



Taj Lanka Hotels PLC (TAJ)

Rs 38.75

HOLD

TAJ		Financial Year (Mar)	Net Revenue (Rs. Million)	PAT (Rs. Million)	EPS (Rs.)	EPS Growth (%)	PER (x)	ARR (US \$)	Average Occupancy (%)	Price / Book Value (x)
Reuters Code	TAJ.CM	2008	806.57	(30.29)	(0.22)	52.4	N/A	70.98	44%	4.54
Bloomberg Code	TAJ.SL	2009	757.36	(143.47)	(1.03)	(373.6)	N/A	64.40	41%	5.16
Share Price LKR	38.75	2010E	1,051.29	(20.97)	(0.15)	85.4	N/A	67.62	55%	5.27
Issued Share Capital (Shares)		2011E	1,351.95	86.20	0.62	511.1	62.77	80.00	60%	4.86
Voting	139,637,494	2012E	1,817.53	242.99	1.74	181.9	22.27	100.00	65%	3.99
12 mth High / Low (Rs.)	41.50 / 9.00	2013E	2,244.34	398.55	2.85	64.0	13.58	115.00	70%	3.08
Average Daily Volume (Shares)	97,938									
Market Capitalisation Rs. mn	5,411									
Price Performance (%)										
	1 mth	6 mth	12 mth							
ASPI	(1.19)	29.15	129.51							
TAJ	27.87	69.57	321.62							



Profile

Taj Lanka Hotels PLC (TAJ), also known as Taj Samudra, is a part of Taj Hotels Resorts and Palaces – a worldwide chain of luxury hotels and resorts. The hotel is owned by Tal Hotels and Resorts Ltd – a joint venture between Cigen Corporation and the Indian Hotels Company Ltd. with a stake of 58.14% while the Indian Hotels Company Ltd. is the 2nd largest shareholder with 24.62%.

In addition to the ownership and management of Taj Samudra Hotel in Colombo, the company also manages the Taj Airport Garden Hotel in Katunayake located close to the Bandarnaike International Airport from which it receives a management fee.

Taj Samudra – one of the first city hotels in Colombo, is located on a 12 acre land facing the Galle Face Green with a capacity of 291 rooms including 30 suites, accounting for approximately 13% of the 5 Star city room supply while the Airport Garden Hotel comprises of 120 centrally air conditioned sound proofed rooms including 14 suites.

Hotel Operations

TAJ located at the heart of Colombo close to the city's business hub has seen lower occupancies over the years mainly as a result of high security barriers in the vicinity of the hotel. However, the hotel was recognized as Sri Lanka's Leading hotel at the 16th World Travel Awards in 2009 voted by travel agents worldwide.

The hotel was last refurbished in January 2009 and currently comprises of 291 rooms along with 5 restaurants. TAJ is also known to be one of the premier hotels in the country for business meetings and events with 6 banquet halls each of which can accommodate from 50 to 400 guests.

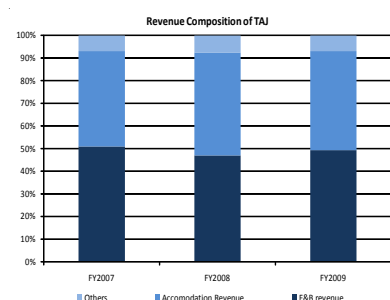
The existence of high security and limited access to the hotel resulted in TAJ's occupancy dipping below 50% during the last couple of years. During FY2007, the hotel recorded an occupancy rate of 64% but since then has seen a decline to 43.8% in FY2008 and 40.7% in FY2009.

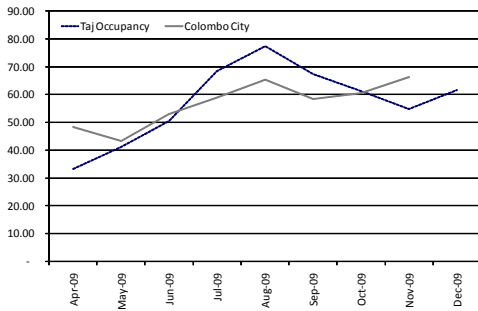
Consequent to lower occupancy rates, the hotel was compelled to lower its ARR to boost occupancy levels. This resulted in ARR falling to slightly over US \$ 64 in FY2009 from US \$ 70 achieved in FY2008.

India is the single largest customer of TAJ accounting for nearly 55% of total arrivals. The UK and Maldives are ranked 2nd and 3rd with a share of 6% and 2% respectively.

Over the years, the hotel's Food and Beverages segment has dominated group revenue accounting for close to 50% of total revenue while Accommodation revenue was the 2nd highest revenue generator contributing between 40 – 45% of group revenue. In FY2009, the F&B segment generated Rs. 373 million in revenue - a marginal decline from its previous year.

TAJ also receives a Management Fee from





Since the end of hostilities in May 2009, TAJ has recorded monthly occupancy exceeding 60% except in the month of June and November when occupancies stood at 51% and 55% respectively.

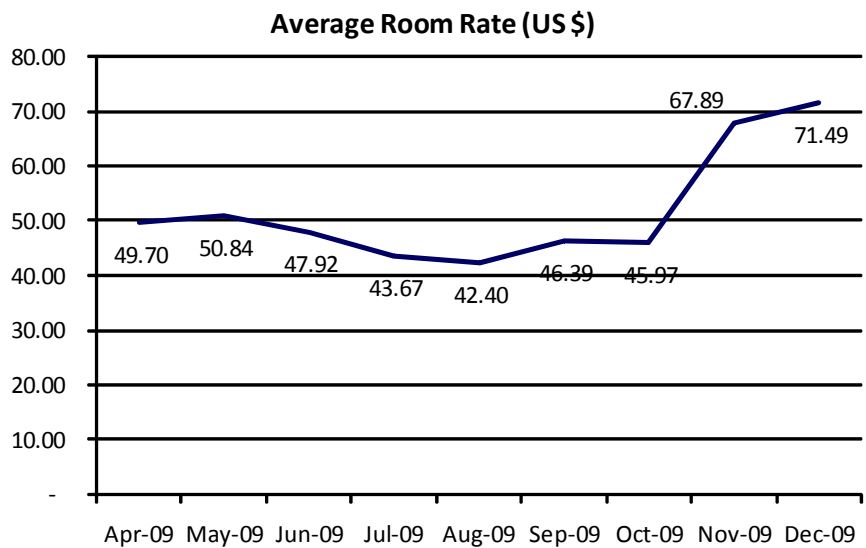
its investment in Airport Garden Hotel located in Katunayake based on its Management contract. The hotel has also invested in shares of Taj Exotica Bentota from which it receives dividend income.

Since FY2007, TAJ has been operating at a loss after tax given low tourist arrivals coupled with double digit inflation which increased the costs of operations. In FY2009, the hotel's losses grew to Rs. 143 million mainly as a result of a significant increase in its finance costs which included an exchange loss on its foreign currency debt, which accounts for a major proportion of its total debt.

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In August 2009, the Ministry of Tourism in Sri Lanka decided to implement a specified Minimum room rate for all city hotels from the start of the winter season 2009. Therefore, from 1st of November 2009, the room rate for a 5 star hotel room in the city of Colombo was priced at a minimum of US \$ 75 and will be further increased to US \$ 100 from January 2011. This was a favourable move from the point of view of TAJ as it has in the recent times charged lower ARR to increase occupancy.

The following graph shows the trend in ARR. The ARRs increased sharply in November 2009 to approximately US \$ 68 from US \$ 46 in the month of October.



Outlook

Tourist arrivals in to Sri Lanka dipped nearly 20% during 1st 5 months of 2009. However, post war tourist arrivals increased rapidly with tourist arrivals during the period June 2009 - February 2010 growing by approximately 27% over the comparative period in 2008/2009. The Colombo city, Greater Colombo and the South coast of Colombo have been the largest beneficiaries of this influx of tourists with Colombo city recording the highest occupancy in the country of 55.7% up to November 2009.



With the recovery in the local tourism sector, we expect TAJ to enjoy a year round occupancy close to 65%. For forecasting purposes, we have assumed an ARR of US \$ 80 for FY11E and US \$ 100 in FY12E. However, we feel that given a stagnant room supply, TAJ will be in a position to charge a slightly higher premium on ARR once occupancies pick up in the medium term.

Additionally, as the Government relaxes much of the security measures imposed in the city of Colombo, we expect greater contribution from the F&B segment. Further, despite accounting for a relatively insignificant share of profit, we expect TAJ to benefit from higher management fees from Airport Garden hotel.

TAJ has invested close to Rs. 439 million in renovating 4 hotel floors including the coffee shop, the swimming pool and the pool area. During its next phase, the company is expected to renovate the remaining 3 floors along with the restaurants and lobby. For forecasting purposes we have assumed an annual capex of around Rs. 100 million for the next 3 years.

The following table analyses the sensitivity of group revenue and earnings to changes in the occupancy rate at TAJ. We have assumed an ARR of US \$ 80 for FY11E with the imposition of the minimum room rates.

	2011E			2012E			2013E		
	60% - Current Estimated	65%	70%	65% - Current Estimated	70%	75%	70% - Current Estimated	75%	80%
Average Room Rate (USD - Assumed)	80.00	80.00	80.00	100.00	100.00	100.00	115.00	115.00	115.00
Net Revenue (Rs. Million)	1,351.95	1,459.21	1,566.47	1,817.53	1,951.60	2,085.67	2,244.34	2,398.52	2,552.70
Growth in Revenue (%)	-	8%	16%	-	7%	15%	-	7%	14%
Earnings (Rs. Million)	86.20	105.53	124.87	242.99	266.82	290.70	398.55	425.27	452.13
Growth in Earnings (%)	-	22%	45%	-	10%	20%	-	7%	13%
EPS (Rs.)	0.62	0.76	0.89	1.74	1.91	2.08	2.85	3.05	3.24
P/E (x) at Rs. 38.75	62.77	51.27	43.33	22.27	20.28	18.61	13.58	12.72	11.97

The following table indicates the impact of a change in ARR on group earnings.

	2011E			2012E			2013E		
	Forecasted Rates	10%	15%	Forecasted Rates	10%	15%	Forecasted Rates	10%	15%
Average Room Rate (USD - Assumed)	80.00	88.00	92.00	100.00	110.00	115.00	115.00	126.50	132.25
Assumed Occupancy rates (%)	65%	65%	65%	70%	70%	70%	75%	75%	75%
Net Revenue (Rs. Million)	1,351.95	1,480.66	1,545.02	1,817.53	1,991.82	2,078.97	2,244.34	2,460.19	2,568.12
Growth in Revenue (%)	-	10%	14%	-	10%	14%	-	10%	14%
Earnings (Rs. Million)	86.20	109.40	121.00	242.99	274.45	290.18	398.55	437.55	457.04
Growth in Earnings (%)	-	27%	40%	-	13%	19%	-	10%	15%
EPS (Rs.)	0.62	0.78	0.87	1.74	1.97	2.08	2.85	3.13	3.27
P/E (x) at Rs. 38.75	62.77	49.46	44.72	22.27	19.72	18.65	13.58	12.37	11.84

The stagnant 5 star city room supply coupled together with increased arrivals from mainly India and UK are likely to increase both occupancy and room rates in the medium term. The table below shows the impact of a concurrent increase in ARR and occupancy.

	2011E			2012E			2013E		
	Current Estimates	Scenario 1	Scenario 2	Current Estimates	Scenario 1	Scenario 2	Current Estimates	Scenario 1	Scenario 2
Average Occupancy Rate	60%	65%	70%	65%	70%	75%	70%	75%	80%
Average Room Rate (USD)	80.00	88.00	92.00	100.00	110.00	115.00	115.00	126.50	132.25
Net Revenue (Rs. Million)	1,351.95	1,598.65	1,791.71	1,817.53	2,139.30	2,387.33	2,244.34	2,629.79	2,922.74
Growth in Revenue (%)	-	18%	33%	-	18%	31%	-	17%	30%
Earnings (Rs. Million)	86.20	130.67	165.47	242.99	300.70	345.13	398.55	467.04	518.93
Growth in Earnings (%)	-	52%	92%	-	24%	42%	-	17%	30%
EPS (Rs.)	0.62	0.94	1.18	1.74	2.15	2.47	2.85	3.34	3.72
P/E (x) at Rs. 38.75	62.77	41.41	32.70	22.27	17.99	15.68	13.58	11.59	10.43



At the most optimistic scenario (indicated by Scenario 2 in the above table), the counter will be trading at close to 16 times and 10 times on FY12E and FY13E earnings respectively.

TAJ accounting for approximately 13% of 5 star room supply in Colombo city is likely to witness higher growth in revenue than forecasted above as excess demand on a stagnant room supply drive ARR higher in the medium term. The counter is currently trading at a significant premium to the market and at a discount to the sector but is priced higher than some of the other 5 star city hotel operators.



Profit and Loss Account						
For the year end 31st March (Rs. Mn)	2008	2009	2010E	2011E	2012E	2013E
Net Revenue	806.6	757.4	1,051.3	1,352.0	1,817.5	2,244.3
Direct Costs	(602.6)	(616.6)	(855.9)	(1,050.7)	(1,362.6)	(1,632.5)
Gross Profit	204.0	140.7	195.4	301.2	455.0	611.8
Other Operating Income	16.1	18.0	32.3	40.4	50.5	63.1
Marketing Expenses	(22.7)	(13.1)	(15.1)	(18.1)	(21.8)	(26.1)
Administrative Expenses	(192.6)	(190.4)	(199.9)	(209.9)	(220.4)	(231.4)
Operating Profit	4.8	(44.8)	12.7	113.6	263.3	417.4
Net Finance Expenses	(29.9)	(91.3)	(33.6)	(24.8)	(12.8)	(6.5)
Profit Before Tax	(25.2)	(136.1)	(21.0)	88.9	250.5	410.9
Taxation	(5.1)	(7.4)	(0.0)	(2.7)	(7.5)	(12.3)
Profit After Tax	(30.3)	(143.5)	(21.0)	86.2	243.0	398.6

Balance Sheet						
As at 31st March (Rs. Mn)	2008	2009	2010E	2011E	2012E	2013E
ASSETS						
Non Current Assets						
Property, Plant and Equipment	2,013.5	2,028.8	1,978.3	1,939.4	1,886.7	1,819.0
Others	21.4	14.1	14.1	14.1	14.1	14.1
	2,034.9	2,042.9	1,992.3	1,953.5	1,900.8	1,833.1
Current Assets						
Inventories	32.4	29.1	40.4	51.9	69.8	86.1
Trade Receivable	89.8	111.9	155.4	199.8	268.6	331.7
Cash and Cash Equivalent	49.5	46.8	98.1	185.7	475.8	921.8
	171.7	187.8	293.8	437.4	814.2	1,339.6
TOTAL ASSETS	2,206.6	2,230.6	2,286.1	2,390.9	2,714.9	3,172.7
EQUITY & LIABILITIES						
Capital and Reserves						
Stated Capital	1,396.4	1,396.4	1,396.4	1,396.4	1,396.4	1,396.4
Revaluation Reserves	1,131.3	1,103.1	1,074.9	1,046.6	1,018.4	990.2
Retained Earnings	(1,336.2)	(1,451.5)	(1,444.2)	(1,329.8)	(1,058.6)	(631.8)
	1,191.5	1,048.0	1,027.0	1,113.2	1,356.2	1,754.8
Non Current Liabilities						
Borrowings	444.9	556.1	564.5	493.2	422.0	350.7
Others	34.8	35.6	38.6	42.1	46.7	52.4
	479.7	591.8	603.0	535.3	468.6	403.2
Non Current Liabilities						
Trade and other payables	315.3	404.4	470.8	577.9	749.4	897.9
Borrowings	220.2	186.5	185.3	164.4	140.7	116.9
	535.5	590.9	656.1	742.3	890.1	1,014.8
TOTAL EQUITY AND LIABILITIES	2,206.6	2,230.6	2,286.1	2,390.9	2,714.9	3,172.7



Cashflow Statement						
For the year ended 31st March (Rs. Mn)	2008	2009	2010E	2011E	2012E	2013E
Profit before Tax	(25.2)	(136.1)	(21.0)	88.9	250.5	410.9
Depreciation	82.9	114.1	125.5	138.1	151.9	167.1
Others	41.2	62.5	38.8	31.9	-	16.0
Working capital adjustments	128.3	70.3	51.7	34.2	62.8	46.8
Net cash generated from operations	225.4	105.7	191.4	289.4	479.9	629.5
Cashflow from Investing Activities						
Net purchase of Property, Plant and Equipment	(210.0)	(129.4)	(75.0)	(100.0)	(100.0)	(100.0)
Others	102.2	0.3	0.3	0.3	0.3	0.3
Net cash used in Investing Activities	(107.8)	(129.1)	(74.8)	(99.8)	(99.8)	(99.8)
Cashflow from Financing Activities						
Net receipt / (payment) of borrowings	(80.6)	57.7	30.0	(75.0)	(75.0)	(75.0)
Others	(39.7)	(58.9)	(34.6)	(27.0)	(15.1)	(8.8)
Net cashflow from financing Activities	(120.3)	(1.3)	(4.6)	(102.0)	(90.1)	(83.8)
Net Increase / (Decrease) in cash and cash equivalents	(2.6)	(24.6)	112.1	87.6	290.1	446.0
Balance at the beginning	13.2	10.6	(14.1)	98.1	185.7	475.8
Balance at the end	10.6	(14.1)	98.1	185.7	475.8	921.8

