



Hotel and Lodging



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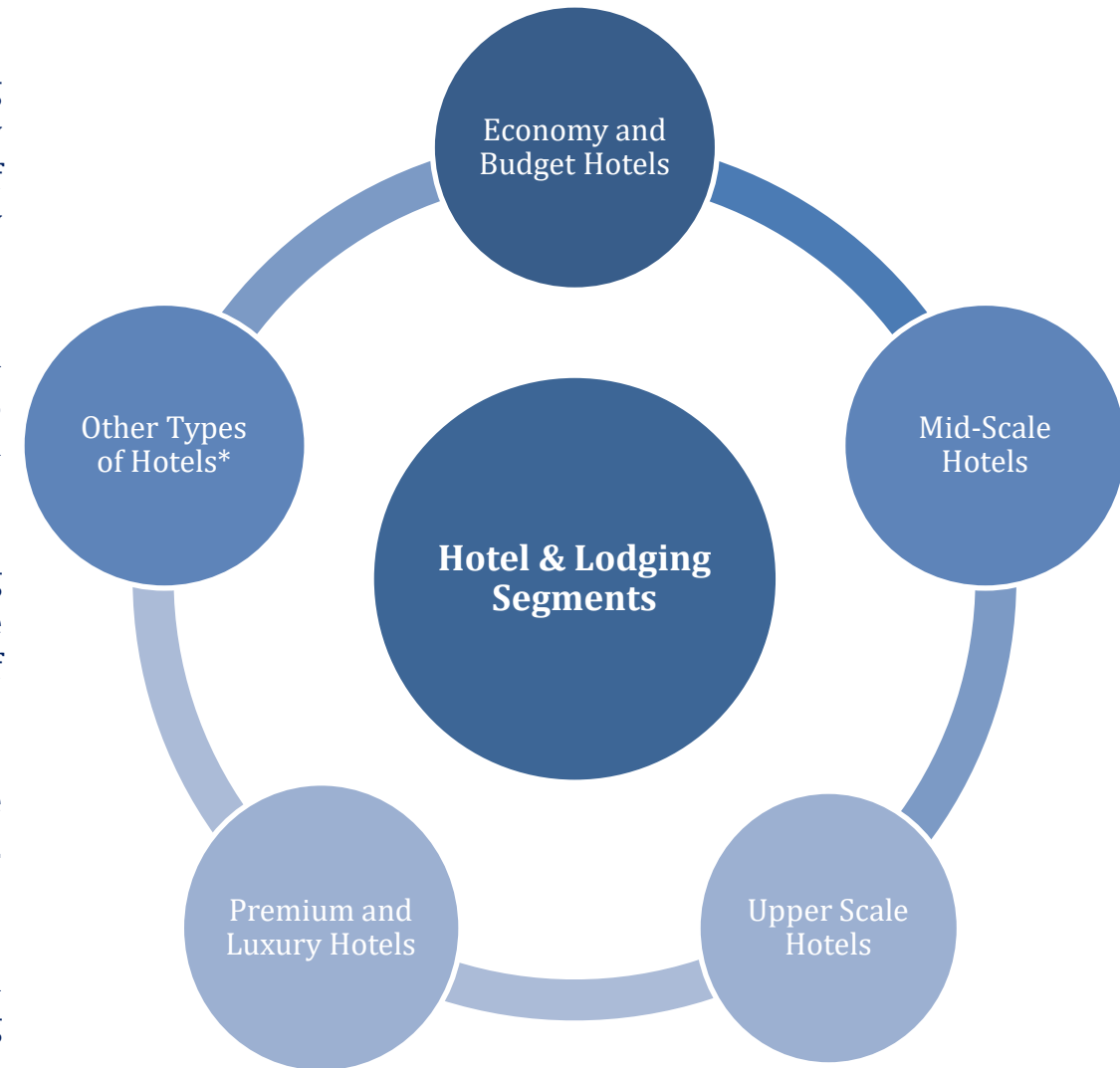
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Hotel & Lodging

Introduction

- The Hotel and Lodging Sector is a branch of Hospitality Industry catering lodging needs of customers on a temporary basis, therefore, 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 depicted on the right.
- The sector is subject to cyclical patterns depending on demand, supply, and macroeconomic performance indicators over a relevant term. Additionally, factors like politics, economics, terrorism, oil market conditions, pandemic and significant weather events can also impact the sector.
- The primary metrics used to evaluate the performance of the hotel and lodging sector are RevPAR and the occupancy rate. RevPAR measures the total revenue per available room. Whereas, the occupancy rate indicates the proportion of rooms that are occupied within a specified timeframe.
- The sector was one of the most adversely impacted sectors during COVID-19 due to lockdowns, travel bans, social distancing as well as vaccination requirements. Resultantly, in CY22-23, it exhibited noticeable revenue growth (covered later).
- Going forward, ongoing uncertainties may arise in CY24 due to potential macroeconomic challenges such as persistent inflation, increased borrowing costs, and geopolitical tensions.



*Includes shared living spaces, Rented apartments, Service Apartments, etc.

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Global | Overview

Globally, the sector comprises two major business models as follows:

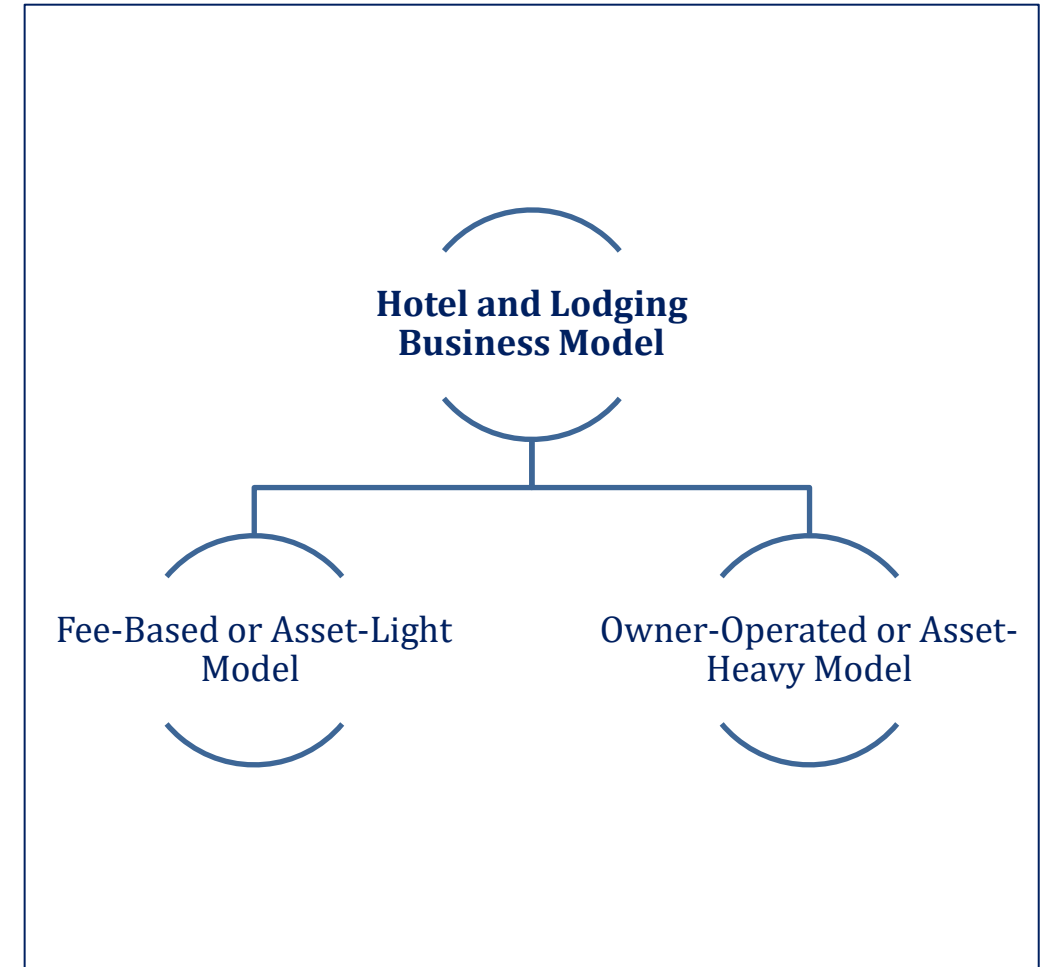
1. Fee-based/Asset-Light Model (franchised vs. managed)

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

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. E.g. Pearl Continental (Local).
- 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).

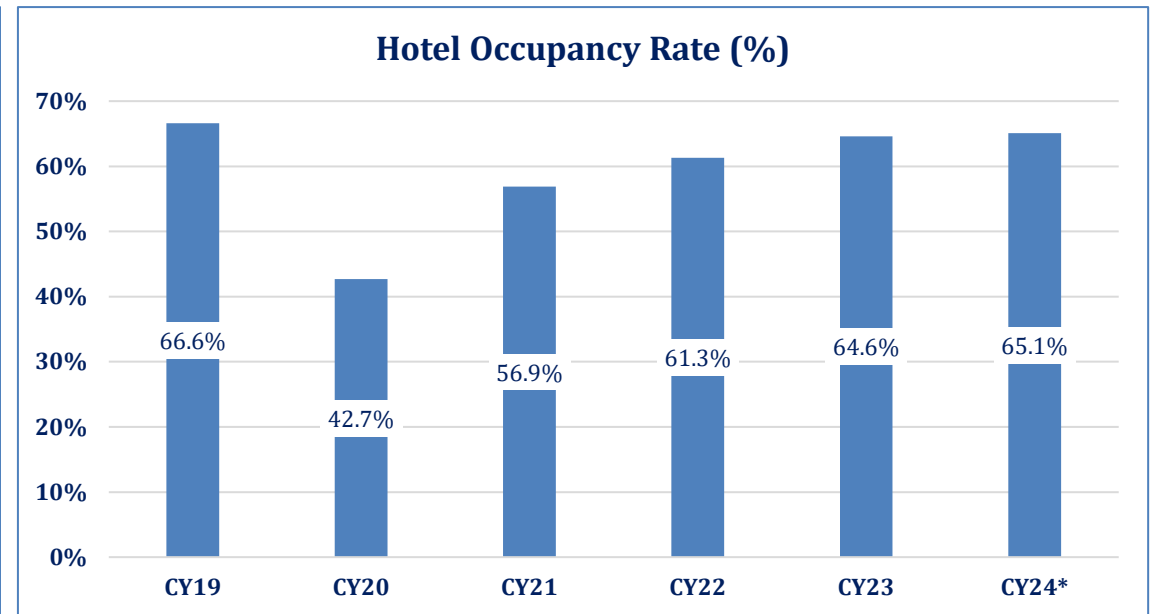
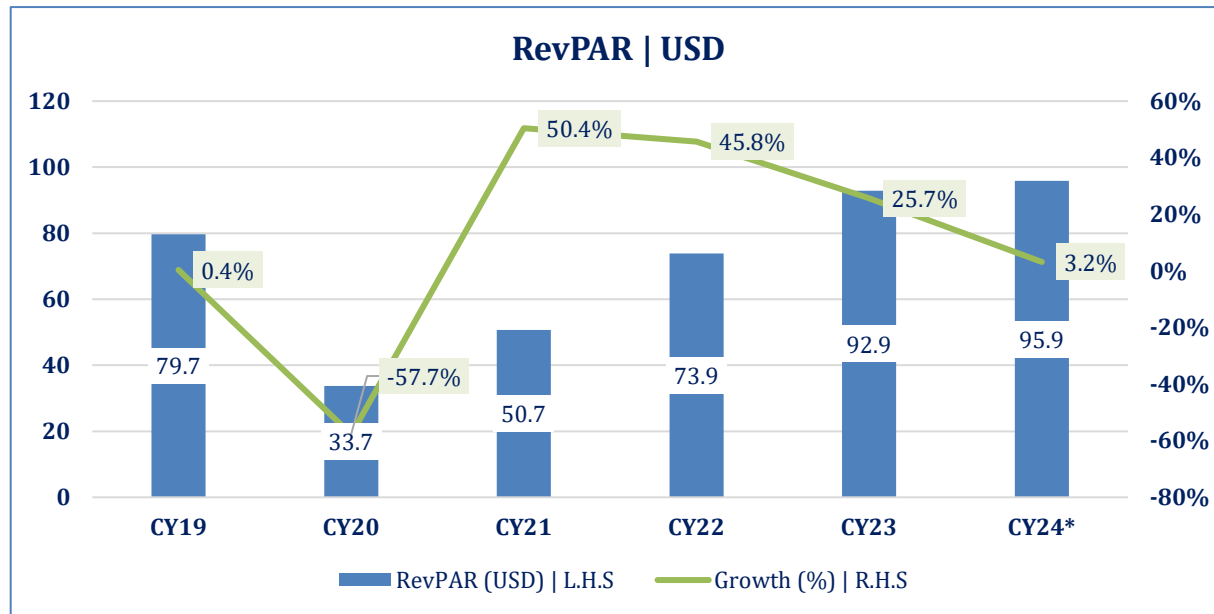
Asset-heavy business models allow tighter control over hotel operations, whilst Asset-light models enable faster growth with lower capital investment.



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Global | Overview

- The sector's global market size was recorded at USD~700bln in CY23, up ~27.3% YoY (SPLY: ~52.8%). This sustained growth was propelled by increasing interest from consumers in the form of leisure trips and a strong resurgence in business demand. The revenue passenger kilometers (RPKs) increased from ~68.5% in CY22 (CY21: ~41.7%). In 1QCY23, these surged to ~88.9% of CY19 levels led majorly by Chinese economy reopening during the period. Moreover, air ticket sales for May-Sept'23 were up ~35.2% YoY, reaching ~92.0% of CY19 levels.
- On a regional basis, average RevPAR in Europe increased by ~19.3% YoY in CY23. In the UK, it grew by ~14.5% YoY. In the Middle East, the RevPAR increased by ~37.4% (CY22: ~42.1%) driven by both occupancy and average daily rates.
- The upward trend in global hotel room occupancy rate persisted in CY23 and was recorded at ~64.6% (CY22: 61.3%). This is forecast to increase to ~65.1% in CY24, up 0.5% YoY, indicating sector's continued growth following the pandemic.



Note: RPK is a key figure of the airline industry that indicates the number of kilometers traveled by paying passengers. It is calculated by multiplying the number of paying passengers by the total distance traveled. *Estimated per CBRE data.

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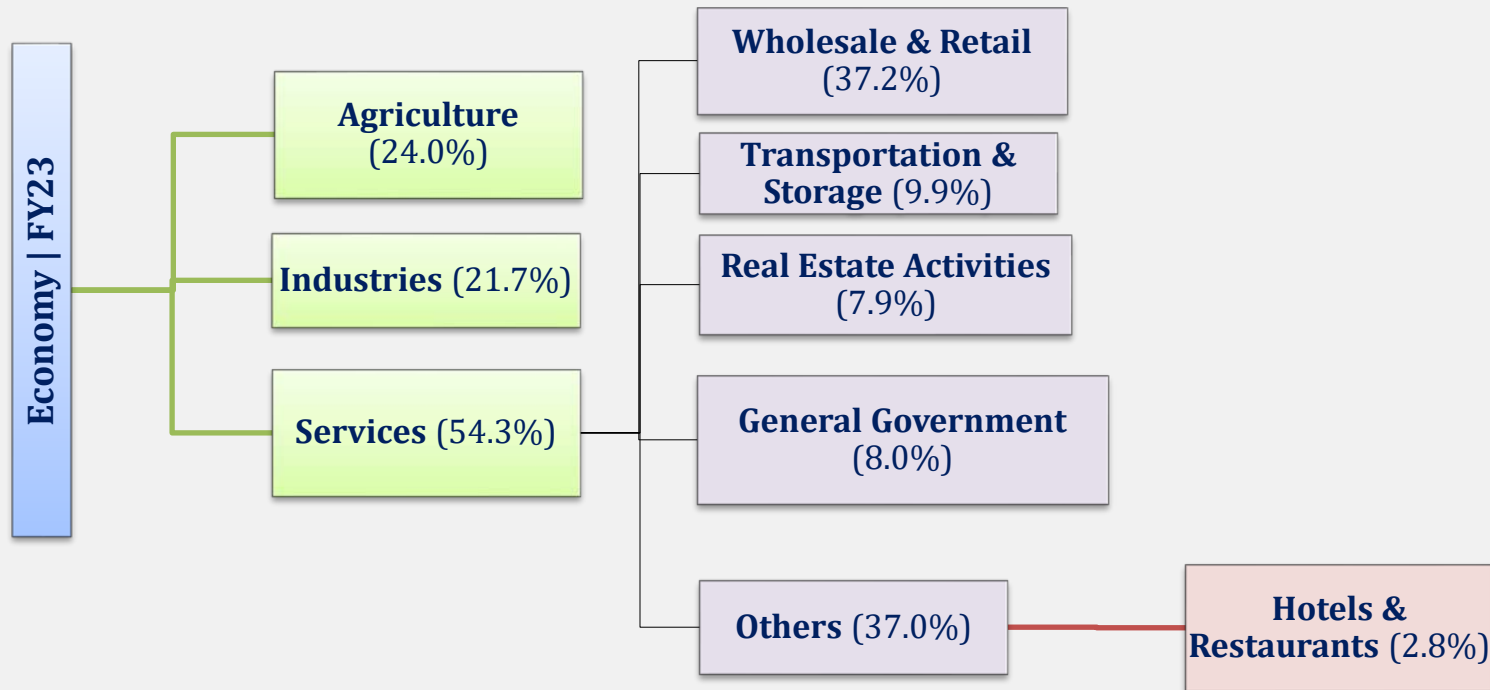
Global | Outlook

- The global revenue for the sector returned to Pre-COVID-19 levels, recording at USD~700bln in CY23, up ~27.3% YoY (SPLY: ~52.8%). In CY24, global RevPAR is forecast to increase by ~3.2% YoY while RevPAR in the USA is expected to achieve a growth of ~3.0% YoY on the back of continued demand from tourists travelling for leisure purposes. Global RevPAR is anticipated to experience ~3.2% YoY growth in C24 compared to the robust growth observed in CY23 (~25.7%). This is attributed to high base affect and continued recovery in inbound international travel following the Covid-19 pandemic. It is pertinent to mention here that historically the rate of growth of Global RevPAR has been low pre-pandemic.
- Implementation of stricter ESG policies and regulations within the sector has encouraged increased efforts to ensure that properties align with elevated sustainability standards. This adherence to ESG sustainability is also embedded in marketing strategies of various hotels and lodges worldwide, thereby contributing positively towards goodwill of the respective accommodation as more people prefer staying in hotels that prioritize energy efficiency, carbon emissions, water conservation and waste reduction.
- Furthermore, digitalization of hotel and lodging booking through applications such as Booking.com, Vego etc. has contributed in expanded outreach, while customers benefit from the ease of room booking, accessing details about hotel facilities and services, making specific requests, and offering feedback.
- Evolving consumer needs and significantly high barriers-to-entry have aided the top five hotel brands (i.e., Hilton Worldwide Holdings Inc., IHG, Marriot International Holdings Inc., Wyndham Hotels and Resorts Inc. and Accor Group) to maintain their cumulative market share globally during CY23 (CY22: ~24.4%; CY21: ~24.3%).
- This cumulative market share is expected to further increase in CY24 as the sector continues to expand. Hilton Hotels and Resorts was the most valued hotel brand of CY23 with global brand value of USD~11.7bln (CY22: USD~12.0bln). It was followed by Hyatt Hotels, Hampton Inn and Holiday Inn with brand values of USD~6.0bln, USD~4.3bln and USD~3.7bln, respectively.

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Local | Overview

- In FY23, Pakistan’s GDP (nominal) stood at PKR~79.7trn (FY22: PKR~63.3trn), contracting, in real terms, by ~0.17% YoY (FY22: ~6.3% growth). The Service segment held ~53.6% share in GDP during the year. However, country’s nominal GDP during FY24 is forecast to clock in at PKR~100.0trn with ~2.4% YoY growth in real GDP, depicting an improved economic activity during FY24 compared with SPLY. The SBP estimates GDP growth at ~2-3% for FY24, while IMF’s forecast for the same stands at ~2.0%. Meanwhile, the Service segment is expected to contribute ~53.3% to GDP in FY24.
- During FY23, the hotel and restaurants segment held ~1.5% share in GDP and contributed ~2.8% to overall services segment.



*FY24 values are Provisional – Sectoral Shares in GDP at current Price

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Local | Overview

- During FY23, the sector's market size was recorded at PKR~1,202.1bln (FY22: ~PKR~823.0), up ~46.1% YoY. Furthermore, the market size of the sector is forecast to increase by ~26.0% YoY during FY24, clocking in at PKR~1,514.9bln.
- Share of travel and tourism in Pakistan's GDP is expected to remain steady at ~1.5% in FY24 (FY23: ~1.5%). The contribution of Tourism (Accommodation and Food) in the overall growth in service sector was ~2.8% in FY23 (FY22: ~2.4%) and is expected to increase to remain steady at ~2.8% during FY24.
- Additionally, the digital apps like Booking.com that help people find quality lodging services with ease, is also contributing effectively to the sector. The sector recorded PKR~337.4bln receipts from international visitors and PKR~5,671.7bln from domestic visitors spending during CY23.
- During 11MFY24, headline inflation averaged ~24.9% (SPLY: ~29.0%), whereas average room rents have increased throughout major cities, with ~33.8%, 17.8% and ~15.8% respective YoY increase recorded in Islamabad, Karachi and Lahore.

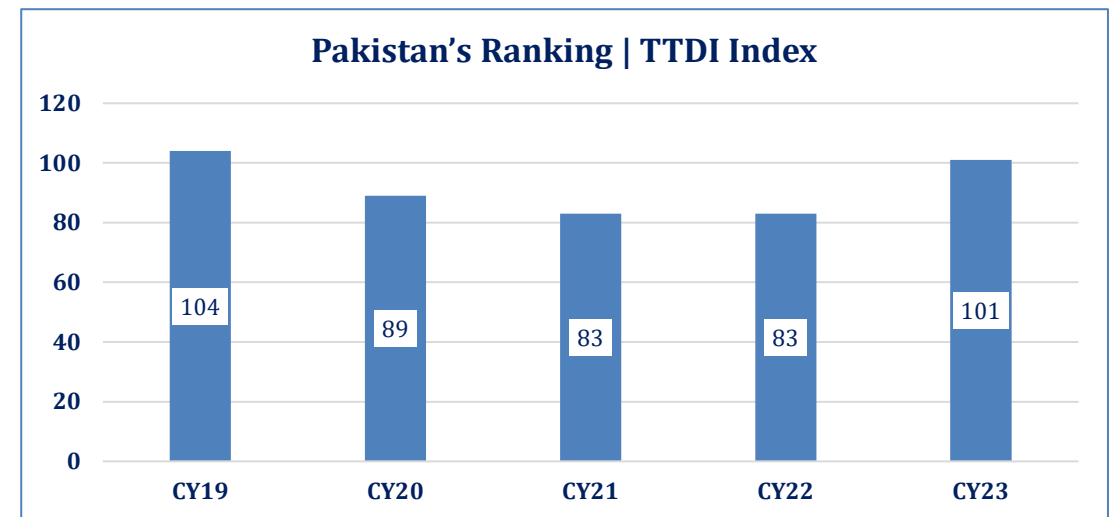
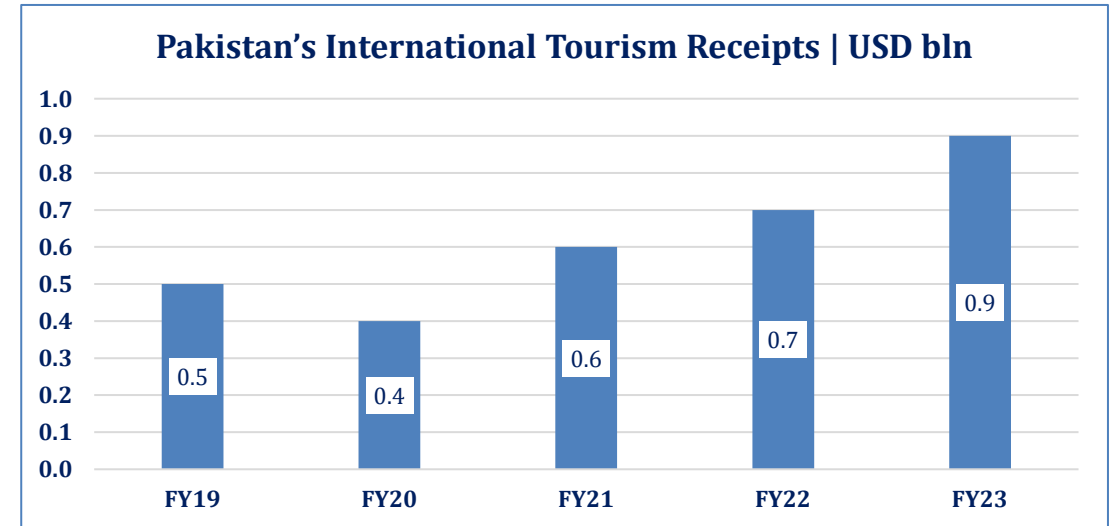
Particulars	FY22	FY23	FY24*
Est. Market Size PKR bln	823.0	1,202.1	1,514.9
Contribution to GDP (%)	1.3%	1.5%	1.5%
Hotels with ≥ 500 Rooms (No.)	4	4	5
Top 5 Players (on the basis of number of rooms)	Pearl Continental, Serena, Hotel One, Ramada by Wyndham, Marriot		
Average Room Rent of Top 10 largest hotels (May'24)	Lahore: PKR~ 27,800 Karachi: PKR~30,500 Islamabad: PKR~45,500		
Structure	Oligopoly		
Government Agencies	Pakistan Tourism and Development Corporation (PTDC), Trade Development Authority of Pakistan (TDAP)		
Association	Pakistan Hotel Association (PHA)		

Note: Key Features are based on top 10 key market players in Pakistan. * Figures for FY24 prorated on 9MFY24 data. Revenue is representative of "Accommodation & Food Services" share in GDP.

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Local | Ranking on TTDI & Tourism Receipts

- Pakistan's international tourism receipt rose ~28.6% YoY during FY23, reflecting positive encouraging performance of the hotel and lodging sector. Country's northern areas such as Swat, Gilgit, Hunza and Kashmir have become popular tourist spots for foreign tourists over the period under review.
- The Global Travel & Tourism Development Index (TTDI) evaluates an array of factors and policies facilitating sustainable and resilient growth of the travel and tourism sector, thereby fostering overall development of an economy. Of ~119 total economies included in the Index, Pakistan ascended to 89th position in FY20 from 121st in SPLY, placing the country among Asia Pacific Region's fastest growing countries
- Meanwhile, regional economies like Indonesia, KSA and Türkiye ranked 22nd, 29th and 41st in CY23 (up ~14, 9 and ~8 ranks, respectively, when compared with CY19) reflecting untapped potential with respect to local tourism.
- The UN World Tourism Barometer keeps a regular watch on global short-term tourism patterns, providing global tourism stakeholders with current analyses of international tourism trend. Pakistan emerged as the top-performing destination in tourism during 9MCY23, experiencing a remarkable ~92% rebound to pre-pandemic levels. Furthermore, during CY23, Pakistan witnessed a surge of ~115% YoY in foreign tourist arrivals, indicating a strong recovery post-Covid.



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Local | Supply

- The ten major key players of the sector are shown on the right. Hashoo Group is the market leader followed by Avari Group and Serena Hotels and Resorts.
- Two of the big hotel chains (PC and Hotel One) closed their hotel chains in cities like Peshawar, Gwadar, Skardu and Nankana Sahab amid slowdown in economy reducing, thereby, the supply of luxury hotels in FY22.
- However, during FY24, sector leader (Pearl Continental) currently has ~06 projects in the pipeline in Gilgit, Hyderabad, Islamabad, Sukkur, Multan and Mirpur Khas which will increase the supply of hotel and lodges in the sector.
- 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.

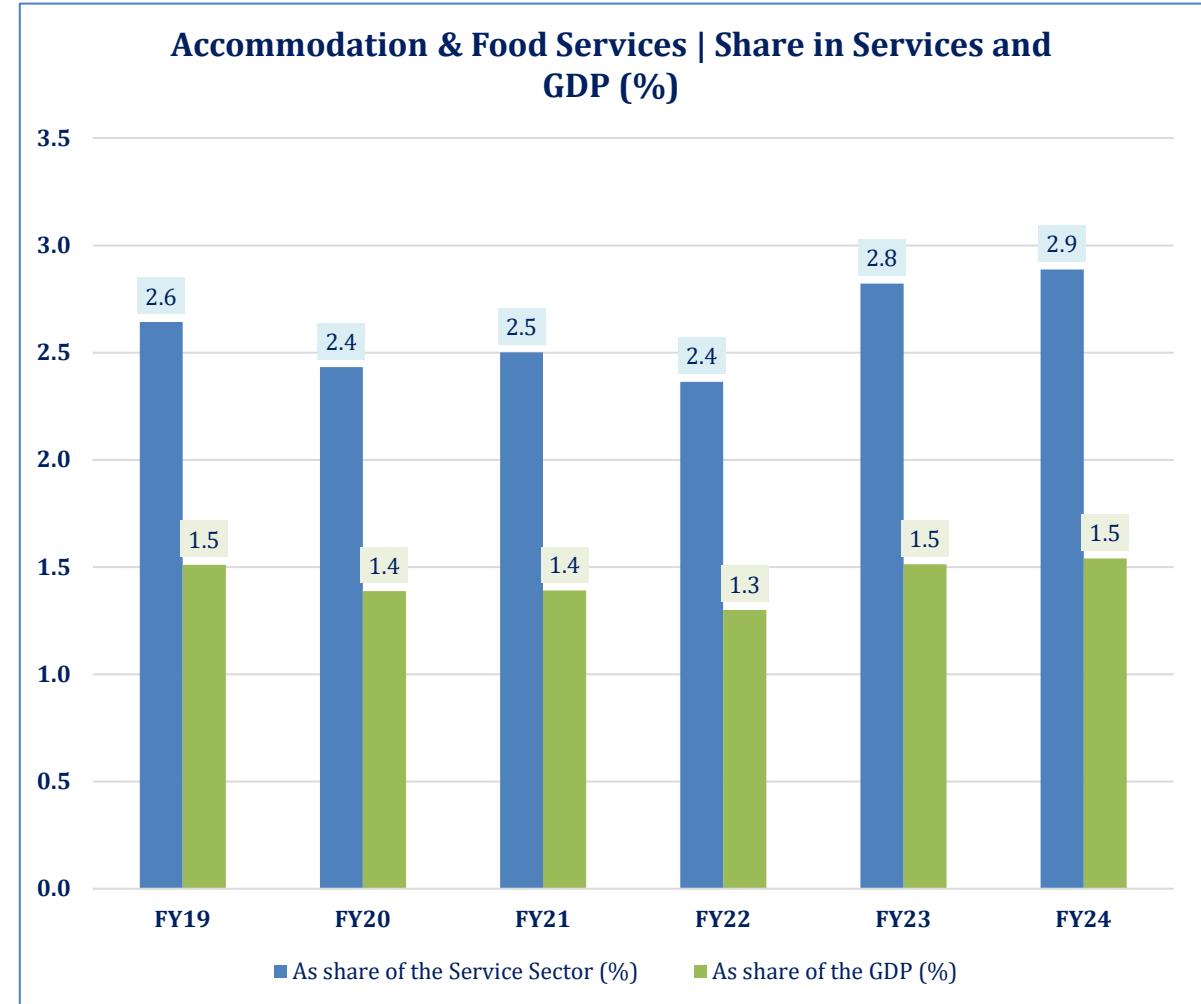
Local 10 Key Market Players (FY23)			
Hotel	No. of Rooms	No. of Cities Where Operational**	No. of Branches
Pearl Continental*	1,620	8	8
Serena	896	7	8
Hotel One	810	17	23
Ramada by Wyndham	669	5	6
Marriott	505	2	2
Avari Xpress	500	5	5
Regent Plaza	440	1	1
Avari	424	2	2
MovenPick	407	1	1
Nishat	268	2	2
Total	6,539	21	58

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

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Local | Demand

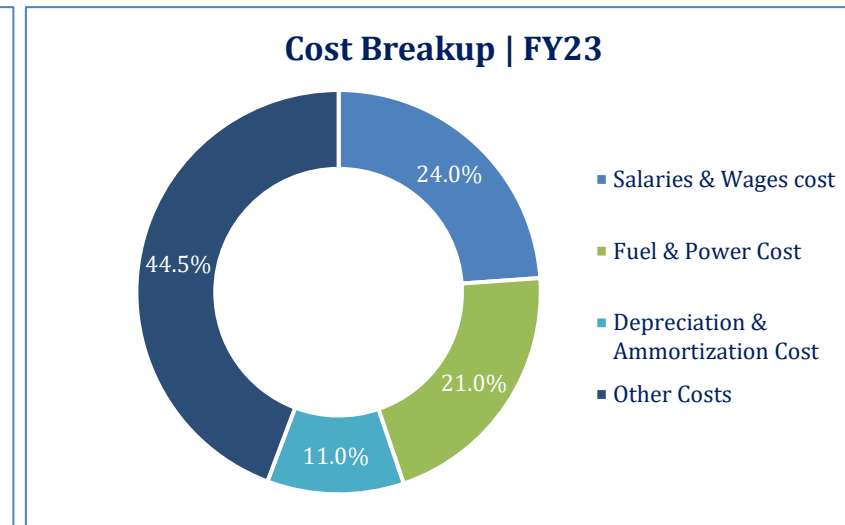
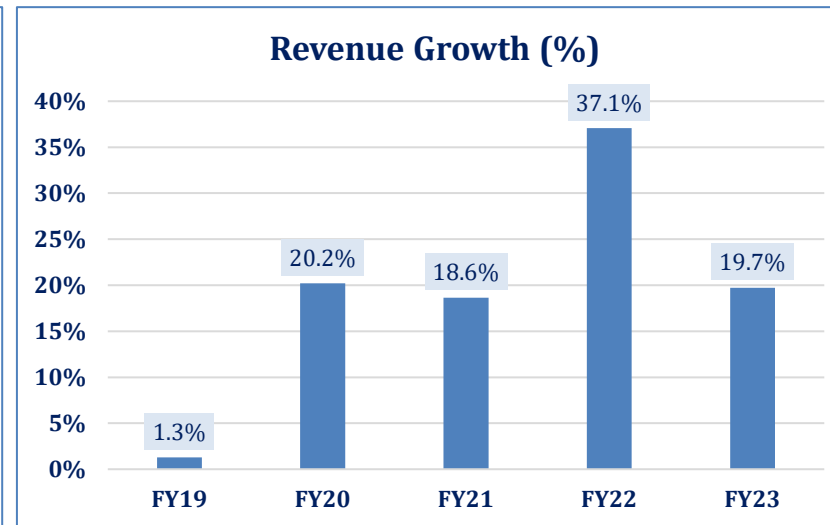
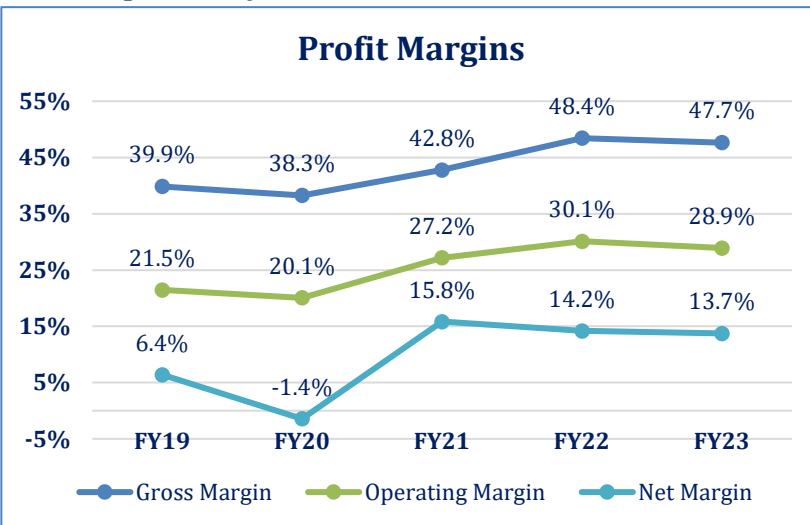
- The hotel and lodging sector has long been intertwined because of their interdependent nature. Visitors to a country typically require accommodation if they lack family or friends in the area and this is where the hotel sector plays a crucial role.
- In FY23, the hotel and lodging sector (inclusive of food services) accounted for ~1.5% of the GDP as compared to ~1.3% in FY22 and ~2.8% of the service sector (FY22: ~2.4%), indicating an improved performance.
- Additionally, in FY24, the sector is likely to continue its upward trajectory, with share in services segment rising to ~2.9%. However, contribution to GDP is likely to remain stable at ~1.5% during the year.
- The National Consumer Price Index (CPI) for May'24 clocked in at ~11.8% (SPLY: ~38.0%). The weight of recreation and culture in this National CPI Index recorded at ~1.6% during May'24.



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Business Risk | Margins & Cost Breakup

- The sector's revenue is primarily based on the domestic and international tourists as well as business travels. Luxury hotels mostly cater to the foreign tourists, business travels and elite class of the country while mid-scale/economy-class hotels are more concerned with the domestic tourists. Resurgence of the tourism in FY22, following the COVID-19 pandemic, evidently played a significant role in driving the highest revenue growth (~37.1%) compared to the previous four years (FY19-21). This growth was fueled by both domestic and international tourists. Revenue growth returned to pre-pandemic levels during FY23, clocking in at ~19.7% YoY.
- During FY23, average gross margins of the sector dropped to ~47.7% (FY22: ~48.4%) owing to a larger increase in cost of sales of ~21.5% YoY compared to increase in sales of ~19.7% YoY. Average operating margin were recorded at ~28.9% (FY22: ~30.1%) owing to overall high inflation levels while net margins were recorded at ~13.7% (~14.2%) on the back of ~85.5% YoY higher finance costs.
- Major cost components include fuel & power, depreciation & amortization and salaries & wages, with respective shares of ~21.0%, ~11.0% and 24.0%, respectively, in FY23.

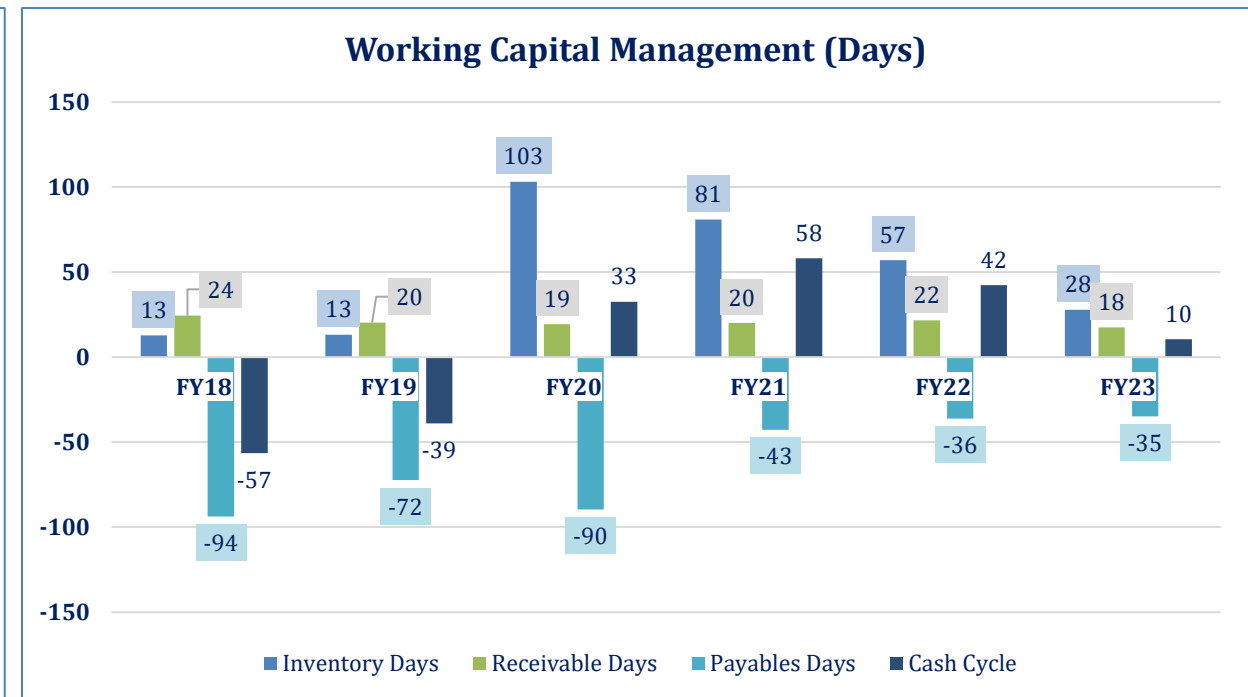
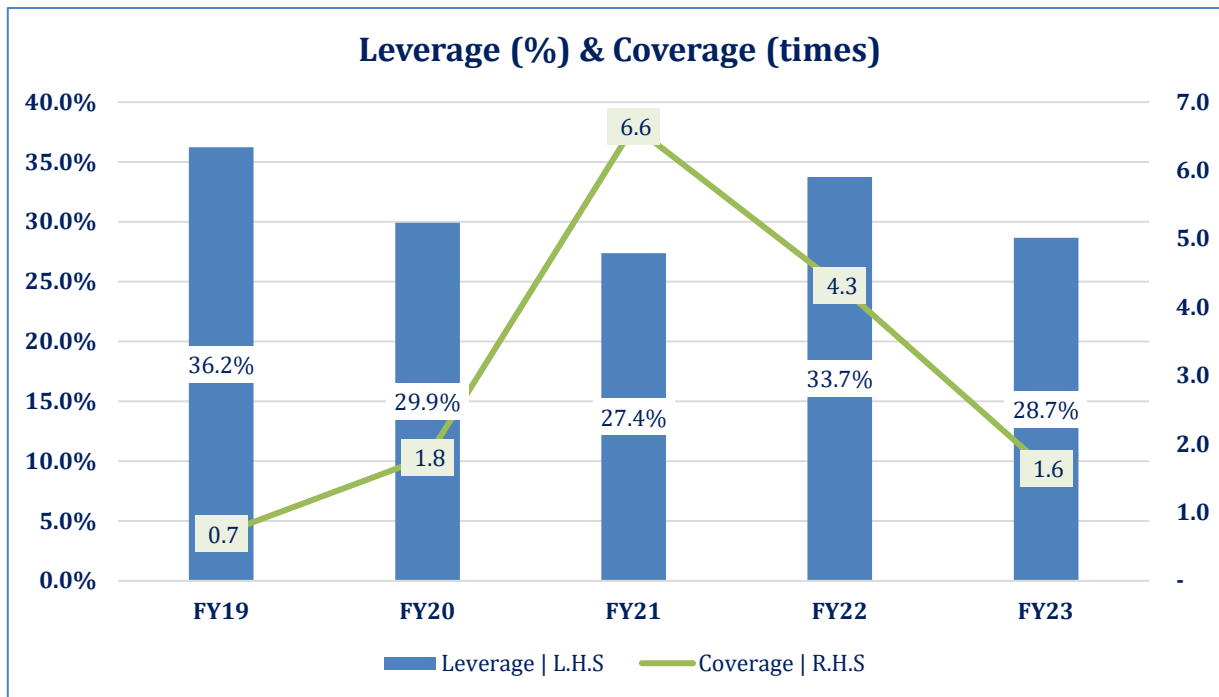


Note: Calculations are based on ~3 PACRA-rated clients.

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Financial Risk | Leverage & Working Capital Management

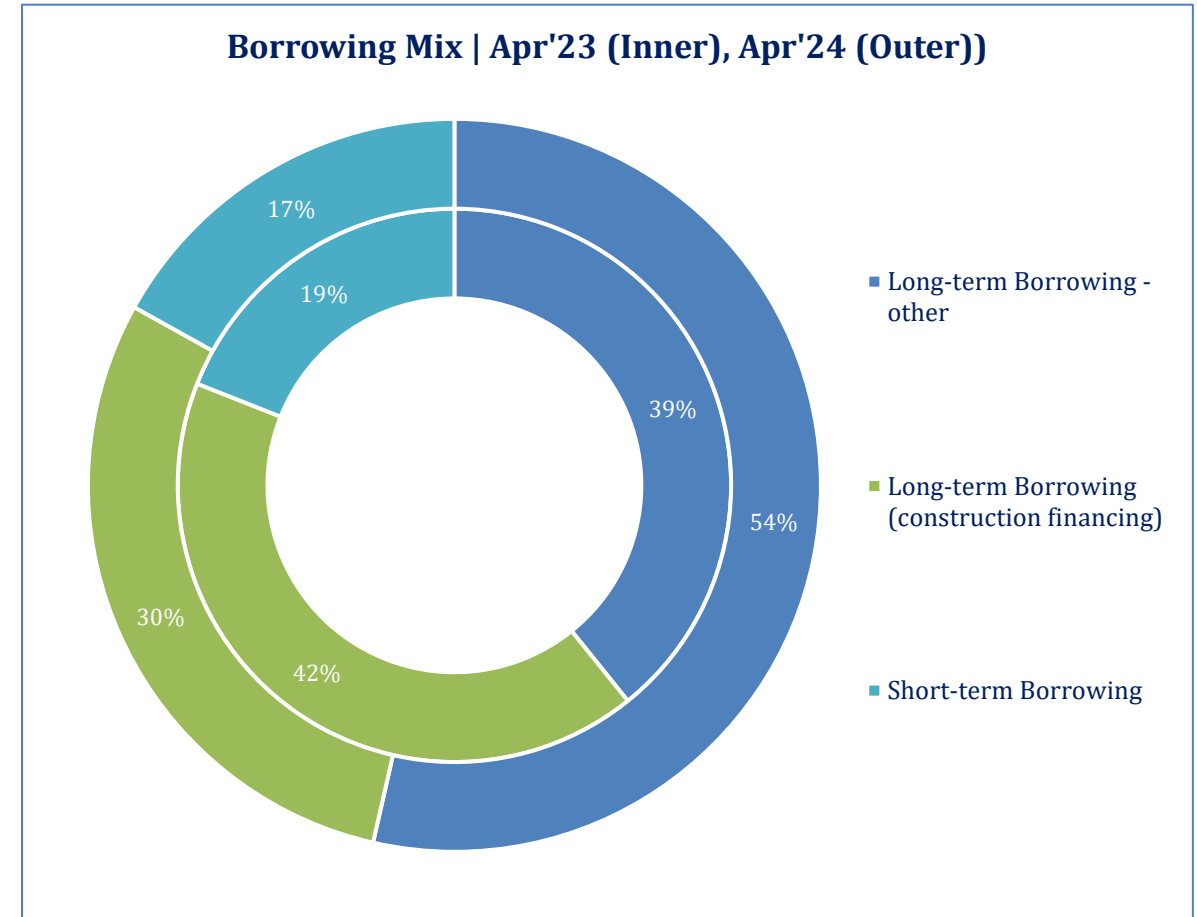
- During FY23, the working capital of the sector was down by ~32 days when compared with FY22 and clocked in at ~10 days owing to a decline in the average receivable days and inventory days of ~29 days and ~4 days, respectively. This is likely an indicator of possible cash flow problems facing sector players.
- Even though operating profit of the sector increased by ~15.0% YoY during FY23, average finance cost increased by ~85.5% YoY which dragged down the interest coverage to ~1.6x from ~4.3x in FY22, reflecting a decreased ability of the sector to fulfill its financial obligations compared with SPLY. This came despite sector's leverage reducing to ~28.7% during the year (FY22: ~33.7%).



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Financial Risk | Borrowing Mix

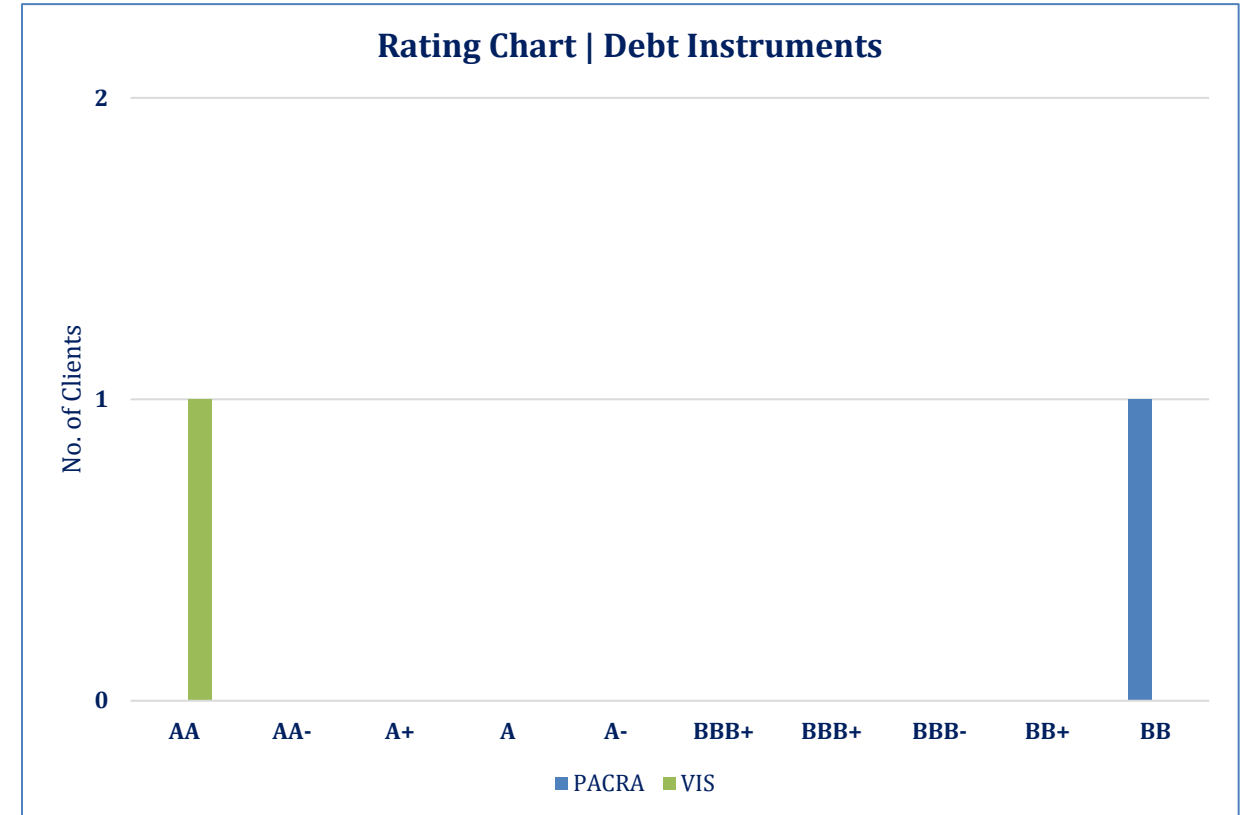
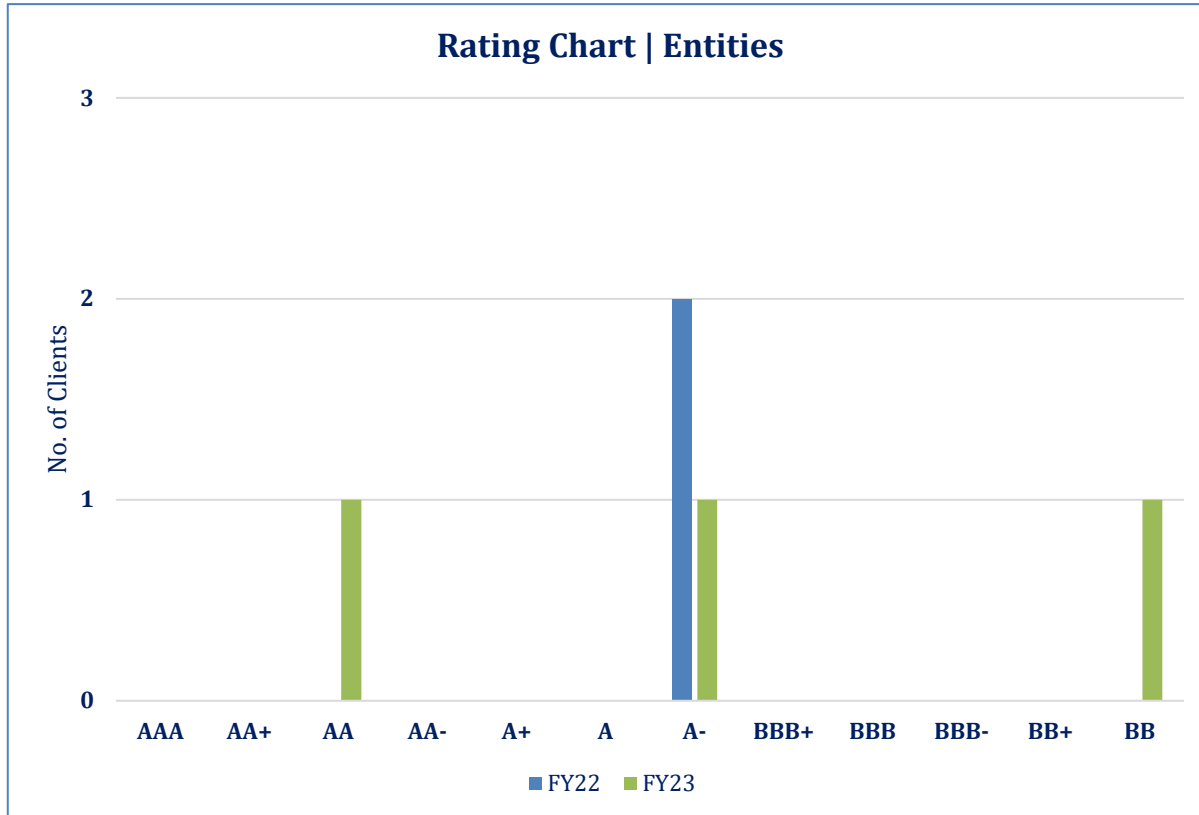
- Total borrowing of the sector as at End-Apr'24 stood at PKR~23.3bln (End-Apr'23: PKR~21.5bln), down ~3.6% YoY. ~54.0% of the total borrowings comprised long-term borrowing as at End-Apr'24 (excluding construction financing) (End-Apr'23: ~39.0%).
- Construction financing made up ~30.0% of the total borrowings (End-Apr'23: ~42.0%), and was up ~48.0% YoY as at End-Apr'24. This portion of the long-term borrowing may be taken as an indication of financing required for expansion projects in the pipeline despite high interest rates.



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Rating Curve

- PACRA rates 3 clients in the Hotel and Lodging. Rating bandwidth of the sector ranges from A to A-. PACRA also rates one debt instrument with a long-term rating of BB.



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Outlook: Stable

- In FY23, Pakistan's GDP (nominal) stood at PKR~79.7trn (FY22: PKR~63.3trn), contracting, in real terms, by ~0.17% YoY (FY22: ~6.3% growth). The Service segment held ~53.6% share in GDP during the year. However, country's nominal GDP during FY24 is forecast to clock in at PKR~100.0trn with ~2.4% YoY growth in real GDP, depicting an improved economic activity compared with SPLY. The SBP estimates GDP growth at ~2-3% for FY24, while IMF's forecast for the same stands at ~2.0%. During FY23, the hotel and restaurants segment held ~1.5% share in GDP and contributed ~2.8% to overall service segment.
- Sector's revenue is primarily based on domestic and international tourist as well as business travels. Luxury hotels mostly cater to the foreign tourists, business travels and elite class of the country while mid-scale/ economy-class hotels are more concerned with the domestic tourists. Resurgence of the tourism in FY22, following the Covid-19 pandemic, evidently played a significant role in driving the highest revenue growth (~37.1%) compared to the previous four years (FY19-21). This growth was fueled by both domestic and international tourists. Revenue growth returned to pre-pandemic levels during FY23, clocking in at ~19.7% YoY.
- During FY23, average gross margins of the sector dropped to ~47.7% (FY22: ~48.4%) owing to a larger increase in cost of sales of ~21.5% YoY compared to increase in sales of ~19.7% YoY. Average operating margin were recorded at ~28.9% (FY22: ~30.1%) owing to overall high inflation levels while net margin were recorded at ~13.7% (~14.2%) on the back of ~85.5% YoY higher finance costs. During FY23, working capital of the sector was down by ~32 days when compared with FY22 and clocked in at ~10 days owing to decline in average receivable days and inventory days of ~29 days and ~4 days, respectively. This is likely an indicator of possible cash flow problems facing sector players.
- Government of Pakistan's initiative under the Strategic Trade Policy Framework (STPF 2020-25) was designed to prioritize few sectors including services sectors, particularly tourism (hotel and lodging inter-related to tourism). 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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