

Executive Summary Hotel Survey 2018

Vietnam Upscale Lodging Industry

July 2018



Introduction

Grant Thornton Vietnam's Hotel Survey 2018 presents financial, operational and marketing information for the 2017 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 rankings) and hotel region (location).

Hotels are grouped into the three main regions: 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's such as average room rate, occupancy rate and RevPAR, financial statements 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, numbers 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 2017. 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.

Newborns

Newborns Vietnam

Newborns Vietnam (NBV) is a United Kingdom registered charity licensed to operate as a non-governmental organisation (NGO) in Vietnam dedicated to reducing neonatal mortality in South East Asia, with a specific focus on Vietnam.

In Vietnam, the healthcare system and standards of care for preterm and sick newborns trail those of more developed markets resulting in limited progress in reducing deaths in the newborn period (first twenty eight days of life). 70% of all infant deaths are newborns, more than 500 babies born every day in Vietnam need some form of neonatal care – many newborns die on their very first day of life, many of these deaths are preventable.

Outside of high-income settings there are almost no specialist neonatal training programmes for doctors and nurses. We work in close partnership with the Ministry of Health to address this deficit. In Vietnam only 10% of doctors are specialists and this is a major factor in why newborn deaths remain high. We are accelerating improvements in standards of neonatal care and reducing mortality by sharing a century of British expertise.

We are training doctors and nurses at the Vietnam National Children's Hospital, Hanoi Obstetrics and Gynecology Hospital, St Paul Hospital, Da Nang Hospital for Women and Children, general hospitals within Hanoi and provincial hospitals in the north of Vietnam.

Babies die every day because there is no safe transport system to a higher-level hospital, it is unacceptable that babies are irreversible damaged. We are developing a pilot transport system within Hanoi that provides the care during transfer and equipment to give our precious newborns a realistic

chance of surviving to access a higher level of care and without a long-term disability.

In the next five years Newborns Vietnam will deliver a programme of activities to develop safe and consistent care for all newborn infants. With your help, we can give more parents the gift of life.



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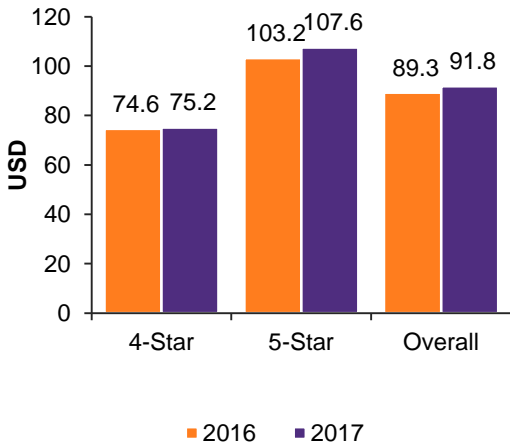
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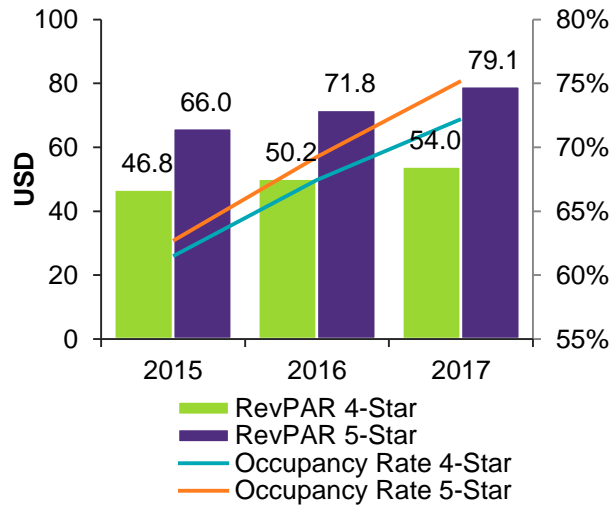
Key Trends

Average room rate (USD) by Star Ranking



2.8% increase in average room rates

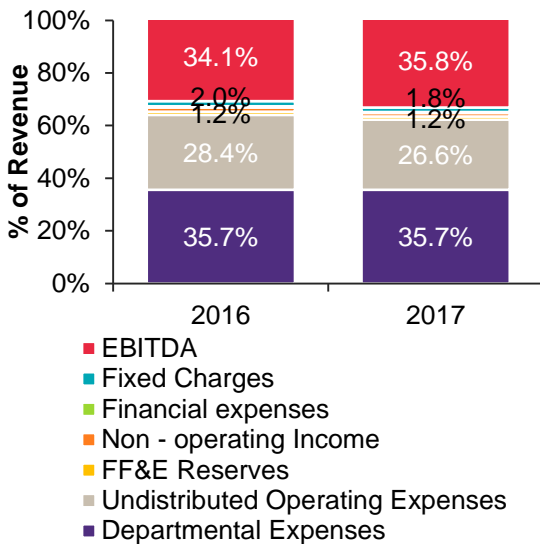
Average Occupancy Rate and RevPAR by Star Ranking



5.3% increase in occupancy rate

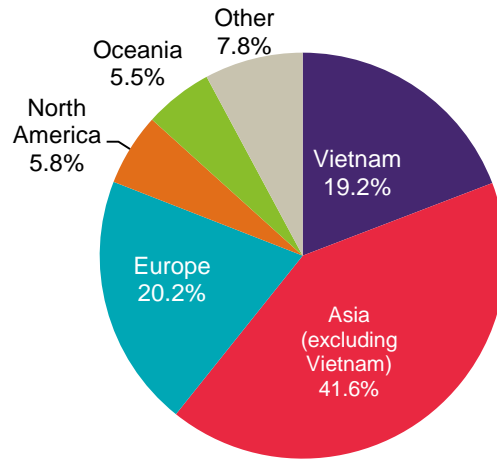
9.7% increase in RevPAR

Expenses and Profit as Percentage of Revenue



EBITDA **35.8%** of revenue for upscale hotels in 2017, up **1.7%** compared to 2016

Source of Guests (2017)



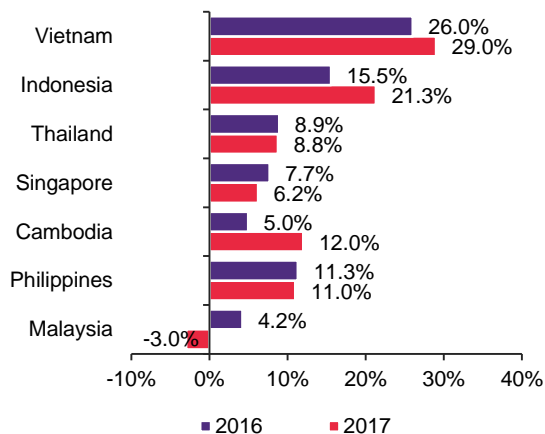
Asia is the primary source of guests, increased **2.3%** in comparison with 2016

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Tourism overview for Vietnam

Vietnam is the 6th fastest growing country in the world, as a tourist destination, and the fastest in Asia, according to a report by UNWTO. In 2017, Vietnam tourism continued the growth momentum from 2016 and surpassed the expectation of the government for a second year. Total arrivals rose by 19%, from 72 million in 2016 to 86 million in 2017, of which international arrivals increased 29%, attributed mostly to an increase of 1.3 million Chinese visitors. Domestic travellers increased 18%.

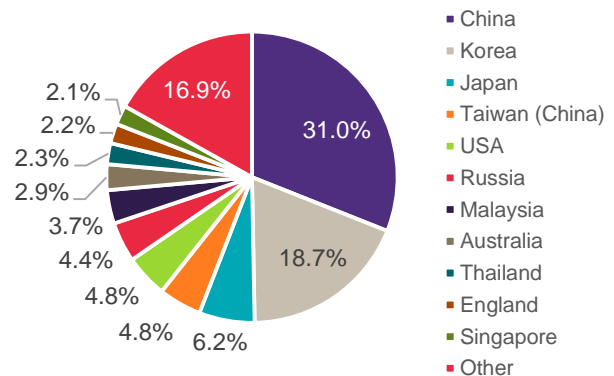
International Arrival growth rate for some selected countries



Source: Countries' Tourism Authorities

As for overall economic contribution, the tourism industry in 2017 earned the revenue of VND510.9 thousand billion, an increase of 27.78% from 2016. In 2017, direct contribution from the Travel & Tourism Industry to GDP was USD12.97 billion, accounting for 5.9% of total GDP; while total contribution of the industry to GDP was USD20.61 billion, accounting for 9.4% of total GDP (Source: World Travel and Tourism Council, 2018). The Government set out the objective in Resolution No. 08-NQ/TW to achieve the target of total contribution from the Travel & Tourism Industry contributing over 10% of total GDP by 2020.

Countries of Origin for International Arrivals to Vietnam (Source: GSO/VNAT) – Year 2017



Asia is still the primary market for inbound Vietnam tourism, accounting for 76% of total international arrivals, among which China, South Korea and Japan have been the top 3 inbound markets for the last 3 years, together accounting for more than 50% of total international visitors to Vietnam.

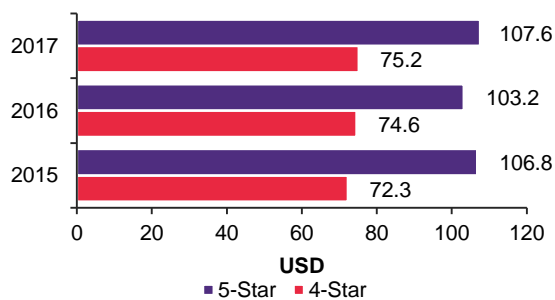
On average, arrivals from Western countries rose 14% in 2017, with the notable case of Russia, where the number of visitors rose over 32% thanks to the tour operators' effort to expand their tour packages for Russian tourists to travel to Vietnam in winter, and increase knowledge of both tourists and travel agents about Vietnam. In the future, with the 3-year extension to the visa scheme starting from July 2018 for visitors from 5 Western countries, the growth rate can be expected to increase significantly.

In 2018, the Prime Minister of Vietnam and the Minister of Culture, Sports and Tourism set a target of 15 to 17 million international arrivals. This target is within reach, with the first 5 months of the year, the country received c.6.7 million tourists, an increase of 27.6% over last year's figure.

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Room rates by Selected Category

Average Room Rate by Star Ranking (2015-2017)



Average room rate in 2017 increased by 2.8% from USD89.3 in 2016 to USD91.8.

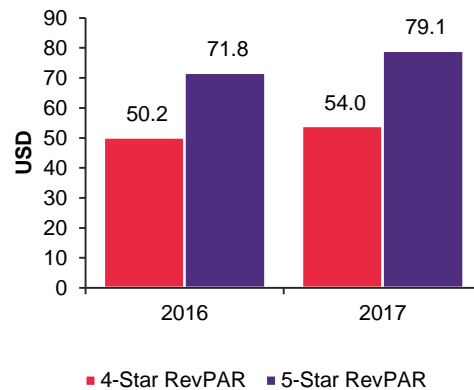
After a drop in 2016, 5-Star hotels made a recovery with average room rate increased by 4.2% in 2017. 4-Star hotels also observed a rise in their room rates but at a rate of less than 1%.

All regions saw an improvement in room rate with the Central region achieved the highest of 5.7%, followed by the Northern region with 4.4%.

RevPAR by Selected Category

RevPAR showed significant increases for both star categories at 7.6% for 4-Star hotels and 10.2% for 5-Star hotels.

Movement in hotel room RevPAR by Star Ranking (2016 – 2017)



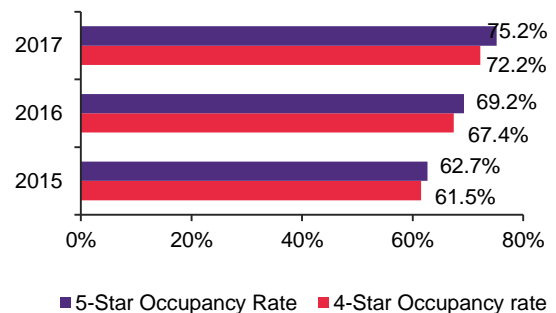
Central region continued to achieve the highest growth by 19.7% as a result of the rise in both occupancy rate and average room rate.

Northern region followed with a 12.9% increase, from USD68.8 in 2016 to USD77.7 in 2017.

Southern region ranked the last with a slight rise of 4.7%.

Occupancy rates by Selected Category

Average hotel room occupancy rate by Star Ranking (2015 – 2017)

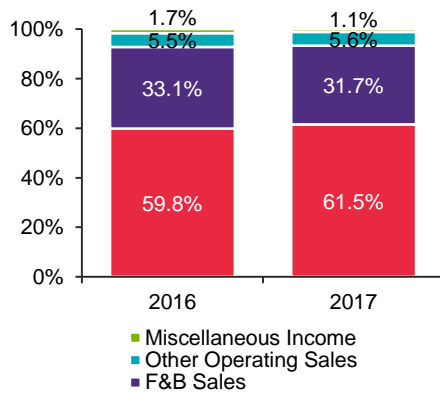


Overall, occupancy rate improved by c.5% for both star rankings (4.8% for 4-Star and 5% for 5-Star).

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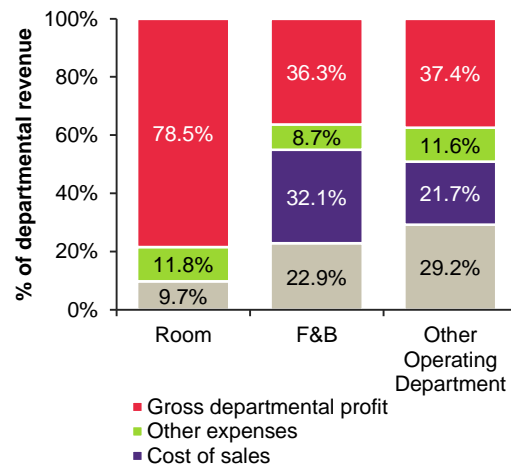
Revenue and Expenses

Annual Revenue Breakdown (2016 - 2017)



Room sales accounted for the highest portion of total revenue at c.60% and showed a slight increase of 1.8% from 2016 to 2017. F&B sales, on the contrary, saw a decrease of 1.3% compared to last year. Other operating sales, including spa, parking lot, Souvenir shop, banquet, conference and business centre, etc., remained roughly the same in the two years.

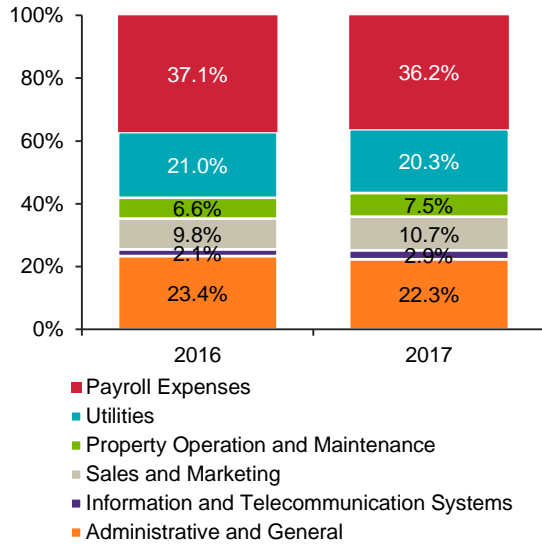
Departmental Expenses and Gross Profit as Percentage of Departmental Revenue (2017)



The cost structure remained similar for the two years. Even though gross profit margin of each department did not show any major changes, payroll expenses were increasing for F&B and other operating departments. Such trend was also observed in the rise of average payroll per employee in 2017.

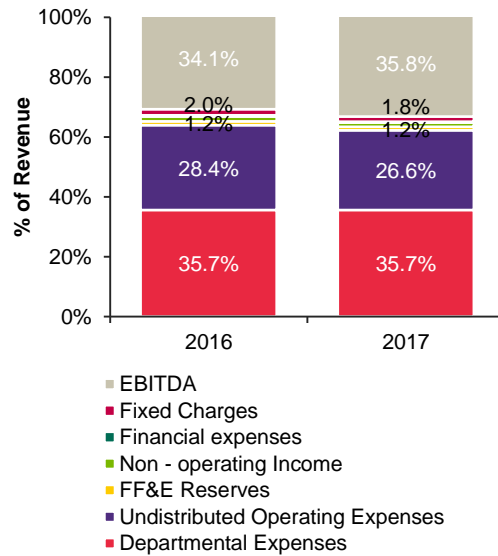
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Undistributed Operating Expenses Breakdown (2016 – 2017)

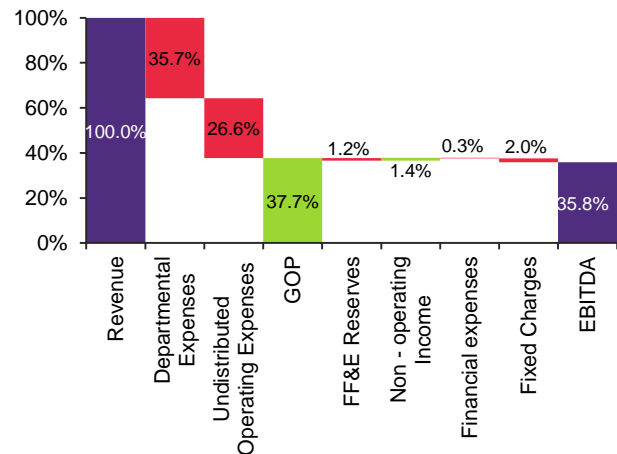


Payroll, administrative and general expense and utilities, the three biggest cost components of total undistributed costs, together account for 81.5% in 2016 and 78.9% in 2017. In 2017 the participating Hotels spent more on maintenance and sales and marketing, with both expense items increasing by nearly 1% each.

Expenses and Profit as Percentage of Revenue (2016 – 2017)



GOP and EBITDA as Percentage of Revenue (2017)

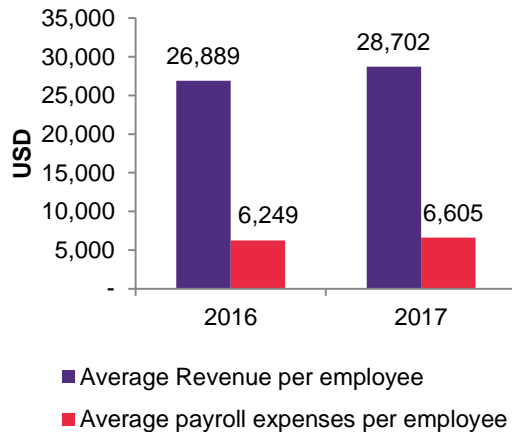


The upscale hotel sector continued to see a better year with EBITDA in 2017 increased by 1.7% compared to that of 2016. Such improvement was mainly contributed by the drop of 1.8% in undistributed operating expenses while other expenses remained roughly the same.

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Employees by Selected Category

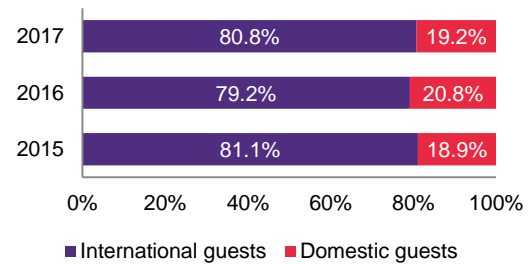
Average Revenue and average payroll expenses per employee (2016 - 2017)



Statistics of the participating hotels showed that average revenue and payroll expenses per employee increased for the second year in a row. The average revenue per employee, in 2017, increased by 6.7% and average payroll expenses increased by 5.7%.

Source of Guests by Selected Category

Source of guests (2015 - 2017)

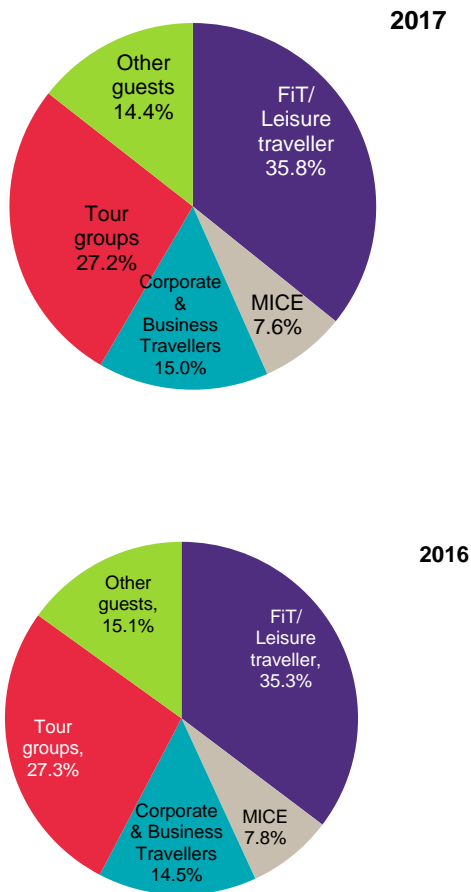


Over the last 3 consecutive years we observed an increasing trend of Domestic guests staying at upscale hotels, however the trend was adjusted in 2017 when the growth in International guests surpassed the growth of domestic guests (yoy 29% vs 18%). As the result, the percentage of International travellers staying at 4-5-Star hotel increased to almost 81% in 2017 and domestic guests dropping slightly.

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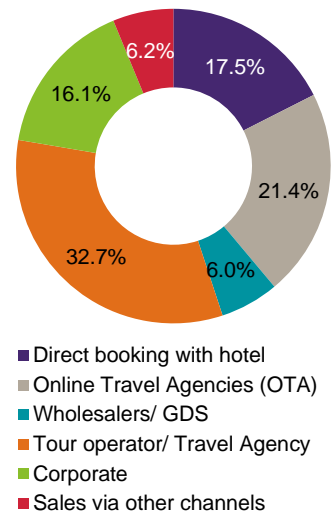
Purpose of Stay by Selected Category

Purpose of Stay (2015 – 2016)



Channel of Reservation by Selected Category

Channels of Reservation (2017)



The Structure of room reservations in 2017 follows the same pattern as in 2016 where tour operators/travel agencies were the major channel of reservations for 4-Star and 5-Star hotels at c.33%. A drop of 1.6% was noticed with Direct Bookings. On the other hand, OTAs increased by 1.0% and corporate increased by 1.1%.

The corporate channel's portion increased from 15.0% in 2016 to 16.1% in 2017. This trend was consistent in both star rankings.

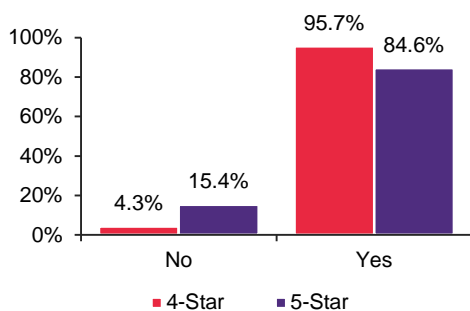
FIT/Leisure travellers and Tour groups accounted for the highest proportions of guests staying at upscale hotels, together they accounted for more than 60% of total guests. The third biggest portion – the Corporate/Business travellers was observed with a slight increase of 0.5% in 2017.

MICE (Meetings, Incentives, Conference and Exhibits) guests decreased slightly by 0.2%. The decrease though minor, is the second year in a row which implies that Vietnam has not done much in the last few years to attract MICE tourists.

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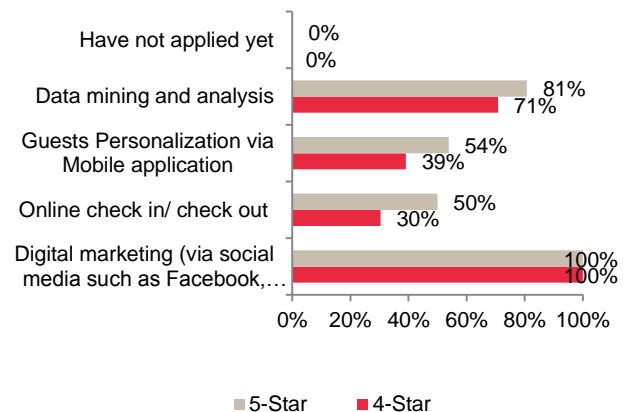
Importance of Digital Technologies

Hotels that consider the Integration of digital technologies into the Hotels services is a factor that will change Vietnam hotel market



Responses from 4 and 5 star hotels proved that the importance of incorporating digital technology in their business is vital. 89.8% of hotels consider the integration of digital technologies into the hotels' services is a factor that will change the Vietnam hotel market.

Which area of operation have you applied digital technology?



While digital marketing and using of data mining and analysis have become basic, being used at almost all the 4-5 Star hotels, the trend of applying mobile application for guests personalisation and online check in/check out is becoming more and more popular, with more than 50% of participated 5 Star hotels, and 30-40% of the 4 Stars. It is predicted that these digital technologies will soon take over the industry.

For full report, please contact Ms. Ngo Hai Hanh at hanh.ngo@vn.gt.com

Further Information

Grant Thornton provides a wide range of services to the Hospitality sector, including:

- Audit and Assurance
- Tax advice
- Transaction advice (buying and selling properties)
- Negotiation of management contracts
- Diagnostic and performance reviews
- Feasibility studies
- Valuations
- Internal audits and control reviews
- Outsourcing services



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