

Case Analysis

Abu Dhabi National Hotels: What Went Wrong?

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Assuming you are providing an update to Abu Dhabi's board of directors about the firm's financial situation and prospects, provide an analysis on the following issues:

1) Trends in Abu Dhabi's financial performance and financial profile?

- Overall deteriorating financial performance from 2007 to 2012.
- Profit decreased by 29%, Revenues increased by 27%, Operating cost increased 2% from 2011 to 2012, decrease in market share prices, larger management compensation, SG&A increase
- Increased debt of over AED\$1 billion over the past 2 years is having a significant impact on the company's liquidity.

2) Abu Dhabi's profitability as well as its underlying determinants. Identify which areas of the firm exhibit ineffectiveness or inefficiency.

- ROE declined from 17% to 3%, ROA declined from 14% to 2%, Equity multiplier stable.
- The firm is losing its ability to generate profit from its assets probably due to operational inefficiencies. Investment activities
- Focus on providing high-quality, tailor-made and unique offerings
- Asset impairment provision of AED 50 million was recognized last quarter, making the financial statements results questionable as per accounting practices.

3) Abu Dhabi's segments' performance, strengths and weaknesses.

- Hotel: Wide coverage giving the company good brand recognition.
Accounts for 37% of the total revenue; Segment profit margin of 14% in 2012.
High investments required to maintain the luxurious status.
- Retail: Small segment including many brands in many outlets.
Accounts for 8% of the total revenue, Segment profit margin of 48% in 2012.
- Catering: Joint venture with renowned international company, decreasing net profit.
Accounts for 41% of the total revenue, Segment profit margin of 12% in 2012.
- Transportation: Company running its own fleet of vehicles.
Accounts for 13% of total revenue, Segment profit margin of 7% in 2012.
- Holding: No revenues, increasing losses in 2012.

4) Mapping of financial performance unto stock market performance.

- The Revenue per available room (see Appendix A) is expected to increase substantially over the next few years, not only because of an increase in occupancy but also because of increased daily rates, which is a good indicator of the industry's performance over the next few years.

5) Areas where managerial action is needed.

- Tighter controls on financial reporting management are needed (asset impairment provision) to avoid inflating results. Impairment tests are usually required to be performed annually
- Avoid undertaking any new debt as the company is already heavily leveraged (Leverage ratio of 1.08 in 2009, 1.16 in 2010, 1.23 in 2011 and 1.26 in 2012). This is limiting the company's flexibility to operate and strapping its cash for loan repayments and interests. Consider negotiating better terms with debt lender (lower rate, principal postponements, etc.)

Appendix A

Forecasted RevPAR

	2011	2012E	2014E	2016E
Occupancy rate (%)	71.0	71.9	72.6	75.1
Average daily rate (US\$)	183.5	189.9	200	220
RevPAR	130.3	136.5	145.2	165.2