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A JKSB Research Publication

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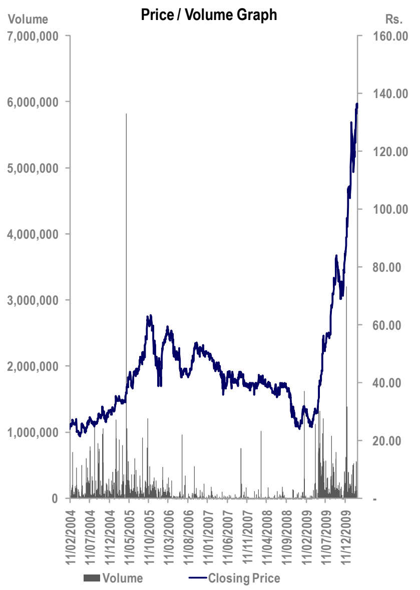
Asian Hotels & Properties PLC (AHPL)

Rs 135.00

AHPL			
Reuters Code			AHPL.CM
Bloomberg Code			AHPL.SL
Share Price LKR			135.00
Issued Share Capital (Shares)			
Voting			221,387,350
12 mth High / Low (Rs.)			136.50 / 24.75
Free Float			16.20%
Average Daily Volume (Shares)			191,156
Market Capitalisation Rs. mn			29,887
Price Performance (%)			
	1 mth	6 mth	12 mth
ASPI	2.56	31.22	133.70
AHPL	19.73	83.67	440.00

Financial Year	Revenue (Rs. Million)	Earnings to Equity (Rs.)	EPS (Rs.)	EPS Growth (%)	PER (x)	Price / Book Value (x)
2006	4,675	999.60	4.52	165.53	29.90	3.25
2007	4,137	719.34	3.25	(28.04)	41.55	3.16
2008	5,525	847.39	3.83	17.80	35.27	2.46
2009	4,576	531.06	2.40	(37.33)	56.28	2.49
2010E	4,699	800.69	3.62	50.77	37.33	2.47
2011E	7,579	1,779.25	8.04	122.22	16.80	2.26
2012E	9,947	2,545.39	11.50	43.06	11.74	1.98



Profile

Asian Hotels & Properties PLC (AHPL) is an 84% owned subsidiay of the largest listed conglomerate, John Keells Holdings PLC (JKH). The company's strategic business units include the Hotel operations, under which it controls approximately 40% of 5 Star city room supply, while the other being the Property Development arm.

The Property Development arm completed the construction of the "Monarch" and has begun the construction of the 3rd residential apartment, the "Emperor", with already around 80% of the apartments being sold off plan.

Hotel Operations

The hotels owned and managed by AHPL include the Cinnamon Grand and the Cinnamon Lakeside (formerly known as Trans Asia), located at the heart of the Colombo city. AHPL currently owns a 42% stake in TRAN while a further 49% of TRAN is owned by JKH.

TRAN was closed for refurbishment and was re-opened under the premier brand "Cinnamon".

The Hotel arm's contribution to group profitability was restricted to Rs. 99 million or 9% in FY2009, amid lower tourist arrivals in to the country and higher cost pressures as a result of inflation.

However, with the revival of tourism in the country and cost pressures having subdued, the leisure sector is likely to be a significant contributor to group earnings in the years to come.

Cinnamon Grand

Cinnamon Grand, recognized as the Best Five Star City Hotel for the second consecutive year at the Presidential Travel and Tourism Awards 2008, has competed well with renowned international hotel chains post rebranding and refurbishment, 3 years ago. The hotel currently has a total room capacity of 501 rooms and a restaurant portfolio of 11 which are among the most sought after dining venues in the city.

Although the industry as a whole witnessed a rough year in FY2009, Cinnamon Grand Colombo stood well above the rest enjoying an increase in market share in the city hotels while other operators suffered a decline. The hotel recorded the highest market share of 36.2% in city room revenue and also the highest Revenue per Available Room (RevPAR) in the city at Rs. 4,684.

The hotel's occupancy reached 56% in FY2009 compared to 63% in FY2008, while on average the City hotels enjoyed only about 43% in occupancy in FY2009. The occupancy rates have followed a declining trend since 2005 as a result of an escalation in terrorist attacks in Colombo. Despite low occupancy, the hotel managed to increase its rates to approximately US $ 74 per room night compared to US $ 65 in FY2008.

The hotel's Food and Beverages Department which includes some of the best restaurants in the city, enjoyed the highest market share of 32% in the city while also contributing the highest revenue for the hotel amounting to Rs. 949 million in FY2009. As per the information available, the F&B revenue within the 5 Star city industry showed a marginal growth of 3% while Cinnamon Grand registered an above average growth of 14% for FY2009.

Average Room Rates (ARR) increased by approximately 14% in FY2009 while occupied nights declined 12%, resulting in a 7% increase in Revenue. Cinnamon Grand suffered a decline of 12% in Gross Operating Profit whilst Gross Operating Margin too declined to 56% from 60% in FY2008 mainly as a result of double digit inflation that prevailed in the economy.

UK, India and USA remained as the top 3 countries in terms of guest arrivals to Cinnamon Grand during the last 2 years. Further, 47% of the room nights were occupied by the Corporate segment in FY2009 compared to 53% in FY2008, with Leisure travellers accounting for 33% as against 27% in FY2008.

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Occupancy during the 1-3QFY2010 improved to 66% as against 56% in 1-3QFY2009, although at a lower ARR which declined 12% over the comparative period, leading to a marginal revenue growth of 4%. 250 rooms at Cinnamon Grand have currently being closed for refurbishment costing Rs. 400 million, and is due to re-open in May 2010.

Cinnamon Lakeside - Trans Asia PLC

Cinnamon Lakeside, formerly known as Trans Asia, is the other 5 Star city hotel operating under AHPL, with a current room capacity of 340 rooms.

The hotel's operations were hindered by the terrorist attack in the vicinity of the hotel in February 2009 which affected more than 100 guest rooms and staff areas. This, coupled together with lower tourist arrivals into the country, resulted in the hotel's turnover declining marginally by 2% reaching Rs. 1,151 million in FY2009.

Consequent to the attacks, the hotel was closed for refurbishment and repairs and re-opened under the flagship brand "Cinnamon" on 1st of September 2009.

TRAN which enjoyed occupancy rates above 60% on average during 2006 - 2008, witnessed a decline in its occupancies to 46% in FY2009 consequent to the recent terrorist attacks. Corporate guests were the largest contributors accounting for 51% while Leisure and MICE business was 41% and 8% respectively.

Despite lower room nights, TRAN enjoyed a growth in profitability by 13% to Rs. 162 million in FY2009, thanks to the insurance claim on damaged assets and business interruption which totaled to Rs. 65 million. The insurance claim on business interruption amounting to Rs. 22 million represents the claim for the year ended 31st March, 2009. Therefore, it is likely that a further claim will be available for TRAN up to the date of re-launch.

In FY2009, the hotel enjoyed an improvement in the Average Room Rate which grew to US $ 60.90 against US $ 49.50 in FY2008. Despite an increase in ARR by nearly 23%, the hotel's RevPAR (calculated as Room Revenue divided by total room nights) declined to approximately Rs. 2,970 in FY2009 from over Rs. 3,000 in FY2008, as a result of lower occupancies.

For TRAN, Food and Beverages was the largest revenue generator, accounting for approximately 49% of total Turnover in FY2009, with Banquet revenue being the highest contributor to the segment.

The hotel which was closed for refurbishment from mid May to end August 2009 recorded a low occupancy of 31% during the month of April 2009 while in September occupancies grew to 37% post refurbishment and rebranding at a higher ARR of US $ 50.

Property Development

The Property Development unit at AHPL comprises of the 2 residential apartments - namely the “Monarch” and the “Emperor” and also the Crescat Boulevard, the only destination mall in the city. AHPL has completed the construction of the “Monarch” while the construction of the “Emperor” is currently underway.

Both Condominiums have been strategically located in a prime plot of land at Crescat City in the city of Colombo while offering accessibility, quality, facilities and prestige.

In FY2009, the Property Sector accounted for 81% of group profits amounting to Rs. 432 million.

The Monarch

The 30 storey Condominium “Monarch”, situated within the Crescat City has the significance of being one of the largest developments in Sri Lanka and was fully sold out off plan within a short period of 11 months.

Over 90% of the 2nd condominium comprising of 195 luxury apartments have been handed over to the owners. By the end of FY2009, approximately 95% of the revenue has also been recognized.

The Emperor

With the successful completion of the “Monarch”, AHPL embarked upon the construction of the 3rd residential apartment project with 164 luxury apartments.

The condominium too, located within the Crescat City, has been affected by both the real estate slump in Sri Lanka as well as the global economic downturn. The “Emperor” which has been targeted at the Sri Lankan expatriates primarily from the countries in recession, has nevertheless secured 80% of the sales of the apartments.

The construction, although is behind schedule, is continuing amid stringent security conditions prevailing in the area. The project is due for completion in FY2012E.

There is further land available under the ownership of AHPL for developments of similar nature.

Outlook

It is proposed that from 1st of November, the room rate for a 5 star hotel room in the city of Colombo would be priced at a minimum of US $ 75...

In August 2009, the Ministry of Tourism in Sri Lanka decided to implement a specified Minimum room rate for all city hotels from the beginning of the winter season 2009. It is proposed that from 1st of November, the room rate for a 5 star hotel room in the city of Colombo would be priced at a minimum of US $ 75 until a further increase is announced. Despite the increase in room rates, Sri Lanka will still remain to be one of the cheaper destinations for leisure travel. For comparative purposes, in Mumbai average room rates have soared to US $ 305, $2 higher than Delhi.

Tourist arrivals in to Sri Lanka dipped nearly 20% during the 1st 5 months of the CY09. However, post war tourists arrivals increased rapidly with tourist arrivals during the period June - December 2009 growing by approximately 20% over the comparative period in 2008.

Cinnamon Grand

With the recovery in tourism, we expect city occupancy levels to reach approximately 55% in FY2010E with Cinnamon Grand recording year round occupancies at approximately 75% in FY2011E and 80% in FY2012E. Although the standard room rates have increased from November 2009, we expect the hotel to end FY2010E with an average room rate of US $ 80 for FY2010E and US $ 90 for FY2011E, at a premium to the minimum room rates. Further, the Tourism Minister has stated that the minimum room rate will be increased to US $ 100 in January 2011.

Given the above estimated levels of occupancies and room rates, we expect the RevPAR for Cinnamon Grand to reach approximately US $ 70 for FY2011E. For comparative purposes, in Delhi, the RevPAR rose to US $ 228 - the highest in the country.

With inflation reaching single digit levels and improved security situation in the country, we believe that the Food and Beverage segment will contibute well over Rs. 1 billion in revenue to boost group profitability.

The hotel enjoyed levels of occupancy as high as 80% during 2Q2010, both as a result of the diversion of tourists from TRAN and a boost in tourist arrivals.

With the above occupancies and room rates, we expect Cinnamon Grand to post Rs. 944 million and Rs. 1,525 million in Operating Profit for FY2011E and FY2012E respectively.

However, with greater tourist arrivals expected in FY2011E along with an occupancy rate of 65% at TRAN, earnings after tax are likely to reach well above Rs. 566 million.

Cinnamon Lakeside - Trans Asia PLC

Although TRAN has not enjoyed occupancies as high as those enjoyed by Cinnamon Grand, we expect an improvement in occupancy rates with the re-branding exercise.

The hotel re-opened on 1st of September 2009 after a period of a little over 3 months for refurbishment. Post re-opening, we expect room rates at TRAN to increase from its current level to approximately US $ 75 although it is likely to suffer from a low level of occupancy for FY2010E. The hotel will only be operational for effectively 7 months of FY2010E, therefore, we expect the average occupancy to be around 40%.

Despite lower occupancy for FY2010E along with higher costs due to refurbishment, we believe that TRAN would make a profit of Rs. 82 million for FY2010E. However, with greater tourist arrivals expected in FY2011E along with an occupancy rate of 65% at TRAN, earnings after tax are likely to reach well above Rs. 566 million.

Property Development

The Monarch

The remaining 5% of the revenue from "Monarch" will be recognized in FY2010E.

The Emperor

The project, although behind schedule, is due for completion by the end of FY2012E. Approximately, 25% of the revenues from the project have been collected; therefore we expect further revenue recognition of 25% during FY2011E and FY2012E.

The company boasts further land area available for development post completion of

AHPL currently controls approximately 40% of 5 star room supply in the city, while the total city room supply is likely to remain unchanged atleast during the next couple of years. With tourists arrivals expected to grow on a stagnant room supply, there is significant upward potential for both hotels on the room rates and occupancies assumed in the model.

the "Emperor" and is likely to undertake these investments given the favourable macroeconomic environment.

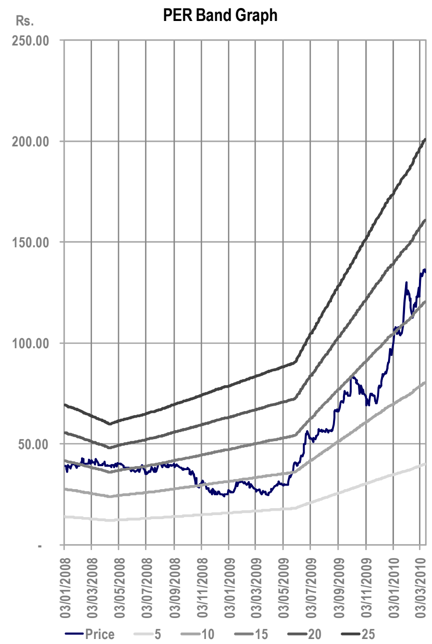
Earnings & Valuations

The earnings for the group have been forecasted based on conservative occupancy rates. If occupancies at Cinnamon Grand witness an improvement to 80% from 75% in FY2011E, the Earnings attributable to equity is likely to increase by 7.4% to Rs. 1,911 million. The sensitivity of the segment's revenue and earnings to equity to changes in the occupancy rates at Cinnamon Grand is as follows :

	2011E			2012E		
	75% - (Current Estimated)	80%	85%	80% - (Current Estimated)	85%	90%
Hotels Revenue (Rs.)	**5,440**	5,648	5,855	**7,809**	8,073	8,336
Group Earnings (Rs.)	**1,779**	1,911	2,043	**2,545**	2,707	2,869
Growth in Segment's Revenue (%)	-	3.81	7.62	-	3.38	6.76
Growth in Group Revenue (%)	-	3.15	6.30	-	2.65	5.31
Growth in Earnings to Equity (%)	-	7.41	14.82	-	6.35	12.70
EPS (Rs.)	8.04	8.63	9.23	11.50	12.23	12.96
PER (x)	**16.80**	**15.64**	**14.63**	**11.74**	**11.04**	**10.42**

The following table shows the sensitivity of segment's revenue and earnings to equity to a change in room charges of the 2 hotels.

	2011E			2012E		
	Forecasted Rates	5%	10%	Forecasted Rates	5%	10%
Cinnamon Grand Colombo (US $)	**90.00**	94.50	99.00	**110.00**	115.50	121.00
Cinnamon Lakeside (US $)	**90.00**	94.50	99.00	**110.00**	115.50	121.00
Hotels Revenue (Rs.)	**5,440**	5,596	5,751	**7,809**	8,020	8,231
Group Earnings (Rs.)	**1,779**	1,878	1,977	**2,545**	2,675	2,804
Growth in Segment's Revenue (%)	-	2.86	5.72	-	2.70	5.41
Growth in Group Revenue (%)	-	2.36	4.73	-	2.12	4.25
Growth in Earnings to Equity (%)	-	5.56	11.12	-	5.08	10.16
EPS (Rs.)	8.04	8.48	8.93	11.50	12.08	12.67
PER (x)	**16.80**	**15.91**	**15.12**	**11.74**	**11.17**	**10.66**



With much of the growth coming from the hotel operations, we expect AHPL to post approximately Rs. 800 million as Earnings to Equity in FY2010E and Rs. 1,779 million in FY2011E. At Rs. 135.00, the counter is currently trading at 16.8 times FY2011E earnings.

AHPL currently controls approximately 40% of 5 star room supply in the city, while the total city room supply is likely to remain unchanged atleast during the next couple of years. With tourists arrivals expected to grow on a stagnant room supply, there is significant upward potential for both hotels on the room rates and occupancies assumed in the model. The Property Division too will bring in a stream of revenue during the next couple of years until the next development project is unveiled. The company is also likely to enjoy a strong flow of cash which can be used to fund any further capital expenditure.

Profit and Loss Account For the year end 31st March (Rs. Mn)	2006	2007	2008	2009	2010E	2011E	2012E
Revenue							
Hotels	2,314.5	2,731.3	2,961.1	3,061.1	3,559.4	5,440.2	7,808.6
Property Development	2,360.7	1,405.4	2,563.5	1,515.0	1,139.9	2,138.6	2,138.6
	4,675.2	**4,136.6**	**5,524.6**	**4,576.1**	**4,699.3**	**7,578.8**	**9,947.2**
Cost of Sales	(2,458.9)	(2,056.2)	(2,891.2)	(2,404.8)	(2,327.9)	(3,822.7)	(4,960.7)
Gross Profit	**2,216.3**	**2,080.5**	**2,633.4**	**2,171.3**	**2,371.4**	**3,756.1**	**4,986.5**
Other Income	119.1	173.2	154.5	177.0	75.0	75.0	75.0
Expenses	(1,176.1)	(1,335.4)	(1,431.7)	(1,553.6)	(1,493.4)	(1,606.4)	(1,738.6)
Operating Profit	**1,159.3**	**918.4**	**1,356.2**	**794.7**	**953.0**	**2,224.7**	**3,323.0**
Finance Expenses	(61.4)	(214.5)	(390.9)	(201.1)	(84.4)	(0.3)	(0.3)
Other items	201.1	115.8	-	51.8	-	-	-
Profit Before Tax	**1,299.0**	**819.7**	**965.3**	**645.3**	**868.6**	**2,224.4**	**3,322.7**
Taxation	(89.8)	(34.9)	(37.2)	(22.8)	(21.7)	(124.7)	(215.4)
Profit After Tax	**1,209.2**	**784.8**	**928.1**	**622.6**	**846.8**	**2,099.7**	**3,107.3**
Minority Interest	209.6	65.5	80.7	91.5	46.1	320.5	561.9
Profit Attributable to the equity holders	**999.6**	**719.3**	**847.4**	**531.1**	**800.7**	**1,779.2**	**2,545.4**

Balance Sheet As at 31st March (Rs. Mn)	2006	2007	2008	2009	2010E	2011E	2012E
ASSETS							
Non Current Assets							
Property, Plant & Equipment	9,086.4	9,312.8	11,597.4	11,327.0	11,084.2	10,848.7	10,620.2
Investment Property	2,079.9	2,189.6	2,209.4	2,250.0	2,250.0	2,250.0	2,250.0
Leasehold Property	917.9	905.5	893.1	880.7	868.3	855.9	843.5
Others	280.7	479.9	410.6	579.8	624.4	734.4	654.9
	12,364.9	12,887.7	15,110.6	15,037.5	14,826.9	14,688.9	14,368.6
Current Assets							
Inventories	139.1	101.4	99.4	94.9	101.2	152.4	190.5
Work in progress / Cost of Apartments	-	1,230.3	736.7	278.6	328.6	152.3	188.0
Short term Investments	831.8	440.0	1,141.7	940.9	750.0	700.0	350.0
Cash in hand and at bank	182.3	85.9	30.3	92.5	286.0	1,894.0	4,459.0
Others	555.4	608.0	383.4	397.6	339.8	432.2	452.5
	1,708.6	2,465.6	2,391.6	1,804.4	1,805.5	3,330.9	5,640.0
TOTAL ASSETS	**14,073.5**	**15,353.3**	**17,502.1**	**16,841.9**	**16,632.4**	**18,019.8**	**20,008.6**
EQUITY AND LIABILITIES							
Equity							
Stated Capital	2,213.9	3,345.1	3,345.1	3,345.1	3,345.1	3,345.1	3,345.1
Capital Reserves	4,308.3	3,165.0	5,429.4	5,310.2	5,310.2	5,310.2	5,310.2
Revenue Reserves	2,661.7	2,950.3	3,367.0	3,327.9	3,464.4	4,579.5	6,460.7
Minority Interest	2,239.8	2,237.4	2,402.2	2,441.8	2,459.7	2,751.9	3,285.5
	11,423.7	11,697.8	14,543.7	14,425.0	14,579.4	15,986.6	18,401.5
Non Current Liabilities							
Interest bearing borrowings	1,104.4	1,054.8	1,063.3	631.7	280.3	4.3	2.8
Others	320.7	448.8	461.8	433.2	281.0	266.8	220.7
	1,425.1	1,503.6	1,525.2	1,064.9	561.2	271.0	223.5
Current Liabilities							
Trade & other payables	932.9	1,093.3	1,200.8	1,079.4	1,020.9	1,617.0	1,292.4
Current portion of Interest Bearing Borrowings	96.8	486.3	78.0	121.4	121.4	1.4	1.4
Others	195.0	572.3	154.5	151.1	349.4	143.7	89.8
	1,224.7	2,151.9	1,433.3	1,351.9	1,491.8	1,762.2	1,383.7
TOTAL EQUITY & LIABILITIES	**14,073.5**	**15,353.3**	**17,502.1**	**16,841.9**	**16,632.4**	**18,019.8**	**20,008.6**

Cashflow Statement For the year ended 31st March (Rs. Mn)	2006	2007	2008	2009	2010E	2011E	2012E
Profit Before Tax	1,299.0	819.7	965.3	645.3	868.6	2,224.4	3,322.7
Change in Fair Value of Investment Property	(201.1)	(109.6)	-	(40.6)	-	-	-
Depreciation of PPE	185.4	298.5	336.4	376.5	342.8	335.5	328.5
Project costs	1,377.2	757.8	1,535.1	843.2	650.0	1,276.2	1,343.8
Other adjustments	(711.0)	129.9	349.4	(317.9)	40.9	330.7	(586.1)
Net Cashflow from Operating Activities	**1,949.4**	**1,896.3**	**3,186.2**	**1,506.6**	**1,902.3**	**4,166.8**	**4,408.9**
Cashflow from Investing Activities							
Addition to Work In Progress	(886.4)	(1,815.8)	(986.1)	(758.8)	(750.0)	(1,200.0)	(1,300.0)
Others	(2,551.5)	(678.5)	(196.5)	(171.4)	(100.0)	(100.0)	(100.0)
Net cash used in Investing Activities	**(3,437.8)**	**(2,494.3)**	**(1,182.6)**	**(930.2)**	**(850.0)**	**(1,300.0)**	**(1,400.0)**
Cashflow from Financing Activities							
Repayment of Long term borrowings	(70.1)	(184.7)	(363.2)	(423.1)	(386.4)	(416.4)	(1.4)
Dividends paid to Equity holders	(437.3)	(421.1)	(462.4)	(446.7)	(664.2)	(664.2)	(664.2)
Others	1,000.2	584.0	(95.0)	(42.4)	(28.3)	(28.3)	(28.3)
Net cash used in Financing Activities	**492.8**	**(21.7)**	**(920.6)**	**(912.3)**	**(1,078.9)**	**(1,108.9)**	**(693.9)**
Net increase in cash & cash equivalents	**(995.6)**	**(619.8)**	**1,083.0**	**(336.0)**	**(26.6)**	**1,758.0**	**2,315.0**
Balance at the beginning of the year	**1,836.4**	**635.3**	**15.6**	**1,098.6**	**762.6**	**736.0**	**2,494.0**
Balance at the end of the year	**840.8**	**15.6**	**1,098.6**	**762.6**	**736.0**	**2,494.0**	**4,809.0**