



Aitken Spence Hotel Holdings PLC (AHUN)

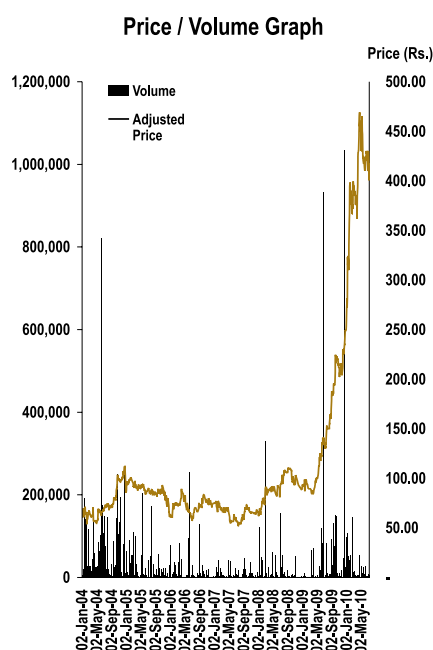
Rs.420.00

BUY

AHUN			
Reuters Code	AHUN.CM		
Bloomberg Code	AHUN.SL		
Share Price LKR	420.00		
Issued Share Capital (Shares)			
Voting	48,041,430		
12 mth High/Low (Rs.)	469.00 / 138		
Average Daily Volume (Shares)	18,211		
Market Capitalisation Rs. mn	20,177		
Price Performance (%)			
	1 mth	6 mth	12 mth
ASPI	2.13	28.65	92.54
AHUN	(1.53)	39.57	200.72

Financial Year	Revenue (Rs. Million)	PAT (Rs. Million)	Earnings to Equity (Rs.)*	EPS (Rs.)	EPS Growth (%)	PER (x)	Price / Book Value (x)
2008	6,413	789.57	497.80	10.36	112.33	40.53	5.37
2009	6,612	824.35	577.73	12.03	16.06	34.93	4.27
2010	7,320	774.79	508.92	10.59	(11.91)	39.65	3.89
2011E	10,236	1,388.90	882.26	18.36	73.36	22.87	2.37
2012E	12,229	1,880.30	1,210.23	25.19	37.17	16.67	2.09
2013E	14,036	2,396.86	1,782.56	37.10	47.29	11.32	1.78

* Earnings to Equity after Preference Dividend



>> Aitken Spence Hotel Holdings PLC (AHUN) is a leading hotel operator in Sri Lanka, owned by one of the largest listed conglomerates - Aitken Spence PLC. The company which started its operations in Sri Lanka in 1981 with Triton Hotel, expanded into Maldives in 1995 through the acquisition of Crest Star Ltd. and then ventured in to the management of hotels in India and Oman in 2007 and 2008 respectively.

>> Currently, AHUN owns 565 rooms in Sri Lanka along with 2 hotels (216 rooms) as associate companies and a further 2 hotels under the management of AHUN. The group, under its premier foreign brand “Adaaran” operates over 600 rooms in the Maldives in four islands including 3 properties having luxury water villas. In India and Oman, the group manages a total of 10 hotels.

>> AHUN posted a healthy NPAT growth of approximately 28% yoy, excluding the profit on sale of Bathala Island Resort in the FY09 which amounted to Rs. 219 million, stemming from predominantly from the South Asian sector which includes the Maldivian operations. The following

is a detailed analysis of its segmental performance.

Sri Lanka

>> A significant turnaround in the local tourism industry was seen in FY10 as arrivals grew by around 22% yoy to 501,597 from FY09 with the end of hostilities in May last year. The 4QFY10 exhibited strong growth as arrivals grew by as much as 50% yoy to 160,409. Western Europe accounted for 39% of the total arrivals while South Asia accounted for around 28%. Sri Lanka reached an average occupancy rate of 47% in CY09 whilst AHUN’s local resorts enjoyed an average of around 55% over the same period.

>> In FY10, the Sri Lankan segment, despite the closure of Hotel Neptune since July 2009, enjoyed strong yoy revenue growth of 14.7% with much of it coming from 4QFY10.

>> With the upturn in tourism, the Sri Lankan segment returned to profitability posting a PBT of Rs. 78.5 million for FY10 including associate earnings, from a loss of Rs. 54 million in FY09, with the last quarter alone generating over Rs. 110 million. Heritance Kandalama, Heritance Tea

Factory and Neptune Ayurvedha contributed with profits while all other resorts saw substantial reduction in losses over FY09.

>> During the year, the group acquired Ramada Resort, a property which was already under AHUN's management since 1998. The 4 star beach resort located on the Southern coast comprises 100 rooms and plans are currently underway to fully renovate the property while the group is also looking at the option of increasing room capacity at the resort to around 180. The hotel is located on a freehold land of 5.5 acres.

>> Hotel Neptune which is currently closed for refurbishment is expected to be re-opened as Heritance Maha-gedera in FY12E as a specialized ayurvedha resort. Neptune Ayurvedha Village which currently comprises 20 rooms will be amalgamated in to this property which will consist of 64 rooms upon completion.

>> In June 2010, Heritance Kandalama was rated as the best 5 star resort in the island for the 3rd consecutive year and was welcomed to the prestigious Hall of Fame at the Presidential Awards for Travel and Tourism.

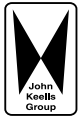
Maldives, India and Oman

>> Tourism in Maldives saw sluggish growth in FY10 on the back of the economic meltdown. 1QFY10 saw a significant fall of around 10% in arrivals but ended the year with around 5% gain reaching 693,190 thanks to a 20% increase in 4QFY10 alone. Average occupancy rates too dropped to around 70% in FY10 compared to 76% in FY09. The declining occupancy forced operators to lower Average Room Rates (ARR) consequent to higher competition. AHUN's Maldivian operations which include over 600 rooms enjoyed an average occupancy of around 70% during FY10 as against around 75% levels enjoyed in FY09.

>> During the year, the award winning Adaaran Prestige Vadoo, the 5th addition to the Adaaran Resorts commenced operations and has been well accepted by the market. The resort located on approximately 4.5 acres of leasehold land consists of 50 luxurious water villas. The group expects greater contribution from the resort in the years to come with a rebound in tourism. Despite an overall marginal decline in ARR, the 2 up market properties of HudhuRan Fushi and Vadoo were able to command higher rates during the year.

>> India's tourist arrivals saw a marginal decline of around 3% yoy consequent to the global recession. However, arrivals in the month of December 09 rose by nearly 21% indicating a recovery in the country's tourism industry. During the year, AHUN expanded its portfolio with the addition of Tamara Coimbatore, a boutique resort and Ramada Delhi Airport Expressway. The Delhi property is expected to commence operations in FY11. Heritance Madurai, which was the only hotel in India to be under the flagship brand "Heritance", is no longer under the purview of AHUN.

>> AHUN's operations through management contracts in Oman were severely affected by a late reaction to the global recession. Management fees, which are generally a function of revenue and gross profit have declined consequent to falling occupancies and room rates. Occupancy rates in the hotels under management dipped below 60% in FY10 compared to FY09 when the segment achieved an occupancy rate of around 70%.



>> The impact of the economic recession was seen during 1QFY10 when the South Asian segment which includes earnings from Maldives, India and Oman posted a loss of Rs. 90 million compared to Rs. 49 million in PBT in FY09. However, with a recovery in arrivals towards the 2HFY10, the segment posted Rs. 720 million in PBT compared to Rs. 830 million (this includes a profit on disposal amounting to Rs. 219 million) in FY09.

Outlook

>> Over the years, the group's local operations were dilutive to overall performance while the South Asian segment, consisting of mainly earnings from Maldives, generated strong returns.

>> With as much as 70% of tourist arrivals to Maldives being generated from Europe, the segment was affected by the economic recession. Most recent statistics indicate that tourist arrivals have seen a significant improvement with arrivals growing by nearly 20% from January – May 2010 (19% in April – May 2010) over the comparative period. With its entire portfolio of resorts being operational in Maldives in FY11, we expect AHUN to generate higher returns in the medium term supported by improving market dynamics.

>> The turnaround in the local tourism industry is likely to be a key driver of both revenue and earnings for AHUN. Additionally, the industry will now be able to enjoy the status of a year-round destination with the liberation of the North and the East as opposed to being dependent on seasonal tourism. Removal / relaxation of most travel advisories to Sri Lanka coupled with a recovery in the global economy will result in a substantial growth in demand for local hoteliers amid stagnant room supply at least for the next 1 – 2 years.

>> AHUN has already drawn up plans to develop the 10.86 acres of freehold land adjacent to Heritage Ahungalla. Discussions are underway with Six Senses Resorts & Spas - a resort and spa management and development company operating in countries including Oman and Maldives, to develop this property along with a Spa. This 57 roomed property is expected to come on stream within the next couple of years at an ARR of around US \$ 350 a night. The project is expected to utilize around 25% of the funds raised from the rights issue. The group has access to a further 27 acre island situated in Ahungalla on the Madhu River. AHUN is also considering the development of a 4 star hotel in the Jaffna city comprising of around 80 rooms and is likely to join its portfolio of hotels by FY2013.

>> The group's parent company owns 100 acres of prime beach land in Nilaweli and the group is expected to commence the development of a tourism resort in the short term. In a bid to enhance the group's product portfolio, AHUN undertook a rights issue of 1 for 4 at a price of Rs. 260, raising Rs. 2.5 billion. The group intends to utilize approximately 15% of the funds raised for the refurbishment of Neptune Hotel and a further 35% for a hotel development project in the North and East of Sri Lanka.

>> The group is of the view that its resort hotels are likely to enjoy a 40% yoy growth in ARR along with around 60% - 70% in average occupancy in FY2011. AHUN will continue to place strategic importance on delivering a niche, high quality product to the high yield traveler thus, volumes will not be of great concern.



>> In India, AHUN owns approximately 17 acres of land through a joint venture with an Indian company and is expected to begin the construction of luxury floating villas during the next few months. The project is due for completion in 2012. The group is less likely to continue its aggressive expansion strategies in to India and Oman through management contracts, but we expect its existing portfolio of 10 hotels to generate higher management fees as global tourism recovers.

Earnings & Valuations

>> The Sri Lankan segment has historically accounted for around 10% of group PBT with the Maldivian segment accounting for the bulk of group earnings. However, given the revival of the local tourism industry, we expect the Sri Lankan segment to account for a greater share of group earnings in the coming years.

>> We have made conservative estimates of 68% in year round occupancy with an ARR of about US \$ 79 for the local resorts for FY11E although we feel that actual ARR and occupancy may exceed the estimated figures given at least a 25% yoy growth in arrivals and stagnant room supply during the next couple of years. The Maldivian segment is likely to enjoy high occupancy and ARR, post recovery and we expect occupancy and ARR to reach 82% and US \$ 317 respectively, for FY11E.

>> Given the above, we expect AHUN to post an Operating profit of Rs. 1,722 million for FY11E, growing at a CAGR of 30% for the next 2 years. The local segment is expected to account for approximately 55% of the group operating profits.

>> The group's interest bearing borrowings stood at Rs. 3,815 million in FY10 with approximately 81% of it being dollar denominated carrying low rates of interest.

>> AHUN is expected to post Rs. 882 million in Earnings to equity (after preference dividend) for FY11E representing a yoy growth of 73%, with majority of the earnings being generated in 2HFY11. Further, Earnings to equity is expected to grow at an average of 42% for the next 2 years. The above earnings forecasts have been made excluding any new constructions / developments that are expected to begin in FY11E and be fully operational by FY13E.

>> At a price of Rs. 420.00, the counter is currently trading at 23x FY2011E earnings – a discount of around 24% to the sector while its PBV is at 3.89 times. Given the potential growth in earnings as both local and global tourism industries rebound, we recommend BUY.



Profit & Loss Statement (Rs.m)	2008	2009	2010	2011E	2012E	2013E
Year Ended 31 December	Rs 'mn	Rs 'mn	Rs 'mn	Rs 'mn	Rs 'mn	Rs 'mn
Revenue (Net of bed tax)	6,091	6,311	7,001	9,724	11,617	13,334
Other Operating Income	45	323	89	102	117	135
Operating costs	(4,995)	(5,427)	(5,937)	(8,103)	(9,571)	(10,846)
Operating Profit	1,140	1,207	1,153	1,723	2,163	2,623
Share of Associate Earnings	6	(3)	5	31	55	79
Finance Income	27	10	13	18	21	24
Finance Expenses	(362)	(369)	(378)	(351)	(325)	(293)
Profit Before Tax	811	845	793	1,420	1,914	2,433
Taxation	(21)	(21)	(18)	(32)	(34)	(36)
Profit After Tax	790	824	775	1,389	1,880	2,397
Minority Interest	(277)	(232)	(251)	(492)	(655)	(599)
Profit Attributable to the equity holders	513	593	524	897	1,225	1,797

Balance Sheet	2008	2009	2010	2011E	2012E	2013E
As at 31st March (Rs. Mn)	Rs 'mn	Rs 'mn	Rs 'mn	Rs 'mn	Rs 'mn	Rs 'mn
ASSETS						
Non - Current Assets						
Property Plant & Equipment	6,665	8,687	8,756	8,784	8,636	8,334
Leasehold Property	1,408	1,555	1,516	1,566	1,616	1,666
Others	278	405	407	442	497	576
	8,351	10,646	10,680	10,792	10,750	10,576
Current Assets						
Trade & Other Receivables	1,093	983	773	1,505	1,798	2,063
Short term deposits	389	342	375	450	518	596
Cash and cash equivalents	119	117	90	2,963	4,287	6,335
Others	616	624	636	754	862	960
	2,218	2,065	1,874	5,672	7,465	9,954
TOTAL ASSETS	10,568	12,711	12,554	16,464	18,215	20,530
EQUITY AND LIABILITIES						
Equity						
Stated capital	1,056	1,056	1,056	3,555	3,555	3,555
Reserves	1,035	1,463	1,199	1,199	1,199	1,199
Retained Earnings	1,666	2,205	2,934	3,744	4,883	6,593
Minority Interest	1,220	1,346	1,589	2,066	2,706	3,291
	4,977	6,070	6,778	10,563	12,342	14,637
Non - Current Liabilities						
Interest - Bearing borrowings	2,930	3,746	2,962	3,181	2,874	2,613
Others	117	114	163	159	173	187
	3,048	3,861	3,125	3,341	3,048	2,800
Current Liabilities						
Other Provisions and Payables	872	799	791	810	957	1,085
Amounts due to Ultimate Holding company	527	779	646	743	855	983
Interest - Bearing borrowings	498	676	853	561	507	461
Short term Bank borrowings	333	217	35	28	25	29
Others	314	310	326	417	481	536
	2,544	2,781	2,651	2,560	2,825	3,093
TOTAL EQUITY & LIABILITIES	10,568	12,711	12,554	16,464	18,215	20,530



Cashflow Statement	2008	2009	2010	2011E	2012E	2013E
For the year ended 31st March (Rs. Mn)	Rs 'mn	Rs 'mn	Rs 'mn	Rs 'mn	Rs 'mn	Rs 'mn
Profit before Tax	811	845	793	1,420	1,914	2,433
Net Cashflow from Operating Activities	777	1,503	1,485	1,681	2,908	3,581
Cashflow from Investing Activities						
Purchase of Property, Plant & Equipment	(731)	(2,166)	(675)	(1,000)	(1,000)	(1,000)
Others	(1,470)	140	13	(50)	(50)	(50)
Net cash used in Investing Activities	(2,201)	(2,026)	(662)	(1,050)	(1,050)	(1,050)
Cashflow from Financing Activities						
Issue of shares	-	-	-	2,498	-	-
Net borrowings	1,417	844	(569)	(72)	(361)	(307)
Others	(39)	(238)	(69)	(102)	(102)	(102)
Net cash used in Financing Activities	1,377	606	(638)	2,324	(463)	(409)
Net increase in cash & cash equivalents	(47)	83	184	2,955	1,394	2,122
Balance at the beginning of the year	205	158	242	426	3,381	4,775
Balance at the end of the year	158	242	426	3,381	4,775	6,897

