

Mauritian Tourism Sector

Issues, Prospects & Challenges

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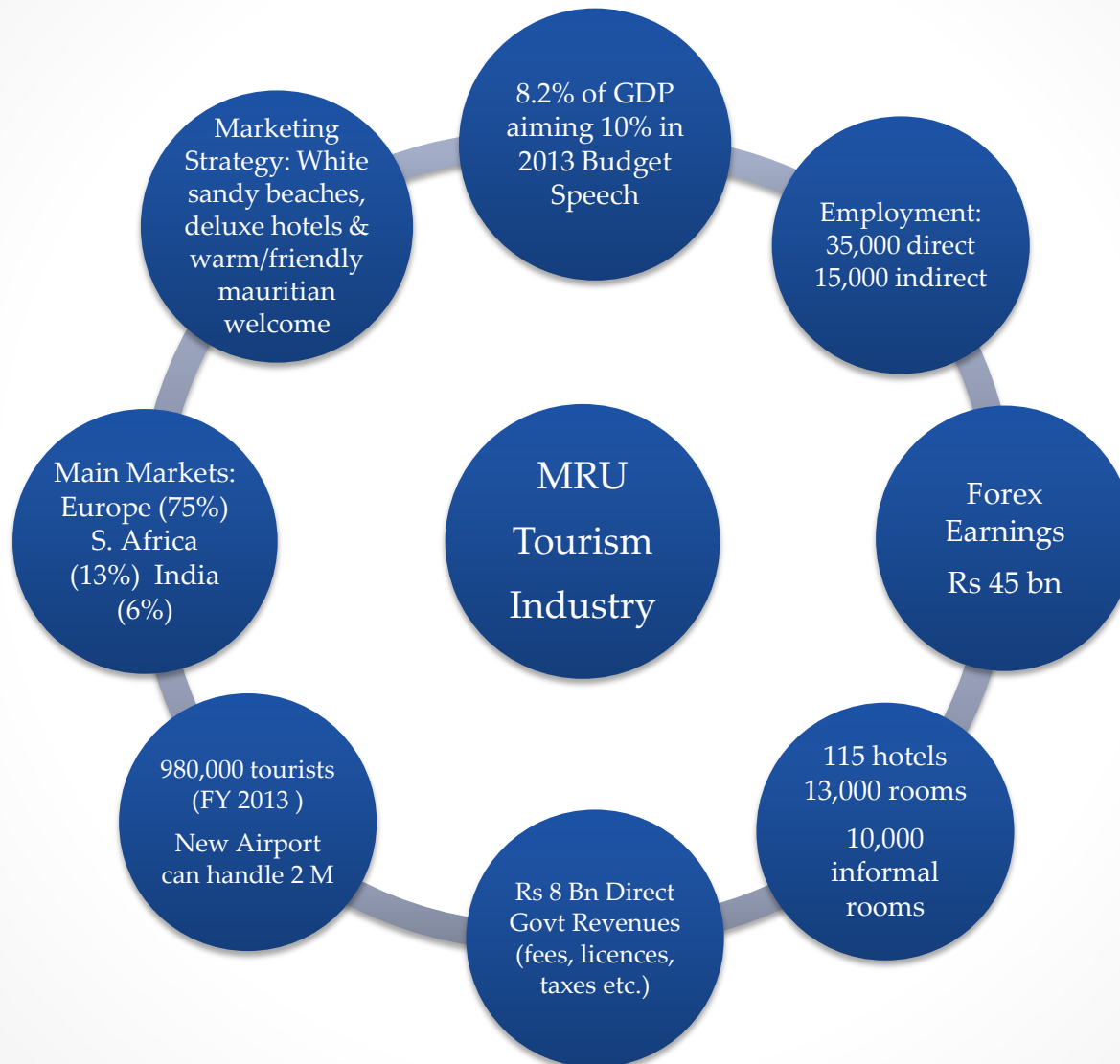
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- World Tourism Industry: Health & Prospects
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- Main Issues & Challenges Confronting our Industry
- Conclusions & Recommendations
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- Questions & Answers

1. Overview: Tourism as a Pillar of Our Economy



Budget Speech 2010: Engine of Growth of Economy for Next 5 Yrs

2. World Tourism Industry: Prospects

(Based on UN World Tourism Organisation Report 2013, Q2 using Tourist Arrivals as Performance criteria) - RESILIENT

- GLOBAL – Doing well despite economic crisis: 3-4% (2013)
- Europe – 2 to 3%
- Asia & Australasia – 6 to 7 % (China & India – Double digits)
- Americas – 4%
- Latin America – 5%
- Middle East – 4%
- Africa & IO Region – 6 to 7%

Better Prospects for 2014 onwards as world economic crisis recedes

3. Mauritius Tourism Sector Analysis: Performance Criteria

- Tourist Arrivals
- Tourism Receipts
- Revenue Per Passenger/stay
- Hotels Occupancy Rates
- Stock Market Prices
- Operators profitability & balance sheets
- MRU v/s Competition v/s World

**Be Very Careful on which Criteria to Use as Prime Indicator !
Contradictions & Wrong Pointers?**

Mauritian Tourism Sector Analysis:

3.1. Tourist Arrivals - Raw Figures

Definition of a tourist: A non-resident spending at least 1 night

Yr	Arrivals MRU	Maldives	Sri Lanka	Reunion	Seychelles
2007	907,000	675,889	494,010	381,500	161,273
2008	930,500	683,012	438,470	396,400	159,000
2009	871,400	685,852	447,890	421,900	157,500
2010	934,800	791,949	654,477	420,300	174,500
2011	964,600	931,000	855,975	471,268	194,753
2012	965,400	931,333	1,005,605	460,000	208,358
2013 (F)	980,000	958,027	1,120,000	445,000	225,000
Avg inc p.a.	1.3%	7%	21%	3%	7%

MRU growth overwhelmingly outclassed by every competitor
MRU & REU similar patterns: France Dependence & Reduced Growth

Mauritian Tourism Sector Analysis:

3.2 Tourist Arrivals Geographic Distribution

	Total	Change (%)	Europe Incl. REU	India	China	Russia
2007	907,000	15	76%	4.7%	1%	0.9%
2008	930,500	2.5	76%	4.7%	0.9%	1%
2009	871,400	-6.5	79%	4.5%	0.8%	1%
2010	934,800	7.3	77%	5.3%	0.8%	1%
2011	964,600	3.1	75%	5.6%	1.6%	1.6%
2012	965,400	0.1	72.5%	5.7%	2.1%	2.2%
2013	980,000	2.2	70%	6%	2.5%	2%

Eurozone crisis prompted Govt to push for DIVERSIFICATION from EURO to BRIC tourists.
But Operators realised the merit too late (2012), to the Benefit of the likes of Sri Lanka, Seychelles, Maldives & Reunion

Mauritian Tourism Sector Analysis:

3.3 EUR-GBP Depreciation & Tourism Revenues

- 60% Total tourism receipts are in Euro
- 10% in GBP

EUR/MRU & GBP/MRU exchange rate movement (end of Yr, SBM Bank Buying)

	2007	2008	2009	2010	2011	2012	2013 Sept	Net Change
EUR	40.43	43.99	41.91	39.12	36.58	39.68	40.54	0%
GBP	55.58	45.22	46.42	45.88	43.70	48.56	48.16	-14%

EUR & GBP Depreciations appear to have impacted Tourism Revenues

However, EUR rate today = 2007 rate (MRU Tourism Record Year)

Mauritian Tourism Sector Analysis:

3.4 Actual Tourism Receipts

Source: BOM Statistics

Yr	Gross Receipts (MRU bn)	% Incr	Revenue/Tourist MRU
2007	40.7	27.4%	45,000
2008	41.2	1.3%	44,300
2009	35.7	-13.3%	41,000
2010	39.5	10.7%	42,400
2011	42.7	8.1%	44,300
2012	44.4	4.0%	46,000
2013	44.6	0.0%	45,500

**Despite substantial Depreciation of Eur & GBP against MRU,
Revenues have been rising yr after yr except in 2009**

Mauritian Tourism Sector Analysis:

3.5 Hotels Occupancy Rates

Defined as (Total Rooms sold/Total rooms available)

Yr	Occupancy Rate (%)	No of rooms
2007	76	10,857
2008	68	11,488
2009	61	11,456
2010	63	12,075
2011	65	11,925
2012	62	12,527
2013	65	11,977

Occupancy rates have been affected by Euro crisis but also by increased Supply (additional hotels & rooms)

Mauritian Tourism Sector Analysis:

3.6 Operators Performance & BS (Facts)

* 4 Largest Hotel Groups, representing 40-50% of entire Hotel industry

	NMH				Sun Resorts				Naiade				Constance			
	2012	2011	2010	2009	2012	2011	2010	2009	2012	2011	2009	2008	2012	2011	2010	2009
Revenue (Rs m)	8,110	7,622	6,833	7,402	3,650	3,597	3,195	3,547	3,714	3,095	2,671	2,751	2,007	1,979	n/a	n/a
Op. Profit (Rs m)	1,222	1,071	1,124	1,765	372	535	484	671	357	421	133	327	244	163	n/a	n/a
PBT (Rs m)	603	803	810	1,368	230	205	226	234	14	46	-365	277	-178	-192	-147	-68
TAX (Rs m)	0	0	108	158	-9	-2	-3	46	-21	33	2	7	2	-25	0	0
PAT (Rs m)	582	726	702	1,210	17	207.0	230	361	35	13	-367	276	-180	-166	-147	-68
Loans & Liab (Rs m)	16,834	17,023	13,879	10,992	7,875	6,936	6,469	5,099	6,489	6,843	4,505	4,375	4,549	4,351	n/a	n/a
Equity (Rs m)	12,827	12,233	11,100	10,872	5,436	4,634	4,503	4,513	3,597	3,492	3,262	3,658	2,694	2,870	n/a	n/a
Debt/Equity Ratio (%)	1.31	1.39	1.25	1.01	1.45	1.50	1.44	1.13	1.80	1.96	1.38	1.20	1.69	1.52	n/a	n/a
Reported Gearing	0.96	0.97	0.82	0.53	0.5	0.5	0.49	0.39	0.59	0.61	0.43	0.38	n/a	n/a	n/a	n/a
Share Price (Rs)	53	82	110	140	26	48	53	70	17	26	26	53	23	30	35	50

* Raw figures extracted from published accounts

Analysis tells A LOT about the industry's true state of affairs.
Details on Next Page

Mauritian Tourism Sector Analysis:

3.7 Operators Profitability & BS (Inference)

Some unmistakable points emerging:

- **Revenues** increasing (industry definitely not facing disaster)
- **Operating Profits** (computed before interest payments) are OK
- Despite Rs 85 bn Revenues over 4 yrs, **Corporate Tax** paid to Govt have been negligible
- Extra-ordinarily **high increases in loans/debts** level since 2009 (**INTEREST ↓**)
- Debts exceed **Revenues and Equity levels** by several times
- Authorities **failed** to see operators' dishonest creative financial accounting piling up loans through incorrect GEARING Ratios (should be max. 50%)
- **SUCH UNSUSTAINABLE DEBT LEVELS**= Serious Risk to our Hotels Industry, Banking sector, and may cause systemic financial crisis if unchecked
- Requires swift, **immediate action** from Authorities (MOF, BOM, FSC)

Mauritian Tourism Sector Analysis:

3.8. Stock Market Prices (Rs)

Four largest hotel groups rep. about 40% of entire hotels industry

	2009	2010	2011	2012	2013	Net Change
NMH	140	110	82	53	80	-45%
Sun Resorts	70	53	48	26	35	-50%
Naiade	53	26	26	17	28	-50%
Constance	50	35	30	23	23	-55%

Source: Stock Exchange of Mauritius (end of yr)

MARKET IS SMART!
Sharp Declines in stock prices = Result of massive debts following Decreasing interest rates?

Mauritian Tourism Sector Analysis:

3.9 Competitor Analysis

Marketing Mix

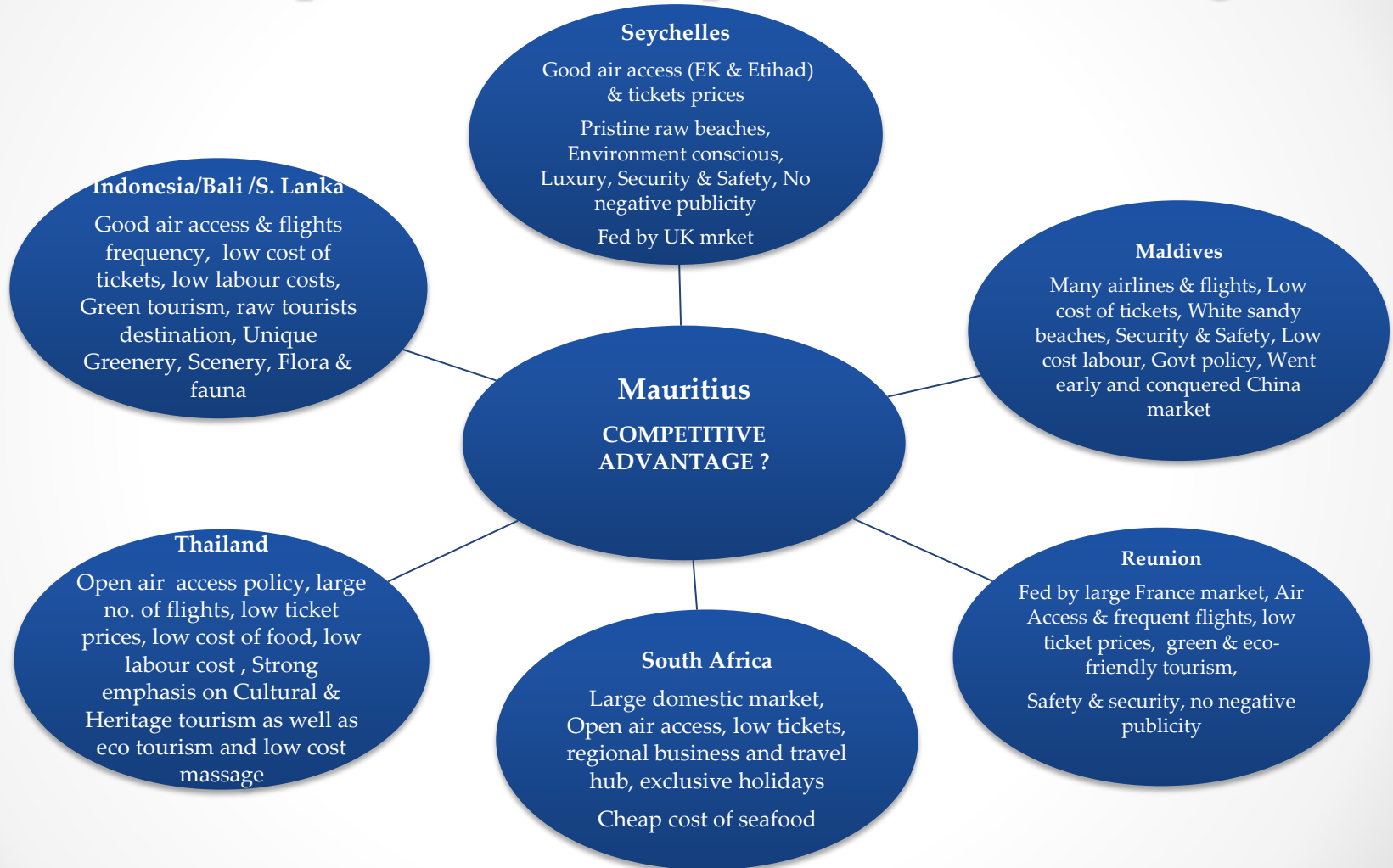
- 
- Seychelles
 - Sri Lanka
 - Maldives
 - Reunion
 - South Africa
 - Indonesia
 - Thailand
 - Bali

- 
- White sandy beaches
 - Exotic honeymoon destination
 - Good/Luxury Hotels
 - Tropical Climate
 - Same target markets: Europe, China, India, Russia
 - Actively promoting Weddings
 - Conferences, Film shootings
 - Diversification strategy to BRICS
 - Incentives & Grants on Events

Fierce Competition: COMPETITIVE ADVANTAGE is VITAL for SUCCESS

Mauritian Tourism Sector Analysis:

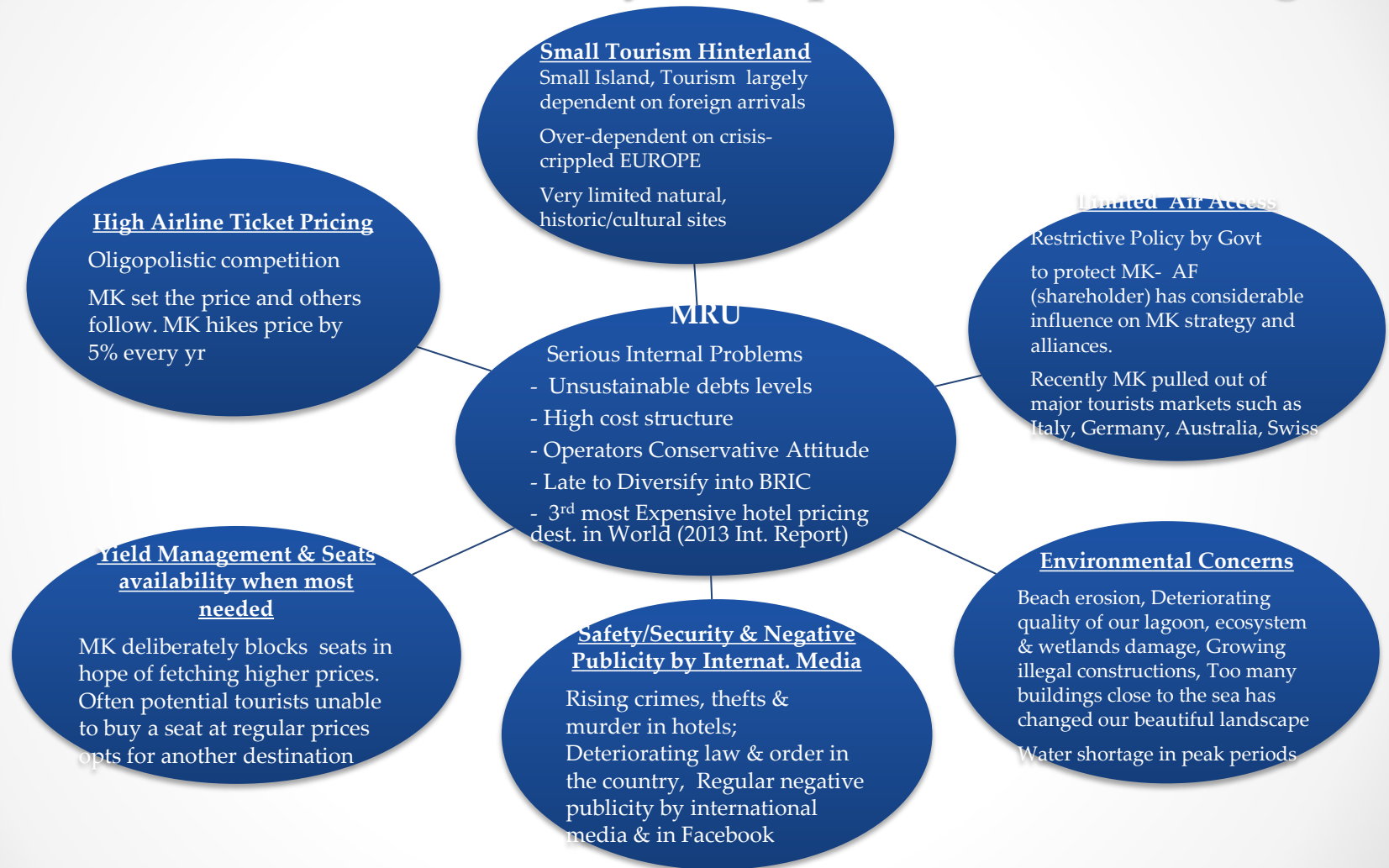
3.10 Competitors' Competitive Advantage?



Each of our Competitor has a definite Competitive Advantage in their Marketing Mix

Mauritian Tourism Sector Analysis:

3.11 Does MRU have any Competitive Advantage?



In a Volatile Travel Industry, Why Choose MRU over Others?

Mauritius Tourism Sector Analysis

3.12 Facts from Recent International Reports

Extract from 2013 Global Travel & Tourism Competitiveness Index, WEF 2013.

http://www3.weforum.org/docs/WEF_TT_Competitiveness_Report_2013.pdf, pg 27

- **“Mauritius loses its number one spot in the regional rankings (Sub Saharan Africa),** overtaken by the entry of the Seychelles this year. Overall out of 140 countries it is ranked 58th (down from 53rd in 2011) compared to 38th for Seychelles.
- The country has seen its **price competitiveness decline** significantly (ranked 75th, down from 18th in the last assessment of 2011)—primarily the result of **increasing hotel and fuel prices** and **high air ticket prices, taxes and airport charges**.
- Additionally, in terms of challenges, the country's **environmental sustainability** has received a weakened assessment, of particular concern given the **importance of the natural environment and ecosystem** for the country's leisure tourism”.

Bad Signal to Potential Tourists, particularly EURO based, who are crisis struck, But Are also becoming more Environmental conscious

Mauritius Tourism Sector Analysis

3.13. Facts from Recent International Reports

Average hotel prices by country in H1 2013 compared with H1 2012

Destination	Rank	H1 2013	H1 2012	% Change
Oman	1	£186	£174	7%
Monaco	2	£184	£202	-9%
Mauritius	3	£171	£152	13%
Russia	5	£147	£145	2%
Singapore	8	£142	£136	4%
Switzerland	9	£141	£142	0%
Utd Arab Emirates	10	£138	£132	5%
Australia	15	£120	£115	5%
USA	18	£118	£113	4%
Canada	21	£108	£106	2%
South Africa	24	£104	£115	-9%
France	25	£104	£104	0%
Japan	35	£92	£97	-5%
Indonesia	36	£92	£107	-14%

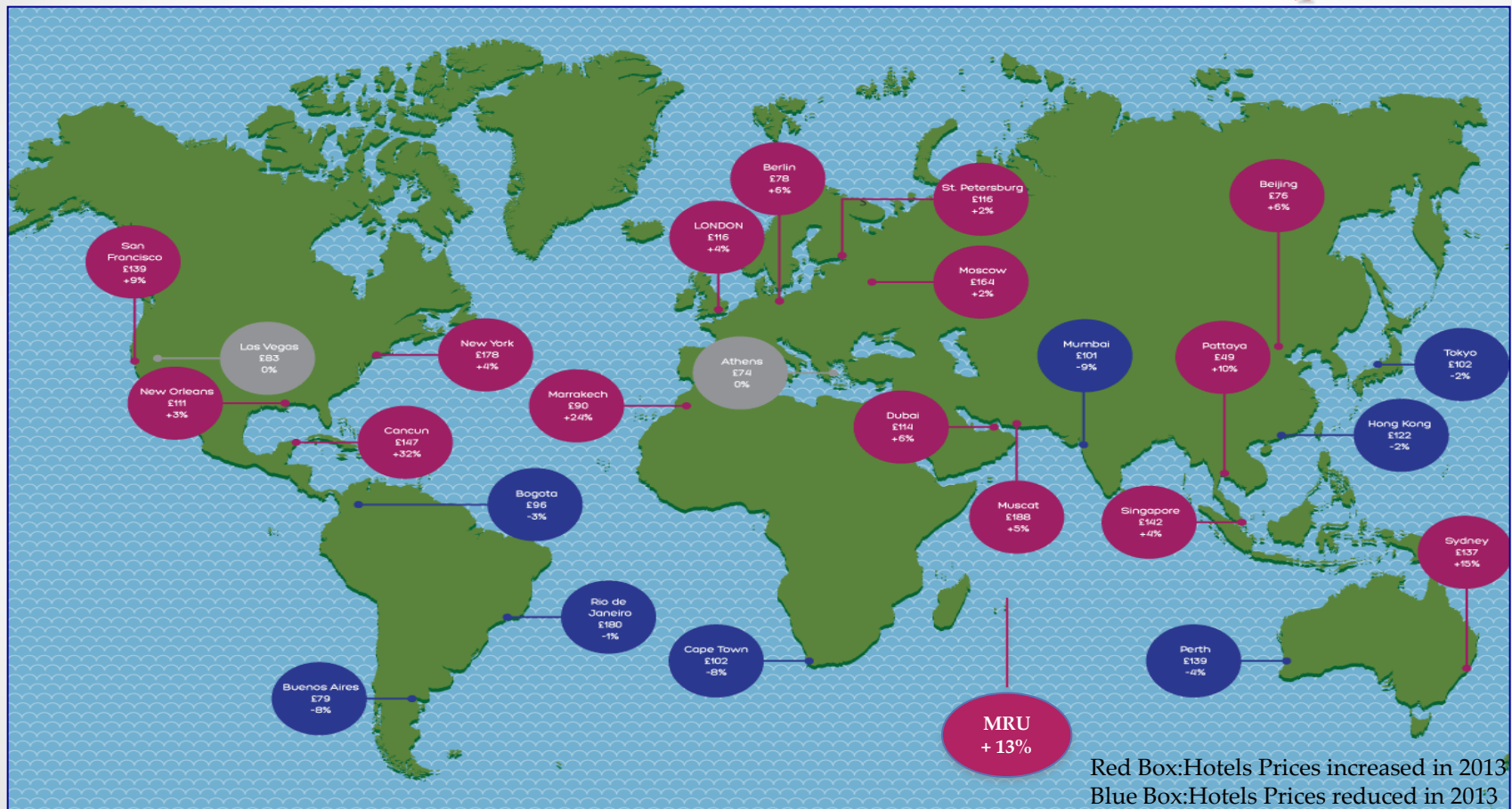
Destination	Rank	H1 2013	H1 2012	% Change
Luxembourg	37	£92	£98	-7%
Egypt	38	£92	£73	25%
Germany	42	£90	£87	3%
Malaysia	47	£87	£87	0%
UK	48	£86	£84	3%
Argentina	50	£81	£90	-10%
India	51	£81	£86	-6%
Czech Republic	52	£78	£71	10%
China	53	£77	£75	2%
New Zealand	55	£76	£75	1%
Tunisia	56	£73	£60	22%
Philippines	57	£71	£69	4%
Thailand	59	£69	£68	2%

- Source: <http://press.hotels.com/hotel-price-index-h1-2013/>
Survey carried out by HOTELS.COM – the Worlds' No 1 online hotel rooms seller

**Are we increasing our Competitive Advantage by hiking Prices?
Or is it to Compensate for MRU Appreciation?**

Mauritius Tourism Sector Analysis

3.14 Facts from Recent International Reports



Source: <http://press.hotels.com/hotel-price-index-h1-2013/>

**Can We Afford to Increase Prices when we are already Uncompetitive
And when our Direct Competitors are Reducing theirs?**

Mauritian Tourism Sector Analysis:

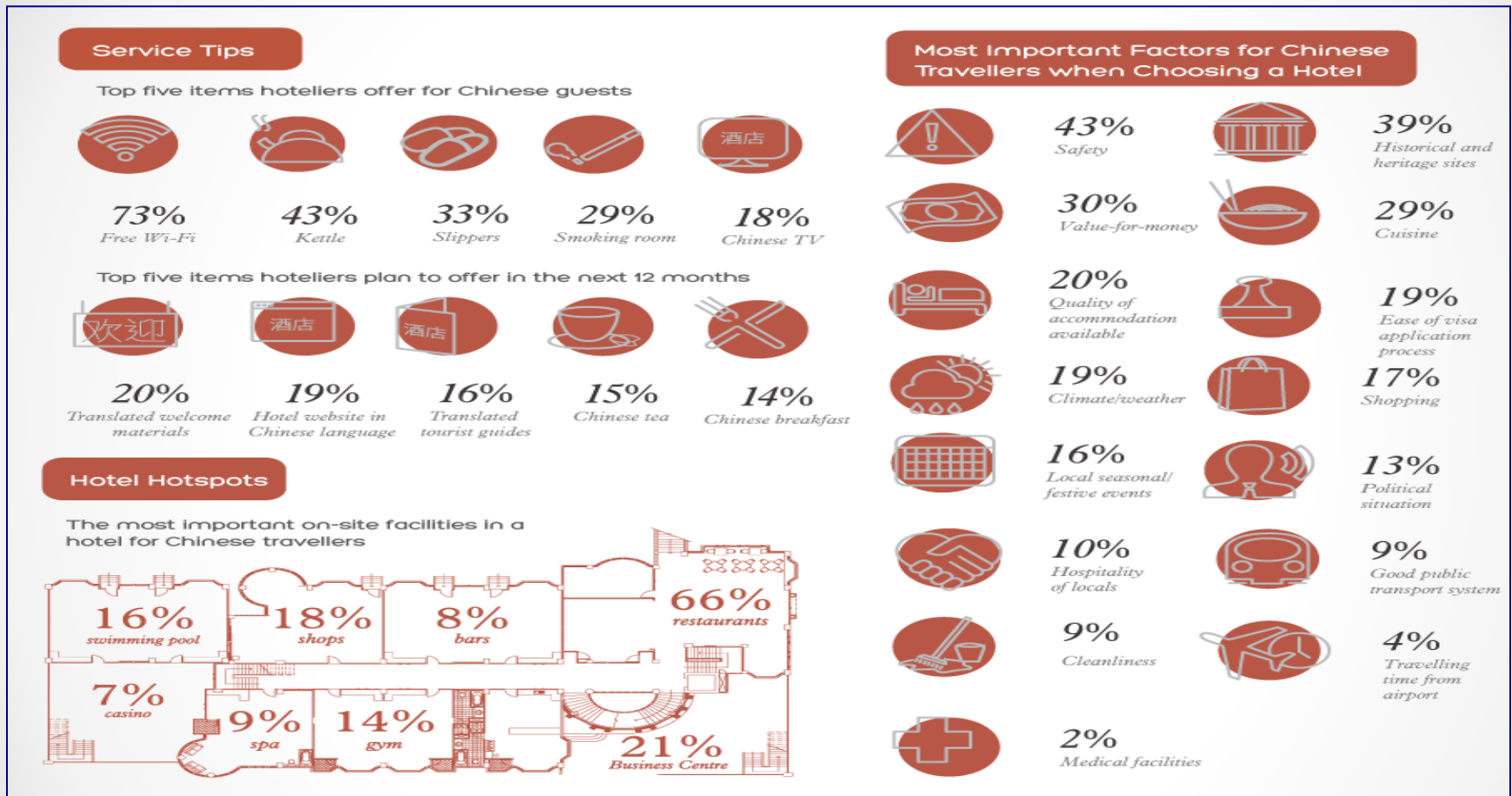
3.15 Issues with Diversification Strategy

- Diversification Strategy: Substitution from EUR to BRIC tourist
A one to one substitution will not be enough because
 - **Revenues per Euro Tourist = 2 x BRIC tourists**
 - EURO tourists spend avg 14-21 nights
 - India tourists spend avg 7 nights
 - Chinese tourists spend 4-5 nights
- Diversification strategy requires appropriate targets so that loss from EURO is adequately compensated.
- This means more focus on Revenues than on Tourists arrivals.
Alternatively, if we will lose 200,000 Euro tourists in the next 3 yrs, we need to target at least 400,000 extra BRIC tourists

Need to Be Extremely Careful with Tourist Arrivals Targets

Mauritian Tourism Sector Analysis:

3.16 Issues with Diversification Strategy



- Source: <http://press.hotels.com/hotel-price-index-h1-2013/>

If Targeting Chinese tourists, Make Sure We Know what ATTRACT them!

4. Conclusions:

Recap of Main Issues & Problems

- Sector is struggling BUT prospects for growth exist with recovering Europe, booming BRICS and Africa
- Main Problem areas of the sector are:
 - too high level of debts – corporate structure
 - high hotels prices by world standards
 - high cost of airline tickets
 - restrictive air access policy
 - insufficient airline seats to satisfy demand during peak periods
 - operators inability to control their costs
 - late into diversification and still hesitant
 - depreciation of Eur/MRU due to Euro crisis, but situation improving
 - high cost of Euro loans from local banks
 - diversification strategy: One Euro tourist requires 2 chinese/indian tourists for a no worse-off situation
 - tendency for more loans as interest rates decrease?

5. Recommendations

Industry Operators

1. Continue Diversification strategy BUT without neglecting Europe
2. Know who you are targeting and what will attract them to MRU
3. More Competitive hotel pricing to reduce losing potential clients
4. Use E-marketing & Direct selling and reduce costly participations to fairs
5. Re-engineering hotels corporate structure (debt/equity ratio) to max. 60%
6. Re-engineering industry operations to bring down costs with more emphasis on performance & Profit related pay across all employees (not necessarily sack)

Air Mauritius & Policy Makers

1. More Competitive air ticket prices to attract more tourists
2. Cautious Yield Management, Not to detriment of tourism development
3. Consider resuming flights to major tourist destinations (Italy, Germany etc.)
4. Open air access to enable MRU become a regional travel hub
5. A medium term coordinated & Monitored holistic Tourism Development Strategy

BOM/FSC/MOF

1. A regulatory mechanism to compel operators stick to a max. 60% debt/equity ratio (important risk management for entire financial system of MRU)
1. An in-depth Risk Assessment analysis/study of the financial impact on banking sector & economy if Tourism were to be hit by a shock (e.g. terrorist, operators go bust etc.)

6. Final Note: Impact of Interest Rate Changes on Tourism Sector

Assuming interest rate change has negligible impact on Exchange Rates irrespective of theory of international Interest Rate Parity

Other Assumptions:

- (a) Industry sector outstanding Debt from local banks: Rs 40 bn
- (b) 60% of total debts is denominated in MRU currency
- (c) 75% of the MRU currency debts are on variable interest rates

Then, 1% (100 basis points) change in local interest rate will have an impact of $(40 \text{ bn} \times 0.6 \times 0.75 \times 0.01) = \text{Rs } 180 \text{ m}$ on operators' financial accounts i.e. 0.40% of their annual Revenues

100 basis points will impact by	Rs 180 m (0.4% of Gross Revenues)
50 basis points :	Rs 90 m (0.20% of G Revenues)
25 basis points :	Rs 45 m (0.10% of G Revenues)

End of Presentation

Thank You

Questions & Answers