Executive summary
Hotel Survey 2019

Vietnam Upscale Lodging Industry

Introduction

"Grant Thornton Vietnam's Hotel Survey 2019 presents financial, operational and marketing information for the 2018 financial year from a range of Vietnamese upscale hotels and resorts."

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Founder & Senior Board Adviser
Grant Thornton Vietnam

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).

Hotel regions are separated into the three main areas of Vietnam; the North, the Centre and Highlands and the South. In the North, the hotel participants are located in the capital Hanoi, Sapa and Quang Ninh City. In the Centre and Highlands region, the hotels are located in cities such as Danang, Hoi An, Hue, Nha Trang, 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, 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 2018. 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 Vietnam

Newborns Vietnam (NBV) is a United Kingdom (UK) 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.

Infant mortality in Vietnam has declined very significantly, but newborn deaths in the first month of life now account for 70% of all infant deaths. In Vietnam, the healthcare system and standards of care for preterm and sick babies trail those of more developed markets resulting in limited progress in reducing neonatal deaths. In four years our work with Da Nang Hospital for Women and Children achieved a 50% reduction in deaths in the first month of life

This year, Newborns signed a five year agreement with the Ministry of Health, Hanoi Department of Health to develop the capacity of public hospitals in Hanoi and the northern provinces to improve the survival of newborn infants and their long-term health outcomes. Central to this is the continuation of our UK specialist post graduate training for doctors and nurses, and the development of a managed network system, a safe transport system and the establishment of a Vietnam National Resuscitation Council.

Our vision is a world where there are no preventable deaths of newborn infants, where every birth is celebrated, and mothers and babies survive and realise their full potential. We are determined to do more to stop babies from dying the day they are born, or in days after their birth.

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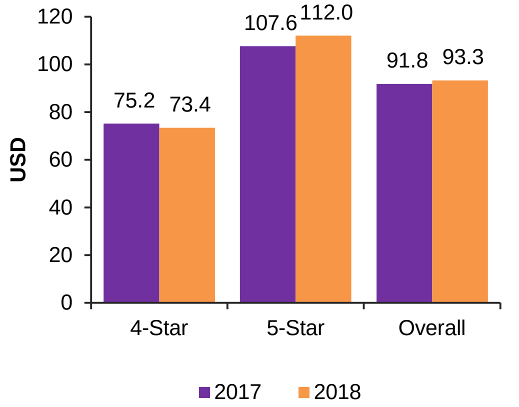
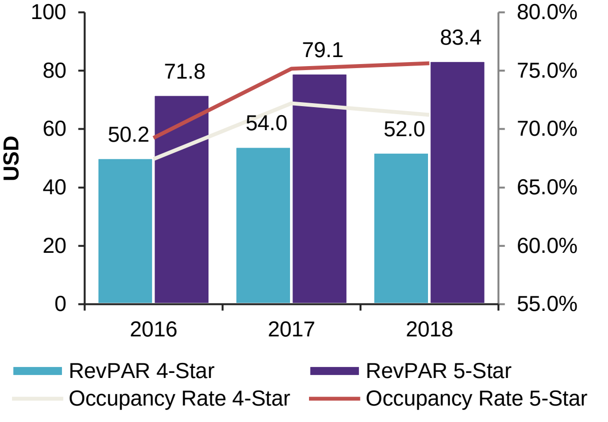
Key Trends

Average room rate (USD) by Star Ranking



1.6% in average room rates

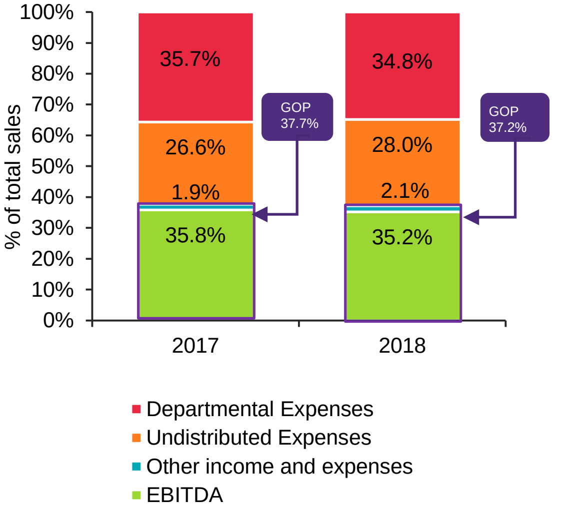
Average Occupancy Rate and RevPAR by Star Ranking



0.1% in occupancy rate

1.5% in RevPAR

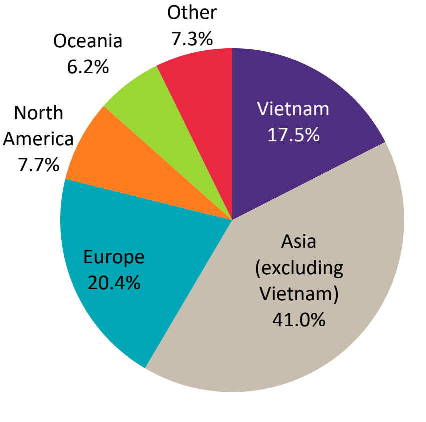
Expenses and Profit as Percentage of Revenue



37.2% GOP of revenue for upscale hotels in 2018

0.5% compared to 2017

2018 International Guests vs. Domestic Guests



Asia is still the primary source of guests, with the dominant of Korean and Chinese guests

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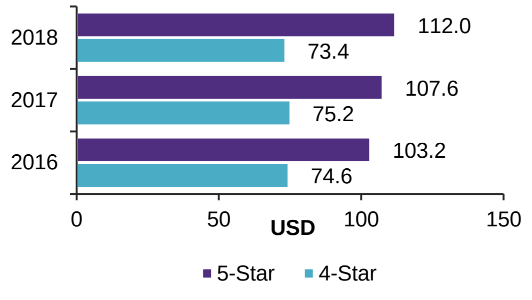
Room Rates by Selected Category

Average Room Rate by Star Ranking (2016- 2018)

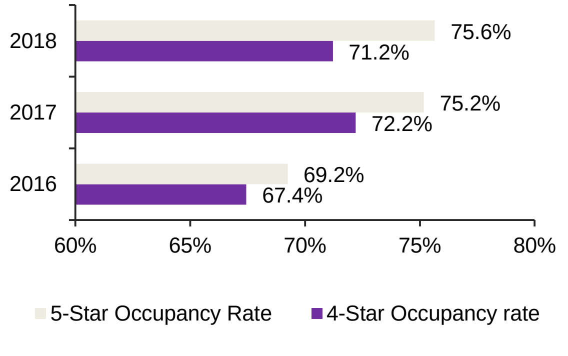


In 2018, average room rate saw an increase of 1.6%, from USD91.8 in 2017 to USD93.3. While 5-Star ranking continued to see their room rates increased 4.1%, 4-Star's room rates dropped by 2.3%.

By region, both Northern and Southern regions saw an improvement in room rates, though at a slower growth than last year, with the Southern region achieving the highest growth of 2.7% and Northern at 1.7%. Central region, in contrast, observed a marginal drop of 1.0%.

Occupancy rates by Selected Category

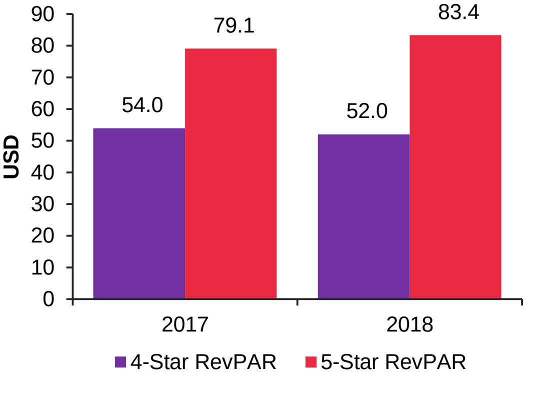
Average hotel room occupancy rate by Star Ranking (2016 – 2018)



Occupancy rate of 5-Star slightly increased by 0.5% while 4-Star's dropped by 1.0%. From the regional view, while the Northern and Central region observed a drop in occupancy rate of 2.6% and 1.4% respectively, the Southern region's occupancy rate, in contrast, continued to increase even though at a lower rate of 1.7%.

RevPAR by Selected Category

Movement in hotel room RevPAR by Star Ranking (2017 – 2018)



RevPAR of 5-Star increased more significantly as the result of the rise in average room rate. 4-Star's RevPAR, in contrast, showed a decrease of 3.6% compared to the previous year.

Southern region, this year, achieved the highest growth of 5.5%, mostly thanks to the rise in average room rate. Northern region dropped slightly, from USD77.7 in 2017 to USD77.3 in 2018. Central region came last with a fall of 2.7%.

Overall, KPIs of revenue generation slightly improved from last year.

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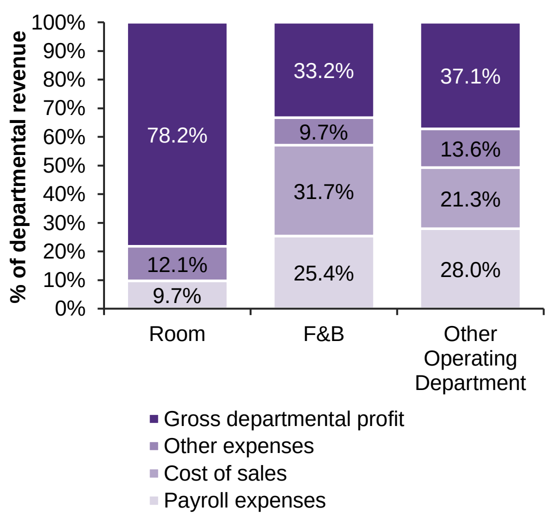
Revenue and Expenses

Annual revenue breakdown (2017 - 2018)

	Room Sales	F&B Sales	Other Operating Sales	Miscellaneous Income
2017	61.5%	31.7%	5.6%	1.1%
2018	59.3%	31.7%	6.1%	2.9%

Similar to the previous year, room sales continued to account for the highest portion of total revenue at 59.3% and showed a slight drop of 2.3% from 2017 to 2018. While F&B Sales showed roughly no change between the two years, Other Sales started to increase in proportion of Total sales, showing the shift in customers' demand to other services rather than just only room service.

Departmental Expenses and Gross Profit as Percentage of Departmental Revenue (2018)



Year 2018 continued to show minor change in the cost structure compared to the previous year. While gross profit margin of room and other operating department did not show any major changes, F&B department's dropped, mostly due to an increase in payroll expenses.

%Payroll expenses/Total sales increased from 23.7% to 25.2%

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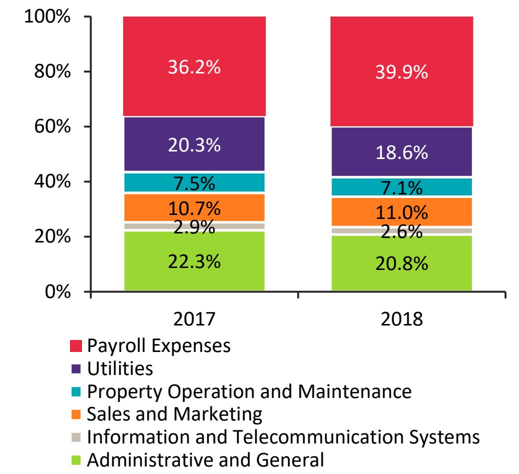
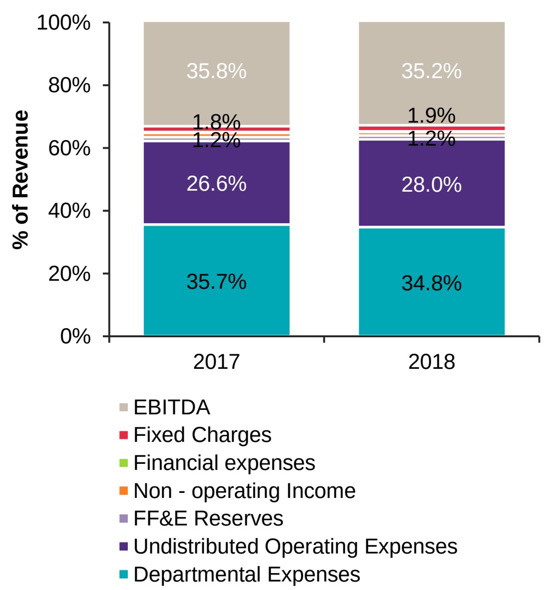
Undistributed Operating Expenses Breakdown (2017 – 2018)

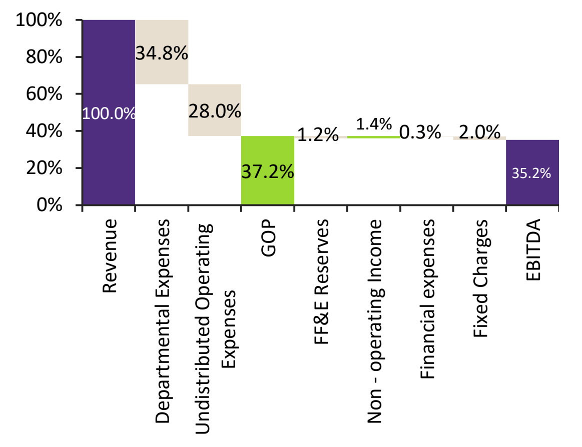


The three biggest components of undistributed expenses (Payroll, administrative and general expenses and Utilities) together accounted for 78.9% in 2017 and 79.3% in 2018. Payroll expenses saw the greatest increase in proportion of c.4%. This trend was in line with the increase in average expenses per employee.

Expenses and Profit as Percentage of Revenue (2017 – 2018)



GOP and EBITDA as Percentage of Revenue (2018)



GOP and EBITDA of the upscale hotel sector in 2018 showed a slight drop, of 0.5% and 0.6% respectively. This was mainly caused by higher undistributed expenses, which rose by 1.4% in 2018.

By Star rankings, while 4-Star continued to show an increase in GOP of 1.1% to 37.8%, 5-Star, in contrast, dropped by 1.8% to 36.9%. Changes for both Star rankings were because of higher undistributed expenses. However, 4-Star reduced Departmental expenses which led to a small increase in GOP.

Profitability expressed in terms of GOP and EBITDA drop slightly. By Star ranking, 4-Star's GOP slightly increased while 5-Star's dropped.

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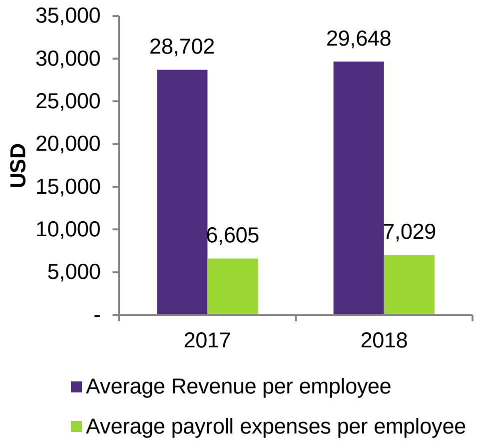
Employees by Selected Category

Average Revenue and Average payroll expenses per employee (2017 - 2018)



Both average revenue and payroll expenses per employee continued to increase in 2018, but payroll expense per employee saw a higher growth, at 6.4% compared to 5.7% growth in 2017, while revenue per employee only grew at 3.3% compared to 6.7% in 2017.

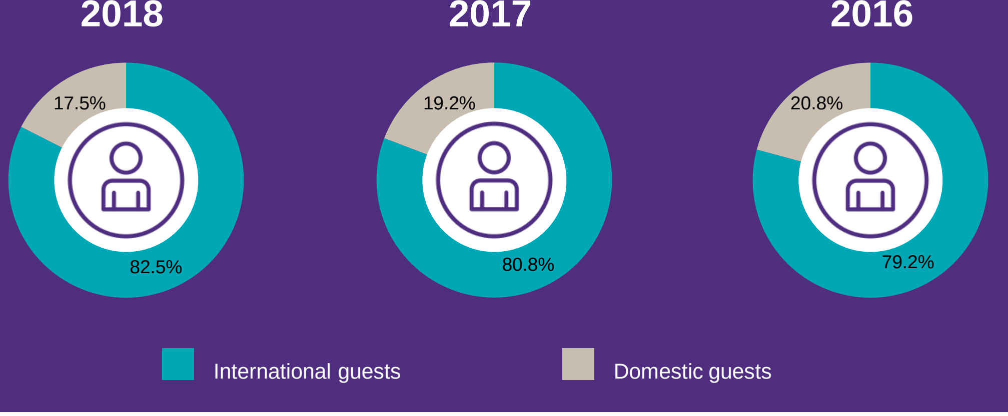
Payroll expense per employee saw a higher growth.
The proportion of Domestic guest started shrinking again and it continued in 2018.

Source of Guests by Selected Category

Source of guests (2016 - 2018)

After an increase of Domestic guests staying at upscale hotels for 3 years from 2014 – 2016, the proportion of Domestic guest started shrinking again and it continued in 2018.

By star ranking, 4-Star hotels observed a higher contribution in International arrivals of 4.9% while 5-Star's remained roughly the same as last year.



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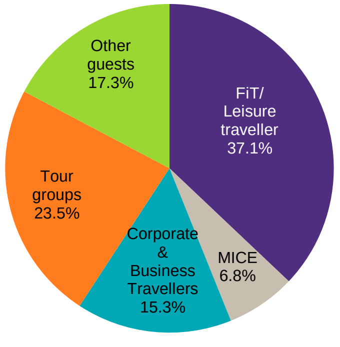
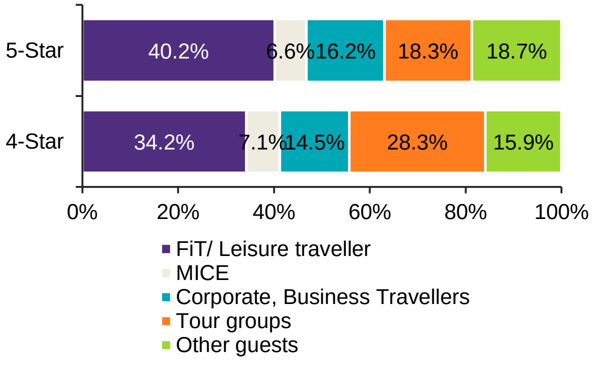
Purpose of Stay by Selected Category

Purpose of Stay (2018)



Purpose of Stay by Star rankings (2018)

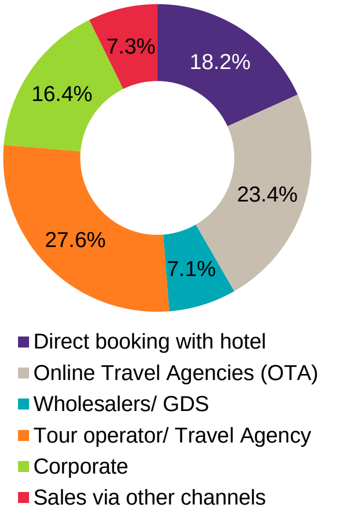


FIT/leisure travelers, tour groups and corporate/business travelers continued to be the three biggest components, together accounting for 78% in 2017 and 76% in 2018 of total guests.

MICE (Meetings, Incentives, Conference and Exhibits) decreased from 7.6% last year to 6.8% this year. This is the third consecutive year that this section dropped, indicating either lack of efforts or inefficiency in the country's attempt to attract MICE tourists.

Channel of Reservation by Selected Category

Channels of Reservation (2018)



Reservations through Travel agencies and Tour operators (TA/TO), though they continued to be the biggest channel, fell a sharp 5.1% in 2018 (4-Star had a heavy fall of 7.1% while 5-Star fell by 2.8%) and were replaced by the increase in Online Travel Agencies (OTA's) and other channels.

By Star rankings, the highest change in reservation channels was 2.3% in wholesalers/ GDS for 5-Star and 2.8% in OTA's for 4-Stars. The corporate channel's portion slightly increased from 16.1% in 2017 to 16.4% in 2018, mostly contributed by the rise in this channel of 4-Star hotels.

Third consecutive year that MICE section dropped.
Increase in Online Travel Agencies (OTA's) booking channel.

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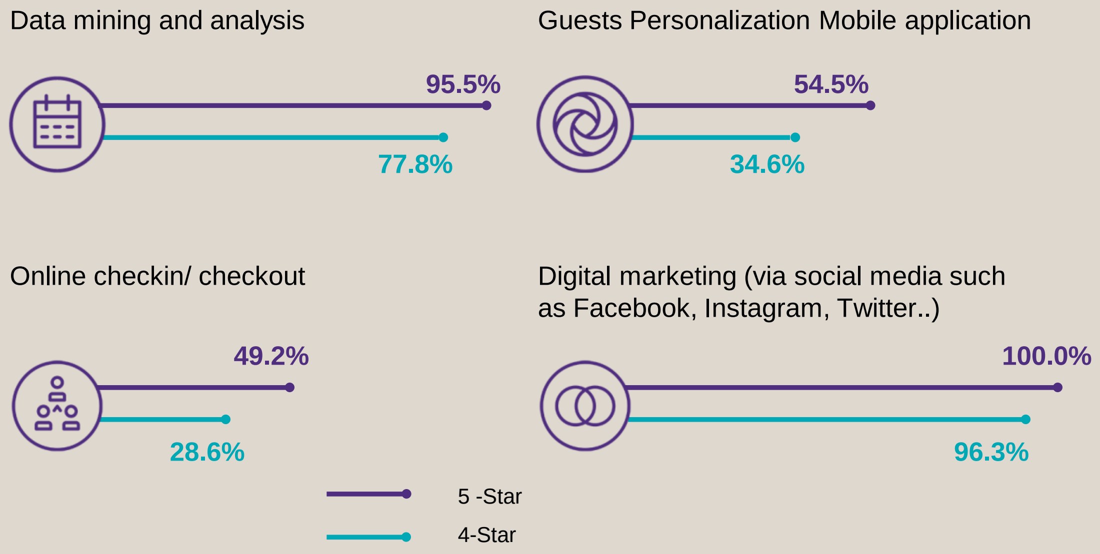
Application of Digital Technologies



Technology is no longer a stranger to Vietnamese hotels, as internet access and smart devices become more widespread. Managing their digital image is now a crucial part of hotels' operation.

Overall, 5-Star hotels are shown to be embracing more digital advances than 4-Star did in all 4 questions asked.

Digital marketing via social channels such as Facebook, Twitter and the like continues to be the priority, which results from the increase in guests' usage of numerous social networks.

Nearly 100% of participants shared that they used this effective channel to gain more awareness from social network users.

Online check in/check out and guest personalisation via mobile application, however, received less attention, with less than 50% of hotels using them.

Analysis using data obtained from operation is widely used by both Star rankings to assist their marketing strategies and decision making process.

Overall, 5-Star hotels embraced more digital advances than 4-Star did in all 4 questions asked.

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)
- Diagnostic and performance reviews
- Feasibility studies
- Valuations
- Internal audits and control reviews
- Business Process Solutions

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