



Hotel Investment

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26 January 2006
Narai Hotel

Agenda

- **Industry Overview**
 - Demand and Supply for Accommodations
 - Valuation Process
 - General Risks and Benefits

Why Thailand?

- I. International tourists in Thailand have grown at the average rate of more than 8% per annum over the past 10 years.
- II. Over two-thirds of the world's population can reach Thailand within a six-hour flying time.
- III. Stable political environment and stable monarchy
- IV. Infrastructure and natural resources are well in place
- V. Strong supports from the government

Tourist Favorite Product

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Campaign Thailand Grand Invitation

- ↪ Grand Events
- ↪ Grand Destination
- ↪ Grand Opening
- ↪ Grand Service
- ↪ Unseen Paradise
- ↪ Boutique Hotel
& Spa
- ↪ Shopping
Complex

Beaches & Seas

- ↪ Andaman Cluster
- ↪ Royal Paradise
- ↪ Jewel Coast

Cities

- ↪ Lanna Cluster
- ↪ Greater Bangkok
- ↪ Cultural Route
- ↪ Connecting Route
- ↪ OTOP Village

Eco-Adventure

- ↪ Conservatism
& Adventure tour
- ↪ Forest trekking
- ↪ Camping
- ↪ River rafting

Extra Interesting

- ↪ Golf
- ↪ Diving
- ↪ Health Checking

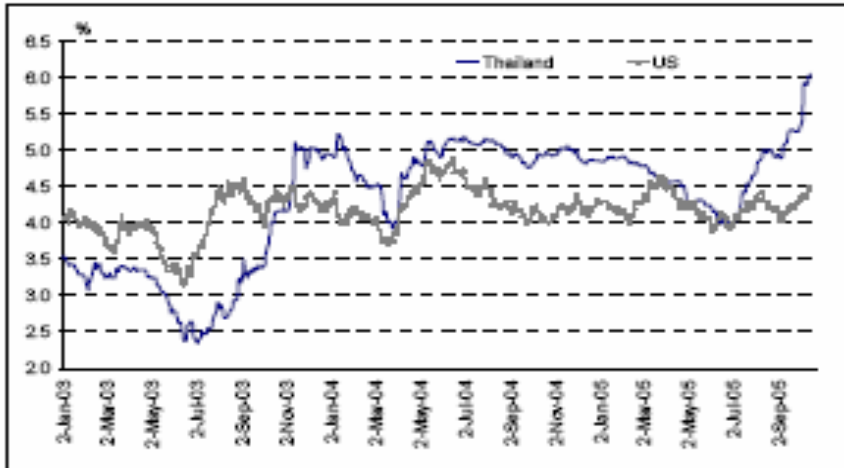
Activities

- ↪ World Event

Macro Economic Issues: 2005 - 2006

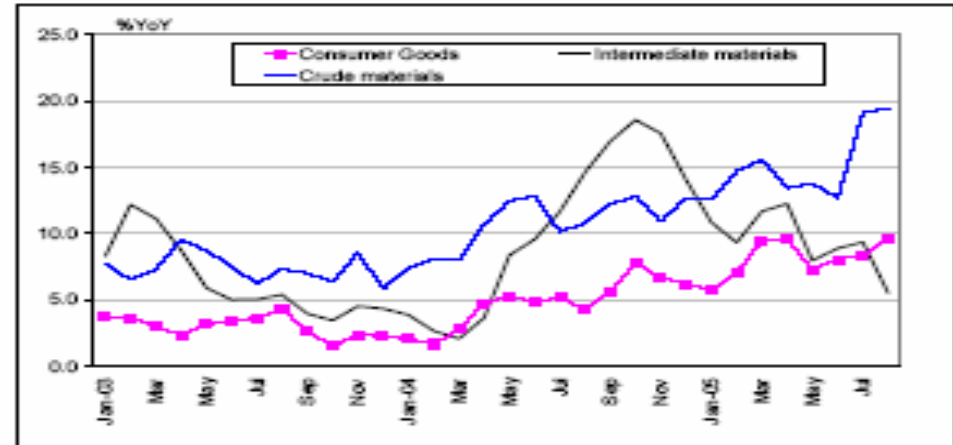
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10-Year Government Bond



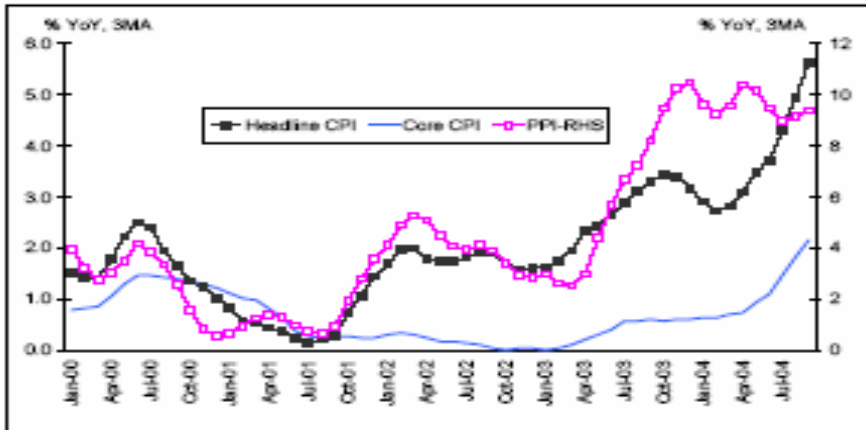
Source: Datastream, TBDC

And driven by Crude Materials..



Source: MoC

CPI On the Rise...



Source: MoC

- Less favorable economic due to money tightening
- Interest rate hikes in order to curb the current account deficit
- Rate to rise another 50 bps and MLR could rise to 7.5-8.0% in early 2006
- Rate policy will take tolls on GDP to 4% instead of 5%
- Inflation rate heading for 6% level for another 3-6 mos.
- Main driven force is the crude oil price which was expected to stabilize at US\$50/bbl
- Inflation estimated to peak at 6% and will decline to 4-5% in 2Q06

Passenger Growth of Each Airport

Airport	% Growth
Bangkok	6.9%
Chiang Mai	13.1%
Had Yai	27.5%
Chiang Rai	22.2%
Phuket	(23.2%)

Source : Airport Authority of Thailand

- YTD (as of Sept. 05) - Total increase of passengers at 47 million or 4.6%
- Domestic passengers share a higher growth than international visitor
- Key drive is the low cost airline
- AOT estimates growth of domestic passenger of 6-8% in 2006
- High oil prices to remain the negative issue

Foreign Tourism Situation

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Foreign Tourist Arrivals						
	Number (million)	% Change	Avg. Stay (days)	Spending/day (Bt)	Total Revenue (Btm)	% Change
2000	9.51	10.82	7.77	3,861	285,272	12.75
2001	10.06	5.82	7.93	3,948	299,047	4.83
2002	10.80	7.33	7.98	3,754	323,484	8.17
2003	10.00	(7.60)	8.19	3,774	309,269	(4.39)
2004	11.65	16.50	8.13	4,058	384,360	24.28
2005*	12.00	3.00	8.10	4,150	425,000	10.57
2006**	13.20	10.00	8.20	4,300	500,000	17.64

* Projection as of November 2005, ** Target

Source: Tourism Authority of Thailand

- Thailand's tourism industry recovery in 2005 but international tourism arrivals is below the target from 13.8 million to 12 million.
- Tourists from Japan is accounting for 57,745, up 25.75% from 45,922 of the same period in 2004 but the main markets i.e. Hong Kong, Korea, Taiwan and Singapore significantly dropped.
- Tourist arrivals from East Asia via the Bangkok International Airport slightly risen 0.40% to 210,605 from 197,832 whereas European arrivals were also up by 7.29% to 133,150 from 124,106.
- Chinese tourists make a come back after the government's roadshow in Aug 05

Market Analysis – More Women Joining

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Male & Female Visitors to Thailand

<i>(million)</i>	<i>Male</i>	<i>%chg</i>	<i>Female</i>	<i>%chg</i>
<i>E Asia</i>	3.98	7.4	3.05	24.1
<i>Europe</i>	1.52	7.8	1.01	29.5
<i>US</i>	0.39	6.0	0.30	45.9
<i>S Asia</i>	0.32	12.6	0.14	40.9
<i>Oceania</i>	0.25	21.2	0.22	58.1
<i>Middle East</i>	0.19	28.2	0.10	77.5
<i>Africa</i>	0.04	12.1	0.04	37.8
<i>Total</i>	6.70	8.7	4.95	29.0

Source : Airport Authority of Thailand, Data for Jan-Dec 2004

- Female visitors grew 29% in 2004 compared to a negative growth of 12% in previous year
- Female travelers on the rise given their higher social status and purchasing power
- Thailand has become the final arbiters of their holiday destinations
- Areas of attractions include cooking school and exclusive spa & wellness centers
- The tourism becomes more niche-focused identifying strong growth in female visitors

TAT Maintains Its Tourists Target

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- **Despite unfavorable situation, the government sticks to its original target of 13.3 million international visitors and 76 million domestic trips for 2005**
- **Target revenue remains intact at Bt450 billion from international market and Bt347 billion from domestic tourism**
- **To stimulate the tourism industry, a special budget of Bt1,500 million to be spent on marketing and promotions in key potential markets and boosting domestic tourism -- in collaboration with travel agents, media, banks, airlines, and other businesses**
- **However, major drags for the strong recovery are the Bird Flu, the Southern unrest, and dampened economic environments**

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Demand

- I. Business Travel
- II. Meeting and Convention Travel
- III. Leisure Travel

Build-Up Approach

I. Define the primary market area

- Travel time
- Sources of transient visitation
- Methods of travel commonly used
- Location of competitive lodging facilities

II. Define the area's primary market segments

- Commercial
- Meeting & convention
- Leisure segment

III. Identify competitive lodging facilities in the market area and determine their individual room counts and competitive weighting factors

- Primary
- Secondary
- None market competitors

Build-Up Approach (con't)

- IV. Estimate the percentage of occupancy for each competitive hotel and determine the percentage relationship between each marketing segment**
- V. Quantify the accommodated room night demand**
- VI. Estimate latent demand**
 - Unaccommodated demand**
 - Induced demand**
- VII. Quantify the area's total room night demand**

Supply – Classification of Facilities

I. Type of facilities offered

- Commercial
- Extended stay
- Convention
- Conference center
- Resort

II. Class or quality of facilities and services

III. Location

IV. Hotel Chains VS Independent hotels

- Franchising
- Management Contract

Hotel Chains

Franchising

Management Contract

Benefits to the Owner - Instant identity, recognition and image

- Reservation or referral service
- Chain advertising and sales
- Procedures manual
- Management assistance
- Group purchasing

- Professional management

- Profitable affiliation
- Borrowing power and possible operator investment

Costs to the Owner - Required facilities

- Membership fees
- Required standard
- No guarantee or financial commitment

- Management fees

- Required facilities and standards

Benefits to Chain - Inexpensive, low-risk expansion

- Allied expansion

- Inexpensive expansion with quality control

- Good profit potential

Costs to Chain - Franchise services

- Quality control

- Management services

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Valuation Process

I. The Cost Approach

- Cost per square meter
- Depreciation from physical deterioration, functional obsolescence and external obsolescence

II. The Sales Comparison Approach

- Comparing the sale prices of recent transactions similar to the property being appraised
 - The reliability of comparing data would depend on availability of timely & comparable sales data, verification of sales data and degree of comparability

III. The Income Capitalization Approach

- Forecast net income for a specified number of years
- Select an appropriate discount factor or capitalisation rate
- Apply the proper discounting procedure

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General Risks and Benefits

- I. Competency of management (-)
- II. Long start-up periods (-)
- III. Food and beverage risks (-)
- IV. Rapid functional obsolescence (-)
- V. Susceptibility to external obsolescence (-)
- VI. Illiquidity (-)
- VII. Favorable tax treatment (+)
- VIII. Potential for large profits (+)



Thank You