

Executive Summary Hotel Survey 2017

Vietnam Hotel Upscale Lodging Industry

July 2017



Introduction

Grant Thornton Vietnam's Hotel Survey 2017 presents financial, operational and market information for the 2016 financial year from a range of Vietnamese upscale hotels and resorts.



Kenneth Atkinson
Executive Chairman

For simplicity, "Hotel" refers to both hotels and resorts, with our survey covering 4 and 5-Star rated hotels. Statistics are presented by Star Category (hotel ranking) and Hotel Region (location).

Hotel regions are separated into the three main areas of Vietnam; the North, the Central and Highlands and the South. In the North, the hotel participants are located in the capital Hanoi, Sapa and Quang Ninh City. In the Central and Highlands region, the hotels are located in cities such as Danang, Hoi An, Hue, Khanh Hoa, Quang Binh, Phan Thiet, Daklak and Da Lat. Hotel participants from the South are mainly located in Ho Chi Minh City, Phu Quoc, Vung Tau and Mekong Delta.

This report is prepared to provide readers with a general, as well as specific, view on hotel operations in Vietnam by presenting data covering different criteria for analysis such as hotel facilities, staffing, performance KPI such as average room rate, occupancy rate and RevPAR, financial and market data. For financial analysis, the data is shown up to net profit before interest, tax, depreciation and amortisation ("EBITDA") for the purpose of relevant comparability. The unit of currency is the United States Dollar.

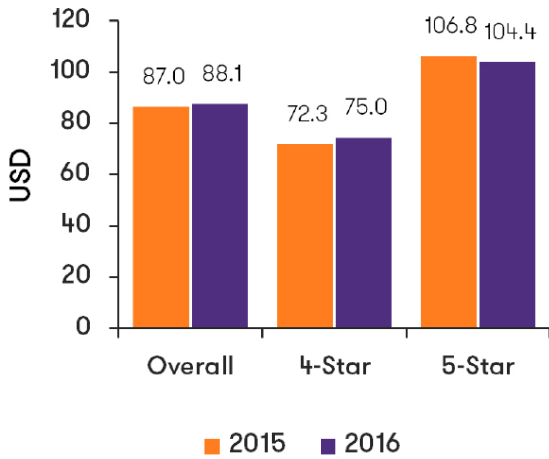
As can be seen later in this report, most data is presented in percentage terms or as averages. For instance, with financial statements, Dollar figures are shown as a percentage of total revenues. In the market data analysis and other sections, statistics are in the form of averages of the respective items.

For ease of comparison, the report presents the survey results of each specific category alongside key findings. In the Appendices, readers can also find tables showing the minimum, maximum and mean values of market data for the financial year 2016. This report, however, does not attempt to set operating results for the Vietnam hotel industry. The figures and ratios in this report should not be considered as standards for any type of property.

The report users also need to note that not all changes from one year's results to another are due to actual year-to-year differences. Sometimes, they may be a result of a different mix of survey participants. Readers should note that due to limits on analysing data based on specific sample sizes, the results should be regarded as indicative only.

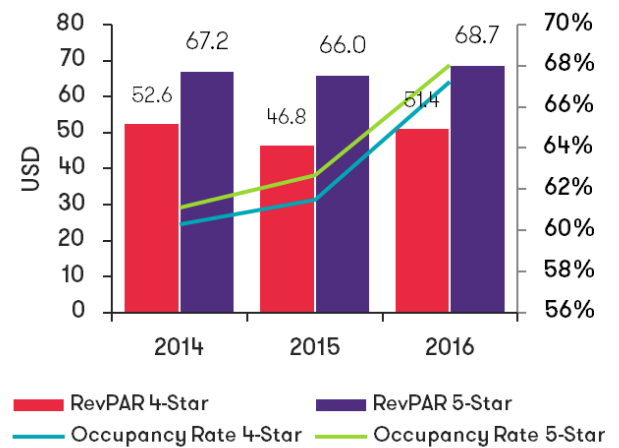
Key Trends

Average room rate (USD) by Star Ranking



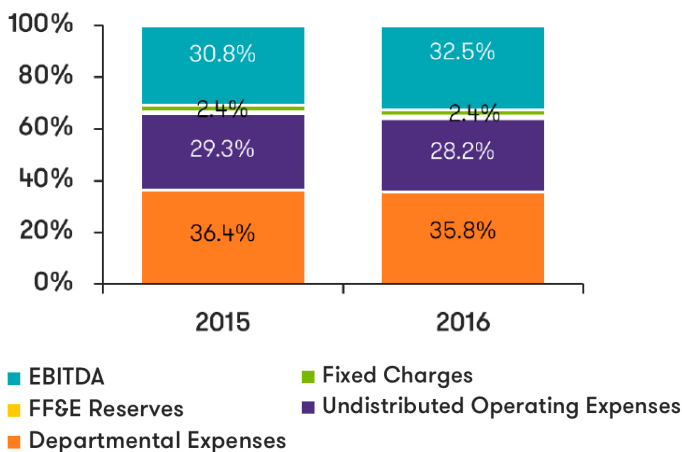
1.3% increase in average room rates

Average occupancy rate and RevPAR by Star Ranking



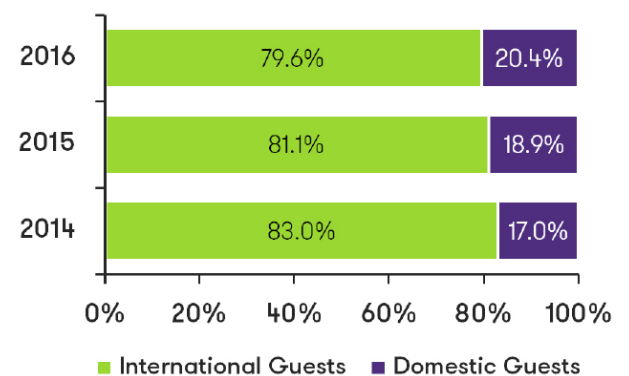
5.6% increase in occupancy rate
8.0% increase in RevPAR

Expenses and Profit as Percentage of Revenue



EBITDA made up **32.5%** of revenue for upscale hotels in 2016, up **1.7%** compared to 2015

International guests vs Domestic guests



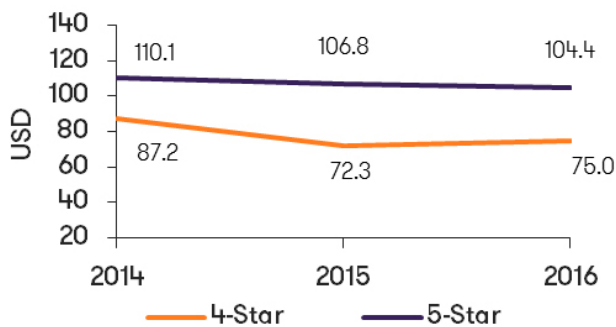
Increasing trend of Domestic Guests staying at upscale hotels

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Room Rates by Selected Category

By Star Ranking, Room Rate for 4-Star hotels in 2016 started to pick up reaching USD75.0, recording an increase of 3.8% but still far behind the 2014 level. However, 5-Star hotels continued to see their rates drop slightly by 2.2% from USD106.8 in 2015 to USD104.4 in 2016.

Average room rate by Star Ranking (2014 - 2016)

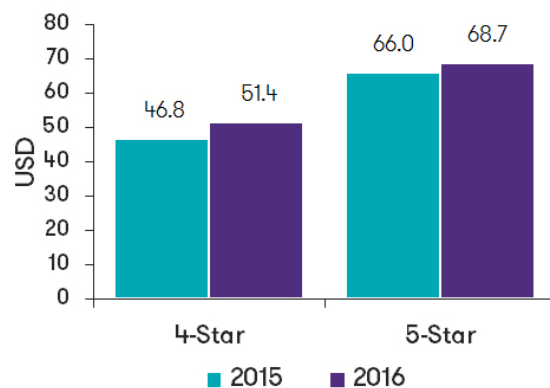


The overall average room rate of upscale hotels in 2016 increased from USD87.0 in 2015 to USD88.1 in 2016. In 2017, the number of tourists is expected to increase significantly after a static year in 2015 and a significant increase of 26.1% in 2016. The performance of Hotel industry, as a result, is expected to improve after a period of stagnation

RevPAR by Selected Category

RevPAR for Hotels increased in both Star categories, with a 10% rise at 4-Star hotels and a 4.1% rise in 5-Star hotels.

Movement in hotel room RevPAR by Star Ranking

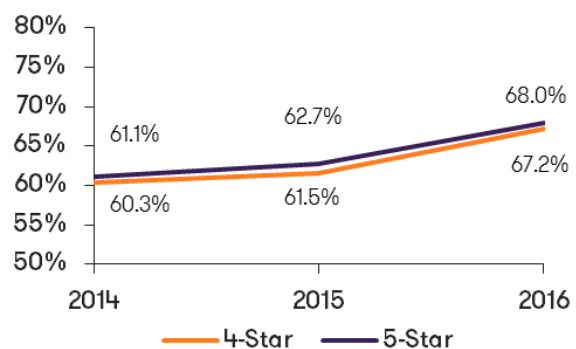


The Central Region, with lowest RevPAR, achieved the highest increase by 15.1%, while Northern and Southern Region recorded a 3.5% and 5.9% increase respectively.

Occupancy rates by Selected Category

Year 2016 marked a year of recovery with Occupancy Rates in general increasing for both Star Rankings. However, with the expanding room inventory and a lot of projects scheduled to launch in the near future, the competition in the upscale hotel market will start to heat up, especially for 5-Star hotels.

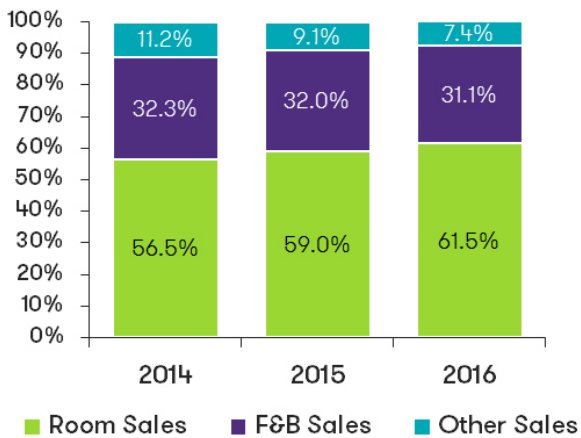
Average hotel room occupancy rate by Star Ranking (2014 - 2016)



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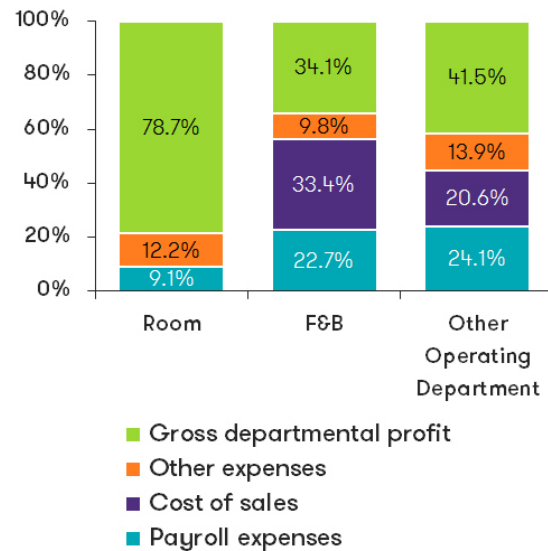
Revenue and Expenses

Annual revenue breakdown (2014 - 2016)



Hotels generate Revenue from 3 main sources: Room Sales, F&B Sales and Other Sales (income from Spa, banquet, conference and business centre, etc.) with Room Sales accounting for the highest proportion of Total Revenue. Compared to 2015, sales mix in 2016 changed slightly with the proportion of Room sales increasing from 59.0% to 61.5% corresponding to the reduction of F&B Sales which fell from 32.0% to 31.1% and Other Sales dropping by 1.7%.

Departmental Expenses and Gross Profit as Percentage of Departmental Revenue (2016)

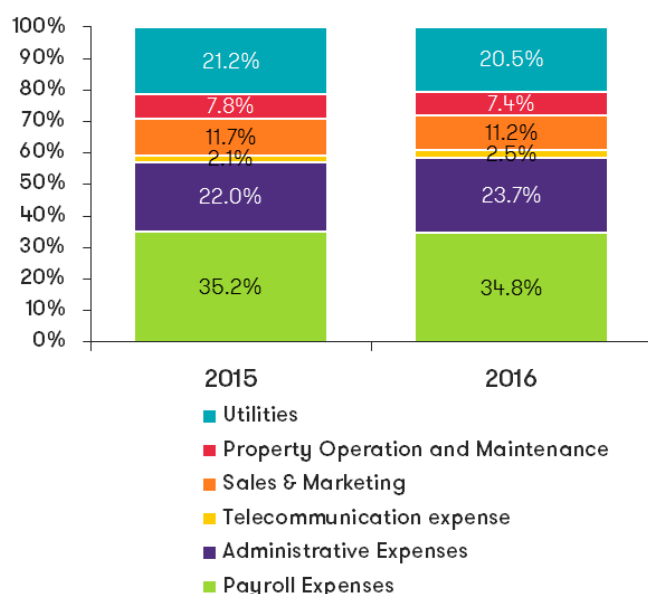


The above chart illustrates the gross departmental profit as a percentage of departmental sales. Overall, 2016 show a slight increase in gross profits of upscale hotels by 0.6% versus 2015, while there is no significant change in departmental cost structures.

In terms of Star Ranking, 4-Star hotels have a better gross profit margin than 5-Star hotels. This is mainly because of the higher cost of F&B by 3.2%.

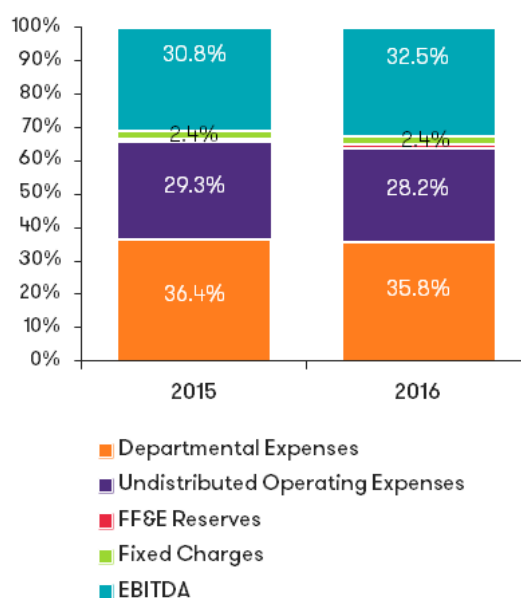
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Undistributed Operating Expenses Breakdown (2015 – 2016)

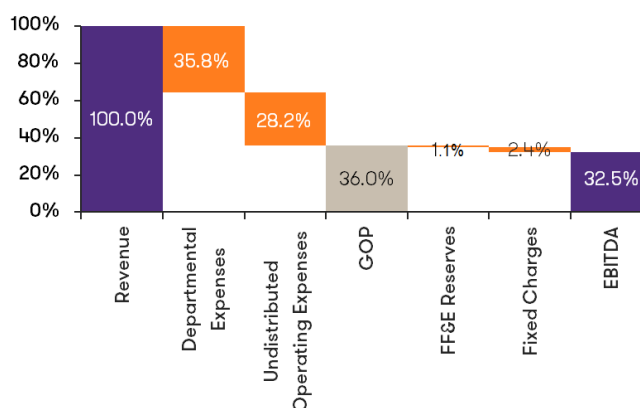


The contribution of each category within Undistributed Operating Expenses between two years showed no major movement. Payroll expenses made up the majority of total undistributed expenses, at 35.2% in 2015 and slightly decreased to 34.8% in 2016. Administrative expenses were the second largest cost in the overall cost structure, accounting for 22.0% and 23.7% in 2015 and 2016 respectively. Utilities proportion was roughly on a par with Administrative Expenses and decreased slightly from 21.2% in 2015 to 20.5% in 2016.

Expenses and Profit as Percentage of Revenue (2015 – 2016)



GOP and EBITDA as Percentage of Revenue (2016)



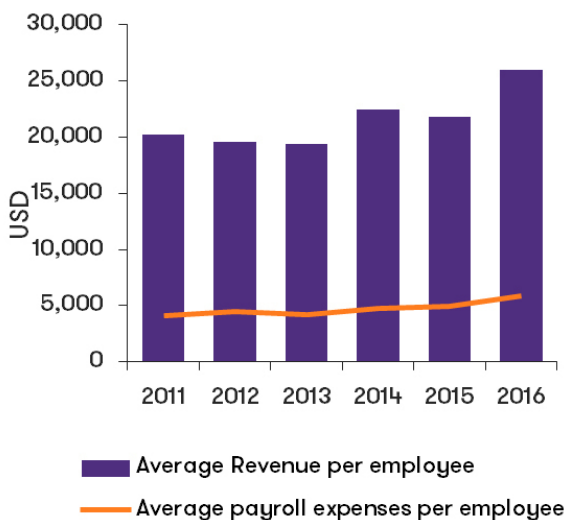
In 2016, the upscale hotel sector saw a better year with EBITDA margin increased by 1.7%. While the proportion of Fixed Charges and FF&E – Furniture, Fixtures and Equipment Reserves remained nearly the same for both years, the improvement in EBITDA was largely contributed by the positive change in both Departmental Expenses and Undistributed Operating Expenses.

Notes: From this year, we will be changing the metric for ease of comparison.

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Employees by Selected Category

Average Revenue and average annual expense per employee (2011 - 2016)



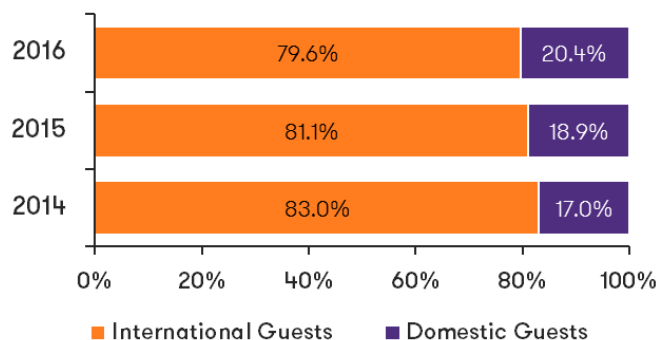
The recovery of the Tourism industry has created a positive impact on the performance of upscale hotels. Both average revenue and payroll expenses per employee have increased since a downturn in 2015. The average Revenue per employee in 2016 increased by 18.6%.

A lot of projects brought into operation had boosted up the average payroll expenses per employee, marked an increase of 9.7% when compared to last year's expenditure.

Both average revenue and average annual expense per employee were on the rise in all regions with the most significant change noted in the Central area – at 19.1% compared with last year. The same trend was also illustrated above when the Central's RevPAR recorded the highest increase of 15.1% out of the 3 regions.

Source of Guests by Selected Category

Source of guests (2014 - 2016)



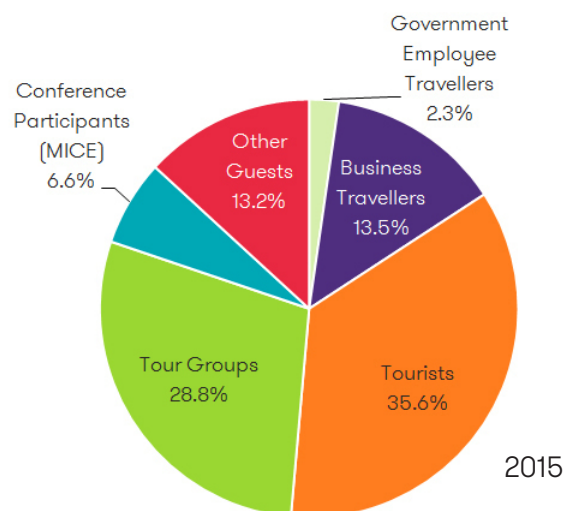
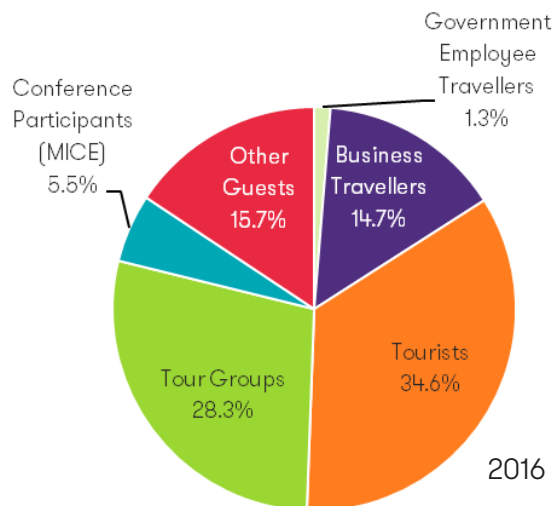
In the last 3 years, International Guests remained the main source of guests for upscale hotels, despite a slight drop from 81.1% in 2015 to 79.6% of total guests in 2016.

By region, Vietnamese guests staying at upscale hotels observed an increase in the Central and Southern regions – an increase of 2% to 3%. The Northern area, on the other hand, saw a lower proportion of Vietnamese guests compared to last year.

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Purpose of Stay by Selected Category

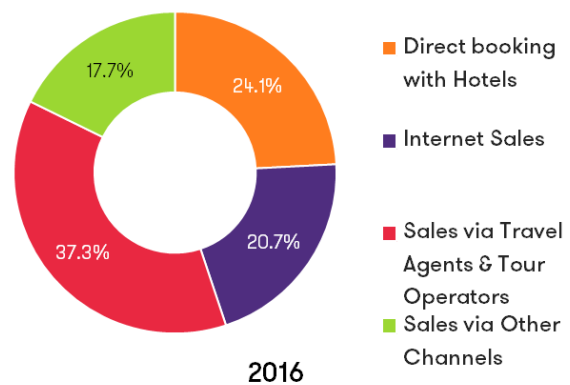
Purpose of stay (2015 - 2016)



Individual tourists, Tour groups and Business travellers together comprised over three quarters (77.6%) of total guests staying in high-end hotels in 2016. Looking at 4-Star and 5-Star hotels separately, the three segments made up for 83.1% and 71.8%, respectively.

Channel of Reservation by Selected Category

Channels of reservation (2016)



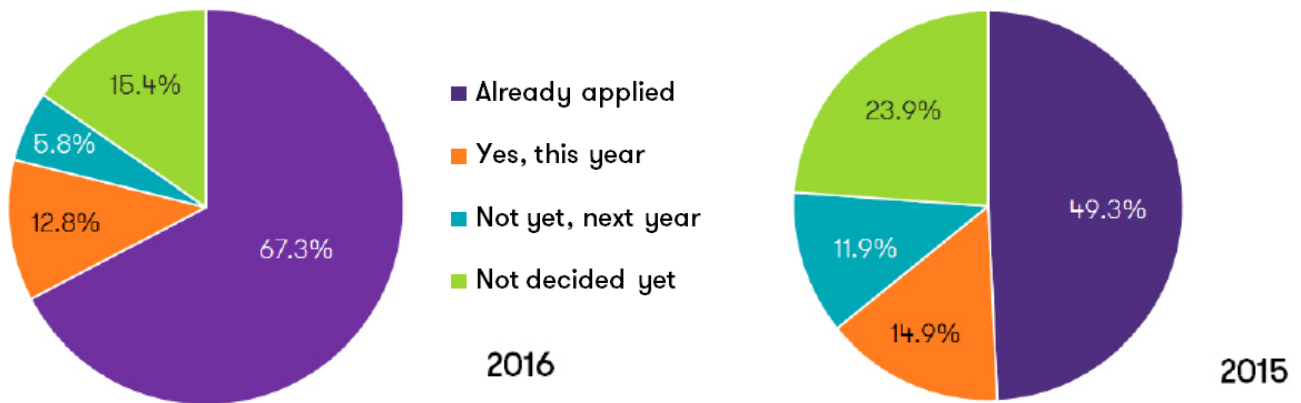
Generally, the structure of room reservations followed the same pattern as in 2015. The largest channel to reserve the accommodation at 4-Star and 5-Star properties is still Travel agents and Tour Operators with 37.3%. This ratio, however showed a gradual decline throughout the years, and decreasing further by 3.1% compared to 2015.

With regards to Star Ranking analysis, 4-Star hotels have the higher ratio of booking via Travel agents and Tour Operators at 41.3%, while the 5-Star hotels have 32.5% of its sales via this channel.

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Importance of Digital Technologies

When hotels will apply digital technology into their business



2016 saw an increase in the number of hotels who have decided that digital technology is vital to their business to help combat growing competition and to set them apart from those older hotels or those with an older mindset.

With the 4th Industrial Revolution affecting all sectors of the economy, many high-end Hoteliers have prepared fully for what is to come. A notable increase was observed for the application of digital technology from the previous

year's 49.3% of the hotels to 67.3% in 2016. Added to that, 18.6% of the hotels decided to implement further use of technology either in this year or next year. Of those who responded that they have not made any decision, most of them are hotels from the Central and Southern Region, and the proportion of this group dropped from 23.9% in 2015 to 15.4% in 2016.



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