



Hotel and Lodging

Sector Study

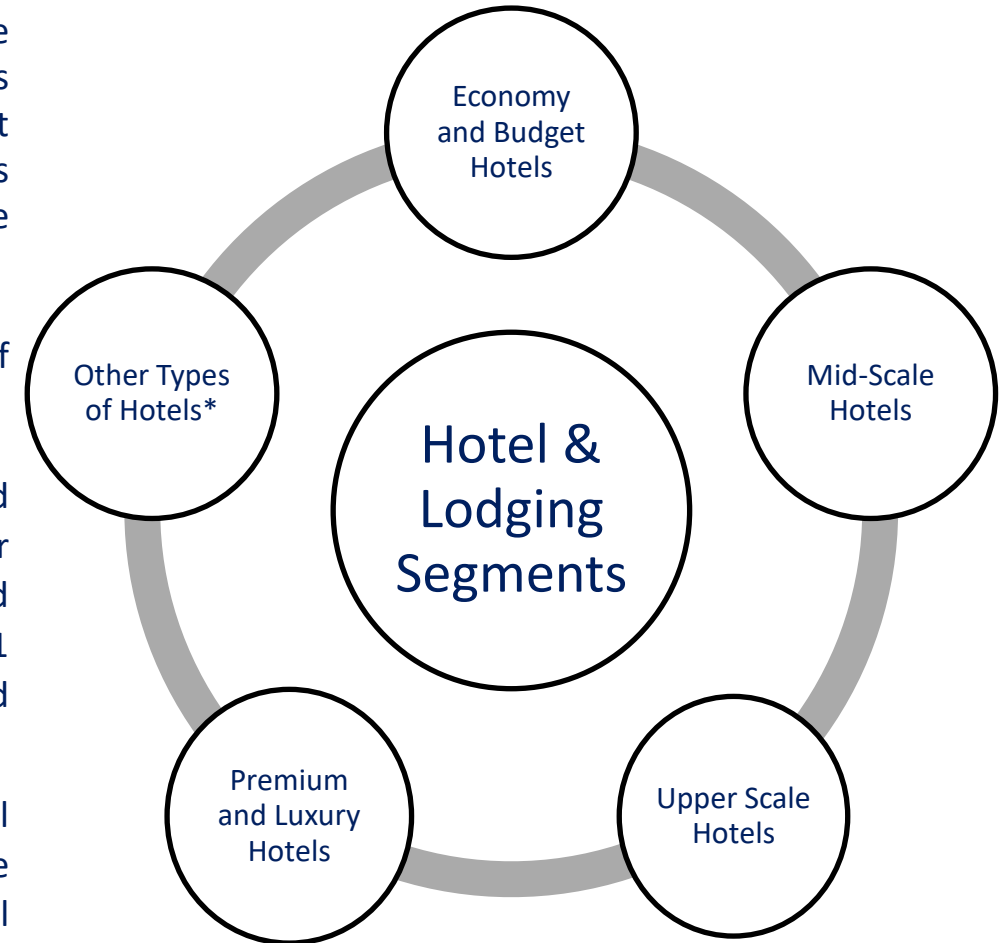
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Hotel and Lodging

Introduction

- Hotel and Lodging 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 Chain Scale Segments 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.
- As the Economy rebounds, demand of group travel that eventually impacts hotel and lodging industry has increased. Additionally, with the reopening of the major International Markets such as Greater China and Japan, many hotel chains that had to temporarily or permanently cease business in these major economies in CY21 have now resumed operations. Hence, also increasing both inbound and outbound tourism in these countries in CY22.
- It is pertinent to mention here that Hotel & Lodging Industry already being a cyclical industry and faces seasonal fluctuations in the demand and Revenue, was one of the most adversely impacted Industry during the Pandemic due to the lockdowns , travel bans, social distancing as well as vaccination requirements and therefore in CY22 this industry was one of the industries that showed considerable Revenue Growth.



Hotel and Lodging

Introduction

Hotel & Lodging industry is based on two major models around the world which include:

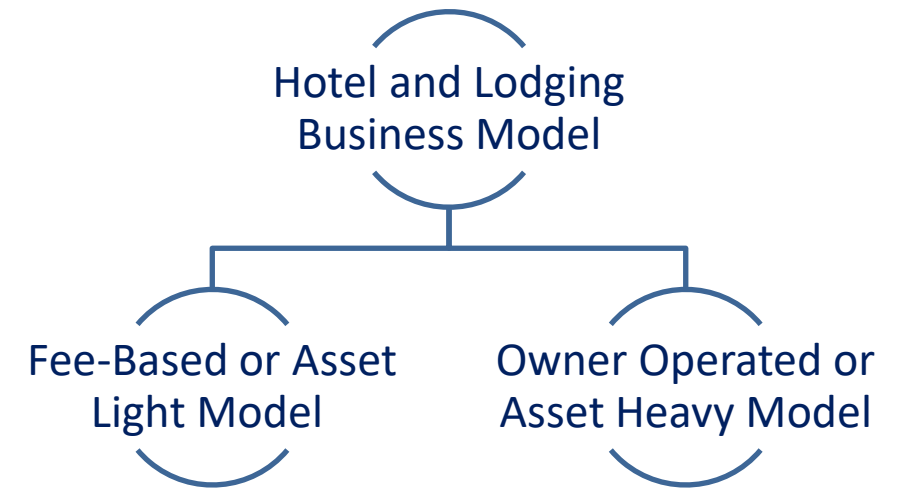
1. Fee based – Asset Light Model (franchised vs managed)

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

2. Owner operated – Asset Heavy Model (owned vs leased)

- Owned – Hotel and Lodges are operated and branded by the owner who bears all the costs but benefits from all the income. Like Pearl Continental (Local Industry).
- Leased – 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 (Local Industry).

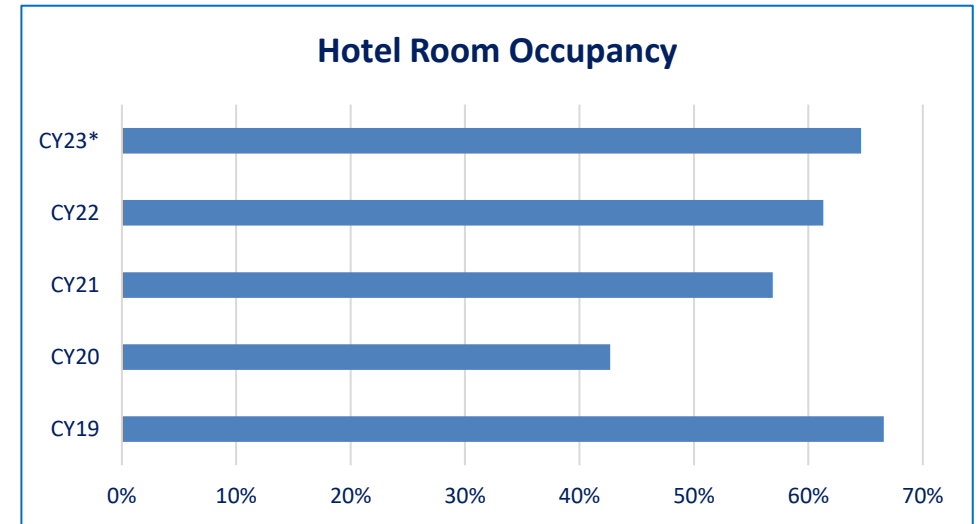
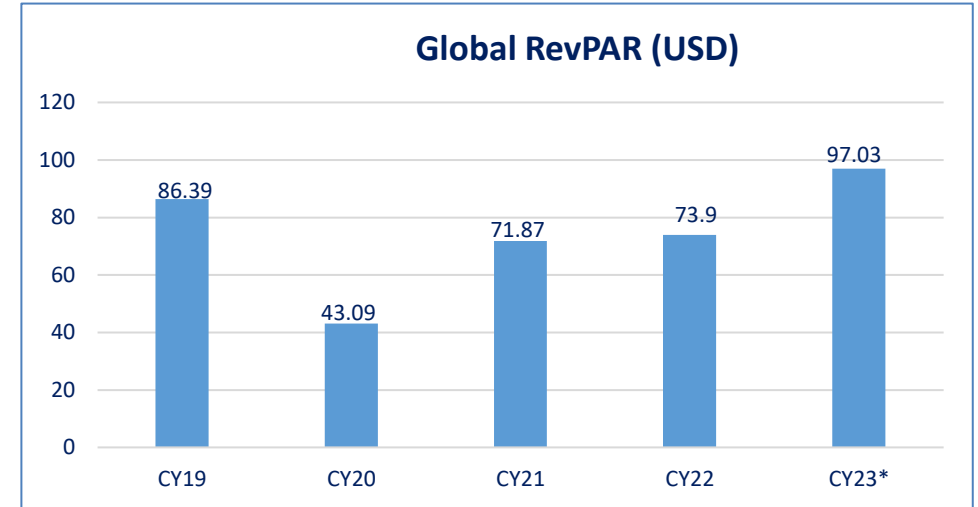
Asset-heavy business models allow tighter control over hotel operations, whilst Asset-light models enable faster growth with lower capital investment.



Hotel and Lodging

Global | Overview

- Hotel industry, currently worth USD~550bln in CY22, continues to show progress in terms of RevPAR as global demand for the industry has bounced back, indicating a positive outlook for economic growth.
- In CY23, the global Revenue per Available Room (RevPAR) is forecasted to increase by ~31.0% (from USD~73.9 in CY22) to USD~97.0. The contribution of USA in the Global RevPAR CY22 is USD~93.2.
- On a regional basis compared to CY21, the industry RevPAR in Europe increased by ~86.6% in CY22. In the UK, it increased by ~71.5%, whereas, in the Middle East, the RevPAR increased by ~42.1% driven by both occupancy and average daily rates
- The upthrust in global rooms supply has continued in CY22, recording an increase from ~20.1mln rooms in CY21 to ~20.6mln rooms.
- Room Occupancy is also expected to increase to ~65.0% in CY23, an increase of ~4.0% from CY22 and illustrates the attractiveness and increasing demand of the Hotel and Lodging services.



*Note: All CY23 figures are estimated.

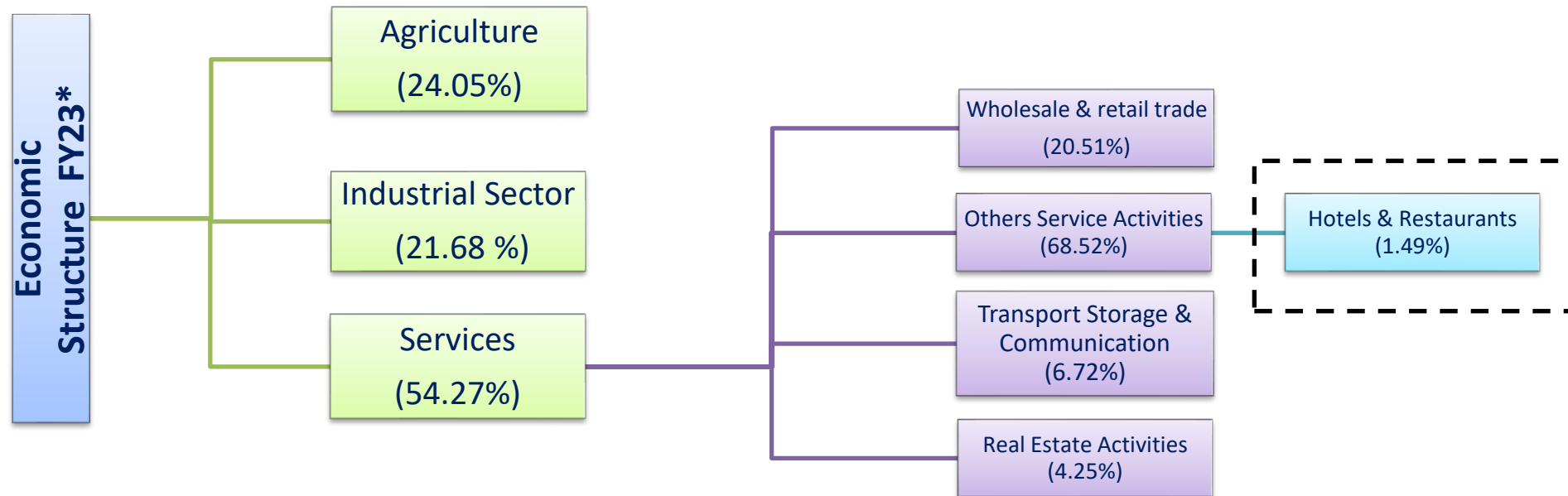
Global | Overview

- Even though The Global industry has been negatively impacted to an extent due to Russia-Ukraine war where international chains have to cease operations in Russia, the Global RevPAR has returned to pre covid levels. In CY22, RevPAR in the U.S.A was the highest USD ~93.2 for any year on record. In CY23, the RevPAR in the USA is expected to achieve a growth of ~5.8%.
- As the hotel and lodging industry continues to move towards improvement and is gaining momentum it is estimated that ~22mln new jobs in the sector in CY23.
- **Developments**: In order to cater the customer and employees expectations in the hotel and lodging industry , the adoption of ESG has also impacted the structure of the economies where people seem to prefer staying in hotels that prioritize energy efficiency, carbon emissions, water conservation and waste reduction. The data shows that ~87% of the guests choose to stay, and nearly ~38% are willing to pay more to the eco-friendly hotels. This adherence to ESG sustainability is also embedded in marketing strategies of many hotels and lodges in the Industry and contributes positively towards image of the respective accommodation.
- Additionally, the digitalization of hotel and lodging booking-e apps such as Booking.com, Vego etc. has benefitted the industry.
- The evolving consumer needs and significantly high barriers-to-entry have aided the five top hotel brands to maintain their market share globally (CY22: ~24.4% compared to CY21: ~24.3%). The market share is expected to further increase as the industry continues to revive and expands. These hotels include Hilton Worldwide Holdings Inc., IHG, Marriot International Holdings Inc., Wyndham Hotels and Resorts Inc. and Accor Group.
- Hilton Hotels and Resorts is the most valued hotel brand of CY22 with a global brand value of USD~12bln (CY21: USD~7.6bln).

Hotel and Lodging

Local | Overview

- Since the industry falls under the Services sector; it is imperative to see its performance (%age contribution to real GDP). For Pakistan, the size of the sector is at least ~1.2x that of combined agriculture and industry sector and is seeing a steady but continuous growth over the years; currently constituting to almost ~54.3% of the GDP in FY23 (FY22 : ~54.9%).
- For FY22 ,as per the National Accounts committee ,the services sector has improved from ~6.19% to ~6.6% due to wholesale and retail trade (from ~10.0% to ~10.3%) as the industry rebounds. However, for the year 2022-23 ,the growth of the services sectors has been estimated to fall to ~0.8%. The root cause being the rising inflation. In addition to this, the ongoing economic situation such as the political unrest could be considered as another possible reason for expected decline in growth rate of this cyclical industry.



Hotel and Lodging

Local | 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 increased to ~1.5% in FY23 from 1.4% in FY22.
- The extremely high levels of inflation have increased to average room rent to PKR~27,000 in FY22 compared to PKR~20,000 in FY21.
- The contribution of Tourism (Accommodation and food) in the overall growth in service sector was ~4.2% in FY22.

Key Features	FY22	FY23*
Share of Nominal GDP (%)	1.39	1.45
Players with >500 Rooms	4	4
Largest Hospitality Conglomerate	Hashoo Group	Hashoo Group
Average Minimum Room Rent	PKR~ 27,000	
Structure	Competitive	
Government Agencies	PTDC (Pakistan Tourism and Development Corporation) & TDAP (Trade Development Authority of Pakistan)	
Association	PHA (Pakistan Hotel Association)	

Key Features are based on top 10 key market players in Pakistan

*FY23 values are provisional

Local | Overview

- The tourism industry, relies on local business and leisure travel with a predicted CAGR of ~3% by CY26 and is illustrative of the growing hotel industry in the country, the only exception in recent times was the Covid era. The country hosts all kinds of hotels from premium and luxury to budgeted and economy class.
- Amid high inflation levels, the industry has embarked on a revolution of catering to larger masses to increase the revenue and profit base. Under this project, Luxury hotels like PC and Avari are entering the budgeted hotel market with different brands like Hotel One and Avari Xpress, respectively.
- Additionally, the digital apps like Booking.com that help people find quality lodging services with ease , is also contributing effectively to the sector.
- In terms of international tourism receipts, Pakistan is amongst the top 10 countries that exceeded pre-pandemic levels by May'22 (rise of ~17% compared to CY19).
- Given the governments relaxed tourist visa policies for International travelers as well as state of the art hotel and lodges at major tourist cities of Pakistan , it is expected that the number of the international visitors will continue to go up in years to come in addition to domestic tourists.

Hotel and Lodging Industry

Local | Supply

- **Key Players:** The List of 10 major key players of the industry is given on the right-hand side. Hashoo Group is the market leader followed by Avari Group and then Serena Hotels and Resorts.
- **Competition:** The increasing number of local and international brand hotels makes the market effectively competitive. However, there are a few dominant market players.
- Two of the big hotel chains closed their hotel chains in few cities like Peshawar, Gwadar, Skardu and Nankana Sahab reducing the supply of luxury hotels in FY22.
- A good initiative by the luxury chains is that they are the venturing with the economy-class hotels with superior facilities showing the diversity of the supply and packages that the market has to offer to different income groups.

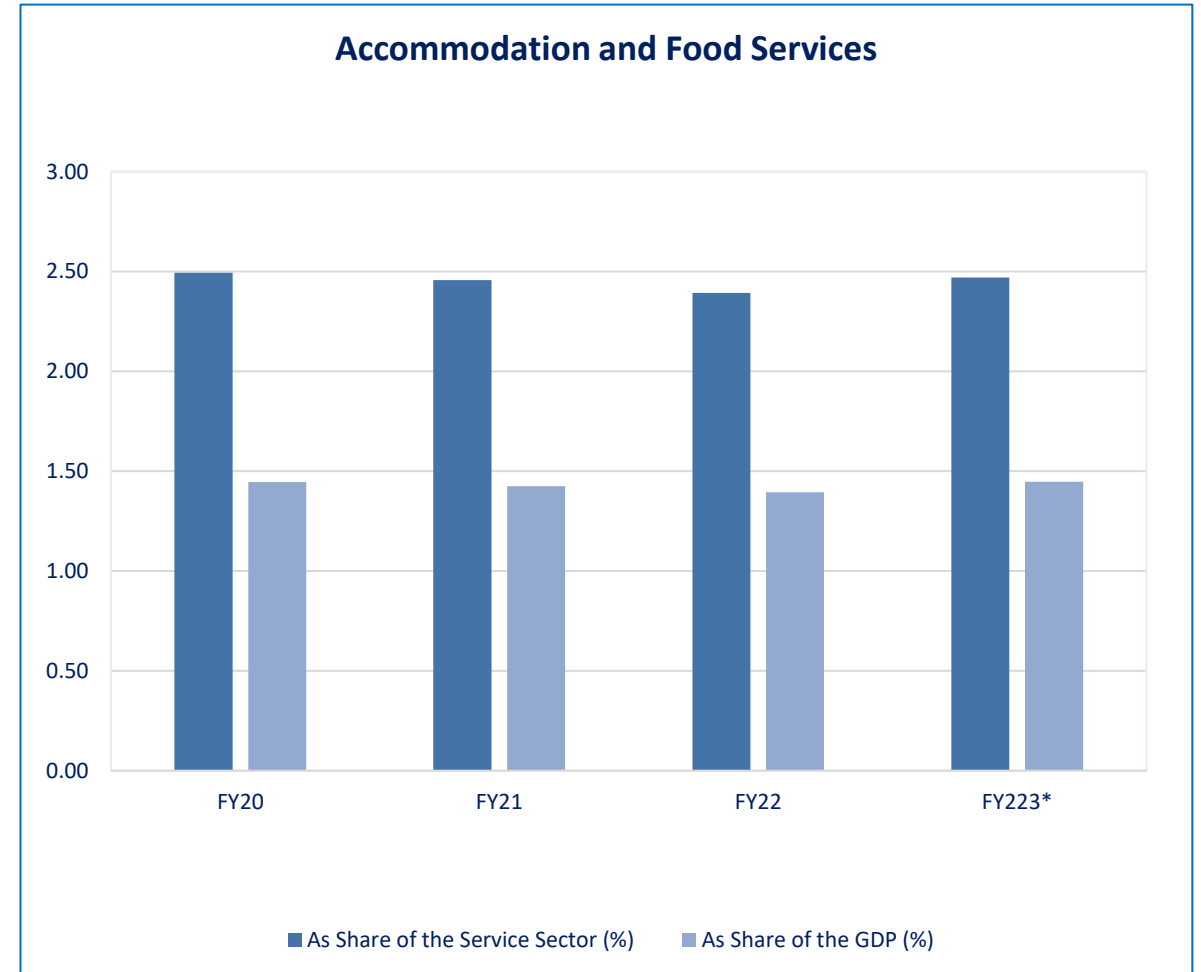
10 KEY MARKET PLAYERS – PAKISTAN (FY22)		
Hotel	No. of Rooms	Operational in Cities (No.)
Pearl Continental*	1,470	6
Hotel One	880	16
Serena	617	5
Marriott	505	2
Avari Xpress	467	5
Regent Plaza	440	1
Avari	424	2
MovenPick	407	1
Ramada by Wyndham	380	4
Nishat	260	2
Total	5,850	22

*Owner of Pearl Continental Hotels & Resorts is Hashoo Group.

Hotel and Lodging

Local | Demand

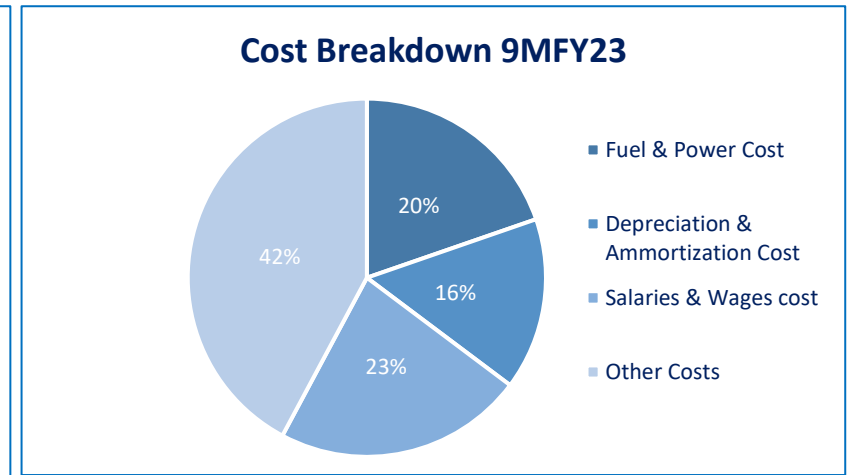
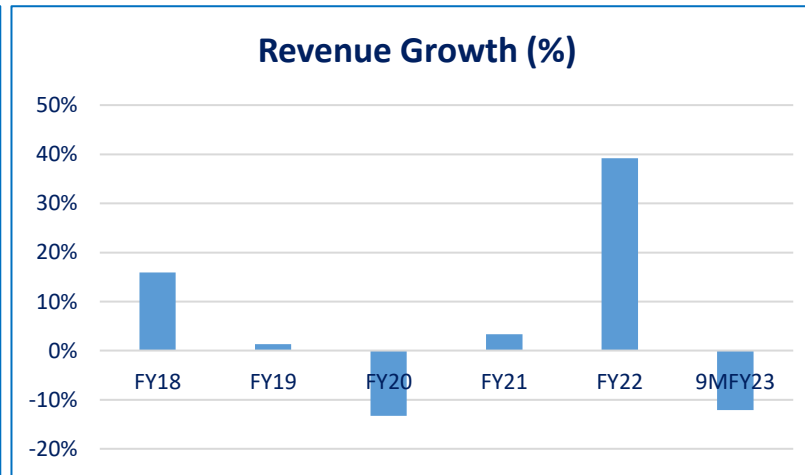
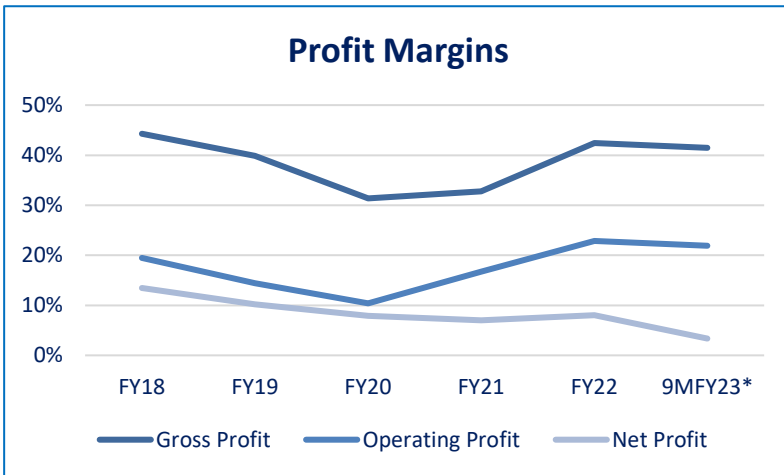
- The hotel and tourism industry have for long been interrelated due to their interdependent nature. Tourists in the country invariably need a place to stay if they do not have family or friends in that region and that is where the hotel industry comes in.
- Even though in FY23 , the average rents have increased and have been adjusted to reflect the inflationary pressure still we can observe increase in growth rate of tourism industry in Pakistan and it can be seen as the continued rising share of Accommodation and Food services in GDP continues in both FY22 and FY23.
- The National Consumer Price Index for May 23 has increased by ~38.0% compared to May'22. The weight of recreation and culture in this National CPI Index is ~1.6% and has contributed ~72.2% in increase in the Index compared to May '22.



Hotel and Lodging

Local | 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 revival of the tourism industry in FY22 can be seen to have positively contributed towards generating the highest revenue as compared to last 4 years (FY18-21), owing to both domestic and foreign tourists.
- In FY22 GP margins have shown an upward trajectory and increased from ~33% in FY21 to ~42%. NP margin only increased marginally by 1%.
- However, in 9MFY23 a decline in NP margin (~5%) can be seen compared to FY22. This can be associated with high inflation levels in FY23 that raised the cost of both travel and accommodation for travelers and impacted mostly the upscale and luxury hotels.
- The major component of the costs is "Other costs" (which contains raw material and repair 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.

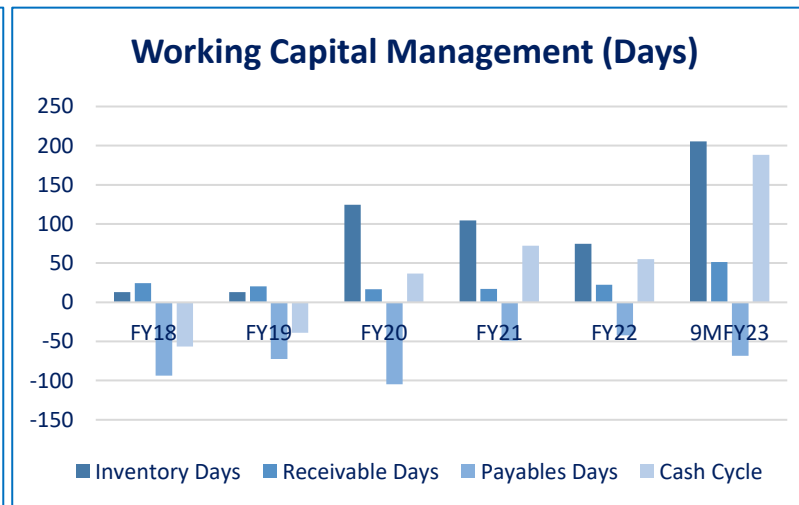
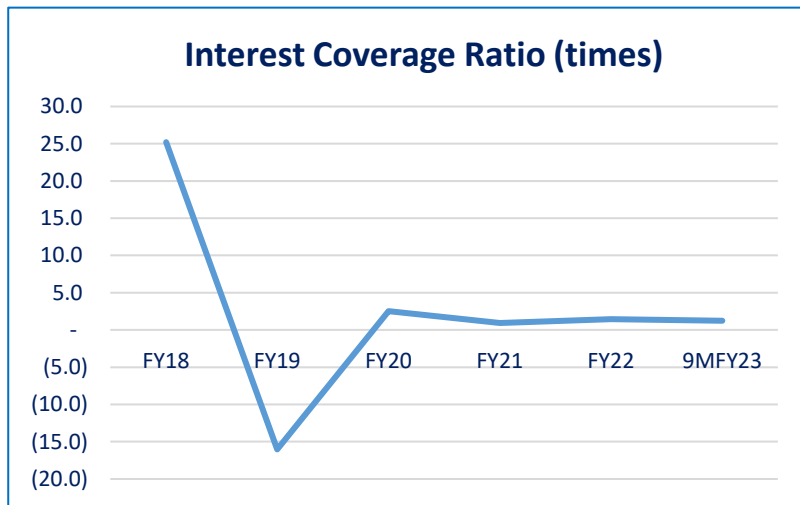


Note: Calculations are based on numbers of PACRA rated clients.
 *The data has been prorated where deemed necessary.

Hotel and Lodging

Local | Financial Risk

- Total borrowing of the sector as of Jun'22 stood at PKR ~22bln, where a major chunk (~82%) comprised long-term borrowing. ~18% was attributed to the short-term borrowing. The greater proportion of the long-term borrowing may be taken as an indication of financing of the expansion projects in the pipeline despite high interest rates. Similarly, as of Apr'23, the borrowings remained at the same level with construction financing clocking in at PKR~9bln.
- In the 9MFY23 period, the working capital turnover increased ~2.6x with respect to FY22 owing to the increase in average payable and inventory days and may be considered as a depiction of possible cash flow problems. In contrast, FY22 working capital turnover shrunk to ~55 days (FY21: ~72 days) owing majorly to lower inventory turnover for FY22 (~75 days) compared to FY21 of ~104 days.
- Even though the interest coverage ratio has improved from ~0.91 in FY21 to ~1.44 in FY22 and may be reflective of enhanced performance of the sector but because of the contradictory performance of the different other measures, it is hard to say whether the financial risk has been reduced or not.



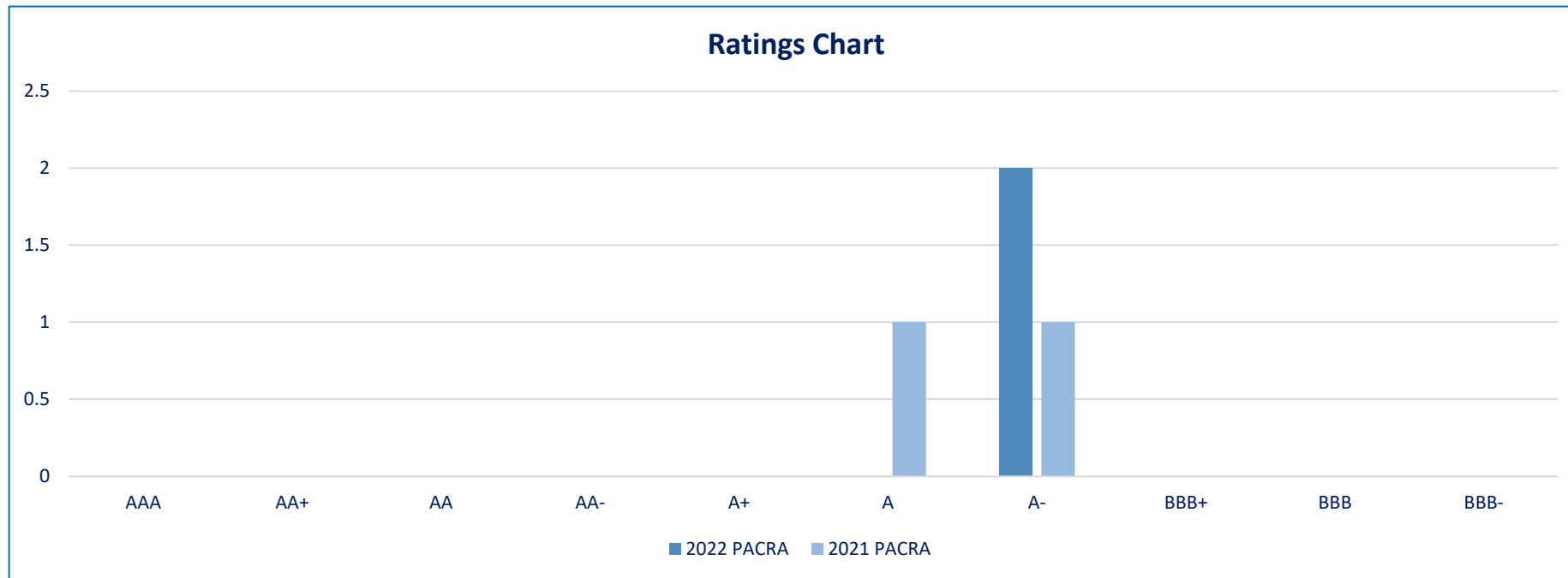
Note: Calculations are based on numbers of PACRA rated clients.

1- 9MFY23 data has been prorated where deemed necessary. 2- The borrowing represents SBP classification of short term accommodation activities.

Hotel and Lodging

Rating Chart

- 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 while the outlook of the other client is kept stable considering the current industry dynamics.



Outlook: Stable

- The demand for hotels is positively correlated with tourism and business travel. The accommodation need is the driving factor that connects the hotel and tourism industry.
- As the world enters the post-pandemic period where travel restrictions have been completely lifted and the global RevPAR has returned to pre-Covid levels, with two of the largest economies, the Greater China and Japan, re-opening for travel, there is an expectation for international tourism and business travel to thrive, although domestic tourism that had paced up in FY22 has been hit hard due to disastrous floods in beginning of FY23 that again engulfed the hotel and lodging industry that had just recovered from the losses due to pandemic. The floods affected both the infrastructure and buildings in the Northern Areas of the country and had severely impacted local hotel and lodging industry.
- Going forward, the economical and mid-scale hotels are expected to exhibit a healthy recovery as the majority of local travelers prefer 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 Covid-19 pandemic, the hotel and lodging Industry not only adopted with the needs and requirements of the time to support flexible working trends for the employees but also has endeavored to satisfying customers with evolving expectations, particularly when it comes to adherence to sustainable (ESG policies) and safety protocols as well as most up to skills and resources for an memorable experience. The global industry has been negatively impacted to an extent due to Russia-Ukraine war where international chains have to cease operations in Russia.
- As for the local industry the initiative of Government under the Strategic Trade Policy Framework (STPF 2020-2025) has considered to give priority to a few sectors including services sectors particularly tourism (hotel and lodging inter-related to tourism) that require more development as they are expected to give larger returns. Given the macroeconomic uncertainties, big hotels have initiated several mega projects and many are in the pipeline in the sector including expansion of hotel chains.

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