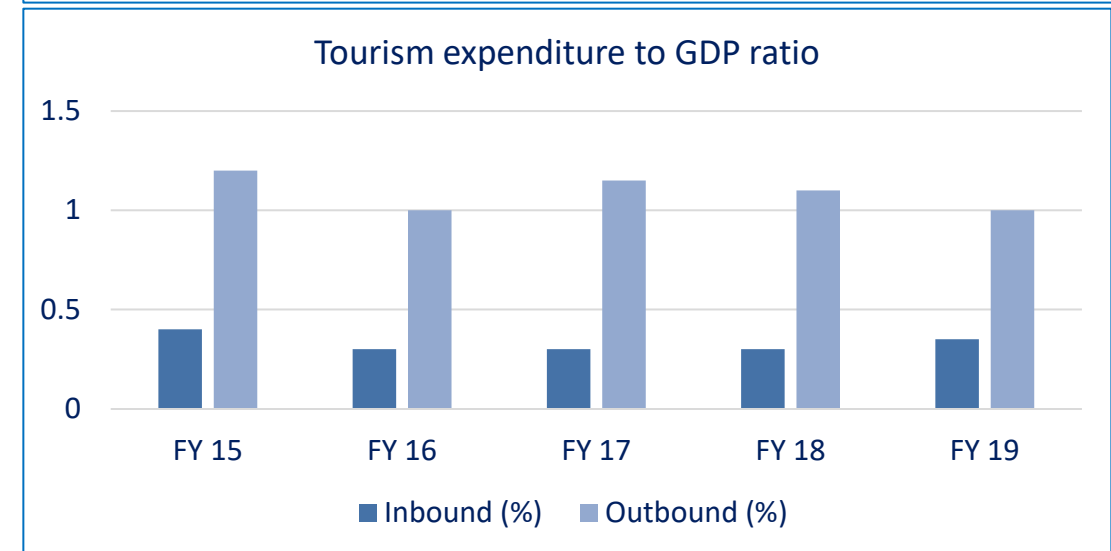
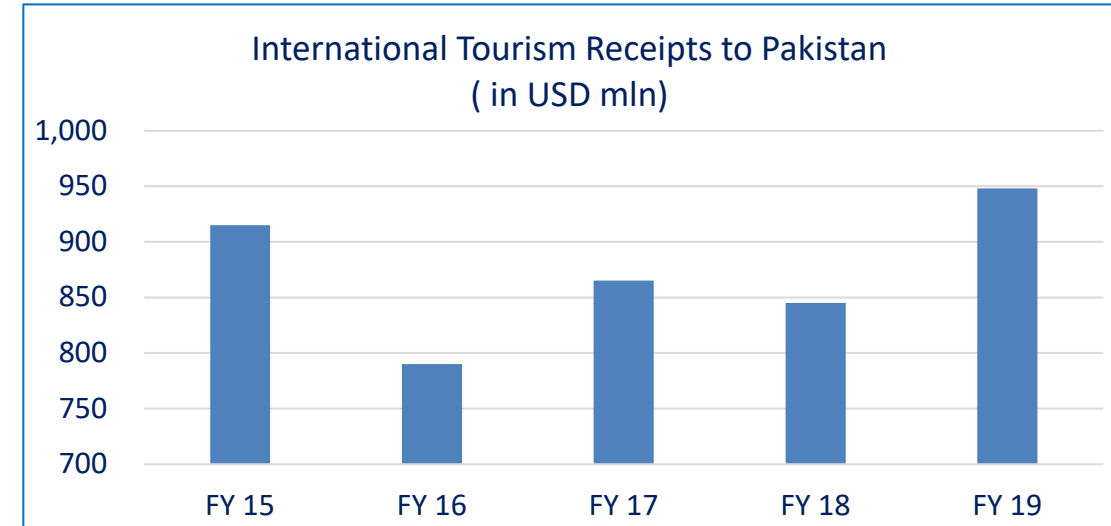
Hotel	No of Rooms	Operational Cities
Pearl Continental	1,526	6
Serena	828	8
Hotel One	786	16
Marriott	505	2
Avari	420	2
Movenpick	407	1
Nishat Hotels	261	2
Avari Xpress	250	2
<b>Total</b>	<b>4,982</b>	<b>39</b>



# Hotel and Lodging

## Demand

- Rise in purchasing power, the desire for travel experiences and increasing number of digital influences are few of the key driving factors that have led to the growth of travel industry in Pakistan in the recent years.
- **Hotel and Lodging:** The hotel and tourism industry have for long been interrelated due to their interdependent nature. A country's hotel industry is a symbol of its hospitality for foreigner tourism. It is a source of income to the country and also promotes a country's image on a global level. Tourists arriving in a country invariably need a place to stay if they do not have family or friends in that particular country and that is where the hotel industry comes in. Therefore, both are dependent on each other.
- The international tourism receipts were at peak in FY19 as it was recorded at USD~948mIn (FY18: USD~845mIn) with YOY growth of ~12%. The improved receipt augmented the growth of local hotel industry as well. The receipts experienced significant decline in FY20 owing to COVID-19 lock down as the travel and hospitalities were the worst hit industries.
- The demand for hotel rental is expected to increase, but the demand of upscale hotels is expected to remain depressed in the short term until international travel resumes to pre-COVID levels.

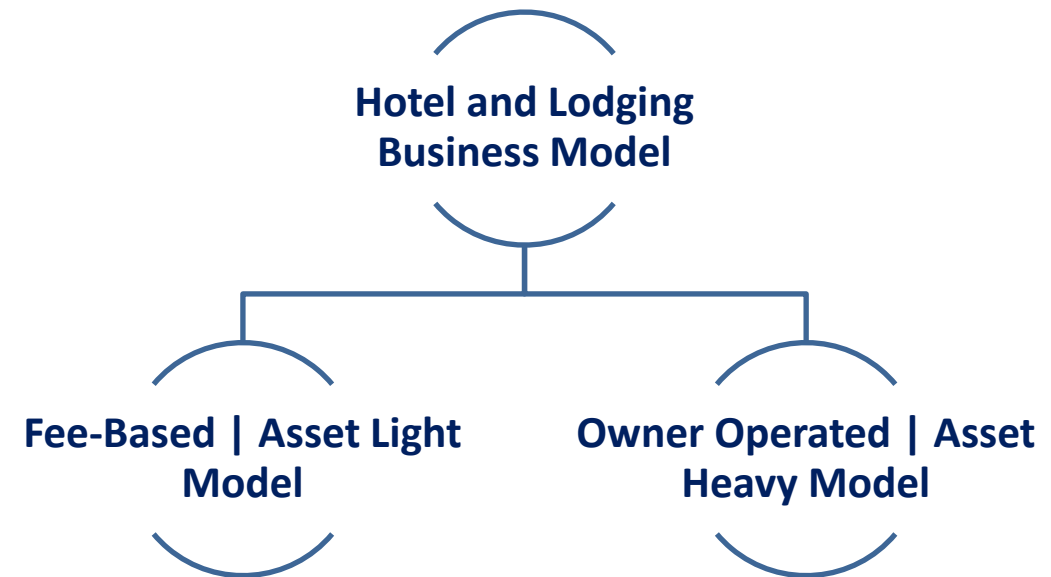




# Hotel and Lodging

## Business Risk | Business Models

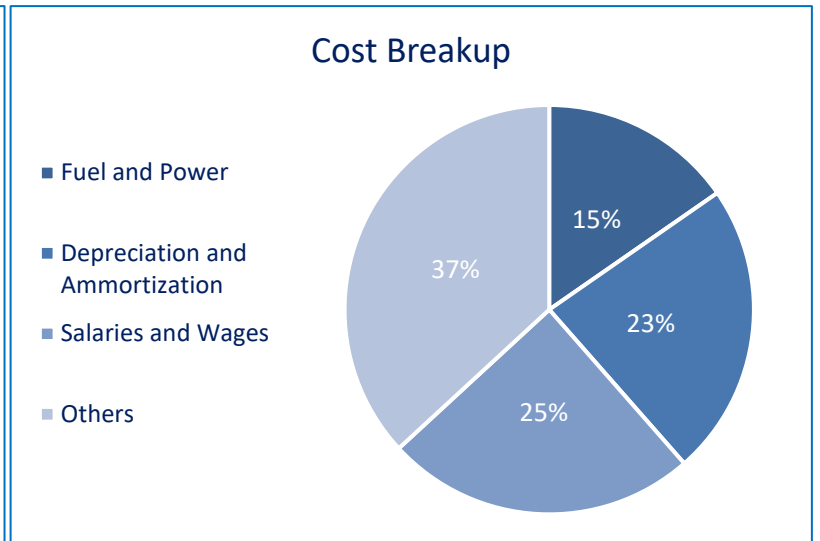
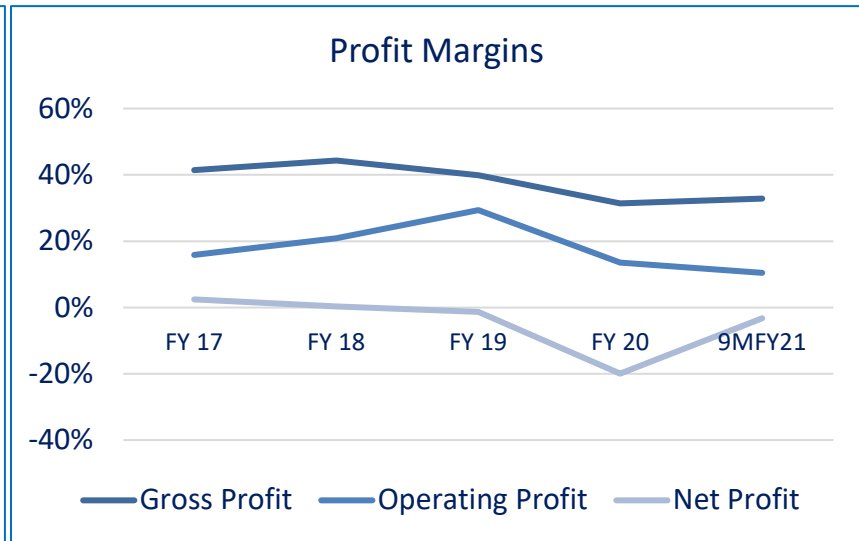
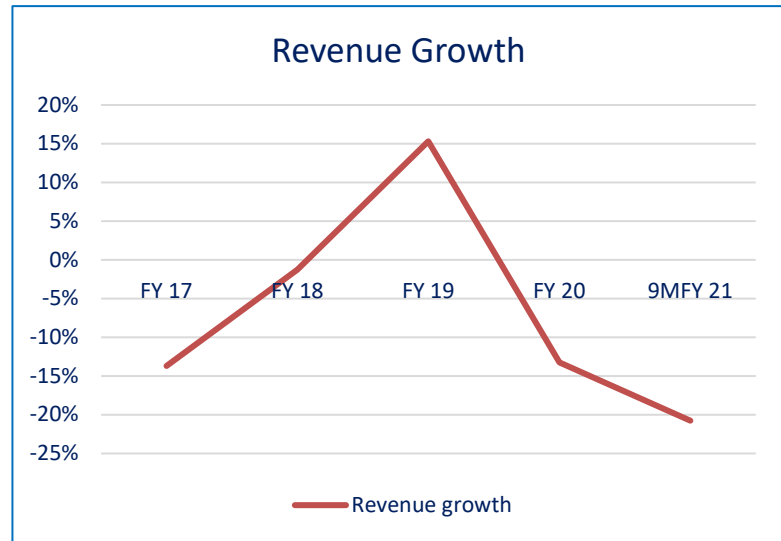
- **Asset Light Model**
  - ❖ Franchised – owned and operated by parties distinct from the brand, who pay fees to the hotel company for the use of their brand.
  - ❖ Managed – operated by a party distinct from the hotel owner, who pays management fees and, if the hotel uses a third-party brand name, fees to that third-party also.
  
- **Asset Heavy Model**
  - ❖ Operated and branded by the owner who bears all of the cost but benefits from all of the income.
  - ❖ Similar to owned, except the owner-operator does not have outright ownership of the hotel but leases it from the ultimate owner.
  
- Asset-heavy business models allow tighter control over hotel operations, whilst asset-light models enable faster growth with lower capital investment.



# Hotel and Lodging

## Business Risk | Revenues & Margins

- The revenue of the local sector is dependent on both local and foreign travel for tourism and business reasons. While the revenue of upscale hotels are majorly dependent upon business travel and foreign tourists, midscale and small hotels are more dependent on local tourists. In FY20, the revenue was severely impacted during COVID-19 lock down amid significant decrease in movement across borders and within country as well.
- Profit margins followed the trajectory of revenue and decreased significantly during FY20. However, the margins improved in 9MFY21 as the companies resorted to extensive cost cutting during the period. Cost structure depends upon the nature of the business model as the hotels operating under asset heavy model finds it more difficult to reduce their operating cost.
- Improvement in revenue from local customers is expected to increase as the government has lately relaxed the COVID-19 restrictions. Propelled by the increase in local tourism, the revenue of the sector is expected to gradually recover in coming periods. However, the revenue of upscale hotels is expected to remain under pressure as inbound International travel is expected to remain low.

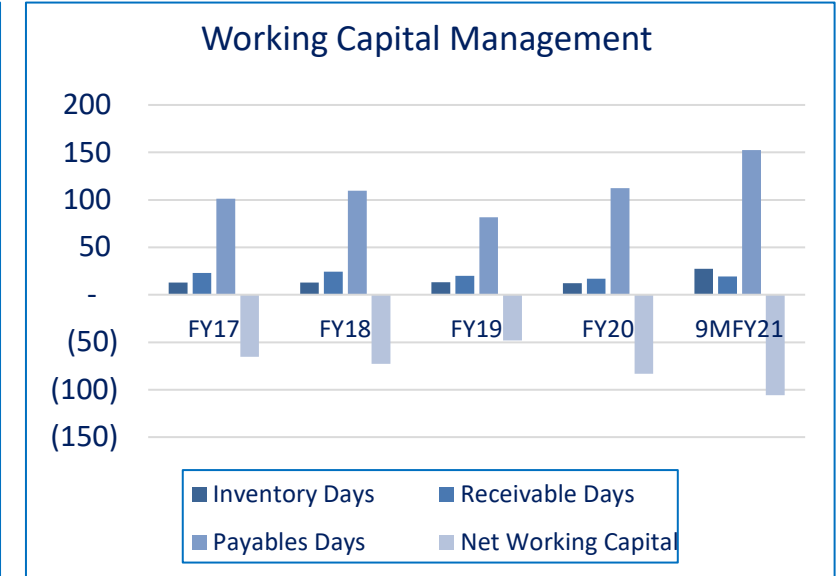
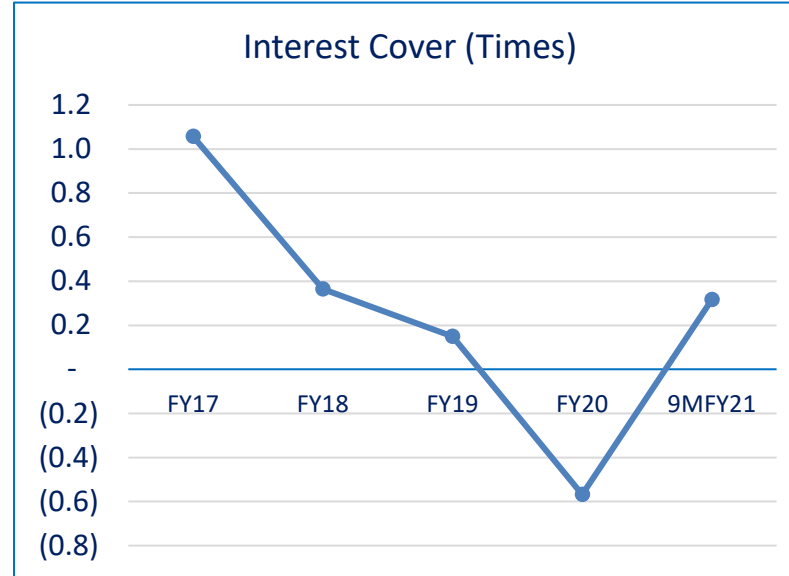
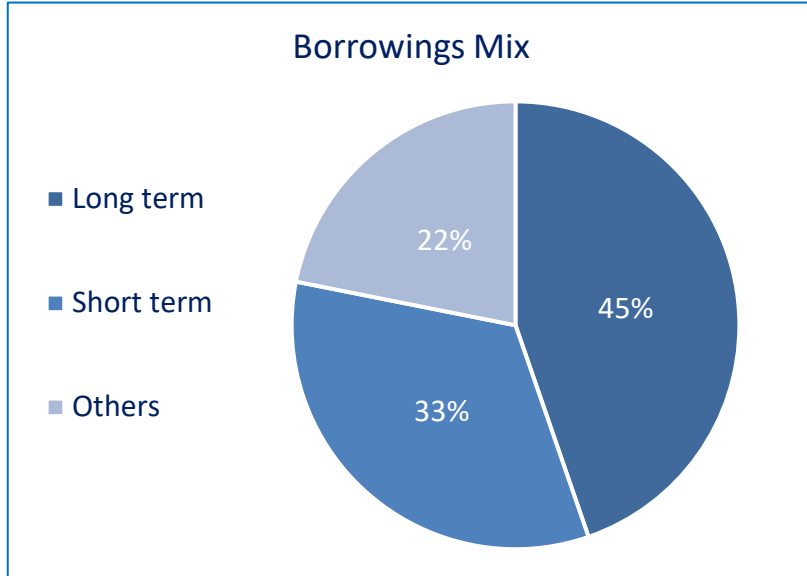


Note: Calculations are based on numbers of PACRA rated clients.

# Hotel and Lodging

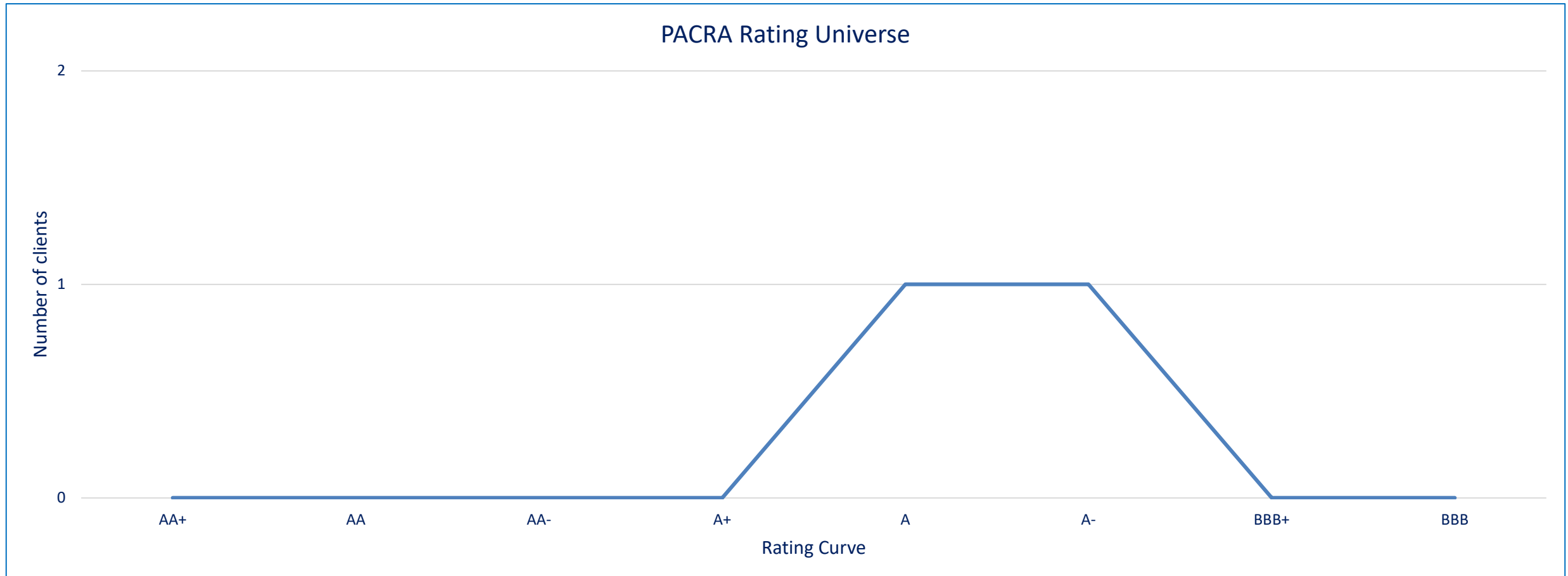
## Financial Risk

- Total borrowing of the sector was recorded at PKR~26,254mln as at end 10MFY21 (10MFY20: PKR~24,429mln) with YOY increase of ~3.4%. The borrowing mix trend shows that the major borrowing of the sector comprises long term debt, estimated around ~45%, while short term borrowing constitutes~22% of it.
- Working capital of the sector is characterized by high payable days whereas inventory and receivable days are very low owing to the nature of the hotel business. Payable days of the sector increased significantly from ~112 days in FY20 to ~153 days in 9MFY21. The increase in payable days amid reduced business activity is a depiction of serious cash flow problems being faced by the sector. Moreover, with historically low interest cover, the sector’s financial risk remains elevated.



## Rating Curve

- PACRA rates 2 clients in the Hotel and Lodging Sector. Rating bandwidth of the sector ranges from A to A-.



# Hotel and Lodging

## Outlook: Negative

- The demand for hotels has a direct correlation 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/programs bear a significant importance for the stability of the hotel sector.
- The global tourism activity is expected to pick up in the coming periods. However, in developing countries, where vaccination drive is relatively slower, the Inbound International travel is expected to revive gradually. The advent of technology becoming the new normal amid pandemic has also reduced the need of business related travels to a great extent.
- Hotel and Lodging is one of the most intensely affected economic sectors by the pandemic, globally and locally as well. While International tourism may take a longer time, local tourism is expected to increase as the government is lifting up restrictions imposed to arrest the rising number of cases amid third wave of COVID-19. Relaxed restrictions accompanied with local tourist season, will provide necessary relief to the sector. On the other side, local business travel is expected to remain on lower side and will take time to pick up pace.
- Going forward, economy & budget hotels and mid-scale hotels are expected to show a good recovery as the majority of local traveler prefers these hotels. Whereas upscale hotels would continue to struggle with their topline amid low foreign travel and increasing competition from mid-scale hotels.
- Countries are now adopting new policies to cop up with the era of unedifying environmental challenges of global pandemic. But the humanely exposed characteristics of the hotel sector, still makes its business vulnerable to possible pandemic restrictions.

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