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Vietnam Lodging Industry Hotel Survey Update H1 2015

Grant Thornton Vietnam November 2015



CONTENTS

3	H1-2015 Tourism Overview
6	Revenue Per Available Room
7	Room Rates
8	Occupancy Rates
9	Source of Guests
10	Purpose of Stay
11	Hotel Development

H1 – 2015 Tourism Overview

In the first half of 2015, Vietnam welcomed 40 million domestic visitors and 3.8 million international arrivals. H1-2015 witnessed growth of 70.9% increase in domestic visitors, from 23.4 million to 40 million. On the other hand, international arrivals decreased from 4.3 million to 3.8 million, leading to a year-on-year decrease of 11.3%. The declining trend persisted throughout 13 consecutive months from June 2014, but has reversed since July 2015 with a 4.1% decrease YoY at the end of October. The actual figure for international arrivals in H1 2015 met 44.7% of the target for the whole of 2015 (8.5 million), set by the VNAT.

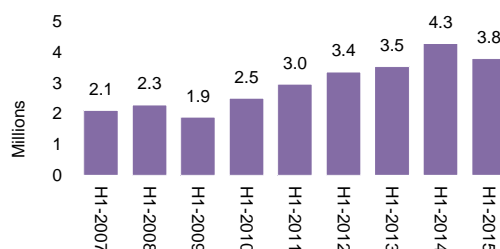
In terms of revenue, total tourism revenue in H1-2015 reached VND 190 trillion (USD 8.7 billion), increasing by 52.1% increase compared to VND 125 billion in H1-2014. Total revenue achieved 70.4% of the target set by the Vietnam National Administration of Tourism (VNAT) for the whole of 2015. (VND 270 trillion, or USD 12.4 billion).

The domestic tourism stimulus program, themed “*Vietnamese travel in Vietnam - Each journey to love the fatherland more*” was launched in October 2014 by VNAT and has taken place during 2015, contributed to the increase of domestic tourists. Many provincial tourism administrations and tour operators supported the program by boosting advertising and marketing activities, encouraging local travel agencies to offer deals on air fares and tours, holding festivals, events, fairs and competitions to attract visitors. In addition, Vietnam Airlines, Vietjet Air, Jetstar Pacific also joined the program, offering discounts to most major tourism destinations.

International arrivals declined significantly from major inbound markets such as China, Russia, Cambodia and Thailand. The slump was due to the tensions over the East Sea, the depreciation of the Russian Rouble and continuing economic uncertainty in many countries. In contrast, in 2015, Vietnam welcomed an impressive number of visitors from South Korea that rose by 36% compared to H1-2014. The growth of South Korean tourists was attributable to the national budget-funded destination marketing activities, promotion programs to major Korean broadcasters and travel agencies, and the tourism cooperation program between Vietnam and South Korea.

Vietnam International Visitors (from H1-2007 to H1-2015)

Source: GSO/VNAT



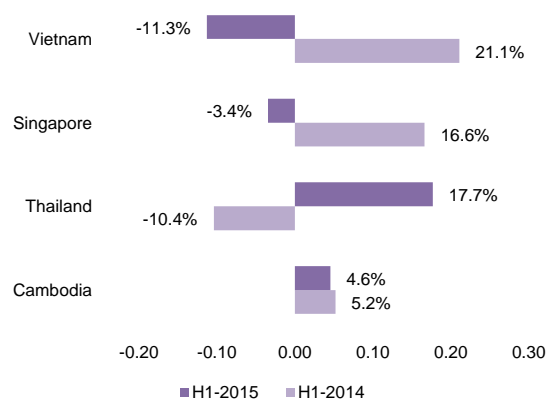
International arrivals in Ha Noi, Da Nang and Ho Chi Minh City (HCMC) rose noticeably in H1-2015. Specifically, Ha Noi welcomed 1.5 million foreign visitors, an 8.8% increase in relation to H1-2014. Likewise, over 2 million foreign visitors arrived in HCMC, leading to a 3% increase compared to H1-2014. Da Nang, which was badly affected by the East Sea issues in 2014, experienced a significant rebound in foreign visitors up 33% in H1 2015.

In comparison with other ASEAN countries, Vietnam experienced the largest downtrend in H1-2015 in international arrival growth rate compared to Singapore, Thailand and Cambodia.

International Arrivals Growth Rate in H1-2015 for Selected Countries

Source: GSO/VNAT, Singapore Tourism Board,

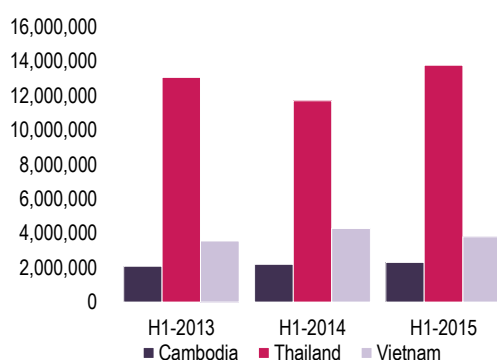
Tourism Cambodia, Thailand Department of Tourism



Despite various incidents of violence, bombings, and Middle East respiratory syndrome, Thailand tourism still recovered from the plunge in the previous year, achieving 13.7 million in inbound tourists, a 17.7% increase compared to H1-2014. Likewise, international arrivals in Cambodia steadily increased from 2.2 million to 2.3 million, a 4.6% increase relative to that of 2014. Meanwhile, Singapore welcomed 7.5 million inbound tourists, a fall similar to Vietnam's but at a smaller percentage of 3.4%.

International Arrivals to Vietnam, Cambodia and Thailand H1-2013, H1-2014, and H1-2015

Source: GSO/ VNAT, Tourism Cambodia, Thailand Department of Tourism

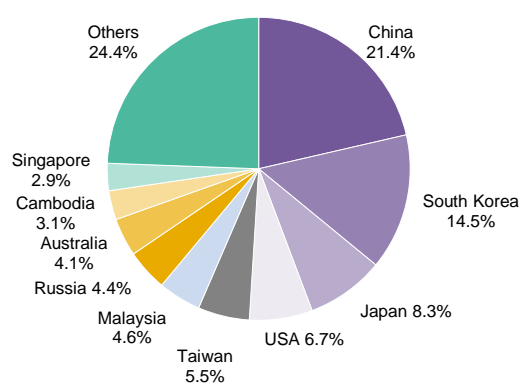


Origin of Guests

In H1-2015, over half (51%) of foreign visitors to Vietnam were from China, South Korea, Japan and the US, with China continuing to be the largest inbound market. The number of Chinese tourists to Vietnam declined by 28.3% in relation to H1-2014, whereas Chinese tourists to Thailand, Cambodia, and Singapore went up by 112%, 21% and 8%, respectively.

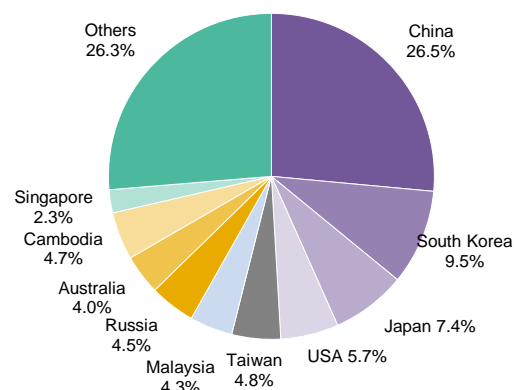
Countries of Origin for International Arrivals to Vietnam (H1-2015)

Source: GSO/VNAT



Countries of Origin for International Arrivals to Vietnam (H1-2014)

Source: GSO/VNAT



Substantial decline was also observed in Cambodia, Thailand and Russia tourists with decreases of 41.6%, 29.8 % and 13% respectively. The decline in Russian visitors partially led to a slowdown in investment for a number of hotel/resort projects from Nha Trang to Phan Thiet.

In contrast, In H1-2015, Vietnam welcomed an impressive number of visitors from South Korea, with a rise of 36% compared to H1-2014. The growth of South Korean tourists was attributable to the national budget-funded destination marketing activities, promotion programs to major Korean broadcasters and travel agencies, and the tourism cooperation program between Vietnam and South Korea. Keeping up with the influx South Korean tourists, many local businesses promptly made adjustments to gear their services and products toward South Korean visitors, such as offering Korean cuisine, employing Korean-speaking staff and posting advertisements in Korean language.

Vietnam's International Tourists Composition H1-2015 vs H1-2014

Source: GSO/VNAT

Countries of origin	H1-2015	H1-2014	% Changes
China	814,198	1,134,878	-28.3%
South Korea	553,227	405,634	36.4%
Japan	316,751	317,849	-0.2%
USA	255,868	246,290	3.9%
Taiwan	209,328	207,730	0.8%
Malaysia	173,971	182,307	-4.6%
Russia	168,700	193,829	-13.0%
Australia	154,668	170,036	-9.0%
Cambodia	118,406	202,770	-41.6%
Singapore	110,634	98,327	12.5%
Others	928,886	1,128,234	-17.7%
Total	3,804,637	4,287,884	-11.3%

Achievements

In H1-2015, various international organisations recognized tourist venues in Vietnam, namely:

- Son Doong cave was ranked 1st in the Smithsonian (US) magazine's list of 25 great new places to see in the 21st century. Importantly, Son Doong cave was featured in ABC TV Channel and National Geographic (May 2015).
- Da Nang topped TripAdvisor's list of Best destinations of 2015.
- CTV News (Canada) listed Vietnam as one of "the hottest travel destinations" in 2015.

Vietnam Airlines (VA) achieved an agreement to operate daily direct services to Heathrow airport (England), after a 7-year queue, in March 2015. The agreement facilitates trips between Vietnam and parts of England as well as allows for better connections with Europe. VA also prepared to operate new routes between Vietnam and India. In terms of service, VA began upgrading its service quality to 4-Star standards in the 2nd quarter of 2015 and started utilizing Boeing 787 and Airbus 350, two of most modern airplanes, which are significant steps toward improving the passenger experience. Vietjet Air also began flights to parts of China.

Several measures addressing longstanding hindrances to the tourism sector were taken, namely:

- Visa exemptions for visitors from Japan, Korea, Russia, Finland, Norway, Sweden and Denmark were renewed with effect from 1 Jan 2015. Visa exemptions for visitors from Belarus, Germany, France, the UK, Italy and Spain also came into effect from 1 July 2015.
- Minor improvements in the processing of electronic visa applications at Tan Son Nhat International Airport.
- VNAT proposed to waive visas for visitors from 19 countries including Australian, New Zealand, Canada and India
- A proposal to establish the Vietnam Tourist Development Fund with target size of VND 2,000-2,500 billion (USD 100 million) to fund destination marketing programs, environmental protection at national attraction sites.
- Implemented the domestic tourism stimulus program and exempted tax for involved companies. As a result, domestic visits amounted to over 40 million in H1-2015, almost reaching VNAT's target for the whole year 2015 of 41 million.
- Quang Binh's authorities and VNAT held events to promote the province's nature heritage sites as well as seaside eco-tourism and spiritual tours.

Importantly, Quang Binh's authorities also discussed with Bombay Finance Group as to investments worth VND 2.184 billion (USD 100 million) in tourism projects in Quang Binh, including cave tourism at Phong Nha-Ke Bang.

In addition, many events and festivals were held across the country to attract visitors, including:

- Da Nang – Summer Destination 2015 (June – July 2015) and Da Nang International Culture – Cuisine Festival 2015 (April 2015) showcased an array of fascinating performances, exhibitions, games and diverse cuisines, drawing thousands of local and international visitors.
- Flamboyant Flower Festival in Hai Phong (May 2015) fostered the city's tourism quality and image.
- Ha Long Carnival 2015 in Quang Ninh (May 2015) attracted tourists to the world heritage site Ha Long Bay and other local cultural heritage.
- The Ministry of Culture, Sports and Tourism and relevant agencies held 2 workshops in Tokyo and Osaka (June 2015) to promote Vietnam tourism.

Obstacles

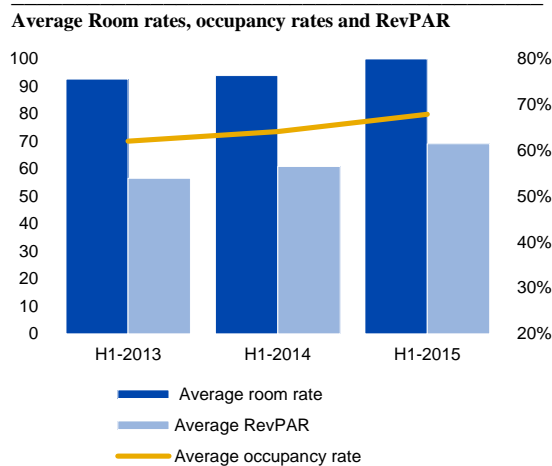
Existing disadvantages in service quality, high accommodation costs compared to neighbouring countries, lengthy wait for delivery of service at airports continued to hamper the growth of Vietnam tourism.

Issues related to policies such as lack of well-collaborated, frequent destination marketing activities and visa application requirements for most countries are well identified, but solutions and positive outcomes are taking longer to implement.



Revenue Per Available Room (RevPAR)

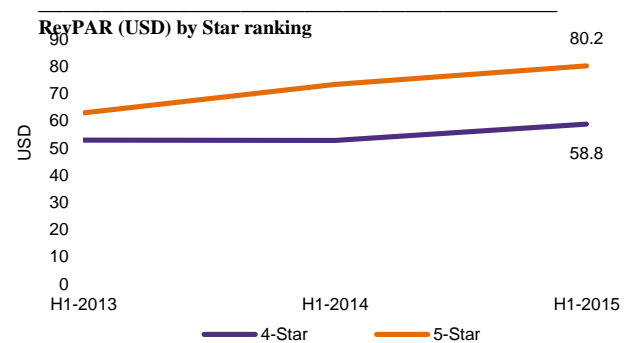
For 4-Star and 5-Star hotels and resorts in Vietnam, RevPAR in H1-2015 showed a sharp increase from H1 2014 rising by 13.7%, from USD 60.8 to USD 69.1. This rate was much higher than same period last year due to the increase in both room rate and occupancy rate by 6.5% and 3.7%, respectively.



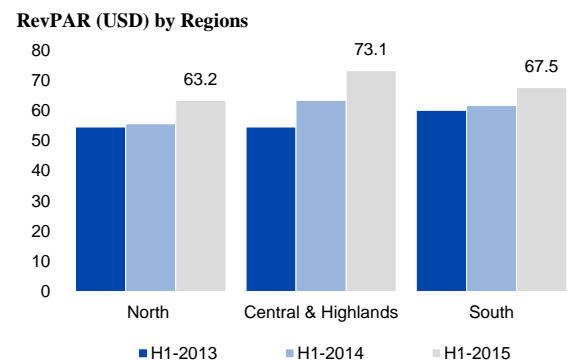
Average Room Rate, Occupancy Rate and RevPAR by Hotel brand

	Domestic brand	International brand
Average occupancy rate (%)	71.9%	67.2%
Average room rate (USD)	80.7	103.5
Average RevPAR (USD)	57.8	71.5

By analysing the RevPAR by hotel brand in H1-2015, International brands increased 8.3% in comparison to H1-2014, meanwhile RevPAR of Domestic brands significantly increased by 20.1% from USD48.1 to USD57.8. This result was due to the rise in room rate of Domestic brands.



When comparing the performance of H1-2014 with H1-2015, RevPAR of 4-Star hotels significantly increased by 11.4%, which is attributed to an increase in both room rate and occupancy rate. On the same trend, the RevPAR of 5-Star hotels rose by 9.4% from USD 73.3 to USD 80.2 due to an increase of 5.8% in occupancy rate, even there was a slight decline in room rate.

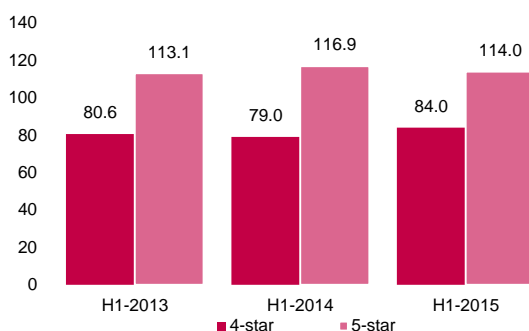


RevPAR by Regions shows an overall increase across Vietnam, with a growth rate in H1-2015 of 13.8% for the North, 15.6% for Central and Highlands and 9.7% for the South.

Room Rates

By Star ranking

Average Room Rates (USD) by Star ranking



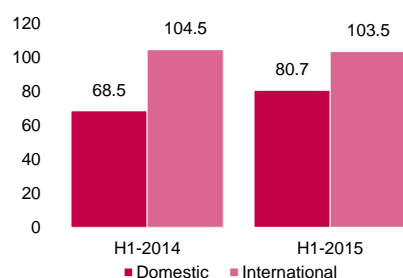
There was a significant increase in overall average room rates of 6.5% in H1-2015 for the high-end hotels in Vietnam.

Looking at the average room rates by Star ranking, 4-Star hotels showed an upturn of 6.3% while 5-Star hotels suffered a downturn of 2.5% for the first 6 months of 2015. This probably is the result of the new supply in 2015 and the increasing competition in this segment plus the decrease in international arrivals.

By Hotel brand

Average Room Rates (USD) by Hotel brand

When looking at average room rates by hotel brand, it can be seen that there was always a substantial gap between International brands and Domestic brands. In H1-2015, average room rate of International brands was USD22 higher than Domestic ones. In the first half of 2015, average room rates of Domestic brands increased dramatically by 17.8%, compared to the same period of 2014. On the other hand, International brand's occupancy rates decreased slightly by 0.9%.



By Region

Average Room Rates (USD) by Region

USD	H1-2013	H1-2014	H1-2015
North	86.3	91.9	90.3
Central and Highlands	83.6	95.0	110.2
South	105.5	93.9	92.8

When analysing average room rates by Region, there was an increase in average room rates in Central & Highlands, of 16% in H1-2015. In contrast, North and South region's average room rates decreased by 1.7% and 1.1% respectively.



Occupancy Rates

The overall average occupancy rate in H1-2015 increased to 67.9% from 64.1% in H1-2014, rising by 3.7%. In H1-2015, Vietnam had longer holidays than previous years, including the Tet holiday, Hung King Anniversary, Reunification day and International Workers' Day, domestic visitors took these opportunities to travel. In addition, the domestic tourism stimulus program, themed “Vietnamese travel in Vietnam - Each journey to love the fatherland more” which was launched in October 2014 by VNAT and is taking place during 2015, contributed to the sharp increase of domestic tourists, resulting in a rise in occupancy rates.

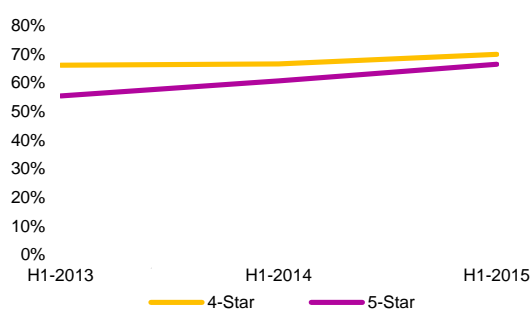
By Star Ranking

Average Occupancy Rates (%) by Star ranking

	H1-2013	H1-2014	H1-2015
4-Star	66.0%	66.5%	69.8%
5-Star	55.3%	60.5%	66.3%

By analysis of Star rankings, average occupancy rates of 4-Star hotels increased by 3.3% in H1-2015 to 69.8%, compared to the increase of only 0.5% in H1-2014. 5-Star hotels, showed a favourable increase of 5.8% compared to the increase of 5.2% in occupancy rates over the same period in previous year, at to 66.3% in H1-2015.

Average Occupancy Rates (%) by Star ranking



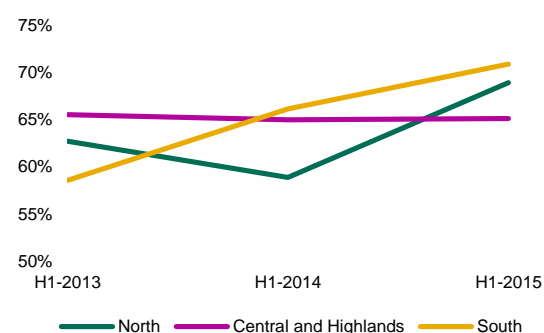
By Region

Average Occupancy Rates (%) by Region

	H1-2013	H1-2014	H1-2015
North	62.7%	58.9%	68.9%
Central and Highlands	65.5%	65.0%	65.1%
South	58.6%	66.1%	70.9%

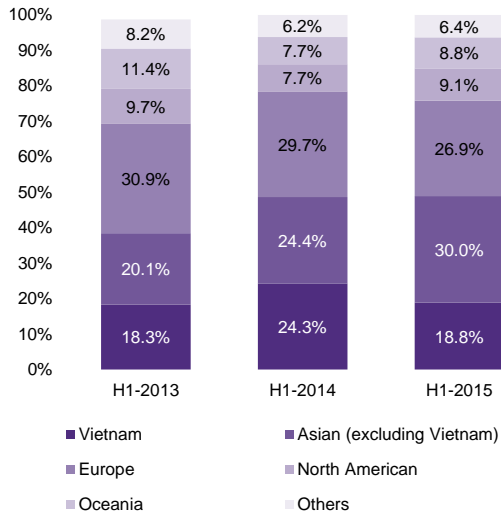
Analysing average occupancy rates by Regions, North, Central and Highlands and South regions showed a rise of 10%, 0.1% and 4.7% respectively in the first 6 months of 2015, representing a positive sign for the hotel industry.

Average Occupancy Rates (%) by Regions



Source of Guests

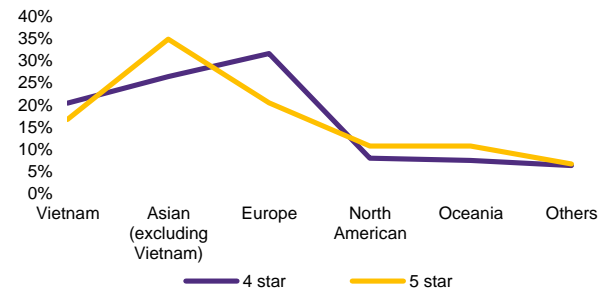
Source of Guests by Origins



The highest proportion of guests staying at Vietnam's high-end hotels in H1-2015 continued to be Asian and European visitors, accounting for 48.8% and 26.9% respectively.

Additionally, comparing with the same period in 2014, there was an increase in the proportion of visitors from North America and Oceania; however, guests from those two countries only accounted for a small proportion with 8.8% and 9.1% respectively.

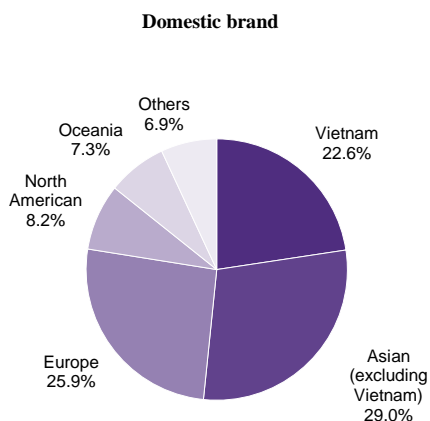
Source of Guests by Star ranking in H1-2015



Similar to H1-2014, European guests provided the highest contribution to the origin of guests staying at 4-Star hotels, accounting for 31.6%; however, regarding 5-Star hotels, European guests only accounted for 20.5%, a decrease of 7.0% compared to H1-2014 and gave up the highest spot to Asian guests (excluding Vietnamese) who accounted for 34.9%. Vietnamese guests staying at 4-Star hotels significantly by 17.8% compared to the same period last year, dropped to 20.4%, while those staying at 5-Star hotels increased slightly, to reach 16.7%.

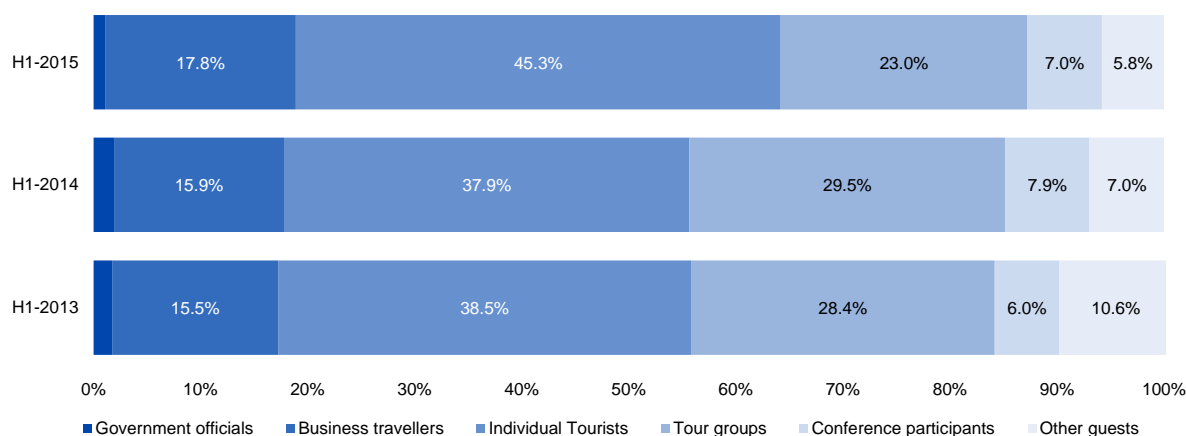
In term of brand preference, Vietnamese guests prefer to stay in Domestic brand hotels (22.6%) rather than International brand hotels (18.2%). Overall, except for Oceanian and Vietnamese, others guests favoured International brand hotels.

Source of Guests by Hotel brand in H1-2015



Purpose of Stay

Purpose of Stay

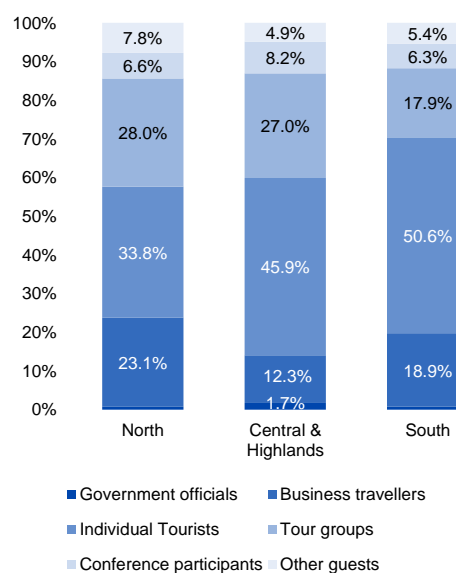


Guest mix was similar throughout H1-2013, H1-2014 and H1-2015 with the only major change being the increase of Individual tourists and the decline of Tour groups. In H1-2015, Individual Tourists and Tour Groups continued to be the two leading categories, collectively accounting for almost 70% of the total proportion of guests. There was a significant increase in individual travel by 7.4% to 45.3% and surpassed tour travel (23.0%). Meanwhile, business travelers, increased to 17.8%, and remained the third major source of arrivals in the first 6 months of 2015.

In terms of the minor arrival purposes, there was a noticeable decrease by 0.8% in Government-related purposes, accounting for only 1.1%. Similarly, Conference participants also decreased by around 1%, making up 7.0% in H1-2015.

Regarding the purpose of stay by region, because of the two largest financial hubs namely Ha Noi and Ho Chi Minh City located in the North and the South; the two areas were visited more in term of business-related purposes, which accounted for 23.1% and 18.9% respectively. However, Central and Highlands was more attractive to tourists, with the total proportion of Individual Tourists and Tour Groups accounting for 72.9% of guests staying at high-end hotels in this area in H1-2015.

Purpose of Stay by Region in H1-2015



Hotel Development

Northern Region

- Serenity Holding and FLC Group kick-started the 5-Star Fusion Maia Sam Son resort (70 rooms) and the 4-Star A La Carte Sam Son Hotel (350 rooms) in June 2015. Both are anticipated to bolster Thanh Hoa's tourism, featuring an array of high-class restaurants, spas, ball rooms and strategic locations that are adjacent to attractions and facilities.

Central and Highlands Region

- Melia Hotel International officially opened their second hotel in Vietnam by Non Nuoc beach, Da Nang, in July 2015.
- The 5-Star Vinpearl Premium Nha Trang resort was launched on Tre island in April 2015.
- In Da Nang, the 4-Star Diamond Sea Hotel (124 rooms) and the 4-Star Vanda Hotel (114 rooms) started operating in May 2015.
- The 4-Star Cam Ranh Riviera Beach Resort & Spa (70 rooms) was opened to the public in Jan 2015
- The 5-Star Fusion Nha Trang resort (72 rooms) was opened to the public in June 2015.
- The first all-inclusive cruise experience in Vietnam, Emperor Cruise Nha Trang started operating in April 2015, offering top-notch 5-Star services.

Southern Region

- Accor Hotels kick-started a 5-Star hotel in Ho Chi Minh City, Hotel des Arts Saigon (168 rooms), featuring 4 restaurants and a rooftop bar.
- The first 5-Star hotel in Can Tho, Muong Thanh Can Tho (300 rooms), started operating in April 2015 and is expected to play an important role in enhancing the Mekong Delta's tourism.
- The largest 5-Star resort of Phu Quoc, Vinpearl Phu Quoc (750 rooms) was officially opened in November 2014. Salinda Premium resort also started operating in August 2014.
- Various projects were initiated in Phu Quoc in the recent months including:
 - ✓ Intercontinental Phu Quoc, invested by BIM Group (400 luxury hotel rooms).
 - ✓ Novotel Phu Quoc, invested by CEO group (406 rooms).
 - ✓ Sunset Sanato Premium Complex (24 hectare).
 - ✓ JW Marriott Phu Quoc invested by Sun Group.
 - ✓ Crowne Plaza invested by MIK Corporation (206 rooms).



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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